

OVERVIEW OF THE 2002-03 BUDGET BILL

Senate Bill 1261

As Introduced

Senate Committee on Budget and Fiscal Review
Senator Steve Peace, Chair

January 2002

January 22, 2002

Dear Colleague:

I am pleased to forward a copy of the *Overview of the 2002-03 Budget Bill*, prepared by the staff of the Senate Budget and Fiscal Review Committee.

In the first section, we provide an overview of the state's fiscal condition. In the following section, entitled "Selected Major Issues," we discuss the state's revenue structure, the Governor's call for a special session on the current-year budget, and the recent history on member requests.

The next section, entitled "Budget Highlights," is organized by subcommittee, and details the budget for most departments and agencies. If you are looking for a specific department or agency, there is an index at the end of the highlights section.

In the Appendix, we include a working timeline for completing the budget and a list of assignments for the budget committee consultants.

If you have questions, please call me.

Sincerely,

STEVE PEACE
Chair

Enclosure

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REVENUE AND EXPENDITURE SUMMARY

Introduction

A decline in capital spending, downturns in the stock market, and struggling foreign economies combined to slow the national and California economies in 2001. The September 11 terrorist attacks may have exacerbated the slowdown, particularly in tourism expenditures in California. Interest rate cuts by the Federal Reserve and increased military spending have moderated the recession that began in March. The Administration forecasts that the national economy will begin to recover by mid-year 2002.

The California economy performed better than the nation as a whole. The growth rate in employment was significantly higher in California than nationally. California had 1.8 percent growth in employment for 2001 compared to a growth of only 0.3 percent nationally. Personal income growth in California of 1.4 percent in 2001 did lag the national growth rate of 5.0 percent. The decline in the stock market and thus income from capital gains and stock options were the main ingredients for this shortfall.

Given the slowing economy, the Governor anticipates an 18-month deficit of about \$12.5 billion. This essay, divided in three sections, is intended to provide a broad context for the discussion on the deficit. In the first section, we outline the state's General Fund condition, assuming passage of the Governor's budget proposal. In the second section, we outline how the Governor proposes to fill the deficit. In the third section, we discuss the state's revenues.

General Fund Condition

The Governor proposes a General Fund budget of \$78.8 billion. It assumes revenues of \$79.3 billion. After accounting for carryover reserves and encumbrances, the Governor anticipates ending the budget year with a \$511 million reserve. Table 1 summarizes the current- and budget-year General Fund condition.

Table 1
General Fund Condition
(in millions of dollars)

| | 2001-02 | 2002-03 |
|--|---------|---------|
| Prior-Year Resources Available | \$2,783 | \$1,486 |
| Revenues and Transfers | 77,083 | 79,305 |
| Expenditures | 78,379 | 78,806 |
| Fund Balance | \$1,486 | \$1,984 |
| Reserve for Liquidation of Encumbrances | \$1,473 | \$1,473 |
| Special Fund for Economic Uncertainties | \$12 | \$511 |

In brief, the budget proposes the following expenditures:

- General Fund expenditures for 2002-03 are proposed at \$78.8 billion, which is about \$400 million or 0.5 percent higher than expenditures in 2001-02.
- Expenditures for K-12 Education are proposed at \$31.3 billion or 39.7 percent of General Fund expenditures.
- Expenditures for Higher Education are proposed at \$10.0 billion or 12.7 percent of General Fund expenditures.
- Combined expenditures for K-12 and Higher Education comprise more than 52 percent of total General Fund expenditures. There is an additional \$14.6 billion in local property taxes, \$5.7 billion in federal funds, and \$950 million in lottery funds that support K-12 education and community colleges.
- Expenditures for Health and Human Services total \$22.4 billion or 28.4 percent of total General Fund expenditures.

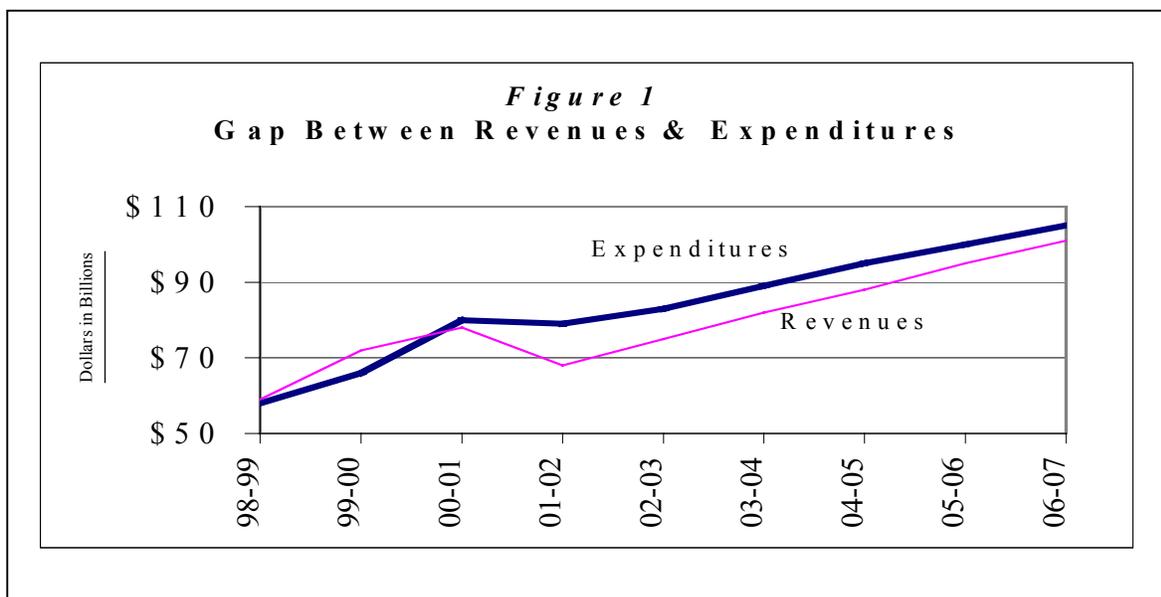
Operating Deficits Lead to Chronic Shortfalls

In November, the LAO forecast revenues and expenditures for the period from 2001 through 2006. In comparing revenues to expenditures, they determined that the state would sustain chronic operating deficits.

An operating deficit occurs when expenditures exceed revenues for the fiscal year. In each year of the LAO forecast period July 1, 2001 through June 30, 2006, the Analyst expects expenditures will exceed revenues. As indicated in *Figure 1*, although the annual operating deficits will shrink over time—from

about \$7.5 billion in 2003-04 down to about \$4 billion in 2006-07—they will remain in the multibillion-dollar range throughout the Analyst’s forecast period.

The Administration does not address the operating deficit in future years. The budget primarily relies on one-time solutions to address the deficit through 2002-03. Two of the Governor’s proposals will exacerbate the ongoing operating deficit. The deferral of retirement contributions will result in increased retirement contributions in future years and includes a commitment to improve retirement benefits. The funds from the securitization of future tobacco settlement revenues will be used to pay for ongoing health programs in the budget year. This will continue higher baseline expenditures and reduce the availability of a future revenue stream at the same time.



In November, the Legislative Analyst identified a 2002-03 budget deficit of about \$12.5 billion. The budget deficit is the difference between current spending practices and revenues collected by June 30, 2003. Put another way, given the current economic situation, if the Legislature were to continue spending at the rate established in the current-year budget, the state would have a \$12.5 billion budget shortfall.

The Administration identifies a budget deficit of a similar magnitude, but measured on a different basis. The most significant difference is that the Administration forecasts General Fund revenues from the major tax sources to be higher than the LAO by \$1.8 billion in the current year and \$600 million in the budget year. The Administration estimated baseline expenditures \$2.5 billion higher than the LAO.

- **The Current-Year Problem.** According to the LAO, the 2001-02 budget will end in deficit of about \$4.5 billion unless action is taken to increase revenues or reduce expenditures. This compares to the estimated \$2.6 billion reserve (“surplus”) that was assumed as part of the 2001-02 Budget Act.

The **Administration**, using revenues \$1.8 billion higher than LAO, is proposing nearly \$3 billion in reductions to solve the current-year problem. The proposed solution consists of \$1.8 billion from program reductions, \$478 million from assumed federal funding increases, \$380 million from accelerations and transfers, \$216 million from fund shifts, and \$96 million from loans and deferrals.

Because the Administration assumes higher General Fund revenues and greater federal transfers in the current year, it identifies a lower current-year deficit than does the LAO. At the time of the May Revision, the state will have a much more reliable estimate of General Fund revenues and federal

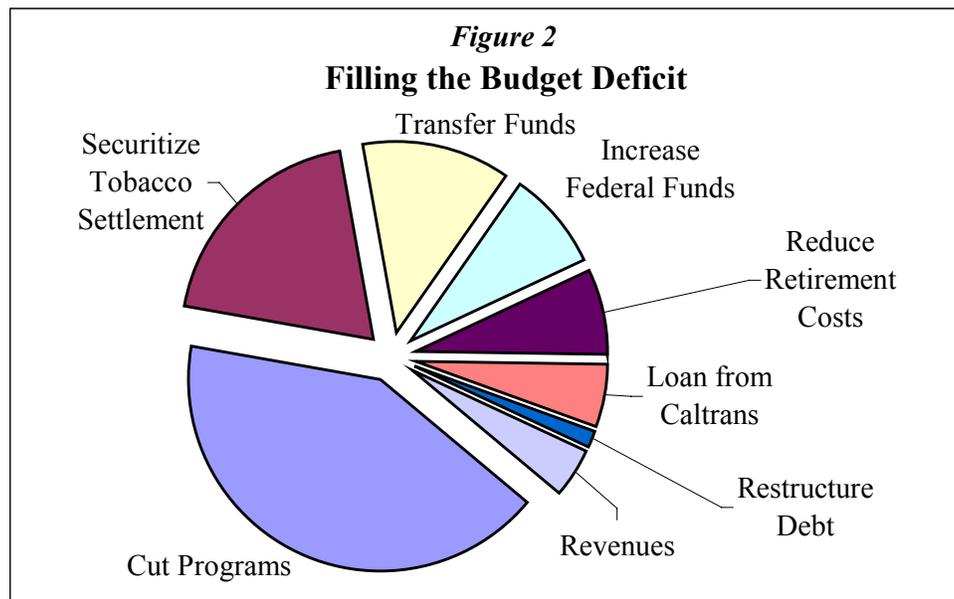
transfers. If the estimates fall at that time, the Legislature will have to take further actions to balance the budget.

- The Budget-Year Solution.** The Administration has several proposals to solve a \$9.5 billion budget-year problem. These proposals include \$3.4 billion in program reductions, \$3.1 billion in accelerations and transfers, \$2.0 billion in loans and deferrals, almost \$600 million in assumed federal funding increases and \$370 million in fund shifts.

One assumption underlying this budget is that the \$6 billion plus General Fund loan to the Electric Power Fund will be repaid. The revenue bond sale necessary to finance the repayment cannot occur without resolving certain issues concerning its marketability.

Another major concern raised by the LAO is that the Proposition 98 minimum funding requirement could be up to \$900 million above the Administration’s budget forecast.

Figure 2 graphs the Administration’s two-year deficit reduction plan, showing how much each component helps to fill the deficit.



The components are:

- Program Reductions.** The Administration proposes reducing state government by \$5.2 billion over the next 18 months. Some of these actions must be authorized by the Legislature in urgency legislation. The Governor called a Third Extraordinary Session for this purpose. The Department of Finance urges that the special session bills be passed before March 1.
- Securitize Tobacco Settlement Funds.** The state participated in the 1998 Master Tax Settlement with tobacco companies. Under the settlement, the state receives funds from the tobacco companies annually for 25 years. The budget proposes to borrow against these future payments by issuing a bond secured with the settlement payments. The proceeds of the bond sale would be deposited in the General Fund for a one-time increase in General Fund revenues of \$2.4 billion. The debt service payments on the bond will be \$62 million in 2002-03 and \$190 million for the remaining 22 years of

the Settlement payments. The \$2.4 billion will be used to fund a variety of ongoing health programs in the current year.

- **Make Adjustments in Special Funds.** The budget proposes the transfer of excess balances in certain special funds and capital outlay funds to the General Fund. The budget also proposes shifting the cost of some programs from the General Fund to special funds. Combined, the revenue increase and expenditure savings to the General Fund total \$1.5 billion.
- **Increase Federal Reimbursements.** The budget assumes that the federal government will increase funding for the state by about \$1.1 billion. This increased funding includes larger payments for Medi-Cal, Child Support System penalty relief, and increased funding for security/bioterrorism.
- **Defer Retirement Contributions.** By deferring payments to the State Teachers' Retirement System (STRS) and the Public Employees' Retirement System (PERS), the budget assumes savings of nearly \$900 million. This proposal is in exchange for enhancing retirement benefits. These enhanced benefits will result in significant General Fund costs in future fiscal years. The Administration states that if the May Revision "shows an improvement in the state's economic conditions, or if less-costly alternatives can be developed, such as refinancing the state's long-term debt in recognition of historically low interest rates, the Administration will reconsider these proposals".
- **Improve Cash Management at Caltrans.** The budget proposes a loan of \$672 million from the Transportation Congestion Relief Fund (TCRF) to the General Fund. According to the Department of Finance, this loan will not require the deferral of any project. A portion of the money is freed up when Caltrans implements policies to improve cash management at the department. (The State Highway Account will also provide a loan of \$474 million to the TCRF. The special loans are proposed to be repaid when needed to meet budget expenditures.)
- **Restructure Debt.** The Administration proposes shifting some capital projects from General Fund expenditures to Lease-Revenue and General Obligation bonds, for General Fund savings of \$167 million.
- **Revenue Options.** The budget assumes that the Legislature will adopt legislation to conform to various aspects of the Federal Internal Revenue Code, including the recent deferred compensation changes. This legislation, combined with revenue accelerations, will result in an increase of about \$280 million in General Fund revenue. These proposals are discussed in detail in the overview of tax proposals.

Revenues

- **\$2.4 Billion Difference between the Revenue Forecast by Administration and the LAO.** The Administration's General Fund revenue estimate (without revenue from tax proposals or increased audit or collection proposals) for the personal income, sales and bank and corporation tax is **higher** by \$1.8 billion in the current year and \$564 million in the budget year than the revenue estimate prepared by the LAO in November. This difference is entirely from the personal income tax and personal income tax revenues for the 2001 income year will be largely known at the time of the May Revision.

Table 2 displays growth in General Fund revenue from major taxes and licenses.

| | 2001-02 | 2002-03 | \$ Change | % Change |
|--------------------------|-----------------|-----------------|----------------|------------|
| Personal Income Tax | \$38,455 | \$42,605 | \$ 4,140 | 10.8 |
| Sales and Use Tax | 21,980 | 22,850 | 1,685 | 8.0 |
| Bank and Corporation Tax | 5,261 | 5,869 | 608 | 11.6 |
| All Other | 2,840 | 2,694 | -146 | -5.1 |
| Total | \$67,721 | \$74,018 | \$6,297 | 9.3 |

- Comparison of General Fund Revenue Forecast to Prior Fiscal Year.** General Fund revenue from major revenue sources are \$5.2 billion less in 2001-02 and \$5.5 billion less in 2002-03 than the Administration forecast when the 2001-02 budget was enacted. The revenue estimate for 2002-03 is \$6.3 billion (9.3 percent) more than the 2001-02 forecast. The estimate for both 2001-02 and 2002-03 are less than the revenue collected in 2000-01. The estimate for 2001-02 is \$7.9 billion (10.5 percent) less and the 2002-03 estimate is \$1.6 billion less (2.2 percent)
- Increased Revenue from Tax Proposals.** The Administration’s tax proposals, including increased audit and collection staff at FTB, will result in increased General Fund revenues of \$280 million in 2002-03. The tax proposals will result in revenue losses in future years, which will be offset by the estimated increased revenues from the added audit and collection staff. These proposals are discussed in the Tax Proposals overview.
- Growth in General Fund Revenue and Transfer Forecast.** The General Fund revenue and transfer forecast for 2002-03 projects an increase of 2.9 percent including revenue from tax proposals, revenue accelerations, and proposed transfers.

Personal Income Tax

- Growth in Personal Income Tax Revenues.** Personal income tax receipts, which comprise 53.7 percent of all General Fund revenues, are also the most volatile source of revenue. Revenues from the personal income tax are forecast to decline by 13.8 percent in the current year and to increase by 10.8 percent in 2002-03. This increase includes revenues from the tax proposals outlined below and from increased audit and collection activity.

Personal income tax revenues continue to become a larger and larger share of General Fund revenues. In 1982-83, they were 36.3 percent of General Fund revenues; this increased to 42 percent in 1992-93, and 53.7 percent in 2002-03. In 2000-01, they comprised 62.4 percent of General Fund revenues due to the strength of capital gains and stock options. The over-dependence on this tax source creates a structural problem for state revenues.

- Capital Gains and Stock Options.** Revenue from the realization in capital gains increased dramatically during the 1990s and into 2000. Growth in capital gains realized in 2000 were 30 percent higher than 1999 and seven times higher than in 1994. The Administration forecasts a decline

in capital gains in 2001 of 45 percent from the 2000 level. For 2002, capital gains are expected to increase by 12.5 percent based on the Administration's forecast for a moderate rebound in the market in 2002. The LAO forecast in November that capital gains would be 7.5 percent less than the Administration for 2001 and about 5.4 percent less for 2002.

The Administration is forecasting an even steeper decline in revenue from stock options, which were an essential component of the growth in personal income tax revenues in the 1990s. They are projecting a decline of about 50 percent in 2001 and 13 percent in 2002. The LAO forecast in November that capital gains will be about 50 percent less than the Administration forecast for 2001 and about 30 percent less than the Administration forecast for 2002.

Revenue from capital gains and stock options in 2000-01 was \$17.5 billion or 22 percent of total General Fund revenues and 40 percent of personal income tax revenues. In November, the LAO forecast for these two sources combined is more than 20 percent lower than the Administration for 2001 and over 10 percent lower in 2002. Revenue from capital gains and stock options, as forecast by the LAO, is estimated to be \$7.0 billion for 2001-02, \$8 billion for 2002-03, and \$9 billion in 2003-04. This is a critical element of the revenue forecast.

Sales Tax

- **Revenue.** Revenues are forecast to be \$22.8 billion in 2002-03.
- **Moderate Increase.** Taxable sales for 2002 are expected to increase only 0.8 percent in 2002, which is still lower than the 2000 level of taxable sales. Sales for 2003 are anticipated to grow by 7.5 percent.
- **Sales Tax Trigger.** The budget also assumes that the surplus for the 2002-03 fiscal year will not be sufficient to trigger a 0.25 percent reduction in the sales tax rate.

Bank and Corporation Taxes

- **Revenue.** Revenues are estimated to be \$5.9 billion in 2002-.
- **Decline in Revenues.** Revenues are expected to decline by 24 percent in 2001-02 and increase by 11.6 percent in 2002-03. Revenues in 2002-03 will still be 15 percent below revenues in 2000-01.

Consultant: Judi Smith

SELECTED MAJOR ISSUES

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CALWORKS

The California Work Opportunity and Responsibility to Kids (CalWORKs) program, California's welfare program, faces a seminal year in its development in the 2002-03 budget year. **The structure of CalWORKs is based on the offering of services to families to facilitate employment, the imposition of time limits for adults to a fixed lifetime eligibility for benefits, and the assurance that the state will provide a safety net for children if their families reach the time limit.** The CalWORKs discussion will be informed by three points: (1) For the first time, some families will reach the time limits in 2002-03. (2) The program has been a success. This is key in a year that the federal government is scheduled to reauthorize federal welfare funding. (3) The Administration estimates that state costs for welfare programs will increase by \$600 million. (This estimate includes costs for welfare-related programs which have been financed in the past by federal or state-match funds.)

The Administration proposes to maintain costs at current-year levels by reducing various categories of spending required by current law (and thus reducing the services offered to participants, and making other reductions). In this essay, we discuss the program, assess welfare reform's success, and summarize the Governor's proposal.

The CalWORKs program implements the federal Temporary Assistance for Needy Families (TANF) program in California. CalWORKs (and TANF) replaced the Aid to Families with Dependent Children program, and was implemented in California on January 1, 1998. The program provides cash grants and welfare-to-work services to families whose incomes are not sufficient to meet basic needs for food, clothing, and shelter.

Characteristics of CalWORKs include time limits on the period a family can receive welfare-to-work services and time limits on the period a family can receive cash grants (generally, a 60 month lifetime limit on the receipt of cash aid). Families are required to meet requirements for participation in preparation for work, and work, in order to continue to receive assistance. Families are also generally required to prove that children are in school, and other requirements. CalWORKs was designed to be county-administered, with counties permitted to develop employment preparation and family support programs that reflect local conditions, including labor market information and the availability of other services to meet CalWORKs family needs.

Federal TANF law will expire in 2002, and Congress must act to reauthorize the program. Congress could potentially reduce the amount of TANF block grant funds available to states, based on caseload reductions in the program. However, there are strong arguments from the states that the national recession requires that the federal government continue to make available at least the current level of TANF funding.

Program Success

CalWORKs has generally met federal and state legislative goals, redesigning the landscape of support for families and children unable to meet basic needs. California has consistently met federal requirements for family self-sufficiency, and as a result qualified to reduce its General Fund contributions to the program.

Half the families on aid are working, more than twice the percentage working under the previous welfare program. Caseloads have declined by approximately 400,000 persons since the peak in 1994-95. This reduction in cases and individuals receiving aid is due, in part, to California's recovering economy during the 1990s as caseloads began to decline in 1995-96, before CalWORKs was implemented. However, job skills training, child care services, treatment services for mental illness and substance abuse problems, financial incentives that encourage work, financial incentives that encourage the payment of child support, and participation requirements that assure that adults in each household participate in activities to encourage self-sufficiency have been instrumental in reducing the caseload of CalWORKs participants.

Some of the reduction in participants is associated with the elimination of funds for adults that do not participate as required in self-sufficiency activities, such as job search, job training, treatment for problems, and employment. In such cases, aid can be provided to support needy children. California has seen a substantial increase in child-only cases, which now constitute one-third of the caseload.

Federal Funding Requirements

For the first time, some families will reach their federal time limit of 60 months on aid during the 2001-02 budget year. California's law continues to require aid to these families until such time as the family reaches time limits under the California program, also 60 months but reflecting a delayed start-up to California's CalWORKs program. The current budget reflects the transfer of these families to state-only funding. Some families will reach the state limit in 2002-03, and the budget reflects savings from the removal of some payments to families that reach the federal time limit. The Administration estimates that 15% of cases with an adult in the benefit unit will reach the time limit in the budget year.

Federal TANF provides California a block grant of \$3.7 billion per year. The state is required to provide 80 percent of the amount of state funding provided in federal fiscal year 1994. This amount may be reduced to 75 percent for years in which the state meets federal requirements for the percentage of families working and receiving employment income. California has met the requirements each year, and thus has been required to provide \$2.7 billion to the General Fund each year. Federal TANF funds that are unspent in any year may be carried over to subsequent years.

Federal and state funds can be used for a variety of "TANF-eligible" programs or activities in addition to family cash assistance and the costs of employment training and support programs. California has used a substantial amount of its required funds each year for such TANF-eligible programs. In several cases, expenditures for programs other than cash aid, employment services, and supplementary services such as childcare, may represent expenditures using TANF or Maintenance of Effort funds that the state would otherwise have made from General Funds (Child Welfare and Foster Care expenditures, for example). The basic array of programs in the current year are described in Table 1:

Table 1
Current-Year (2001-02) Eligible Expenses
(in thousands of dollars)

| Program | Total Funding | TANF | MOE: State | MOE: Local |
|--|----------------------|-------------|-------------------|-------------------|
| <i>Cash Payments</i> | \$3,301,644 | \$1,788,157 | \$1,431,023 | \$82,464 |
| <i>Administration</i> | 454,228 | 164,370 | 236,264 | 53,594 |
| <i>State Support Costs</i> | 25,964 | 23,310 | 2,654 | |
| <i>CalWORKs Non-MOE Eligible Expenditures</i> | (14,203) | (200) | (14,003) | |
| <i>Employment Services</i> | | | | |
| Services Expenditures (includes Substance Abuse/Mental Health; Youth Development) | 907,223 | 643,272 | 263,951 | |
| Pass-through from other Departments, including DHS, EDD, CDE, DCSS, CDPAC for TANF-eligible programs | 21,998 | | 21,998 | |
| California Community Colleges: support services to recipients and eligibles | 65,000 | | 65,000 | |
| Department of Education: Adult Education and Regional Occupation Centers | 26,000 | | 26,000 | |
| Department of Health Services: teen counseling | 775 | | 775 | |
| Department of Corrections: services to female offenders | 2,500 | | 2,500 | |
| <i>Performance Incentives</i> | | | | |
| County Incentives | 20,000 | 20,000 | | |
| <i>Child Care</i> | | | | |
| Child Care Funding | 583,934 | 477,219 | 106,715 | |
| CDE Child Care Funding Match | 322,000 | | 322,000 | |
| <i>Other Expenditures</i> | | | | |
| \$50 disregard for child support payments | 25,900 | | 25,900 | |
| CFAP | 57,453 | | 57,453 | |
| Automation Projects | 116,276 | 116,276 | | |
| EA/Foster Care Grant and Admin | 43,762 | 43,762 | | |
| Child Welfare | 194,700 | 194,700 | | |
| Probation | 201,413 | 201,413 | | |
| KinGAP | 68,613 | 47,369 | 10,623 | 10,621 |
| Minor Parent Investigations | 7,097 | 3,549 | 2,484 | 1,064 |

Largely due to dramatic caseload reductions in the mid-nineties, associated with a rapidly recovering economy, California accumulated a large carry-over balance from its federal TANF block grant. This permitted California to use TANF block grant funds for a variety of programs as outlined above. It also permitted the development of a program that has been consistently larger than funds available on an annual basis. The ‘deficit’ has been funded by the reserves, and has grown each of the last few years, to a total of \$476 million in 2001-02. In this current year, the TANF reserve fund was exhausted. In addition, the current-year budget did not fully fund anticipated county needs for employment services, and funded a significantly smaller amount for county incentives than required by current law. The deficit would grow to more than \$600 million in 2002-03, with no increase in employment services beyond a cost-of-doing-business increase, and assuming that caseload will remain virtually flat.

County Incentives

Also central to the CalWORKs program design was the notion that the program should vary from county to county, since employment conditions, the availability of generic family support services, and the

demographics of poverty all vary from county to county. Counties were permitted to design and manage their own program, as long as state mandates for participant work requirements and time limits were met.

As a part of this county design, the CalWORKs law provides that counties receive incentive payments that equal 50 percent of savings resulting from grant reductions due to earnings, diversion of applicants from aid, and exits from the program due to employment. As with California's performance statewide with respect to federal incentives, counties benefited greatly from a recovering economy, as well as a redesigned welfare program. Nearly every county qualified for incentive payments, in amounts much greater than anticipated.

Each of the last three budgets has proposed incentive payments much smaller than statute would otherwise require. This has allowed the state to continue to support a wide variety of programs with TANF funds and maintain General Fund payments at the federal minimum. It has also created uncertainty at the local level as to the stability and availability of CalWORKs county incentive funds over time. Even so, counties have been budgeted to receive \$1.2 billion through the end of 2001-02 in incentive funds and have received \$1.1 billion of those funds. Counties spent less than \$200 million, according to spending reports through September, 2001. According to counties, virtually all the funds have been obligated. Incentive funds may be spent to enrich services to participants to make them more effective, provide long-term follow-up services to assure that families do not return to welfare, to provide services to needy families not yet on aid, and to provide services to noncustodial parents of children on aid.

The federal government has formally advised California that incentive funds not immediately spent by counties cannot be held at the local level; indeed, they must remain at the federal level until such time as the state (or counties) will actually spend the money. The finding is based on the federal Cash Management Act.

Employment Services

Provision of employment services to CalWORKs beneficiaries is central to the design of the program. These services are locally designed and managed, and include assessment of barriers to self-sufficiency, provision of job search services, provision of domestic violence, mental health or substance abuse treatment services, job training and education, and ancillary services including assistance with transportation, work equipment expenses, etc. Childcare is also a central service, and is reported separately in the CalWORKs program, although counties may use their basic employment services allocation to supplement childcare costs, when necessary.

Budgeting for CalWORKs employment services has varied widely from county to county and has been based on historical spending patterns and protected spending by counties. Spending per CalWORKs recipient varied from \$2,400 per year to \$11,300 per year in 2000-01. The Legislative Analyst, in a special report in February 2001, found that the wide variation was not based completely on variation in county needs, but included variations related to the rate of program implementation. Services are potentially significantly under-funded, by as much as \$120 million in 2000-01. Additionally, the Department of Social Services does not have the methodology or the statutory authority to establish a minimum (or maximum) level of funding. The budget for the current year did not include sufficient funds to meet county estimates of adequate funding, by as much as \$250 million.

2002-03 Governor's Budget Proposal

As indicated above, the budget for CalWORKs must meet several challenges. The budget must reflect the fact that some individuals will reach their time limits in the budget year. The budget must reflect assumptions about federal reauthorization, including a determination about which services are integral to continued success of the program. And, the budget must determine whether to increase funding above federal minimums, or make cuts to stay within those minimums. The Governor's budget proposes to spend at the federal level, with the minimum Maintenance of Effort, by making various reductions:

Reauthorization

- The budget assumes that the federal government will continue to provide TANF block grant funds at the current level.

Time Limits

- The budget assumes a net savings of \$92.6 million associated with individuals leaving aid because they have reached their California time limit on aid.
- The budget fully funds child-only cases that will result from safety net protections for children.

Budget Levels

- Budgeting practices for the past three years have included spending levels in CalWORKs that spent down a substantial accumulated reserve. By the current year, 2001-02, the deficit in current revenues amounted to more than \$400 million. The budget for 2002-03 must include significant new General Fund revenues, or risk federal payment of the TANF block grant of \$3.7 billion, or reduce funding for CalWORKs and other programs currently supported by CalWORKs funding. The Governor's budget proposes to spend at the federal level, with the minimum Maintenance of Effort, by making various reductions.
- Reductions in CalWORKs:
 - ✓ Current law requires that CalWORKs participants receive a cost-of-living adjustment (COLA) on the grant level, based on the December-to-December change in the California Necessities Index (CNI). That would require an increase in cash grants of 3.89 percent. The Governor's budget proposes to award no COLA increase, for a savings of \$116 million.
 - ✓ The budget proposes to recover \$20 million in performance incentives provided for counties in the current year. In the budget year, the budget proposes to recover \$600 million in county performance incentives, as required by the recent federal notification. The budget proposes to recapture \$169.3 million from this fund and use it for CalWORKs program funding, leaving \$430.8 million that counties may claim for previously awarded county incentive funds. No new performance incentives funding is provided.
 - ✓ County employment services are funded at current-year levels (estimated by counties to be \$250 million short of full funding in the current year). The budget proposes to combine employment services, administration, childcare, and juvenile probation into a single local block grant that would provide some new flexibility to counties. Flexibility currently exists between employment services, administration, and childcare, so that the new flexibility is somewhat limited.

- ✓ The budget eliminates \$5.1 million from Department of Social Services incentive payments for fraud detection by counties. Current practice provides county incentive payments using 50 percent federal TANF funds and 50 percent from the General Fund. This proposal will reduce the county incentive payment to the General Fund by half.
- ✓ Childcare for CalWORKs participants is funded, and \$182.8 million in savings attributable to a proposal for reform of childcare are included in the CalWORKs budget alone. Additional reductions are made in child care expenditures by the California Department of Education. These changes are described in a separate Selected Issues essay.
- The budget eliminates \$100 million in TANF and MOE funding from sums currently provided to other departments. These include funding for adult education and Regional Occupational Collaborative program services (\$36 million); California Community College funding (\$58.4 million); Department of Corrections (\$2 million) and the Employment Development Department (\$3.6 million).
- The budget eliminates \$2 million from DSS state operations. No detail is provided about how this will affect state administration of the program.

Legislative Issues

The Governor's CalWORKs proposals assumes that funding will be at the federal minimum. If the Legislature chooses to fund the program at this level, it may wish to consider whether the proposed areas of savings are the most appropriate ways to achieve savings, given the goals of the program to facilitate employment, impose time limits, and provide a safety net for children. For example:

- Is it appropriate to take the most significant reduction by reducing the ability of cash grants to provide for basic family needs?
- Is it appropriate to under-fund basic county employment services, at a time when family time limits will be implemented for the first time?
- Is it appropriate to eliminate new county incentives from the program and to recapture funds that have already been granted to counties (that, in turn, have largely planned for their allocation and expenditure)?

Alternatively, the Legislature may wish to balance the budget by making cuts elsewhere in the budget, determining that the CalWORKs program cannot sustain these reductions.

Consultant: C. Catherine Camp

LOW INCOME ENERGY ASSISTANCE

Rising gas and electricity prices have affected all Californians. The energy crisis has been especially devastating to the poor, the unemployed, the disabled and the elderly, who spend at least three times more on utility costs, as a proportion of income (6 percent, rather than the 2 percent paid by middle income families). The economic slowdown has resulted in thousands of layoffs, most of them in low-paying industries such as tourism and hospitality. This increase in the number of unemployed will further diminish the capacity of economically fragile households to remain self-sufficient.

The Administration and Legislature acted in 2001 to provide special assistance programs for low income and vulnerable households as part of the larger response to the energy crisis. The programs were intended to assure that low-income and vulnerable households received the support they needed when utility rates were rising and to assure that state resources were used to improve energy conservation in low-income households. Specifically, legislation did the following:

- Expanded the California Alternative Rates for Energy (CARE) program, including an increase in rate supplements and expanded outreach and education of utility customers about the program.
- Expanded utility weatherization programs provided by investor-owned and municipal utility districts.
- Created a California Low Income Home Energy Assistance Program modeled after a similar federal program and including funds for weatherization, cash payments to eligible households, and crisis assistance payments to households with an energy emergency.

In October, Senate Subcommittee No. 3, chaired by Senator Chesbro, held an interim hearing on the state's expanded low-income energy assistance programs. Testimony at the hearing suggested that state programs were filling a very significant need and were highly successful. This essay outlines the CARE expansion, utility weatherization programs, the federal and state Low Income Home Energy Assistance Programs (LIHEAP), and the Governor's budget proposal.

CARE Expansion

The CARE program provides discounts on electric and natural gas bills to low income households served by the state's regulated utilities. Early in 2001, the Public Utilities Commission (PUC) estimated that 2.7 million households would qualify for the CARE discount; only 1.3 million families participated.

Legislation in 2001 increased the discount to eligible households from 15 percent of the bill to 20 percent and exempted CARE customers from energy-crisis-related rate increases. The combined effect of these actions will be to reduce bills for eligible households by approximately 40 percent. In addition, eligibility was extended to households at 175 percent of the Federal Poverty Level (from 150 percent of the Federal Poverty Level), or approximately \$31,000 for a family of four.

CARE was historically funded through a rate subsidy established by the PUC on all ratepayers' bills. Chapter 7, Statutes of 2001, provided a state General Fund subsidy to this effort of \$100 million. Direction was also given to increase enrollment in the program. Reporting information was minimal when the Senate Budget Subcommittee conducted an interim hearing on this issue. However, preliminarily the PUC reported that penetration rates for CARE have increased by all utilities, and that the number of participants have increased steadily since passage of the legislation.

Utility Weatherization Programs

Investor-owned and public utilities operate assistance programs, including assistance on paying bills and weatherization for needy households. Chapter 7, Statutes of 2001, provided \$20 million from the General Fund to expand these programs, and the PUC was required to coordinate planning and implementation of utility programs with the Low Income Home Energy Assistance Program.

Limited reporting on households served under these programs was available at the interim hearing. Households receiving services saved a monthly amount on their utility bill ranging from \$16 to \$42, depending on the area of the state and the utility serving their needs.

Low Income Home Energy Assistance Program (LIHEAP)

The federal LIHEAP program provides block grant funding for cash payments to low-income households, crisis assistance to households with an energy emergency, and weatherization assistance for low income households. The federal program is reported on a calendar-year basis. In calendar year 2001, the federal government provided \$62.8 million in base funding for all three programs. In addition, the federal government released five separate Emergency Contingency Funds totaling \$45.3 million (\$6.4 of this was released in calendar year 2000). Most of this money was distributed statewide and intended to address rising heating costs (a portion was targeted to the San Diego area). California funding levels for calendar year 2002 are not available yet for base LIHEAP funding. And, it is not known whether the federal government will release additional Emergency Contingency Funds and, if so, whether California will receive any.

In calendar 2001, through the end of September (nine months), LIHEAP had served (including base and contingency funds):

Cash assistance payments: 142,000 households
Crisis payments: 35,700 households
Weatherization: 13,100 households

California created a state LIHEAP program (CaLIHEAP) in 2001, funded with \$120 million in new funds. Program elements are identical to the federal LIHEAP program. However, local entities are required to spend at least half the available funds on weatherization (instead of 25 percent), in order to maximize the energy conservation effects of the program. In addition, funds are available for a wider number of households, by increasing the income eligibility and adding eligibility for small community care homes such as foster homes. Local agencies can add the CaLIHEAP cash assistance payment to the federal LIHEAP payment, thereby providing a greater benefit to households and reducing the likelihood of a utility shutoff.

Through the end of September (four months since the initiation of the program), CaLIHEAP had served:

Cash assistance: 20,000 households
Crisis payments: 11,100 households
Weatherization: 13,400 households

The state Administration and communities agencies were committed to rapid deployment of this new program and struggled to assure that the impact of the program was sufficient to assist in the resolution of California's larger energy problems, as well as to maintain safe and healthy household settings for California's most vulnerable households. Information about the energy conservation impact of the legislation is being gathered. A preliminary report on savings in energy consumption will be available before budget hearings, but local testimony indicates that the impact is substantial, at least comparable to the rate of the reduction in consumption due to utility weatherization programs.

Proposed Budget

The Governor proposes to revert:

- \$84 million of the CARE subsidy in the current year. Basic funding for the program will continue through a rate subsidy.
- \$53.7 million in current-year CaLIHEAP funds, the amount that had not been committed to local agencies by approximately November 1, 2001. This has had the effect of shutting off expanded weatherization and crisis assistance to low income homes at the start of winter. Because of the abrupt nature of this announcement, local agencies in many cases have completely expended their federal LIHEAP funds and the initial distribution of CaLIHEAP funds in the expectation that the full amount of CaLIHEAP funds would be available.

Legislative Issues

As the Legislature reviews the budget, it will have to balance the need for reducing state costs with the positive effects of the program. Specifically:

- Community agencies acted aggressively to provide outreach and assistance to low-income, vulnerable households affected by the energy crisis. In part, the aggressive spending in the summer and fall was based on an assumption that the full amount of CaLIHEAP funding would be available. More significantly, the demand for assistance was unprecedented in the history of LIHEAP programs. And, the entire system was urged to spend rapidly and efficiently, by the Administration and the Legislature. It is unfortunate that the program was abruptly ended at the start of Winter. For some parts of the state, the result will be a lack of energy assistance at the most costly time for households.
- The costs of CaLIHEAP have been significantly offset by the energy savings resulting from the focus of the program on weatherization and home energy stabilization. California has benefited greatly by the more than 10 percent drop in energy consumption this year. It does not make long-term sense to abandon this successful effort at the very time it is reducing energy cost and utilization.

Consultant: C. Catherine Camp

TAX PROPOSALS

This essay reviews the cumulative effect of tax relief provided since 1997 and details the General Fund revenue proposals included in the Governor's budget.

Tax Relief Provided in 1997 through 2001

Tax relief authorized by the Legislature in calendar years 1997 through 2001 will reduce taxes in 2002-03 by \$5.9 billion. The vast majority (\$3.8 billion) is due to the vehicle license fee (VLF) offset. Tax relief enacted in 2001 was primarily for sales tax exemptions for agriculture, income tax credit for a solar energy system, and a permanent increase of 45 percent in benefits for the Senior Citizen and Disabled Renters' and Property Tax Assistance Program.

The sales tax exemptions enacted were for liquefied petroleum gas (LPG) purchased for rural household use or by certain agricultural businesses, farm, and forestry machinery, diesel fuel purchased for use in farming activities and food processing, and racehorse breeding stock. The exemption for LPG is from the state and local sales tax; the other exemptions are only from the state sales tax. The amount of tax relief enacted in 2001 results in tax savings of \$116 in the current year and \$161 in the budget year.

Regulations adopted by the Board of Equalization would increase the relief by \$20 million (General Fund) and \$50 million (Public Transportation Account) annually, if not amended through legislation.

As part of the 2001 budget compromise, the Legislature revised the trigger that implements a 0.25 percent state sales tax rate reduction. The trigger now activates a rate reduction on January 1 of any calendar year if on the preceding November 1, if the Director of Finance determines that 1) the General Fund reserve is 3 percent or more of revenues excluding the revenues derived from the 0.25 percent sales tax rate, and 2) actual General Fund revenues for the period May 1 through September 30 equal or exceed the most recent May Revision forecast. For 2002, neither of these conditions was met so the rate was restored to 5 percent. The budget assumes that it will remain at 5 percent for the 2003 calendar year.

The following table displays the amount of tax relief provided through specific tax reductions and other tax relief enacted from 1997 through 2001 by fiscal year:

**Fiscal Impact of Major Tax Relief
Enacted in 1997 through 2001
(millions of dollars)**

| Tax Relief or Credit | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 |
|---|--------------|--------------|--------------|--------------|--------------|
| Sr. Citizen and Disabled Renters' & Property Tax Assistance (AB 1370/2001) | | | | 75 | 77 |
| Sales Tax Exemptions (AB 426/2001) | | | | | |
| Liquefied Petroleum Gas | | | | 7 | 8 |
| Farm and Forestry Machinery – State Only ^{a/} | | | | 20 | 24 |
| Diesel Fuel for Farming and Food Processing – ^{b/} | | | | 12 | 17 |
| Racehorse Breeding Stock – State Only | | | | 1 | 2 |
| Solar Energy Systems Credit (SB 17 2x/2001) | | | | 19 | 33 |
| Sales Tax Trigger (AB 511/2000 and AB 426/2001) | | | 535 | 547 | |
| VLF Offsets (AB 2797/1998, AB 1121/1999 and AB 511 & AB 858/2000) ^{c/} | 482 | 1,324 | 2,669 | 3,540 | 3,753 |
| Sr Citizen Renters' and Property Tax Relief - One Year Only (SB 1664/2000) | | | 173 | | |
| Teacher Retention Tax Credit (AB 2879/2000) | | | 200 | 165 | 175 |
| Refundable Child Care Credit (AB 480/2000) | | | 195 | 189 | 193 |
| Graduate Student Expense Deduction (AB 511/2000) | | | 9 | 10 | 10 |
| Long Term Care Credit (AB 511/2000) | | | 43 | 38 | 41 |
| Research & Develop. Credit (AB 1042/1997, AB 2798/1998 and AB 511/2000) | | | 20 | 33 | 40 |
| Net Operating Loss Deduction (AB 511/2000) | | | 1 | 5 | 17 |
| Natural Heritage Preservation Credit (SB 1647/2000) | | | d/ | 10 | 13 |
| Rural Investment Credit (AB 511/2000) | | | 5 | 5 | |
| Self-Employed Health Ins. Deduction–Conforms w/Federal Law (AB 2798/1998) | | 12 | 13 | 19 | 35 |
| Elimination of Min. Franchise Tax on New Corporations/ 1 st 2 Yrs–(AB 10/1999) | | 28 | 60 | 60 | 60 |
| Partial Capital Gains Exclusion/Small Bus. Stock Made Permanent – (AB 1120/1999) | | | | | 3 |
| Increased Research and Development Credit - SB 705/1999) | | 6 | 10 | 10 | 10 |
| Home Sale Exclusion (SB 1233/1997) | 105 | 69 | 26 | 18 | 18 |
| Dependent Credit Increase (SB 1233/1997 & AB 2797/1998) | 865 | 780 | 830 | 855 | 910 |
| IRA Conformity (SB 1233/1997) | 14 | 31 | 70 | 118 | 181 |
| 1998 Partial Federal Conformity (AB 2797/1998) | 32 | 29 | 32 | 30 | 30 |
| Nonrefundable Renters' Credit (AB 2797/1998) | 68 | 83 | 90 | 90 | 95 |
| Joint Strike Fighter Credit (AB 2797/1998) | | | 0 | 0 | 11 |
| Expands MIC to Software (AB 2798/1998) | 6 | 7 | 8 | 9 | 10 |
| Small Business Stock Capital Gain Exclusion (AB 2798/1998) | 15 | 26 | 36 | 43 | 48 |
| Research and Development Credit (AB 2798/1998) | 15 | 18 | 20 | 17 | 17 |
| Research and Development Credit (AB 1042/1997) | 46 | 48 | 53 | 55 | 57 |
| Minimum Franchise Tax (AB 2798/1998) | 4 | 11 | 11 | | |
| Sales Tax Exemptions (AB 2798/1998) | | | | | |
| Space Launch Equipment | 4 | 8 | 8 | 8 | 8 |
| Teleproduction or Postproduction Equipment | 4 | 8 | 8 | 8 | 8 |
| Perennial Plants | 4 | 7 | 7 | 7 | 7 |
| Enterprise Zones (AB 2798/1998) | 3 | 3 | 3 | 3 | 3 |
| Sr Citizen Renters' and Property Tax Assistance (AB 2797/1998) | <u>71</u> | <u>73</u> | <u>73</u> | <u>75</u> | <u>75</u> |
| GRAND TOTAL | 1,738 | 2,571 | 5,208 | 6,101 | 5,889 |

- a. This estimate reflects the revenue loss without the Board of Equalization (BOE) regulations. The BOE regulations adopted in January 2002 increased the General Fund loss by \$20 million annually.
- b. This estimate reflects the General Fund revenue loss only. The loss to the Public Transportation Account is \$7 million without BOE regulations and \$57 million with the BOE regulations.
- c. Revenue loss of less than \$500,000.
- d. Total relief provided to taxpayers during the fiscal year (This amount differs from the amount shown in the budget because of the way the VLF rebates were appropriated. Although the VLF rebate checks were sent to taxpayers in 2001 and 2002, the majority of the funding was appropriated in the 2000-01 year as part of the budget agreement.)

