[MS-0398.042.004.003]

COUNTY OF SAN DIEGO

INTER-DEPARTMENTAL CORRESPONDENCE

May 20, 1992

TO: Supervisor George F. Bailey, Chairman
Supervisor Brian P. Bilbray, Vice Chairman
Supervisor Susan Golding
Supervisor Leon L. Williams
Supervisor John MacDonald

FROM: John R. Sweeten, Director
Office of Intergovernmental Affairs

STATE "MAY REVISE" BUDGET DOCUMENTS

The attached documents were faxed by Patricia Gayman moments ago. The documents provide an overview of a presentation just delivered by Mr. Steve Olsen, representing the Governor's Department of Finance, to the Joint Budget Conference Committee.

In sum, these documents and Mr. Olsen's report point out that the State's combined two-year budget problem is now thought to be $6 billion worse than reported by the Governor in January of this year. The consequence of this combined $11-12 billion shortfall will be catastrophic.

- If K-14 school appropriations for the current year and budget year are reduced by a combined $2.2 billion (which is possible under Proposition 98), <u>and</u> if <u>all</u> of the various recommendations the Governor advanced in January were enacted immediately, across-the-board spending cuts of 14.7% in all programs would be required to balance the combined two-year budget.

- If K-14 school appropriations are not reduced, and none of the Governor's proposals are enacted, across-the-board spending cuts of 32.5% in all programs would be required to balance the combined two-year budget.

Mr. Olsen stated that the "May Revise" figures depict a "permanent base reduction" in general fund revenues which may not be addressed with a temporary "quick fix."

Respectfully,

JOHN R. SWEETEN

cc: Chief Administrative Officer

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STOCK #75-3344

STATE OF CALIFORNIA

PETE WILSON, Governor

DEPARTMENT OF FINANCE
OFFICE OF THE DIRECTOR
STATE CAPITOL, ROOM 1145
SACRAMENTO, CA 95814-4998

May 20, 1992

Honorable Alfred E. Alquist, Chairperson
Senate Committee on Budget and Fiscal Review

Honorable Robert Presley, Chairperson
Senate Appropriations Committee

Honorable John Vasconcellos, Chairperson
Assembly Ways and Means Committee

Honorable Frank Hill, Vice Chairperson
Senate Committee on Budget and Fiscal Review

Honorable Cathie Wright, Vice Chairperson
Assembly Ways and Means Committee

Dear Members:

MAY REVISION OF GENERAL FUND REVENUES AND EXPENDITURES

The Department of Finance has completed the May Revision of General Fund revenues and expenditures. This report is being submitted to provide you with the most current information to assist you in finalizing your actions on the budget.

Sincerely,

THOMAS W. HAYES
Director

May 20, 1992

1992-93
GENERAL FUND UPDATE
($ In Millions)

	1991-92	1992-93
RESOURCES:		
Prior Year Balance (January)	-$1,259	-$1,344
Adjustments	23	-2,024
Total Prior Year Balance	-$1,236	- -$3,368
Revenues and Transfers (January)	43,633	45,673
May Revision	-1,554	-3,839
Total Revenues and Transfers	$42,079	$41,834
TOTAL RESOURCES	**$40,843**	**$38,466**
EXPENDITURES:		
January	$43,718	$43,817
May Revision	493	-60
TOTAL EXPENDITURES	**$44,211***	**$43,757***
FUND BALANCE	**-$3,368**	**-$5,291**
Economic Reserve	(-$3,775)	(-$5,698)
Encumbrance Reserve	($407)	($407)

* Total expenditures must be reduced by a combined $5.7 billion from the Governor's January 1992 proposal.

THE ECONOMY

California is struggling through its deepest recession since the 1930s. The State's tax revenue experience clearly reflects sharp declines in employment, income and retail sales on a scale not seen in over 50 years. By the second half of this year, the state is expected to join the modest national upturn, which now seems to be underway. However, it likely to be early 1994 before economic activity regains the peak levels of two years ago.

The Nation. The national economy is showing tentative signs of recovery. These are far from strong, however. It does seem likely that the pace of recovery will be moderate. There is still a possibility that the upturn could falter as happened in 1991, with business activity remaining flat for the next two or three quarters. Even the chance of a renewed downturn cannot be ruled out completely.

Business continues to face financial constraints and uncertainty about the strength of demand for goods and services. This is expected to hold down increases in investment, production and hiring. As a result, employment and income gains will be modest. Overall, gross domestic product is likely to be up only 1.9 percent this year.

There are several situations which suggest the recovery will be far more subdued than usual. Consumers remain hesitant to take on major purchases, with debt burdens still relatively high, employment prospects are not yet secure and income is rising at a slow pace. The latter is attributable to the low rate of inflation in recent quarters, efforts by business to contain costs, and declines in interest rates. A backlog of demand is undoubtedly building, but is not expected to be a significant factor in 1992.

Business investment is constrained by the lack of financing in many instances. Housing construction surged briefly when mortgage rates declined in January; building permit data since then indicate some pulling back. Exports are likely to be held down by developing weakness in the economies of some of the nation's major trading partners. Finally, governments at all levels are cutting back in the face of revenue shortfalls.

California. The California economy is expected to see only slow recovery in 1992, in contrast to the bounce-back which usually follows a recession. The job total will be down 0.7 percent for the year; the previous peak in employment (May 1990) will not be attained again until 1994. Income will rise by 3.4 percent, as further declines in interest and dividends offset some of the strength gradually building in other components.

California is facing several serious problems which will slow the pace of recovery. Cutbacks in defense spending will continue to impact Southern California in particular. Another 25,000 aerospace jobs are likely to be lost between year-end 1991 and 1992. The electronics industry, still facing sluggish demand, now anticipates an upturn in 1993; the current year will see some further slow attrition in payrolls. Other business is still cutting back--downsizing to become more competitive in the emerging global environment of the 1990s.

Regulatory constraints imposed on lending institutions will continue to hinder access to capital for potential investors. However, even with adequate financing, investment would be slow in the state.

The Economy

Overbuilding during the last half of the 1980s has resulted in a glut of office space in many major urban areas, a glut which may take years to work off in some instances. Retail construction is hindered by sluggish demand and significant retrenchment by several major retailers. The housing market could be the strongest factor in the recovery, if mortgage rates decline further.

The California economy was affected more than usual by the latest recession. In retrospect, this has been the worst recession since the 1930s. Data for the state are not comparable with national series. State data have been adjusted to more current information which will eventually be incorporated by statistical agencies in Washington a process which will not be completed until 1993 or 1994.

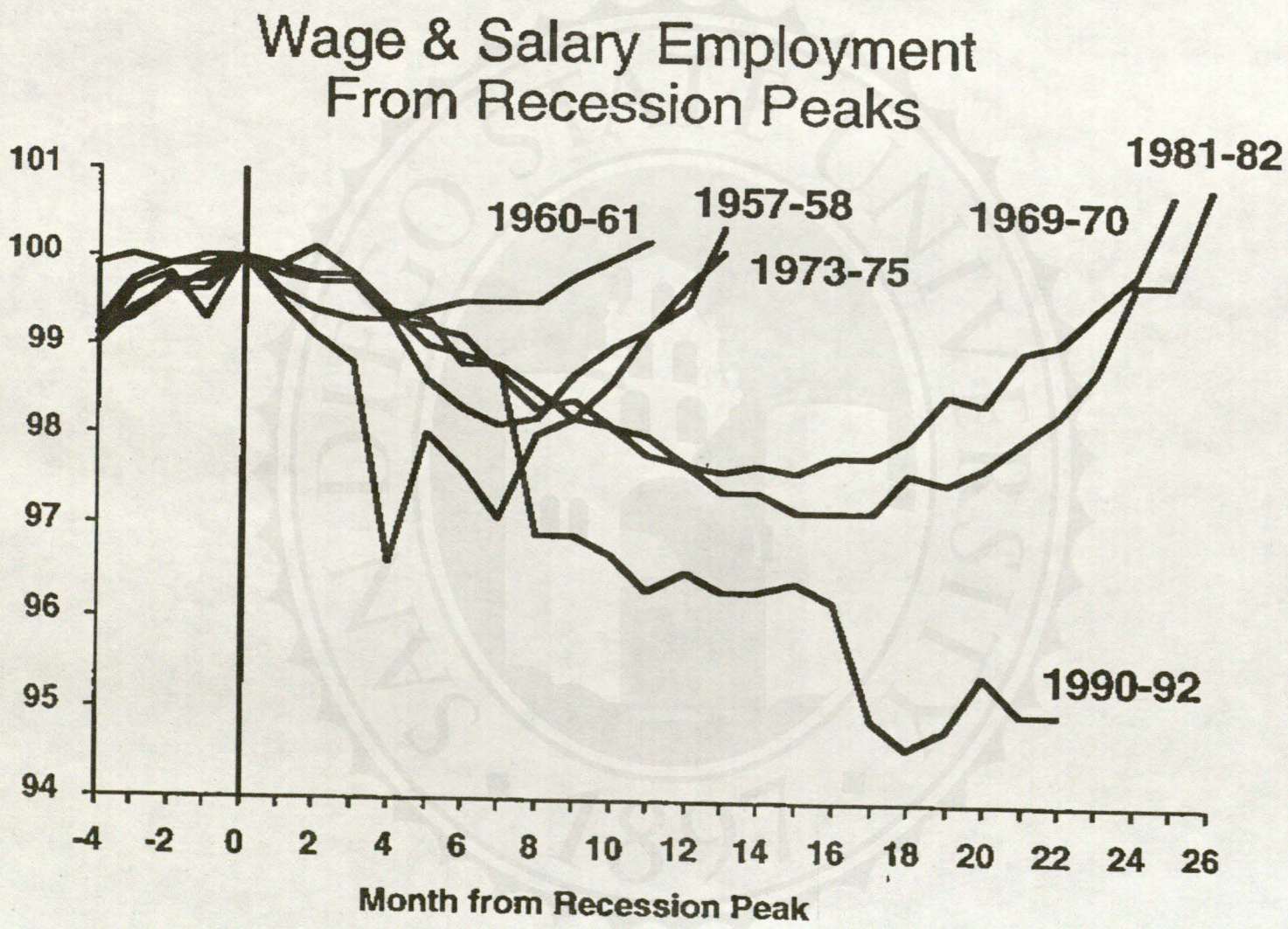
From a peak in May 1990 to the apparent trough in November 1991, California lost 691,000 jobs. Construction and manufacturing were hit particularly hard, and accounted for more than half the job losses. Trade also saw significant retrenchment. The financial constraints, which exacerbated the latest recession, are reflected in the fact that the finance group and services also cut employment levels.

