The Governor's Budget:
Review of the December Revision
as proposed on December 6, 2002

Prepared by the Committee Staff of the
Senate Policy and Fiscal Committees

Senator John Burton

President pro Tempore

January 6, 2003

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SUMMARY

On December 10, Senator Burton asked the Senate policy and fiscal consultants to review the Governor's December Revision. Their review, as detailed in the following pages, supports the following major conclusions:

1. ***The December Revision Does Not Balance the 2003-04 Budget***. The Legislative Analyst identifies a budget-year deficit of about $21 billion. Of this amount, about $15 billion is on-going. The revision reduces spending over the 18-month period by $10 billion. At most, the revision provides about $4.7 billion in on-going reductions. As such, December Revision addresses a portion of the problem, but does not eliminate either the budget-year deficit or the state's on-going structural deficit. Presumably, the Governor will propose solutions to these problems when he releases his budget on January 10.

2. ***Some Proposed Reductions Are Not Sufficiently Documented***. The Administration provided little background on the specific proposals. Without the specifics, it is difficult for the Legislature to review and adequately assess the programmatic, policy or fiscal consequences of the revision.

3. ***Legislature Must Take Action in January on a Portion of the Revision.*** To secure the greatest amount of budget savings, the Legislature will need to act on a large portion—perhaps as much as 50 percent of the proposal—by January 31.

4. ***70 Percent of the Reductions Are Associated with Four Policy Areas.*** Most of the reductions are in four major policy areas, K-12 Education, Transportation, Health and Local Government.

OVERVIEW

When the Legislature passed the 2003 budget package on August 31, the Department of Finance estimated that General Fund resources would total $79.2 billion and expenditures would total $76.7 billion. After accounting for encumbrances, Finance expected that the state would end the 2002-03 fiscal year with a General Fund reserve of over $1 billion. Though the current year was expected to run a surplus, future budgets were expected to be in deficit.

At the time the budget passed, the Legislative Analyst estimated that the state faced a $9.8 billion deficit in 2003-04. The Legislative Analyst now estimates that the state faces a $21 billion deficit over the two-year budget cycle ending on June 30, 2004, $11 billion more than estimated in August. This estimate of the deficit increased because revenues are now believed to be lower than forecast in August and expenditures are higher than estimated in August.

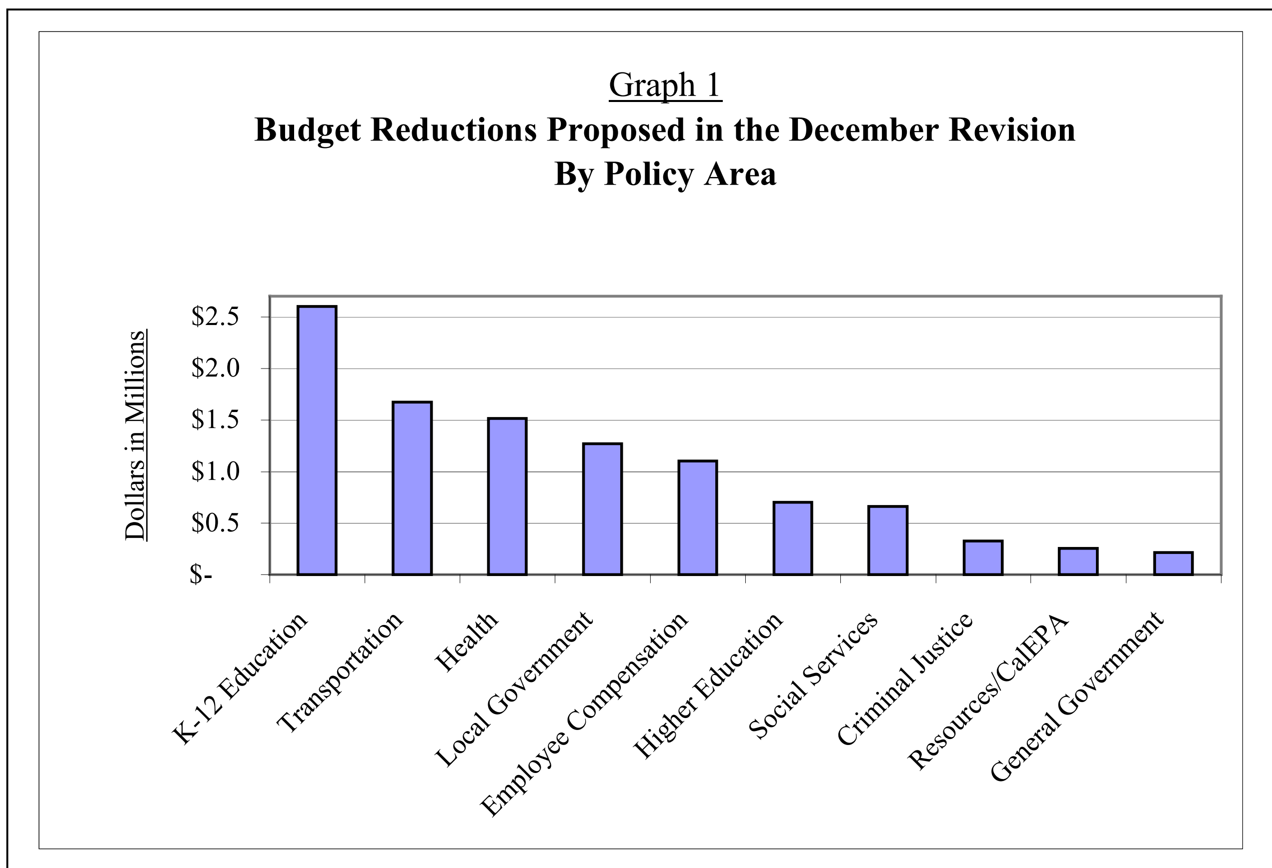
On January 10, 2003, the Governor will release a spending plan which must balance revenues and expenditures over the period ending June 30, 2004. His plan must accommodate the shortfall.

In anticipation of his January 10 budget—and to mitigate the budget-year reductions—the Governor proposed a "December Revision." The December Revision includes reductions in the current and budget years. It assumes action by the end of January. By proposing early action, the Governor facilitates the process of accruing current-year savings and improving the effectiveness of cuts in the budget year. (For example, a department may need some months' lead time prior to implementing a policy change.) The December Revision reduces spending by over $10 billion for the 18-month period ending June 30, 2004.

Many of the reductions can be achieved by reducing appropriations in the 2002-03 Budget Act. That is, the reductions can be accomplished by a bill amending the appropriations made in AB 425 (Oropeza). Other reductions cannot be accomplished unless the Legislature makes changes to statutory law. To achieve these savings, therefore, the Legislature will have to pass legislation making statutory changes.

The December Revision makes reductions across most policy areas, as displayed in Graph 1. Nearly 70 percent of the reductions are attributable to four policy areas. Specifically, the revision reduces:

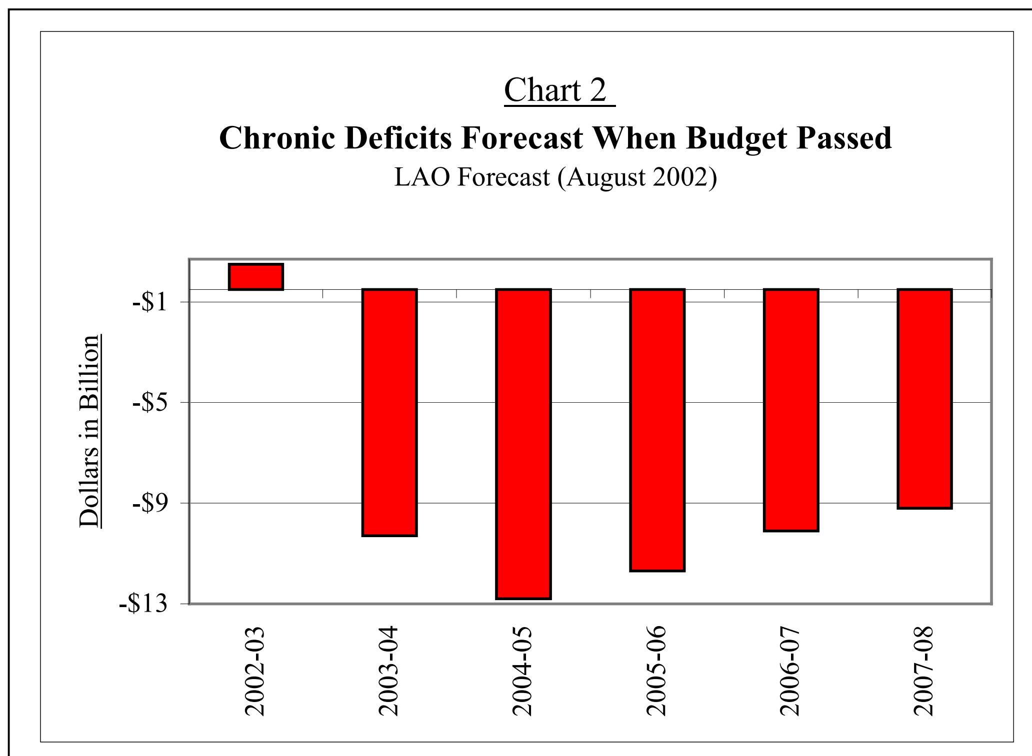
- K-12 Education funding by over $2.6 billion,
- Transportation funding by $1.7 billion,
- Health program funding by about $1.5 billion, and
- Local Government assistance by about $1.3 billion.



Below, staff outline the state's fiscal problem, as it is understood in December 2002. (Undoubtedly, the description of the problem will evolve as details of the state's fiscal condition become clearer.)

The Problem

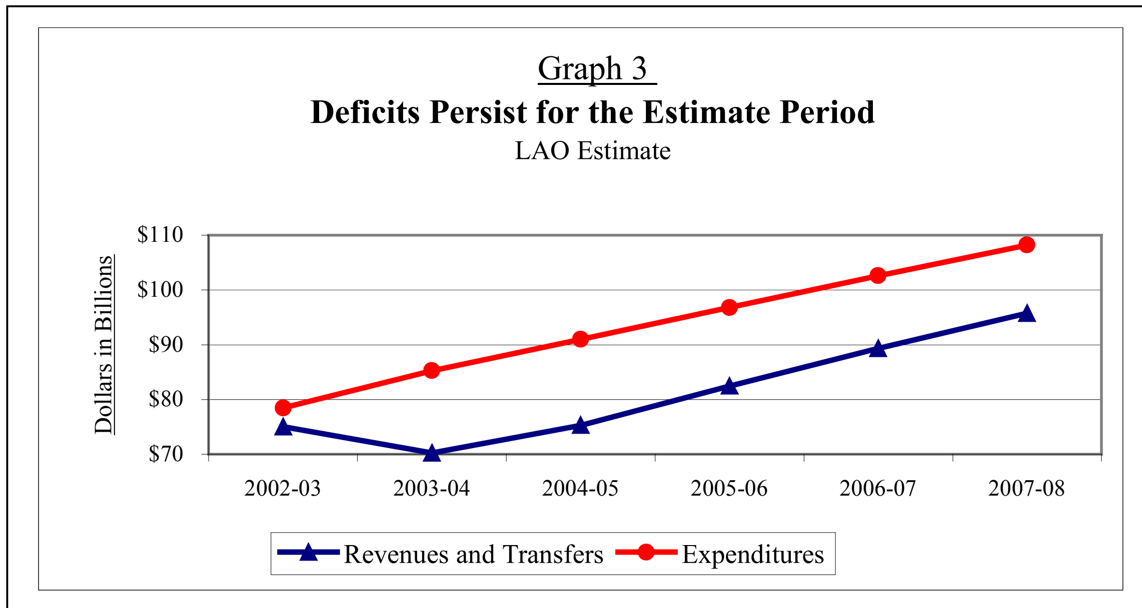
When the Legislature considered the budget last August, the Legislative Analyst estimated that the state would sustain a surplus of about $1 billion in 2002-03. Starting in 2003-04, however, the state would run a General Fund operating deficit for each year of the forecast. As displayed in Chart 2, the LAO estimated that the state would run a deficit of about $10 billion in 2003-04. The LAO estimated that the deficit would rise to nearly $13 billion in the following year unless corrective actions were taken.



Changes Since August. Since August, estimates of the state's fiscal condition have worsened for the current and budget years. In November, the Analyst estimated that the state's *current-year deficit* would be about $6.1 billion. Of this amount, $4.1 billion is attributable to a loss in revenues and about $2 billion is attributable to higher-than-anticipated expenditures in the period ending June 30, 2003. Absent action by the Legislature in the current year, this deficit must be financed entirely in the budget year.

At the same time, the LAO raised its estimate of the *budget-year deficit* from $9.8 billion to $15 billion. Taken together, the LAO's estimates of the deficits have risen from a total of $10 billion to a total of $21 billion.

The deficits persist throughout the forecast period. As displayed in Graph 3, in each year through 2007-08, the state will run annual deficits of between $12 billion and $16 billion.



Problem Statement. As the Legislature considers the Governor's December Revision, it must place the proposed reductions into the context of the $21 billion deficit. It must:

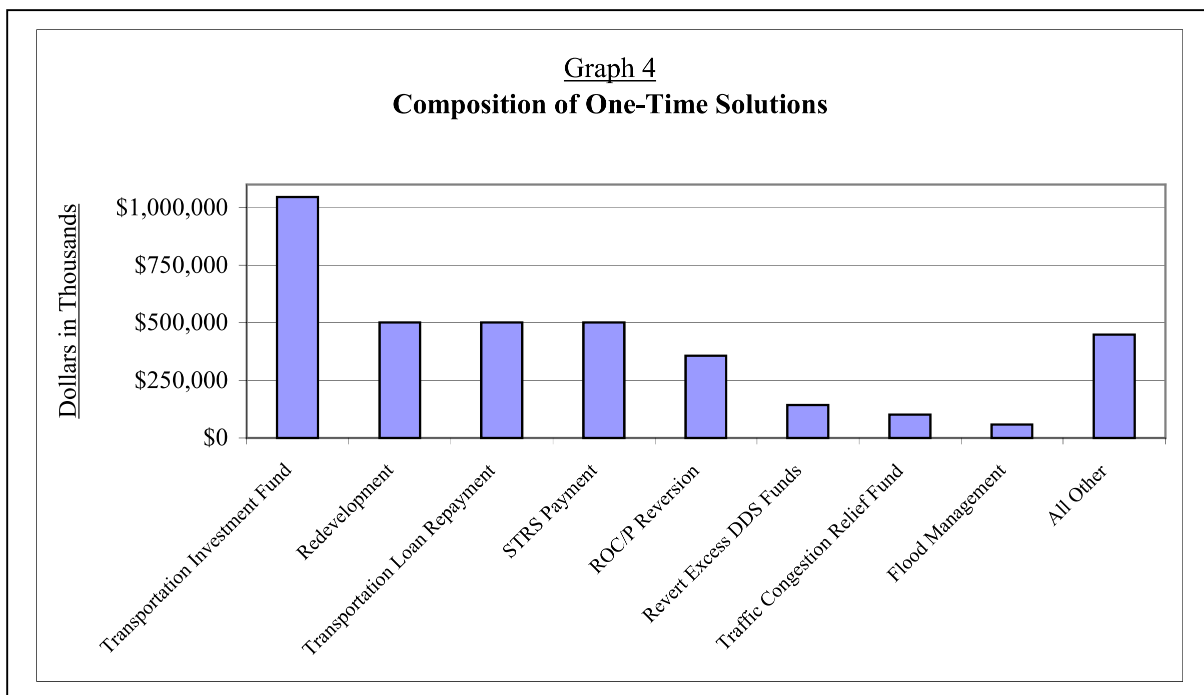
- *Determine How Quickly To Re-Balance the Budget*. The structural deficit is deep and profound. The Legislature's incremental decisions about spending and tax policy—decisions made over several years and administrations—contribute to the state's unprecedented fiscal problems in 2003-04. The Legislature must consider whether it is most prudent to eliminate the accumulated deficit during 2003-04 or reduce the deficit over several years.

- *Retire the Current-Year Deficit*. The state starts the new fiscal year with a carryover deficit of about $6 billion. The carryover deficit can be addressed with either one-time budget cuts (such as reductions to capital outlay projects) or with on-going reductions.

- *Address the Chronic Deficit*. To address the chronic deficit averaging around $15 billion, the Legislature must take action to reduce annual spending by $15 billion, raise annual tax revenues by $15 billion, or use a combination of spending cuts and tax increases to close the gap between expenditures and revenues. The chronic deficit cannot be addressed with one-time solutions. To eliminate the chronic deficit, the Legislature must take actions which permanently raise the revenue forecast or reduce the expenditure estimate.

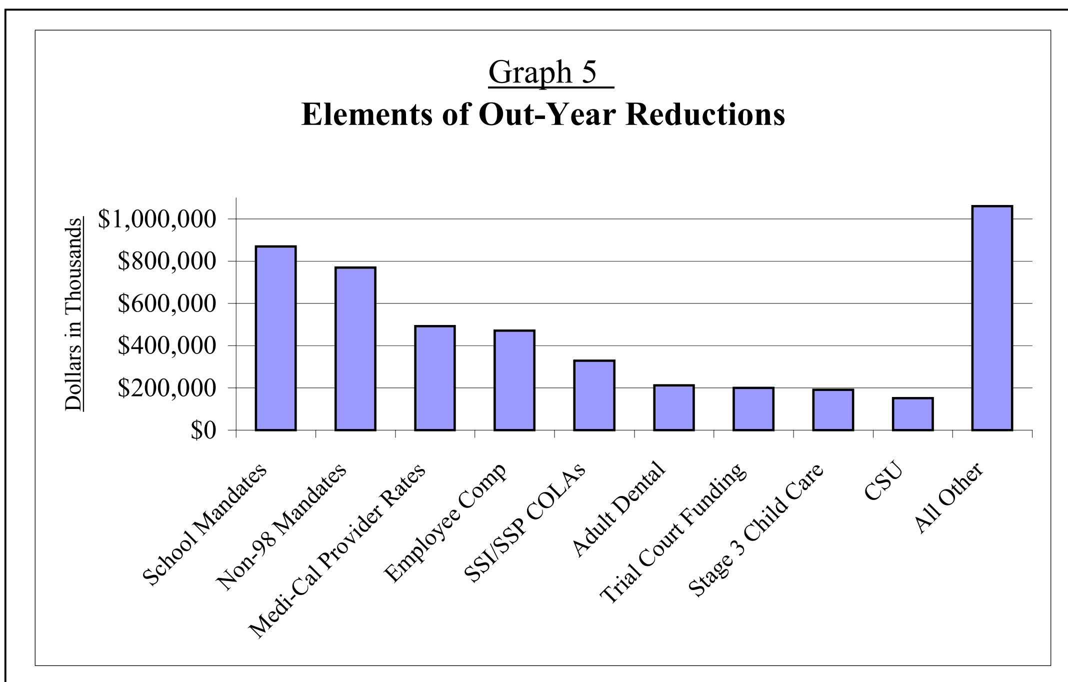
Summary of the December Revision

The December Revision addresses both the one-time and chronic budget deficits. According to the Department of Finance, about $3.5 billion of the reductions in the December Revision are one-time cuts. The most significant one-time reductions are detailed in Graph 4. Transportation reductions account for $1.7 billion of the one-time cuts. A reduction in redevelopment funds and a deferred payment to the teacher's retirement system account for $500 million each in one-time cuts.



As to the on-going reductions, according to the Department of Finance, the December Revision permanently reduces the state's General Fund spending base

by $4.7 billion. Of this amount, the biggest share—nearly $1.6 billion—is associated with "deferring" reimbursements for mandates at the schools and other local governments. The state is constitutionally required to make the payments, so it is not clear how these deferrals can be scored as an on-going reduction. Reductions in the Medi-Cal provider rates and reductions in employee compensation provide an additional $500 million in annual savings. Suspension of the SSI/SSP COLA further reduces the annual spending base by over $300 million. The state saves $200 million each for eliminating adult dental services as an optional Medi-Cal benefit, reducing trial court funding and eliminating Stage 3 child care. Graph 5 summarizes these permanent reductions.



Process and Timing Issues. The December Revision assumes legislative action by February 1. A few reductions contained in the December Revision can be delayed. Specifically:

- Reduce General Fund support for transportation,
- Reduce trial court funding in the budget year,
- Reduce the Judiciary's budget in the budget year,
- Reduce regional centers by approving statewide standards, and
- Defer mandate reimbursements.

In addition, deferring the STRS payment can be delayed until June. The Legislature cannot take action on the reduction in employee compensation until the Administration completes collective bargaining with the state's bargaining units.

Analysis and Commentary

Insufficient Context. The analysis of the December Revision is hampered by a severe lack of information about the scope and breadth of the problem. In late December, the Governor identified a budget deficit at $35 billion—significantly higher than the $21 billion estimate made by the Analyst. To date, committee staff have been unable to reconcile the differences in the two estimates.

Until the Legislature has a better understanding of the scope and breadth of the problem, it will be hard for it to act confidently on any proposal. Acting before the problem is diagnosed, the Legislature could inadvertently exacerbate some of the state's fiscal problems.

Insufficient Information. The Administration has provided very little information about the individual proposals contained in the December Revision. Typically, such major policy changes would be supported with written material describing the programmatic and policy implications of the changes. The written material would also describe the basis for making the estimates of the savings. To date, such written material has not been provided, so it is difficult to evaluate the December Revision.

Not All Reductions Are Equivalent in the Long Term. The Legislature faces large chronic deficits. As it considers the December Revision, the Legislature must weigh all short-term gains against their long-term consequences. For example:

1. A one-time reduction, such as foregoing the acquisition of parkland, does not provide on-going fiscal relief.

2. "Deferral" of a cost typically means that the cost of the program or project is merely shifted to a future fiscal year. Deferring costs to a future budget (*e.g.*, reimbursing locals for their costs of complying with state mandates), though providing budget relief in 2003-04, increases the state's out-year costs. As such, deferrals increase the size of out-year deficits.

3. Some reductions can increase future costs. For example, eliminating immunization shots may reduce costs in the budget year, but may increase overall health costs in future years.

Opportunities

The Legislature must improve the state's fiscal structure. In doing so, it has an opportunity to:

- ***Improve Government Efficiency***. Programs evolve. Inevitably, inefficiencies develop. As the Legislature works to re-balance spending and revenues, it can streamline government. It can eliminate wasteful or low-priority programs.

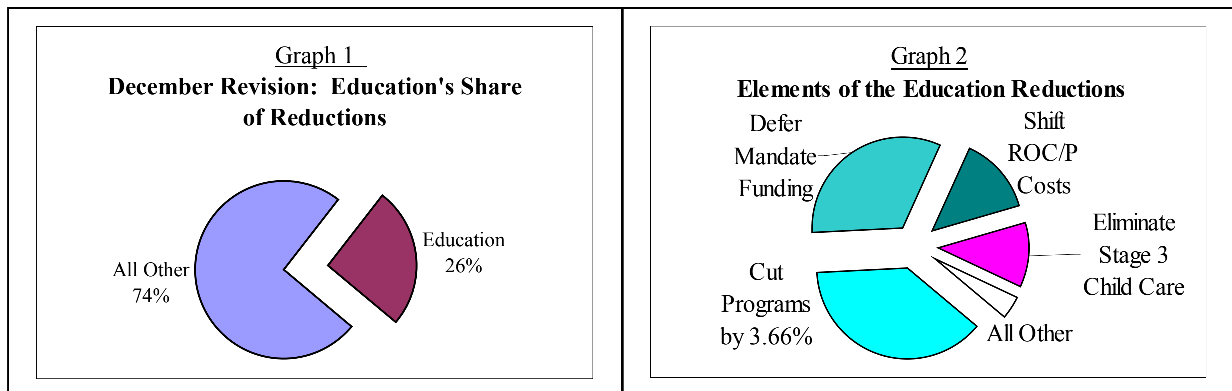
- ***Better Match Fees and Program Responsibilities***. User fees can help match government performance and revenue. The Legislature should consider the extent to which it is fiscally prudent to shift costs from the General Fund to user fees.

- ***Realign State and Local Responsibilities***. The state/local fiscal relationship is strained. Many thoughtful observers, including the Legislative Analyst's Office and the Department of Finance, recommend reforming the fiscal structure to improve accountability and reduce costs.

K-12 Education

K-12 EDUCATION

The December Revision reduces General Fund support for K-12 Education by $2.6 billion, 26 percent of the total proposed reductions. Graph 1 illustrates the point.



The largest share of this reduction is associated with an across-the-board cut to all programs, for a savings of nearly $1 billion. By deferring reimbursement for school mandates, General Fund costs would temporarily fall by nearly $900 million. The Administration also proposes to "free up" $350 million in the Proposition 98 funding by reverting appropriations from prior fiscal years and using these funds to Regional Occupational Program ("ROC/P") costs in the current year. By eliminating Stage 3 Child Care, the General Fund saves nearly $300 million in the period ending June 30, 2004. Graph 2 details the relative share of these elements of the revision.

Below, staff provide background on Proposition 98, specifics on the reductions contained in the December Revision, and an alternative way of making the reductions, as suggested by the Legislative Analyst.

BACKGROUND

Proposition 98. Under Proposition 98 the state is required to maintain state appropriations and local property tax funding adjusting for Average Daily Attendance (ADA) growth and cost-of-living from year to year. When State General Fund revenue growth (per capita) is equal to, or exceeds the growth in Per Capita Personal Income (PCPI) the guarantee is said to be based on "Test 2" and PCPI is used as the Proposition 98 COLA. When the reverse is true and the difference is greater than a half percent, then Per Capita GF Revenue growth may be used in lieu of PCPI, and the guarantee is said to be based on "Test 3".

To the extent that the state takes advantage of "Test 3" it is constitutionally required to rebuild the Proposition 98 base back to the level that it would have been using PCPI as the inflator. The amount that must be restored is called the "maintenance factor" and it is equal to the difference between the Test 2 level and the amount actually appropriated below that level in a Test 3 year. It is not the difference between tests 2 and 3, thus providing an incentive not to build the "maintenance factor" any more than necessary. A maintenance factor is also created if Proposition 98 is suspended. A constitutional formula, based on the degree to which General Fund per-capita revenue growth exceeds personal income growth, determines how much maintenance factor must be restored in any one year. The amount is roughly equal to half the revenue growth, until the guarantee is fully restored.

Last year was a Test 3 year. In 2001-02, the State could have appropriated $9.4 billion less that the Test 2 level. Instead, the State only took advantage of $3.9 billion of the $9.4 and ended the year owing a $3.9 billion Proposition 98 maintenance factor. The 2002-03 Budget Act was scheduled to restore $3.2 billion of the maintenance factor, and the budget trailer bill (Sec. 54 of AB 2781 of 2002) promised restoration of the remaining $700 million in the 2003-04 year.

With the failure of state revenues to meet expectations, the Department of Finance and Legislative Analyst both believe that the maintenance factor restoration requirement has been reduced in the current year (2002-03) by $1.9 billion. Since the Governor already vetoed $143 million of budget act appropriations, the state may reduce another $1.7 billion of current year appropriations, and still meet the required Constitutional restoration requirement.

If $1.7 billion is reverted, the State will have still restored $1.3 billion of maintenance factor in the current year ($3.2 - $1.9 = $1.3). The State will then be

obligated, under the trailer bill promise, to restore both the original balance of $700 million, and the $1.9 billion, in 2003-2004. What part of this $2.6 billion would be constitutionally required to be restored is not yet known.

Implications and Alternatives. Because the $1.9 billion results from reduction in this year's obligation to restore the maintenance factor, reducing Proposition 98 appropriations does not make a permanent reduction in the Proposition 98 base. The $1.9 billion will still have to be restored in the future, just not this year. It is possible that the entire $1.9 billion will have to be restored in 2003-04, along with the remaining $700 million, although this cannot be predicted without revised estimates of revenue, population, personal income and enrollment that should accompany the Governor's Budget in January.

Since revenues are so far down this year, next year's revenues are almost certain to "grow" by comparison, and thereby trigger maintenance factor restoration. If the Constitution does not require full restoration, Section 54 of AB 2781 should be repealed to allow the State to take advantage of declines in the revenues or other factors that could reduce the Proposition 98 guarantee. If this still does not offer enough flexibility, the Proposition 98 guarantee may be suspended by 2/3 vote in a bill separate from the Budget Act.

Suspension, although almost unprecedented[1], may be preferred by some education interest groups as an alternative to manipulations of the guarantee that place non-educational programs under the guarantee in an attempt to meet the constitutional requirement. At present, the Education Coalition led by the CTA remains adamantly opposed to suspension.

Timing. It is obvious that the sooner school districts know what to expect, the better they can adjust. Also, real cuts need more advanced notice than deferrals that pay for this year's programs with next year's money. On a technical basis however, the $1.7 billion needs only to be reverted before the end of the fiscal year. There is nothing in the proposed mid-year K-12 cuts that legally must be done by January 30.

[1] Suspension authority was invoked once before to block any education claims on sales tax proceeds dedicated to Loma Prieta earthquake relief.

ACROSS-THE-BOARD CUTS

The Governor proposes to reclaim $1 billion of the $1.7 billion appropriated above the current year minimum with an "across-the-board" cut of 3.66%. The first thing to understand about this is that the proposal is actually a 2.15% cut to school district revenue limits and an approximately 3.66% cut to categorical programs.

School districts funding is primarily unrestricted revenue limit funding that is comprised of both local property tax and state unrestricted general fund allocation. District revenue limits were created to equalize school funding per pupil, so each district's revenue limit is made up of different proportions of state and local funds. The infamous "basic aid" districts are those with so much property tax that they only receive the $120 per pupil constitutionally mandated "basic aid." Basic aid districts currently get to keep their excess property tax revenue, so a reduction of their revenue limits has no actual impact on their available funding.

Implications and Alternatives. The Department of Finance only applied the 3.66% cut to the state aid part of statewide total of revenue limit funding, thereby proposing to cut combined state and local revenue limit funding by 2.15%. A Department of Finance representative says that the difference was intentional "so that districts would have more flexibility with their unrestricted funding." The result however is to cut categorical programs (including special education and compensatory education) by 1.51% more than general-purpose revenue limits. Since large urban districts tend to receive more of their funding from categorical sources, they would also be disproportionately affected by reducing categoricals more that the revenue limits.

To yield the same dollar amount from a true (undifferentiated) across-the-board cut would require a cut of approximately 2.5%. If an across-the-board cut is accepted, perhaps as part of the solution, then Senate Education Committee staff recommends that it be an undifferentiated percentage of whatever percent is necessary to meet the dollar target.

The Education Coalition is opposed to any across-the-board cuts and coalition has promised to develop a list of programs that could be targeted for reduction or elimination in lieu of overall reductions. The coalition also argues that it is too late for any cuts this year since payroll and benefits make up 85% of typical district budgets. Instead of outright cuts, the Coalition urges that funding be deferred and the programs paid for by 2003-04 appropriations, as was done last year. The

Legislative Analyst has also developed a list of targeted program funding that could either by cut or deferred.

Paying It Back. During the fiscal crisis of the early nineties, the state suspended all Cost-of-living Adjustments (COLA) for K-12 schools, but did so by preserving the statutory entitlement and offsetting it with a negative statutory adjustment that had to be renewed each year. This both preserved the schools right to receive inflation adjustment when the crisis was over (the resultant "deficit" was bought out over a period of years) and gave the legislature some bargaining leverage since the deficit statute had to be renewed annually and any veto made the entire deficit due and payable immediately.

The across-the-board cut is proposed as a permanent reduction even though it amounts to a negative COLA that could be cast as a deficit adjustment, as was done before. The Education Coalition, which opposes across-the-board cuts, will still ask for a deficit statute if such a reduction is part of the final decision.

Budget Control Language. Most of the K-12 education budget items are proposed to be amended to include the following language:

"The amount of funds in this item reflects an approximate 3.66 percent across-the-board reduction to all Local Educational Agencies receiving funds from this item. Notwithstanding any other provision of law, the Superintendent of Public Instruction shall reduce every allocation by a proportionate amount to effect this reduction."

Aside from the propriety of attempting to override substantive law with budget language, this language gives the Superintendent of Public Instruction no latitude to do obviously reasonable things, such as realize savings by first offsetting cuts against surplus funding before making uniform "across-the-board" reductions. Staff recommends either no language or the following substitute:

"*This item has been reduced with the intent that grants and other allocations made from this appropriation should be proportionately reduced. The Superintendent of Public Instruction and Controller are requested to effectuate this intent to the extent practical and necessary in order to maintain programs within available funding."*

Mandated Cost Control. The proposed cuts shave 3.66% off of each of the scheduled reimbursement allowances. Mandates are not like grants where the

amount paid out is discretionary on the part of the state. The claims are what they are, once audited and approved, the state must eventually pay the full claim. We can pay 96.44% of each claim, and still owe 3.66%, or we can achieve permanent savings in a less cumbersome manner. Alternative ways of accomplishing this savings would involve deferring one or more claims (100%) until a future year, or repealing one or more mandates, or a combination that defers the current payable and repeals the mandate for the future. Partial payment of actual seems like the least logical option.

The administration proposes to defer payment of $870 million in state mandate claims that count towards Proposition 98. This includes $259 million in claims for the School Bus Safety II mandate, which was recently shown in a state audit to contain non-reimbursable costs. Some or all of these costs will eventually need to be paid, but there is no urgency to pay them this year. The state does pay interest on overdue claims at the Pooled Money Investment Account rate.

Special Education: Risk of Violating Federal Maintenance of Effort Requirement. Special education (for the handicapped) is treated like all other programs in that state funding is proposed to be cut by 3.66% ($99 million). Unlike most other programs, Special Education is partially federally funded and we risk the loss of over $800 million of federal funds if we violate their "maintenance of effort" requirements. In the current year, the budget already uses a $133 million federal increase to pay for a cost of living adjustment that would otherwise be a General Fund obligation. Reduction of State Funding by the $99 million is likely to violate the maintenance of effort requirement.

We don't know, at this point, how much Special Education can be reduced without violating the maintenance of effort requirement. If Special Education is to be included in cuts at all, the MOE requirement should be recognized with a cap on the reduction. Congressman George Miler is aware of this issue and is likely to seek federal budget language that would strengthen the MOE language, perhaps prohibiting the supplanting of the $133 million, as well as the $99 million cut.

REVERSION ACCOUNT "SWAP"

The administration proposes to "free up" $350 million in current year Proposition 98 funding (which then can be used for non-Prop. 98 purposes) by reverting appropriations from prior fiscal years and using these funds to pay for $350 million

in Regional Occupational Program (ROC/P) costs in the current year. The ROC/P appropriation was chosen because it is large enough to offset the whole $350 million, and not for any policy reason. This is similar to the "adult education swap" done in last year's budget.

The funds proposed for reversion (and then "swapping") represent savings, not program reductions. However, some of the savings come from funding which the Legislature used to pay for Stage 3 childcare services in the current year budget. If the Legislature rejects the Governor's proposal to eliminate Stage 3 child care, approximately $57.5 million of the total proposed for reversion will not be available for this "swap," and further reductions or savings would be necessary. On the other hand, if the Legislature chooses to follow the Legislative Analyst's proposal to pay for Stage 3 child care in part with one-time federal funds, no additional Prop. 98 reversions would be necessary.

CATEGORICAL PROGRAM "FLEXIBILITY"

The Administration proposes to assist school districts to adjust to proposed mid-year cuts by allowing districts the flexibility of reducing traditional categorical program funding by as much as 20% and transferring the funds to (but not from) any of four programs: Special Education, K-3 Class Size Reduction, Child Nutrition (School Lunch & Breakfast) and Supplemental Instruction (Summer school, after school, etc.)

This type of categorical flexibility has been made available for many years through the so-called "mega-item" language, but the four mentioned programs have never been on the mega-item list. Various surveys have shown that the existing language is primarily used to convert categorical funding to general purpose funding by transferring funds to a program like home-to-school transportation and buying out the local general fund share (encroachment) of program costs. This frees-up the local general purpose funding.

The administration's proposed "flexibility" seems designed to encourage more fund conversion since each of the named programs has substantial local encroachment that could be bought out. It is not clear how this proposal helps a local district cope with cuts but it may encourage categorical funding reductions in excess of the proposed 3.66%.