Governor's General Fund Revenue Proposals for 2002

The Governor includes several tax proposals in his budget, which result in a revenue gain of \$178 million in 2002-03 and a revenue loss of \$59 million in 2003-04 and \$75 million in 2004-05.

The tax proposals are as follows:

Pension Reform

The budget proposes conformity to 2001 federal changes to income tax treatment of pension plans and IRAs. The federal government enacted pension reform legislation in 2001 that would significantly increase the annual contribution limits for 401(k) and 457 retirement plans and for IRAs commencing with the 2002 income year. The bill also includes other provisions intended to serve as an incentive for workers to save more for retirement, encourage more employers to offer retirement plans and make pensions more portable when employees change jobs.

Specifically, federal law makes the following changes to employee contribution limits:

- **401(k) Pension Plans.** The annual limit on employee contributions to 401(k) plans was increased from \$10,500 to \$11,000 for 2002. This limit would increase by \$1,000 annually until 2006 when the limit would be \$15,000. Individuals age 50 or over will be allowed to make “catch-up” contributions of \$1,000 per year in 2002. This amount would increase by \$1,000 annually until 2006 when the “catch-up” limit would be \$5,000.
- **457 Pension Plans.** Section 457 plans are pension plans sponsored by state and local governments and private tax-exempt organizations. The annual limit on employee contributions to 457 plans would increase from \$8,500 to \$11,000 in 2002, \$12,000 in 2003, and \$13,000 in 2004. The limit on the percentage of the participant’s compensation that may be contributed was also increased from 33 1/3 percent to 100 percent.

Participants will be allowed to defer an additional amount equal to the aggregate of the deferral limitations not utilized in earlier tax years. The maximum amount a participant can defer under both the normal and special deferral provisions will be increased from \$15,000 to \$22,000 per year. The participant may take advantage of this special deferral during the participant’s last three tax years before normal retirement age.

The provisions for 401(k) plans for individuals age 50 or over allowing “catch-up” contributions of \$1,000 per year in 2002 also applies to 457 plans. This amount would increase by \$1,000 annually until 2006 when the “catch-up” limit would be \$5,000.

Eligible 457 plan participants will also be allowed to contribute the maximum amount to a 457 plan and a 401(k) plan beginning with the 2002 income year.

- **Individual Retirement Accounts (IRAs).** The annual contribution limit for both traditional IRAs and Roth IRAs would increase from \$2,000 in 2001 to \$3,000 for 2002 through 2004. This amount would increase from \$4,000 to 2005 through 2007 and \$5,000 in 2009. For tax years 2002 through 2005, individuals who are at least age 50 will be able to make an additional contribution of \$500 annually to their IRA or Roth IRA. After 2005, the maximum additional amount will be \$1,000.
- **Administrative Problems.** If California does not conform to federal changes, the 457 or 401(k) plan would not be a qualified plan and thus any contributions past or present would potentially be taxable at both the state and federal level at the time of contribution rather than at the time of distribution. For increases in IRAs, the state could have a different contribution limit without a penalty of being out of compliance and thus jeopardizing contributions.

If the state does not conform to federal changes, there will be serious administrative problems for financial institutions, individuals, and the Franchise Tax Board (FTB). There are also administrative problems for DPA and EDD because employees are already opting to contribute at the higher levels.

- **Revenue Effect.** Conformity to federal pension and IRA provisions would result in a General Fund revenue loss of \$44 million in 2002-03, \$48 million in 2003-04, and \$59 million in 2004-05. The change in federal law will also result in a base revenue loss of \$40 million in 2002-03, \$40 million in 2003-04, and \$60 million in 2004-05. These losses have been included in the forecast.

Dependent Care Credit

The budget proposes conforming to federal changes for dependent care credits. Effective in 2002, the federal government increased the maximum amount of eligible employment-related expenses for dependent care from \$2,400 to \$3,000 for a single child and from \$4,800 to \$6,000 if two or more children qualify. They also increased the maximum credit from 30 percent to 35 percent of eligible expenses and increased the adjusted gross income (AGI) limit for the maximum credit from \$10,000 to \$15,000. The calculation of the credit is reduced by one percentage point for each \$2,000 of AGI or fraction thereof over \$15,000.

In 2000, the state enacted a personal income tax credit for a refundable tax credit for child care expenses based on the federal child care credit. The credit is set at 63 percent of the federal child care credit for those earning \$40,000 or less, 53 percent for those earning between \$40,000 and \$70,000, and 42 percent for those earning between \$70,000 and \$100,000. Taxpayers earning more than \$100,000 are not eligible for the credit. The state credit will continue to be based on the previous federal credit amounts unless the state conforms.

This proposal would result in a General Fund revenue loss of \$6 million in 2002-03, \$40 million in 2003-04, and \$45 million in 2004-05.

Qualified Tuition Plans

Qualified tuition plans allow taxpayers to contribute on behalf of a beneficiary to a state-sponsored investment program. These contributions are excludable from the contributor's gross income. Distributions from the account are subject to tax for the beneficiary at the time they are withdrawn for qualified post-secondary education expenses.

The budget proposes to conform to the following federal changes:

- Commencing in 2002, the plans will no longer be restricted to the states. Private institutions will also be empowered to establish these plans.
- The distributions will be tax-free when used for qualified post-secondary education expenses beginning in 2002 for state-sponsored plans and 2004 for privately sponsored plans.

This will result in an annual General Fund revenue loss of \$1 million commencing in 2002-03.

Rules for Estimated Payments of Personal Income Tax

The budget proposes to conform to federal rules for estimated payments of personal income tax. To avoid underpayment penalties, federal law requires personal income taxpayers to pay through withholding or estimated payments the **lesser** of 90 percent of the tax due for the year **or** the total tax paid in the prior year. State law only requires the payment of 80 percent of the tax due. This proposed change would result in a revenue gain of \$210 million in 2002-03 and an on-going gain of \$10 million for fiscal years thereafter.

Mandate that Any Federal Election for Corporations Apply for California Purposes

Corporations may elect different tax positions for federal and state tax purposes. Although there are approximately 15 different possible elections for corporations, the largest effect from this proposal would be between a Subchapter S or Subchapter C election.

Subchapter S corporations are domestic corporations with 75 or fewer shareholders. They are required to have a simple corporate form and must be involved in an active trade or business. Federal law allows the corporation to be exempt from the federal corporate tax and instead pass through the corporation's taxable income to individual shareholders. California allows Subchapter S corporations to elect to be taxed at a rate of 1.5 percent rather than the normal 8.84 percent, but not less than the minimum franchise tax.

A C corporation is a "regular" corporation and is subject to tax on its net earnings and if the corporation pays dividends to its shareholders, the shareholder is taxed on those dividends. The corporation cannot claim a deduction for the distribution of dividends.

Differences in treatment of company acquisitions and installment sales for Subchapter S and C Corporations allow some corporations to shelter income from taxation. A separate state election permits multistate/national corporations to move gain to other states or tax jurisdictions, frequently resulting in the gain not being subject to tax by any state or tax jurisdiction.

This proposal would result in additional General Fund revenue of \$30 million annually commencing in the 2002-03 fiscal year.

Alternative Minimum Tax Treatment of Charitable Contributions of Appreciated Property

The intent of the alternative minimum tax (AMT) is to ensure that at least a minimum amount of income tax is paid by high-income corporate and noncorporate taxpayers who receive large tax savings through generous use of certain tax deductions and exemptions. Without the AMT, some taxpayers might be able to escape taxation of their income. The AMT recaptures some of the tax breaks primarily available to high-income taxpayers.

To calculate the AMT, the taxpayer must calculate their regular tax liability and their alternative minimum taxable income. The alternative minimum taxable income is calculated based on regular taxable income less specified deductions that are not considered preference items. For 2001, single taxpayers with less than \$180,426 in alternative minimum taxable income are allowed an exemption of \$48,114 and married taxpayers with incomes less than \$240,567 are allowed an exemption of \$64,152. The income after deducting this exemption is subject to a tentative minimum tax in California of 7 percent. If this tax exceeds the computed regular tax, then the difference must be paid in addition to the regular tax.

There are differences in California and federal law with respect to income subject to AMT. One of those differences is the treatment of charitable contributions of appreciated property. Federal law does not require charitable contributions of certain appreciated property to be treated as a tax preference item for purposes of AMT. Current California law treats contributions of appreciated property as a tax preference item and thus the contributions are subject to AMT. The budget proposes to conform to federal law for this provision resulting in a General Fund revenue loss of \$12 million in 2002-03 and \$10 million in fiscal years thereafter.

Reduction in the Interest Rate Paid on Corporate and Estate Tax Overpayments

The state pays interest on overpayments of the corporate tax or estate tax if the refund is not made within 45 days of the due date. The current interest rate paid on corporate and estate tax overpayments is the federal short term rate plus 3 percentage points (currently 7 percent). The budget proposes to reduce the rate to the lesser of the three-month Treasury bill rate or 5 percent. This is similar to the treatment of sales tax overpayments. This proposal would result in savings of \$25.4 million in 2002-03.

Clarifying the State Sales Tax Exemption for Diesel Fuel Used in Transportation of Farm Products to the Marketplace

AB 426/2001 provides a sales tax exemption for diesel fuel used in the transportation of farm products to the marketplace and for use in food processing. The Governor's signing message on this bill included a statement that technical corrections are needed to clarify that this exemption is intended to apply only to delivery to the first destination from the farm. At the time this exemption was enacted, the Board of Equalization (BOE) estimated the loss at revenue loss at \$22.7 million (\$6 million from the Public Transportation Account and \$16.7 million from the General Fund). The loss from the Public Transportation Account is attributable to the use of diesel fuel on public roads and the General Fund loss is attributable to off-road use. That estimate assumed delivery only to the first destination from the farm.

The BOE recently adopted regulations that will provide food processors an exemption not only for diesel fuel used in their plant, but also to transport their product from the processing plant to market. This would result in an additional revenue loss of \$50 million to the Public Transportation Account because all of the fuel from the expanded regulation would be for diesel fuel used on public roads. The Administration submitted a letter to the BOE requesting that more restrictive regulations be adopted.

Another provision of AB 426 also provided an exemption for farm equipment and machinery that is purchased for use by a qualified person, as defined, to be used primarily in producing and harvesting of agricultural products. The BOE regulations expanded the definition of equipment that qualify for this exemption to also include structures, such as milking barns, poultry houses and greenhouses. Additionally, tangible personal property that becomes part of any farm building, fence, or irrigation system would also be exempt. They also extended the exemption to include cotton modules, haystacking equipment, fuel storage equipment (for example, tanks), tools used to repair farm equipment, and protective clothing worn by workers who spray pesticides and other chemicals. This would result in a revenue loss to the General Fund of about \$20 million more than anticipated when the bill was enacted or the Administration's budget revenue forecast was prepared. The Administration did not propose amending this provision in the budget because the BOE took action on the same day the budget was released.

Increased Audit and Collections Activity

The budget proposes to increase audit and collections activity at the Franchise Tax Board (FTB). This will result in increased expenditures of \$4.5 million and 44.6 personnel years to accommodate audit workloads above the 5:1 cost benefit ratio. This is estimated to result in additional revenues of \$46 million from the corporate tax and \$6 million from the personal income tax.

The budget also proposes increased expenditures of \$6.2 million and 78.8 personnel years to accommodate collection workloads above the 5:1 cost benefit ratio. This is expected to result in additional revenues of \$2 million from the corporate tax and \$26 million from the personal income tax.

Consultant: Judi Smith

SUBCOMMITTEE No. 1

EDUCATION

K-12

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K-12 EDUCATION

0558 Office of the Secretary For Education

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. The Office of the Secretary for Education (OSE) administers several education programs, including the Academic Volunteer and Mentor Service Program, the Governor's Reading Award Program. For the current fiscal year, the costs of the OSE are funded through the Governor's Office of Planning and Research (0650) pending legislation to establish the Secretary statutorily.

2002-03 Reductions

The 2002-03 budget proposes \$7.9 million (36 percent) in reductions to Office of the Secretary of Education from 2001-02 Budget Act levels. They include:

- \$6.9 million reduction in State Operations, a 74 percent decrease from 2001-02. This includes a reduction of two Associate Intergovernmental Program Analysts, representing a 7 percent decrease in OSE personnel, \$3.0 million in one-time funds for contracting to develop and validate research-based school readiness assessment instruments for the School Readiness Initiative in cooperation with the Children and Families (Proposition 10) Commission, and \$3.8 million for the READ California public involvement campaign to promote reading.
- \$550,000 from the Education Technology Grant Program. This program was established by (AB 2882, Reyes) and funded with \$175.0 million in one-time funds in the 2000-01 Budget Act. This reduction represents the balance of unallocated funds from the appropriation. The appropriation was to have provided one-time grants to school districts and charter schools for the acquisition of computers for classrooms and for access to on-line advanced placement courses.
- \$440,000 from the School to Career Technology Grant Program. This reduction represents the expenditure in 2001-02 of the remaining, original \$2.0 million for this program established by Chapter 793, Statutes of 2000 (AB 1873, (Wiggins)).

Program Continuations and Adjustments

- \$10.0 million Proposition 98 General Fund to restore the Academic Volunteer and Mentor Service Program. Under this program, university students offer tutoring services to 20,000 at-risk children and youth. The 2001-02 Budget Act funded this program with \$10.0 million in one-time funds from the Proposition 98 Reversion Account.
- \$2.0 million Proposition 98 General Fund for School-to-Career Partnership Grants, pursuant to a program established by Chapter 793, Statutes of 2000 (AB 1873, Wiggins). This is a reduction of \$440,000, or 8 percent, from 2001-02 levels. Chapter 793 created the Interagency Partnership for School-to-Career Programs as a formal collaboration among the SDE, the CA Community Colleges Chancellor's Office, and the Health and Human Services Agency for the purpose of administering a competitive matching grant program to local entities. School-to-career programs are an educational approach designed to improve academic rigor through relevant, real-world experience by integrating

school-based and work-based learning with the formal academic curriculum. When signing the bill, the Governor reduced from \$5.0 million to \$2.0 million the original General Fund appropriation with the caveat that unless the nonprofit and private sectors exceeded this amount in matching funds, he would not continue allocating funds toward this program.

6110 Department of Education

California's public education system is administered at the state level by the Department of Education (SDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, for the education of approximately 6.1 million students from infancy to adulthood. The primary goal of the Superintendent and the SDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance. The state administration aspects of the system are mandated through eight branches of the department: Executive; Governmental Affairs; Finance, Technology and Administration; Curriculum and Instructional Leadership; Education Equity, Access and Support; Child, Youth and Family Services; Legal and Audits and Accountability. Major objectives of the department include working to 1) provide sufficient time for learning and to ensure that available time is used well; 2) upgrade both the quality and quantity of schooling content; 3) upgrade the quality of the teaching force through recruitment, pre-service and in-service training; 4) provide high quality instructional leadership for districts and schools; and 5) promote safe and orderly learning environments for schools.

At the local level, education is the responsibility of 988 school districts, 58 county offices of education, and over 8,000 schools. The state General Fund provides 60 percent of school funding, while property taxes and other local revenues provide 30 percent and federal funds provide 10 percent. The state lottery contributes approximately 1.52 percent of the total.

Governor's Proposed November Adjustments to 2001-02 Budget Act

The Governor put forth a proposal in November 2001 to reduce the 2001-02 Budget Act by \$2.25 billion as a means of alleviating an anticipated \$12.5 billion revenue shortfall in the budget year. Of the total current-year reductions, \$843.5 million (37 percent) falls on the Department of Education. The proposed program reductions for education are outlined below. It should be noted that the Governor's budget proposal assumes legislative adoption of the proposed amount of reductions identified below.

- **\$38.0 million. Healthy Start Grants.** This reduction eliminates all but \$1.0 million of the Proposition 98 General Fund appropriation for the Healthy Start Support Services for Children Act. It represents elimination of a new cohort of Healthy Start sites and is not intended to effect existing programs. This program provides comprehensive school-integrated services and activities to improve the lives of children, youths, and families. Collaborative planning and operational grants are awarded to local educational agencies for locally coordinated school-linked services that may include health and dental care, mental health counseling, child welfare services, family support and parenting education, academic support, health and physical education safety and violence prevention programs, youth development recreational programs, employment preparations, case management, food and nutrition services, and on-site social services workers.
- **\$5.0 million. Charter School Facilities Grants.** This represents a 50 percent reduction to the 2001-02 Proposition 98 General Fund appropriation for charter schools in low attendance areas and pursuant to Chapter 892, Statutes of 2001 (SB 740, O'Connell). None of the \$10.0 million appropriated in 2001-02 has been allocated and savings from nonclassroom instruction charters, pursuant to Chapter 892, will be reduced to no more than 5 percent, according to the Administration.

- **\$35.0 million. PERS Offset for K-12 Revenue Limits.** This reduction “suspends” implementation of Chapter 794, Statutes of 2001 (SB 6, O’Connell) until funding for this purpose is provided in a future budget. Chapter 794 limits the reduction to Revenue Limits due to the (Public Employee Retirement System) PERS offset by \$35.0 million, which is to be calculated as an offset to district revenue limits. While funding has not yet been allocated, many school districts anticipated receipt of this funding when they crafted their budgets for the current school year.

This funding, as well as that associated with other mid-year reductions (e.g., Revenue Limit Equalization, one-time Energy Relief funding, K-12 per pupil block grant) represents a significant amount of non-restricted or “discretionary” funds which afforded school districts the flexibility to address district-specific needs.

- **\$40.0 million. K-12 Revenue Limit Equalization Adjustment.** This reduction “suspends” implementation of the K-12 Revenue Limit Equalization adjustment authorized pursuant to Chapter 794, Statutes of 2001 (AB 441, Simitian). Again, while this funding has not been allocated, school districts have budgeted their anticipated allocation when crafting their 2001-02 budget plans.
- **\$67.8 million. K-12 Per Pupil Block Grant.** This reduction eliminates the 2001-02 (one-time) appropriation from the Proposition 98 Reversion Account. In prior years, the appropriation for this grant had been an ongoing appropriation. The program, established as part of the 1999-00 Budget Act’s categorical funding reform, provides grants of \$12.0 per pupil to school districts and county offices of education. The money can be spent on a variety of programs in the former categorical “mega item.”
- **\$250.0 million. One-time Energy Relief Funding.** This reduction effects a one-time current-year appropriation to fund higher-than-anticipated energy costs. The appropriation could have been used for utility costs, energy conservation measures, career/technical education one-time purposes, or any other one-time educational purpose. The Administration contends that, since energy costs have not increased as much as had been expected, the funding can be reduced.

The \$250 million was part of a \$541 million appropriation. It was intended to satisfy a prior-year Proposition 98 obligation. This obligation was due to a disagreement between the Department of Finance (DOF) and the SDE on the final Proposition 98 numbers in three prior budget years (1995-96; 1996-97 and 1997-98). This disagreement precluded “certification” of these numbers, thereby subjecting them to change based on revised 2000 census population numbers. In the January 10, budget, DOF has revised its prior year obligation estimate to \$250.8 million. The Governor’s proposal to revert the \$250 million appropriation for school energy does not include a provision to re-designate another appropriation toward meeting the prior years obligation. This would leave the prior year’s obligation unfulfilled and open the state General Fund to a future liability. According to the Legislative Analyst’s Office (LAO) the Legislature could solve this problem by re-designating \$250.8 million of Proposition 98 funds already provided in the 2001-02 Budget Act as counting toward the prior-year “settle-up” obligation. This action would meet the obligation without affecting current education programs or funding levels.

- **\$29.7 million. Before/After School Program Expansion.** This reduction “delays” the expansion of the Before and After School Learning and Safe Neighborhoods Partnership Program to 2002-03. The reduction includes \$14.85 million for a new Before School component authorized by Chapter 545, Statutes of 2001 (AB 6). Funding has not been allocated nor costs incurred by districts for the After School expansion.
- **\$197.0 million. High Priority Schools Grant Program.** This reduction effectively “delays” the implementation date for this grant program to July 1, 2002. This program, established pursuant to Chapter 749, Statutes of 2001 (AB 961, Steinberg), is designed to improve the academic performance

of pupils in schools in the bottom five deciles with priority provided to the lowest performing schools.

- **\$20.0 million Beginning Teacher Support and Assessment Program (BTSA).** This reduction represents a 23 percent decrease in the General Fund appropriation (\$88.8 million) to the program. Total funding for this program in 2001-02 was \$104.6 million. The Administration anticipates \$20.0 million in savings in this program.
- **\$50.0 million. Peer Assistance and Review (PAR) Program.** This reduction represents a 37 percent reduction, due to a decrease in participants, to the PAR program in 2001-02. This program provides mentoring services to veteran teachers who encounter professional difficulties. Districts may also use PAR funds to supplement the BTSA program, the California Pre-Internship Teaching Program, or any other program that provides training and support to new teachers.
- **\$5.0 million. National Board for Professional Teaching Standards Certification Incentives.** This proposal reduces by 5 percent incentive program that provides \$20,000 to teachers that achieve NBPTS certification and agree to teach in a low performing school. The Administration anticipates unutilized funds for this program in 2001-02. The \$5.0 million appropriated in the 2001-02 Budget Act to provide \$10,000 grants to teachers achieving NBPTS certification remains intact.
- **\$20.0 million. Teaching as a Priority (TAP) Block Grant.** This reduction represents a 17 percent decrease in this block grant, which provides schools ranked in the bottom five deciles of the API Index with grants to provide recruitment and retention bonuses to fully credentialed teachers. This program, in its second year, was established by Chapter 70, Statutes of 2000 (AB 1666, Alarcon).
- **\$1.0 million. High School Coach Training.** This reduction reflects savings accruing from underutilization of the program. The program is intended to provide high school coaches with training in safety-related topics such as CPR.
- **\$50.0 million Certificated Staff Performance Awards.** This reduction represents a 50 percent cut in the number of bonus awards provided to certificated staff in schools that achieve significant, sustained (over two testing periods) growth in their Academic Performance Award (API) scores. The number of awards will be:
 - 500 awards of \$25,000 each
 - 1,875 awards of \$10,000 each
 - 3,750 awards of \$5,000 each
- **\$4.0 million. High Tech High Schools Grant Program.** The 2001-02 budget provided \$10.0 million in one-time Proposition 98 funding to establish the High Tech High Schools Grant Program. Ten new high tech high schools, modeled after two existing schools located in San Diego and Napa counties, were to be established throughout the state in two phases through a one-time, dollar-to-dollar matching grant of \$2.0 million per school. These schools integrate technology with a rigorous college preparatory curriculum emphasizing math, science, and engineering and have smaller student populations and competitive admissions requirements. The proposed \$4.0 million reduction would reduce the number of grants to five and would eliminate the second phase of the program. The total amount of a grant would be awarded over a two-year period. Legislation introduced in the Third Extraordinary Session effects this reduction extends the repeal date of the program from January 1, 2003 to January 1, 2004.
- **\$15.0 million. Digital High School.** This reduces the program by 20 percent. Established in 1997 pursuant to Chapter 326, Statutes of 1997 (AB 64, Baca), this program provided \$300 per pupil

technology installation grants to all high school over a four-year period. The last cohort was funded in 2000-01. The 2001-02 Budget Act provided \$76.0 million (\$45 per pupil) for program maintenance (staff training and technical support) purposes. The proposed reduction, according to the Administration, reflects savings from lower-than-anticipated participation.

- \$10.0 million 9th Grade Class Size Reduction (CSR) Program Savings.** This program allows schools to reduce student/teacher ratios to 20:1 in 5th grade English and other core classes. According to the Administration, program participation is lower than anticipated, generating savings of \$10 million (7 percent). NOTE: The 2001-02 Budget Conference Committee approved \$45.0 million in 9th Grade CSR Program savings over the Governor’s January 10, 2001-02 budget proposal for this program. This represented an augmentation of \$15.0 million over the \$30.0 million in savings recaptured by the Governor’s May Revision. Should the Legislature approve the Governor’s additional proposed savings in the Third Extraordinary Session, then total savings from the current year would equal \$55.0 million. The LAO identified an additional \$60.0 million in 9th Grade CSR savings from the 1999-00 Budget Act.
- \$6.0 million Professional Development Institute (PDI) Stipends.** This reduction recoups savings in stipend payments. The 2001-02 Budget Act contains \$54.0 million to provide \$1,000 stipends to teachers who attend the UC-administered PDIs.

Table 1
Summary of Expenditures

| (dollars in millions) | (November 2001) | 2002-03 | \$ Change | % Change |
|-----------------------|-----------------|-----------------|----------------|------------|
| General Fund | \$31,046 | \$31,316 | \$270 | 0.9 |
| Federal Funds | 5,545 | 5,480 | (65) | -1.2 |
| Local Property Taxes | 11,824 | 12,747 | 923 | 7.8 |
| Lottery Fund | 813 | 813 | 0 | 0.0 |
| Other Funds | 3,605 | 3,567 | (38) | -1.1 |
| Total | \$52,833 | \$53,923 | \$1,090 | 2.1 |

As shown in Table 1, the Governor’s budget for K-12 education totals \$53.9 billion, including \$31.3 billion from the state General Fund, \$5.5 billion in federal funds, \$12.7 billion in local funds, \$813 million in lottery funds and \$112 million in other state funding. The \$53.9 billion total funding estimate reflects an increase of \$ 1.1 billion (2.1 percent) over the current year adjusted for the November Revised proposed reductions. Of this amount, the General Fund increases by \$270.0 million (.09 percent).

Proposition 98, Budget Adjustment Highlights.

Proposition 98

The Governor proposes total Proposition 98 spending of \$46.0 billion (\$41.2 billion is attributable to K-12), for 2002-03. As noted in Table 2, this is an increase of \$1.0 billion, or 2.2 percent, over the adjusted 2001-02 budget. The K-12 share of the Proposition 98 minimum funding level increased by \$1.2 billion (Community Colleges increased by \$136 million). This is because the \$350 million annual payment on the *CTA v. Gould* settlement was not distributed to districts. In 2002-03, however, the Governor proposes to distribute the payment to districts, as part of the Proposition 98 funding allocation.

General Fund. The General Fund makes up approximately 68.2 percent, or \$31.4 billion, of the total guarantee. The \$1.0 billion Proposition 98 minimum guarantee results from a combination of statewide ADA growth (1.07 percent); the restoration of the full \$1.9 million 2001-02 “maintenance factor” and the “Test 2” inflation factor (annual change in California per capita personal income). According to the Legislative Analyst’s Office (LAO) projections, however, the General Fund portion of the Proposition 98 minimum guarantee should be \$32.4 billion. The Department of Finance (DOF) assumes a less optimistic inflation factor (negative 3 percent) than the Legislative Analyst’s Office (negative 1 percent), which explains over \$900 million of the \$1.0 billion difference in their respective Prop 98 “Test 2” minimum guarantee estimates.

Proposition 98 Minimum Guarantee. The budgeted spending level, adjusted for the Governor’s proposed 2001-02 Budget Act reductions, fully funds Proposition 98 at the statutorily required minimum “Test 2” level of \$46.0 billion. It also fully retires the \$1.9 billion maintenance factor (the difference between the actual Proposition 98 funding level in 2001-02 and the greater “Test 2” funding level calculated for that year) obligation created in 2001-02. While total Proposition 98 funding for that year was only statutorily required to meet the lower “Test 3” funding level—and, in fact, exceeded that minimum by \$4.1 billion (\$5.7 billion based on November Revision numbers)—the Constitution requires that the difference between the two funding levels be “made up” in subsequent budget years. The proposed reductions in the current-year appropriation, which create an additional (over July 2001) \$.5 million maintenance factor obligation include \$197.0 million reduction in the Low Performing Schools Block Grant, \$50.0 million of the Certificated Staff Performance Awards, and \$50.0 million from the Peer Assistance and Review Program. Additional cuts, among others, of \$152.0 million, from the 2001-02 Proposition 98 Reversion Account (including November reductions made to: Revenue Limit Equalization, \$40.0 million; Per Pupil Mega Item Block Grant, \$68.0 million; PERS reduction buyout, \$35.0 million and High Tech High Schools) do not contribute to General Fund savings. Rather, the Governor redistributes these savings to other programs by the Proposition 98 Reversion Account.

Education Energy Relief Elimination Impact. The Governor proposes to eliminate funding for Education Energy Relief. The savings are “scored” against prior year (1995-96 and 1996-97) Proposition 98 “settleup” obligations and not the current year Proposition 98 minimum guarantee. Absent other current year programs being designated to satisfy this portion of the total (\$250.8) “settleup” obligation, it will continue into future budget years.

K-12 and Community College “Split.” Assuming adoption of the November level of education reductions, the Proposition 98 “split” between K-12 Education and Community Colleges for 2002-03 is 89.8 percent (K-12) and 10.2 percent (Community Colleges). This is the same split as in 2001-02. Current law (Education Code Section 41203) calls for a Proposition 98 funding split, between K-12 and Community Colleges, of approximately 89 percent versus 11 percent. This statutory “split” has been suspended by the Legislature in each of the past 10 Budget Acts to reflect actual spending percentages.

Per Pupil Spending. The number of students, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 61,609 students for the budget year, an increase of 1.07 percent. Average per-pupil Proposition 98 funding is estimated to be \$7058 in 2002-03, an increase of \$136 over the \$6,922 per pupil funding in 2001-02. The Administration estimates that average per-pupil funding from all sources (state, local, and federal) will increase to \$9,236 in 2002-03 (1.0 percent).

Proposition 98 Reversion Account. The budget proposes \$534.8 in one-time funding for various programs from the Proposition 98 Reversion Account. These programs include:

**Proposed 2002-03 Proposition 98 Reversion Account Expenditures
(in millions)**

| | |
|---|----------------|
| Textbook Block Grant | \$200.0 |
| School/ Classroom Library Block Grant | 100.0 |
| Math and Reading Professional Development | 87.1 |
| Science Lab Materials and Equipment | 75.0 |
| Community Colleges scheduled maintenance | 22.9 |
| Community Colleges Equipment | 22.9 |
| California School Information Services (CSIS) | 11.0 |
| Principal Training | 7.5 |
| CSIS / Fiscal Crisis Management Assistance Team | 4.5 |
| High Tech High Schools | 4.0 |
| Total | \$534.8 |

Issues:

Proposition 98 Reversion Account. Of the \$535 million, nearly \$147 million is funded from the Proposition 98 Reversion Account in 2001-02. These reductions include the K-12 Per Pupil Block Grant (\$67.8 million), Revenue Limit Equalization (\$40.0 million) and Public Employee Retirement System (PERS) Offset for K-12 Revenue Limits (\$35.0 million). Issues regarding the appropriateness of the proposed current year reductions will be vetted in the context of hearings to be held as part of the 2001-02 Third Extraordinary Session.

| | (November 2001) | 2002-03 | \$ Change | % Change |
|-----------------------------------|-----------------|-----------|-----------|----------|
| <i>General Fund</i> | | | | |
| K-12 Education | \$28,270 | \$28,582 | 312 | 1.1 |
| Community Colleges | 2,696 | 2,682 | (14) | -0.5 |
| Other Departments | 93 | 91 | (2) | -2.2 |
| Loan Repayment | 350 | 0 | (350) | -100.0 |
| | | | | |
| Total, General Fund | \$31,405 | \$31,354 | (51) | -0.2 |
| Local Revenue | \$13,572 | \$14,629 | 1,057 | 7.8 |
| | | | 0 | 0.0 |
| Total, State and Local Funds | \$44,977 | \$45,983 | 1,006 | 2.2 |
| | | | | |
| Proposition 98 K-12 ADA | 5,776,829 | 5,838,438 | 61,609 | 1.1 |
| K-12 funding per ADA (actual \$s) | \$6,922 | \$7,058 | \$136 | 2.0 |

Major Adjustments for 2002-03

- Growth Funding.** The budget funds statutory growth at \$438.0 million including \$304.5 million or 1.07 percent, for school districts and county offices of education; \$39.6 million for special education apportionments (at 1.11 percent); and \$94.0 million for other K-12 categorical programs.
- Cost-of-Living Adjustments.** The budget provides \$843.0 million for a 2.15 percent cost-of-living adjustment (COLA) including \$599.1 billion for general purpose school district and county office apportionments*, \$77.5 million for special education, \$10.4 million for summer school and \$331.8 million for K-3 and 9th Grade Class Size Reduction programs, staff development buyback days, adult education and ROCP revenue limits and all categorical programs the received a COLA in 2001-02. The 2.15 adjustment percentage is an estimate that may be updated as a part of the Governor’s May Revision. The adjustment percentage, known as the “State and Local Implicit Price Deflator” for the 12-month period ending March 2001, will be reported at the May Revision.

*The 2.15 percent COLA applies effectively all K-12 Revenue Limits (Elementary Districts: \$96; High School districts: \$116; Unified districts: \$100) including necessary small schools, meals for needy pupils adjustment, and community day schools. It also raises the reimbursement rate for hourly programs (summer school) to \$3.45 per hour. The Apprentice program, however, does not receive the COLA and the funding level, as proposed, remains at \$4.86 per hour for 2002-03.

Program Modifications:

- Instructional Materials.** The budget proposes \$625.0 million for instructional materials including: \$250.0 million (ongoing) for a new Instructional Materials Block Grant to replace the existing Instructional Materials K-8; Instructional Materials 9-12, School Library Materials, and K-4 Classroom Library Programs; \$200.0 million (one-time) from the Proposition 98 Reversion Account for a Textbook Block Grant; \$100.0 million (one-time) from the Proposition 98 reversion account for school districts to purchase school library materials or K-12 classroom library materials; and \$75.0 million (one-time) in Proposition 98 Reversion Account for school districts to purchase science lab

equipment and materials to provide standards-based science instruction in grades 7-12. The Administration's intent in establishing the Instructional Materials Block grant is to allow schools to purchase standards-aligned instructional textbooks in K-12 core curriculum areas. Once every student has a full set of standards-based textbooks, the block grant funds can be used for any instructional materials purpose now served by the five separate text book and library materials program

- **Independent Study.** The budget proposes a 10 percent nonwaivable reduction in funding for non-classroom (independent study) instruction in all public, noncharter K-12 schools based on the assumption that this type of instructional program is less expensive than classroom-based instruction. The budget anticipates \$43.0 million in savings from this proposal. This reduction affects both full-time and part-time independent study average daily attendance (ADA). Districts with declining enrollments would not be exempt from this reduction. Chapter 892, Statutes of 2001 (SB 740, O'Connell) reduced funding for non-classroom based charter school average daily attendance (ADA) by up to 5 percent in 2001-02 and 20 percent in 2002-03. Charter schools, unlike the above affected public schools, can seek a waiver of this reduced funding from the State Board of Education.
- **Adult Education.** The budget proposes \$593.0 million for adult education including a reduction of \$36.0 million, which reflects the deletion of funds allocated for services to CalWORKs recipients. These latter funds were basically used to allow Adult Education and Regional Occupational Centers and Programs (ROC/Ps) to claim funds above their average daily attendance (ADA) cap if additional funds were used to provide instruction to CalWORKs participants. According to the Administration, these funds are no longer necessary due to recent CalWORKs program augmentations sufficient to ensure that the state meets its maintenance-of-effort requirement for its federal Temporary Aid for Needy Families (TANF) grant. This reduction does not preclude CalWORKs recipients from being served in adult education and ROC/P programs or other county funded CalWORKs employment services and training programs.
- **Before and After School Programs.** The Governor's budget proposes to reduce funding for the Before and After School Learning and Safe Neighborhoods Partnership Program by \$29.7 million in the current year. In 2002-03, the budget proposes to backfill the \$29.7 million reduction and augment the program by \$45.3 million specifically to expand the number of children served. Of the \$45.3 million expansion, \$30 million comes from the proposed elimination of the Extended Day/Latchkey program. Total funding for the Before and After School Program is slated to be \$75 million in 2002-03.
- **Special Education.** The budget proposes \$94.5 million in additional General Fund for local assistance for statutory adjustments associated with the AB 602 (Chapter 854, Statutes of 1997) Special Education per pupil funding formula. This includes \$77.5 million for a 2.15 percent COLA, \$39.6 million for program growth, a \$22.6 million reduction to reflect an increase in property taxes. There are no deficiencies expected in 2001-02 attributed to increases in 2000-01 ADA.
- **Deferred Maintenance Funding.** The budget proposes \$205.4 million in Proposition 98 General Fund to fully fund the one-half of one-percent state match for deferred maintenance projects. This represents a \$29.1 million (17 percent) increase over 2001-02. Together with excess loan repayment funds and penalty payments received from the School Site Utilization Fund, state funding for deferred maintenance will total \$220.1 million. Note: Current law allows up to 10 percent of the total state allocation to be used for critical hardship projects.
- **State Mandate Reimbursements.** The budget, for the first time since the enactment of Proposition 98, proposes to suspend \$89.8 million in specified reimbursable education mandates to enable the reallocation of those funds to other priority education programs. It should be noted that under current

law the Governor does not, unlike for city and county reimbursable mandates, have the authority to suspend reimbursable state mandates for education. Legislation will be necessary to effect this proposal. The largest component of the proposed mandate suspensions (\$66.7 million) is the School Bus Safety II Mandate (Chapter 831, Statutes of 1994). Funding for this particular mandate was pared down from \$290.0 million to \$66.7 million in the current year pending results of a Legislature-requested Joint Legislative Audit Committee (JLAC) audit. Other programs slated for suspension include: mandate obligations of school bus safety legislation that, among other things, requires schools to determine those pupils in need of specialized student escort services, and training for all Pre-kindergarten and kindergarten bus riders regarding emergency procedures and passenger safety.

| 2002-03 Proposed Education Mandate Suspensions | Chapter /Statute | In Millions |
|---|-------------------------|--------------------|
| School District of Choice Transfer and Appeals | 160/1993 | \$10.2 |
| Habitual Truants | 1184/1975 | \$5.4 |
| Open Meetings Act | 641/1986 | \$3.4 |
| School Discipline Rules | 87/1986 | \$1.7 |
| Absentee Ballots—Schools | 77/1978 & 920/1987 | \$1.3 |
| Pupil Suspensions from Schools | 134/1987 | \$1.0 |

Issues:

Instructional Materials Block Grant. The Governor’s instructional materials block grant is slated to increase from \$250.0 million in 2002-03, to \$350.0 million in 2003-04; \$450.0 million in 2004-05; \$550.0 million in 2005-06 and \$600.0 million in 2006-07. Total current year funding for the four programs combined to create the Instructional Materials Block Grant (\$356.0 million) as well as the sunsetted Schiff-Bustamante Instructional Materials Program \$606.0 million. While funding for instructional materials in 2002-03 represents a \$19.0 million increase for instructional materials over 2001-02, total instructional materials funding will drop by \$275.0 million in 2003-04 due to the one-time nature of instructional materials programs funded out of the Proposition 98 Reversion Account in 2002-03. Without a commitment to additional funding in the block grant’s proposed subsequent budget “out years,” the Instructional Materials Block Grant will represent the sole source of instructional materials funding for each of those four subsequent fiscal years.

Federal Special Education Funding. The proposed 2002-03 budget includes \$112.0 million (\$135.0 million based on most recent estimates) in increased federal funds. Unlike the current year, these new funds will be treated as an “offset” to state funding and not as an augmentation that would increase the special education base funding level by that amount. This offset complies with state law that requires federal funds to be used to supplant state funds in any year that total funding for special education funding is higher than the prior year. The state meets this requirement by providing \$ 2.6 million more General Fund (including special education share of local property tax estimates) in state funding for special education in 2002-03 than in 2001-02.

Governor’s Initiatives

Program Continuations and Enhancements

Accountability

- **Immediate Intervention/Underperforming Schools (II/USP).** The budget includes a \$29.6 million augmentation (\$210.8 million total) for the Immediate Intervention/Underperforming Schools Program (II/USP) as established in the Public Schools Accountability Act (PSAA) (SB1, Chapter 3, Statutes of 1999, First Extraordinary Session). The total amount fully funds implementation grants for three cohorts (430 schools each) in the School Accountability, Rewards and Intervention Program at \$200 per pupil. This program provides resources for under-performing schools to support development and implementation of school action plans aimed at increasing student achievement. There are no planning grants funded in the budget year because there is no new, or fourth, cohort proposed in the budget year. The “first” cohort schools, that will receive their second year of implementation grants in the budget year, will be assessed in the fall as to whether or not they will be subject to 1) Release from the program for meeting their API targets; 2) sanctions for failing to make “significant progress” toward meeting their API targets; or 3) a third year of implementation funding for achieving “significant progress” toward their API targets. The budget assumes that 80 percent of these schools will qualify for a third year of funding. The remaining 20 percent will be subject to either sanctions or awards. The state Board of Education is currently reviewing the definition of “significant growth” relative to progress made toward achieving API targets. For the 1999-00 school year, schools scoring in the lower half of the statewide distribution on the STAR test for both 1998 and 1999 were invited to participate in the II/USP. In 1999-00, 3,144 schools were designated as “Underperforming.” Of those, 1,400 applied to participate in the program, yet only 430 schools were funded in this “first” cohort. Beginning in August 2000, school eligibility was limited to those schools in the bottom half of the API that did not meet their growth targets. These schools could volunteer or possibly be selected to participate in the II/USP, subject to funding availability. Based on the 2000 API, 938 schools met the new eligibility criteria, 532 of those schools applied and only 430 were provided funding.
- **Governor’s Performance Awards.** The Governor proposes to continue the current year, \$157.0 million funding level for the PSAA High Achieving/Improving Schools Program (AKA: Governor’s Performance Awards). For qualifying schools, this includes \$67 for each test taker in grades 2-11. These awards are granted to schools that meet the following growth and participation targets as measured by the API: A 5 percent API score increase of the difference between the school’s prior-year score and 800, or an API score increase of five points, whichever is greater; all subgroups meeting 80 percent of the school’s target or increase by four points, whichever is greater; student participation rate of 95 percent of eligible test takers for elementary and middle schools and 90 percent of eligible test takers for high schools.
- **Staff Performance Incentives.** The budget continues a proposed \$50.0 million (50 percent) current year reduction for site-based Certificated Staff Performance Incentive Act awards (Chapter 52, Statutes of 1999, AB 1114). Under the program, teachers and other staff are eligible for one-time performance awards of \$5,000 to \$25,000 in low performing schools that most exceed their statewide performance targets. Assuming approval of the 50 percent program reduction, the Administration reduces each recipient category by 50 percent and estimates 500 teachers and principals will receive \$25,000 bonuses; another 1,875-member group will receive \$10,000 bonuses and another group of 3,750 staff will receive \$5,000 awards. The actual amount of the awards may vary because under the law, districts and unions must negotiate how the funds are distributed among the certificated school staff.

Issues

Federal Comprehensive School Reform Demonstration Program (CSRD). Eligible schools are allowed to apply to the federally funded II/USP program or Comprehensive School Reform Demonstration Program (CSRD). While this program, until the current year, provided a higher, (\$200) per pupil rate than the state program, which has no per student funding guarantee and continues to provide

an additional (third) year of implementation grants; eligible schools typically have not availed themselves to this program due to its more competitive application process and rigorous planning, reporting and evaluation process. As a result, the state's federal CSRD grant funds have gone largely unused. (Barring corrective action, this problem will likely worsen in the budget year since the 2001-02 Budget Act removed the financial incentive for applying for the CSRD funds by increasing the per pupil rate from a proposed \$146—\$168 in 2000-01—to \$200.) For example, \$2.5 million of \$11.0 million in federal CSRD funds available to schools in January 2001 reverted to the feds when there were no takers for that money by September 30, 2001, the end of the federal fiscal year. For 2001-02, only \$10.6 million of \$32.0 million in CSRD funds were encumbered by the state's schools, leaving \$22.0 million for which the state needs to craft a plan to encumber prior to September 30, 2002. The state will be receiving an additional \$32.0 million in 2002-03. In light of this problem of unused federal funds, it would behoove the Legislature to address and implement a plan that would allow the state to fully maximize these funds to the benefit of low performing schools.