Personal income reflected the severe job losses, directly in minimal growth in wages and salaries for 1991, and indirectly in proprietors' income. Falling interest rates led to sharply lower levels of interest income, and dividends fell reflecting weak corporate profits. The personal income series used for this revision was adjusted to reflect information available from 1990 tax returns and revenue collection patterns through 1991. At $604 billion, 1991 personal income in California declined by 0.5 percent, the first decline since 1938.

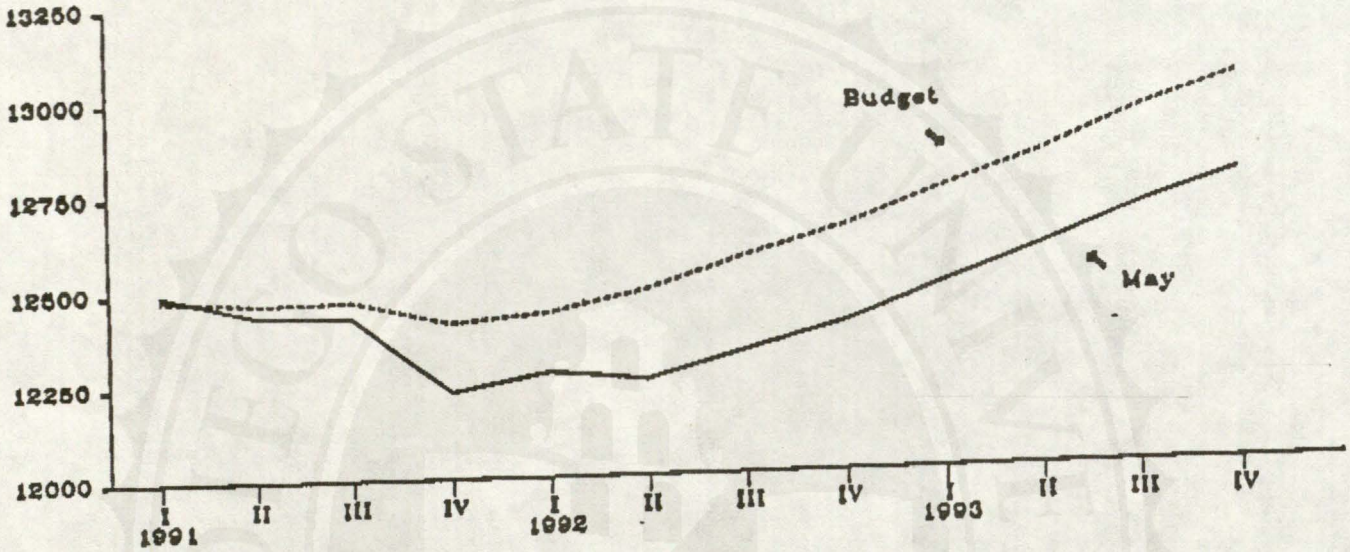
Finally, all of these aspects are reflected in government revenues, which are coming in below expectation and necessitating reappraisal of the appropriate role and size of the public sector.

The May Revision forecast does not include specific assumptions for the Los Angeles riots. The impact cannot yet be assessed adequately. Immediate local costs will be great, in terms of property and job losses. Still unknown is what impact the situation will have on longer range development of the area.

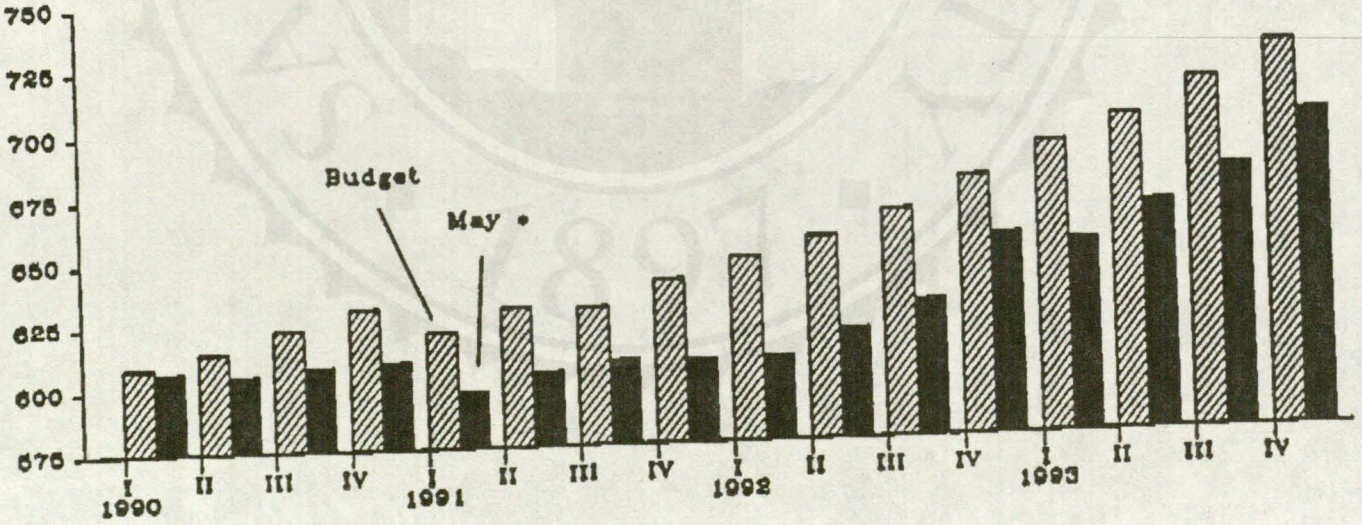
Overall, the outlook is for gradual recovery from the recession, with the caveat that there is still a significant possibility that the state, and the nation, will continue on a sideways course until at least the end of 1992. In the latter case, full recovery could well be delayed until 1994.


Wage & Salary Employment
From Recession Peaks
101
100
99
98
97
96
95
94
-4
-2
0
2
4
6
8
10
12
14
16
18
20
22
24
26
Month from Recession Peak
1960-61
1957-58
1973-75
1969-70
1981-82
1990-92

FORECAST COMPARISONS:
CALIFORNIA NONFARM EMPLOYMENT
(In thousands)



FORECAST COMPARISONS:
CALIFORNIA PERSONAL INCOME
($ billions)



* May personal income figures not comparable with quarterly series from Governor's Budget. Includes adjustments to proprietors, interest and dividend income based on 1990 tax data.

OMPARISON OF BUDGET AND MAY ECONOMIC FORECASTS

(Percent change from prior year except as noted)

	1992		1993	
	Budget	May	Budget	May
United States				
Real GDP*	1.4	1.9	2.6	2.9
Personal income	4.8	4.5	5.8	6.2
Corporate profits	-1.5	10.1	22.8	8.1
Employment	1.0	0.2	1.6	1.4
Unemployment rate (%)	6.7	7.2	6.2	6.8
CPI	3.6	3.4	3.5	3.6
New car sales (mn)	8.8	8.7	10.2	10.2
Housing starts (th)	1,113	1,332	1,381	1,437
California				
Personal income***				
$ Billions	n.c.	625.1	n.c.	673.6
% change	4.9	3.4	6.9	7.8
Employment				
Thousands	12,532	12,312	12,874	12,624
% change	0.6	-0.7	2.7	2.5
Unemployment rate (%)	7.6	8.6	6.7	7.9
Housing starts (th)	133	133	197	190
June-to-June CPI (%)	4.6	4.4	3.8	3.9

* Adjusted from Real GNP in Budget of 1.5 and 2.7 for 1992 and 1993, respectively.

** Nonagricultural wage and salary jobs.

*** California personal income series incorporates adjustments based on actual tax data for nonfarm proprietors, interest and dividend income.

n.c. Not comparable.

Revenue

May Revision
GENERAL FUND REVENUE FORECAST

Reconciliation with the Governor's Budget Forecast
($ In Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
FY 90-91				
Personal Income Tax	$16,849	$16,849		
Sales & Use Tax	13,303	13,303		
Bank & Corporation Tax	4,508	4,508		
Insurance Tax	1,286	1,286		
Other Revenues	1,855	1,855		
Transfers	413	413		
Total	$38,214	$38,214		
FY 91-92				
Personal Income Tax	$18,133	$17,400	-$733	-4.0%
Sales & Use Tax	16,188	16,025	-163	-1.0%
Bank & Corporation Tax	5,017	4,630	-387	-7.7%
Insurance Tax	1,195	1,170	-25	-2.1%
Other Revenues	2,257	2,161	-96	-4.3%
Transfers	843	693	-150	-17.8%
Total	$43,633	$42,079	-$1,554	-3.6%
Change from FY 90-91	$5,419	$3,865		
% Change from FY 90-91	14.2%	10.1%		
FY 92-93				
Personal Income Tax	$19,522	$17,650	-$1,872	-9.6%
Sales & Use Tax	16,859	15,565	-1,294	-7.7%
Bank & Corporation Tax	5,420	4,900	-520	-9.6%
Insurance Tax	1,217	1,266	49	4.0%
Other Revenues	2,287	2,058	-229	-10.0%
Transfers	368	395	27	7.3%
Total	$45,673	$41,834	-$3,839	-8.4%
Change from FY 91-92	$2,040	-$245		
% Change from FY 91-92	4.7%	-0.6%		

REVENUE ESTIMATES

Overview

General Fund revenues and transfers for 1991-92 are expected to total $42.1 billion, down $1.6 billion from the Governor's Budget estimate. For fiscal year 1992-93, the total estimated revenues and transfers are $41.8 billion, down $3.8 billion from the Governor's Budget estimate. Most of the shortfall is attributable to the sluggish economy.

Personal Income Tax

Showing the worst growth in decades, personal income tax revenues for the 1991 tax year appear to be nearly 2 percent below the year earlier, despite the tax increases enacted last year. If not for these law changes, revenues would have declined nearly 7 percent. On a fiscal year basis, 1991-92 is expected to be up 3.3 percent and the budget year up 1.4 percent. These growth rates are distorted by a number of one-time revenue gains from legislative changes that boosted the current year by over $700 million. Without these one-time revenues, the current year would be down over one percent, with budget year growth of nearly 6 percent.

Sales and Use Tax

The severity of the recession is clearly evident in the taxable sales data and there is no sign to-date that a recovery is underway. Sales began to soften during the second quarter of calendar year 1990 and, adjusting for inflation, have declined on a year-over-year basis since that time. First quarter 1992 sales appear to be relatively flat with the prior year. However, this includes the impact of last year's budget agreement to expand the base to include candy, snacks, newspapers, etc.. On a comparable basis, first quarter sales are actually down in the range of 3 percent from the depressed first quarter of 1991.

