

CALIFORNIA BUDGET REPORT

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Legislative Analyst's Budget Summary Almost 50 percent is borrowing, the rest is cuts...

OK, Gang: Now you can figure out what the Governor is proposing. The LAO's 2008-09: *Overview of the Governor's Budget* is hot off the press and available at http://www.lao.ca.gov/2008/budget_overview/08-09_budget_ov.pdf or http://www.lao.ca.gov/2008/budget_overview/08-09_budget_ov.aspx. This is a good summary of the proposal and will give you something to chew over in the next weeks, while we await the detailed review of the budget by the LAO that's due in February.

Here are some major elements, with illustrated charts from the LAO:

Figure 1

Governor's Budget General Fund Condition

(Dollars in Millions)

	Actual 2006-07	Proposed 2007-08	Proposed for 2008-09	
			Amount	Percent Change
Prior-year fund balance	\$9,898	\$4,372	\$1,757	
Revenues and transfers ^a	95,887	100,758	102,904	2.1%
Total resources available	\$105,785	\$105,130	\$104,661	
Expenditures	\$101,413	\$103,373	\$100,998	-2.3%
Ending fund balance	\$4,372	\$1,757	\$3,663	
Encumbrances	\$885	\$885	\$885	
Reserve	\$3,487	\$872	\$2,778	
Budget Stabilization Account (BSA)	472	—	—	
Reserve for Economic Uncertainties	3,015	872	2,778	

^a Display of revenues related to the BSA is different than the administration. The 2006-07 amount includes \$472 million and 2007-08 amount includes \$1.023 billion in General Fund revenues received in those years and transferred to the BSA. The administration instead shows the entire \$1.494 billion as 2007-08 revenues, when the funds were transferred back to the General Fund.

In past troublesome budget years, the gap between anticipated yearly General Fund revenue and ongoing General Fund expenditures has been significant. This year, the LAO agrees with the Governor that a \$14.5 billion shortfall is within the ballpark. Keep in mind, however, that many are predicting additional increases in the shortfall as the year goes on.

Pay particular attention to the short-term actions recommended by the Governor, which assume that the *current year budget can also be reduced*. If those actions fail to take place, the current year savings are not achieved, and the figure for 2008-09 just gets bigger. Rational folks would conclude that the Legislature should immediately move on the short-term actions—and LAO agrees—but we have seen many years in which those actions are never taken ...or taken late or in pieces.

Here is how the Governor proposes to do it...

The Governor is asking for a Proposition 98 suspension of \$8 billion and then assumes the Legislature will approve the following, among other cuts:

- The early release of non-violent offenders from state prisons.
- \$1 billion in cuts to Medi-Cal.
- Suspension of the SSI/SSP cost of living adjustment.

There are many other cuts, all before you get to the almost \$7 billion worth of deficit-bonds (borrowing), \$2 billion worth of accrual (“shove it over into another year”) and a suspension of payments to the Budget Stabilization Account (“worry about it later”). Not likely in our view!

Figure 2

How the Governor’s Budget Closes the 2008-09 Shortfall

(In Millions)

	Reserve as of June 30, 2008
LAO November Forecast	-\$9,790
Lower Administration Revenue Forecast	
2006-07 and 2007-08	-\$1,166
2008-09	-2,781
Higher Administration Spending Forecast	-\$742
Administration’s Definition of Shortfall	-\$14,479
Budget Solutions	
Reduce Proposition 98 spending	
2007-08 reduction	\$400
Suspend 2008-09 minimum guarantee	4,825 ^a
Issue additional deficit-financing bonds	3,313
Accrue 2009-10 revenues to 2008-09	2,001
Suspend transfer to Budget Stabilization Account	1,509
Reduce Medi-Cal spending	1,126
UC/CSU reductions (unallocated)	569
CalWORKs reforms	463
Early release of prisoners and summary parole	372
Suspend SSI/SSP COLAs	323
Other solutions	2,356
Governor’s Budget Estimate of 2008-09 Reserve	\$2,778

Note: Positive numbers help the reserve and negative numbers hurt the reserve.

^a The administration proposes a \$4 billion suspension. Due to the way it built its baseline budget, it shows savings of a somewhat higher amount.

Here is what the Legislature has to do in the short run:

Figure 4

Special Session Proposals With Current-Year Savings

(In Millions)

	Amount of Savings	
	2007-08	2008-09
Proposition 98 spending reduction	\$400	—
Medi-Cal delayed provider payments	165	—
CalWORKs reforms	74	\$389
Medi-Cal provider rate reduction	33	602
SSI/SSP June 2008 COLA suspension	23	271
Early release of prisoners and summary parole	18	354
Various other proposals	104	800 ^a
Totals	\$817	\$2,416

^a LAO estimate.

Some of this might be possible; the rest probably not. For every dollar deducted from this list, add the same dollar figure (or maybe a bit more) to the following year. The problem keeps getting bigger and bigger!

The programmatic implications of the proposal

A useful summary of the policy implications of this is found in the following chart.