Assessments

- **High School Exit Exam.** The Governor proposes \$18.3 million, a 23 percent increase, to administer the High School Exit Exam (HSEE) to 10th graders. Chapter 1, Statutes of 1999, First Extraordinary Session (SB 2x, O'Connell), established the HSEE and requires that pupils, beginning in the 2003-04 school year, pass the exam (i.e., demonstrate proficiency in the state's rigorous academic standards in mathematics and language arts) as a condition of receiving a high school diploma. While 9th graders were originally permitted to take the test on a volunteer basis, Chapter 716, Statutes of 2001 (AB 1609, Calderon) excluded 9th graders from taking test after 2000-01, but maintained the requirement that all pupils take the exam beginning in the 10th grade. Chapter 716 also authorizes the State Board of Education (SBE) to delay the date by which pupils will need to pass the exit exam indefinitely, taking into consideration whether pupils have been provided "sufficient opportunity to learn."
- **STAR Program.** The budget proposes \$68.7 million for administration of the Standardized Testing and Reporting (STAR) program. The STAR exam measures student performance on various state-adopted content standards as well as a national norm-referenced exam and serves as the primary indicator of the Academic Performance Index API. The STAR program includes the Spanish Assessment of Basic Education (SABE II) to ensure that English language learners are also tested for academic performance.
- **STAR / High School Exit Exam Development.** The Governor proposes \$12.0 million for test item development for the STAR and High School Exit Exam (HSEE) programs. This maintains the same level of funding as adopted in the 2001-02 Budget Act. The items developed are intended to move toward aligning the STAR and HSEE with the State Board of Education-approved academic content standards and in ensuring that these exams are valid and reliable.
- **English Language Development (ELD) Test.** The budget proposes \$17.0 million for the administration of this test. Schools are required to test pupils whose primary language is one other than English to identify English language learners. This identification is intended to help schools better allocate resources beneficial to those students. Additionally, schools are required to test English language learners on an annual basis to ensure that an English proficient pupil is not maintained in a class or curriculum that does not provide additional challenges or growth. The 2001-02 Budget Act provided \$500,000 from the Proposition 98 Reversion Account for one-time costs associated with the administration of this test. Chapter 891, Statutes of 2001, (SB 735), requires the State Board of Education to establish, with the approval of the Department of Finance, the amount of funding to be apportioned per test administered, based on a review of the cost per test.
- **Golden State Exams (GSE).** The budget proposes \$15.4 million for these challenging end-of-year exams that allow students the opportunity to be recognized for their achievement in any of 13

different subjects. Pupils who achieve outstanding scores on six GSEs are eligible to receive a Golden State Seal Merit diploma. The Administration is working on a proposal to incorporate these exams into the STAR exam as a way of minimizing school time devoted to student testing.

- **Standards-Based Student Workbooks.** The budget includes \$2.4 million to provide standards-based HSEE test preparation workbooks free of charge to all students being tested. The workbooks will provide information to students and parents regarding the academic standards, to which students will be held accountable, as well as the skills they must master in order to pass the High School Exit Exam. Since state law prohibits “teaching to the test,” the workbooks will also help define parameters regarding “appropriate” test preparation practices. In his 2001-02 budget, the Governor had originally proposed \$27.5 million to fund both STAR and HSEE test preparation workbooks. The 2001-02 Budget Act ultimately included \$3.0 million (Proposition 98 Reversion Account) for the HSEE workbooks only.

Other Program Continuations and Enhancements:

- **Elementary School Intensive Reading.** To assist students in becoming reading proficient, the budget includes \$30.5 million to provide continued funding for the Elementary School Intensive Reading Program.
- **Seventh and Eighth Grade Math Academies.** \$127 million to continue 7th and 8th Grade Math Academies. These academies were established by Chapter 404 Statutes of 2000, (AB 1688) as part of the Governor’s 2000-01 education initiatives. This funding includes a \$3.45 reimbursement rate per hour of supplemental instruction.
- \$1.5 million General Fund for Advanced Placement (AP) examination fee grants to pay fees incurred by low-income students to take AP examinations. In addition, \$3.1 million (including \$1.5 million in carryover funds) in federal funds is available for this purpose.

Teacher Recruitment and Training

- \$30 million augmentation to continue the second year of the Math and Reading Professional Development Program, bringing the total amount of funding for the program to \$110 million in the budget year (\$87.1 million Proposition 98 Reversion Account and \$22.9 million General Fund Proposition 98). Funding provides school districts with \$2,500 per teacher and \$1,000 per instructional aide in order to provide standards-aligned training in an expedited manner. The funding level proposed in 2002-03 is sufficient to serve 32,800 teachers and 6,500 instructional aides, as well as provide an additional \$500 for each teacher attending a University of California Professional Development Institute.
- \$7.5 million (Proposition-98 Reversion Account) to provide standards-based professional development and training for school principals and vice-principals over a three-year period. Total funding for the program over a two-year period (2001-02 and 2002-03) is \$22.5 million. Funding is provided at \$3,000 per principal and must be matched with \$1,000 of local funding.
- \$20 million ongoing reduction, beginning in current year, for the Beginning Teacher Support and Assessment Program (BTSA). This reduction is offset by a \$3.6 million augmentation in 2002-03 for growth and COLA. Proposed funding is sufficient to support 24,600 new teachers.
- \$5.9 million to provide growth and COLA increases for the Instructional Time and Staff Development Reform Program, which allows schools to provide professional development training to

teachers for three days outside of the regular instructional calendar and one day for instructional aides.

- \$6 million ongoing reduction, beginning in the current year, for stipends to University of California Professional Development Institute (PDI) attendees. This reduction is accompanied by a \$6 million reduction in the University of California's budget for training provided to teachers. Total funding provided (\$48 million) is sufficient to provide \$1,000 stipends for approximately 43,000 teachers. *Note:* Some teachers may attend the PDIs for a longer period of time, which results in a slightly higher stipend amount for a small number of teachers.
- \$10.0 million for incentive grants to teachers for achieving certification from the National Board for Professional Teaching Standards. Of this amount \$5.0 million is for incentive grants of \$10,000 each for teachers so certified and \$50.0 million is to provide incentive grants of \$20,000 to teachers that have achieved certification and agree to teach in a low-performing school.
- \$16.5 million for the Advanced Placement (AP) Challenge Grant Program (SB 1689, Chapter 73, Statutes of 2000) to encourage high schools to design and implement a plan that would result in providing student access to at least 4 AP courses in core curriculum areas. Priority would be given to schools offering three or fewer AP courses, then schools not offering AP classes in either math or science, then schools with low college participation rates and then schools with a majority of pupils who qualify for free or reduced price meals. The nonrenewable, competitive four-year grants are to be used exclusively for establishing, training, and supporting vertical teams of teachers, purchasing instructional materials and equipment and pupil tutoring and instructional support services.

Note: A number of programs related to teacher preparation and higher education/K-12 education collaboration are contained in the budgets of the University of California and the California State University. Summaries of those proposals are contained in the "Higher Education" section of this document.

Instructional Capacity and Educational Technology

Program Continuations and Adjustments

- **\$15.5 million** to continue development and implementation of the California Schools Information Services (CSIS) project and to expand voluntary school district use. CSIS is designed to facilitate electronic transfer of student records between K-12 schools and also to higher education institutions. The goal is a more timely transfer of student records and a reduction in the information-reporting burden of school districts. Of these total funds, \$11.0 million from the Education Telecommunications Fund (or Proposition 98 Reversion Account if funds in the ETF are insufficient) will be allocated to the Fiscal Crisis and Management Assistance Team (FCMAT) for administration of the CSIS program. An additional \$4.5 million will be available to FCMAT for CSIS operations costs.
- **\$61.0 million** to continue the \$15.0 reduction proposed in the current year to fund Digital High School Program (Chapter 326, Statutes of 1997). The funding for 2002-03 provides approximately \$33 per student (v. \$45 in 201-02) in ongoing funding to provide technical support, staff development, and training. Fiscal 2000-01 was the fourth and final year for the program's \$300 per pupil installation grants for network development and connecting classrooms to the Internet.

Childcare and Child Development

The state makes subsidized child care services available to 1) families on public assistance and participating in work or job readiness, 2) families transitioning off public assistance programs, and 3) other families with exceptional financial need. Childcare services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the “stage” of public assistance or transition the family is in. Stage 1 childcare services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 childcare services are either receiving a cash public assistance payment or are in a two-year transitional period after leaving cash assistance. Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the “working poor”). Childcare services for Stage 3 are divided into two tiers, General Child Care is available on a limited basis for families with exceptional financial need while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of childcare providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

Child Care Reform. As part of the 2002-03 Governor’s Budget, the Administration proposes to dramatically reform the state’s subsidized childcare system. Since the spring of 2000, the Administration has been undergoing a childcare policy review with the goal of developing an alternative to the Stage 3 and Stage 3 set-aside programs and decreasing the total costs within all stages of childcare. Under the current set of programs, the administration estimates that the out-year costs for Stage 3 would exceed more than \$650 million by 2004-05. Further the Administration views the current Stage 3 and Stage 3 Set-Aside as inequitable and believes that the two-tiered system creates an incentive for families to seek public assistance in order to obtain affordable child care services. In order to remedy these equity and fiscal concerns, the Administration proposes to implement a series of programmatic and budgetary changes, which are estimated to save \$400 million, across all stages of childcare services beginning July 1, 2002. The administration proposes to reinvest these budgetary saving into the state’s childcare and after school programs by increasing the number of subsidized care slots available by 100,000. Specifically, the Administration proposes the following changes:

- **Eligibility** – 1) Eliminate childcare services for 13-year-old children; 2) reduce the income eligibility for families to receive subsidized services from 75 percent of the State Median Income (SMI) to 60 percent. Eligibility in high cost counties will be set at a higher level (66 percent of SMI for the four highest cost counties in the Bay Area and 63 percent of SMI for other high cost counties). Under the new income eligibility limits a family of four would be eligible if it earned approximately \$35,300 in high cost counties, as opposed to the old income threshold of \$40,000 for the same family; and (3) simplify the annual family income adjustments.
- **Reimbursement** – Reduce the maximum reimbursement rate paid to providers from 1.5 standard deviations above the mean cost of care in the county (the Administration characterizes this as the 93rd percentile), to the 75th percentile of provider rates. The Administration believes that this change will continue to provide full reimbursement to all but the highest priced providers in each county.
- **Family Fees** – 1) Implement a three-step, graduated fee schedule to be applied to all families (with a few exceptions). For each of the “steps”, fees begin low and increase as family income increases: a) Step one covers the first five years of family participation; b) Step two applies for a two-year transitional period after the initial five years of care; c) Step three applies after seven combined years of care. Fees are established with the goal of providing a subsidy at a rate equivalent to the family’s income level (for example, a family making 58 percent of the SMI would pay 58 percent of the child

care costs). 2) Assure that most families pay fees; and 3) Shift the collection of family fees to the direct childcare providers.

- **Waiting Lists** – Modify the waiting list process to give priority to those families who are working full-time with children under the age of five. Under current practice, priority for childcare slots is given to those families with the lowest income regardless of whether the parent is working, training, or seeking employment.
- **Accountability and Other Program Changes** – (1) Allow child care providers to collect social security numbers from families to verify eligibility for subsidized care; (2) eliminate the existing Extended Day/Latchkey program over a three-year period; approximately \$30 million in savings from the elimination of this program would be re-directed to the Before and After School Learning and Safe Neighborhoods Partnership Program; and (3) eliminate the Child Development Policy and Advisory Committee (CDPAC), which is responsible for providing policy recommendations and assistance to the Governor, Legislature, Superintendent of Public Instruction, local child care planning councils, and other state entities regarding child care and development.

Kindergarten Readiness Pilot Program. The Administration, for a second year, delays the provision of \$13.9 million for first-year implementation of the Kindergarten Readiness Pilot Program established by Chapter 1022, Statutes of 2000

Budget Adjustments for Child Development Include:

- \$42 million reversion from the Child Care Facilities Revolving Fund to the Proposition-98 reversion account.
- Augmentation of \$20.8 million Proposition 98 and \$5.3 million federal funds (Child Care and Development Fund – CCDF) to provide for growth and COLA.
- \$258.2 million Proposition 98 net increase in funding for Alternative Payment Providers (APP) to support Child Care Stages 1, 2 and 3 to support the Administration’s proposed child care reform.
- \$159.4 million net increase in CCDF funds for APP to support Stage 2 childcare services.
- \$64.9 million augmentation of federal funds from the TANF block grant to meet caseload projections in Stage 2. (TANF funds are transferred to the CCDF and then appropriated to the Department of Education for Stage 2 childcare services.)
- \$93.5 million net decrease in CCDF funds for Stage 2 due to proposed childcare policy changes.
- \$50.1 million net decrease in Stage 3 set-aside (for former CalWORKs recipients) due to proposed childcare policy changes.
- \$73.1 million net decrease in CCDF funds for Stage 3 set-aside to reflect proposed childcare policy changes.
- \$68.8 million net decrease in Stage 3 General Child Care (for the “working poor”) due to the Administration’s proposal to alter eligibility criteria and reimbursement rates.
- \$9.8 million augmentation in one-time federal funds (CCDF) to provide outreach over a three-year period to all exempt providers to provide training related to Pre-Kindergarten and health and safety issues.

Special Education

- **The Governor's budget proposes \$2.7 billion General Fund and over \$782.0 million in federal funds for Special Education programs. Included in this amount is:** \$ 94.5 million in additional Proposition 98 General Fund local assistance for statutory adjustments to the AB 602 Special Education per pupil funding formula established in 1997. This includes \$77.5 million for a 3.91 percent COLA and \$39.6 million for program growth.
- \$125.0 million General Fund in the 2000-02 budget (\$100.0 million in ongoing funds to SELPAs through the per ADA state funding model, \$25.0 million in one-time funds to be provided to school districts annually for fiscal years 2001-02 through 2010-11) for the Special Education Mandate Claim settlement payments.
- \$112.0 million in new federal funds, of at least \$135.0 received, is proposed to offset General Fund special education funding. In 2001-02, \$97.0 million in new federal funds were used to permanently increase the special education funding base.
- \$8.2 million, plus a 2.15 percent COLA General Fund and \$29.5 million in federal funds for the Workability I Program which provides special education students with necessary employment skills.
- \$10.8 million, Proposition 98 General Fund, plus the COLA is provided to districts with higher than average population of students with low-incidence disabilities for the purchase repair, and inventory maintenance of specialized books, materials, and equipment. \$1.7 million in federal Individuals with Disabilities Education (IDEA) Act funds are also available to provide special services to pupils with low-incidence disabilities.
- \$125.0 million, plus the 2.15 percent COLA, General Fund to fully fund the costs of children placed in licensed children's institutions (LCIs) attending nonpublic schools (NPS). Up to \$1.0 million of federal Individual with Disabilities Education (IDEA) Act funds may be used to fund LCI growth.
- \$4.3 million, plus the 2.15 percent COLA, General Fund for Regional Occupational Centers and Programs (ROCPs) that serve pupils having disabilities.
- \$39.8 million federal Individuals with Disabilities Education (IDEA) Act fund that Act's Preschool Grant Program; \$1.2 million of which is to be used for in-service training including a parent training component and may include a staff training program.
- \$2.4 million of the federal IDEA capacity building component is to be used for establishing Family Empowerment Centers on Disabilities pursuant to Chapter 690, Statutes of 2001 (SB 511, Alpert).
- \$1.4 million in federal funds for local assistance grants in the fourth year of the Quality Assurance and Focused Monitoring Pilot Program that monitors local education agency (LEA) compliance with state and federal laws and regulations governing special education. This funding is to continue the fourth year of facilitated reviews that, to the extent consistent with the SDE developed key performance indicators, focus on LEAs identified by the United States Department of Education's Office of Special Education Programs.
- \$87.0 million (\$29.8 million non-Proposition 98 General Fund; \$34.3 million Proposition 98 General Fund) for the State Special Schools, which include the State Special Schools for the Deaf in Riverside and Fremont and the State Special School for the Blind in Fremont. This includes a \$338,000 increase for transportation costs and \$127,000 for utility costs.
- \$22.6 million reduction in General Fund funding to reflect an increase in local property taxes.

Other Program Highlights:

- \$736.5 million for the Targeted Instructional Improvement Block Grant (TIIBG) of which \$7.6 million is to fund an ADA growth rate of 1.07 percent and \$15.0 million is to fund a 2.15 percent COLA. This program, established by Chapter 891, Statutes of 2001 (SB 735), by consolidating the funding for, and eliminating both the Court-ordered and Voluntary Desegregation programs. The TIIBG funds the cost of any court-ordered desegregation program, if the order exists and is in force, and provides instructional improvement for the lowest achieving pupils in a district.
- \$2.0 million to continue the Student Academic Partnerships Program (Chapter 811 Statutes of 1997). This program, which provides funding for recruitment of, and stipends for, college students who tutor students in math and English, was previously funded with federal Goals 2000 Educate America Act funds. It originally targeted K-6 students but was expanded in the 2000 Budget Act to include all K-12 students. This is an \$8.0 million reduction from the 2001-02 Budget Act that provided \$10.0 million in total funding for this program; \$8.0 million of which was funded with federal Goals 2000 funds that are no longer available.
- \$15.8 million for school district and county office of education Apprenticeship Programs. This represents continuation of the current year level of funding into the budget year. This program does not receive a COLA in 2002-03.
- \$375.6 million for Regional Occupational Centers and Programs (ROCPs), \$7.9 million of which is to provide a 2.15 COLA and \$7.7 million of which is to fund a 2.15 percent ADA growth rate, in 2002-03. The 2001-02 Budget Act provided \$10.0 million in one-time, Proposition 98 Reversion Account funds for ROCP equipment, however these funds have yet to be released. Specifically, these funds are to help improve specialty technical training, for example, information technology and automotive technology.
- \$42.3 million for Community Day Schools, including an augmentation of \$889,000 for a 2.15 percent COLA adjustment. Community Day Schools were established in 1995 (AB 922, Chapter 974) as an alternative program for expelled or other high-risk youths. They are located separately from comprehensive, continuation and opportunity schools and districts operating a community day school are expected to emphasize a low pupil-teacher ratio, individualized instruction and assessment, collaboration with district support services and cooperation with the county office of education, law enforcement, probation officials, and human services personnel who work with at-risk youth.
- \$23.0 million for the Partnership Academies Program. This includes \$948,000 for statutory funding adjustments for the program that, in 2001-02, will have grown to 290 Partnership Academies. These academies are three-year high school programs, grades 10-12. They are structured as schools within schools that incorporate academic curriculum with a career theme and which include motivational activities, parental support, speakers, field trips, a mentor program, internships/paid work experience as well as regular student progress monitoring and feedback.
- \$1.7 million Kindergarten and Grades 1-3 class size reduction (CSR). This includes \$38.4 million for a 2.15 percent COLA. Schools participating in Option one are to receive a per pupil rate of \$907. Schools participating in Option Two are to receive a per pupil rate of \$453.50.
- \$12.3 million General Fund to continue the 2001-02 level of funding for the Advancement Via Individual Determination (AVID) Program including \$1.3 million for program administration, \$6.0 million for competitive outreach grants to local education agencies (LEA) for the AVID program and \$5.0 million for the provision of Advanced Placement teacher training or tutoring services.
- \$53.2 million for the English Language Learners Program to continue the same level of funding as provided in the 2001-02 Budget Act.

- \$0.0 for the Healthy Start Support Services for Children Act. This is a \$1.0 million decrease from 2001-02, as proposed to be revised by the Governor's November reduction to this program. It is a \$39.0 million decrease from the 2001-01 Budget Act as enacted in July 2001. The proposed November reduction was intended to preclude planning grant funding for a new cohort of Healthy Start participants without affecting existing programs. Due to the set aside of the funding for all three years of a Healthy Start Grant in its first year of operation, the effect of the \$1.0 million budget year reduction would be that only one Healthy Start cohort would remain (v. three cohorts).
- \$449.0 million for remedial supplemental instruction programs (SB 1683, Chapter 72, Statutes of 2000) including remedial supplemental instruction for grades 7-12 (\$171 million); supplemental instruction for those students in grades 2-9 who are retained or at risk for being retained (\$49.6 million); supplemental instruction for those students in grades 2-6 who perform poorly on the STAR exam (\$17.9 million) and supplemental instruction for core academic programs for grades K-12 (\$210.6 million). This funding reflects a \$3.45 reimbursement rate per hour of supplemental instruction. Note: Effective January 1, 2003, the hourly program for pupils in grades 2-6 who are "at risk of retention" shifts from an "uncapped" program to be part of the grade 2-6 "academic deficiency program subject to a 5 percent cap on participation.
- \$96.7 million for various school safety programs including \$82.1 million for the School, Safety and Violence Prevention Act, established by Chapter 51, Statutes of 1999, (AB 1113, Florez) to provide block grants to middle and junior high schools and high schools that serve grades 8-12 for the purpose of establishing programs and strategies that promote school safety and emphasize violence prevention among children and youth.
- \$21.9 million for Pupil Dropout Prevention Programs.
- \$5.0 million for the Fiscal Crisis and Management Assistance Team (FCMAT) to increase the ability of county offices of education (COE) to oversee school district budgets pursuant to Chapter 620, Statutes of 2001 (AB 139, Florez) and expand other oversight activities.
- \$2.2 million for the Early Intervention for School Success Program.
- \$19.0 for the Adults in Correctional Facilities Program.

Program Elimination:

- \$21.6 million that eliminates the School Development Plans and Resource Consortia. This program provided funding for teacher participation in development and implementation of curricula, instruction, and student assessment. According to the Administration, the elimination of this program will have minimum impact in light of the similar goals of the more recently implemented Mathematics and Reading Professional Development Program; the Principal Training Program and the Professional Development Institutes.
- \$6.1 million that eliminates funding for the Intensive Instruction Demonstration Program, which has sunsetted. The purpose of this program was to develop programs of intensive instruction in English or language arts, mathematics, history or social science, foreign language physical education, visual and performing arts or science to serve as model projects aimed at developing, within pupils, above average competence in basic skill subjects. The programs served at risk pupils in grades 6,7, or 8 who attended schools in disadvantaged areas.

Nondepartment Initiatives and Continuations:

- \$128.0 million for the Governor’s Scholarship Programs (Chapter 404, Statutes of 2000), which are funded through the Scholarshare Investment Board. The Governor’s Scholar Program provides \$1,000 scholarships for students who score in the top 10 percent statewide on the standards-aligned STAR test “augmentation,” or who score in the top 5 percent of their high school class on the norm-referenced STAR test (SAT 9). The Governor’s Distinguished Math and Science Scholars Program provides \$2,500 scholarships to students attaining top scores on Advanced Placement calculus and physical sciences exams.

6120 California State Library

The State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs such as the California Literacy Campaign, develops technological systems to improve resource sharing and enhance access to information, and administers the Public Library Foundation Act, which establishes a formula under which the State contributes funding for basic local library services.

Budget adjustments include:

- \$7.9 million reduction in the current year and \$11.2 million reduction in 2002-03 for the Public Library Foundation. Reductions will reduce the amount of state support available to local libraries.
- \$3.1 million reduction in General Fund state operations in 2002-03 and an accompanying reduction of 18.2 personnel-years. Reductions will affect library acquisitions, outreach and technical assistance to local libraries, regional resource sharing, and the California Research Bureau.
- \$76,000 augmentation for maintenance and repairs for the Library and Courts II building.

6255 California State Summer School for the Arts

The California State Summer School For the Arts (CSSSA) was created to provide CA high school students who have demonstrated exceptional talent and excellence in the arts with intensive instruction through a multi-disciplinary, residential summer training program. The CSSSA allows students to choose from seven major disciplines of study: Animation, Creative Writing, Dance Film/Video music, Theatre Arts and Visual Arts. The program provides a training ground for future artists aspiring to careers in the State’s arts and entertainment industries. The CSSSA is financed with state funds and private sector support pursuant to Education Code §8957.

Budget Adjustments:

- \$25,000 General Fund reduction in Operating Expenses and Equipment pursuant to Section 3.60.
- \$20,000 General Fund reduction in Operating Expenses and Equipment due to shortage of General Fund Revenues.

6360 Commission on Teacher Credentialing

The Commission on Teacher Credentialing is responsible for developing standards and procedures for the preparation and licensing of public school teachers and administrators, issuing and revoking credentials, evaluating and approving programs of teacher-training institutions, developing and administering

competency exams, establishing policy leadership in the field of teacher preparation and administering Alternative Teacher Certification Programs.

Budget adjustments include:

- \$6.2 million reduction for the Alternative Certification / Pre-Intern Programs, which allows college graduates to work full-time in the classroom while earning their teaching credential.
- \$4 million reduction for the Paraprofessional Teacher Training Program, which encourages classroom aides to earn a baccalaureate degree and teaching credential.
- \$600,000 reduction for the California Math Initiative for Teaching Program.
- \$1.2 million funding shift for the Teaching Credentialing Service Improvement Project. Funding is proposed to come from the Teacher Credentials Fund rather than the General Fund.

HIGHER EDUCATION

6420 California Postsecondary Education Commission

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. CPEC serves as the principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC's responsibilities include conducting analyses and making recommendations related to long-range planning for public postsecondary education, and analyzing both state policy and programs involving the independent and private proprietary educational sectors.

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|----------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| <i>State Operations</i> | | | | |
| General Fund | \$3,784 | \$3,315 | (\$469) | -12.4 |
| Federal Funds | 430 | 430 | \$0 | 0.0 |
| Reimbursements | <u>125</u> | <u>3</u> | (\$122) | -97.6 |
| Subtotal, State Operations | \$4,339 | \$3,748 | (\$591) | -13.6 |
| <i>Local Assistance</i> | | | | |
| Federal Funds | <u>8,163</u> | <u>8,163</u> | 0 | 0.0 |
| Subtotal, Local Assistance | \$8,163 | \$8,163 | \$0 | 0.0 |
| Total | \$12,502 | \$11,911 | (\$591) | -4.7 |

Budget adjustments include:

- Reduction of \$125,000 in the current year due to sunset of the Mathematics and Technology Teacher Pipeline Program on January 1, 2001.
- Reduction of \$332,000 from the General Fund for State Operations and the elimination of five positions.
- Augmentation of \$14,000 and the addition of one limited-term position to continue preparing the 2001 Eligibility Study.
- Augmentation of \$2.1 million federal funds in the current year for additional grants under the Dwight D. Eisenhower Professional Development Program

6440 University of California

The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20

members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry, and veterinary medicine. The UC consists of nine campuses--Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz--which offer undergraduate, graduate, and professional education. The University of California, San Francisco is solely dedicated to the health sciences, and a tenth campus is currently being planned and constructed outside of Merced in the Central Valley. In addition to its instructional facilities, the University operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses as well as operating the Sacramento, San Diego, and Orange county medical facilities.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|--------------------|--------------------|-----------------|------------|
| General Fund | \$3,326,718 | \$3,367,052 | \$40,334 | 1.2 |
| Higher Education Fees | 663,434 | 687,469 | 24,035 | 3.6 |
| Higher Education Income | 428,115 | 409,677 | (18,438) | -4.3 |
| Lottery Education Fund | 21,962 | 21,962 | 0 | 0.0 |
| Total | \$4,440,229 | \$4,486,160 | \$45,931 | 1.0 |

Highlights

The 2001-02 Governor’s budget includes a total of \$4.5 billion in state-related support for the University of California which is \$45.9 million (1.0 percent) above the current year. Proposed General Fund support for 2002-03 is \$3.4 billion, reflecting a net increase of \$40.3 million (1.2 percent) over current-year expenditures.

First initiated in 1995 as a “compact” with then Governor Wilson, the Davis Administration’s *Higher Education Partnership Agreement* carries on many of the same principles, including the goal of providing stable funding for public higher education in exchange for the UC and California State University (CSU) commitment to meeting broad accountability goals. Unlike prior Davis Administration budgets, which were predicated upon fully-funding the *Higher Education Partnership Agreement*, this budget fails to fully-honor that agreement due to the fiscal condition of the State. While the Partnership Agreement initially promised annual General Fund increases of 5 percent (4 percent base budget increase plus 1 percent for long-term core needs such as maintenance, equipment and libraries), the 2002-03 proposed budget provides a 1.5 percent (\$47.6 million) General Fund increase and expresses the intent of the Administration to resume its commitment to the Partnership in future years. In addition, the 2002-03 budget provides UC with General Fund increases to cover enrollment growth and continuing contractual obligations (annuitant benefits and debt service).

Budget adjustments include:

- \$25 million ongoing reduction, beginning in the current year, from funds appropriated for increased energy costs.
- \$17 million ongoing reduction for campus-based student financial aid. *Note:* According to the Administration, this reduction reflects the amount of “excess” student financial aid that was retained by the UC when student fees were reduced in the mid-1990s.

- \$6 million ongoing reduction for the UC Professional Development Institutes.
- \$5.0 million reduction from one-time funds appropriated in the current year for UC Teaching Hospitals.
- \$4.8 million ongoing reduction for the K-12 Schools Internet Connectivity project.
- \$4 million ongoing reduction for the California Subject Matter Projects, a teacher training program.
- \$4.2 million ongoing reduction for student outreach programs.
- \$47.6 million augmentation for a 1.5 percent increase in the base budget from the *Higher Education Partnership Agreement*. UC intends to use these general purpose funds to provide merit salary increases and cover the increased costs associated with nonsalary goods and services. No funding increases have been included to cover cost-of-living-adjustments for faculty or staff.
- \$63.8 million augmentation to fund an additional 7,100 full-time equivalent (FTE) students, which equates to a 3.9 percent increase in enrollments. Total enrollment (at all campuses, including health sciences) is projected to reach 189,028 FTES in the budget year.
- \$8.4 million augmentation to provide state support for 897 FTE summer session students at the Davis campus. This augmentation represents the second year of a multi-year plan to phase in state support for summer session students on both UC and CSU campuses.
- \$14 million augmentation to fund annuitant health and dental benefits.
- \$5.1 million augmentation for lease-revenue bond payments.

Institutes for Science and Technology. The Governor's budget continues to provide funding (\$95 million), for the third year of a four-year funding plan, to develop four UC research institutes in cooperation with federal, private sector and nonprofit research entities. Instead of funding the Institutes from state General Fund monies, as has been the practice in prior years, the Governor's Budget proposes to use lease-revenue bond financing to continue the state's commitment to the Institutes. Separate legislation will be introduced to shift the funding from General Fund to lease-revenue bond funds. Statute dictates that state funds must be matched on a two-to-one basis with funding from nonstate sources, including the private sector, research foundations, the federal government and other sources. The four institutes intend to focus on the following:

- NanoSystems (UC Los Angeles and Santa Barbara), will seek to develop materials and devices measuring less than one-billionth of a meter;
- Telecommunications and Information Technology (UC San Diego and Irvine), will develop new technologies designed to expand access to communications and information management infrastructures;
- Bioengineering, Biotechnology and Quantitative Biomedical Research (UC San Francisco, Berkeley and Santa Cruz), will allow scientists in biomedical research, engineering, and physical sciences to seek breakthroughs in the diagnosis, treatment, and prevention of disease.
- Information Technology (UC Berkeley, Santa Cruz, Davis and Merced), will seek to design complex information systems for major societal challenges in energy management, traffic systems, disaster mitigation, and distance education and health care.

UC Merced. The Governor and the UC continue to expect that the new UC Merced campus will be completed and open to students in the fall of 2004. To meet this end, the 2002-03 Governor's Budget

again includes additional funding for faculty recruitment (\$4 million one-time) and facility construction for the Merced campus. Specifically, the budget includes \$50.5 million in predominately lease-revenue bond funds for working drawings and construction associated with both the second and third phases of site development and infrastructure (specifically related to site grading, drainage, flood control, roadways and utilities) and the construction of the initial classroom and office building

Two years ago (2000-01) the Governor proposed and the Legislature approved funding to support the development of the Merced campus. In particular, \$9.9 million in ongoing support was provided for planning activities related to the development of the Merced campus; \$6.4 million was also provided to support facility planning, working drawings and infrastructure development.

Last year, the 2001-02 Budget Act contained funding from both the General Fund and lease-revenue bonds totaling \$161.4 million, to continue the site and infrastructure development and begin construction on the Science and Engineering Building, the Library/Information Technology Center and an initial Classroom and Office Building.

Fees. For the eighth year in a row, the Governor’s Budget does not increase systemwide mandatory fees for resident undergraduates, which will remain at \$3,429 per year. Resident graduate fees will remain at \$3,609 per year. Total annual fees—including campus-based fees—will average \$3,859 for undergraduates and \$4,914 for resident graduate students. Comparable fees at the UC comparison institutions (the universities of Michigan, Illinois, New York, and Virginia) average \$5,585, which is \$1,726 higher than the fees for UC resident undergraduates. Nonresident tuition will increase by 4.0 percent bringing total nonresident charges to \$15,361 and \$16,236 for undergraduate and graduate students, respectively.

| | University of California Student Fees* | | | |
|---------|--|-------------|-----------------|-------------|
| | <i>Undergraduate</i> | | <i>Graduate</i> | |
| | Resident | Nonresident | Resident | Nonresident |
| 1994-95 | \$4,111 | \$11,810 | \$4,585 | \$12,284 |
| 1995-96 | 4,139 | 11,838 | 4,635 | 12,334 |
| 1996-97 | 4,166 | 12,560 | 4,667 | 13,061 |
| 1997-98 | 4,212 | 13,196 | 4,722 | 13,706 |
| 1998-99 | 4,037 | 13,611 | 4,638 | 14,022 |
| 1999-00 | 3,903 | 14,077 | 4,578 | 14,442 |
| 2000-01 | 3,964 | 14,578 | 4,747 | 15,181 |
| 2001-02 | 3,859 | 14,933 | 4,914 | 15,808 |
| 2002-03 | 3,859 | 15,361 | 4,914 | 16,236 |

* Actual fees vary by campus depending on the campus-based fees. Data in the table include an average of the campus-based fees for the nine campuses.

Capital Outlay. In addition to the \$50.5 million proposed for the Merced campus and the continuation of funding for the UC Institutes of Science and Innovation, the budget proposes to fund a variety of UC capital projects using both lease-revenue bonds (including those expedited projects proposed in the Governor’s “Economic Stimulus” package) and future general obligation bond funds. Specifically, the

budget proposes to shift \$335.2 million in the current year to lease-revenue bond funds and expedite seven projects, at a cost of \$266.6 million, through the Governor’s Economic Stimulus Package. In 2002-03, the budget proposes to continue the seven expedited lease-revenue projects (for a cost of \$12.4 million) and provide General Obligation bond funds (\$8.5 million) for 16 new projects and four projects that were previously approved but deferred.

6600 Hastings College of the Law

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California’s first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors, who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of Law.

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|----------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$15,115 | \$15,422 | \$307 | 2.0 |
| Hastings Fund | 15,411 | 14,717 | (694) | -4.5 |
| Lottery Education Fund | 154 | 154 | 0 | 0.0 |
| Total | \$30,680 | \$30,293 | (\$387) | -1.3 |

Highlights

Total funding for 2002-03 for Hastings College of the Law is \$30.3 million representing a decrease of \$387,000 or a 1.3 percent decrease from the current-year budget. The General Fund amount proposed for Hastings is \$15.4 million, which reflects a \$307,000 (2.0 percent) increase from the current year.

Budget adjustments include:

- \$227,000 augmentation, which corresponds to the 1.5 percent *Higher Education Partnership Agreement* increase provided to the University of California in its support budget. Funds will be used to continue salary increases granted in 2001-02.
- \$80,000 to fund annuitant benefit increases.

6610 California State University

The California State University (CSU) system is composed of 22 campuses, including 21 university campuses and the California Maritime Academy. Administered and managed by an independent governing board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate- and graduate-level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic “general education” breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate- and masters-level instruction, the CSU trains approximately 60 percent of California’s K-12 teachers and administrators, and in limited circumstances, has the ability to

jointly offer doctoral-level education with the University of California and private and independent institutions.

| Summary of Expenditures | | | | |
|--|--------------------|--------------------|-----------------|--------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$2,707,465 | \$2,735,617 | \$28,152 | 1.0 |
| Higher Education Fees | 685,280 | 706,091 | 20,811 | 3.0 |
| CSU Lottery Education Fund | 60,085 | 37,700 | (22,385) | -37.3 |
| <i>Subtotal</i> | 3,452,830 | 3,479,408 | 26,578 | -33.2 |
| Reimbursements, Federal Funds and Restricted Funds | 1,790,845 | 1,797,507 | 6,662 | 0.4 |
| Total | \$5,243,675 | \$5,276,915 | \$33,240 | -32.8 |

Highlights

The Governor’s budget includes a total of \$3.5 billion in state-related support for the California State University System in 2002-03. Proposed General Fund support is approximately \$2.7 billion, reflecting an increase of \$28.2 million (1.0 percent) over current-year expenditures.

First initiated in 1995 as a “compact” with then Governor Wilson, the Davis Administration’s *Higher Education Partnership Agreement* carries on many of the same principles, including the goal of providing stable funding for public higher education in exchange for the UC and CSU’s commitment to meeting broad accountability goals. Unlike prior Davis Administration budgets, which were predicated upon fully-funding the *Higher Education Partnership Agreement*, this budget fails to fully-honor that agreement due to the fiscal condition of the State. While the Partnership Agreement initially promised annual General Fund increases of five percent (4 percent base budget increase plus 1 percent for long-term core needs such as maintenance, equipment and libraries), the 2002-03 proposed budget provides a 1.0 percent (\$37.7 million) General Fund increase and expresses the intent of the Administration to resume its commitment to the Partnership in future years. In addition, the 2002-03 budget provides CSU with General Fund increases to cover enrollment growth and continuing contractual obligations (annuitant benefits and debt service).

Budget adjustments include:

- \$20 million ongoing reduction, beginning in current year, from funds appropriated for increased energy costs.
- \$14 million reduction in campus-based financial aid. *Note:* According to the Administration, this reduction reflects the amount of “excess” student financial aid that was retained by the UC when student fees were reduced in the mid-1990s.
- \$6.5 million reduction for the Educational Technology Professional Development Program.
- \$5 million reduction for the CalTeach teacher recruitment program.
- \$37.7 million augmentation for a 1-percent increase in the base budget, pursuant to the *Higher Education Partnership Agreement*. CSU intends to use these general purpose funds to establish a pool of resources for employee compensation (subject to collective bargaining), support the full-year costs of last year’s compensation increases, fund employee benefits, at least partially address the need for updated instructional equipment, technology, maintenance and deferred maintenance.

- \$78.1 million augmentation to fund an additional 12,030 full-time equivalent (FTE) students, which equates to a 4-percent increase in enrollments. Total enrollment is projected to reach 318,124 FTES in the budget year.
- \$1.2 million augmentation to provide state support for 240 FTE summer session students at the Chico campus. This augmentation represents part of a multi-year plan to phase in state support for summer session students on both UC and CSU campuses
- \$1.0 million augmentation to cover the increased cost of annuitant benefits.

Fees. For the eighth year in a row, there is no proposed increase in systemwide mandatory student fees. CSU’s current resident undergraduate fee level is \$1,876 compared with the 2001-02 average of \$4,168 at the 15 non-California public higher education institutions that are used for comparison purposes.

Capital Outlay. The budget includes a total of \$191.3 million from proposed lease-revenue bonds to expedite three projects in the current year (as part of the Governor’s Economic Stimulus Package). \$258.8 million is proposed in 2002-03 to support the continuation of 20 previously approved projects and 11 new projects; funds will come primarily from a future General Obligation bond measure.

6870 California Community Colleges

The California Community College system (CCC) provides a variety of general and vocational education program at 108 community colleges. The CCC offers academic programs that (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California’s work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering the Ed>Net statewide economic development program.

| Summary of Expenditures | | | | |
|--------------------------------|--------------------|--------------------|-----------------|------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$2,819,476 | \$2,739,399 | (\$80,077) | -2.8 |
| Lottery Education Fund | 138,089 | 138,089 | 0 | 0.0 |
| Local Property Taxes | 1,855,334 | 2,001,925 | 146,591 | 7.9 |
| Student Fees | 162,413 | 167,277 | 4,864 | 3.0 |
| Reimbursements and Other Funds | 93,114 | 107,485 | 14,371 | 15.4 |
| Total | \$5,068,426 | \$5,154,175 | \$85,749 | 1.7 |

Highlights

Funding for the California Community Colleges, from all sources, for the 2002-03 budget year is projected to reach \$5.2 billion, reflecting an increase of \$85.7 million or 1.7 percent above current-year expenditures. General Fund support for 2002-03 will decrease to \$2.7 billion, a reduction of \$80.1 million or 2.8 percent below current-year expenditures. Revenue from local property taxes is slated to increase by \$146.6 million in the 2002-03 from a total of \$1.86 billion in the current year to \$2.0 billion. Student fees are maintained at the current level of \$11 per unit.

Budget adjustments include:

- \$5 million ongoing reduction, beginning in the current year, for the Teacher and Reading Development Partnership Program, which encourages community college students to pursue academic paths leading to careers in teaching. The total budget for this program is \$5 million.
- \$58 million reduction for support of CalWORKs eligible students.
- \$26.8 million reduction for Matriculation services, including student orientation, assessment, and academic counseling.
- \$19.8 million reduction for the Telecommunications and Technology Program, which will reduce the amount available for equipment and training.
- \$10 million reduction for the Fund for Student Success, which will eliminate funding to support pilot programs to improve student learning.
- \$9.9 million reduction for the Economic Development Program. Of this amount, \$1 million comes from funds appropriated to develop nursing curriculum and \$8.9 million reduces the amount of funding available for Ed>Net centers.
- \$5.2 million reduction for the Faculty and Staff Development Program.
- \$66 million augmentation for Scheduled Maintenance/Special Repairs and Instructional Equipment and Library Materials. Coupled with \$32 million of funding appropriated via legislation (Chapter 891, Statutes of 2001), the amount proposed in the Governor's Budget fully restores the cuts made in these programs by the Governor in the 2001-02 Budget Act.
- \$91.2 million to make permanent funding for part-time faculty compensation, part-time faculty office hours, and the Reading Development Program.
- \$114.3 million augmentation to fund three percent enrollment growth. This amount exceeds the minimum level of funded growth required by statute (1.94 percent).
- \$84.4 million augmentation to provide a 2.15 percent COLA for General Apportionments.
- \$10.4 million to provide the statutory 2.15 percent COLA for the Basic Skills program, Disabled Students Programs and Services, EOPS, and CARE.
- \$1.2 million reduction and the elimination of 15.5 positions within the Community Colleges Chancellors Office for support and administration of various programs.

Proposition 98. Of the approximately \$2.74 billion General Fund support provided to community colleges, Proposition 98 accounts for \$2.68 billion and the balance is either funding from prior year Proposition 98 obligations (reversion account) or non-Proposition 98 General Fund support for the Chancellor's Office (\$11.6 million). The community college share of the Proposition 98 guarantee is slated to remain constant at 10.21 percent (see Table 1 below).

| Table 1 | | |
|---------------------------------|--------------------------|------------------|
| Community Colleges | | |
| Proposition 98 Funding | | |
| (dollars in thousands) | | |
| | <u>2001-02 (Revised)</u> | <u>2002-03</u> |
| State General Fund | \$2,692,599 | \$2,681,993 |
| Local Property Taxes | <u>1,855,334</u> | <u>2,001,925</u> |
| Total Community College Funding | \$4,547,933 | \$4,683,918 |
| | | |
| Total Proposition 98 Funding | \$44,534,128 | \$45,892,696 |
| | | |
| Community College Share | 10.21% | 10.21% |

Capital Outlay. The Governor’s budget proposal includes current-year adjustments to the community colleges capital outlay budget in order to expedite 11 facilities projects at a cost of \$170.5 million with lease-revenue bond funds proposed under the Governor’s Economic Stimulus Package. In 2002-03, the budget includes continued funding for 66 previously approved projects and support for 11 new projects.

Issues

1. Budget Reductions. The Governor’s 2002-03 budget proposal reduced General Fund expenditures for the community colleges by approximately \$80 million. Following is a brief description of some of the proposed reductions and issues the Legislature may wish to consider as it reviews and approves the budget.

- **Matriculation.** The current-year Budget Act appropriates \$76.3 million for Matriculation services, and the Governor’s budget proposes to decrease this amount by \$26.8 million. Matriculation services primarily serve incoming students by providing an orientation to the campus and the curriculum, assessing the skill levels and goals of students and providing broad-based academic counseling. While the Administration believes that sufficient funding exists under the general apportionments for districts to continue providing these services at the same level, it remains unclear if academic support services to students will be reduced.
- **Services to CalWORKs Students.** The current Budget Act appropriates \$65 million for Special Services for CalWORKs recipients. Of this amount \$15 million is specifically set aside to provide child care services; the remainder (\$50 million) is available for colleges to assist students who are either receiving public assistance or transitioning off of public aid, with the goal of helping them achieve long-term self-sufficiency. Services provided include work study, job placement services, and coordination with county welfare offices to determine eligibility and availability of services. In addition, colleges may use the funds to develop and redesign curriculum, offer instruction and provide employment skills training. The Governor’s Budget proposes to eliminate all \$50 million for services to CalWORKs recipients as part of a larger budget strategy to reduce the state’s minimum commitment/matching requirement for the federal TANF program. The Administration believes that without these funds, sufficient services (primarily through county welfare agencies) will still exist to serve CalWORKs recipients.

- Economic Development.** In addition to its educational mission, the community colleges are also responsible for administering an arm of the state’s economic development programs. In the current Budget Act, the community colleges received \$45.2 million to develop and administer the Ed>Net Economic Development Program, which funds regional business resource and assistance centers, develops Industry Driven Collaboratives with local area industry leaders, provides job development and training, and administers the Mexican International Trade Centers. The Governor’s Budget proposes to reduce this program by \$8.9 million, specifically for the ongoing operations of the regional business assistance centers.

7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants, work study, and loan programs for postsecondary students attending California educational institutions. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state’s student population and, provides financial aid information to students, parents and California’s education community.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|--------------------|--------------------|------------------|-------------|
| General Fund | \$571,448 | \$733,705 | \$162,257 | 28.4 |
| Federal Trust Funds | 9,480 | 9,481 | 1 | 0.0 |
| Federal Student Loan Operating Fund | 90,870 | 90,870 | 0 | 0.0 |
| Federal Student Loan Reserve Fund | 468,190 | 468,190 | 0 | 0.0 |
| Reimbursements | 7,455 | 7,155 | (300) | -4.0 |
| Total | \$1,147,443 | \$1,309,401 | \$161,958 | 14.1 |

Highlights

In 2000, the Legislature and the Governor established the Cal Grant Entitlement Award Program (Chapter 403, Statutes of 2000) which guarantees a financial aid grant to all students meeting the minimum grade point average and family financial need requirements. After a budget decrease of \$63.8 million in the current year -- due primarily to discrepancies in the estimates used to budget the number of students eligible for the Cal Grant entitlement awards -- the Governor proposes to increase funding for the Student Aid Commission in the budget year in order to fully fund the Cal Grant guarantee and to continue providing the Student Aid Commission with the resources, staffing and technology necessary to expeditiously and efficiently implement the entitlement program. To meet this end, General Fund support for the Student Aid Commission (excluding the California Student Loan Program) is projected to reach \$733.7 million in the budget year, representing an increase of \$162.3 million or 28.4 percent over current-year expenditures.

