SEAL OF THE SENATE OF THE STATE OF CALIFORNIA

OVERVIEW OF THE 2004-05 BUDGET BILL

Senate Bill 1095

As Introduced

Senate Committee on Budget and Fiscal Review

Senator Wesley Chesbro, Chair

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Setting a Context

For the third straight year, the state is facing a difficult budget problem in 2004. To effectively address the problem, the Legislature will have to consider the proposals made by the administration, but also other options -- including revenue increases and additional savings proposals -- to fully address California's budget shortfall.

In early March the Senate Budget and Fiscal Review Committee will begin its regular subcommittee hearing process, which will conclude shortly after the Governor releases his May Revision to the Budget.

Proposed Total State Spending for 2004-05

Total spending proposed for 2004-05 from all funds (General Fund, special funds, and bond funds) is $99.1 billion. General Fund spending is $76.1 billion, an amount that is approximately $2 billion, or 2.5 percent, less than current-year spending.

General Fund Summary

Revenues: The Governor's budget estimates General Fund revenues for 2004-05 to be $76.4 billion, an increase of $1.8 billion above 2003-04 (not including bond proceeds).

Expenditures. The budget proposes General Fund expenditures of $79.1 billion in 2004-05. However, it is assumed that General Fund expenditures in 2004-05 will be offset by $3 billion in estimated bond proceeds from the March 2004, California Economic Recovery Bond Act.

The proposed budget assumes a modest reserve at the end of 2004-05 of $635 million.

Proposed Governor's 2004-05 Budget (including mid-year proposals)

Definition of the Problem. The Governor's proposed budget for 2004-05 identifies an accumulative General Fund deficit of $16.2 billion (difference between revenues and expenditures for the three-year period ending on June 30, 2005).

How Does the Governor Close the Deficit? In eliminating the deficit, the Governor relies on the following primary strategies:

- $3 billion in Economic Recovery Bond revenue proceeds pursuant to the California Economic Recovery Bond Act (Chapter 2, Statues of 2003, Fifth Extraordinary Session).
- Spending reductions of $5.9 billion (primarily in the areas of health and human services programs, higher education, and a property tax shift from local governments to schools).
- Proposed "re-basing" (suspension) of Proposition 98 for a savings of $2.9 billion.
- $1.3 billion in debt service savings resulting from the longer repayment period of the Economic Recovery Bond.
- $950 million from the proposed suspension of Proposition 42 (Transportation Congestion Improvement Act).
- $950 million from a "pension reform" package that includes (a) a pension obligation bond, (b) increased employee contributions, and (c) reduced retirement benefits for new employees.
- $1.2 billion in other transfers, fund shifts, loans, consolidations, and cost avoidance.

SUBCOMMITTEE NO. 1

EDUCATION

K-12

Higher Education

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) no longer administers any local assistance programs. The 2003-04 Budget Act eliminated funding for the Academic Volunteer and Mentor Service Program ($5.8 million) and shifted both support funding ($1.3 million) and administration of the School-to-Career Program to the California Department of Education.

For the budget year, the operational costs of the OSE are funded through the Governor's Office of Planning and Research (0650), pending legislation to establish the Secretary statutorily.

2003-04 Adjustments

The Governor proposes an increase of $80,000 for OSE in 2003-04 to reflect baseline adjustments for retirement costs per Control Section 3.60 of the Budget Act of 2003. OSE reverted $2.6 million in funds appropriated in 2001-02 for the School Readiness Initiative in order to make reductions per Control Section 4.10 of the Budget Act of 2003.

2004-05 Adjustments

The Governor proposes a net reduction of $138,000 for baseline adjustments, which reflects adjustments per Control Section 3.60 and ongoing savings of $216,000 associated with the elimination of three positions per Control Section 4.10 of the Budget Act of 2003.

6110 Department of Education

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, for the education of approximately 6.2 million students from kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, education is the responsibility of 983 school districts, 58 county offices of education, and approximately 9,087 schools. More than 301,000 full-time-equivalent teachers are employed in public schools statewide.

Total K-12 Funding (All Funds)

The 2004-05 Governor's budget proposes $58.1 billion in total funding for K-12 education, which reflects an increase of $1.9 billion (3.3 percent) above the proposed 2003-04 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals $9,614 in 2004-05, an increase of $216 above the $9,398 per-pupil rate in 2003-04.

Table 1
Summary of Revenues
(dollars in thousands)

	2003-04 Revised	2004-05 Proposed	$ Change	% Change
General Fund*	$29,556,900	$30,357,400	$800,500	2.7
Local Property Taxes	13,885,000	14,923,600	1,038,600	7.5
Lottery Fund	793,400	793,400	0	0.0
Other State Funds	90,100	85,900	-4,200	-4.7
Federal Funds	7,118,800	7,159,500	40,700	0.6
Local Debt Service	1,195,500	1,195,500	0	0.0
Local Miscellaneous	3,543,100	3,543,100	0	0.0
Total Funds	$56,182,800	$58,058,400	$1,875,600	3.3
Per Pupil Funding	$,9398	$9,614	$216	

* General Fund includes Proposition 98 and Non-98 Funds.

As indicated by Table 1, the $58.1 billion for K-12 education includes $30.4 billion (52.3 percent) from the state General Fund; $19.7 billion (33.9 percent) in property taxes and other local revenues; $7.2 billion (12.3 percent) in federal funds, $793 million (1.4 percent) in state lottery funds and $86 million (.2 percent) in other state funding.

As proposed, the total General Fund (Prop 98 and Non-98) increases by $800.5 million (2.7 percent) and local property taxes increase by $1.0 billion (7.5 percent). The budget also reflects an increase of $40.7 million (0.6 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the Consolidated Appropriations Act (H.R. 2673) signed by President Bush on January 23, 2004. This Act contains the appropriations for Labor, Health and Human Services (HHS), and Education departments for federal fiscal year 2004.

Proposition 98

Total Proposition 98 funding for K-14 education in 2004-05 is proposed at $46.7 billion, an increase of $768.9 million (1.7 percent) over the revised 2003-04 budget. While an increase, the level of Proposition 98 funding proposed by the Governor in 2004-05 is $2 billion below the level required to meet the Proposition 98 minimum guarantee.

The $768.9 million increase in Proposition 98 funding in 2004-05 is completely covered by the allocation of additional local property tax revenues to K-14 education. As indicated in Table 2, Proposition 98 General Fund revenues actually decline by $426.3 million in 2004-05 due to an estimated net increase in property taxes of $1.2 billion.

The net increase in property taxes under Proposition 98 is the result of three different factors: (1) the Governor's proposal to shift $1.3 billion in additional local property taxes to the Education Revenue Augmentation Fund (ERAF) in order to support K-14 education; (2) a $1.3 billion reduction in property taxes to K-14 education as a result of the "triple flip" financing structure to pay for the Economic Recovery Bond (pursuant to Chapter 2, Statutes of 2003, Fifth Extraordinary Session); and (3) an increase of $1.2 billion in estimated local property taxes due to K-14 schools from general increases in local property tax receipts.

Table 2
Proposition 98 Summary

(dollars in thousands)	2003-04 Budget Act	2003-04 Revised	2004-05 Proposed	$ Change	% Change
Distribution of Prop 98 Funds					
K-12 Education	$38,891,843	$41,480,820	$41,937,017	$456,197	1.1
Community Colleges	4,623,085	4,358,857	4,678,804	319,947	7.3
Dept. of Developmental Services	11,624	10,863	10,758	-105	-1.0
Dept. of Mental Health	17,851	13,400	8,400	-5,000	-37.3
Dept. of Youth Authority	37,685	36,781	34,041	-2,740	-7.4
State Special Schools	38,017	40,302	40,302	0	0
Indian Education Centers	3,778	3,778	4,330	552	14.6
Total	$43,623,883	$45,944,801	$46,713,652	$768,851	1.7
Prop 98 Fund Source					
State General Fund	$28,842,957	$30,166,130	$29,739,800	$-426,330	-1.4
Local Property Taxes	$14,780,926	$15,778,671	$16,973,852	$1,195,181	7.6
Total	$43,623,883	$45,944,801	$46,713,652	$768,851	1.7
K-12 Enrollment-ADA*	5,990,495	5,978,127	6,039,207	61,080	1.2
K-12 Funding per ADA*	$6,588	$6,940	$6,945	$5	

* Average Daily Attendance

As indicated in Table 2, of the total $46.7 billion in Proposition 98 spending proposed for 2004-05, $41.9 billion is attributable to K-12 and $4.7 billion is for Community Colleges. The K-12 share of the Proposition 98 minimum funding level increases by $456.2 million (1.1 percent) and the Community Colleges funding increases by $319.9 million (7.3) percent. Community College funding grows at a higher rate due, in large part, to a $200 million funding deferral from 2003-04 to 2004-05, which distorts true year-to-year comparisons in funding.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 61,080 in the budget year, an increase of 1.2 percent over the revised current-year level. Average per-pupil Proposition 98 funding is estimated to be $6,945 in 2004-05, an increase of $5 over the $6,940 per pupil funding in 2003-04.

Major Adjustments for 2003-04

- **Proposition 98 Settle-Up.** The Governor estimates that -- primarily as a result of higher-than-expected state tax revenues -- Proposition 98 funding for K-14 is below the minimum guarantee by $517.8 million in 2002-03 and $448.4 million in 2003-04. The Governor proposes that funding for the "settle-up" of these expenditures, which is needed to meet the Proposition 98 Constitutional guarantee in these fiscal years, be "deferred" until 2006-07.
- **Proposition 98.** The budget provides a $261.4 million increase for revenue limit apportionments that reflects a shift of costs from 2002-03 to 2003-04 due to an unexpected increase in the amount of the second principal apportionment deferral.
- **Governor's Mid-Year Reductions.** The Governor does not propose any reductions in Proposition 98 funding as a part of his proposed mid-year reductions unveiled in November 2003. The Governor's proposed reductions to education were targeted at higher education -- excluding Community Colleges -- and student financial aid.
- **Section 4.10 Reductions.** The budget includes a $3.3. million General Fund reduction and a $145,000 reduction from other funds to eliminate 46 regular positions and 3 visiting educator positions per Control Section 4.10 of the Budget Act of 2003.

Major Adjustments for 2004-05

- **Growth Funding.** The budget provides $406.2 million to fully fund statutory enrollment growth for apportionments and categorical programs. The budget provides $279.8 million for revenue limits; $37.4 million for special education; and $89 million for various other categorical programs.
- **Cost-of-Living Adjustments (COLAs).** The budget provides $742.4 million to fully fund statutory COLAs for K-12 revenue limit and categorical programs in 2004-05. This provides a 1.84 percent COLA for revenue limits ($554.8 million); special education ($70.0 million); and various other categorical programs ($117.6 million) that require a COLA pursuant to state statute.
- **Equalization.** The budget proposes $109.9 million for revenue limit equalization to address disparities in base funding among school districts.
- **Public Employees Retirement System (PERS).** The budget includes an increase of $106.0 million to cover PERS rate increases for school districts and county offices of education.
- **Unemployment Insurance (UI).** The budget provides $136.0 million to fund reimbursements to local education agencies for costs associated with a doubling of the UI rates.

- **Deferred Maintenance.** The budget provides $250.3 million to fully fund the Deferred Maintenance program -- an increase of $173.3 million in 2004-05. Funding for this program decreased by $ 128.7 million in 2003-04.
- **Instructional Materials.** The budget provides an additional $185 million to restore funding for the Instructional Materials Block Grant in 2004-05. Funding for this program decreased by $75 million in 2003-04. New funding is intended to be used to purchase textbooks from the 2002 English Language Arts adoption and the 2005 History and Social Science adoptions.
- **Internet Access**. The budget provides $21.0 million to county offices of education to provide high-speed Internet access for schools.
- **Restoration of Deferred Appropriations**. The budget proposes using $144.4 million in one-time Proposition 98 Reversion Account funds to restore funding for some programs subject to deferred appropriations schedules. Of this amount, $98.1 million fully restores funding for Targeted Instructional Improvement Grant program which was deferred from 2003-04 to 2004-05, and $46.3 million partially restores appropriations from the School Safety Program that were deferred from 2004-05 to 2005-06.

Program Reductions

- **Categorical Program Eliminations.** The Governor proposes to end seven small categorical programs for a total savings of $32.6 million in 2004-05. These programs include: Teacher Credentialing Pre-Internship ($8.0 million)[1]; Charter Schools Facilities Grant program ($7.7 million); Local Arts Education partnerships ($6.0 million); Academic Improvement and Achievement ($5.0 million); Early Intervention for School Success ($2.2 million); Healthy Start ($2.0 million) and School-to-Career ($1.7 million).
- **Mandate Claims.** The budget proposes to continue the deferral, or in some cases suspension, of all education mandates identified by the Commission on State Mandates. The Administration has not provided an official estimate of annual savings for 2004-05. Annual savings are estimated at over $300 million in 2003-04.

Major Issues

Proposition 98 – Rebasing (Suspending). The $752 million increase in 2004-05 K-14 Proposition 98 funds is estimated by the Governor to be $2 billion below the level that would otherwise be provided under the minimum guarantee. As a result, the Governor proposes that Proposition 98 be "rebased" at a level approximately $2 billion below the level otherwise required by law. This action would require suspension of Proposition 98 in 2004-05. Suspension of the constitutional funding requirements of Proposition 98 requires the Legislature to approve the suspension in a bill -- separate from the Budget Bill -- with a two-thirds vote. According to preliminary estimates by the Legislative Analyst's Office, the state is likely to save $2 billion annually for several years under the Governor's suspension plan. In addition,

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[1] The Teacher Credentialing Pre-Internship program is administered by the Commission on Teacher Credentialing.

suspension would create an additional $2 billion maintenance factor, which the Governor estimates would be repaid over the four years. The Governor proposes, in agreement with the education community, the following priorities for use of maintenance factor repayment funds in 2004-05 and beyond: (1) restoration of revenue limit deficits (reductions and COLAs) from 2003-04; (2) funding for valid education mandate reimbursements; and (3) splitting any remaining funds -- 75 percent for revenue limits and 25 percent for other state funding priorities.

Proposition 98 -- Current- and Prior-Year Settle-Up. The Governor estimates that Proposition 98 funding for K-14 is below the minimum guarantee by $517.8 million in 2002-03 and $448.4 million below in 2003-04. These changes are the result of higher-than-expected state tax revenues, changes in student attendance and apportionment costs, and a shift of K-12 operating costs from 2002-03 to 2003-04, due in large part from an increase in the deferral amount of the second principal apportionment. The Governor does not propose providing funding to meet the Proposition 98 guarantee in 2002-03 or 2003-04, nor does the Governor propose suspending Proposition 98 in 2003-04. (Suspension is an option for addressing the problem in 2003-04; it is unclear whether suspension is an option for 2002-03.) Instead, the Governor proposes that funding for "settle-up" of these past-year and current-year expenditures, which are needed to meet the Proposition 98 constitutional guarantee, be "deferred" until 2006-07. The Governor further proposes using any future funds appropriated for settle-up for one-time purposes such as instructional materials, training, and deferred maintenance. The 2004-05 budget assumes that the Proposition 98 guarantee is fully funded at the minimum level in 2002-03 and 2003-04.

Total K-12, Proposition 98 Funding Available. The Governor proposes roughly $1.9 billion in additional spending for K-12 schools in 2004-05. These new funds are the result of $456 million in new Proposition 98 funds, an estimated $1.1 billion in K-12 Proposition 98 funds "freed-up" from one-time expenditures, and $300 million in program savings (child care reductions, program eliminations, and other program savings.) The Governor proposes using $1.2 billion of these additional funds to cover statutory growth and COLA for revenue limits and categorical programs. In contrast, the 2003-04 budget provides growth for revenue limits and special education only but does not provide COLAs for any programs. The 2003-04 budget also reduces revenue limits by 1.2 percent ($350 million). The Governor also proposes $730 million for various program increases in 2004-05 including: PERS and UI employer rates ($242 million); revenue limit equalization ($110 million); deferred maintenance ($173 million); instructional materials ($188 million); and high speed Internet access ($21 million). The Governor proposes a $612 million decrease in General Fund dollars in 2004-05, which is only possible due to a $1.0 billion net increase in property tax revenues in 2004-05.[2]

Revenue Shift/Educational Revenue Augmentation Funds (ERAF). The Governor proposes to shift $1.336 billion in ERAF funding from local governments to K-14 education, which

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[2] For K-14 education (K-12 and Community Colleges) the Governor proposes a net decrease in General Funds of $426 million and a net increase in local property taxes of $1.2 billion in 2004-05.

reduces the General Fund obligation to K-14 education by $1.336 billion in 2004-05.[3] Of this amount, $1.168 billion is shifted to K-12 programs and $168 million is shifted to community colleges. According to the Legislative Analyst, this equates to roughly a 25 percent increase in ERAF obligations or a 10 percent decrease in local property tax revenues. Without this shift, the state would have to provide $1.3 billion more General Fund for Proposition 98 than the Governor's budget or approximately $869 million more from General Fund than the 2003-04 budget.

Categorical Reform -- Major Funding Eliminations & Shifts. The Governor proposes to eliminate separate funding for 22 categorical education programs (listed below) and shift $2 billion in funding for those programs to revenue limits in 2004-05. Funds shifted into revenue limits could be used for general purposes, or schools could continue to provide funding for categorical purposes if they desired.

Figure 2
Programs Governor Proposes to Transfer to Revenue Limit – 2004-05
(Dollars in Millions)

Program	Amount	Program	Amount
Home to School Transportation	$519.6	Tenth Grade Counseling	$11.4
School Improvement	396.1	Specialized Secondary Program Grants	5.1
Staff Development Day Buyout	235.7	School Library Materials	4.2
Targeted Instructional Improvement Grant	205.1 [a]	International Baccalaureate	1.1
Instructional Materials Block Grant	175.0	Intersegmental Staff Development	2.0
Supplemental Grants	161.7	Bilingual Teacher Training	1.8
Beginning Teacher Support & Assessment	87.5	At Risk Youth	0.6
Year Round Schools	84.1	Civic Education	0.3
English Learners Student Assistance	53.2	Pupil Residency Verification	0.2
Mathematics & Reading Professional Development	31.7	Teacher Dismissal Apportionment	0.0
Peer Assistance and Review	25.9	**Total**	**$2,024.4**
Dropout Prevention	21.9		

[a] Only includes the voluntary desegregation funding and not court ordered funding.

The Governor utilizes several general criteria in selecting programs for inclusion on the list of programs to be shifted. Generally, programs were selected if: (1) funding allocations to districts have been stable historically; (2) most districts participate in the program; (3) funds are not targeted for special needs students; and (4) there are few legal restrictions on the use of funds.

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[3] To balance the state budget in 1992-93 and then again in 1993-94, the Legislature and Governor Wilson permanently shifted more than $3 billion in property tax revenues from counties, cities, special districts, and redevelopment agencies to each county's Educational Revenue Augmentation Fund (ERAF) to benefit K-14 education (K-12 schools and Community Colleges). These shifted funds reduce the state's General Fund obligation for K-14 education by a commensurate amount. In 2003-04, it is estimated that cites, counties, redevelopment agencies, and special districts will deposit $5.171 billion into ERAF; the estimate for 2004-05 is $5.527 billion.

While not the intent, the list of programs includes some major categorical programs directed to serve special populations and specific purposes, such as Home-to-School Transportation, Targeted Instructional Improvement Grants, Instructional Materials and English Learner Student Assistance. Elimination of special funding for these categorical programs will be an issue for the Legislature, as many categorical programs have been established to reflect important educational goals and priorities.

The Governor does not propose elimination of the Education Code statutes for these programs, as a part of consolidation, in order to allow local education agencies (LEAs) to continue programs through revenue limit funding. However, the Governor does propose eliminating the specific funding requirements for these programs in statute.

Categorical Reform -- Other Program Consolidations and Eliminations

- **Charter Schools.** The budget shifts $21.9 million in funding from the Charter School Block Grant program to a new revenue limit set-aside program for charter schools. The budget also directs an additional $24.5 million for this new revenue limit program from funds shifted as a part of the proposed shift of $2 billion from 22 categorical programs into revenue limits. Total funding for the charter school revenue limit program is proposed at $46.4 million in 2004-05. In addition, the budget proposes moving another $14.5 million from the Economic Impact Aid portion of the Charter School Block Grant to the Economic Impact Aid budget item where it will be set aside for charter schools.

- **School Safety.** The budget consolidates funding for school safety programs into a single school safety budget item in 2004-05. This change maintains funding for the School Safety Block Grant, consolidates funding for five competitive school safety programs, and maintains separate funding for safety plans for new schools. A total of $17.6 million would be transferred from these programs, bringing funding for the School Safety Block Grant to a total of $99.7 million in 2004-05.

- **Native American Program.** The budget consolidates the American Indian Centers program with the Native American Indian Early Childhood Education program.

Instructional Materials. The budget provides $185 million to restore funding for the Instructional Materials Block Grant in 2004-05, bringing total funding to $363 million. However, the Governor also proposes to shift $175 million in existing Instructional Materials Block Grant funds to revenue limits as a part of the categorical program consolidation proposal. The net effect of these actions is to increase funding for revenue limits by $175 million and increase special funding for instructional materials by $10 million.

Special Education – Federal Funding Offset. The budget provides a $107.4 million increase for special education programs to cover enrollment growth ($37.4 million) and a 1.84 percent COLA ($70 million), consistent with the Governor's proposal to provide statutory growth and COLA's for apportionment and categorical programs in 2004-05. In contrast to other programs, special education growth and COLA are funded primarily by $74.5 million in new, estimated federal IDEA funds, in addition to $23.6 million in local property taxes and $9.3 million state General Funds. Under current law, new federal special education funds are treated as an "offset" to state funding and not as an augmentation that would increase special education base funding level by that amount. This offset complies with state law that requires federal funds to be used to offset state funds in any year where total funding for special education funding is higher than the prior year.

Special Education -- Mental Health Services. The Governor proposes to continue $69 million in federal IDEA[4] funds as reimbursement to county mental health agencies for mental health related services to students with disabilities in 2004-05 (AB 3632 services). California is slated to receive a significant increase in new federal IDEA funds for 2004-05 -- beyond the level proposed by the Governor -- due to higher levels of funding for states contained in the federal Consolidated Appropriations Act recently signed into law. The Governor and Legislature may consider a variety of purposes in appropriating these funds, including expansion of funding for AB 3632 services. In addition, the Legislature may consider funding enhancements for foster youth with disabilities. Such enhancements are tied to reforms of the LCI/NPS[5] funding formula, as recommended by a state-funded study conducted by American Institutes of Research in 2003.

Ongoing Defferals. The Governor's Budget proposes to continue $1.2 billion in various K-12 programs deferred from 2002-03 to 2003-04. These deferrals were enacted last year as a part of a package of mid-year budget reduction proposals and involve a shift in second principal apportionment payments, referred to as P-2 payments, from June to July 2003. The 2003-04 Budget Act restored a net total of $609.7 million in deferrals from previous years, which creates additional capacity for spending in 2004-05.

State Mandate Reimbursements. The budget proposes to defer or suspend all funding for education mandates in 2004-05. This is consistent with budget actions in recent years. The Administration is concerned about state audits of education mandate claims that found high rates of disallowable costs. In response, the Administration plans to seek legislation to reform state law governing mandates and address the new and ongoing state liability for these mandates. The Administration estimates that the cost of education mandates is in the hundreds of millions of dollars (based on unaudited claims). According to the Legislative Analyst, the state's liability for ongoing, unpaid claims in 2003-04 exceeds $1 billion. The annual cost for mandate reimbursements is estimated at over $300 million alone in 2003-04. By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

PERS Revenue Limit Offset. The Governor's 2004-05 budget continues $36 million in funding for the PERS Revenue Limit Offset, pursuant to Chapter 794; Statutes of 2001. The Administration also proposes trailer bill language to cap the PERS Offset at 13.02 percent.

New Policy Initiatives. The Governor's *Budget Summary* identifies several policy issues that have not been formally developed at this time but are likely to be proposed through budget trailer bills. While there is not much detail on these proposals at this time, these policy initiatives include:

- **School-Site Budgeting.** The Administration is developing options for giving more control of school resources to principals, teachers, and parents. Legislation is being developed to improve public awareness and scrutiny of local budgets and to increase school site

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[4] Individuals with Disabilities Education Act (IDEA).

[5] Licensed Children's Institutions/Non-Public Schools.

participation in academic and budget decisions. This proposal is tied to the Governor's proposal to shift categorical funds to revenue limits.

- **School District Academic Accountability.** The Administration proposes to add a district level component to the state's school-based accountability program. The Administration proposes developing a set of district academic targets as a part of the state's testing system and Academic Performance Index. This proposal is also tied to the Governor's proposal to shift categorical funds to revenue limits.
- **School District Fiscal Accountability.** The Administration is interested in reforming school district budget oversight due to concerns about the fiscal problems that many school districts face. The Administration intends to develop a process for identifying districts in fiscal trouble early on so that experts can intervene to prevent insolvency. The Administration supports a number of specific reforms in this area to: (1) better specify definitions for fiscal insolvency; (2) establish clear guidelines for budget projections; (3) require County Superintendents to review and comment on the budget impact of all collective bargaining agreements; (4) provide Superintendent of Public Instruction authority to assign the county office Fiscal Crisis and Management Assistance Team (FCMAT) to districts in fiscal trouble; (5) improve the process governing emergency loans and state takeovers for troubled school districts; and (6) require districts to develop an allocation plan to the public and to county superintendents for fully restoring their reserve for economic uncertainty by 2005-06, as required by law.
- **Improving the Allocation of Funding among School Districts.** The Administration is concerned with the state's complex and uneven system of allocating general purpose funding among school districts and will investigate options for improving the current system.
- **Administrator Compensation.** The Administration expresses concern about excessive compensation practices for school districts administrators, including high annual salaries for some district administrators, separate retirement systems of questionable legality and future liability, and extended severance packages. The Administration states these practices should be reformed.
- **Facilities Funding for Alternative Education Programs**. The Administration is concerned that current state school funding policies for continuation high schools, community day schools and county community schools may result in excess costs and are in need of reform. Currently the state uses the State School Facilities Formula to fund these schools. At the same time, revenue limits for community day and community schools provide allowances for facility rent or lease.

Child Care Programs

Background. The state makes subsidized child care services available to (1) families on public assistance and participating in work or activities conducive to employment, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need. Child care 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 family's progress in transitioning from welfare-to-work.

Stage 1 child care 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 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

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"). Child care 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 child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

2004-05 Child Care Policy Proposals. The proposed 2004-05 Budget contains a total of $2.37 billion (both General Fund and federal funds) to provide child care services to CalWORKs and former CalWORKs recipients, as well as the "working poor".

As part of his 2004-05 budget, the Governor proposes a variety of programmatic reforms to the state's subsidized child care programs. The proposals -- which will likely require statutory changes -- are aimed at saving the state General Fund monies, creating more "equity" between former CalWORKs recipients and the general public in obtaining child care services, and improving the quality of available childcare. Generally, the reforms would (1) limit eligibility, (2) increase costs to families, (3) limit the amount of time families can receive care, and (4) decrease the reimbursement rates to providers. Further, the Governor has included an additional $2 million in his budget proposal to develop a program aimed at mitigating and eliminating fraud within the various child care programs. At the time of this publication, the exact statutory language associated with the above-noted reforms is still pending; however, the proposals are outlined in broad terms below.

Family Fees. The budget proposes to lower the threshold at which families start paying a child care fee. Currently, a family of three does not begin paying child care fees until the family income reaches $1,950 a month ($23,400 per year). This proposal would decrease that threshold (for a family of three) to $1,560 a month ($18,720).

Under this proposal, family fees would be paid directly to providers (which is a change from current practice) and would be capped at no more than 10 percent of their income (i.e., $156 per month based on the above scenario). Currently, fees are capped at no more than 8 percent of household income ($125 per month, based on a $1,560 per month income).

Further, the Governor proposes to limit the fee exemption in current law which allows the families of children who receive child care due to a professional referral (teacher, psychologist, etc.) to avoid paying any family fees. Under these circumstances, the professional alleges that the child may be at risk of abuse or neglect. The Governor's proposal would require families falling into this category would begin paying fees after three months. Families referred for child care services by Child Protective Services (CPS) would be allowed a one-year moratorium and would begin paying fees after that time.

Limiting Eligibility. The Governor proposes to limit program eligibility in a variety of ways, including changes to child age limits, income eligibility thresholds, and capping the length of time families may receive subsidized care. More specifically:

- **Age Limits.** The proposal would redirect children ages 11 and 12 years to state and/or federally subsidized after-school programs where they would receive first priority for enrollment. In cases where these types of programs are either not available or not appropriate to the work hours of the family, these children would still be eligible for subsidized child care services.

  Staff notes that the Governor's Budget does not include an increase in state funding for before- and after-school programs to compensate for the above-noted shift in children. DOF staff note that they are expecting additional federal revenues for the 21st Century After School Learning Centers Program to be forthcoming.

- **Income Eligibility.** The Governor's proposal uses a three-tiered eligibility system that would reduce the income eligibility threshold for families living in lower-cost and mid-cost regions of the state; while holding income eligibility constant for families in higher-cost areas. As an example, under the Governor's draft proposal, a family of two living in San Francisco (high-cost county) would be ineligible for child care when their annual income reaches $32,760, compared to $29,784 if they lived in Fresno (low-cost county). For a family of four, those incomes would be $39,000 and $35,448, respectively. The Administration's intent is to codify the dollar figure associated with the income cap and then modify it annually based on the California Necessities Index (CNI) rather than basing income eligibility changes as a percentage of State Median Income.

- **Time Limits.** The proposal would place limits on the length of time families may receive subsidized care. In the case of children who are receiving care because their family member is enrolled in an education and/or training program, the Governor's proposal would limit care to two years.

  CalWORKs families would be limited to two years in Stage 2 child care services (after they are off of cash aid) and 1 year in Stage 3 child care services. After that time, CalWORKs families would need to compete with the remainder of the "working poor" for a limited number of subsidized general child care slots. CalWORKs families that are currently in Stage 3, and have been off of cash assistance for three years, would be allowed one more year of services before being forced to compete for the general child care slots.

Reimbursement Rates. In order to further reduce costs within the child care program and provide a monetary incentive to improve the quality of child care, the Governor is proposing to reduce the reimbursement rates to child care providers, while adopting a "tiered" funding mechanism (similar to a salary schedule) which would compensate providers more if they are licensed and accredited. Further, this new tiered schedule would reimburse providers caring for both subsidized and private-pay clients at a higher rate.

6120 California State Library

There are no significant budget proposals related to the California State Library. Funding for the Public Library Foundation (PLF) is proposed to remain constant at the current-year level of $15.8 million.

Child Care Programs

Child Care Programs

Background. The state makes subsidized child care services available to (1) families on public assistance and participating in work or activities conducive to employment, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need. Child care 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 family's progress in transitioning from welfare-to-work.

Stage 1 child care 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 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

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"). Child care 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 child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

2004-05 Child Care Policy Proposals. The proposed 2004-05 Budget contains a total of $2.37 billion (both General Fund and federal funds) to provide child care services to CalWORKs and former CalWORKs recipients, as well as the "working poor".

As part of his 2004-05 budget, the Governor proposes a variety of programmatic reforms to the state's subsidized child care programs. The proposals -- which will likely require statutory changes -- are aimed at saving the state General Fund monies, creating more "equity" between former CalWORKs recipients and the general public in obtaining child care services, and improving the quality of available childcare. Generally, the reforms would (1) limit eligibility, (2) increase costs to families, (3) limit the amount of time families can receive care, and (4) decrease the reimbursement rates to providers. Further, the Governor has included an additional $2 million in his budget proposal to develop a program aimed at mitigating and eliminating fraud within the various child care programs. At the time of this publication, the exact statutory language associated with the above-noted reforms is still pending; however, the proposals are outlined in broad terms below.

Family Fees. The budget proposes to lower the threshold at which families start paying a child care fee. Currently, a family of three does not begin paying child care fees until the family income reaches $1,950 a month ($23,400 per year). This proposal would decrease that threshold (for a family of three) to $1,560 a month ($18,720).

Under this proposal, family fees would be paid directly to providers (which is a change from current practice) and would be capped at no more than 10 percent of their income (i.e., $156 per month based on the above scenario). Currently, fees are capped at no more than 8 percent of household income ($125 per month, based on a $1,560 per month income).

Further, the Governor proposes to limit the fee exemption in current law which allows the families of children who receive child care due to a professional referral (teacher, psychologist, etc.) to avoid paying any family fees. Under these circumstances, the professional alleges that the child may be at risk of abuse or neglect. The Governor's proposal would require families falling into this category would begin paying fees after three months. Families referred for child care services by Child Protective Services (CPS) would be allowed a one-year moratorium and would begin paying fees after that time.

Limiting Eligibility. The Governor proposes to limit program eligibility in a variety of ways, including changes to child age limits, income eligibility thresholds, and capping the length of time families may receive subsidized care. More specifically:

- **Age Limits.** The proposal would redirect children ages 11 and 12 years to state and/or federally subsidized after-school programs where they would receive first priority for enrollment. In cases where these types of programs are either not available or not appropriate to the work hours of the family, these children would still be eligible for subsidized child care services.

  Staff notes that the Governor's Budget does not include an increase in state funding for before- and after-school programs to compensate for the above-noted shift in children. DOF staff note that they are expecting additional federal revenues for the 21st Century After School Learning Centers Program to be forthcoming.

- **Income Eligibility.** The Governor's proposal uses a three-tiered eligibility system that would reduce the income eligibility threshold for families living in lower-cost and mid-cost regions of the state; while holding income eligibility constant for families in higher-cost areas. As an example, under the Governor's draft proposal, a family of two living in San Francisco (high-cost county) would be ineligible for child care when their annual income reaches $32,760, compared to $29,784 if they lived in Fresno (low-cost county). For a family of four, those incomes would be $39,000 and $35,448, respectively. The Administration's intent is to codify the dollar figure associated with the income cap and then modify it annually based on the California Necessities Index (CNI) rather than basing income eligibility changes as a percentage of State Median Income.

- **Time Limits.** The proposal would place limits on the length of time families may receive subsidized care. In the case of children who are receiving care because their family member is enrolled in an education and/or training program, the Governor's proposal would limit care to two years.

  CalWORKs families would be limited to two years in Stage 2 child care services (after they are off of cash aid) and 1 year in Stage 3 child care services. After that time, CalWORKs families would need to compete with the remainder of the "working poor" for a limited number of subsidized general child care slots. CalWORKs families that are currently in

Stage 3, and have been off of cash assistance for three years, would be allowed one more year of services before being forced to compete for the general child care slots.

Reimbursement Rates. In order to further reduce costs within the child care program and provide a monetary incentive to improve the quality of child care, the Governor is proposing to reduce the reimbursement rates to child care providers, while adopting a “tiered” funding mechanism (similar to a salary schedule) which would compensate providers more if they are licensed and accredited. Further, this new tiered schedule would reimburse providers caring for both subsidized and private-pay clients at a higher rate.

HIGHER EDUCATION

Overarching Higher Education Issues

Limiting Student Enrollment. The Governor proposes to reduce the number of new freshman enrolling at the UC and CSU by 10 percent (equivalent to 7,000 full-time students (FTES)), beginning in the 2004-2005 academic year, and instead redirect them to local community colleges using "dual admissions" programs. Under the "dual admissions" programs, the UC or CSU guarantees admissions to the student, contingent upon them completing the specified academic requirements while at the community colleges. This redirection is expected to result in $45.8 million in savings in the 2004-05 fiscal year. To assist in the eventual transfer of these students from the community colleges to the public four-year colleges, the Governor provides the UC and CSU with an additional $3.5 million for counseling and other transfer-related services.

Staff notes that, while many new students will choose to take advantage of the dual admissions programs and enroll at the California Community Colleges, there is a distinct possibility that some students may simply choose a different (private or out-of-state) college instead.

Funding Enrollment Growth. The Governor's budget contains no additional funding for student enrollment growth at either the UC or the CSU; as a result, it is expected that these institutions may further have to limit the number of students they can serve (beyond the above-noted reduction in the freshman class). This is expected to result in 5,000 unfunded FTES at UC and over 16,000 students who will be unserved at CSU.

At the community colleges, the Governor proposes to fund an additional 3 percent enrollment growth (which equates to 33,000 FTES) at a cost of $121.1 million. Within this growth allocation, the community colleges are expected to absorb the additional 7,000 FTE students being redirected from the UC and CSU.

Proposed Long-Term Student Fee Policy. As part of his 2004-05 Budget, the Governor proposes to establish a long-term student fee policy, aimed at making fee increases regular, predictable, and modest. The prior long-term student fee policy expired a decade ago and has never been replaced. Under the Governor's proposal, increases in student fees would be linked to changes in California Per Capital Personal Income (CPCI) and would be capped at 10 percent annually. While the language of the fee proposal is still pending, in the short-term the Governor proposes student fee increases in all three segments of higher education for 2004-05.

At the community colleges, the Governor proposes to increase fees by $8 per unit (from $18 to $26) for nonbaccalaurate degree holders; students who have already earned a Bachelor's Degree would be charged $50 per unit rather than the $26 per unit rate. Combined, these two fee increases are expected to generate $91 million in fee revenue for the community colleges (which offsets their General Fund appropriation by a like amount).

At the UC and CSU, fees are proposed to increase by 10 percent for undergraduate students, 40 percent for graduate students, and 20 percent for nonresident students (please see corresponding fee charts on pages 1-17 and 1-19 of this document, respectively).

In order to "capture" the General Fund savings associated with the increases in student fees, the Governor simply reduces UC, CSU and Community College funding by $109 million, $78.4 million, and $91 million, respectively; the burden then falls to the institutions to collect fee revenues totaling the reduced amounts. If the revenues fall short, then the universities will essentially be hit with an unallocated reduction to make up the difference.

Staff notes that in many cases, it will be close to impossible for the institutions to reap the full amount of revenues expected by the Administration from the fee increases. At UC for example, most graduate students don't pay student fees because, under contract, graduate students in teaching and/or research assistant jobs are exempted from paying these costs as part of their compensation package. At the community colleges, it is likely that many older, casual students will drop out rather than pay $50 per unit, again making it difficult to achieve the $91 million in revenue associated with the fee increases.

Charging Students for "Excess" Units. Another variation on establishing a "differential" fee for baccalaureate degree holders is proposed by the Governor for students attending the UC and CSU. This proposal is specifically aimed at providing a financial incentive for students who have already earned enough units for a Bachelor's degree to graduate, rather than staying enrolled and taking additional (presumably unnecessary) courses. Specifically, the Governor proposes to charge students who have earned upward of 110 percent of the necessary units towards graduation a differential fee, per unit, in order to eliminate any state money being used to subsidize their education. If students were to pay the full cost of instruction the price tag would be approximately $15,000 per year at UC and $7,500 at CSU.

Under the Governor's proposal, the student would be given a "cushion" of an additional 18 units at UC and 14 units at CSU in order to accommodate circumstances where students were unable to enroll – in a timely manner – in the courses they needed to graduate. UC indicates that there are a relatively small number of students who would be charged the roughly $300 per unit fee under the above scenario. At CSU, the fee would likely be closer to $200 per unit. However, both UC and CSU seriously doubt that they would be able to reap much (if any) of the $33.7 million worth of revenue that this proposal is expected to raise. Instead, students would, presumably, graduate and/or stop taking classes if the cost were to escalate to $200-$300 per unit. As is the case with other student fee increases, if the revenues fall short, the university will be hit with an unallocated reduction to make up the difference.