The May Revision assumes that sales will be relatively flat through the third quarter of 1992 with a moderate recovery beginning at the end of that year. Even with this recovery, 1993 taxable sales, adjusted for inflation, are anticipated to be less than two percent above the volume of sales that occurred in 1988.

Bank & Corporation Tax

Both 1990 and 1991 appear to have been years of negative profit growth. This also occurred in 1981 and 1982, however, the most recent period appears to have been a somewhat more severe decline. This forecast assumes that 1992 will be a recovery year for corporate profits. This profit increase is presumed to come as a result of cost cutting (e.g., "down-sizing") that has occurred during the past two years and not as a result of an overall economic recovery. A meaningful economic recovery beginning in 1993 would then continue the growth in profits.

Other Revenues

The largest revenue decline is attributable to Trial Court revenues, and transfers from other funds to the General Fund. Compounding the shortfall is a significant decline in interest income. Except for interest income, most of the other revenues are not as sensitive to the economy as are the three largest revenue sources.

Trial Court revenues are estimated to be down $148 million in the current year and $98 million in the budget year. Problems with implementation, delays in remitting the funds to the state and the downturn in the economy have contributed to the weakness in revenues in the current year. The budget year estimate assumes a steady flow of revenues with continued delays in receipt of funds from the counties.

Unclaimed Property

Chapter 450, Statutes of 1990 reduced the period for unclaimed property to escheat to the State from 5 to 3 years. The 1991-92 budget anticipated that this legislation would increase General Fund revenues by $90 million to $150 million Based on the most current information available, it now appears that those revenues for 1991-92 will be at least $200 million or $50 million more than reflected in the 1991-92 budget.

Refinancing Lease Revenue Bonds

The 1992-93 Governor's Budget included a proposal to refinance $1.2 billion in Lease Revenue Bonds. The original proposal anticipated refinancing up to fifteen State Public Works Board issues that were sold between 1985 and 1990. This proposal was anticipated to provide General Fund revenue of $130 million in the current year.

After further evaluation of this proposal it has been disclosed that the legal questions and the financial market risks associated with this proposal far outweigh the potential benefits from a refinancing of outstanding bonds. However, in line with this proposal we are pursuing the replacement of debt service reserve funds with a surety bond for the Imperial Prisons Project issue. This proposal will result in a revenue transfer of approximately $36 million to the General Fund after disbursements and costs in the budget year.

Other Funds Revenue

Tidelands Oil Revenue

The Governor's Budget projected an estimate of $263 million in Tidelands Oil Revenue for the 1991-92 fiscal year. This was based on an average price of $13.45 per barrel. Based on current year actual revenue through April and a revised assumption of $11.00 per barrel for May and June, the Tidelands Oil revenue is estimated to be down from 61.6 million to $36.2 million, a reduction of $25.4 million. In addition, the receipt of a $166.9 million Anti-Trust settlement, a $1.8 million Pacific-Refining settlement, a $34.5 million Unocal settlement and the early receipt of a $166.9 million Anti-Trust settlement, a $1.8 million Pacific-Refining settlement, a $34.5 million Unocal settlement and the early receipt of the additional $8.5 million Unocal settlement, previously anticipated in the Budget Year, was received in the current year for a revised total revenue of $247.9 million.

The 1992-93 Governor's Budget projected an estimated $66.1 million of Tideland Oil Revenue based on $14.00 per barrel of oil. Due to the early receipt of the $8.5 million Unocal settlement in the 1991-92 fiscal year and the decline in oil prices to approximately $12.00 per barrel, the most recent projection has declined to an estimated $53.8 million. In addition, Santa Barbara Channel has closed 5 leases which will further reduce production and subsequent royalties.

Realignment Revenues

In the current year, realignment revenues are now projected to be $84 million lower than estimated in the 1991-92 Governor's Budget. Of this amount, $24 million represents a reduction in Vehicle License Fee receipts and $60 million represents a reduction in sales tax receipts. These reductions are in addition to a shortfall of $150 million reported in the 1992-93 Governor's Budget as proposed in January. The reduction in the estimated amount of sales tax receipts is related to the fact that the economic recession in California has been longer and deeper than previously expected. The decrease in estimated VLF collections is a technical adjustment reflecting additional information regarding initial collections in the fall of 1991.

Projected 1992-93 realignment revenues are also down from last January's projections by a total of $92 million. The revised projection is due to lower sales tax receipts than previously expected. The total realignment revenue now projected to be collected in 1992-93 is $2.244 billion.

Expenditures

GENERAL FUND EXPENDITURES BY AGENCY
($ In Millions)

Agency	1990-91	1991-92	1992-93
NON-PROPOSITION 98:			
Legislative, Executive, Judicial	$1,346	$1,719	$1,547
State and Consumer Services	276	289	301
Business, Transportation & Housing	136	204	272
Resources	707	674	673
Environmental	78	98	91
Health and Welfare	13,361	13,704	13,193
Youth and Adult Correctional Agency	2,701	3,024	3,163
K-12 Education	721	1,066	1,320
Higher Education	4,119	4,153	4,218
General Government	1,489	927	719
Total -- Non-Proposition 98	**$24,934**	**$25,858**	**$25,497**
PROPOSITION 98:	**$15,330**	**$18,353**	**$18,260**
TOTAL -- ALL GENERAL FUND	**$40,264**	**$44,211***	**$43,757***

* Total expenditures must be reduced by a combined $5.7 billion from the Governor's January 1992 proposal.

GENERAL FUND

EXPENDITURE DETAIL
1991-92 and 1992-93
($ In Millions)

STATE AND CONSUMER SERVICES

Department of Consumer Affairs

CHILD SUPPORT ENFORCEMENT

Among recent measures to strengthen the State's Child Support Enforcement efforts, Chapter 110, Statutes of 1991 (SB 101), declared the Legislature's intent to deny business and professional licenses to persons with child support arrearages. This intent was subsequently implemented by Chapter 50, Statutes of 1992 (AB 1394), which requires licensing agencies to deny business and professional licenses, including commercial driver's licenses, to persons with child support arrearages. Chapter 50 of 1992 authorizes the Department of Social Services to submit a list monthly of persons who are delinquent in their payments to the various licensing entities to match with persons applying for or renewing licenses. The requirements of Chapter 50 will be implemented through the combined efforts of the Department of Social Services and several licensing departments, boards, and bureaus in the Business, Transportation, and Housing Agency, and the State and Consumer Services Agency. These activities will include inter-agency cooperation on matters of procedure, funding, and timing, as well as the development of the systems and procedures within each agency to identify those with outstanding obligations and take appropriate action. The Health and Welfare Agency is the lead agency in this program for purposes of providing a central point of coordination. It is anticipated that implementation in each licensing agency will take place in different stages, depending on the current status of automation, number of licensees, and additional activities necessary to meet these requirements, in the individual board, bureau, or department.	1991-92 1992-93	-- $0.7

The Department of Consumer Affairs implementation of the child support law is targeted for November 1. In order to accomplish this, increases totaling $725,000 are proposed for various Budget Bill Items. Of this total, $479,000 will be reimbursed from Federal Funds received by the Department of Social Services. The remainder of the costs will be funded from the special funds of the boards and bureaus.

These funds are to address programming and data processing costs, necessary equipment, and staffing for data input and processing of temporary licenses associated with the expected workload identified by the Department of Social Services which receives information on delinquent child support payments from local District Attorneys.

HEALTH AND WELFARE

Department of Health Services -- Support

A loan of $2,650,000 is proposed for the Low-Level Radioactive Waste Disposal Fund; $2,326,000 to conduct a hearing regarding the licensing of the low-level radioactive waste disposal site, and $324,000 to cover ongoing program costs. This loan will be repaid with fees collected from low-level radioactive waste generators.

1991-92	--
1992-93	$1.4

An augmentation of $394,000 is proposed for the DHS to begin an epidemiological study in response to the Cantara chemical spill. Budget bill language is proposed specifying that these General Fund costs be recovered to the extent that future reimbursements are realized from responsible parties.

An augmentation of $825,000 ($412,000 General Fund) is proposed for the Licensing and Certification Division to provide funding for the second year of a three year interagency contract with the Chancellor's Office, California Community Colleges for the development of the examination and testing process for the Nurse Assistance Competency Testing program, as required by OBRA '87.

An augmentation of $481,000 ($240,000 General Fund) is proposed for the Audits and Investigations Division to increase the number of nursing home audits for rate setting purposes. The increased audits are necessary to maintain conformity with the State Medicaid Plan.

A reduction of $2,127,000 ($1,063,000, General Fund) is proposed for managed care start-up grants, to be shifted to local assistance pursuant to Chapter 279, Statutes of 1991.

Department of Health Services -- Public Health

In the current year, estimates for the Public Health programs reflect a net decrease of $2.8 million General Fund as follows:

1991-92	-$2.8
1992-93	-$4.0

California Children Services (CCS) Program

Caseload for the CCS program has been revised from 142,000 to an estimated 153,590; however, caseload-related costs have decreased

by $3,268,000. CCS county administrative costs have also decreased by $236,000. Previously anticipated CCS enrollment fees of $4,315,000 and Federal SLIAG funds of $320,000 have not materialized creating a need for a General Fund backfill. The net GF change is an increase of $1,131,000.

Genetically Handicapped Persons Program (GHPP)

GHPP caseload related costs have decreased by $1,043,000; however, GHPP family repayments have decreased by $88,000, resulting in a net GF decrease of $955,000.

Child Health Disability Prevention (CHDP) Program

CHDP caseload costs have decreased by $597,000 GF and $1,382,000 from the Health Education Account of Cigarette and Tobacco Products Surtax Fund (CTPSF).

County Medical Services Program (CMSP)

CMSP caseload costs have decreased by $6,292,000. However, revenues for CMSP reflect an increase of $427,000 in interest and a prior year adjustment to reflect a savings of $2,917,000 because 1990-91 provider costs are less than previously estimated. Federal SLIAG funds of $4,360,000 have not materialized creating a need for a General Fund back-fill. Finally, Realignment revenues were less than anticipated resulting in a need of $2,928,000 GF. The net change for the CMSP is a decrease of $2,348,000 GF and an increase of $125,000 Unallocated Account of the CTPSF.

In the budget year, projections in the Governor's Budget are being revised to reflect a net decrease of $4 million from the General Fund for the following public health programs.