Budget adjustments include:

- \$63.8 million decrease in the current year for the Cal Grant program due to unanticipated savings in that program
- Net increase of \$97.2 million (\$94.2 General Fund and \$3.0 million Federal Funds) in the Cal Grant Program to fund both the Entitlement and Competitive Award programs (an increase of \$227.4

million). Increased funding is offset by a \$130.2 million decrease primarily due to the phasing out of the old Cal Grant A and B programs.

- \$7.7 million to make loan assumption payments due to the growth in the Assumption Program of Loans for Education (APLE).
- \$300,000 reduction in reimbursement authority from the Child Development program which sunsets on June 30, 2002.
- \$483,000 reduction (\$225,000 in current year and \$258,000 in budget year) for State Operations in accordance with the Governor's budget reduction plan.

Background. In 2000 the Legislature passed and the Governor signed into law SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth up to \$9,708 at private colleges and universities. In addition, the Cal Grant B which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

To be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 ("B" average) and must not exceed the family income limit, which is \$66,200 for a family of four or \$76,500 for a family of six. Students with GPAs under 3.0, but higher than a 2.0 ("C" average), are eligible for a Cal Grant "B" award provided their annual family income does not exceed \$34,800 for a family of four. In addition, community college students meeting specified GPA and income requirements, who are transferring to a four-year college or university, prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA or income requirements) have a "second chance" to receive a Cal Grant and are eligible to compete for a bloc of 22,500 annual awards, provided they are now financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

SUBCOMMITTEE No. 2

RESOURCES, ENVIRONMENTAL PROTECTION, JUDICIARY, TRANSPORTATION, AND ENERGY

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JUDICIARY

0250 Judicial

The California Supreme Court and courts of appeal exercise the judicial power of the state at the appellate level. There are 105 appellate court justices and seven Supreme Court justices. The Judicial Council of California, including the Administrative Office of the Courts (AOC), is the administrative and policy-making body of the judiciary.

The budget proposes total expenditures of \$349.8 million for the Judicial branch. This amount is an increase of \$2.8 million, or 0.8 percent, over the current year. General Fund support would increase by \$3 million, or 1 percent, for a total of \$294.6 million. Of the total proposed, \$37.5 million is for the Supreme Court, \$168.1 million is for the operation of the Courts of Appeal, \$138 million is for the Judicial Council, and \$10.1 million is for the California Habeas Corpus Resource Center. Total authorized positions for the four entities would decrease by 15, or 0.9 percent below the current year to 1,522 in 2002-03.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|----------------|------------|
| General Fund | \$291,564 | \$294,564 | \$3,000 | 1.0 |
| Motor Vehicle Account | 135 | 132 | (3) | -2.2 |
| Court Interpreters Account | 93 | 84 | (9) | -9.7 |
| Family Law Trust Fund | 2,072 | 2,056 | (16) | -0.8 |
| Federal Trust Fund | 4,708 | 4,686 | (22) | -0.5 |
| Reimbursements | 48,425 | 48,318 | (107) | -0.2 |
| Total | \$346,997 | \$349,840 | \$2,843 | 0.8 |

Highlights

Current-Year Savings Assumed in the Budget:

- A one-time savings of \$3.1 million for workload in the Court Appointed Counsel program in the Supreme Court and the Courts of Appeal, which provides support for private attorneys appointed to appellate and capital defense cases.
- One-time savings of \$4.6 million associated with current-year vacancies for the Administrative Office of the Courts (AOC).

Budget Year Reductions

- One-time savings of \$2.9 million related to anticipated vacancies within the AOC.
- A one-time savings of \$1 million for the Court Appointed Counsel program, which provides support for private attorneys appointed in capital cases.

Proposed Increases

- \$211,000 and 2 human resource positions to provide labor relations’ expertise to the trial courts.
- \$286,000 and 2 attorney positions for the AOC regional offices to provide legal assistance to the trial courts.
- \$122,000 to provide increased contracted security for the Courts of Appeal.

0390 Contributions to Judges’ Retirement System

The Judges’ Retirement System (JRS I) funds retirement benefit for justices and judges of the Supreme Court, Court of Appeal, Superior and Municipal Courts. Retirement benefits are based on age, years of service, compensation of active judges, and eligibility as determined by specific sections of the Judges’ Retirement Law. The JRS I is funded by the Judges’ Retirement Fund, which receives revenue from the General Fund and certain filing fees, as well as employee contributions equal to 8 percent of the judges’ salaries.

Chapter 879, Statutes of 1994, established the Judges’ Retirement System II (JRS II). Unlike its predecessor, JRS II is designed to be fully funded from employer and employee contributions on a prospective basis. The major differences for JRS II include an increased retirement age and a cap on COLAs for retirement benefits of 3 percent annually. All judges elevated to the bench on or after November 9, 1994 are required to participate in JRS II. There are currently 1,610 authorized judges and justices in the state of California. The majority of these judges participate in the JRS I plan.

The number of retired annuitants is projected to increase by 30 to 1,527. The budget proposes expenditures of \$114.9 million.

0450 State Trial Court Funding

The Trial Court Funding item provides state funds for support of the state’s local trial courts. The passage of Proposition 220 on the June 1998 ballot allows for the unification of the superior and municipal courts in a county. The court systems in all 58 counties have unified.

The proposed total budget for the state’s trial courts is \$2.2 billion. This amount is a decrease of \$20.2 million, or 0.9 percent, from 2001-02 levels. This reduction in total funding is associated with various one-time court operations reductions proposed for the local trial courts.

The reduction is offset in part by an increase of General Fund appropriations. Specifically, General Fund support would increase to \$1.2 billion in 2002-03, an increase of \$43.7 million, or 3.8 percent. The major reason for this net increase in General Fund is an increase for various needs of the local trial courts, including funding of negotiated salary increases for court employees.

| Summary of Expenditures | | | | |
|--------------------------------|--------------------|--------------------|-------------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$1,162,756 | \$1,206,505 | \$43,749 | 3.8 |
| Trial Court Improvement Fund | 134,418 | 76,401 | (58,017) | -43.2 |
| Other Sources | 934,056 | 928,098 | (5,958) | -0.6 |
| Total | \$2,231,230 | \$2,211,004 | (\$20,226) | -0.9 |

Highlights**Current Year Reductions totaling \$28.3 million:**

- A one-time shift of \$12.5 million in funding for technology asset management and security from the General Fund to the Trial Court Improvement Fund.
- A one-time reduction of \$7.3 million associated with delayed implementation of some new jury reform programs in the current year.
- A one-time reduction of \$8.5 million related to judicial vacancies at the trial courts.

Budget Year Reductions totaling \$37.8 million:

- A reduction of \$7.2 million associated with delayed implementation of new jury reform programs.
- A one-time shift of \$7.4 million for technology asset management from the General Fund to the Trial Court Improvement Fund.
- Savings of \$23.2 million from reducing the operating budget for local trial courts statewide.

Other Adjustments:

- An increase of \$23.2 million from the General Fund in the current year and \$51.7 million in the budget year to meet various needs of the trial courts, including locally negotiated salary increases.
- An increase of \$14.4 million to fund increased costs for services and benefits provided to the trial courts and to trial court employees by the counties, including mail and janitorial services, health benefit increases, and retirement rate increases.
- An increase of \$13.4 million to fund negotiated salary increases and increased retirement benefits for security staff implemented in 2001-02 and 2002-03.
- An increase of \$2.3 million for the Court Interpreters Program to fund anticipated workload growth.
- A transfer of \$28.1 million from the Trial Court Improvement Fund to the General Fund on a one-time basis.

Revenue Adjustments:

- Increases to Criminal Fines. The budget assumes an increase of \$45.8 million in revenue to the General Fund because of a 20 percent surcharge on all criminal fines. Currently, criminal fines result in approximately \$229 million in annual revenue to local jurisdictions. The bulk of these fines are related to traffic violations, such as speeding violations. For each criminal fine imposed, a penalty assessment equaling the amount of the fine is also imposed. Of these penalty assessments, 30 percent is retained by counties to support their payments for trial courts, and 70 percent goes to the State Penalty Fund, from which funding is distributed to a variety of state special funds that support a variety of programs. Approximately \$14 million is returned to the General Fund. The Administration is proposing legislation to add a surcharge of 20 percent on all criminal fines, with the proceeds going directly to the General Fund. The budget projects that this surcharge will increase revenue to the General Fund by \$45.8 million.
- Increases to Civil Filing Fees. The budget assumes an increase of \$15 million in revenue to the General Fund as a result of a 10 percent surcharge on civil filing fees. Currently, civil filing fees result in approximately \$152 million in annual revenue to the Trial Court Trust Fund, which is used to support trial court operations.

Issues

Services to the Trial Courts. The Trial Court Funding Act of 1997 (Chapter 850, Statutes of 1997), the passage of Proposition 220, and the Trial Court Employee Protection and Guarantee Act (Chapter 1010, Statutes of 2000), will continue to have a significant impact on the structure and operations of the judicial branch of government. These ongoing changes will require increased oversight efforts on the part of the Judicial Council and the Administrative Office of the Courts (AOC), together with the legislative and executive branches. The Trial Court Funding Act and the Trial Court Employee Protection and Guarantee Act anticipate that the AOC will provide some level of services to approximately 20,000 judicial officers and judicial branch employees of the trial and appellate courts in more than 75 courts in 400 locations throughout the state. This support is in the areas of human resources, financial accountability, information technology, and legal services.

The cost for some of these services has increased in recent years. In the current year, the Legislature approved \$3.2 million within the AOC to assist in providing services in such areas as auditing, asset management, labor relations support and legal services. The budget proposes an additional \$14.4 million within the Trial Court Funding budget item to pay for cost increases for services provided by the counties. The current year budget included an increased \$8.1 million for county-provided services.

Due to the recent changes in Trial Court Funding and the recent cost increases, the Legislature approved Supplemental Report Language in 2001 directing the Judicial Council to report on ways to provide courts with greater flexibility to purchase services in a cost-effective manner. Upon receipt of the report, due in March, the Legislature may wish to consider the recommendations from the Judicial Council in order to ensure that the local trial courts are receiving appropriate services cost-effectively.

JUSTICE

0820 Department of Justice

It is the responsibility of the Attorney General to uniformly and adequately enforce the laws of the State of California. Under the direction of the Attorney General, the Department of Justice (DOJ) enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. There are five primary divisions within the department, including (1) Civil Law, (2) Criminal Law, (3) Public Rights, (4) Law Enforcement, and (5) Criminal Justice Information Services. In addition, DOJ's programs include the Division of Gambling Control, the Firearms Division, Executive Programs, and the Directorate and Administration Divisions.

The budget proposes \$619.9 million for the Department of Justice. Of these funds, \$160.3 million is for the Division of Law Enforcement, \$256.1 million supports the Civil Law, Criminal Law, and Public Rights Programs, and \$147 million is for the Criminal Justice Information Services Program, which includes the Hawkins Data Center and other reorganized information functions of the department. Overall spending would decrease by \$29.5 million, or 4.5 percent, from the revised current-year budget. General Fund support would decrease by \$25.8 million from the revised current-year budget to \$323.8 million. The primary reasons for this decrease include various budget reductions and one-time equipment and technology expenditures in the current year.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|-----------------------------------|------------------|------------------|-------------------|-------------|
| General Fund | \$353,585 | \$323,750 | (\$29,835) | -8.4 |
| Fingerprint Fees Account | 58,485 | 55,838 | (2,647) | -4.5 |
| Motor Vehicle Account | 19,561 | 19,532 | (29) | -0.1 |
| Sexual Habitual Offender Fund | 2,062 | 2,422 | 360 | 17.5 |
| Restitution Fund | 3,000 | 3,000 | 0 | 0.0 |
| Indian Gaming | 8,067 | 9,809 | 1,742 | 21.6 |
| AG False Claims Act Fund | 10,069 | 10,662 | 593 | 5.9 |
| Dealers Record of Sale Account | 8,345 | 8,345 | 0 | 0.0 |
| Gambling Control Fund | 5,418 | 5,178 | (240) | -4.4 |
| Federal Trust Fund | 31,225 | 28,018 | (3,207) | -10.3 |
| Federal Asset Forfeiture Account | 1,888 | 4,490 | 2,602 | 137.8 |
| Reimbursements | 133,542 | 133,097 | (445) | -0.3 |
| Missing Persons DNA Database Fund | 2,850 | 2,805 | (45) | -1.6 |
| Other Special Funds | 11,354 | 12,960 | 1,606 | 14.1 |
| Total | \$649,451 | \$619,906 | (\$29,545) | -4.5 |

Highlights

Executive and Directorate Programs. The Directorate Program consists of the Attorney General's Executive Office, the Equal Opportunity Employment Office, and the Opinion Unit. The Division of Executive Programs maintains internal and external department communications. It consists of the Office of Legislative Affairs, the Crime Violence Prevention Center, special programs, and various communication offices. Major budget adjustments include:

- A reduction of \$545,000 General Fund (\$400,000 ongoing and \$145,000 one-time) from general departmental support and planning.
- A reduction of \$138,000 (General Fund) from various crime prevention programs.
- An increase of \$399,000 in reimbursement authority for the Safe from the Start program, which is a program to encourage local and state policy makers to take action to prevent and reduce the impact of exposure to violence on children.

Civil Law, Criminal Law, and Public Rights Divisions. The Civil Law Division provides legal services to state agencies and constitutional officers in the areas of licensing, government law, health, education, welfare, regulation, and taxation. The Criminal Law Division represents the state in all criminal matters before the appellate and supreme courts and defends the state in actions filed by state inmates under the Federal Civil Rights Act. The Public Rights Division provides legal services to state agencies and Constitutional Officers in the areas of civil rights, natural resources, land law, consumer law, and child support enforcement. The budgets for these Divisions are proposed to decrease by \$8 million, or 3 percent. Major budget adjustments include:

- A reduction of 13 positions and \$2.2 million in the Criminal Law Division for inmate related litigation and criminal law workload.
- A reduction of \$3.2 million in the Criminal Law Division for the *Plata v. Davis* lawsuit related to inmate medical care at the Department of Corrections. The Administration indicates that current negotiations are in place to settle this lawsuit. The budget continues funding \$3.6 million for this case, primarily for compliance monitoring.
- A reduction of 7 positions and \$1.3 million in the Public Rights Division from support for anti-trust, natural resources, consumer, environmental law and the charitable trust sections.
- An increase of \$1.1 million General Fund in the Tobacco Litigation and Enforcement section to convert 9 limited term positions to permanent positions.
- A one-time increase of \$3.1 million from the General Fund to continue to retain specialist counsel with experience in insurance coverage litigation for underwriters at Lloyd's Litigation (*Newman v. Stringfellow*).
- A transfer of \$2 million from the False Claims Fund to the General Fund.

Divisions of Law Enforcement, Gambling Control, and Firearms. The Division of Law Enforcement is organized into three bureaus, including Investigation, Narcotic Enforcement, and Forensic Services. The Division of Gambling Control develops regulations that govern gaming establishments. Pursuant to the provisions of Chapter 867, Statutes of 1997, the Board of Gambling Control was abolished on January 1, 1999 and replaced by the California Gambling Control Commission. The Firearms Division processes licenses/permits to possess, manufacture or sell dangerous weapons; administers the gun show producer and assault weapon registration programs; conducts firearms dealer and manufacturer inspections; and conducts the safe handgun and firearms safety device certification programs. Major adjustments include:

- A reduction of \$5.4 million General Fund in the Division of Law Enforcement from overtime and operating expenditures, including the delay of a Special Agent Academy and elimination of 15 positions from the Mission Support Branch for various administrative activities.
- A one-time reduction of \$3 million General Fund by switching funding to federal funds for the California Methamphetamine Strategy (CALMS) program. The DOJ indicates that these federal funds are available due to a recent one-time increase for anti-methamphetamine activities.

- Elimination of 5 positions and \$357,000 from the Post Conviction DNA Testing Section due to a decrease in anticipated workload.
- A one-time reduction of \$1.9 million General Fund in the Bureau of Narcotic Enforcement is accomplished by funding a portion of certain allowable costs from the Federal Asset Forfeiture Account. The budget proposes an additional \$1.2 million from the Federal Asset Forfeiture Account to purchase laptop computers and high tech surveillance cameras.
- An increase of \$1.9 million to make permanent 24 limited term positions in the Gambling Division.

Criminal Justice Information Services Division. The Criminal Information Services Division was created in 1998-99 to include three former Division of Law Enforcement bureaus (Bureau of Criminal Information and Analysis, Bureau of Information and Identification, and the Western States Information Network) with the Hawkins Data Center and establishing the Criminal Justice Information Services Division. The budget for the division is proposed to decrease by \$15 million, or 9.2 percent, below current-year expenditures. This decrease is primarily due to one-time equipment and technology purchases in the current year.

- A reduction of \$4.4 million related to 36 positions and additional operating expenditures.
- Transfer of \$2 million from the Fingerprint Fee Account to the General Fund.

8100 Office of Criminal Justice Planning

The goal of the Office of Criminal Planning (OCJP) is to improve the criminal justice system by providing financial and technical assistance to local jurisdictions, state agencies, and the private sector, providing education and training for citizens, and providing technical support to the Administration.

The OCJP is organized into two programs: Administration and Criminal Justice Projects. Funding for the Criminal Justice Projects Program is budgeted at \$265.7 million, a decrease of \$51.8 million, or 16.3 percent, from the current-year. This decrease is due primarily to \$45 million in one-time funding included in the current year budget, such as funding for local crime lab renovation and equipment, and one-time funding for multi-jurisdictional methamphetamine task forces.

| Summary of Expenditures | | | | |
|---------------------------------------|------------------|------------------|-------------------|--------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$118,790 | \$72,407 | (\$46,383) | -39.0 |
| Prosecutors/Defenders Training Fund | 860 | 859 | (1) | -0.1 |
| Peace Officers' Training Fund | 5,000 | 0 | (5,000) | -100.0 |
| Victim Witness Assist Fund | 17,048 | 17,006 | (42) | -0.2 |
| High Technology Theft Apprehension Fd | 14,486 | 14,177 | (309) | -2.1 |
| Less funding provided by General Fund | (14,486) | (14,177) | 309 | 0.0 |
| Federal Trust Fund | 172,857 | 172,508 | (349) | -0.2 |
| Reimbursements | 3,084 | 3,084 | 0 | 0.0 |
| Total | \$317,639 | \$265,864 | (\$51,775) | -16.3 |

Highlights

- \$15 million to continue funding for a Multi-Jurisdictional Methamphetamine Task Force having a primary focus on the Central Valley High Intensity Drug Trafficking Area (HIDTA).
- A reduction of \$719,000 and 5 positions from OCJP’s state operations budget.
- An increase of \$108,000 to restore 2 abolished vacant positions.
- The budget provides \$14.2 million from the General Fund to continue full funding for the High Technology Theft Apprehension and Prosecution Program. This funding would provide for equipment, personnel, and high technology investigative and forensic training for the five High Technology Task Forces statewide.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state highway system. The CHP also has responsibilities regarding vehicle theft prevention, commercial vehicle inspections, and the safe transportation of hazardous materials.

Total proposed expenditures for the CHP are \$1.2 billion, an increase of \$112.8 million, or 10.5 percent, above anticipated current-year levels. As demonstrated by the table below, most of the funding for the CHP is from the Motor Vehicle Account (MVA). Total personnel-years of 10,435 are proposed, 231 personnel-years higher than the current year. These new positions are primarily related to the proposed increase of \$89.6 million in federal funds related to increased anti-terrorism effort.

Approximately 87 percent of the CHP’s request is for the Traffic Management Program, which focuses on minimizing traffic delays and providing protection and assistance to the motoring public. The other programs--Regulation and Inspection and Vehicle Ownership Security also help protect the public from traffic-related accidents and economic losses.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|--------------------|--------------------|------------------|-------------|
| General Fund | \$600 | \$0 | (\$600) | -100.0 |
| State Highway Account | 24,466 | 27,238 | 2,772 | 11.3 |
| Motor Vehicle Account | 932,018 | 1,082,470 | 150,452 | 16.1 |
| Less funding provided by Fed Trust Fd | 0 | (89,590) | (89,590) | 0.0 |
| Motor Carrier Permit Fund | 1,720 | 1,738 | 18 | 1.0 |
| Motor Carrier Safety Improvement Fund | 1,186 | 1,135 | (51) | -4.3 |
| Motorcyclist Safety Fund | 1,123 | 1,157 | 34 | 3.0 |
| Federal Trust Fund | 50,427 | 101,577 | 51,150 | 101.4 |
| Hazardous Substances Acct. | 200 | 200 | 0 | 0.0 |
| Asset Forfeiture Acct. | 2,002 | 2,002 | 0 | 0.0 |
| California Peace Officer Memorial Fund | 221 | 400 | | |
| Reimbursements | 64,595 | 63,012 | (1,583) | -2.5 |
| Total | \$1,078,558 | \$1,191,339 | \$112,781 | 10.5 |

Highlights

- An increase of \$89.6 million from federal funds for terrorism related safety and security, including (1) \$32.5 million to fund 12 hour shifts during times when placed on high alert for response to possible terrorist activities; (2) \$26.4 million for increased air patrols of state infrastructure; (3) \$14.4 million and 150 officers and staff at key truck inspections for 24-hour operation; (4) \$8.7 million and 91 officers to protect state facilities, bridges, nuclear power plants, and other public landmarks; (5) \$1.9 million and 24 officers to staff emergency information and command operations; (6) \$3.3 million and 27 additional supervisors and staff to support the additional patrol officers; and (7) \$2.5 million to purchase specialized protective equipment.
- An increase of \$87.5 million from the Motor Vehicle Account (MVA) to fund retirement costs previously funded through PERS investment earnings.
- An increase of \$18.1 million from the MVA for retirement cost increases.
- \$2.4 million from the MVA for improvements to CHP's telecommunications infrastructure.
- An \$8.5 million reduction in various expenditures from the MVA including reductions for equipment purchases, operating expenditures, and funding for gasoline purchases.

In addition to these adjustments, the Administration proposes revising several penalties and fees that contribute revenue to the MVA, raising additional revenue of \$67 million in the budget year and \$96 million in 2003-04. Specifically, the proposed changes include:

- An increase of \$25 million in revenues from penalty increases for late payments on the \$30 vehicle registration fee. The minimum late fee would be raised to \$10 from \$3. Full-year implementation is projected to increase annual revenues from this source to \$50 million.
- An increase of \$40 million in revenues from increasing fees to \$4 per record for information provided to insurers and others that request driver record information. Currently no fee is assessed.
- An increase of \$2 million in revenues from charging filing fees of \$120 to cover the cost of DUI hearings for offenders that appeal suspensions, and for increasing the costs for reissuing suspended licenses from \$100 to \$125. Full-year implementation is projected to increase annual revenues from this source to \$4 million.
- An increase of \$4 million in revenue beginning in 2003-04 from the imposition of a \$5 fee to retake a driving tests.

TRANSPORTATION

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises less than 9 percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, and airport safety, land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of \$8.99 billion, an increase of \$1.17 billion from the current-year budget.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|------------------------------------|--------------------|--------------------|------------------|-------------|
| General Fund | \$1,600 | \$0 | (\$1,600) | -100.0 |
| Aeronautics Acct. | 8,126 | 8,271 | 145 | 1.8 |
| State Highway Acct. | 3,055,193 | 3,334,128 | 278,935 | 9.1 |
| Bicycle Transportation Acct. | 7,200 | 7,200 | 0 | 0.0 |
| Public Transportation Acct. | 171,827 | 153,196 | (18,631) | -10.8 |
| Local Airport Loan Acct | 2,850 | 2,850 | 0 | 0.0 |
| Enviro Enhancement Mitigation Fund | 10,000 | 11,800 | 1,800 | 18.0 |
| Historic Property Maintenance Fund | 3,700 | 1,500 | (2,200) | -59.5 |
| Equipment Service Center | 152,305 | 154,341 | 2,036 | 1.3 |
| Toll Bridge Seismic Retrofit Acct. | 418,589 | 452,813 | 34,224 | 8.2 |
| Seismic Retrofit Bond Act of 1996 | 113,857 | 62,727 | (51,130) | -44.9 |
| Public Buildings Construction Fund | 0 | 72,599 | 72,599 | 0.0 |
| Federal Trust Fund | 2,913,095 | 3,556,435 | 643,340 | 22.1 |
| Reimbursements | 467,006 | 346,384 | (120,622) | -25.8 |
| Pedestrian Safety Account | 6,000 | 2,000 | (4,000) | -66.7 |
| Traffic Congestion Relief Fund | 487,349 | 820,820 | 333,471 | 68.4 |
| Total | \$7,818,697 | \$8,987,064 | 1,168,367 | 14.9 |

Issues

Traffic Congestion Relief Plan. To help solve the General Fund shortfall, the Administration proposes to loan \$672 million from the Traffic Congestion Relief Plan (TCRP) to the General Fund, and loan \$474 million from the State Highway Account (SHA) to the TCRP. As a result of the loans from the SHA, Caltrans projects a balance of \$83 million in the SHA by the end of the 2002-03 budget year. To ensure sustainability of the SHA, Caltrans may borrow up to \$360 million the General Fund to maintain a sufficient cash balance in the SHA. The proposal requires loans from the SHA and TCRP to be repaid over the next three budget years.

The Legislature may wish to consider the following issues:

- How does this proposal affect the refinancing of the TCRP approved in the 2001-02 budget.
- What is the Administration's plan if the SHA cannot meet the cash flow demand of the 2002 State Transportation Improvement Plan (STIP)?

Highlights

Highway Transportation. The budget proposes expenditures of \$7.5 billion for the Highway Transportation Program, a decrease of \$1.2 billion from the current year. The proposed amount includes \$3.3 billion for capital outlay, \$2.4 billion for state operations, and \$1.5 billion for local assistance. Specific proposals include:

- \$23.4 million (State Highway Account) to implement the Storm Water Management Plan;
- \$5.0 million for the Freeway Service Patrol Program.

Mass Transportation. The budget proposes total expenditures of \$848.3 million for the Mass Transportation Program, an increase of \$4.6 million from the current year budget. The amount includes \$155 million for capital outlay, \$105 million for state operations, and \$586 million for local assistance.

Administration. The budget proposes \$325.6 million in total expenditures for Caltrans' administrative services. The budget proposes \$77.4 million (State Highway Account) to develop an Information Technology plan, and to design and implement Information Technology services. Funding for this program would be available for three years.

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The HSRA is required to prepare a plan for the financing, construction, and operation of a high-speed network for the state that would be capable of achieving speeds of at least 200 miles per hour. Assembly bill 1703, Chapter 796, Statutes of 2000, extends the HSRA's sunset date until December 31, 2003.

The budget proposes total expenditures of \$8.5 million, an increase of \$4.9 million from the current-year budget. Included in the budget proposal is \$7 million (State Highway Account) to complete the Environmental Impact Report for the potential high-speed rail corridors.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale and disposal of vehicles.

The budget proposes total expenditures of \$666.7 million, a decrease of \$20.5 million (3 percent) from the current-year budget. Over 56 percent of the proposed budget is for establishing identification and ownership of vehicles owned by California residents and assuring compliance with various laws and programs.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|-------------------|-------------|
| General Fund | \$2,946 | \$1,599 | (\$1,347) | -45.7 |
| State Highway Acct. | 42,616 | 40,056 | (2,560) | -6.0 |
| Motor Vehicle Acct. | 348,594 | 343,305 | (5,289) | -1.5 |
| New Motor Vehicle Board Acct. | 1,640 | 1,655 | 15 | 0.9 |
| Motor Vehicle License Fee Acct | 272,625 | 263,346 | (9,279) | -3.4 |
| Motor Carriers Permit Fund | 2,698 | 2,986 | 288 | 10.7 |
| Harbors and Watercraft Revolving Fund | 4,748 | 2,018 | (2,730) | -57.5 |
| Reimbursements | 11,395 | 11,758 | 363 | 3.2 |
| Total | \$687,262 | \$666,723 | (\$20,539) | -3.0 |

NATURAL RESOURCES

OVERVIEW

The Resources Agency is responsible for the state’s policies, programs, and activities relating to the conservation, management, and enhancement of California’s natural and cultural resources, including land, fish, wildlife, water, timber, and minerals. The agency consists of the following 21 state departments, boards, commissions, and conservancies:

- Baldwin Hills Conservancy
- Coachella Valley Mountains Conservancy
- Coastal Commission
- Colorado River Board
- Conservation Corps
- Delta Protection Commission
- Department of Boating and Waterways
- Department of Conservation
- Department of Fish and Game
- Department of Forestry and Fire Protection
- Department of Parks and Recreation
- Department of Water Resources
- Energy Resources Conserv & Dev. Commission
- Native American Heritage Commission
- San Francisco Bay Conserv. & Dev. Commission
- San Gabriel/Lower Los Angeles River/ Mountains Conservancy
- San Joaquin River Conservancy
- Santa Monica Mountains Conservancy
- State Lands Commission
- Tahoe Conservancy
- Wildlife Conservation Board

A total of \$2.9 billion (\$993 million, General Fund) is proposed for the agency’s programs. This is a decrease of \$2.1 billion (42.4 percent) from the 2001-02 budget.

All Resources Agency Budgets

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|------------------------|--------------------|--------------------|-------------------|-------------|
| General Fund | 1,558,030 | 992,921 | -565,109 | 36.3 |
| All Other Funds | 1,233,360 | 1,106,035 | -127,325 | 10.3 |
| Selected Bond Funds | 2,022,093 | 627,712 | -1,394,381 | 69.0 |
| Federal Funds | 183,669 | 150,523 | -33,146 | 18.0 |
| Total | \$4,997,152 | \$2,877,191 | -2,119,961 | 42.4 |

Issues

Resources Programs Funded From Proposition 40 (California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002)

Last September the Legislature passed AB 1602 (Chapter 875, Statutes of 2001) which, if approved in the March 2002 election, authorizes \$2.6 billion in bond funds for various projects and programs. Specific areas of the bond include:

- \$225 million for state parks;
- \$832.5 million for local assistance programs (local parks and recreation areas);
- \$1.275 billion for land, air, and water conservation programs; and

- \$267.5 million for historical and cultural resources.

The Governor’s budget proposes \$119.1 million in expenditures from Proposition 40. Listed below is a summary of the proposed expenditures.

Proposition 40 Proposed Expenditures
(dollars in thousands)

| Department, Board, Agency | Program | Amount | Allocation in | |
|-----------------------------|---|--------|---------------|----------------|
| | | | Prop. 40 | Bond Section |
| Resources Agency | River Parkway Projects in the CALFED Area | 10,000 | 75,000 | 5096.650(c)(1) |
| Fish & Game | Salmon and Steelhead Restoration Account | 8,000 | 300,000 | 5096.650(c)(2) |
| Wildlife Conservation Board | CALFED Ecosystem Restoration Projects | 30,000 | 300,000 | 5096.650(a) |
| Coastal Conservancy | CALFED Ecosystem Restoration Projects | 10,000 | 200,000 | 5096.650(b)(1) |
| Parks & Recreation | Deferred Maintenance for State Parks | 10,000 | 225,000 | 5096.615 |
| Water Resources | CALFED Watershed, Water Quality, Ecosystem Restoration Projects | 51,100 | 300,000 | 5096.650(c)(2) |

The majority of expenditures are in the CALFED area, but the budget also proposes to fund deferred maintenance and the Salmon & Steelhead Restoration Account from the bond. If voters do not approve Proposition 40, these programs will need to secure funding from other sources. The 2001-02 budget appropriates approximately \$560 million for CALFED, and the 2002-03 budget proposes \$519 million for the program. The Legislature may wish to consider using Proposition 204 or Proposition 13 bond funds for the CALFED programs if Proposition 40 does not pass, or the Legislature may also wish to consider re-prioritizing the proposed CALFED expenditures if funds cannot be secured.

0540 Secretary for Resources

The Secretary for Resources has administrative responsibility for the 21 state departments, boards, commissions, and conservancies within the Resources Agency. The budget proposes total expenditures of \$168.6 million (\$3.6 million, General Fund), a decrease of \$58.6 million from the current-year budget.

| Secretary for Resources (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|-------------------|--------------|
| General Fund | \$15,354 | \$3,606 | (\$11,748) | -76.5 |
| All Other Funds | 173,336 | 154,681 | (18,655) | -10.8 |
| Bond Funds | 38,188 | 10,184 | (28,004) | -73.3 |
| Federal Funds | 324 | 153 | (171) | -52.8 |
| Total | \$227,202 | \$168,624 | (\$58,578) | -25.8 |

Highlights

2001-02 River Parkways Initiative. The budget proposes an \$11 million General Fund reduction to the following river parkway projects:

- \$5 million Los Angeles River-South;
- \$5 million Tuolumne River Parkway; and
- \$1 million Ottay River Parkway.

CALFED Ecosystem Restoration Program. The budget proposes a \$15.2 million (Proposition 204) reduction to the CALFED Ecosystem Restoration program.

3340 California Conservation Corps

The corps provides on-the-job training and educational opportunities to California residents aged 18 through 23, with projects that conserve and enhance the state's natural resources and environment. The corps is headquartered in Sacramento and operates 13 residential base centers, 1 nonresidential service district, and more than 30 nonresidential satellite centers in urban and rural areas. The corps also develops and provides funding for eleven communities conservation corps in neighborhoods with large concentrations of minority youth and high youth unemployment.

The budget proposes total expenditures of \$83.8 million, a decrease of \$9.3 million (10 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|-----------------|-----------------|------------------|--------------|
| General Fund | \$62,827 | \$53,504 | (\$9,323) | -14.8 |
| Special Funds | \$26,301 | \$26,302 | 1 | 0.0 |
| Bond Funds | \$3,525 | \$3,525 | 0 | 0.0 |
| Federal Funds | \$494 | \$495 | 1 | 0.2 |
| Total | \$93,147 | \$83,826 | (\$9,321) | -10.0 |

Highlights

The budget proposes the following General Fund reductions:

- \$5.3 million for the Weatherization and Energy Efficient Rehabilitation Program (WEER).
- 60 corpsmember positions and \$790,000 for the operation of the Mare Island Facility.
- 2 positions and \$543,000 for four juvenile diversion/after school pilot programs.

3480 Department of Conservation

The Department of Conservation (DOC) protects public health and safety, ensures environmental quality, and supports the state’s long-term viability in the use of California’s earth resources. The DOC provides education, regulation, and dissemination of information concerning agricultural and open space lands and soils; beverage container recycling; geology and seismology; and mineral, geothermal, and petroleum resources. The department is headquartered in Sacramento.

The budget proposes total expenditures of \$529.4 million (\$21.8 million, General Fund), a decrease of \$18.6 million (3.4 percent) from the current-year budget.

| Summary of Expenditures | | | | |
|-------------------------------------|------------------|------------------|-------------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$22,023 | \$21,837 | (\$186) | -0.8 |
| Beverage Container Funds | 421,450 | 408,301 | (13,149) | -3.1 |
| Surface Mining and Reclamation Fund | 1,887 | 1,887 | 0 | 0.0 |
| Other Funds | 92,580 | 87,344 | (5,236) | -5.7 |
| Federal Trust Fund | 1,673 | 1,701 | 28 | 1.7 |
| Reimbursements | 8,467 | 8,382 | (85) | -1.0 |
| Total | \$548,080 | \$529,452 | (\$18,628) | -3.4 |

3540 Department of Forestry and Fire Protection

The Department of Forestry and Fire Protection (CDF) under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by the state or local agencies. Additionally, CDF (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

The Legislature consolidated the Office of the State Fire Marshall into the department in September 1995, when it approved the Governor’s Reorganization Plan No. 3 of 1995. The office is responsible for protecting life and property from fire through the development and application of fire prevention engineering, enforcement, and education regulations. It also trains and certifies fire service personnel throughout the state.

The budget proposes total expenditures of \$551 million (\$312.3 million, General Fund) a decrease of \$151.1 million (21.5 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|--------------------|--------------|
| <i>State Operations & Local Assistance</i> | | | | |
| General Fund | \$474,266 | \$311,829 | (\$162,437) | -34.3 |
| Environmental Lic Plate Fund | 2,390 | 545 | (1,845) | -77.2 |
| State Marshall Licensing and Cert. fund | 1,166 | 2,036 | 870 | 74.6 |
| Public Resources Account | 345 | 385 | 40 | 11.6 |
| Forest Res Imp Fund | 12,562 | 14,836 | 2,274 | 18.1 |
| Federal Funds | 25,311 | 16,644 | (8,667) | -34.2 |
| Reimbursements | 126,343 | 145,983 | 19,640 | 15.5 |
| Other Funds | 5,742 | 5,912 | 170 | 3.0 |
| Subtotal | \$648,125 | \$498,170 | (\$149,955) | -23.1 |
| <i>Capital Outlay</i> | | | | |
| General Fund | \$19,717 | \$485 | (\$19,232) | -97.5 |
| Public Building Construction Fund | \$34,303 | \$52,359 | \$18,056 | 52.6 |
| Subtotal | \$54,020 | \$52,844 | (\$1,176) | -2.2 |
| Total | \$702,145 | \$551,014 | (\$151,131) | -21.5 |

Issues

Emergency Fund. The Administration proposes to eliminate the Emergency Fund (\$100 million, General Fund), and establish a new process that allows the Director of Finance to authorize additional expenditures for emergency firefighting activities. Although the Legislature generally approves the department’s firefighting deficiency requests, this proposal may in fact reduce the Legislature’s ability to conduct oversight and control over the department’s budgetary practices.

3560 State Lands Commission

Headquartered in Sacramento, the State Lands Commission is composed of the State Controller, the Lieutenant Governor, and the Director of Finance. It is responsible for managing lands the state has received from the federal government. These lands total more than four million acres and include tide and submerged lands, swamp, and overflow lands, the beds of navigable waterways, and vacant state school lands. The commission generates significant state revenue from the development and extraction of oil, gas, geothermal energy, and other minerals on state lands. Most of this revenue is from oil production on state tidal and submerged lands along the coast of southern California. The commission also administers regulations and policies for the operation of marine facilities in the state to protect against oil spills.

The budget proposes total expenditures of \$22.2 million (\$11.9 million General Fund), a decrease of \$2.1 million (8.6 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|-----------------|-----------------|------------------|-------------|
| General Fund | \$14,495 | \$11,877 | (\$2,618) | -18.1 |
| Oil Spill Prevention and Admin Fund | 5,941 | 6,241 | 300 | 5.0 |
| Other Funds | 1,096 | 987 | (109) | -9.9 |
| Reimbursements | 2,709 | 3,058 | 349 | 12.9 |
| Total | \$24,241 | \$22,163 | (\$2,078) | -8.6 |

3600 Department of Fish and Game

The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish and wildlife resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates the sport taking of fish and game. The DFG currently manages approximately 160 ecological reserves, wildlife management areas, habitat conservation areas, and interior and coastal wetlands throughout the state.

The budget proposes total expenditures of \$257 million (\$56.8 million General Fund), a decrease of \$20.1 million (7.3 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|-------------------|-------------|
| <i>State Operations & Local Assistance</i> | | | | |
| General Fund | \$68,915 | \$56,798 | (\$12,117) | -17.6 |
| Environmental Lic Plate Fund | 16,575 | 16,684 | 109 | 0.7 |
| Fish and Game Preservation Fund | 89,674 | 87,713 | (1,961) | -2.2 |
| Fish and Wildlife Pollution Account | 2,363 | 2,231 | (132) | -5.6 |
| Public Resources Account | 1,574 | 1,566 | (8) | -0.5 |
| Oil Spill Prevention and Admin Fund | 17,028 | 16,749 | (279) | -1.6 |
| Salmon and Steelhead Trout Restoration Account | 8,000 | 0 | (8,000) | -100.0 |
| Central Valley Water Proj Improv Acct | 48 | 48 | 0 | 0.0 |
| Marine Life Management Account | 2,200 | 0 | (2,200) | -100.0 |
| Other Funds | 7,135 | 15,724 | 8,589 | 120.4 |
| Federal Trust Fund | 34,599 | 32,273 | (2,326) | -6.7 |
| Reimbursements | 24,005 | 23,317 | (688) | -2.9 |
| Subtotal | \$272,116 | \$253,103 | (\$19,013) | -7.0 |
| <i>Capital Outlay</i> | | | | |
| General Fund | \$1,680 | \$0 | (\$1,680) | -100.0 |
| Fish and Game Preservation Fund | 2,126 | 1,340 | (786) | -46.8 |
| Federal Trust Fund | 200 | 14 | (186) | -93.0 |
| Other Funds | 307 | 2,428 | 2,121 | 690.9 |
| Reimbursements | 683 | 100 | (186) | -93.0 |
| Subtotal | \$4,996 | \$3,882 | (\$1,114) | -22.3 |
| Total | \$277,112 | \$256,985 | (\$20,127) | -7.3 |

Highlights

Salmon and Steelhead Trout Restoration Account. The budget funds the Salmon and Steelhead Trout Restoration Account from Proposition 40 bond funds.

California Environmental Quality Act (CEQA). The budget reduces \$2.1 million (General Fund) from the department’s CEQA review program.

3640 Wildlife Conservation Board

The Wildlife Conservation Board (WCB) established within the Department of Fish and Game (DFG) administers a capital outlay program for wildlife conservation and related public access. The board acquires property to protect and preserve wildlife and provides fishing, hunting, and recreational access facilities. The board is composed of the directors of DFG, the Department of Finance, and the Chairman of the Fish and Game Commission. In addition, three members of the Senate and three members of the Assembly serve in an advisory capacity to the board.

The budget proposes total expenditures of \$53.7 million (\$21.7 million, General Fund), a decrease of \$314.9 million (85.4 percent) from the current-year budget. The decrease in spending is primarily associated with capital outlay, including \$56 million from the General Fund and \$225.6 million from Proposition 12 bond funds.

| Summary of Expenditures | | | | |
|---|------------------|-----------------|--------------------|--------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| <i>State Operations & Local Assistance</i> | | | | |
| General Fund | \$1,006 | \$431 | (\$575) | -57.2 |
| Habitat Conservation Fund | \$336 | \$336 | 0 | 0.0 |
| Wildlife Restoration Fund | \$799 | \$799 | 0 | 0.0 |
| Safe Neighborhood Parks, Clean Air, Clean Water, and Coastal Protection Bond Fund | \$379 | \$379 | 0 | |
| Environmental License Plate Fund | \$246 | \$246 | | |
| Reimbursements | 0 | 0 | 0 | 0.0 |
| Subtotal | \$2,766 | \$2,191 | (\$575) | -20.8 |
| <i>Capital Outlay</i> | | | | |
| General Fund | \$77,349 | \$21,301 | (\$56,048) | -72.5 |
| Safe Neighborhood Parks, Clean Air, Clean Water, and Coastal Protection Bond Fund | \$225,615 | \$0 | (\$225,615) | -100.0 |
| Habitat Conservation Fund | 39,528 | 20,664 | (18,864) | -47.7 |
| <i>Less Funding provided by General Fund</i> | (20,121) | (21,301) | (1,180) | 0.0 |
| Other Funds | 43,471 | 30,850 | 0 | 0.0 |
| Subtotal | \$365,842 | \$51,514 | (\$314,328) | -85.9 |
| Total | \$368,608 | \$53,705 | (\$314,903) | -85.4 |

3760 State Coastal Conservancy

The conservancy is authorized to acquire land, undertake projects, and award grants for the purposes of (1) preserving agricultural land and significant coastal resources, (2) consolidating subdivided land, (3) restoring wetlands, marshes, and other natural resources, (4) developing a system of public accessways, and (5) improving coastal urban land uses. The conservancy's jurisdiction covers the entire coastal zone including San Francisco Bay and the Suisun Marsh. The conservancy governing board consists of the Chairperson of the Coastal Commission, the Secretary of the Resources Agency, the Director of Finance, and four public members. The conservancy office is located in Oakland.

The budget proposes total expenditures of \$32.1 million, a decrease of \$237.4 million (88 percent) from the current year budget. The decrease in spending is primarily associated with capital outlay, including \$186 million from Proposition 12, \$13 million from the General Fund, \$10 million from the Habitat Conservation Fund, and \$10 million in Reimbursements.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|------------------|-----------------|--------------------|--------------|
| <i>State Operations and Local Assistance</i> | | | | |
| General Fund | \$4,271 | \$2,201 | (\$2,070) | -48.5 |
| Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund | 1,783 | 1,500 | (283) | -15.9 |
| State Coastal Conservancy Fund | 1,651 | 1,603 | (48) | -2.9 |
| Federal Trust Funds | 111 | 111 | 0 | 0.0 |
| Reimbursements | 106 | 106 | 0 | 0.0 |
| Subtotal | \$7,922 | \$5,521 | (\$2,401) | -30.3 |
| <i>Capital Outlay</i> | | | | |
| General Fund | 13,021 | 0 | (13,021) | -100.0 |
| Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund | 194,259 | 7,750 | (186,509) | -96.0 |
| Public Resources Account, Cigarette and Tobacco Products Surtax | 147 | 0 | (147) | -100.0 |
| Habitat Conservation Fund | 13,924 | 4,000 | (9,924) | -71.3 |
| Natural Resources Infrastructure Fund | 9 | 0 | (9) | -100.0 |
| State Coastal Conservancy Fund | 4,419 | 0 | (4,419) | -100.0 |
| California Wildlife, Coastal and Park, Land Conservation Fund of 1988 | 2,842 | 0 | (2,842) | -100.0 |
| Federal Trust Funds | 5,552 | 2,000 | (3,552) | -64.0 |
| Renewable Resources Investment Fund | 704 | 0 | (704) | -100.0 |
| Reimbursements | 11,947 | 1,800 | (10,147) | -84.9 |
| Other Funds | 14,681 | 11,000 | (3,681) | -25.1 |
| Subtotal | \$261,505 | \$26,550 | (\$234,955) | -89.8 |
| Total | \$269,427 | \$32,071 | (\$237,356) | -88.1 |

3790 Department of Parks and Recreation

The Department of Parks and Recreations (DPR) acquires, develops, preserves, interprets, and manages the natural, cultural, and recreational resources in the state park system and in the State Vehicular Recreation Area and Trail System (SVRATS). In addition, the department administers state and federal grants to cities, counties, and special districts that help provide parks and open-space areas throughout the state. The state park system consists of 264 units, 38 of which are administered by local and regional park agencies. The system contains approximately 1.3 million acres of land, with 280 miles of ocean and bay frontage and 811 miles of lake, reservoir, and river frontage.