Financial Aid. In addition to increasing the cost of student attendance at UC, CSU and Community Colleges, the Governor's Budget proposes to provide LESS support for student financial aid to offset these increases. Specifically, the Governor is proposing to alter the long-standing practice of returning one-third of the revenue generated from a student fee increase to campus-based financial aid. Instead, under the Governor's proposal, only 20 percent of the revenue will be returned to financial aid, further exacerbating the impact of the proposed fee increases. On the Cal Grant side of the equation, the Governor's Budget does not include any increases in the award amount to offset the fee increases for financially needy students, thereby decreasing the "buying power" of the Grant. (See page 1-22 of this document for further information.)

Eliminating Outreach Services to Underrepresented Students. In December 2003, the Governor reduced funding mid year -- under the auspices of Budget Act Control Section 27.00 -- for student outreach programs at both UC and CSU by a total of $24.7 million ($12.2 at UC and $12.5 million at CSU). Under the Governor's 2004-05 proposal, the mid-year cuts to student outreach programs continue into the budget year -- when the 2004-05 budget proposes to cut **ALL** state funding (and some UC and CSU institutional funding) to those programs.

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.

As part of the 2003-04 Budget Act, the Administration was granted broad authority -- under Control Section 4.10 -- to reduce state governmental operations and downsize the number of state government employees. Pursuant to this control section, the Governor imposed a mid-year (2003-04) cut of $352,000 ($316,000 General Fund; $36,000 federal funds) and 4.0 positions from CPEC's ongoing operations. For 2004-05, the Governor proposes to continue this reduction; however, no other budget cuts or reorganization plans are being proposed.

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.

Current-Year Reductions. As part of the mid-year (2003-04) reductions, the Administration reduced (using Control Section 27.00 of the Budget Act) General Fund support for the UC by a total of $29.9 million specifically targeted at Student Outreach ($12.2 million) and the Institute for Labor Studies ($2 million), with the remainder being an Unallocated Reduction ($15.7 million).

2004-05 Proposed Reductions. In addition to the (1) reductions to student enrollment, (2) reductions associated with student fee increases, and (3) elimination of student outreach, (as discussed on Pages 1-13 through 1-15), the Governor's Budget reduces funding ($35.3 million) for classroom instruction by increasing the student-to-faculty ratio, and also reduces funding for Academic and Institutional Support (including libraries) by 7.5 percent ($45.4 million).

These reductions would be partially offset by an $80.5 million augmentation which restores one-time spending reductions in the 2003 Budget Act.

Further, the 2004-05 budget proposes to eliminate the UC Multi-Campus Institute for Labor Studies by cutting the remaining $2 million needed to keep the Institute operational. Also proposed for elimination is funding for UC's Digital California Project, which aimed to increase K-12 school access to the Internet "backbone." In addition, funding for all state-supported research would be reduced 5 percent ($11.6 million) under the Governor's proposal. The current-year unallocated reduction of $15.7 million grows to $47.2 million in 2004-05 and is reflected by increased reductions associated with student fee increases.

UC Merced. The Governor and the UC continue to strive towards opening the new UC Merced campus in the Fall of 2005. This start-up date was delayed last year from the targeted opening in 2004. To meet this end, the 2004-05 budget proposes to allocate an additional $2.7 million for start-up costs associated with the Merced campus, bringing the annual operational costs to $20 million. These funds are used primarily to support a core staff of administrators and academicians, develop curriculum, and recruit faculty.

Specifically, the capital outlay portion of the budget in the current year (2003-04) includes $164.3 million in predominately lease-revenue bond funds for working drawings and construction associated with all phases of academic and support building construction, including the Science and Engineering Building, the Library/Information Technology Center, the initial classroom and office building and the Logistical Support/Service Facilities. In 2004-05, the Governor's Budget proposes an additional $9.3 million in general obligation bonds (from the March 2004 School Bond Act) to continue construction and purchase equipment for the Logistical Support/Service Facilities.

Student Fees. For the third time in nine years, student fees are proposed to be increased at the UC in 2004-05. Specifically, the Governor's Budget proposes to increase undergraduate fees by 10 percent, bringing the total mandatory systemwide fees at UC to $6,028 per year. Fees for graduate students, are proposed to increase 40 percent, while out-of-state students will pay an additional 20 percent on top of the other increases. Additional fees which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV) are also proposed to be increased, in accordance with the Administration's proposal of reducing (by 25 percent) the amount the state subsidizes professional school students.

Fees at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) are expected to average $7,423 in 2004-05, which is $1,395 higher than the 2004-05 proposed fee levels for UC resident undergraduates.

University of California Student Fees

	Undergraduate		Graduate	
	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
2002-03 *(fees increased mid-year)*	4,017	16,396	5,017	16,393
2003-04	5,530	19,740	6,843	19,333
2004-05	*6,028*	*22,504*	*8,931*	*23,922*

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an average of the campus-based fees for the nine campuses.

Fees for professional school students in such disciplines as medicine, dentistry, law, veterinary medicine and business have yet to be determined. Nursing fees are proposed to remain constant at an additional $2,925 annually.

Move Towards Professional School Privatization. A relatively new theme in the Governor's Budget proposal is a reduction in the amount of state support provided for professional students and professional-degree education (as noted below with Hastings College of Law). This is illustrated by the 25 percent reduction in the state subsidy of professional school students at UC (which will be reflected in higher student fees in those areas) coupled with the accompanying operational reductions to Hastings Colleges of Law (see below).

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.

Current-Year Reductions As part of the mid-year reductions implemented by the Administration, funding for Hastings College of Law was reduced by $302,000.

2004-05 Proposed Reductions. For the 2004-05 fiscal year, the Administration proposes reductions totaling $3.43 million (from a $11 million base General Fund budget in 2003-04); total General Fund expenditures for Hastings are proposed to be $8.1 million in 2004-05.

The largest reduction ($2.2 million) is aimed at reducing state support for professional school students by 25 percent (consistent with the proposal for UC). The Administration expects that student fees will be increased by the Hastings College Board of Directions to backfill the reduction. The exact amount of the fee increase has yet to be determined by the board. Further, nonresident tuition would also increase by 20 percent. As with fee increases at other California colleges, if the revenues fall short, Hastings would be expected to absorb the difference in the form of an unallocated reduction.

The remaining reduction is targeted at decreasing the amount of funding available for Academic and Institutional Support by $402,000. At a single-subject college like Hastings, the entirety of this reduction will fall on the college's law library.

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.

Current-Year Reductions. As part of the mid-year (2003-04) reductions, the Administration reduced (using Control Section 27.00 of the Budget Act) General Fund support for the CSU by a total of $23.8 million specifically targeted at Student Outreach ($12.5 million), with the remainder being an Unallocated Reduction ($11.3 million).

2004-05 Proposed Reductions. In addition to the (1) reductions to student enrollment, (2) reductions associated with student fee increases, and (3) elimination of student outreach (as discussed on Pages 1-13 through 1-15 of this document), the Governor's Budget reduces funding ($53.5 million) for classroom instruction by increasing the student to faculty ratio, and also reduces funding for Academic and Institutional Support (including libraries) by 7.5 percent ($52.6 million). Furthermore, the 2004-05 budget proposes to delay $6 million in funding for CSU's Common Management System (CMS) database.

These reductions would be partially offset by a $69.5 million augmentation which restores one-time spending reductions in the 2003 Budget Act.

Student Fees. For the third time in nine years, student fees are proposed to be increased at the CSU in 2004-05. Specifically, the Governor's Budget proposes to increase undergraduate fees by 10 percent, bringing the total mandatory systemwide fees at CSU to $2,250 per year. Fees for graduate students will increase 40 percent (to $3,156), while nonresident tuition will go up by an additional 20 percent ($12,420 annually for an undergraduate student)

Fees at the CSU comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged $5,272 in 2003-04, which was $2,700 more than the amount paid by CSU resident undergraduates.

California State University Student Fees

	Undergraduate		**Graduate**	
	Resident	**Nonresident**	**Resident**	**Nonresident**
1994-95	$1,584	$8,964	$1,584	$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03 *(fees increased mid-year)*	1,573	10,033	1,734	10,194
2003-04	2,016	10,506	2,256	10,716
2004-05	*2,250*	*12,420*	*3,156*	*13,326*

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. 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 many of the state's economic development programs.

Current-Year Reductions. Unlike UC and CSU, the community colleges were spared from any mid-year reductions, as were their K-12 counterparts.

2004-05 Proposed Adjustments

Enrollment Growth. The Governor's 2004-05 budget proposes to provide $21.1 million to fund a 3 percent (or 33,000 FTES) increase in student enrollment. Community college enrollment funding has continuously failed to keep pace with actual student enrollment, as is evidenced by the over 31,000 unfunded FTES currently enrolled on community college campuses throughout the state.

Equalization. The Governor's budget provides an additional $80 million to fund equalization amongst the various community college districts, in an attempt to remedy the current per student funding disparities between districts.

Categorical Program Consolidation. The Administration proposes to consolidate various categorical programs, and shift the resources tagged to those programs (totaling over $300 million) to General Purpose funds (thereby rolling the dollars into the base apportionments budget for the system.) Specifically, the budget proposes to consolidate funding for the following categorical programs: (1) Partnership for Excellence; (2) Matriculation; (3) Part-Time Faculty Health Insurance; (4) Part Time Faculty Compensation; (5) Part-Time Faculty Office Hours; and (6) Telecommunications and Technology Services. While the details of this proposal will be forthcoming, the Administration has stated its intent to retain the programs in statute, but simply consolidate the funding.

Student Fees. For 2004-05, the Governor proposes to increase student fees over 40 percent, from $18 per unit to $26 per unit. As part of the 2003-04 Budget Act, community college fees were raised from $11 per unit to $18 per unit and the Legislature redirected $38 million in funding from other portions of the community college budget in order to enhance local community college financial aid services and conduct a statewide public relations and information campaign to mitigate the negative effects of the fee increase. The 2004-05 Budget proposes to continue funding a similar effort.

In addition, to the above-noted fee increase, the Administration proposes to penalize community college students who have already earned a baccalaureate degree by charging them double ($50 per unit) what other students will be paying. It is unclear if this proposal would exempt individuals re-entering the workforce and/or participating in job training programs.

As current law dictates, the General Fund budget for the community colleges is offset by the amount of revenue that the fee increases are expected to generate ($91 million). In essence, the fee increase benefits the General Fund of the state, not the colleges directly. Given the substantial cost proposed for BA degree holders, it is likely that those students will choose to drop out of classes rather than pay the additional fees, thereby making it impossible for the community colleges to actually generate the $91 million in revenue.

At present, approximately 40 percent of community college students are eligible for Board of Governor (BOG) Student Fee Waivers; the Administration believes that this percent will likely remain constant.

Deferrals. The Governor's Budget continues to defer $200 million in General Apportionment payments from June to July (of the following fiscal year). In order to keep the deferral current, the Governor's 2004-05 budget provides the community colleges with $200 million to pay the June 2004 apportionment claims (from the 2003-04 Budget) that will instead come due in July 2004.

Proposition 98 "Split." The community college share of the Proposition 98 guarantee is expected to increase substantially from approximately 9.48 percent in the current year (2003-04) to 10.02 percent in 2004-05.

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.

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 approximately $8,000 to $9,000 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.

Under current law, in order 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 in the current year is approximately $66,700 for a family of four or $77,100 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 $35,100 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 financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

2003-04 Proposed Policy Changes. As part of his 2004-05 budget, the Governor proposes to substantially limit the scope of the Cal Grant program by reducing both the maximum income level of Cal grant eligibility and reducing the award level for private college students. In addition, and counter to codified legislative intent, the Governor does not provide a increase in the Cal Grant program to cover the proposed 10 percent student fee increases at the University of California and the California State University.

- **Eligibility**. The Governor proposes to reduce the maximum family income necessary to be eligible for the Cal Grant A Program by 10 percent, from the current level of $66,700 to $60,840 for a family of four. In the Cal Grant B Program, the income ceiling would be reduced from $35,100 to $31,950 also for a family of four.

Cal Grant Income Ceilings (Dependent Students)

	Cal Grants A and C		Cal Grant B	
Family Size	2003/04	2004/05 (proposed)	2003/04	2004/05 (proposed)
2	$60,000	$54,630	$28,000	$25,420
3	61,400	55,980	31,500	28,710
4	66,700	60,840	35,100	31,950
5	71,500	65,160	39,200	35,730
6 or more	77,100	70,290	42,400	38,610

- **Grant Amount**. The Governor proposes to reduce the grant level for students attending private and independent colleges by over $4,200 annually. This would result in the maximum grant level being decreased from the current $9,708 to $5,482. This reduced level equals the grant level being proposed for students at the University of California. The Administration estimates that this reduction will reap $32.7 million in General Fund savings.

  Staff notes that the above proposal contradicts the original policy rationale for paying a higher grant level to private college students: to allow students to make a real choice among the higher education options, and as a result, redirect a portion of the eligible postsecondary students to nonpublic institutions. The goal of the policy was to ultimately (1) assist the state in avoiding additional costs associated with providing postsecondary education for ALL eligible students and (2) help to manage the surging student enrollments under the Tidal Wave 2 population boom.

  In addition to the above-noted decrease, the Governor proposes to dissolve the practice of increasing the Cal Grant awards to cover any additional costs associated with fee increases at the UC and CSU. This policy change runs counter to codified legislative intent. The Administration estimates that this policy change would avoid $23.6 million in additional General Fund costs.

Other Budget Adjustments. As part of the 2003-04 mid-year reductions, the Governor decreased funding for the Cal Grant program by $50 million to account for fluctuations in applicant and award estimates.

California State Library

6120 California State Library

There are no significant budget proposals related to the California State Library. Funding for the Public Library Foundation (PLF) is proposed to remain constant at the current-year level of $15.8 million.

SUBCOMMITTEE NO. 2

NATURAL RESOURCES, ENVIRONMENTAL PROTECTION, PUBLIC SAFETY, ENERGY, and GENERAL GOVERNMENT

Natural Resources

Environmental Protection

Public Safety and Criminal Justice

Energy

General Government

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. The agency consists of the following 22 state departments, boards, commissions, and conservancies:

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

The budget proposes a total of $2.56 billion ($593 million General Fund) for all Resources Agency programs, which represents a decrease of $3.3 billion (56.2 percent) from the current-year budget.

All Resources Agency Budgets Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$740,500	$593,193	-$147,307	19.9
Special Funds	1,491,575	1,684,772	193,197	12.9
Selected Bond Funds	3,367,788	124,670	-3,243,118	96.3
Federal Funds	254,549	159,696	-94,853	37.3
Total	$5,854,412	$2,562,331	-$3,292,081	56.2

0540 Secretary for Resources

The Secretary for Resources has administrative responsibility for the 22 state departments, boards, commissions, and conservancies within the Resources Agency. The budget proposes total expenditures of $6.8 million ($0 General Fund), a decrease of $181.3 million from the current-year budget. The decrease in expenditures is attributable to the Governor's proposal to delay allocation of Proposition 40 and Proposition 50 bond funds.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$0	$0	$0	0.0
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund	27,573	204	-27,369	-99.3
California Environmental License Plate Fund	2,557	2,581	24	0.9
Environmental Enhancement and Mitigation Demonstration Program Fund	90	90	0	0.0
Bay-Delta Ecosystem Restoration Account	94,716	0	-94,716	-100.0
Federal Trust Fund	255	269	14	5.5
Reimbursements	515	515	0	0.0
River Protection Subaccount	8,801	16	-8,785	-99.8
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	51,983	1,627	-50,356	-96.9
Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002	1,605	1,500	-105	-6.5
Total	$188,095	$6,802	-$181,293	-96.4

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 11 community conservation corps in neighborhoods with large concentrations of minority youth and high youth unemployment.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$35,403	$22,611	-$12,792	-36.1
Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Fund	3,536	0	-12,792	-36.1
California Environmental License Plate Fund	308	315	-3,536	-100.0
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	285	291	7	2.3
Collins-Dugan California Conservation Corps Reimbursement Account	36,290	27,940	6	2.1
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	5,228	0	-8,350	-23.0
Total	$81,050	$51,157	-$29,893	-36.9

Highlights

General Fund Reductions. Since the 2001-02 Budget Act, the Conservation Corps' budget has been reduced by $34.2 million. During this same period, the corps' General Fund budget has been reduced by $37.6 million. The Governor proposes to reduce General Fund support for the corps by $12.8 million (36.1 percent from the current year) and 118.8 PYs. Specifically the Governor proposes the following:

- $10.5 million for the Training and Work Program to include:
    - Closure of Los Padres, Ukiah, and Norwalk residential centers.
    - Closure of nonresidential centers located in McKinleyville, Arcata, and Crescent City, and the downsizing of additional nonresidential centers in Sacramento and the Bay Area.
    - Reduction of approximately 200 corpsmembers positions.
- $2.3 million from the General Fund to eliminate corpsmember health benefits. The previous administration proposed a similar reduction last year, however the Senate did not concur.

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 department performs numerous functions relating to agricultural and open space lands and soils; beverage container recycling; geology and seismology; and mineral, geothermal, and petroleum resources.

The budget proposes total expenditures of $881.6 million ($3.7 million General Fund), an increase of $195.6 million (28.5 percent) from the current-year budget. The increase in expenditures is attributable to the Beverage Container Recycling Program.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$5,003	$3,790	-$1,213	-24.2
Safe Neighborhood Parks, Clean Water, Clean Air & Coastal Protection Bond Fd	15,714	520	-15,194	-96.7
Surface Mining and Reclamation Account	1,144	1,143	-14,571	-1273.7
State Highway Account, State Transportation Fund	12	12	-1,132	-9433.3
California Beverage Container Recycling Fund	531,978	712,575	712,563	133.9
Soil Conservation Fund	1,350	2,036	-529,942	-39255.0
Glass Processing Fee Account, California Beverage Container Recycling Fund	35,615	55,503	54,153	152.1
Hazardous and Idle-Deserted Well Abatement Fund	100	100	-35,515	-35515.0
Bi-metal Processing Fee Account, California Beverage Container Recycling Fund	86	86	-14	-16.3
PET Processing Fee Account, California Beverage Container Recycling Fund	50,881	69,667	69,581	136.8
Mine Reclamation Account	1,513	2,700	-48,181	-3184.5
Strong-Motion Instrumentation and Seismic Hazards Mapping Fund	3,367	7,966	6,453	191.7
Strong-Motion Instrumentation Special Fund	4,538	0	-3,367	-74.2
Federal Trust Fund	1,720	1,687	-2,851	-165.8
Bosco-Keene Renewable Resources Investment Fund	722	778	-942	-130.5
Reimbursements	8,527	8,502	7,780	91.2
Oil, Gas, and Geothermal Administrative Fund	13,294	13,544	5,017	37.7
Agriculture and Open Space Mapping Subaccount	430	430	-12,864	-2991.6
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	10,000	529	99	1.0
Total	$685,994	$881,568	$195,574	28.5

Highlights

The Governor proposes the following budget adjustments:

- $4,374,000 (special funds) to merge the Strong-Motion Instrumentation Program Fund with the Seismic Hazards Identification Fund pursuant to Chapter 240, Statutes of 2003.
- $1,230,000 augmentation (special funds) to the Strong-Motion Instrumentation and Seismic Hazards Mapping Fund and 11.4 PYs for the Seismic Hazards Mapping Program.

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 for timberlands, rangelands, and brushlands. The department regulates timber harvesting on state or privately owned forestland and also provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

The Office of the State Fire Marshall is responsible for protecting life and property from fire through the development and application of fire prevention engineering, enforcement, and education regulations. The State Fire Marshall also trains and certifies fire service personnel throughout the state.

The budget proposes total expenditures of $634.6 million ($366.1 million General Fund), a decrease of $136.2 million (17.7 percent) from the current-year budget.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$466,784	$366,152	-$100,632	-21.6
Safe Neighborhood Parks, Clean Water, Clean Air & Coastal Protection Bond Fund	1,416	241	-1,175	-83.0
State Emergency Telephone Number Account	2,568	1,622	-946	-36.8
Unified Program Account	311	311	0	0.0
State Fire Marshal Licensing and Certification Fund	1,857	1,884	27	1.5
California Environmental License Plate Fd	637	395	-242	-38.0
California Fire and Arson Training Fund	1,597	1,583	-14	-0.9
California Hazardous Liquid Pipeline Safety Fund	2,285	2,227	-58	-2.5
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	389	386	-3	-0.8
Professional Forester Registration Fund	194	192	-2	-1.0
Federal Trust Fund	66,077	26,108	-39,969	-60.5
Forest Resources Improvement Fund	0	0	0	0.0
Timber Tax Fund	28	30	2	7.1
Reimbursements	167,944	171,014	3,070	1.8
Forest Practice Regulatory Fund	5,000	10,000	5,000	100.0
State Responsibility Area Fire Protection Fund	52,500	52,500	0	0.0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	1,060	0	-1,060	-100.0
Water Quality, Clean Drinking Water, Coastal and Beach Protection Bond Fund	240	0	-240	-100.0
Total	$770,887	$634,645	-$136,242	-17.7

Highlights

Timber Harvest Plan Fees. The current-year budget includes a $10 million reduction associated with the department's review and enforcement of Timber Harvest Plans (THPs). Last year, the subcommittee approved trailer bill language to establish a 4 percent timber yield fee, however, the bill was never approved by the Legislature. The Governor's budget assumes passage of THP fee enabling legislation. If the Legislature does not pass the proposed statutory changes, the department's THP review and enforcement program will be reduced by over 50 percent.

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 $271.1 million ($37.3 million General Fund), a decrease of $2.8 million (1 percent) from the current-year budget.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$37,655	$37,352	-$303	-0.8
Safe Neighborhood Parks, Clean Water, Clean Air & Coastal Protection Bond Fund	755	0	-755	-100.0
California Environmental License Plate Fund	17,984	15,581	-2,403	-13.4
Fish and Game Preservation Fund	89,612	94,166	4,554	5.1
Fish and Wildlife Pollution Account	2,480	2,502	22	0.9
California Waterfowl Habitat Preservation Account, Fish and Game Preservation Fund	208	217	9	4.3
Marine Invasion Species Control Fund	877	1,166	289	33.0
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	0	1,500	1,500	0.0
Oil Spill Prevention and Administration Fund	20,605	20,585	-20	-0.1
Oil Spill Response Trust Fund	0	0	0	0.0
Environmental Enhancement Fund	1,002	307	-695	-69.4
Central Valley Project Improvement Subaccount	53	53	0	0.0
Harbor and Watercraft Revolving Fund	5	5	0	0.0
Upper Newport Bay Ecological Reserve Maintenance and Preservation Fund	-200	-200	0	0.0
Federal Trust Fund	62,893	63,180	33,230	111.0
Reimbursements	29,950	29,215	29,215	0.0
Coastal Watershed Salmon Habitat Subaccount	0	0	-7,996	-100.0
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Fund	7,996	996	-1,042	-51.1
Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002	2,038	2,038	2,038	0.0
Salton Sea Restoration Fund	0	2,482	2,482	0.0
Total	$273,913	$271,145	-$2,768	-1.0

3790 Department of Parks and Recreation

The Department of Parks and Recreation (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 273 units, 31 of which are administered by local and regional park agencies. The system contains approximately 1.4 million acres of land, with 285 miles of coastline and 822 miles of lake, reservoir, and river frontage.

The budget proposes total expenditures of $331.2 million, ($82.3 million General Fund), a decrease of $824.7 million (71.3 percent) from the current-year budget. The decrease in spending is attributable to the Governor's proposal to delay the allocation of Proposition 40 bond funds.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
State Operations				
General Fund	$97,295	$82,316	-$14,979	-15.4
Safe Neighborhood Parks, Clean Water, Clean Air & Coastal Protection Bond Fund	23,892	12,441	-11,451	-47.9
California Environmental License Plate Fund	128	1,637	1,509	1178.9
Public Resources Account, Cigarette & Tobacco Products Surtax Fund	12,116	10,729	-1,387	-11.4
Habitat Conservation Fund	30	0	-30	-100.0
Off-Highway Vehicle Trust Fund	28,869	37,818	8,949	31.0
State Parks and Recreation Fund	96,735	117,079	20,344	21.0
Winter Recreation Fund	339	342	3	0.9
Harbors and Watercraft Revolving Fund	685	701	16	2.3
Federal Trust Fund	3,027	3,527	500	16.5
Reimbursements	13,097	13,097	0	0.0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	12,174	10,052	-2,122	-17.4
Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002	390	390	0	0.0
Total, State Operations	$288,777	$290,129	$1,352	0.5

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Local Assistance				
General Fund	$0	$0	$0	0.0
Safe Neighborhood Parks, Clean Water, Clean Air & Coastal Protection Bond Fd	44,744	0	-44,744	-100.0
Habitat Conservation Fund	2,705	3,705	1,000	37.0
Off-Highway Vehicle Trust Fund	17,608	17,000	-608	-3.5
Natural Resources Infrastructure Fund	7,956	0	-7,956	-100.0
California Wildlife, Coastal and Park Land Conservation Fund of 1988	8	0	-8	-100.0
Recreational Trails Fund	9,549	6,200	-3,349	-35.1
Federal Trust Fund	39,078	14,200	-24,878	-63.7
Reimbursements	0	0	0	0.0
River Protection Subaccount	0	0	0	0.0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	745,469	0	-745,469	-100.0
Total, Local Assistance	$867,117	$41,105	-$826,012	-95.3
Total, State Operations & Local Assistance	$1,155,894	$331,234	-$824,660	-71.3

Highlights

Park Fees. The Governor proposes to increase State Park fees in order to generate $18 million to prevent a reduction in the hours of operation and to maintain adequate public access to State parks. Under the Governor's proposal, camping rates would increase to a range of $11.00 to $25.00, and day use rates will increase to a range of $4.00 to $14.00 depending on the location and level of demand.

The Governor also proposes the following budget adjustments:

- $41,105,000 ($17,000,000 from the Off-Highway Vehicle Trust Fund, $14,200,000 from the Federal Trust Fund, $6,200,000 from the Recreational Trails Fund, and $3,705,000 from the Habitat Conservation Fund) for local assistance grants.
- $8,207,000 Off-Highway Vehicle Trust Fund and 10.9 PYs for mandated programs and operational support, including immediate public use of the Riverside SVRA.
- $4,600,000 ($4,000,000 from the Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund and $600,000 from the Off-Highway Vehicle Trust Fund) for the third year of park access improvements pursuant to the Americans with Disabilities Act.
- $3,000,000 ($18,000,000 increase from the State Parks and Recreation Fund and a $15,000,000 reduction from the General Fund) due to increased state park camping and day use fees, to take effect July 1, 2004. Of this amount, $2,000,000 will be for park

maintenance and $1,000,000 for temporary help and overtime required due to expanded operating hours at selected parks, beaches and recreational areas.

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. The Department 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 $5.8 billion ($45.6 million General Fund), a decrease of $1.8 billion (23.9 percent) from the current-year budget. The decrease in spending is attributable to the Governor's proposal to delay allocation of Proposition 50 bond funds and a reduction to the DWR Electric Power Fund.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$28,436	$45,581	$17,145	60.3
Colorado River Management Account	38,999	16,100	-22,899	-58.7
Less Funding Provided by General Fund	0	-16,100	-16,100	0.0
California Environmental License Plate Fund	221	222	1	0.5
Environmental Water Fund	0	0	0	0.0
Central Valley Project Improvement Subaccount	1,573	1,573	0	0.0
Delta Levee Rehabilitation Subaccount	690	0	-690	-100.0
Feasibility Projects Subaccount	1,448	1,448	0	0.0
Water Conservation and Groundwater Recharge Subaccount	1,141	123	-1,018	-89.2
Energy Resources Programs Account	1,696	1,696	0	0.0
State Water Project Funds	246,530	250,589	4,059	1.6
Loan Repayments	-1,530	-1,530	0	0.0
California Water Resources Development Bond Fund	[182,071]	[185,550]		
Loan Repayments	[-1,300]	[-1,300]		
Central Valley Water Project Construction Fund	[50,125]	[50,568]		
Loan Repayments to Local Agencies	[-230]	[-230]		
Central Valley Water Project Revenue Fund	[14,334]	[14,471]		
Local Projects Subaccount	99	99	0	0.0
Sacramento Valley Water Management and Habitat Protection Subaccount	2,624	384	-2,240	-85.4
River Parkway Subaccount	290	0	-290	-100.0
California Safe Drinking Water Fund	4,785	2,315	-2,470	-51.6

Fund Source -- CONTINUED (dollars in thousands)	2003-04	2004-05	$ Change	% Change
1984 State Clean Water Bond Fund	570	570	0	0.0
Loan Repayments	-325	(325)	0	0.0
1986 Water Conservation and Water Quality Bond Fund	5,069	3,469	-1,600	-31.6
Loan Repayments	-2,158	(2,158)	0	0.0
1988 Water Conservation Fund	9,018	0	-9,018	-100.0
Federal Trust Fund	11,307	11,307	0	0.0
Bosco-Keene Renewable Resources Investment Fund	20	0	-20	-100.0
Reimbursements	21,849	16,974	-4,875	-22.3
Dam Safety Fees	7,369	7,369	0	0.0
Department of Water Resources Electric Power Fund	6,814,301	5,414,760	-1,399,541	-20.5
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Fund	651	736	85	13.1
Flood Protection Corridor Subaccount	8,050	721	-7,329	-91.0
Urban Stream Restoration Subaccount	692	692	0	0.0
Yuba Feather Flood Protection Subaccount	5,982	982	-5,000	-83.6
River Protection Subaccount	140	0	-140	-100.0
Water Conservation Account	33,549	779	-32,770	-97.7
Conjunctive Use Subaccount	1,300	1,300	0	0.0
Bay Delta Multipurpose Water Management Subaccount	23,754	858	-22,896	-96.4
Interim Water Supply and Water Quality Infrastructure and Management Subaccount	6,681	431	-6,250	-93.5
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	311,242	12,113	-299,129	-96.1
Total	$7,586,063	$5,773,078	-$1,812,985	-23.9

Highlights

Revert Unencumbered Funds for Prior Year Local Flood Control Projects. The Governor proposes a mid-year reversion of $105 million in unencumbered funds for prior-year local flood control projects to the General Fund. Current law does not establish a time requirement regarding repayment of these state obligations to local governments. Since local agencies usually pay for the projects up-front, the Legislature typically defers these payments when the condition of the General Fund is weak.

Funding for Lining of the All American Canal. The Governor proposes $16.1 million General Fund for the lining of the All American Canal to meet the state's commitment to implementation of the Colorado River Quantification Settlement Agreement.

ENVIRONMENTAL PROTECTION

OVERVIEW

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

- Air Resources Board (ARB)
- Integrated Waste Management Board (IWMB)
- Department of Pesticide Regulation (DPR)
- State Water Resources Control Board (SWRCB)
- Department of Toxic Substances Control (DTSC)
- Office of Environmental Health Hazard Assessment (OEHHA)

A total of $1.0 billion ($69.8 million General Fund) is proposed for the agency's programs. This represents a decrease in overall funding of $661 million (40.0 percent) over last year.

The large majority of the reduction is the result of the Governor's plan to defer the allocation of bond funds (primarily Prop. 40 and Prop. 50) until the May Revision; this primarily affects the budget of the State Water Resources Control Board. The General Fund continues to decline as a percentage of the overall funding for environmental programs, as special funds (mostly fees) continue to become a larger part of Cal EPA's overall budget.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$90,819	$69,760	-$21,059	-23.2
Special Funds	713,799	764,486	50,687	7.1
Selected Bond Funds	703,358	11,488	-691,870	-98.4
Federal Funds	160,967	161,516	549	-0.3
Total	$1,668,943	$1,007,025	-$661,693	-39.6%

While the state protects the environment through the work of the above departments, the Office of the Secretary for Environmental Protection received minimal reductions which do not appear to raise any concerns. While the Secretary's office will not be discussed in this document, significant reductions and/or other fiscal issues are being proposed as follows:

3900 Air Resources Board

The Air Resource Board 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 $130.3 million ($2.2 million General Fund), a decrease of $35.1 million (-21 percent) from the current-year budget. Although the ARB experiences a 20 percent reduction in funding, $29.6 million is the result of the expiration of one-time funding for the Zero Emission Vehicle Grant Program and the Carl Moyer Diesel Gram Program. The remaining part of the decline ($7.6 million) can be attributed to reductions in staff positions pursuant to Control Section 4.10 of the 2003 Budget Act.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$4,493	$2,224	-$2,269	-50.5
Motor Vehicle Account	79,907	68,314	-11,593	-14.5
Air Pollution Control Fund	30,915	30,894	-21	-0.1
Other Funds	11,848	12,215	367	3.1
Federal Funds	11,540	11,352	-188	-1.6
Reimbursements	3,680	3,777	97	2.6
Non-Toxic Dry Cleaning Fund	0	1,500	1,500	100.0
Proposition 40 Bond Funds	23,000	0	-23,000	-100.0
Total	$165,383	$130,276	-$35,107	-21.2%

Issues

Shifting General Fund Support for the Stationary Source Program to Fees. The Governor proposes shifting $2.6 million in General Fund support for the Stationary Source program to user fees (as noted in the table above). The Stationary Source program provides planning, rule development, and enforcement activities necessary to regulate, mitigate, and reduce pollution from stationary sources of air pollution.

In March 2003, the Legislature enacted AB 10x (Oropeza), which backfilled a $14.4 million General Fund reduction to the Stationary Source program with fees in 2003-04. AB 10x allowed the collection of fees from (1) large facilities authorized by local air district permits emitting more that 250 tons per year of nonattainment pollutants and (2) manufacturers of consumer products and architectural coating whose total sales will result in emissions of 250 tons or more per year of volatile organic compounds. AB 10x also capped fees on large facilities authorized by local air district permits at $13 million.

Currently, the ARB will collect $17.4 million from approximately 80 large facilities and 80 manufacturers of consumer products and architectural coatings for the Stationary Source program. Under the Governor's proposal, fees will increase by $2.6 million, the maximum provided by AB 10x.

Highlights

Fine Particulate (PM2.5) Measurement Infrastructure Funding. The Administration proposes a one-time augmentation of $3 million from the Air Pollution Control Fund to improve the existing measurement equipment in order to adequately measure fine particulate matter in the air. The ARB and the federal government have regulated ambient air quality standards for "fine" (PM2.5) particulate matter concentrations. "Fine" particulate matter is thought to be a significant cause of health effects resulting from exposure to all particulate matter. Currently, the ARB's ability to measure fine particulate matter emissions from mobile and stationary sources is inadequate.

Non-Toxic Dry Cleaning Incentive Program. AB 998 (Lowenthal -- Chapter 821, Statutes of 2003) directed the ARB to establish the Non-Toxic Dry Cleaning Incentive program by administering a fee-funded grant program. The program imposes a $3 per gallon fee (increasing $1 by each subsequent year between 2005 and 2013) on the manufacturers and importers of perchloroethylene (perc) for dry cleaning operations. The fee revenue will be used to (1) finance a grant program for alternative dry cleaning systems that are non-toxic and non-smog forming (2) develop a demonstration project to showcase these cleaner technologies. The ARB anticipates expenditures of $1.5 million in the budget year for this program.

3910 Integrated Waste Management Board

The Integrated Waste Management Board's (IWMB) 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 $165.1 million ($0 General Fund), an increase of $50.5 million (44.1 percent) from the current-year budget. The significant increase in funding is all attributed to the implementation of the new Electronic Waste Recycling Program (See ***Highlights*** section below).

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$0	$0	$0	0
Integrated Waste Mgt. Account	42,734	41,856	-878	-2.1
CA Used Oil Recycling Fund	23,066	20,720	-2,346	-10.2
CA Tire Recycling Fund	31,406	31,530	124	0.4
E-Waste Recycling Account	0	52,323	52,323	100
Other Special Funds	16,556	18,310	1,754	10.6
Reimbursements	585	200	-385	-65.8
Federal Funds	106	0	-106	-100.0
Pop. 40 Bond Funds	136	136	-0	0.0
Total	$114,589	$165,075	$50,486	44.1%

Highlights

Electronic Waste Recycling Program. SB 20 (Sher -- Chapter 526, Statutes of 2003) requires the IWMB and the Department of Toxic Substances Control (DTSC) to implement the Electronic

Waste Recycling Program which assesses an e-waste recycling fee (ranging from $6 to $10 depending on the size of the electronic device) on consumers at the point of purchase to fund the collection and disposal of e-waste containing toxic materials. The Administration proposes expenditures of $52.3 million to implement this program at the IWMB.

3930 Department of Pesticide Regulation

This Department of Pesticide Regulation (DPR) 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 (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 is funded primarily 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 budget proposes total expenditures of $56.6 million ($1,000 General Fund), a decrease of $2.0 million (3.5 percent) from the current-year budget. The slight reduction in overall funding is attributed to reductions in staff positions pursuant to Control Section 4.10 of the 2003 Budget Act.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$4,695	$1	-$4,694	-100.0%
Dept. of Pesticide Regulation Fund	50,511	53,182	2,671	5.3%
Other Funds	804	760	-44	-5.5%
Federal Trust Fund	2,138	2,167	29	1.4%
Reimbursements	473	479	6	1.3%
Total	$58,621	$56,589	-$2,032	-3.5%

The decline in General Fund for the department is partially offset by an increase in funding from the Pesticide Regulation Fund. In the Budget Act of 2003, the Legislature shifted the department's remaining General Fund to fees effective January 1, 2003, leaving $4.7 million in General Fund for the mid-year transition. The reduction in General Fund is therefore directly attributable to the increase in revenues from pesticide fees than originally anticipated, thus eliminating the need for General Fund support.

3940 State Water Resources Control Board

The State Water Resources Control Board (SWRCB) 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 above-ground 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 $603.8 million ($27.6 million General Fund), a decrease of $569.1 million (48.5 percent) from the current-year budget. The dramatic decrease in funding is due to the Governor's plans to allocate the board's bond funding during the May Revision. As such, a complete analysis of the board's budget cannot be completed at this time.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
State Operations				
General Fund	$37,248	$27,560	-$9,688	-26.0
Underground Storage Tank Cleanup Fund	240,623	243,084	2,461	1.0
Waste Discharge Permit Fund	52,466	52,587	121	0.2
State Water Quality Control Fund	20,090	20,465	375	1.9
Integrated Waste Mgt. Account	5,291	5,284	-7	-0.1
Water Rights Fund	4,617	7,764	3,147	68.2
Federal Funds	36,495	36,481	-14	0.0
Reimbursements	9,920	9,772	-148	-1.5
Prop. 40 Bond Funds	2,351	2,453	102	4.3
Prop. 50 Bond Funds	3,587	2,719	-868	-24.2
Other Funds	11,310	9,490	-1,820	-16.1
Subtotal	$423,998	$417,659	-$6,339	-1.5%
Local Assistance				
State Revolving Loan Subaccount	15,000	-	N/A	N/A
Small Communities Grant Subaccount	6,000	-	N/A	N/A
Water Recycling Subaccount	47,377	-	N/A	N/A
Drainage Management Subaccount	6,000	-	N/A	N/A
State Water Pollution Control Revolving Fund	96,000	96,000	0	0.0%
State Water Quality Control Fund	132	132	0	0.0%
All Other Bond Funds	488,382	-	N/A	N/A
Federal Funds	90,000	90,000	0	0.0%
Subtotal	$748,891	$186,132	-$562,759	-75.1%
Total	$1,172,889	$603,791	-$569,098	-48.5%

Highlights

General Fund Reduction. The Governor proposes reductions of approximately $10 million General Fund for various water quality programs such as: implementation of statewide septic tank standards, investigation of contaminated wells, technical support for investigation of emerging pollutants, water quality management, water quality control planning, and Chromium 6 investigations. Of the approximate $10 million in General Fund reductions, about $5.1 million will be shifted to fees and special funds, for the following activities: information technology, administration, quality assurance, and water quality trend monitoring. These fund shifts will not require any increase in fees.

