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GOVERNOR'S
**BUDGET
SUMMARY**

2004-05



Arnold Schwarzenegger, Governor
State of California

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GOVERNOR'S
**BUDGET
SUMMARY**

2004-05



Submitted by
Arnold Schwarzenegger, Governor
State of California

to the
California Legislature
Regular Session
2003-04

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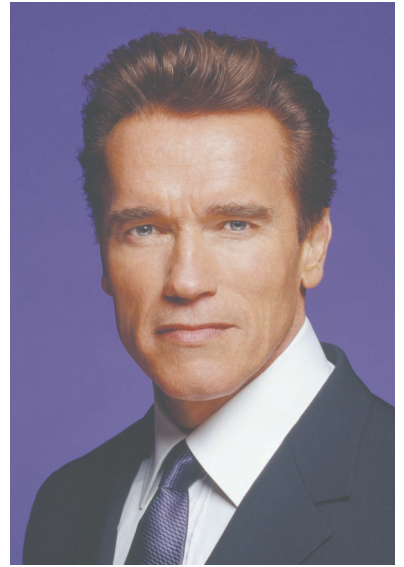
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GOVERNOR
ARNOLD SCHWARZENEGGER

January 9, 2004



To the Senate and Assembly of the Legislature of California:

In compliance with Article IV, Section 12 of the California Constitution, I hereby submit to you the 2004-05 Governor's Budget.

Never before has California been faced with a fiscal challenge of such an incredible magnitude. As the first phase of my outside audit of state government revealed, we must confront an inherited debt that is now estimated to be a staggering \$22 billion.

But at the same time, never has there been such an opportunity to fundamentally change the way business is done in Sacramento – and, an opportunity to implement reforms that will make California solvent and strong once again.

The budget I have put before you sets California on a clear path of recovery.

First, it calls for difficult but necessary steps to begin to bring the amount of money we spend in line with the amount of money the state takes in.

Second, it reflects fundamental reform proposals throughout state government – in K-12 education, in higher education, in health and human service programs, and more. These reform proposals make sense not only from a budgetary perspective, but from a policy perspective as well.

And third, it puts the state on a path to recovery without raising taxes, which would only serve to blunt the economic recovery we are now beginning to realize.

No one should underestimate the size of the task that is before us. The debt that this administration inherited did not occur in a single year. And given the size of the state's fiscal crisis, nearly every area of state government will be asked to shoulder some of the sacrifice that will be required.

But that is what the people who sent us here expect us to do – face our problems squarely and make the right decisions for the people.

We have already demonstrated to the people of California that we can put aside politics as usual. Late last year, we cast aside partisan differences and worked together to approve the California Recovery Plan for the March ballot – a bond of up to \$15 billion to refinance a portion of the inherited debt, coupled with new requirements for a balanced budget, a rainy-day budget reserve, and authority to control overspending – before it grows out of control.

It is this spirit of bipartisan cooperation that I hope will guide our debate over the state budget in the weeks and months ahead. By working together to address the state's fiscal crisis in a responsible manner, we can once again show the people of California that we are worthy of the trust they have placed in us.

Sincerely,

Arnold Schwarzenegger

STATE CAPITOL • SACRAMENTO, CALIFORNIA 95814 • (916) 445-2841



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**DEPARTMENT OF
FINANCE**
OFFICE OF THE DIRECTOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO, CA ■ 95814-4998 ■ [WWW.PDF.CA.GOV](http://www.pdf.ca.gov)

January 9, 2004

Dear Governor:

This budget owes much to the audit of state government that you called for in your campaign. With the help of Department of Finance and legislative staff, I presented the initial findings of the audit two days before taking the oath of office as your Director of Finance. Those findings were grim: your new administration inherited an accumulated debt of \$22 billion and faced an ongoing, annual budget shortfall of \$14 billion. California has never been closer to insolvency.

Just as a firm facing bankruptcy needs a "work-out" plan, the State of California needs a responsible, measured approach to return it to fiscal health. With your leadership, this budget outlines such a plan. The Economic Recovery Bond, which you and the Legislature have placed on the March 2004 ballot, is a cornerstone to this plan. But refinancing debt alone cannot solve the problem. You have made the restoration of California's economy your highest priority, which will produce dividends in the form of increased revenues over the long term. When combined with the reductions, cost avoidance and long-term reforms proposed in this budget, this will bring us back to fiscal stability over the next several years.

The second phase of the audit is reflected throughout this budget. We have examined every major program in state government and we identify many instances of inefficiency, questionable priorities, lack of accountability, and in some cases, outright fraud. Where possible, your budget proposes immediate solutions to these problems. In many cases, however, a longer-range approach to reform is wiser. The budget outlines many such reform proposals, and our efforts to identify more efficient less expensive ways for state government to do business will continue.

Let there be no doubt, this is a very difficult budget. It requires all of California's major programs to make sacrifices. At the same time, the budget protects your highest priority – our children's education. The education community should be congratulated for the cooperative spirit they have shown in working with you to develop this budget. Education leaders have recognized the need to contribute to solving the state's fiscal problems and you have made it a priority to fund as much growth as possible in per-student funding, even in these most difficult financial circumstances.

Please join me in expressing heartfelt thanks to the women and men of the California Department of Finance and their families. They represent the very best that state government has to offer. Without their dedication and professionalism, this budget would not have been possible.

Sincerely,

Donna Arduin
Director of Finance

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ECONOMIC RECOVERY— A WORKOUT PLAN FOR THE STATE'S BUDGET

California's Fiscal Challenge

Prior to taking office, the first phase of Governor Schwarzenegger's independent audit of State government finances was released, detailing the size and scope of the fiscal crisis that the Governor and the Legislature must now confront.

Among the key findings of the first phase of the audit were:

- While revenues have increased by 25 percent over the past five years, State expenditures have risen by 43 percent. If government had simply spent at the same rate that California's economy has grown, the State's budget would be balanced today.
- If state government had not spent the extraordinary tax revenues from the one-time surge in capital gains and stock options on ongoing programs, the State budget would not be in the crisis it is in today.
- If, over the past five years, the previous Administration and the Legislature had not created or expanded programs that the State could not afford—expenditures in the Budget would be lower than they are today. In health and human services alone, significant program expansions have totaled \$1.3 billion.
- Over the past five years, State bureaucracy has grown and agencies have been allowed to consistently spend above and beyond their budgeted levels.

As a result, by the time Governor Schwarzenegger took office, the State of California had accumulated an inherited debt of more than \$22 billion, representing policy and budgetary decisions made by the Legislature and the prior Administration. In the absence of corrective actions to change these policies, the State will continue incurring operating deficits, estimated at \$14 billion in fiscal year 2004-05.

In addition, all three major credit rating agencies have lowered the State's credit rating this year. California's General Obligation Bond rating is "Triple B," which is barely above investment grade and is currently the lowest among all the states. Anything below "Triple B" is commonly known as a junk bond.



Total Inherited Debt

Accumulated Deficit Through 2002-03 ^{1/}	\$ 9.3 billion
Operating Deficit in 2003-04 ^{1/}	<u>3.0 billion</u>
Total Accumulated Deficit ^{1/}	\$12.3 billion
Effect of Prior Decisions After 2003-04	<u>9.8 billion</u>
Total Inherited Debt	\$22.1 billion

^{1/} In November, the audit projected accumulated deficit through 2002-03 at \$10.6 billion, operating deficit in 2003-04 at \$4.3 billion, and total accumulated deficit at \$14.9 billion. Since then, natural revenue growth and expenditure decreases have exceeded expectations.

California also faces a potential cash crisis this year. In order for the State to meet its daily cash-flow needs, the previous Administration borrowed a total of \$14 billion using short-term notes. Those notes are due to be repaid in June 2004.

California Recovery Plan

Faced with such massive and growing debt, the Governor is proposing a four-part economic recovery plan, which consists of:

- The Economic Recovery Bond Act to refinance a portion of the inherited debt.
- A budget for 2004-05 that moves toward structural balance.
- A Constitutional amendment to require balanced budgets with prudent reserves in the future.
- Improving the business and jobs climate in order to revitalize the State's economy and improve revenue growth over time.