The budget proposes total expenditures of \$374.5 million, (\$112.3 million, General Fund), a decrease of \$1.01 billion (74.4 percent) from the current-year budget. The decrease in spending is attributable to reductions in Proposition 12 bond funds (\$908.3 million) and the General Fund (\$92.6 million).

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|-------------|-----------|---------------|----------|
| <i>State Operations</i> | | | | |
| General Fund | \$204,913 | \$112,350 | (\$92,563) | -45.2 |
| Public Resources Account | 13,391 | 13,691 | 300 | 2.2 |
| Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund | 23,723 | 22,837 | (886) | -3.7 |
| Off-Highway Vehicle Fund | 22,087 | 21,330 | (757) | -3.4 |
| State Parks & Rec Fund | 57,257 | 72,020 | 14,763 | 25.8 |
| Federal Funds | 2,915 | 2,948 | 33 | 1.1 |
| Reimbursements | 11,958 | 11,958 | 0 | 0.0 |
| Other Funds | 11,072 | 11,040 | (32) | -0.3 |
| Subtotal | \$347,316 | \$268,174 | (\$79,142) | -22.8 |
| <i>Local Assistance</i> | | | | |
| General Fund | \$30,576 | \$0 | (\$30,576) | -100.0 |
| Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund | \$696,641 | \$17,121 | (\$679,520) | |
| Habitat Conservation Fund | 1,970 | 2,086 | 116 | 5.9 |
| Off-Highway Vehicle Trust Fund | 25,529 | 16,400 | (9,129) | -35.8 |
| Recreational Trails Fund | 10,187 | 4,000 | (6,187) | -60.7 |
| Federal Trust Fund | 11,069 | 8,575 | (2,494) | -22.5 |
| Other Funds | 16,508 | 0 | (16,508) | -100.0 |
| Reimbursements | 8,620 | 0 | (8,620) | |
| Subtotal | \$801,100 | \$48,182 | (\$752,918) | -94.0 |
| <i>Capital Outlay</i> | | | | |
| General Fund | \$20,138 | \$0 | (\$20,138) | -100.0 |
| Habitat Conservation Fund | 3,264 | 2,500 | (764) | -23.4 |
| Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund | 267,075 | 39,183 | (227,892) | -85.3 |
| Off-Highway Vehicle Trust Fund | 19,606 | 6,450 | (13,156) | -67.1 |
| 88 Wildlife, Coast & Park Bond Fund | 2,565 | 25 | (2,540) | -99.0 |
| Federal Trust Fund | 1,500 | 1,500 | 0 | 0.0 |
| Reimbursements | 1,056 | 8,249 | 7,193 | 681.2 |
| Other Funds | 756 | 248 | (508) | -67.2 |
| Subtotal | \$315,960 | \$58,155 | (\$257,805) | -81.6 |
| Total | \$1,464,376 | \$374,511 | (\$1,089,865) | -74.4 |

Highlights

Local Parks Projects. The budget proposes to revert \$40.5 million (General Fund) of unencumbered local parks projects from the 1999 and 2000 Budget Acts.

Deferred Maintenance. The budget replaces \$10 million in General Fund support for deferred maintenance with anticipated Prop 40 bond funds.

Facility Access Improvement Projects. The budget proposes a \$10 million augmentation (General Fund) for accessibility improvement projects approved by the Americans with Disabilities Act Interagency Task Force. The Administration states that these projects will be funded from a statewide initiative to improve accessibility in State buildings.

3820 San Francisco Bay Conservation and Development Commission

The San Francisco Bay Conservation and Development Commission (BCDC) is a regional planning agency responsible for protecting the bay and its shoreline. The commission is the designated agency for the Bay segment of the coastal zone for purposes of the federal Coastal Zone Management Act. Under this federal law, BCDC develops and implements the federally approved coastal management program for the Bay and exercises authority over federal activities otherwise not subject to state control. Partial reimbursement is derived from federal grants received by the California Coastal Commission.

The budget proposes total expenditures of \$4.78 million (\$4.14 million, General Fund), a decrease of \$152,000 (3.1 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|----------------|----------------|----------------|-------------|
| General Fund | \$4,300 | \$4,148 | (\$152) | -3.5 |
| Reimbursements | 636 | 636 | 0 | 0.0 |
| Total | \$4,936 | \$4,784 | (\$152) | -3.1 |

3860 Department of Water Resources

The Department of Water Resources (DWR) is responsible for developing and managing California’s water through the implementation of the State Water Resources Development System, including the State Water Project. It also maintains the public safety and prevents damage through flood control operations, supervision of dams, and safe drinking water projects.

The budget proposes total expenditures of \$6.45 billion (\$114.7 million, General Fund), a decrease of \$2.63 billion (29 percent) from the current-year budget. The decrease in spending is attributable to a reduction for the DWR Electric Power Fund (\$2.5 billion).

| Summary of Expenditures | | | | |
|--|--------------------|--------------------|----------------------|--------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| <i>State Operations and Local Assistance</i> | | | | |
| General Fund | \$160,358 | \$107,489 | (\$52,869) | -33.0 |
| State Water Project Funds | 247,762 | 250,429 | 2,667 | 1.1 |
| Other Funds | 306,136 | 335,190 | 29,054 | 9.5 |
| Federal Trust Fund | 60,247 | 60,240 | (7) | 0.0 |
| Reimbursements | 48,972 | 21,348 | (27,624) | -56.4 |
| DWR Electric Power Fund | 7,657,231 | 5,155,309 | (2,501,922) | -32.7 |
| Subtotal | \$8,480,706 | \$5,930,005 | (\$2,550,701) | -30.1 |
| <i>Capital Outlay</i> | | | | |
| General Fund | \$48,782 | \$7,181 | (\$41,601) | -85.3 |
| South Delta Barriers Subaccount | 5,270 | 1,000 | (4,270) | -81.0 |
| CA Water Resources Dev Bond Fund | 182,695 | 182,105 | (590) | -0.3 |
| Central Valley Water Project Const Fd | 77,921 | 75,854 | (2,067) | -2.7 |
| Central Valley Water Project Rev Fund | 246,809 | 252,967 | 6,158 | 2.5 |
| Reimbursements | 21,267 | 2,472 | (18,795) | -88.4 |
| Other Funds | 18,818 | 0 | (18,818) | -100.0 |
| Subtotal | \$601,562 | \$521,579 | (\$79,983) | -13.3 |
| Total | \$9,082,268 | \$6,451,584 | (\$2,630,684) | -29.0 |

Highlights

CALFED. The Budget proposes a \$10.6 million reduction to the CALFED Bay-Delta Program. The CALFED reductions are as follows:

- Ecosystem Restoration: \$32,000 reduction for staff training and salaries
- Water Use Efficiency: \$500,000 reduction for contracts
- Watershed Management: \$1.91 million reduction in contracts
- Drinking Water Quality: \$5.53 million reduction in contracts
- Science Program: \$2.66 million reduction in contracts

ENVIRONMENTAL PROTECTION

OVERVIEW

The California Environmental Protection Agency (CalEPA) oversees and coordinates the environmental regulatory activities of the following boards, departments, and office:

- Air Resources Board
- State Water Resources Control Board
- Integrated Waste Management Board
- Department of Toxic Substances Control
- Department of Pesticide Regulation
- Office of Environmental Health Hazard Assessment

A total of \$1.14 billion (\$203 million General Fund) is proposed for the agency’s programs. This represents a decrease of \$668.5 million (36.8 percent) from the 2001-02 budget.

All CalEPA Budgets

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|------------------------|--------------------|--------------------|--------------------|--------------|
| General Fund | \$422,746 | \$203,069 | (\$219,677) | -52.0 |
| Special Funds | 671,969 | 636,433 | (35,536) | -5.3 |
| Selected Bond Funds | 548,901 | 141,184 | (407,717) | -74.3 |
| Federal Funds | 170,898 | 165,350 | (5,548) | -3.2 |
| Total | \$1,814,514 | \$1,146,036 | (\$668,478) | -36.8 |

0555 Secretary for Environmental Protection

The Secretary for Environmental Protection manages the state’s environmental protection program and oversees the constituent boards, departments, and offices within CalEPA.

The budget proposes total expenditures of \$7.5 million (\$2.9 million, General Fund), a decrease of \$1.9 million from the current-year budget.

Secretary for Environmental Protection

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|------------------------|----------------|----------------|------------------|--------------|
| General Fund | \$3,684 | \$2,895 | (\$789) | -21.4 |
| Special Funds | 2,703 | 2,842 | 139 | 5.1 |
| Reimbursements | 3,071 | 1,784 | (1,287) | -41.9 |
| Total | \$9,458 | \$7,521 | (\$1,937) | -20.5 |

3900 Air Resources Board

The Air Resource Board (ARB) is responsible for protecting air quality in California. Specifically, the board monitors ambient air quality standards, administers air pollution studies, evaluates regulations adopted by the United States Environmental Protection Agency, and administers programs to maintain California’s air quality standards.

The budget proposes total expenditures of \$133.6 million (\$30 million, General Fund), a decrease of \$83.5 million (38.5 percent) from the current-year budget.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|----------------------------|------------------|------------------|-------------------|--------------|
| General Fund | \$68,870 | \$30,963 | (\$37,907) | -55.0 |
| Motor Vehicle Account | 94,941 | 63,965 | (30,976) | -32.6 |
| Air Pollution Control Fund | 18,957 | 11,302 | (7,655) | -40.4 |
| Other Funds | 18,524 | 11,334 | (7,190) | -38.8 |
| Federal Trust Fund | 10,664 | 10,664 | 0 | 0.0 |
| Reimbursements | 5,194 | 5,377 | 183 | 3.5 |
| Total | \$217,150 | \$133,605 | (\$83,545) | -38.5 |

Issues

Funding for Air Quality Programs. The Governor’s budget proposes \$37.3 million in reductions to air quality improvement programs (see *Highlights* section below). According to data released in August 2001 by the U.S. Environmental Protection Agency, 241 counties nationwide received non-attainment designations for ozone. Of this amount, 32 counties are in California (13 percent of the national total). For particulate matter (PM10), 73 counties nationwide have received nonattainment designations. Of this amount, 15 counties are in California (20 percent of the national total). By the year 2005, the San Joaquin, Sacramento, and Ventura air districts will reach the federal one-hour ozone standard attainment date. Failure to meet the federal ozone standard may result in increased fines for industry and the loss of federal transportation funds for the region.

During the past three budget years, the Legislature and the Administration have approved significant one-time augmentations in programs to improve air quality, including:

- \$38 million for Zero Emission Vehicles
- \$73 million for the Carl Moyer program
- \$56 million for clean school buses

The one-time nature of these air quality initiatives makes them vulnerable in years where programs need to be reduced. The Legislature may wish to consider examining ways to provide ongoing funding for air quality programs.

Highlights

Energy Crises/Environmental Justice Air Emissions Program. The budget proposes a \$23 million reduction (Natural Resources Infrastructure Fund) to the Carl Moyer, Diesel School Bus, and Diesel Generator Emissions programs.

General Fund Reductions. The budget proposes a \$4.4 million reduction for various stationary source programs, including air quality emissions inventory, community health, air quality research, and engineering and quality management. The budget also proposes a \$5 million reduction from the Motor Vehicle Account for the same programs.

Local District Subvention Funds. The budget proposes a \$5 million (Motor Vehicle Account) reduction in subventions to local air districts.

3910 Integrated Waste Management Board

The board’s mission is to promote source reduction, recycling, composting, and environmentally safe transformation as alternatives to the disposal of solid waste at landfills. The board also protects the public health and safety through the regulation of existing and new solid wasteland disposal sites.

The budget proposes total expenditures of \$117.2 million (\$116,000, General Fund), a decrease of \$7.1 million (5.7 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|------------------|-------------|
| General Fund | \$210 | \$116 | (\$94) | -44.8 |
| Integrated Waste Mgt Account | 42,055 | 43,083 | 1,028 | 2.4 |
| CA Used Oil Recycling Fund | 28,071 | 27,462 | (609) | -2.2 |
| Recycling Market Development | 8,896 | 5,063 | (3,833) | -43.1 |
| Revolving Loan Account | | | | |
| CA Tire Recycling Management Fund | 31,304 | 31,089 | (215) | -0.7 |
| Solid Waste Disposal Site Cleanup Trust Fund | 9,327 | 7,567 | (1,760) | -18.9 |
| Other Funds | 4,499 | 2,833 | (1,666) | -37.0 |
| Total | \$124,362 | \$117,213 | (\$7,149) | -5.7 |

3930 Department of Pesticide Regulation

This department was created in 1991 as part of the California Environmental Protection Agency to protect the public health and the environment from unsafe exposures to pesticides. The Department of Food and Agriculture previously carried out this function. The department (1) evaluates the public health and environmental effects of pesticides, (2) regulates, monitors, and controls the use of pesticides in the state, (3) tests produce for pesticide residue levels, and (4) develops and promotes pest management practices that can reduce the problems associated with the use of pesticides. The department primarily is funded from taxes on the sale of pesticides in the state, various registration and licensing fees on persons who use or sell pesticides, and the General Fund. The department is located in Sacramento.

The budget proposes total expenditures of \$59.7 million (\$16.9 million, General Fund), a decrease of \$3.3 million (5.3 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|-----------------|-----------------|------------------|-------------|
| General Fund | \$17,407 | \$16,962 | (\$445) | -2.6 |
| Dept. of Pesticide Regulation Fund | \$42,280 | \$39,578 | (2,702) | -6.4 |
| Other Funds | \$596 | \$496 | | |
| Federal Trust Fund | \$2,241 | \$2,192 | (49) | -2.2 |
| Reimbursements | \$492 | \$479 | (13) | -2.6 |
| Total | \$63,016 | \$59,707 | (\$3,309) | -5.3 |

Highlights

General Fund Reductions. The budget proposes to reduce \$3.5 million and 14 positions from the department’s baseline budget. Programs effected by this proposal include Bioassessment for San Joaquin River Watershed, Pest Management Alliance Grants, Ground Water Program, Marketplace Surveillance Residue Program, and Risk Assessments.

Fund Transfers. The budget proposes a \$3.5 million transfer to the General Fund (\$1.3 million-DPR Fund, \$1.6 million-Food Safety Account, \$432,000-local assistance funds).

3940 State Water Resources Control Board

The board regulates water quality in the state and administers water rights. The board carries out its water quality control responsibilities by (1) establishing wastewater discharge policies; (2) implementing programs to ensure that the waters of the state are not contaminated by surface impoundments, underground tanks, or aboveground tanks, and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment facilities. Nine regional water quality control boards establish water discharge requirements and carry out water pollution control programs in accordance with state board policies. The board's water rights responsibilities involve issuing and reviewing permits and licenses to applicants who wish to appropriate water from the state's streams, rivers, and lakes.

The budget proposes total expenditures of \$663.6 million (\$87.3 million, General Fund), a decrease of \$394.6 million (37.3 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|--------------------|------------------|--------------------|--------------|
| <i>State Operations</i> | | | | |
| General Fund | \$108,240 | \$87,313 | (\$20,927) | -19.3 |
| Underground Storage Tank Cleanup Fund | 226,829 | 249,428 | 22,599 | 10.0 |
| Waste Discharge Permit Fund | 17,496 | 32,174 | 14,678 | 83.9 |
| Public Resources Account | 2,037 | 2,032 | (5) | -0.2 |
| Integrated Waste Mgt Account | 5,461 | 5,450 | (11) | -0.2 |
| Federal Trust Fund | 40,163 | 40,300 | 137 | 0.3 |
| Reimbursements | 10,573 | 10,573 | 0 | 0.0 |
| Other Funds | 26,087 | 19,725 | (6,362) | -24.4 |
| Subtotal | \$436,886 | \$446,995 | 10,109 | 2.3 |
| <i>Local Assistance</i> | | | | |
| General Fund | \$1,503 | \$0 | (\$1,503) | -100.0 |
| State Revolving Loan Subaccount | 15,000 | 15,000 | \$0 | 0.0 |
| Small Communities Grant Subaccount | 21,000 | 6,000 | (\$15,000) | -71.4 |
| Water Recycling Subaccount | 65,000 | 17,500 | (47,500) | -73.1 |
| State Water Pollution Control Revolving Fund | 96,000 | 96,000 | 0 | 0.0 |
| Bond Funds | 13,115 | 12,200 | (915) | -7.0 |
| Loan Repayments/Less Funding from Various Accounts | (104,682) | (104,682) | 0 | 0.0 |
| Other Funds | 424,420 | 84,634 | (339,786) | -80.1 |
| Federal Trust Fund | 90,000 | 90,000 | 0 | 0.0 |
| Subtotal | \$621,356 | \$216,652 | (404,704) | -65.1 |
| Total | \$1,058,242 | \$663,647 | (\$394,595) | -37.3 |

Highlights

Waste Discharge Permit Fees. The budget proposes to increase Waste Discharge Permit Fees and to shift \$14.9 million from the Waste Discharge Account to the General Fund. As part of the polluter pays principle, the proposal seeks to increase the maximum fee amount limit from \$10,000 to \$20,000 per person/entity who is out of compliance with their waste permits. As a result of the proposed fee increase, the board’s core regulatory program will receive approximately 50 percent of its revenues from the regulated community.

Underground Storage Cleanup. The budget proposes a \$20 million increase from the Underground Storage Cleanup Fund for reimbursements.

Proposition 13 Bond Funds. The budget proposes \$70.8 million from Proposition 13 bond funds for the following programs: Water Recycling, Watershed Protection, Nonpoint Source Pollution Control, Coastal Nonpoint Source Control, Southern California Integrated Watershed, Lake Elsinore and San Jacinto Watershed.

3960 Department of Toxic Substances Control

The department’s mission is to protect the public health and the environment from unsafe exposure to toxic substances. It’s responsibilities include (1) regulation of hazardous waste management, (2) the clean-up of sites that have been contaminated by toxic substances, and (3) promotion of methods to treat and safely dispose of hazardous wastes and reduce the amounts of hazardous wastes that are generated in the state. The department is primarily funded from fees and taxes assessed on persons that generate, store, treat, or dispose of hazardous wastes. The department is located in Sacramento.

The budget proposes total expenditures of \$156.3 million (\$31.4 million, General Fund), a decrease of \$151.5 million (49.2 percent) from the current-year budget. The reduction in spending is attributable to the \$114.5 million settlement of the Stringfellow and Casmalia lawsuits in the 2001-02 budget.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|--------------------|--------------|
| General Fund | \$188,324 | \$31,448 | (\$156,876) | -83.3 |
| Hazardous Waste Control Account | 35,538 | 41,566 | 6,028 | 17.0 |
| Site Remediation Account | 8,311 | 7,641 | (670) | -8.1 |
| Unified Program Account | 995 | 995 | 0 | 0.0 |
| California Used Oil Recycling Fund | 328 | 331 | 3 | 0.9 |
| Hazardous Substance Accounts | 8,000 | 1,900 | (6,100) | -76.3 |
| Expedited Site Remediation Trust Fund | 474 | 491 | 17 | 3.6 |
| Toxic Substances Control Account | 32,233 | 40,273 | 8,040 | 24.9 |
| Federal Trust Fund | 22,775 | 22,128 | (647) | -2.8 |
| Other Funds | 36,499 | 4,462 | (32,037) | -87.8 |
| Reimbursements | 8,404 | 7,001 | (1,403) | -16.7 |
| Less Funding provided by General Fund/other accounts | (34,080) | (1,900) | 32,180 | 0.0 |
| Total | \$307,801 | \$156,336 | (\$151,465) | -49.2 |

Issues

Cleanup Loans and Environmental Assistance to Neighborhoods Program (CLEAN). The 2000-01 budget act appropriated \$85 million (General Fund) to the CLEAN account. As part of an environmental justice initiative, the CLEAN program was established to mitigate against contaminated urban sites (brownfields).

The Legislature approved a \$33 million transfer from the CLEAN account back to the General Fund in the 2001-02 budget. The Governor’s November revision proposes an additional \$44 million transfer to the General Fund. If the Legislature approves the reduction, the balance in the CLEAN will be \$8 million.

3980 Office of Environmental Health Hazard Assessment

This office was created in 1991 as part of the California Environmental Protection Agency to evaluate the health risks of chemicals in the environment. This function previously was carried out by the Department of Health Services. OEHHA currently (1) develops and recommends health-based standards for chemicals in the environment, (2) develops policies and guidelines for conducting risk assessments, and

(3) provides technical support for environmental regulatory agencies. The office is located in Sacramento.

The budget proposes total expenditures of \$16.8 million (\$13.6 million, General Fund), a decrease of \$1.5 million (8 percent) from the current-year budget.

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|------------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$15,226 | \$13,620 | (\$1,606) | -10.5 |
| Environmental Lic Plate Fund | 818 | 822 | 4 | 0.5 |
| Reimbursements | 2,272 | 2,390 | 118 | 5.2 |
| Total | \$18,316 | \$16,832 | (\$1,484) | -8.1 |

GENERAL GOVERNMENT

0690 Office of Emergency Services

The Office of Emergency Services (OES) coordinates emergency activities to save lives and reduce losses from natural or other disasters and acts as the state's conduit for federal assistance related to recovery from disasters.

The budget proposes total expenditures of \$644.2 million (\$63 million General Fund) for state operations and local assistance, a decrease of \$225.1 million, or 25.9 percent below the current year. As can be seen in the table below, the majority of this reduction is due to a decrease in federal funds. In the last several years, the federal government has used an accelerated payment schedule in order to pay out existing disaster claims. As a result of this effort, the number of claims for disaster assistance is anticipated to decrease in the budget year.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|--------------------|--------------|
| <i>State Operations</i> | | | | |
| General Fund | \$35,386 | \$32,539 | (\$2,847) | -8.0 |
| Federal Funds | 19,713 | 20,074 | 361 | 1.8 |
| Reimbursements | 2,113 | 2,113 | 0 | 0.0 |
| Other Funds | 1,638 | 1,584 | (54) | -3.3 |
| Subtotal, State Operations | \$58,850 | \$56,310 | (2,540) | -4.3 |
| <i>Local Assistance</i> | | | | |
| General Fund | \$72,144 | \$30,473 | (41,671) | -57.8 |
| Federal Funds | 735,755 | 555,365 | (180,390) | -24.5 |
| Other Funds | 2,605 | 2,087 | (518) | -19.9 |
| Subtotal, Local Assistance | \$810,504 | \$587,925 | (222,579) | -27.5 |
| Total | \$869,354 | \$644,235 | (\$225,119) | -25.9 |

Highlights

- An increase of \$562,000 General Fund to provide dedicated support and coordination to the State Strategic Committee on Terrorism (SSCOT), a multi-agency advisory group established to help develop strategies for threats, risk assessments, and response capabilities.
- A reduction of \$1.2 million General Fund for delay in the California Integrated Seismic Network until fiscal year 2003-04 and reducing various operating expenses.

8570 Department of Food and Agriculture

The department promotes and regulates the state's agricultural industry through:

- Eradication and control of harmful plant and animal pests and diseases.

- Marketing, exporting, and other related assistance for various agricultural commodities.
- Assurance of true weights and measures in commerce.
- Financial and administrative assistance to the state's 80 district, county, and citrus fairs.

The budget proposes total expenditures of \$280.7 million (\$102.6 million General Fund) a decrease of \$64.4 million (18.7 percent) from the current-year budget.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|-------------------|--------------|
| <i>State Operations & Local Assistance</i> | | | | |
| General Fund | \$103,406 | \$102,624 | (\$782) | -0.8 |
| Agriculture Fund, Totals | 97,767 | 97,024 | (743) | -0.8 |
| Agricultural Export Promo Acct | 300 | 300 | 0 | 0.0 |
| Fairs and Exposition Fund | 23,161 | 19,307 | (3,854) | -16.6 |
| Satellite Wagering Account | 13,534 | 12,759 | (775) | -5.7 |
| Harbors & Watercraft Rev Fund | 975 | 975 | 0 | 0.0 |
| Agriculture Building Fund | 2,151 | 1,366 | (785) | -36.5 |
| Agriculture Building Fund, Sect. 625 | 320 | 320 | 0 | 0.0 |
| Less expenditures already reflected in other appropriations for CDFA | (2,471) | (1,686) | 785 | 0.0 |
| Other Funds | 2,580 | 1,420 | (1,160) | -45.0 |
| Federal Trust Fund | 73,761 | 9,659 | (64,102) | -86.9 |
| Reimbursements | 10,411 | 9,482 | (929) | -8.9 |
| Pierce's Disease Management Account | 19,673 | 18,835 | (838) | -4.3 |
| Less Funding Provided by the General Fund/Federal Trust Fund | (13,214) | (12,904) | 310 | 0.0 |
| Subtotal | \$332,354 | \$259,481 | (\$72,873) | -21.9 |
| <i>Capital Outlay</i> | | | | |
| General Fund | \$914 | \$0 | (\$914) | -100.0 |
| State Highway Account | 4,172 | 10,034 | 5,862 | 140.5 |
| Public Buildings Construction Fund | 7,686 | 11,203 | 3,517 | 45.8 |
| Subtotal | \$12,772 | \$21,237 | \$8,465 | 66.3 |
| Total | \$345,126 | \$280,718 | (\$64,408) | -18.7 |

ENERGY

3360 Energy Resources, Conservation, and Development Commission

California law charges the California Energy Commission (CEC) with:

1. Processing applications for siting new power facilities,
2. Encouraging conservation,
3. Preparing an emergency plan in the event of a power shortage, and
4. Collecting and disseminating data on energy supply, demand, public safety, and research.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|--------------------|--------------|
| General Fund | \$79,025 | \$5,722 | (\$73,303) | -92.8 |
| St. En.Conserv. & Assist Account. | 41,078 | 4,945 | (36,133) | -88.0 |
| Less Loan Repayments to SEC&AA | (1,624) | (2,736) | (1,112) | 0.0 |
| Motor Vehicle Account | 120 | 121 | 1 | 0.8 |
| Diesel Emission Reduction Fund | 423 | 217 | (206) | -48.7 |
| Public Interest Res.Devel.&Dem. Prog. | 9,276 | 71,515 | (27,761) | -28.0 |
| Renewable Resource Trust Fund | 74,588 | 93,800 | 19,212 | 25.8 |
| Local Energy Assistance Acct. | 7,347 | 12,350 | 5,003 | 68.1 |
| Energy Resources Programs Acct. | 43,065 | 40,550 | (2,515) | -5.8 |
| Energy Tech.R,D&D Account | 1,447 | 2,042 | 595 | 41.1 |
| Local Gov. Geo. Res.Rev. Sub- account, Geo. Res. Dev. Account | 1,630 | 6,674 | 5,044 | 309.4 |
| PVEA | 2 | | (2) | -100.0 |
| Katz Schoolbus Fund | 228 | 117 | (111) | -48.7 |
| Federal Trust Fund | 9,664 | 9,165 | (499) | -5.2 |
| Reimbursements | 16,831 | 10,320 | (6,511) | -38.7 |
| Renewable Energy Loan Loss Reserve | 10,000 | | (10,000) | -100.0 |
| Total | \$392,030 | \$243,639 | (\$137,291) | -35.0 |

The budget proposes expenditures of \$244 million, a reduction of nearly \$150 million (38 percent) relative to the current year, including:

- \$73 million from the General Fund,
- \$35 million from the State Energy Conservation and Assistance Account,
- \$28 million from the Public Interest Research, Development, and Demonstration Program Fund,
- \$10 million from the Renewable Energy Loan Loss Reserve Fund, and

- \$10 million from PVEA.

Most of these reductions are associated with elimination of allocations for meeting recent legislation. The reductions are offset in part by an increase in appropriations from the Renewable Resources Trust Fund.

Highlights

Current-year reductions include:

- \$3 million from the appropriation for expedited reviews of power plant siting applications.
- \$1.9 million from data collection activities.
- \$29.4 million from energy efficiency grants for agriculture.

8660 Public Utilities Commission

The California Public Utilities Commission (PUC) is responsible for the regulation of utilities and transportation industries to ensure the delivery of stable, safe, and economical services. The PUC traditionally has met this responsibility by enforcing safety regulations and/or controlling industry rates for service.

The budget proposes a slight reduction in the commission’s budget from \$1.6 billion in the current year to \$1.3 billion in the budget year. This reduction is almost entirely associated with the universal telephone program.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|------------------------------------|--------------------|--------------------|--------------------|--------------|
| General Fund | \$151,337 | \$0 | (\$151,337) | -100.0 |
| State Highway Acct, State Trans | 2,608 | 2,524 | (84) | -3.2 |
| Public Trans Acct, State Trans | 2,417 | 2,322 | (95) | -3.9 |
| Transportation Rate Fund | 2,029 | 1,979 | (50) | -2.5 |
| PUC Trans Reimbursement Acct | 7,980 | 7,740 | (240) | -3.0 |
| PUC Utilities Reimbursement Acct | 74,433 | 69,679 | (4,754) | -6.4 |
| CA High Cost Fund A | 29,087 | 42,998 | 13,911 | 47.8 |
| CA High Cost Fund B | 842,738 | 535,159 | (307,579) | -36.5 |
| Universal Lifeline | 211,133 | 284,804 | 73,671 | 34.9 |
| Deaf & Disabled Telecommunications | 0 | 68,110 | 68,110 | 0.0 |
| Payphone Service Providers Cmte | 1,847 | 1,165 | (682) | -36.9 |
| CA Teleconnect | 150,163 | 159,490 | 9,327 | 6.2 |
| Federal Trust Fund | 1,035 | 1,031 | (4) | -0.4 |
| Reimbursements | 12,728 | 12,728 | 0 | 0.0 |
| Gas Consumption Surcharge Fund | 154,011 | 123,502 | (30,509) | -19.8 |
| Total | \$1,643,546 | \$1,313,231 | (\$330,315) | -20.1 |

Highlights

There is no General Fund appropriation proposed for 2002-03. In the current year, the Legislature appropriated \$150 million in General Fund dollars to the commission.

8665 Consumer Power and Conservation Financing Authority (PA)

Senate Bill 6 (Burton), Chapter 10 of the 2001-02 First Extraordinary Session, established this authority. Under the bill, the authority may take actions, including issue revenue bonds, for the following purposes:

- Establishing and financing activities to supplement the state's power supplies and ensure sufficient electricity supplies at reasonable prices,
- Financing natural gas transportation and storage,
- Achieving adequate energy reserve capacity within five years,
- Financing replacement or retrofit of old and inefficient power plants, and
- Ensuring supply sufficiency.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|----------------|----------------|--------------|-------------|
| General Fund | \$4,502 | \$5,498 | \$996 | 22.1 |
| Total | \$4,502 | \$5,498 | \$996 | 22.1 |

Highlights

In 2001, the Legislature loaned \$10 million from the General Fund to the PA. From this fund, the authority spent \$4.5 million in the current year, and the budget proposes spending \$5.5 million in the budget year. Staffing will increase from about 17 positions to 32.

Issues

- **Repaying the General Fund Loan.** The \$10 million General Fund loan is supposed to be repaid from the Consumer Power and Conservation Financing Authority Fund. It is not clear when the General Fund will be repaid. Perhaps even more importantly, the budget document does not detail how the authority fund will generate income to begin repaying the General Fund.
- **Energy Resources Investment Plan Is Due Next Month.** The PA's authorizing statute requires it to submit an *Energy Resources Investment Plan*. The plan is due on February 15. The plan is to address issues of supply, reliability, and environmental quality. Specifically, it must outline a strategy for cost-effective energy resource investments, including a financing plan. Assuming the report is submitted before subcommittee hearings, the subcommittee will want to consider the findings of the report and take testimony on the plan.
- **Coordinating with Existing Entities.** The Energy Commission's authorizing statute specifies that the commission shall:

Serve as a central repository within the state government for the collection, storage, retrieval and dissemination of data and information on all forms of energy supply, demand, conservation, public safety, research and related subjects.

The PA will need this same kind of information to meet its charge of financing state energy supply. Under what circumstances will the PA contract with the CEC for data? Will it generate its own data? What are the protocols for coordinating data collection and analysis?

8770 Electricity Oversight Board

The Electricity Oversight Board (EOB) is part of the regulatory and oversight structure that was established by the legislation restructuring the state's electricity industry in 1996. The board is charged with ensuring the reliability of the electricity transmission system and in the power market.

| Summary of Expenditures | | | | |
|--------------------------------|----------------|----------------|----------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$997 | \$730 | (\$267) | -26.8 |
| PUC Reimbursement Account | 3,012 | 3,017 | 5 | 0.2 |
| ERPA | 437 | 473 | 36 | 8.2 |
| Reimbursements | 35 | 0 | (35) | -100.0 |
| Total | \$4,481 | \$4,220 | (\$261) | -5.8 |

The Governor proposes a \$1.6 million (nearly 60 percent) increase. This increase is financed primarily from the PUC Reimbursement Account. The increase would be used to finance additional monitoring of the electricity market, new research on the market, and research on the California energy market.

Issue

SB 6x (Chapter 10, Statutes of 2001) specifies that establishing the Power Authority (PA) does not "obviate the need to review the roles, functions and duties of other state energy oversight agencies and, where appropriate change or consolidate those roles, functions and duties." The establishment of the PA may make redundant the EOB. Under what circumstances would the functions of EOB remain independent of the PA?

SUBCOMMITTEE No. 3

HEALTH, HUMAN SERVICES, LABOR, and VETERANS AFFAIRS

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HEALTH AND HUMAN SERVICES OVERVIEW

The Governor's 2002-2003 budget proposes a total \$66.7 billion in combined state and federal funds for the support of health and human services programs. The General Fund portion is \$22.4 billion, or 28.4 percent of the state's total General Fund expenditures.

The General Fund portion reflects a *net* increase of \$719 million, or 3 percent, over the revised current year budget. However, this net General Fund increase is blurred by significant adjustments which are proposed by the Administration for both the current year and budget year.

The Governor's proposed budget for Health and Human Services is built upon the following key assumptions:

- Adoption of \$238.3 million (General Fund) in proposed current year reductions and past year reversions, as contained in SB 1xxx (Peace). These reductions will be discussed in the Third Extraordinary Session.
- Reduction of \$1.1 billion (General Fund) in health and human services programs for the budget year.
- Adoption of legislation to issue a bond of \$2.4 billion secured by a portion of the Tobacco Settlement revenues received by the state.
- Deferral until July 1, 2003 or four months after federal approval is obtained, whichever is later, of the Healthy Families Waiver expansion which would enroll eligible parents and facilitate enrollment of additional children.
- Receipt of \$400 million in increased federal funding obtained via the federal stimulus package for a one-time, current year adjustment to the federal Medical Assistance Percentage (FMAP). The \$400 million figure assumes about a two-percent increase to the FMAP. The FMAP is used to determine the federal sharing ratio used for Medicaid (Medi-Cal) payments throughout the state's budget, not just within the Department of Health Services. These funds are budgeted in a non-budget item account.
- Approval of a waiver of the federal penalties imposed due to the delayed implementation of a statewide automated child support system. This would save \$181 million (General Fund).
- Elimination of all state cost-of-living adjustments (COLAs) for CalWORKS participants, elderly and disabled recipients of SSI/SSP, and Foster Care providers, including relative guardians.
- Approval of a comprehensive restructuring of the child care system.

A cornerstone of the Administration's health and human services budget is the issuance of a bond to secure the state's share of the Master Tobacco Settlement of 1998. Under the settlement, California is slated to receive \$25 billion over 25 years. Of this amount, about half is provided directly to the state with the remaining amount going to selected cities and counties by the terms of the settlement agreement. In order to capture revenues to mitigate the current downturn in General Fund receipts, the Administration is proposing to utilize the revenue stream of the Tobacco Settlement to weather any additional reductions to critical health care programs.

Under the Administration’s proposal, the proceeds of the bond will be placed in the General Fund to maintain the health care safety net. The par amount of the bond is anticipated to be \$2.6 billion, with \$2.4 billion deposited to the General Fund, \$190 million for annual debt service (23 years) and about \$26 million for the cost of issuance.

For the proposed 2002-03 budget, the Administration proposes to expend a total of \$538.3 million from the Tobacco Settlement Fund. Of this amount, \$62 million is for bond debt service, and the remaining amount is proposed for expenditure as follows:

- Healthy Families Program (Children only) \$247.2 million
- Access for Infants and Mothers 1.6 million
- Medi-Cal—133% Aged, Blind and Disabled 127.1 million
- Medi-Cal--Breast and Cervical Cancer Treatment 16.8 million
- State-Only Breast and Cervical Cancer Treatment 11.1 million
- Prostate Cancer Treatment 20 million
- Expanded Access to Primary Care Clinics 17.5 million
- Youth Anti-Tobacco 35 million

The Administration has been adamantly clear that these funds will be used to support health care programs and that without this revenue stream, significant reductions will likely occur.

With respect to SB 1xxx (Peace) in the Third Extraordinary Session, the Governor is proposing the following key reductions to the current year:

- \$54.3 million by deferring implementation of the Healthy Families Waiver expansion until July 1, 2003.
- \$53.7 million from the Cal Low-Income Home Energy Assistance Program. This leaves \$66.3 million available for expenditure.
- \$40.5 million (total of prior year and current year) from funds made available for local Child Support Administrative Incentives.
- \$19.1 million from various departments to implement the Health Insurance Portability & Accountability Act (HIPAA).
- \$9.8 million from the Foster Care Program, including \$5 million from the Supportive Transitional Emancipation Program and \$4.8 million from the Transitional Housing Placement Program.
- \$7.1 million in research grant funds provided under the Cancer Research Program.
- \$5 million from the Emergency Medical Services Authority for local entities to design their emergency medical and trauma plans.
- \$4.5 million for Naturalization Services Program assistance.
- \$400,000 from the Dual Diagnosis Program administered by the Department of Mental Health.
- \$530,000 from the Bi-National Health Initiative under which Mexico and California conduct collaborative public health activities.

Specific proposals regarding the proposed budget year are outlined below under each department.

HEALTH

0530 California Health and Human Services Agency

The California Health and Human Services Agency (CHHS) administers the state's health, social services, rehabilitative and employment programs. The Secretary of the CHHS advises the Governor on major policy and program matters and oversees the operation of the agency departments. The purview of the CHHS includes the departments of Aging, Alcohol and Drugs, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, Social Services, and Employment Development, the Health and Human Services Data Center, the Office of Statewide Health Planning and Development, and the Managed Risk Medical Insurance Board, and the Emergency Medical Services Authority.

Through the Budget Act of 2001 and SB 456 (Speier), Statutes of 2001, the Office of Health Insurance Portability & Accountability Act (HIPAA) Implementation was created. This office resides within the CHHS.

The Office of HIPAA Implementation has statewide responsibility for the implementation of the federal HIPAA. The portion of HIPAA dealing with administrative simplification requires all billing and other electronic data transmissions to be standardized, as well as establishing new standards for the confidentiality and security of this information. The office was established to direct and monitor this process.

The budget proposes expenditures of almost \$5.2 million (\$3.5 million General Fund) and 33 positions for the entire agency. Of this amount, \$2.6 million and 11 positions are for the Office of HIPAA Implementation.

Highlights

- **Reduction of Administration.** The budget proposes a decrease of \$230,00 (\$180,000 General Fund) and two positions at the CHHS, as part of the Governor's desire to reduce General Fund expenditures.
- **Health Insurance Portability & Accountability Act (HIPAA).** The budget shifts expenditures of \$2.6 million (\$2 million General Fund) from the current year to the budget year to continue implementation of the Office of HIPAA Implementation.

2400 Department of Managed Health Care

The purpose of the Department of Managed Health Care (DMHC) is to protect the public through administration and enforcement of laws regulating health care plans. The administration of these laws involves a variety of activities including licensing, examination, and responding to public inquiries and complaints. The program enforces its laws through administrative and civil action. Specifically, the

DMHC licenses health care plans, conducts routine financial and medical surveys, and operates a consumer services toll-free complaint line.

The DMHC has three advisory boards--the Advisory Committee on Managed Care, the Clinical Advisory Board, and the Financial Standards Solvency Board. In addition, the Office of the Patient Advocate located within the DMC will help ensure that the needs of managed care consumers are heard and met.

The budget proposes total expenditures of \$32.4 million (Managed Care Fund) and 333 personnel-years for the DMHC, which includes \$1.5 million for the Office of Patient Advocate. This reflects a net increase of \$44,000 (Managed Care Fund) over the Budget Act of 2001.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|----------|----------|-----------|----------|
| Managed Care Fund | \$32,407 | \$32,451 | (\$44) | |
| Total, Health Plan Program | \$32,407 | \$32,451 | (\$44) | |

Highlights

- **Health Maintenance Organization Call Center.** An increase of \$850,000 (Managed Care Fund) is recommended to convert 14 limited-term positions to permanent and maintain existing staffing capacity for the HMO Call Center. The HMO Call Center fields calls regarding consumer complaints and independent medical review applications.
- **Report Card.** The budget doubles the amount to be used for the HMO Report Card from \$500,000 to \$1 million (Managed Care Fund) in order to fully integrate medical group reporting, improve the reporting of quality indicators, and add data on complaints and availability of linguistic services.
- **Office of Enforcement.** The budget provides \$447,000 (Managed Care Fund) to convert seven limited-term positions to permanent in the Office of Enforcement in order to maintain existing capacity to resolve cases.
- **Fiscal Solvency Standards Board.** The department proposes to provide \$210,000 (Managed Care Fund) to convert three limited-term positions to permanent to support the Financial Solvency Standards Board and review the reports required from risk-bearing organizations.
- **Financial Examinations of HMOs.** An increase of \$234,000 (Managed Care Fund) is recommended to fund four additional financial examiner positions that were being held vacant due to salary savings. These positions will be used to increase the frequency of financial examinations of specialized health plans from once every five years to once every three years.

4110 Organization of Area Boards on Developmental Disabilities

The mission of the Organization of Area Boards on Developmental Disabilities (OAB) is to protect and advocate for the legal, civil, and service rights of individuals with developmental disabilities. The 13 Area Boards are responsible for monitoring and coordinating these activities. The OAB also (1) reviews the policies and practices of publicly funded agencies, (2) encourages and assists in establishing citizen advocacy organizations, (3) encourages the development of needed services and conducts life quality assessments, (4) assists the State Council on Developmental Disabilities in preparation of the State Plan.

The OAB is primarily supported by federal grant funds allocated by the State Council on Developmental Disabilities pursuant to Public Law 103-230.

In addition, the OAB receives funds from the Department of Developmental Services to provide various services to individuals with developmental disabilities. Through this funding, the OAB provides advocacy services to individuals residing in the state Developmental Centers who have no involved families or legal conservators. They also conduct life quality assessments of consumers receiving community-based services.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|--------------|--------------|-------------|----------|
| Reimbursements (State Council on Developmental Disabilities) | 7,919 | 7,930 | 21 | |
| Total, Area Board Services | 7,919 | 7,930 | \$21 | |

Highlights

- **Adjustment for Clients Rights Advocacy.** An increase of \$22,000 (reimbursements) is recommended to fund half of a position to provide Clients Rights Advocacy Services and Volunteer Advocacy Services to residents at the Sierra Vista facility.

4120 Emergency Medical Services Authority

The overall responsibilities and goals of the Emergency Medical Services Authority (EMSA) are to (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the “911” emergency telephone system.

The budget proposes expenditures of \$14.4 million (\$8.7 million General Fund) which reflects a reduction of \$26 million as compared to the revised current-year appropriation.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|-----------------|-----------------|-------------------|---------------|
| General Fund | \$33,987 | \$8,739 | (\$25,248) | (74.3) |
| Federal Funds | \$3,615 | \$3,306 | (\$309) | (8.5) |
| Other Funds | \$2,850 | \$2,390 | (\$460) | (16.1) |
| Total, Emergency Medical Services | \$40,452 | \$14,435 | (\$26,017) | (64.3) |

Highlights

Major budget adjustments include the following.

- **Emergency Trauma Care Centers.** The revised 2001-02 budget contains the \$25 million in supplemental funds as appropriated in the Budget Act of 2001 for services provided by emergency trauma care centers. However, this supplemental funding is not proposed to continue into the 2002-03 budget year.
- **State Support Reduction.** The Administration proposes to reduce the EMSA by \$248,000 (General Fund) and one position in an effort to reduce overall General Fund support.

4250 California Children and Families Commission

The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members. Three of the members are appointed by the Governor, two by the Senate Rules Committee, and two by the Speaker of the Assembly.