3960 Department of Toxic Substances Control

The Department of Toxic Substances Control's (DTSC) mission is to protect the public health and the environment from unsafe exposure to toxic substances. In so doing it: (1) regulates hazardous waste management; (2) cleans up sites that have been contaminated by toxic substances; and (3) promotes 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 budget proposes total expenditures of $160.4 million ($17.1 million General Fund), an increase of $483,000 (0.3 percent) from the current-year budget.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$19,644	$17,150	-$2,494	-12.7
Hazardous Waste Control Account	49,293	45,371	-3,922	-8.0
Site Remediation Account	9,271	8,258	-1,013	-10.9
Illegal Drug Lab Cleanup Fund	1,970	2,071	101	5.1
Hazardous Substance Subaccount	2,600	2,500	-100	-3.8
Removal and Remedial Action Acct.	4,170	6,666	2,496	59.9
Hazardous Substances Clearing Acct.	2,939	2,737	-202	-6.9
Toxic Substances Control Account	41,148	42,715	1,567	3.8
E-Waste Recycling Acct.	0	557	557	100
Federal Trust Fund	20,688	21,516	828	4.0
Other Funds	160	2,373	2,213	1383.1
Reimbursements	8,369	8,501	132	1.6
Total	$159,932	$160,415	$483	0.3

3980 Office of Environmental Health Hazard Assessment

This Office of Environmental Health Hazard Assessment (OEHHA) was created in 1991 as part of the California Environmental Protection Agency to evaluate the health risks of chemicals in the environment. 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 budget proposes total expenditures of $12.5 million ($8.1 million General Fund), a decrease of $1.1 million (7.9 percent) from the current-year budget. The reduction in overall funding is attributed primarily to reductions in staff positions pursuant to Control Section 4.10 of the 2003 Budget Act.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$9,135	$8,135	-$1,000	-10.9
California Used Oil Recycling Fund	487	487	0	0.0
Dept. of Pesticide Regulation Fund	766	766	0	0.0
Ca. Environ. License Plate Fund	781	787	6	0.8
Integrated Waste Management Acct.	297	297	0	0.0
Underground Storage Tank Cleanup Fund	110	110	0	0.0
Prop 65 Safe Drinking Water and Toxic Enforcement Fund	337	337	0	0.0
Reimbursements	1,633	1,560	73	-4.5
Total	$13,546	$12,479	-$1,067	-7.9

PUBLIC SAFETY AND CRIMINAL JUSTICE

0550 Secretary for Youth and Adult Correctional Agency

The Youth and Adult Correctional Agency includes the Department of Corrections, the Department of the Youth Authority, the Board of Prison Terms, the Board of Corrections, the Narcotic Evaluation Authority, and the Commission on Correctional Peace Officers' Standards and Training.

The budget proposes $1.8 million ($1.5 million General Fund and $258,000 in reimbursement authority) and 15 positions for the agency. This amount is an increase of $630,000 above estimated current year expenditures. The budget includes a reduction of $99,000 and 1.3 positions in the current year pursuant to Control Section 4.1.

Selected Issue

Elimination of the Office of the Inspector General. The budget for the agency proposes an augmentation of $630,000 General Fund and six positions associated with the assumption of shifting certain oversight functions related to internal affairs practices of correctional departments currently provided by the Office of the Inspector General (OIG). The augmentation is offset by a $2.7 million General Fund reduction resulting from the proposed elimination of the OIG effective July 1, 2004.

The budget for the OIG has decreased over the last several years. In 2002-03, expenditures for the OIG totaled $8.9 million ($8.8 million General Fund and $159,000 in reimbursement authority) with 83 positions. The 2003-04 budget for the OIG proposed a reduction of $1.8 million and 19 positions. An additional unallocated reduction of $5 million was approved as part of the final budget, leaving a General Fund appropriation of $2.7 million for the current year. Due to difficulties in reducing personnel and operating expenses in such a short time frame, the OIG has requested deficiency funding of $1.6 million for the current year.

0690 Office of Emergency Services

The primary purpose of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters.

The budget proposes total expenditures of $905.4 million, a reduction of 70.9 million or 7.3 percent from estimated current year expenditures. Of the total amount, $140.7 million is from General Fund, $24.7 million is from various special funds and reimbursement authority, and $740 million is from federal funds.

Summary of Program Requirements (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Mutual Aid Response	$16,421	$15,927	-$494	-3.0%
Plans and Preparedness	195,005	39,527	-155,478	-79.7%
Disaster Assistance	659,742	639,936	-19,806	-3.0%
Criminal Justice Projects	100,924	202,455	101,531	100.6%
California Anti-Terrorism Information Center	3,350	6,700	3,350	100.0%
Administration and Executive	6,294	6,294	0	0.0%
Distributed Administration	-6,294	-6,294	0	0.0%
State-Mandated Local Programs	0	2	2	n/a
Total	$975,442	$904,547	-$70,895	-7.3%

Highlights

Current-Year Control Section 4.1 Adjustment

- A reduction of $2.6 million and 79.2 positions pursuant to Control Section 4.1.

Budget-Year Adjustments

- An augmentation of $60 million in 2003-04 and $40 million in 2004-05 to provide funds for recovery from the wildfires in Southern California.
- Allocation of $160.3 million in federal funds in the current year through the OES for training, equipment, and planning grants related to homeland security. The budget proposes $4.6 million in 2004-05 for these grants and anticipates a spring budget change proposal increasing this amount once the level of the federal fiscal year 2004 homeland security funds is known.

Selected Issues

Law Enforcement and Victims' Services programs administered by OES. For the purpose of achieving efficiencies in the administration and implementation of criminal justice programs, the Office of Criminal Justice Planning (OCJP) was abolished effective January 1, 2004. Pursuant to an interim plan, the law enforcement and victims' services programs previously administered by OCJP are being administered by OES in the current year. For the purpose of consolidating and restructuring the administration of criminal justice programs, Control Section 25 of the Budget Act of 2003 required a Governor's Restructuring Plan (GRP) to be submitted by March 1, 2004. The Administration indicates that it now plans to submit the required GRP in May, as part of its statewide proposal to restructure State government.

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.

The budget proposes a total of $621.9 million for the DOJ, a decrease of $10.2 million or 1.6 percent from revised current year budget. Proposed General Fund support of $297.6 million represents a decrease by $14 million, or 4.5 percent from the revised current-year budget.

Summary of Program Requirements (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
Directorate and Administration	$24,521	$24,788	$267	1.1%
Distributed Directorate and Administration	-24,521	-24,788	-267	1.1%
Legal Support and Technology	45,089	43,907	-1,182	-2.6%
Distributed Legal Support and Technology	-45,089	-43,907	1,182	-2.6%
Executive Programs	12,601	13,704	1,103	8.8%
Civil Law	111,169	104,461	-6,708	-6.0%
Criminal Law	106,607	104,150	-2,457	-2.3%
Public Rights	60,303	59,813	-490	-0.8%
Law Enforcement	159,544	161,878	2,334	1.5%
Criminal Justice Information Services	152,174	154,425	2,251	1.5%
Gambling	15,481	14,344	-1,137	-7.3%
Firearms	14,210	12,320	-1,890	-13.3%
State-Mandated Local Programs	1	1	0	0.0%
Less Amount funded in the Political Reform Act	0	-216	-216	n/a
Unallocated Reduction	0	-3003	-3,003	n/a
Total	632,090	621,877	-10,213	-1.6%

Highlights

Current-Year Control Section 4.1 Adjustment

- A General Fund reduction of $2.9 million and 276.8 positions pursuant to Control Section 4.1.

Budget-Year Adjustments

- A General Fund unallocated reduction of $3 million. During the Subcommittee process, the Legislature may wish to have DOJ identify how it will allocate this reduction.
- A fund shift of $3 million from General Fund to the Restitution Fund for the California Witness Protection Program. In the current year, funding for this program had been transferred to the General Fund due to the lack of sufficient funds in the Restitution Fund.
- A General Fund decrease of $1 million and 13 vacant positions for the California Methamphetamine Strategy Program (CALMS).
- An augmentation of $2.4 million in federal funds for electronic surveillance equipment and overtime expenditures incurred for the CALMS program.
- A General Fund reduction of $2.5 million due to a decline in the workload for *the Plata* v. *Davis* lawsuit.

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 $5.3 billion for the CDC, which is a decrease of $446.6 million, or 7.8 percent, from the revised current-year budget. General Fund expenditures are proposed to increase by $413.4 million, or 8.7 percent above current-year expenditures, and federal fund expenditures are proposed to decrease by $852.3 million. In the current year, the Administration reduced General Fund by $852 million and increased federal funds by the same amount to reflect one-time expenditure of federal funds provided to California from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Summary of Program Requirements (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
Institution Program	$4,153,235	$4,078,694	($74,541)	-1.8%
Health Care Services Program	974,493	990,396	$15,903	1.6%
Community Correctional Program	602,259	614,303	$12,044	2.0%
Administration	139,099	136,050	($3,049)	-2.2%
Distributed Administration	-139,099	-136,050	$3,049	-2.2%
State Mandated Local Programs	1	1	$0	0.0%
Unallocated Reduction		-400,000		
Total	$5,729,988	$5,283,394	($446,594)	-7.8%

Highlights

Fall 2003 Population Estimates. On June 30, 2003 the actual population in CDC was 160,931. This amount was 399 higher than anticipated in the Spring 2003 forecast. The difference was due primarily to more new admissions and fewer releases to parole, offset by fewer parolees returned to custody than expected. The Fall 2003 population projections estimate that the June 30, 2004 inmate population will be 163,536. This amount is 2,249 inmates higher than projected in the Spring 2003 estimates, primarily due to a significant increase in the number of new admissions from court offset by a decrease in the number of parolees returned to custody. The projections estimate that the population will increase by 84 inmates to 163,620 on June 30, 2005. For the next five years, the population projections are relatively flat with the institution population currently expected to increase to 163,987 by June 30, 2009.

The Fall 2003 population projections estimate an institution average daily population (ADP) of 162,307 for the current fiscal year. The Fall 2003 projections estimate the ADP to increase in 2004-05 by 831 inmates to 163,138.

Population Adjustments Included in the Budget. The CDC's comprehensive model for estimating population takes several months to program and run. For that reason, the Fall 2003 projections do not take into account the effect of reforms included in the 2003 Budget Act. These reforms are further discussed below. In developing the budget, the impact on the ADP from these reforms was estimated and the funding levels in the budget were reduced to account for them. Specifically, the budget includes a reduction of $85.3 million in 2003-04 related to the reforms, based on an estimated decrease in the institution ADP of 5,671 (and a corresponding increase of 5,071 to the parolee population). For 2004-05, the budget includes a reduction of $223.3 million, based on an estimated decrease in the institution ADP of 14,748 (and a corresponding increase of 12,546 to the parolee population).

The funding level in the budget corresponds to an institution ADP of 156,636 inmates for the current fiscal and an institution ADP of 148,390 in the budget year.

Major Budget Adjustments

- $99.5 million General Fund increase and 1,238.8 positions related to adjusting posted position relief factors to the appropriate level and thereby provide adequate resources for CDC to cover posts.
- A "pending unallocated reduction" of $400 million General Fund for the 2004–05 fiscal year. The Secretary of the Youth and Adult Correctional Agency (YACA) is developing a proposal with the goal of achieving savings totaling $400 million. According to the Administration, since the majority of these savings will be due to reforms within the CDC, the $400 million is being reflected as a pending unallocated reduction in the Budget. As part of the May Revision, when the proposal is completed, the actual savings amount will be allocated to the affected departments within YACA.
- Creation of a Closure Commission that will proactively evaluate and recommend future facility closures for CDC and the Youth Authority.
- A reduction of $42.9 million General Fund and 418.3 positions pursuant to personnel adjustments required in Control Section 4.10 of the 2003 Budget Act.
- A General Fund reduction and transfer of $2.6 million from local assistance to the Trial Courts budget in order to comply with a statutory requirement to reimburse trial courts for costs related to hearings or trials for crimes committed in a state prison.
- A reduction of $852 million federal funds to reflect the one-time only expenditure of funds in 2003-04 provided to California from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.
- $18.8 million General Fund for three continuing and four new capital outlay projects ($11 million), statewide minor projects ($5 million), a statewide evaluation of mental health facilities ($1.8 million), and studies and budget packages ($1 million).
- A General Fund augmentation of $723,000 and 10.6 positions related to increased medical guarding and transportation at Patton State Hospital.
- A General Fund augmentation of $408,000 and 5.5 positions (one-year limited-term) related to the Health Information Portability and Accountability Act of 1996.

- A General Fund reduction of $456,000 related to the conversion of 20 Clinical Psychologist positions to Psychology Associates.

Selected Issues

Legislative Proposals Included in Current-Year Budget. The Legislature took several actions in the current-year budget to reduce expenditures at CDC. The budget for CDC was reduced by a total of $191 million due to the expected savings from these legislative reforms. Due to delays in implementation, revised cost estimates, and overlapping savings, CDC now estimates that the current-year savings will be $85.3 million. Savings in the budget year from these proposals is currently estimated at $223.3 million with a reduction of 14,748 to the institutions average daily population. The major reforms are highlighted below.

- **Restructuring Educational and Vocational Training Programs.** Many inmates are eligible to receive day-for-day credits but are unable to participate because there are not enough programs available to meet the need. Funding was provided to avoid elimination of existing education program staff and to establish education programs in reception centers. CDC estimates a reduction of 1,706 in average daily population (ADP) and a savings of $25.5 million in the current year. In the budget year, CDC estimates an ADP reduction of 4,645 and net savings of $70.6 million.

- **Drug Treatment Furlough.** Under the proposal certain inmates would receive drug treatment in a secure, supervised, community residential program for the final 120 days of their sentence. CDC estimates a reduction of 438 in ADP and a savings of $6.8 million in the current year. In the budget year, CDC estimates an ADP reduction of 1,500 and net savings of $23.2 million.

- **Expansion of the Mentally Ill Parolees Program.** This program provides pre-release planning and enhance community treatment services for mentally ill parolees. CDC estimates a reduction of 888 in ADP and a savings of $13.1 million in the current year. In the budget year, CDC estimates an ADP reduction of 888 and net savings of $13.2 million.

- **Pre-Release Planning and Re-Entry Programs.** CDC revokes approximately 74,000 parolees annually. A 5 percent reduction in this recidivism rate would result in savings of $28.7 million. To achieve this reduction, CDC was directed to develop an integrated parole program that would (1) prepare inmates for community re-integration through pre-release planning; (2) develop a new risk assessment tool to ensure that parole supervision is targeted in a consistent and effective manner; and (3) expand the existing PACT program so that parolees have access to available community services upon release. CDC estimates a reduction of 304 in ADP and a savings of $4.5 million in the current year. In the budget year, CDC estimates an ADP reduction of 1,208 and net savings of $18 million.

- **Substance Abuse Treatment & Control Units (SATCU) & Community Detention.** Approximately, 32,000 low level parolees (no underlying violent or serious commitment offense and no violent or serious priors) become parole violators annually and spend an average of 153 days in custody -- 72 days in jail pending revocation and another 81 days in prison -- most likely a reception center. The custody cost for these low level parole violators is $247.4 million. Further, no programs are available to help reduce the high recidivism risk -- particularly related to substance abuse -- for these parole violators. Under this proposal, Parole would implement policies that would employ appropriate sanctions for parole violations based on the offense and underlying public safety risk of the parolees. In addition, existing programs would be expanded to provide Parole with placement alternatives. CDC estimates a reduction of 2,335 in ADP and a savings of $34.8 million in the current year. In the budget year, CDC estimates an ADP reduction of 6,507 and net savings of $97 million.

CDC Current-Year Deficiency Notification. CDC has submitted to the DOF a notification that it estimates a current year deficiency of $544.8 million. DOF has begun its review of the request, but has not approved any deficiency spending. The projected deficiencies include:

- $168.5 million in retirement costs tied to the pension obligation bond.
- $183.9 million in General Salary Increases.
- $87.7 million in unfunded merit salary increases.
- $137 million due to revised savings estimates for the adopted reforms.
- $51.8 million in overtime expenditures.
- $27.3 million in additional temp help expenditures.

The $168.5 million is CDC's estimated need from the pension obligation bond. To the extent that the bond is approved and sold, this would no longer be a deficiency. Additionally, the $183.9 in General Salary Increases would generally not show up as a deficiency in CDC's budget, but rather would be part of the Employees Compensation budget item.

As part of the budget proposal, the DOF has submitted the following two deficiency requests for CDC.

- $173.9 million for employee compensation.
- $139.4 million related to an increase in its base population resulting from higher than estimated new admissions and revised savings for adopted reforms.

Current Year Control Section 4.1 Reductions. The approved Control Section 4.1 reductions at CDC total 794 positions and $26.3 million. CDC does not anticipate any layoffs in correctional officers due to these reductions.

The reductions include the following:

- **Reduce Visiting to Two Days (reduction of 185 positions and $5.6 million in the current year).** Would standardize visiting days to Saturday, Sunday, and designated holidays. Currently institutions have from 2 days to as many as 4 days of available visiting
- **Elimination of Third Watch Yard Time (248 positions and $7.5 million).** Would eliminate yard programs in level III and IV facilities during evening hours (third watch) and would reduce staffing to level of first watch (graveyard shift).

- **Convert Statewide Vendor Package Program (56 positions and $1.7 million).** Would require that quarterly packages sent to inmates would be ordered through specified vendors rather than being sent directly from families.

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, 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. The appointments represent 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 proposes $75.6 million for the BOC, a decrease of $52.8 million, or 41.1 percent below estimated current-year expenditures. This decrease is due primarily to the completion of federal fund and General Fund grant programs from previous years. The federal fund portion of the proposed budget is $69.5 million, a decrease of $32.5 million. The General Fund portion of the proposed budget is $1.3 million, a reduction of $21.9 million from the current year.

Summary of Program Requirements (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
Corrections Planning & Programs	$105,237	$34,828	-70,409	-66.9%
Facilities Standards & Operations	2,406	2,009	-397	-16.5%
Standards & Training for Corrections	2,719	2,616	-103	-3.8%
Administration	352	352	0	0.0%
Distributed Administration	-352	-352	0	0.0%
Juvenile Justice Grants Program	18055	36127	18,072	100.1%
State Mandated Local Programs	1	1	0	0.0%
Total	$128,418	$75,581	-52,837	-41.1%

Highlights

- The budget proposes a decease of $1.7 million General Fund and an increase of $1.9 million for the Board of Corrections Administrative Fund by generally funding the Board of Corrections from fees rather than the General Fund. Under the proposal, the board would operate on fees collected from local governments that wish to have the board continue the services it currently provides, including establishment and evaluation of minimum standards for local juvenile and adult detention facilities, biennial facility inspections, and establishment of recruitment, selection, and training standards for local corrections personnel.

- Transfer of $36.1 million ($35.6 million in federal funds, $507,000 General Fund, and $10,000 reimbursement authority) and 11 positions from the Office of Criminal Justice Planning (OCJP) to administer and distribute Juvenile Justice Grant funds transferred to the Board due to the elimination of the of the OCJP.

5440 Board of Prison Terms

Chapter 1139, Statutes of 1976 (SB 42), established the Community Release Board in 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 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 proposes $25.2 million for the BPT, an increase of $258,000 or 1 percent above estimated current-year expenditures.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$24,866	$25,124	$258	1.0%
Reimbursements	81	81	0	0%
Total	$24,967	$25,205	$238	1.0%

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 $291.1 million for the YA, a decrease of $46.8 million, or 13.9 percent from anticipated current year expenditures. The primary reason for this reduction is the projected decrease in the YA's ward and parole populations and proposed facility closures.

In the current year, the ward population is projected to decrease by 500 wards from the amount projected in the 2003 Budget Act to 4,055 wards by June 30, 2004. For 2004-05, the budget proposal projects the ward population to decrease by another 235 wards, or 5.8 percent resulting in a projected June 30 2005 population of 3,820. The parole population is projected to decrease by 215 cases to 3,810 by June 30, 2005.

Summary of Program Requirements (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
Institutions & Camps	$337,949	$291,143	-$46,806	-13.9%
Parole Services & Community Corrections	44,844	39,589	-5,255	-11.7%
Education Services	48,733	43,611	-5,122	-10.5%
Youth Authority Board	1,693	3,051	1,358	80.2%
Administration	29,850	30,161	311	1.0%
Distributed Administration	-28,266	-29,429	-1,163	4.1%
Total	$434,803	$378,126	-$56,677	-13.0%

Highlights

Major Budget Adjustments

- Savings of $44 million ($35.7 million General Fund, $2.7 million Proposition 98 General Fund, $5.5 million reimbursement authority) and 362 positions due to population decreases and the closure of the Fred C. Nelles Youth Correctional Facility and a youth correction camp. These proposed facility closures are in addition to current year facility closures of the male portion of the Ventura facility, the Karl Holton Youth Correctional Facility, and the Northern Youth Correctional Reception Center and Clinic.

- Broad program restructuring generating estimated savings of $600,000 in the budget year. The proposal includes, modifying law to reduce the age of the Youth Authority's jurisdiction for wards and parolees from 25 to 22 years of age, making changes to juvenile sentencing to allow for "blended" sentencing, and implementing a casework-staffing model for general population living units.

8120 Commission on Peace Officer Standards and Training

The Commission on Peace Officer Standards and Training (POST) is responsible for raising the competence level of law enforcement officers in California by establishing minimum selection and training standards, and improving management practices. The proposed budget for POST is $54.2 million, an increase of $3.4 million, or 6.7 percent from estimated current year expenditures. The budget proposes transfer of $14 million from the Driver Training Penalty Assessment Fund to the Peace Officers' Training Fund pursuant to Control Section 24.10.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$1	$1	$0	0%
Peace Officers' Training Fund	49,535	52,923	3,388	6.8%
Reimbursements	1,259	1,259	0	0%
Total	$50,795	$54,183	$3,388	6.7%

8700 California Victim Compensation and Government Claims Board

The California Victim Compensation and Government Claims Board, formerly known as the Board of Control, consists of three members, the Director of General Services who serves as the chair, the State Controller, and a public member appointed by the Governor. The primary functions of the Board of Control are to: (1) compensate victims of violent crime and eligible family members for certain crime-related financial losses, (2) consider and settle all civil claims against the state, (3) provide equitable travel allowances to certain government officials, (4) respond to bid protests against the state alleging improper or unfair acts of agencies in the procurement of supplies and equipment, and (5) provide reimbursement of counties' expenditures for special elections.

Budget Request. The budget proposes $141.3 million, which is an increase of $2.8 million, or 2.1 percent from anticipated current-year expenditures. Of the total proposed expenditures, $132.3 million is proposed for the Citizens Indemnification Program, which indemnifies those citizens who are injured and suffer financial hardship as a direct result of a violent crime. This represents an increase of $2.8 million above estimated current-year expenditures.

The Claims Board is primarily funded from the Restitution Fund, with total expenditures of $112.3 million proposed from the Restitution Fund, and $28.1 million from federal funds.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$807	$0	-$807	-100.0%
Restitution Fund	119,201	112,323	-6,878	-5.8%
Federal Trust Fund	18,384	28,109	9,725	52.9%
Reimbursements	19	828	809	4257.9%
Total	$138,411	$141,260	$2,849	2.1%

Highlights

- A current-year reduction of $1.1 million from the Restitution Fund, $22,000 from the General Fund, and 19.5 positions pursuant to Control Section 4.1.
- The budget estimates a fund reserve of $30.1 million for the Restitution Fund at the end of the budget year. At the time of the 2003 May Revise estimates projected a negative balance for the Restitution Fund.

ENERGY

3360 California Energy Commission

The California Energy Commission (CEC) develops and implements California's energy policy. Specifically, the Commission: (1) maintains historical energy data and forecasts future statewide energy needs; (2) sites and licenses thermal power plants; (3) promotes energy efficiency and energy conservation programs and regulations; (4) develops renewable energy resources and alternative energy technologies; and (5) plans for and directs state response to energy emergencies. The Commission's mission is to assess, advocate and act through public-private partnerships to improve energy systems that promote a strong economy and a healthy environment.

Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$620	$0	-$620	-100.0
St. Energy Conservation Assis. Acct.	33,732	4,027	-29,705	-88.1
Geothermal Resources Development Acct.	-1,200	-1,200	0	0.0
Motor Vehicle Account, State Trans. Fund	126	127	1	0.8
Public Interest, Research and Development and Demonstration Fund	73,658	69,147	-4,511	-6.1
Renewable Resource Trust Fund	136,258	221,456	85,198	62.5
Local Jurisdiction Energy Assis. Acct.	1,853	1,399	-454	-24.5
Energy Resources Programs Acct.	46,031	46,479	448	1.0
Energy Technologies Research, Development and Demonstration Account	431	550	119	27.6
Local Government Geothermal Resources Revolving Subaccount	284	3,542	3,258	92.0
Petroleum Violation Escrow Account	418	198	-220	-52.6
Katz School Bus Fund	1,915	0	-1,915	-100.0
Federal Trust Fund	8,931	8,906	-25	-0.3
Reimbursements	8,495	5,745	-2,750	-32.4
Energy Facility License and Compliance Fund	615	615	0	0.0
Renewable Energy Loan Loss Reserve Fund	278	0	-278	-100.0
Total	$312,445	$360,991	$48,546	15.5

The budget proposes total expenditures of $361 million ($0 General Fund), an increase of $48.5 million (15.5 percent) from the current-year budget.

The increase in the Commission's budget can be attributed to the increase in expenditures from the Renewable Resource Trust Fund (RRTF) by $85.2 million. It is important to note that there are no increases in revenues to the fund. Instead, the Administration proposes "spending down" (on a one-time basis) the larger-than-necessary fund reserve. The increased need for expenditures is the result of the initial costs of the Renewable Portfolio Standard.

The increase in expenditures from the RRTF are tempered by a $29.7 million reduction in the State Energy Conservation Assistance Account (due to the exhausting of a one-time bond fund augmentation for an energy assistance loan program) and the completion of the Katz School Bus Program.

Highlights

Shifting Unused Balances from Energy Crisis Appropriations to the General Fund. The Governor proposes to shift $27.2 million from prior-year unused balances in the energy efficiency and assistance programs to the General Fund. The Commission recently completed a review of these assistance and efficiency programs (primarily funded by SB 5X) to determine future program funding needs and determined that $27.2 million could be shifted back to the General Fund without adverse effect.

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 total expenditures of $1.2 billion (all special funds), a decrease of $73.7 million (5.8 percent) from the current-year budget.

Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
State Highway Acct. State Trans. Fund	$2,398	$2,395	$-3	-0.1
Public Trans. Acct, State Trans. Fund	2,243	2,300	57	2.5
Transportation Rate Fund	1,818	1,808	-10	-0.6
PUC Trans. Reimbursement Acct.	7,263	7,675	412	5.7
PUC Util. Reimbursement Acct.	78,378	73,271	-5,107	-6.5
Ca. High Cost A Fund	61,694	59,269	-2,425	-3.9
Ca. High Cost B Fund	522,142	482,384	-39,758	-7.6
Universal Lifeline Tele. Service Fund	245,861	240,356	-5,505	-2.2
Deaf and Disables Telecommunications Trust Fund	69,117	69,165	48	0.1
Payphone Service Providers Fund	851	936	85	10.0
Ca. Teleconnect Fund	26,400	5,274	-21,126	-80.0
Federal Funds	997	993	-4	-0.4
Reimbursements	12,493	12,706	213	1.7
Gas Consumption Surcharge Fund	246,844	246,236	-608	-0.2
Total	$1,278,499	$1,204,768	-$73,731	-5.8

Highlights

Continuation of Limited-Term Staff Positions. The budget proposes converting 15 limited-term staff positions to permanent and reestablishing three positions which were deemed vacant, and therefor eliminated, during the 2003 budget process. These positions are located within the Payphone Service Provider Program, the Universal Lifeline Telephone Service, and the Fiscal Office of the Information Management Services Division.

During the 2002-03 budget process, the programs below became subject to annual appropriation in the Budget Act; prior to this action, the programs had been continuously appropriated via statute. At that time, workload data had been unavailable for the programs, and the Legislature adopted a recommendation by the Legislative Analyst to make the positions limited term, with the requirement that the PUC report to the Legislature on workload statistics. The report has been submitted and the PUC contends that without the permanent establishment of these limited term positions, the programs described below will either become ineffective or will be eliminated due to a lack of staff support.

PUC STAFFING PROPOSALS

Programs	**Program Description**	**Previous Staff**	**Proposed Permanent Staff**
Payphone Service Provider Program (contains 3 components below): - Payphone Service Providers Enforcement (PSPE) - Public Police Payphone Program (PPPP) - Telecommunications Devices for the Deaf Interim Placement Committee (TPIC)	Conducts inspections of payphones to ensure compliance with PUC regulations. Responds to consumer complaints regarding payphones. Provides for payphones in locations where there none currently provided but are necessary for public health and safety due to a lack of access to other communication devices in an area. Ensures the access to public communication devices for the deaf or hearing-impaired in public buildings and accommodations.	7 limited-term staff and 3 positions eliminated for being vacant	10 positions
Universal Lifeline Telephone Service (ULTS)	The ULTS program subsidizes basic telephone services from 40 carrier providers for 3.5 million customers.	3 limited-term positions	3 positions
Fiscal Office of the Information Management Services Division	The fiscal office manages the 5 funds of the Universal Service Telephone Program (Ca. High Cost A Fund, Ca. High Cost B Fund, Universal Lifeline Telephone Service Fund, Payphone Services Providers Fund, and Ca. Teleconnect Fund). The fiscal office (5 limited term positions) manages all the financial administrative duties of these funds.	5 limited-term positions	5 positions

8665 Consumer Power Authority

The purpose of the California Power Authority (CPA) is to ensure Californians a sufficient supply of electricity at reasonable prices through conservation, new project financing, and greater use of renewable energy, while contributing to cleaner air, climate control, and a better environment.

The budget proposes to eliminate the California Power Authority on September 30, 2004, appropriating $424,000 for closure costs.

Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
California Consumer Power and Conservation Financing Authority	$78,835	$424	-$78,411	-99.5
Total	$78,835	$424	-$78,411	-99.5

Issues

Elimination of the California Power Authority (CPA). AB6x1 (Chapter 10, Statutes of 2001) created the CPA to finance, own, operate, and construct power plants, finance energy efficiency measures and renewable energy resources, and develop and implement strategies to facilitate a dependable, reasonably prices supply of natural gas. The CPA is authorized to incur up to $5 billion in indebtedness through the issuance of bonds for financing the goals of the Authority stated above.

In its short existence, the CPA's objectives have changed considerably, with limited success. At the time of its inception, the energy crisis was winding down and CPA's emphasis was to develop peak generation capacity fueled by clean, renewable fuel sources rather than fossil fuels.

Thus far, the CPA's approach has had mixed results. The Authority established the Demand Reserves Partnership Program which encourages business to reduce their energy consumption during critical times in exchange for cash payment. The Authority also issued $28 million in bonds for the California Energy Commission to provide funds for loans to local governments for energy efficiency improvements. However, the Authority has not yet financed a significant new electricity generation facility.

In establishing the Authority, the Legislature intended that the Authority be financially self sufficient by assessing administrative fees on its bond issuances. However, the CPA has not achieved self sufficiency and has instead accumulated $10.8 million in loans from the Renewable Resources Trust Fund and the Energy Resources Program Account for its operations.

In addition, the Authority's activities appear redundant of activities being performed by other state energy agencies and private entities in the market. The PUC and investor-owned utilities already operate demand reduction programs that are very similar to the CPA's Demand Reserves Partnership Program. In addition, the California Energy Commission Renewable Energy Program already supports the development of new renewable energy generation. Further, there appears to be little financial advantage in the market to finance power plants through the CPA, primarily because the Authority cannot offer special tax-exempt financing as the State can. Also, the state retains its ability to finance renewable energy producing facilities through the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) at the State Treasurer's Office.

While developed with the best of intentions, it now appears that the Authority's policy mandates are redundant of activities already being performed by other state agencies, the energy market, and financial markets. Furthermore, the fiscal assumptions for funding the operation of the

Authority (through the issuance of bonds) do not appear to be coming to fruition. While it remains important for the state to develop a clear, working policy to encourage either the market to build, or to build outright, the necessary electricity generation capacity to avoid a similar energy crisis that the state experienced a couple years ago, it is unclear if the Authority is the appropriate body to accomplish this goal.

8770 Electricity Oversight Board

The Electricity Oversight Board (EOB) is part of the regulatory oversight structure that was established by the legislation restructuring California's electricity industry in 1996. The board carries out regulatory oversight of major elements of the restructured electricity industry. These include operation and reliability of the electricity transmission system and the operation, efficiency and competitiveness of the markets for bulk energy, transmission and ancillary services. The EOB oversees all activities of the Independent System Operator (ISO) and the Power Exchange. The EOB reviews market and reliability rules; maintenance, repair, and replacement standards; transmission grid plans, and emergency and contingency plans; and continuously monitors market activities. The ISO is an appeal body of the ISO governing board and acts within state jurisdiction. The EOB represents the state and its citizens in litigation before the Federal Energy Regulatory Commission and in regional forums on subjects pertinent to its mission.

The budget proposes total expenditures of $3.6 million ($0 General Fund), a decrease of $257,000 (6.6 percent) from the current-year budget. The slight reduction in overall funding is attributed to reductions from Control Sections 4.10 of the 2003 Budget Act.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
General Fund	$240	$0	-$240	-100.0
PUC Utilities Reimbursement Acct.	3,178	3,163	-15	-0.5
Energy Resources Protection Acct	476	474	-2	-0.4
Total	$3,894	$3,637	-$257	-6.6

GENERAL GOVERNMENT

OVERVIEW

The Governor's proposals for the following departments, boards, and commissions are all modest and raise no serious concerns at this time.

- Department of Food & Agriculture (CDFA)
- Native American Heritage Commission (NAHC)
- California Horse Racing Board (CHRB)
- Seismic Safety Commission (SSC)
- California Law Review Commission (CLRC)
- Commission on Uniform State Laws (CUSL)

8570 Department of Food and Agriculture

The Department of Food and Agriculture is charged with serving the diverse citizens of California by maintaining an abundant, affordable, safe, and nutritious food supply. To meet this end, the department seeks to prevent or eradicate animal diseases and exotic and invasive species harmful to people, commerce, and the environment. Further, the department provides leadership, innovation and oversight in the production and marketing of agricultural products, and supports a network of agricultural-related fairs and expositions within the state.

Finally, the Department of Food and Agriculture develops and enforces weights and measures standards for all types of products in California, at all levels of commerce.

The budget proposes total expenditures of $266.5 million ($73.0 million General Fund), a decrease of $27.9 million (9.5 percent) from the current-year budget. The majority of the reductions in funding can be attributed to the proposed (1) General Fund reductions, as well as a (2) decrease in the amount of federal Specialty Crop Block Grant funds available to support the state's Buy California program, which is nearing the end of its operation.

Summary of Expenditures (dollars in thousands)	2003-2004	2004-2004	$ Change	% Change
State Operations & Local Assistance				
General Fund	$83,914	$73,005	$-10,909	-13.0
Agriculture Fund, Totals	109,294	110,624	1,330	1.2
Fairs and Exposition Fund	19,294	18,595	-699	-3.6
Satellite Wagering Account	12,442	12,251	-191	-1.5
Harbors & Watercraft Rev Fund	1,148	1,175	27	2.4
Agriculture Building Fund	1,618	1,618	0	0.0
Other Funds	-129	-368	-239	185.3
Federal Funds	53,067	35,090	-17,977	-33.9
Reimbursements	10,276	9,055	-1,221	-11.9
Pierce's Disease Management Account	3,550	5,490	1,940	54.6
Total	$294,474	$266,535	$-27,939	-9.5

Highlights

General Fund Reductions. The budget proposes $3.8 million in General Fund reductions specifically related to the Pierce's Disease Program (-$2 million), the Mediterranean Fruit Fly Program (-$1 million), and the Agricultural Export Program (-$831,000.)

Agriculture Fund Loan Extension. The budget proposes deferring repayment of a $15 million loan to the General Fund to an unspecified future fiscal year.

SUBCOMMITTEE NO. 3

HEALTH, HUMAN SERVICES, LABOR, and VETERANS AFFAIRS

HEALTH AND HUMAN SERVICES OVERVIEW

Summary of Governor's Proposed Mid-Year Reductions and Their 2004-05 Affects

As noted in the table below, the Governor proposed mid-year reductions which equate to about $689 million ($438.2 million General Fund) for 2003-04 and $1.9 billion ($1.2 billion General Fund) for 2004-05 (i.e., an annualized basis) for health and human services programs.

Summary of Governor's Health & Human Services Reductions

Department and Proposal	2003-04 Total Funds	2003-04 General Fund	2004-05 Total Funds	2004-05 General Fund
4260 Health Services	**$421.3 million**	**$209.9 million**	**$949.4 million**	**$466.5 million**
● Additional 10% Medi-Cal rate reduction (January 1, 2004 forward)	325.5 million	160.1 million	942.9 million	460 million
● Additional 10% rate reduction to Public Health Programs—CCS, CHDP, and GHPP	3.8 million	3.8 million	6.5 million	6.5 million
● Rescind LTC Wage Adjustment	92 million	46 million	0	0
5180 Department of Social Services	**$226.3 million**	**$187 million**	**$885.5 billion**	**$680.3 billion**
● Eliminate California Veterans Cash Benefit Program	1.2 million	1.2 million	5.2 million	5.2 million
● Eliminate In-Home Supportive Services Residual Program	135.5 million	88.1 million	566.1 million	367.9 million
● Reduce CalWORKS Grants	45.3 million	44.2 million	182.6 million	178 million
● Transfer Maximum Amount of Federal Funds from CalWORKS to Obtain General Fund Savings	41.1 million	41.1 million	119.5 million	119.5 million
● Eliminate Transitional Food Stamp Benefits Program	1.6 million (recipients lose $82.8 million federal)	1.1 million	5.2 million (recipients lose $165.5 million federal)	3.1 million
● Repeal AB 231 (Steinberg) regarding Food Stamp Eligibility	440,000 (recipients lose $18.5 million federal)	186,000	772,000 (recipients lose $37 million federal)	444,000
● Eliminate Supportive Transitional Emancipation Program	38,000	38,000	338,000	338,000
● Increase Community Care Licensing Fees (revenue enhancement to State)	1.2 million	1.2 million	5.8 million	5.8 million
5209 Health & Human Services (Various Adjustments across Items)	**$41.3 million**	**$41.3 million**	**$84.8 million**	**$84.8 million**
● Cap Enrollments to Various Health & Human Services Programs	11 million	11 million	60.9 million	60.9 million
● Cap Enrollments to State-Only Programs for immigrants	71,000	71,000	23.9 million	23.9 million
● Revert Prior Year Savings and Unspent Current Year Funding	29.6 million	29.6 million	0	0
Total Reductions (Rounded)	**$688.9 million**	**$438.2 million**	**$1.919 billion**	**$1.232 billion**

The Senate Budget & Fiscal Review Committee convened hearings in December to specifically discuss these proposals and their potential affects on individuals presently being served. The Legislature has thus far opted to defer decision on several of the mid-year reductions for 2003-04 in order to more fully discuss their policy and fiscal implications.

Summary of Governor's Proposed 2004-05 Budget

The state's health and human services programs protect overall public health and provide essential services to many of California's most vulnerable and at-risk residents through an array of about 20 departments, boards, and commissions.

The Governor's Budget for health and human services proposes a total of $64.8 billion in combined state and federal funds, including expenditures for about 31,384 state employees. Of this amount, $28.7 billion ($24.6 billion General Fund, $4.1 billion in special funds, and $2 million in bond funds) is appropriated in the state's budget. The $24.6 billion in General Fund support represents 32.3 percent of the state's total General Fund expenditures.