California Children's Services (CCS)

Costs related to CCS caseload, which is estimated at 161,920, have decreased by $1,313,000 and county administrative costs have also decreased by $857,000. However, this is offset by a decrease in enrollment fees of $4,042,000, resulting in a net GF increase of $1,872,000.

Genetically Handicapped Persons Program (GHPP)

GHPP caseload costs have decreased by $1,056,000 but GHPP family repayments are projected to decrease by $91,000, resulting in a net GF decrease of $965,000.

Child Health Disability Prevention (CHDP) Program

The CHDP GF program caseload related costs have remained relatively stable (-1%). However, it is proposed that CHDP expand eligibility for the Hepatitis B vaccine at a cost of $1,736,000 GF (and $3,737,000 Federal Funds - see other funds - DHS). CHDP also anticipates a decrease of $2,016,000 from the Health Education Account (of the CTPSF).

Department of Health Services -- Medi-Cal

1991-92	$167.4
1992-93	$153.3

The Current Year Medi-Cal General Fund deficiency has changed from $36,528,000 reflected in the Governor's Budget to $203,889,000 in the May Medi-Cal Estimate. The $167,361,000 General Fund increase since January is due, in part, to the fact that legislation to fund the Medi-Cal "185 percent" perinatal program from Proposition 99 monies was not passed; therefore, this $60 million cost will be charged to the General Fund. Similarly, lack of legislation to eliminate Medi-Cal optional benefits as had been proposed in the Governor's Budget results in a $7.6 million General Fund charge. A $10 million General Fund prepaid health plan rate increase is proposed for the current year. In addition, the Federal Government did not provide any new State Legalization Impact Assistance Grant (SLIAG) funding for the current year, so $146.6 million of that cost must be backfilled by the General Fund even though we are able to fund $11.5 million from SLIAG carryovers. There also are several specific factors which have resulted in General Fund savings. Principal among them are: $15.8 million from a revised accrual estimate; $10.9 million from reduced monthly expenditures for the drug Clozapine; $5.2 million from lower utilization of services under Brown v. Kizer; $4.9 million from increased recoveries -- mainly in the General Collections area; $2.6 million from increased savings in the drug rebate program; $3.6 million from Joint Tenancy Retroactive Payments which will be paid in the budget year; and other factors, a $13.8 million decrease. Average Medi-Cal monthly caseload for 1991-92 is estimated to be 4,612,700 -- up by 63,100, or 1.4 percent, since January.

Budget Year General Fund costs for Medi-Cal are estimated to be $5,119,167,000 an increase of $153,283,000 since January. In part, this increase is caused by a higher average monthly caseload estimate for 1992-93, 5,010,000 compared to 4,851,800 estimated in January -- a 3.3 percent rise. Other factors being equal, this caseload base estimate change could be construed to represent a $131 million General Fund increase. Individual General Fund cost increases of particular note are: $62.8 million for a General Fund backfill of the Medi-Cal "185 percent" perinatal program which did not receive legislation to permit use of Proposition 99 monies; inclusion of an estimated $66.8 million for the

annual long term care rate adjustment (but a proposed change in rate setting will affect the net rate adjustment amount); $12.2 million for a long term care rate settlement; and $14.6 million for increased prepaid health plan (PHP) rates in the managed care area of Medi-Cal. While 1992-93 SLIAG caseload-based funding is expected to decline by $50.4 million; use of SLIAG monies to reimburse $144.9 million of prior year costs will produce a net $94.5 million yield for the General Fund. Other offsetting savings are: $10.9 million from reduced monthly expenditures for the drug Clozapine and $6.9 million for lower utilization of services under Brown v. Kizer; and other change factors, a $21.8 million decrease.

Department of Developmental Services

Budget year expenditures are lower by $5.3 million reflecting a reduction in developmental center costs and an increase in regional center costs. Regional center costs are up $9.7 million, which is the net impact of the following changes: 1) reduced caseload producing regional center staffing reductions of -$3.7 million; 2) an increase in Out-of-Home care costs of $4.5 million; 3) an increase in Day Program costs of $8.7 million; 4) an increase in Other Services costs of $1.3 million; and 5) a decrease of $1.1 million to reflect savings associated with clients who will be served by the Department of Rehabilitation's (DOR's) Vocational Rehabilitation/Work Activity Program. (The DOR budget will be increased by the same amount.) In the Developmental Centers, costs are down by $15 million due to a decline in population of 65 clients as well as a reduction in the severity of the clients being served. This reduction will be partially offset by increased Medi-Cal reimbursements, which are 50-percent General Fund, of $10.5 million. Finally, language is proposed to be added to the regional center budget item to encourage regional centers to maximize Medi-Cal billings as a means of supporting services.	1991-92 1992-93	-- -$5.3

Department of Mental Health

The Department of Mental Health's (DMH's) latest projections indicate that the population in the Conditional Release Program will be a total of 35 clients lower than the estimates contained in the Governor's Budget, yielding a reduction of $737,000. The State Hospital appropriation reflects changes due to the proposed county buy-out of 589 beds, resulting in an increase of $2,325,000 GF to pay for a shift in overhead costs, as well as a reduction of $22,217,000 in reimbursements from the counties. Finally, in order to comply with the Federal Nursing Home Reform Act during 1992-93, the Department proposes to conduct an additional 2,154 Level II Screens (for a total of 8,000 screens) at a cost of $171,000 GF and $514,000 in reimbursements.	1991-92 1992-93	-- $1.8

Department of Rehabilitation

Current year expenditures are up by $2.4 million. This deficiency is due to an increase in caseload for the base Work Activity and Supported Employment programs, which provide services to developmentally disabled clients pursuant to the Lanterman Act. Budget year expenditures are up by $0.8 million, reflecting two changes from January. First, net caseload in the base Work Activity and Supported Employment programs is now projected to be 789 clients less than in January, producing a savings of $0.3 million. Second, an additional 88 staff are proposed for the Vocational Rehabilitation Work Activity and Supported Employment programs (VR/WAP and VR/SEP) at a cost of $1.1 million. These staff are needed to provide services for approximately 2,500 regional center clients who are projected to be served by the programs. Serving these clients in the VR/WAP and VR/SEP programs will enable California to receive federal matching funds for the services. The base Work Activity and Supported Employment programs, as well as all other regional center day programs, are budgeted with 100 percent General Fund.

1991-92	$2.4
1992-93	$0.8

Department of Social Services

1991-92

Expenditures for the Department of Social Services in the current year are estimated to increase by $32.8 million.

1991-92	$32.8
1992-93	$130.9

In the Aid to Families with Dependent Children (AFDC) program, changes are the result of lower caseload growth and a decrease in the average size of a family receiving aid (-$32.2 million). Whereas 1991-92 AFDC caseload (before adjustments for welfare reform) was projected to grow above 1990-91 levels by 13.1 percent in the Governor's Budget, it is now projected to grow by 12.4 percent. Within the AFDC caseload, children-only cases (i.e. cases without an aided adult) continue to be the fastest growing group. Accounting for the reduction in the average size of a family receiving aid, children-only cases are estimated to increase by 29.9 percent in 1991-92 above prior year levels. AFDC savings from the overall caseload reduction are offset by increased costs due to the delay in implementation of the Administration's welfare reform proposal ($89.3 million), and are increased due to savings attributable to the extension of Unemployment Insurance Benefits (-$15.4 million). Decreased AFDC caseloads and other factors have also resulted in reduced expenditures for County Administration (-$35.5 million).

In the Governor's Budget, caseload for the Supplemental Security Income/State Supplementary Program (SSI/SSP) was projected to increase by 6.3 percent in 1991-92 above the prior year's level. It is now

projected to grow at 6.6 percent, with almost all of the increase included in the number of disabled beneficiaries ($5.1 million), reflecting both increasing caseload in the disabled category and the processing of additional numbers of backlogged cases for disabled applicants. Foster Care costs are estimated to increase due to a downward revision in the number of federally eligible probation cases ($4.8 million). Additional adjustments include increased funding for caseload in the Adoptions Assistance program ($1.6 million), increased savings in the Child Welfare Services program due to increased federally allowable costs (-$7.0 million), lower expenditures in the In-Home Supportive Services (IHSS) program due to reduced caseloads and lower costs per case (-$9.5 million), an increase in General Fund expenditures resulting from lower than anticipated SLIAG receipts ($32.5 million), and other program adjustments (-$0.9 million).

1992-93

In the budget year, expenditures are estimated to increase by $130.9 million, $127.7 million of which is in local assistance.

AFDC local assistance expenditures are projected to decrease due to lower caseload growth and a decrease in the average size of a family receiving aid (-$46.9 million). Caseload (before adjustments for welfare reform) is now projected to grow by 10.6 percent beyond 1991-92 levels, compared to growth of 10.8 percent estimated in the Governor's Budget. As in 1991-92, children-only cases continue to be the fastest growing group within the AFDC caseload. In 1992-93, children-only cases are estimated to increase by 29.8 percent above 1991-92 levels, and continue to account for the reduction in the average size of a family receiving aid. AFDC savings from caseload reductions are adjusted by increased costs attributable mostly to the delay in implementation of the Administration's welfare reform proposal ($181.4 million), increased costs for implementing the decision in the case of Edwards v. Carlson ($19.4 million), an increased estimate of costs for persons who attained permanent residency status pursuant to the Immigration Reform and Control Act ($3.5 million), and increased savings attributable to the extension of unemployment benefits (-$15.9 million). As a result of reduced AFDC caseloads and other factors, costs for County Administration are projected to be lower (-$18.9 million).

In the SSI/SSP program, the Governor's Budget projected caseload to increase by 8.3 percent above current year levels. Due to the continuing increase in disabled beneficiaries, caseload is now estimated to increase by 9.1 percent in 1992-93 ($15.0 million). Foster Care expenditures are reduced due to a decrease in non-federally eligible cases (-$8.2 million). Additional adjustments include increased funding for caseload in the Adoptions Assistance program ($1.6 million), increased expenditures in

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the Child Welfare Services program due to increased caseload, mainly in Los Angeles County ($14.6 million), savings resulting from the receipt of SLIAG funds originally budgeted in 1991-92 (-$32.5 million), and other program changes ($14.6 million).