The commission is responsible for the implementation of comprehensive and integrated solutions to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are to be provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by the proposition, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|--------------------|---------------|
| Administrative Functions | \$7,900 | \$7,900 | | |
| Local Assistance—Counties | 580,301 | 488,164 | (92,137) | (15.9) |
| Mass Media Account | 80,899 | 48,512 | (32,387) | (40.0) |
| Education Account | 84,890 | 46,140 | (38,750) | (45.6) |
| Child Care Account | 59,071 | 27,492 | (31,579) | (53.4) |
| Research & Development Account | 57,591 | 30,896 | (26,695) | (46.3) |
| Unallocated Account | 35,870 | 18,193 | (17,677) | (49.2) |
| Total Expenditures | \$906,522 | \$667,297 | \$(239,225) | (26.4) |

The budget proposes total expenditures of \$667.3 million (special trust funds) for a decrease of \$239.2 million over the revised current year. This reduction is primarily due to carry-over funds that were available in the first year of implementation and have since been expended. The funds are distributed across accounts as required by Proposition 10. These funds must be used to supplement, not supplant, existing funds. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children’s health care, child care and development, and family literacy.

4260 Department of Health Services

The goals of the Department of Health Services (DHS) are to (1) promote an environment that contributes to human health and well-being; (2) assure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness and the means of delivering health services to the public; and (5) assure economic expenditure of public funds to serve those persons with the greatest health care needs.

The budget proposes expenditures of \$29.9 billion (\$10.7 billion General Fund), or an increase of \$131.3 million (total funds) over the revised 2001-02 budget. Of this amount, \$29 billion is for local assistance and \$886.4 million is for state support. State support expenditures include funds for 5,684 personnel-years.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|--------------|--------------|-----------|----------|
| Program Source | | | | |
| Health Care Services | \$28,865,867 | \$28,975,176 | \$109,309 | 0.3 |
| Public and Environmental Health | 908,733 | 934,666 | 25,933 | 2.8 |
| State Mandated Local Programs | 9,650 | 7,733 | (1,917) | 19.9 |
| State Administration | 2,175 | 2,159 | (16) | 0.7 |
| Regional Projects and Adjustments | 2,023 | | (2,023) | (100.0) |
| Totals, by Program Source | \$29,788,448 | \$29,919,734 | \$131,286 | 0.4 |
| Funding Source | | | | |
| General Fund | \$10,393,368 | \$10,715,813 | \$322,445 | 3.1 |
| Federal Funds | 16,630,424 | 16,495,558 | (134,866) | (0.8) |
| Other Funds | 2,764,656 | 2,708,363 | (56,293) | 2.0 |
| Totals, by Fund | \$29,788,448 | \$29,919,734 | \$131,286 | 0.4 |

Medi-Cal Program Highlights

The budget proposes local assistance expenditures of \$26.9 billion (\$10 billion General Fund). This reflects a *net* increase of \$367 million General Fund, or 3.8 percent, over the revised 2001-02 budget. This net increase is attributable to several factors, including (1) eligibility simplification items adopted in the past legislative session, (2) adjustments to pharmaceutical expenditures, (3) proposed provider rate reductions, and (4) a reduction in the federal Medical Assistance Percentage (FMAP). All of these are discussed in detail below.

A caseload of almost 6.5 million recipients is projected for 2002-03, which reflects an estimated increase of 304,100 recipients, or 4.9 percent. This increased caseload is primarily due to the expansion of health care coverage to lower-income, uninsured working families and to the aged, blind and disabled populations.

Major budget proposals are as follows:

- Medi-Cal Provider Rates.** A reduction of \$155.1 million (\$77.5 million General Fund) in provider rates is proposed. The proposed rate reduction is not derived from any across-the-board percentage amount, but instead, is driven by a dollar reduction amount the Administration wants to achieve. In

essence, the dollar figure generally represents about half of the dollar increase provided via the Budget Act of 2000. The DHS will be convening several constituency work groups to discern how to apply the reductions. The Administration assures that no service category will have their rate reduced below their 1999-2000 Medi-Cal reimbursement level.

The proposed rate reduction is intended to target services provided to adults; not children or services provided in long-term care facilities. The service categories that would be affected include physicians, dental, psychologists, home health, non-emergency transportation, chiropractic, respiratory, shift nursing, comprehensive perinatal services, audiology, and physical, occupational and speech therapies. Based upon the volume of services provided, physician services would be most affected.

- **Copayment Increase.** A savings of \$61.2 million (\$30.6 million General Fund) is proposed by modifying the Medi-Cal recipient copayment statute. The majority of these identified savings are assumed to come from four Medi-Cal service categories—prescription drugs, dental services, physician services and home health services.

Existing state statute allows providers to collect copays for certain services, but collection is optional. These collections are in addition to the existing Medi-Cal reimbursement rate. Under the budget proposal, the Administration would increase certain copayment amounts to that charged by other large states, and reduce provider rates by the amount of the copayments. It would be incumbent upon the providers to bill recipients and collect the money in order to make up the difference.

Federal law prohibits providers from refusing to provide services due to an individual's inability to pay a copayment. Consequently, some providers may further limit their participation in Medi-Cal since this proposal is in essence, a provider rate reduction.

Currently, there are three services subject to copayment—outpatient services (\$1), drug prescriptions (\$1), and non-emergency services provided in an emergency room (\$5). The Administration would expand this list to include rural clinic, rehabilitation clinic, home health, dental, heroin detoxification, hearing aids, ambulance transportation, and litter/van transportation.

Medi-Cal recipients would have to pay from \$1 to \$5, contingent upon the health care service. For example, any physician service would require a \$2 copayment, while a hospital outpatient service would require a \$5 copayment. Some recipients may defer medical treatment due to the increased copayment amount and potentially become sicker.

Existing law exempts certain individuals from any copayment requirement, including any person 18 years old and under, any women receiving perinatal care or family planning services, anyone receiving emergency services or inpatient care, and any children 21 years or under who are living in board and care homes or institutions. These exemptions would remain intact under the Administration's proposal.

- **County Administration Reduction:** The Administration is proposing to delete \$19.1 million (total funds) from county administration of the Medi-Cal Program by eliminating funds for standard cost-of-living adjustments. This reduction is in addition to a current year reduction of \$186.5 million (total funds) which was just proposed for elimination though the funds were appropriated in the Budget Act of 2001. These proposed reductions will likely result in delays for Medi-Cal application processing.
- **Federal Medicaid Assistance Percentage.** The budget proposes two adjustments to the federal Medicaid Assistance Percentage (FMAP) which is used to calculate the amount of federal funds the state receives for Medi-Cal related services. One adjustment reflects a decrease of \$62.1 million in available federal funds within the DHS Medi-Cal Program, while the other reflects an increase of \$400 million for statewide Medi-Cal related services.

First, an increase of \$62.1 million (General Fund) is proposed to backfill for the loss of federal funds which will occur due to the annual FMAP formula recalculation. The calculation is based on a complex formula involving per capita income in each state in relation to the total U.S. per capita income. California's FMAP will be dropping to the 50 percent federal minimum matching level as of October 1, 2002 (i.e., the start of federal fiscal year 2003). Presently California receives a 51.4 percent federal match.

Second, the budget assumes an increase of \$400 million (federal funds) attributable to the pending federal economic stimulus package. The \$400 million federal fund offset is not contained within the department's budget item, but is instead displayed as a current-year statewide item.

- **Medi-Cal Drug Program.** The budget proposes savings of \$200.8 million (\$100.4 million General Fund) by expanding the ability of the DHS to assertively negotiate rebates from drug manufacturers, capture overdue rebate amounts, and monitor the use of certain drugs obtained through the Medi-Cal List of Contract Drugs.

There are several aspects to this proposal, including: (1) using generic drug contracting; (2) conducting a therapeutic category review of atypical antipsychotics and non-steroidal anti-inflammatory drugs; (3) enacting a medical supply contracting program for blood glucose strips and potentially other products; (4) requiring state supplemental rebates on AIDS and cancer drugs; (5) making adjustments to nutritional product contracts and reimbursement; (6) implementing duration of therapy audits and frequency of billing audits; and (7) addressing drug rebate disputes in a more proactive manner. This proposal is a byproduct of several work group meetings which were convened by the California Health and Human Services Agency last spring. Several of these proposals will require statutory changes.

The budget also contains an increase of \$2 million (\$643,000 General Fund) to fund 16 new state positions and four contract staff to achieve the savings level outlined above.

- **Medi-Cal Drug Contract Program.** The Administration is proposing trailer bill legislation to permanently establish the Drug Contract Program, which is scheduled to sunset in the budget year. Under this program, the DHS can contract with drug manufacturers for rebates on outpatient drugs that Medi-Cal provides. When Medi-Cal negotiates a rebate contract for a particular drug, the drug is placed on the Medi-Cal list of contract drugs. Drugs on this list can be provided to recipients without prior authorization; therefore, drugs on the list generally have higher utilization.
- **Disproportionate Share Hospital (DSH) Funding.** Based on recent federal legislation (HR 5661), overall funding for DSH is decreasing by a total of \$238 million in state fiscal year 2002-03, from \$2.053 billion (total funds) in the current year to \$1.815 billion (total funds) in the budget year. In addition to this overall decrease, the Governor is proposing to increase the allocation from DSH to the state's Medi-Cal Program (i.e., the state's "administrative fee") for increased General Fund savings of \$55.2 million over the current year. As such, the administrative fee would increase from \$29.7 million to \$85 million. This proposal requires a state statutory change to implement.
- **Hospital Outpatient Services Settlement.** The budget proposes an increase of \$183.1 million (\$91.5 million General Fund) to provide a 3.33 percent rate increase for hospital outpatient services, effective July 1, 2002. This increase is consistent with the Orthopaedic Hospital Settlement Agreement and other related lawsuits in which the Administration agreed to do the following:
 - Provide a 30 percent rate increase as of July 1, 2001 (in the Budget Act of 2001);
 - Grant annual rate increases of 3.33 percent for the next three years thereafter (effective July 1, 2002, 2003 and 2004); and
 - Provide a \$350 million (\$175 million General Fund) lump sum payment to address prior years' low reimbursement levels (in the Budget Act of 2001).

It should be noted that the federal Centers on Medicare and Medicaid (CMS) have not yet approved the lump sum payment provision. As such, the federal matching funds for this provision of the Settlement are not yet secured and the state has not allocated any General Fund payment for it. It is hoped that this piece will be resolved by spring.

- **Graduate Medical Education.** The Administration is proposing trailer bill legislation to extend the Graduate Medical Education Program that is scheduled to sunset in the budget year.
- **Medi-Cal Outreach.** A reduction of \$20.7 million (\$4.1 million General Fund) is proposed in the budget by eliminating all advertising, as well as outreach activities for parents who were to be enrolled through the delayed Healthy Families Waiver. A total of \$29 million (\$11.1 million General Fund) remains for this purpose. (Please refer to chart at right.)

- **Outstationed Eligibility Workers.** The enhanced funding of \$8 million (\$4 million General Fund) for outstationed Medi-Cal eligibility workers is proposed to be eliminated. These eligibility workers have historically been placed in hospitals and health care clinics in order to facilitate recipient enrollment in Medi-Cal. This process has assisted both the recipient and provider by improving access to health care services and by securing payment for the services.

- **Express Lane Eligibility Legislation.** The budget provides a total of \$42.1 million (\$21.1 million General Fund) to implement the provisions of AB 59 (Cedillo), Statutes of 2001 and SB 493 (Sher), Statutes of 2001 which are designed to expedite the enrollment of children into Medi-Cal. The funding proposed in the budget would be used to fund health care services for an additional 36,647 children on a monthly basis.

- **Children in Adoption Assistance.** The Administration is proposing trailer bill legislation to extend Medi-Cal coverage to children who receive adoption assistance program services from another state.
- **Medi-Cal Anti-Fraud Savings.** The budget proposes additional savings of \$87.6 million (total funds) for total annualized savings of \$242.8 million (\$121.4 million General Fund) for anti-fraud efforts.
- **Nursing Home Staffing Ratios.** An increase of \$5.3 million (\$2.7 million General Fund) to fund 55.5 new positions is proposed in order to meet the requirements of AB 1075 (Shelley), Statutes of 2001. Among other things, this statute requires revised staffing standards for nursing homes effective

| Medi-Cal for Children and Healthy Families – Program Outreach (Dollars in Thousands) | | |
|--|----------------------------|-----------------------------|
| <i>Outreach Component</i> | <i>Revised 2001-02</i> | <i>Proposed 2002-03</i> |
| Community-Based Organization Contracts | \$6,000 | \$6,000 |
| School Based Outreach | 6,000 | 6,000 |
| State Administration of Contracts | 164 | 164 |
| Application Assistant Fees | 11,000 | 7,000 |
| Application Assistant Fees for parents (\$25) | 1,969 | 500 |
| Payment Processing Fees | 1,450 | 1,015 |
| Total, Outreach and Assistance | \$26,583 | \$20,679 |
| Collateral Material | \$600 | \$600 |
| Training & Presentations | 182 | 182 |
| Assistant and Health e-application training | 2,500 | 2,500 |
| Applicant Assistant 800 Line | 400 | 400 |
| Community-Based Organization Support Staff and Reporting | 925 | 925 |
| Advertised Toll-Free 888 Line | 2,000 | 1,565 |
| Total, Outreach Support | \$6,607 | \$6,172 |
| Advertising | \$2,030 | -- |
| Advertising—Parent Coverage | 1,000 | -- |
| Public Relations | 520 | 520 |
| Administration, Research & Travel | 1,120 | 1,120 |
| Total, Education | \$4,670 | \$1,640 |
| Advertising | \$1,300 | -- |
| Public Relations | 470 | 470 |
| Total, Focus on Immigrant Communities | \$1,770 | \$470 |
| SUB TOTALS | \$39,630 | \$28,961 |
| Foundation Grant Funds to the State with Federal Match | \$3,379 | \$3,768 |
| GRAND TOTALS | \$43,009 | \$32,729 |

August 1, 2003, and a revised methodology for determining rates for Medi-Cal reimbursement by August 1, 2004.

- **Supplemental Wage for Nursing Homes.** The budget continues the Budget Act of 2001 agreement by providing a total of \$21.2 million (\$10.6 million General Fund) for long-term care facilities that have binding written commitments with their employees to increase salaries, wages or benefits. It should be noted that California's Medicaid State Plan Amendment for this proposal has been recently approved by the federal Centers for Medicare and Medicaid Services (CMS).
- **Nursing Home Quality Awards:** The budget reduces by \$4 million (General Fund) the amount available for quality awards for nursing facilities who meet certain quality of services criteria.
- **Nursing Home Administrator Program.** The state support budget reflects an increase of \$530,000 (Nursing Home Administrator's State License Examining Fund) and five positions to reflect the transfer of the program from the Department of Consumer Affairs to the DHS.
- **Drug Dispensing Fees.** An increase of almost \$9 million (\$4.5 million General Fund) is provided to meet the requirements of SB 651 (Burton), Statutes of 1999. Under this statute, the Medi-Cal drug dispensing fee is to be increased by \$.015 as of July 1, 2002. This increase is in addition to the \$0.25 increase provided on January 1, 2000, as required by the legislation. The dispensing fee will be \$3.95 as of July 1, 2002.
- **Adjudication of Treatment Authorization Requests.** An augmentation of \$185,000 (\$46,000 General Fund) is proposed to fund 2.5 new positions to adjudicate treatment authorization requests and appeals from health care providers.

Public and Environmental Health Program Highlights

The budget proposes expenditures of almost \$2.6 billion (total funds) for public health and prevention services, including primary care and family health programs, and state supported county health services. This represents a net decrease of \$46.3 million (total funds) and includes a reduction of \$38.3 million in General Fund expenditures.

Major budget proposals are as follows:

- **Child Health Disability Prevention (CHDP) Program.** The Administration proposes to eliminate this program as of July 1, 2002 and shift the caseload to Medi-Cal, the Healthy Families Program, and community-based health care clinics that participate in the Essential Access to Primary Care (EAPC) Program. Enactment of the Administration's proposal will require trailer bill legislation.

The budget proposes *net* savings of \$55.8 million in total state funds (\$12.3 million General Fund, \$39.9 million Tobacco Settlement Fund, and \$3.6 million Childhood Lead Poisoning Prevention Fund) and an increase of \$38.6 million in federal funds (Title XXI, Title XIX and Title V) through this program elimination. The proposed total *net* savings amount is therefore \$17.3 million (total funds).

This *net* savings level assumes that (1) 20,666 children will enroll in the Healthy Families Program; (2) 98,997 children will be enrolled in the Medi-Cal Program; and (3) \$17.5 million (General Fund) will be appropriated for EAPC clinics to provide services to children who are not otherwise eligible for Medi-Cal or Healthy Families. It should be noted that these figures, provided by the Administration, are very sketchy because the state does not have comprehensive CHDP data on caseload, family income levels, or health treatment services. As such, it is difficult to estimate what the Medi-Cal or Healthy Families programs enrollment uptake will be, or the costs to be incurred under the EAPC Program if this CHDP Program elimination occurs.

Many key questions remain on how this proposal would be crafted. For example, will the EAPC clinics receive caseload and service utilization adjustments in future years as presently calculated in the existing CHDP Program? How will beneficiary access to services be maintained when there is a much more limited universe of providers (about 320 EAPC clinic sites participate in CHDP currently versus a total of 4,500 CHDP providers overall)? What will be done to facilitate the enrollment of existing CHDP children into Medi-Cal and Healthy Families?

In order to craft a more comprehensive proposal, the Administration states that Director Bonta' will be convening workgroups to more thoroughly develop the structure and mechanics of the proposal.

The CHDP Program provides health care assessments for the early detection and prevention of disease and disabilities to children with family incomes up to 200 percent of the federal poverty level. The program has been a cornerstone for providing childhood immunizations, dental services, hearing and eye examinations, and developmental assessments. Well over 4,000 providers, including private physicians' offices, county clinics, and community-based clinics participate in the CHDP Program. Due to this level of provider participation, access to these basic health care services has been tremendously good.

- **Essential Access to Primary Care (EAPC) Clinic Program.** The budget proposes several adjustments to this program. First, it continues the \$10 million augmentation provided through the Budget Act of 2001. Second, it proposes an increase of \$17 million (General Fund) to provide health care assistance to those individuals who are currently receiving services through the CHDP Program and who will not be eligible to enroll in Medi-Cal or Healthy Families under the Administration's proposal to eliminate the CHDP Program in the budget year.
- **Cancer Research Program.** This program is proposed for elimination for savings of \$25 million General Fund. The Administration notes that General Fund savings were needed in order to mitigate reductions in direct services to the public. Further, they state that this program represents less than 15 percent of the total resources dedicated by the state for cancer and tobacco related disease research.
- **County Medical Services Program.** The budget proposes two adjustments to the CMSP for a savings of \$25 million (General Fund). First, the Administration again proposes to permanently suspend the \$20 million (General Fund) state contribution to the County Medical Services Program (CMSP). For the past three years, the Legislature has simply suspended the General Fund requirement on an annual basis, contingent upon the level of County Realignment Fund and other special fund reserves as contained within the CMSP.

Second, the budget proposes to require CMSP counties to reimburse the state for DHS staff used to operate certain aspects of the CMSP. The required level of reimbursement would be \$5 million. This arrangement was proposed last year and was rejected by the Legislature.

- **AIDS Drug Assistance Program (ADAP).** An increase of \$22.4 million (\$20.4 million General Fund and \$2 million in drug rebates) is proposed for ADAP to address increased drug prices and caseload. Of the total increase, \$2 million is specifically for the diagnostic assay program. Total ADAP funding, including \$8.1 million for the diagnostic assay program, is proposed to be \$191.4 million (\$84.1 million General Fund). ADAP served almost 23,000 individuals in calendar year 2000. The formulary for ADAP has 145 drugs.
- **HIV/AIDS Education and Prevention.** The budget continues to provide \$36.1 million (\$25.1 million General Fund and \$11 million federal funds) for HIV/AIDS education and prevention efforts. This level of funding continues the \$4 million (General Fund) baseline program veto taken by the Governor in the Budget Act of 2001.

- **Proposition 99-Funded Programs.** Expenditures of \$407.8 million (Proposition 99-Funded Accounts) are proposed in the budget for health-related programs. This level of funding reflects the following:
 - Increases the Breast Cancer Early Detection Program by almost \$3.5 million to reflect increased caseload and screenings for total expenditures of almost \$20.9 million.
 - Increases the DHS state support budget by \$115,000 due to various adjustments.
 - Continues all other existing DHS programs at their Budget Act of 2001 levels, including the emergency physician rate adjustment.
 - Increases the Access for Infants and Mothers (AIM) Program administered by the Managed Risk Medical Insurance Board by \$8.4 million to reflect increased caseload and related cost adjustments.

- **Youth Anti-Tobacco Program.** An increase of \$15 million (Tobacco Settlement Fund) is proposed for total expenditures of \$35 million (Tobacco Settlement). Of the proposed increase amount, \$8 million is slated for interventions targeted at 18-24 year olds, \$3 million is for enforcing tobacco control laws, \$1 million is for advancing youth advocacy coalitions, \$1 million is for technical assistance consultants, and \$1.5 million is for a special projects request for application.
- **Childhood Lead Poisoning Prevention (CLPP) Program.** The budget reflects an increase of \$7.2 million (Childhood Lead Poisoning Prevention Fund) and continuation of eight positions to provide for a more comprehensive program and to respond to concerns expressed by the Legislature and Bureau of State Audits. Key items include funds to (1) support the reporting and processing of increased blood lead test reports, (2) develop local and state enforcement of clean-up orders and site mitigation activities, and (3) conduct a field-test to study the prevalence of lead poisoning in California. Certain policy aspects of this proposal will require statutory change.

Increased funds will be obtained by the state fully utilizing existing statute. Health and Safety Code enables the state to collect fees, including annual adjustments to recognize Consumer Price Index and workload adjustments. As such, the DHS will be able to capture about \$22 million beginning as of January 1, 2002.

- **California Children Services Program.** An increase of \$10.5 million (\$9 million General Fund) is provided in the budget for caseload and related adjustments. Total expenditures are anticipated to be \$144.4 million (\$69.5 million General Fund).
- **Birth Defects Monitoring Project.** A reduction of \$1.6 million (General Fund) is proposed for this valuable program. As yet, the Administration has not provided information on how this proposed reduction would be enacted.
- **Complaint Enforcement Staffing.** The budget proposes to provide \$790,000 (\$395,000 General Fund) to fund nine positions to address a significant increase in complaints against Certified Nurses Assistants (CNAs), Home Health Aides, and Certified Hemodialysis Technicians.
- **Richmond Laboratory.** The budget proposes two adjustments for the laboratory. First, an augmentation of \$6.5 million (\$5 million General Fund) and 16 positions is requested for information technology support, maintenance and operation. Second, an increase of \$47.5 million (Public Buildings Construction Fund) is proposed to construct Phase III of the laboratory. Phase III consists of a three-story office building with 200,000 gross square feet and parking. It is anticipated that this building will accommodate 850 staff.
- **Community Challenge Grant Program.** The budget continues to pass-through the \$20 million in federal "bonus" funds (due to reduced teenage pregnancies) to continue the Community Challenge

Grant Program which provides funds to community-based organizations to reduce the number of teenage pregnancies in the state.

- **WIC Fraud Unit.** The budget proposes to redirect federal funds within the Women, Infants, and Children Supplemental Nutrition (WIC) Program to fund 9.5 positions for a new program fraud unit.
- **Binational Health Initiative.** Funding for this initiative, adopted in the Budget Act of 2001, is proposed to be eliminated for savings of \$1 million (General Fund).
- **HIV/AIDS Outreach Services.** A total of \$795,000 in federal Ryan White CARE Act funds has been made available to conduct HIV/AIDS outreach services in targeted areas of the state. Specifically, \$663,000 of the funds is proposed to be used for the Minority AIDS Initiative for Outreach, which will focus on bringing ethnic minorities into care, and \$132,000 is for the Emerging Communities Project. The Emerging Communities Project funds will be used to address HIV/AIDS issues in the greater Fairfield-Vallejo-Napa metropolitan area.
- **Capitol East End Project.** The budget includes increased funding of \$6.8 million (\$2.9 million General Fund) for maintenance, operations and support for the new Capitol East End Project which will house the DHS.
- **Genetic Disease Information System.** The budget provides an additional \$1.8 million (Genetic Disease Testing Fund) to replace the existing Genetic Disease information system.
- **Genetically Handicapped Persons Program (GHPP).** An increase of \$1.5 million (General Fund) is proposed to recognize caseload adjustments and related factors.
- **Food Safety Program.** An increase of \$550,000 (Food Safety Fund) is proposed to re-engineer the food safety program.
- **Health Statistics Processing.** A one-time only augmentation of \$600,000 (Health Statistics Special Fund) is proposed to address the processing of vital statistics backlog.
- **Information Technology Workload.** A savings of \$1 million (General Fund) is to be achieved by redirecting contract staff information technology workload to existing state staff.
- **Southern California Laboratory Needs Study.** An increase of \$150,000 (General Fund) is proposed to fund a study to identify the laboratory's current occupancy, future staff needs, and alternatives for meeting these needs.

4280 Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health coverage through private health plans to certain groups without health insurance. The MRMIB administers the (1) Healthy Families Program, (2) Major Risk Medical Insurance Program, and (3) Access for Infants and Mothers (AIM).

The budget proposes total expenditures of \$777.4 million (\$1.8 million General Fund, \$248.8 million Tobacco Settlement Fund, and \$526.8 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. Of this amount, \$7.2 million is for state operations and \$770.2 million is for local assistance.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|------------------|------------------|------------------|-------------|
| Program Source | | | | |
| Major Risk Medical Insurance (including state support) | \$45,011 | \$40,010 | (\$5,001) | (11.1) |
| Access for Infants & Mother (including state support) | 71,932 | 80,408 | 8,476 | (11.8) |
| Healthy Families Program (including state support) | 556,231 | 656,962 | 100,731 | 18.1 |
| Totals, Program Source | \$673,174 | \$777,380 | \$104,206 | 15.5 |
| General Fund | \$155,141 | \$1,777 | (\$153,364) | 98.8 |
| Federal Funds | 342,926 | 401,735 | 58,809 | 17.1 |
| Tobacco Settlement Fund | 55,272 | 248,792 | 193,520 | 350.0 |
| Other Funds | 119,835 | 125,076 | 5,241 | 4.4 |
| Total Funds | \$673,174 | \$777,380 | \$104,206 | 15.5 |

Highlights for the Healthy Families Program (See Medi-Cal for information on outreach)

- Deferral of the Healthy Families Program Waiver.** The Governor has requested the Legislature to defer funding for the implementation of the HFP Waiver until July 1, 2003 or four months after federal approval is obtained, whichever is later. The Administration’s sponsored SB 1xxx deletes a total of \$54.3 million (Tobacco Settlement Fund) from the current year for this purpose. In addition, a total of \$160.5 million (Tobacco Settlement Fund) in savings is assumed in the Governor’s proposed budget for 2002-03.

The federal Centers for Medicare and Medicaid Services (CMS) have not yet approved California’s HFP Waiver submitted to them in December 2000. On January 10, 2002, the CMS sent a letter to the California Health and Human Services Agency (CHHS) recommending for the state to re-submit the original Waiver using the newly adopted Health Insurance Flexibility and Accountability (HIFA) format. The CHHS complied with this request and submitted the documents on January 16.

The federal letter also states that with some modifications, California’s proposal would meet the requirements for HIFA and could be considered under their expedited review process. Therefore, federal approval could possibly be obtained soon.

It should also be noted that the Waiver submitted by the CHHS proposes to, among other things, enroll uninsured adult parents of children covered by the HFP or Medi-Cal with family incomes between 100 and 200 percent of the federal poverty level, not up to 250 percent of poverty as approved by the Legislature and enacted in trailer bill legislation last year. The Administration recommends proceeding with the original Waiver submittal in order to obtain the core components of the proposal, and then to submit an amendment to the federal CMS that would contain the expansion to 250 percent of poverty. The Administration states that they intend to defer enrollment of parents until July 1, 2003 even if federal approval is achieved.

- **Proposed Elimination of the Rural Health Demonstration Projects.** The budget proposes to eliminate the Rural Health Demonstration Project funds used in the Healthy Families Program for savings of \$6 million (\$2 million General Fund and \$4 million federal Title XXI funds). This proposed elimination would cut short existing contracts which are scheduled to operate through June 30, 2003.

The Rural Health Demonstration Projects are vital projects and have been used to develop and enhance existing health care delivery networks for special populations and to address geographic access barriers. Specifically, the funds have been used to extend community clinic hours, expand telemedicine applications, provide bilingual specialty health care services, provide mobile medical services and dental services, and rate enhancements to increase HFP provider networks in remote areas, including San Bernardino and Riverside counties.

- **Projected HFP Caseload for Children (Baseline).** The budget proposes to fund an increase of 64,418 children who are projected to be enrolled by June 30, 2003. This assumes that enrollment will reach 623,306 children. The total children enrolled figure is based on the sum of three population segments as follows:
 - **Children in families up to 200% of poverty:** 471,257 children
 - **Children in families between 201 to 250% of poverty:** 119,575 children
 - **Children in families who are legal immigrants (post 8/22/96):** 32,474 children
- **Caseload Increase Proposed if CHDP Eliminated.** As discussed under the Department of Health Services, above, the Administration is proposing to eliminate the Child Health and Disability Prevention (CHDP) Program and shift a portion of the caseload to the Healthy Families Program. The budget provides an increase of \$15.4 million (\$5.9 million Tobacco Settlement Fund) to cover the cost of 20,666 projected new children who are estimated to enroll due to this proposal.
- **Healthy Families Program Outreach.** A reduction of \$20.7 million (\$4.1 million General Fund) is proposed in the budget by eliminating all advertising, as well as outreach activities for parents who were to be enrolled through the delayed Healthy Families Waiver. A total of \$29 million (\$11.1 million General Fund) remains for this purpose. (Please refer to chart in the Department of Health Services item, above.)

Highlights for Access for Infants and Mothers Program

Background. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level (including the application of Medi-Cal income deductions). Eligible women select coverage from one of the nine participating health plans. Subscribers pay premiums equal to 2 percent of the family's annual income plus \$100 for the infant's second year of coverage.

Proposed Budget: The budget proposes expenditures of \$79.6 million (\$74.8 million Perinatal Insurance Fund, \$1.7 million Tobacco Settlement Fund, and \$3.1 million in Title XXI federal funds) in local assistance to serve an average of 616 new uninsured pregnant women per month. This funding level reflects an increase of \$8.5 million, or about 12 percent, over the revised 2001-02 budget.

In order to capture General Fund savings of \$1.2 million, the Administration shifted some program expenditures to the Tobacco Settlement Fund.

Highlights for the Major Risk Medical Insurance Program

Background. The Major Risk Medical Insurance Program (MRMIP), implemented in 1991, provides health insurance to a portion of the "medically uninsurable" population (individuals unable to obtain coverage due to prior health conditions). Services are delivered to enrolled individuals through contracts with health plans. Enrollees participate in the cost of coverage by paying premiums between 125 to 137.5 percent of what an "insurable" person would pay for comparable coverage.

The state, through an annual appropriation in the budget, subsidizes the cost of coverage. According to data obtained from the Managed Risk Medical Insurance Board, for each dollar in premium paid by the enrollee, the state provides a subsidy of about \$0.67 for medical costs and another \$0.11 for administrative costs (i.e., total of \$0.78 subsidy for each dollar).

Proposed Budget. The budget proposes an appropriation of \$40 million (revenues from Proposition 99 funds which are deposited in the Major Risk Medical Insurance Fund) for local assistance with individual contributions to premiums providing an additional amount. Over the past several years, increases in health care costs and insurance premiums have led to recent decreases in the number of people that can be covered by MRMIB and an increase to the waiting list. According to the MRMIB, the waiting list is now 2,432 uninsured individuals.

The budget reflects a reduction of \$5 million which was provided by the Legislature on a one-time basis in the Budget Act of 2001 for the purpose of expanding enrollment in the program.

4300 Department of Developmental Services

The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers and in state Developmental Centers for persons with developmental disabilities according to the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18th birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services and supports are cost-effective for the state.

The budget proposes total expenditures of almost \$2.9 billion (\$2.007 billion General Fund), for a *net* increase of \$131.2 million (\$128.2 million General Fund) over the revised 2001-02 budget, to provide services and supports to individuals with developmental disabilities living in the community or in state Developmental Centers. Of this amount, about \$2.215 billion is for services provided in the community, \$624.8 million is for support of the state Developmental Centers, \$28.3 million is for state headquarters administration and \$496,000 is for state-mandated local programs.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|--------------------|--------------------|------------------|------------|
| Program Source | | | | |
| Community Services Program | \$2,075,520 | \$2,215,477 | \$139,957 | 6.7 |
| Developmental Centers | 624,739 | 624,785 | (46) | |
| State Administration | 36,996 | 28,258 | (8,738) | 23.6 |
| State Mandated Local Program | 524 | 496 | (28) | -5.3 |
| Total, Program Source | \$2,737,779 | \$2,869,016 | \$131,237 | 4.8 |
| Funding Source | | | | |
| General Fund | \$1,879,134 | \$2,007,363 | \$128,229 | 6.8 |
| Federal Funds | 47,604 | 48,153 | 549 | 1.1 |
| Other Funds | 7,449 | 4,549 | (2,900) | -38.9 |
| Reimbursements | 803,592 | 808,951 | 5,359 | 0.6 |
| Total | \$2,737,779 | \$2,869,016 | \$131,237 | 4.8 |

Community-Based Services Highlights

The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

The budget proposes expenditures of \$2.215 billion (\$1.6 billion General Fund) for community-based services, provided via the RCs, to serve a total of 182,230 consumers living in the community. This reflects an increase of \$139.9 million (total funds), or 6.7 percent, over the revised 2001-2002 budget.

The funding level includes \$393.1 million for RC operations and over \$1.784 billion for local assistance, including funds for the purchase of services for consumers, program development assistance, the Early Start Program, and habilitation services provided by the Department of Rehabilitation.

Specific proposals include the following.

- Implement Statewide Standards for the Purchase of Services.** A decrease of \$52 million (General Fund) is assumed through enactment of statewide purchase of services standards. Though the Legislature has not yet been provided the proposed trailer bill language, it is known that the DDS will be requesting emergency regulation authority to develop regulations and to implement them as quickly as feasible. It should be noted that the DDS has committed to working with stakeholder organizations in the development of any proposed regulations. Since the exact form in which these proposed regulations will ultimately affect services is as yet unknown, the savings figure referenced by the Administration is an estimate of potential impact.

The DDS states that the purpose for establishing statewide service standards is to (1) identify saving opportunities and (2) improve the consistency of services provided throughout the state.

- Adjustments for RC Caseload and Utilization of Services.** An increase of \$151.7 million (total funds) is proposed to provide for an increased caseload of 9,725 consumers, as well as elevated

utilization of purchase of services based on consumer needs. The caseload figure reflects an overall increase of almost 6 percent and an increase of over 12 percent for high-risk infants, which has been growing rapidly over the past several years.

- **Community Placement Plans.** The budget contains an increase of \$20.5 million, for total funds of \$50.2 million, to provide services and improve the community placement planning process. This funding level assumes that 205 consumers are placed in the community, 183 consumers are continued in their placement, and 98 consumers are “deflected” (i.e., not admitted to a state Developmental Center).

The Community Placement Plan (CPP) is designed to assist Regional Centers in providing necessary services and supports for individuals to, when appropriate, move from state Developmental Centers (DC) to community-based services. It will also provide the resources necessary to stabilize the selected community living arrangements of individuals who have been referred to the Regional Resource Development Project (RRDP) for alternatives to admission to a DC (i.e., deflection).

Under the revised CPP process, the Regional Centers must provide the DDS with detailed plans regarding (1) the individual consumers, needed resources, services and supports who will be moved from the DCs, (2) individuals referred to RRDP due to unstable community living arrangements and what their needed resources are, and (3) individuals who will be assessed for community placement. These plans will be updated twice annually to ensure continuity of services and appropriate funding levels. The DDS states that they will be working closely with the RCs, individuals and their families, each RRDP and the DCs.

- **Adjustment for Individuals Diagnosed with Autism.** The budget contains an increase of \$17.2 million in purchase of services funds to recognize increased expenditures attributable to the caseload growth of individuals diagnosed with Autism and the corresponding utilization of intensive services. For example, intensive behavioral intervention programs and in-home respite assistance are services that are generally utilized more frequently in this population.

According to the DDS, the entire population of individuals diagnosed with autism served by the RCs doubled in the four years between 1997 and 2001. It is estimated that 22,690 individuals with Autism are estimated to be requesting services in the budget year. This is a 16 percent increase in caseload over the current year.

- **Federal Medicaid Waiver—Home and Community-Based Services.** The budget contains several adjustments for the Home and Community-Based Waiver services that, among other things, enable the DDS to draw down additional federal Medicaid (Medi-Cal) funds. For the revised 2001-02 budget, an increase of \$8.7 million (federal funds) is captured. For the budget year, an additional \$6.6 million (federal funds) over the revised current year is obtained. Therefore, the budget assumes total expenditures of \$300.8 million (federal funds) to purchase services for 32,906 individuals which reflects an increase of 135 consumers over the revised current year level.

However, due to continued concerns at two Regional Centers—South Central Los Angeles RC (SCLARC) and Regional Center of the East Bay (RCEB)—the DDS is not obtaining the full federal funding that is potentially available. Specifically, federal payments at SCLARC must continue to be deferred completely and the RCEB has not been approved for expansion to add more individuals to their Waiver level.

The DDS also cautions that RCs are reporting increasing difficulty in meeting existing mandates because of under-funding in their operations budget. As such, this may affect the RCs’ ability to add and maintain eligible consumers to the Waiver.

- **Special Incident Reporting.** The budget provides an increase of \$2 million to fully fund a comprehensive risk management system to help mitigate consumer abuse, neglect, and injury. The

federal Centers for Medicare and Medicaid (CMS) have directed the state to implement such a system in order to assist in monitoring the Home and Community-Based Waiver consumers, as well as other consumers accessing the state system.

- **Pass-Through of Federal SSI Increase to Community Care Facilities.** The budget provides a total of \$4.6 million to continue to pass through the federal portion of the SSI/SSP increase to Community Care Facilities (CCFs), effective January 1, 2003. About 20,800 people with developmental disabilities reside in 4,500 CCFs licensed by the Department of Social Services. As such, over 50 percent of consumers living in out-of-home placement settings reside in CCFs. Since the Budget Act of 1998, annual SSI/SSP increases have been passed through to CCF providers.
- **Continues Downsizing of Large Facilities.** The budget contains a total of \$3.6 million (total funds) to provide funding to convert certain large facilities to smaller, more home-like four- to six- bed facilities. Generally, this proposal continues downsizing efforts initiated in the Budget Act of 2000.
- **Adjustment to Federal Medical Assistance Percentage.** As discussed under the DHS budget above, the federal matching level obtained by California for Medicaid (Medi-Cal) related services is being reduced in the budget year due to the annual re-calculation of the federal formula. Therefore, an increase of \$5.8 million (General Fund) for 2002-03 is required to backfill for the commensurate reduction of federal funds.

State Developmental Center and State Support Highlights

Background. The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville, and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

Proposed Budget. The budget proposes expenditures of about \$624.8 million (\$346.3 million General Fund) to serve 3,636 residents who reside in the state developmental centers system. This reflects a caseload decrease of 50 residents and a marginal net decrease in funds of \$46,000 as compared to the revised 2001-02 budget. According to DDS data, the average cost per person residing at a DC is about \$171,000 annually. This reflects an increase of well over 50 percent since the Budget Act of 1995.

Key adjustments are noted below.

- **Developmental Center Population.** A decrease of \$833,000 (total funds) is assumed for 2002-03 due to a projected decrease of 50 residents at the DCs. The population of 3,636 residents consists of 415 individuals with a forensic designation. The DDS states that the forensic population has been increasing by at least 10 percent annually, and as such, development of future housing options, in addition to Porterville DC, need to be discussed.
- **Loss of Certification in Porterville Secure Treatment Program and Delay at Canyon Springs.** An increase of \$13.7 million (General Fund) is contained in the revised 2001-02 budget to backfill for the loss of federal funds resulting from federal certification issues in the Secure Treatment Program (STP) at Porterville DC, and a delay in obtaining federal certification at Canyon Springs. Specifically, the Porterville decertification results in a loss of \$13.1 million in federal funds and the Canyon Springs delay results in a loss of \$602,000. The DDS contends that it will take up to 24 months to reacquire certification of the STP at Porterville.

Canyon Springs is expected to undergo DHS certification review for Medicaid (Medi-Cal) reimbursement in January 2002. However, the DDS notes that the department and DHS have not yet reached an accord as to whether this particular facility is governed by Title 22 regulation and

subsequently, eligible for Medicaid reimbursement on an actual cost basis. Consequently, even if the facility is certified, full reimbursement may not be achievable.

- **Non-Level-of-Care Positions Reduction.** The budget proposes a reduction of \$1.1 million (General Fund) and 22 Non-Level-of-Care positions due to the projected reduction in General Fund revenue for the state. These positions are deemed to be non-essential by the DDS.
- **Lanterman Developmental Center Security Improvement Project.** An augmentation of \$3.8 million (General Fund) is proposed for the budget year to complete the capital outlay construction phase of the security improvement project at Lanterman DC.
- **Janitorial Contract.** An increase of \$8.8 million (\$5 million General Fund) is proposed due to increased costs associated with the janitorial contracts at the DCs.
- **Adjustment to Federal Medical Assistance Percentage.** As discussed under the DHS budget above, the federal matching level obtained by California for Medicaid (Medi-Cal) related services is being reduced in the budget year due to the annual re-calculation of the federal formula. Therefore, an increase of \$5.4 million (General Fund) is needed to backfill for the loss in federal funds.
- **Client's Rights Advocacy Services.** An additional \$88,000 (total funds) is provided to conform to the interagency agreement between the DDS and the Organization of Area Boards to provide client's rights advocacy services to DC residents.
- **State Headquarters Support.** The budget reduces headquarters funding by \$3.3 million, or 10.4 percent, and 44 positions.

4440 Department of Mental Health

The Department of Mental Health (DMH) administers the Bronzan-McCorquodale and Lanterman-Petris-Short Acts providing delivery of mental health treatment services through (1) a state-county partnership and (2) the involuntary treatment of the mentally-disabled. The DMH is responsible for the operation of five state hospitals and the acute psychiatric units at the California Medical Facility in Vacaville and the Salinas Valley State Prison.

The budget proposes expenditures of almost \$2.192 billion (\$943.4 million General Fund) for mental health services. This reflects an increase of \$103.1 million, or 4.9 percent, over the revised 2001-02 budget. Of the total amount, \$1.471 billion is for local assistance, \$611.2 million is for the state hospitals, \$44.2 million is for department support, and \$64.8 million (General Fund) is for state mandated local programs.

In addition, it is estimated that almost \$1.174 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. This amount does not include the estimated \$14 million which may be made available from the Vehicle License Collection Account.

Further, an appropriation of \$21.5 million (\$736,000 General Fund and \$20.8 million Public Building Construction Fund) is provided for capital outlay purposes.

| Summary of Expenditures | | | | |
|--------------------------------|--------------------|--------------------|------------------|------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| Program Source | | | | |
| Community Services Program | \$1,334,598 | \$1,471,364 | \$136,766 | 10.2 |
| Long Term Care Services | \$608,235 | \$611,237 | \$3,002 | 0.5 |
| Headquarter Administration | \$45,435 | \$44,208 | (\$1,227) | (2.7) |
| State Mandated Local Programs | \$100,303 | \$64,840 | (\$35,463) | 35.4 |
| Total, Program Source | \$2,088,571 | \$2,191,649 | \$103,078 | 4.9 |
| Funding Source | | | | |
| General Fund | \$989,222 | \$922,052 | (\$67,170) | 6.8 |
| Federal Funds | 59,707 | 59,707 | | |
| Reimbursements | 1,035,552 | 1,185,889 | 150,337 | 14.5 |
| Other Funds | 4,090 | 24,001 | 19,911 | 487 |
| Total Department | \$2,088,571 | \$2,191,649 | \$103,078 | 4.9 |

Highlights for Community-Based Mental Health Services

The budget proposes \$1.471 billion (\$361.6 million General Fund) for community-based local assistance, including related-state support and state mandated local claims. In addition, it is estimated that \$1.173 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget.

Major budget proposals are as follows:

- **Proposed Reductions for Local Assistance Programs.** The Governor’s budget proposes to reduce local assistance funding by a total of \$38.8 million (General Fund) in an effort to eliminate General Fund expenditures. These proposed reductions are as follows:
 - **\$17.5 million from Supportive Housing.** Under this proposal, a total of \$3.5 million would remain in the program to fund a limited number of projects. According to the DMH, none of the currently funded projects will be affected by this reduction. It should be noted that SB 1227 (Burton) would provide \$2 billion in housing bonds, a portion of which could be used for supportive housing purposes when enacted.
 - **\$12.3 million from the Advance Payment for Special Education Pupils.** The Administration contends that these expenditures are being reduced since they expect the counties to recover these expenditures through the local mandate process. Counties will therefore need to go through the administrative process and garner a favorable outcome from the State Commission on Mandates in order to obtain funding. Maintenance of these funds is critical to the pupils receiving services. Historically these funds have been appropriated through the DMH for the past 6 years.
 - **\$4.2 million from the Children’s System of Care Program.** This proposed reduction includes \$3.8 million in funding from the counties, or 9.6 percent less than the Budget Act of 2001, and \$367,000 for the independent evaluation of the program. The remaining amount is from state support.