The Governor proposes to restructure and reform a number of health and human services programs, including Medi-Cal, Healthy Families, CalWORKs, Early Periodic Screening Diagnosis and Treatment Program for children with mental illness, Foster Care and services provided to individuals with developmental disabilities. Few specifics have been provided as yet on these proposals. The Administration indicates that it will be seeking constructive input from consumers, providers, the Legislature, and others as the process evolves.

The Governor's proposed budget for health and human services is built upon the following key assumptions:

- **Reduces Medi-Cal *and* Non-Medi-Cal Rates by a Total of 15 Percent**. In his mid-year reduction proposal, the Governor proposed to reduce Medi-Cal rates by *another* 10 percent in addition to the 5 percent reduction made in the Budget Act of 2003 and to carry this reduction level forward for a combined level of 15 percent. The two-year combined General Fund savings would be about $960 million.
- **Proposed Restructuring and Reform of Medi-Cal via a New Federal Waiver.** The Governor proposes to seek a federal waiver that *may* include all or any of the following components:
    - Simplification by aligning Medi-Cal's eligibility standards and processes with CalWORKs and the SSI/SSP program;
    - Development of a multi-tiered benefit/premium structure that provides comprehensive benefits to federally mandated populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums;
    - Require co-payments for various services;
    - Conform the basic Medi-Cal benefits package to that of private health plans, including making changes to mental health benefits provided under the EPSDT Program for children.

- **IHSS Proposals.** The budget reduces the In-Home Supportive Services (IHHS) Program by 35 percent for total reductions of $960.7 million ($494.5 million General Fund). The Governor's proposals include elimination of the IHSS Residual Program, which will affect 75,000 consumers, and elimination of the state's participation in provider wages above the minimum wage.
- **CalWORKS Proposals.** The budget reduces the CalWORKs program by $563.2 million, which constitutes an 11 percent reduction in total program funding. The Governor proposes to reduce grants, suspend cost-of-living adjustments (COLAs), and institute significant program changes including more stringent work participation requirements.
- **Loss of Enhanced Federal Funds.** The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of $655.4 million General Fund.
- **SSI/SSP Changes.** The budget does not pass-through the Federal Supplemental Security Income/State Supplementary Program (SSI/SSP) COLA for savings of $62.5 million (General Fund) and suspends the state SSI/SSP COLA for savings of $84.6 million (General Fund). The combined proposals amount to $32 in lost income for individuals receiving SSI/SSP benefits.
- **Continues Cost Containment Actions for Regional Center Services.** The Governor proposes to continue several cost containment actions enacted as part of the Budget Act of 2003. These include: (1) $10 million (General Fund) in unallocated reductions at the Regional Centers for the purchase of services, (2) continuation of the Day Program rate freeze, (3) continuation of the contract services rate freeze, (4) continuation of the Community Care Facility rate freeze, (5) continuation of the elimination of the SSI/SSP pass-through to Community Care Facilities, (6) continuation of the delay in intake and assessment (60 days to 120 days), and (7) continuation of the noncommunity placement plan start-up suspension.
- **Significant Purchase of Services Cost Reduction at Regional Centers.** The Governor proposes to reduce by $100 million (General Fund) in community-based services and supports for individuals with developmental disabilities receiving services through the RC system. No details as to how this reduction will be achieved have as yet been provided. The Administration states that the reduction will be achieved through a number of proposals to be implemented in 2004-05 and 2005-06. The proposals will recommend establishing purchase of services standards, share of cost liability, a standardized rate structure and an alternative service delivery method.
- **Assumes Elimination of Supplemental Wage Rate Adjustment for Nursing Homes.** The Governor assumes approval of his mid-year reduction proposal to eliminate $46 million (General Fund) in 2003-04 for the supplemental wage rate adjustment to be paid to nursing homes that have collective bargaining agreements or contracts that increase wages for their staff.

- **Foster Care Changes**. The budget assumes $20 million (General Fund) in savings from unspecified programmatic reforms that shorten the period of time children spend in Foster Care. In addition, the budget provides over $30 million in funds to support various Child Welfare Services (CWS) initiatives including implementation of the California Child Welfare Outcomes and Accountability System (AB 636), the state's Program Improvement Plan, and the CWS Redesign.

- **Recalculation of Mental Health Services Rates to Reduce Expenditures.** The Governor assumes savings of $40 million (General Fund) from the EPSDT Program, and a reduction of up to $90 million in federal funds (EPSDT and Adult outpatient), by recalculating the statewide maximum allowances paid for certain mental health services provided under the Medi-Cal Program.

- **Eliminates Children's System of Care Program.** The Governor eliminates this highly effective program which provides medically needed mental health treatment services to children with severe emotional disturbances for a proposed savings of $20 million General Fund.

- **Caps AIDS Drug Assistance Program (ADAP).** The Governor proposes to continue his mid-year reduction proposal to cap enrollment in ADAP at 23,891 individuals. Under this proposal, a statewide waiting list would be established on a first come first served basis. New clients would be allowed into the ADAP only as enrolled clients leave. The budget assumes savings of $275,000 (General Fund) in 2003-04 and $550,00 (General Fund) in 2004-05 by denying HIV/AIDS drug treatment assistance to low-income individuals with HIV/AIDS.

- **Proposes County Block Grant for Certain Services.** The budget eliminates various health and human services programs that serve legal immigrants and proposes a single county block grant for savings of $6.6 million (General Fund). The programs subject to elimination include CalWORKs benefits for recent legal immigrants, the California Food Assistance Program, the Cash Assistance Program for Immigrants and the Healthy Families Program for Immigrants.

- **Cap on Enrollment for State-Only Programs.** The Governor proposes to cap enrollment, effective January 1, 2004, in several "state-only" (i.e., supported solely with the General Fund) Medi-Cal programs, including: (1) the Breast and Cervical Cancer Treatment Services (BCCT) Program for undocumented individuals, (2) nonemergency services for legal immigrants, and (3) nonemergency services for undocumented individuals. Under this proposal, the DHS would establish statewide waiting lists on a first come first served basis. Proposed savings are $1.8 million (General Fund) for the BCCT Program, $5.6 million for nonemergency services for legal immigrants, and $9.8 million (General Fund) for nonemergency services to undocumented individuals. The proposed savings result from the denial of health care services. Each of these proposals would require statutory change for implementation to occur.

- **Significant Increase for Medicare Part A and Part B Premiums.** The Governor proposes to provide an increase of $109.3 million (General Fund) for the state to pay the premium of dually eligible Medi-Cal/Medicare enrollees. This growth is due to expected federal premium rate increases to be effective January 2005, and the continued growth in the number of aged and disabled persons eligible for Medi-Cal and Medicare.

- **Closure Plan for Agnews Developmental Center.** The Governor is continuing with the development of a closure plan for Agnews Developmental Center. Existing statute requires the Administration to provide the Legislature with a detailed closure plan by April 1 preceding the year of closure (i.e., April 1, 2004 plan due for a June 30, 2005 closure date). Discussions regarding the closure plan will occur during the Subcommittee process.

Each of these proposals as well as others are discussed in more detail 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: (1) the departments of Aging, Alcohol and Drugs, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services, (2) the Health and Human Services Data Center, (3) the Office of Statewide Health Planning and Development, (4) the Managed Risk Medical Insurance Board, and (5) 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 Agency.

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.

Summary of Funding

The budget proposes total expenditures of $5.6 million ($3.8 million General Fund), or a *net* increase of $426,000 (General Fund) over the Budget Act of 2003, and 23 positions for the agency. Of this amount, almost $3.5 million and ten positions are for the Office of HIPAA Implementation.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Secretary for Health & Human Services	$2,208	$2,063	($145)	6.5
Office of HIPAA	$3,635	$3,509	($126)	3.5
Total, Health & Human Services Agency	$5,843	$5,572	($271)	4.6

Highlights for the CHHS Agency

- **Request to Fund State Commission.** The Governor proposes an increase of $364,000 (General Fund) and two positions to staff the California Health Care Quality Improvement and Cost Containment Commission as proposed in AB 1528, Statutes of 2003. It should be noted that the Commission has not as yet been constituted.

- **Expand Office of Health Insurance Portability & Accountability Act (HIPAA).** The Governor provides an augmentation of $111,000 ($88,000 General Fund) and one position for continued HIPAA implementation. It should be noted that this same position was eliminated as of June 30, 2003, because it was vacant.

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.

Summary of Funding

The budget proposes total expenditures of $5.3 million (Managed Care Fund) and 259 personnel-years for the DMHC, which includes $2.2 million for the Office of Patient Advocate. This reflects a slight decrease of about $500,000 (Managed Care Fund) over the revised 2003-04 budget due to technical adjustments. The DMHC is funded entirely with special funds derived from Health Care Plans paying annual assessments as outlined in Health and Safety Code, Section 1356.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Health Care Service Plans	$33,614	$33,122	($492)	1.5
Office of Patient Advocate	$2,181	$2,179	($2)	--
Total, Health Plan Program	$35,795	$35,301	($494)	1.4

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.

Summary of Funding

The budget proposes total expenditures of $22.4 million ($10.7 million General Fund) for the EMS Authority. This includes an increase of $6 million (federal funds) to reflect the receipt of additional federal grant funds from the federal Health Resources and Services Administration. These federal funds are to be used for continued development and implementation of regional plans to improve the capacity of hospitals for responding to situations requiring mass immunization, treatment, isolation and quarantine in the event of infectious disease outbreaks or bioterrorism. No other significant actions are proposed.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Emergency Medical Services	$21,101	$22,436	($1,335)	6.3
Funding Source				
General Fund	10,748	10,748	--	--
Federal Funds	3,886	3,610	($276)	7.1
Reimbursements	5,049	6,676	$1,627	32.2
Other Funds	1,418	1,402	($16)	1.1
Total, Emergency Medical Services	$21,101	$22,436	($1,335)	6.3

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 Funding

The budget proposes total expenditures of $565.9 million (special trust funds) for a decrease of $189.1 million over the revised current year. This reduction is due to a decline in revenues and a decline in carry-over funds which were available and have since been expended.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. 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.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Administrative Functions	$4,400	$4,900	$500	11.3
Local Assistance—Counties	$532,817	$449,078	($83,739)	15.7
Mass Media Account	$52,885	$34,635	($18,250)	34.5
Education Account	$58,431	$29,530	($28,901)	49.5
Child Care Account	$38,742	$17,818	($20,924)	54
Research & Development Account	$46,859	$17,977	($28,882)	61.6
Unallocated Account	$20,891	$11,912	($8,979)	42.9
Total Expenditures	$755,025	$565,850	($189,175)	74.9

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) ensure 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 (5) ensure economic expenditure of public funds to serve those persons with the greatest health care needs. These goals are carried out through three key programmatic areas, including the Medi-Cal Program, Childrens Medical Services, and Public and Environmental Health.

The budget proposes expenditures of $34.3 billion ($12.2 billion General Fund), or a *net* increase of $1.722 billion ($1.793 billion General Fund) over the revised 2003-04 budget. Of the total budget amount, $33.3 billion is for local assistance and $910.5 million is for state support. State support expenditures include funds for 5,505 authorized positions.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Public & Environmental Health	$849,802	$590,738	($259,064)	(30.5)
Medical Care Services	$29,214,486	$31,215,695	$2,001,209	6.8
County Health Services	$52,025	$47,811	($4,214)	(8.0)
Primary Care & Family Health	$1,531,310	$1,494,744	($36,566)	(2.4)
State Mandates	$4	$4	--	--
State Administration & Operations	$889,891	$910,527	$20,636	2.3
Totals, by Program Source	$32,537,518	$34,259,519	$1,722,001	5.3
Funding Source				
General Fund	$10,407,430	$12,200,656	$1,793,226	17.2
Federal Funds	$19,141,250	$19,527,815	$386,565	2.0
Special Funds & Reimbursements	$2,988,838	$2,531,048	($457,790)	(15.3)
Totals, by Fund	$32,537,518	$34,259,519	$1,722,001	5.3

Highlights for the Medi-Cal Program

Summary of Funding and Enrollment. The Governor proposes total expenditures of $31.2 billion ($11.6 billion General Fund) which reflects a General Fund increase of $1.6 billion, or 16.2 percent above the Budget Act of 2003. The General Fund increase primarily reflects the costs of using one-time savings in 2003-04 from the accrual-to-cash accounting change, and the discontinuation of the enhanced federal financial participation provided in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Caseload is anticipated to increase by about 220,000 for a total of about 6.8 million average monthly eligibles. According to the DOF, Medi-Cal provides health insurance coverage to about 17 percent of Californians. Of the total Medi-Cal eligibles about 45 percent, or 2.8 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs). Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

Summary of Governor's Reductions and Augmentations

- **Loss of Enhanced Federal Funds.** The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through

June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of $655.4 million General Fund.

- **Affect of Accrual to Cash Change.** AB 1762 (Chapter 230, Statutes of 2003), the omnibus health trailer bill to the Budget Act of 2003, changed Medi-Cal from an accrual to cash accounting system. As such, savings of $994 million (General Fund) are to be realized for 2003-04. For 2004-05, there will be increased costs of $994 million due to the end of this one-time savings.

- **Proposed Restructuring and Reform of Medi-Cal via a New Federal Waiver.** The Governor proposes to seek a federal waiver that *may* include all or any of the following components:

  - Simplification by aligning Medi-Cal's eligibility standards and processes with CalWORKs and the SSI/SSP program;
  - Development of a multi-tiered benefit/premium structure that provides comprehensive benefits to federally mandated populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums;
  - Requiring co-payments for various services;
  - Conform the basic Medi-Cal benefits package to that of private health plans, including making changes to mental health benefits provided under the EPSDT Program for children; and
  - Expand Medi-Cal Managed Care to additional counties, review and reform managed care reimbursement policies and encourage the enrollment of the aged, blind and disabled into managed care.

  No savings for 2004-05 are identified since only a framework of ideas is proposed at this time. However, the Administration anticipates savings of $400 million General Fund in 2005-06 from this as yet unidentified restructuring. The Governor is also seeking an increase of almost $6 million ($2.2 million General Fund) in 2004-05 for new state positions and system changes for this effort.

- **Reduces Medi-Cal *and* Non-Medi-Cal Rates by a Total of 15 Percent**. In his mid-year reduction proposal, the Governor proposed to reduce Medi-Cal rates by *another* 10 percent, which is in addition to the five percent reduction made in the Budget Act of 2003 and to carry this reduction level forward for a combined level of 15 percent. As noted in the table below, the two-year combined General Fund savings would be about $960 million.

- **Cap on Enrollment for State-Only Programs.** The Governor proposes to cap enrollment, effective January 1, 2004, in several "state-only" (i.e., supported solely with the General Fund) Medi-Cal programs, including: (1) the Breast and Cervical Cancer Treatment Services (BCCT) Program for undocumented individuals, (2) non-emergency services for legal immigrants, and (3) non-emergency services for undocumented individuals. Under this proposal, the DHS would establish statewide waiting lists on a first come first served basis. Proposed savings are $1.8 million (General Fund) for the BCCT Program, $5.6 million for non-emergency services for legal immigrants, and $9.8 million (General Fund) for non-emergency services to undocumented individuals. The proposed savings result from the denial of health care services. Each of these proposals would require statutory change for implementation to occur.

- **Assumes Elimination of Supplemental Wage Rate Adjustment for Nursing Homes.** The Governor assumes approval of his mid-year reduction proposal to eliminate $46 million (General Fund) in 2003-04 for the supplemental wage rate adjustment to be paid to nursing homes who have collective bargaining agreements or contracts that increase wages for their staff. This proposal requires a statutory change.

- **Significant Increase for Medicare Part A and Part B Premiums.** The Governor proposes to provide an increase of $109.3 million (General Fund) for the state to pay the premium of dually eligible Medi-Cal/Medicare enrollees. This growth is due to expected federal premium rate increases to be effective January 2005, and the continued growth in the number of aged and disabled persons eligible for Medi-Cal and Medicare.

- **Orthopaedic Hospital Settlement—Hospital Rates.** The settlement in *Orthopaedic Hospital v. Belshe'* requires hospital outpatient rates to be increased each year from 2001-02 through 2004-05. The cost of the settlement will increase by $51.2 million (General Fund) in 2004-05 due to the application of the final rate increase and the updating of the costs for managed care eligibles.

- **Reduce Medi-Cal Provider Float.** The Governor proposes to delay Medi-Cal check-writes by one week, thereby reducing the number of total check-writes in the year, for proposed savings of $287 million ($143.5 million General Fund). The delay in the check-writes will allow for a more thorough review of claims for anti-fraud purposes as well.

- **Reduce Interim Rates by 10 Percent for Cost Reimbursed Acute Care Hospitals.** The Governor proposes to reduce by 10 percent the interim rates paid to reimburse acute care hospitals (those not contracting with the state--usually smaller, rural hospitals) for savings of $62 million ($31 million General Fund). According to the Administration, they still intend to do the normal cost-settlement process at the end of the year.

- **Revise Rate Methodology for Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHCs).** The Governor proposes to significantly alter the existing prospective rate methodology for certain community-based clinics for proposed savings of $64.5 million ($32.3 million General Fund). Specifically, the alternative rate methodology provided for under the prospective rate process would be eliminated as of April 1, 2004.

- **FQHC and RHC Adjustments for Changes in Scope of Service and Related Items.** The Governor proposes an increase of $9.9 million (total funds) in the current year and $212.6 million ($106.3 million General Fund) for 2004-05 for FQHCs and RHCs to reflect the costs of managed care differential payments, scope of service changes authorized by federal law, and additional payments for services to Medicare crossover beneficiaries. It should be noted that all of these funds are owed to the clinics for services provided and that the amount includes retroactive payments for the period that began January 1, 2001. Specifically about $157.8 million (total funds) of the $212.6 million amount is for retroactive payments for prior years.

- **Federal Adjustments to FQHCs and RHCs for Prospective Payments.** The Governor proposes an increase of $31.9 million ($15.9 million General Fund) for FQHCs and RHCs that have opted to participate in the federal Prospective Payment Reimbursement (PPS) method of Medicaid (Medi-Cal) reimbursement. This increase reflects the annual Medicare Economic Index increase of 3 percent effective as of October 1, 2003, with another adjustment of 3 percent as of October 1, 2004.

- **Recoupment of Federal Funds for FQHC/RHC Overpayments by State.** The Governor proposes a decrease of $47.1 million (General Fund) to reflect an overpayment made by the state to the federal government. Specifically, the DHS recently discovered that the Medi-Cal Program has been inadvertently returning recoupments from FQHCs and RHCs at 100 percent of expenditures rather than the appropriate rate of 50 percent. As such, the state is seeking the return of these funds from the federal government.

- **Quality Improvement Assessment Fee for Medi-Cal Managed Care Plans.** The Governor proposes to modify the quality improvement assessment fee adopted in the Budget Act of 2003 in order to obtain federal approval. Through this mechanism, managed care plans will pay a quality improvement assessment fee to the state. The state will then obtain a federal match of the fee assessment. These funds would then be used to improve the quality of care in managed care plans through a rate enhancement, and the state would utilize the remaining amount as a General Fund offset. It is anticipated that a savings of $75 million (General Fund) will be obtained.

- **Reform of Adult Day Health Care.** The Governor proposes to implement a twelve-month moratorium on the certification of new Adult Day Health Care Centers (ADHCs) and to change the way they are reimbursed for services (i.e., unbundling the rate and billing separately for therapies and transportation services) for proposed savings of $25.4 million ($12.7 million General Fund). It should be noted that this proposal was rejected by the Legislature last year.

- **Changes to Rates Paid for Mental Health.** The Governor proposes to reduce by $95 million ($40 million General Fund) the rates paid for mental health services through the rebasing of the statewide maximum allowances.

- **Increase Oversight of Early Periodic Screening, Diagnosis and Treatment (EPSDT) Program.** The Governor proposes savings of $13 million ($6 million General Fund) by providing more oversight of the program through audits and related measures.

- **Reduces County Administration Costs.** The Governor proposes to reduce by $20 million ($10 million General Fund) the allocation provided to counties for Medi-Cal administration. According to the Administration, this savings will be achieved by not granting any cost-of-living-adjustments (COLA) to county workers that exceed the average COLA granted to state workers as well as other measures.

- **More State Staff for Treatment Authorization Review.** The Governor proposes an increase of $4 million ($1 million General Fund) to hire 36 new state staff to process treatment authorization requests (TARS). In addition, the Governor seeks trailer bill legislation to grant the DHS authority to do TAR reviews on a sample basis.

- **More State Staff for Anti-Fraud Efforts.** The Governor proposes an increase of $1.3 million ($464,000 General Fund) to support 15 new state staff to continue with the current re-enrollment of providers into the Medi-Cal Program.
- **Transfers Breast and Cervical Cancer Treatment Eligibility Determinations to the Counties.** The Governor proposes to shift the Breast and Cervical Cancer Treatment Program eligibility determinations and re-determinations from the state to the counties effective January 1, 2005. Under this proposal, the state would eliminate one of its existing twelve positions as of January 1, 2005 and nine positions would be retained through June 2005 to provide for a six-month transition period to the counties. Two state positions would remain permanently to ensure that the counties are performing the processing consistent with state and federal program requirements. The counties would receive on-going funding of $1.2 million ($649,000 General Fund) for this purpose.
- **Eliminates Sunset Date for California Partnership for Long-Term Care Program.** The Governor proposes an increase of $590,000 ($208,000 General Fund) and 5 positions to continue the California Partnership for Long-Term Care Program which promotes the purchase of high quality long-term care insurance policies. Statutory change is required to eliminate the sunset date.

Issues for the Medi-Cal Program

1. **Loss of Enhanced Federal Funds.** The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of $655.4 million General Fund. Since most states are still experiencing considerable funding shortfalls in their Medicaid (Medi-Cal) programs, the Governor and Legislature may want to seek continuation of this federal fiscal relief or other similar assistance.

2. **Reduces Medi-Cal by a Total of 15 Percent.** In his mid-year reduction proposal, the Governor proposes to reduce Medi-Cal rates by *another* 10 percent, which is in addition to the five percent reduction made in the Budget Act of 2003 and to carry this reduction level forward for a combined level of 15 percent. As noted in the table below, the two-year combined General Fund savings would be about $960 million. For providers, this would mean a loss of almost $1.9 billion in reimbursements over the course of the two-year period.

It should be noted that the United States District Court recently issued a preliminary injunction stopping the implementation of the five percent reduction for the fee-for-service reimbursement rates. The state has submitted a Motion for Reconsideration on this issue. As such, further court action is pending. Further, the additional 10 percent reduction requires state statutory change for implementation.

Proposed Medi-Cal Provider Rate Reduction for 2003-04 & 2004-05

Medi-Cal Category	2003-04 Assumed General Fund Savings	2004-05 Assumed General Fund Savings	Total Assumed General Fund Savings
Physicians Services	$22,787,000	$66,318,000	$89,105,000
Other Medical	16,002,000	45,063,000	61,065,000
Pharmacy	137,463,000	298,623,000	436,086,000
Medical Transportation	3,236,000	9,042,000	12,278,000
Other Services	18,718,000	53,494,000	72,212,000
Home Health	4,029,000	11,700,000	15,729,000
Dental Services	17,163,000	34,224,000	51,387,000
Early Periodic Screening Diagnosis and Treatment	811,000	2,133,000	2,944,000
Managed Care Plans	38,239,000	157,000,000	195,239,000
Family PACT	4,452,000	19,200,000	23,652,000
Total General Fund	**$262.9 million**	**$696.7 million**	**$959.6 million**
5 Percent Total **(Rounded)**	**($102.8 million)**	**($236.8 million)**	**($339.6 million)**
10 Percent Total **(Rounded)**	**($160.1 million)**	**($459.9 million)**	**($620 million)**

Exempt from the proposed reduction are: hospital inpatient services, hospital outpatient services, state operated facilities—i.e., Developmental Centers and State Hospitals for the mentally ill—and Federally Qualified Health Centers/Rural Health Centers. Hospital inpatient services are exempt since the state negotiates inpatient services through the CMAC, and hospital outpatient services are addressed in the Orthopaedic Settlement Agreement. Federal law prohibits an across-the-board rate reduction for FQHC/RHC facilities since a cost-based or prospective payment system is used.

There is some evidence that the rates paid to providers could affect access to health care and the quality of care to patients. A recent national analysis of Medicaid physician rates by The Urban Institute concluded that physician fee levels affect both access and outcomes for Medicaid patients.

In the Budget Act of 2000, most services provided under Medi-Cal received rate adjustments. This action was not an across-the-board rate increase, but instead targeted services for which Medi-Cal physician rates were relatively low in comparison to the Medicare Program. Generally, other than annual adjustments for nursing home rates, there had not been a rate increase for most Medi-Cal services prior to the Budget Act of 2000 since 1986.

A Pricewaterhouse study completed last year found that, even after accounting for the rate increase provided in 2000, Medi-Cal rates continue to lag behind those of other purchasers of health care coverage in California. Another study released last year found that while the 2000 Medi-Cal rate increases were substantial, they collectively only brought the Medi-Cal provider rates from 58 percent to 65 percent of California's average Medicare payment rates.

3. **Proposed Restructuring and Reform of Medi-Cal via a New Federal Waiver.** The Governor proposes to seek a federal 1115 Research and Demonstration Waiver to restructure and reform the existing Medi-Cal Program. Several states, most notably Oregon and Utah, have recently obtained this form of federal waiver. However, each state’s waiver is highly unique because 1115 Waivers are research and demonstration efforts designed to provide states with broad authority and flexibility to test new ideas that warrant policy merit. By definition, all federal waivers must be cost-beneficial (i.e., not result in higher expenditures) over the period of the waiver—usually five years—and then must be renewed with the federal government. All waivers must contain an evaluation component that addresses both policy and fiscal issues.

California presently has twenty federal Medicaid (Medi-Cal) waivers. Most of these waivers are for uniquely defined populations and services, or provide services using different service delivery models. These waivers enable the state to save money for services that would otherwise be delivered using a more expensive mechanism. Several of California’s key waivers include the following:

- **Family PACT.** This waiver provides pregnancy prevention services, including contraceptives, and sexually transmitted disease preventive services and education. Serves about 1.5 million women and men annually.
- **Los Angeles County.** This waiver allows Los Angeles County to restructure its public health delivery system and increase delivery of outpatient and preventative health care services.
- **County Organized Health Care Systems (COHS).** California has five COHS, including the Health Plan of San Mateo, Partnership Health Plan of California, Santa Barbara Health Initiative, Central Coast Alliance for Health, and Cal OPTIMA. Waivers—primarily to waive an individuals freedom of choice to select a provider—are used to operate each of these under Medi-Cal.
- **Selective Provider Contracting Program.** This waiver enables the state to selective contract with certain hospitals to provide inpatient Medi-Cal services to recipients. It is one of the state’s longest operating waivers and has saved the state well over a billion dollars over the past dozen years or so.
- **Specialty Mental Health (Mental Health Managed Care).** This waiver enables the state to contract with County Mental Health Plans (County MHPs) to provide mental health services for enrollees with specified diagnoses requiring treatment by licensed mental health

professionals. It is through this waiver that the counties operate and manage the state's Medi-Cal Mental Health Managed Care system.

- **Home & Community-Based Waiver for Individuals with Developmental Disabilities.** This waiver enables the state to provide home and community-based services to individuals with developmental disabilities who are Regional Center clients and reside in the community as an alternative to care provided in an Intermediate Care Facility for the Developmentally Disabled (ICF-DD). About 60,000 individuals are currently enrolled with this number increasing to 70,000 by the end of 2006.
- **Multipurpose Senior Services Program (MSSP).** This waiver provides home and community-based services to Medi-Cal recipients who are 65 years or over and are medically needy. This waiver enables these individuals to live in their home versus living in a nursing care facility.

Each of California's existing waivers, particularly those noted above, required considerable forethought, expert planning and analysis, communication with constituency groups, capacity building with providers, interaction with the Legislature and federal government, and carefully crafted implementation strategies to ensure the continuity of patient care. Most of these waivers required considerable time and concentrated work to phase-in—usually over a period of multiple years.

The Governor's proposed Waiver is presently a framework. This Waiver *may* include all or any of the following components:

- Simplification by aligning Medi-Cal's eligibility standards and processes with CalWORKs and the SSI/SSP program;
- Development of a multi-tiered benefit/premium structure that provides comprehensive benefits to federally mandated populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums;
- Requiring co-payments for various services;
- Conform the basic Medi-Cal benefits package to that of private health plans, including making changes to mental health benefits provided under the EPSDT Program for children; and
- Expand Medi-Cal Managed Care to additional counties, review and reform managed care reimbursement policies and encourage the enrollment of the aged, blind and disabled into managed care.

No savings for 2004-05 are identified since only a framework of ideas is proposed at this time. However the Administration assumes savings of $800 million ($400 million General Fund) for 2005-06. No details on this cost calculation are available. The Administration states that this is a "place-holder" figure but that maximizing cost containment is a principal goal of the proposal.

The Administration contends that various options for reform are being considered and that they will be convening meetings and constituency workgroups over the next three months to further discuss potential components. How these interactions will be used to craft the proposal is unknown at this time for the process will not commence until February.

The time table proposed by the Administration is very aggressive particularly given the complexities of modifying an entire program that services 6.8 million recipients, has a statewide network of thousands of various health care providers, and serves a diverse, medically-needy population. Further, it is unknown at this time how many of the state's existing waivers will be incorporated into this very encompassing waiver. The proposed time table is as follows:

- February 2004—Start stakeholders meetings and continue throughout the process.
- May 2004—Waiver concept paper submitted to the Legislature.
- July 2004—Obtain budget trailer bill legislation to implement.
- October 2004—Submit waiver to federal Centers for Medicare and Medicaid (CMS).
- December 2004—CMS approval obtained.
- December 2004-June 2005—County and state system changes.
- July 2005 through June 2006—Phased in waiver implementation.

As specifics come forth from the Administration it will be imperative for the Legislature to thoroughly discuss the policy merits of the proposal and its short-term and long-term implications for providing health care to medically needy individuals. Further, the Legislature will need to maintain legislative authority over the program in order to preserve the integrity of the overall program and the services provided under it.

Highlights for Primary Care & Family Health, Public Health & Environmental Health and County Health Services

Summary of Funding. The Governor proposes expenditures of $2.756 billion (total funds) for 2004-05. This consists of: (1) $1.640 billion for Primary Care and Family Health, (2) $904.1 million for Public and Environmental Health, (3) $51.8 million for County Health Services, (4) $114.7 million for Licensing and Certification, and (5) $45.2 million in department administration. This represents a decrease of $55.6 million, or 8.1 percent, below General Fund expenditures compared to the Budget Act of 2003.

The Governor is proposing significant policy changes to the AIDS Drug Assistance Program (ADAP), the California Childrens Services (CCS) Program, and the Genetically Handicapped Persons Program (GHPP). These key changes and other adjustments are discussed below.

Summary of Governor's Reductions and Augmentations

- **Caps AIDS Drug Assistance Program (ADAP).** The Governor proposes to continue his mid-year reduction proposal to cap enrollment in ADAP at 23,891 individuals. Under this proposal, a statewide waiting list would be established on a first come first served basis. New clients would be allowed into the ADAP only as enrolled clients leave. The budget assumes savings of $275,000 (General Fund) in 2003-04 and $550,00 (General Fund) in 2004-05 by denying HIV/AIDS drug treatment assistance to low-income individuals with HIV/AIDS. Individuals enrolled in the ADAP often continue in the program for long periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. Other adjustments to the ADAP are discussed below.

- **Caps the California Children's Services (CCS) Program and Reduces Rates.** The Governor proposes to make two significant changes to the CCS Program. First, he proposes to cap the enrollment of CCS-only children (i.e., not eligible for Medi-Cal or Healthy Families) as of January 1, 2004 at an enrollment level of 37,594 children for proposed savings of $3.8 million ($1.9 million General Fund and $1.9 million County Realignment Funds). This savings level assumes that 1,256 children with significant medical needs do not receive treatment through the program.

  Second, he proposes to implement an *additional* 10 percent rate reduction, which is in addition to the five percent reduction adopted in the Budget Act of 2003. Proposed savings of $5.4 million ($2.7 million General Fund) are assumed from the total rate reduction (i.e., 15 percent reduction). Presently there is a court injunction in place which has halted implementation of the five percent reduction. Further court proceedings are anticipated. Both of these issues are further discussed below.

- **Caps the Genetically Handicapped Persons Program (GHPP), Reduces its Rates and Proposes New Copayment.** The Governor proposes to make three significant changes to the GHPP Program. First, he proposes to cap enrollment for GHPP-only (i.e., not Medi-Cal eligible) patients. This proposed cap in enrollment would be effective as of January 1, 2004 and would save $194,000 (General Fund) in 2004-05 by not providing services to 36 medically needy individuals. The GHPP serves individuals with hemophilia, cystic fibrosis, sickle cell, Huntington's Disease, and metabolic conditions who are either uninsurable or who have limited health insurance coverage.

  Second, he proposes to implement another 10 percent rate reduction, which is in addition to the five percent reduction adopted in the Budget Act of 2003. Proposed savings of $6.5 million (General Fund) are assumed from the total rate reduction (i.e., 15 percent reduction). Presently there is a court injunction in place which has halted implementation of the five percent reduction. Further court proceedings are anticipated.

  Third, the Governor proposes to implement a new copayment for the program effective July 1, 2004. A $10 copayment would be charged for each service. Savings of $576,000 (General Fund) are assumed from this action. The copayment amounts would be in addition to the GHPP enrollment fees which are already required on an annual basis.

- **Reduces Rates for the Child Health Disability Prevention Program.** The Governor proposes to implement another 10 percent rate reduction, which is in addition to the five percent reduction adopted in the Budget Act of 2003. Proposed savings of $570,000 (General Fund) are assumed from the total rate reduction (i.e., 15 percent reduction). Presently there is a court injunction in place which has halted implementation of the five percent reduction. Further court proceedings are anticipated.

- **Increases for Federal Bioterrorism Funding.** The Governor proposes to increase by $76.5 million (federal funds) and 19 positions to continue the Bioterriorism Prevention and Preparedness Program. Of the increased amount, $47.2 million will be allocated to local health jurisdictions for their efforts.

- **Increased Federal Funds for California Nutrition Network for Healthy, Active Families.** The Governor proposes to increase by $39.7 million (reimbursements and local assistance expenditures authority) for the social marketing campaign of the California Nutrition Network for Healthy, Active Families (Network). The Network is primarily funded through federal funds.

- **Funding for Proposition 99 Supported Programs Continue to Decline.** The Governor proposes a net reduction of $23.2 million ($11.1 million Health Education Account, $4.2 million Hospital Services Account, $7.7 million Unallocated Account) to programs within the DHS. The affect of this proposed reduction is as follows:
  - Reduces by $3.7 million the Tobacco Media Campaign. The DHS will eliminate its contracts for media in rural and smaller markets. Funding for ethnic subcontractors will decrease as well.
  - Reduces by $3.7 million the Competitive Grants. The reduction will result in a loss of telephone counseling and cessation services, as well as a reduction in printed materials.
  - Reduces by $3.7 million Local Lead Agencies.
  - Reduces by $5.9 million the California Healthcare for Indigents Program (CHIP). Allocations to all 24 participating counties will be reduced. Fewer outpatient services will be provided, and treatment services to children under the CHDP will be diminished.
  - Reduces by $6.1 million the Breast Cancer Early Detection Program. This reduction will result in about 39,927 women not receiving breast cancer screenings and diagnostic services.
  - Increases by $288,000 (Research Account) to fund state positions to coordinate the Ken Maddy California Cancer Registry.
- **Continues Deferral of State Support for County Medical Services Program.** The Governor proposes to suspend for one year the $20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP). This $20.2 million has been suspended for the past several years since the CMSP has had reserve funds available. However, it is unknown at this time if the CMSP can continue to fully operate using only County Realignment Funds and dwindling Proposition 99 funds.
- **Eliminates the Community Challenge Grant Program.** The Governor proposes to eliminate the Community Challenge Grant Program which promotes community-based strategies to prevent teenage pregnancy and absentee fatherhood for savings of $19.9 million (federal funds). These federal funds were not made available to California this year.
- **Prostate Cancer Treatment—Spending Down Prior Appropriations.** The Governor proposes no ongoing appropriation for the Prostate Cancer Treatment Program for low-income men who are uninsured and have prostate cancer. As such, only $741,000 (General Fund) is available for expenditure for this program in 2004-05.
- **Extends California Partnership for Long-Term Care.** The Governor proposes an increase of $590,000 ($208,000 General Fund, $295,000 federal funds, and $87,000 in reimbursements) to support 5 positions to reflect an extension of the California Partnership for Long-Term Care Program.

- **Funds for Richmond Laboratory.** The Governor provides an increase of $1.3 million ($424,000 General Fund) to install and maintain information technology systems that support the Richmond Laboratory.

- **Provides Additional Assistance for Tissue Bank Licensure Program.** The Governor increases by $93,000 (Tissue Bank Licensure Fund) to support one new position to conduct onsite inspections. California currently licenses 300 tissue banks that supply reproductive tissue, human milk and bone marrow from living donors, and ocular tissue, bone, veins, tendons and heart valves from deceased donors to recipients dependent on human tissue.

- **Vital Records Conversion.** The Governor proposes an increase of $1.6 million (Health Statistics Special Fund) and six limited-term positions to implement SB 247 (Speier), Statutes of 2002. Specifically, this law requires the DHS to develop and implement a single statewide database of imaged birth and death records, establish the capability to electronically redact signatures from the certificates, and make the result electronically available in each County Recorder's Office and County Registrar's Office by January 1, 2006.

- **Electronic Death Registration.** The Governor proposes an increase of $338,000 (health Statistics Special Fund) to support the maintenance and operations of the Electronic Death Registration System (EDRS).

Issues for Primary Care, Family Health, Public Health and Environmental Health

1. Cap of Enrollment and Other Adjustments to the AIDS Drug Assistance Program. ADAP is a subsidy program for low and moderate income persons with HIV/AIDS who have no health care coverage for prescription drugs and are not eligible for the Medi-Cal Program. Under the program, individuals receive drug therapies through participating local pharmacies under subcontract with a statewide contractor. Studies consistently demonstrate that early intervention, minimizes more serious illness, reduces more costly treatments and maximizes an individuals productivity and health.

The budget proposes total expenditures of $207.3 million ($63.8 million General Fund, $97.7 million federal funds and $45.8 million in drug rebates) to serve 23,891 clients—the Governor's capped enrollment level as of January 1, 2004. Specifically this funding assumes the following:

- Savings of $550,000 (General Fund) by denying HIV/AIDS drug assistance to low-income individuals with HIV/AIDS;

- Net increase of $8.3 million ($3.032 million in ongoing drug rebates, $5.822 million in one-time drug rebates, and a decrease of $550,000 in General Fund) to support the existing caseload of 23,891 clients and drug formulary. It should be noted that the Administration contends further program restrictions, such as a reduction in the drug formulary, may occur even with this net increase in funding.

ADAP affects demand for Medi-Cal services. Without ADAP assistance to obtain HIV/AIDS drugs, individuals would be forced to: (1) postpone treatment until disabled and Medi-Cal eligible, or (2) spend down their assets to qualify, increasing expenditures under Medi-Cal. According to the DHS, 50 percent of Medi-Cal costs are borne by the state, whereas only 30 percent of ADAP costs are borne by the state. As such, ADAP has been a cost-beneficial program for the state.

2. Proposed Cap and Rate Reductions for the California Children's Services (CCS) Program. The California Children's Services (CCS) Program provides medical diagnosis, case management, treatment and therapy to financially eligible children with specific medical conditions, including birth defects, chronic illness, genetic diseases and injuries due to accidents or violence. The CCS services must be deemed to be *"medically necessary"* in order for them to be provided.