CATEGORICAL PROGRAM SAVINGS

The administration proposes a number of reductions to categorical program appropriations in order to capture anticipated savings. On the whole, there does not appear to be any programmatic impact to these reductions. The Department of Education concurs that savings exist in all of these appropriations but one: the California Information Technology Academies program (a $2.4 million difference in estimated savings). This action does not need to be taken by January 30th.

The Department of Education has also assembled a list of additional savings. Many of these are included in the Legislative Analyst's alternative proposal (see below). The Department would also favor some flexibility to move small amounts of funding between programs should some of the estimated savings not materialize.

LAO PROPOSAL

The Legislative Analyst argues that across-the-board cuts would have an adverse impact on direct services to students and would be difficult for school districts to absorb in the remaining months of the fiscal year. The Analyst proposes targeting reductions at programs that do not have a direct influence on student services.

The Analyst's alternative proposal includes 1) targeted reductions, 2) additional reversions, 3) a funding shift for Stage 3 childcare (to federal savings), and 4) deferrals. Their proposal would result in over $500 million in additional general-purpose funds.

The LAO alternative is shown on the next page. *Those items which would likely not be supported by the Legislature are shown in italics.*

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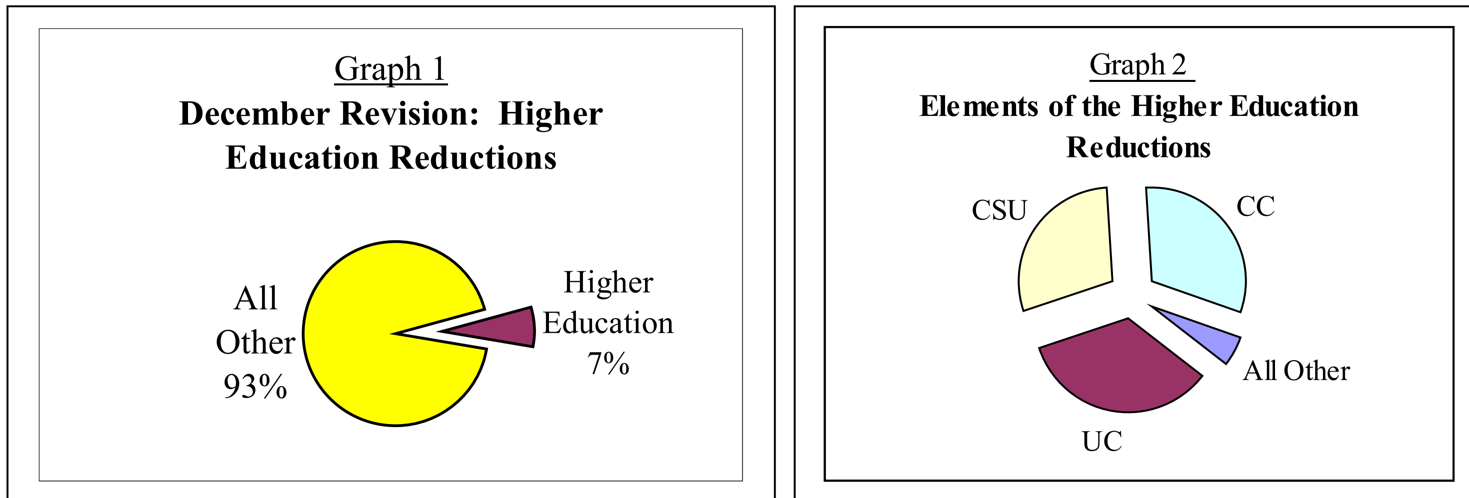
Program	Description of Alternative	Savings (in millions)
Instructional Materials – one time grants	Delay requirement that districts purchase new instructional materials. Many districts have recently purchased materials under the AB 2519 process.	$150.0
Reduce revenue limit COLA from 2% to 1.66%	In the current year the Legislature provided a "super COLA" of 2 percent, though the statute only called for a 1.66 percent COLA. The provision of law which allows for mid-year layoffs if the state provides a COLA lower than 2 percent was suspended for 2002-03 in last year's trailer bill. If this were presented as part of a substitute for an across the board cut (of a higher percentage), it is not clear how the Legislature would respond.	95.5
Reduce categorical COLA from 2% percent to 1.66%	(see above)	25.4
Backfill Stage 3 child care with one-time federal funds	This is an option that should be strongly considered. If federal funds are not used, the Legislature will have to find $79 million in additional Prop. 98 savings to pay for Stage 3. This appears to be a partial backfill – the total required is $99 million.	79.1
Supplemental instruction	Revert unused portion of funds from this program from prior fiscal year (1998).	69.9
High Priority Schools Grant Program	*Eliminate second cohort for this program. In addition, use budget year funds to pay for the final current year payment, since the final payment will not be paid to schools until the budget year. Note: Elimination of the second cohort will be a problem, but the deferral of the final payment may not.*	*66.2*
Immediate Intervention/Under-performing Schools	Use budget year funds to make final current year payment since the final payment (20%) will not be paid to schools until September, 2003.	39.6
Math & Reading Professional Development	Delay initiation of this program until future years. This is a Governor's priority.	63.4
School Library Materials	Temporarily suspend program	32.7
Community College Part-Time Faculty	*Cut part-time faculty extra compensation (as of February 1, 2003)*	*24.0*
Miscellaneous	Enact a combination of various reductions & reversions	115.5
Deferrals	Provide funding for programs administered in 2002-03 in July 2003. This proposal is similar to the deferrals done in last year's budget process. Deferring additional funding would put some pressure on the budget year, but would have little current year programmatic impact.	317.0

Total		$1,078.4

Higher Education

HIGHER EDUCATION



Higher education accounts for about seven percent of the reductions contained in December Revision. Of this amount, the cuts are predominately made to the higher education segments, roughly evenly distributed among the University of California (UC), the California State University (CSU) system and the community college system. Graphs 1 and 2 are illustrative.

CALIFORNIA STATE LIBRARY (CSL):

Program	Description	CY Cut (millions)	BY Cut (millions)	Consequences	Trailer Bill /Time line
• Public Library Foundation (PLF)	Although never fully funded, the PLF was intended to replace some of the revenue lost in the funding cuts that followed Proposition 13. The program provides grants to local libraries for operations and materials. Proposal represents a 50 percent reduction in the program from the CY budget. Since 2000-01 when the PLF budget was $56.9 million, the program has been reduced 72 percent and would total $15.7 million in the CY if proposed reductions are adopted.	$15.8		Local libraries will likely reduce hours of operation and have difficulty acquiring new materials and have to cease operating special services such as bookmobiles and literacy programs.	No TB needed; Funds need to be reverted by end of January since The PLF money for the current year goes out in February 2003.

CALIFORNIA COMMISSION ON TEACHER CREDENTIALING (CTC):

Program	Description	CY Cut (millions)	BY Cut (millions)	Consequences	Trailer Bill /Time line
• Pre-Intern Programs	Provides emergency permit teachers with preparation in the subject matter they are assigned to teach, with goal of transferring to Intern or other teacher preparation program.	$16.4		DOF notes that these are unused, carry-over funds from prior years, when the program was slow to ramp-up.	No TB needed;

HASTINGS COLLEGE OF LAW (HCL):

The Governor's December Revision proposes to reduce funding for the HCL by $1 million or 6.5 percent of its' General Fund budget. At present, Hastings indicates that it does not intend to assess a mid-year increase in student fees; however, approximately 50 percent of the current-year reduction ($480,000) could be recovered by assessing a $400 fee increase for the Spring semester (which is the approximate increased fee amount adopted by the UC Regents for law students).

UNIVERSITY OF CALIFORNIA (UC):

While the state does not “line-item” budget the UC, the Governor specifies that funding for the following programs and services and services be reduced (rather than allowing the UC to determine how the entire $74.3 million in reductions would be achieved.) Following is a summary of the proposed UC reductions:

Program	Description	CY Cut (millions)	BY Cut (millions)	Consequences	Trailer Bill /Time line
• Academic & Institutional Support	General campus administration and operations (including libraries, program administration, health clinics and support staff). Does not include academic instruction or facility & building maintenance.	$20		Campuses will be given the flexibility to determine how the cuts will be implemented. Health science clinics will likely experience decreases in the amount and level of services provided as well as hours of availability.	No TB needed; Funds can be reverted at any time in CY
• State-Supported Research	UC intends to “sweep” unexpended funds from targeted research programs, including: MIND Institute ($2 million); Labor Institute ($2 million); Brain Injury Research ($2 million); UC Mexico	$18		In the CY, many of the funds targeted for reversion were being set-aside or saved for a specific purpose or had not yet been dispersed for research grants; although advocates from the Labor Institute contend the $2 million reduction is a base cut.	No TB needed; Funds can be reverted at any time in CY

	Program ($2 million) and the Substance Abuse Research Program ($10 million).			Reductions in these programs will result in direct research cutbacks and essentially negate the "buildup" of state-support research that occurred during the late 1990's.	
• Student Services	Student fee-funded programs include: student financial aid, admissions, registrar, intercollegiate and intramural athletics, recreation programs, and student arts and cultural programming.	$6.336		In the CY, UC intends to keep financial aid, admissions and registrar services in tact and will instead cut other Registration-funded programs including student events and arts, cultural programming and athletics.	No TB Needed; Funds can be reverted at any time in CY
• Student Outreach	Outreach programs to students from economically-and socially-disadvantaged backgrounds. A myriad of programs aim to increase the academic preparation of these students, through partnerships with K-12 schools.	$3.332		In the CY, this reduction amounts to a five percent across the board cut to all UC-administered student outreach programs.	No TB Needed; Funds can be reverted at any time in CY
• AP Online	Provides online Advance Placement	$4		Reduction will result in no new courses being developed, which	No TB Needed;

	courses to students/schools that otherwise would not be able to offer advanced courses. Funds are used to develop the curriculum and convert the courses to an on-line format.			will keep the program at its current level.	Funds can be reverted at any time in CY
• Public Service	Broad range of activities organized by the UC to serve local communities, students, teachers and the public in general. Includes Cooperative Extension (applied Agriculture research).	$2.5		Reduction results in a five percent across-the-board cut to all UC Public Service Programs.	No TB Needed; Funds can be reverted at any time in CY
• K-12 Internet	Infrastructure project to connect K-12 schools to Internet backbone.	$1.1		Reduction results in no expansion in the number of schools served. (Rural schools still won't be served). UC estimates that approximately 88 percent of schools have been connected to-date.	No TB Needed; Funds can be reverted at any time in CY
• Unallocated Reduction	Governor's proposal calls for an unallocated reduction of $19 million	$19		UC intends to recover the $19 million in unallocated reductions by raising student fees in the	No TB Needed;

	in the CY.			current year (effective January 2003); The Board of Regents convened a special session on December 16th to increase fees for resident students by $135 for the Spring term and increase the differential fee charged to professional school students by anywhere from $150 to $400 depending upon the program. These amounts will double in the Budget Year, with additional increases likely (pending the amount of General Fund available for the UC in 2003-04).	Funds can be reverted at any time in CY

Selected UC Issues

Targeted Reductions – Reductions are targeted at specified programs, including a $10 million reduction in support for the Substance Abuse Research Program (from prior-year, carryover funds) and $2 million from the MIND Research Institute.

Student Fees – UC took action on Monday December 16, 2002 to increase student fees for the Spring term by $135 for all students and to also increase the differential fee assessed to students in professional programs (Medicine, Dentistry, Law, Business, Nursing, Theater/Film/TV, etc.) These increases represent the half-year costs of the increase. As a result, the increase will double in the Budget Year ($270 for all students) with the

strong likelihood that additional increases will be approved. According to the UC, fees represent only one-quarter of the total cost of a UC education and UC student fees remain among the lowest in the nation. Furthermore, UC notes that fees for professional students will still remain approximately $7,800 below those of comparison institutions, even after the mid-year increases.

Overall Level of Reductions – The Governor's December Revision reduces funding for the UC by $74.3 million. This equates to a 2.4 percent reduction, which is equivalent to the reduction proposed for the California State University (CSU), but falls short of the 3.66 percent across-the-board reductions in K-12 and the Community Colleges (total reductions in the Community Colleges total 4.37 percent.)

Given the UC Board of Regent's ability to raise student fees and retain two-third of the revenue to "backfill" program reductions (one-third of the revenue derived from fee increases goes back to student financial aid), the actual percentage reduction absorbed by the UC in the current year will be closer to 1.7 percent.

Since Due to the level and targeted nature of the reductions, UC believes that direct academic instruction will not be impacted (since cuts are targeted at other areas of University operations, including student outreach, state-supported research and student services).

Alternatives:

In relation to the Proposition 98-funded educational entities, UC's current year realized reduction of 1.7 percent appears minor. As an alternative, UC may be able to absorb additional current year unallocated reductions (depending on the reductions proposed for the system in the Budget Year) without a fee increase. Further, UC could assess a mid-year fee increase in excess of the $135 currently proposed.

According to the UC, since the beginning of the 2001-02 fiscal year, UC's state-funded budget has taken more than $240 million in cuts, including $74 million in proposed current-year reductions. Furthermore, UC has foregone an additional $237 million in funding it had expected over the last two years for faculty and staff salary increases and other cost increases under its "Partnership Agreement" with the Davis administration. In

total, the budget shortfall, as computed by the UC, is now approximately $480 million and will likely grow higher next year.

CALIFORNIA STATE UNIVERSITY (CSU):

The Governor's December Revision proposes to reduce funding for the CSU by $59.6 million. This equates to a 2.3 percent reduction, which is equivalent to the reduction proposed for the UC but falls short of the 3.66 percent across-the-board reductions in K-12 and the Community Colleges (total reductions in the Community Colleges total 4.37 percent.) Given the CSU Board of Trustee's ability to raise student fees and retain two-third of the revenue to "backfill" program reductions (one-third of the revenue derived from fee increases goes back to student financial aid), the actual percentage reduction in the current year will be closer to 1.7 percent.

In addition to the $59.6 million mid-year proposed reduction, CSU states it has an additional $22.8 million in unfunded costs associated with health care and compensation increases. After adding these unfunded costs and cuts together, CSU arrives at a total mid-year "shortfall" of: $82.4 million.:

Program	Description	CY Cut (millions)	BY Cut (millions)	Consequences	Trailer Bill / Time line
• Unallocated Reduction	CSU Board of Trustees to determine which programs and services will be reduced.	$59.6	$152.3	CSU believes it needs to compensate for an $82.4 million current year shortfall and the Trustees took action at a special meeting on December 16th to: (1) Increase student fees by 5 percent for undergraduates ($72) and 15 percent for graduate students ($114). This will bring the fee level for undergraduate students to $786 per semester or $1,572 per year; graduate student fees would be $867 per semester	TB Not needed; Additional expenditure authority is needed in the CY to appropriate funds derived from student fee increase.

				or $1,734 per academic year, which amounts to a ten percent and 30 percent annual increase, respectively. This fee level is still far below ($2,000 less than) the average for comparison institutions. Of the total amount of revenue generated from the fee increase ($30.1 million), one-third will be used to provide financial aid for needy students and the remaining two thirds ($20.1 million) will be used to offset the $82.4 million mid-year shortfall. (2) Reduce operations spending by $62.5 million on a one-time basis by (a) filling only critically-needed positions; (b) reducing travel and administration costs; (c) reducing funding for building maintenance; (d) reducing funding for academic support and (e) deferring some expenditures until the Budget Year.	

Selected CSU Issues:

Student Fees – The CSU Board of Trustees took action on Monday December 16, 2002 to increase student fees for the Spring term by $72 (five percent) for undergraduate students and $114 (15 percent) for graduate students. This will bring the fee level in the current year to $786 and $867 per semester for undergraduate and graduate students respectively. This fee level is still approximately $2,000 per year less that the average of comparison institutions. Of the total amount of revenue generated from the fee increase ($30.1 million), one-third of the revenue will be used to provide financial aid for needy students and the remaining two thirds ($20.1 million) will be used to offset CSU's $82.4 million mid-year shortfall.

Reductions – The Governor's December Revision reduces funding for the CSU by $59.6 million This equates to a 2.3 percent reduction, which is equivalent to the reduction proposed for the UC, but falls short of the 3.66 percent across-the-board reductions in K-12 and the Community Colleges (total reductions in the Community Colleges total 4.37 percent.)

Reductions proposed for the CSU are unallocated in nature, with the CSU Board of Trustees retaining discretion over how the cuts will be implemented. CSU intends to reduce operations spending by $62.5 million (on a one-time basis) by filling only critically-needed positions and reducing funding for academic support, among other things. It is unclear how the proposed reductions will be received by the various CSU constituency groups. It is possible that reductions implemented in this manner, may result in conflict with faculty organizations over such issues as faculty hiring and compensation.

Given the CSU Trustees ability to raise student fees and retain two-third of the revenue to "backfill" program reductions (one-third of the revenue derived from fee increases goes back to student financial aid), the actual percentage reduction absorbed by the CSU in the current year will be closer to 1.5 percent.

Alternatives:_

In relation to the Proposition 98-funded educational entities, CSU's current year realized reduction of 1.5 percent appears minor. As an alternative, CSU may be able to absorb additional current year unallocated

reductions (depending on the reductions proposed for the system in the Budget Year) without a fee increase. Further, CSU could assess a mid-year fee increase in excess of the $72 currently proposed for undergraduates and the $114 proposed for graduate students.

CSU would note that in additional to the $59.6 million in proposed current year reductions, the CSU has also experienced $43 million in cuts enacted in September and $22.8 million in unfunded costs experienced by the system. On top of that, the CSU is trying to manage over 8,000 FTE students in the current year for which it has received no funding.

CALIFORNIA COMMUNITY COLLEGES (CCC):

The Governor's December Revision proposes to reduce funding for the Community Colleges by 4.37 percent. This includes a 3.66 percent across-the-board reduction for all apportionments and categorical program funding and an additional reduction of $80 million for alleged "double counting" of concurrently-enrolled K-12 students. The budget "hit" to the community colleges is significantly higher than the reductions proposed for the other Higher Education Institutions (approximately 2.4 percent; 1.7 percent after UC and CSU reap the revenues from increased student fees).

Program	Description	CY Cut (millions)	BY Cut (millions)	Consequences	Trailer Bill / Time line
• Across-the Board reduction to all colleges for apportionments and categorical programs.	Reduces general purpose funding for colleges by 3.66 percent; Also reduces the amount of funding	$97.5		Less funding per student results in less support for direct instruction and academic support. Including: fewer instructors, fewer course offerings, impacted classes, longer time to accomplish	No TB Needed; Unexpende d funded could be

	available for all "categorical" programs (i.e., basic skills; EOPS; services to disabled students; Partnership for Excellence; Part-time faculty compensation; Economic Development) by 3.66 percent across-the-board.			degree/academic or certificate objectives. Less support for categorical programs results in limited availability of services for "at risk" student populations (CalWORKS, disabled, underrepresented students); statutory requirements for providing services remains in place despite reduced funding.	recaptured in the Proposition 98 Reversion Account.
• Reduction for alleged abuses of concurrent enrollment option for K-12 students at community colleges.	Recently a number of newspaper articles have revealed that colleges are abusing the K-12 concurrent enrollment system by enrolling students in Physical Education courses that do not meet the statutory specifications outlined for concurrent enrollment, and then claiming ADA for the students.	$80.0		The extent to which concurrent enrollment is being abused is unclear. In the absence of "hard" data, DOF is estimating that approximately 20,000 Community College FTE are concurrently enrolled K-12 students who are being claimed inappropriately. As a result, the Governor's December Revision reduces the CCC budget by $80 million. Legitimately enrolled K-12 students may be penalized for	TB not needed, but may be useful to prevent "double counting" of FTE in the future..

				the inappropriate practices of a few K-12 and community college districts.	
• Property Tax Shortfall/Backfill	The CY budget overestimates the amount of property tax revenue that community colleges will receive (and spend on a per student basis). In good budget years, the state has elected to backfill these "lost" revenues; however the Governor's December Revision explicitly states that these over-budgeted revenues will not be back-filled	$37.5		This is a long-standing issue for the community colleges. While the state does not traditionally backfill the community colleges when property tax payments come in lower than the estimates used for budgeting, it does result in a real reduction in revenues for districts since DOF calculated their per student rate based on the assumption that districts would have $37.5 million more in property tax monies than they will actually have.	No TB needed

Selected Community College Issues:

Reduction for alleged abuses of concurrent enrollment option for K-12 students at community colleges.
Current law allows K-12 students to be concurrently enrolled in classes on community college campuses, as specified. Specifically, the courses must be a community college level course which is open to the public. Recently the *Orange County Register* reported that colleges are abusing the system by enrolling K-12 students in Physical Education courses that are otherwise not open to the public and then claiming ADA for the students.

DOF intends to conduct an audit of this practice to determine the extent to which it is occurring. In the absence of "hard" data, DOF cuts the community colleges' budget by $80 million, estimating that approximately 20,000 Community College FTE students are concurrently enrolled K-12 students being claimed inappropriately. In estimating the extent to which this practice is occurring on college campuses, DOF extrapolated data it received from the Los Angeles Community College District and then assumed that 40 percent of "special admit students" (which includes K-12 students, as well as other types of "special admits") were inappropriately claimed. The Community College Chancellor's Office estimates that the appropriate dollar figure is somewhere between $10 and $45 million while the *Orange County Register* sited the statewide cost at $56 million.

While all parties acknowledge that the practice is occurring, the extent of it remains unclear. However, staff notes that it seems inappropriate for the Administration, which has yet to conduct an audit, to substantially reduce the budget of the community colleges prior to hard evidence illustrating the depth and breadth of wrong doing.

As an additional note, community colleges are already having a difficult time absorbing over 60,000 FTE students in the current year for which they never received funding, without the state arbitrarily cutting $80 million from their instructional budgets.

Alternatives:

Fees for Concurrently Enrolled K-12 Students. In the budget year, the Legislature may wish to consider enacting legislation to increase student fees at the community colleges (unlike UC and CSU the community college fee level is set in statute) and, contrary to current practice, allowing the community colleges to keep the fee revenue to offset budget reductions. Currently, most all revenue generated from community college student fees are an offset to the state General Fund (pursuant to Ed Code sections 84751 and 76300.) These sections require that the Chancellor subtract from the total revenue owed to each district, 98 percent of what community colleges collect in student fee revenues and use this amount as an offset to the General Fund. The remaining 2 percent is used to administer the collection of the fees.

The Legislature could allow the Community Colleges to retain revenues generated by student fees, but require that the system use a portion of these resources to address student financial aid for the most needy students and for other identified activities.

Possible Student Fee Increases. Under current law, individual community colleges have discretion over whether or not they charge fees to "Special Admit" students (including concurrently enrolled K-12 students), regardless of the student's financial need. The Legislature may wish to consider requiring districts to assess fees on these students unless they meet the financial need requirements of the Board of Governor's Fee Waiver Program (BOG), and then allowing districts to keep the revenue (as discussed above).

CALIFORNIA STUDENT AID COMMISSION:
The Governor's December Revision proposes to minimally reduce state operations funding for California Student Aid Commission and leave the Cal Grant Program untouched. While reductions in the Cal Grant program would be difficult if not impossible to implement in the current year, staff notes that there are several options available, in the Budget Year, to limit the growth in funding needed to support the program.

Budget Year Alternatives:

The Cal Grant Entitlement Program provides a Cal Grant to students meeting specified GPA and financial need requirements. The amount of the grant covers mandatory systemwide fees at the UC and CSU and up to $9,700 for students attending private institutions. As word of the Entitlement Program gets out, more and more eligible high school students are applying and being deemed eligible for a Cal Grant.

In order to keep costs down within the Cal Grant Entitlement Program in the Budget Year, the Legislature may wish to consider: (1) providing partial grants to all Cal Grant recipients at, for example, 85 percent of the full grant amount, thus allowing students with the highest need to receive a full grant while students with the lowest financial need receive a smaller grant; it is unclear how much in savings would be reaped from adopting this

type of grant model; (2) lowering the income ceiling under which students are deemed to be "financially-needy." For example in the Cal Grant A program, a reduction of $3,000 from the current income ceiling of $78,000 for a family of six or more to $75,000 (with a corresponding change in the Cal Grant B program) saves the state approximately $5 million; and/or (3) increasing the minimum Grade Point Average requirement for both Cal Grant A and Cal Grant B recipients. Increasing the GPA for Cal Grant A recipients from 3.00 to 3.10 and for Cal Grant B recipients from 2.00 to 2.10 would save the state approximately $10 million. Increasing the GPA to 3.20 and 2.20 for Cal Grant A and B respectively would save the state a total of $27 million.

SELECTED K-12 ISSUES

Adult Education Concurrent Enrollment. The Administration proposes to reduce funding for adult education by $13.5 million (which equates to 6,100 ADA) to account for audit findings in 1992 when it was revealed that approximately one dozen districts were illegally "double" claiming ADA for regularly enrolled K-12 students who were also enrolled in Adult Education courses.

CalWORKS Stage 3 Child Care. The Administration proposes to eliminate CalWORKS Stage 3 child care services, which are specifically available for families who have otherwise exhausted their two-year CalWORKS transitional eligibility. Eliminating the program, as of April 1, 2003 (as proposed by the Administration) would save $99 million and leave 55,700 children without child care services as of that date. In order to implement this change effective April 1st, Trailer Bill language would need to be adopted by the Legislature by the end of January 2003. In addition to leaving children and families without childcare services, eliminating Stage 3 CalWORKS child care will likely result in an undetermined number of families returning to aid and to Stage 1 child care services.

- **Child Care Alternatives**

The Legislative Analyst suggests funding Stage 3 CalWORKS child care services using one-time federal funds (in order to still reap the General Fund Proposition 98 savings) through the end of the current year. Continuing to fund the program through the end of the current fiscal year would ensue that families don't lose care within the next three months and would also allow the Administration to work with the Legislature and the various constituency groups to develop a workable child care plan for the state.

In developing a longer term child care plan, the Legislature may want to consider re-evaluating the need for partial-day State Preschool ($308 million) to determine if this is indeed the best use of the state's child care resources. Other options include assessing the rate of reimbursement for both licensed and license-exempt providers.

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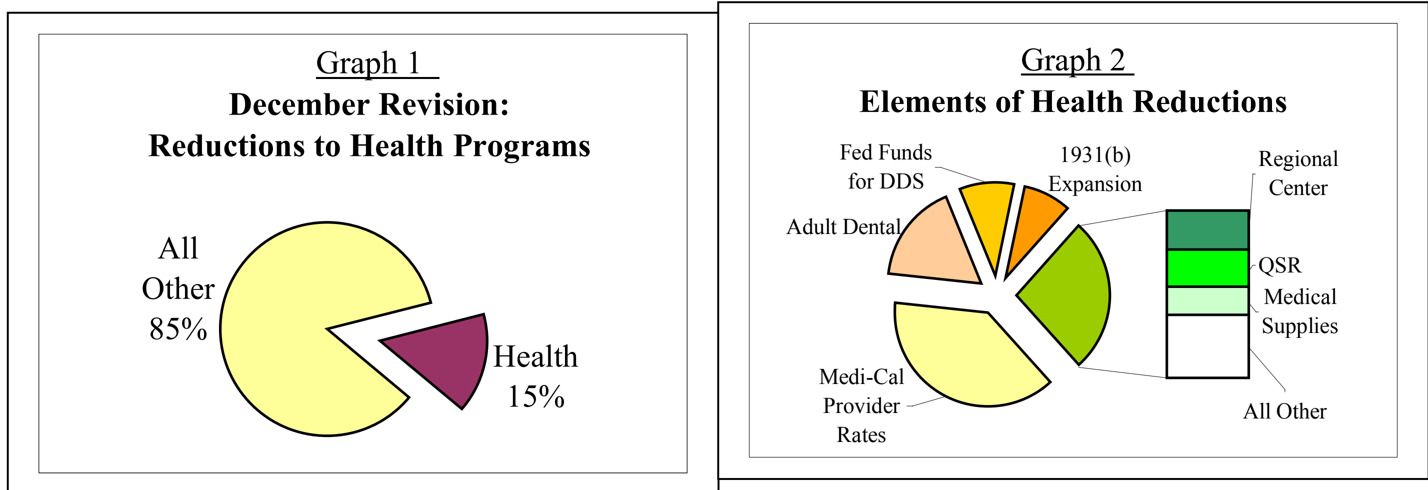
Health, Developmental Disabilities and Mental Health

HEALTH, DEVELOPMENTAL DISABILITIES AND MENTAL HEALTH



In this policy area, the December Revision includes reductions totaling over $1.5 billion over the two fiscal years, about 15 percent of the total revision, as displayed in Graph 1.

Graph 2 highlights the major aspects of the revision. As discussed in greater detail below, the reductions are primarily derived from the following actions:

- Reduce Medi-Cal provider rates for a savings of over $580 million.
- Eliminate eight Medi-Cal optional benefits, including Adult Dental and Medical Supplies. For the dental medical supplies reduction alone, the state would save $350 million over the next 18 month.
- Revert over $140 million (General Fund) from Developmental Services, as federal funds have increased to offset General Fund support.
- Rescind 1931(b) Medi-Cal eligibility for a savings of $124 million. This action reinstates the “100 hour a month work limit” for families with incomes up to about 61 percent of poverty.
- Reduce regional centers by $100 million.
- Reinstate quarterly status reporting (QSR) for families participating in Medi-Cal for savings of $90 million.

4120—EMERGENCY MEDICAL SERVICES AUTHORITY—
Consolidate with DHS
($138,000 BY)

Description. The Administration proposes adoption of trailer bill language in the Special Session to transfer the Emergency Medical Services Authority (EMSA) to the Department of Health Services (DHS) for savings of $138,000 (General Fund) in 2003-04.

Staff Comment and Alternative. The proposal seems reasonable but does not need to be enacted in the Special Session in order to obtain the minor savings. The legislation could proceed through the policy committee process if desired.

Additional state consolidation opportunities should be considered, particularly where there are departments with like functions. For example, the Office of Statewide Health Planning and Development could be a candidate for consolidation within the DHS as well.

4260--DEPARTMENT OF HEALTH SERVICES—The Medi-Cal Program

1. Reinstate Quarterly Status Report ($5 million CY & $85 million BY):

Description. The Administration proposes legislation to reinstate the Quarterly Status Report (QSR) effective April 1, 2003 *and* to change statute regarding the determination of Medi-Cal eligibility. Savings of $5 million (General Fund) in 2002-03 and $85 million (General Fund) in 2003-04 are estimated for this action. These savings estimates assume that 33,900 adults will be terminated from Medi-Cal coverage in 2002-03 and that 193,123 adults are dropped in 2003-04.

Under the QSR process, families participating in Med-Cal only (non-cash aid) are required to complete a detailed form about income and other personal information *every* three months (quarterly), even if there is no change in the families circumstance. Medi-Cal coverage is discontinued if the form is not promptly returned.

The Budget Act of 2000 eliminated the QSR process in favor of a streamlined system whereby families are required to self report within 10-days of any change in circumstance (such as a change in income). Elimination of the QSR reduced

administrative processing, maintained the families health care coverage, and simplified Medi-Cal to conform with the Healthy Families Program.

Prior to the elimination of the QSR, many Medi-Cal recipients were terminated from coverage even though they still qualified for services simply because they did not submit a QSR.

The Administration's proposed language would significantly erode existing statute (SB 87, Statutes of 2000) by deeming Medi-Cal recipients who fail to return the QSR as being uncooperative and automatically terminated from benefits. This aspect of the Administration's proposal goes beyond simply reinstating the QSR.

Chapter 1088, Statutes of 2000 (SB 87, Escutia), generally requires that in instances when Medi-Cal eligibility has been terminated on one basis, that a review must be conducted to determine if the individual is eligible for Medi-Cal under other circumstances. All avenues of potential Medi-Cal eligibility are to be reviewed to determine ongoing eligibility.

Staff Comment. Reinstatement of the QSR would achieve savings by terminating adults from Medi-Cal who are still likely eligible for Medi-Cal but simply did not return the QSR. The majority of recipients affected by this change would be adults (non-cash aid) enrolled in Medi-Cal managed care plans. However as discussed below, children could also be effected.

There are several analytical flaws with this proposal. First, these Medi-Cal recipients are very low-income wage earners—usually working people who have left CalWORKS and need medical coverage. Their circumstance is not likely going to change significantly and if it does, the recipient is required to report a change within 10 days. In addition, county eligibility offices can and often do monitor changes in Medi-Cal recipients' earnings using the state's automated wage reporting system; therefore, program eligibility can be checked prior to a recipients annual re-determination period.

Second, individuals dropped from Medi-Cal for not returning a QSR will likely seek medical assistance at county indigent health clinics or the emergency room. Safety net hospitals would lose Medi-Cal revenues and likely have to provide coverage to more uninsured.

Third, a key concern with this proposal is its interaction with the Administration's proposal to eliminate the 1931 (b) Medi-Cal eligibility category. If a Medi-Cal

recipient (adult, non-cash aid) does not return their QSR and is dropped from Medi-Cal, they likely will *not* be able to re-apply for Medi-Cal due to the elimination of the 1931 (b) category. This issue is discussed further in item two below.

Fourth, elimination of the QSR was intended to reduce over time Medi-Cal Administration costs in order to make the program more efficient and effective. Over the past two fiscal years, county Medi-Cal administration has been reduced by $459 million ($229 million General Fund) to reflect several cost reductions. If the QSR is reinstated, counties will need substantially more funding in order to re-program computer systems, train eligibility workers, and hire additional staff to process the additional paperwork. These increased county administration costs were *not* factored into the Administration's proposed savings amount.

Fifth, it would severely erode existing statute (SB 87, Statutes of 2000) by deeming Medi-Cal recipients who fail to return the QSR as being uncooperative and automatically terminated from benefits. As such, these individuals would not have their eligibility status reviewed by the county, nor would they be eligible to receive Transitional Medi-Cal Program coverage even if they would otherwise quality (low-income) for the benefits.

Sixth, 37 other states allow parents participating in Medicaid to annually renew their coverage. In fact, a federal review conducted of California in 2000 expressed grave concerns that a significant number of Medi-Cal recipients were losing coverage because the QSR was not being returned. In response to this criticism, the Davis Administration noted that it was eliminating the QSR requirement to facilitate the retention of families.

Further, there could be *unintended* consequences for children if this proposal is adopted. Many families apply to Medi-Cal as a family unit (parents and children). Subsequently, unless county computer systems are modified to distinguish between family members who are subject to the QSR and family members who are not, children could lose their Medi-Cal coverage inappropriately through a processing error. This is a realistic concern since a federal review conducted in California in 2001 found numerous inconsistencies in the operation of Medi-Cal computer systems across counties.

In addition, parents receiving a Medi-Cal termination notice may mistakenly believe that their entire family, including children, are being dropped from enrollment.

Pregnant women, CalWORKS-linked adults, and the aged, blind, and disabled Medi-Cal recipients are not affected by this QSR proposal.

2. Rescission of 1931 (b) Medi-Cal Eligibility ($6.2 million CY & $118 million BY)

Description. The Administration proposes legislation to rescind the 1931 (b) Medi-Cal eligibility expansion (currently at 100 percent of federal poverty) and to reinstate the "100-hour a month work limit". This proposal would limit eligibility to families with incomes up to about 61 percent of poverty (annual income of $11,041 for a family of four). With respect to employment, two-parent families would become *ineligible* for Medi-Cal if the principle wage earner works *more* than 100 hours a month (about 23 hours a week), no matter their low-income level.

The proposal assumes an April 1, 2003 implementation with savings of $12.4 million ($6.2 million General Fund) in 2002-03 and $235.9 million ($118 million General Fund) in 2003-04. These savings estimates assume that 58,578 adults will not be eligible for Medi-Cal coverage in 2002-03 and that 292,890 adults will not be eligible in 2003-04. After full implementation, the DOF estimates savings of $985.1 million ($492.6 million General Fund) annually.