State operations adjustments in the budget year reflect increases of $3.2 million. This includes $0.4 million for workload adjustments and implementation of new enforcement mechanisms in the Child Support Enforcement program. Budget year adjustments further include 37.8 PYs to implement the Administration's welfare reform proposal. Funding for these new positions was included in the Governor's Budget ($2.0 million); however, the individual positions were not scheduled at that time. Also, an increase of $1.4 million is proposed for 35.1 PYs in the Disability Evaluation Division to comply with federally required case processing timelines for Medi-Cal Medically Needy (disabled) applicants. Other program adjustments reflect increases of $1.4 million for Welfare and Community Care Licensing programs.

YOUTH AND ADULT CORRECTIONAL AGENCY

Department of Corrections

POPULATION ADJUSTMENTS

1991-92	-$6.6
1992-93	-$31.9

The 1991-92 reduction of $6.6 million is the result of a decrease in the projected June 30, 1992, institutions population. The current projection of 103,242 is 1,191 inmates less than the 104,433 projected in the Governor's Budget. The parole population is projected to increase slightly to 86,811, or 554 more parolees than the 86,257 anticipated in the Governor's Budget. These population changes reflect lower rates of new felon admissions and parole violators returning to prison and will allow the delay or cancellation of various institution crowding plans.

The 1992-93 reduction of $31.9 million reflects the continuing impact of these lower prison admission rates as the inmate population is now estimated to be 107,014 by June 30, 1993, or 2,820 inmates less than the 109,834 projected in the Governor's Budget. The projected parole population of 92,120 by June 30, 1993, is 1,840 parolees less than the 93,960 projected in the Governor's Budget. This lower than previously anticipated inmate population will allow the delay or cancellation of institution crowding plans.

LEASE PAYMENT ADJUSTMENTS

The 1992-93 proposal also includes additional one-time savings of $52.6 million which will occur with the diversion of excess interest earnings and other balances available from completed lease-revenue-funded prison projects to support the prisons' lease payments. These savings are in addition to those already reflected in the Governor's Budget and are reflected as reimbursements to the lease payment item.

1991-92	--
1992-93	-$52.6

Department of the Youth Authority

POPULATION ADJUSTMENTS

The 1991-92 proposal includes $1,668,000 to support a year end population increase of 147 wards above the Governor's Budget which results from increased juvenile court first admissions. This is partially offset by a reduction of $268,000 resulting from a parole population decrease of 248 below the budgeted level for a net increase to the department's General Fund deficiency appropriation of $1,400,000.

1991-92	$1.4
1992-93	$1.2

The 1992-93 proposal supports a year end increase in the institution population of 68 wards at a cost of $937,000, as the increased juvenile court commitments continue in the budget year. This is partially offset by a reduction of $270,000 due to a parole population decrease of 228 below the Governor's Budget level at year end. The proposed total increase of $1,240,000 also includes $607,000 to correct a technical error which underfunded the retirement contribution costs for the new population driven staff which were requested in the Governor's Budget.

EDUCATION

Proposition 98 Guarantee

Due to a decline in anticipated state revenues, and a downward revision in ADA based on fall enrollment data, the Proposition 98 minimum guarantee for 1991-92 was reduced by $1 billion since January, from $18.2 billion to $17.2 billion. Consequently, adjusted current year appropriations now exceed the minimum guarantee by $1.1 billion.

1991-92	$116.0
1992-93	-$260.0

When the Governor's Budget was presented in January, the current year's appropriations in excess of the guarantee were $183 million. This amount was proposed to be "recaptured". Since the May Revision is not proposing a specific dollar level to recapture, but rather shows three alternative scenarios, a technical adjustment has been made to put $183 million back in the current year. In this way, the May Revision is a

starting point which provides the most flexibility in reviewing potential budget options.

The budget year guarantee is dependent on the Legislature's treatment of this $1.1 billion. The following are just three potential budget year scenarios.

Scenario 1

The Proposition 98 guarantee for 1992-93 would decrease from $18.5 billion to $18.3 billion if there is no recapture of current year funds appropriated in excess of the guarantee, to the budget year. The Legislature would need to appropriate an additional $184 million, after adopting the May Revision changes.

Scenario 2

If legislation is not enacted prior to the May apportionments, a maximum of $1 billion of the $1.1 billion excess appropriations could be recaptured, reducing the 1992-93 guarantee to $17.23 billion, with a General Fund cost of $178 million more than if the full recapture had occurred. Legislation would be required prior to June 30, 1992.

Scenario 3

However, if the full current year over-appropriation of $1.1 billion were recaptured, the 1992-93 guarantee would be reduced to $17.18 billion, and would require a $2.1 billion reduction to program funding levels. In order to recapture $1.1 billion, legislation would be required and must be enacted sometime before the end of May, prior to the principal apportionment for school districts and community college districts.

Proposition 98 Alternative Scenarios
($ In Millions)

	No Recapture	Full Recapture (June only)	Full Recapture (May and June)
1992-93 Prop 98 Guarantee	$18,260	$17,234	$17,185
Recapture Amount	--	1,000	1,129
Required Change To May Revision K-14 Programs	184	-1,881	-2,059
2 Year General Fund Impact vs. No Recapture	--	-2,027	-2,204

Another factor which would affect calculation of the Proposition 98 guarantee is the treatment of appropriations for private child development programs. Consistent with a Superior Court decision, the Governor's Budget excluded these appropriations from Proposition 98. A recent Appellate Court decision reversed that finding; the deadline for filing of a Petition for Review in the Supreme Court is June 9. If these appropriations were to be included in Proposition 98, and if the change were required to be retroactive, the General Fund cost under the "no recapture" scenario would be $3.2 million for fiscal years 1988-89 through 1992-93 and $7 million under the "full recapture" scenario. Because the appeal status is still unknown, the May Revision proposes no change to the Governor's Budget.

K-12 Expenditures

Estimated total General Fund expenditures for K-12 Education are being increased by $170.4 million in 1991-92 and reduced by $241.4 million in 1992-93. These changes reflect revisions to total expenditure requirements. An overview of the changes is presented in the following sections.

1991-92	$170.4
1992-93	-$241.4

1991-92 Expenditures: As suggested above under Proposition 98, school expenditures for 1991-92 and 1992-93 are dependent on the Legislature's treatment of the $1.1 billion by which current year appropriations now exceed the minimum guarantee. Since the May Revision is not proposing a specific dollar level for a recapture, but rather shows three alternative scenarios, a technical adjustment has been made to put $183 million back in the current year. This helps to facilitate consideration of the Proposition 98 scenarios set forth above.

While this technical adjustment for the recapture, for presentation purposes, results in a net expenditure increase, there are other noteworthy adjustments including a considerable reduction in statutory average daily attendance (ADA) estimates for K-12 school districts. Based on the 1991-92 First Principal Apportionment (P1), K-12 district funding has been reduced by $141.1 million for ADA to reflect a downward revision in estimated ADA growth from 4.12 percent in January to 3.15 percent. However, this amount was offset by an increase of $50 million for attendance accounting, resulting in a total reduction of $91.1 million.

Current year deficiencies totaling $66.9 million are proposed to be funded from current year savings in school apportionments (due to a reduction in ADA), year-round schools and desegregation, and past-year savings. The deficiencies include $65.8 million for Special Education Programs, $118,000 for a technical correction to the county offices of education, $425,000 for education of adults in correctional facilities, and $588,000 for the Mentor Teacher Program to provide full funding for participating

school districts, thereby permitting a 5-percent teacher participation level per school district. Additionally, because of the projected savings, there is no need to maintain the $48.7 million reserve within Proposition 98.

1992-93 Expenditures: A projection of lower growth in school district ADA established in the current year is expected to continue in 1992-93. ADA, originally estimated to grow at 4.17 percent, is now projected to increase by 3.76 percent, which results in a $212.5 million reduction in K-12 apportionments. Apportionments were also reduced by $42.1 million, since a deficiency is no longer anticipated given the lower-than-expected ADA growth in 1991-92.

Funding for statutory growth in K-12 categorical programs and county offices of education will increase overall by $13.8 million. This includes an $883,000 increase for the Economic Impact Aid Program based on growth in AFDC and limited English proficient (LEP) populations, a $15.3 million increase for desegregation programs to reflect the correction of a technical error in the calculation of the statutory growth funding for both court-ordered ($12.9 million) and voluntary ($2.4 million) desegregation programs, and an increase of $10.2 million in county office apportionments due primarily to an increase in county and community school pupils. Funding for most other categorical programs has been reduced due to the lower estimate of K-12 enrollment growth. Funding for special education has been augmented by $48.4 million based on increased entitlements from the current year.

Deferred maintenance, which is funded from the General Fund and excess bond repayments paid by school districts on State School Building Aid Loans, is reduced by $20.6 million in 1991-92 and $28.8 million in 1992-93 to reflect lower-than-anticipated bond repayments.

The net reduction in expenditures for 1992-93 reflects the flip-side of eliminating the Proposition 98 recapture mentioned above; i.e., the $183.3 million increase in 1991-92 is offset by a corresponding decrease in 1992-93. An increase of $184 million has been included in 1992-93 expenditures to reflect a technical adjustment related to the Proposition 98 options noted above.

California Community Colleges

For 1992-93, General Fund expenditures for the California Community Colleges (CCCs) are proposed to be reduced by $7.4 million. This reduction is composed of changes in amounts needed to fund formulas for apportionments as well as reductions to categorical programs. The significant changes are discussed below.	1991-92 1992-93	-- -$7.4

CCC apportionments are being reduced by a total of $1.0 million due to a combination of changes. Technical increases of $0.7 have been made to base funded attendance and the cost-of-living adjustment to reflect updated apportionments information for 1990-91 and 1991-92. A decrease of $5.9 million for statutory growth is included to reflect a decrease in the forecast of the change in the State's adult population from the Governor's Budget estimate of 1.95 to 1.72 percent. An increase of $4.2 million is included to reflect increased General Fund apportionments necessary to offset the estimated decrease in student fee revenues and federal oil and mineral royalties.

A decrease of $6.1 million is included to reflect the revised estimate of the amount needed to reimburse districts for revenue bond lease-purchase payments they will be required to make to the Public Works Board.