Economic Recovery Bond Act

The California Economic Recovery Bond Act (Chapter 2, Statutes of 2003, Fifth Extraordinary Session [AB 9]) authorizes, subject to California voter approval at the March 2, 2004 statewide primary election, the issuance of up to \$15 billion in bonds to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. This measure provides that the bonds authorized under the Act may be used to retire any Fiscal Recovery Bonds issued under the provisions of Chapter 13, Statutes of 2003, First Extraordinary Session (AB 7). Under the Act, the State will not be permitted to use more than \$15 billion of net proceeds of any bonds issued to address the inherited debt. The bond authorization will

replace the currently authorized Fiscal Recovery Bonds. This Act will only become operative if the voters approve this Act and the Balanced Budget Amendment, Chapter 1, Statutes of 2003, Fifth Extraordinary Session (ACA 5) at the March 2004 election.

The repayment of the bond will be secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent starting July 1, 2004, which will be deposited into the Fiscal Recovery Fund. Local governments' share of the sales and use tax will be decreased by a commensurate amount. Beginning in 2004-05, local governments' share of local property tax revenues will be increased by an amount equal to the one-quarter cent reduction in the local sales and use tax. The new sales and use tax rates will automatically revert to current levels as soon as the bond is repaid. The repayment of the bond may be accelerated with transfers from the Budget Stabilization Fund, as specified in the Balanced Budget Amendment. In the event the dedicated revenue falls short, the State also would pledge its full faith and credit by using General Fund revenues to repay the debt service.

The Administration expects the voters to approve the bond at the March 2004 election. However, to be fiscally prudent, the Administration continues to pursue judicial validation and to take all necessary administrative steps to prepare for the sale of the Fiscal Recovery Bonds, as authorized by current law. A final decision on the Fiscal Recovery Bonds will be made after the March 2004 election.

Use of Bond Proceeds—The Administration intends to use the bond proceeds to re-finance a portion of the \$22 billion inherited debt. It plans to sell bonds sufficient to provide for net proceeds of \$12.3 billion for the following:

- \$9.242 billion to pay for the accumulated budget deficit through 2002-03.
- \$1.881 billion to pay for the State's costs of employee retirement contributions in 2003-04. The 2003 Budget Act assumed these costs would be paid from the proceeds of pension obligation bonds; however, the bond sale has been delayed by court order.
- \$188 million in loan repayments to various special funds in 2003-04 and 2004-05.
- \$325 million revenue loss in 2004-05 from the prior year due to changes in the use of Net Operating Losses pursuant to the 2002 Budget Act.
- \$100 million in increased general obligation debt service in 2004-05 due to the State Treasurer's bond restructuring plan.
- \$209 million in increased employee compensation in 2004-05 related to 16 bargaining units delaying a 5-percent bargained pay raise in 2003-04.
- Approximately \$300 million contribution to the \$635 million General Fund reserve in 2004-05.



Depending on the economic environment, the Administration may elect to sell the remaining amount of bonds in 2005-06 to refinance part of the deferred obligations that will become due in 2005-06 (total due in 2005-06 will be \$2.3 billion).

Deficit Recovery Fund—In 2003-04, a new fund will be created for the purpose of deficit recovery. The amount of bond proceeds received but not needed to address the accumulated budget deficit through 2002-03 will be transferred into this fund. The moneys in this new fund will be used in 2004-05 to pay for deferred obligations due in 2003-04 and 2004-05 as outlined above. While the Administration expects the bonds will be sold within the current year, this portion of the bond proceeds must be set aside to allow for a gradual transition to a balanced budget by using the new fund to cover what would otherwise be the General Fund's costs of the inherited debt.

A Budget That Moves Toward Structural Balance

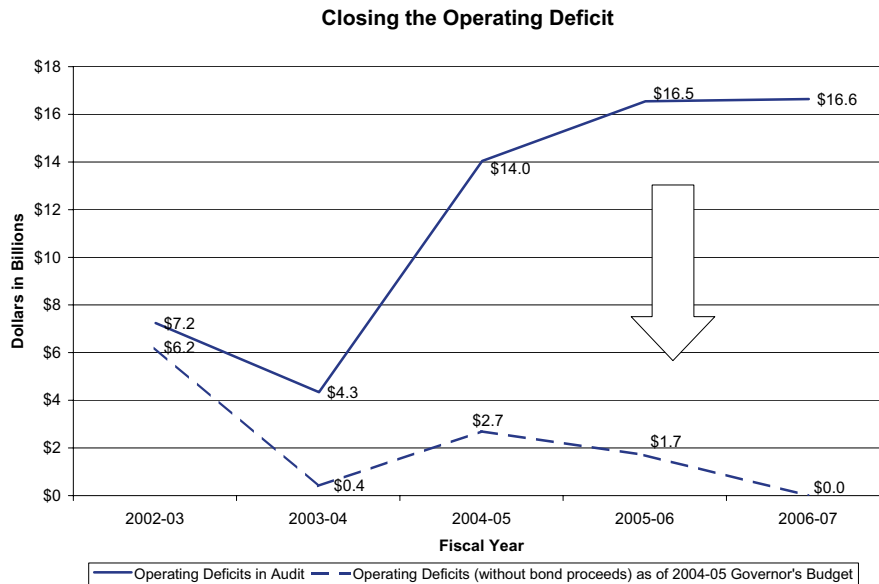
In the absence of policy changes, the State would face a deficit of over \$26 billion, consisting of a \$9.2 billion year-end deficit in 2002-03, an additional shortfall of \$3 billion in 2003-04, and a shortfall of \$14 billion in 2004-05.

In December 2003, the Administration proposed reductions totaling \$3.9 billion (\$2.3 billion in 2003-04 and \$1.6 billion in 2004-05). To close the remaining budget gap, additional budget solutions are included in the proposed budget: \$0.3 billion in 2003-04 and \$12.8 billion in 2004-05 offset by a reduction of \$0.8 billion in 2002-03. Overall solutions proposed exceed the projected budget gap by \$635 million (the amount of the reserve).

It should be noted that the solutions include the use of a portion of the bond proceeds to create a Deficit Recovery Fund. This allows the State to move in a graduated fashion toward structural budget balance. A combination of factors will close the remainder of the structural gap in 2005-06 and 2006-07. First, an estimated \$1.7 billion will remain from the bond to help smooth the transition after 2004-05. Second, many of the reforms contained in the Budget will produce savings that increase dramatically in subsequent years. The Governor is taking a long-term reform approach to government spending, rather than reacting to short-term budget exigencies. And third, it is of supreme importance that the Administration and Legislature enact reforms to improve the business and jobs climate, which in turn should accelerate growth in the State's economy and General Fund revenues.

As the following chart shows, the Governor's measured, long-term approach puts the State on the path to close the operating deficits identified in the audit.

FIGURE A



Balanced Budget Requirement, Special Reserve Fund

As part of the Governor's commitment to bring California back to a sound economic foundation, this constitutional amendment (Chapter 1, Statutes of 2003, Fifth Extraordinary Session, ACA 5) will be submitted to the voters on the March 2, 2004, ballot. The proposed amendment will ensure that the State enacts budgets that keep expenditures within available resources. It would also require the State to contribute to a special reserve of 1 percent of revenues in 2006-07, 2 percent in 2007-08, and 3 percent in subsequent years. This special reserve will be used to repay the Economic Recovery Bonds and provide a rainy day fund for future economic downturns or natural disasters. It would allow the Governor to declare a fiscal emergency whenever he or she determines that General Fund revenues will decline below budgeted expenditures, or expenditures will increase substantially above available resources. Finally, it would require the Legislature to take action on legislation proposed by the Governor to address fiscal emergencies.