Here are examples of how Medi-Cal eligibility would be changed, and made more complex, under this proposal:

- Two-parent working families applying for Medi-Cal where the primary wage earner works *more* than 100-hours per month will no longer qualify for Medi-Cal at *any* income level.
- Two-parent working families applying for Medi-Cal where the primary wage earner works *less* than 100-hours per month, will be eligible for the 1931 (b) category if their incomes are under 61 percent of poverty. If their incomes are between 61 percent and 75 percent, they would qualify for Medi-Cal under the Medically Needy category. If there income is above 75 percent of poverty, they would qualify under the Medically Needy category with a share-of-cost.
- Single-parent families and those two-parent families where one is disabled can qualify for the 1931 (b) category if their incomes are below 61 percent of poverty. If their incomes are between 61 percent and 75 percent, they qualify

for the Medically Needy category. If there income is above 75 percent of poverty, they would qualify under the Medically Needy category with a share-of-cost.

- Families enrolled in Medi-Cal now (recipients) who rely on the applicant income test (families with unearned income, such as disability income) will only quality for the 1931 (b) category if their incomes are under 61 percent of poverty. If their incomes are between 61 percent and 75 percent, they qualify for the Medically Needy category. If there income is above 75 percent of poverty, they would qualify under the Medically Needy category with a share-of-cost.

The Budget Act of 2000 expanded eligibility for Medi-Cal to include families with income up to 100 percent of the federal poverty level. This action was in response to a federal Welfare Reform law change (Section 1931 (b) of the Social Security Act) which enabled states to grant Medicaid eligibility to anyone who would have met the income, resource and deprivation rules (such as children with an absent, decreased, incapacitated, or unemployed parent) of the AFDC Program as it existed on July 16, 1996 (date selected by Congress).

The concept behind this federal policy was to maintain health coverage for families that leave welfare for work, eliminate the incentive to be on welfare in order to receive health care coverage, and to make health care available for working, very low-income families.

Staff Comment. The Administration's proposal would deny health care coverage through the Medi-Cal Program to hundreds of thousands of low-income, working families. These are families which are low-income, *not* receiving cash-assistance, and who need health care coverage because their employers do not provide it.

As illustrated by the eligibility examples provided above, this proposed policy change serves as a *disincentive* to work full-time, to maintain family unity, and to move off of CalWORKS. Many families would not qualify for Medi-Cal even though they meet the low-income test because they are working more than 100-hours a month. If they lose health care coverage, they can spiral back into CalWORKS and potential poverty. If desired, the 1931 (b) eligibility category could be reduced *without* reinstating the 100 hour a month work limit.

Children are also affected by this proposal. While the proposed changes are intended to make more parents ineligible for Medi-Cal, the fact is that the entire

family loses coverage. The children would have to re-apply for eligibility under the Medi-Cal for Children Program (the 100 percent and 133 percent poverty programs).

This proposal also interacts with the Administration's proposal to reinstate the Quarterly Status Report (QSR). If an existing 1931 (b) category recipient loses Medi-Cal because they do not return their QSR, they are dropped from Medi-Cal and likely would *not* be eligible for Medi-Cal due to the elimination of the 1931 (b) category. This is particularly true for those who are working more than 100 hours a month.

This proposal also affects a families eligibility for Transitional Medi-Cal services. Currently when a family loses 1931 (b) eligibility because their income goes above 100 percent of poverty, they can still potentially obtain up to two years of coverage. The purpose of this federal law for transitional services is to assist families to move into self-sufficiency. However, families in the Medically Needy category are not eligible for Transitional Medi-Cal services. Subsequently families with incomes above 61 percent of poverty who will no longer qualify for 1931 (b) but will qualify for the Medically Needy category will *not* be eligible for Transitional Medical services.

The proposal would also require some families to pay a share of cost each month in order to obtain their Medi-Cal health care coverage. Families currently enrolled in the 1931 (b) program have no share of cost. Under the Administration's proposal families with incomes above 75 percent of poverty would have to pay a share of cost.

The proposal would also add additional complexity to Medi-Cal eligibility determinations. Changes to county computer systems, as well as county eligibility worker training, would be needed to implement this proposal. However the Administration's cost estimate does not take this into consideration.

3. Reduce by 10 Percent Provider Rates for Three Years ($90.4 million CY & $491.8 million BY)

Description. The Administration proposes legislation to reduce **both** Medi-Cal *and* non-Medi-Cal provider rates by 10 percent across-the-board effective April 1, 2003 to achieve savings of $90.4 million (General Fund) for 2002-03 and $491 million (General Fund) for 2003-04. The legislation would continue the reduction

for three years through 2005-06 (ending as of July 1, 2006). This is the first time that an across-the-board reduction has been proposed.

For Medi-Cal providers, the rate reduction **includes** nursing home facilities, Intermediate Care Facilities for Developmentally Disabled (ICF-DD), physician services, pharmacy, dental services, managed care plans, home health, medical transportation, and other medical services. This is the first time that nursing home facilities have been included in a rate reduction.

The rate reduction also includes non-Medi-Cal programs, including the California Children's Services (CCS) Program, the Family Planning, Access, Care and Treatment Program (Family PACT), the State-Only Family Planning Program, the Genetically Handicapped Persons Program, and the Breast and Cervical Cancer Early Detection Program. In addition, the Director of the DHS may also identify in regulations other programs in which providers shall be paid rates of payment that are identical to the rates paid under Medi-Cal.

The Administration's proposal does not include General Fund savings attributable to reducing the non-Medi-Cal programs. This was an oversight on their part and a figure is to be forthcoming in January. The figure is likely to be in the tens of millions of General Fund range.

Exempt from the 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.

The following table summarizes the annualized reduction by Medi-Cal service category.

Medi-Cal Service Category	**Total Fund Reduction**	**General Fund Reduction**	**Percent of Total Savings Level**
Nursing Home Facilities (including ICF-DD)	$329.5 million	$168.8 million	34 percent
Managed Care Plans	278.6 million	139.3 million	29 percent
Physicians Services	94.4 million	51.1 million	10 percent
Other Services (adult day health, hospice, hearing aids, AIDS waiver, and others)	79.3 million	33.1 million	8 percent
Other Medical Services (podiatry, occupational therapy, acupuncture and others)	52.3 million	27.9 million	5 percent
Pharmacy Services	34.5 million	17.9 million	4 percent
ICF-DD Facilities	40.1 million	20.3 million	4 percent
Dental Services (adjusted for elimination of adult dental)	31.5 million	15.9 million	3 percent
Home Health	17.2 million	8.7 million	2 percent
Early Periodic Screening Diagnostic and Treatment (EPSDT) Services	2.7 million	1.3 million	< 1 percent
Medical Transportation	12.7 million	6.5 million	1 percent
TOTAL SAVINGS	**$972.8 million**	**$491 million**	**100 percent**

Staff Comment. 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 significantly lag behind those of other purchasers of health care coverage in California. The study found that Medi-Cal fee-for-service payment levels amounted to 35 percent to 60 percent of what private health care plans paid for the same services. 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.

Inclusion of nursing homes in this reduction may be particularly problematic due to staffing standards and wage requirements, federal regulations, and the industry's dependence on Medi-Cal payments (two-thirds of the over 1,500 homes depend on Medi-Cal reimbursement). In addition, a State Plan amendment would be required since the federal government requires these rates to be developed on an annual basis through a methodology contained in the state's Medicaid State Plan.

Finally, it should be noted that during the budget deliberations of 2002-03, the Governor proposed to rescind the rate increase provided in the Budget Act of 2000; however this repeal was effectively denied by the Legislature on a bipartisan basis.

4. Proposed Elimination of Certain Medi-Cal Optional Benefits ($63.3 million CY & $274 million BY)

Description. The Administration proposes legislation effective April 1, 2003 to eliminate eight Medi-Cal benefit categories. The benefits slated for elimination are dental, medical supplies, podiatry, psychology, chiropractic, podiatry, acupuncture, and services provided by independent rehabilitation centers. Exempt from the proposal are services to children under 21 years of age, residents of long-term care facilities and persons with developmental disabilities. Federal law precludes the elimination of these services from these individuals.

The following table summarizes the reduction amounts.

Optional Benefit Category	2002-03 General Fund Savings (April 1, 2003)	2003-04 General Fund Savings (Annualized)	Percent of Total Savings Level
Adult Dental Services	$48.5 million	$211.8 million	77 percent
Medical Supplies (diabetic supplies, IV supplies, wound care, asthma supplies, contraceptive supplies)	12.9 million	54.3 million	20 percent
Podiatrist	995	4.3 million	2 percent
Acupuncture	666	2.9 million	1 percent
Psychologist	57	229	< 1 percent
Chiropractor	100	399	< 1 percent
Independent Rehabilitation Facility	5	23	< 1 percent
Occupational Therapy	4	15	< 1 percent
TOTAL GF SAVINGS	**$63.3 million**	**$274 million**	**100 percent**

Staff Comment. As noted above, the two categories of adult dental services and medical supplies account for 97 percent of the proposed savings. Denial of adult dental services or certain medical supplies such as asthma supplies will likely result in increased emergency room visits for pain and other medical services and subsequently, result in additional costs. In addition, there may be increased costs due to the delay in recipients receiving treatment and ultimately requiring more acute care services.

In the Budget Act of 2001, preventive periodontal services and periodontal treatment for pregnant women was added to the scope of Medi-Cal benefits at the direction of the Administration because it saves money by decreasing neonatal intensive care services. It has been well documented that periodontal disease affects the embryo, often causing pre-term low birth pre-term low birth weight babies. These services could *not* be provided if Adult Dental services are eliminated.

Further, in order to maintain some modicum of access for children's dental services, it has been argued that adult services need to be maintained in order to have a viable network of providers.

Alternatives. In lieu of eliminating these benefits, one could implement selective cost containment measures. For example, the adult dental benefit could be restructured to capitate the amount of service a recipient obtains.

In the Budget Act of 2002, the DHS was given the authority to contract for certain medical supply items which was estimated to save $9 million (General Fund) in 2002-03. It may be possible to include other medical supply items in this process to reduce expenditures and to even re-calculate how mark-up is determined for some incontinence supplies or related items.

5. Medi-Cal/Healthy Families Outreach ($168,000 CY & $4.3 million BY)

Description. The Administration proposes to eliminate training for certified application assistants in 2002-03 and to completely eliminate the Medi-Cal/Healthy Families Outreach Program completely as of July 1, 2003. Savings of $433,000 ($168,000 General Fund) are estimated for 2002-03 and $11.2 million ($4.3 million General Fund) for 2003-04. No trailer bill language is proposed or required, just a reduction to the appropriation.

For the past several years, the state has operated an Outreach Program to facilitate the enrollment of children into the Medi-Cal and Healthy Families programs. This effort has been successful in increasing enrollment, improving enrollment materials, and making the programs more family friendly and accessible. Key components of the Outreach Program have included the following:

- Allocation of grants to community-based organizations and schools to enroll eligible children;
- Payment of fees to application assistants to enroll eligible children;
- Dissemination of enrollment and education materials in multiple languages;
- Training of applicant assistants;
- Broadcasting of program advertisements on television and radio; and
- Availability of a toll-free line for interested families to call and ask questions.

Staff Comment. Though the Outreach Program has been successful, given the state's current fiscal condition, this is an area that can be reduced.

6. Intermediate Care Facilities for the Developmentally Disabled ($2.5 million CY & $10 million BY)

Description. The Administration proposes to enact legislation effective April 1, 2003 which requires ICF-DD facilities **and** state Developmental Centers to pay the state an assessment of 6.5 percent on the total rate per patient day. This assessment would then be used by the state to draw down matching federal funds. A portion of these new federal funds would be used to offset General Fund expenditures and to provide for a rate increase to ICF-DD facilities.

The Administration assumes total increased revenues of $5 million in the current year and $20 million annually. Of these new revenues, 75 percent would be provided back to these ICF-DD facilities as a provider rate increase. (In essence, this rate increase amounts to a pay back of the assessment fee plus half of the federal fund amount.) The remaining 25 percent of these funds would be used to offset $2.5 million (General Fund) for 2002-03 and $10 million (General Fund) for 2003-04.

It should be noted that the Administrations savings estimate will need to be modified. This is particularly true with respect to the state Developmental Centers (DCs) where no fiscal assumptions have yet been developed. According to the Administration, a number of issues need to be resolved before an accurate estimate can be provided for the DCs. For example, the DCs also serve some individuals who are not eligible for Medi-Cal—such as forensic residents. The tax could not be applied to these individuals.

In addition to the need for statutory change, the state would need to submit a Medicaid State Plan amendment to the federal CMS for approval. It should be noted that several other states have implemented similar programs for their ICF-DD populations.

Staff Comment. This is an excellent idea for the ICF-DD facilities for it enables the state to obtain additional federal funds and to use a portion of those funds to enhance the quality of care for individuals with developmental disabilities. It should be noted that ICF-DD facilities are almost 100 percent reliant on Medi-Cal funding and could equally benefit from the rate adjustment. The proposed

legislation may need to be slightly modified to ensure that the rate adjustment enhances services.

It should also be noted that the Administration has included ICF-DD facilities in their 10 percent Medi-Cal rate reduction proposal. As such, the rate increase proposed under this provider tax is significantly negated and the proposed General Fund savings estimate would need to be adjusted if the 10 percent rate reduction occurs.

With respect to the state Developmental Centers, additional information is needed on how the tax will be applied in order to assess the proposal. The Administration states that more information will be forthcoming at the May Revision.

7. Revision of Capital Debt from 2001 ($25.8 million General Fund)

Description. Existing law authorizes Medi-Cal reimbursement of revenue and general obligation bond debt for principal and interest costs incurred in the construction, renovation and replacement of qualifying hospital facilities. At the time of the Governor's May Revision, an estimate of reimbursement is made based on the most recent construction schedule available from the qualifying hospitals. This estimate is revised as necessary contingent on updated scheduling and debt payment.

The Administration proposes to revert $25.8 million (General Fund) from the 2001 capital debt reimbursement. This reversion is based on the most recent, updated capital debt needs as obtained from the participating hospitals.

Staff Comment. Based on the information provided by the DHS, it appears that the appropriation in the Budget Act of 2001 for this debt service is not fully needed and can be reverted.

4260--DEPARTMENT OF HEALTH SERVICES—Public Health & State Administration

1. Reduce Cancer Research Program ($6.250 million CY & $6.250 million BY)

Description. Chapters 755 and 756, Statutes of 1997 (AB 1554, Ortiz and SB 273, Burton), created the Cancer Research Act of 1997. From 1998 to 2001, the annual Budget Act provided $25 million (General Fund) for this program.

Due to fiscal constraints, the Budget Act of 2002 and accompanying legislation (1) reduced the appropriation level to $12.5 million (General Fund), (2) allowed for the receipt of private donations to the program, (3) capped the indirect costs for the grants at 25 percent, and (4) provided for multiple-year contracting for the grants.

The Administration proposes to reduce **both** the current year and budget year appropriations by 50 percent for a total proposed appropriation of $6.250 million (General Fund) annually. No statutory changes are proposed at this time.

Staff Comment. The Cancer Research Advisory Committee recently met and have ranked proposals received for the upcoming grant cycle (starting a new cycle). The ranking of the proposals was based on a $12.5 million appropriation level as provided for in the Budget Act of 2002. According to the DHS, if a reduction is enacted, the Committee can still use the same ranking method but fewer projects would be funded. Grants can be awarded for one to up to three years.

2. Reduce Prostate Cancer Treatment Program ($10 million CY & $10 million BY)

Description. The Administration proposes to reduce the Prostate Cancer Treatment Program by 50 percent, or $10 million (Tobacco Settlement Funds to be transferred to the General Fund), for both 2002-03 and 2003-04. They state that the reduction is due to lower than anticipated participation in the treatment program. No trailer bill language is proposed or required for this reduction to occur.

Under the Prostate Cancer Treatment Program, the DHS awards contracts to entities to provide cancer treatment for uninsured and underinsured men with

incomes at or below 200 percent of the federal poverty level. Treatment is provided for a period of up to 18 months.

Staff Comment. Estimated expenditures for this treatment program have always been several million less than anticipated due to lower caseloads than estimated through the annual budget process. The DHS contends that their revised expenditure estimate accounts for providing treatment to existing enrollees, as well as accounting for new enrollments. As such, this reduction seems reasonable.

3. Teen Pregnancy Prevention Media Reduction ($1.3 million CY)

Description. The Administration proposes to eliminate $1.9 million ($1.3 million General Fund) from unspent current-year contract funds slated for teen pregnancy prevention media. Of this proposed reduction amount, $900,000 is from media placement (radio and TV spots), and $1 million is from public relations.

No statutory changes are proposed.

Staff Comment. The existing contract contains $11.3 million (total funds) and is used for a wide variety of purposes related to teen pregnancy mitigation. The reduction amount proposed by the Administration is unspent. The Administration notes that the budget-year appropriation for this item is presently under discussion.

4. Reduce Domestic Violence Prevention Support and Technical Assistance ($400,000 CY one-time)

Description. The Administration proposes to delete $400,000 (General Fund) from a contract with the California State University at Sacramento for activities related to domestic violence prevention. These activities include data management, conference assistance and technical assistance provided to shelters.

Staff Comment. The DHS contends that state support from their office, as well as assistance from the OCJP, can be temporarily used in lieu of these contract funds.

5. Eliminate Valley Fever Vaccine ($350,000 CY & $700,000 BY)

Description. The Administration proposes to eliminate the Valley Fever Vaccine effective January 1, 2003 for savings of $350,000 (General Fund) in 2002-03 and $700,000 in 2003-04 (General Fund).

Staff Comment. Several organizations and at least one foundation are presently contributing about $1 million in private donations to this effort. As such, this adjustment seems reasonable.

6. Disencumber Prior Year Contracts ($10.1 million CY one-time)

Description. The Administration proposes to disencumber funds from prior budget appropriations in several areas. The primary area of reduction is for Quality Awards to nursing homes ($8 million from 2000-01, and $1.9 million from 2001-02) The purpose of these awards was to recognize individual health facilities for demonstrating a high level of quality of care in serving Medi-Cal patients.

Staff Comment. This program has never been implemented by the Administration. Funds for the program were eliminated in the Budget Act of 2002.

7. Eliminate Gynecologic Cancer Information Program ($150,000 CY & $150,000 BY)

Description. The Administration proposes legislation to eliminate this program and to delete the appropriation.

Chapter 754, Statutes of 1997 (AB 833, Ortiz) directed the DHS to place priority on providing information to consumers, patients and health care providers regarding women's gynecological cancer. The statute provides the DHS with flexibility to produce or contract with others to develop materials.

Staff Comment. Legislation eliminating the program is not needed even if the $150,000 (General Fund) appropriation is deleted. The existing statute is permissive and is contingent upon appropriation. Further, there may be other funding sources available for this project, such as foundation funds or federal funds.

8. Other Administrative Reductions ($322,000 CY & $ 382,000 BY)

Description. The Administration proposes to make other administrative reductions including the following:

Area of Reduction	2002-03	2003-04	Total GF
Out-of-State Travel	$140	$200	$340
Anti-Fraud Media	133	133	266
CALSTARS reporting	26	26	52
External Contracts (Audits & Investigations)	23	23	46
TOTALS	**$322**	**$382**	**$704**

Staff Comment. No issues have been raised for these items. It should be noted that the Out-Of-State-Travel line item reduction for 2003-04 only represents a 35 percent reduction.

4300--DEPARTMENT OF DEVELOPMENTAL SERVICES—Regional Centers

1. Proposed Implementation of Statewide Standards ($100 million BY)

Description. The Administration proposes legislation to implement statewide standards effective July 1, 2003 for the "purchase of services" conducted by the Regional Centers. This reduction would affect all adults and children with developmental disabilities participating in the Regional Center system whose services and supports are reduced or eliminated. The DOF assumes a reduction of $100 million (General Fund) in 2003-04 from this action.

The Administration is seeking approval of this legislation in the Special Session in order to achieve the full-year savings in the budget year. It represents a substantial change in policy, as discussed below under the comment section.

Though the language contains a sunset clause (inoperative as of July 1, 2006), it is very unlikely that the proposed policy contained in the language would change substantively after the sunset date since it represents such a fundamental difference in policy and potential expenditures.

The Regional Centers are responsible for providing a series of services to individuals with developmental disabilities, including purchasing services for consumers and their families based upon an "individual program plan". Individuals with developmental disabilities are legally entitled to receive services in California. The Regional Centers operate under contract with the state Department of Developmental Services (DDS).

As recognized in the Lanterman Act, differences in the purchase of services provided to individuals may occur across communities (Regional Center catchment areas) to reflect the individual needs of the consumers, the diversity of the regions which are being served, the availability and types of services overall, and access to "generic" services (i.e., services provided by other public agencies which are similar to those provided through a Regional Center).

Staff Comment and Alternative. Though the proposed language is referred to as establishing "statewide standards" for the purchase of services, the language does not function at all in this manner. It simply provides the DDS with broad reduction authority. For example, the language does *not* articulate any principles, process, or framework that would address what the standards would be nor how they would be applied on a statewide basis.

Instead, the proposed language grants very broad authority to the DDS to: (1) prohibit any consumer services or supports by type (such as Respite), (2) limit the type, duration, scope, location, amount, or intensity of *any* services and supports provided to consumers through the purchase of services by the Regional Centers, and (3) impose payment reductions and closure days on categories of vendors in order to insure that Regional Centers stay within their budgeted appropriation level.

In addition, the language explicitly states that consumers may *not* appeal a change in their services or supports if (1) the type of service or support has been prohibited through the actions of the DDS, or (2) the individual service or support has been reduced at the direction of the DDS in order to ensure that Regional Centers stay within their budgeted appropriation level.

Further, the language also states that vendors may not appeal a reduction in their payment or closure days as directed by the DDS.

The language also expresses that it is not the Legislature's intent to endanger a consumer's health or safety, nor place a consumer in a more restrictive setting in violation of the Olmstead Decision (1999, 527 U.S. 581). However, it is unclear how the DDS and RCs are to monitor this in order to assure something inappropriate does not occur.

The Administration has not provided any fiscal detail as to how the savings are to be achieved, because none exists. The savings figure simply assumes that the $52 million (General Fund) unallocated reduction taken in the Budget Act of 2002 is subsumed in the proposed statewide standards and that additional funds are obtained to achieve the round savings figure of $100 million.

In reviewing the 2000-01 actual expenditures for the Regional Center purchase of services line item, it is evident that $100 million in General Fund savings would be near impossible to achieve unless certain services are eliminated and provider rates in other service categories are reduced. This is because certain service categories—such as residential services and supported living—would be extremely difficult to reduce since these are fundamental services whose costs reflect staffing standard requirements, housing needs and basic amenities. These two service categories constitute 30 percent of expenditures for the purchase of services.

Other service categories such as Behavioral Services, Medical Care and Services, Medical Equipment and Supplies, and Therapy Services may be difficult to reduce for a reduction might endanger the health, safety and life of an individual. In addition, expenditures for these services are relatively small.

The other significant service categories include Adult Day Programs (22 percent of expenditures), Respite Services (7 percent), Transportation Services (7 percent), and Infant Development Services (4 percent). After the Residential Services category, these services reflect the highest expenditures.

Finally, there are some very small categories, such as Social Recreational Activities and Camp Services; however, these expenditures are relatively minor so their elimination would not amount to much savings.

Given the nature of the above outlined expenditures, it is likely that a significant level of the Administration's proposed reduction would need to come from Adult Day Programs, Respite, Transportation and some more minor cost areas such as Social Recreational Activities.

If purchase of service reductions are to be enacted, it is recommended to completely re-craft the language to establish a more comprehensive framework for service determinations, including stakeholder community participation, and to establish a more reasonable savings level that recognizes the need to not reduce certain core services.

In addition, it is feasible to expand the Home and Community-Based Waiver to include more service categories in order to obtain increased federal funding. Currently, the state is claiming federal funds for about 24 services; however, additional service categories such as certain Respite Services, Habilitative Supports, some Education Services, and additional Transportation Services could potentially also be claimed. Many of these services have been included in other states' waivers that have been approved by the federal government. Conceivably, $50 million or more could be obtained on an annual basis.

An expansion of the Waiver to include additional services would require some administrative work, including a Waiver amendment, a State Plan Amendment and some vendor billing modifications. No statutory changes would be required.

2. Increased Federal Funds Available To Backfill for General Fund ($142.7 million reversion for 2001-02)

Description. The Administration proposes to use $142.7 million in increased federal reimbursements to be obtained through the Home and Community-Based Waiver for 2001-02 (past year) as well as other federal fund sources to backfill for General Fund support. These increased federal funds are mainly attributable to adding about 9,000 new persons to the Waiver for the period from April 1 to June 30, 2002 (the end of the last quarter of the 2001-02 fiscal year).

This action does not require trailer bill language, just an adjustment to the appropriation level.

It should be noted that federal fund estimates for this area for 2002-03 and 2003-04 will be updated by the Administration in the January 10th budget release.

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.

Staff Comment and Alternative. This is a reasonable assumption.

The DDS and Regional Centers have done a good job in expanding the receipt of federal funds, particularly with the Wavier. Further Waiver expansion will occur in the budget year as the Waiver cap expands to include 46,447 individuals, or about 1,400 more people than before.

In addition, other federal funding opportunities exist that could achieve tens of millions in federal funds annually. There is potential to obtain more federal funding through a variety of mechanisms, including modifying the Waiver (see issue 1, above), recalculating Targeted Case Management rates used by Regional Centers, claiming federal funds for certain Regional Center operations functions, and related items.

The DDS has been investigating these options as well as others. Most of these options would require federal approval through Medicaid (Medi-Cal) State Plan Amendments and in some cases, Waiver amendments. Further, some system modifications in the areas of vendor billing, Regional Center billing, and the like would need to be thought through and completed.

4300--DEPARTMENT OF DEVELOPMENTAL SERVICES— State Developmental Centers and Administration

1. Current Year Population Adjustment ($1.3 million CY)

Description. The Administration proposes to reduce by $2.3 million ($1.3 million General Fund) and 85 positions in 2002-03 due to an adjustment in resident population at the Developmental Centers (DC). Specifically, the current-year has been consistently below the estimated budgeted population for the past five months (July 1 through November 30).

Using the existing staff-to-resident methodology, a reversion of $2.3 million ($1.3 million General Fund) can be obtained. The primary savings from this proposal comes from not filling 85 authorized positions because they are not needed due to the revised population estimate.

This action does not require trailer bill language, just an adjustment to the appropriation level. Though a reversion of these funds would occur on the natural when the current-year is closed, legislative action can be taken prior to June 15th in order to recognize the savings level in a more timely manner.

Staff Comment & Alternative. Historically, savings due to reduced caseload in the DCs has been transferred to the Regional Centers in order to have the funding in essence, "follow the client". However, the proposed mid-year adjustments are proposing to address the Regional Centers separately. As such, this proposed DC adjustment seems reasonable.

In addition to this adjustment, consideration of closing Agnews DC (440 residents located in San Jose) should be considered. Closure of a DC typically takes two fiscal years in order to appropriate plan the closure and to transition individuals to other appropriate living arrangements using an individualized, person-centered process. Therefore if closure is to be pursued, planning needs to commence in 2003-04. Tens of millions in General Fund could be booked to reflect the sale of the Agnews property as well.

2. Porterville Air Conditioner in Kitchen ($1 million CY)

Description. The Budget Act of 1999 provided $1 million (General Fund) for the construction phase of installing an air conditioner in the main kitchen at Porterville Developmental Center (in Porterville). The Administration proposes to revert these funds which have not been expended.

This action does not require trailer bill language, just an adjustment to the appropriation level. Though a reversion of these funds could occur on the natural when the current-year is closed, legislative action can be taken prior to June 15th in order to recognize the savings level in a more timely manner.

Staff Comment. This proposed DC adjustment seems reasonable.

4440 DEPARTMENT OF MENTAL HEALTH—Community Mental Health

1. State Reduction to Mental Health Managed Care County Allocation ($4 million CY & $22.7 million BY)

Description. The Administration proposes to reduce the state's General Fund support of Mental Health Managed Care by reducing provider rates by 10 percent to save $4 million in 2002-03 and $22.7 million in 2003-04.

However in effect, this proposed reduction is *not* a provider rate decrease at all. Instead, the proposal represents a 10 percent reduction to the state's General Fund allocation to the counties, coupled with not funding the annual medical consumer price index (CPI) adjustment for Mental Health Managed Care.

Their proposal assumes an April 1, 2003 implementation for the 10 percent reduction (one quarter of 2002-03) with the reduction continuing into 2003-04. No trailer bill language is proposed for this 10 percent adjustment.

With respect to the medical CPI piece, the state has not provided this funding to counties since the Budget Act of 2000; therefore, no current year action is required. The proposed 2003-04 reduction would not require trailer bill legislation.

This proposed action would affect both inpatient and outpatient services for adults and children with severe mental illness.

The state's Mental Health Managed Care Program operates under a federal waiver whereby County Mental Health Plans are responsible for the provision of public mental health services, including those for Medi-Cal recipients.

Under this model the County Mental Health Plans, through a system of contracts with the state, are at risk for the state matching funds for services provided to Medi-Cal recipients. An annual state General Fund allocation is provided to County Mental Health Plans for this purpose, though counties also use County Realignment funds to draw down federal matching dollars.

The state General Fund allocation is usually updated each fiscal year to reflect adjustments as contained in Chapter 633, Statutes of 1994 (AB 757, Polanco). These adjustments have typically included, changes in the number of eligibles served, factors pertaining to changes to the consumer price index for medical services, and other relevant cost items.

Staff Comment and Alternative. Both the short-term and long-term effect of this action is to cost shift mental health services to the counties. This proposal continues the Administration's direction to substantially reduce General Fund support for mental health services, other than the State Hospitals. About $164 million (General Fund), or 34 percent of the General Fund, was reduced from community-based mental health services in the Budget Act of 2002.

The proposed reduction will likely result in County Mental Health Plans serving fewer individuals and having difficulty in meeting statutory and contractual responsibilities related to the provision of Mental Health Managed Care services.

In fact, the state and counties are having difficulty in presently meeting needs and requirements. As noted in the Independent Assessment of California's Mental Health Managed Care Program, prepared by the Department of Finance (May 2002 and released November 2002), the state needs to address numerous issues regarding client access to services, quality of services, performance outcome measures, and program management functions.

Another report—Psychiatric Hospital Beds in California: Reduced Numbers Create Potential Crisis (prepared by the California Institute for Mental Health, August 2001), discusses the significant shortfall of inpatient psychiatric beds in

California, as well as the lack of adequate capacity of the existing mental health system to provide alternative care for those clients in need of urgent care.

In addition, County Mental Health Plans are already providing a sizable amount of funding for Mental Health Managed Care. Based on the most recent estimate of expenditure data for 2001-02, of California's share of cost for Mental Health Managed Care, County Mental Health Plans provided a 46 percent match while the state provided a 54 percent match. Clearly, counties are presently using a substantial portion of their County Realignment Funds for this purpose, and due to the reductions from the Budget Act of 2002, will need to be using even more.

With respect to alternatives, there may be opportunities to obtain additional federal funds. First, the DMH could be directed to analyze the feasibility of expanding California's Home and Community-Based Waiver to include mental health services (Also see DDS discussion, above, regarding this Waiver). Chapter 887, Statutes of 2002 (SB 1911, Ortiz), directed the DMH to conduct this analysis contingent on receipt of funding for this purpose. However given this fiscal environment, the DMH should be proceeding with this anyway.

Second, the DMH should also investigate whether California can obtain additional federal funds through the Medicaid Rehabilitation Option. Under this federal option, implemented in 1993, California has been able to draw down hundreds of millions in increased federal reimbursement. It is likely that some existing services could be included in this option in order to draw down additional federal funds.

2. Eliminate the Early Mental Health Program ($549,000 CY & $15 million BY)

Description. The Administration proposes to revert $549,000 (Proposition 98 General Fund) in unexpended funds in 2002-03 and to eliminate the program in 2003-04 for savings of $15 million (Proposition 98 General Fund).

With respect to 2002-03, this action does not require trailer bill language, just an adjustment to the appropriation level.

With respect to 2003-04, though the Administration has proposed to eliminate funding, they have not as yet proposed to eliminate the program statute. Technically, the statute does not have to be stricken since the program is contingent upon appropriation in the Budget Act.

Under the Early Mental Health Initiative, 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.

Students in the program are generally experiencing mild to moderate school adjustment difficulties. Students must have parental permission to participate in the program.

In addition, all Early Mental Health Initiative programs are required to contract with a local mental health agency for referral of students whose needs exceed the service level provided in this program.

Staff Comment. This proposal continues the Administration's direction to substantially reduce General Fund support for children's mental health services. In the Budget Act of 2002, the Governor reduced by over $100 million a variety of areas that serve children with severe mental illness, including reductions to the Children's System of Care Program, the Early, Periodic, Screening, Diagnostic and Treatment (EPSDT) Program, and services to special education pupils.

The Early Mental Health Initiative is an effective school-based program. It serves children experiencing school adjustment issues who are *not* otherwise eligible for special education assistance or county mental health services because the student's condition is usually not severe enough to meet the eligibility criteria in these other programs.

Both the short-term and long-term effect of this reduction is that children with mild to moderate school adjustment problems will likely not receive services and may, as a consequence, need more intensive services later. Further, these students may end up doing poorly in school and developing other problems.

3. Second Level Treatment Authorization Request (TAR) Appeals ($64,000 CY & $146,000 BY)

Description. The Administration proposes to eliminate the second level Treatment Authorization Request (TAR) appeals process for savings of $64,000 (General Fund) in 2002-03 and $126,000 (General Fund) in 2003-04. The savings comes from the elimination of 1.9 state positions. No trailer bill language has been proposed for this action.

Existing state regulation (Title 9, Section 1850.305) provides that a psychiatric hospital may file a second level TAR appeal when payment issues have not been resolved at the first level appeal (between the hospital and a County Mental Health Plan).

Typically, a second level TAR appeal involves disagreements between a hospital (non-county owned or operated facility) and a County Mental Health Plan regarding the number of bed days the county will reimburse.

For example, a hospital claims 15 days of inpatient services for a particular client and the County Mental Health Plan will only approve 10 days. As such, the hospital appeals the additional 5 days to the state. The state can either agree or disagree with the hospital. According to DMH statistics, the DMH agrees with County Mental Health Plans about 88 percent of the time.

It should also be noted, that the DMH's role in the second level TAR appeals process has inserted the department into judicial disputes between hospitals and County Mental Health Plans. According to the DMH, 29 lawsuits have been filed in this area.

Staff Comment. The proposal continues the Administration's direction to further reduce the state's role in providing oversight of mental health services. In this case, oversight of inpatient hospital psychiatric services.

County Mental Health Plans are concerned about this proposal because hospitals who want to appeal a County Mental Health Plan denial of payment can go directly to the courts, and the DMH would no longer be involved in the case.

This is really a policy area that needs to be clarified more, rather than a fiscal, budgetary issue. Broader policy issues exist that affect the provision of inpatient psychiatric services and the payment for them.

With respect to the fiscal issue, the hospitals and/or County Mental Health Plans could reimburse the state for the workload associated with the 1.9 positions currently used by the DMH.

4. Amend Protocols for Mentally Disordered Offender Evaluations ($300,000 CY & $300,000 BY)

Description. The California Department of Corrections refers inmates who are near their parole dates and potentially meet "mentally disorder offender" criteria to the DMH for clinical mental health evaluation. These evaluations are typically performed by contract psychologists or psychiatrists. Inmates are often referred to the DMH more than once if their parole is revoked, institution location changes or their parole date changes subsequent to their initial referral.

The Administration proposes to reduce by $300,000 in both 2002-03 and 2003-04 by implementing secondary review protocols. Specifically, these protocols will identify repeat referrals from the CDC where the clinical evaluation has already been done and found that either (1) the inmate does not meet mentally disorder offender criteria, or (2) there has been no change in the inmate's mental health or criminal profile to make the prior evaluation invalid.

No trailer bill language is required for this proposal.

Staff Comment. The proposal seems reasonable in that it avoids unnecessary repeat evaluations.