- **\$2.7 million from Santa Clara County.** This proposed reduction eliminates the supplemental funding provided by the state to the county beginning in 1995 related to the closure of East Valley Pavilion, a county-owned Institution for Mental Disease.
- **\$1.5 million from the Dual Diagnosis Projects.** This proposed reduction would eliminate all General Fund support for the projects. SB 1 xxx (Peace) contains the Administration's current-year reduction of \$400,000 (General Fund) which continues into the budget year.
- **\$565,000 from Healthy Families for County Mental Health Services.** The Administration states that this reduction reflects normal caseload adjustments.
- **Adjustments for Early and Periodic Screening Diagnosis and Treatment (EPSDT) Services.** An increase of \$133.7 million (reimbursements from the DHS Medi-Cal budget), or 31.6 percent over the revised 2001-02 budget, is provided for the EPSDT Program. This proposed increase conforms to litigation agreements regarding the DHS and EPSDT services, which were crafted in the 1990's.

Generally, this agreement requires the DHS to provide General Fund support as a match for EPSDT services administered by the counties which is above an annually adjusted baseline amount (essentially a county maintenance-of-effort requirement). The General Fund dollars and accompanying federal matching funds are budgeted in the DHS and are transferred to the DMH as reimbursements. The DMH distributes EPSDT funds to the county Mental Health Plans responsible for the provision of specialty mental health in each county. Final payment is based on cost settled actual allowable costs, or rates.

The DMH states that the statewide average penetration rate for these services is about 5.5 percent. As such, this penetration rate continues to be way below the conservative estimated incidence of mental illness in this population of 9 to 13 percent.

- **Increase for Therapeutic Behavioral Services.** The budget contains an increase of \$16.4 million (\$7.9 million General Fund) to continue compliance with the permanent injunction in the *Emily Q. vs Bonta*' litigation. As a result of this injunction, therapeutic behavioral services must be provided as a Medi-Cal benefit to individuals aged 21 and under when deemed to be clinically appropriate. The proposed increase is based on paid claims data from last year. Total estimated expenditures for the budget year are \$33.3 million.
- **Adjustments to Mental Health Managed Care.** An increase of \$14.4 million (\$14.1 million General Fund) is provided to reflect standard adjustments as required by statute, as well as an adjustment due to the federal Medicaid Assistance Percentage (FMAP) decrease. These adjustments affect both inpatient and specialty mental health services.
- **Continues Services for Individuals At-Risk of Homelessness.** The budget contains a total of \$64.9 million (General Fund) to continue the same level of funding as appropriated in the Budget Act of 2001 for individuals with severe mental illness who are at risk of homelessness.
- **Community Treatment Facilities Supplement.** The budget provides an increase of \$1.2 million (General Fund) to continue the supplemental funding for Community Treatment Facilities (CTFs) established in Chapter 171, Statutes of 2001, the health trailer bill to the Budget Act of 2001. This level of funding provides a supplement of \$2,500 per child per month. According to the DMH, five CTFs are currently operational.
- **Healthy Families Program Adjustments.** The budget proposes total expenditures of \$8 million (\$98,000 General Fund and \$7.9 million in reimbursements) for County Mental Health Plans to provide supplemental mental health services to Healthy Family Program enrollees. This funding level reflects an adjustment of \$288,000 (\$102,000 General Fund) to reflect caseload adjustments and the \$565,000 (General Fund) reduction pertaining to system-wide reductions, as referenced above.

The \$288,000 (\$102,000 General Fund) reduction is primarily attributable to a reduction in the percentage of legal immigrants participating in the program (from 5.9 percent to 3.7 percent).

- **San Mateo Field Test.** An augmentation of \$1.9 million (total funds) is provided to adjust for pharmacy and laboratory services conducted under the field test. Adjustments to these services have been made over the past several years and are consistent with the statutory design of the program.
- **Mentally Disordered Offender Evaluations.** The budget includes an increase of \$184,000 (General Fund) to provide additional contract dollars in department support to fund an increase in the number of evaluations required to be completed on potential mentally disordered offenders.

Highlights for the State Hospitals and State Support

The budget proposes expenditures of \$611.2 million (\$463.1 million General Fund) for the State Hospitals for a *net* increase of almost \$3 million (increase of \$13.5 million General Fund) over the revised 2001-02 budget.

Further, an appropriation of \$21.5 million (\$736,000 General Fund and \$20.8 million Public Building Construction Fund) is provided for capital outlay purposes.

Major budget proposals are as follows:

- **State Hospital Patient Population Adjustments.** The budget provides a net increase of \$9.4 million (increase of \$21.6 million General Fund) to the state hospitals for a series of patient population adjustments and related items. This level of funding reflects standard adjustments which will be updated at the May Revision.
- **Non-Level of Care Staff for Bed Expansions.** An increase of \$3.1 million (General Fund) is requested to support 39.5 Non-Level-of-Care positions (19.5 positions at Atascadero and 20 at Patton) and operating expenses to accommodate the penal code patient expansion at Atascadero SH and Patton SH.
- **Continued Activation of Coalinga Facility.** The budget proposes an augmentation of over \$1 million (General Fund) and 15 positions to continue activation activities associated with the secure treatment facility at Coalinga. In addition, funding is also requested for relocation expenses associated with the recruitment of these new staff.
- **Security at Patton State Hospital.** An augmentation of \$2.6 million (General Fund) is proposed in the budget to complete various security improvements at Patton State Hospital. Most of this increase is attributable to upgrading or installing personal alarm systems in designated areas.
- **Capital Outlay Projects.** The budget provides a total of \$21.5 million (\$736,000 General Fund and \$20.8 million Public Building Construction Fund) for the following projects:
 - \$13.7 million for the construction of a multipurpose building at Atascadero State Hospital.
 - \$7.1 million for construction of a school building at Metropolitan State Hospital.
 - \$603,000 for installation of personal duress alarms at Patton State Hospital.
 - \$133,000 to install high voltage switching equipment at Patton State Hospital.
- **Headquarters Support Reduction.** The budget reduces the state support item by \$3.3 million (General Fund) through the elimination of positions and reductions to a variety of operating expenditures.

HUMAN SERVICES

4130 Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC) provides departments and agencies within the Health and Human Services Agency support to use electronic data processing resources effectively, efficiently, and economically. HHSDC is supported entirely by reimbursements from departments that contract with the data center for services.

The HHSDC has two general components. The operations component provides computer services, telecommunications support, information systems, and training support for departments in the Health and Human Services Agency. The systems management component manages five major projects for the Department of Social Services. These include (1) the Statewide Automated Welfare System (SAWS), automating eligibility and administrative functions for CalWORKS, Food Stamps, Medi-Cal, Foster Care, Refugee and County Medical Services programs; (2) the Child Welfare Services/Case Management System (CWS/CMS) for the Child Welfare Services, Foster Care and Adoptions programs; (3) the Statewide Fingerprint Imaging System (SFIS) to identify duplicate applicants for CalWORKS and Food Stamps benefits; (4) the Electronic Benefit Transfer (EBT) program to deliver assistance benefits to eligible recipients through electronic funds transfer; and (5) the Case Management, Information and Payrolling System (CMIPS) for the In-Home Supportive Services program. The budget is increased by \$10 million in spending authority, an increase of 3.2%.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|------------------|------------------|-----------------|------------|
| HHSDC Revolving Fund (Operations) | \$307,852 | \$317,868 | \$10,016 | 3.3 |
| (Systems Management Services) | [142,822] | [135,795] | | |
| | [165,030] | [182,073] | | |
| Total | \$307,852 | \$317,868 | \$10,016 | 3.3 |

Highlights

- Operations.** The budget proposes a \$2.2 million increase in spending authority for equipment to meet customer needs. Overall, the Operations budget is reduced by \$7 million, or approximately 5%.
- SAWS.** The budget increases spending authority by \$5.2 million, to reflect increased spending by DSS of \$5.5 million, and a redirection of \$250,000 from current spending authority within the Data Center. The new spending is to replace outdated mainframe equipment and for technical staff to support the mainframe.
- CWS/CMS-Maintenance and Operations Project.** The budget reflects a reduction in spending authority of \$14.5 million, including reductions of \$17.0 million from one-time expenditures in the current year, and an increase of 2.5 million for ongoing maintenance and operations needs of the project.

- **CWS/CMS-Application Server Replacement Project.** The budget includes a net reduction of \$7.3 million in previously approved spending authority for the purchase of equipment, reflecting a federal request that the project must finance the purchase of the equipment over five years.
- **SFIS.** The budget includes a net reduction of \$477,000 in HHSDC spending authority for the SFIS program, due to the transition to the maintenance and operations phases. (DSS local assistance funding is reduced by \$397,000, due to a change in deliverables).
- **EBT.** The budget includes a \$36.3 million increase in spending authority for the EBT program, to extend the pilot program from a single county to 15 counties.
- **CMIPS:** The budget provides an increase of \$376,000 to complete the planning phase for a new CMIPS system.

Issue

- The entire increase in the Data Center’s budget is related to the shift of the electronic Benefit Program from a one-county pilot to a 15 county operating system, and even this increase is substantially offset by reductions in other Benefit Program projects. Efficient, accurate and timely operation of human services programs require state-of-the-art data processing and information technology. Over the long term, reductions in the Data Center, which in turn reflect reductions in technology expenditures by individual departments will likely require restorations.

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies and programs to support the development of health care delivery systems that meet the needs of Californians. OSHPD operates through four major programs: (1) healthcare cost and quality analysis, (2) healthcare workforce development, (3) facility/hospital development, including Cal-Mortgage Loan Insurance, and (4) health care information. The budget is reduced by \$4.8 million, a 7.9% reduction. Most of this reduction is in the limited General Fund portion of the Department’s budget.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|-----------------|-----------------|------------------|-------------|
| General Fund | \$9,476 | \$5,147 | (\$4,329) | -45.7 |
| Federal Trust Fund | 1,498 | 1,498 | | |
| Special Funds | 44,748 | 44,868 | 120 | 0.3 |
| Reimbursements | 4,614 | 4,035 | (579) | -12.5 |
| Total | \$60,336 | \$55,548 | (\$4,788) | -7.9 |

- **Healthcare Quality and Cost Analysis.** The budget proposes a net increase of \$863,000 to implement SB 680, Chapter 898, Statutes of 2001, by making changes to OSHPD’s current outcomes reporting. New elements include an annual risk-adjusted coronary artery bypass graft outcomes report, by hospital and by surgeon; authority to produce physician-level outcomes reports for other conditions; and the addition of primary language information to OSHPD reports. OSHPD proposes

to fund this new activity by using the California Health Data and Planning Fund and some redirection of current staff.

- **Rural Health Care.** The current year budget includes \$3 million (General Fund) for capitol outlay for rural health systems. These funds are not continued in the budget year. Current year budget includes \$1 million Proposition 99 funds for small grants to rural health systems to pay for uncompensated health care services. This funding is maintained in the budget year.
- **Healthcare Workforce Development.** The budget proposes to reduce programs in this area by \$928,000 and .4 personnel years. Specifically, the proposal will 1) reduce the Health Professions Career Opportunity Program (HPCOP) grants by \$42,000, eliminating approximately 6 of 14 grants to academic institutions to encourage training of individuals for a career in health care, 2) eliminating the publication of a newsletter from the HPCOP program, in the amount of \$45,000, placing the newsletter on the Department’s website instead, and 3) eliminating \$804,000 from the Song-Brown to recruit and train primary care health providers in medically underserved areas by eliminating ‘special program’ grants to institutions to develop curriculum, expand clinical training sites, and other activities. This will leave the basic funding for training slots intact and reduce operating expenses and equipment in the HPCOP and Song-Brown programs by \$37,000.
- **Administrative Proposals.** \$749,000 is proposed from special funds to implement an enterprise Geographic Information System to analyze health care information more promptly and accurately. An additional \$250,000 is proposed to continue a departmental information security program, including implementation of the federal Health Insurance Portability and Accountability Act, to be funded with one-time special funds.
- **Additional Reductions.** \$800,000 is redirected from the Nurse Education Fund to the General Fund in the budget year. These funds are accumulated reserves in the Fund. Expenditures are proposed at approximately the same rate as current year.
- **Access to Specialty Care.** AB 548, Chapter 520, Statutes of 2001, requires OSHPD to contract with a non-profit organization to raise funds to provide access to specialty care for individuals living in underserved areas. The budget proposes to solicit a no-cost contract to begin soliciting private funds to implement this program, and authorizes expenditure of up to \$200,000 from the collection of such funds to pay costs associated with the fund-raising.

4170 Department of Aging

The Department of Aging is the designated state agency to coordinate federal Older Americans Act programs, to coordinate resources to meet the long term care needs of older individuals through the State Older Californians Act, and to coordinate with Area Agencies on Aging in services to elderly and functionally impaired Californians. The Department provides services under (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The Department’s budget is reduced by \$6.3 million (3.4%) in the budget year. Virtually all the reductions are made in General Fund appropriations.

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|------------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$46,232 | \$40,136 | (\$6,096) | -13.2 |
| State HICAP Fund | 1,596 | 1,600 | | |
| Federal Trust Fund | 129,471 | 129,461 | (10) | 0.0 |
| Reimbursements | 5,949 | 5,797 | (152) | -2.6 |
| Total | \$183,248 | \$176,994 | (\$6,254) | -3.4 |

Highlights

- **Supportive Services: Legal Services.** The budget proposes to reduce current year funding by \$100,000, funds association with AB 830, Chapter 682, Statutes of 2001, that created a task force to identify ways to improve legal services to senior citizens.
- **Special Projects: Linkages.** The budget proposes a reduction of \$126,000 General Fund in the Linkages Program (01.5%), that provides case management and support services to seniors likely to become institutionalized, who are not otherwise eligible for Medi-Cal. The reduction is anticipated to eliminate services to 147 Linkages clients.
- **Special Projects: Health Insurance Counseling and Advocacy.** The budget proposes a redirection of \$1.7 million in Special Funds that support this program, to the General Fund. The redirected funds are the accumulated reserve. The budget does not propose a reduction in service level spending in the budget year.
- **Administrative Proposals.**
 - The budget proposes to augment current year funding by \$232,000 (\$148,000 General Fund) to conduct an assessment of the impact of HIPAA on the department.
 - The budget reduces state operations by \$945,000 General Fund in State Operations, a 15% cut in the budget.

4180 Commission on Aging

The Commission on Aging advises the Governor, Legislature, and state and local agencies on the needs and problems of older Californians. The Commissions work with local Area Agencies on Aging and sponsors and coordinates the California Senior Legislature. The Commission is funded with a combination of federal funds, and voluntary tax contributions. The proposed budget is reduced by \$41,000 over current year spending, a reduction of 6.3%.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|--------------|--------------|---------------|-------------|
| California Seniors Special Fund | \$42 | \$48 | \$6 | 14.3 |
| Federal Trust Fund | 297 | 297 | 0 | 0.0 |
| California Fund for Senior Citizens | 309 | 262 | (47) | -15.2 |
| Total | \$648 | \$607 | (\$41) | -6.3 |

Issue

- **Revenue estimates.** The reduction to the Commission is more than accounted for by a reduction in revenues from the California Fund for Senior Citizens, which permits California seniors who qualify for a personal income tax credit for as seniors to contribute their tax credit to the special fund. The reductions in budget are proposed for interdepartmental services and facilities costs, rather than Commission member travel and participation. This has the impact of preserving the core advisory function of the Commission.

4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) receives and disburses federal and state alcohol and drug funds to plan, develop, implement and evaluate a statewide system for alcohol and other drug intervention, prevention, detoxification, treatment and recovery services. The Department is the lead agency in the implementation of Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000). Appropriations in the budget year are proposed to decrease by 47.2 million (8 percent).

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|-------------------|-------------|
| General Fund | \$256,881 | \$223,182 | (\$33,699) | -13.1 |
| Sale of Tobacco to Minor Control Acct. | -2,000 | -2,000 | 0 | 0.0 |
| Driving-Under-the-Influence Program Licensing Fund | 1,752 | 1,781 | 29 | 1.7 |
| Narcotic Treatment Program Licensing Fund | 1,110 | 1,127 | 17 | 1.5 |
| Audit Repayment Trust Fund | 67 | 67 | 0 | 0.0 |
| Federal Trust Fund | 253,553 | 250,271 | (3,282) | -1.3 |
| Resident Run Housing Revolving Fund | 39 | 39 | 0 | 0.0 |
| Reimbursements | 80,023 | 69,754 | (10,269) | -12.8 |
| Substance Abuse Treatment Trust Fund (non-add) | [120,000] | [120,000] | | |
| Total | \$591,425 | \$544,221 | (\$47,204) | -8.0 |

Highlights

- **Drug Medi-Cal Reversion.** The budget recaptures \$10.5 million from Drug Medi-Cal appropriations in 2000-01, for use in the current year.
- **Drug Medi-Cal Caseload.** The budget estimates a reduction of \$7.6 million (\$3.7 million General Fund) in Drug Medi-Cal caseload in the current year and \$9.6 million (\$3.7 million General Fund) in the budget year. These changes are related to caseload adjustment, reductions in cost, and changes in utilization of services. The caseload figures include adjustments for new cases referred from the Proposition 36 program
- **Community Treatment Programs.** The budget reduces funds to counties for Alcohol and Other Drug Non-Medi-Cal services in the amount of \$8.3 million General Fund, including funding for technical assistance contracts for treatment for targeted populations (\$850,000), and basic funding for counseling, residential services, detoxification, prevention, case management and relapse prevention (\$7.5 million).
- **Drug Court.** The budget reduces funding for Drug Court programs by \$4 million General Fund, targeting these reductions to the Drug Court Partnership program that would expire under current statute at the end of the budget year.

- **Perinatal Program.** The budget reduces non-Medi-Cal funding for Perinatal Alcohol and Other Drug services by \$2.5 million General Fund. The proposal would permit counties to redirect other funds to backfill this reduction.
- **Proposition 36.** The budget continues to direct \$8.6 million in Federal Block grant funds to continue to implement the Substance Abuse Treatment and Testing Accountability Program established by SB 223, Chapter 721, Statutes of 2001. These funds allow drug testing for client treatment under Proposition 36.

Issue

California has undertaken a significant new initiative by implementing Proposition 36, a voter-approved state law that requires that certain non-violent adult offenders and parolees that use or possess illegal drugs receive drug treatment and intensive supervision in the community rather than being sent to jail or state prison. Counties and the state have acted aggressively to set up the assessment and treatment programs that will make this program a success. At the same time, economic pressures have caused the state to make significant reductions in other community treatment programs. Last year’s budget reduced community treatment by more than \$13 million. This year’s budget reduces community treatment by nearly \$11 million. The Legislature should consider whether it is appropriate to continue to make reductions in alcohol and other drug treatment services available to populations other than criminal offenders.

4700 Community Services

The Department of Community Services and Development administers programs in three main areas: (1) Low Income Home Energy Assistance Programs (LIHEAP and CaLIHEAP), (2) Department of Energy Weatherization Assistance Program (WAP), and (3) federal Community Services Block Grant. The department also verifies eligibility of applicants for the California Alternative Rates for Energy Program offered by utility companies, administers the Lead-Based Paint Abatement and Prevention Program, and participates in the multi-department California Mentor Program for at-risk youths. Programs are administered through a statewide system of community agencies. The overall budget is less than current-year funds by \$51 million (28 percent).

| Summary of Expenditures | | | | |
|------------------------------------|------------------|------------------|-------------------|--------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$47,326 | \$2,989 | (\$44,337) | -93.7 |
| Petroleum Violation Escrow Account | 4,857 | 0 | (\$4,857) | -100.0 |
| Federal Trust Fund | 121,464 | 121,418 | (\$46) | 0.0 |
| Reimbursements | 5,987 | 4,231 | (\$1,756) | -29.3 |
| Energy Programs | [123,363] | [72,267] | | |
| Community Services | [54,282] | [54,282] | | |
| Naturalization Services | [1,989] | [1,989] | | |
| Total | \$179,634 | \$128,638 | (\$50,996) | -28.4 |

Highlights

- **State Energy Programs.** The budget reverts \$53.7 million from current year funds for the California Low Income Home Energy Assistance (CaLIHEAP) program. These represent those funds unencumbered as of November, 2001, from a one-time appropriation in Chapter 7, Statutes of 2001, that created a California energy program to assist low-income, elderly, and disabled households to address the energy crisis and to assist low income families in conservation efforts. No funds are proposed for this program in the budget year. The budget does not renew \$5 million (one-time) current year funding from the Petroleum Violation Escrow Account to provide energy assistance to low-income households, by augmenting the state and federal energy programs.
- **Federal Energy Programs.** The budget provides for virtually level funding for federal low-income energy programs. The low-income funds available to California in 2000-01 were augmented by federal emergency funds, which are expended on a calendar year basis and will be reflected in revisions to the budget.
- **Naturalization Services Program.** The budget reverts \$4.5 million in current year from this program, and continues the cut in the budget year. The program assists legal permanent residents to obtain citizenship, through contract services provided by community agencies. The reduction in program returns the program to approximately \$2 million, the level of service in 1998/99. Services will be reduced from approximately 25,400 individuals to approximately 4,500 individuals. The reduction in service is effected partially by the increase in the maximum allowable cost per client (to include English as a Second Language service).

Issue

- Year-to-year comparison of LIHEAP funding is affected by the one-time infusion of General Funds for the California Low Income Home Energy Program in the current year, even though a portion of those funds are proposed for reversion. Federal funds for low-income energy programs are reduced in the current and budget years compared to previous years (by \$49.2 million). This is because the program is budgeted on a calendar year basis, and final figures in the budget do not reflect emergency funding for the current year.

5100 Employment Development Department

The Employment Development Department (EDD) provides services to link employers and job seekers. The department provides services through four main functions: (1) employment-related services; (2) tax collections and benefit payments; (3) employment training programs; and (4) Workforce Investment Act activities. The budget is proposed to be \$8.7 billion (\$28 million General Fund), an increase of 3.7 percent.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|--------------------|--------------------|------------------|------------|
| General Fund | \$34,959 | \$28,199 | (\$6,760) | -19.3 |
| Benefit Audit Fund | 9,662 | 9,303 | (\$359) | -3.7 |
| EDD Contingent Fund | 45,893 | 42,397 | (\$3,496) | -7.6 |
| Employment Training Fund | 84,111 | 84,047 | (\$64) | -0.1 |
| Welfare to Work Fund-Federal | 5,720 | 0 | (\$5,720) | -100.0 |
| Disability Fund | 2,893,648 | 2,793,772 | (\$99,876) | -3.5 |
| Consolidated Work Program Fund | 728,971 | 647,694 | (\$81,277) | -11.1 |
| Unemployment Administration-Federal | 571,739 | 599,666 | \$27,927 | 4.9 |
| Unemployment Fund-Federal | 3,984,799 | 4,466,385 | \$481,586 | 12.1 |
| School Employees Fund | 37,566 | 39,023 | \$1,457 | 3.9 |
| Reimbursements | 29,262 | 29,245 | (\$17) | -0.1 |
| Total | \$8,426,330 | \$8,739,731 | \$313,401 | 3.7 |

Employment Related Services. This program provides services to match employer job needs and job seekers, primarily through a system of One-Stop Career Systems.

Highlights

- **Intensive Services.** The budget proposes to reduce the Intensive Services Program by eliminating \$3.6 million in Contingent Funds. In addition, the CalWORKs budget proposes to eliminate a pass-through of \$3.6 million in TANF funds to EDD for the Intensive Services Program. This program provides case management services to economically disadvantaged individuals.
- **Job Agent.** The budget proposes to eliminate the Job Agent program for a savings of \$2.7 million General Fund. The program provides employment-related services to economically disadvantaged persons with multiple barriers to employment.
- **Trade Adjustment Assistance.** The budget adds \$8.9 million from the Unemployment Administration fund to fully implement federal Trade Adjustment Assistance, a federal program to provide retraining, relocation and job search to Californians who have lost or will lose jobs as a result of foreign competition.
- **NAFTA.** The budget adds \$3.1 million from the Unemployment Administration fund to fully implement the federal North American Free Trade Agreement (NAFTA) program, a federal program to provide assistance for workers directly affected, or secondarily affected, by imports from or shifts in production to Mexico or Canada.
- **Faith-Based Initiative.** The budget proposes \$4 million General Fund to continue the Faith-Based Initiative, by adding an additional year of competitive grants to organizations for employment and training assistance services by faith-based groups.

Tax Collections and Benefits. EDD administers programs to persons who are unemployed or temporarily disabled, including the collection of taxes, the determination of benefit eligibility based on claims, management of caseloads, processing of payments to claimants, recovery of overpayments, and adjudication of disputes about claims or tax liability for Unemployment Insurance and Disability Insurance. The collection process includes Personal Income Taxes and Employment Training Taxes collected by employers.

Highlights

- **Tax Program Administration.** The budget proposes a reduction of \$380,000 General Fund from the Operating Expenses and Equipment budget of the Personal Income Tax program to collect employer tax revenues and personal income taxes withheld by employers in the state.
- **Tax Program Review.** The budget proposes an increase of \$507,000 from the Disability Fund, Contingent Fund and Employment Training Fund to complete a review of the Employment Tax System, including a review of business operations and automated systems in the Tax Program.
- **Unemployment Insurance Caseload.** The budget proposes an increase of \$2 billion (\$1.9 billion Unemployment Insurance Trust Fund and \$39.2 million Unemployment Administration Fund) for increased Unemployment Insurance workload and increased benefit payments. These increases are related to the rise in the state's unemployment rate.
- **Disability Program Workload.** The budget proposes an increase of \$182.9 million from the Unemployment Compensation Disability Fund for increased workload (\$3 million) and benefit payments (\$180 million).
- **School Employees Unemployment Caseload.** The budget proposes an increase of \$7.0 million from the School Employees Fund for Unemployment Insurance benefits to school employees.
- **Unemployment Insurance Appeals Board.** The budget proposes an increase of \$10.3 million from the Unemployment Administration Fund and \$314,000 from the Unemployment Compensation Disability Fund for increased workload at the California Unemployment Insurance Appeals Board. These increases are parallel to the increases above to EDD for benefit and workload increases.

Employment Training Programs. EDD administers the Employment Training Tax from employers who participate in the Unemployment Insurance system, and uses the funds in performance-based contracts to provide training to unemployed workers in high-wage, high-skill jobs, and to retrain incumbent workers in businesses challenged by out-of-state competition. EDD administers federal Welfare to Work funds from the Department of Labor, providing transitional assistance for recipients of CalWORKs. EDD coordinates the Workforce Investment Act, which provides federal funds for Adult Employment and Training, Youth Activities and Dislocated Workers Employment and Training. The majority of these funds are administered through local Workforce Investment Agencies; up to 15% is reserved for discretionary projects at the statewide level.

Highlights

- **Employment Training Fund.** The current year budget allocated \$30 million from the Employment Training Fund ongoing funds for CalWORKs Employment Services, and a one-time transfer of \$31.7 million in ongoing reserves. The budget year proposal appropriates \$30 million from ongoing funds to CalWORKs.
- **Welfare-to-Work.** The budget requests \$1.4 million General Fund to provide the required match to federal Welfare to Work funds. The bulk of the state match in this program has historically been budgeted in the Department of Social Services, as a part of the CalWORKs program. The bulk of the state match is proposed to be deferred in the budget year, permitted under federal law. The funds requested here will provide EDD with administrative resources to coordinate CalWORKs and EDD programs.
- **Workforce Investment Act.** The budget requests authority to increase spending in the current year for Workforce Investment Act programs, for a total of \$58.2 million for state support and \$4.7 million for local assistance. The state support totals include carry-forward from the prior two fiscal year (\$3.5

million from 1999-2000 in Job Training Partnership Act funds; \$32.4 million in 2000-01 Governor’s Discretionary WIA funds; \$20.5 million in Rapid Response funds; and \$800,000 in youth program administration costs) and \$1 million in grants for a Toll-Free Help Line for dislocated workers.

Issue

- The Governor’s Budget Summary proposes to create a new Labor Agency. Included in the proposal are several goals:
 - Consolidate job-training programs under the new Labor Agency, including EDD, the Department of Industrial Relations, the Workforce Investment Board and the Agricultural Relations Board.
 - Consolidate apprenticeship programs under the Department of Industrial Relations.
 - Consolidate vocational and adult education programs under the California Community colleges.

The proposal intends to block grant programs to the various departments in the new Labor Agency and to refocus workforce development from job training to economic development. No details were provided with the proposal, and no budget changes made to EDD to implement this proposal.

5120 State Workforce Investment Board

The Workforce Investment Board was established to provide direction to the task of implementing the Workforce Investment Act: restructuring workforce development programs into an integrated system that can provide employment, training and education services through a network of one-stop career centers. The board has the task of reviewing local workforce plans, advising on performance standards, and providing oversight to local program performance. The budget proposes an increase of \$71,000, for a budget of \$5.7 million. Funding is provided entirely from federal funds and reimbursements. There are no substantial changes from current year to budget year.

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and to maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation Services program, funded primarily with federal funds, to provide vocational services to persons with disabilities, including through cooperative agreements with other state and local agencies (education, mental health, welfare) to provide specialized services. The department provides habilitation services, vocational and supported employment services for persons with developmental disabilities, using state funds, and federal Home and Community Services Medicaid reimbursements. The department provides support services for Community Rehabilitation Programs, including independent living centers. The budget is anticipated to be \$483.9 million (\$167.6 million General Fund), an increase of 2 percent.

Summary of Expenditures

| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|------------------------|------------------|------------------|----------------|------------|
| General Fund | \$166,163 | \$167,575 | \$1,412 | 0.8 |
| Vending Stand Account | 3,360 | 3,360 | 0 | 0.0 |
| Federal Funds | 280,615 | 289,976 | 9,361 | 3.3 |
| Reimbursements | 24,099 | 23,028 | (1,071) | -4.4 |
| Total | \$474,237 | \$483,939 | \$9,702 | 2.0 |

Highlights

Vocational Rehabilitation Program

- **Vocational Rehabilitation Caseload.** The budget augments funding for Vocational Rehabilitation by \$13.65 million (\$2.9 million General Fund) to assure that all individuals in the two most disabled categories of eligibility receive services through the budget year.
- **Operational Reductions:** The budget assumes a net savings of \$10.4 million (\$2.5 million General Fund) through a variety of administrative and operational changes. These include:
 - Efficiencies in the delivery of vocational rehabilitation services, including the use of comparable community services for medical examination and vocational assessments, and suspending modifications to real property for consumers to function at home or work;
 - Reduce Departmental operating expenses by 15%
 - Increase participation in cooperative agreements with other agencies to provide vocational rehabilitation services, leveraging additional match to the federal funds for other sources.
- **Supported Employment/Vocational Rehabilitation.** The budget augments by \$689,000 (\$143,000 General Fund) to reflect caseload changes in the Supported Employment Program within the vocational rehabilitation program. This is in addition to a reduction of \$2.1 million (\$414,000 General Fund) in the current year in this program, related to caseload changes.

Habilitation Services

- **Work Activity and Supported Employment/Habilitation.** The budget provides increases of \$15 million (\$12.8 million General Fund) in the current year, and \$10.9 million (\$10.5 million General Fund) in the budget year to reflect changes in cost and caseload for the Habilitation Services program. This program provides Work Activity and Supported Employment Programs to individuals with developmental disabilities. These increases are offset in the budget year with a reduction of \$7.3 million reflecting the intention of the Department to work with stakeholders to identify efficiencies and savings in this program.

Community Facilities

- **Independent Living Centers.** The budget proposes a reduction of \$3.4 million (General Fund) due to a shift in funding of Independent Living Center grants from the General Fund to federal funds received when SSI or federal disability recipients are removed from the rolls due to successful vocational rehabilitation. The proposal does not contemplate a change in grant levels for the Centers.

5175 Department of Child Support Services

The Department of Child Support Services (DCSS), established as of January 1, 2000, administers the child support enforcement program operated by local child support agencies. The Department provides state direction that assure that child support amounts are established, collected, and distributed to families, including securing child and spousal support, medical support, and determining paternity. The Department continues to have responsibility for addressing federal fiscal sanctions related to California's failure to develop adequate systems in the past and to transition from the previous child support system to the newly redesigned local system. All counties are expected to transition to the new system by the end of 2002. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and establishes performance standards for California's child support

program. The budget anticipates collections of \$2.4 billion in the budget year. The overall budget decreases by \$205 million (17 percent).

| Summary of Expenditures | | | | |
|--|--------------------|------------------|--------------------|--------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Funds | \$451,279 | \$288,486 | (\$162,793) | -36.1 |
| Federal Funds | 403,537 | 358,344 | | |
| Reimbursements | 477 | 443 | (34) | -7.1 |
| Child Support Collection Recovery Fund | 344,164 | 347,636 | 3,472 | 1.0 |
| Total | \$1,199,457 | \$994,909 | (\$204,548) | -17.1 |

Highlights

Child Support Services

- **State Administration.** The budget proposes a reduction of \$3.0 million all funds (\$1 million General Fund) by reducing administrative support and operating expenses. The proposal eliminates the Department’s Research and Demonstration Projects Section, that utilizes collaboration with other state and local agencies to improve management of child support systems, and to encourage payment of child support by low income obligors. Additional positions and operating expenses are eliminated.
- **County Reviews.** The budget appropriates \$400,000 (\$136,000 General Fund) to permit the Department to extend a contract with the Department of Finance to conduct county-by-county reviews of excess incentive funds in local child support agencies and to establish an ongoing audit function for administrative costs, collections, data reporting, and reliability. The current contract has identified funds that are excess to county expenditures for collections
- **Automation Costs.** The budget anticipates redirection of \$4.3 million (\$1.4 million General Fund) from the Pre-Statewide Interim Systems Management (PRISM) automated system to develop activities for the California Child Support Automated System (CCSAS); and reduction of an additional \$146,000 (\$50,000 General Fund) not needed for PRISM. The developing CCSAS system is central to effective and efficient child support system operation, and is the key to reducing federal penalties.

Child Support Administration

- **Local Child Support Costs.** Basic costs of operating the child support program at the local level are paid by the federal government at the rate of 66%, with 34% matching funds. These matching funds consist of federal and state incentive funds. The federal share of incentive funding is based on California’s performance relative to other states. The budget includes a reduction of \$35.3 million General Fund for basic costs, based on estimates of actual local expenditures. This is in addition to a current year proposed reversion of \$30.3 million (\$10 million General Fund) for local costs that were not incurred as estimated. The budget includes an increase of \$14.4 million General Fund due to estimates of the level of federal participation in incentives.
- **Federal Penalty.** California has been assessed penalties by the federal government for failure to develop a statewide automated system for the collection of child support. These penalties are a percentage against the costs of administering the system, and the percentage rises over time. California will pay \$157.4 million in the current year, and would pay \$181.3 million in the budget year. The budget assumes changes in federal law that change the way the penalty is calculated and

that allow states to claim a reinvestment credit for improvements and increased costs in the system. The budget assumes the passage of these changes and claims savings of 157.4 million General Fund in the budget year (compared to the current year) in anticipation of the changes.

- **Local Data Conversion Costs.** The budget anticipates that all counties will complete conversion to federally approved automation systems in the current year. Consequently, the budget makes a reduction of \$9.8 million (\$3.3 million General Fund) in funds for data conversion and enhancements. The budget is reduced by \$2.5 million General Fund to reflect increased Federal participation in county data system costs.
- **Local Conversion Costs.** The budget is reduced by \$1.6 million (\$.4 million General Fund) to eliminate county transition costs associated from transition the local departments from district attorneys to new county departments, reflecting the completion of conversion by June 2002.
- **Health Insurance Incentives.** Current law provides an administrative incentive payment of \$50 to county programs for obtaining third-party health coverage available from non-custodial parents. The budget proposes to suspend this program, and to claim savings of \$3 million General Fund as a result.
- **Foster Care Collections.** Current law provides that the difference between the state share of child support foster care collections and the base level of estimated share of child support foster care collections be transferred to the state's Foster Parent Training Fund. The budget proposes a reduction in current year of \$1.3 million in the transfer, reflecting reductions in the collection of foster care child support payments. The 2002-03 budget reflects a similar reduction plus a reduction of \$1 million redirected to the General Fund. The net impact on the Foster Parent Training Fund is a 46% reduction.
- **Local Compliance Self-Reviews.** Current law provides for state support for local child support agency program compliance self-reviews. The budget eliminates special state support for \$1.6 million (General Fund), but asserts that these activities will be funded through Basic Administrative claims by local agencies.

5180 Department of Social Services

The Department of Social Services administers programs addressing four major goals: 1) administering temporary assistance programs providing cash and services to encourage families with children to attain self-sufficiency by moving from welfare to permanent work, 2) providing social services programs for elderly, blind, disabled and other adults and children, protecting them from abuse, neglect and exploitation, and helping families stay together and in the community, 3) regulating group homes, preschools, foster care homes and day care facilities to ensure they meet established standards for health and safety, and 4) conducting disability evaluations and providing benefit payments for federal and state programs serving the aged, blind and disabled. The department's total budget increases by \$812 million, an increase of 5.3%. General Fund appropriations increase by \$406 million, or 5.3%.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|---------------------|---------------------|------------------|------------|
| General Fund | \$7,639,561 | \$8,045,558 | \$405,997 | 5.3 |
| Emergency Food Assistance Fund | 333 | 309 | (\$24) | -7.2 |
| Cont. Care Provider Fee Fund | 939 | 949 | \$10 | 1.1 |
| Technical Assistance Fund | 2,766 | 3,110 | \$344 | 12.4 |
| Certification Fund | 1,214 | 1,207 | (\$7) | -0.6 |
| Child Health and Safety Fund | 1,167 | 1,413 | \$246 | 21.1 |
| Employment Training Fund | 61,650 | 30,000 | (\$31,650) | -51.3 |
| State Children's Trust Fund | 1,931 | 1,931 | \$0 | 0.0 |
| Federal Funds | 6,018,538 | 6,295,825 | \$277,287 | 4.6 |
| Reimbursements | 1,511,078 | 1,671,284 | \$160,206 | 10.6 |
| County Funds (Non-add) | [1,190,081] | [1,234,209] | (44,128) | (3.7) |
| Total | \$15,239,177 | \$16,051,586 | \$812,409 | 5.3 |

CalWORKs

CalWORKs, California's implementation of the federal Temporary Assistance for Needy Families (TANF) became operational January 1, 1998. The CalWORKs program includes cash benefits for eligible children and families, work requirements, and services to assist families to move to self-sufficiency within time limits imposed by federal and state law. The program operates under guidelines set at the federal and state levels; funds are provided to county welfare departments in a block grant, with the flexibility to design and carry out the program within those guidelines.

CalWORKs is funded through a federal block grant of \$3.7 billion that must be matched with a state share of \$2.7 billion. The state share is based on historic spending on welfare in 1994, with downward adjustments if certain work participation goals are achieved. Some of the federal funds are spent on federally eligible activities in other departments. Some of the state share of cost consists of expenditures for federally eligible activities by other departments.

Highlights

- **Total Expenditures.** The CalWORKs program, including federally eligible activities in other departments, is operating in the current year at approximately \$600 million above the funds available through the TANF block grant and required Maintenance of Effort funds. (See presentation on CalWORKs earlier in this document.) The budget makes various reductions to maintain spending within the federal minimum of \$6.4 billion.
- **COLA.** The budget proposes to award no Cost of Living Adjustment to CalWORKs cash grants. Current law would require a grant increase of 3.89% for a total cost of \$116.6 million.
- **Caseload.** The budget assumes an increase of \$96.4 million in cash grants, associated with a 2.1% increase in caseload and a small increase in the average grant per person.
- **Time Limits.** The budget assumes net savings of \$92.6 million because some recipients will reach the total 60-month time limit of eligibility for which any adult is eligible. Participants will reach this time limit for the first time in 2002-03. Services continue to be available to participants who are

working at the time they reach the time limit, although cash grants are stopped. Children remain eligible for safety net payments after the time limit is reached.

- **County Incentives.** The budget proposes to recover \$20 million from current year funding for incentive payments to counties for meeting employment targets for CalWORKs recipients. The budget proposes in the budget year to recover \$600 million in unspent prior year incentive payments to counties for meeting CalWORKs employment targets, to return these funds to the federal government pursuant to federal cash management requirements. The budget proposes to keep \$169.3 million of these funds for use in other CalWORKs programs, and to allocate the remaining \$430.8 million of recouped incentive payments to counties. No new incentive payments are proposed for the budget year.
- **Fraud Incentives.** The budget eliminates \$5.1 million in General Funds incentive payments for fraud detection by counties. Counties would continue to receive \$5.1 million in federal TANF funds for fraud detection incentive payments.
- **Transfers to Other Departments.** The budget eliminates \$100 million from (1) the Department of Education for adult education and Regional Occupational Collaborative programs, (2) the California Community Colleges, (3) the Department of Corrections, and (4) the Employment Development Department, for services to CalWORKs recipients. These funds were a combination of General Fund and TANF funds; the budget proposes to use these funds for direct CalWORKs services.
- **Employment Training Fund.** The budget proposes to transfer \$30 million from the Employment Training Fund to offset the cost of providing employment services to CalWORKs participants.
- **Child Care.** The budget proposes extensive changes to California's public child care system, including child care available to participants in CalWORKs. (See child care discussion earlier in this report.) The CalWORKs budget assume a savings of \$182.8 million for savings to Stage I and Stage II CalWORKs budgets associated with the changes. These numbers do not include changes to Stage III, or post-CalWORKs child care. They do assume that the changes in parent fees, provider reimbursement, and eligibility will be implemented for all CalWORKs recipients of child care services.

Supplemental Security Income/State Supplementary Program (SSI/SSP)

The SSI/SSP program provides cash grants to persons who are elderly, blind, and/or too disabled to work and that meet the federal income and resource requirements of the program. The program is administered by the federal Social Security Administration, which determines eligibility, computes grants, and disburses monthly payments to recipients. The state contributes the State Supplementary Program portion of the program.

More than 1 million Californians receive SSI/SSP. Two-thirds are disabled, 31 percent are elderly, and two percent are blind.

Highlights

- **Caseload.** The budget includes an increase of \$51.1 million due to caseload growth.
- **COLA.** The budget includes an increase of \$161.6 million due to the full-year budgeting of the Cost of Living Adjustment (COLA) provided effective January 2002 (COLAs in this program are paid with a combination of federal and state funds, and are provided on a calendar-year basis). The budget proposes to save \$134.2 million by not providing a COLA beginning January 2003. Participants would receive a 1.8% COLA on the federal portion of the grant.

- **Immigrants.** The budget includes an increase of \$12.7 million for the Cash Assistance Program for Immigrants (CAPI), for caseload growth and a slightly higher average grant. CAPI is a state only program that provides benefits to aged, blind and disabled legal immigrants who were disqualified from SSI because of federal welfare reform actions. Trailer bill in 2001 made permanent the eligibility of CAPI participants who entered the country after August 22, 1996.

Food Stamps

The Food Stamp program provides eligible households food stamps at no cost, including an estimated 1.1 million persons in an average month who are on public assistance, and an additional 700,000 persons in an average month who are income eligible. The U.S. Department of Agriculture provides the cost of the benefit value of food stamps. The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Approximately 99,000 persons will participate in CFAP.

Highlights

- **Immigrants.** Trailer bill legislation in 2001 made permanent the eligibility of legal immigrant who entered after August 22, 1996. The budget assumes savings of \$79.9 million in this program by assuming that federal changes to the food stamp program will make the CFAP population eligible for federal food stamps again. Fifty percent of these savings (\$35.1) are General Fund, and half are savings in the CalWORKs Maintenance of Effort, redirected to other CalWORKs activities.

In-Home Supportive Services (IHSS)

The In-Home Supportive services (IHSS) program provides services to aged, blind or disabled individuals with services that allow them to remain safely in their own homes as an alternative to out-of-home care. Services include domestic services (meal preparation, laundry), nonmedical personal care services, assistance while traveling to medical appointments, teaching, and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the recipient, county contracts with service providers, or through welfare staff. 74 percent of the persons receiving IHSS are provided services that are federally reimbursable under the Personal Care Services program of the Medicaid program. The local assistance budget will be \$2.6 billion in 2002-03 (\$1 billion General Fund). The estimated caseload is estimated to 284,000 per month, an increase of 6.3 percent over the current year.

The state requires that counties act as or select an employer of record for IHSS providers on or before January 2003. Several counties have, or are in the process of, establishing Public Authorities for the purposes of collective bargaining with these workers. The budget assumes that 95% of the caseload will be served by providers working for a Public Authority by January 2003.

State law provides that the State share in provider rate increases above the State minimum wage in Public Authority and non-profit consortium counties, up to specified maximum wage and benefit increases and contract rates, based on General Fund revenue growth. The 2001 budget act awarded an increase (to a total of \$9.10/hour for Public Authority providers, including wages and benefits; and comparable amounts in other modes of service), although the General Fund increase trigger was not activated.

Highlights

- **Caseload.** The budget provides an increase of \$54.4 million General Fund for caseload growth and increased workers' compensation costs.

- **Minimum Wage.** The budget includes an increase of 31 million (General Fund) for the full-year cost of the January 2002 increase in minimum wage.
- **Public Authorities.** The budget includes a net increase of \$21 million General Fund for caseload increases in Public Authorities.
- **Provider Rates.** The budget includes no State participation in new provider rate increases in the budget year, although the General Fund increase trigger is estimated to be activated.

Child Welfare and Foster Care

The Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children, and group homes. The caseload for foster care is estimated to be 77,000, a slight decrease of 0.2 percent. In addition, the Adoption Assistance program provides subsidies to promote the placement of hard-to-place adoptive children. The caseload is expected to be 55,000, an increase of 13.9 percent over current year. Finally, the Kin-GAP program provides support to children in long-term stable placements with relatives. The projected caseload is 15,000 children.

Children's Services includes Child Welfare Services to provide programs to protect children from abuse, neglect, and exploitation. Programs include Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement. Adoption Services provides adoption services through state and county agencies. Child Abuse Prevention Services program provides grant funds to local agencies for prevention and intervention. These programs spend \$1.8 billion all funds for local assistance.