University of California
Hastings College of the Law
California State University

The current year reflects a reduction of $2.4 million in CSU expenditures for repairs resulting from the 1987 Whittier earthquake; the budget year reflects an increase of $1.6 million at UC and CSU for repairs resulting from the 1989 Loma Prieta earthquake. The budget year reflects a $1.6 million savings in health insurance costs for annuitants to correspond to the downward revision in the rate increase, i.e., from 10 percent in the Governor's Budget to 6.2 percent. The budget year also proposes to hold the costs of dental insurance for annuitant and active employees to the 1990-91 level, resulting in a savings of $15.1 million. Total savings are $9.1 million for UC, $0.046 million for Hastings and $6.0 million for CSU.	1991-92 1992-93	-$2.4 -$15.1

GENERAL GOVERNMENT/OTHER

Department of Justice

LEGAL SERVICES FOR SCHOOL FINANCE LITIGATION

In the budget year, the department will provide approximately 0.9 personnel years of additional legal services and incur additional costs for consultant services and expert witnesses associated with the state's defense costs in the ABC Unified School District v. the State of California school finance litigation. Related language would prohibit the expenditure of these funds for costs other than in defense of the state and allows the allocation of funds in 1992-93 and 1993-94 by the Department of Finance.	1991-92 1992-93	-- $1.0

Board of Equalization

In the current year, the Board of Equalization is projecting a deficiency of $4.1 million due to reimbursements from local agencies falling below the budgeted level. The rates for Board of Equalization reimbursements for local tax collection costs are based on the revenues collected. Since the local sales and use tax revenues are now projected to be significantly below the amounts reflected in the January Governor's Budget and the costs of collection have not decreased, replacement of lost reimbursements with a General Fund appropriation is necessary.

1991-92	$4.1
1992-93	--

Industrial Relations

In the budget year, an increase of $13.2 million is needed to fund worker's compensation benefit costs for injured workers whose employers are uninsured. This funding level represents a continuation of current year cost increases for additional claims and related services such as medical, legal and vocational rehabilitation and is consistent with a deficiency augmentation of $6.9 million supported by the Administration for 1991-92 from the Uninsured Employers Fund (UEF). Because of the current year need for additional UEF resources, insufficient UEF revenues are available to support the budget year costs for this program, creating a need for $13.2 million from the General Fund.

1991-92	--
1992-93	$13.2

PERS Employer Retirement Contributions

For the budget year, PERS has developed rates that will result in $186.9 million ($62.9M General Fund) savings to employer retirement contributions.

1991-92	--
1992-93	--

However, the PERS rate development and Assembly action to adopt those rates is inconsistent with current law (Ch 83/90-AB 702) which transferred the PERS rate setting responsibilities from PERS to the newly created independent actuary that has yet to be confirmed by the Assembly. Only those rates developed by the Governor's nominated actuary can be considered by the Assembly for inclusion in the Budget Act.

The Governor has nominated the actuarial firm of Tower, Perrin, Forster and Crosby on three occasions but has yet to receive the necessary approval. Without legislative action on this matter, the potential savings from a rate reduction cannot be realized.

Annuitant Health and Dental Benefits

In the current and budget year, anticipated premium and enrollment increases are below projections in the Governor's Budget for annuitant health and dental benefits. The General fund cost savings are projected to be $15 million in the current and $45 million in the budget year.

1991-92	-$15.0
1992-93	-$45.0

Statewide Employee Salary and Wage Savings

The Governor's January budget included a proposal to reduce represented state employee salaries by five percent, effective January 1, 1992, for the purpose of generating state operation savings to address the state's severe fiscal imbalance. However, to date, the Legislature has not provided the required legislation to implement the proposed employee cost containment proposal. The fiscal consequence of the Legislature's failure to act on this issue has resulted in the loss of $73.7 million in General Fund salary savings in the current year.

1991-92	$73.7
1992-93	--

Lease Revenue Bond Payments

The 1992-93 Governor's Budget included a proposal to refinance $1.2 billion in Lease Revenue Bonds. The original proposal anticipated refinancing up to fifteen State Public Works Board issues that were sold between 1985 and 1990. This proposal was anticipated to provide expenditure reductions of $45 million in the current year and $15 million in the budget year for debt service payments.

After further evaluation of this proposal it has been disclosed that the legal questions and the financial market risks associated with this proposal far outweigh the potential benefits from a refinancing of outstanding bonds.

1991-92	$45.0
1992-93	$15.0

Interest on General Fund Loans

Estimated General Fund expenditures for Interest payments on General Fund Loans (inter-fund borrowing) is expected to increase by $70 in 1992-93. The Governor's Budget estimated inter-fund borrowing costs to be $5 million in 1992-93. The proposed increase incorporates revised estimates based on actual costs in the current year and the anticipation that inter-fund borrowing will remain high in the budget year.

1991-92	--
1992-93	$70.0

OTHER FUNDS

EXPENDITURE DETAIL
1991-92 and 1992-93
($ In Millions)

HEALTH AND WELFARE

Employment Development Department

It is proposed that the Employment Development Department use $20 million from the unexpended balance in the Employment Training Fund as of June 30, 1992 to support the public service employment program and skills development program necessitated by the civil unrest in the Los Angeles area. Up to 4,000 short term jobs will be created quickly to assist in the cleanup effort. Public service employees will earn a maximum of $6,000 and work for up to six months. The first persons to be served in this program will be those who have filed Unemployment Insurance claims stating they have lost their jobs as a direct result of the civil unrest.	1991-92 1992-93	-- $20.0

Department of Health Services -- Other Funds

It is proposed that $9,866,000 of Federal Maternal and Child Health (MCH) Title V Grant funds (of which $2,392,000 represents carryover funding) be expended as follows: $3,737,000 to partially offset the GF cost of expanding eligibility for the Hepatitis B vaccine in the Child Health and Disability Prevention Program, and $6,129,000 to improve access to local health care systems for pregnant women, infants, children, and adolescents, and to target specific high-risk populations. Estimates for the fee supported caseload driven programs of the Genetic Disease Branch have decreased by $769,000 in the current year and $724,000 in the budget year due to a decline in the projected birthrate and changes in laboratory contracts.	1991-92 1992-93	-$0.8 $9.1

Department of Mental Health

As a result of an expected increase of $20 million in California's grant from the Alcohol, Drug Abuse and Mental Health Administration, the Department of Mental Health anticipates receipt of an additional	1991-92 1992-93	-- $7.0

$6,974,000 in federal funds. The Department will allocate this funding to the counties for local mental health programs.

State Legalization Impact Assistance Grant (SLIAG) -- Section 23.50

The Current Year budgeted amount for SLIAG will be decreased from $286,329,000 to $102,599,000 from carryover monies because no federal appropriation has been made for the state's IRCA-related activities in 1991-92. Almost all of the currently estimated $197,174,000 in IRCA-related expenditures for State Public Assistance entitlement programs (such as Medi-Cal and SSI/SSP) are proposed to be backfilled by the General Fund; only $11.5 million of SLIAG monies for Medi-Cal are able to be maintained this fiscal year. A separate Section 23.50 Letter will be transmitted to the Legislature detailing the specific reductions.

The Budget Year SLIAG appropriation is proposed to be increased from $452,573,000 to a ceiling amount of $637,137,000. The new Budget Year total is based on an expectation that the State will receive the full amount of SLIAG funds cumulatively deferred by Congress; this amount had been budgeted over the two year period in the Governor's Budget. Overall, declining caseload estimates because of eligibility limitations in federal law are projected to reduce State Public Assistance entitlement expenditures from $217,686,000 to $171,125,000 for 1992-93. Unallocated expenditures, to be distributed according to the priorities included in Section 23.50, and outlined below, will increase from $234,887,000 to as much as $466,012,000.

The priorities included in Section 23.50 for the unallocated portion of SLIAG funding are proposed for revision as follows: (1) Required public health expenditures, including administration costs, to be capped at $32,000,000; (2) State operation costs, to be capped at $2,700,000; (3) A new third priority; prior year State Public Assistance costs not yet reimbursed by SLIAG monies; (4) Any other programs required by law or regulations; and (5) Any other programs that have previously received SLIAG funds.

While we are proposing to budget up to the full $637,137,000 that is minimally "owed" to California by the Federal Government, we have assumed for our own General Fund purposes in this May Revision the actual receipt of only $381,480,000 in 1992-93. Should that be the maximum received from the Federal Government, it would be sufficient to fund only 1992-93 State Public Assistance entitlements, the $32 million for public health, the $2.7 million for state operations costs for the SLIAG programs and most, but not all, of the reimbursement now owed the General Fund for the 1991-92 State Public Assistance entitlement programs.

YOUTH AND ADULT CORRECTIONAL AGENCY

Department of Corrections

INMATE WELFARE FUND ADJUSTMENTS

The 1991-92 reduction of $1.8 million is attributable to a lower estimated inmate population, a reduction in canteen positions at various institutions, and a carryover of canteen inventory automation funds. This lower inmate population allows the delay or cancellation of various crowding packages which result in the cancellation of canteen operations positions. The net effect of the reduced inmate population projections is a decrease of $75,000 from the Inmate Welfare Fund. The current year also reflects an adjustment of $1,768,000 in unexpended canteen inventory automation funds which are being carried over to the budget year.

1991-92	-$1.8
1992-93	$1.4

The 1992-93 augmentation of $1.4 million reflects the net impact of a lower than estimated inmate population, an overall increase in canteen positions at various prisons, and a carryover of canteen inventory automation funds. Although the lower inmate population allows the cancellation of many crowding facilities, other facilities at new institutions are being crowded. The net effect of the inmate population reductions is a decrease of $400,000. The budget year also reflects an increase of $1,768,000 in canteen inventory automation funds which are being carried over from the current year.

REIMBURSEMENT ADJUSTMENTS

The 1991-92 reduction of $145,000 reflects a carryover of substance abuse funds to the 1992-93 budget. These funds are designated for the California Institution for Women Substance Abuse Program which serves female offenders who are substance abusers.

1991-92	-$0.1
1992-93	$0.1

GENERAL GOVERNMENT/OTHER

Outer Continental Shelf Land Act Section 8(g)

The Governor's Budget projected an estimate of $23.5 million in Outer Continental Shelf Land Act Section 8(g) Revenue Fund for the 1991-92 fiscal year. This was based on an average price of $9.1 per barrel. Based on current year actual through April and a revised assumption of $7.6 per barrel for May and June, the Tidelands Oil revenue is estimated to be $22.7 million. This will reduce the amount of 8(g) available for transfer to the General Fund for the current year from the $13 million budgeted January 10, 1991 to $12 million.

1991-92	-$1.0
1992-93	-$0.2

The 1992-93 Governor's Budget proposed $23.2 million of Outer Continental Shelf Land Act Section 8(g) revenues based on $9.1 per barrel of oil. Although the price per barrel has been revised to $7.6 per barrel, the oil production is expected to increase in 1992-93. Given this situation, the budgeted amount for 1992-93 is expected to be $200,000 less than January 10 estimate of $23.2 million. It should also be noted that neither the Governor's Budget nor the May Revision for 1992-93 includes a transfer to the General Fund, however, it does include a loan to the Fish and Game Preservation Fund of $8.6 million. The Budget also includes $14.6 million in expenditures for support ($3.2M), local assistance ($2.0M) and capital outlay ($9.4M) for various departments.