5. Other Administrative Reductions ($869,000 CY & $387,000 BY)

Description. The Administration proposes to make other administrative reductions including the following:

Area of Reduction	2002-03	2003-04	Total GF
Out-of-State Travel	$17	$37	$54
Transfer Children's System of Care technical assistance center to counties	350	350	700
Reduce HIPAA Funding	270		270
Reduce funding for Preadmission Screening & Resident Reviews for Mental Illness Activities due to late start.	232		232
Totals	**$869**	**$387**	**$1.3 million**

Staff Comment. These adjustments are reasonable.

ALTERNATIVE

The Legislature may also wish to consider a proposal to change the basis by which the state accounts for Medi-Cal payments. By changing its accounting practices the state could accrue savings of $1.2 billion on a one-time basis.

Summary. This proposal would require the Department of Health Services (DHS) and the Department of Finance (DoF) to change the accounting system for the Medi-Cal program from an accrual to a cash basis. In addition, the proposal would include legislation to authorize the Medi-Cal Providers Interim Payment Fund to pay Medi-Cal providers during any portion of the last quarter of any fiscal year in which a General Fund deficiency exists for the Medi-Cal program. This legislation would also appropriate up to $3 billion from the General Fund and up to $3 billion from the Federal Trust Fund, in the form of loans, to the Medi-Cal Providers Interim Payment Fund when such a deficiency exists.

Existing law. Currently, the Medi-Cal program is budgeted on an accrual basis, which means that claims for provider services rendered during a fiscal year are paid out of funding for that specific year, even if they are received after the end of that fiscal year. Funding for the payment of claims received after the end of the fiscal year must be included in the original budget for that year.

Section 16531.1 of the Government Code created the Medi-Cal Providers Interim Payment Fund for the purposes of paying Medi-Cal providers, providers of drug treatment services for HIV patients and providers of developmentally disabled services, during any portion of a fiscal year, prior to September 1 of that year, in which a budget has not yet been enacted. This Section also appropriates up to $1 billion from the General Fund and up to $1 billion from the Federal Trust Fund, in the form of loans, for these purposes. Loans are repaid automatically from the next year's Medi-Cal appropriations.

The proposal:

1. Requires DHS and DoF to change the basis for the accounting of the Medi-Cal program from accrual to cash, which means that claims for provider services rendered during a prior fiscal year would be paid out of the budget for the fiscal year in which they are received and paid. This would eliminate the need for including funding for the payment of claims received after the end of the fiscal year in future budgets, resulting in a one-time savings in the fiscal year the change is made.

2. Includes amendments to Section 16531.1 of the Government code to expand the purposes of the Medi-Cal Providers Interim Payment Fund to include payment of Medi-Cal providers in any fiscal year when a deficiency in General Fund appropriations exists during the last quarter of that year. These amendments would include appropriations of up to $3 billion from the General Fund and up to $3 billion from the Federal Trust Fund, in the form of loans, for this new purpose. These loans would similarly be repaid from the next fiscal year's Medi-Cal appropriations.

Fiscal estimate. Last year DHS estimated that the change from accrual to cash for Medi-Cal would result in a one-time reduction of the need to budget approximately $1.2 billion General Fund, thereby reducing the overall deficit by a similar amount. However, it should be noted that if the accounting system were ever shifted back to an accrual basis there would most likely be some one-time costs associated with

that shift, as well. DHS is currently in the process of reviewing and updating its estimates.

History. When Medi-Cal began in 1966-67 it was on an accrual accounting basis. That lasted until 1971-72 when the first shift to cash accounting was made by then Governor Ronald Reagan. That switch was made, in part, to help address a budget deficit problem similar to that which exists today.

Medi-Cal remained on a cash basis for 20 years until '91-'92 when then Governor Pete Wilson switched to an accrual basis. Again, the switch was made to address a budget deficit situation. However, this time it was done in the context of a much greater change to count all state revenue sources on an accrued basis, as well. The increased revenues that would be gained from their accrual substantially offset the increased costs of moving Medi-Cal to an accrual basis.

It was also argued that in order to count the revenue on an accrual basis, all state programs should be on the same basis. On the other hand, the federal government requires Medi-Cal (Medicaid) to be accounted on a cash basis. Therefore, DHS has had to maintain two separate sets of accounting books for the Medi-Cal program ever since the change was made in '91-'92.

One other major concern led to the shift to accrual and that was that the bond rating agencies were concerned that the state was incurring debt without an approved budget, when Medi-Cal deficiencies took place. At that time there were deficiencies almost every year and they automatically became an obligation that Medi-Cal had to pay. Now, under Section 16531.1, as proposed to be amended, there would be a mechanism already in place to pay for such deficits.

COMMENTS

1. ***Is shifting Medi-Cal from accrual to cash just an accounting gimmick?*** Yes some could call it that, but in reality it reduces the amount of money that has to be appropriated for Medi-Cal in the year the change is made by $1.2 billion General Fund, or more, thereby reducing the overall deficit by the same amount. This reduction is one-time and will only effect the year in which the change is made. Again, it is simply a way to eliminate the need to increase revenues or cut costs by an additional $1.2 billion General Fund.

2. ***What is the justification for changing to cash?*** First, the federal government requires Medi-Cal to be on a cash basis and the change would eliminate the

need to keep two separate sets of books for Medi-Cal. Second, there is no overriding requirement for accrual and it would simplify DHS's fiscal forecasting and accounting procedures. Third, it will avoid the need to cut programs or increase revenues by $1.2 billion, or more.

3. ***Should the shift to cash be made without providing the loan authority to cover deficits?*** Absolutely not. Existing law is designed to continue Medi-Cal payments to providers in the absence of a budget, and this provision has to be extended to apply to budget deficits too. Otherwise we would only be opening the door to the deficit funding problems of the past and that should be avoided at all costs. No one should want to reopen the issue of cutting off payments to providers. The extended loan authority would also counter the concerns previously raised by the bond rating agencies.

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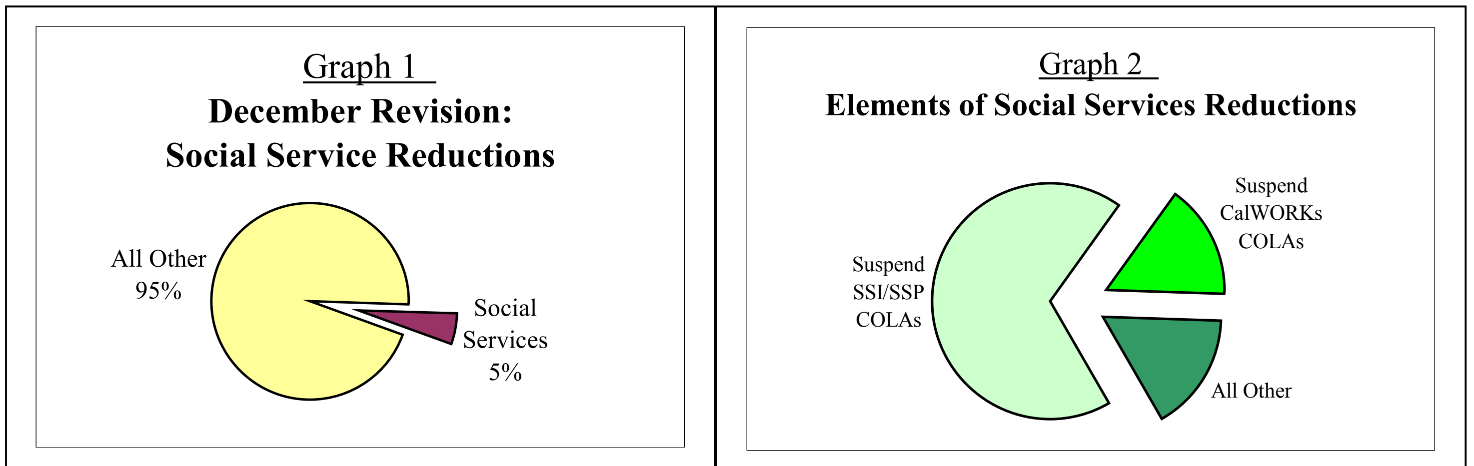
Social Services

SOCIAL SERVICES

The December Revisions reduces spending on social service by about $516 million, about five percent of the total reductions. Graph 1 illustrates the point. Of the $500 million in reductions, most are associated with suspending the SSI/SSP and CalWORKs COLAs, as displayed in Graph 2.



DEPARTMENT OF SOCIAL SERVICES

Residential Care Facility Evaluations

Under current law, the Department of Social Services (DSS) is responsible for licensing and performing an annual inspection of a variety of care facilities, including foster family and small family homes, group homes, foster family agencies, adult residential facilities, residential care facilities for the chronically ill and elderly, community treatment facilities, transitional housing placement programs and adoption agencies.

The Administration is proposing that the evaluation process be streamlined for a General Fund savings of $1.4 million (and roughly 15 pys) in the current year and $5.8 million (and 68 pys) in the budget year. Most of the savings are associated with what is characterized as “high risk residential care facilities”.

Comments. Licensing standards have been in place to ensure the safety of individuals in the care of those facilities. The DSS is generally required to make a site visit annually and, as often as necessary, to ensure compliance. Under the

proposed change, an annual unannounced evaluation would only be conducted if a licensee is on probation, if there is a facility compliance agreement that requires an annual visit, if there is a pending accusation against the license, if the federal government requires an annual inspection, or to verify that a person ordered out of a community care facility by the DSS is no longer in residence. If a facility does fall under one of these categories, then they are subject to unannounced visits by the department conducted based on a 10-percent random sampling and as often as necessary to ensure compliance.

In the past, the Legislature has had a number of concerns regarding the licensing program. In addition, ensuring public safety of those in state licensed facilities is one of the most critical functions of the State. This proposal should be carefully reviewed for unintended consequences regarding health and safety issues.

Need for Legislation. This proposal requires trailer bill language. In order to achieve the savings indicated, the Administration would like action taken by the end of January. The longer the delay, the less savings.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Cost-of-Living Adjustment (COLA)

SSI/SSP is a federal/state cash assistance payment program to persons who are aged, blind or disabled and meet the federal eligibility standards. The federal government funds the SSI portion of the program while the state supplements the payment with an SSP grant. Approximately 1.1 million people receive benefits. Current law provides for a federal and state COLA effective January 1 of each year.

The 2002 Budget Act and related statute passed through the January 2003 federal COLA to SSI/SSP recipients but delayed the state COLA of 3.74% to June of 2003. For an individual SSI/SSP recipient, the grant would increase by $28 (from $750 to $778); for couple, the grant would increase by $50 (from $1,332 to $1,382). Current SSI/SSP grants are just above the federal poverty level.

The Governor's proposal would eliminate the June, 2003 state COLA for a savings of $24.1 million in 2002-03 and $281 million in 2003-04. (Note: The documents from the Department of Finance mischaracterize the proposal as also suspending the January 2004 state COLA; the DSS indicates this proposal only eliminates the June 2003 COLA. Finance indicates the budget year savings is $328 million but

DSS indicates it is $281 million. The associated trailer bill language is consistent with the DSS portrayal.)

Need for Legislation. This proposal does require statutory change. The federal government administers the check writing so statute would have to be enacted by the end of January as the state has to notify the federal government 3 months in advance of what changes it is making to the SSP payment standard.

CalWORKs COLA

Effective October of each year, a COLA is granted in the CalWORKs program (California's cash public assistance program). Caseload in this program has been declining (there are about 530,000 cases and 1.5 million people receiving CalWORKs benefits) and, as of January of 2003, adults who have used up the 5-year time-limit will drop off the caseload. California's program does provide a safety net grant for children.

The Budget Act of 2002 and related statute provided a COLA of 3.74% to the CalWORKS grant effective June 1, 2003. For a family of 3 in a high cost county, the grant would increase by $25 (from $679 to $704….food stamps benefits would decrease by $11, for a net gain of $14). In a low cost county, the grant would have increased by $24 – from $647 to $671; there would also be a food stamp interaction).

The Governor's proposal would eliminate the June COLA. There would be no General Fund savings because the state is required to meet the federal MOE but the funds would be used to fund other aspects of the program (caseload and employment services). There would be $80 million worth of General Fund savings in the budget year; any TANF funds would be reallocated within the program.

Need for Legislation. It is necessary to enact statute to eliminate the COLA. It is probably reasonable to act by the end of January since payment schedules have to be changed at the county level before June 1 if a COLA were to be granted.

DEPARTMENT OF REHABILITATION

Home and Community-Based Waiver Funding for the Habilitation Services Program ($10.6 million)

The Administration proposes to increase the cap on the Home and Community-Based Waiver in order to receive additional Medicaid reimbursement. The increase is for 2001-02 ($4.8 million) and $5.8 million for 2002-03. Increased reimbursements allows the Department to decrease the amount of General Fund necessary for the program.

This is simply a fund shift and would have no impact on clients. Of course, if additional federal funds were received with no corresponding reduction, services could be enhanced and/or more persons served.

Need for Legislation. It is necessary to amend the 2001 and the 2002 Budget Acts in order to revert General Fund and increase reimbursement authority/federal funding. It is not absolutely necessary to act by the end of January but it does limit the Department's authority to spend General Fund and gets the cash.

Habilitation Services Program Reversion ($7.6 million)

This is simply a reversion of funds not spent in the prior year (2001-02). Funds would have reverted in two years on the natural. There is no program impact.

Need for Legislation. In order to get the funds earlier than under current law, it is necessary to amend the 2002 Budget Act to add a reversion item.

Habilitation Services Program Consolidation within the Regional Centers ($2.3 million in 2003-04)

The Habilitation Services program provides services to clients with developmental disabilities through Work Activity and Supported Employment Programs. The purpose of the program is to assist individuals in reaching the highest level of vocational potential. Habilitation Services are an entitlement under the provisions of the Lanterman Act.

This proposal would move the Habilitation Services program from the Department of Rehabilitation and consolidate it with other services offered by the Regional Centers under the Department of Developmental Services. The contention is this would increase efficiencies and result in a $2.2 million savings in 2003-04.

Comments. Provisional language was added to the 2002 Budget Act requiring the Department and DDS to provide a report on Habilitation Services Program rates, consumer eligibility and recommendations for streamlining and consolidating the programs, if warranted.

This proposal is probably a reasonable policy direction; however, information in the report required by the Legislature would be useful in evaluating this proposal. There should be certainly be discussions with DDS and the Regional Centers and clients regarding the implications of the program changes.

The savings are achieved by eliminating 29.3 positions in the Department of Rehabilitation attributable to the program but it is unclear if this is a net figure since there would be some costs in the Regional Centers.

Need for Legislation. This proposal requires statutory change. The Administration assumes a July 1 implementation date and so would like the change effective as soon as possible. Earlier action would allow the Department of Rehabilitation to begin the necessary personnel work to achieve the savings (they will begin to transfer people to other positions; it is unclear if the proposal would lead to layoffs). However, the proposal should be reviewed carefully with the information requested by the Legislature.

Rate Reductions for the Work Activity Program (WAP) and Supported Employment Program (SEP) ($1.4 million)

The WAP services provide work experience and ancillary work-related services in a sheltered setting. The Department does not have direct consumer responsibility but authorizes and pays for services provided by public and private not-for-profit agencies. About 1,600 clients receive services from about 153 providers.

The SEP provide competitive employment opportunities in the community and necessary training and ancillary support services on an on-going basis to enable clients to learn necessary job skills and maintain employment. Services can be provided on an individual basis or in a group setting. About 4,000 clients receive services.

The Governor's proposal would reduce WAP rates by 5% and would impose a 5% SEP rate reduction from $28.33 per job coach hour to $26.91. Both proposals would be effective April 1.

Comments. As part of the 2001-01 Budget Act, the SEP rate was increased by 3% to the current level of $28.33. The 5% rate reduction takes the SEP rate back to what they were before a 1998 rate and methodology change. There have been triggers included in the methodology in the past to ensure staying within projected costs. And rates were frozen between 1992 and 1997 as part of budget savings.

As part of last year's budget discussions, the Administration proposed reducing WAP and SEP rates by 5%. The California Rehabilitation Association indicated at the time that many programs would face closure if rates were reduced.

Costs have continued to increase for service providers and there would probably be some programs, particularly in high cost areas, that would close. To the extent clients do not receive services, they may end up in more costly programs or may end up receiving other, more costly benefits.

Need for Legislation. It takes a statutory change to reduce rates. The Administration is proposing action by the end of January so that rates can be reduced effective April 1. Since the Legislature just rejected this proposal because of the long-term consequences for clients, it may wish to consider this in the context of the Governor's Budget rather acting by the end of January.

WAP Rate Suspension

Current statute requires provider rates to be adjusted biennially. 2003-04 is a rate setting year. The Administration is proposing legislation to suspend the rate adjustment for 3 years, through the 2005-06 fiscal year.

This proposal has no immediate impact but reflects the view that rates will have to stay flat or be reduced as part of budget reduction. Therefore, there is no reason to do a rate study in the near future to indicate what rates "should" be.

This does require statutory change but does not need to be done by the end of January. CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE (CDPAC) $367,000 in 2003-04

CDPAC's primary role is to provide policy recommendations to the Governor and the Legislature on child care and development and to encourage and develop long range child development policies and programs. The Governor has proposed elimination of CDPAC effective July 1, 2003.

Comments. The Governor proposed elimination of CDPAC as part of balancing the budget for 2002-03. The Legislature rejected the proposal. Though small, CDPAC has provided an independent, integrated and public forum for the discussion of options for appropriate child care in the state. However, CDPAC provides no direct service and the Department of Education, the Department of Social Services and the Governor's Education Agency also play a role in providing child care information.

This is one of three departments/entities proposed for elimination or consolidation. The other two are the Emergency Medical Services Agency and the Department of Community Services and Development. The Legislature may want to treat state department consolidations, eliminations, and restructuring together.

Need for Legislation. This proposal needs statutory change. In order to maximize budget year savings, the Administration is asking for early action.

DEPARTMENT of ALCOHOL AND DRUG PROGRAMS

Alcohol and Other Drug Services

The Administration proposes to revert $1 million from its prior year (2001-02) appropriation for alcohol and drug programs.

Comment. This is prior year savings that has not been encumbered and, as proposed, would revert two years earlier than it would normally. Of the total, $900,000 is related to the administrative costs related to state contracts with Drug Medi-Cal providers. This is a one-time savings.

Need for Legislation. This proposal does take a reversion item (amendment to the Budget Act) in order to achieve the savings earlier than under current law. It is not essential to take this action by the end of January but quicker action gets the cash.

Drug Medi-Cal

The 2002 Budget Act provides $46.8 million for Drug Medi-Cal services. After allocating the administration funding to the counties, there will be $253,000 left over. The Administration proposes to revert these funds.

Comment. This is essentially the same issue as above, except it is current year funding. It is one-time savings.

Need for Legislation. This proposal also takes a reversion item in order to achieve the savings earlier than under existing law. Again, it is not essential to take action by January but quicker action gets the cash.

Audit Repayment Trust Fund
The DAPD collects repayments of state funds resulting from audits of local contracts. It is proposed to transfer $273,000 from the Audit Repayment Trust Fund to the General Fund. The transfer will not result in any programmatic reductions.

Comment. When DADP audits find that a county was overpaid for Drug Medi-Cal, the county is required to return the General Fund portion of the overpayment to DAPD where it is deposited in the Trust Fund. The $273,000 is in excess of the amount of DADP's appropriation in the current year. This is one-time savings.

Need for Legislation. This would take a transfer item in a bill amending the Budget Act. It is not essential to take the action by June 30 but it gets the cash earlier.

DEPARTMENT OF CHILD SUPPORT SERVICES

The Department of Child Support Services was established in January of 2000 as a result of legislation that completely restructured California's child support enforcement system. The Department administers the child support enforcement program operated by local child support agencies. It oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child and spousal support, medical support and determining paternity and has established performance standards for California's child support program. The department has partnered with the Franchise Tax Board to establish a single automated tracking and data system.

The department's total budget for the current year is $1.08 billion.

The Governor proposes reducing current year state operations by $856,000 and reverting these funds to the general fund. The proposals include deferrals of

automation projects, reductions due to the completion of contracts at costs lower than budgeted and reductions in out of state travels.

Staff recommendation. The Senate may wish to consider favorably the proposed reductions in state operations.

Foster Parent Training Fund

The Foster Parent Training Fund, financed by child support collections, was established in the early nineteen eighties to support foster parent training programs offered by Chancellor's Office of the California Community Colleges. The programs provide training to facilitate the development of foster family homes and small family homes to care for children who have special mental, emotional, developmental or physical needs. The programs were recently expanded to service kinship care providers. They offer the type of education and training that all foster parents are now required to obtain.

The foster and kinship care education programs are funded with child support collections, Proposition 98 funds and federal funds. Last year the Governor proposed to reduce the Foster Children and Parent Training Fund by $1 million, thereby reducing overall support for the training programs. The Legislature rejected this proposal and instead imposed a statutory cap on the fund of $3 million.

The Governor's current year reductions include proposed legislation to eliminate the Foster Parent Training Fund, which would eliminate funding from child support collections for foster parent training programs. The Governor did not estimate specific savings for this proposal since moneys in the Foster Parent Training Fund vary depending on the level of child support collections.

Local Child Support Administration Incentives

This year, the California Department of Child Support Services received an additional $9 million in federal child support incentives. The Governor proposes to use these funds to finance child support enforcement program costs currently borne by the general fund. This proposal would generate $9,008,000 in general fund savings.

Staff recommendation. The Senate may wish to approve this proposal

Local Child Support Contracts
The department reports that two local child support contracts entered into the 2000-2001 and 2001-2002 fiscal years were completed at a cost lower than budgeted. The Governor proposed the reversion of $656,000 in unexpended contract funds to the general fund.

Staff recommendation. The Senate may wish to approve the proposed reversion of unexpended.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Eliminate the Health Professions Career Opportunity Program ($36,000 CY & $143,000 BY)
The Health Professions Career Opportunity Program (HPCOP) seeks to increase the number of health professionals who work in underserved communities. It provides recruitment and mentoring services to undergraduate students from underrepresented minorities and disadvantaged backgrounds to encourage their participation in the health care arena.

The 2002-2003 Budget included $87,000 in reductions. It eliminated support for "Health Pathways" a publication for high school students and graduates, counselors and healthcare career recruiters. It also reduced from 14 to 8 the number of grants provided to academic institutions for training inidividuals for a career in health care.

The Governor proposes the elimination of this program for savings of $36,000 in the current year and $142,000 in the budget year. He proposes legislation to eliminate statutory references to the program.

Staff Comment: Given the California's significant budget shortfall the Legislature may want to consider favorably the Governor's proposal. The Legislature may want to consider amending the Governor's proposed legislation to retain the statutory reference to the program but make program implementation subject to a budget appropriation.

COMMUNITY SERVICES AND DEVELOPMENT DEPARTMENT

Consolidate the Community Services and Development Department
The Community Services and Development Department (CSDD) administers a series of programs that serve low-income Californians including the Low Income Energy Assistance Program (LIHEAP), the California LIHEAP, and the federal Community Services Block Grant. The department verifies applicant eligibility for the California Alternative Rates for Energy Program offered by utility companies and administers a statewide Naturalization Services program. It also participates in the California Mentor Program, which offers recruitment, training and mentoring services to at-risk youth.

The Governor proposes consolidating the Community Services and Development Department with the Department of Social Services effective July 1, 2003. The Governor estimates eliminating nine positions and shifting $922,000 federal funds from state operations to local assistance as a result of the consolidation. He proposes legislation to transfer the federal and state LIHEAP programs, as well as the federal Community Services Block Grant from the Community Services and Development Department to the Department of Social Services.

Staff Comment: In light of California's budget shortfall, the Legislature may wish to approve the proposed consolidation to reduce the number state positions and maximize amount of federal funds available for local assistance and direct services for low-income people.

Eliminate the Naturalization Services and Mentoring Programs
($1.3 million CY & $3.9 million BY)
The Naturalization Services Program provides services to assist legal permanent residents in obtaining citizenship. Services provided include outreach, skills assessment, citizenship preparation and assistance, and advocacy/follow-up services. The program assists an average of 15,239 individuals per year in the completion of citizenship applications and conducts 3,870 follow-ups in a year.

The Governor proposes elimination of the Naturalization Services and Mentoring Programs to realize savings of $1,265,000 in the current year and $3,889,000 in the budget year. The proposal would also revert in the budget year $5 million in federal funds to the Department of Education. Current year savings stem from a reversion of $1,251,000 in grants that will not have been awarded to community organizations by January 1, 2003 and $14,000 in state operation savings.

Reversion of Unexpended California Low Income Home Energy Assistance Program funds ($285,000 CY)

The California Low Income Home Energy Assistance Program was created in 2001 to assist low-income, elderly and disabled Californians in coping with high energy costs. The program provides one-time energy payments to qualified households and facilitates conservation efforts through weatherization and the provision of other services that allow low-income households to conserve energy and maintain reasonable energy bills.

The CaLIHEAP program serves a slightly wider range of low-income households than the federal LIHEAP program (up to 250% of poverty). The program provides local agency flexibility to design the energy payment and crisis intervention program to meet the needs of local households. It also designates a greater portion of funds for conservation, including weatherization and measures to reduce the electric base load. This last provision includes refrigerator replacement, electric water heater repair or replacement, microwave oven replacement or installation, and distribution of compact fluorescent lamps.

A total of 140,901 households were assisted between June 1, 2001 and June 30, 2002. More than 28,908 dwellings were weatherized generating energy savings of 11.4 million kilowatt hours. These energy savings constitute enough energy to serve 2,343 homes for an entire year. It is fair to assume that these energy savings will continue in future years as they are based on weatherization changes to homes.

In addition to the weatherization services, the California LIHEAP provided energy crisis intervention services to 39,120 households and provided cash assistance to 72,865 households experiencing difficulty in paying their utility bill. The program has served over 175,226 vulnerable individuals including elderly, disabled and limited-English speaking Californians, as well as very young children and migrant and seasonal farmworkers.

In 2001, the Legislature appropriated $120 million to the California LIHEAP program. Last year, the Governor proposed reversion of $53.7 million to the general fund. The Legislature approved reversion of $23.7 million and directed the remaining $30 million to household payments. In total, through December 2002 $95.9 million will have been expended through California LIHEAP and $23.8 million will have been reverted to the general fund.

The Governor now proposes that a total of $285,000 unspent California LIHEAP funds be reverted to the general fund. **The Governor assumes no new funding for the California LIHEAP in the 2003-2004 budget year.**

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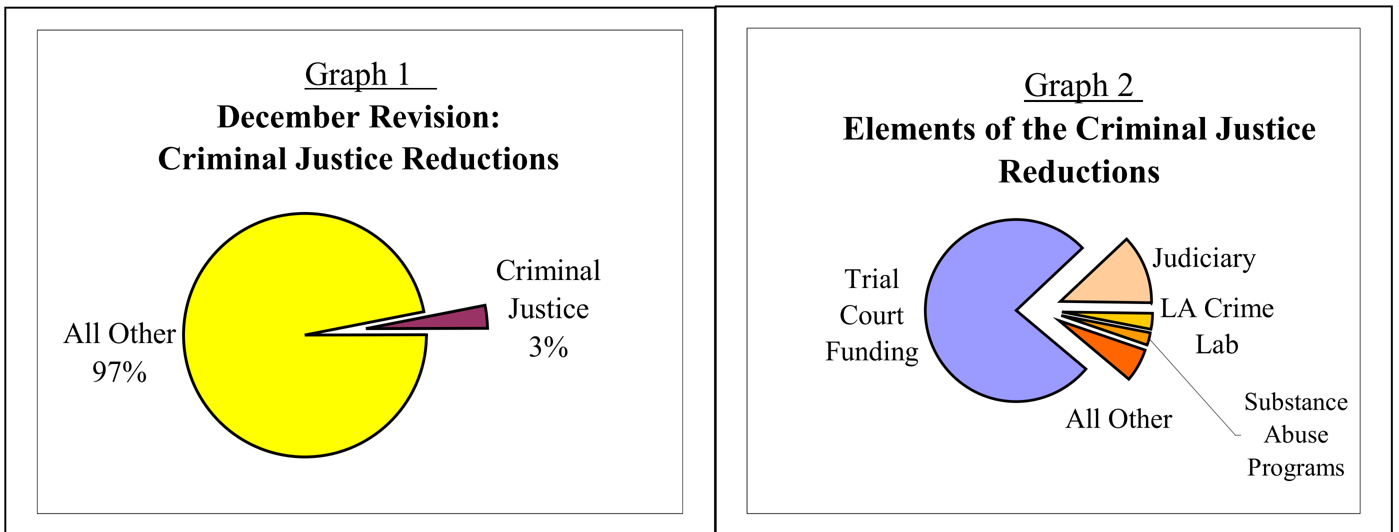
Criminal Justice

CRIMINAL JUSTICE

The December Revision reduces the Judiciary, Trial Court Funding and Corrections by a total of $ 324 million, or about three percent of the total reductions. Graph 1 illustrates the point.

Of the amount proposed for reduction, Trial Court Funding takes the largest reduction, followed by the Judiciary's unallocated reduction, planning for the Los Angeles Crime Lab and certain substance abuse programs. Please see Graph 2 for details.



JUDICIARY

The December Revision reduces by $10 million the Judiciary's current-year budget. This amount represents a 3.4 percent reduction from the total General Fund budget of $292.1 million for the Supreme Court, the courts of appeal and the Judicial Council. The Administrative Office of the Courts (AOC) indicates that it is likely to achieve these savings through holding positions vacant, delaying employee promotions and reclassifications, restricting travel, reducing temporary help, deferring contracts, and reducing the number of Judicial Council and Advisory Committee hearings. The AOC staff indicate that actions are currently being taken to achieve these savings.

The Judiciary's 2002-03 budget includes a total of $6.7 million in one-time reductions. Staff notes that proposed reductions are not one-time in nature.

The revision also proposes a $29 million unallocated reduction for the Judiciary in the budget year. At this time, staff is unaware of where these reductions are likely to be taken or the effect of these reductions on operations of the courts.

TRIAL COURT FUNDING

For Trial Court Funding, the December revision proposes a $50 million unallocated reduction in the current year. This amount represents a 4.3 percent reduction from the total General Fund support of $1.2 billion for Trial Court Funding. The AOC indicates that these savings are likely to be achieved by the local trial courts through holding positions vacant, reducing temporary help, work furloughs, reducing consulting services expenditures, and delaying equipment and office supply purchases. The AOC staff indicate that generally the trial courts are currently taking actions to achieve these savings.

The previously approved 2002-03 budget for Trial Court Funding included a total of $89.6 million in one-time reductions and a transfer of $28.1 million from the Trial Court Improvement Fund to the General Fund.

The revision also proposes a $200 million unallocated reduction in the budget year for Trial Court Funding. At this time, staff is unaware of where these reductions are likely to be taken or the effect of these reductions on operations of the local trial courts.

CORRECTIONS

The December Revision does not include significant reductions to the Department of Corrections (CDC) budget. Below, staff suggest reductions the Legislature may wish to consider.

Delay Delano II. Delano II is scheduled for activation in December 2003. The CDC reports that a one-year delay in the activation schedule would save $2.9 million in the current year and $9.1 million in the budget year.

Close a Women's Facility. The department's female inmate population is declining. Between June 30, 1999 and June 30, 2002, the female population at CDC institutions dropped by 1,657 inmates, or about 17 percent. Based on the Fall 2002 projections, the female inmate population is expected slowly decline through June 2008.

With significant declines in the female inmate population, the Legislative Analyst recommends closure of the Northern California Women's Facility (NCWF) last year. The CDC estimates savings of $1.4 million in the current year and $10.2 million in the budget year.

The inmates would likely be relocated to Chowchilla -- about 1 ½ hours farther from the Bay Area – making it much harder for visitations. Last year, the Legislature directed CDC to report on alternative uses for NCWF. The CDC would not need any legislation to close NCWF, although converting it for other uses would require legislation.

Intermediate Sanctions for Technical Parole Violators. Options could include day-reporting centers. The CDC is working on alternatives and cost estimates.

Increasing Good-Time Credits for certain inmates. Currently, inmates who participate in work or education programs are eligible to earn credits to reduce the amount of time that they spend in state prison. Last year the Legislature approved an increase in credits to two days for every one day served for inmates serving in fire camps. Increasing credits for inmates in reception centers and inmates waiting to be assigned to educational and work programs to one day for each day served would save at least $10 million in the budget year and $25 million annually. This amount would only include inmates eligible for day-for-day credits and lifers, strikers, and excludes offenders whose offense is serious and violent. This option would require legislation to implement the change.

Direct Discharge from Prison. Last year the LAO raised the option of adopting Legislation to exempt certain non-violent, non-drug sale offenders from parole supervision. The CDC indicates that budget year savings would be $33.2 million as CDC implements the changes, with savings of approximately $113 million in 2004-05. The types of commitment offenses for individuals who would no longer be under parole supervision include: Petty Theft with a Prior, Receiving Stolen Property, Forgery/Fraud, Other Property Crimes, Possession of a Controlled Substance, Grand Theft, Vehicle Theft, Possession of a Weapon, Escape, Hashish Possession, Burglary (1st and 2nd), and Driving Under the Influence.

Early Discharge from Parole. Under this option, parolees with nonviolent offenses who have served a certain amount of "clean time" on parole would be eligible for early discharge from parole. Last year during the budget process, the LAO estimated that the amount of saving would depend upon the length of clean time prior to discharge, ranging from $50 million for six months to $23 million for 12 months. Any change would require legislation.

Early Release from Prison. Under this option, inmates would be released to parole 1 to 12 months early. This option excludes lifers, strikers, sex registrants, and violent or serious offenders from early release. CDC estimates that the potential savings range from $10.1 million in 2003-04 and $20.1 million in 2004-05 for one month early release to $131.7 million in 2003-04 and $261 million in 2004-05 for 13 month early release.

Elderly Inmates – Release to Parole. This option provides that non-violent, non-serious offenders 60 or over would be released directly to parole. Last year during the budget process, the LAO estimated that first year savings from this option would total $3.4 million. The CDC will provide updated cost savings projections.

Removing State Prison as an Option for Certain Offenses. The CDC estimates that budget year savings of $28.8 million (based on

implementation in January 2004) could be achieved by removing state prison as an option for the following offenses: Petty Theft with a Prior, DUI, Other Property Offenses (Perjury, Bribery, etc.), Drug Possession, Hashish Offenses, Receiving Stolen Property, Drug Possession for Sale, Vehicle Theft, Grand Theft, Forgery/ Fraud.

Parole in Lieu of Prison for Inmates with Short Commitments. This option provides that certain non-violent, non-serious, non- sex registrant offenders with short commitments would go directly to parole rather than to prison. Savings under this option would vary depending upon how you define short commitments. CDC will provide estimates for inmates with commitments of 3, 6, 9, and 12 months. Assuming partial year implementation, the option would provide savings of $1 million for commitments of 3 months up to $24.8 million for commitments for up to 12 months in 2003-04 and $2.5 million for 3 months up to $132 million for 12 months in 2004-05.

Petty Theft made a Misdemeanor. Legislation eliminating state prison ad a sentencing option for persons convicted of Petty Theft with a Prior with no other felony would result in some persons not going to state prison. Based on an earlier bill analysis, the CDC projects partial year savings of $14.6 million in the first year of implementation and future savings of $33.8 million.

Statutory Law Changes Could Reduce CDC Costs. The Legislature may wish to consider the following statutory law changes:

1. Raise threshold for grand theft (a wobbler) from $400 to $800 or $1000. Double the threshold amounts for all other special grand theft statutes. Similar proposal was in a version of SB 1679 (Kopp) – 1998. Senate Appropriations cost savings estimate for raising threshold to $750 was "Potential unknown savings in state prison. General fund incarceration costs; Potential unknown increased costs for county jail, local and probation; Unknown increased costs to DOF, probably under General fund $150k annually, beginning as early as 2003-04" – the relevant provisions were deleted before bill went to Assembly Appropriations Committee.