The CCS is the oldest managed health care program in the state and the only one focused specifically on children with special health care needs. It depends on a network of specialty physicians, therapists and hospitals to provide this medical care. By law, CCS services are provided as a separate and distinct medical treatment (i.e., carved-out service).

Total program expenditures of $220.5 million ($82.5 million General Fund, $75.3 million County Realignment Funds, $51.1 million federal Title XXI funds, $11.1 million federal Maternal & Child Health block grant funds, $500,000 patient enrollment fees, and $2.8 million other funds) are proposed for 2003-04. CCS was included in the State-Local Realignment of 1991 and 1992. As such, counties utilize a portion of their County Realignment Funds for this program.

CCS enrollment consists of children enrolled as: (1) CCS-only (not eligible for Medi-Cal or the Healthy Families Program), (2) CCS and Medi-Cal eligible, and (3) CCS and Healthy Families eligible. Where applicable, the state draws down a federal funding match and off-sets this match against state funds as well as county funds.

The Governor proposes the following key changes for the CCS:

- **Caps Certain CCS Children.** Caps the CCS-only children enrollment in the program as of January 1, 2004 at an enrollment level of 37,594 children for proposed savings of $3.8 million ($1.9 million General Fund and $1.9 million County Realignment Funds). This savings level assumes that 1,256 children with significant medical needs do not receive treatment through the program. Some of these children may be able to obtain treatment through county indigent health care programs or charitable care. However, CCS children by definition of being enrolled in the program are very medically involved and often require intensive treatment, as well as on-going treatment through their adolescent years. Capping this program could be catastrophic for these families and their children.

- **Provider Rate Reduction of 15 Percent.** The Governor proposes to implement an additional 10 percent rate reduction, which is in addition to the 5 percent reduction adopted in the Budget Act of 2003. The budget assumes savings of $5.4 million ($2.7 million General Fund) by reducing the rate effective January 1, 2004 by a total of 15 percent. It should be noted that a court injunction has halted implementation of the five percent reduction. Further court proceedings are anticipated and it is unknown at this time whether any reduction can be achieved.

  Through the Budget Act of 2000, the CCS Program was provided a rate increase of 39 percent. Other than a five percent increase granted in 1999, no rate adjustment had been provided since 1982. These rate adjustments resulted from data obtained from the Senate

Office of Research and their comprehensive report on the program (published in 2000), plus rate analyses conducted by the DHS, as well as the American Academy of Pediatrics and specialty physician groups.

To reduce CCS Program rates by an additional 10 percent could conceivably result in significant problems that were experienced previously. For example, it was previously documented that: (1) many provider groups were having extreme difficulty retaining and hiring for pediatric subspecialty positions, (2) patients were experiencing tremendous waiting times to receive necessary subspecialty services (three months to a year depending on the service), and (3) patients in rural and suburban areas were having to travel long distances to find a doctor authorized by CCS.

In lieu of the additional 10 percent rate adjustment, the Legislature may want to consider other cost saving options, such as using utilization controls on certain pharmaceuticals, medical supplies and laboratory services or other related program efficiencies.

4280 Managed Risk Medical Insurance Board

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

The budget proposes total expenditures of $1.156 billion ($313.6 million General Fund, $639.2 million Federal Trust Fund, $53.9 million County Health Initiative Matching Funds, and $149.7 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. Of this total amount, $7.3 million is for state operations. The budget proposes key changes to the Healthy Families Program. These are discussed below.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Major Risk Medical Insurance (including state support)	$40,109	$40,002	($107)	.3
Access for Infants & Mother (including state support)	$118,709	$118,152	($557)	.5
Healthy Families Program (including state support)	$808,422	$844,307	$35,885	4.4
County Health Initiative Matching Program	$153,846	$153,846	--	--
Totals, Program Source	$1,121,086	$1,156,307	$35,221	3.1
General Fund	$303,286	$313,592	$10,306	3.4
Federal Funds	$617,860	$639,162	$21,302	3.4
County Health Initiative Matching Fund	$53,846	$53,846	--	--

Other Funds	$146,094	$149,707	$3,613	2.4
Total Funds	$1,121,086	$1,156,307	$35,221	3.1

Highlights for the Healthy Families Program

Summary of Funding and Enrollment. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

A total of $839.1 million ($305.5 million General Fund, $523.6 million Federal Title XXI Funds, $4.2 million Proposition 99 Funds, and $5.8 million in Reimbursements) is proposed for the HFP, excluding state administration.

The budget assumes a total enrollment of 737,304 children as of June 30, 2005, for an increase of only 4,960 children over the revised current year enrollment level. This enrollment figure assumes enactment of the Governor's enrollment cap for the HFP. Under his cap almost 114,000 children are denied access to health, dental and vision care in 2004-05. The total enrollment figure is based on the sum of the four population segments as follows:

- Children in families up to 200 percent of poverty: 522,843 children
- Children in families between 201 to 250 percent of poverty: 150,226 children
- Children in families who are legal immigrants: 20,348 children
- Child Health Disability Prevention (CHDP) Gateway Access: 38,927 children

Other key funding assumptions are as follows:

- The payments to health, dental and vision plans remain unchanged from the Budget Act of 2003. For children from one to 19 years the average cost is $91.46 per month for all benefits. For infants 0 to 1 years with family income between 200 percent and 250 percent of poverty the average cost is $214.99 per month for all benefits. For infants born to AIM moms who enrolled on or after July 1, 2004, the AIM rate will be used until MRMIB can negotiate a new HFP rate (likely Spring 2004).
- The average subscriber premium payment is $5.49 per child per month.

Summary of Governor's Reductions and Augmentations

- **Proposed Cap on Healthy Families Program Enrollment.** The Governor proposes to cap enrollment in the HFP at 732,300 children as of January 1, 2004 as part of his Mid-Year Reductions. Under this proposal 22,200 children would be denied enrollment in the current year, and almost 114,000 children would be denied enrollment in 2004-05. No medical necessity criteria would be used for establishing the waiting lists—strictly done on a "first come first served" basis.

As discussed further below, the budget year cap assumes a June 30, 2005 enrollment level of 737,304 children which reflects the capped level coupled with an enrollment of 4,960 infants born to women enrolled in the Access for Infants and Mothers (AIM) Program. The proposed cap cannot be implemented without changes to statute. The budget assumes no savings in the current year due to administrative cost increases, and $86.3 million ($31.5 million) for 2004-05 by denying access to health care for low-income children.

- **Proposed Two-Tiered Benefit Structure for Children.** The Governor proposes to implement a two-tiered benefit package commencing in 2005-06. Under this proposal, enrolled children with family incomes between 201 percent and 250 percent of poverty would be offered a choice of either a basic benefit package (excludes dental and vision coverage) or the standard HFP package. Enrollment in the standard HFP package would require higher monthly premiums and possibly more copayments. The budget assumes increased costs of $750,000 ($263,000 General Fund) to modify the HFP administrative system and related functions in 2004-05. The Administration has not yet provided details as to what level of savings may be anticipated in 2005-06 for this proposal, or what levels of monthly premiums or copayments would be assumed.
- **Proposed Block Grant to Counties for Legal Immigrants.** The Governor proposes to restructure and consolidate certain state-only funded programs that provide health and human services to legal immigrants, including the HFP, CalWORKs, the California Food Assistance Program, and the Cash Assistance Program for Immigrants. Under his proposal, these programs would have their enrollments capped and then funding would be shifted to the counties in the form of a block grant. Although funding for legal immigrants remains in the HFP budget for 2004-05, the budget reflects savings of $848,721 (General Fund) from this action, supposedly due to anticipated administrative efficiencies resulting from this proposal.
- **Continues County Health Initiative Matching Fund Program.** The Governor proposes to provide $153.8 million (County Health Initiative Matching Funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001 and as appropriated in the Budget Act of 2003. Counties, local initiatives and County Organized Health Care Systems can submit proposals to receive these available matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These matching funds are unexpended federal Title XXI State Children's Health Insurance Program funds which the state presently does not need to support the existing HFP.
- **Continues Funding for Rural Demonstration Projects.** Through the Budget Act of 2003, the Legislature shifted Proposition 99 Funds to the HFP to restore the Rural Demonstration Projects. The Governor continues to provide $2.8 million ($991,000 Proposition 99 Funds) for these valuable projects.

Issues for the Healthy Families Program

1. Proposed Cap on Healthy Families Program Enrollment. The Governor proposes to cap enrollment in the HFP as of January 1, 2004 as part of his Mid-Year Reductions. Under this proposal, the Managed Risk Medical Insurance Board (MRMIB) would administer a waiting list and as attrition occurs, new enrollments would be accepted. No medical necessity criteria would be used for establishing the waiting lists—strictly done on a "first come first served" basis. The proposed enrollment cap would *not* apply to infants born to mothers enrolled in the Access for Infants and Mothers (AIM) Program. The proposed cap would require statutory changes.

The Administration proposes savings of $86.3 million ($31.5 million General Fund and $54.8 million federal Title XXI funds) in 2004-05 by withholding health, dental and vision coverage to almost 114,000 low-income children. Conceivably, these children would need to seek health care, dental and vision services from other sources, including county indigent programs, emergency room care, other available state programs, and charity care (as available), or become sicker and more medically involved.

Without question, prevention and early remediation are the most cost-beneficial approaches to overall health care, particularly children's health. Unhealthy children will have school adjustment problems and difficulty in learning and progressing through their education. Low-income families are paying premiums and copayments to have their children participate in this program because other health care options are not available to them. Limiting this option for families could be catastrophic.

MRMIB estimates that commencing July 1, 2004, about 20,000 children (about 2.7 percent of the total enrollees) would leave the HFP monthly due to age (over 19 years) or income level changes. However, if this natural attrition does not occur, additional children above the estimated 114,000 would be added to the waiting list.

The HFP Administrative Vendor would be delegated the responsibility of processing all aspects of the waiting lists. The budget includes a total of $2 million ($700,000 General Fund) across the two fiscal years for the Administrative Vendor for this purpose. Since the state has never activated a waiting list for this program, it is difficult to discern whether additional administrative costs would be incurred.

2. **Proposed Two-Tiered Benefit Structure for Children.** The Governor proposes to implement a two-tiered benefit package commencing in 2005-06. Under this proposal, enrolled children with family incomes between 201 percent and 250 percent of poverty would be offered a choice of either a basic benefit package (excludes dental and vision coverage) or the standard HFP package. Enrollment in the standard HFP package would require higher monthly premiums and possibly more copayments. The budget assumes increased costs of $750,000 ($263,000 General Fund) to modify the HFP administrative system and related functions in 2004-05. The Administration has not yet provided details as to what level of savings may be anticipated in 2005-06 for this proposal, or what levels of monthly premiums or copayments would be assumed.

The enabling HFP statute as adopted by the Legislature and Governor Wilson purposefully included dental and vision coverage along with health care services as a comprehensive children's package. Vision problems in children often go undetected and can result in poor school performance. Children need to see the blackboard, and see the words on the page to read and comprehend them. Medical literature often sites the need for improved dental care for California's children, including access to dentists. Further, the relationship between dental health and overall physical health has been well documented. Dental problems can cause other health related problems, including infections, hearing problems, digestion and nutrition issues.

Low-income, working families choose the HFP because it is accessible and is often the only option available for insuring their children. Limiting the scope of services available may lead to significantly diminished health, as well as decreased school performance.

3. **Proposed Block Grant to Counties for Legal Immigrants.** The Governor proposes to restructure and consolidate certain state-only funded programs that provide health and human services to legal immigrants, including the HFP, CalWORKs, the California Food Assistance Program, and the Cash Assistance Program for Immigrants. Under his proposal, these programs would have their enrollments capped and then funding would be shifted to the counties in the form of a block grant. Although funding for legal immigrants remains in the HFP budget for 2004-05, the budget reflects savings of $848,721 (General Fund) supposedly due to anticipated efficiencies resulting from this proposal.

Shifting a portion of the HFP to the counties makes no sense. The HFP provides a well-defined benefits package at an efficient price by using proven insurance purchasing pool techniques. Individual counties would not be in a position to effectively negotiate plan rates and ensure service quality.

Highlights for The Access for Infants and Mothers Program

Summary of Funding and Enrollment. 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. 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.

Beginning July 1, 2004, infants in families between 200 and 250 percent of poverty are funded through the Healthy Families Program using General Fund and federal Title XXI funds (35 percent/65 percent). AIM infants in families between 250 and 300 percent of poverty (above the Healthy Families Program income threshold) are funded with 100 percent state funds (General Fund and Proposition 99 Funds). This fiscal arrangement enables the state to more effectively utilize available federal funds and state funds.

A total of $118.1 million ($99.5 million Perinatal Insurance Fund, $6.5 million General Fund, $12.1 million federal funds) is proposed for AIM. A total of 8,783 women and 160,880 infants are expected to enroll in AIM in 2004-05. No significant policy or budget adjustments are proposed.

Highlights for The Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of $40 million (Major Risk Medical Insurance Fund) to serve 7,088 individuals. Presently there is a waiting list of 87 persons for the program. The budget proposes no substantial changes to 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.

Summary of Funding

The budget proposes total expenditures of $3.4 billion ($2.169 billion General Fund), for a *net* increase of $131 million ($114.2 million General Fund) over the revised 2003-04 budget, to provide services and supports to individuals with developmental disabilities living in the community or in state Developmental Centers.

Of the total amount, $2.708 billion ($1.8 billion General Fund) is for services provided in the community, $690.1 million ($370.3 million General Fund) is for support of the state Developmental Centers, $31.2 million ($20 million General Fund) is for state headquarters administration and $4 million (General Fund) is for state-mandated local programs.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Community Services Program	$2,554,079	$2,708,500	$154,421	6.0
Developmental Centers	$714,844	$690,076	-24,768	-3.5
State Administration	$29,857	$31,251	1,394	4.7
State Mandated Local Program	$4	$4	--	--
Total, Program Source	$3,298,784	$3,429,831	$131,047	4.0
Funding Source				
General Fund	2,054,876	2,169,085	114,911	5.9
Federal Funds	52,200	53,341	1,141	2.2
Program Development Fund	1,431	1,496	65	4.5
Lottery Education Fund	2,221	2,221	--	--
Developmental Disabilities Services	0	300	300	300
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	1,188,056	1,203,388	15,332	1.3
Total	$3,298,784	$3,429,831	$131,047	4.0

Highlights for Community-Based Services

Summary of Funding and Enrollment. 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 $2.7 billion ($1.8 billion General Fund) for community-based services, provided via the RCs, to serve a total of 199,295 consumers living in the community. This reflects a *net* overall increase of $177.3 million ($108.3 million General Fund), or 7.1 percent, over the revised 2003-2004 budget. Most of this increase is attributable to the: (1) increase in enrollment—9,265 new consumers, (2) loss of $38 million in federal matching funds due to the Medicaid match change, (3) increase in the utilization of services by consumers, and (4) the transfer of the Habilitation Services Program to the DDS.

The funding level includes $420.1 million for RC operations and about $2.3 billion for local assistance, including funds for the purchase of services for consumers, program development assistance, the Early Start Program, and habilitation services.

Summary of Key Reductions and Augmentations

- **Continues Cost Containment Actions Taken in the Budget Act of 2003.** The Governor proposes to continue several cost containment actions enacted as part of the Budget Act of 2003. These include: (1) $10 million (General Fund) in unallocated reductions at the RCs for the purchase of services, (2) continuation of the Day Program rate freeze, (3) continuation of the contract services rate freeze, (4) continuation of the Community Care Facility rate freeze, (5) continuation of the elimination of the SSI/SSP pass-through to Community Care Facilities, (6) continuation of the delay in intake and assessment (60 days to 120 days), and (7) continuation of the non-community placement plan start-up suspension.

- **Significant Purchase of Services Cost Reduction at Regional Centers.** The Governor proposes to reduce by $100 million (General Fund) community-based services and supports for individuals with developmental disabilities receiving services through the RC system. No details as to how this reduction will be achieved have as yet been provided. The Administration states that the reduction will be achieved through a number of proposals to be implemented in 2004-05 and 2005-06. The proposals will recommend establishing purchase of services standards, share of cost liability, a standardized rate structure and an alternative service delivery method.

- **Co-Payment Assessment Program.** The Governor proposes to implement a plan to be submitted to the Legislature by April 1, 2004 that will propose a system of enrollment fees/copayments to be assessed on parents of minor children between the ages of 3 and 17 years who live at home and receive services through the Regional Centers. This proposal corresponds to action taken by the Legislature through the Budget Act of 2003 whereby the Administration was directed to formulate a copayment plan based on a twelve point criteria.

Savings have not yet been assigned by the Administration for this proposal. Any savings will of course be contingent upon receipt of the April 1 plan by the Legislature and its final development, including the level of copayments or other cost sharing arrangements to be implemented and the application of any service thresholds. It should be noted that the Administration does include implementation of this program in its cost containment proposal to save $100 million General Fund from the RC purchase of services category.

- **Regional Center Operations Cost Containment.** The Governor proposes to reduce by $6.5 million (General Fund) the Operations portion of the Regional Centers budget to reflect reduced funding for various administrative activities. In essence, this is an unallocated reduction. The $6.5 million reduction represents about a 1.5 percent reduction to the $420.1 million (total funds) RC operations budget.
- **Transfer of Habilitation Services Program.** The Governor proposes an increase of $104.9 million (General Fund) to reflect the transfer of the Habilitation Services Program from the Department of Rehabilitation to the DDS. This transfer was approved by the Legislature through the Budget Act of 2003 and is to be effective as of July 1, 2004. The total funding for the Habilitation Services Program is $126.6 million (total funds).
- **Loss of Federal Funds from Medicaid Match Adjustment**. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of $38 million (General Fund) for the RCs.
- **Update in Savings for Eligibility Definition Change.** The Governor recognizes a savings of $4.1 million (General Fund) from the eligibility change implemented through the Budget Act of 2003. This equates to a doubling of the original savings level attributed to the change in the current-year.
- **Title XX Social Services Block Grant Fund Shift.** The Governor proposes to shift $48 million in federal Title XX Social Services Block Grant funds and delete a like amount in General Fund support for Regional Center services.
- **Receipt of Federal Grant—Real Choice Systems Change.** The Governor reflects an increase of $200,000 in federal grant funds awarded as a three-year demonstration and research grant to design a locally-based model for improving provider capability and testing a consumer/family satisfaction survey.

Issues for Community-Based Services

1. **Significant Purchase of Services Cost Reduction at Regional Centers.** The Governor proposes to reduce by $100 million (General Fund) community-based services and supports for

RC consumers in 2004-05. This reduction amount is in *addition* to the continuing cost containment actions enacted in the Budget Act of 2003 which in total, equate to savings of about $64 million ($52 million General Fund) in 2004-05. Further, it should be noted that in order for the Administration to obtain the proposed reduction figure of $100 million General Fund, in actuality, a reduction of about $130 million would need to be enacted due to federal funding interactions.

The Administration contends the reduction will be achieved through a number of proposals to be implemented in 2004-05 and 2005-06. Specific details as to how this reduction will be achieved are to be forthcoming at the May Revision. At this time, the Administration has provided only a conceptual outline of assumptions as follows:

2004-05

- Develop and implement uniform statewide purchase of services standards to govern RCs' expenditures for consumers and families;
- Give the state access to funds currently shielded in "special needs" trusts which are established for the care of the consumers;
- Promulgate statutory changes to provide RCs the authority and flexibility to achieve the savings level specified in the budget; and
- Implement a parental co-payment program, as referenced above.

2005-06

- Implement a standard, statewide rate system for major categories of services purchased by the RCs;
- Obtain federal approval to implement a Medicaid (Medi-Cal) "Independence Plus" (self-directed services) model of funding and service delivery, as well as a state-only version (for non-Medi-Cal eligible consumers) of the model in order to cap individual expenditures in exchange for increased consumer control over the services provided; and
- Expand the parental co-payment program for services purchased by RCs to children birth to three years of age as applicable. Federal approval would be required for this action.

As noted from the outline, the Administration has an ambitious plan proposed with little detail. Past approaches to implementing a statewide standard for the purchase of services have not been particularly constructive. Generally, the Administration has desired broad authority to (1) prohibit any consumer service or support, (2) unilaterally reduce provider rates, and (3) grant unprecedented authority to the RCs to deny services without any opportunities for consumers to appeal (i.e., no fair hearing process). Further, in reviewing past actual expenditures, it would be near impossible to achieve this $100 million General Fund savings in addition to the continued cost containment provisions unless certain services are eliminated and provider rates in many service categories are further reduced.

It is equally unclear at this time what interaction this proposal will have with the Administration's Medi-Cal Waiver reform concept, the Administration's proposed reductions to the In-Home Supportive Services (IHSS) Program, and the Administration's proposed changes to the definition of "medical necessity" for mental health services provided under the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program.

The Medi-Cal, IHSS and EPSDT programs all provide "generic" services to RC consumers in need of these services. When these generic services are not available, a RC is to purchase the needed service for the consumer. As such, the potential for cost-shifting, conflicts in policy, and potential risks to consumer health and safety could be significant. Considerable discussion and clarity as to both the short-term and longer-term implications of these proposals in combination need to be clearly understood.

It is equally unclear what potential ramifications this proposal will have on California's implementation of the Olmstead Decision (1999, 527 U.S. 581), as well as on our existing Home and Community-Based Waiver (up for federal oversight review in late 2005).

As specifics begin to come forth from the Administration it will be imperative for the Legislature to maintain both access and consumer choice to an array of services and supports, and to maintain legislative authority in order to preserve the integrity of the overall program. Any statutory language will need to be crafted carefully and thoughtfully with the involvement of the individuals and families who receive the services and with the various businesses who provide the services. Consumer health and safety issues will also be paramount.

2. Enhanced Federal Funds and the Home and Community-Based Waiver. Over the course of the past three years, the state has been aggressively pursing additional federal funds, most notably under the Home and Community-Based Waiver. Under this waiver, California can offer "nonmedical" services to individuals with developmental disabilities living in community settings who would otherwise require the level of care provided in a hospital, nursing facility, or intermediate care facility, or related conditions. Use of these "waiver services", such as assistance with daily living skills and day program habilitation, enable people to live in less restrictive environments such as in their home.

The waiver has allowed the state to conserve General Fund dollars by shifting Medicaid (Medi-Cal) eligible beneficiaries to waiver services while granting flexibility and assisting the state in complying with the Coffelt Settlement and the Olmstead Decision.

California obtained federal approval in 2003 to amend the Waiver to increase the number of individuals that can be enrolled each year as follows:

October 1, 2003 to September 30, 2004	60,000 individuals
October 1, 2004 to September 30, 2005	65,000 individuals
October 1, 2005 to September 30, 2006	70,000 individuals

Other key Waiver assumptions for the budget are as follows:

- Delay in federal approval to add respite voucher services to the Waiver for a loss of about $5 million in funding.
- Decrease of $13.2 million in reimbursements for certain Waiver administrative activities due to the need for additional DDS analysis as to how to proceed with capturing data.
- Obtained federal approval to lift the existing freeze on enrollment under the Waiver for South Center Los Angeles Regional Center. Billing for eligible consumers will be retroactive to October 1, 2002.

There is further potential to obtain more federal funding under this waiver. For example, there is potential to restructure or add more services to the Waiver, particularly in the areas of education services and targeted case management. In addition, some administrative functions may qualify for a 75 percent federal match instead of the 50 percent match that is assumed in the proposal. Further research on this issue is forthcoming.

Highlights for State Developmental Centers

Summary of Funding and Enrollment. 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.

The budget proposes expenditures of $690.1 million ($370.3 million General Fund), excluding state support, to serve 3,367 residents who reside in the state Developmental Center system. This reflects a caseload decrease of 123 residents and a net decrease in funds of $24.8 million as compared to the revised 2003-04 budget.

According to recent DDS data, the average cost per person residing at a DC is about $180,000 annually. Due to differences between the DCs, including resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors, the annual cost per resident varies considerably and is as follows:

• Canyon Springs	$255,574 annual cost per resident
• Sierra Vista	$213,923
• Agnews	$208,935
• Lanterman	$158,336
• Sonoma	$157,530
• Fairview	$147,690

Summary of Governor's Reductions & Augmentations

- **Developmental Center Resident Population.** The Governor proposes a decrease of $16 million ($9.3 million General Fund) and 210 positions resulting from a projected net decline in population of 123 residents (from 3,490 residents to 3,367 residents).

- **Proposed Contracting Out for Services.** The Governor proposes a reduction of $1.6 million ($910,000 General Fund) and 459 state positions by contracting out for food services at the Developmental Centers. Under this proposal the DDS would begin contracting out for food services as of January 1, 2005. It should be noted that this proposal, along with others regarding contracting out, would require a state constitutional amendment to enact.

- **Life Services Alternative Project.** The Governor continues to provide $1 million (total funds) for the Life Services Alternative Project (LSA). The purpose of this project is to create least restrictive home-like settings for individuals primarily transitioning from Agnews Developmental Center, which is slated to close as of June 30, 2005, to the community. It should be noted that issues regarding the licensing and certification of these facilities have arisen within the Administration and that considerable more work needs to be completed.

- **Closure Plan for Agnews Developmental Center.** The Governor is continuing with the development of a closure plan for Agnews Developmental Center. Existing statute requires the Administration to provide the Legislature with a detailed closure plan by April 1 preceding the year of closure (i.e., April 1, 2004 plan due for a June 30, 2005 closure date). Discussions regarding the closure plan will occur during the Subcommittee process.

4440 Department of Mental Health

The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of four State Hospitals—Atascadero, Metropolitan, Napa and Patton--, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992. Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available, (2) the Medi-Cal Mental Health Managed Care Program, (3) the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for adolescents, and (4) mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

The budget proposes expenditures of $2.5 billion ($910.7 million General Fund) for mental health services, including state support. This reflects a *net* increase of $165.9 million ($31.7 million General Fund) over the revised 2003-04 budget. As noted in the table below, $1.8 billion is for local assistance, $735.6 million is for the State Hospitals, and $7 million (General Fund) is for state mandated local programs.

The department's support budget of $18.4 million is distributed as applicable across the Community Services Program and State Hospital line items. Specifically, $10.6 million ($6.5 million General Fund) is attributable to the Community Services Program and $7.8 million (General Fund) is to support the State Hospitals.

In addition, it is estimated that almost $1.128 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals.

Further, an appropriation of $14.2 million ($429,000 General Fund and $13.8 million Public Building Construction Fund) is provided for capital outlay purposes at the State Hospitals. Of this amount, $8.2 million is for Coalinga State Hospital (phased construction) with the remaining amount being used for various projects at the Metropolitan, Patton and Atascadero facilities.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Community Services Program	$1,672,199	$1,807,088	$134,889	8
Long Term Care Services	704,631	735,631	$31,000	4.4
State Mandated Local Programs	6	7	1	16.6
Total, Program Source	$2,376,836	$2,542,726	$165,890	6.9
Funding Source				
General Fund	$878,929	$910,658	$31,729	3.6
Federal Funds	61,993	61,917	(76)	(.1)
Reimbursements	1,432,942	1,567,332	134,390	9.3
Traumatic Brain Injury Fund	1,575	1,422	(153)	9.7
CA State Lottery Education Fund	1,397	1,397	0	0
Total Department	$2,376,836	$2,542,726	$165,890	6.9

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of $1.807 billion (total funds) for community-based local assistance, including Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment Program, applicable state support, the Conditional Release Program and related community-based programs. This reflects a *net* increase of $134.9 million (total funds) as compared to the revised 2003-04 budget. This increase is primarily due to caseload and utilization of services adjustments in the baseline EPSDT Program and Mental Health Managed Care, as well as an adjustment to the San Mateo Field Test Project.

In addition, it is estimated that $1.128 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. This estimate is based on the following revenue estimates:

• Sales Tax	$834,609,000
• Vehicle License Fee Account	$279,108,000
• Vehicle License Fee Growth Account	$14,541,000
• Sales Tax Growth Account	$-0-

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. The first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues is then distributed according to a formula in statute.

As discussed in a recently released report on mental health realignment (AB 328 Realignment Data, Department of Mental Health, February 5, 2003), due to continued caseload growth in Child Welfare services and Foster Care, as well as cost increases in the In Home Supportive Services (IHSS) Program, growth distributions to the Mental Health Subaccount and Health Subaccount have been substantially reduced.

Summary of Governor's Reductions and Augmentations

- **Eliminates Children's System of Care Program.** The Governor eliminates this highly effective program which provides medically needed mental health treatment services to children with severe emotional disturbances for proposed savings of $20 million General Fund.

- **Reduces Early Mental Health Initiative for Children.** The Governor reduces by $5 million (Proposition 98/General Fund) the Early Mental Health Initiative Program which provides mental health assistance to young children enrolled in school (K to Grade 3). This proposed reduction would leave a remaining $5 million (Proposition 98/General Fund).

- **Proposes New Federal Waiver for EPSDT to Redefine Medical Necessity.** The Governor is requesting an increase of $472,000 ($236,000 General Fund) for administrative resources to develop a federal 1115 Medicaid Waiver for the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program. The purpose of this waiver would be to redefine medical necessity with the intent of reducing future expenditures for children's mental health services. This proposal raises many questions, including whether recent California court settlements (T.L. versus Belshe' of 1994 and Emily Q. versus Bonta' of 2000) regarding the provision of EPSDT services would be violated. It should be noted that two states—Oregon and Arkansas—have obtained federal approval to "waive" the definition of medical necessity as contained in federal law and have narrowed its application in their state programs.

- **Recalculation of Mental Health Services Rates to Reduce Expenditures.** The Governor assumes savings of $40 million (General Fund) from the EPSDT Program, and a reduction of up to $90 million in federal funds (EPSDT and Adult outpatient), by recalculating the statewide maximum allowances paid for certain mental health services provided under the Medi-Cal Program. The state intends to use actual cost settled data from 2001-02 as a primary component of this recalculation. The state will also be seeking federal approval to allow certain public providers, such as County Mental Health Plans (County MHPs), to exceed the recalculated maximum allowances in order to retain a portion of federal matching funds. If successful in this effort, the potential loss of federal funds to County MHPs would be about $45 million as compared to $90 million.

- **Hire Contractors for Increased Oversight of EPSDT Program Expenditures and Recoup Audit Exceptions from County Mental Health Plans.** The Governor proposes an increase of $1.7 million ($844,000 General Fund) to hire contractors to conduct additional reviews and oversight of EPSDT Program expenditures, and assumes savings of $13 million ($6.5 million General Fund) from these audit efforts. This estimated savings level represents about two percent of the total EPSDT Program for 2002-03, the year that will be initially audited. Further it assumes that the state will collect any disallowances directly from the County MHPs, even if a private provider is responsible for the audit exception.

- **Baseline Adjustments for EPSDT Program.** The Governor provides a net increase of $244.6 million ($111.6 million General Fund, and $10.7 million County Realignment Funds) for this program to reflect increases in both caseload and the utilization of mental health treatment services provided to children with severe mental illness.

- **Eliminates Certain Supplemental Funds for Counties.** The Governor eliminates $416,000 (General Fund) for supplemental funding to Sacramento County's Psychiatric Health Facility, as well as $308,000 (General Fund) used by thirteen counties to match federal rehabilitation funds.

- **Eliminates IMD Transition Projects.** The Governor eliminates the Institutions for Mental Disease (IMD) Transition Projects for savings of $650,000 (General Fund). The purpose of these projects are to assist California in complying with the U.S. Supreme Court decision regarding Olmstead and the provision of community-based services.

- **Adjustments to Mental Health Managed Care.** The Governor provides a net increase of $5.1 million (General Fund) to reflect caseload adjustments and related technical items. It should be noted that he did not include any medical treatment cost-of-living-adjustment as provided for in state statute. This will be the fourth consecutive year in which an adjustment has not been provided to the counties.

- **Concerns Continue for AB 3632 Funding for Special Education Pupils.** The Governor proposes to continue to provide $69 million (federal special education funds) to Local Education Agencies who in turn, will reimburse County MHPs. However, counties provide mental health treatment services to about 27,000 students annually at a total cost of about $120 million. As such, counties are utilizing their County Realignment Funds for this purpose.

- **Continues the Integrated Services for Homeless Adults Program.** The Governor continues to provide $54.9 million (General Fund) to selected counties for this effective treatment program.

- **Continues Supplemental Funding as Required for Healthy Families Program.** The Governor provides an increase of $3 million (federal funds and County Realignment Funds) to reflect caseload adjustments for supplemental mental health treatment services provided by the counties under the Healthy Families Program for children with intensive mental health needs.

- **San Mateo Field Test.** The Governor provides an increase of $3.3 million (Reimbursements) to reflect adjustments as required for pharmacy expenditures.

- **New Federal Dual Diagnosis Grant.** The Governor reflects an increase of $325,000 (federal funds) for the receipt of a three-year grant regarding dual diagnosis (mental illness and alcohol/illicit drug usage).

- **Funds for Partial Settlement of PASRR Issues.** The Governor proposes an increase of $1.9 million ($470,000 General Fund) to pay for costs associated with a proposed settlement of the Preadmission Screening and Resident Review (PASRR) portion of the Davis lawsuit. This funding will primarily be used to support information technology activities associated with the clinical instrument used to evaluate persons residing in, or entering into, skilled nursing facilities, including IMD facilities.

- **Small Federal Grant for Large-Scale Emergency.** The Governor reflects an increase of $100,000 (federal funds) for the first year of a two-year federal grant. The purpose of this grant is to enhance the state's capacity for a coordinated response to mental health and substance abuse services needed in the aftermath of a large-scale emergency.

Issues for Community-Based Mental Health

1. Substantial Changes Proposed for Children's Mental Health.

Background. The Medi-Cal Program is the most significant source of funding for children's mental health services in California. Most of these services are provided through the federally required Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, a fee-for-service Medi-Cal Program operated through County Mental Health Plans (County MHPs). Under EPSDT, Medi-Cal recipients under age 21 may receive any mental health service that is medically necessary to correct or ameliorate a mental illness. In addition, three other programs—AB 3632 funding for special education pupils, the Children's System of Care Program and the Early Mental Health Initiative (EMI) for Children—provide additional clinical and support services for the treatment of mental illness in children.

Budget Proposals. The budget proposes substantial changes to mental health services provided to children with a clinical diagnosis of mental illness. In fact, all of the children's programs are slated for either elimination, reduction, or restructuring for purposes of cost-shifting to the counties. These proposals are as follows:

- **Children's System of Care.** The budget eliminates the Children's System of Care Program which targets adolescents 18 years and under who have a mental disorder that results in substantial impairment in two or more areas, such as school performance, family relationships, and the ability to function in the community. Through this program, the counties provide mental health services to target children in an integrated manner, including family participation. Evaluations of the program have shown that the program is cost-beneficial including savings in service expenditures for group homes, special education and juvenile justice. The budget assumes savings of $20 million General Fund from its elimination.

- **Early Periodic Screening Diagnosis and Treatment (EPSDT).** In 1994 (T.L. versus Belshe') the courts ruled that California must expand its abilities in identifying children with severe mental illness, as well as the outpatient mental health treatment services available to this population. In 2000, the court added additional services to California's EPSDT Program, most notably Therapeutic Behavioral Services. Since this time, the state has improved its service level. However, treatment prevalence rates are still quite low—about 8 percent—compared to need—about 13 percent of the state's children are seriously emotionally disturbed.

Under the state's agreement with the County MHPs, each county must provide a baseline level of funding using County Realignment Funds (essentially a maintenance of effort) plus an additional 10 percent county match which was instituted in 2002. The state is responsible for providing the non-federal share of the growth in the program. These county and state funds are then used as a match to obtain federal Medicaid moneys.

The proposed budget funding level incorporates several items as follows:

- Requests to commence with a new federal waiver to narrow the criteria for determining medical necessity. No criteria or further details have been provided as to what is intended, other than cost containment.
- Recalculates the rate (i.e., state's maximum allowances paid) paid for EPSDT services based on data from three years ago to obtain savings of $40 million in General Fund support and up to $90 million in federal funds. The state will also be seeking federal approval to allow certain public providers to retain a portion of the loss in federal funds but it is unclear whether the federal government will provide for this arrangement.
- Assumes a reduction of $13 million ($6.5 million General Fund) by conducting audits of the EPSDT Program. This proposal assumes that the state will collect any disallowances directly from the County MHPs, even if a private provider is responsible for the audit exception.

- **AB 3632 Mental Health Funding for Special Education Pupils.** AB 3632 shifted responsibility for proving mental health treatment services to special education pupils from Local Education Agencies (LEAs) to County MHPs in 1984. However, appropriate funding was not shifted to cover these services. As such, County MHPs have cobbled together a stream of funds including County Realignment Funds, state mandate claims, and more recently federal funds, to meet the needs of these students. It is estimated that County MHPs provide AB 3632 services to about 27,000 students each year for a total annual cost of $120 million.

  Due to recent fiscal constraints, the state has suspended state mandate claims for the past three-years, including this one. Though the Budget Act of 2003 appropriated $69 million in federal IDEA funds to assist with these services, counties are still under funded going into the budget year, as well as being owed for some past state mandate claims. The Governor's budget as proposed does not identify any additional funding for these continuing services to special education students. As such, many counties are having to utilize their County Realignment Funds for this purpose.

- **Early Mental Health Initiative for K to Grade 3.** The Early Mental Health Initiative is an effective school-based program that serves children experiencing school adjustment issues who are *not* otherwise eligible for special education assistance or county mental health services. The state awards grants (for up to three-years) to Local Education Agencies (LEAs) to implement early mental health intervention and prevention programs for students in Kindergarten through Third Grade. Schools that receive grants must also provide at least a 50 percent match to the funding provided by the DMH. Schools use the funds to employ child aides who work with students to enhance the student's social and emotional development.

The budget proposes to reduce by $5 million (Proposition 98-General Fund), leaving only $5 million remaining in the program. According to the DMH, this level of funding will support 73 grants which are in their third, and last, grant cycle. As such, the program would effectively be eliminated unless new grants were awarded in 2005-06.

Highlights for the State Hospitals

Summary of State Hospital Patient Caseload—Primarily Penal Code. The DMH estimates a population of 4,327 patients for 2004-05 (as of June 30, 2005) at the four State Hospitals-- Napa, Metropolitan, Patton, and Atascadero. This patient level reflects a proposed *net* decrease of 107 patients as noted in the table below.

Patient Type	2003-04 Revised Caseload	2004-05 Proposed Caseload	Caseload Percent By Patient Type	Difference
IST	847	815	18.8	-32
NGI	1,198	1,198	27.7	0
MDO	860	879	20.3	19
SVP	550	516	11.9	-34
Other PC	118	118	2.7	0
LPS—county	660	600	13.9	-60
PC 2684/2974	171	171	4	0
CY Authority	30	30	.7	0
Totals	**4,434**	**4,327**	**100 %**	**-107**

Of the total patient population, over 86 percent of the beds are designated for penal code-related patients and only 14 percent are to be purchased by the counties (i.e., Lanterman-Petris-Short beds), primarily Los Angeles County.

Penal Code-related patients include individuals who are classified as: (1) not guilty by reason of insanity (NGI), (2) incompetent to stand trial (IST), (3) mentally disordered offenders (MDO), (4) sexually violent predators (SVP), and (5) other miscellaneous categories as noted. It should also be noted that based on recent patient statistics, about 62 percent of the State Hospital patients have a diagnostic category of Schizoaffective Disorder, including Paranoid Schizophrenia.

Substantial policy changes are being proposed through the budget, including changes to the state-county partnership for the funding of certain State Hospital patient populations, and the treatment and housing of the Sexually Violent Predator population. These proposed policy changes are reflected in the proposed decreases to the patient populations of the IST, NGI and SVP categories above. As discussed below, the Governor assumes savings of $17.2 million (General Fund) in 2004-05 and $25.6 million (General Fund) in 2005-06 from these policy changes. The proposed changes do require statute.