California's Competitiveness

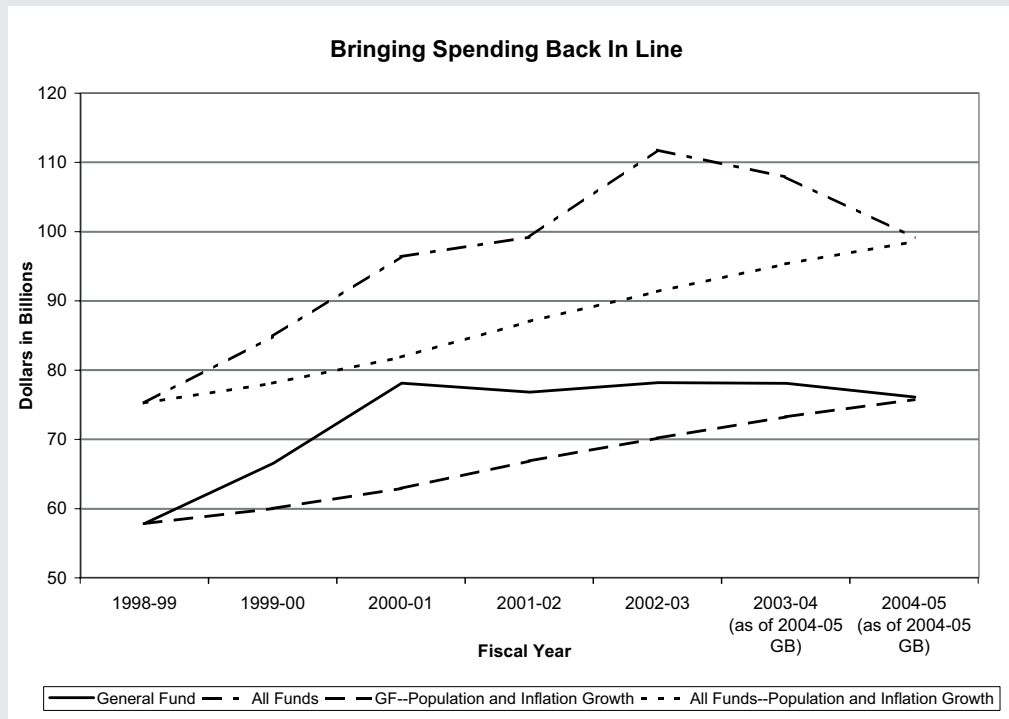
While California's economic indicators suggest that modest reform is projected for 2004, job growth throughout the state will be tempered due to the high cost of doing business in California. Some estimates conclude that business costs are 30 percent higher in California than in other western states—most note the highest workers' compensation rates in the nation as one of the largest components of the high cost. The workers' compensation system has ballooned from \$11 billion to \$28 billion in just five years—resulting in 200 percent to 300 percent premium increases for many of the state's employers.

Governor Schwarzenegger's plan for California's Recovery is based on improving the state's business climate to bring jobs back to California. In order to improve the job-generating



environment, his plan includes a comprehensive overhaul of the workers' compensation system. In addition, the Governor is harnessing the existing economic development and promotion entities in state government and plans to market California as a desirable place to establish and grow businesses. California's fiscal health is inextricably linked to the state's economic prosperity. Governor Schwarzenegger is committed to increasing economic vitality and promoting the creation of well paying jobs.

Audit Findings

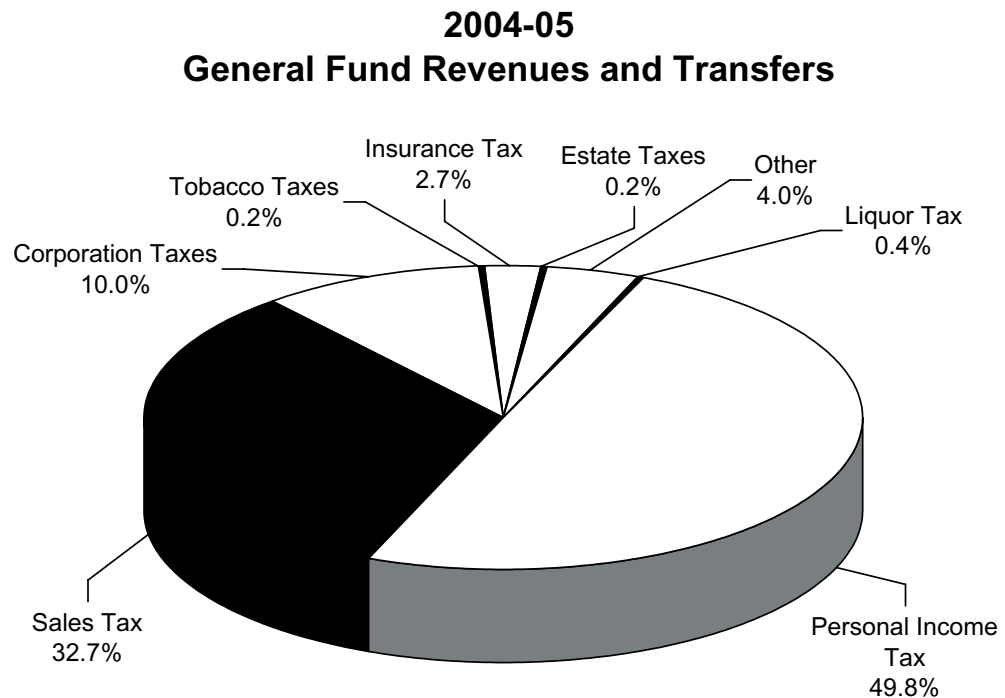
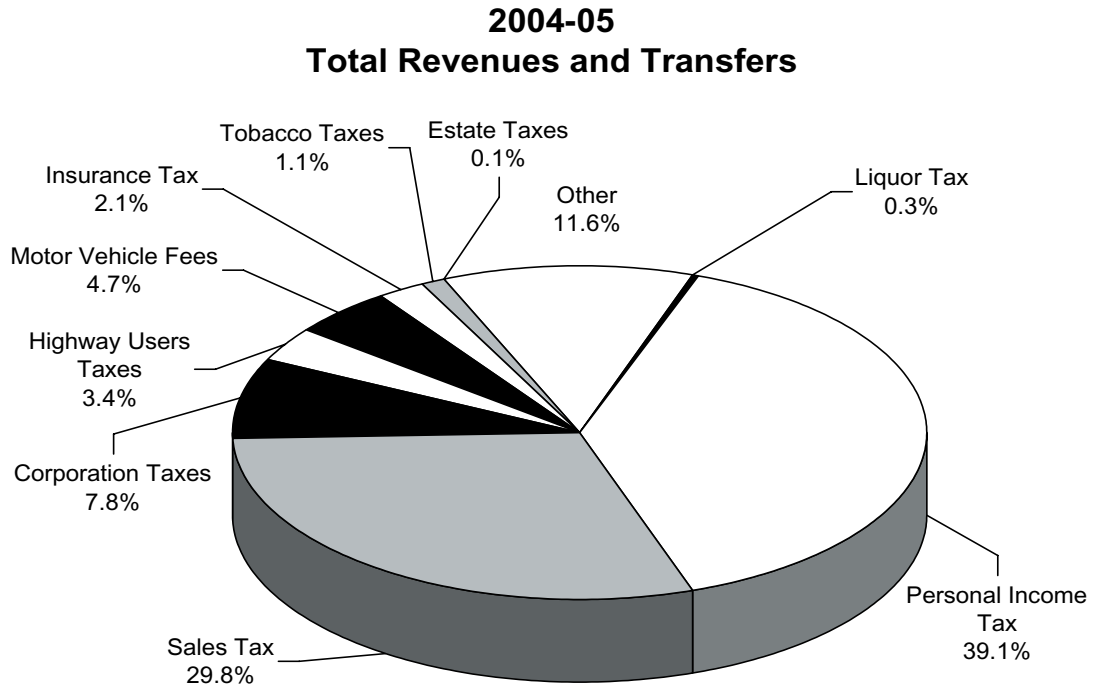


- The major program areas discussed below each include an audit chart similar to the one that appears here.
- The audit charts display actual spending from 1998-99 through 2002-03, estimated spending for 2003-04, and proposed spending for 2004-05.
- The audit charts also display the spending in 1998-99 grown at the combined rate of population growth and inflation.
- As the statewide chart here shows, the 2004-05 Governor's Budget will bring General Fund spending back in line with the population growth and inflation.