2. No life term under the Three Strikes law for petty theft with a prior (wobbler) or second degree burglary where the target crime is shoplifting (in the current case). Sher bill from 2002 – SB 1719; Senate Approps 28.8'd this bill but provided no "cost savings" estimate; according to the LAO, as of May 2001, 333 inmates were serving a life term under the Three Strikes law for petty theft with a prior theft conviction. According to LAO and the California Department of Corrections (CDC), in August 2000, there were 323 inmates serving such a sentence. May 2001 - 441 inmates were serving a life term under the Three Strikes law for second-degree burglary. This report did not indicate how many of these offenses could also have been described as petty theft, and particularly shoplifting. August 2000 - 426 inmates were serving a life term under the Three Strikes law for second-degree burglary. Again, no details of these offenses could be determined from the data. August 2000 Data - 4,509 inmates were serving a double (second strike) term for petty theft with a prior; August 2000 - 3,595 inmates serving doubled (second strike) term for 2nd degree burglary.

3. AB 1037 (Vasconcellos) – 1995 – would have provided that no person who is convicted of petty theft shall be punished by imprisonment in the state prison, unless he or she has been previously convicted of a violent or serious felony. Died in Assembly Public Safety.

4. Substance of SB 1517 (Polanco) - 2002 - eliminating Three Strikes sentences for specified non-violent offenses. Senate Appropriations Committee 28.8'd SB 1517; no "cost/savings estimate" available.

5. Hold off on construction/operation of new SVP facility at Coalinga (within perimeter of the state prison; those "patients" currently housed at Atascadero). [Sen Budget states that Health and Human Services should have cost estimates for the new facility.]

6. Immediate release on parole, with drug treatment available, for any inmate sentenced for a crime that would have been Prop 36 eligible if he/she had been sentenced at the time Prop 36 was in effect. Transfer of portion of cost savings to the Prop 36 trust fund.

7. Alternatively, release non-violent, low-level drug offenders without parole. Note that such persons would still be eligible for Prop 36 treatment if they pick up new drug cases after release.

8. Early release for non-violent inmate who have a reasonably good conduct record. (I.e., no violent history or incidents.) See #14 below for earlier LAO recommendations.

   Dec. 16, 2002 LAO comments: Corrections/Discharge nonviolent parolees early/2002-03 Savings - $12.6 mil [Savings range from $5.9 million to $12.6 million]/ 2004-03 Savings - 50.4 [Savings range from $23.4 million to $50.4 million.]

9. Restore judicial discretion on mandatory sentence enhancements, include 5-year priors (§ 667, subd. (a)) prior prison term (§ 667.5, subd. (b)) and gun enhancements. Require statement on the record for discretion.

10. Reduce possession for sale of cocaine base to be equivalent to powdered cocaine.

11. Marijuana possession under an ounce as only an infraction. See SB 791 (McPherson) - 2001 - first proposed by Judge Kopp; as drafted, Assembly Appropriations Committee found: "Potential minor trial court savings. By making the offense an infraction rather than a misdemeanor, an offender will no longer have a right to a jury trial or a court-appointed attorney." Under current law, there is no pressing inducement for a defendant to plead guilty to misdemeanor possession, because there is no jail time allowed and only a $100 fine upon conviction.

12. Mandatory review for release on "direct discharge" from prison. Define inmates who should be directly released without parole. (Previously recommended by LAO.)

13. Reform California drug forfeiture to require judicial approval before forfeiture case transferred to federal court. SB 1866 (Vasconcellos) - vetoed in 2000 - Assembly Appropriations cost estimate:

- GF revenue loss of about $5 million based on the shift of funds from the GF (because the school safety program referenced in statute no longer exists), to drug prevention and treatment. No net cost as a result of the redirection from local gang prevention to drug abuse prevention and treatment. (Based on the past two years, state asset forfeiture law results in annual proceeds of about $20 million.)

- Unknown, but potentially significant asset forfeiture revenue reduction as a result of making it more difficult to use the more lenient federal forfeiture procedures. Under federal law, up to 80% of forfeiture proceeds go to seizing agencies, with at least 20% to the federal government. The state DOJ receives about $1.8 million annually from federal asset forfeitures.

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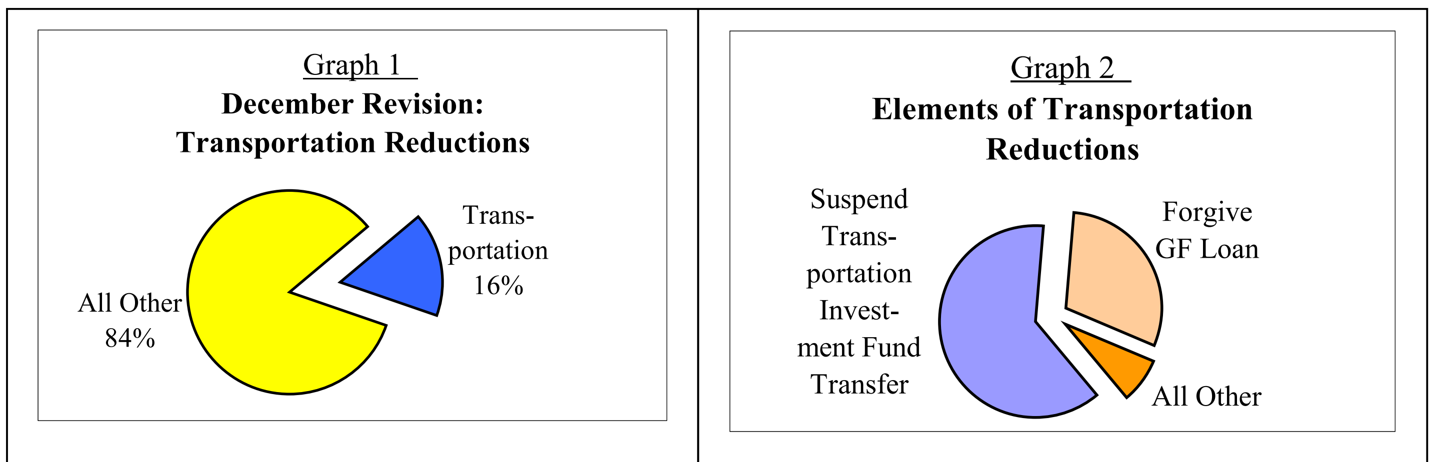
Transportation

TRANSPORTATION

The December Revision re-finances transportation projects and generates nearly $1.8 billion in savings. The majority of these savings are based on budget-year actions.

About $1.7 billion in savings accrue to the General Fund, about 17 percent of the total reductions contained in the December Revision. Graph 1 illustrates the point.



Graph 2 details the major elements of the reductions. Key provisions of the proposal include:

- Suspend the $1.05 billion transfer of the sales tax on gasoline from the General Fund to the Transportation Investment Fund (TIF) for the 2003-04 fiscal-year. The result of this action will eliminate $678 million from the TCRF, $147 to the State Transportation Improvement Program (STIP), $147 million for local streets and roads, and $74 million to the Public Transportation Account.

- Cancel the $500 million General Fund loan repayment to the TCRF scheduled for the 2003-04 fiscal-year.

Appendix A provides history on the General Fund support of transportation projects. Appendix B summarizes the current funding status of General Fund supported transportation project.

Table 1 displays the elements of the December Revision. The two left columns cite the issue and describe the action. The middle column identifies the estimated savings (in thousands). The two last columns identify whether the Legislature must take action in January to accrue the savings and whether the savings require a statutory law change.

Table 1
Transportation Elements of the December Revision
Dollars in Thousands

Issue	Description	Amount	Requires January Action?	Requires Trailer Bill?
Revert 2000-2001 General Fund appropriation for district specific projects.	This proposal will delete funding for the Altamont Commuter Express ($5 million), and Caltrain: Coyote Valley Station ($59,000).	$5,059	Yes	No
Transfer of Statewide Recovery Cost Allocation Plan (SWCAP) recoveries to the General Fund.	This proposal will transfer an additional $15 million from the State Highway Account to the General Fund for SWCAP recoveries.	15,000	Yes	No
Reduce State Highway Account funding for local streets and roads.	This proposal will suspend the 2nd, 3rd, and 4th quarter transfers in the current fiscal year for street and road maintenance.	90,000	Yes	Yes
Suspension of Aeronautics Account grants and transfer account balance to the General Fund.	This proposal will transfer the fund balance in the Aeronautics Account to the General Fund, and specify that the remaining funds in the account be used for security purposes. The proposal will also suspend the $10,000 annual grants awarded to airports for the 2003-4 fiscal-year.	5,200	Yes	Yes
Revert fund balance from the TCRF to the General Fund.	This proposal will transfer the fund balance in the TCRF to the General Fund. If approved, this proposal will leave the TCRF with $39 million for the current fiscal-year.	100,000	Yes	Yes
Suspend Gasoline Tax transfer to the Transportation Investment Fund (TIF).	This proposal will suspend the General Fund transfer of the sales tax on Gasoline to the TIF for the 2003-04 fiscal-year.	1,046,000	No	Yes
Forgive General Fund loan repayment to the TCRF.	This proposal will cancel the 2003-04 fiscal-year loan repayment to the TCRF.	500,000	No	Yes

Selected Issues

TCRP or STIP Projects Receive Funding. A major component of the Governor's proposal is to shift administrative responsibility for the Traffic Congestion Relief Program (TCRP) from Caltrans to the Transportation Commission (CTC). Although the Administration has not provided trailer bill language that specifies how the CTC will administer the TCRP, the Administration proposes to shift the TCRP projects into the STIP. Based on the limited information provided to the Legislature at the time this analysis was prepared, the Governor's proposal will result in a $1.5 billion reduction to the TCRP. (See Appendix A for background/history of the TCRP). Additionally, *the Administration has not identified a revenue stream to fund both STIP and TCRP projects* if this proposal is approved.

The TCRP authorized $4.9 billion for 159 specific projects over a 5–year period (See Appendix B for a current status assessment of all TCRP projects). If the TCRP projects are to be 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 (discussed further in the next section), and the anticipated 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.

Transportation Revenues are Down, and Expenditures Have Increased. State and federal revenues for the STIP are significantly lower than projected in the 2002 STIP fund estimate. According to new estimates released by Caltrans to the CTC, the STIP is projected to have a $4 billion cash shortfall over the next five years. The projected cash balance in the SHA for the current fiscal year is a $173 million shortfall. The SHA deficit increases to $634 million for the 2003-04 fiscal-year.

The STIP revenue reduction can be attributed to the following factors:

- Projected $566 million federal Revenue Aligned Budget Authority (RABA) funding increase over the next five years will not occur.

- Anticipated 20 percent increase in federal funds for the 2003-04 fiscal year will not occur. Caltrans estimates a $600 million total reduction of Federal revenues.

- Loss of truck weight fees due to the implementation of SB 2084. The new truck weight fee system was intended to be revenue neutral. However, Caltrans projects an annual revenue reduction of $163 million beginning this fiscal year.

- Lower TIF transfer as a result of gasoline sales tax revenue decline. (Approximately $74 million lower in 2003-04).

Annual expenditures from the State Highway Account have increased significantly in response to efforts to speed the delivery of capital projects and reduce the traditionally high cash balances in the SHA. During the 2001-02 fiscal-year, SHA expenditures exceeded account revenues by approximately $1 billion. Expenditures are projected to exceed revenues between $500 million and $1 billion annually over the next three years because of the continuing emphasis on accelerated project delivery.

Transportation Impacts. The Governor's budget revision has already had an effect on the TCRP and the STIP. The CTC on December 12, 2002 voted to suspend all new financial allocations for projects in the TCRP and the STIP at least until February 2003. Projects which earlier were given allocations and are in various stages of completion have been put in limbo.

The Governor's proposal is incomplete and vague in many respects, making a detailed assessment difficult. Also, the forthcoming Governor's Budget for 2003-04 due for release on January 10, 2003 likely will elaborate on and potentially extend the impact of the current transportation proposals.

Short Term Effects: The proposed loss of gasoline sales revenues and the related loan forgiveness to the TCRP has resulted in the CTC's December action to freeze project funding allocations for two months. This action has delayed 64 funding allocations. This, in turn is forcing local transportation agencies to ponder whether to sign pending contracts, order rail and other equipment or make other binding current year and future commitments. Agencies do not know whether or when funding might resume for projects in progress. Local agencies fear contractor lawsuits if funding is delayed or curtailed for projects under contract or those where preliminary work or resource marshaling has begun.

The Governor's transportation proposal is, in a technical sense, heavily-weighted toward the 2003-04 budget-year. However, the short-term effects are real and significant, as in the above-described project allocation freeze. The proposed funding suspension not only involves funds for the Traffic Congestion Relief

Program, but the resulting allocations freeze is across the board and includes STIP projects, too.

There are other short-term effects as well. Cities and counties would lose their current-year 2nd, 3rd, and 4th quarter allocations of street and road repair and maintenance funds (approximately $90 million in total). Some counties have indicated that contracts have already been signed based on the scheduled receipt of these funds. These planned repair activities will have to be curtailed or local tradeoffs made among competing funding needs. If repairs are not made, the effort to play "catch-up" and reduce the local road maintenance and rehabilitation backlog will suffer, resulting in far greater future repair costs.

Longer Term Effects: The loss of the sales tax revenues in the Budget Year will leave the TCRP approximately $1.5 billion short of the funds needed for the approved, and statutorily – endorsed, congestion relief projects. This is equivalent to approximately 25% of the funds promised for the program over its six years. The Governor's Proposal suggests that these underfunded projects should compete with other approved state and local transportation projects (in the STIP). Essentially, the situation would be one of too many projects chasing too few dollars.

The competition for remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in greater Los Angeles and the Bay Area, due to the concentration of TCRP projects in those two regions. 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.

Legislative Options. The December Revision would reduce funding for transportation investments by a total $1.7 billion through the 2003-04 budget-year. Major programs that are targeted for reductions include the Traffic Congestion Relief Program (-$1.3 billion), local street and road maintenance (-$237 million), the Public Transportation Account (-$74 million) and the State Highway Account (-$57 million; -$147 million offset by the proposed $90 million reversion for local street and road maintenance.).

These proposed reductions come at a time when transportation revenues are already below projections. As previously mentioned, the SHA has a projected cash shortfall of $173 million in the current fiscal-year and a $634 million shortfall in the 2003-04 budget-year. Assuming the Legislature approves the Governor's current-year proposal to suspend the $90 million Highway Account transfer for local streets and roads, the SHA still faces an $83 million shortfall in 2002-03. The Legislature needs to address the financial status of the highway account even without funding issues posed by the Governor's refinancing proposal.

The Governor's budget revision proposals have thrown a cloak of uncertainty over both the Traffic Congestion Relief Program (TCRP) and the State Transportation Improvement Program (STIP). While the administration has suggested that it intends to fold the TCRP projects into the STIP, it has proposed neither a trailer bill to achieve that objective nor a revenue source to fund all of the projects demanding revenue.

For the Legislature to consider meaningful alternatives to the Governor's mid-year proposals, the Governor's Budget proposal due on January 10, 2003, must articulate the Administration's intent with respect to the future of the Transportation Congestion Relief Plan (TCRP) and the fiscal instability and deficiencies of the current STIP.

The following are issues and options for the Legislature to consider.

1. *Is the administration's proposal to reduce funding to the TCRP a one-time action, or is the proposal part of a broader effort to repeal the TCRP entirely and require regional agencies to fund TCRP projects on their own and through the STIP process?*

   Staff Comment: If the proposal is a one-time reduction, the Legislature could simply modify the Governor's proposal by allowing the reduction now and requiring the General Fund to pay back the amount reduced at a future date (essentially extending the timeframe for the TCRP). If the proposal is to repeal the TCRP, see number 2 below.

2. *Given the current condition of the State Highway Account (SHA), the STIP cannot absorb the TCRP projects. Therefore, will the administration propose additional resources to fund those projects? If not, numerous TCRP projects will simply go without funding and will have to be delayed or cancelled.*

Staff Comment: The Legislature approved the TCRP projects in statute. To the extent that Members want to see the projects continue, they may wish to consider additional sources of revenue to fund the projects (e.g., statewide gas tax, regional gas tax, allow local to raise their own transportation revenues with a majority vote, etc.).

3. *Will the administration propose any additional resources to address the current funding shortfall in the State Highway Account (SHA)?*

   Staff Comment: Part of the problem in the SHA is lower than expected revenues from truck weight fees. Two years ago, the administration sponsored legislation, SB 2084 (Polanco), that overhauled the formula and process for collecting weight fees. The legislation was intended to be revenue neutral, but it was not. The Department of Finance estimates that weight fee revenues will be down $164 million in the current year. The Legislature may wish to consider changing the truck weight fee formula to at least achieve revenue neutrality for the state highway account as originally intended.

4. *Will the administration propose to suspend the gasoline sales tax transfer from the General Fund to the Transportation Investment Fund over more than one fiscal year?*

   Staff Comment: If, the administration proposes to suspend the gasoline sales tax transfer indefinitely as suggested, the condition of transportation funding will significantly diminish. While the General Fund would benefit from this action, over $1 billion in annual funding would be lost for TCRP and STIP projects, local street and road maintenance, and transit operating and capital investments.

   A broader issue to consider is the transportation sector's partial reliance on gasoline sales tax revenues from the General Fund. Notwithstanding the constitutional dedication of these funds to transportation, General Fund appropriations for transportation will likely be targeted for reductions as this budget crisis continues and future crises emerge. Policymakers should consider whether the volatility and vulnerability associated with this financing structure—and the project casualties and delays caused by constant funding instability—is an acceptable situation. Members may wish to consider adopting more stable sources of transportation funding that would not rise or fall based on the General Fund's condition. Options could include looking at traditional

transportation user fees or assisting local governments in raising their own transportation revenues.

Staff Recommendation: The Administration proposes over $210 million in transfers and/or reversions to the General Fund for the current-year. Of the Governor's $1.8 billion in savings, $1.55 billion deals with actions that will not occur until the 2003-04 fiscal-year. It is important to note that suspending the gasoline sales tax transfer to the TIF and deleting the $500 million General Fund loan repayment to the TCRF will not provide any savings for the current fiscal year.

Until the Administration provides a more detailed proposal that outlines how the existing SHA shortfall will be corrected, how the Transportation Commission will administer the TCRP, and how the Regional Transportation Planning Agencies will incorporate the TCRP projects with their local STIP projects, staff recommends the Legislature only approve the current-year transportation proposals. In reference to the $90 million SHA reversion, the Administration should indicate if there are legal ramifications for local governments that have already signed contracts for street and road maintenance projects.

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Appendix A
History/Backround on Traffic Congestion Relief Program

2000

In the Spring of 2000, the Governor proposed the establishment of a six-year Traffic Congestion Relief Program (TCRP) to fund scores of transportation projects, using revenues from the General Fund and the state sales tax on gasoline. The Legislature deliberated and held hearings on the proposal, modified the plan and then enacted the TCRP through the passage of AB 2928 which the Governor signed on July 6, 2000.

The TCRP legislation provided, over the program's six-year period, approximately $6,800,000,000 for transportation projects and programs, including approximately $4,900,000,000 for specified congestion relief projects, $600,000,000 in additional STIP funds, $1,000,000,000 in local streets and roads monies and $300,000,000 in Public Transportation Account funds (transit and rail programs.)

Specifically, AB 2928 (and its companion cleanup measure, SB 1662) did the following:

1. Appropriated $1.5 billion ($1,500,000,000) from the General Fund and transferred $500,000,000 from gasoline sales tax revenues to a new Transportation Congestion Relief Fund ($2 billion total), for the purposes of funding transportation projects in the Traffic Congestion Relief Plan ($1.6 billion) and funding local streets and roads maintenance, rehabilitation and reconstruction ($400,000,000) in Budget Year 2000-01.

2. For the 5-year period July 1, 2001 to June 30, 2006, transferred the state's share of revenues from the sales tax on gasoline from the General Fund to a new Transportation Infrastructure Fund (TIF).

3. From the transferred gasoline sales tax revenues in the TIF:

   (a) Appropriated a total of $3,390,000,000 to the Transportation Congestion Relief Fund on a quarterly basis ($678,000,000 annually) for the 5 years to fully fund the Governor's commitment to specific transportation projects contained in the bill.

(b) Appropriated the remaining funds as follows:

(1) 40% to the Department of Transportation for the State Transportation Improvement Program (STIP).

(2) 40% to cities and counties (20% to cities and 20% to counties) for subventions for maintenance, rehabilitation and reconstruction work on local streets and roads according to a specified formula.

(3) 20% to the Public Transportation Account for transit and rail purposes and programs.

4. Provided a list of specific projects eligible for funding, the amount of state funding available, a description of the project and each lead applicant agency for the funding.

5. Established an application process for the projects specified in the bill, provided a “flexibility” process for application for a substitute or alternative project when, a) the designated project is delayed by external factors, b) there are not sufficient matching funds, c) the original project is inconsistent with the regional transportation plan or d) the project’s completion would jeopardize previously-approved STIP projects, and established guidelines and timelines for the use of allocated project funds.

6. Required the local streets and roads subventions to be used for specific maintenance and repair purposes, and required cities and counties to maintain their current transportation expenditures (“maintenance of effort”) as a condition of continued funding from the sales tax revenues.

7. Included provisions protecting the Proposition 98 (education) funding calculation and the Vehicle License Fee offset calculation from the effects of the sale tax transfer, and changed the STIP period from a four-year cycle to a five-year cycle.

2001

In 2001, the Governor’s May Revise proposal included a plan to refinance and restructure the Traffic Congestion Relief Program for the purpose of making funds available to address the state’s budget deficit in the General Fund. Generally, the

refinancing plan proposed a two-year deferral of the gasoline sales tax shift to the TCRP, to be repaid in later years, plus a series of loans, advances and repayments among various transportation funds and the General Fund.

AB 438 is the transportation trailer bill enacted in July 2001 as part of the 2001-02 Budget to effect the refinancing agreement. Specifically, AB 438 did the following:

1. Postponed by two years, until 2003-04, the transfer of gasoline sales tax revenues deposited in the General Fund for purposes of the Traffic Congestion Relief Act. The transfer of the sales tax funds was extended two years through 2007-08, rather than the 2005-06, to make up for the two-year startup delay.

2. Continued the funding of local street and road maintenance at the original dollar amounts provided under AB 2928. The funding source was shifted from the State Highway Account (SHA), however, in 2001-02 and 2002-03 rather than from Transportation Investment Fund (TIF), with SHA funds to be paid back from gasoline sales tax revenues in 2006-07 and 2007-08.

3. Authorized the Department of Transportation to make short-term loans among the SHA, TIF, PTA and the TCRF for cash flow and financing purposes. Such loans were required to be repaid in the same fiscal year as made or when needed to meet cash expenditure needs in the loaning fund or account.

4. Authorized long-term loans from the PTA or SHA to the TCRF as part of the annual Budget Act in order to meet the cash flow requirements of the Transportation Congestion Relief Program (TCRP). It allowed the Director of Finance to authorize an interest free loan of up to $100 million from the Motor Vehicle Account (MVA) between July 1, 2004 and July 1, 2007, and an unspecified amount from the GF to TCRF. The MVA loan could not be made, or would be repaid immediately, if the funds were needed to make expenditures authorized in the Budget Act or other appropriation by the Legislature. Loans from the PTA were capped at a cumulative $280 million and loans from the SHA were to be capped at a cumulative $180 million over the life of the legislation.

5. Specified dates for the repayment of the various loans and transfers, as well as repealing the loan and transfer authorizations on specified dates after completion of the various authorized financial transactions.

6. Required periodic reporting to the Legislature on the loans, cash flow,

expenditures, fund conditions and other financial transactions.

2002

In January 2002, the Governor's proposed budget for 2002-03 projected a cumulative 18-month, current year deficit of at least $12.5 billion. The Legislature and the Governor agreed on mid year budget reductions to help ease the funding shortfall, with further reductions, fund transfers, revenue accelerations and revenue increases being proposed for the 2002-03 budget year. Transportation programs and funds were included in the budget deficit reduction proposals, especially with regard to the Transportation Congestion Relief Fund and the State Highway Account.

SB 1834 was enacted as the major transportation budget trailer bill. This bill, and related legislation, further revised and extended the transportation loan and refinancing scheme enacted the year before to make revenue available to the General Fund. Specifically, the new legislation:

1. Authorized an additional $474 million loan from the State Highway Account to the Traffic Congestion Relief Fund to meet the cash-flow needs of the TCR Program. The 2001-02 Budget had authorized a $180 million loan from the SHA to the TCRF. As a result of SB 1854, the total amount of all loans from SHA to the TCRF is $654 million. All loans from SHA are to be repaid by June 30, 2007.

2. Required the General Fund to repay the $474 million SHA loan with interest at the rate earned by the Surplus Money Investment Fund. SB 1834 also authorized a $173 million current-year (2001-02) loan to the GF from the SHA, to be repaid by June 30, 2005, and with interest calculated annually.

3. Established specific cash management requirements for the TCR Fund, SHA, and the Toll Bridge Seismic Retrofit Account and required the Department of Transportation to provide to the Legislature the monthly cash balances, revenues, and expenditures for the TCR Fund, SHA, and Retrofit Account. The bill also allowed short term loans from the General Fund back to the SHA to ensure adequate cash for ongoing transportation expenditures and projects.

4. Declared legislative intent that the new loans shall not delay the delivery of transportation projects that are funded from the SHA or the TCRF.

This bill, along with another $50 million loan from the SHA to the General Fund and other provisions of the Budget, provided General Fund fiscal relief of $1.2 billion for 2002-03.

Proposition 42 (ACA 4)

As part of the 2002-03 budget agreement, the Legislature passed Assembly Constitutional Amendment 4 for consideration by voters on the statewide March 2002 ballot. ACA 4 proposed the permanent constitutional dedication of the state sales tax on gasoline for transportation purposes. ACA 4 (Proposition 42) was approved by the voters and does the following:

1. Requires for 2003-04 and each subsequent fiscal year, that the state's share of gasoline sales tax revenues deposited in the General Fund shall be transferred to the Transportation Investment Fund (TIF). For 2003-04 to 2007-08, the monies in the TIF are "grandfathered" for purposes of the Traffic Congestion Relief Program and the General Fund – transportation loan and refinancing plans previously enacted by the Legislature and described in I-III above.

2. Requires for 2008-09 and each fiscal year thereafter, that the TIF sales tax revenues be allocated solely for three major transportation purposes: a) public transit and mass transportation, b) capital improvement projects according to State Transportation Improvement Program (STIP) provisions, and c) city and county street maintenance, rehabilitation, reconstruction and storm damage repair.

3. Requires that in 2008-09 and beyond that the gasoline sales tax revenues be allocated as follows: 20% to transit, 40% to cities and counties (20% to each group) and 40% to the STIP.

4. Authorizes the suspension of the sales tax revenue transfer to transportation from the General Fund for a fiscal year if a) the Governor issues a proclamation that the transfer would have a significant fiscal impact on General Fund program activities and b) the Legislature enacts a 2/3 vote statute concurring in the suspension of the transfer for that fiscal year, and provided that the bill does contain any other unrelated provision (that is, it must be a stand-alone bill).

Appendix B
CURRENT STATUS OF TCRP PROJECTS

Project #	Description	Authorized in Legislation	Expended	At-Risk(Potentally Eliminated from TCRP)
1.1	BART to San Jose; extend BART from Fremont to Downtown San Jose in Santa Clara and Alameda Counties. Fremont to Warm Springs	$111,433,000	$0	$111,433,000
1.2	BART to San Jose; extend BART from Fremont to Downtown San Jose in Santa Clara and Alameda Counties. Warm Springs to San Jose	$613,567,000	$3,062,051	$610,504,949
2	Fremont-South Bay Commuter Rail; Alternate Project; Aquire rail line for BART to San Jose	$35,000,000	$0	$35,000,000
3	Route 101; widen freeway from four to eight lanes south of San Jose, Bemal Road to Burnett Avenue in Santa Clara County.	$25,000,000	$3,296,606	$21,703,394
4	Route 680; add northbound HOV lane over Sunol Grade, Milpitas to Route 84 in Santa Clara and Alameda Counties.	$60,000,000	$288,464	$59,711,536
5	Route 101; add northbound lane to freeway through San Jose,Route 87 to Trimble Road in Santa Clara County.	$5,000,000	$4,346,000	$654,000
6	Route 262; major investment study for cross connector freeway, Route 680 to Route 880 near Warm Springs in Santa Clara County.	$1,000,000	$470,688	$529,312
7.1	CalTrain; expand service to Gilroy; improve parking, stations, and platforms along UPRR line in Santa Clara County. Second main track between Tamien and Lick.	$22,000,000	$0	$22,000,000

7.2 CalTrain; expand service to Gilroy; improve parking, stations, and platforms along UPRR line in Santa Clara County. Platform modifications and Gilroy Storage Tracks.	$6,500,000		$6,500,000
7.3 CalTrain; expand service to Gilroy; improve parking, stations, and platforms along UPRR line in Santa Clara County. Other imporvements	$26,500,000		$26,500,000
8 Route 880; reconstruct Coleman Avenue Interchange near San Jose Airport in Santa Clara County.	$5,000,000	$4,474,612	$525,388
9.1 Capitol Corridor; improve intercity rail line between Oakland and San Jose, and at Jack London Square and Emeryville stations in Alameda and Santa Clara Counties. Harder Road Overcrossing Project - $600,000	$600,000	$600,000	$0
9.2 Capitol Corridor; improve intercity rail line between Oakland and San Jose, and at Jack London Square and Emeryville stations in Alameda and Santa Clara Counties. Emeryville Station Project - $3,150,000 (adj between 9.2 & 9.3 pending)	$3,150,000	$0	$3,150,000
9.3 Capitol Corridor; improve intercity rail line between Oakland and San Jose, and at Jack London Square and Emeryville stations in Alameda and Santa Clara Counties. Jack London Square Project - $1,750,000 (adj between 9.2 & 9.3 pending)	$1,750,000	$0	$1,750,000
9.4 Capitol Corridor; improve intercity rail line between Oakland and San Jose, and at Jack London Square and Emeryville stations in Alameda	$19,500,000	$0	$19,500,000

	and Santa Clara Counties. Oakland to San Jose - $19,500,000			
10	Regional Express Bus; acquire low-emission buses for new express service on HOV lanes regionwide. In nine counties.	$40,000,000	$4,810,000	$35,190,000
11	San Francisco Bay Southern Crossing; complete feasibility and financial studies for new San Francisco Bay crossing (new bridge, HOV/Transit bridge or second BART tube) in Alameda and San Francisco or San Mateo Counties. Segment I - 2000 SF Bay Crossing	$5,000,000	$2,152,046	$2,847,954
12.1	Bay Area Transit Connectivity; complete studies of, and fund related improvements for, the I-580 Livermore Corridor; the Hercules Rail Station and related improvements, West Contra Costa County and Route 4 Corridors in Alameda and Contra Costa Counties.	$7,000,000	$1,244,637	$5,755,363
12.2	Bay Area Transit Connectivity; complete studies of, and fund related improvements for, the I-580 Livermore Corridor; the Hercules Rail Station and related improvements, West Contra Costa County and Route 4 Corridors in Alameda and Contra Costa Counties.	$3,000,000	$52,564	$2,947,436
12.3	Bay Area Transit Connectivity; complete studies of, and fund related improvements for, the I-580 Livermore Corridor; the Hercules Rail Station and related improvements, West Contra Costa County and Route 4 Corridors in Alameda and Contra Costa Counties.	$7,000,000	$1,200,000	$5,800,000

13	CalTrain Peninsula Corridor; acquire rolling stock, add passing tracks, and construct pedestrian access structure at stations between San Francisco and San Jose in San Francisco, San Mateo, and Santa Clara Counties. Construction of 3rd and 4th Track	$127,000,000	$45,000,414	$81,999,586
14	CalTrain; extension to Salinas in Monterey County.	$20,000,000	$68,903	$19,931,097
15	Caldecott Tunnel; add fourth bore tunnel with additional lanes in Alameda and Contra Costa Counties.	$20,000,000	$2,032,448	$17,967,552
16.1	Route 4; construct one or more phases of improvements to widen freeway to eight lanes from Railroad through Loveridge Road, including two high-occupany vehicle lanes, and to six or more lanes from east of Loveridge Road through Hillcrest. (SEG 1 - Railro	$25,000,000	$19,852,126	$5,147,874
16.2	Route 4; construct one or more phases of improvements to widen freeway to eight lanes from Railroad through Loveridge Road, including two high-occupany vehicle lanes, and to six or more lanes from east of Loveridge Road through Hillcrest. (SEG 2 - Loveri	$14,000,000	$0	$14,000,000
17	Route 101; add reversible HOV lane through San Rafael, Sir Francis Drake Boulevard to North San Pedro Road in Marin County. SEGMENT 1	$15,000,000	$277,594	$14,722,406
18	Route 101; widen eight miles of freeway to six lanes, Novato to Petaluma (Novato Narrows) in Marin and Sonoma Counties.	$21,000,000	$735,360	$20,264,640
19	Bay Area Water Transit Authority; establish a regional water transit system beginning	$2,000,000	$0	$2,000,000

	with Treasure Island in the City and County of San Francisco.			
20.1	San Francisco Muni Third Street Light Rail; extend Third Street line to Chinatown (tunnel) in the City and County of San Francisco. (Third Street - Bayshore extension)	$126,000,000	$0	$126,000,000
20.2	San Francisco Muni Third Street Light Rail; extend Third Street line to Chinatown (tunnel) in the City and County of San Francisco. (Central Subway)	$14,000,000	$0	$14,000,000
21	San Francisco Muni Ocean Avenue Light Rail; reconstruct Ocean Avenue light rail line to Route 1 near California State University, San Francisco, in the City and County of San Francisco.	$7,000,000	$5,093,834	$1,906,166
22	Route 101; environmental study for reconstruction of Doyle Drive, from Lombard St./Richardson Avenue to Route 1 Interchange in City and County of San Francisco.	$15,000,000	$0	$15,000,000
23	CalTrain Peninsula Corridor; complete grade separations at Poplar Avenue in (San Mateo), 25th Avenue (San Mateo), and Linden Avenue (South San Francisco) in San Mateo County.	$15,000,000	$0	$15,000,000
24	Vallejo Baylink Ferry; acquire low-emission ferryboats to expand Baylink Vallejo-San Francisco service in Solano County.	$5,000,000	$27,367	$4,972,633
25.1	I-80/I-680/Route 12 Interchange in Fairfield in Solano County; 12 interchange complex in seven stages (Stage 1). MIS/Corridor Study	$1,000,000	$1,000,000	$0

25.2	I-80/I-680/Route 12 Interchange in Fairfield in Solano County; 12 interchange complex in seven stages (Stage 1). North Connector	$3,000,000	$8,643	$2,991,357
25.3	I-80/I-680/Route 12 Interchange in Fairfield in Solano County; 12 interchange complex in seven stages (Stage 1).	$9,000,000	$0	$9,000,000
26	ACE Commuter Rail; add siding on UPRR line in Livermore Valley in Alameda County.	$1,000,000	$0	$1,000,000
27.1	Vasco Road Safety and Transit Enhancement Project in Alameda and Contra Costa Counties. Vasco Road Re-alignment - $6,500,000	$6,500,000	$40,345	$6,459,655
27.2	Vasco Road Safety and Transit Enhancement Project in Alameda and Contra Costa Counties. Vasco Road ACE Parking - $3,000,000	$3,000,000	$98,308	$2,901,692
27.3	Vasco Road Safety and Transit Enhancement Project in Alameda and Contra Costa Counties. Valley Center Project Parking - $1,500,000	$1,500,000	$520,000	$980,000
28	Parking Structure at Transit Village at Richmond BART Station in Contra Costa County.	$5,000,000	$0	$5,000,000
29	AC Transit; buy two fuel cell buses and fueling facility for demonstration project in Alameda and Contra Costa Counties.	$8,000,000	$0	$8,000,000
30	Implementation of commuter rail passenger service from Cloverdale south to San Rafael and Larkspur in Marin and Sonoma Counties.	$37,000,000	$1,332,903	$35,667,097

31	Route 580; construct eastbound and westbound HOV lanes from Tassajara Road/Santa Rita Road to Vasco Road in Alameda County.	$25,000,000	$885,978	$24,114,022
32.1	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Subparagraph (a)(2) defray administrative costs.	$1,000,000	$983,539	$16,461
32.2	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (b) completion of rail line from Lombard to Willits.	$600,000	$600,000	$0
32.3	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (c) completion of rail line from Willits to Arcata.	$1,000,000	$400,000	$600,000
32.4	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (d) upgrade rail line to Class II or III standards.	$5,000,000	$100,000	$4,900,000
32.5	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (e) environmental remediation projects.	$4,100,000	$331,000	$3,769,000
32.6	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (f) debt reduction.	$10,000,000	$10,000,000	$0