Summary of Funding for the State Hospitals. The budget proposes expenditures of $702.4 million ($561.3 million General Fund) for the State Hospitals, excluding state headquarters' support, for a *net* increase of about $31.6 million ($36.4 million General Fund) over the Budget Act of 2003. Adjustments contained in this funding level are discussed below. In addition, an appropriation of $14.2 million ($429,000 General Fund and $13.8 million Public Building Construction Fund) is provided for capital outlay purposes at the hospitals.

As structured through the State-Local Realignment statutes of 1991 and 1992, the department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds. However, the Governor is proposing changes to this funding partnership by: (1) capping the enrollment of ISTs and NGI patients, and (2) shifting pre-commitment SVPs presently residing at the State Hospitals back to the counties. Therefore, counties would be required to fund these responsibilities using County Realignment Funds (no federal match is available for this patient population).

Summary of Governor's Reductions and Augmentations

- **Limit Access to State Hospital Services for Certain Penal Code Patients.** The budget assumes implementation of the Governor's Mid-Year Reduction to cap access to the State Hospitals for patients deemed to be Incompetent to Stand Trial (IST) and Not Guilty by Reason of Insanity (NGI). Anticipated savings in the budget year are $3.4 million General Fund. The budget assumes the state will cap the NGI patient population at 1,198 patients as of January 1, 2004, and that 42 NGI patients would transfer to the counties. The IST cap would be 847 as of January 1, 2004, and it is assumed that 32 IST patients would transfer to the counties.

  The Governor assumes that these mentally ill individuals, who often have a diagnosis of Schizophrenia, will be housed in county jails and therefore, will be funded *entirely* by county funds in lieu of existing state support. This proposal represents a significant policy change from the State-Local Realignment agreement of 1991 and 1992, and requires statutory change for implementation. Further, this proposed policy change raises several questions including: (1) whether said legislation would be deemed a reimbursable state mandate for affected counties, (2) whether said action would withstand a court challenge about patient's being denied appropriate mental health treatment, and (3) how this proposed change would interact with the opening of the new Coalinga State Hospital.

- **Hold Pre-Commitment Sexually Violent Predators at Local Level Prior to Commitment Hearing.** The Governor assumes savings of $10.7 million (General Fund) by holding pre-commitment SVPs in local custody if they have completed their prison sentence and are waiting for a commitment hearing. Counties would be funding these costs until a commitment hearing is convened and a determination is made. There are presently about 100 pre-commitment SVP patients who would be transferred back to the counties. This proposal requires statutory change.

- **Proposes Commitment of Sexually Violent Predators (SVP) for Indeterminate Length.** The Governor assumes a reduction of $2 million (General Fund) by statutorily changing the SVP commitment law from a two-year psychiatric re-evaluation period to an indeterminate length to reduce the number of psychiatric evaluations and re-commitment trials. The Administration states that in its review of 13 states, California was the only state with a determinate commitment period.

- **Reduce Treatment Services for SVPs**. The budget assumes savings of $823,000 (General Fund) by reducing the supervision and treatment services provided to SVPs at the State Hospitals. Generally, the Administration is proposing to reduce treatment staff because they contend that about 60 percent of the SVP patients refuse to participate in treatment anyway. Savings from this proposal are estimated to be $823,000 (General Fund) in 2004-05 and $9.2 million (General Fund) in 2005-06.

- **Continued Activation of Coalinga State Hospital.** The Governor proposes an increase of $24.9 million (General Fund) for the continued activation of Coalinga State Hospital, including $3.2 million to support recruitment and retention costs to aid in hiring personnel and $12.2 million for operating expenses and equipment.

- **Conditional Release Program (CONREP).** The Governor proposes an increase of $657,000 (General Fund) to reflect increases in both caseload and the average annual cost per CONREP patient.

HUMAN SERVICES

4130 Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC) seeks to increase efficiency and effectiveness in the use of electronic data processing resources by providing services to departments and agencies within the Health and Human Services Agency in a consolidated manner. HHSDC is supported entirely by reimbursements from departments that contract with the data center for services.

The HHSDC has two general components: operations and systems management. The operations component provides computer services, telecommunications support, information systems, and training support to 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 HHSDC budget decreases by $2.3 million in spending authority, or one percent, from the revised current year level of expenditures.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
HHSDC Revolving Fund	$313,674	$311,412	-$2,262	-0.7
(Operations)	118,348	119,418	1,070	0.9
(Systems Management Services)	195,326	191,944	-3,382	-1.7
Total	$313,674	$311,412	-$2,262	-0.7

Summary of Governor's Budget Reductions and Augmentations

Extends Funding for the CMIPS Contract Procurement. The budget proposes to extend funding for Case Management Information and Payrolling System contract procurement activities for one year to support re-evaluation of the current procurement strategy ($1.7 million General Fund in the DSS budget). The Administration proposes to migrate the CMIPS system to the California Medicaid Management Information System in order to benefit from enhanced federal financial participation in development costs.

- **Increase funding for the Statewide Fingerprint Imaging System.** The Governor proposes to increase SFIS funding by $711,000 to support quality assurance and project oversight activities, user training, and application maintenance. Overall costs of the SFIS programs will decrease by $2.3 million in the budget year.

- **Reduce funding for the Electronic Benefit Transfer Project.** The Governor's budget reduces funding for implementation of the Electronic Benefit Transfer project by $7 million due to lower costs resulting from revised caseload projections. The budget maintains funding for implementation, and increases funding for system maintenance and operation.

- **Child Welfare Services Case Management System Reduction.** The budget reduces funding for the Child Welfare Services Case Management System Project by $4.7 million. These savings reflect the transfer of training activities from the Department of Social Services to the Data Center Project Office and elimination of one-time costs incurred in 2003-04.

Issues for Health and Human Services Data Center

AB1753, (Chapter 225 Statutes of 2003), requires the Department of Finance to convene a working group to develop a data center consolidation plan by December 1, 2003, and to develop a data server consolidation plan to be implemented by July 1, 2004. The plan must identify consolidated activities that result in savings of no less than $3.5 million in General Fund in the 2004-05 fiscal year, and identify data center activities that will produce savings in future fiscal years. The Department of Finance notified the Legislature that it would delay submitting a consolidation plan to allow the new Administration to become familiar with the issues. At this time, a data center consolidation report is under review. The Administration will be considering the consolidation in the context of its broader efforts to reorganize state government and will notify the Legislature once its review is complete.

The proposed Data Center consolidation provides California an opportunity to streamline administrative activities, deliver data services more efficiently, and generate General Fund savings without reducing services. The Legislature may wish to inquire about the status of the consolidation efforts and work to assure that implementation of the plan will generate the intended efficiencies and savings. Further, the Legislature may wish to work with the Administration and the Legislative Analyst's Office (LAO) to consider existing and projected data center rates, the potential for rate reductions and any additional efficiencies that may be realized in the delivery of data center services.

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies and programs to assist health care delivery systems in meeting the needs of Californians. OSHPD has four major program areas: (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 OSHPD budget increases by $1.7 million, or 3 percent above current year expenditures.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$4,929	$4,166	-$763	-15.5
Federal Trust Fund	1,285	1,285	0	0.0
Special Funds	46,953	51,510	4,557	9.7
Reimbursements	3,785	1,683	-2,102	-55.5
Total	$56,952	$58,644	$1,692	3.0

Summary of Governor's Budget Augmentations

- **Hospital Construction Plan Review.** The budget provides a $3.8 million increase to support 50 new permanent positions in the Facilities Development Division. The funding will support prompt review of construction plans as hospitals work to meet California's Seismic Safety requirements. Delays in the review and approval of construction plans may significantly increase construction costs and impede hospital compliance with state seismic safety requirements.

- **Loan Repayment Programs Funding Increases.** The budget provides a $206,000 increase to support the implementation of a loan repayment program for licensed mental health providers that agree to practice in medically underserved areas. Additionally, the budget provides $131,000 to implement a scholarship and loan repayment program for vocational nurse students or vocational nurses who agree to practice in medically underserved areas. Finally, the budget increases Registered Nurse Education program funding by $650,000 to support an increase the scholarship and loan repayment award amounts.

- **Hospital Charge Master Reporting.** The budget provides $118,000 to design, develop and implement an efficient system to collect, store and disseminate information regarding hospital charges. The funding will support implementation of AB 1627 (Chapter 582, Statutes of 2003) which seeks to provide information about hospital prices to patients, health plans and other healthcare purchasers.

- **New Funds to Review Annual Financial Reporting Systems.** The budget provides $200,000 in new funding to support development of a feasibility study to update the Health Facility Annual Financial Reporting System, an old mainframe based system used to track, validate, revise and disseminate annual financial disclosure reports submitted by 1,700 health care facilities. Numerous government and non-government entities use the data in this system for various purposes including setting reimbursement rates.

4170 Department of Aging

The Department of Aging is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve 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 overall department's budget increases by $13,000;

however, the General Fund contribution to the department declines by 4.8 percent, or $1.7 million.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$35,035	$33,366	-$1,669	-4.8
State HICAP Fund	1,612	1,773	161	10.0
Federal Trust Fund	139,410	139,456	46	0.0
Special Deposit Account	2,340	1,542	-798	-34.1
Reimbursements	6,914	9,187	2,273	32.9
Total	$185,311	$185,324	$13	0.0

Summary of Governor's Budget Reductions and Augmentation

- **Funding Reduced and Converted to Block Grant.** The Governor's budget reduces funding for aging services, including nutrition programs, supportive services, preventive health, and community service employment, by 5 percent ($1.7 million) and converts state support for aging services to a block grant. The Administration's intends to realize savings through the elimination of redundant processes, administrative efficiencies, and through reductions in services where other efficiencies and savings are not obtainable.
- **Long-Term Care Ombudsman Program.** The budget provides a net increase of $1.3 million to the Long-Term Care Ombudsman Program to increase the presence of Ombudsman staff and volunteers as part of efforts to increase the quality of long-term care services. This funding increase is contingent on federal approval.
- **Health Insurance Counseling and Advocacy Program Augmentation.** The budget increases by $450,000 funding for the Health Insurance Counseling and Advocacy program, which provides community education, counseling and information advocacy services to Medicare beneficiaries.

Issue

Block Grant Funding for Aging Services. The Governor proposes to consolidate state support for aging services including nutrition programs, supportive services, preventive health, and community service employment to a single block grant and to reduce total program funding by five percent ($1.7 million). The consolidated funds, which consist of $16.4 million for Older Americans Act (OAA) programs and $15 million for Community-Based Services Programs, will be provided to local area agencies on aging in a block grant. Local agencies will have discretion over funding decisions, within statutory constraints. Agencies are required to spend the consolidated funds to support Older Americans Act, Title IIIB (Supportive Services), or IIIC (Nutrition) programs.

Local Area Agencies on Aging have significant discretion to determine funding priorities. They are authorized to transfer up to 40 percent of federal OAA funding between congregate meals and home delivered meals, and up to 30 percent of federal funds between nutrition programs and supportive services. Further, they can transfer funding among Community Based Services programs (CBSP). CBSP programs include the Foster Grandparent Program, Senior Companion

Program, Respite Registry, Linkages, Alzheimer Day Care Resource Centers, the Brown Bag Program and Purchase of Services. Current law does not permit transfers between OAA funding and Community Based Services program funding. The Governor's proposed block grant would consolidate these two funding streams thereby allowing local agencies to determine the level of funding for the different programs.

The Governor's proposal may increase the ability of local agencies to adapt program funding to better meet local needs. However, the proposed block grant funding may erode or eliminate state standards, may lead to elimination of existing programs, and may reduce the state's ability to assure that long-term care funding and funding for aging services is spent in the most cost-effective manner. The Legislature may wish to consider how the Governor's proposal will affect program operation and program quality including adherence to federal and state standards. For example, how will CBSP programs fit into federal OAA programs? Can existing state standards be applied to the federal programs? How will the state monitor and evaluate programs to ensure there is quality control across the state? The Administration intends to work with stakeholders to review current state and federal standards and determine if existing CBSP program standards should be applied to the federal programs.

The Legislature may wish to consider the existing local area agency needs assessment process and whether it adequately captures local needs. Local agencies are required to conduct a needs assessment every four years. They have a significant amount of discretion in how they complete the assessment. Some local agencies offer public hearings, whereas others send out questionnaires to local consumers and use results of the questionnaire to determine area need. As such, the assessments yield varying amounts of information, may not accurately reflect local needs, and may not adequately capture the needs of hard to serve populations. When considering the Governor's block grant proposal, the Legislature may wish to examine the needs assessment process and make any necessary changes to improve the quality of the information agencies rely on to establish local funding priorities.

The Legislature may also wish to consider the impact of the Governor's proposal on the workload of the Department of Aging and the department's continued ability to provide state leadership on aging issues. Current law establishes the mission of the department "to provide leadership to the area agencies on aging in developing systems of home- and community-based services that maintain individuals in their own homes or least restrictive homelike environments." Under the Governor's proposal, local agencies will assume responsibility for setting program priorities and making funding decisions. The department may be relegated to an administrative role, but will remain responsible for fiscal and programmatic monitoring of federal aging programs.

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). Expenditures in the budget year are proposed to decrease by $6.5 million (1.1 percent).

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Funding				
Prevention	$70,988	$67,816	-$3,172	-4.5
Treatment and Recovery	480,168	476,672	-3,496	-0.7
Perinatal	46,623	46,823	200	0.4
Source of Funding				
General Fund	$233,200	$237,793	$4,593	2.0
Driving-Under-the-Influence Program Licensing Fund	1,634	1,634	0	0.0
Narcotic Treatment Program Licensing Fund	1,135	1,135	0	0.0
Indian Gaming Special Distribution Fund	3,000	0	-3,000	-100.00
Audit Repayment Trust Fund	67	67	0	0.0
Federal Trust Fund	286,356	281,810	-4,546	-1.6
Resident Run Housing Revolving Fund	39	39	0	0.0
Reimbursements	73,861	70,601	-3,260	-4.4
Substance Abuse Treatment Trust Fund	120,487	120,232	-255	-.02
Total	$597,779	$591,311	-$6,468	-1.1

Summary of Governor's Budget Reductions and Augmentations

- **Funding Eliminated for the Office of Problem and Pathological Gambling.** Established by Assembly Bill 673 (Chapter 210, Statutes of 2003), the Office of Problem and Pathological Gambling is charged with developing a problem gambling prevention program to include public awareness and prevention campaigns, a toll-free telephone referral service, research programs and training programs. The proposed elimination will generate $3 million in Indian Gaming Special Distribution Fund savings.

- **Drug Medi-Cal Funding Increase.** The budget increases funding for the Drug Medi-Cal program by $5.4 million to reflect caseload changes and other program adjustments. Drug Medi-Cal rates are not affected by the Governor's proposed Medi-Cal provider rate reductions. Reimbursement rates are maintained at their current level.

- **Prevention Services.** The budget maintains $3.5 million in federal funding for the Screening, Brief Intervention, Referral and Treatment Grant to support local projects that implement science based substance abuse prevention programs that target youth including projects that work to reduce binge drinking among 12-to 25-year old youth.

- **State Operations Increase to Implement Performance Partnership Grants.** The budget increases state operations funding by $260,000 in federal funds to evaluate, plan and implement Performance Partnership Grants (PPG), a soon to be required process to establish accountability measures on outcomes and performance measures for designated federally funded program. PPG will require states to measure performance on core indicators including alcohol use, all other drug use, criminal justice involvement, employment, pregnant addicts, and HIV transmission.

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. Some of these services are provided through cooperative agreements with other state and local agencies (education, mental health, welfare). 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. It also provides support services for Community Rehabilitation Programs, including independent living centers. The budget is anticipated to be $350.6 million ($44.2 million General Fund) in the budget year. It reflects a 26 percent decrease from prior-year funding resulting from the transfer of the Habilitation Services program from the Department of Rehabilitation to the Department of Developmental Services.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Funding				
Vocational Rehabilitation Services	$323,314	$327,939	$4,625	1.4
Habilitation Services	128,066	0	-128,066	-100.0
Support of Community Facilities	22,609	22,619	10	0.0
Source of Funding				
General Fund	$149,948	$44,200	-$105,748	-70.5
Vending Stand Account	3,421	3,394	-27	-0.8
Federal Funds	291,293	295,064	3,771	1.3
Reimbursements	29,327	7,900	-21,427	-73.1
Total	$473,989	$350,558	-$123,431	-26.0

Summary of Governor's Budget Reductions and Augmentations

- **Transfers Habilitation Services Program.** The budget reduces local assistance funding by $125.6 million and state operations funding by $2.3 million due to the transfer of the Habilitation Services Program from the Department of Rehabilitation to the Department of Developmental Services and to be administered locally by Regional Centers. The program transfer, which will be effective July 1, 2004, was authorized by Assembly Bill 1753 (Chapter 226, Statutes of 2003). The transfer maintains existing provider standards and reimbursement rates. It is intended to improve the coordination of services provided to persons with developmental disabilities while generating budget savings through administrative efficiencies.

- **Budget Rescinds Proposed Cap for Vocational Rehabilitation Services.** The Governor's budget rescinds the mid-year proposal to cap Vocational Rehabilitation Services and Habilitation Services provided by the Department of Rehabilitation. Implementing the proposed cap would have led to increased demand for Regional Center services.

5175 Department of Child Support Services

The Department of Child Support Services (DCSS) administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support funds 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. 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 department's overall budget expenditures are proposed to increase by $43.4 million, or 3.5 percent.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Funds	$468,741	$499,272	$30,531	6.5
Federal Funds	478,084	491,479		
Reimbursements	122	443	321	263.1
Child Support Collection Recovery Fund	298,955	298,063	-892	-0.3
Total	$1,245,902	$1,289,257	$43,355	3.5

Summary of Governor's Budget Reductions and Augmentations

- **Require County Share of the Federal Child Support Automation Penalty.** The Governor proposes a permanent 25 percent county share of the alternative federal penalty, a penalty resulting from the state's failure to implement a single statewide automated child support system. The budget assumes $55 million in General Fund revenues from this proposal.
- **Eliminate County Share of Child Support Collections.** The budget proposes to eliminate payment of the county share of child support collections for an increase in General Fund revenues of $39.4 million. The county-share of child support collections stems from the distribution of collections made on behalf of families receiving public assistance and is consistent with the county-share of funding for CalWORKs and Foster Care.
- **Funding for California Child Support Automation System.** The budget provides $1 million ($347,000 General Fund) for support of the California Child Support Automation System (CCSAS) Project. Of this amount, $191,000 is for activities associated with the procurement and development of the State Disbursement Unit (SDU) and $828,000 is for oversight and management of the development of the Child Support Enforcement (CSE)

component of CCSAS. In addition, the budget also provides $31.5 million ($8.2 million General Fund) in local assistance funding for CCSAS costs, including funding for local staff to assist with the development of the SDU and the CSE component of CCSAS, funding for the conversion of two county consortia, and support for post-conversion activities.

- **Reduction of Local Assistance Funding.** The proposed budget reduces funding for local program administration by $682,000. The budget reflects elimination of the medical support enhancement program, which was intended to increase cost recovery for public health insurance program expenditures.
- **Increase General Fund Support of Program.** The budget increases General Fund support for the child support program by $7.2 million to reflect a reduction in the federal incentive funds earned by the state. The overall level of program funding is unchanged by the increase in General Fund support for the program.
- **Alternative Federal Penalty.** The budget provides an $11.4 million General Fund augmentation to fully fund the alternative federal penalty. Since 1997, the state has been required to pay this penalty due to the state's failure to implement a single statewide child support automation system.

Issues for the Department of Child Support Services

1. Development of CCSAS and Federal Penalty. Since 1997, California has been subject to substantial federal penalties due to the state’s failure to establish a single statewide system for the collection of child support by the federal deadline. The penalties are a percentage of program administration costs and the percentage rises over time. California has reached the maximum percentage level and is estimated to pay $220 million in the budget year. The budget provides an increase of $11.4 million to fully fund the penalty in the budget year. California is in the early stages of developing the California Child Support Automated System (CCSAS) which when implemented on a statewide basis will obviate federal penalties.

The Legislature may wish to review the status of development of the CCSAS system, whether development is progressing as scheduled, and consider any factors that may negatively impact the project. Further, the Legislature may wish to request that the Administration pursue federal penalty relief, as development of the required automation system is under way.

2. Require County-Share of Alternative Federal Penalty. The Governor proposes to establish a permanent 25 percent county share of the alternative federal penalty for General Fund revenues of $55 million. Current law provides for payment of the penalty through a reduction in federal funds for state and county administration of the child support program. Since 1997, California has waived the mechanism for paying the penalty county child support program funds and has appropriated General Fund dollars to pay for the penalty. Last year, the Legislature enacted a one-year 25 percent county share of the alternative federal penalty. The Governor proposes to make permanent the 25 percent county share of the penalty assessed in the current year.

Counties have historically opposed the proposed county share of the alternative federal penalty. Counties: (1) argue that they were not responsible for the state's failure to develop the required automation system, (2) assert that they have no control over development of the new system, and

(3) argue that the county share of the penalty reduces available county discretionary funds to support fire, police and other county services. The Legislature may wish to consider this proposal as part of its review of the Governor's proposed local government funding reductions.

3. Elimination of County Share of Child Support Collections. The Governor's budget proposes to eliminate payment of the county share of child support collections for an increase in General Fund revenues of $39.4 million. The county share of child support collections results from the distribution of collections made on behalf of families receiving cash assistance or children participating in the Foster Care Program. It is intended as a mechanism for public assistance cost recovery and is consistent with the county-share of funding for CalWORKs aid payments and Foster Care Payments. The Legislature may wish to consider the extent to which the county-share of child support collections works as a performance incentive for local child support programs and the potential impact on program performance of departing from the current collections distribution system.

The Legislature may also wish to consider the impact of the Governor's proposal on funding for human services programs as counties reportedly spend revenues from child support collections on human services programs.

4. Local Child Support Program Compensation and Program Performance. Last year, the Legislature considered the effect on program performance of child support administrative funding reductions, and the relationship of existing allocations to program performance and actual costs. Analysis conducted by Committee staff and the LAO revealed substantial differences in per-case funding across counties. Program performance also varied across the state and did not appear to correlate to per-case funding, geographic region, or county economic condition.

The Legislature enacted AB 1752 (Chapter 225, Statutes of 2003) to consider the relationship between allocation methodologies and program performance, and review alternative methodologies to allocate child support program funding. The law requires the DCSS to work with stakeholders, including counties, to evaluate the existing reimbursement methodology, consider alternatives and to report to the Legislature by March 31, 2004. The Legislature may wish to consider the Department's report and adopt changes to the existing reimbursement methodology or program funding structure deemed conducive to performance improvements, cost savings and a stronger relationship between program funding and outcomes.

5180 Department of Social Services

The Department of Social Services administers a variety of programs that have four major goals: (1) provide temporary cash assistance and services to encourage low-income families with children to attain self-sufficiency by moving from welfare to permanent employment; (2) provide social services to 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) regulate group homes, preschools, foster care homes, day care and residential care facilities to ensure they meet established health and safety standards; and (4) conduct disability evaluations and provide benefit payments for federal and state programs serving the aged, blind and disabled. The budget proposes an overall decrease of $974 million, or 5.8 percent.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Funding				
CalWORKs	$5,222,738	$4,654,576	-$586,162	-11.2
In-Home Supportive Services (IHSS)	3,181,339	2,721,296	-460,043	-14.5
SSI/SSP	3,382,862	3,346,996	-35,866	-1.1
Foster Care	1,743,818	1,723,211	-20,607	-1.2
Child Welfare Services	2,011,387	2,057,803	46,416	2.3
Adoption Assistance and Kin-GAP	604,440	669,213	64,773	10.7
Source of Funding				
General Fund	$8,233,481	$8,167,555	-$65,926	-0.8
Emergency Food Assistance Fund	437	387	-50	-11.4
Cont. Care Provider Fee Fund	975	975	0	0.0
Technical Assistance Fund	3,138	3,138	0	0.0
Certification Fund	1,139	1,139	0	0.0
Child Health and Safety Fund	1,330	1,329	-1	-0.1
Employment Training Fund	56,432	56,432	0	0.0
State Children's Trust Fund	1,943	6,440	4,497	231.4
Transitional Housing for Foster Youth	5,060	6,099	1,039	20.5
Federal Funds	6,355,795	5,648,616	-707,179	-11.1
Reimbursements	2,174,788	1,969,233	-205,555	-9.5
County Funds (Non-add)	1,353,098	1,362,449	9,351	0.7
Total	$16,829,953	$15,856,057	-$973,896	-5.8

CalWORKs

Program Description and Summary of Enrollment. CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs minimum basic standard of adequate care, having less than $2000 in resources, and having a car valued at $4,650 or less. The average family of three must have an annual net income below $11,772 or 77 percent of the federal poverty level to be eligible for CalWORKs. CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week to remain eligible for benefits.

After peaking in March of 1995, CalWORKs enrollment has dropped by 48.7 percent through 2003. Enrollment decreased by 34.3 percent since the CalWORKs program was implemented in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, the Department of Social Services estimates enrollment will decrease by 0.7 percent in 2003-2004, and increase by 0.4 percent in 2004-2005. The budget assumes that the final CalWORKs average monthly enrollment will be 469,077.

Summary of Funding. CalWORKs is currently funded through an annual federal block grant of $3.7 billion and state-matching funds of $2.7 billion. California's $2.7 billion federally required state share is based on welfare spending in 1994, adjusted downward for achievement of certain work participation goals. Federal law requires states to spend Temporary Aid for Needy Families (TANF) funds on current and former welfare recipients with some limited exceptions. Accordingly, California spends most federal funds on CalWORKs, and directs some TANF funds and some of the state's share-of-cost to activities in other departments.

The budget proposes total TANF/MOE funding of $6.5 billion ($4.9 billion of which will be spent on the CalWORKs program and $1.6 billion to support non-CalWORKs federally allowable activities). This constitutes a $563.2 million, or 11 percent decrease in CalWORKs expenditures from the current year. The CalWORKs budget includes the following major components:

CalWORKs Grants

- **Reduces CalWORKs Grants by 5 percent.** The Governor proposes to reduce the maximum aid payment under CalWORKs by approximately 5 percent to $669 for a family of three to generate General Fund savings of $222.2 million. This proposal will result in 6,100 families becoming ineligible for CalWORKs.

- **Reduces Safety Net Grants by 25 percent.** The Governor proposes to reduce Safety Net grants received by families with non-working adults by 25 percent for General Fund savings of $28 million in 2004-05. Safety Net grants are child-only grants that provide cash assistance to children whose parents or caretaker relatives have exceeded their 60-month lifetime limit for receipt of cash aid. Under the proposal, the maximum monthly safety net grant for a family of three with non-working adults will be reduced by $163 to $405.

- **Reduces Grants in Sanction Status by 25 percent.** The Governor proposes a 25 percent reduction of the grant received by families with an adult that is not complying with CalWORKs requirements after one month of non-compliance for General Fund savings of $33 million. Currently, adults on CalWORKs that do not comply with certain program requirements are sanctioned and grants are reduced by the adult component of the grant. The Governor proposes a further reduction (25 percent) in the grant for families in sanction status for two months or longer.

- **Suspends CalWORKs Cost-of-Living Adjustment.** The Governor proposes legislation to suspend the annual COLA for CalWORKs grants for the 2004-2005 fiscal year to generate savings of $98.5 million General Fund.

- **De-link CalWORKs COLA from Vehicle License Fee.** The Governor proposes legislation to de-link the CalWORKs annual COLA from the Vehicle License Fee for cost avoidance of $90.5 million in 2003-04 and $125.8 million in 2004-05.

CalWORKs Program Reforms

- **Changes in Work Participation Requirements.** Currently, recipients can satisfy CalWORKs work requirements by participating in activities that will lead to employment, including education and training programs, within the first 18 to 24 months they are on aid. The Governor proposes to eliminate the 18 to 24 month time limit and to require most adults to participate in work related activities within 60 days of receiving aid to realize $101.9 million in General Fund savings.

Other CalWORKs

- **Elimination of TANF Support for Juvenile Probation.** The Governor's budget eliminates TANF funding for juvenile probation activities, including after care services, juvenile camps, and services delivered to youth in juvenile assessment and residential treatment facilities for TANF savings of $134.3 million.

- **Transfers TANF to non-CalWORKs Programs.** The Governor proposes to increase TANF fund transfers to support non-CalWORKs activities. The budget proposes the following new or increased TANF transfers: $56 million to the Foster care program, $52.5 million to Child Welfare Services, $48 million to the Department of Developmental Disabilities and $18 million to fund activities associated with implementation of the state's Children's Services Program Improvement Plan.

- **CalWORKs 60-month Time Limit.** The budget assumes grant savings of $135.8 million because thousands of recipients will reach their total 60-month time limit of eligibility.

- **Implementation of Prospective Budgeting.** The Governor's budget reduces funding for CalWORKs administration by $102.2 million due to the implementation of prospective budgeting by June 30, 2004. Prospective budgeting will require beneficiaries to report their earnings and other eligibility related information on a quarterly basis instead of every month. The budget assumes savings due to decreases in the number of reports counties will process.

- **Reduced Funding for Tribal TANF.** The Governor proposes to reduce state funding by $30.5 million for Tribal TANF programs by $30.5 million to reflect actual caseload levels. Federal funding for Tribal TANF programs remains at the prior-year level and is based on the federal fiscal year 1994 caseload levels and costs.

- **Stage One Child Care Funding.** The Governor assumes $41.8 million in Stage-one child care savings resulting from implementation of proposed child care reforms. The reforms include reimbursement rate changes and eligibility changes including elimination of child care services for 11 and 12 year olds.

- **CalWORKs for Legal Immigrants.** The Governor proposes to cap enrollment for the CalWORKs program for legal immigrants on April 1, 2004, to eliminate the program by

October 2004, and to provide Block grant funding for safety net services delivered to legal immigrants for savings of $2.4 million General Fund in 2004-05.

- **Eliminates Substance Abuse Treatment Program for Low-Income Women.** The Governor proposes to eliminate the Low-Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program for savings of $2 million. The program provides transitional services to low-income women in need of substance abuse treatment services who are not eligible for other substance abuse treatment services.

- **Terminates Funding for Services Delivered by Indian Health Clinics.** The budget terminates funding for mental health and substance abuse services delivered by Indian Health Clinics to CalWORKs beneficiaries for savings of $2.7 million. Services include outreach, mental health or substance abuse screenings, providing individual or group treatment services, and facilitating the integration of clients into CalWORKs welfare-to-work services.

- **Youth Development Services Projects Funding.** The budget eliminates funding for Youth Development Services Projects for savings of $1.5 million. This funding supports leadership training and skills building activities offered by Boys and Girls Clubs programs to at-risk youth.

Issues for the CalWORKs program

1. CalWORKs Funding Structure and Maintenance-of-Effort Requirements. CalWORKs is funded through a federal TANF block grant, which combined with required state matching funds amounts to $6.4 billion. As a condition of receiving TANF funds, state funding must be at least 75 percent of the state's federal fiscal year (FFY) 1994 expenditures level ($2.7 billion).

As a matter of policy, California has chosen to treat the federally required MOE level as a ceiling for CalWORKs spending. The state has also broadened its definition of expenditures that can be considered to meet the MOE and has transferred a growing amount of TANF funds to non-CalWORKs programs. The combined effect of these policies is that the state has had to reduce components of the CalWORKs programs to fund other priorities.

Slowing caseload declines, scheduled COLAs and a growing demand for welfare-to-work services are estimated to increase CalWORKs costs by $618.9 million above the MOE level. The Governor proposes to reduce funding for CalWORKs by $563.2 million and proposes to avert $216.3 million in CalWORKs costs to maintain CalWORKs funding at the MOE level, while transferring another $160.6 million to non-CalWORKs programs.

California's continued use of TANF funds to support non-CalWORKs programs has affected the affordability of the CalWORKs program. California will most likely not be able to fund the current CalWORKs program and proposed TANF transfers while maintaining General Fund spending at the MOE level. The Governor's proposed work participation reforms, eligibility changes and modifications to grants should be considered in the context of TANF Reauthorization proposals, and overall pressures within the CalWORKs budget and legislative priorities. The Legislature may wish to examine the existing CalWORKs program, determine the level of CalWORKs services and assistance that it wishes to offer and provide funding commensurate with legislative priorities. It may be beneficial for the Legislature to establish priorities within CalWORKs program funding and to determine the balance it wishes to maintain between funding for welfare-to-work services and grants.

2. CalWORKs Work Participation Reforms. The Governor proposes to require job search as a condition of eligibility and to require most adults receiving CalWORKs to work or participate in work related activities for at least 20 hours per week, within 60 days of receipt of aid. The reforms seek to strengthen the program's focus on work and to increase California's work participation rate, which currently is 27 percent. The Governor's proposed reforms generate net savings of $10.1 million.

CalWORKS requires most parents to participate in at least 32 hours of work activities per week to receive cash assistance. Currently, recipients can satisfy CalWORKs work participation requirements within the first 18 to 24 months they are on aid by participating in activities that will lead to employment, including education and training programs, and activities that reduce barriers to employment such as receiving substance abuse or mental health treatment. The Governor proposes to eliminate the 18 to 24 month time limit and to require most adults to participate in work related activities within 60 days of receiving aid. The activities that count towards fulfillment of the 20-hour requirement are limited to unsubsidized employment, subsidized employment, supervised community services and job search for up to 8 weeks.

The Governor's proposed changes are consistent with some Congressional TANF Reauthorization proposals, but the Governor's reforms are more restrictive than the federal proposals. Congressional TANF Reauthorization proposals increase work participation requirements and scale back caseload decline credits. However, they permit states to count, for at least 3 months in a 24 month period, time spent in education and training programs and time spent in activities that remove barriers to employment towards meeting work participation requirements. The Governor's proposal does not consider participation in non-work activities towards the 20-hour requirement. Therefore, the Administration's proposal gives parents and counties considerably less flexibility than federal proposals. Further, the Governor's proposed changes represent a significant departure from the current CalWORKs program, which provides counties substantial flexibility in designing local programs and adapting requirements to local needs while maintaining statewide eligibility criteria.

The Governor also proposes to change CalWORKs eligibility criteria to require that applicants search for work as a condition of eligibility. The budget does not specify how applicants will meet this requirement or how this proposal will impact demand for county services. The Administration intends to provide counties flexibility to implement the new applicant job search requirement as a condition of eligibility. Such local flexibility in establishing eligibility criteria is a departure from the existing CalWORKs program which establishes uniform statewide eligibility criteria.

The Legislature may wish to consider the Governor's proposed work participation reforms in the context of the existing CalWORKs program design and federal TANF Reauthorization proposals. While the Governor's proposals are consistent with proposed federal TANF Reauthorization legislation, enactment of the reforms will most likely not obviate the need to make changes to the CalWORKs program when Congress approves Reauthorization.

In addition, the Governor's budget provides increased funding for child care services to support the work participation changes. The budget does not provide similar increases for employment services and other county provided welfare to work services. The Legislature may wish to consider whether the budget provides adequate funding to meet the increased demand for county delivered services that will result from proposed changes in work participation requirements.

According to the Department of Social Services, CalWORKs applicants will likely be eligible for assistance with job search and supportive services including child care during the application process. Substantial numbers of applicants for CalWORKs do not complete the application process or are found ineligible for assistance. The Legislature may wish to determine whether it is appropriate to provide CalWORKs services to applicants who do not become CalWORKs beneficiaries. Similarly, the Legislature may wish to consider the implication of requiring job search as a condition of eligibility but not providing applicants the tools necessary to achieve the eligibility criteria.

3. CalWORKs Grant Reduction and Suspension of COLAs. The Governor proposes to reduce CalWORKs grants by 5 percent and to suspend CalWORKs COLAs for a General Fund savings of $321 million and $216.3 million in cost avoidance. The following chart illustrates the effect of the Governor's proposals on CalWORKs grant levels:

CalWORKs Grants	
Current Grant for a family of 3	$704
October COLA	24
July COLA	21
	$749
Total Grant after 5% Grant Reduction	$669
Offsetting increase in Food Stamps	$16
Lost Income to families	$64
Grant in 1989	$694
Work Hours to Replace Lost Income	9.5

- **Governor's Proposed Suspension of CalWORKs Cost-of-Living Adjustment.** The Governor's budget suspends the 2004-2005 CalWORKs COLA to realize savings of $98.5 million. Current law provides an annual COLA for CalWORKs grants that is based on the California Necessities Index. The scheduled COLAs will increase the maximum CalWORKs grant from $704 to $724. Suspension of the COLAs will maintain grants at their current level and will not keep pace with cost-of-living increases such as rising housing costs.

- **Governor's Proposal to De-link CalWORKs COLA for Vehicle License Fee.** The Governor proposes legislation to de-link the CalWORKs COLAs from the Vehicle License fee to avert $216.3 million in General Fund costs. Current law establishes a link between the provision of a CalWORKs cost of living adjustment and relief in the vehicle license fee. Specifically, it provides that in fiscal years 2001-02 through 2003-04, when there is an increase in vehicle license fee relief, the CalWORKs COLA increase shall occur, and that when there is no vehicle license fee tax relief, any COLA increase shall be suspended. The Governor proposed legislation in Special Session to sever the relationship between the CalWORKs COLA and the vehicle license fee.

The Administration did not provide a CalWORKs COLA when it rolled back the increase in the Vehicle License fee triggered in the summer of 2003. The Governor's decision to withhold the CalWORKs COLA is the subject of *Guillen v. Schwarzenegger,* a recent legal challenge which seeks to compel the state to provide a CalWORKs cost-of-living adjustment.

- **Governor's Proposed Grant Reduction.** The Governor's budget proposes to reduce the maximum aid payment under CalWORKs by approximately 5 percent to $669 for a family of three for General Fund savings of $222.2 million.

  The Governor proposes to reduce CalWORKs grants by $35 per month. The reduction will be partially offset by a $16 increase in monthly food stamps benefits. Overall, a family of three, with no earned income will experience a decrease in their income from 78 to 76 percent of the federal poverty level, or from $981 to $962 per month.

  CalWORKs recipients expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, fair market rents for a one-bedroom apartment in California average $657 per month and range from $406 in Modoc to $1535 in San Mateo. Since 1990, rent prices have increased by 36 percent and the purchasing power of a CalWORKs grant has declined by 29 percent.

  In addition to decreasing resources available to very low-income families, the budget’s grant reduction will make 6,100 families ineligible for CalWORKs cash assistance as program eligibility is linked to the CalWORKs maximum aid payment.

  The Governor's proposed CalWORKs grant changes will have a combined effect of reducing the monthly income for a family of three with no earnings, by $64. The proposals will generate $321 million in General Fund savings and $216.3 million in cost avoidance. The Legislature may wish to consider the combined effect of the Governor's proposed grant changes on families receiving cash assistance and the impact of the grant reduction on families who will become ineligible for aid. The Legislature may also wish to consider the effect of grant changes on CalWORKs exits and work participation rates. It will be important to examine the Governor's proposed grant changes in the context of the state's grant structure, which includes earned income disregards. The Legislature may wish to consider the overall pressure on the CalWORKs budget, the Governor's proposed reforms and grant changes, and determine the appropriate balance between funding for CalWORKs services and grants.

4. CalWORKs for Legal Immigrants. The Governor proposes to: (1) cap enrollment for the CalWORKs program for legal immigrants on April 1, 2004; (2) eliminate the program by October 2004; and (3) provide Block grant funding for legal immigrant safety net services for savings of $2.4 million General Fund in 2004-05. California's CalWORKs program provides legal permanent residents cash assistance and welfare-to-work services subject to the same eligibility criteria and work requirements as non-immigrants families.