State Appropriations Limit

STATE APPROPRIATIONS LIMIT

1992-93 Limit Calculation:

For the May Revision, the 1992-93 State Appropriations Limit (SAL) is estimated at $35.010 billion with a growth factor of 2.27%. This is slightly lower than the $35.015 billion SAL and growth factor of 2.28% which were estimated in January. This decrease is due to a change in the factors used to calculate the SAL, pursuant to Article XIIIB of the California Constitution. These are as follows:

	January	May Revision
o Per Capita Personal Income	-0.95%	-0.64%
o State Civilian Population	2.38%	2.27%
o K-14 Average Daily Attendance	4.49%	3.86%

The SAL for 1991-92 did not change since it was statutorily determined by Section 12.00 of the 1991 Budget Act.

SAL Room/Surplus:

For the May Revision, the amount of SAL room available for 1992-93 is $6.25 billion. This is $3.7 billion higher than the $2.55 billion estimated in January. The additional $3.7 billion in room is due to the overall decrease in General Fund revenues and transfers for 1992-93. This decrease in revenues has the effect of reducing the amount of appropriations subject to the SAL and therefore increases the amount of room available under the Limit.

The amount of room for 1991-92 increased by $1.45 billion from $3.71 billion in January to $5.16 billion for the May Revision. This increase in room for 1991-92 is also due to the decrease in General Fund revenues and transfers.

California State Department of Finance

NEWS RELEASE

Release: Immediate
May 20, 1992

Contact: Cynthia Katz
Assistant Director
Public and Intergovernmental Relations
(916) 323-0648

DEPARTMENT OF FINANCE RELEASES MAY REVISION

The State Department of Finance today released the annual May Revision confirming that California's economic and fiscal situation is the worst since the late 1930s.

California's Economic Situation

- California is now in the 22nd month of recession.
- Job loss during this recession has been greater than at any time since World War II. Approximately 690,000 jobs have been lost. This represents a 5.4 percent decline compared to a job loss of only 2.8 percent in the 1982 recession. This trough is so deep that employment may not return to the pre-recession peak until late 1993 or early 1994.
- Wages and salaries, property income, and proprietor's income all performed poorly during 1991. In fact, the May Revision reveals that 1991 income suffered the worst performance since 1938.
- Retail sales were hit even harder than personal income due to the recession. Sales tax data indicate a drop of 5-1/2 percent in taxable transactions in 1991.
- Residential housing looked promising in the early months of 1992. Unfortunately, permit volume fell to a 96,000 annual rate in March from 105,000 in February. The economic recovery will not get underway without sustained growth in housing.
- Nonresidential construction is in an even more serious situation. Commercial office space in Los Angeles is overbuilt, with several major projects still under construction. This high vacancy rate and sluggish demand could delay a recovery for several years.

Revenues and Expenditures

- General Fund revenues and transfers for 1991-92 are expected to total $42.1 billion, down $1.6 billion from the Governor's January Budget estimate. For fiscal year 1992-93, the total estimated revenues and transfers are $41.8 billion, down $3.8 billion from the Governor's Budget estimate. Most of this shortfall is due to the economy. This revenue shortfall is expected to continue beyond the budget year.

	Dollars in Billions		
	1990-91	1991-92	1992-93
Revenues	$38.2	$42.1	$41.8
Expenditures	$40.3	$44.2*	$43.8*

*Expenditures must be reduced by a combined total of $5.7 billion from the Governor's January 1992 budget proposal. If there are no reductions in 1991-92 spending, the total available for expenditure in 1992-93 will be $38.1 billion.

- As dismal as this estimate may seem, this forecast still has a downside risk both in the short term as well as the long term. Although many economists believe that the nation is in recovery, this does not appear to be the case in California. At least at this time, a recovery is not yet visible.

- Current year expenditures are up due to legislative inaction on the Governor's current year proposals as well as congressional inaction on SLIAG.

Impact of May Revision on Proposition 98

- The Governor's January 1992 Budget proposed crediting $183 million in excess 1991-92 Proposition 98 funding to 1992-93, providing the schools with $1.8 billion above the current year funding level.

- Because current year revenues have fallen $1.6 billion below the January estimate, and because K-14 enrollment has grown more slowly than forecast in January, current year funding is now projected to be $1.129 billion over the minimum Proposition 98 guarantee.

- Revenue shortfall and changes in enrollment estimates also will reduce the amount of the guarantee in the budget year below the January estimate. However, any reduction to the guarantee will depend on actions, if any, taken to reduce the current year over appropriation.

- There are four basic Proposition 98 options that the Legislature should consider:

  Option 1: Take no action in the current year and fund Proposition 98 at the minimum level in 1992-93. Under this option, the Legislature would take no action to "recapture" current year over appropriations. In the current year, schools would receive $1.129 billion more than the guarantee. Funding in 1992-93 would be $260 million less than the amount proposed in January, primarily due to slower enrollment growth.

  Option 2: Revert $1 billion in June and fund Proposition 98 at the minimum level in 1992-93. Under this option, the Legislature would revert $1 billion in Proposition 98 overappropriations associated with the June 1992 disbursements. These funds would be reappropriated as an emergency loan to districts, repayable from the proceeds of the 1992-93 Proposition 98 guarantee. Relative to Option 1, this option reduced State funding for schools over the two-year period by $2.027 billion.

  Option 3: Revert at least $129 million prior to May 28, 1992. Revert the balance of excess appropriations in June and fund Proposition 98 at the minimum level in 1992-93. This option reduces state funding for schools over the two-year period by $2.204 billion relative to Option 1 and $177 million relative to Option 2.

- Option 4: Fund schools at any level above the minimum guarantee.

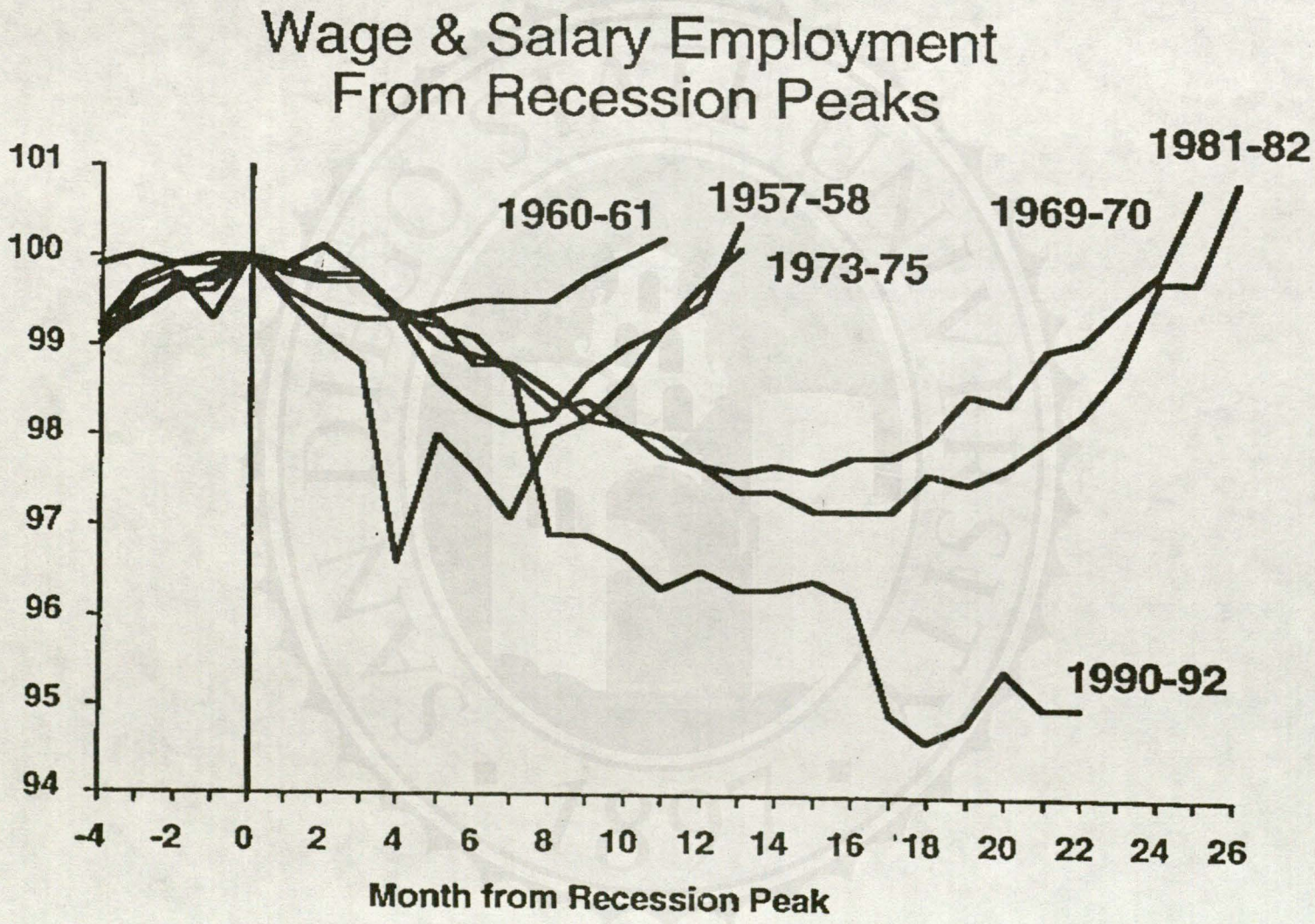
Implications for the 1992-93 Budget

- The spending plan proposed in the Governor's January 1992 budget must be reduced by $5.7 billion to bring expenditures in line with updated revenue projections.