Figure 6

Key Programmatic Features of the Governor's 2008-09 Budget

Special Session Reductions

- Continues program reductions proposed for the special session, including CalWORKs reforms, the suspension of SSI/SSP COLAs, cuts to Medi-Cal provider rates, and the early release of prisoners and summary parole.

Proposition 98

- Suspends the minimum guarantee by \$4 billion.

Higher Education

- Reduces General Fund support for UC and CSU by \$197 million from the current-year level. Most of these reductions would be unallocated and more than offset by student fee increases.
- Provides no funding for new participation in the competitive Cal Grant programs.

Transportation

- Transfers \$1.485 billion in gasoline sales tax revenues from the General Fund to the Transportation Investment Fund, as required by Proposition 42.
- Provides \$455 million in "spillover" gasoline sales tax revenue in the Mass Transportation Fund to (1) pay \$354 million in debt service on transportation bonds and (2) repay \$83 million in prior Proposition 42 transportation loans owed by the General Fund.

Health

- Eliminates specified Medi-Cal optional benefits for adults over the age of 21 who are not in a nursing facility.
- Ends continuous Medi-Cal eligibility for children and restores quarterly status reports for children and parents.

Social Services

- Reduces county allocations for child welfare services and foster care grants by approximately 10 percent.
- Reduces IHSS hours for domestic services (meal preparation, cleaning, errands) by 18 percent.

Criminal Justice

- Shifts \$2.2 billion of bond financing approved in 2007 for construction of prison beds and reentry facilities to the Receiver for health beds. Also provides funding to build a new Death Row complex at San Quentin.
- Provides some new funding to Receiver to improve inmate medical care, but no unallocated reserve.

General Government

- Raises \$105 million from a new surcharge on fire insurance policies statewide to supplant General Fund reductions and expand wildland firefighting under Cal-Fire, Office of Emergency Services, and Military Department.
- Proposes financing the costs of the \$1.6 billion Financial Information System for California (FI\$Cal), a computer project to modernize the state's budgeting and accounting systems.
- Reduces ongoing contribution to CalSTRS in exchange for guaranteeing existing inflation protection benefit, and spreads court-ordered interest payment over three years.
- Contains funds for the administration's proposed 5 percent pay raise for correctional officers in 2007-08, but no new funds for salary increases for state workers whose labor contracts expire at the end of 2007-08.
- Shifts about \$75 million in mandate reimbursements to local governments in 2009-10.

Infrastructure

- Proposes \$48 billion in new general obligation bonds to be put before the state's voters in 2008 and 2010, for education, water, high-speed rail, and court facilities.

Revenues

- Raises \$21 million by reinstating recent use tax law changes related to vehicles, vessels, and aircraft.
- Augments tax agencies by \$44 million from the General Fund to increase revenues by \$151 million.
- Accelerates the accrual of \$2 billion in tax revenues from 2009-10 to 2008-09.
- Assumes \$430 million in General Fund revenues from tribal gambling compacts.

And who loses or wins from all this?

Not an easy question, but worth thinking about.

Figure 7

General Fund Spending by Major Program

(Dollars in Millions)

	Actual 2006-07	Estimated 2007-08	Proposed 2008-09	
			Amount	Percent Change
Education				
K-12 Proposition 98	\$37,264	\$37,473	\$35,461	-5.4%
Community Colleges Proposition 98	4,030	4,116	4,027	-2.2
UC/CSU	5,883	6,231	6,035	-3.1
Other	4,120	6,027	5,587	-7.3
Health and Social Services				
Medi-Cal	\$13,406	\$14,064	\$13,585	-3.4%
CaWORKs	2,018	1,481	1,547	4.5
SSI/SSP	3,534	3,641	3,748	2.9
In-Home Supportive Services	1,474	1,630	1,633	0.2
Other	8,580	8,762	8,786	0.3
Youth and Adult Corrections	\$9,118	\$10,096	\$10,268	1.7%
Transportation	\$2,980	\$1,439	\$1,485	3.3%
All Other	\$9,007	\$8,414	\$8,837	5.0%
Totals	\$101,413	\$103,373	\$100,998	-2.3%

The kicker's option in budget football

Try to use this list in a speech and keep a straight face. We find it hard, since this is a wonderful example of inventive budgeting that applies a little pain for one-time gain, and is based on the premise that if people get the money they are due, a small delay does not really matter. Expect all kinds of lawsuits on this.

Figure 9

Key Proposals to Improve State's Cash Balance

(In Millions)

Proposal	Benefit
Proposition 98	
• Delay deferred apportionments for K-12 schools and community colleges by two months.	\$1,300
Social Services	
• Delay program disbursements by two months.	\$814
CalSTRS	
• Pay July inflation protection program costs in two installments—November and April.	\$584
Transportation	
• Delay gas tax disbursements to local governments by one to five months.	\$500
Medi-Cal	
• Delay checks for certain providers of medical services from August until September.	\$454
• Delay managed care and dental payments by one month.	232
• Delay first quarter payment for county administration by one to two months.	164
Developmental Services	
• Delay regional center advances.	\$400
Mental Health	
• Delay managed care advance by two months.	\$200
Early and Periodic Screening, Diagnosis, and Treatment	
• Delay quarterly advance to counties by two months.	\$92
Total	\$4,740

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