Highlights

- **Transitional Emancipation.** Legislation in 2001 created the Supported Transitional Emancipation Project, to provide financial support for emancipating foster youth up to age 21 who are participating in work or training for independent living. The budget captures \$5 million savings from the current year, based on revised estimates on eligibility and implementation. The budget provides \$11.9 million for the budget year to fund this program.
- **Transitional Housing.** Legislation in 2001 created the Transitional Housing for Foster Youth program, with a one-time appropriation of \$10 million. The budget proposes to recapture \$4.8 million of these funds, leaving \$5.2 million for expenditure over the current and budget years.
- **Adoptions Assistance.** The budget provides an increase of \$29.9 million to support the increased caseload in Adoptions Assistance.
- **Kin-GAP.** The budget includes a \$39.7 million increase due to increased caseload in Kin-GAP. Most of this program is funded with TANF and Maintenance of Effort funds from the CalWORKs program.
- **COLA.** The budget provides no COLA adjustments for any foster care providers (foster family homes, group homes, foster family agencies) and no COLA for KinGAP or Adoptions Assistance.
- **Child Welfare Services.** The budget provides \$16.7 million (\$15.1 million General Fund) for a cost-of-doing-business adjustment for local child welfare services. The budget provides no similar cost-of-doing business for counties for other programs, such as CalWORKs.

- **Adoption Services.** The budget provides a reduction of \$12.8 million (\$7.3 million General Fund) in adoption services, due to the redirection of federal adoption incentives to programs currently supported by the General Fund.

Adult Protective Services

The Adult Protective Services (APS) program serves adults who may be victims of abuse or neglect in their homes or in community care facilities. Legislation enacted in 1998 expanded the categories of people required to report suspected abuse, defined the types of abuse required to be reported, and required counties to provide emergency response systems, emergency shelter and food, and in-home protective services to elderly and dependent adults in danger of or known to be abused, neglected or exploited. The caseload is estimated to be 16,800 persons.

Caseload. The budget increases Adult Protective Services slightly to \$78.9 million (\$55.3 million General Fund), with no increase in General Fund. Increases in federal Medi-Cal reimbursement for some costs are added and the budget assumes no increase in caseload for this program. In addition, there is \$27.3 million for County Services Block Grant for this program, a figure that has not changed in the budget year.

LABOR

8350 Department of Industrial Relations

The Department of Industrial Relations (DIR) is intended to protect the workforce, improve working conditions, and advance opportunities for profitable employment. The department has three major programs: The adjudication of workers' compensation disputes, the prevention of industrial injuries and deaths and the enforcement of laws relating to wages, hours and working conditions. The budget reduces the department's expenditures to less than \$259 million. The reduction is almost entirely in General Fund spending.

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|-------------------|-------------|
| (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
| General Fund | \$174,690 | \$155,502 | (\$19,188) | -11.0 |
| Special Funds | 94,947 | 103,155 | 8,208 | 8.6 |
| Total | \$269,637 | \$258,657 | (\$10,980) | -4.1 |

Highlights

The department is to be placed under the new Secretary for Labor.

The bulk of the General Fund reductions, \$7.3 million, are associated with eliminating 91 positions in the workers compensation division.

Issue

Report on the New Positions. The department was to have worked with the committee on developing workload measures for the new positions. It was to have reported the performance standards and its progress in filling the positions by December 15. To date, the committee has not been contacted for input on the measures and no report has been submitted.

VETERANS AFFAIRS

0553 Office of the Inspector General for Veterans Affairs

The inspector has responsibility for reviewing the operations and financial condition of the state's veterans' programs, including the State Farm and Home Purchase Program ("Cal-Vet") and the veterans' homes. The budget falls from \$555,000 in the current year to \$531,000 in the budget year.

Issue

The Inspector General for Veterans Affairs (IGVA) sought additional staff in 2001 and believes that the office needs to double its staff in order to meet its statutory requirements. It was difficult to evaluate the request for more staff, as IGVA had no staffing plan. As a condition of approving the 2001 budget, the Legislature required the IGVA to submit a report describing the office's duties, optimal funding levels, and performance standards. The report was to have been submitted to the Legislature no later than December 1, 2001. As of January 15, the IGVA had not submitted the report. It is difficult to evaluate the IGVA's budget or performance without this basic management plan.

8950 Department of Veterans Affairs

The Department of Veterans Affairs (DVA) provides services to qualified veterans and eligible members of the National Guard. Specifically, it:

- Assists eligible veterans and their dependents in obtaining federal and state benefits.
- Makes below-market loans to qualified veterans for homes and farms. The loans made through the California Veterans Farm and Home Purchase Program (the "Cal-Vet program") are capitalized from the proceeds of revenue bond sales.
- Operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services.

The budget proposes to reduce total expenditures from \$341 million in the current year to \$339 million. The reductions are associated with the Cal-Vet program, partially offset by increases in the costs at the veterans homes.

To date, the Barstow and Chula Vista homes have not been certified for federal reimbursement, though the budget assumes that they will be certified soon. As such, the budget assumes that federal reimbursements at the two homes will increase beginning in February.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|---|------------------|------------------|------------------|-------------|
| General Fund | \$66,954 | \$64,985 | (\$1,969) | -2.9 |
| Veterans Service Office Fund | 339 | 514 | 175 | 51.6 |
| Cal Natl Guard Mbrs' Farm & Home | 82 | 78 | (4) | -4.9 |
| Vets' Farm & Home Bldg Fund of 1943 | 229,545 | 221,905 | (7,640) | -3.3 |
| Cal Vets' Memorial Registry Fund | 26 | 23 | (3) | -11.5 |
| Federal Trust Funds | 14,995 | 17,878 | 2,883 | 19.2 |
| Reimbursements | 29,109 | 33,198 | 4,089 | 14.0 |
| Total | \$341,050 | \$338,581 | (\$2,469) | -0.7 |

Issues

Management Practices Remain a Problem. During the interim, the State Auditor completed her audit of the cash management practices at the department. She determined the department has several deficiencies in its practices and recommends that the department institute better practices immediately. In addition, she determined that the department has a cash management, rather than a cash flow problem.

“Deficiency” Bill? On November 13, the Senate Committee on Budget and Fiscal Review Subcommittee No. 2 (chaired by Senator Chesbro) conducted an interim hearing on the department’s cash flow management and the progress toward certification of Barstow. At the hearing, the department testified it would not be able to pay two recent loans. As a result, it will be seeking General Fund forgiveness of the two loans. The General Fund cost could be in excess of \$5 million. In addition, the department testified that it is not likely that the department will secure all the reimbursements budgeted in 2001-02, indicating that it will have to seek a deficiency for the reimbursement shortfall. These deficiencies do not derive from unanticipated expenses, but rather from the department’s continuing administrative problems. Under what circumstances should the Legislature provide the deficiency?

MIA: Ten Reports to the Legislature. As a condition of appropriating funds in 2001, the Legislature requested that eleven reports be filed with the committee between July 1, 2001 and January 10, 2002. To date, the department has provided one report. The reports were to help the Legislature evaluate the department’s progress on securing certification of the Barstow home, improving the management of cash, and increasing collections. Without the reports, the Legislature has limited means to monitor the department’s management. Given the department’s inability to report on key management and fiscal issues, the Legislature should consider whether the current management best serves the needs of the veterans.

SUBCOMMITTEE No. 4

LEGISLATIVE, EXECUTIVE, PUBLIC SAFETY, and GENERAL GOVERNMENT

Corrections

| | |
|--|-----|
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| | |
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PUBLIC SAFETY

5240 Department of Corrections

The Department of Corrections (CDC) is responsible for the control, care, and treatment of men and women who have been convicted of serious crimes and entrusted to the department’s Institution and Community Correctional programs. In addition, the CDC maintains a Health Care Services program to address inmate health care needs and a civil narcotics treatment program for offenders with narcotic addictions.

The budget proposes \$4.8 billion for the CDC, which is a decrease of \$28.3 million, or 0.6 percent, below the revised current-year budget. General Fund expenditures are proposed to decrease by \$2.1 million, or less than 0.1 percent from current-year expenditures. The decrease is due primarily to cost factors related to the projected decrease in the inmate and parole populations, the elimination of five expiring private Community Correctional Facility (CCF) contracts, and the cancellation of an additional 425 Community Correctional Reentry Center (CRC) beds.

Authorized positions for the department are proposed to decrease by a net 80 positions for a total of 44,943 positions. This amount includes restoration of 82 abolished vacant positions. The department indicates that these difficult-to-fill positions are responsible for maintaining safety and security, are court mandated, or related to direct patient care.

| Summary of Expenditures (dollars in thousands) | 2001-2002 | 2002-2003 | \$ Change | % Change |
|--|--------------------|--------------------|-------------------|-------------|
| General Fund | \$4,693,262 | \$4,691,144 | (\$2,118) | 0.0 |
| Federal Trust Fund | 1,934 | 2,017 | 83 | 4.3 |
| Inmate Welfare Fund | 45,994 | 45,825 | (169) | -0.4 |
| Reimbursements | 89,658 | 63,601 | (26,057) | -29.1 |
| Total | \$4,830,848 | \$4,802,587 | (\$28,261) | -0.6 |

Highlights

Institution Program. The California Department of Corrections is required by statute to accept convicted felons and civilly committed nonfelon narcotic addicts from California courts when their sentence is imprisonment in a state correctional facility. It is the department’s responsibility to provide safe and secure detention facilities to protect society from further criminal activities and to provide necessary services such as food, clothing, medical care, psychiatric and counseling services, and training, including academic and vocational education.

The department estimates the inmate population to decrease from 156,409 on June 30, 2002 to 155,721 by June 30, 2003, a decrease of 688 inmates, or 0.4 percent.

Major budget adjustments for the Institutions Program include:

- A net decrease of 149 positions and a net decrease of \$10.5 million from the General Fund and \$161,000 from the Inmate Welfare Fund to accommodate revised inmate population projections and related costs.
- A net decrease of \$5.1 million General Fund and an increase of 200 positions related to the deactivation of five Community Correctional Facilities upon expiration of the current contracts. The department indicates that due to the decline in inmate population and the effects of Proposition 36, these facilities are no longer required.
- Reappropriation of \$11.7 million for replacement or repair of electromagnetic door operating systems from the \$33.5 million appropriation in the current year, due to changes in the implementation schedule.
- An increase of \$5.1 million (General Fund), related to the activation of custody positions from the institutional vacancy plans.
- An assumption that California will receive \$208.3 million in federal funds to offset the incarceration of undocumented persons. This amount is \$50 million more than is estimated to be received under current appropriations at the federal level.

Health Care Services Program. The California Department of Corrections is mandated to provide health care to the inmate population. The mission of the Health Care Services program is to manage and deliver health care to the inmate population statewide consistent with adopted standards for quality and scope of services within a custodial environment. The program strives to achieve this mission by providing cost-effective, timely, and competent care. Additionally, the program promotes inmate responsibility for their health.

The Health Care Services program is in the process of implementing a multidisciplinary, multiple service statewide health care delivery system. The delivery system seeks to provide inmates with timely access to staff, facilities, equipment, and procedures to diagnose and treat medical, dental, and mental health problems. Standardized screening and comprehensive mental health evaluations, licensed 24-hour medical care, adequate and timely mental health crisis care, and ongoing medical, dental, and mental health outpatient treatment are the basic components of the Health Care Services program. The program currently operates four licensed hospitals and a skilled nursing facility for female inmates. In addition, the department operates a hospice care wing at the California Medical Facility and an HIV unit at the California Institution for Men.

The proposed budget for the Health Care Services program is \$735.2 million, an increase of \$507,000 million, or 0.1 percent, above current-year expenditures. In recent years, the budget for the Healthcare Services Division has increased greatly due in large part to increases for contract medical costs, and for the rise in costs for medical and psychiatric supplies. The 2002-03 budget proposes no increases for medical and psychiatric supplies.

Major budget adjustments for the Health Care Services program include:

- An increase of 102 positions and a net increase of \$5.5 million General Fund to provide necessary health care and support staff to accommodate revised inmate population projections and related programmatic changes.
- Reappropriation of \$7.2 million General Fund for the Madrid Patient Information System. The Budget Act of 2001 appropriated \$7.9 million. CDC indicates that it is in the process of procuring the new system, consistent with the court-approved project timeline.

Community Correctional Program. The primary objective of this program is to increase the rate and degree of successful reintegration and release to society of adult offenders released from state prison to the jurisdiction of the Parole and Community Services Division. This objective is attained by providing support services, community program referral, control of behavior, and by increasing community awareness and understanding.

The department estimates that the parole population will be 120,523 by June 30, 2002. For 2002-03, the CDC projects the population to decrease by 3,712, or 3.1 percent, for a total of 116,811 by June 30, 2003. This projection accounts for recent population trends and the estimated impact of Proposition 36 on the parole population.

Major budget adjustments for the Community Correctional program include:

- A net decrease of 219 positions and \$8.6 million General Fund to accommodate revised parole population projections and related programmatic changes.
- A net decrease of \$3.4 million General Fund and a net increase of 45 positions associated with the cancellation of 425 Community Correctional Reentry Center (CCRC) beds. These beds had been previously approved by the Legislature, but a contract for these beds had never been awarded. CDC indicates that these beds will not be needed due to the projected drop in population.
- A reduction of \$10.6 million General Fund offset by an increase of \$10.6 million in reimbursements from federal Workforce Investment Act (WIA) funds through the Employment Development Department for the Preventing Parolee Crime Program (PPCP). The department indicates that the employment programs funded through the PPCP meet the criteria for funding through WIA since the goal of those federal funds is to increase employment, retention, earnings, and occupation skill attainment of participants.

Central Administration. The objective of the Central Administration program is to provide executive and administrative services to assure the overall success of the department's Institutions, Health Care Services, and Community Correctional programs. This program consists of the Executive Division, Support Services, and Field Operations.

- A reduction of \$3.2 million General Fund in Legal Settlement Authority. This will reduce the CDC's base legal settlement authority to \$20.6 million. Another \$1.8 million General Fund and 18 positions from the Legal Settlement Authority is proposed to be redirected to establish the Major Litigation Unit and the Liability Response Unit within the Legal Affairs Division. The establishment of these units is part of CDC's effort to reduce the cost of litigation.
- An increase of \$21.3 million to address a projected shortfall for workers' compensation. This would make permanent a one-time increase approved by the Legislature in the current year. Additionally, the budget requests \$1.1 million for increased fees from the State Compensation Insurance Fund.

Issue

Fiscal Management Issues. The Bureau of State Audits released a report in November 2001 indicating that CDC's fiscal practices and internal controls are inadequate to ensure fiscal responsibility. The report further notes that CDC's poor fiscal practices may have contributed to the significant budget shortfalls that the department has incurred over the past four years. The findings of the report include:

- CDC's spending plans, which are used to control departmental expenditures, to identify potential shortfalls, are inaccurate, and do not align with the department's spending authority.

- Excessive use of custody staff overtime and sick leave, combined with inadequate funding, is the primary cause of CDC's budget shortfalls.
- Improved contracting practices could result in hundreds of thousands of dollars per year in savings and prompt payments to contractors.
- Proactive strategies for reducing costs related to legal actions are not fully implemented.

The report highlights a number of recommendations to ensure better fiscal management of funds including, 1) increased reporting to the Legislature on the status of CDC financial position throughout the year, 2) alignment of its spending plan with its spending authority, 3) aggressive filling of vacant custody staff positions, and 4) continuing efforts to lower staff's sick leave use to budgeted levels. The Legislature may wish to take actions relative to some of the recommendations in the report in order to ensure CDC manages appropriated funds responsibly.

Costs and Delivery of Medical Services for Inmates. Funding for the Health Care Services program has increased significantly in recent years. The budget proposes expenditures of \$735.2 million, which is an increase of nearly \$252 million, or 52 percent since 1997-98. In a January 2000 report, the Bureau of State Audits found that the department does not fully or adequately use many standard managed care practices that could help hold down its medical costs and ensure uniform care among institutions. Additionally, the Administration has indicated that it is in settlement negotiations regarding the *Plata v. Davis* lawsuit concerning the adequacy of medical care at CDC institutions.

The Legislature may wish to review steps taken by the department to evaluate its medical services and pharmacy operations to ensure that appropriate steps are being taken to improve the delivery of health care and contain the costs.

5430 Board of Corrections

The Board of Corrections (BOC) works in partnership with city and county officials to develop and maintain standards for the construction and operation of local jails and juvenile detention facilities and the employment and training of local corrections and probation personnel. The BOC also disburses training funds and administers the federal Violent Offender Incarceration/Truth-in-Sentencing (VOI/TIS) Grant, the Juvenile Hall/Camp Restoration program, the Repeat Offender Prevention Project, the Juvenile Crime Enforcement and Accountability Challenge Grant program, and the Mentally Ill Offender Crime Reduction Grant program. The BOC allocates these funds to public, private, or private/nonprofit participants in the local corrections community.

The BOC is composed of 13 members—10 appointed by the Governor—confirmed by the Senate, and represents specific elements of local juvenile and adult criminal justice systems and the public. Statutory members are the Secretary of the Youth and Adult Correctional Agency, who serves as Chair, and the Directors of the Departments of Corrections and Youth Authority.

The budget for the BOC proposes \$167.7 million, an increase of \$71.9 million, or 75.1 percent above current-year expenditures. This increase is due primarily to an increase in local assistance funding for grant awards determined in previous years for which funds will be dispersed in the budget year. For example, the department has scheduled disbursements of \$10 million in the current year from the 1998-99 General Fund Construction Program and \$45 million in the budget year.

| Summary of Expenditures (dollars in thousands) | 2001-2002 | 2002-2003 | \$ Change | % Change |
|--|-----------------|------------------|-----------------|-------------|
| General Fund | \$42,674 | \$88,600 | \$45,926 | 107.6 |
| Corrections Training Fund | 19,282 | 19,569 | 287 | 1.5 |
| Federal Trust Fund | 33,221 | 58,951 | 25,730 | 77.5 |
| Reimbursements | 588 | 588 | 0 | 0.0 |
| Total | \$95,765 | \$167,708 | \$71,943 | 75.1 |

Highlights

- An increase of \$3 million for the CLEAR program, which provides funding to various agencies in Los Angeles for a multi-agency gang intervention program. To date, the Legislature has approved \$14.2 million for the CLEAR program.
- An increase of \$18.6 million in local assistance funds from the federal VOI/TIS funds for local juvenile and adult correctional facility construction and expansion. This amount is above the estimated \$38.8 million that was estimated to be available in the current year budget.

5440 Board of Prison Terms

Chapter 1139, Statutes of 1976 (SB 42) established the Community Release Board on July 1, 1977. The board was renamed the Board of Prison Terms (BPT) effective January 1, 1980 with the enactment of Chapter 255, Statutes of 1979 (SB 281). The BPT considers parole release and establishes the length and condition of parole for all persons sentenced to prison under the Indeterminate Sentence Law, persons sentenced to prison for a term of less than life under Penal Code section 1168 (b), and for persons serving a sentence of life with possibility of parole.

The BPT has nine commissioners appointed by the Governor and confirmed by the Senate. Each commissioner serves a four-year term. The Governor designates the chairperson of the BPT and deputy commissioners are employed by the BPT in civil service positions. Their duties include hearing and deciding cases.

The budget for the BPT proposes \$30.6 million, a decrease of \$1.7 million or 5.5 percent from anticipated current-year expenditures. The budget adjustments include a reduction of \$1.2 million General Fund and 15 positions from state operations, and a further reduction of \$443,000 and 3 positions to reflect a decrease in projected life prisoner and parole revocation hearing workloads.

| Summary of Expenditures (dollars in thousands) | 2001-2002 | 2002-2003 | \$ Change | % Change |
|--|-----------------|-----------------|------------------|-------------|
| General Fund | \$32,296 | \$30,536 | (\$1,760) | -5.4 |
| Reimbursements | 93 | 81 | (12) | -12.9 |
| Total | \$32,389 | \$30,617 | (\$1,772) | -5.5 |

5460 Department of the Youth Authority

The goals of the Youth Authority (YA) are to provide public safety through the operation of secure institutions, rehabilitate offenders, encourage restorative justice, transition offenders back to the community, and support local government and intervention programs. The budget proposes expenditures of \$416.2 million for the YA, a decrease of \$20.7 million, or 4.7 percent from anticipated current year expenditures. The primary reason for this reduction is the projected decrease in the YA's ward and parole populations. The ward population is projected to decrease by 380 wards from the amount projected in the 2001 Budget Act to 6,360 wards by June 30, 2002. The budget proposal projects the ward population to decrease by another 260 wards, or 4 percent resulting in a June 30 2003 population of 6,100. The parole population is projected to decrease by 75 cases to 4,155 by June 30, 2003.

| Summary of Expenditures (dollars in thousands) | 2001-2002 | 2002-2003 | \$ Change | % Change |
|--|------------------|------------------|-------------------|-------------|
| General Fund | \$357,319 | \$335,700 | (\$21,619) | -6.1 |
| 1988 County Correctional Bond | 346 | 0 | (346) | -100.0 |
| State Lottery Education Fund | 510 | 792 | 282 | 55.3 |
| Federal Trust Fund | 1,471 | 1,453 | (18) | -1.2 |
| Reimbursements | 77,264 | 78,270 | 1,006 | 1.3 |
| Total | \$436,910 | \$416,215 | (\$20,695) | -4.7 |

Highlights

Major Budget Adjustments Proposed for 2001-02

- A reduction of \$3.1 million for operating equipment and expenses.
- An increase of \$725,000 and five positions to enhance management oversight and to monitor staff compliance of policies and procedures.

GENERAL GOVERNMENT

0505 Department of Information Technology

The Department of Information Technology (DOIT) is responsible for developing strategic plans and policies to support and promote effective application of information technology within state government. The department is budgeted at \$9.6 million in the budget year or 13.6 percent less than in the current year.

Highlights

Office Relocation. The November Revision proposes savings of \$684,000 to reflect a delay in the office relocation planned for DOIT.

Reductions in Consulting Services and Personal Services. The budget is reduced by \$1.5 million (General Fund) to reflect reductions in consulting services and personal services in the budget year.

0840 State Controller

The State Controller (Controller) is responsible for the receipt and disbursement of public funds, administering tax programs, and enforcing unclaimed property laws. The Controller's budget is proposed to decrease by \$4.0 million, or 3.9 percent, to \$99.4 million. The General Fund comprises \$64.6 million of total funding.

Highlights

Unclaimed Property Amnesty Program. The budget proposes to extend the one-year amnesty program for holders of unclaimed property who are delinquent for one more year. There is no funding for administrative costs included for the budget year. Under the program, qualified property holders may pay or deliver property to the Controller without incurring penalties. To qualify for amnesty, the property holder may not be subject to an investigation by the Attorney General, subject to an audit by the Controller, or party to litigation with the Controller. Last year's program was estimated to generate \$93 million, 50 percent of which will be received in 2001-02 and 50 percent in 2002-03. This is expected to generate \$35 million in General Fund revenues in the budget year.

Elimination of Funding for ADA Audits. Legislation enacted in 1997 eliminated excused absences from districts' revenue limit calculations and instead built the 1996-97 excused absences into the 1997-98 base. The 1998-99 ADA estimates for all school districts exceeded the ADA projections by more than 60,000. This raised DOF concerns that school districts may have been over-reporting ADA. At the Administration's request, the 1999-00 through 2001-02 budgets provided about \$3.0 million to contract with the Controller (SCO) to conduct audits of school district attendance records. The budget proposes eliminating the \$2.7 million in reimbursement authority for SCO to continue the audits in both the current and budget years.

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department are the state's major tax collection agencies. BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. The budget includes \$311.7 million or 2.3 percent less than the current-year level.

Highlights

Administration of the Cigarette and Tobacco Products Tax Program. The budget proposes to redirect \$627,000 General Fund and 9.9 PYs from the Sales and Use Tax Program Investigations Division to the Cigarette and Tobacco Products Tax Program to address changes in investigation workload.

Statewide Reductions. The reductions to BOE are part of the across-the-board reduction.

0890 Secretary of State

The Secretary of State (SOS) is the chief election officer of the state and is responsible for administering and enforcing election laws. Other statutory responsibilities are carried out through the following budget programs: Business Programs, Political Reform, Archives, Management Services, and Information Technology. The SOS budget is proposed to decrease by \$8.5 million, or 10.0 percent, to \$76.5 million. This decline is primarily due to a reduction of \$4.0 million for reimbursement of state-mandated local programs related to elections and \$1.7 million for technology.

Highlights

Business Programs Automation Project. Continuing a project initiated in 2000-01, the budget appropriates \$5.7 million to complete Phase II of the Business Programs Automation Project.

0971 California Alternative Energy and Advanced Transportation Authority

This Authority was established to provide alternative methods of financing the construction and installation of facilities, using alternative methods and sources of energy.

Highlights

Financial Assistance Program for Renewable Energy Technologies. In 2001, the Authority was authorized to issue up to \$350 million in revenue bonds to finance alternative energy projects. The Authority also received \$25 million from the General Fund to develop a financial assistance program for renewable energy technologies. In the November Revision the Administration proposes the elimination of the financial assistance program for savings of \$24.85 million. The remaining \$150,000 will be transferred to state operations.

1100 California Science Center

The California Science Center is an educational, scientific, and technological center administered by a nine-member board of directors appointed by the Governor. It is located in Exposition Park, a 160-acre area south of central Los Angeles. Proposed state operation expenditures for the budget year are \$18.6 million or 12.5 percent below current-year expenditures. The reductions total about \$2.7 million.

Issues

Education Program. The budget includes a reduction of \$740,000 to the Education Program. The aim of the Education Program is to reach the state's young people, with the expectation that some will pursue scientific, industrial, and economic careers. The total program is funded at \$11.7 million in the budget year. This reduction is equal to 6.2 percent of the budget-year expenditures.

California African American Museum. This museum preserves and displays the contributions of African Americans to the arts, science, religion, education, literature, entertainment, politics, sports, and history and culture of California and the world. The budget proposes to reduce the African American Museum budget by \$435,000 as part of the statewide reductions to departmental budgets. This reduction represents 12.1 percent of the museum's budget.

1110 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 18 semi-autonomous boards and 11 bureaus and programs that regulate over 180 professions. The 2002-03 budget for Consumer Affairs, boards, bureaus, and divisions totals \$337 million, which represents a \$97.5 million or 22.4 percent decrease over the current year.

Energy Media Campaign. The Administration authorized expenditures of \$73.1 million (\$71.1 million General Fund) for an Energy Media Campaign to educate consumers about the importance of energy conservation in the current year. There is no funding to continue this program in the budget year.

Bureau of Automotive Repair. The 2000-01 budget contained a transfer of \$50 million from the High Polluter Repair or Removal Account to the General Fund. The Administration proposed to transfer an additional \$44 million during the current year in the November Revision. This will reduce expenditures for the Consumer Assistance Program that pays qualified consumers who voluntarily choose to retire their high polluter vehicles. The program also pays a portion of the consumer's repair bill in order to bring a vehicle into compliance with the requirements of the Smog Check Program. Expenditures for this program were \$46.4 million in 2000-01. Expenditures are proposed to be reduced to \$29.5 million in the current and \$21.0 million in the budget year due to the transfer of the funds to the General Fund.

Board of Registered Nursing. This board ensures that registered nurses are competent and safe to practice and provides oversight of nursing school programs. The budget proposes a \$1.6 million augmentation from the Board of Registered Nursing Fund on a two-year, limited-term basis to fund increased enforcement costs.

Bureau of Barbering and Cosmetology. The budget proposes an augmentation of \$519,000 for revised costs to relocate the Los Angeles exam facility, of which \$416,000 is one-time.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers the Personal Income Tax and the Bank and Corporation Tax laws, and the Senior Homeowners and Renters' Assistance program. In addition, FTB provides processing services through contracts with other governmental agencies and performs audits and field investigations of campaign statements and lobbyist reports authorized by the Political Reform Act. The board began collecting delinquent child support payments under a permanent program last year. FTB is funded at \$436.1 million, of which \$398.7 million is General Fund. This amount is nearly \$2.0 million or 0.4 percent less than in the current year.

Highlights

Audit Workload Augmentation. The budget proposes an augmentation of \$4.5 million and 45 PYs to accommodate audit workloads above the 5:1 cost benefit ratio. These additional positions will generate revenue of \$52 million in the budget year.

Collections Workload Augmentation. The budget proposes an augmentation of \$6.2 million and 79 PYs to accommodate collection workloads. These additional positions are expected to generate \$27.5 million in the budget year.

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security.

The budget for DGS is proposed at \$853.5 million, of which \$23.0 million is General Fund. The total budget is about \$60 million or 6.5 percent less than in the current year. The General Fund support is reduced from \$113.3 million in the current year to \$23.0 million. This reduction is almost entirely attributed to costs in support of the Real Estate Services Division. The department's main funding source, the Service Revolving Fund, increases from \$572 million to \$582 million.

Highlights

Reimbursement of Public Safety Answering Points. Augmentation of \$8.8 million in the current year and \$10.4 million in the budget year from the State Emergency Telephone Account to reimburse Public Safety Answering Points for the increased cost of establishing and maintaining the statewide 911 Emergency Telephone Number system.

Funding Shift for eBusiness Center. Reduction of \$2.4 million (General Fund) and a corresponding increase in the Service Revolving Fund in the budget year to shift funding for the eBusiness Center that is designed to enable businesses to easily access government information and services through the Internet.

2150 Department of Financial Institutions

The Department of Financial Institutions was established in 1997 to regulate commercial banks, savings associations, credit unions, industrial loan companies, and other providers of financial services. Programs are supported by assessment of various industries, license and application fees, and charges for various services. The budget is proposed at \$19.5 million, which is slightly higher than the current year.

Highlights

The budget proposes an augmentation of \$310,000 and three positions for the implementation of the Statewide Outreach on Predatory Practices Program (STOPP). STOPP includes staffing for consumer outreach and enforcement activities. The intent of the program is to educate vulnerable populations about predatory practices and the risks and rewards of investing. Other components of this proposal are included in the Department of Corporations and the Department of Real Estate budgets.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. The Department provides licensing, examination, and investor and consumer education. The budget is proposed at \$35.3 million (General Fund). This is a \$9 million increase over the current year.

Highlights

The budget proposes \$10 million and 17.3 limited-term positions for the implementation of the Statewide Outreach on Predatory Practices Program (STOPP). STOPP includes staffing for consumer outreach and enforcement activities. The intent of the program is to educate vulnerable populations about predatory practices and the risks and reward of investing. Complements to this program are also included in the Department of Financial Institutions and the Department of Real Estate budgets.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families and other special need groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The HCD budget is proposed to decrease from \$347.1 million in the current year to \$208.1 million in the budget year. The General Fund support in the current year is \$95.5 million and is proposed at \$37.6 million in the budget year. The budget proposes to eliminate funding increases for housing programs provided in the current year. In addition, the proposal reduces program and shifts funding to bonds in the budget year.

Highlights

Jobs-Housing Balance Improvement Incentive Program. This program was originally funded at \$100 million. The current-year budget transferred \$40 million to the General Fund. The November Revision proposes an additional reduction of \$59.7 in the current year with the intent to give priority in the allocation of other 2002-03 housing funding to localities that have increased issuance of housing permits, consistent with the intent of the Jobs-Housing Balance Improvement Incentive Program.

Downtown Rebound Program. The November Revision proposes eliminating the \$1 million available to local entities for planning studies to find in-fill sites in urban areas and \$3.1 million for loans to local governments for projects that convert industrial and commercial buildings to residential use.

Multi-Family Housing Program. This is a general-purpose loan program for construction and rehabilitation of affordable multi-family housing. The November Revision proposes that the \$89 million available be reduced by \$45.1 million. The Administration contends that this program would not begin construction until 2003.

The budget also proposes to eliminate ongoing funding of \$29.5 million, in anticipation that a housing bond issue on the November 2002 statewide election will be approved.

Farmworker Housing Grants. The budget proposes reducing Farmworker Housing grants from \$17.6 million to \$14 million in the budget year.

Emergency Housing Assistance Grants. The Administration proposes a reduction of \$2 million to Emergency Housing Assistance grants. This would leave \$11.3 million available for grants.

Self-Help Housing Program. The Administration proposes eliminating funding for this program for savings of \$2.1 million.

2920 Technology, Trade, and Commerce Agency

Managing the state's economic development efforts is the primary responsibility of the Technology, Trade, and Commerce Agency (TTCA). Its major programs are Economic Development, International Trade and Investment, Marketing and Communications, and Tourism. The department also provides low-cost financing to public agencies for a variety of infrastructure and public improvements through the California Infrastructure and Economic Development Bank. The TTCA budget is proposed to increase by \$38.8 million, or 14.5 percent, to \$254.9 million. There is an increase in funding for the California Infrastructure Bank of nearly \$44 million and General Fund of about \$3 million, offset by elimination of funding from the Film California First Fund.

Highlights

Reduce Biomass Grants Program. This three-year program provides grants to operators of plants that convert biomass fuels to energy. In 2000-01, grants were awarded to 12 plants for \$8.9 million. The November Revision proposes that \$5.5 million of the \$11.5 million available in the current year be reverted to the General Fund. The Administration contends that the \$6 million in funding remaining would be sufficient to keep the prior-year grantees operating.

Eliminate Funds for Unopened Foreign Trade Offices. The November Revision proposes reversion of \$457,000 to open foreign trade offices in India and the Philippines. Savings of the same amount would also occur in the budget year.

Revert Balance of Renewable Energy Loan Guarantee Fund. AB 29X created a Renewable Energy Loan Guarantee Program. Technical drafting errors in the bill prevent the program from being implemented. The November Revision proposes reversion of \$29.9 million from the original appropriation of \$40 million.

California Infrastructure and Economic Development Bank. The current-year budget transferred \$277 million from the California Infrastructure and Economic Development Bank Fund to the General Fund. The budget proposes to use the income from the fund's loan portfolio to pay debt service on \$150 million in revenue bonds to be issued in the budget year. This funding will enable the bank to lend \$105 million in the current year and \$150 million in the budget year for local economic development.

Transfer from Small Business Expansion Fund to the General Fund. The Administration proposes to transfer \$8 million in uncommitted funds from this fund to the General Fund in the current year.

Transfer funds from the Export Finance Fund. The budget proposes to transfer \$8 million from this fund to the General Fund to reduce funding for loan guarantees in the budget year.

Small Business Loan Guarantee Office in San Francisco Bay Area. The Administration proposes savings of \$2 million in the current year from not opening an office in the San Francisco Bay Area.

Underground Storage Tanks. One-time funding of \$6 million (Petroleum Underground Storage Tank Financing Account) in grants to replace or upgrade underground storage tanks.

8260 California Arts Council

The California Arts Council (CAC) assists student education in the arts, develops art programs, promotes employment of artists, provides for the exhibition of art works in public buildings, and encourages artistic awareness and expression. The CAC budget is proposed to decrease by \$20.7 million, or 39 percent, to \$32.8 million. This decline is due to augmentation for specific local grants included in the current year budget. The Administration's November Revision proposed reducing current-year grants by \$5.1 million.

Highlights

Local Grants. The November Revision proposes reverting \$5.1 million (General Fund) in the current year for local grants to assist art programs, artists, and local art councils.

Arts in Education Program. Under the program, the state assists artists and arts organizations to enhance the capacity of California schools to teach the arts and to use the arts to teach other subject matters. The budget provided \$10 million (General Fund) in local augments for this program in the current year. The budget proposes to reduce this amount by \$3.2 million in the current year and \$2.0 million in the budget year.

8860 Department of Finance

The Department of Finance (DOF) is responsible for advising the Governor on fiscal matters, preparing the annual executive budget, evaluating the operation of state government, and developing economic and demographic information. The DOF budget remains at essentially the same level in the budget year as the current year.

Highlights

Elimination of Funding for ADA Audits. Legislation enacted in 1997 eliminated excused absences from districts' revenue limit calculations and instead built the 1996-97 excused absences into the 1997-98 base. The 1998-99 ADA estimates for all school districts exceeded the ADA projections by more than 60,000. This raised DOF concerns that school districts may have been over-reporting ADA. At the Administration's request, the 1999-00 through 2001-02 budgets provided about \$3.0 million to contract with the Controller (SCO) to conduct audits of school district attendance records. The budget proposes eliminating the \$3.0 million (General Fund) to continue the audits in both the current and budget years.

8940 Military Department

The Military Department is responsible for the command and management of the California Army and Air National Guard and other related programs. The purpose of the California National Guard is to

provide ready forces to the federal government as directed by the President, emergency public safety to civil authorities as directed by the Governor, and support to communities.

The budget of the Military Department is proposed to decrease by \$7.4 million (7.1 percent) to \$95.9 million. Of this amount, \$34.4 million is from the General Fund and \$57.6 million is federal funding. The General Fund support is proposed to decrease by \$7.8 million. The department also administers \$464 million in other federal funds for the support of federal activities within the state.

Highlights

Bridge Security. The Administration is proposing to use \$3.9 million in federal funds that have not yet been provided to the state, to fund the current-year bridge security costs.

Turning Point Academy. The November Revision proposes to reduce the current-year appropriation of \$5.8 million for the Turning Point Academy by \$2.1 million due to lower than projected cadet population. There is an additional reduction of \$4.4 million in the budget year for this purpose.

ChalleNGe Youth Program (Grizzly Youth Academy). The Administration proposes a reduction of \$155,000 to this program. This charter school residential program, which is managed in conjunction with Paso Robles School District, focuses on 16- to 18-year-old high-school dropouts and includes a one-year aftercare program. This program is funded through state and federal funds.

Modernization Plan. The budget proposes to reduce the modernization plan by \$1 million in the budget year.

Issues

Bridge Security Costs. The Administration proposes to fund the \$3.9 million in increased costs for bridge security through federal funding that may become available in the current year. Due to the lack of certainty of the federal funding and the tight fiscal constraints of the budget, legislative review of both the funding source and level of funding for bridge security is advisable.

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Relief proposed to be provided in 2002-03 is \$1.3 billion, or 43.7 percent, greater than that provided in 2001-02. This decline is due to the way in which the Vehicle License Fee (VLF) rebate was budgeted. Although the VLF rebate checks were sent to taxpayers in 2001 and 2002, the majority of the funding was appropriated in the 2000-01 year as part of the budget agreement. If you look at the actual relief provided to taxpayers, the difference between the two years is an increase of 6 percent in VLF reductions.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|--------------------|--------------------|------------------|-------------|
| Senior Citizens' Property Tax Deferral | \$12,000 | \$12,800 | \$800 | 6.7 |
| Senior Citizens' Property Tax Assistance | 38,083 | 33,400 | (4,683) | -12.3 |
| Senior Citizen Renters' Tax Assistance | 177,489 | 200,500 | 23,011 | 13.0 |
| Homeowners' Property Tax Relief | 404,336 | 410,400 | 6,064 | 1.5 |
| Open Space Subventions | 38,000 | 39,000 | 1,000 | 2.6 |
| Substandard Housing | 44 | 44 | 0 | 0.0 |
| Vehicle License Fee Offset | 2,408,220 | 3,726,349 | 57,760 | 54.7 |
| State-Mandated Local Programs | 1,086 | 1,062 | (18) | -2.2 |
| Total | \$3,079,258 | \$4,423,555 | 1,344,297 | 43.7 |

9210 Local Government

The Local Government Finance item proposes \$385 million in funding for local agencies. The state provides other assistance to local governments, primarily counties, through other direct programs budgeted in other items in the budget. Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

| Summary of Expenditures (dollars in thousands) | 2001-02 | 2002-03 | \$ Change | % Change |
|--|------------------|------------------|-------------------|-------------|
| High-Tech Grants-Local Law Enforcement | \$35,400 | \$35,400 | 0 | 0.0 |
| Reimbursement for Booking Fees | 38,220 | 38,220 | 0 | 0.0 |
| Property Tax Loan Program | 51,458 | 51,500 | 42 | 0.1 |
| Rural & Small County Law Enforcement | 18,500 | 18,500 | 0 | 0.0 |
| Citizens' Option for Public Safety (COPS) | 232,600 | 232,600 | 0 | 0.0 |
| Special Supplemental Subventions | 1,200 | 1,400 | 200 | 16.7 |
| State-Mandated Local Programs | 15,843 | 6,398 | (9,445) | -59.6 |
| Local Grants | 7,936 | 747 | | |
| Total | \$401,157 | \$384,765 | (\$16,392) | -4.1 |

Issues

Citizens' Option for Public Safety (COPS) and Juvenile Crime Prevention Programs. The COPS program funds local law enforcement, sheriffs' departments for jail construction and operations, and district attorneys for prosecution. Funds from COPS are allocated to cities, counties, and the few special districts that provide law enforcement services. In 2000, COPS was expanded to also include funding for county juvenile crime prevention programs.

Funding for this program is extended for one more year at the current-year level of \$232.6 million, split evenly between the initial COPS program and the county juvenile crime prevention program.

Technology Grants for Local Law Enforcement. The budget extends current-year funding of \$35.4 in one-time funding for local law enforcement agencies to purchase high-technology equipment for crime prevention and suppression into 2001-02. Each local agency will receive a minimum of \$30,000 and an additional per-capita amount. Eligible local agencies include cities, counties, and the special districts that provide law enforcement services.

Funds for Counties for Administration of the Property Tax. The budget proposes continued funding of \$51.5 million to assist counties with the administration of the property tax. Counties pay all administrative costs of the local property tax, although cities, special districts, and school districts all share in the proceeds of the property tax.

Rural and Small County Law Enforcement. As part of the current-year budget compromise, \$18.5 million was provided to county sheriffs in the 37 smallest counties. Each county received a grant of \$500,000. The Governor proposes to continue funding at the same level in the budget year.

9800 Augmentation for Employee Compensation

This budget contains augmentations for state civil service and related employee compensation. The budget contains an augmentation of \$64.3 million (\$41.8 million General Fund) in the current year to fund collective bargaining units with MOUs pending ratification and for those units that are anticipated to reach agreement. The budget year contains an augmentation of \$209.7 million (\$130 million General Fund) for continuing costs.

9900 Statewide General Administrative Expenditures

The General Fund is authorized to recover costs from special funds for statewide general administrative expenditures (Pro Rata). Departmental budgets normally include funds to pay for Pro Rata charges. Statute does allow for transfers from special funds to the General Fund in those cases where insufficient funding was provided in departmental budgets.

Highlights

Additional Pro Rata Assessments. The budget proposes an additional \$23.7 million in Pro Rata charges to special funds that have not been assessed in the past. No rationale is provided in the budget for these increased Pro Rata assessments.

9908 Janitorial/Contract Services

The current-year budget reappropriated \$5.9 million to fund the increased costs of personal services contracts as a result of providing employee benefits to janitors and other contract workers at a level not less than 85 percent of the state employer cost of comparable benefits provided to state employees. Only \$310,000 of this amount has been allocated to departments that requested augmentations. The Department of Finance has approved all requests for augmentations that they have received from departments.

The November Revision reverts \$3.0 million of this appropriation.

9911 Utilities Costs

The current-year budget provided \$64.2 million for allocation to departments for increases in utility costs. The November Revision proposes eliminating this item due to decreases in the cost of gas and electricity.

9914 Postage Rate Increase

The 2000-01 and 2001-02 budgets provided augmentations totaling \$4.5 million for postage rate increases. Requests from departments for allocations from this funding are lower than anticipated and the November Revision reflects savings of \$3 million.

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TENTATIVE TIMELINE FOR THE 2002-03 SENATE BUDGET BILL

| | | |
|-----------|-------------|--|
| Thursday | January 10 | <ul style="list-style-type: none">• Governor submits State Budget to the Legislature.• Staff Releases <i>Budget Briefing on Governor's Proposed Budget</i>. |
| Tuesday | January 22 | Committee overview hearing on the budget: <ul style="list-style-type: none">• The Department of Finance presents budget, and the Legislative Analyst provides initial review.• Committee releases <i>Overview of 2002-03 Budget Bill</i>. |
| Friday | February 1 | The Department of Finance submits to the Legislature statutory changes necessary to implement the budget. |
| Wednesday | February 20 | Legislative Analyst submits <i>Analysis of the 2002-03 Budget</i> to the Legislature. |
| Thursday | February 28 | Committee hearing on revenues. |
| Monday | March 11 | Subcommittees begin hearings. |
| Thursday | March 22 | Spring Recess begins. |
| Monday | April 1 | Legislature reconvenes. |
| Wednesday | May 1 | <ul style="list-style-type: none">• Committee hearing on revenues.• Department of Finance submits final capital outlay revisions. |
| Tuesday | May 14 | Governor delivers May Revision to the Legislature. |
| Friday | May 25 | Subcommittees complete hearings. |
| Wednesday | May 29 | Committee meets to adopt subcommittee reports. Committee releases <i>Major Action Report</i> . |
| Thursday | May 30 | Senate votes on Senate budget bill. |
| Monday | June 3 | Conference Committee may begin. |
| Sunday | June 9 | Conference Committee completes work. |
| Friday | June 14 | Senate and Assembly votes on budget and budget trailer bills. |
| Saturday | June 15 | Constitutional deadline for approval of the budget by the Legislature. |

STAFF ASSIGNMENTS

| | |
|---------------------------------------|--------------------------------|
| CRIMINAL JUSTICE/CORRECTIONS | Alex MacBain |
| EDUCATION K-12 Higher Education | Susan Ronnback Amy Supinger |
| HEALTH | Diane Van Maren |
| RESOURCES/CAL-EPA | Frank Vega |
| REVENUES | Judi Smith |
| SOCIAL SERVICES | C. Catherine Camp |
| STATE ADMINISTRATION | Judi Smith |
| TRANSPORTATION | Frank Vega |
| COMMITTEE ASSISTANTS | Kim Collins Rose Morris |
| RECEPTIONIST | Mary Teabo |

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