The Governor eliminates this program as part of his proposal to reduce discretionary state programs that serve immigrants. Funding for this program is counted towards the TANF MOE, therefore, the program is as discretionary as many components of CalWORKs including, safety net grants and funding for substance abuse services.

The Governor's proposal raises concerns and multiple implementation issues including how county specific waiting lists will work, how to provide counties the proposed flexibility while assuring funds are spent on MOE eligible services, and the effect of disparities in service eligibility for similarly situated children and families. However, the most important decision is whether the Legislature wishes to reduce California's commitment to providing assistance to low-income legal permanent residents and their children.

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

Program Description. The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of cost, for the In-Home Supportive Services Program, and may be eligible for other programs designed to support individuals living in the community.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients. The state contributes the State Supplementary Program portion of the program.

Summary of Enrollment. Approximately 1.2 million Californians receive SSI/SSP. Over two-thirds of the recipients are disabled, 30 percent are elderly, and two percent are blind.

The budget estimates that program enrollment will grow by 2.2 percent in the 2003-2004 fiscal year, and by 2.1 percent in the 2004-2005 fiscal year. The total caseload for 2004-2005 is estimated to be 1,178,000. Due to changing demographics and a projected increase in California's aging population, the SSI/SSP program caseload is likely to continue to grow in future years.

Summary of Funding. The budget proposes basic SSI/SSP program costs for the 2004-2005 fiscal year to be $7.7 billion ($2.9 General Fund).

Summary of Governor's Reductions

- **Does Not Pass-Through Federal SSI COLA.** The Governor proposes to suspend the state pass-through of the federal SSI COLA in 2004-05 for a savings of $62.5 million General Fund. SSI/SSP grants have two components, the SSI component, which is federally funded, and the SSP component, which is state funded. The budget proposes to reduce the SSP component of the grant by the same amount as the federally funded January 2005 SSI COLA, thereby reducing state SSP expenditures in the budget year.

- **Suspends State SSI/SSP Cost-of-Living Adjustment.** The Governor proposes to suspend the 2004-2005 state funded SSI/SSP COLA for savings of $84.6 million General Fund.

Issues for the SSI/SSP program

1. Elimination of Pass-Through of Federal SSI Cost-of-Living Adjustment. Federal law provides a cost-of-living adjustment to the SSI portion of grants that is based on the Consumer Price Index. Since January 2004, state law provides automatic pass through of the federal COLA to SSI recipients. In January 2005, the federal SSI adjustment will increase the maximum grant for an individual by $10 to $800 per month. The Governor proposes to withhold the federal COLA for a savings of $62.5 million.

2. Suspension of State SSI/SSP Cost-of-Living Adjustment. The budget suspends the 2004-2005 state cost-of-living adjustment for the SSI/SSP program to realize savings of $84.6 million. Current law provides an annual state COLA for SSI/SSP grants, which is based on the California Necessities Index. The scheduled COLAs will increase the maximum SSI/SSP grant for an individual from $790 to $812, and from $1,399 to $1,438 for couples. Suspension of the state COLA will maintain grants at a level that does not keep pace with cost-of-living increases such as rising housing costs.

California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, fair market rents for a studio apartment in California average $555 per month and range from $332 in Alpine to $1,250 in Santa Clara. Since 1990, rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 18 percent.

Cash Assistance Program for Immigrants

Summary of Funding and Enrollment. The Cash Assistance Program for Immigrants (CAPI) was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the Department of Social Services and administered locally by counties. CAPI serves approximately 11,000 individuals each year. Enrollment is relatively stable and is expected to decline over time. The Budget Act of 2003 provided $94.1 million to fund CAPI.

Summary of Governor's Reductions

- **Cap CAPI Enrollment.** The Governor proposes to cap enrollment for CAPI on April 1, 2004 for savings of $4.2 million. Counties will be required to screen for eligibility and maintain a waiting list. Beneficiaries will become eligible for services on a first-come, first-served basis. The budget does not provide any funding for increased administrative costs associated with administration of the proposed cap.

- **Block Grant Funding for Legal Immigrant Services.** The Governor proposes to eliminate the CAPI program and instead provide block grant funding to counties to support safety net programs for immigrants effective October 2004 for General Fund savings of $3.1 million. There are numerous programmatic issues to be resolved prior to implementation of this proposal, including how waiting lists will operate, the level of local flexibility to be provided, and the administrative efficiencies or complications resulting from the proposal. The Administration intends to develop this proposal in greater detail by the May Revision.

Beyond implementation issues, it is important for the Legislature to decide whether to reduce or maintain California's commitment to providing assistance to low-income aged, blind or disabled legal permanent residents.

California Veterans Cash Benefit Program

Summary of Funding and Enrollment. The California Veterans Cash Benefit Program established by Assembly Bill 1978 (Chapter 143, Statutes of 2000) provides cash assistance to Filipino veterans of World War II who were receiving state supplementary payment benefits on December of 1999 and who have returned to the Republic of the Philippines. The veterans receive a payment equivalent to California's state supplemental payment. The veterans also receive a federal cash benefit, which currently amounts to $414 per month. The California Veterans Cash Benefit program serves approximately 1,700 veterans on an annual basis.

Summary of Governor's Reduction

Elimination of the California Veterans Cash Benefit Program. The Governor proposes to eliminate the California Veterans Cash Benefit Program for General Fund savings of $1.2 million in the current year and $5.5 million in 2004-05. Veterans will continue receiving existing federal benefits.

Food Stamps

Program Description and Summary of Enrollment. The Food Stamps program provides food assistance at no cost to eligible low-income families and individuals. The program is overseen by the Department of Social Services and is administered by the counties. The Food Stamps program will serve an estimated 1.8 million persons, approximately 57,500 more than last year. The projected caseload growth stems from an increase in the number of families not receiving cash assistance who participate in the food stamps program and full implementation of the restoration of federal food stamp benefits to immigrants who had lost these benefits as a result of the welfare reform law.

The U.S. Department of Agriculture funds the benefit value of food stamps. The federal government also funds 50 percent of the program's administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent respectively.

The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Full implementation of the restoration of federal food stamps benefits to legal immigrants will dramatically reduce CFAP beneficiaries. The estimated caseload at the end of the budget year is approximately 10,200.

Summary of Governor's Proposed Reductions

- **Eliminate Transitional Food Stamps Benefits.** The Governor proposes to eliminate the recently established Transitional Food Stamps Benefits Program to realize savings of $1.1 million General Fund in 2003-04 and $3.1 million General Fund in 2004-05. Under this program, the state can provide benefits, for up to five months, to families transitioning from welfare to work. The Governor's proposal will result in a $165.5 million loss of federal benefits.

- **Repeals Food Stamps Reforms.** The Governor's budget proposes to repeal recent food stamps program reforms for a General Fund savings of $186,000 in 2003-04 and $444,000 in 2004-05. The reforms seek to increase participation in the food stamps program among eligible families by simplifying the application process and modifying program eligibility criteria. This proposal will result in a $37 million loss of federal food stamps benefits.

- **Elimination of the California Food Assistance Program.** The Governor proposes to eliminate the California Food Assistance program and instead provides block grant funding to counties to support safety net programs for immigrants for a General Fund savings of $320,000. The proposed level of funding, to be included in the block grant, is based on current funding subject to a cap on new enrollees and reduced by five percent.

Issues for the Food Stamps Program

1. Elimination of Transitional Food Stamps Benefits. The Governor proposes to eliminate transitional food stamps benefits for savings of $1.1 million General Fund in the current year and $3.1 million General Fund in the budget year.

The federal government recently granted states an opportunity to provide five months of federally funded transitional food stamp benefits for people leaving cash assistance to help families make a successful transition from welfare to work. The Budget Act of 2003 provided funding to implement this federal option in California. Under current law, California will begin to provide transitional food stamp benefits to families leaving CalWORKs on January of 2004.

Elimination of the transitional food stamps program will result in a $165.5 million loss in federal food stamps benefits for 66,000 low-income California households. According to a recent U.S. Department of Agriculture study, for every dollar of federal food stamps, $1.84 in local economic activity is generated. Therefore, elimination of the transitional food stamps benefits will result in a $305 million loss in local economic activity in California.

Preliminary analysis conducted by the LAO concluded that the revenue loss from tax proceeds in the second year of implementation would exceed programmatic savings. This proposal seems to run counter to the Governor's stated interest in increasing the amount of federal funds received by California.

2. Repeal of Recent Food Stamps Program Reforms. The Governor proposes to repeal legislation, which sought to increase participation in the food stamps program to realize General Fund savings of $186,000 in the current year and $444,000 in the budget year.

According to the US Department of Agriculture, only half of all eligible Californians access food stamps benefits. Working families, who comprise 71 percent of eligible households, are especially unlikely to participate in the program. Assembly Bill 231 (Chapter 743, Statutes of 2003) seeks to increase participation in the food stamps program among eligible families by simplifying the application process and modifying program eligibility criteria. Specifically, AB 231, establishes criteria for county exemptions from required face-to-face interviews and provides that car ownership and value shall not affect food stamps eligibility. The new law is expected to increase participation in the Food Stamps program by 15,000 households.

Repeal of recent food stamps program reforms will result in a $37 million loss in federal food stamps benefits for 15,000 low-income California households. The Governor's proposal will result in a $68 million loss in local economic activity in California.

3. California Food Assistance Program Changes. The Governor proposes to: (1) cap enrollment for the CFAP program on April 1, 2004; (2) eliminate the program by October 2004; and (3) provide Block grant funding for safety net services for legal immigrants for total General Fund savings of $420,000. Counties will be required to screen for eligibility, and maintain a waiting list between April and October. During that period, beneficiaries will become eligible for services on a first-come, first-served basis. The budget does not provide any funding for increased administrative costs associated with administration of the proposed cap.

Effective October 2004, the Governor proposes to eliminate this program as part of his proposal to eliminate discretionary state programs that serve immigrants. However, a portion of CFAP funding is counted towards the TANF MOE, as such, the program is not totally discretionary.

The Governor's proposal raises a series of implementation issues. However, the most important issue for the Legislature is to decide whether to reduce or maintain California's commitment to providing assistance to low-income legal permanent residents and their children.

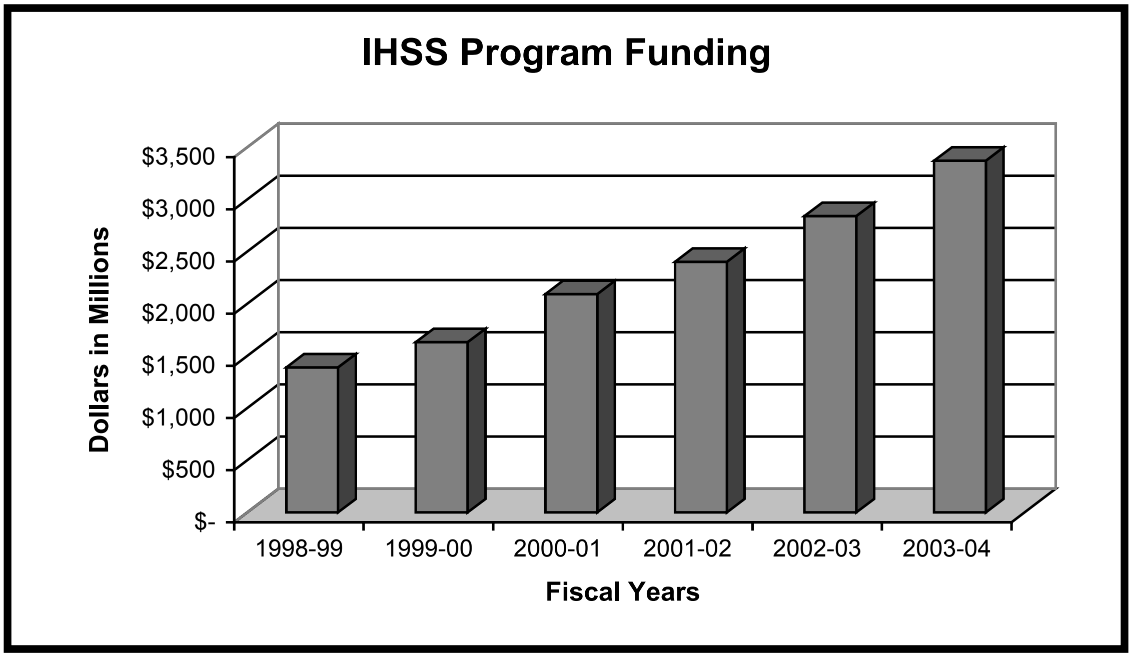
In-Home Supportive Services (IHSS)

Program Description. The In-Home Supportive Services (IHSS) program provides services to 359,000 aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care. Fifty-one percent of IHSS consumers are disabled, 47 percent are aged, and two percent are blind. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload.

IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical 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. Of the persons receiving IHSS, 79 percent are provided federally reimbursable services through the Personal Care Services program of the Medicaid program. The remaining recipients are served through the State’s IHSS Residual Program.

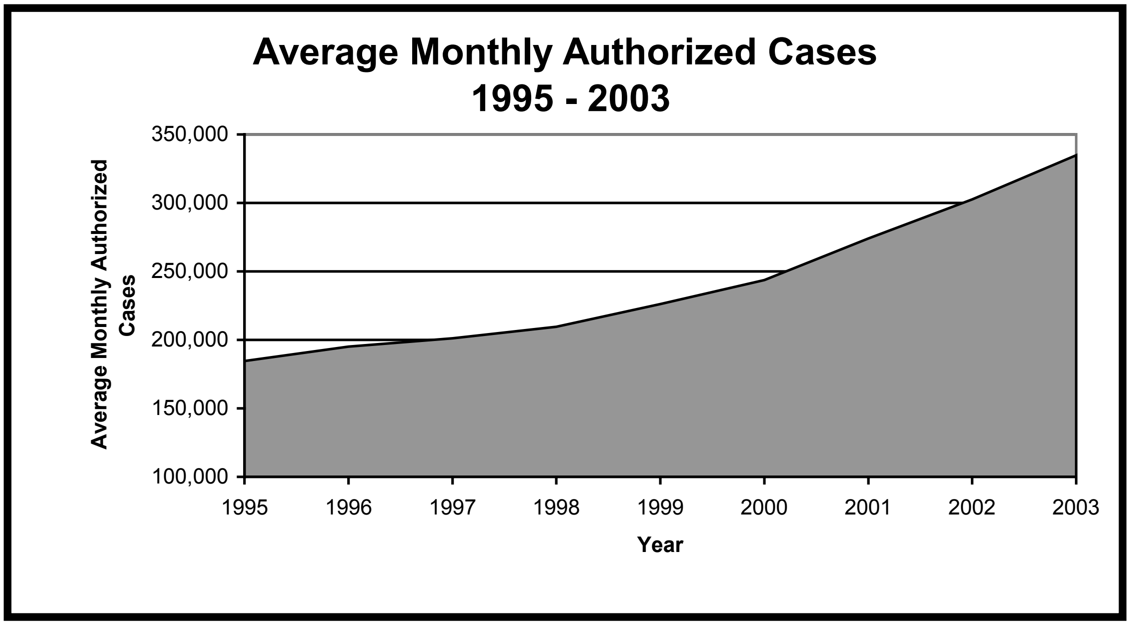
The IHSS caseload, hours of service by case and program costs have grown significantly faster than population growth since the mid-1990’s. General Fund costs in this program have risen substantially. Regardless, costs per individual (less than $9,000) are less than one-fifth the costs of nursing home placement.

Summary of Funding: The total cost of the IHSS program has more than doubled from $1.39 billion in fiscal year 1998-99 to $2.8 billion in 2002-03. Under current law, in 2003-2004 the total IHSS program budget will be $3.4 billion, reflecting a 16 percent increase in one year.



The IHSS program's rate of growth has been fueled by multiple factors including the establishment of a state entitlement for personal care services, enrollment increases, a relative increase in the number of IHSS consumers who are severely disabled, greater utilization of service hours by case, and higher provider rates. Wage increases have reportedly contributed to enrollment growth and increases in the numbers of hours used; as higher wages have made it easier for beneficiaries to hire providers and fully utilize program services. In addition, demographic trends and a programmatic shift to support the elderly and persons with disabilities in community settings have increased and will continue to increase the number of eligibles and enrollees.

IHSS cases increased 64 percent from 1995 to 2003. This rapid growth is expected to continue in the future, given demographic and utilization trends.



The total number of IHSS service hours delivered in a given year has increased by 61 percent since 1997. Further, the average hours utilized in a month per IHSS consumer has risen by 16 percent to 81 hours per case.

Service hour utilization varies between consumers who are severely impaired (23 percent of cases) and not-severely impaired (77 percent). Severely impaired consumers, defined as consumers needing more than 20 hours of personal care services per week, utilize substantially more hours of service than non-severely impaired consumers do. Consumers who are severely impaired are a growing component of the IHSS caseload. Hence, the program is likely to experience continued growth in the number of service hours utilized on a per case basis.

		Average Hours Per Case	
	All Cases	Severely Impaired	Not Severely Impaired
1997	70	140.80	52.42
1998	73	142.28	54.69
1999	82	154.14	61.31
2000	78	144.26	58.17
2001	79	146.00	58.87
2002	81	146.37	60.24
2003	81	146.36	60.76

Increases in the cost of delivering services have also contributed to the growth in IHSS costs. Such increases have been fueled by increases in IHSS provider wages. The state participates in IHSS provider wages above the minimum wage since the 1999-2000 fiscal year. State funding for higher wages has contributed to a rise in the average wages earned by IHSS workers from minimum wage ($6.75) to $9.20 per hour.

Absent statutory changes, IHSS program costs are estimated to rise to $3.6 billion ($1.4 billion General Fund) in 2004-05. The Governor's budget proposes to reduce IHSS expenditures by 35 percent from their current law level for total reductions of $875.6 million ($492.4 million General Fund).

Summary of Governor's Reductions and Augmentations

- **Eliminate the IHSS Residual Program**. The Governor proposes to eliminate the IHSS Residual Program effective April 1, 2004 for a savings of $116.1 million ($88.8 million General Fund) in 2003-04 and $485.4 million ($365.8 million General Fund) in 2004-05. The Residual program serves 75,000 low-income aged blind or disabled consumers whose service provider is a parent or a spouse, who are in need of protective supervision, or who are persons with severe disabilities who receive payment prior to service delivery.

- **Eliminate State Participation in IHSS Provider Wages above Minimum Wage**. The Governor proposes to reduce IHSS provider wages and benefits from $10.10 to the state minimum wage ($6.75) for savings of $301.6 million ($98 million General Fund) in 2004-05.

- **Repeal IHSS Employer of Record Requirement.** The budget proposes to: (1) repeal the existing IHSS Employer of Record requirement; (2) eliminate state funding for Public Authorities; and (3) make the establishment of county IHSS Advisory Committees optional for savings of $7.6 million ($2.2 million General Fund) in 2004-05. Public authorities are the employer of record for IHSS providers for purposes of collective bargaining. Public authorities are also responsible for training providers, operating employee registries and helping recipients find providers.

- **Selective Elimination of Domestic Services.** The Governor proposes to eliminate coverage for domestic services when consumers reside with other family members in order to realize savings of $80.9 million ($26.3 million General Fund) in 2004-05. This proposal will reduce the authorized IHSS service hours of 90,000 persons. The proposal may conflict with Medicaid comparability requirements because it results in disparate treatment for similarly situated beneficiaries.

- **Reimbursement for Eligible IHSS Personal Care Services.** The Governor proposes to reimburse IHSS Personal Care Services consumers for eligible services rendered 3 months prior to application for a $36.1 million ($11.7 million General Fund) increase in IHSS costs. The proposal is consistent with Medi-Cal rules and Medicaid law, which provide for reimbursement of eligible expenses incurred by beneficiaries 90 days prior to establishing eligibility.

- **Extends Funding for the CMIPS Contract Procurement.** The budget proposes to extend funding for Case Management Information and Payrolling System contract procurement activities for one year to support re-evaluation of the current procurement strategy ($1.7 million General Fund). The Administration proposes to migrate the CMIPS system to the California Medicaid Management Information System in order to benefit from enhanced federal financial participation in development costs.

Issues for the In-Home Supportive Services Program

The Governor's budget proposes to reduce IHSS expenditures by 35 percent, or $875.6 million ($492.4 million General Fund). The Governor's proposals include significant reductions in eligibility, curtailment of covered services, and rollbacks in state participation in IHSS provider wages. The proposals will impact most IHSS consumers and will reduce or eliminate the services received by 75,000 program beneficiaries. The Governor's reductions will substantially reduce state services available to assist low-income aged, blind and disabled persons to remain safely at home as an alternative to out-of-home care.

The Governor's proposed reductions to the IHSS program move in the opposite direction prescribed by the *Olmstead decision* which requires states to provide services to persons with disabilities, including elders, in the least restrictive setting possible. The proposed reductions will restrict access to community-based services while demographic changes and a programmatic shift to support elders and persons with disabilities in community settings continue to increase demand for services.

The Legislature may wish to consider how the Governor's proposals will impact California's compliance with the *Olmstead* decision, the effect of the Governor's proposals on persons with disabilities and elders, and the extent to which reduced access to IHSS services will lead to increases utilization of nursing homes. While it may be appropriate for the Legislature to review whether appropriate utilization controls and quality assurance mechanisms are in place, the Legislature may wish to consider whether the IHSS program should bear a disproportionate share of funding reductions. The Legislature may also wish to consider how the Governor's proposed reductions will affect the quality of life and ability to remain independent of low-income aged, blind and disabled persons.

1. Elimination of Residual Program. The Governor proposes to eliminate the IHSS Residual Program effective April 1, 2004 for a savings of $88.8 million General Fund in the current year and $365.8 million in the budget year. Savings result from the termination or reduction of services received by 75,000 IHSS consumers. Beneficiaries affected by the proposed elimination are consumers whose service provider is a parent or a spouse, consumers in need of protective supervision, and persons with severe disabilities who receive payment prior to service delivery.

IHSS Residual program consumers meet the same income, resources and disability eligibility criteria as IHSS PCSP beneficiaries. Their receipt of IHSS Residual program services, PCSP program services or both depends on whether the services they require and their arrangement for receiving care qualifies for federal financial reimbursement.

The IHSS Residual program funds the following IHSS services:

- Services delivered to minor children whose IHSS provider is a parent;
- Services delivered to consumers whose IHSS providers is a spouse;
- Protective supervision services provided to clients with cognitive impairments who need around the clock care;
- Cases where the recipient is severely disabled and receives payment in advance of service delivery;

- Services delivered to consumers who only require assistance with domestic chores;
- Restaurant meal allowances to consumers who receive those services.

In September 2001, the utilization of Residual Services was the following:

Types of Services	**Number of Cases**	**Percentage**	**Expenditure**	**Percentage**
Advanced Pay	745	1.1%	$1,327,126	3.8%
Domestic Services Only	25,963	38.9%	7,175,011	20.4%
Relative Caregiver	16,056	24.1%	8,989,900	25.5%
Protective Supervision	11,056	16.6%	9,514,142	27.0%
Misc./Unknown	12,918	19.4%	8,241,302	23.4%
Total	**66,738**		**$35,247,481**	

Seventy-five percent of IHSS Residual consumers receive protective supervision, domestic services only, or a restaurant meal allowance. These consumers will become ineligible for services or will lose a significant number of the hours of service. The remaining consumers will remain eligible for IHSS services. To continue receiving services they will need to alter their existing provider arrangement.

It is difficult to determine what will happen to consumers who lose IHSS Residual services or who experience a significant reduction in the number of hours of service they receive. Consumers have different needs and varying levels of available resources. Persons that only receive domestic services may be at a lower level of risk to be placed in out of home care than persons who receive advance pay or protective supervision services. However, we do not know with a reasonable degree of certainty how different groups of IHSS consumers will be affected by the Governor's proposal.

A recent review of consumers terminated from IHSS found that the most common reason consumers left the program was due to death (29%). Fifteen percent of IHSS recipients transitioned to institutional settings, 10 percent left at their own request, 22 percent had a change in eligibility, and the balance left for other reasons. More recent data shows an increase in the number of persons leaving IHSS to out-of-home care or to a skilled nursing facility, while the number of consumers who leave due to death remains stable. Although this information is valuable, its utility is limited because only a very modest percent of cases exit every year.

The Legislature may wish to consider how the proposed program elimination will affect the different categories of IHSS Residual consumers. The Legislature may also wish to examine the extent to which the proposed elimination will result in cost shifting to other state funded services, including Regional Center services, or contribute to increased utilization of out of home care and IHSS PCSP services. Finally, the Legislature may wish to request that the Administration pursue increased federal financial participation for IHSS Residual program services, specifically, funding for advance pay services.

2. Elimination of State Participation in Wages. The Governor proposes to reduce the level up that the state participates in for IHSS provider wages and benefits, from $10.10 to the state minimum wage ($6.75) for savings of $301.6 million ($98 million General Fund) in 2004-05. The budget assumes a phased-in implementation reducing state participation in wages as existing collective bargaining agreements and contracts with private contractors expire.

Currently, 11 counties offer wages and benefits at or above the maximum reimbursement rate of $10.10 per hour for wages and benefits. Thirty-four counties offer wages and benefits above the minimum wage level of $6.75 per hour. The effect of the Governor's proposal is that upon expiration of current collective bargaining contracts, counties will have to reduce IHSS provider wages or replace with county funds.

California chose to increase state participation in provider wages in order to improve the working conditions and earnings of IHSS providers, to increase the ability of IHSS consumers to hire providers, and to provide more stable and higher quality IHSS services. A reduction in IHSS wages may reduce available workers, increase provider turnover rates, decrease the ability of consumers to hire providers and negatively impact quality of care. Additionally, a decrease in wages will increase the chances that IHSS providers live in poverty and become eligible for Food Stamps, Medi-Cal and other public assistance programs.

3. Repeal IHSS Employer of Record Requirement. The budget proposes to repeal the existing IHSS Employer of Record requirement, to eliminate state funding for Public Authorities and to make the establishment of county IHSS Advisory Committees optional for savings of $7.6 million ($2.2 million General Fund) in 2004-05.

Public authorities are the employer of record of IHSS providers for purposes of collective bargaining over wages, hours and other terms of employment. Public authorities are responsible for training providers, operating employee registries and helping recipients find providers. The proposed elimination of public authorities undermines the ability of employees to organize for purposes of collective bargaining. It may also reduce the availability of provider registries, training for providers and may be detrimental to the quality of care received by IHSS consumers.

4. Selective Elimination of Domestic Services. The Governor proposes to eliminate coverage for domestic services when consumers reside with other family members to realize savings of $80.9 million ($26.3 million General Fund) in 2004-05. The services to be eliminated include house cleaning, meal preparation, laundry and errands. Consumers will continue to receive personal care services. This proposal will reduce the authorized IHSS service hours of 90,000 persons. Some consumers living with family members will be exempt from the proposed reduction in services in unspecified circumstances.

Currently, the state provides coverage for domestic services needed by IHSS consumers in shared living arrangements on a pro-rated basis. The Governor proposes to eliminate coverage for domestic services provided in common areas to persons who reside with family members. Services will be provided to similarly situated beneficiaries who do not living with family members.

There are multiple programmatic issues to be resolved prior to implementation of this proposal including defining family member for purpose of determining coverage for domestic services, establishing clear exemption criteria, and creating an exemption process. Beyond its implementation challenges, the Governor's proposal may conflict with Medicaid comparability requirements, as it would result in disparate treatment for similarly situated beneficiaries. The Legislature may wish to consider the impact of the proposed service reductions on IHSS consumers and examine whether the Governor's proposal violates federal law.

Children and Family Services Programs

Summary of Enrollment and Funding. The Department of Social Services administers a series of programs designed to protect children from abuse, neglect and exploitation, to deliver necessary services to children in out-of-home care, and to support the adoption of children with special needs. These programs serve an average of 334,800 youth each month. The programs are overseen by the Department of Social Services and operated by county welfare departments. The Governor's budget provides $4.8 billion in combined federal, state and county funds to support children and family services programs.

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 increase by 2.6 percent to 80,000. The Adoption Assistance program provides subsidies to promote the placement of hard-to-place adoptive children. The caseload is expected to be 67,600, an increase of 10.5 percent over current year. Finally, the Kin-GAP program provides support to children in long-term stable placements with relatives. The projected caseload is 14,500 children, reflecting an increase of 8.2 percent. The rates of growth in the AAP and Kin-GAP programs are projected to slow in the budget year. Decreased rates of growth in AAP and Kin-GAP contribute to caseload growth in the foster care program.

Child Welfare Services (CWS) encompasses a variety of services designed to protect children from abuse, neglect and exploitation. CWS programs include Emergency Response, Family Maintenance, Family Reunification and Permanent Placement. These programs will serve an estimated 174,800 children per month in the budget year. Adoptions Services provides adoption services through state and county agencies. In the 20002-03, 9,000 children were adopted through Adoption Services.

Summary of Governor's Reductions and Augmentations by Program

Foster Care

- **Proposes to Develop and Implement Foster Care Reforms.** The Governor's budget assumes $20 million General Fund in savings resulting from development and implementation of programmatic reforms that shorten the period of time children spend in foster care. Reforms may include use of performance-based contracts, restructuring of foster care rates and receipt of a federal waiver that permits use of federal foster care funds for child welfare purposes, including intensive services to keep children with their birth parents.

- **Implements *Rosales* v. *Thompson*.** The budget increases foster care funding by $36.7 million ($7.5 million General Fund) to implement the *Rosales v. Thompson* court decision which expanded eligibility for federal foster care funding to thousands of low-income relatives caring for foster children.

- **Transfers TANF Funds to Foster Care.** The Governor proposes to transfer $56.6 million in Temporary Aid for Needy Families funds from CalWORKs to the Foster Care program to offset General Fund support for the Foster Care program. California's continued use of TANF funds to support non-CalWORKs programs is seriously limiting the state's ability to continue to afford the CalWORKs program without additional General Fund spending.

- **Eliminates the Supportive Transitional Emancipation Program (STEP).** The Governor proposes to eliminate the STEP program for General Fund savings of $38,000 in the current year and $338,000 in the budget year. Established in January 2002, the STEP provides financial assistance to emancipating foster youth up to age 21 who are participating in an educational or training program. The program operates as a county option. Given fiscal constraints at the local level, no county to-date has opted to implement STEP.

Adoption Assistance Payment (AAP) and Kin-GAP

- **Increases AAP Program Funding**. The Governor's budget provides a $57.8 million ($24.7 million General Fund) augmentation to the AAP program to fully fund caseload growth and increases in the cost per case. AAP provides subsidies to promote the placement of hard-to-place adoptive children. Program subsidies are not means tested. AAP funding has increased by 154 percent since 1998.

- **Increases Kin-GAP Program Funding**. The Governor's budget increases funding for Kin-GAP by $7 million to fully fund caseload growth. Kin-GAP funding is also adjusted due to an increase in the state and county share of cost resulting from the Governor's proposed reduction of CalWORKs grants. Kin-GAP provides financial support to children in long-term stable placements with relatives.

Child Welfare Services

- **Provides $17.6 Million to Fund the CWS Redesign Activities.** The Governor's budget provides new funding to support various CWS Redesign activities including implementation of differential response, state and county level training, and development of a curriculum for the statewide approach to Safety and Risk Assessment. Sources of funding include TANF, Promoting Safe and Stable Families funds, State Children's Trust Fund and General Fund.

- **Increases by $10.6 Million Program Improvement Plan Funding.** The Governor's budget provides increased support for state and county activities associated with the state's Program Improvement plan. The funding supports data clean-up activities, recruitment of minority foster homes, and funding for training of social workers.

- **Supports Implementation of Child Welfare Outcomes and Accountability System.** The Governor's budget provides $9.5 million to fund county self-assessment data gathering and evaluation efforts, 6 peer quality case reviews, and county coordinators for completion of county self-assessments and county System Improvement plans.

- **Child Welfare Services Case Management System Reduction.** The budget reduces funding for the Child Welfare Services Case Management System Project by $7.7 million. These savings reflect the transfer of training activities from the Department of Social Services to the Data Center Project Office and elimination of one-time costs.
- **Maternity Care Program**. The Governor's budget proposes to eliminate the Maternity Care Program for budget year savings of $200,000. The Maternity Care program provides funding for residential care, counseling, and maternity-related services for pregnant, unwed mothers that are under the age of 18 at the time of admission. Due to funding cuts in the 2003 Budget, the program only provides funding to Los Angeles County.
- **Repeal of recent legislation.** The Governor's budget proposes to repeal recent legislation relative to children services programs for savings of $6.8 million ($4 million General Fund). The proposed repeals include: AB 408 (Steinberg) which facilitates relationships for emancipating foster youth to ease transition; AB 1151 (Dymally) which defines social worker liability; and AB 529 (Mullin) which enables family day care home providers to serve more children in a narrow circumstance. The Governor also proposes to repeal SB 577 (Kuehl) which updated state law to reflect federal law changes to the scope and authority of California's federally mandated Protection and Advocacy Agency.

Issues for California Children and Family Services Programs

1. California Child and Family Services Review and Program Reforms. Last year, California had its first federal children and family services review which sought to determine whether California adequately protects children from abuse and neglect. The federal review concluded that California is not operating in substantial conformity in all evaluated outcome areas and five of the seven evaluated factors. California has negotiated a Program Improvement Plan (PIP) with the federal government. The plan outlines steps California will take to improve its outcomes, includes timeframes for achieving improvement, and commits to dozens of specific program performance improvements.

California has also been engaged in the development and implementation of a new system, based on federal performance reviews, to measure specific county outcomes. Assembly Bill 636 (Steinberg) requires California to establish an outcome-based system to evaluate county operations of child welfare services. The new California Child Welfare Outcomes and Accountability System includes web-based reporting of county outcomes, and requires counties to conduct self-assessments and develop system improvement plans.

In addition, California recently concluded its three-year Child Welfare Stakeholders (CWS) Group process, which examined California’s child welfare services programs and recommended changes. The group released its CWS Redesign report in September 2003. The Redesign outlines a broad long-term plan to improve the child welfare services system. The plan includes the development of partnerships between CWS agencies and community based organizations, as well as efforts to improve access to preventative services and supportive services for families.

The Governor's budget provides $37.8 million in new funding to support implementation of AB 636 - the California Child Welfare Outcomes and Accountability System, the Program Improvement Plan, and to plan for implementation of the Child Welfare Services Redesign. Specifically, new funding will support completion of county self-assessments, peer quality case reviews, partial implementation of differential response, and recruitment of minority foster homes. In addition, the Governor's budget assumes $20 million in General Fund savings resulting from development and implementation of programmatic reforms that shorten the period of time children spend in foster care.

The Legislature may wish to consider the interactions between the Governor's proposed Children and Family Services Program reforms and any associated changes. Do the reforms complement each other? How will proposed reforms improve outcomes for children and families? Are the Governor's proposed funding augmentations the best use of limited resources?

While the Governor's proposals lack critical details, they outline the Administration's plan to improve the child welfare services system. The Legislature may wish to consider whether the Governor's proposals will improve outcomes for children and families and/or establish its own Legislative priorities for reform. The Legislature may also wish to consider alternative strategies to improve program outcomes including providing supportive services to foster parents, improving access to substance abuse services for parents of children in the CWS system, and providing additional support for county implementation of AB 636.

Community Care Licensing

The Community Care Licensing Division (CCLD) of the Department of Social Services is responsible for licensing over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing and adult day care. Currently, the CCLD is required to visit licensees on an annual or triennial basis to ensure compliance with health and safety requirements.

Summary of Governor's Proposed Reductions and Augmentations

- **Increases Fee Revenue to Replace General Fund Support for the CCLD.** The budget and implementing legislation propose to increase licensing fees to provide non-General Fund support of the CCLD.

- **Augmentation for Processing of Background Checks**. The budget provides a $4.6 million increase to complete background checks and investigate arrests of employees and new applicants for employment at facilities licensed by DSS.

- **Eliminate Existing Fingerprinting Fee Exemptions**. California requires persons working or volunteering at community care licensing facilities and family day care facilities to be fingerprinted. Generally, licensees are required to pay for the fingerprinting process. Family day care providers, persons operating or managing a certified family home or a foster family home, and volunteers at child care facilities have been historically exempted, or partially exempted from the required fees. The Governor's budget proposes to eliminate these fingerprinting fee exemptions.

Issues

1. Increase Community Care Licensing fees to cover program costs. The Governor proposes to increase fees paid by CCLD licensees over a three-year period to fully fund the community care licensing costs with fee revenue. The total General Fund cost of the CCLD program, which the Governor proposes to cover with fee revenue is $35 million. Licensees subject to the fees include childcare providers, adult care facilities, children residential programs, and senior care providers.

California began assessing fees from a wide range of facilities licensed by the Department of Social Services in 1992. The fees were established to cover a modest portion of the costs for the state’s licensing program. They are assessed on a per facility basis, with the exception of fees levied on child care centers operating more than one facility.

Since 1992, DSS fees had remained unchanged. The Budget Act of 2003 and its implementing legislation substantially increased the CCLD fees, established a new fee on foster family agencies and eliminated the cap on certain child care center fees. Fees on child care providers generally doubled, while fees on residential care providers increased by at least 25 percent. CCLD fees will now generate $14 million in revenue and will cover 40 percent of the Community Care Licensing Division's budget.

The state and counties are the primary, and in some cases the sole, purchasers of services provided by many CCLD licensees. Substantial CCLD fee increases are tantamount to a rate reduction for some providers. Such increases may result in a loss of available providers and additional pressure for adjustment of the state's reimbursement rates. The Legislature may wish to consider the effect of proposed fee increase on availability of service providers.

LABOR

0559 Secretary for Labor and Workforce Development Agency

The Labor and Workforce Development Agency brings together the departments, boards and commissions that train, protect and provide benefits to employees and employers of California, such as unemployment insurance and workers' compensation. The roles and responsibilities of the agency are codified in Chapter 859, Statutes of 2002 (SB 1236). The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor proposes $2.07 million (reimbursements) and 13.2 positions for the Office of the Secretary.

7100 Employment Development Department

The Employment Development Department (EDD) serves the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and assists disadvantaged and welfare-to-work job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

The Governor proposes $12.62 billion ($18.8 million General Fund), a decrease of $836.7 million (6.2 percent) from the current-year budget.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$18,798	$18,787	-$11	-0.1
EDD Benefit Audit Fund	0	12,642	12,642	0.0
EDD Contingent Fund	17,898	54,914	37,016	206.8
Employment Training Fund	22,915	18,352	-4,563	-19.9
Welfare-to-Work Fund	355	0	-355	-100.0
Unemployment Compensation Disability Fund	3,871,667	4,291,086	419,419	10.8
Consolidated Work Program Fund	518,035	493,655	-24,380	-4.7
Unemployment Administration Fund	570,290	585,484	15,194	2.7
Unemployment Fund	8,253,381	6,955,953	-1,297,428	-15.7
School Employees Fund	155,106	120,757	-34,349	-22.1
Reimbursements	25,928	66,045	40,117	154.7
Total	$13,454,373	$12,617,675	-$836,698	-6.2

Highlights

The Tax Collection and Benefit Payments Program

The Tax Collection and Benefit Payments Program provides monetary relief to individuals who undergo periods of unemployment or temporary disability or who need to care for a family member. This program consists of two components: the Unemployment Insurance (UI) program and the Disability Insurance (DI) program. The UI program is funded by employers through the collection of tax contributions while the DI program is funded by employee tax contributions. Activities associated with the UI and DI programs include: collecting taxes, determining eligibility for benefit claims, managing caseloads, processing payments to claimants, recovering overpayments, and adjudicating disputes involving claims or tax liabilities. The collection process includes the collection of UI and DI taxes as well as the Personal Income Tax (PIT) and the Employment Training Tax (ETT) from all subject employers. California is one of the few states in which the collection of personal income tax withholdings has been consolidated with collection of the unemployment insurance tax.