SUMMARY CHARTS

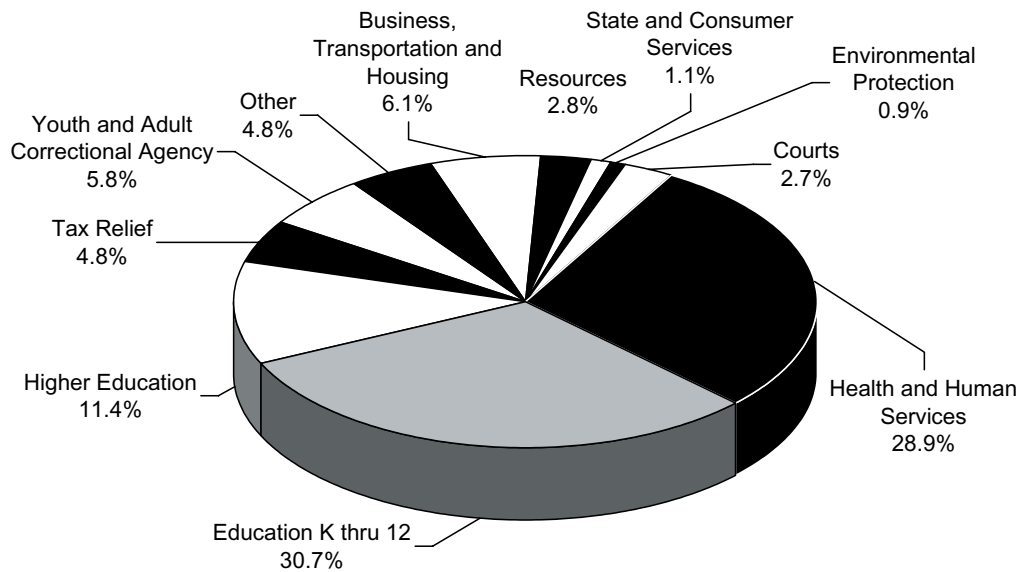


Revenues 2004-05 Fiscal Year

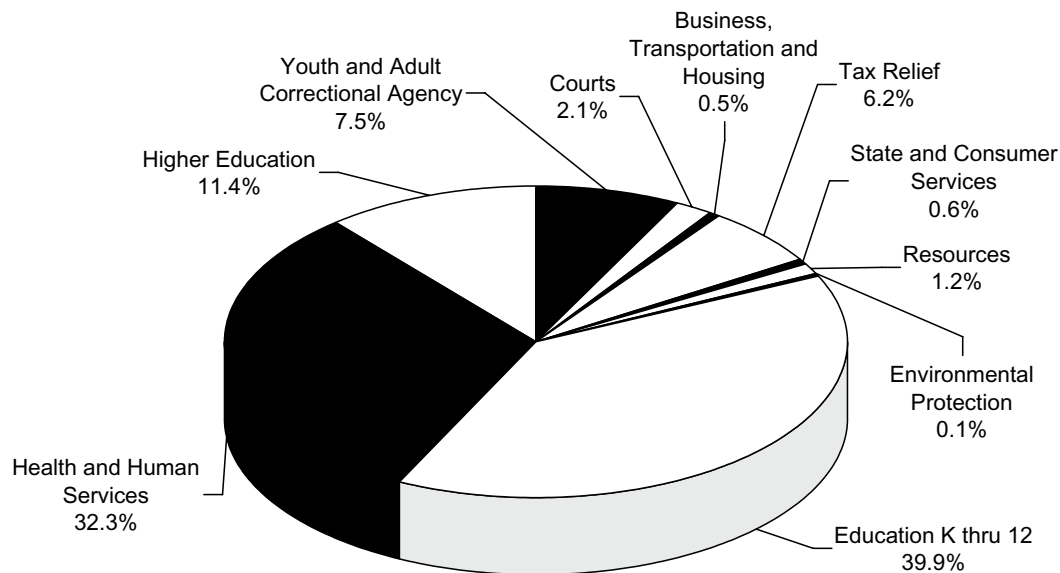


Expenditures 2004-05 Fiscal Year

2004-05 Total Expenditures (Including Selected Bond Funds)



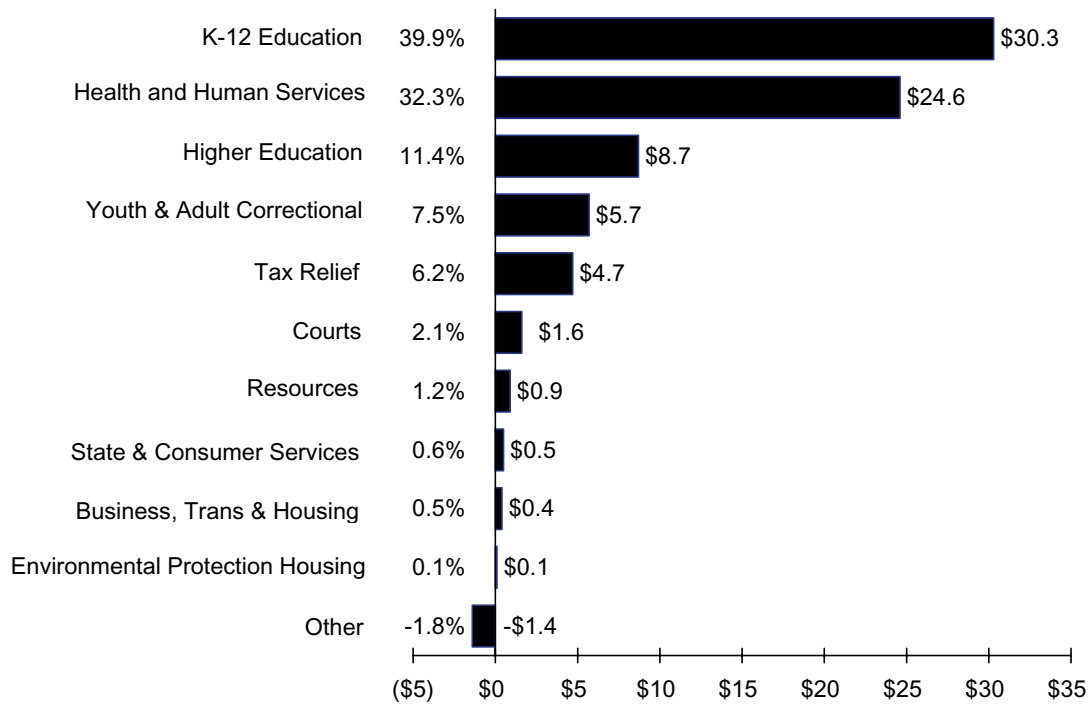
2004-05 General Fund Expenditures



Percentages do not total 100% due to the "Other" category being -1.8%.



2004-05 General Fund Expenditures (Dollars in Billions)



2004-05 Expenditures By Fund

(Dollars in Millions)

Function	General Fund	Special Funds	Bond Funds	Total
Education (K-12)	\$30,317	\$59	\$36	\$30,412
Health and Human Services	24,600	4,068	2	28,670
Higher Education	8,694	1,200	1,567	11,461
Business, Transportation and Housing	375	5,528	148	6,051
Courts	1,569	1,121	--	2,690
Tax Relief	4,730	--	--	4,730
Local Government Subventions	260	2,311	--	2,571
Youth and Adult Corrections	5,732	4	--	5,736
Resources	939	1,685	125	2,749
Environmental Protection	70	764	12	846
State and Consumer Services	478	559	13	1,050
Other	-1,702	3,845	35	2,178
Total	\$76,062	\$21,144	\$1,938	\$99,144

2004-05 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds
Personal Income Tax	\$38,043	--
Sales Tax	25,022	\$3,952
Corporation Taxes	7,609	--
Highway Users Taxes	--	3,322
Motor Vehicle Fees	16	4,563
Insurance Tax	2,078	--
Estate Taxes	136	--
Liquor Tax	294	--
Tobacco Taxes	115	917
Other	3,094	8,049
Total	\$76,407	\$20,803