32.7	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (g) local match funds.	$1,800,000	$0	$1,800,000
32.8	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (h) fund repayment of federal loan obligations.	$5,500,000	$5,500,000	$0
32.9	North Coast Railroad; repair and upgrade track to meet Class II (freight) standards in Napa, Sonoma, Marin, Mendocino and Humboldt Counties. Sub-paragraph (i) long term stabilization.	$31,000,000	$0	$31,000,000
33	Bus Transit; acquire low-emission buses for Los Angeles County MTA bus transit service.	$150,000,000	$0	$150,000,000
34	Blue Line to Los Angeles; new rail line Pasadena to Los Angeles in Los Angeles County.	$40,000,000	$40,000,000	$0
35.1	Pacific Surfliner; triple track intercity rail line within Los Angeles County and add run-through-tracks through Los Angeles Union Station in Los Angeles County. Run-thru tracks	$28,000,000	$1,562,674	$26,437,326
35.2	Pacific Surfliner; triple track intercity rail line within Los Angeles County and add run-through-tracks through Los Angeles Union Station in Los Angeles County. Triple track	$66,936,000	$0	$66,936,000
35.3	Pacific Surfliner; triple track intercity rail line within Los Angeles County and add run-through-tracks through LA Union Station in Los Angeles County. Fifth lead track.	$5,064,000	$0	$5,064,000

36	Los Angeles Eastside Transit Extension; build new light rail line in East Los Angeles, from Union Station to Atlantic via 1st Street to Lorena in Los Angeles County (design/build).	$236,000,000	$13,033,575	$222,966,425
37.1	Los Angeles Mid-City Transit Improvements; build Bus Rapid Transit system or Light Rail Transit in Mid-City/Westside/Exposition Corridors in Los Angeles County. Wilshire BRT (design/build)	$228,900,000	$1,509,226	$227,390,774
37.2	Los Angeles Mid-City Transit Improvements; build Bus Rapid Transit system or Light Rail Transit in Mid-City/ Westside/Exposition Corridors in Los Angeles County. Mid-City/Exposition LRT	$27,100,000	$470,139	$26,629,861
38.1	LA-San Fernando Valley Transit Extension; (A) build an East-West Bus Rapid Transit system in the Burbank-Chandler corridor, from North Hollywood to Warner Center. ($145,000,000) (design/build).	$145,000,000	$9,266,790	$135,733,210
38.2	Los Angeles-San Fernando Valley Transit Extension; (B) build an North-South corridor bus transit project that interfaces with the foregoing East-West Burbank-Chandler corridor project and with the Ventura Boulevard Rapid Bus project. ($100,000,000)	$100,000,000	$243,395	$99,756,605
39	Route 405; add northbound HOV lane over Sepulveda Pass, Route 10 to Route 101 in Los Angeles County.	$90,000,000	$2,632,769	$87,367,231
40	Route 10; add HOV lanes on San Bernardino Freeway over Kellogg Hill, near Pomona, Route 605 to Route 57 in Los Angeles County.	$90,000,000	$505,100	$89,494,900

41.1	Route 5; add HOV lanes on Golden State Freeway through San Fernando Valley, Route 170 (Hollywood Freeway) to Route 14 (Antelope Valley Freeway) in Los Angeles County. (SEG 1 Route 118 to Route 14)	$29,950,000	$171,437	$29,778,563
41.2	Route 5; add HOV lanes on Golden State Freeway through San Fernando Valley, Route 170 (Hollywood Freeway) to Route 14 (Antelope Valley Freeway) in Los Angeles County. (SEG 2 Route 170 to Route 118)	$20,050,000	$283,502	$19,766,498
42.1	Route 5; widen Santa Ana Freeway to 10 lanes (two HOV + two mixed flow), Orange County line to Route 710, with related major arterial improvements, in Los Angeles County. (SEG A - County Line to Rte. 605)	$109,000,000	$901,675	$108,098,325
42.2	Route 5; widen Santa Ana Freeway to 10 lanes (two HOV + two mixed flow), Orange County line to Route 710, with related major arterial improvements, in Los Angeles County. (SEG B - Rte. 605, inc. IC to Rte. 710)	$8,000,000	$0	$8,000,000
42.3	Route 5; widen Santa Ana Freeway to 10 lanes (two HOV + two mixed flow), Orange County line to Route 710, with related major arterial improvements, in Los Angeles County. (SEG C - Rte. 710 IC)	$8,000,000	$0	$8,000,000
43	Route 5; improve Carmenita Road Interchange in Norwalk in Los Angeles County.	$71,000,000	$0	$71,000,000
44	Route 47 (Terminal Island Freeway); construct interchange at Ocean Boulevard Overpass in the Long Beach in LA County.	$18,400,000	$0	$18,400,000

45	Route 710; complete Gateway Corridor Study, Los Angeles/Long Beach ports to Route 5 in Los Angeles County.	$2,000,000	$157,760	$1,842,240
46	Route 1; reconstruct intersection at Route 107 in Torrance in Los Angeles County.	$2,000,000	$480,384	$1,519,616
47	Route 101; California Street off-ramp in Ventura County.	$15,000,000	$248,615	$14,751,385
48	Route 101; corridor analysis and PSR to improve corridor from Route 170 (North Hollywood Freeway) to Route 23 in Thousand Oaks (Ventura County) in Los Angeles and Ventura Counties.	$3,000,000	$0	$3,000,000
49	Hollywood Intermodal Transportation Center; intermodal facility at Highland Avenue and Hawthorn Avenue in the City of Los Angeles.	$10,000,000	$0	$10,000,000
50	Route 71; complete three miles of six-lane freeway through Pomona, from Route 10 to Route 60 in Los Angeles County.	$30,000,000	$2,416,587	$27,583,413
51	Route 101/405; add auxiliary lane and widen ramp through freeway interchange in Sherman Oaks in Los Angeles County.	$21,000,000	$1,828,758	$19,171,242
52	Route 405; add HOV and auxiliary lanes for 1 mile in West Los Angeles, from Waterford Avenue to Route 10 in Los Angeles County.	$25,000,000	$0	$25,000,000
53	Automated Signal Corridors (ATSAC); improve 479 automated signals in Victory/Ventura Corridor, and add 76 new automated signals in Sepulveda Boulevard and Route 118 Corridors in Los Angeles County.	$16,000,000	$2,005,849	$13,994,151

54.1	Alameda Corridor East; build grade separations on Burlington Northern-Santa Fe and Union Pacific Railroad lines, downtown Los Angeles to Los Angeles County line in Los Angeles County. ACE	$130,300,000	$2,058,252	$128,241,748
54.2	Alameda Corridor East; build grade separations on Burlington Northern-Santa Fe and Union Pacific Railroad lines, downtown Los Angeles to Los Angeles County line in Los Angeles County. Santa Fe Springs	$15,300,000	$0	$15,300,000
54.3	Alameda Corridor East; build grade separations on Burlington Northern-Santa Fe and Union Pacific Railroad lines, downtown Los Angeles to Los Angeles County line in Los Angeles County. Pico Rivera	$4,400,000	$0	$4,400,000
55.1	Alameda Corridor East; build grade separations on Burlington Northern-Santa Fe and Union Pacific Railroad lines, Los Angeles County line to Colton, with rail-to-rail separation at Colton in San Bernardino County. Montclair	$18,800,000	$135,396	$18,664,604
55.2	Alameda Corridor East; build grade separations on Burlington Northern-Santa Fe and Union Pacific Railroad lines, Los Angeles County line to Colton, with rail-to-rail separation at Colton in San Bernardino County. Ontario	$34,178,000	$324,214	$33,853,786
55.3	Alameda Corridor East; build grade separations on Burlington Northern-Santa Fe and Union Pacific Railroad lines, Los Angeles County line to Colton, with rail-to-rail separation at Colton in San Bernardino County. SANBAG	$42,022,000	$442,585	$41,579,415

56	Metrolink; track and signal improvements on Metrolink; San Bernardino line in San Bernardino County.	$15,000,000	$3,961,370	$11,038,630
57	Route 215; add HOV lanes through downtown San Bernardino, Route 10 to Route 30 in San Bernardino County.	$25,000,000	$0	$25,000,000
58	Route 10; widen freeway to eight-lanes through Redlands, Route 30 to Ford Street in San Bernardino County.	$10,000,000	$0	$10,000,000
59	Route 10; Live Oak Canyon Interchange in the City of Yucaipa in San Bernardino County.	$11,000,000	$1,229,051	$9,770,949
60.1	Route 15; southbound truck climbing lane at two locations in San Bernardino County. Near Barstow. East Main Street/Calico Ghost Town Rd.	$10,000,000	$685,866	$9,314,134
61	Route 10; reconstruct Apache Trail Interchange east of Banning in Riverside County.	$30,000,000	$634,378	$29,365,622
62	Route 91; add HOV lanes through downtown Riverside, Mary Street to Route 60/215 junction in Riverside County. Mary Street to University Ave.	$20,000,000	$423,642	$19,576,358
62.1	Route 91; add HOV lanes through downtown Riverside, Mary Street to Route 60/215 junction in Riverside County. University Ave. to Rte/ 60/91/215 IC	$20,000,000	$0	$20,000,000
63	Route 60; add seven miles of HOV lanes west of Riverside, Route 15 to Valley Way in Riverside County.	$25,000,000	$2,997,340	$22,002,660
64.1	Route 91; improve the Green River Interchange and add auxiliary lane and connector ramp east of the Green River Interchange to northbound 71 in Riverside County. (Reconstruct Green River interchange)	$5,000,000	$0	$5,000,000

70.1	Route 22; add HOV lanes on Garden Grove Freeway, Route I-405 to Route 55 in Orange County. (SOUNDWALL)	$22,300,000	$7,484,599	$14,815,401
70.2	Route 22; add HOV lanes on Garden Grove Freeway, Route I-405 to Route 55 in Orange County. (design/build HOV)	$173,400,000	$9,177,250	$164,222,750
70.3	Route 22; add HOV lanes on Garden Grove Freeway, Route I-405 to Route 55 in Orange County. (REPLACEMENT PLANTING)	$10,800,000	$0	$10,800,000
73	Alameda Corridor East; (Orangethorpe Corridor) build grade separations on Burlington Northern-Santa Fe line, Los Angeles County line through Santa Ana Canyon in Orange County.	$28,000,000	$8,353,000	$19,647,000
74.1	Pacific Surfliner; double track intercity rail line within San Diego County, add maintenance yard in San Diego County. (Oceanside Double Tracking)	$6,000,000	$2,668	$5,997,332
74.2	Pacific Surfliner; double track intercity rail line within San Diego County, add maintenance yard in San Diego County. (LOSSAN Corridor EIS/EIR)	$15,262,000	$1,704,112	$13,557,888
74.3	Pacific Surfliner; double track intercity rail line within San Diego County, add maintenance yard in San Diego County. (Maintenance Yard)	$22,000,000	$0	$22,000,000
74.4	Pacific Surfliner; double track intercity rail line within San Diego County, add maintenance yard in San Diego County. (Track & signal imp at Fallbrook)	$450,000	$199,426	$250,574
74.5	Pacific Surfliner; double track intercity rail line within San Diego County, add maintenance yard in San Diego County. (Encinitas Passing Track)	$3,288,000	$0	$3,288,000

75.1	San Diego Transit Buses; acquire about 85 low-emission buses for San Diego transit service in San Diego County. MTDB	$21,000,000	$591,496	$20,408,504
75.2	San Diego Transit Buses; acquire about 85 low-emission buses for San Diego transit service in San Diego County. NCTD	$9,000,000	$820,815	$8,179,185
76	Coaster Commuter Rail; acquire one new train set to expand commuter rail in San Diego County.	$14,000,000	$13,072,711	$927,289
77	Route 94; complete environmental studies to add capacity to Route 94 corridor, downtown San Diego to Route 125 in Lemon Grove.	$20,000,000	$876,641	$19,123,359
78	East Village access; improve access to light rail from new in-town East Village development in San Diego County.	$15,000,000	$0	$15,000,000
79	North County Light Rail; build new 20-mile light rail line from Oceanside to Escondido.	$80,000,000	$0	$80,000,000
80	Mid-Coast Light Rail; extend Old Town light rail line 6 (3.5) miles to Balboa Avenue in San Diego County.	$10,000,000	$0	$10,000,000
81	San Diego Ferry; acquire low-emission high-speed ferryboat for new off-coast service between San Diego and Oceanside.	$5,000,000	$2,492,641	$2,507,359
82	Routes 5/805; reconstruct and widen freeway interchange, Genesee Avenue to Del Mar Heights Road in San Diego County.	$25,000,000	$1,812,277	$23,187,723
83.1	Route 15; add high-tech managed lane on I-15 freeway north of San Diego (Stage 1) from Route 163 to Route 78 in San Diego County. TRANSIT ELEMENTS	$28,800,000	$5,500,000	$23,300,000

83.2	Route 15; add high-tech managed lane on I-15 freeway north of San Diego (Stage 1) from Route 163 to Route 78 in San Diego County. FWY ELEMENTS	$41,200,000	$18,448,715	$22,751,285
84	Route 52; build four miles of new six-lane freeway to Santee, Mission Gorge to Route 67 in San Diego County.	$45,000,000	$23,634,507	$21,365,493
85	Route 56; construct approximately five miles of new freeway alignment between I-5 and I-15 from Carmel Valley to Rancho Penasquitos in the City of San Diego in San Diego County.	$25,000,000	$10,832,135	$14,167,865
86	Route 905; build new six-lane freeway on Otay Mesa, Route 805 to Mexico Port of Entry in San Diego County.	$25,000,000	$5,782,217	$19,217,783
87.1	Routes 94/125; build two new freeway connector ramps at Route 94/125 in Lemon Grove in San Diego County.	$1,271,000	$702,342	$568,658
87.2	Routes 94/125; build two new freeway connector ramps at Route 94/125 in Lemon Grove in San Diego County.	$58,729,000	$732,030	$57,996,970
88	Route 5; realign freeway at Virginia Avenue, approaching San Ysidro Port.	$10,000,000	$78,572	$9,921,428
89	Route 99; improve Shaw Avenue Interchange in northern Fresno in Fresno County.	$5,000,000	$441,572	$4,558,428
90	Route 99; widen freeway to six lanes, Kingsburg to Selma in Fresno County.	$20,000,000	$2,664,573	$17,335,427
91	Route 180; build new expressway east of Clovis, Clovis Avenue to Temperance Avenue in Fresno County.	$20,000,000	$3,706,170	$16,293,830
92	San Joaquin Corridor; improve track and signals along San Joaquin intercity rail line near Hanford in Kings County.	$10,000,000	$0	$10,000,000

93	Route 180; complete environmental studies to extend Route 180 westward from Mendota to I-5 in Fresno County.	$7,000,000	$588,978	$6,411,022
94	Route 43; widen to four-lane expressway from Kings County line to Route 99 in Selma in Fresno County.	$5,000,000	$427,075	$4,572,925
95	Route 41; add auxiliary lane/operational improvements and improve ramps at Friant Road Interchange in Fresno in Fresno County. (SHOPP)	$10,000,000	$1,333,170	$8,666,830
96	Friant Road; widen to four lanes from Copper Avenue to Road 206 in Fresno County.	$10,000,000	$0	$10,000,000
97	Operational improvements on Shaw Avenue, Chestnut Avenue, Willow Avenue, and Barstow Avenue near California State University at Fresno.	$2,100,000	$2,039,077	$60,923
97.1	Operational improvements on Shaw Avenue, Chestnut Avenue, Willow Avenue, and Barstow Avenue near California State University at Fresno.	$1,850,000	$0	$1,850,000
97.2	Operational improvements on Shaw Avenue, Chestnut Avenue, Willow Avenue, and Barstow Avenue near California State University at Fresno.	$6,050,000	$0	$6,050,000
98	Peach Avenue; widen to four-lane arterial and add pedestrian overcrossings for three schools in Fresno County.	$10,000,000	$0	$10,000,000
99.1	San Joaquin Corridor; improve track and signals along San Joaquin intercity rail line in seven counties. CALWA to BOWLES	$3,000,000	$1,145,285	$1,854,715
99.2	San Joaquin Corridor; improve track and signals along San Joaquin intercity rail line in seven counties. STOCKTON to ESCALON	$12,000,000	$0	$12,000,000

100	San Joaquin Valley Emergency Clean Air Attainment Program; incentives for the reduction of emissions from heavy-duty diesel engines operating within the eight-county San Joaquin Valley region.	$25,000,000	$12,500,000	$12,500,000
101	Santa Cruz Metropolitan Transit District bus fleet; acquisition of low-emission buses.	$3,000,000	$0	$3,000,000
102.1	Route 101 access; State Street smart corridor Advanced Traffic Corridor System (ATSC) technology in Santa Barbara County.	$400,000	$0	$400,000
102.2	Route 101 access; State Street smart corridor Advanced Traffic Corridor System (ATSC) technology in Santa Barbara County.	$900,000	$0	$900,000
103	Route 99; improve interchange at Seventh Standard Road, north of Bakersfield in Kern County.	$8,000,000	$81,560	$7,918,440
104	Route 99; build seven miles of new six-lane freeway south of Merced, Buchanan Hollow Road to Healey Road in Merced County.	$5,000,000	$7,320	$4,992,680
105	Route 99; build two miles of new six-lane freeway, Madera County line to Buchanan Hollow Road in Merced County.	$5,000,000	$0	$5,000,000
106	Campus Parkway; build new arterial in Merced County from Route 99 to Bellevue Road.	$23,000,000	$0	$23,000,000
107	Route 205; widen freeway to six lanes, Tracy to I-5 in San Joaquin County.	$25,000,000	$0	$25,000,000
108	Route 5; add northbound lane to freeway through Mossdale "Y", Route 205 to Route 120 in San Joaquin County.	$7,000,000	$338,035	$6,661,965
109	Route 132; build 4 miles of new four-lane expressway Modesto from Dakota Avenue to Route	$12,000,000	$0	$12,000,000

99 and improve Route 99 interchange in Stanislaus County.			
110 Route 132; build 3.5 miles of new four-lane expressway from Route 33 to the San Joaquin county line in Stanislaus and San Joaquin Counties.	$2,000,000	$445,056	$1,554,944
111 Route 198; build 10 miles of new four-lane expressway from Route 99 to Hanford in Kings and Tulare Counties.	$14,000,000	$123,964	$13,876,036
112 Jersey Avenue; widen from 17th Street to 18th Street in Kings County.	$1,500,000	$0	$1,500,000
113 Route 46; widen to four lanes for 33 miles from Route 5 to San Luis Obispo County line in Kern County.	$30,000,000	$490,376	$29,509,624
114 Route 65; add four passing lanes, intersection improvement, and conduct environmental studies for ultimate widening to four lanes from Route 99 in Bakersfield to Tulare County line in Kern County.	$12,000,000	$300,938	$11,699,062
115 South Line Light Rail; extend South Line three miles towards Elk Grove, from Meadowview Road to Calvine Road in Sacramento County.	$70,000,000	$973,510	$69,026,490
116 Route 80 Light Rail Corridor; double-track Route 80 light rail line for express service in Sacramento County.	$25,000,000	$0	$25,000,000
117 Folsom Light Rail; extend light rail tracks from 7th Street and K Street to the Amtrak Depot in downtown Sacramento, and extend Flosom light rail from Mather Field Station to downtown Folsom. Add a new vehicle storage and maintenance facility in the area	$20,000,000	$4,585,110	$15,414,890

118	Sacramento Emergency Clean Air/Transportation Plan (SECAT); incentive for the reduction of emissions from heavy-duty diesel engines operating within the Sacramento region. (Includes funds from #119.1)	$66,000,000	$16,500,000	$49,500,000
119.1	Convert Sacramento Regional Transit bus fleet to low emission and provide Yolobus service by the Yolo County Transportation District; acquire approximately 50 replacement low-emission buses for service in Sacramento and Yolo Counties. SacRT Buses. (Fund	$0	$0	$0
119.2	Convert Sacramento Regional Transit bus fleet to low emission and provide Yolobus service by the Yolo County Transportation District; acquire approximately 50 replacement low-emission buses for service in Sacramento and Yolo Counties. YOLOBUS Service	$3,000,000	$1,303,990	$1,696,010
121	Metropolitan Bakersfield System Study; to reduce congestion in the City of Bakersfield.	$350,000	$258,245	$91,755
122	Route 65; widening project from 7th Standard Road to Route 190 in Porterville.	$3,500,000	$782,236	$2,717,764
123	Oceanside Transit Center; parking structure.	$1,500,000	$148,624	$1,351,376
126	Route 50/Watt Avenue interchange; widening of overcrossing and modifications to interchange.	$7,000,000	$9,628	$6,990,372
127	Route 85/Route 87; interchange completion; addition of two direct connectors for southbound Route 85 to northbound Route 87 and southbound Route 87 to northbound Route 85.	$3,500,000	$3,033,732	$466,268

128	Airport Road; reconstruction and intersection improvement project	$3,000,000	$5,558	$2,994,442
129	Route 62; traffic and pedestrian safety and utility undergrounding project in right-of-way of Route 62.	$3,200,000	$15,760	$3,184,240
133	Feasibility studies for grade separation projects for Union Pacific Railroad at Elk Grove Boulevard and Bond Road.	$150,000	$0	$150,000
134	Route 50/Sunrise Boulevard; interchange modifications.	$3,000,000	$2,661,501	$338,499
135	Route 99/Sheldon Road; interchange project; reconstruction and expansion.	$3,000,000	$0	$3,000,000
138	Cross Valley Rail; upgrade track from Visalia to Huron.	$4,000,000	$3,382,936	$617,064
139.1	Balboa Park BART Station; phase I expansion. BART Segment 1 – Balboa Park BART Station	$5,460,000	$859,376	$4,600,624
139.2	Balboa Park BART Station; phase I expansion. MUNI Geneva Segment 1	$540,000	$0	$540,000
140	City of Goshen; overpass for Route 99.	$1,500,000	$744,927	$755,073
141	Union City; pedestrian bridge over Union Pacific rail lines.	$2,000,000	$87,088	$1,912,912
142	West Hollywood; repair, maintenance, and mitigation of Santa Monica Boulevard.	$2,000,000	$2,000,000	$0
144	Seismic retrofit of the national landmark Golden Gate Bridge.	$5,000,000	$5,000,000	$0
145	Construction of a new siding in Sun Valley between Sheldon Street and Sunland Boulevard.	$6,500,000	$2,080,203	$4,419,797
146	Construction of Palm Avenue Interchange.	$10,000,000	$0	$10,000,000
148.1	Route 98; widening of 8 miles between Route 111 and Route 7 from 2 lanes to 4 lanes.	$8,900,000	$1,231,932	$7,668,068
148.2	Route 98; widening of 8 miles between Route 111 and Route 7 from 2 lanes to 4 lanes. Avenue to Meadows Rd (signalization).	$1,100,000	$0	$1,100,000

149	Purchase of low-emission buses for express service on Route 17.	$3,750,000	$0	$3,750,000
150	Renovation or rehabilitation of Santa Cruz Metro Center.	$1,000,000	$0	$1,000,000
151	Purchase of 5 alternative fuel buses for the Pasadena Area Rapid Transit System.	$1,100,000	$0	$1,100,000
152	Pasadena Blue Line transit-oriented mixed-use development.	$1,500,000	$0	$1,500,000
153	Pasadena Blue Line utility relocation.	$550,000	$0	$550,000
154	Route 134/I-5 interchange study. One hundred thousand dollars ($100,000). The lead applicant is the department.	$100,000	$0	$100,000
156	Seismic retrofit and core segment improvements for the Bay Area Rapid Transit system.	$20,000,000	$0	$20,000,000
157	Route 12; Congestion relief improvements from Route 29 to I-80 through Jamison Canyon.	$7,000,000	$1,280,582	$5,719,418
158.1	Remodel the intersection of Olympic Boulevard, Mateo Street, and Porter Street and install a new traffic signal. (Segment A - widen Mateo)	$800,000	$0	$800,000
158.2	Remodel the intersection of Olympic Boulevard, Mateo Street, and Porter Street and install a new traffic signal. (Segment B - widen Olympic)	$1,200,000	$0	$1,200,000
159	Route 101; redesign and construction of Steele Lane Interchange.	$6,000,000	$0	$6,000,000
	Totals:	**$4,908,900,000**	**$397,373,000**	**$4,511,527,000**

Resources and Environmental Protection

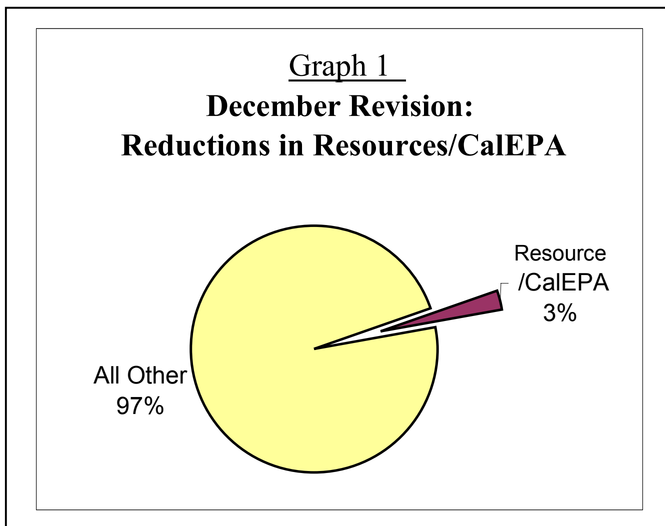
RESOURCES AND ENVIRONMENTAL PROTECTION

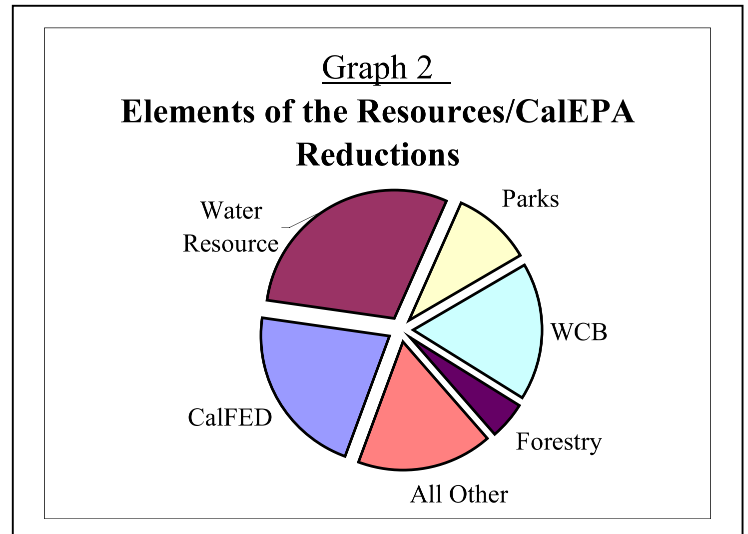
The December Revision reduces funding for the natural resources policy area by about $250 million, accounting for less than three percent of the total revision. Graph 1 illustrates the point.

Of these reductions, the largest are associated with

- Reducing flood management activities at the Department of Water Resources,
- Shifting the funding sources for CalFED and the Wildlife Conservation Board (WCB) from General Fund to bond funds,
- Raising fees at the Department of Parks and Recreation, and
- Increasing federal funds at the Department of Forestry and Fire Protection.

Graph 2 details the proportionate share of these elements.





Current-Year Impacts. For the current year, the December Revision reduces General Fund support for Resources and Environmental Protection by about $151.6 million ($142.674 from Resources and $8.926 from Cal-EPA). When compared to other areas in the budget, these reductions contribute nearly 4.5 percent of the total reductions in the current fiscal-year.

See Appendix A for a complete listing of all current-year Resources/ Environmental Protection reductions.

The majority of the reductions are derived from: (a) reverting General Fund from the Wildlife Conservation Board ($25 million from the Cargill acquisition, and $19.5 million from other wetlands projects) and instead using Props. 40 and 50 to fund them; and (b) reverting $58 million in General Fund for flood control subvention arrearage.

It is somewhat misleading to characterize these cuts as "mid-year reductions." Many of the reductions are not one time; they take place both in the current fiscal year and continue into the 2003-04 budget-year and beyond. Therefore, the "mid-year cuts" will have permanent, and in some cases, significant programmatic effects.

Reductions Have a Significant Effect on Resources Programs. When examining the resources and environment budgets, it is important to distinguish the various program areas. Program funding can be divided into three elements:

1. *State Operations*. State operations refers to all programs administered by the various departments, boards, and commissions within the Resources and CalEPA agencies. Examples of state operations programs are: enforcement (Fish and Game wardens and Park rangers), environmental quality (Core Regulatory program, Stationary Source program), and conservation planning.

2. *Local Assistance*. Local assistance refers to grants to local governments or agencies for specific programs. Examples of local assistance programs include: Local Flood Control subventions, subvention grants to local air districts, and grants to county agricultural commissioners.

3. *Capital Outlay.* The Capital outlay program is generally capital viewed as land acquisitions and building construction. Within Resources, capital outlay can refer to land acquisitions for the state park system, habitat protection, or to assist land trust groups.

For the current fiscal-year, state operations receives over 69 percent of all Resources/Environmental protection funding (approximately $3.06 billion, including anticipated federal funds). The General Fund supports 20 percent ($911 million) of all state operations funding. However, the majority of General Fund

support for state operations is primarily dedicated to three departments. The Department of Forestry and Fire Protection in the current-year will receive $410.2 million, the Department of Parks and Recreation will receive $122.8 million, and the Department of Water Resources will receive $111.2 million. Without factoring in the mid-year proposals, all other resources and environmental protection departments, boards, and commissions will receive $267.2 million.

Of the $153.3 million associated with the reductions proposed for the current year, $51.1 million is identified for state operations. The total reduction may at first appear small, however a $51.1 million General Fund reduction for state operations results in a 19 percent reduction to all resources/environmental protection departments outside of Forestry/Fire Protection, Parks, and Water Resources. Because the Department of Forestry and Fire Protection is responsible for fire suppression, and the Department of Water Resources administers the State Water Project, it is reasonable to not propose significant cuts to these departments. Drastic cuts to the Department of Parks of Recreation would require significant fee increases for park users, or the state would have to shut down state parks.

While considering the December Revision, the Legislature may wish to consider the long-term programmatic effects for resources/environmental protection. Resources funding may be viewed in the context of land acquisitions and park openings, but vital programs have been established in response to the state's commitment to protecting the environment and natural resources. A broader problem for resources is the partial reliance on General Fund support for these core programs. In a time of budget deficits, resources program funding is almost certain to receive major reductions. For the current fiscal year alone, programs outside of fire protection, state park administration, and the state water project would receive a 19 percent reduction in the mid-year proposal. The Legislature may wish to consider long-term funding options that would stabilize resources funding and provide minimum funding levels to those programs the Legislature determines to be a high priority.

Below, Senate staff identify issues with specific components of the Governor's proposal.

DEPARTMENT OF CONSERVATION (DOC)

The December Revision shifts $471,000 in the Mineral Classification program from General Fund to the SMARA Account ($283,000) and Mine Reclamation Account ($188,000).

Staff Recommendation:

- Approve proposed General Fund cut of $471,000 for Mineral Classification work.
- But adopt alternative appropriation language requiring the additional expenditures of $283,000 from the SMARA Account and $188,000 from the Mine Reclamation be only used for: (1) review of reclamation plans and financial assurances; and (2) enforcement of SMARA.
- Enact trailer bill language repealing the Mine Classification provisions of SMARA (PRC Sections 2761 – 2764).

Rationale:
The Department of Conservation is proposing to reduce General Fund expenditures for Mineral Classification work by $471,000, and is asking the Legislature to appropriate an equivalent amount of "savings" in the SMARA Account and Mine Reclamation Account. These "savings" occurred as a result of DOC losing 9 staff positions in the Office of Mine Reclamation (OMR) due to the "vacant position" requirements of the 2002 Budget Act. But, Because the savings are not "fungible," the moneys reverted to these two accounts and not the General Fund.

The DOC budget office indicates that elimination of these 9 OMR positions resulted in a 40% reduction in the number of the department staff previously budgeted for administration and enforcement of the mine reclamation and financial assurance requirements of SMARA. Staff believes, however, that Mineral Classification work is much lower priority compared to enforcement of these other SMARA requirements, and any savings to these two accounts should be made available for reviewing reclamation plans and financial assurances, and SMARA enforcement.

NRW STAFF RECOMMENDATION: Making the program paid for by industry, creating an equitable fee base and using SMARA fees to pay for abandoned mine clean-up

- PRC Sec. 2207 caps mine reporting fees at $2000 per mine and have not been raised since 1990. Increase the cap on the fee to $10,000 and the total cap on fees collected from 1.4 million to 5 million. The increase in the $2000 fee

creates more equity by allowing the DOC to assess fees based on the size of the operation in a more fair, equitable fashion. By allowing the DOC to more equitably spread the fee, they will be able to ensure that an adequate review of mining activity, inspections and review of financial assurances are conducted. The increase in the total amount collected (5 million) makes possible more environmental protection and, in doing so, alleviates current burdens on DOC funds by distributing them to industry.

- Currently, the state spends only $100-200,000 a year for the identification and clean-up of abandoned mine sites. This amount of money does not even cover the cost of one major mine reclamation project—which includes revegetation to prevent floods and erosion and toxic clean-up to protect downstream watersheds. This program of DOC may be one of the most important projects in terms of public safety—however, it has been consistently underfunded. Unlike other industries, such as the paint industry and tire industry, who have minor fees to cover state general fund costs of lead abatement/testing and waste tire clean-up—the mining industry has no fees to support the immense amount of public hazards which have been generated over the centuries of this industry in California. Staff is recommending a very minor fee be added onto the current mining fees to be allocated into the Abandoned Mine Cleanup Program. This suggestion is more than reasonable considering the non-fuel mineral industry constitutes a 3.27 billion dollar industry in this state according to estimates provided by the DOC in 2001.

- Specifically, staff recommends that as part of the above proposal of raising caps—that the DOC incorporates funding of the abandoned mine program into SMARA. The budget bill language should allocate 20% of the total amount collected in SMARA fees ($5 million with a COLA) to fund the abandoned mine program.

An alternative presented to committee staff was to enact legislation to shift <u>all</u> financial support for SMARA and State Mining Board that currently comes from the "SMARA Account" ($2 million annual allocation of federal funds from Mineral Lands Leasing Act) to mine reporting fees collected from mining industry and deposited into the Mine Reclamation Account by repealing PRC Sec. 2795 and amending to PRC Sec. 2207. However, the public health costs and environmental quality costs of not completely implementing the SMARA program are quite large. If reviews of financial assurances are not conducted, etc. the state will very likely face large economic consequences in the future: including having to mitigate mines which have not been restored to pre-mining condition. Staff of the NRW

Committee, at this point, does not support this option but wanted to present it to Budget staff for their consideration. If budget staff takes this consideration then the cap on the mining fees needs to be elevated to cover than 2 million dollar loss to the account.

STATE LANDS COMMISSION

The December Revision reverts $1.6 million (General Fund) from the commission. The Legislature had appropriated the funds for hazard-removal projects in state-owned rivers, bays, and sloughs.

Staff Comments: If funding for hazard-removal projects is reverted, then boating registration fees (Vehicle Code §9853) and fees for renewal of boating certificates of number (Vehicle Code §9860) should be increased in an amount necessary to fund the removal of these hazards as an ongoing program. The $5 fees have not been increased for over twenty years. According to the Department of Motor Vehicles, as of October 31 there are 889,597 boats registered in California. Increasing the fee by $2 could generate funds to support an ongoing hazard removal program by the commission.

Staff Recommendation: Approve the proposed reversion, but approve trailer bill language to establish a permanent hazard removal program.