The Governor proposes the following mid-year and budget-year adjustments:

- $1.1 billion augmentation from the Unemployment Insurance Trust Fund for increased Unemployment Insurance workload and benefit payments.
- $815.3 million increase from the Unemployment Compensation Disability Fund and 63.1 personnel years for Disability Insurance caseload and workload adjustments.
- $81.5 million increase from the School Employees Fund for Unemployment Insurance benefits.

Welfare-to-Work Grant Program

The EDD is the state agency responsible for receipt of the federal Welfare-to-Work (WTW) funds granted to California since federal fiscal year 1997. The funds provide transitional assistance for recipients of the CalWORKs program, which is the state's Temporary Assistance to Needy Families (TANF) program. The WTW program is administered pursuant to policy direction provided by the federal Department of Labor in concert with the Department of Social Services which administers the California Work Opportunity and Responsibility to Kids (CalWORKs) program. The program includes job creation through wage subsidies, on-the-job training, job placement, and post-employment services to transition hard-to-employ public assistance recipients into full-time, permanent, unsubsidized employment. The EDD allocated 85 percent of the federal grant funds on a formula basis to Local Workforce Investment Boards in California to provide employment, job training, and support services to the hardest-to-serve individuals. The EDD also distributes the Governor's WTW 15 percent discretionary funds to local entities.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations is to protect the workforce in California, improve working conditions, and advance opportunities for profitable employment. The department is continually working toward this objective by enforcing workers' compensation insurance laws and adjudicating workers' compensation insurance claims, working to prevent industrial injuries and deaths, promulgating and enforcing laws relating to wages, hours, and conditions of employment, promoting apprenticeship and other on-the-job training, assisting in negotiations with parties in dispute when a work stoppage is threatened, and by analyzing and disseminating statistics which measure the condition of labor in the state.

The Governor proposes $281.9 million ($62.2 million General Fund), an increase of $2.3 million from the current-year budget.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$89,360	$62,155	-$27,205	-30.4
Subsequent Injuries Benefit Trust Fund	7,570	7,570	0	0.0
Farmworker Remedial Account	102	102	0	0.0
Industrial Medicine Fund	2,058	0	-2,058	-100.0
Cal-OSHA Targeted Inspection Consult. Fund	12,711	13,081	370	2.9
Workers' Compensation Managed Care Fund	544	551	7	1.3
Industrial Relations Const. Industry Enforce. Fd.	54	55	1	1.9
Workplace Health and Safety Revolving Fund	0	0	0	0.0
Workers' Compensation Admin. Revolv. Fund	77,284	107,239	29,955	38.8
Loss Control Certification Fund	0	0	0	0.0
Asbestos Consultant Certification Account-Asbestos Training and Consultant Certification Fund	316	318	2	0.6
Asbestos Training Approval Account-Asbestos Training & Consult. Cert. Fund	221	231	10	4.5
Self-Insurance Plans Fund	2,805	2,857	52	1.9
Elevator Safety Account	12,040	12,116	76	0.6
Pressure Vessel Account	3,743	3,739	-4	-0.1
Garment Manufacturers Special Account	200	200	0	0.0
Employment Training Fund	2,930	2,957	27	0.9
Uninsured Employers Benefits Trust Fund	25,380	25,380	0	0.0
Federal Trust Fund	28,575	29,465	890	3.1
Industrial Relations Unpaid Wage Fund	1,540	1,550	10	0.6
Reimbursements	3,632	3,632	0	0.0
Electrician Certification Fund	1,918	1,913	-5	-0.3
Permanent Amusement Ride Safety Inspection Fund	1,774	1,762	-12	-0.7
Garment Industry Regulations Fund	2,254	2,251	-3	-0.1
Apprenticeship Training Contribution Fund	1,516	1,496	-20	-1.3
Workers' Occupational Safety & Health Ed Fd.	1,079	1,079	0	0.0
Car Wash Worker Restitution Fund	0	80	80	0.0
Car Wash Worker Fund	0	160	160	0.0
Total	$279,606	$281,939	$2,333	0.8

VETERANS AFFAIRS

0553 Office of the Inspector General for Veterans Affairs

The Office of the Inspector General for Veterans Affairs has responsibility for reviewing the operations and financial conditions of State Veterans Homes, the State Farm and Home Purchase Program, State Veterans Services, and all other veterans programs supported by the state, including County Veterans Service Offices and Veterans Memorial Districts. The Inspector General also is required to operate a toll-free complaint hotline for veterans, conduct audits and investigations of state veterans' programs, and to make recommendations for improving the operations of veterans' programs.

The Governor is proposing to eliminate the Office of the Inspector General beginning July 1, 2004.

8955 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity of becoming homeowners through the medium of loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department 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 Governor proposes total expenditures of $293.7 million ($61.2 million General Fund), a decrease of $10.4 million from the current-year budget. Included in the Governor's proposed budget are the following reductions:

- $430,000 General Fund and 22.7 PYs for the Care of Sick and Disabled Veterans pursuant to (Control Section 4.10).
- $1.8 million General Fund redirection, including 22.0 PYs, from the Home's appropriation to headquarters' appropriation.
- $569,000 General Fund and the elimination of 105.0 PYs by contracting for food services and security related services.
- $450,000 General Fund and the elimination of 6.0 PYs resulting from closing the Alcohol Dependency Treatment Program.

SUBCOMMITTEE NO. 4

LEGISLATIVE, EXECUTIVE, JUDICIARY, TRANSPORTATION, and GENERAL GOVERNMENT

Transportation

State Administration

Judiciary

TRANSPORTATION

OVERVIEW

Governor Proposes Significant Reductions to Transportation

The Governor proposes to suspend the Proposition 42 transfer to the Transportation Investment Fund (TIF) for the 2004-2005 budget year. The Administration estimates General Fund savings of $1.12 billion as a result of this proposal. In addition to the proposed suspension of Proposition 42, the Governor is also proposing a series of initiatives that will likely have a crippling effect on transportation finance and economic development.

Repeal the Statutory Authority for Projects in the Traffic Congestion Relief Program (TCRP). The Governor proposes to transfer $189 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund and to eliminate the authority for all 159 projects in the TCRP. The Administration argues that the TCRP project sponsors can secure funding through either the State Transportation Improvement Program (STIP) or local funding mechanisms.

The TCRP authorized $4.9 billion for 159 specific projects over a five-year period. A recent cash flow estimate for currently-allocated TCR projects estimates that only $74 million will be unexpended at the end of the year. This raises the question of how the Administration intends to capture $189 million if the majority of these funds are expended. The Legislature may also wish to consider what effect this proposal will have on existing contracts. Shifting the $189 million from the TCRF will likely cause a number of contracts to be canceled. In the likelihood that contracts are terminated, the Administration will need to identify all costs associated with the contract terminations. It is unclear how these costs will be paid and what fund source(s) will be used.

TCRP or STIP Projects Will Not Receive Funding. The Administration suggests that the TCRP project sponsors should seek to fund their projects through the STIP, however this is not a viable option. Essentially the situation would be one of too many projects chasing too few dollars. The draft 2004 STIP Fund Estimate results in taking $5.5 billion in projects and rescheduling them over the five years of the 2004 STIP. It is also important to note that a significant portion of the Proposition 42 funds are dedicated to the STIP and Public Transportation Account (PTA). Under existing law, the STIP and PTA receive 40 percent and 20 percent, respectively, of the balance of funds in the TIF after the first transfer of funds is made to the TCRF. If the TCRP projects are incorporated into the STIP, the Regional Transportation Planning Agencies (RTPAs) will have to prioritize TCRP projects in relation to their existing STIP projects. Given the status of the State Highway Account, and a possible reduction of federal funds, the STIP cannot absorb the commitments made in the TCRP. A likely scenario will require the RTPAs to reconfigure their Regional Transportation Improvement Programs (RTIP; local portion of the STIP) and determine which projects to continue funding and which projects to defer or eliminate altogether.

The competition for the remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in the greater Los Angeles and Bay Area(s), due to the concentration of TCRP projects in those two regions. For example, the Metropolitan Transportation Commission estimates that approximately $1.2 billion worth of TCRP project funds are at risk if the Legislature approves the statutory elimination of the program. The Department of Transportation and regional transportation agencies would have to reconstitute their respective transportation programs, either formally or informally. Project delays would increase the projects' ultimate costs while project abandonment would impede statewide mobility and increase congestion. The state would fall further behind in its attempts to maintain and expand the transportation infrastructure.

Other Transportation Initiatives Proposed by the Governor

Repeal the High Speed Rail Bond Initiative. The Governor proposes to repeal the High Speed Rail general obligation bond from the ballot in 2004. Senate Bill 1856 (Chapter 697, Statutes of 2002) authorizes a $9.95 billion bond measure to help fund the planning and construction of the high speed rail passenger system. The Administration is proposing to fund the High Speed Rail Authority in the budget-year.

Federal Grant Anticipation Revenue Vehicles (GARVEE Bonds). The Governor proposes $800 million from GARVEE bond proceeds to offset the loss of transportation revenues. The issuance of GARVEE bonds allows the state to borrow against future-year federal funds for purposes of spending the funds now. The resources generated from the bonds would be used for projects in the STIP.

Retain Gasoline Sales Tax Revenue in the General Fund ($17.5 million). A portion of the sales tax on gasoline and diesel sales is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other sales, the PTA receives the "spillover" sales tax revenues. The spillover estimate in the current-year budget is $87.5 million, and the Budget-Act authorizes the General Fund to receive up to that amount in spillover revenue in 2003-04. The Administration now estimates that the total spillover has increased by $30 million. The adjusted mid-year proposal would provide the General Fund an additional $17.5 million in spillover revenue that was not anticipated last spring.

Authorize $200 Million Loan From the State Highway Account. The Governor has proposed a $200 million current-year loan from the State Highway Account to the General Fund.

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 Governor proposes total expenditures of $7.4 billion ($0 General Fund), a decrease of $1.1 billion (13.3 percent) from the current-year budget. .

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$289,000	$0	-$289,000	-100.0
Aeronautics Account, State Transp. Fund	5,128	4,383	-745	-14.5
State Highway Account, State Transportation Fund	2,573,409	2,479,707	-93,702	-3.6
Bicycle Transportation Account, State Transportation Fund	7,240	7,229	-11	-0.2
Public Transportation Account, State Transportation Fund	160,207	167,513	7,306	4.6
Local Airport Loan Account	2,850	2,850	0	0.0
Environmental Enhancement and Mitigation Demonstration Program Fund	0	10,000	10,000	0.0
Historic Property Maintenance Fund	1,521	1,507	-14	-0.9
Equipment Service Fund	153,528	152,806	-722	-0.5
Toll Bridge Seismic Retrofit Account, State Transportation Fund	709,983	635,817	-74,166	-10.4
Seismic Retrofit Bond Act of 1966	66,893	33,055	-33,838	-50.6
Public Buildings Construction Fund	72,599	0	-72,599	-100.0
Federal Trust Fund	3,294,432	2,458,094	-836,338	-25.4
Reimbursements	1,006,857	913,462	-93,395	-9.3
Pedestrian Safety Account, State Transportation Fund	0	0	0	0.0
Traffic Congestion Relief Fund	296,219	0	-296,219	-100.0
Transportation Investment Fund (Less funding provided by the General Fund)	-289,000	0	289,000	0.0
Transportation Financing Subaccount, State Highway Account, State Transportation Fund	133,027	492,568	359,541	270.3
Total	$8,483,893	$7,358,991	-$1,124,902	-13.3

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's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property.

The Governor proposes $1.3 billion in total expenditures for the CHP, a decrease of $14.2 million (1 percent) from the current-year budget.

Fund Source (dollars in thousands)	2003-04	2004-05	$ Change	% Change
State Highway Account, State Transportation Fund	$46,026	$46,777	$751	1.6
Motor Vehicle Account, State Transportation Fund	1,144,292	1,142,185	-2,107	-0.2
Motor Carrier Safety Improvement Fund	1,251	1,275	24	1.9
California Motorcyclist Safety Fund	1,573	1,425	-148	-9.4
Federal Trust Fund	12,873	13,585	712	5.5
Hazardous Substance Account, Special Deposit Fund	208	206	-2	-1.0
Asset Forfeiture Account, Special Deposit Fund	2,087	2,068	-19	-0.9
California Peace Officer Memorial Foundation Fund	400	400	0	0.0
Reimbursements	77,754	64,326	-13,428	-17.3
Total	$1,286,464	$1,272,247	-$14,217	-1.1

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 Governor proposes total expenditures of $705.3 million, a decrease of $14.1 million (2 percent) from the current-year budget.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
General Fund	$10,763	$0	-$10,763	-100.0
State Highway Account, State Transportation Fund	40,131	36,565	25,802	239.7
Motor Vehicle Account, State Transportation Fund	375,622	382,341	342,210	852.7
New Motor Vehicle Board Account	1,778	1,780	-373,842	-99.5
Motor Vehicle License Fee Account, Transportation Tax Fund	273,990	269,311	267,533	15046.9
Motor Carriers Permit Fund	0	0	-273,990	-100.0
Harbors and Watercraft Revolving Fund	4,602	2,453	2,453	0.0
Federal Trust Fund	0	0	-4,602	-100.0
Reimbursements	12,524	12,842	12,842	0.0
Total	$719,410	$705,292	-$14,118	-2.0

STATE ADMINISTRATION

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary function of the State Controller is to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. The budget proposes total expenditures of $104.8 million, of which $68.5 million is from the General Fund.

Issues

Replacement of Apportionment Payment System. The budget proposes an augmentation of $579,000 special funds to replace the Apportionment Payment System used to make payments to local government agencies. According to the Controller's Office, the present apportionment system has reached the point where it can no longer be effectively supported. The proposal indicates the Controller will withhold an administrative fee from a number of special funds over a three-year period; and after this period an unknown lessor amount will be withheld for the purpose of maintaining the system.

Reduction in Medi-Cal Audits. The budget proposes a reduction of $930,000 ($465,000 General Fund and $465,000 reimbursements) and 11.5 positions due to the discontinuation of Medi-Cal audits at the State Controller. The budget proposes, beginning in 2004-05, that this function be consolidated at the Department of Health Services. Given the Controller's statewide fiduciary responsibilities, the Legislature may wish to consider if this is an advisable shift of duties.

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 $326.8 million, which is less than a 1 percent decline from the current-year level.

Issues

Administration of the Cigarette and Tobacco Products Licensing Program. The Administration proposes to augment the budget to implement the Cigarette and Tobacco Products Licensing program pursuant to Chapter 890, Statutes of 2003. The program is intended to improve voluntary compliance through reduced evasion via smuggling and counterfeiting. The program authorizes the BOE to issue licenses, suspend or revoke licenses, issue billings for fines and penalties for violations of the law, and enforce provisions through inspection and audits. The budget includes $5.6 million, special funds, in the current year and $8.1 million, special funds, in the budget year for implementation and ongoing costs.

STATE AND CONSUMER SERVICES AGENCY

This section includes the budgets of the Science Center, the Department of Consumer Affairs (including all bureaus, boards programs and divisions), Department of Fair Employment and Housing, Franchise Tax Board, Department of General Services, State Personnel Board, Public Employees' Retirement System, and State Teachers' Retirement System. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

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 tract just south of the central part of Los Angeles, which is owned by the state in the name of the Science Center. In a number of state-owned buildings, the Science Center presents a series of exhibits and conducts associated educational programs focusing on scientific and technological developments of the state. In addition, the Science Center, through the Park Manager, is responsible for maintenance of the park, public safety, and parking facilities.

The Governor proposes total expenditures of $20 million ($14.3 million General Fund) for the Science Center. The budget also contains $1.4 million General Fund and $981,000 reimbursements to open the Science Center School and Center for Science Learning. The school will serve 900 K–5 students and the center will promote science learning for children, parents and educators.

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

2004-05 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals $330.9 million.

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The Governor proposes total expenditures at $18.7 million ($13.5 million GF), a 6 percent decrease from the current year.

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 FTB is funded at $560.5 million, of which $441.9 million is General Fund. The total budget increase is $27.9 million, or 5.2 percent more than budgeted in the current year. The General Fund portion of the proposed increase is approximately $9.1 million.

Issues

Integrated Non-Filer Compliance (INC). The INC program pursues taxpayers that do not file returns, but have tax liabilities over $200. These individuals have income sufficient to pay taxes but have not filed a tax return. The budget proposes an increase of $1.8 million and 28 positions to manually review 268,000 personal income tax non-filer accounts. According to the Administration, the proposal is estimated to increase revenues by $12 million in 2004-05 and $43 million in 2005-06.

California Child Support Automation System (CCSAS). The objective of the Child Support Automation Program is to procure, develop, implement, and maintain the new CCSAS in order to locate noncustodial parents, establish and enforce child support obligations, collect and distribute support payments, and comply with federal distribution requirements. The budget proposes $12.5 million General Fund and $21.3 million in additional reimbursements to continue development of the CCSAS system. According to the Administration, this augmentation is primarily for business-partner payments.

Political Reform Audit Program. The budget proposes to change the funding for the Political Reform Audit Program. Currently, this program is funded from the General Fund. The budget proposes to establish a new special fund (the Political Reform Audit Fund) to cover expenses of compliance audits. This proposal would impose a fee on candidates filing for elected public offices, lobbyists, lobbying firms, lobbyist employers, and certain political committees for deposit in the newly established fund. The new fee is proposed to generate $1.42 million to pay for the audit costs. A similar proposal was rejected by the Legislature last 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 $875.9 million, of which $3.0 million is General Fund. The total budget is about $21 million, or 2.5 percent greater than in the current year. The General Fund support is reduced from $5 million in the current year to $3.0 million in the budget year. In 2002-03, General Fund support was approximately $17 million.

Issue

Emergency Telephone Services. The department is requesting multi-year augmentations to its local assistance appropriation from the State Emergency Telephone Account Fund to provide enhanced wireless services to the 911 Emergency Telephone Network. The request is for $23.4 million in 2004-05 and $4.35 million for 2005-06. The department was previously budgeted for this operation but due to technological and regulatory issues, implementation of wireless services has been delayed while the overall cost of the proposal has remained consistent.

1920 State Teachers' Retirement System (STRS)

The budget proposes to increase by $21 million General Fund for Benefits Funding as a result of an increase in teacher payroll. In addition, the budget proposes to increase funding for the Supplemental Benefit Maintenance Account in the STRS Fund by $526.1 million, of which $26.1 million is a result of an increase in teacher payroll and $500 million General Fund reflects the restoration of a like, one-time reduction in 2003-04.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, Transportation Commission, and Transportation. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. The budget is proposed at $28.9 million (State Corporations Fund). The Governor also proposes an increase of $1.2 million and 13.6 positions to address workload resulting from Chapter 241, Statutes of 2003 (SB1, Speier), the California

Financial Information Privacy Act, as it relates to the regulation of Broker Dealers and Investment Advisers.

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 needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes $613.5 million ($14.2 million General Fund) in total expenditures for the department. Other proposals included in the Governor's Budget are:

- $140,000 General Fund from the Office of Migrant Services Program to reflect the partial year closure of one state-owned migrant center;
- $5 million in one-time savings from the disencumbrance of previous funded projects to be transferred to the General Fund;
- $3.9 million in unused funds from the California Housing Finance Agency's California Homeowners Downpayment Assistance Program to the General Fund.

GENERAL GOVERNMENT

California Performance Review

The Administration proposes to embark on a "California Performance Review" to identify successful practices in delivering state services to Californians. This process will draw upon earlier reviews of state government with the intention to develop tangible reforms, rather than simple reorganization ("moving boxes around").

To initiate the review, a team of professionals drawn from around the nation will train 125 to 150 senior career managers on how to conduct a review. The review has four set outcomes: (1) executive branch reorganization to facilitate more efficient, responsive, and transparent government, (2) performance assessments and budgeting of departments and programs, (3) acquisition program reforms based on the practices of the private sector, federal government, and other states, and (4) government reorganization and outsourcing.

Issue

Contracting Out/Outsourcing. Government reorganization and outsourcing is a particularly significant change in statewide policy. Described as a "customer-focused transformation of government operations," this proposal would reorganize and streamline state operations, as well as facilitate contracting out services to the private sector. Many financial, human resource, and procurement management systems would be replaced by newer systems with statewide interoperability. This proposal will require a constitutional amendment to permit greater outsourcing and competition for providing previously state-run services.

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. Support costs for the department are proposed at $1.2 million in 2004-05.

Issues

State Mandated Local Cost Reimbursements. The 2003-04 budget deferred payments to local governments for state-mandated local programs. The mandates are still in effect and the Constitution requires the state to reimburse local agencies for these costs including interest on the deferred amount.

The 2004-05 budget proposes to repeal, defer, and suspend various local reimbursement mandates and associated payments. The Legislative Analyst estimates that the deferral of these payments will total approximately $1 billion by the end of the 2004-05 fiscal year. If these mandates are not suspended, the costs will continue to be a state obligation.

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. Tax relief proposed in 2004-05 totals $4.7 billion, or 40.6 percent more than the amount provided in 2003-04. This increase is due to the elimination of Substandard Housing Subventions and the general-purpose backfill to local governments of the Vehicle License Fee (VLF) offsets.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Senior Citizens' Property Tax Deferral	$11,900	$11,900	$0	0.0
Senior Citizens' Property Tax Assistance	37,036	37,036	0	0.0
Senior Citizen Renters' Tax Assistance	146,355	146,355	0	0.0
Homeowners' Property Tax Relief	427,600	433,200	5,600	1.3
Open Space Subventions	39,420	39,750	330	0.8
Substandard Housing	44	0	-44	-100.0
Vehicle License Fee Offset	2,702,542	4,062,075	1,359,533	50.3
State-Mandated Local Programs	3	3	0	0.0
Total	$3,364,900	$4,730,319	$1,365,419	40.6

Issues

Vehicle License Fee Subventions to Cities and Counties. The budget proposes using the General Fund to backfill payments associated with the reduction in the VLF. The cost of the backfill is approximately $2.7 billion in 2003-04 (with an additional $1.3 billion payable to local governments in 2006) and $4.1 billion in 2004-05.

Substandard Housing Subventions. Chapter 238, Statutes of 1974, provides that if a taxpayer derived rental income from substandard housing, no deduction for interest, taxes, depreciation or amortization paid in conjunction with substandard housing would be allowed under tax law. Subsequent legislation (Chapter 1286, Statutes of 1978) provides that revenue derived from this provision shall be allocated to the cities and counties where the substandard housing is located and used for the enforcement of housing codes and rehabilitation of housing. The budget proposes to permanently eliminate this allocation beginning in 2004-05.

9210 Local Government

The Local Government Finance item proposes $260 million in funding for local agencies. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also 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)	2003-04	2004-05	$ Change	% Change
Reimbursement for Booking Fees	$38,220	$0	-$38,220	-100.0
Property Tax Loan Program	60,000	60,000	0	0.0
Citizens' Option for Public Safety (COPS)	200,000	200,000	0	0.0
Transfer to Board of Corrections for Local Assistance	-275	0	-275	100.0
State-Mandated Local Programs	3	5	2	66.0
Special Subvention to Counties Without Incorporated Cities	147	0	-147	-100.0
Redevelopment Agencies	700	0	-700	-100.0
Total	$298,795	$260,005	-$38,790	-12.9

Issues

Booking Fees. The budget proposes to eliminate $38.2 million in General Fund for booking fee reimbursements in the budget year. This proposal was made by the Administration last year and subsequently rejected by the Legislature.

Educational Revenue Augmentation Fund (ERAF) Shift. In early 2003-04 local government revenues from vehicle license fees (VLFs) were reduced by $1.3 billion. This reduction was due to the delay in implementing the increased fees when the VLF offset was eliminated on June 30, 2003. Chapter 231, Statutes of 2003 (AB 1768, Budget Committee) included a provision for this funding gap to be repaid by August 15, 2006.

The budget proposes to continue this $1.3 billion funding reduction for local governments by increasing the amount of money transferred to K-14 schools through the Educational Revenue Augmentation Fund (ERAF) by $1.3 billion. Beginning in 2004-2005, locals would contribute an additional $1.3 billion of property tax revenues to the ERAF, for the specified purpose of reducing the state's Proposition 98 education commitment. This property tax shift would cause a 10 percent decrease in local government revenues.

9800 Employee Compensation

The budget proposes $874.5 million ($464.2 million General Fund) to fund compensation and benefit adjustments for represented employees in the 16 collective bargaining units that have a Memorandum of Understanding ratified by the Legislature, and as approved by Department of Personnel Administration for excluded employees.

Issue

Pension Reform. The budget proposes three major changes to state employee compensation practices that would generate an estimated $950 million in savings in 2004-05 and $4.6 billion over the next 20 years.

The first proposal is to replace the current year $1.9 billion pension obligation bond -- assumed in the 2003-04 budget -- with a bond of approximately one-half that amount. As result, the current GF commitment to this pension obligation bond would be reduced by half. The new bond would still cover a portion of the state's 2004-05 retirement contributions, for estimated GF savings of $929 million.

Second, the budget proposes to increase the percentage of an individual's salary that state employees contribute to their retirement funds, resulting in an estimated GF savings of approximately $14 million. The Governor proposes to increase the individual employee's contribution towards their retirement by 1 percentage point. (For example, state employees currently contributing 5 percent of their income would contribute 6 percent.) Implementation of this proposal is contingent upon negotiated concessions with the public employee unions.

Third, the budget proposes to decrease the compensation package for new employees to the level in place before the enactment of Chapter 555, Statutes of 1999 (SB 400, Ortiz), for an estimated General Fund savings of $6 million in 2004-05.

JUDICIARY

0250 Judicial

The Judicial budget includes support for the California Supreme Court, the courts of appeal, the Habeas Corpus Resource Center, and the Judicial Council of California. There are 105 appellate court justices and 7 Supreme Court justices. The Judicial Council, including the Administrative Office of the Courts, is the administrative and policy-making body of the judiciary.

The budget proposes total expenditures of $373.8 million for the Judicial branch. This amount is a decrease of $8.3 million, or 2.2 percent, from estimated expenditures in the current year. General Fund support would decrease by $1 million, or 0.3 percent, for a total of $302.6 million. Of the total proposed expenditures, $39.1 million is for the Supreme Court, $173.7 million is for the operation of the Courts of Appeal, $160.1 million is for the Judicial Council, and $10.8 million is for the California Habeas Corpus Resource Center. Total authorized positions for the four entities would increase by 20 positions to 1,626 positions. These positions are related to transferring the responsibilities of trial court facilities to the state from the counties and are funded through the State Court Facilities Construction Fund.

Summary of Program Requirements (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Supreme Court	$38,990	$39,051	$61	0.2%
Courts of Appeal	173,437	173,655	218	0.1%
Judicial Council	167,426	160,065	-7,361	-4.4%
Habeas Corpus Resource Center	10,717	10,780	63	0.6%
Totals	390,570	383,551	-7,019	-1.8%
Unallocated Reduction	-8,500	-9,798		
Net Total	$382,070	$373,753	-$8,317	-2.2%

Highlights

- An unallocated budget reduction of $9.8 million, or 2.6 percent of total funding for the judiciary. Unlike the one-time unallocated reduction of $8.5 million in the current year, the $9.8 million reduction is proposed to be ongoing.
- An increase of $235,000 ($180,000 one-time) from the Court Interpreter Fund to address increased costs of court interpreter certification activities and the one-time costs of developing written and oral examinations for two newly certified languages.

0390 Contributions to Judges' Retirement System

The Judges' Retirement System (JRS I) funds retirement benefits for justices and judges of the Supreme Court, the courts of appeal, and superior 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 number of retired annuitants for JRS I is projected to increase by 89 to a total of 1,715. The budget proposes General Fund expenditures of $88.6 million and a transfer of $27.6 million General Fund from the Trial Court Trust Fund (TCTF). This transfer is further discussed below.

Issue

Retirement System Shortfall. For the current year, General Fund expenditures for JRS are anticipated to be $88.6 million. Last year, as part of the Governor's May Revise, the Legislature approved a reduction of $10.3 million for the program, leaving a fund reserve equal to one month of expenditures. The Department of Finance (DOF) now estimates that, based on revised actuarial information, there will be a current year shortfall of $4.3 million for the program. This shortfall is being funded through a transfer of $4.3 million from the TCTF.

For 2004-05, the budget estimates total General Fund expenditures of $116.2 million will be needed for the program. Similar to the current year, this amount would leave a one-month reserve for the fund. Of the $116.2 million, the Administration proposes maintaining the current year level of General Fund at $88.6 and transferring $27.6 million from the General Fund appropriation to the TCTF to make up the balance.

The decision to make up the shortfall through a transfer from the TCTF in the current year represents a change from the policy of keeping funding for the JRS separate from trial court operational funding. To the extent that this policy is carried forward into the budget year, the operational budgets for the trial courts would have to be reduced by the amount that is proposed to be transferred to the JRS program ($27.6 million). The Legislature may wish to consider the policy implications of using operational funds of the trial courts to fund the JRS.

0450 State Trial Court Funding

The Trial Court Funding item provides state funds for support of the state's local trial courts. The proposed total budget for the state's trial courts is $2.2 billion. This amount is a decrease of $37.1 million, or 1.6 percent, from anticipated expenditures in the current year. The General Fund portion is proposed to increase by $64 million, or 6.1 percent to $1.1 billion. The General Fund increase is due to the restoration of various one-time reductions taken in the current year.

Summary of Expenditures (dollars in thousands)	2001-02	2002-03	$ Change	% Change
General Fund	$1,051,654	$1,115,678	$64,024	6.1%
Trial Court Improvement Fund	132,148	106,660	-25,488	-19.3%
Other Funds	1,071,492	995,857	-75,635	-7.1%
Total	$2,255,294	$2,218,195	-$37,099	-1.6%

Highlights

- An unallocated reduction of $59 million, or 2.6 percent of the total trial court funding budget.

- A loan of $30 million from the State Court Facilities Construction Fund to the General Fund. The Administration has indicated that the State Court Facilities Construction Fund will have sufficient resources to begin transferring court facilities from the counties to the state in the budget year pursuant to Chapter 1082, Statutes of 2002.
- A General Fund increase of $2.6 million to comply with a statutory requirement to reimburse trial courts for costs related to hearings or trials for crimes committed in a state prison. A corresponding reduction is proposed for the budget of the Department of Corrections.

Issues

Improved Accountability and Service Delivery. The Administration indicates that it would support various efforts by the courts to restructure court operations and improve accountability thereby allowing the courts to achieve efficiencies and savings. Examples of potential areas to improve accountability and service delivery cited by the Administration include (1) restructuring the collective bargaining process to allow for state-level participation; (2) restructuring the provision of court security; and (3) restructuring the provision of court employee benefits. At this time, no specific proposals have been raised by either the courts or the Administration in these areas.

Projected Shortfall for the Trial Court Trust Fund in the Current Year. The Administrative Office of the Courts (AOC) estimates that the Trial Court Trust Fund (TCTF) will face a projected operational shortfall of $45 million in the current year. Much of this estimated shortfall ($36.5) million is due to a shortage in new fee revenue ($22.2 million), a shortfall related to a loan from the State Court Facilities Construction Fund ($10 million), and a transfer to the Judges’ Retirement System ($4.3 million). Because the AOC estimates that the TCTF will be fully depleted in the current year, to the extent that the revenue projections do not change and no additional funding is provided to backfill these shortfalls, reductions to trial court operations would need to be made.

Fee Revenue Shortfall. In order to minimize reductions to the budget for the trial courts last year, the Legislature increased certain court fees and dedicated the new revenue to the TCTF. The fee increases included raising the trial motion fee, the filing fee for limited jurisdiction cases, the small claims filing fee for filers of over 12 cases per year, the summary motion judgment fee, certain court reporter fees, certain probate filing fees, establishing a complex litigation fee and a continuance fee, and transferring certain undesignated fees from counties to the courts. The budget assumes revenues of $144.6 million in 2003-04 from these fees. As of December 29, 2003, the AOC projects actual revenues of $122.4 million in 2003-04, failing to meet revenue projections by $22.2 million. The AOC indicates that the projections are based on data from three months and that the projections may change with additional data. The AOC estimates a shortfall of $18 million for the budget year.

Loan from the State Court Facilities Construction Fund. The Budget Act of 2003 included a $80 million loan from the State Court Facilities Construction Fund to the state General Fund. The loan was structured such that the $80 million was taken from the TCTF, to be replenished by projected revenues going into the State Court Facilities Construction Fund. Those revenues are failing to meet the levels projected last year by DOF. The budget proposes transferring only $70 million to the TCTF. As a result the TCTF would have to absorb the extra $10 million deficit.

Transfer to the Judges' Retirement Fund. As discussed above in Item 0390, last year as part of the Governor's May Revise, the Legislature approved a reduction of $10.3 million for the Judges' Retirement System (JRS), leaving a fund reserve equal to one month of expenditures. DOF now estimates that, based on revised actuarial information, there will be a current year shortfall of $4.3 million for the program. The DOF is funding this shortfall in JRS through a transfer of $4.3 million from the TCTF.

Budget Year Fiscal Challenges. The trial courts will face a number of fiscal challenges in the budget year. As indicated above, the budget for 2004-05 proposes an ongoing unallocated reduction of $59 million from trial court operations. In addition, a number of fiscal challenges facing the courts in the current year will also have budget-year impacts. As previously discussed, the AOC estimates a shortfall of $18 million in 2004-05 for fee revenues from the court fees adopted with the last budget. The budget also proposes a transfer of $27.6 million from the TCTF to address a funding deficiency in the JRS.

On top of these reductions, the AOC notes that the courts will face a number of significant cost increases that are not currently funded in the budget, including court staff retirement costs, workers' compensation costs, security cost increases, and increased county charges. In the Judicial Council's review of trial court budget requests prior to submission to the Governor and the Legislature, the Judicial Council approved budget requests totaling $95 million for these types of cost increases, none of which are included in the current budget proposal.

In order to achieve the proposed reductions, the AOC indicates that the trial courts are likely to continue measures being used to meet reductions in the current year, such as hiring and promotion freezes, furloughs, reducing training and travel, reducing office expenses, and deferring equipment purchases. The AOC reports that these types of reductions have resulted in processing backlogs for all types of cases.

APPENDIX

TIMELINE FOR THE 2004-05 BUDGET BILL

Friday	January 9	• Governor submits State Budget to the Legislature. • Committee releases *Quick Summary of Governor's Proposed Budget*.
Thursday	February 5	Committee conducts overview hearing of the budget. Department of Finance presents budget and the Legislative Analyst provides initial review. Committee releases *Overview of the 2004-05 Budget Bill*
Wednesday	February 18	Legislative Analyst submits *Analysis of the 2004-05 Budget* to the Legislature.
Monday	March 1	Subcommittees begin hearings.
Thursday	April 1	Spring Recess begins.
Monday	April 12	Legislature reconvenes.
Monday	May 3	Department of Finance submits final capital outlay revisions.
Friday	May 14	Governor delivers May Revision to the Legislature.
Friday	May 21	Subcommittees complete hearings.
Tuesday	May 25	Committee meets to adopt subcommittee reports. Committee releases *Major Action Report.*
Thursday	May 27	Senate votes on Senate budget bill.
Tuesday	June 1	Conference Committee may begin. Conference *Agenda* available from committee.
Sunday	June 6	Conference Committee completes work.
Friday	June 11	Senate and Assembly vote on budget bill and budget trailer bills.
Tuesday	June 15	Legislature must pass budget to meet constitutional deadline for passage of the budget.

STAFF ASSIGNMENTS

CRIMINAL JUSTICE/CORRECTIONS	Alex MacBain
EDUCATION	
K-12	Kim Connor
Higher Education	Amy Supinger
ENERGY	Open
ENVIRONMENTAL PROTECTION	Open
LABOR	Frank Vega
LOCAL GOVERNMENT	Dave O'Toole
HEALTH	Diane Van Maren
RESOURCES	Open
REVENUES	Dave O'Toole
SOCIAL SERVICES	Ana Matosantos
STATE ADMINISTRATION	Dave O'Toole Frank Vega
TRANSPORTATION	Frank Vega
VETERANS AFFAIRS	Frank Vega
COMMITTEE ASSISTANTS	Glenda Higgins Rose Morris
RECEPTIONIST	Mary Teabo

CALIFORNIA STATE BUDGET HISTORY

Fiscal Year	Bill and Chapter No.	Date Passed and Chaptered		Total Budget ($ Billions)
1965-66	**AB 500/757**	**6-18**	**6-30**	**4.0**
1966-67[a]	**SB 1XX/2**	**6-30**	**6-30**	**4.7**
1967-68	**AB 303/500**	**6-29**	**6-30**	**5.0**
1968-69	**SB 240/430**	**6-28**	**6-29**	**5.7**
1969-70	**SB 255/355**	**7-3**	**7-3**	**6.3**
1970-71	**AB 525/303**	**7-4**	**7-4**	**6.6**
1971-72[b]	**SB 207/266**	**7-2**	**7-3**	**6.7**
1972-73[c]	**SB 50/156**	**6-15**	**6-22**	**7.4**
1973-74	**AB 110/129**	**6-28**	**6-30**	**9.3**
1974-75	**SB 1525/375**	**6-28**	**6-30**	**10.3**
1975-76	**SB 199/62**	**6-26**	**7-1**	**11.5**
1976-77	**SB 1410/320**	**7-1**	**7-2**	**12.6**
1977-78	**AB 184/219**	**6-24**	**6-30**	**14.0**
1978-79	**AB 2190/359**	**7-5**	**7-6**	**18.8**
1979-80	**SB 190/259**	**7-12**	**7-13**	**21.5**
1980-81	**AB 2020/510**	**7-16**	**7-16**	**24.5**
1981-82[c]	**SB 110/99**	**6-15**	**6-28**	**25.0**
1982-83	**AB 21/326**	**6-30**	**6-30**	**25.3**
1983-84	**SB 123/324**	**7-19**	**7-21**	**26.8**
1984-85[c]	**AB 2313/258**	**6-15**	**6-27**	**31.0**
1985-86[c]	**SB 150/111**	**6-13**	**6-28**	**35.0**
1986-87[c]	**AB 3217/186**	**6-12**	**6-25**	**38.1**
1987-88	**SB 152/135**	**7-1**	**7-7**	**40.5**
1988-89	**AB 224/33**	**6-30**	**7-8**	**44.6**
1989-90	**SB 165/93**	**6-29**	**7-7**	**48.6**
1990-91	**SB 899/467**	**7-28**	**7-31**	**51.4**
1991-92	**AB 222/118**	**6-20/7-4**	**7-16**	**55.7**
1992-93	**AB 979/587**	**8-29**	**9-2**	**57.0**
1993-94	**SB 80/55**	**6-22**	**6-30**	**52.1**
1994-95	**SB 2120/139**	**7-4**	**7-8**	**57.5**
1995-96	**AB 903/303**	**8-2**	**8-3**	**56.8**
1996-97	**SB 1393/162**	**7-8**	**7-15**	**61.5**
1997-98	**AB 107/282**	**8-11**	**8/18**	**67.2**
1998-99	**AB 1656/324**	**8-11**	**8-21**	**71.9**
1999-00	**SB 160/50**	**6/16**	**6/29**	**81.3**
2000-01	**AB 1740/52**	**6/22**	**6/30**	**99.4**
2001-02	**SB 739/106**	**7/21**	**7/26**	**103.3**
2002-03	**AB 425/379**	**9/1**	**9/5**	**98.9**
2003-04	**AB 1765/157**	**7/29**	**8/2**	**70.8**

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[a] *1966 Second Extraordinary Session.*

[b] *First year budget was to be enacted by June 15.*

[c] *June 15 constitutional deadline met (5).*

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