General Fund Expenditures in Major Program Areas

	2003-04	2004-05	Difference
Legislative, Judicial, and Executive	\$2,528	\$2,616	\$88
State and Consumer Services	471	478	7
Business, Transportation, and Housing	518	375	-143
Resources	985	939	-46
Environmental Protection	91	70	-21
Health and Human Services	22,789	24,600	1,811
Youth and Adult Correctional	5,326	5,732	406
K-14 Education	31,418	33,152	1,734
Debt Service Savings (ERAF)	0	-1,256	-1,256
Higher Education	6,352	6,058	-294
Labor and Workforce Development	113	86	-27
Vehicle License Fee Backfill	2,703	4,062	1,359
STRS Contribution	510	1,057	547
General Government	1,212	1,105	-107
Use of Deficit Recovery Fund	3,012	-3,012	-6,024
Totals	\$78,028	\$76,062	-\$1,966

**2004-05 Governor's Budget
General Fund
Budget Summary**
(Dollars in Millions)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Prior Year Balance	-\$1,474	\$1,608	\$1,219
Revenues and Transfers	\$71,322	\$74,627	\$76,407
Bond Proceeds	<u>\$9,242</u>	<u>\$3,012</u>	<u>--</u>
Total Revenues	\$80,564	\$77,639	\$76,407
Total Resources Available	\$79,090	\$79,247	\$77,626
Expenditures	\$77,482	\$75,016	\$79,074
Transfer to and Use from Deficit Recovery Fund		\$3,012	-\$3,012
Total Expenditures	<u>\$77,482</u>	<u>\$78,028</u>	<u>\$76,062</u>
Fund Balance	\$1,608	\$1,219	\$1,564
Budget Reserves:			
Reserve for Liquidation of Encumbrances	\$929	\$929	\$929
Special Fund for Economic Uncertainties	\$679	\$290	\$635
Special Fund for Economic Uncertainties without Solutions	-\$9,242	-\$12,254	-\$26,273
Operating Deficit without Solutions	-\$6,839	-\$3,012	-\$14,019



General Fund Solutions by Category

(Dollars in Thousands)

<u>Solution</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Total</u>	<u>% of Total</u>
Spending Reductions	-\$161,784	-\$1,158,011	-\$4,618,885	-\$5,938,680	36.6%
Fund Shifts	0	-41,100	-1,043,579	-1,084,679	6.7%
Cost Avoidance:					
Suspend Prop 42 Transfer	0	0	-947,186	-947,186	5.8%
Re-Base Proposition 98 Growth	-517,836	-448,419	-1,910,287	-2,876,542	17.7%
Other	0	-609	-106,458	-107,067	0.7%
Economic Recovery Bonds	1,433,400	0	-3,012,000	-1,578,600	9.7%
Debt Service Savings	0	0	-1,256,000	-1,256,000	7.7%
Transfers/Other Revenue	0	-771,077	-475,561	-1,246,638	7.7%
Loans/Borrowing	0	-203,800	-45,000	-248,800	1.5%
Pension Reform Package	0	0	-949,747	-949,747	5.9%
Totals	\$753,780	-\$2,623,016	-\$14,364,703	-\$16,233,939	100.0%

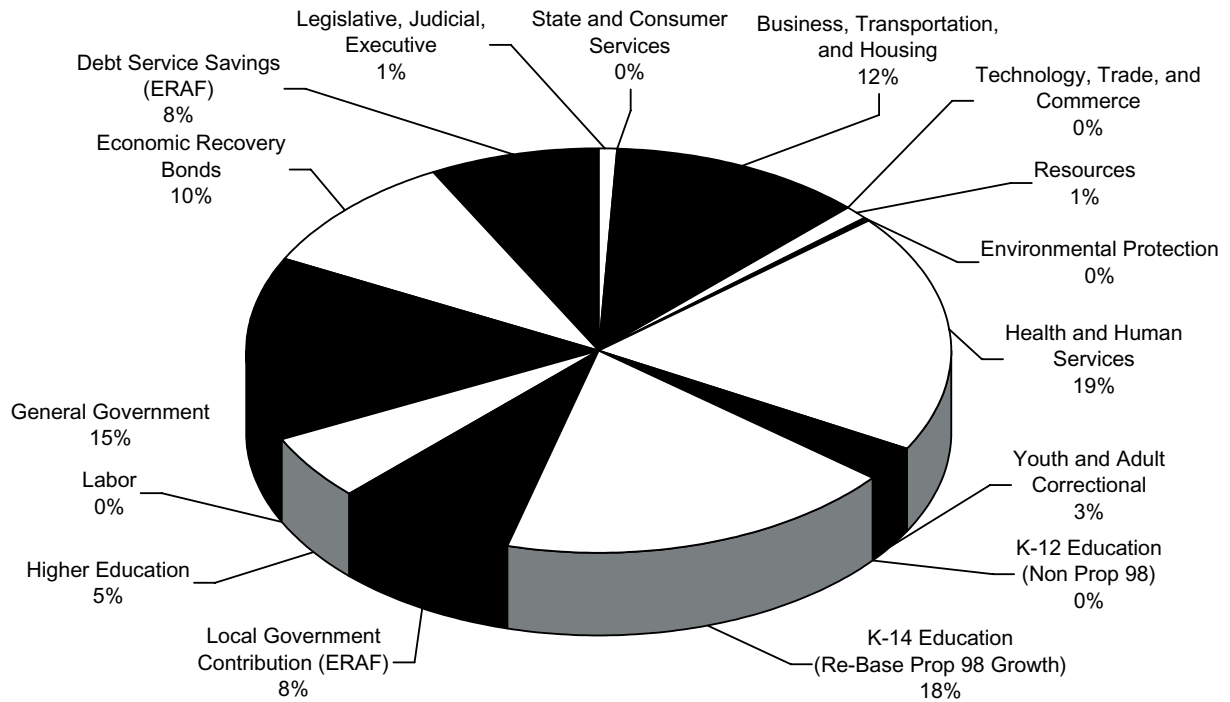
General Fund Solutions by Agency

(Dollars in Thousands)

Agency	2002-03	2003-04	2004-05	Total	% of Total
Legislative, Judicial, Executive	\$0	\$0	-\$113,961	-\$113,961	0.7%
State and Consumer Services	0	-18,550	-14,941	-33,491	0.2%
Business, Transportation, and Housing	0	-886,800	-999,250	-1,886,050	11.6%
Technology, Trade, and Commerce	0	-6,600	0	-6,600	0.0%
Resources	-132,200	-8,700	-47,269	-188,169	1.2%
Environmental Protection	0	0	-9,338	-9,338	0.1%
Health and Human Services:					
Medi-Cal	-8,184	-229,994	-880,521	-1,118,699	6.9%
Public Health	0	-4,444	-9,749	-14,193	0.1%
Managed Risk Medical Insurance Board	-2,290	0	-32,109	-34,399	0.2%
CalWorks	0	0	-787,360	-787,360	4.9%
SSI/SSP	0	0	-134,675	-134,675	0.8%
In-Home Supportive Services	0	-129,163	-126,539	-255,702	1.6%
Developmental Services	-2,709	0	-155,368	-158,077	1.0%
Mental Health	-1,408	-361	-37,562	-39,331	0.2%
Other Health and Human Services	-14,993	-49,928	-536,161	-601,082	3.7%
Youth and Adult Correctional	0	0	-438,017	-438,017	2.7%
K-12 Education (Non Prop 98)	0	-609	0	-609	0.0%
K-14 Education (Re-Base P98 Growth)	-517,836	-448,419	-2,003,996	-2,970,251	18.3%
Local Government Contribution (ERAF)	0	0	-1,336,000	-1,336,000	8.2%
Higher Education	0	-157,709	-728,782	-886,491	5.5%
Labor Agency	0	-808	-808	-1,616	0.0%
General Government	0	-680,931	-1,704,297	-2,385,228	14.7%
Economic Recovery Bonds	1,433,400	0	-3,012,000	-1,578,600	9.7%
Debt Service Savings (ERAF)	0	0	-1,256,000	-1,256,000	7.7%
Totals	\$753,780	-\$2,623,016	-\$14,364,703	-\$16,233,939	100.0%



Solutions By Agency



ECONOMIC OUTLOOK

The national and California economies strengthened in the second half of 2003. Increased business investment and job growth—the two missing pieces of a sustainable, stronger economic recovery—appeared to be in place as the year ended. Improved labor markets and stronger output growth are expected for both economies in 2004 and 2005.