- The Legislature has not acted on the following spending reductions proposed by the Governor for the budget year:

MAJOR REDUCTIONS PROPOSED IN GOVERNOR'S JANUARY 1992 BUDGET

1.	Student fee increases for CSU and UC to offset General Fund costs	$141 M
2.	Shift property tax from certain enterprise districts to school districts	$347 M
3.	Eliminate Renters Credit on Personal Income Tax	$376 M
4.	Enact 5% salary roll back for rank and file state employees	$145 M
5.	Credit General Fund with full amount of state over funding of PERS IDDA/EPDA accounts	$380 M
6.	Health and Welfare Proposals	$1.104 B
	Total	$2.493 B


Wage & Salary Employment
From Recession Peaks
101
100
99
98
97
96
95
94
-4
-2
0
2
4
6
8
10
12
14
16
18
20
22
24
26
Month from Recession Peak
1960-61
1957-58
1973-75
1969-70
1981-82
1990-92

May 20, 1992

1992-93
GENERAL FUND UPDATE
($ In Millions)

RESOURCES:	1991-92	1992-93
Prior Year Balance (January)	-$1,259	-$1,344
Adjustments	23	-2,024
Total Prior Year Balance	-$1,236	-$3,368
Revenues and Transfers (January)	43,633	45,673
May Revision	-1,554	-3,839
Total Revenues and Transfers	$42,079	$41,834
TOTAL RESOURCES	**$40,843**	**$38,466**
EXPENDITURES:		
January	$43,718	$43,817
May Revision	493	-60
TOTAL EXPENDITURES	**$44,211***	**$43,757***
FUND BALANCE	**-$3,368**	**-$5,291**
Economic Reserve	(-$3,775)	(-$5,698)
Encumbrance Reserve	($407)	($407)

* Total expenditures must be reduced by a combined $5.7 billion from the Governor's January 1992 proposal.

May Revision
GENERAL FUND REVENUE FORECAST

Reconciliation with the Governor's Budget Forecast
($ In Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
FY 90-91				
Personal Income Tax	$16,849	$16,849		
Sales & Use Tax	13,303	13,303		
Bank & Corporation Tax	4,508	4,508		
Insurance Tax	1,286	1,286		
Other Revenues	1,855	1,855		
Transfers	413	413		
Total	$38,214	$38,214		
FY 91-92				
Personal Income Tax	$18,133	$17,400	-$733	-4.0%
Sales & Use Tax	16,188	16,025	-163	-1.0%
Bank & Corporation Tax	5,017	4,630	-387	-7.7%
Insurance Tax	1,195	1,170	-25	-2.1%
Other Revenues	2,257	2,161	-96	-4.3%
Transfers	843	693	-150	-17.8%
Total	$43,633	$42,079	-$1,554	-3.6%
Change from FY 90-91	$5,419	$3,865		
% Change from FY 90-91	14.2%	10.1%		
FY 92-93				
Personal Income Tax	$19,522	$17,650	-$1,872	-9.6%
Sales & Use Tax	16,859	15,565	-1,294	-7.7%
Bank & Corporation Tax	5,420	4,900	-520	-9.6%
Insurance Tax	1,217	1,266	49	4.0%
Other Revenues	2,287	2,058	-229	-10.0%
Transfers	368	395	27	7.3%
Total	$45,673	$41,834	-$3,839	-8.4%
Change from FY 91-92	$2,040	-$245		
% Change from FY 91-92	4.7%	-0.6%		

May Revision
GENERAL FUND REVENUE FORECAST

Reconciliation with the Governor's Budget Forecast
($ In Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
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Transfers	368	395	27	7.3%
Total	$45,673	$41,834	-$3,839	-8.4%
Change from FY 91-92	$2,040	-$245		
% Change from FY 91-92	4.7%	-0.6%		

GENERAL FUND EXPENDITURES BY AGENCY
($ In Millions)

Agency	1990-91	1991-92	1992-93
NON-PROPOSITION 98:			
Legislative, Executive, Judicial	$1,346	$1,719	$1,547
State and Consumer Services	276	289	301
Business, Transportation & Housing	136	204	272
Resources	707	674	673
Environmental	78	98	91
Health and Welfare	13,361	13,704	13,193
Youth and Adult Correctional Agency	2,701	3,024	3,163
K-12 Education	721	1,066	1,320
Higher Education	4,119	4,153	4,218
General Government	1,489	927	719
Total -- Non-Proposition 98	**$24,934**	**$25,858**	**$25,497**
PROPOSITION 98:	**$15,330**	**$18,353**	**$18,260**
TOTAL -- ALL GENERAL FUND	**$40,264**	**$44,211***	**$43,757***

* Total expenditures must be reduced by a combined $5.7 billion from the Governor's January 1992 proposal.

Increase in Program Recipients

	92-93*	Increase from 91-92
K-14 Attendance	6,322,128	203,819
Welfare	3,505,400	332,300
Medi-Cal	5,010,000	397,300
Prisons	107,014	3,772
UC/CSU	520,988	4,735
Population	31,630,000	641,000

*Projected in May 1992

CAP9293/PRGMRCIP.PM4

Major Options to Reduce January Expenditure Plan as Adjusted for May Revision

POLICY DECISIONS	A	B	C	D
Recalculate Prop 98 K-14 Funding Downward to Reflect Declining Revenue	NO	YES 9.1%	NO	YES 9.1%
Adopt Governor's Proposed Reductions in January Budget	NO	NO	YES	YES
Across the Board Reduction Required on the Remainder of Budget	32.5%	23.4%	24.8%	14.7%

Option A

Assumptions:

- ❑ Revenue shortfall of $1.55 billion in the current and $3.8 billion in the budget year
- ❑ Current year proposed savings of $391 million lost

Policy Decisions:

- ❑ Fund 1992-93 Proposition 98 reflects the overappropriation of the guarantee in 1991-92
- ❑ Reject Governor's major January proposals
- ❑ No tax increases

Available General Fund Resources
1992-93 Fiscal Year
($ In Millions)

	Jan	May Revision	% Change
Revenues and Transfers	$45,673	$41,834 1/	
Less:			
Pay-Off 1991-92 Deficit	-1,344	-3,368	
Available Resources	$44,329	$38,466	
Less Mandatory Expenditures:			
Proposition 98 guarantee	18,520	18,260 2/	
Proposition 98 carryover	31	9	
Debt Service	1,682	1,682	
Tax Relief	432	432	
Health Benefits for Annuitants	348	303	
Judges' Retirement System	134	134	
STRS	705	705	
State Mandates	54	54	
TOTAL Mandatory	$21,906	$21,579	
TOTAL Non-Mandatory Expenditures	$24,404 3/	$16,480 4/	-32.5

1/ Budget year revenue loss of $3.8 billion.
2/ Assumes 1991-92 Proposition 98 guarantee is overappropriated by $1,129 million.
3/ Governor's budget plus $2,493 million in rejected Governor's proposals.
4/ Does not include $407 million for reserves for encumbrances

Option B

Assumptions:

- ❑ Revenue shortfall of $1.55 billion in the current and $3.8 billion in the budget year
- ❑ Current year proposed savings of $391 million lost

Policy Decisions:

- ❑ Fund 1992-93 Proposition 98 at minimum level with the current year adjusted downward by $1,129 million to fund only the minimum level of the guarantee in 1991-92
- ❑ Reject Governor's major January proposals
- ❑ No tax increases

Available General Fund Resources
1992-93 Fiscal Year
($ In Millions)

	Jan	May Revision	% Change
Revenues and Transfers	$45,673	$41,834 1/	
Less:			
Pay-Off 1991-92 Deficit	-1,344	-2,239	
Available Resources	$44,329	$39,595	
Less Mandatory Expenditures:			
Proposition 98 guarantee	18,520	17,185 2/	
Proposition 98 carryovers	31	9	
Debt Service	1,682	1,682	
Tax Relief	432	432	
Health Benefits for Annuitants	348	303	
Judges' Retirement System	134	134	
STRS	705	705	
State Mandates	54	54	
TOTAL Mandatory	$21,906	$20,504	
TOTAL Non-Mandatory Expenditures	$24,404 3/	$18,684 4/	-23.4

1/ Budget year revenue loss of $3.8 billion.
2/ Budget year revenue loss reduces budget year Proposition 98 guarantee by $1,335 million.
3/ Governor's budget plus $2,493 million in rejected Governor's proposals.
4/ Does not include $407 million for reserves for encumbrances.

Option C

Assumptions:

- ❑ Revenue shortfall of $1.55 billion in the current and $3.8 billion in the budget year
- ❑ Current year proposed savings of $391 million lost

Policy Decisions:

- ❑ Fund 1992-93 Proposition 98 reflects the overappropriation of the guarantee in 1991-92
- ❑ Adopt Governor's major January proposals
- ❑ No tax increases

Available General Fund Resources
1992-93 Fiscal Year
($ In Millions)

	Jan	May Revision	% Change
Revenues and Transfers	$45,673	$41,834 1/	
Less:			
Pay-Off 1991-92 Deficit	-1,344	-3,368	
Available Resources	$44,329	$38,466	
Less Mandatory Expenditures:			
Proposition 98 guarantee	18,520	18,260 2/	
Proposition 98 carryovers	31	9	
Debt Service	1,682	1,682	
Tax Relief	432	432	
Health Benefits for Annuitants	348	303	
Judges' Retirement System	134	134	
STRS	705	705	
State Mandates	54	54	
TOTAL Mandatory	$21,906	$21,579	
TOTAL Non-Mandatory Expenditures	$21,911 3/	$16,480 4/	-24.8

1/ Budget year revenue loss of $3.8 billion.
2/ Assumes 1991-92 Proposition 98 guarantee is overappropriated by $1,129 million.
3/ Governor's January budget.
4/ Does not include $407 million for reserves for encumbrances.

Option D

Assumptions:

- ❑ Revenue shortfall of $1.55 billion in the current and $3.8 billion in the budget year
- ❑ Current year proposed savings of $391 million lost

Policy Decisions:

- ❑ Fund 1992-93 Proposition 98 at minimum level with the current year adjusted downward by $1,129 million to fund only the minimum level of the guarantee in 1991-92
- ❑ Adopt Governor's major January proposals
- ❑ No tax increases

Available General Fund Resources
1992-93 Fiscal Year
($ In Millions)

	Jan	May Revision	% Change
Revenues and Transfers	$45,673	$41,834 1/	
Less:			
Pay-Off 1991-92 Deficit	-1,344	-2,239	
Available Resources	$44,329	$39,595	
Less Mandatory Expenditures:			
Proposition 98 guarantee	18,520	17,185 2/	
Proposition 98 carryovers	31	9	
Debt Service	1,682	1,682	
Tax Relief	432	432	
Health Benefits for Annuitants	348	303	
Judges' Retirement System	134	134	
STRS	705	705	
State Mandates	54	54	
TOTAL Mandatory	$21,906	$20,504	
TOTAL Non-Mandatory Expenditures	$21,911 3/	$18,684 4/	-14.7

1/ Budget year revenue loss of $3.8 billion.
2/ Budget year revenue loss reduces budget year Proposition 98 guarantee by $1,335 million.
3/ Governor's January budget.
4/ Does not include $407 million for reserves for encumbrances.