

WHAT HAPPENED OVER THE WEEKEND?

The new fiscal year began Monday, July 1, without a state spending plan in place for 2002-03. The Budget Conference Committee concluded work on a spending plan on Friday night. However, when the Conferees returned to sign the Conference Report, a last minute dispute over whether the plan would endorse a one- or two-year increase in Vehicle License Fees blocked agreement. On Saturday, the Senate voted to approve a spending plan modeled on the Conference Committee's work product, and a set of implementing measures needed to make the statutory changes encompassed by the budget agreement.

On Sunday, the Assembly failed to pass the budget bill. No Republicans voted for the Budget, preventing the measure from receiving the necessary two-thirds vote needed for approval. The Assembly did approve a measure passed by the Senate on Saturday that reduces current year education spending by shifting certain expenditures into the new fiscal year. AB 3008 shifted \$1.8 billion in 2001-02 K-14 funding to the California State University where the funds reverted to the General Fund at the end of the 2001-02 fiscal year. The measure was structured to take advantage of a provision of the state Constitution that allows appropriations for education to be enacted by majority vote. Earlier attempts to revert the money directly to the General Fund failed due to Republican opposition.

Last minute changes to budget agreement include:

- Maintaining annual reporting for adult Medi-Cal recipients (i.e., rejecting the May Revision proposal to reinstate the Quarterly Status Reporting requirement).
- Rejecting the shift of \$45 million in federal penalties to counties for the state's failure to implement an automated child support system.
- Shifting \$475 million in school spending from 2002-03 to 2003-04. This shift is in addition to the \$1.1 billion shift of spending from 2001-02 to 2002-03.
- Cutting \$8.5 million in Farmworker Housing spending from the budget.
- Reducing Adult Protective Services spending by \$5.6 million.
- Restoring prior reductions made by the Conference Committee for a number of law-enforcement related grant programs including the rural crime program (\$1.7 million), High Tech Task Force (\$4.2 million), High Tech Grants (\$18.5 million), and War on Methamphetamine (\$8.0 million).

The Conference Committee endorsed a tax plan that:

- Increases cigarette taxes by \$0.63 per pack (the Governor's May Revision proposed a \$0.50 per pack increase).
- Suspends the Teacher Tax Credit for one year.
- Increases the Vehicle License Fee (VLF) tax rate to 1.5 percent of a vehicle's depreciated value, higher than the current 0.65 percent rate, but below the 2 percent rate in effect in 1998.
- Suspends businesses' ability to claim Net Operating Loss (NOL) deductions in 2002 and 2003, but increases the percentage of the losses they may deduct in 2004 and thereafter from

65 percent to 80 percent. The increase in the amount of NOLs businesses can claim in 2004 and thereafter was a last minute change that will reduce revenues by several hundred million dollars per year beginning in 2004.

- Changes the method for calculating the deductions that banks can claim for bad debts. In May, the Governor proposed to bring banks into conformity with federal law over a four-year period. The Conference Committee voted to forgive half the deductions previously claimed by banks, a change that will reduce revenues by several hundred million dollars in comparison to the Governor's proposal.

On Saturday, the Senate approved AB 433, which made the changes listed above, including a one-year (calendar 2003) increase in the VLF rate.

The Budget Agreement approved by the Senate includes the measures listed below. The bills, votes, and analyses can be found at <http://www.leginfo.ca.gov/>.

AB 425 –Budget Bill

AB 433 – Taxes

AB 442 – Omnibus Health

AB 444 – Omnibus Social Services

AB 925 – 10 Day Change Reporting for Medi-Cal

AB 1100 – Basic Aid School District Clean Up

AB 1525 – 2003-04 Education Deferral

AB 1666 – Tobacco Tax Evasion

AB 1832 – 2001-02 Deficiency Bill

AB 2996 – Transportation

AB 2997 – Resources

AB 2998 – Charter Schools

AB 2999 – Omnibus Equalization

AB 3000 – General Government

AB 3001 – Current Year Expenses of the Board of Equalization

AB 3002 – Local Government/Redevelopment Agency Property Tax Shift

AB 3003 – Proposition 98 Deferral, including funding for Equalization

AB 3004 – City of Millbrae Loan Forgiveness

AB 3006 – Reinstates Certain Medi-Cal Provider Rate Increases

AB 3008 – 2001-02 Education Deferral (This measure was passed by the Senate and Assembly and signed by the Governor on June 30, 2002).

AB 3009 – Natural Heritage Tax Credit Suspension/ERPA

AB 3010 – Establishes an Alternative Base Period for Unemployment Insurance eligibility

SB 1834 – Transportation

Assembly Republican Leader Dave Cox held a press conference Monday morning declaring his opposition to the proposed tax increase. Cox released a list of “pork” and new or expanded programs, implying that these items should be cut to balance the budget. However, the reductions proposed by Assemblymember Cox would reduce General Fund spending by less than \$300 million (they would also cut \$288 million in Proposition 98 spending). In contrast, the proposed tax package raises \$3.726 billion.

NEW CBP PUBLICATIONS

"Should California Earmark the Sales Tax on Motor Vehicles?" analyzes an initiative that will appear on the November ballot. This initiative, sponsored by the Planning and Conservation League, would permanently transfer a portion of sales taxes paid on motor vehicles to support projects both related and unrelated to transportation. This analysis examines the fiscal policy issues raised by the proposed ballot measure.

"Comparison of Key Provisions in TANF Reauthorization Proposals" has been updated to include a description of the bill passed by the Senate Finance Committee on June 26. As compared to the bill approved by the House in May, the Senate bill includes increased child care funding, less strict work requirements, and restoration of TANF and health benefits to recent immigrants.

To download these publications, click on "What's New" on the California Budget Project web site at <http://www.cbp.org>.