National economic output expanded at its fastest rate in nearly 20 years in the third quarter. Even better, the gain was broad-based across spending categories. Tax refunds and tax rate cuts spurred consumers to boost their spending. Businesses invested considerably more in equipment and software. Residential construction posted a big gain. Even net exports added to the economy's growth. While the first estimate of fourth quarter economic output will not be released until late January, monthly statistics in October and November depicted an economy continuing to forge ahead. Particularly encouraging, nonfarm payroll employment grew for the fourth consecutive month in November.

California personal income increased for the sixth consecutive quarter in the second quarter of 2003. Also encouraging, exports of made-in-California merchandise began

to increase again in the third quarter after falling for nearly three years, and taxable sales posted a fifth consecutive year-over-year gain. In addition, manufacturing activity expanded in the third quarter in the Inland Empire and Orange County, according to local surveys of purchasing managers. But California labor markets were not as strong as those in the rest of the nation, on average, near year-end. Southern California labor strikes played a role in that below-average performance.

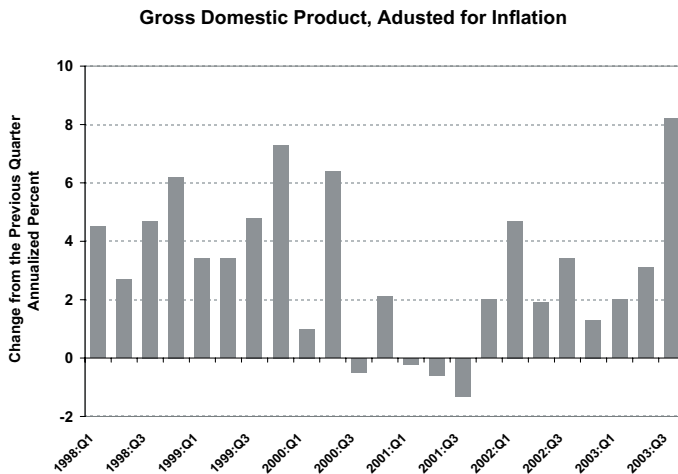
The Nation — Strengthening Recovery

Adjusted for inflation, the national economy grew by an annualized 8.2 percent in the third quarter—the fastest pace since the first quarter of 1984 (Figure ECON-1). While personal consumption expenditures made the biggest contribution to that growth, the other three major spending categories—gross private domestic investment, net exports of goods and services, and government spending—also contributed.

Spurred by recent tax cuts, including an advance payment of \$400 per child on an expanded federal tax credit for children under 16 and reduced withholding, households



FIGURE ECON-1



spent significantly in the third quarter. Real personal consumption expenditures grew by 6.4 percent. Sales of light vehicles were especially strong as better factory incentives on new cars and light trucks sped vehicles off dealer lots in July and August. Spending on other durables, nondurables, and services was also robust. A reduction in factory incentives in September pulled down light vehicles sales, however.

Businesses did their part by boosting investment considerably in the third quarter. Gross private domestic investment grew by over 18 percent at a seasonally adjusted, annual

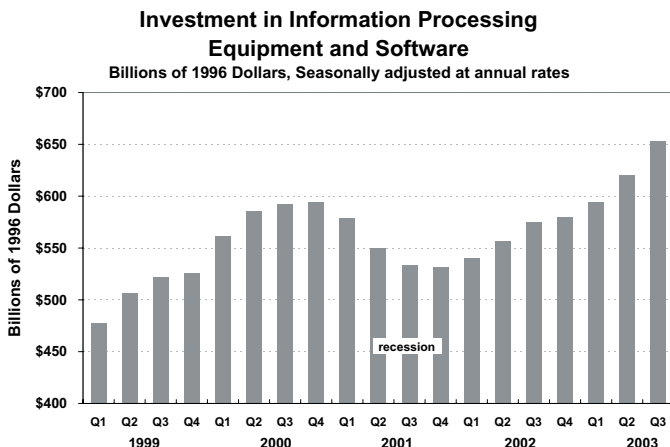
rate. Within this category, nonresidential fixed investment expanded by 14 percent—its first double-digit gain since 2000—and residential investment, by 23 percent. Inventory investment, by falling less in the third quarter than in the second, also contributed significantly to growth in gross private domestic investment.

The large hike in business investment contained good news for the nation's high-tech sector. Spending on information processing equipment and software surged by 23 percent (Figure ECON-2). Investment in computer and peripheral equipment, a component of information processing equipment, soared by 47 percent on top of a 53 percent gain in the second quarter—the best two consecutive quarters since 1999. All of this was particularly encouraging because the primary cause of the economy's sluggishness earlier in the recovery was weak business investment.

Net exports and government spending did not contribute much to output growth, but gains in net exports are so rare today that they deserve to be noted. Net exports boosted economic growth by subtracting less from Gross Domestic Product in the third quarter than in the second quarter. Exports rose by 11 percent while imports inched up by 1.5 percent. Government spending, on the other hand, can make a significant contribution to economic growth, as it did in the second quarter when defense spending skyrocketed. But defense spending fell slightly in the third quarter, making the government sector's contribution quite small.

Aside from the good news on spending, the third-quarter real GDP report had positive implications for business profits. With soaring output growth and only modest increases in hours worked, economic profits exceeded \$1 trillion on an annualized basis. The high

FIGURE ECON-2



point for economic profits during the 1990s expansion was \$860 billion in the third quarter of 1997.

Monthly statistics on the economy's performance in October and November also were heartening. Some of the best news came from the labor markets, where unemployment went below 6 percent again in November, and nonfarm payroll employment grew for the fourth consecutive month. The string of job gains nearly guarantees that nonfarm employment posted a gain in the fourth quarter. If so, it was only the third gain in three years. However, manufacturing jobs dropped for the 40th consecutive month in November.

In addition, the University of Michigan consumer sentiment index rose to 93.7 in November, higher than it averaged in 2001, 2002, and the first ten months of this year. And, the Institute for Supply Management's (ISM) non-manufacturing index remained above 60 in November, suggesting that the services sector continued to grow very strongly well into the fourth quarter. (A reading above 50 indicates expansion.) Not to be outdone, the ISM's manufacturing index jumped to 62.8 in November, its highest level in nearly 20 years. Moreover, the manufacturing employment sub-index topped 50 for the first time in three years. Low inventory levels and strong sales have finally prompted a surge in manufacturing activity. Elsewhere, residential housing starts reached their highest level since 1986 in October, but light vehicle sales slumped again in October before rebounding in November.

Despite these encouraging signs, it is unlikely that economic output grew as quickly in the fourth quarter as it did in the third. Households received tax cuts worth \$120 billion at an annual rate in the third quarter and ap-

parently spent much of it. The tax cuts will remain in force through at least the end of 2004, but there are no additional planned cuts to provide a further boost in growth. Also, with higher interest rates slowing home refinancing, cash-out refinancing did not provide the kick to spending that it did in the third quarter. Moreover, generous incentives on new vehicles padded third quarter consumer spending at the expense of fourth quarter growth. And, new labor contracts with the United Auto Workers union make it easier to close plants, eliminating the need to offer generous buyer incentives. Instead of adding about \$30 billion to real GDP, as seen in the third quarter, the throttling back on incentives probably reduced spending on light vehicles by over \$40 billion in the fourth quarter. Excluding light vehicles purchases, consumer spending likely grew by about 3.6 percent at an annual rate in the fourth quarter as compared to 4.8 percent in the third quarter.

Despite the slowdown in consumer spending, economic output likely grew by about 3.6 percent in the fourth quarter, as firms continued to boost their investment in new equipment and software. Also, inventories grew in September and were expected to grow throughout the fourth quarter. Businesses drew down inventories in the second and third quarters and likely had to rebuild them with the economy growing more strongly.