DEPARTMENT OF FISH AND GAME

The December Revision reduces funding for the department two ways. Specifically, it:

1. Reduces funding for Timber Harvest Plan (THP) review by $425,000 and 4.8 positions.

   Staff Comments: Funding for THP review is especially important given the increased rate of clear-cutting in the Sierra and the numerous issues posed by logging involving water quality, fish and wildlife habitat, and watershed protection. THP review by DFG is currently in the 15% range, and this cut will further reduce by 20% that already low number. (LAO and Senate Natural Resources have received conflicting information from the department on this.) According to the Department, the proposed cut will result in the elimination of

2 positions in the Central Sierra and 3 positions in the Southern Sierra as well as related operating expenses for those 5 employees. It is in the Sierra that environmental issues from logging are at the forefront. We should pursue ways to get more THP review in the Sierra, and even consider shifting some north coast personnel. A separate reason for concern is that the Central Sierra only has 2 actual THP reviewers, and it is unclear if the proposal applies to these positions or unfilled positions.

Staff Recommendation: Deny proposal to reduce THP funding.

2. Reduces funding for enforcement by $1.6 million and 29.5 positions (Fish and Game Wardens).

   Staff Comments: Fish and Game Wardens perform numerous functions for the department, including the protection of California's public trust resources. Enforcement at the department has been historically been understaffed and underfunded. The Legislature approved $31.6 million and 200 positions in the 2000-01 Budget Act to address chronic underfunding of enforcement, monitoring, environmental review, maintenance, and administration at the Department. Eliminating these positions would hinder any progress made by Department to increase enforcement activities, and would undermine the Legislature's intent to increase funding for enforcement.

   Staff Recommendation: Deny proposal to reduce funding and positions for enforcement.

DEPARTMENT OF WATER RESOURCES

The December Revisions shifts the funding source for implementing the recommendations of the Drought Panel. The revision substitutes Proposition 50 bond funds for the General Fund.

Staff Comments: Shifting the funding source could delay implementation of the recommendations. Recommendations from panels such as these are not time sensitive, nor will delay in this activity result in the loss of any habitat or wildlife. There is no reason to believe that the benefit of any past work will be lost, nor

future cost realized if this panel does not continue to meet. These funds should be directed toward habitat or wildlife protection.

Staff Recommendation: Approve the $6.4 million reduction without shifting program support to Proposition 50.

WATER RESOURCES CONTROL BOARD

The December Revision reduces funding for the board in two ways. It:

1. Reduces funding for water quality monitoring activities. Total reductions are $831,000 in the current year and $6.8 million in the budget year (nearly one-half of the SWRCB budget for water quality monitoring).

   Staff Comments: According to the SWRCB, "Loss of this funding would end a multiyear contract for ambient groundwater monitoring in high groundwater use areas. This reduction will delay monitoring work that is related to the comprehensive statewide monitoring plan being developed pursuant to AB 599. $1.666 million remains available for groundwater monitoring."

   Water quality monitoring (particularly for groundwater quality) is a basic function of the water board, and is essential to permitting and enforcing water quality standards. The subcommittee and the Legislature have sought to increase water quality funding in recent years due to the lack of information on the environmental effects of overdrafting groundwater aquifers. Impacts of this reduction appear to be much more significant in the budget year and beyond.

   Staff Recommendation: The subcommittee may wish to approve this cut for the current year, but defer action on the budget year reduction until it can evaluate it in the context of the January 10 budget.

2. Reduces funding for the Water Rights Program by $610,000 in the current-year and $3.32 million in the 2003-04 budget-year.

   Staff Comments: The board's water rights program allows parties who wish to "appropriate" (*i.e.*, use for their own purposes) state waters to perfect their right to do so through board approval. These approvals are generally granted with conditions which protect the rights of other parties and the beneficial uses of the water.

According to the Water Board, "Before the SWRCB can grant an appropriate water right permit, it must find that there exists in the source stream sufficient unappropriated water to support the possible project and it must assess the environmental impacts of the project. Funds are used to contract with private consultants to perform a water availability analysis that determines whether sufficient unappropriated water exists and to compile an appropriate environmental document."

The subcommittee and the Legislature generally have sought to improve the process for issuance of water rights. In FY 2000-2001, the LAO identified significant backlogs in the review and issuances of water rights by the board. It has been suggested that, in order to fund this program, the Legislature should institute a "user pays" system whereby parties applying for water rights would pay a fee to cover the costs of the water board in evaluating and issuing a grant of water rights.

Staff Recommendation: Given the impacts on the environment of this reduction, the subcommittee may wish to defer action on this item, or approvie it contingent on the enactment of a fee program to cover the costs of this reduction.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

The revision reduces funding for oversight of state and federal orphan sites.

Staff Comments: According to DTSC, "this proposal is a $354,000 reduction in General Fund plus a $1,046,000 shift from General Fund to the Toxic Substances Control Account (TSCA) for DTSC's oversight costs of state and federal orphan hazardous substance release sites. This reduction will not impact DTSC's oversight activities as the reduction is consistent with current expenditure patterns. The Health and Safety Code identifies TSCA as the appropriate funding source for this activity and TSCA is the funding source for the contractual costs related to these sites."

Staff Recommendation: Given the concerns that have been raised over issues of environmental justice, brownfields, and the slow pace of orphan site cleanups, the committee may wish to ask for additional information on the actual cleanups impacted.

OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT (OEHHA)

The December Revision reduces funding for Pesticide and Environmental Toxic Section by $107,000 in the current year and $775,000 in the budget year.

Staff Comments: According to OEHHA, "The Pesticide Epidemiologist and Health Educator positions (which are currently vacant) would be eliminated. These positions conduct epidemiological studies of populations living near agricultural areas where pesticide use is the greatest and perform education and outreach activities, such as working with local government and community organizations to develop and disseminate pesticide health risk information. OEHHA would discontinue pesticide-related epidemiological studies, physician education, and outreach activities."

OEHHA is an inordinately small agency in CAL-EPA and has suffered disproportionate budget reductions in the current year due to its reliance on General Fund.

Staff Recommendation: Given the central importance of OEHHA's activities in assessing and protecting public health and the environment, the committee may wish to defer action on this reduction or deny the action and find other reductions to make.

ALTERNATIVES

The Legislature may wish to raise fees to help reduce the impact of General Fund reductions on resources programs. In particular:

State Forest Revenues: Enact legislation repealing PRC Sec. 4799.13 that requires all net revenues from state forest timber sales to be deposited into the Forest Resources Improvement Fund (FRIF) and used to finance grants and loans to nonindustrial timberland owners for reforestation and other forest improvement projects on their land. Prior to 1979, all state forest revenues were deposited into the General Fund. $13 million increase in annual revenues to the General Fund, depending on volume and market value of timber annually sold and harvested from state forest system.

State Forest Nurseries: Require CDF to finance state forest nursery operations from sale of nursery stock (make nurseries self-supporting through its revenues). Another alternative would be for the state to contract with private nurseries for production of nursery stock now produced from three existing CDF-operated forest nurseries. $1.8 million annual savings to the General Fund.

License and Permit Fees: Enact legislation raising various DFG permit and license fees that are currently set by statute and not otherwise annually adjusted for inflation like sport fishing and hunting licenses. These could include most commercial fishing permits and licenses, commercial aquaculture registration permits, 1601 permits, and fees charged for DFG review of CEQA documents (EIR's and Negative Declarations).

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<u>APPENDIX A</u>
Resources/Cal-EPA

This appendix details the current-year reductions for the Resources and Cal-EPA budgets. The first column identifies which department or agency's budget accrues the reduction. The next two columns briefly describe the anticipated current-year savings. The far right columns address procedural issues relevant to legislative actions:

- Does the Legislature need to take action in January in order to accrue the savings?
- Does the reduction require statutory law change?

Department/ Agency	Description	$ (in thousands)	Requires Action in January?	Requires Trailer Bill?
Resources	Reduce operating expenses and out-of-state travel.	65	Yes	No
CalEPA	Revert funding for Permit Assistance Centers and reduce out-of-state travel.	88	Yes	No
Corps	Reduce funding for out-of-state travel.	14	Yes	No
Corps	Reduce funding for Corps member benefits program..	655	Yes	No
Corps	Program operations fund shift to the Collins-Dugans Reimbursement account.	1,000	Yes	No
Colorado River Board	Reduce funding for operations.	23	Yes	No
Conservation	Reduce funding for Geological Hazards and Mineral Resources Conservation.	471	Yes	No
Conservation	Reduce funding for out-of-state travel.	26	Yes	No
CDF	Reduce funding for Emergency Fire Suppression and increase federal reimbursements for Federal Emergency Management Agency (FEMA) funds.	5,000	Yes	No
CDF	Revert funding for Alma Helitack Base – helipad relocation project.	485	Yes	No

CDF	Close two air attack bases, twenty-two lookout stations, and eliminate a Fire Safe Community Planning Position.	350	Yes	No
CDF	Reduce funding for out-of-state travel.	48	Yes	No
State Lands	Revert funding for hazard-removal projects, and reduce funding for operating expenses and out-of-state travel.	1,726	Yes	No
DFG	Reduce enforcement positions.	1,641	Yes	No
DFG	Reduce timber harvest plan review.	425	Yes	No
DFG	Eliminate urban fishing program.	176	Yes	No
DFG	Reduce funding for information technology	122	Yes	No
DFG	Reduce funding for in-state and out-of-state travel.	123	Yes	No
WCB	Revert General Fund appropriation for various capital outlay projects and substitute with Proposition 40 funds.	44,129	Yes	No
WCB	Reduce funding for out-of-state travel.	86	Yes	No
Coastal Commission	Eliminate local assistance funding for the Local Coastal Program.	500	Yes	No
Parks andRec	Revert funding for operations.	665	Yes	No
Parks andRec	Revert General Fund for support of State Park system and increase funding for Parks and Recreation fund through fee increase.	4,500	Yes	Yes
BCDC	Reduce General Fund	411	Yes	No
DWR	Shift General Fund support for Drought Panel Recommendations to Proposition 50 bond funds.	6,400	Yes	No
DWR	Shift General Fund support for Delta Levee Subventions to Proposition 50.	1,000	Yes	No
DWR	Shift General Fund support for CALFED Bay-Delta Program to Proposition 50.	15,000	Yes	No
DWR	Revert funding for Local Flood Control Subventions.	58,104	Yes	No
DWR	Eliminate funding for North Coast Watershed Assessments.	321	Yes	No
DWR	Reduce funding for flood management activities.	598	Yes	No
DWR	Reduce funding for water management activities.	96	Yes	No
DWR	Reduce funding for out-of-state travel.	137	Yes	No
DWR	Reduce funding for oversight and coordination of CALFED.	365	Yes	No
DWR	Reduce funding for Tehama flood control project.	833	Yes	No

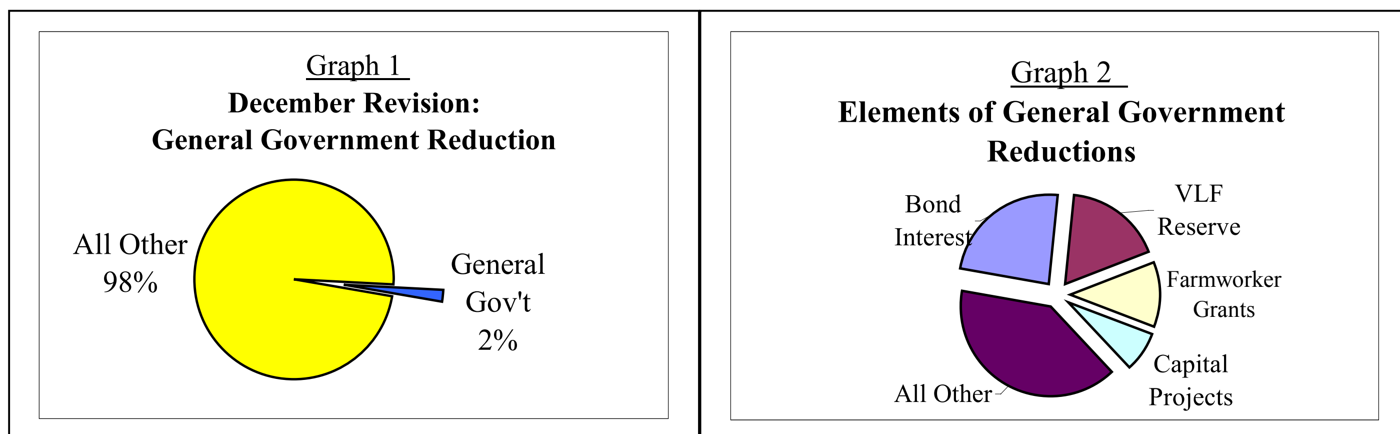
ARB	Revert zero emission grant funds.	2,000	Yes	No
ARB	Reduce funding for out-of-state travel.	6	Yes	No

IWMB	Shift funding for the Border Program to the Integrated Waste Management Account.	70	Yes	No
DPR	Eliminate funding for pest management grants.	352	Yes	No
DPR	Reduce funding for Market Surveillance Residue grants.	195	Yes	No
DPR	Reduce funding for out-of-state travel.	14	Yes	No
SWRCB	Reduce funding for water quality monitoring activities.	846	Yes	No
SWRCB	Reduce funding for water rights program.	610	Yes	No
SWRCB	Eliminate funding for agricultural waste management program.	450	Yes	No
SWRCB	Reduce funding for Salton Sea restoration activities.	350	Yes	No
SWRCB	Reduce funding for training and equipment.	130	Yes	No
SWRCB	Reduce funding for investigations and cleanup activities.	25	Yes	No
SWRCB	Reduce funding for out-of-state travel.	11	Yes	No
Toxics	Reduce funding for state and federal oversight activities.	1,400	Yes	No
Toxics	Reduce funding for illegal drug lab cleanup guideline development activities.	912	Yes	No
Toxics	Reduce funding for the Off-highway Emergency Response Program.	96	Yes	No
Toxics	Reduce funding for out-of-state travel.	9	Yes	No
OEHHA	Reduce funding for operations and personnel services.	185	Yes	No
OEHHA	Reduce funding for pesticide and environmental toxic program.	107	Yes	No
Food and Ag	Reduce funding for weed and vertebrate bio-control programs.	750	Yes	No
Food and Ag	Reduce funding for exotic pest control program.	230	Yes	No
Food and Ag	Reduce funding for out-of-state travel.	115	Yes	No

General Government

GENERAL GOVERNMENT

The December Revision reduces General Government by $212 million, about two percent of the total reductions. Most significantly, the reductions are associated with reduced bond interest payments, a sweep of an unnecessary reserve, cuts in farmworker grants and capital outlay projects. Graphs 1 and 2 illustrate.



DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The December Revision eliminates 11 positions from the Department of Fair Employment and Housing. The positions are currently vacant and all relate to the employment work of the department. Among the positions are two district administrators, 3 investigators, legal secretaries and office technicians.

The permanent loss of the employment positions will result in an increase in caseload per investigator. In 2000-01, the department had 126 employment investigators and the caseload per investigator was 69. With the reductions, they now have 103 investigators and the average caseload is 89. Increased caseloads mean that staff has less time to spend investigating each complaint and must constantly re-prioritize their caseload to try to meet the statutory mandate of completing investigations in 365 days. The ideal caseload would be equivalent to the federal EEOC, which averages 40 cases per investigator.

In addition, case expirations in 2000-01 were 26. The department estimates that case expirations for the current year will increase to about 74 as a result of the reduced staff. The elimination of positions will likely result in a diminished quality of work and ability of the state to fully advocate and protect the rights of Californians under the Fair Employment and Housing Act.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

The December Revision reduces the HCD budget by $38.1 million through cuts, fund shifts and loans for HCD.

Program Reductions

- **Emergency Housing and Assistance Program (EHAP)** -- EHAP generally provides capital grants and operating funds for emergency shelters, transitional housing, and services for homeless individuals and families. While this program received $195 million in the recently approved housing bond, those funds can only be used for capital grants to shelter providers. The money in the budget for EHAP covers operating costs, which are an ineligible use of bond funds.

  The Governor proposes reducing the current year appropriation for the program from $5.3 million to $4 million, for a current-year savings of $1.3 million. The program was heavily oversubscribed even when it was funded at levels of $13.3 million in 2001, and the department states that the current NOFA for the $5.3 million is likewise oversubscribed. Moreover, demand for the program is likely to increase as shelters funded with previous appropriations come online. While EHAP funding generally represents no more than 8-15% of funding for any individual shelter, the reduction will result in fewer applicants receiving state funds and the non-recipients having to reduce beds or the number of open nights at their shelters. Homeless families and individuals will have fewer opportunities to access emergency shelter. Failure to provide these additional services will generate some unknown costs to the state, most likely in terms of emergency room visits and incarceration costs for persons arrested for illegal camping.

  The reduction in EHAP funds has arguably the most negative consequences of any of the proposals related to HCD in that it further reduces an already

woefully underfunded program and deprives homeless persons of the basic necessity of shelter.

- ***State Operations.*** The Governor proposes to eliminate three small programs that are funded through state operations, saving a total of $288,000. Two positions would be eliminated, one that provides outreach and technical assistance to local governments regarding building codes and their enforcement and one that acts as a liaison between the department and the migrant farmworker centers it operates around the state. The reduction in the latter program would still leave four liaison positions.

  In addition, the Governor proposes to eliminate funding in the current budget year for a contract to maintain and update the statewide database on assisted housing units at risk of conversion. The issue of "preservation" is a grave one facing the state. As federal project-based Section 8 contracts expire, the owners may convert currently affordable units to market rate. More than 78,000 of these units are considered "at-risk." Moreover, more than 19,000 units of housing affordable to lower-income households have already been lost. The loss of these units represents not only a loss of precious affordable housing stock, hardship and potential dislocation for tenants (40% of whom are seniors), but also the loss of billions of dollars of federal housing assistance to California each year. HCD proposed to award the contract to the California Housing Partnership Corporation, a state-chartered non-profit organization. The database is a critical piece of the strategy to preserve these at-risk units. Without information about which projects are in the process of converting, tenants, local governments and the state are powerless to plan for and address conversions. Owners are legally obligated to provide advance notice of a conversion, but compliance is irregular and enforcement almost non-existent. Moreover, CHPC has been doing work under the contract since July. They signed the contract at that time and sent it to the state for execution, and it has been held up since. If the contract is not funded, CHPC will be forced to cease its updating of the database, seriously complicating state and local efforts to utilize bond funds dedicated to preserving at-risk housing developments. Replacing affordable housing units is much more expensive than preserving them. *The Legislature may wish to consider restoring this funding.*

Shifts

- **Farmworker Housing Grant Program.** This program provides grant or loan funds to local governments, nonprofit corporations, and federally recognized

Indian tribes for the rehabilitation or new construction of owner-occupied and rental units for low income agricultural workers. The Budget Act of 2002 appropriated $13.984 million to this program, but also stipulated that the appropriation shall be reduced by $8.5 million in the event that voters approved the housing bond. The Governor has proposed increasing this reduction to $11 million.

Moreover, the Budget Act of 2002 requires the department to transfer $3 million in existing balances in the Farmworker Housing Grant Fund to the General Fund if the bond passed. The Governor proposes to revert these funds, as anticipated.

The result of these proposals is to reduce funds available for farmworker housing by $14 million, though $11.5 million of this reduction was foreseen in the budget. In addition, these reductions are mitigated by the fact that the housing bond provides $200 million for the exact same purposes. A significant portion of this bond funding will me made available in January 2003.

- **CalHome Program.** The CalHome Program provides grants and loans to local governments or non-profit organizations for any type of activity that helps low-income households achieve or maintain homeownership. As part of the CalHome Program, HCD recently issued a NOFA for $3 million in self-help housing technical assistance funds. These funds are used by non-profit organizations to administer programs in which low-income families contribute "sweat-equity" to the construction of their own homes. The Governor is proposing to revert $5.5 million in existing CalHome funds, including the $3 million self-help housing technical assistance funds and $2.5 million in other undesignated funds, to the General Fund. In turn, the HCD would make available housing bond funds allocated to the CalHome Program early next year. The proposal reduces the overall amount of funds available to CalHome, but the bond should provide sufficient funding over the next few years.

- **Predevelopment Loan Fund.** The Predevelopment Loan Program provides initial funding to the developers of assisted housing, including mobilehome parks, developed or preserved primarily for low income households. Predevelopment funds are used to cover land purchase, engineering and architectural drawings and initial staff costs to get a project off the ground. Once construction financing for the project is obtained (generally within two years), the predevelopment funds are paid back. The department issued a NOFA in July for $7.4 million and is currently accepting applications over the

counter. $4.3 million has already been awarded through the first six months of the fiscal year. The Governor proposes to revert $1.9 million from the program. The result will most likely be that the program will run out of funds before the end of the fiscal year, jeopardizing or delaying some projects. The department will have to wait a number of months for future loan repayments to come in before funds are available again. The reverted funds will NOT be made up with housing bond funds as no provision for predevelopment loans was made in the bond. With little prospect that new general fund dollars will be directed to the program in the near future, this reversion would permanently reduce funding for the program. *To the extent the Legislature is interested in reducing funds available to this program, it may wish to consider a loan rather than an outright reversion so that the funding will be restored at some date.*

Loans

The Governor proposes various loans to the General Fund from program funds at HCD. In many cases, these funds are reserves held to cover the long-term monitoring costs on assisted developments. In such cases, the loan amounts reflect that portion of the reserve that will not be needed until after the 2003-2004 budget year.

- The current-year loan from the Mobilehome Park Purchase Fund is increased by $2 million, from the current $8.1 million to $10.1 million. This fund finances the preservation of affordable mobilehome parks by conversion to ownership or control by resident organizations, nonprofit housing sponsors, or local public agencies. Normally, funding application rounds (RFPs) are opened by the department at least once a year. In September, the department issued an RFP for $8 million under this program, however the department anticipates no more than $6 million in applications. As a result, the proposed loan will not negatively affect the program for the current fiscal year. Because the fund generates only $2.5 million in income per year, ($1.6 million from fees on mobilehome owners and $900,000 from loan repayments), the department would be forced to reduce the NOFA to $3 million in 2003-2004 and subsequent years unless the General Fund loan is repaid in whole or in part by July 2004.

  - A $500,000 loan from the Manufactured Home Recovery Fund. This fund reimburses consumers for losses attributed to illegal mobilehome dealer actions that are unrecoverable. Most revenues derive from a surcharge on

the sale of new mobile and manufactured homes by dealers that may be triggered by the department when the balance in the fund falls below $1 million. The fund balance as of July 2002 was $1.9 million. The department estimates paying claims and investigation/administrative costs of $500,000 per year, which would leave $900,000 in the fund at the end of the 2003-2004 budget year even without triggering new fees. *As a result, it might be possible to increase the loan amount to the General Fund to $800,000 without negatively affecting dealers or consumers. The additional $300,000 could offset any decisions to restore reductions to other housing programs.*

- A $1.5 million loan from the Farmworker Housing Grant Fund. This amount represents reserves in the fund that will be needed eventually to fund out-year monitoring costs on assisted developments. The loan would not impact HCD monitoring efforts until after the 2003-2004 budget year.

- Increase the loan from the Housing Rehabilitation Loan Fund from $20 million to $27.3 million. Likewise, this amount represents reserves in the fund that will be needed eventually to fund out-year monitoring costs on assisted developments. The loan would not impact HCD monitoring efforts until after the 2003-2004 budget year.

- A $1.8 million loan from the Rental Housing Construction Fund. This loan is from reserves that will eventually be needed to monitor and fulfill operating subsidy commitments for developments funded under earlier housing bonds. The loan will not affect HCD obligations until after the 2003-2004 budget year.

- A $1.6 million loan from the Emergency Housing Assistance Fund. This amount represents reserves in the fund that will be needed eventually to fund out-year monitoring costs on assisted facilities. The loan would not impact HCD monitoring efforts until after the 2003-2004 budget year.

- A $3.4 million loan from the Self-Help Housing Fund. Most of this amount represents reserves setaside for future monitoring costs. Some is actual CalHome local assistance money that is offset by the availability of bond funds.

Timing

To the extent the Legislature is interested in approving these reductions, it would be appropriate to make the reductions in January rather than waiting for the budget year. In many of the cases, the department has already issued NOFAs making the funds available. Absent the reductions or a clear message that the department is not to encumber the funds, it is possible and even likely that many of the funds will be encumbered in the next few months. With respect to the loans, the Legislature may wish to consider setting a fixed date for repayment of the loans so as to minimize future disruptions to the programs.

DEPARTMENT OF VETERANS AFFAIRS

The governor poses to cut the department and Veterans Homes by $618,000. The reductions will cut county veterans' services offices, and travel and training for department headquarters and Yountville and Chula Vista Veterans Home staff.

Alternatives

Contract for Certain Hospital Services. The Legislature may wish to consider closing small or inefficient hospital units in the homes. The department can contract with nearby hospitals to treat the patients. Initial review by the Senate Office of Research suggests that the change could improve care.

Place the Department Into Receivership. Put the department's finances under a receiver to solve some of the long-term fiscal problems that you, the State Auditor, the State Personnel Board, and many others have identified. Shift some department headquarters funds from the department to the receiver to pay for the receivership; a possible side benefit of such a shift is that it might result in laying off some of the entrenched problem staff in headquarters.

INSPECTOR GENERAL FOR VETERANS AFFAIRS

The governor proposes to cut the Inspector General for Veterans Affairs by $25,000. This eliminates his employment of some retired annuitants, limit his travel to the Veterans Homes and elsewhere, and delay audits, and thus hinder his ability to police this severely troubled department.

Alternatives

1. Give the IG peace-officer status, as the IG for Corrections has. This would allow him to participate and, if no other law-enforcement agency has the interest, conduct criminal investigations of Veterans Home staff. He reports that there is a nurse at Barstow who is accused of falsifying records in a patient death two years ago and who the Department of Justice still has not investigated.

2. Require, rather than simply allow, the IG to conduct investigations at the request of legislators, eliminating his need to get approval from the Governor's Office.

TECHNOLOGY, TRADE AND COMMERCE AGENCY

Biomass Grants

The December Revision reduces the biomass grant program by $4 million.

Background. The program grants to air districts to provide incentives to facilities converting agricultural biomass to energy. The last appropriation to this program appears to be $3.5 million transferred by SB 64xx from an SB 5x appropriation in 2001.

Comments. These are one-time refunds of the remains of prior GF appropriations. They produce no long-term GF consequences.

Revert previous appropriation for Economic Development

The Agency houses the Economic Development Division that includes the Offices of Military Base Reuse and Base Retention, Business Development, Small Business, Permit Assistance, Major Corporate Projects, the California Film Commission and four regional offices. The revision proposes to revert unspent funds from prior years for a savings of almost $300,000.

The impact of reverting these funds is minimal. The $280,000 in the 2002-03 Budget was originally appropriated in 1997 and reappropriated in 2000 rather than being reverted back to the General Fund. According to the Agency, there is no identifiable need for these funds.

Reduce International Trade and Investment Program

The intent of the Foreign Trade Offices in the Agency's International Trade and Investment Division is to promote California exports and attract investment into the state. The offices work with other International Trade and Investment programs through seminars and conferences to assist California small- and medium-sized firms have adequate access to knowledge about foreign markets and services necessary to compete in international markets.

Table 1
Foreign Trade Offices
(state employees)
2002-03 Appropriation prior to Implementing the Unallocated Reduction

South Africa	$414,000
Germany	560,000
China - Hong Kong	838,000
Japan	1,052,000
United Kingdom	522,000
Mexico	1,155,000
Taiwan	331,000
Total, Trade Offices	**$4,872,000**

The Agency has two types of Foreign Trade Offices: offices staffed by state employees and those staffed with contract employees. According to the policy committee, both types of offices provide essentially the same services, and contract offices are significantly less expensive. Table 1 lists the foreign trade offices staffed with state employees. Table 2 lists the contract offices.

The 2002-03 budget appropriates $4.9 million for the offices staffed with state employees, and $1.2 million for the contract offices. The budget further requires a an unallocated reduction to these offices of $2 million, thereby reducing the total appropriation for these offices from $6.1 million to $4.1 million. It is not clear how the Administration intends distribute the unallocated reduction among the trade offices.

Table 2
Foreign Trade Offices
(contract staff)

2002-03 Appropriation prior to Implementing the Unallocated Reduction

South Korea	$261,000
China – Shanghai	270,000
Singapore	200,000
Argentina	265,000
Israel	200,000
Total, Contract Offices	$1,196,000

The December Revision further reduces the international trade program. The savings would be achieved, according to the Department of Finance, by closing the contract offices after

January 2003. After accounting for the effect of the unallocated reductions and the costs of shutting down the offices, the proposal would revert current-year savings of $240,000 and provide on-going savings of about $480,000.

According to the Senate policy committee, the impact of closing the contract offices is minimal. The effectiveness of the foreign trade offices has been in question since their inception under allegations that the motivation for their establishment has been political, rather than trade policy oriented. In fact, the *Supplemental Report of the 1998-1999 Budget Act* required the Technology, Trade and Commerce Agency to establish measures to evaluate the performance of the trade offices and to report the results to the Legislature. The report was not released to the Legislature by the due date. In her *Analysis of the 1999-2000 Budget,* the Legislative Analyst withholds recommendation on the appropriation for the trade offices until the agency complies with the report requirements.

Several members of the Senate Committee on Banking, Commerce and International Trade voiced serious concerns last session about the lack of objective performance standards and evaluation of the international trade and investment offices. The Committee introduced SB 2099 which, in its original form, would have established a sunset date in 2005 for all the foreign trade offices. The bill was substantially amended to delete the sunset date and require performance criteria. Although SB 2099 was not moved out of the Legislature, the performance criteria language was adopted in the Budget.

Reduce Out-of-State Travel
While the Agency has a number of out-of-state/country travel planned as part of its trade promotion programs in 2003, most of these trips are privately and/or federally funded. The proposed reduction saves about $100,000.

Reimbursement of Film Production Costs
The Film California First (FCF) program, administered by the Agency, is a program to assist production companies by providing various incentives and assistance in using state leased property. Reimbursement from the fund is on a first-come, first-serve basis and production companies can only qualify for up to $300,000 for reimbursement of film costs. Reimbursement for administrative costs can not exceed 1 percent of the total amount of the invoices submitted and has an annual cap of not more than $10,000 per public agency participating in the program. Contracted agents working on behalf of two or more public agencies has a cap of not more than $20,000 annually.

The December Revision transfers $2.1 million from the Film California First program to the General Fund. The impact of this reduction is minimal as there will still be $8 million in program funds, which is approximately the annual demand since the programs inception in 2000-01. Last year, there was approximately $10 million available from the State budget for the FCF fund. In the first calendar year of the FCF, over 800 projects have requested $6 million in rebates for filming costs in California. Right now there are approximately 200 additional projects that are in the pipeline to receive funds.

Return Start-up Funds from the Infrastructure Bank
The California Infrastructure and Economic Development Bank (I-Bank) is a statewide issuer of tax-exempt and taxable conduit revenue bonds which assists business and non-profit organizations. A conduit revenue bond is an obligation issued by a governmental agency, but payable solely from the loan repayments received under a loan agreement with the borrower. The bonds do not constitute an obligation of either the State or the I-Bank. Since its inception in 1994, the I-Bank has provided approximately $8.2 billion in bond financing to a wide variety of businesses and organizations.

The December Revision transfers $295,000 from the bank to the General Fund. Of this amount, $235,000 was provided s a start-up appropriation for the I-Bank. The bank is now supported by fees and interest on its loan activities. The balance, $60,000, was appropriated for the establishment of a satellite office. Trade and Commerce has not established the office. The impact of this reduction is minimal.

The Rural Economic Development Infrastructure Program (REDIP)
The December Revision includes a loan of $1.7 million from REDIP. This program finances local public infrastructure projects that create jobs in rural cities and counties with an unemployment rate either equal to or above the State's average. Eligible projects include sewer, water and transportation facilities.

The funds to be loaned to the General Fund represent the current balance in the program. In effect, the program is being shut down, but the loan allows the program to be reinstated in the future. In the meantime, applicants will be referred to the Infrastructure Bank which also is able to provide loans to local governments for infrastructure projects. The interest rates under both programs are comparable. The only disadvantage to this proposal is that the infrastructure bank loans carry origination fees (85 basis points) and annual servicing fees (30 basis points).

Alternatives

The policy staff suggest the following additional cuts to the agency:

- ***Increase the Fee for the California Export Finance Office (CEFO) Loan Guarantee Program***. The CEFO program, administered by the Agency, issues guarantees primarily to small and medium-sized companies, often first-time exporters. CEFO financing enables export sales for companies who otherwise would not have been able to complete these transactions.

  Currently, the CEFO fee is $100 for the application and 1.5% of the loan amount after six months. This fee structure was established by the CEFO board and is consistent with the fee structure of the EXIM Bank.

  Increasing the fee to $150 for the application and 2% of the loan amount after six months would increase the revenue of the program and would make the program more self- sufficient.

- ***Establish a Fee for Export Development Services***. The Agency's Office of Export Development provides export-related assistance such as arranging or participating in international trade shows and trade missions, and offering "matchmaking" services for overseas buyer delegations and commercial visitors. The office identifies international contracts to be awarded by foreign governments and international institutions of interest to California businesses, publishes trade directories listing California manufacturers and suppliers active in foreign trade, and provides trade leads and market information.

  The nominal fees currently charged for services are not enough to cover administrative expenses of the office. Establishing a fee structure for these services could serve to make the OED self sufficient and possibly even revenue producing.

- ***Eliminate the Film California First Program.*** In a time of severe budgetary shortfalls, when health and social services programs are being drastically reduced, it is difficult to justify subsidizing a multi-billion dollar film industry. Eliminating this program would save the state almost $8 million.

- ***Further Reductions in the Foreign Trade Offices and Moratorium on Establishing New Offices.*** While the funding for Foreign Trade Offices has already been reduced, there is room for further reductions. Perhaps the Senate should consider converting the Foreign Trade Offices to contract offices.

SPECIAL RESERVE FUND VEHICLE LICENSE FEE (VLF) TAX RELIEF

When the Legislature initially authorized the VLF tax relief, taxpayers did not receive the direct benefit of a tax cut. They paid the full amount of the VLF tax due, but were "rebated" the relief after they paid the tax. In 2001, the "rebate" was changed to a tax "offset." The offset provided an immediate reduction in the tax due, and obviated the need for a later rebate.

As part of the original rebate language, the Legislature created the reserve fund to ensure that there was sufficient funds to pay tax rebates. There remains in the reserve about $33 million. As the reserve is no longer needed, the reserve balance can be returned to the General Fund, for an increase in General Fund resources. The December Revision transfers the remaining $33 million in this fund to the General Fund.

DEPARTMENT OF GENERAL SERVICES (DGS)

The December Revision reduces the state's capital outlay program by about $15 million Of this amount, $13.6 million is attributable to projects scheduled for the budget year. The Department of Finance has provided no detail about which projects would be eliminated or delayed.

CALIFORNIA ENERGY COMMISSION (CEC)

The December Revision reduces the commission's reserve for making grants for increasing energy efficiency, particularly the "cool roofs" program. The reduction is nearly $1.7 million.

The revision also reduces the appropriation for making grants to large users for the installation of time-of-use/real time meters, for a savings of $54,000.

Alternatives. Policy staff suggest four ways to mitigate the reductions to the Energy Commission:

- *Impose fees on power plant applicants* sufficient to cover the Energy Commission's cost of reviewing the application. (Note: The CEC recieves no General Fund revenue, but this action might reduce pressure to increase

commission fees.) The CEC owes the Analyst a report on the feasibility of imposing filing fees.

- *Charge telecommunications utilities for use of state-owned rights of way.*

- *Cut the Electricity Oversight Board (EOB),* as was done by the Senate budget committee in 2002. Although the board is supported entirely by the Utilities Reimbursement Account, reducing the board's budget could free up funds for other endangered priorities.

- *Capture proceeds from FERC*-ordered refunds or energy contract renegotiations. It is very uncertain how, when or if any actual dollars will come back to the Department of Water Resources.

BOND INTEREST PAYMENTS

The December Revision reduces current-year bond payments by $15 million and budget-year payments for an additional $30 million. This is, apparently, attributable to lower-than-anticipated interest charges. It appears that these savings accrue to the state automatically and do no require legislative action.