International trade was the most uncertain sector for the fourth quarter. Net exports added to economic growth in the third quarter, but the last time they added to economic growth in consecutive quarters was in 1995. The U.S. dollar has declined by nearly 12 percent in trade-weighted value since early 2002, making domestically produced goods more competitive. Over the long run, a weaker dollar should lead to stronger net exports. Recent data on foreign capital flows



into the U.S. treasury and stock markets indicate a marked slowdown of foreign interest in U.S. financial assets. Most likely, net exports deteriorated slightly in the fourth quarter.

Growth should accelerate to 4.2 percent in 2004. After cooling in the fourth quarter, consumer spending will pick up in 2004, fueled by bigger employment gains and larger than normal tax refunds. The tax package in May 2003 lowered rates for the entire year but only adjusted tax withholding on wages starting in July. As a result, workers likely had too much withheld from their paychecks in 2003. The overpayment will increase tax refunds in the first two quarters of 2004. Large tax refunds and moderate employment gains, especially in the second half of the year, will result in a 3.5 percent to 4 percent gain in real consumer spending for 2004.

The stronger economic climate and the temporary tax incentives for investment in equipment and some software introduced in the May 2003 tax package will boost investment spending further in 2004. With the tax incentives scheduled to expire at the end of 2004, businesses will speed up purchases of equipment and software to take advantage of the incentives. Investment in producer's durable equipment is expected to grow by over 11 percent in 2004 compared to just over 5 percent in 2003.

Investment in nonresidential structures will pick up, but high vacancy rates for commercial and industrial structures will keep growth slow. Higher mortgage rates should finally slow down residential construction. Still, home building has been surprisingly resilient for many years.

Nonfarm payroll employment will grow by about 150,000 jobs per month in the first two quarters of 2004 before accelerating to about 250,000 per month for the remainder of the year. This is somewhat slow by histori-

cal standards, but rapid productivity growth and a more competitive international environment, especially in manufacturing, will restrain hiring.

Economic profits will be strong again in 2004, increasing by about 15 percent. Rising profits and relatively low interest rates will provide a good environment for additional stock market gains.

Tight energy supplies pose a risk to the outlook. Worldwide oil production is currently close to capacity, and the gap between supply and demand in the North American natural gas market is very thin. A disturbance to oil output or unusually cold weather in North America this winter could cause energy prices to soar just as world growth is set to accelerate in 2004. Although it would take a very large spike to completely derail the U.S. recovery, a persistent rise in energy prices would dampen growth.

California— Improving Vital Signs

The California economy also is looking better. State personal income is increasing. Housing markets continue to be healthy with surprisingly strong price appreciation. New business incorporations are up from a year ago. Taxable sales were higher than a year earlier in the last two quarters of 2002 and the first three quarters of 2003. The state's high-tech firms are making money again, tourism has improved, and made-in-California exports have finally turned up.

State personal income grew in the second quarter of 2003 (the most recent data) for the sixth consecutive quarter, and the cumulative growth of personal income over the six-quarter period was greater in the state than in the nation. The U.S. Commerce

Department will not release its first estimate of California third quarter personal income until late January. That number will shed light on whether the state economy surged as much as the national economy in the third quarter. Until then, it is encouraging to note that third-quarter 2003 California personal income tax withholding was up about 8 percent from the year-ago level.

Statewide taxable sales also are improving. Third-quarter 2003 sales were higher than year-earlier sales, making it the fifth consecutive quarter of year-over-year gains. While the gains were modest, they were a considerable improvement over the declines of the preceding four quarters. And the third quarter gain was the biggest of the five consecutive gains, in line with the spurt in the national economy in the third quarter.

Recent payroll employment reports have brought little good news, however. Non-farm payroll employment was essentially flat during 2002 and the first ten months of 2003. The grocers' strike in Southern California pulled down payroll employment in November and most likely held it down in December. Still, the percentage decline in jobs from the end of the national recession in November 2001 to November 2003 was a bit less in the state, 0.3 percent, than in the nation, 0.6 percent.

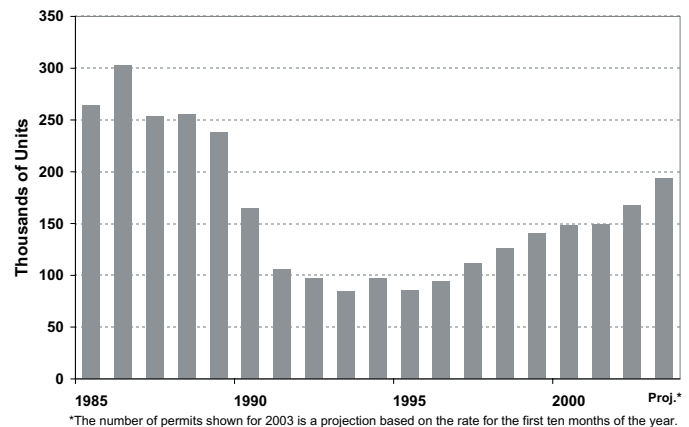
The hemorrhaging of jobs in the San Jose and San Francisco metropolitan areas has slowed considerably. Nonfarm payroll employment in November 2003 was down 3.4 percent from a year earlier in the San Jose metropolitan area and 1.4 percent in the San Francisco metropolitan area. A year ago, employment was down 6.4 percent and 3.4 percent, respectively, in the two metropolitan areas. By the same measure, however, job growth slowed over the last year in all the other major metropoli-

tan areas except for Bakersfield. Job growth has become much less varied across major metropolitan areas in the state.

Construction was up in the first ten months of 2003. Through October, home permits were on a pace to hit 194,000 units for the year, roughly a 16 percent gain over 2002 and the highest level since 1989 (Figure ECON-3). Five counties

FIGURE ECON-3

California Residential Housing Permits



accounted for nearly half of the units permitted: Riverside, Los Angeles, San Diego, Sacramento, and San Bernardino. Private sector nonresidential building, on the other hand, was down in value, with a decline in new office building construction most responsible. If private-sector nonresidential building was down for the year as a whole, it was the third consecutive yearly decline. Public works construction was up slightly with a sizable gain in public building construction—such as schools and community colleges—more than offsetting a considerable decline in roads, bridges, and other heavy construction.

California housing markets were strong again in 2003. In the first ten months of 2003, sales of existing, detached single-family



homes were up 3.5 percent from a year earlier, according to the California Association of Realtors. The year-over-year percentage increase in the median price of these homes was in the mid-teens most months. The median price breached \$400,000 for the first time in August before dipping below that figure in September and October.

Commercial real estate markets were a bit better. Office vacancy fell in the Oakland and San Jose metropolitan areas and Orange, San Diego, and Ventura Counties in the third quarter of 2003. Office vacancy in the San Jose and San Francisco metropolitan areas continued to be considerably above the national average for U.S. markets surveyed by CB Richard Ellis. Ventura and San Diego Counties and the Sacramento metropolitan area, on the other hand, were among the five metropolitan areas with the lowest office vacancy rates. Sacramento's vacancy rate, however, has increased over two percentage points in the last year. Industrial vacancy was less of a problem despite vacancy being slightly above the national average in San Francisco and considerably above the national average in Sacramento in the third quarter. Vacancy rates in San Diego and Los Angeles were well below the national average.

Exports of California-made merchandise are growing again after falling by about 25 percent from the third quarter of 2000 to the third quarter of 2003. With high-tech products making up such a big share of California exports (more than 50 percent in 2000), the global high-tech recession took a bigger toll on California's exports than on almost all other states'. State exports of computer and electronics products fell by 46 percent. It looks like exports of California-made computer and electronics products may be growing again. Exports of transportation equipment, chemicals, agricultural products, and food

and kindred products grew considerably over the last four quarters. By major markets, state exports to Mexico, South Korea, the United Kingdom, and Taiwan fell substantially between the third quarter of 2002 and the third quarter of 2003, while those to Japan, Canada, Hong Kong, and Australia grew considerably.

California's tourism industry continues to improve while remaining below pre-September 11 levels. The "drive-to" market is doing best, convention business is improving, but business travel remains weak. Hotel and motel occupancy rates improved in all major markets, except San Jose, in the first nine months of 2003, but in most cases at the expense of lower average daily room rates.