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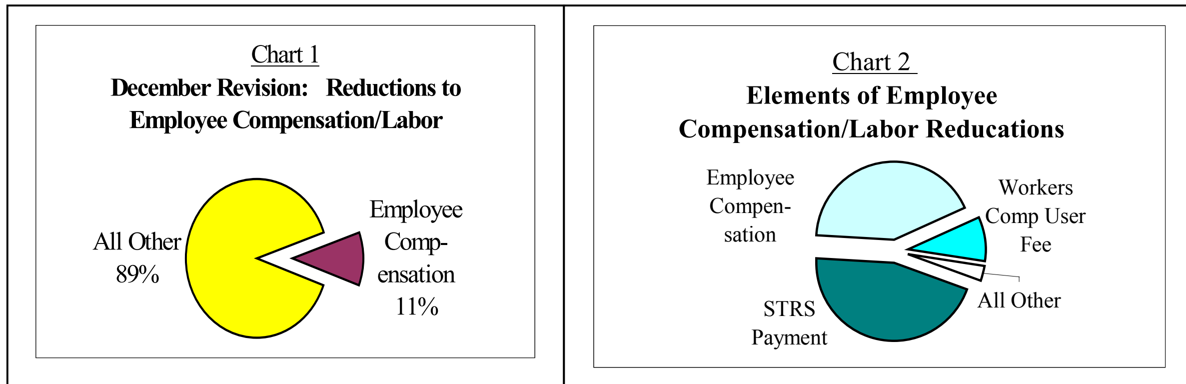
Employee Compensation and Labor

EMPLOYEE COMPENSATION/LABOR



The December Revision reduces employee compensation and labor departments by $1.1 billion, about 11 percent of the total reductions. Of this amount, the two major reductions are associated with reducing employee compensation through a renegotiated contract and deferring a payment to the teachers' retirement fund. Graphs 1 and 2 illustrate these points.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CALSTRS)

Background

Retirement benefits cannot be reduced for incumbent employees. State constitutional and statutory law has long been interpreted to prohibit the reduction of retirement benefits for incumbent employees. Reductions in retirement benefits can only be made for persons whose employment begins after the adoption of the benefit reduction, thus forming a new "tier" of lower benefits.

In 1980, the State introduced an *optional* second tier featuring sharply reduced benefits. Tier Two requires no employee contributions, but provides benefits that are roughly half those of Tier One. Governor Brown promoted Tier Two as a money-saving measure.

In 1991, legislation provided that Tier Two benefits were made mandatory for newly hired state employees. Governor Wilson demanded the change to mandatory Tier Two membership as part of the budget resolution of that year.

In 1999, legislation provided that Tier Two was returned to an option for new hires. In addition, a window was created for those state employees participating in Tier Two to "buy back" into Tier One. Governor Davis agreed to change Tier Two to optional in response to its continuing unpopularity among state employees.

Savings from adopting a lower tier of benefits are not immediate and are mostly accrued in the future, having a negligible impact on the current budgets.

Relevant Court Cases from the 1980's and 1990's. Four lawsuits from the 1980's and 1990's are relevant to the discussion of the reduction of benefits and employer contributions: *Valdes v. Cory*, 139 Cal. App. 3rd 773 (1982) relating to CalPERS, *CTA v. Cory,* 155 Cal. App. 3rd 494 (1984) relating to CalSTRS, *Claypool v. Wilson,* 4 Cal. App. 4th (1992) relating to CalPERS, and *Board of Administration v. Wilson,* 52 Cal. App. 4th 1109 (1997), relating to CalPERS.

These lawsuits occurred when the State reduced benefits of, or contributions to, the respective retirement systems *without agreement from employee representatives and the Board of Administration of the affected system*.

The basic tenets of the court decisions resulting from these lawsuits are:

a) the State contributions to state-funded retirement systems are protected because employees have a contractual right to an actuarially sound retirement system, and

b) the employer cannot unilaterally reduce retirement benefits without providing some additional benefit of equal value to system members.

Proposition 162 of 1992. As a reaction to years of gubernatorial and legislative meddling with contributions to CalPERS and CalSTRS (which culminated in a major clash with Governor Wilson during the 1991 legislative session), public employee labor organizations sponsored the successful Proposition 162 in 1992.

Proposition 162 provides *constitutional law* specifying that the CalSTRS and CalPERS Boards of Administration have **"plenary authority"** over the administration and investment of the CalSTRS and CalPERS Funds; this absolute authority includes the
annual setting of the rates for required employer contributions to CalPERS.

Absent constitutional amendment, neither the Governor nor the Legislature can control the rate, amount or timing of state contributions to CalSTRS and CalPERS.

December Revision

Revision Reduces CalSTRS Supplement Benefits Maintenance Account (SBMA). CalSTRS provides a *supplemental* purchasing power benefit (SBMA) of 80% of what the members' original retirement check could buy (if adequate resources are available in the CalSTRS Fund). The SBMA benefit is now provided to teachers who retired in the early 1980's or before, whose retirement benefits have been eroded by inflation.

SBMA is funded by an annual General Fund contribution equating to 2.5% of the annual teacher payroll. *While 2.5% is contributed annually, low inflation allows the current SBMA payments to expend just 1%, leaving 1.5% to accumulate in the CalSTRS Fund as a hedge against benefit payment pressures created by future inflation and the demographics of CalSTRS members.* With the 2.5% level funding intact, CalSTRS indicates that the SBMA benefit could be paid *for 36 years*.

The 2.5% funding level of SBMA is considered by CalSTRS to be a vested funding stream, guaranteed by previous legislation to continue indefinitely.

The FY 2003-2004 General Fund contribution to the SMBA benefit is $551 million.

The December Revision reduces the 2003-2004 SBMA contribution to $51 million.

CalSTRS indicates that this proposed reduction would have *no immediate impact on SBMA benefit payments*, but would result in the reduction of the period for which the SBMA is *funded from 36 years to 30 or 31 years,*

assuming the immediate return to the full 2.5% contribution in FY 2004-2005 and future years.

The Legislative Analyst believes that the proposed reduction in SBMA contribution is probably not legal.

$11 Million Reduction in FY 2002-2003 CalPERS Rural Health Care Equity Program (RHCEP) Payments. Chapter 743 of 1999 (SB 514, Chesbro) provides an RHCEP benefit of **$500/year** to certain CalPERS retirees toward health plan deductibles and copayments *in geographic regions where there is no HMO alternative*. The Governor's Department of Personnel Administration (DPA) administers this program.

Governor Davis has announced that DPA will stop making RHCEP benefit payments on December 31, 2002, saving the General Fund a reported $11 million in the rest of FY 2002-2003. CSEA is working with Senator Chesbro's office to determine if DPA has the authority to unilaterally cancel this benefit.

ALTERNATIVES

Staff suggest consideration of three alternatives:

Alternative 1: Continue the Elimination of State Employees' Contributions to CalPERS Past June 30, 2003.
Rather than providing state employees a 5% pay raise on July 1, 2003, (or permitting a 5% pay cut because of reintroduced CalPERS employee contributions), the least expensive method of maintaining the current level of state employee pay could be to just continue the elimination of employee CalPERS contributions.

Why aren't state employees contributing to CalPERS right now?
State employee contributions are fixed by statute and do not fluctuate to reflect annual actuarial calculations performed by CalPERS. State employer contributions are adjusted each year by CalPERS, based on an actuarial study (discussed below).

However, recent collective bargaining agreements between the state and its 21 bargaining units *reduced* the 5% employee contribution to CalPERS **to**

2.5% (July 1, 2001 to June 30, 2002) **and now 0%** (from July 1, 2002 to June 30, 2003).

When are state employee contributions to CalPERS scheduled to start again? The collective bargaining agreements provide that the employee contributions to CalPERS will be reintroduced beginning July 1, 2003, *coinciding with a 5% increase in state employee salaries*. Without this increase in salaries, state employees would experience a 5% salary decrease caused by the reintroduced CalPERS employee contributions.

What effect does the temporary state employee contribution reduction have on the state's employer contribution, and on the CalPERS Fund itself? During this period of reduction in, or elimination of, employee contributions to CalPERS, employee accounts simply don't grow.

CalPERS conducts an annual actuarial study to examine the state's CalPERS assets on hand (the sum of state employee and employer accounts) compared to its accrued liabilities (the cost of the benefits already earned by active and retired state members) in order to determine the necessary rate of state's employer contributions.

Because CalPERS will recognize the absence of growth in state employee accounts in the annual actuarial study of the state's assets and will, therefore, increase the employer's contribution in an appropriate increment reflecting this situation, there will be no adverse long-term effect on the CalPERS Fund.

Alternative 2: Revise the Method of Funding CalPERS' "Golden Handshake" Offerings

How are CalPERS "Golden Handshakes" currently paid for?
Existing law provides that "Golden Handshake" early retirement offerings must be fully paid within a relatively short period of time: four years. For a $50,000/year employee, the cost of a 2-year service credit only "Gold Handshake" is $25,000 to $27,000. If the cost of the benefit is not fully paid in one year, CalPERS charges the employer interest on the unpaid portion.

Didn't the 2002-2003 Budget include a "Golden Handshake" to encourage state employees to retire early? Governor Davis issued an Executive Order in October permitting state departments to offer a two-year service credit only "Golden Handshake" under the following circumstances:

- it must be paid for up front from departmental budget savings, and
- positions must be eliminated in connection with the adoption of the "Golden Handshake", as approved by the State Department of Finance.

Given these requirements, only several small state departments have chosen to offer the 2-year "Golden Handshake", and *less than 200 state employees total appear to be participating in the offering***.** All of the major state department declined to participate in offering this early retirement incentive to their employees. The Executive Order terminated in November.

Is a 2-year service credit "Golden Handshake" enough of an incentive to get a lot of state employees to leave early? The answer to this question is unclear, since so few state employees were allowed by their departments to choose this early retirement incentive.

Is the position elimination requirement in existing CalPERS law a disincentive to state departments to participate in a "Golden Handshake" offering? Position elimination could be the partial cause of low participation in the recent "Golden Handshake" offering. But based on the negative response of virtually all of the major state departments to the recently offered "Golden Handshake", it is reasonable to conclude that position elimination combined with the up-front funding required by existing CalPERS law clearly has created a disincentive for state departments to offer the "Golden Handshake" as currently constituted.

Alternative 3: Revise Existing CalPERS "Golden Handshake" Provisions

Permit the cost of "Golden Handshakes" to be considered an actuarial liability that can be spread over a longer period of time. (This proposal is the same way other CalPERS' benefits are financed.)

Allowing the cost of "Golden Handshakes" to be included in the actuarial liability could make affordable early retirement incentives that are strong enough to encourage large numbers of state employees to retire immediately.

This funding approach to "Golden Handshakes" has been included in a CalPERS-sponsored bill, AB 67, introduced December 10, 2002, by Gloria Negrete-McLoed, the Chair of the Assembly Committee on Public Employment, Retirement and Social Security.

Reevaluate the requirement to eliminate positions when offering "golden handshakes." Allowing positions to remain, but be filled with younger, lower-paid employees may be the most cost-effective way to reduce departmental expenses by moving older, higher-paid state employees into retirement.

Reevaluate the incentive provided in the existing two-year service credit only "golden hanshake." What incentive can get large numbers of employees to retire early? Adding years to "age factor" portion of the CalPERS retirement equation (for example, offering a "2 + 2 Golden Handshake" which provides 2 years of additional service credit *PLUS 2 years enhancement of the "age factor"*) would greatly increase the cost. But if such an enhanced "Golden Handshake" can get many higher-paid state employees to leave immediately *and* state CalPERS contributions for it can be spread over a longer time period than currently permitted, these costs may be deemed acceptable.

EMPLOYEE COMPENSATION

The December Revision assumes $470 million in savings associated with reduced employee compensation. To achieve these savings, the Administration intends to re-open Memoranda of Understanding with employee labor units. If the negotiation achieves a settlement the Legislature will have to adopt the terms of the agreement in statutory law.

DEPARTMENT OF INDUSTRIAL RELATIONS (DIR)

DIR is basically a labor law enforcement department, especially impacting the working poor. The December Revision has two proposals:

Impose User Fees for Support of the Workers' Compensation Program. The December Revision imposes user fees (estimated to generate $27.1 million), and reduces by a commensurate amount the General Fund support of the Workers' Compensation Program.

Comments. User-fee support for the workers' compensation program has been an issue for at least two decades. For many years the business community has complained about insufficient program staff to administer and adjudicate claims of injured workers. This user-funding proposal relieves General Fund spending while potentially increasing staffing levels to meet the concerns of the business community.

Recommendation. Adopt December Revision.

Database for the Division of Labor Standards Enforcement (DLSE). The December Revision reduces the 2002 budget by $1 million for implementation of the database.

The Legislature established the database to improve labor and tax compliance. Without the database, the division is unable to track labor law violators. The database should improve labor law enforcement and increase the collection of back wages, and improve tax collection.

Recommendation. Reject December Revision.

OTHER LABOR ISSUES

Although associated with a cut in the higher education budget, staff note that the December Revision reduces the Institute for Labor and Employment (ILE). The institute's labor research has been important to the Department of Industrial Relations, the Labor and Workforce Development Agency, community groups and labor organizations.

The institute, and its related labor centers, was established in 2000 with an annual budget of about $6 million budget. In 2002, the Legislature reduced the budget to $4.9 million. The reduction to UC could be visited on the

institute. The institute indicates that it could lose between $150,000 and $2 million, as its share of the university's reductions.
Impact. A $150,000 cut in unspent funds will mean the cancellation of the summer intern program. A $2 million reduction now, followed by a 10% cut will decimate the program.

Comments. U.C. spends hundreds of millions of dollars each year for industry research, and the ILE is the only program for labor research.

Recommendation. A proportionate share of unspent funds may be necessary to cut. No $2 million cut and no 10% permanent cut.

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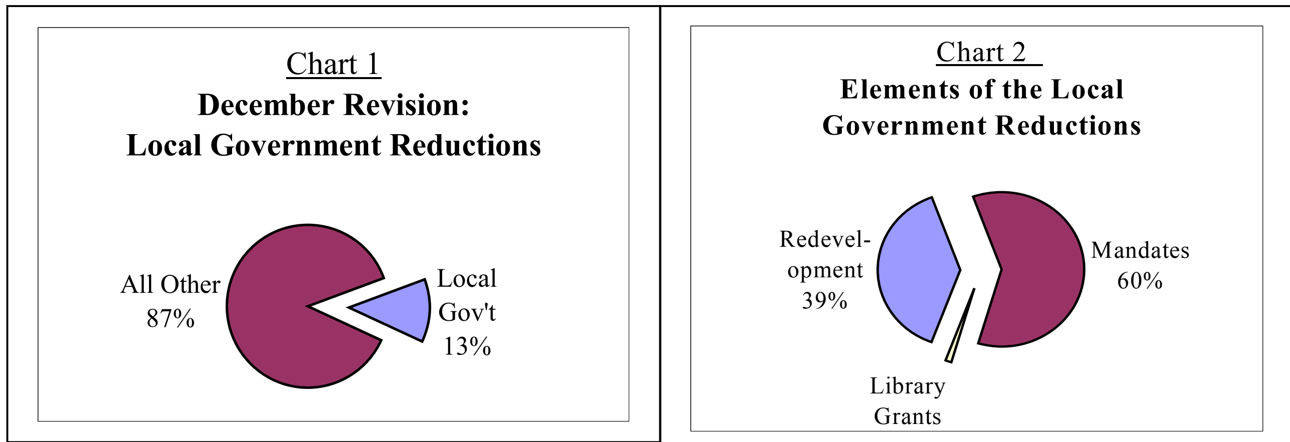
Local Government

LOCAL GOVERNMENT

The December Revision reduces funding directly available to local government in three ways. Of the $10 billion proposed in the plan, local government reductions would total about $1.3 billion (13 percent of the solution), as displayed in Chart 1.



Specifically, the December Revision proposes to:

- Reduce payments for reimbursement of mandate claims for a General Fund savings of about $770 million.
- Transfer from redevelopment agencies $500 million to the General Fund.
- Reduce Grants to the Public Library Foundation by $15 million.

Chart 2 displays the proportionate share of these proposed reductions.

PUBLIC LIBRARY FOUNDATION

The December Revision reduces the non-Proposition 98 General Fund appropriation for the Public Library Foundation (PLF) grants by 50 percent in the current budget year. This saves the General Fund $15.8 million in 2002-03.

What needs to be done by the end of January? Pass a bill reverting $15,766,000 from item 6120-221-0001, Budget Act of 2002. The PLF money for the 2002-03 budget year goes out in February 2003. No other action is required.

Consequences. A midyear reduction to the Public Library Foundation is problematic for two reasons.

1. Funding libraries is good public policy.
2. This program has already suffered a series of recent cuts.

In 2001-02, the PLF was funded $53 million. The Administration's proposal to reduce it to $15.7 million will result in a 70% funding loss in two years.

The Public Library Foundation grants provide the primary state funding for public libraries. Although never fully funded, the program was intended to replace some of the revenue lost in the funding cuts that followed Proposition 13. The grants are made on a per-capita basis to local libraries which use them for acquiring library materials, staff, operating expenses, and equipment. Many libraries fund their book budgets with these funds. Others use them to extend library hours, operate bookmobiles, or provide children's services.

The role of California's public libraries has evolved over time. Today, libraries have become an extension of the public school system and play a crucial role in combating both child and adult illiteracy. Many libraries provide preschool literacy readiness programs, summer reading programs, Homework Help Centers, reach out and read programs, and participate in Raising a Reader, the California Literacy Campaign, and the Families for Literacy Program. In addition, public libraries provide training and access to computer technology and the Internet to children and families who cannot afford it in their homes. Reducing funding to libraries puts these programs and services at risk.

According to the policy consultants, the libraries with the fewest resources, primarily county libraries, will be hurt the most by a reduction in PLF funds. Operating hours will likely be shortened, book budgets cut, and some programs eliminated. The long-term consequences of reductions will depend largely on what happens in the budget to other library funding sources, primarily the property tax. If local governments lose additional property taxes (e.g. ERAF) or other discretionary sources of revenue, the consequences for libraries could be dramatic. Recall the early 90's after the ERAF shifts when libraries cut their hours, closed branches, and eliminated programs.

This reduction can be accomplished through an amendment to the 2002 Budget Act and does not require statutory law change.

TRANSFER OF UNENCUMBERED LOW AND MODERATE INCOME HOUSING FUNDS TO THE STATE

The December Revision requires redevelopment agencies to send the unencumbered balances from their Low and Moderate Income Housing Funds to the State General Fund. The Department of Finance assumes that this transaction would shift approximately $500 million to the General Fund in 2002-03.

To achieve the transfer, the department suggests passage of statutory law requiring redevelopment officials to write checks to the State Controller before the end of fiscal year 2002-03.

Analysis. The Administration's proposal doesn't work. It's the *wrong* method, for the *wrong* amount, in the *wrong* year, of the *wrong* money, that perversely benefits the *wrong* redevelopment agencies.

- *Wrong method.* The state government lacks clear constitutional authority to take money out of redevelopment agencies' trust funds. The better alternative is to use the Educational Relief Augmentation Fund (ERAF) to shift property tax increment funds on a one-time basis.

- *Wrong amount.* State officials don't know what redevelopment agencies hold as an "unencumbered balance" in their housing funds. It may be $113 million in "unreserved undesignated" money (SCO), $499 million (HCD), or $514 million in "unreserved" money (SCO). Policy staff suggest that the Legislature use an alternative way to get $500 million from redevelopment agencies.

- *Wrong year.* The Administration wants to divert funds that were unencumbered as of December 1, 2002. Redevelopment agencies that are committed to building affordable housing have legitimate projects in the pipeline. Taking their as-yet-unencumbered money in the current year will cause deals to fall through. Policy staff suggest that the better alternative is to divert the $500 million in the 2003-04 fiscal year.

- *Wrong money.* Redevelopment officials must set-aside 20% of their annual property tax increment revenues to increase, improve, and preserve affordable

housing. They use the other 80% to promote economic development and eradicate blight. Taking $500 million from redevelopment agencies' housing funds stops the construction of 10,000 to 15,000 affordable housing units. Given California's housing crisis, it's bad policy to take away money that's earmarked for affordable housing. Policy staff suggest that the better alternative is to take $500 million from redevelopment agencies' economic development programs.

- *Wrong agencies*. Some suburban redevelopment agencies have high reserves in their Low and Moderate Income Housing Funds because they don't want affordable housing. Taking away their money rewards their foot-dragging. The better alternative, policy staff suggest, is to take $500 million from all redevelopment agencies in proportion to their indirect subsidies from the State General Fund.

Is "trailer legislation" needed? Yes. The Administration's proposal requires an amendment to the Community Redevelopment Law. The alternative requires amending both the Community Redevelopment Law and the property tax allocation statutes.

Preferred alternative. Instead of enacting the December Revision, the Legislature should:

1. Suspend the state subsidy to redevelopment agencies in 2003-04 (not 2002-03).
2. Allow redevelopment agencies to recoup that lost revenue by extending the life of redevelopment projects by two more years.
3. Declare an 18-month moratorium on new redevelopment efforts.

Background. Property tax increment revenues were $2.1 billion in 2000-01. About half of that money (53%) came from K-12 schools, requiring the State General Fund to backfill school districts' apportionments by $1 billion. According to the only independent study of redevelopment's effectiveness, half of the tax increment revenues would occur without redevelopment (Dardia 1998). Therefore, the State General Fund's indirect subsidy to redevelopment agencies is about $500 million a year. That's the same amount that the Administration wants.

This alternative proposal:

- *Saves* the State General Fund $500 million by suspending the state subsidy to redevelopment agencies in the 2003-04 fiscal year.

- *Requires* county auditor-controllers to shift half of the property tax increment revenues that a redevelopment project would have diverted from K-12 schools in 2003-04 to the Educational Revenue Augmentation Fund (ERAF).
- *Requires* redevelopment officials to still put 20% of their gross property tax increment revenues in the Low and Moderate Income Fund.
- *Protects* redevelopment agencies' constitutional obligations to make payments on the principal of their outstanding bonds.
- *Extends* the time limit on the life of redevelopment projects and the flow of tax increment funds by two years beyond the statutory deadlines, as mitigation.
- *Prevents* local officials from creating new redevelopment agencies, approving new redevelopment project areas, expanding existing project areas, creating new debt (except for affordable housing), and issuing bonds (except for refinancing bonds) from January 1, 2003 to June 30, 2005. This temporary moratorium prevents more redevelopment losses from the State General Fund.

DEFER PAYMENTS ON MANDATES

The December Revision reduces state funding for reimbursing local governments for their costs of complying with state mandates. In 2002, the Legislature reduced appropriations for the reimbursement of mandates. Specifically:

- It reduced reimbursements for the cost of mandates incurred before July 1, 2002.
- It reduced reimbursements for the cost of mandates incurred in 2002-03. As such, it did not prospectively "suspend" mandates for 2002-03. Had the Legislature "suspended" the mandates, then local governments would have been under no obligation to comply with state law requiring various local activities. Without a mandate, state costs for reimbursement would be eliminated.

As a result of reducing the reimbursements, the Legislature deferred making payments to local governments.

The December Revision appears to continue this practice. According to the Department of Finance, the state will defer costs of about $770 million until a future budget. Local governments' discretionary revenues will be reduced by a commensurate amount in the period through June 30, 2004.

ALTERNATIVE: ELIMINATE STATE BOOKING FEE PAYMENTS

In lieu of the reductions in the December Revision, the Legislature could consider reducing subventions for booking fees.

Background. To provide fiscal relief to counties, the Legislature authorized counties to charge booking fees to cities and other local agencies that book arrested persons into county jails (SB 2557, Maddy, 1990). To provide fiscal relief to cities, the Legislature provided a continuous appropriation to reimburse cities for the booking fees they pay to counties (AB 1662, Leonard, 1999). In 2000, the Legislature expanded the reimbursements to include special districts (SB 225, Rainey) and to cities that pay booking fees to other cities (AB 2219, Battin).

The version of AB 1662 that created the reimbursements in 1999 was never heard in policy committee in either house. The policy justification for the program is arguably weak and, at best, controversial. Cities were required to make a one-time claim for reimbursement based on their 1997-98 costs. Those amounts are now automatically sent to cities each year. Since no further information has been required from cities, we don't know how closely the reimbursements resemble cities' costs. However, some cities get reimbursements for fees they no longer pay.

Rather than cut funds midyear to local governments, policy staff suggest that the Legislature could reduce 2003-04 booking fee reimbursements. This alternative affects fewer communities. This alternative also gives the Legislature time to revisit the booking fee reimbursement policy.

Because the booking fee reimbursements for the current budget year have already been paid, a mid-year reduction is not possible. In 2002-03, the state subvened $38 million.

***This alternative proposal*:**
- *Saves* the State General Fund at least $15.8 million by reducing the state reimbursement to cities and special districts in the 2003-04 fiscal year.
- *Requires* legislation amending Government Code §29550.4 to allow for the reduced reimbursements.
- *Reduces* funding for a questionable program while protecting a good one.

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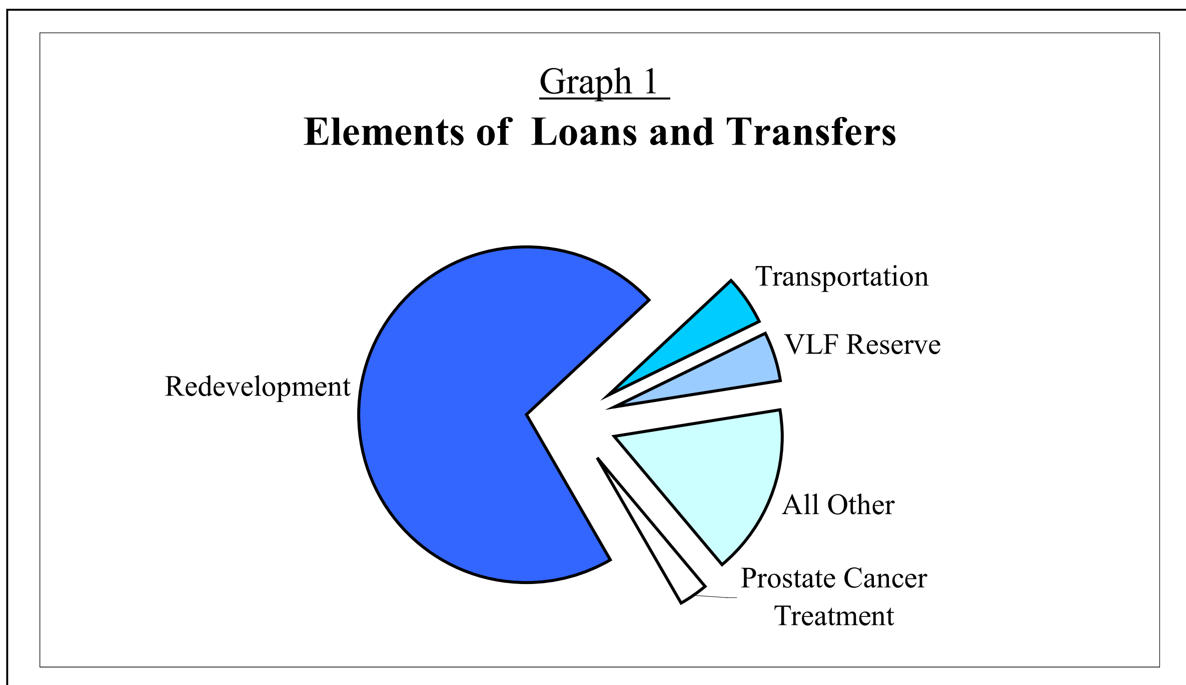
Loans and Transfers

LOANS AND TRANSFERS

The December Revision includes loans and transfers to the General Fund. Cumulatively, these transactions totals $685.6 million in 2002-03 and $14.1 million in 2003-04. The single largest transaction is a $500 million is a shift from redevelopment agencies to the state. Graph 1 displays the elements of the loans and transfers.



Background

The 2002-03 budget authorized loans and transfers from special funds to address the shortfall in the General Fund. Loans to the General Fund totaled slightly more than $2 billion and transfers are more than $500 million.

Loan Conditions. Chapter 1124, Statutes of 2002 (AB 3000) provided that funds may be loaned from one state fund or account, if the following conditions are met:

- The loan is authorized in the Budget Act,
- The terms and conditions of the loan are set forth in the loan authorization, including an interest rate,
- The loan is considered part of the balance of the fund or account, and
- Fees and assessments will not be increased as a result of the loan.

Loaned moneys may not be considered a transfer of resources for purposes of determining the legality of using the funds.

The Director of Finance is required to order the repayment of all or a portion of the loan if either the fund or account *making the loan* needs cash, or the fund or account *receiving the loan* does not need the money.

Reporting Requirements. The Department of Finance (DOF) is required to report to the Joint Legislative Budget Committee (JLBC) whenever a fund or account repays its loan. DOF is required to report the year-end balances annually for each outstanding loan to JLBC. The Governor's Budget, released on or before January 10 of each year, must also detail any outstanding loan balances.

Discussion of Repayment of Loans by Fiscal Year. The Legislative Analyst (LAO) estimated in November 2002 that net repayments of loans of about $450 million would have to be repaid in 2003-04, $887 million in 2004-05, and $345 million in 2005-06, for a General Fund cost of $1.6 billion over he next three fiscal years. The vast majority of this amount ($1.4 billion) is to repay the loan from the Traffic Congestion Relief Fund (TCRF). The LAO assumed that the repayment of the additional loans would result in annual payments of approximately $50 million over the next 8 years.

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DECEMBER REVISION

The December Revision includes additional transactions of $685.6 million in 2002-03 and $14.1 million in 2003-04. Of this amount, $500 million is not a fund transfer, but rather a proposal to shift local property tax from local redevelopment agencies to the state.

The following is a discussion of the major loans and transfers by subject area:

Housing and Community Development. The 2002-03 budget authorized loans of $28.1 million and transfers of $4.7 million to the General Fund from funds administered by HCD. There were additional transfers of $8.6 million approved contingent upon passage of Proposition 46 on the November 2002 Ballot.

The December Revision includes transfers of $17 million from various housing special funds to the General Fund. This amount includes transfers of $5.6 million from the Self-Help Housing Fund and $3.0 million from the Farmworker Housing Grant Fund that were approved in the 2002-03 budget act contingent upon passage of Proposition 46.

The following are additional proposed transfers to the General Fund:

- *Self-Help Housing Fund.* The December Revision includes to increase the $5.6 million transfer by $5.5 million from funds previously appropriated for Self-Help housing projects that will now be funded through Proposition 46 bond funds.
- *Predevelopment Loan Fund.* The December Revision includes the transfer of $1.9 million in uncommitted funds from the Predevelopment Loan Fund.

  The December includes the following loans of uncommitted funds from seven special funds to the General Fund totaling $18.1 million:

- *Housing Rehabilitation Loan Fund.* The revision includes to increase the previously approved loan of $20 million by an additional $7.3 million. This will still leave a reserve in the fund of more than $2 million.
- *Self-Help Housing Fund.* The revision includes a loan of $3.4 million in addition to the $11.1 million transfer from this fund.
- *Mobilehome Park Purchase Fund.* The revision includes to increase the previously approved loan of $8.1 million by $2 million.

- *Farmworker Housing Grant Fund.* The revision includes a loan of $1.5 million in addition to the transfer of $3 million from this fund authorized in the 2002-03 budget act.

  The revision includes a loan of $1.8 million from the Rental Housing Construction Fund, $1.6 million from the Emergency Housing and Assistance Fund, and $500,000 from the Manufactured Home Recovery Fund.

Department of Transportation (Caltrans). The 2002-03 budget included transfers of $20.4 million and loans of $1.2 billion from funds administered by Caltrans. The December Revision includes additional transfers of $120.2 million in 2002-03 and $1.5 million in 2003-04 and additional loans of $50 million in 2003-04.

The following transfers and loans to the General Fund are proposed:

Traffic Congestion Relief Fund (TCRF). The December Revision includes to transfer $100 million from TCRF to the General Fund in 2002-03. This is a recapture of General Fund resources committed to TCRF in the past. The 2002-03 budget act included a loan of $1.045 billion loan from TCRF to the General Fund. The Revision also proposes to suspend the repayment of $50 million from TCRF to the State Highway Account in 2003-04.

State Highway Account (SHA). The December Revision includes to transfer $15 million from SHA in 2002-03 to reflect reduced Statewide Cost Allocation Plan Recoveries than anticipated. Trailer bills to the 2002-03 budget loaned $173 million from the SHA to the General Fund.

Aeronautics Account. The budget proposes to increase the transfer of $6 million from the Aeronautics Account included in the 2002-03 budget act by an additional $5.2 million in 2002-03 and $1.5 million in 2003-04.

Technology, Trade and Commerce Agency. The 2002-03 budget included transfers of $16 million and loans of $37.1 from funds administered by the Technology, Trade, and Commerce Agency (TTCA). The December Revision includes transfers of $2.7 million and loans of $6.2 million from funds administered by TTCA. The major components are as follows:

California Film First Fund. The December Revision includes to transfer $1.8 million from this fund to the General Fund. This transfer is due to program reductions of $2.1 million of the $12 million available, which is line with annual

expenditures in recent years. The revenue source for this fund is the General Fund. The Revision also proposes to transfer $275,000 of unspent funds from prior years.

Petroleum Underground Storage Tank Fund. The 2002-03 budget included a loan from this fund to the General Fund of $17 million. The December Revision includes to increase this loan by $4.5 million. This fund takes in revenue of between $2 and $5 million annually and has expenditures over $10 million per year. This loan will leave the fund with a small fund balance.

Rural Economic Development Infrastructure Bond Fund (REDIP). The 2002-03 budget provided a loan of $8.4 million to the General Fund from this fund. The Revision includes to increase this loan by $1.7 million.

There are additional small transfers from unused funds from other funds administered by TTCA.

Special Reserve Fund Vehicle License Fee (VLF) Tax Relief. This fund was established to refund VLF at the time that the VLF offset was rebated to taxpayers. SB 22 of 2001 changed the rebate to a VLF offset. The remaining balance of $45 million in the Special Fund Reserve was proposed by the Administration to be transferred to the General Fund in 2002-03. The State Controller contended that any remaining amounts could be transferred without any budget bill or trailer bill language. It has since been determined that budget or trailer bill language is necessary.

The December Revision transfers the remaining $33 million in this fund to the General Fund.

Low and Moderate Income Housing Fund. The revision to "transfers" $500 million of unencumbered prior year local property taxes for low- and moderate-income housing to the state General Fund. The state General Fund has benefited from changes in the allocation of property taxes from local agencies to school districts through reductions in General Fund appropriations to school districts. The proposal in the December Revision, which is most likely unconstitutional, would require redevelopment agencies to remit local property tax revenue to the state General Fund. This proposed shift of local property tax revenues to the state is discussed in the section on Local Government.

ALTERNATIVES

High Cost Fund B. The 2002-03 budget act transferred $250.9 million from the High Cost Fund B to the General Fund. This transfer was approved late in the budget process and budget bill language that would have provided that fees and assessments would not be increased as a result of the transfer was inadvertently omitted.

The High Cost Fund B provides transfer payments to telephone corporations providing local exchange services in high-cost areas in the state to create fair and equitable local rate structures; the development of a grant program for the construction of telecommunications infrastructure; and to carry out the program pursuant to the commission's direction, control, and approval.

The Legislature may wish to consider adopting language in January that would provide that fees and assessments for High Cost Fund B cannot be increased as a result of the transfer.

Transfers and Loans are One-Time Solutions. The proposed transfers and loans are one-time solutions with the detrimental impact that they also create out-year costs. Many of the transfers will leave very low reserves in the special fund that will necessitate either fee increases or program cutbacks in future fiscal years. The loans are required to be repaid when there is a need for the revenue. Some of the proposed loans will result in such small fund balances that the loans will have to be repaid as soon as 2003-04. While there may not be a fiscal need to repay the loans in the next several fiscal years, all of the loans will eventually need to be repaid resulting in an out-year liability for the General Fund.

The Legislature may wish to consider alternatives to increased loans or transfers, such as:
- *Permanent reductions to programs funded from the affected funds.*
- *Elimination of special funds that are predominantly funded by transfers from the General Fund.*

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