The recovery of the California economy broadened and strengthened in the second half of 2003. The turnaround in state exports and taxable sales is an important step toward stronger growth. A year ago, state exports were falling at a brisk pace, and taxable sales were in the middle of four consecutive quarterly year-over-year declines. In addition, job losses slowed considerably in the San Jose metropolitan area and may have ended in the San Francisco and San Jose metropolitan areas as 2003 wound down. Profits are again being made in the Silicon Valley. Residential construction and real estate remain strong.

The outlook for the California economy in 2004 depends heavily on the fate of the national economy. The national economy grew at breakneck pace in the third quarter of 2003. Most likely the California economy did as well, but enough quarterly economic statistics on the state economy to confirm that assertion will not be available until at least the end of January 2004. By one important measure, job growth, the state economy under-performed the national economy in the second half of 2003. While strikes

in Southern California were at least partly responsible, it will be important to see some job growth in the early months of 2004. Job growth is necessary for a sustainable stronger recovery.

Low interest rates and a considerable amount of federal fiscal stimulus will boost the state and national economies in 2004. Cuts in expenditures to reduce state and local government budget deficits will be a drag on the state and national economies, however. On balance, the outlook for the

California economy is for moderate growth in 2004 and even better growth in 2005 (Figure ECON-4). Unemployment will likely remain above 6 percent throughout the period. Personal income will grow by about 5.6 percent in 2004 and almost 6 percent in 2005—good, but not as quickly as in past recoveries. Consumers are the linchpins of this outlook. They have to continue to be optimistic that stronger labor markets lie just ahead.

FIGURE ECON-4

Selected Economic Data for 2003, 2004, and 2005

	Forecast		
United States	2003	2004	2005
Real gross domestic product (1996 dollar, percent change)	2.9	4.2	3.6
Personal consumption expenditures	3.1	3.5	3.4
Gross private domestic investment	3.5	9.1	4.7
Government purchases of goods and services	3.3	2.4	1.3
GDP deflator (1996=100, percent change)	1.6	1.6	1.8
GDP (current dollar, percent change)	4.6	5.9	5.5
Federal funds rate (percent)	1.12	1.44	2.63
Personal income (percent change)	3.2	5.1	5.8
Corporate profits before taxes (percent change)	15.6	11.2	37.3
Nonfarm wage and salary employment (millions)	130.1	131.7	134.5
(percent change)	-0.2	1.3	2.1
Unemployment rate (percent)	6.0	6.0	5.8
Housing starts (millions)	1.79	1.72	1.63
(percent change)	4.7	-4.2	-5.3
New car sales (millions)	7.6	7.7	7.7
(percent change)	-5.5	0.4	0.7
Consumer price index (1982-84=100)	184.1	187.7	192.0
(percent change)	2.3	2.0	2.3
California			
Civilian labor force (thousands)	17,618	17,818	18,139
(percent change)	1.2	1.1	1.8
Civilian employment (thousands)	16,440	16,629	16,954
(percent change)	1.2	1.2	2.0
Unemployment (thousands)	1,179	1,189	1,185
(percent change)	1.6	0.8	-0.3
Unemployment rate (percent)	6.7	6.7	6.5
Nonfarm wage and salary employment (thousands)	14,443	14,602	14,906
(percent change)	-0.2	1.1	2.1
Personal income (billions)	\$1,199.0	\$1,266.4	\$1,340.6
(percent change)	3.8	5.6	5.9
Housing units authorized (thousands)	194	192	198
(percent change)	15.8	-1.5	3.2
Corporate profits before taxes (billions)	\$98.2	\$110.0	\$118.5
(percent change)	4.9	12.0	7.8
New auto registrations (thousands)	1,710	1,703	1,746
(percent change)	-0.7	-0.4	2.5
Total taxable sales (billions)	\$451.1	\$477.2	\$503.0
(percent change)	2.3	5.8	5.6
Consumer price index (1982-84=100)	190.6	194.2	199.4
(percent change)	2.4	1.9	2.7

Note: Percentage changes calculated from unrounded data.

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REVENUE ESTIMATES

The long-anticipated recovery of California revenues arrived in 2003 and the outlook for 2004 and 2005 is for continued, though moderate, growth. Therefore, the revenue outlook has improved from what was expected at the time the 2003-04 May Revision was prepared. Since enactment of the 2003 Budget Act, the General Fund revenue forecast for major taxes and licenses has increased by \$1.7 billion for the past and current years combined. In addition, an increase of 4 percent in revenues, or \$2.9 billion, to \$76.4 billion is expected for 2004-05. The revenue increase includes significant gains in the three major taxes: personal income tax, sales tax, and corporation tax.

Improvement in the California economy began late in 2002, with taxable sales showing year-over-year growth beginning in the third quarter of 2002, after four consecutive quarters of negative growth. During 2003, personal income tax withholding also began to show year-over-year growth, after declining nearly every month since mid-2001. Finally, personal income tax estimated payments are expected to recover in the fourth quarter of 2003, after 11 consecutive quarters of negative growth. These indicators are shown in Figures REV-1, REV-2, and REV-3.

FIGURE REV-1

Taxable Sales Quarterly Year-Over-Year Percent Change

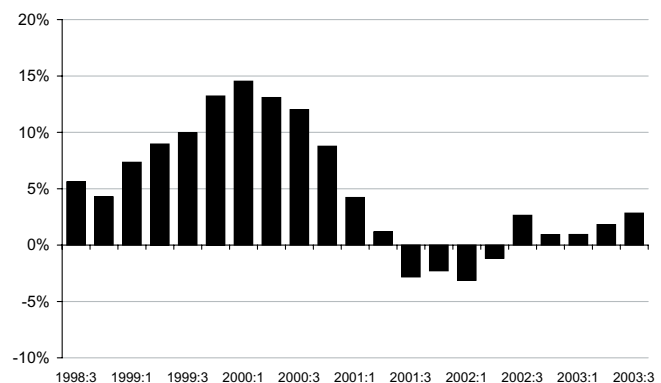


FIGURE REV-2

Personal Income Tax Withholding Monthly Year-Over-Year Change

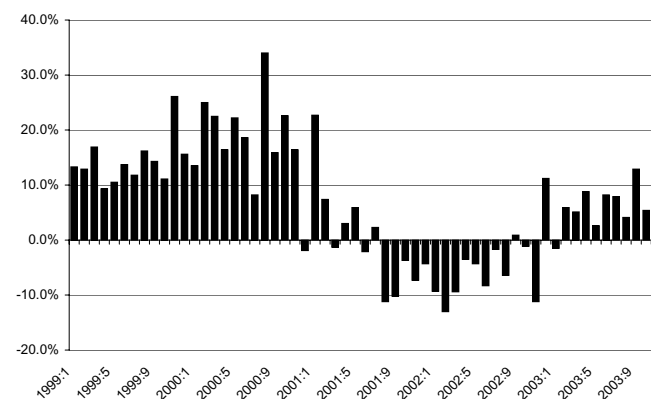
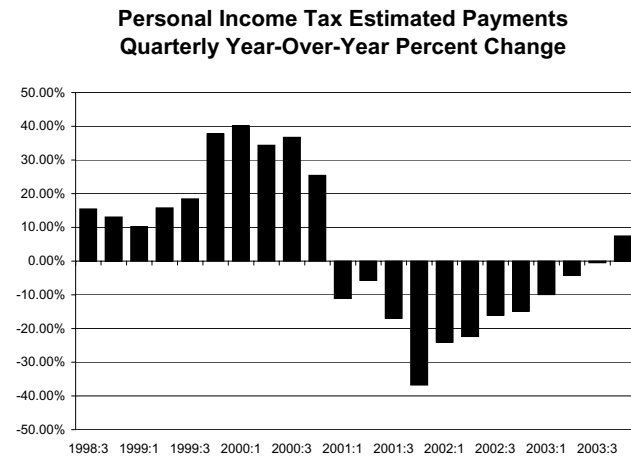




FIGURE REV-3

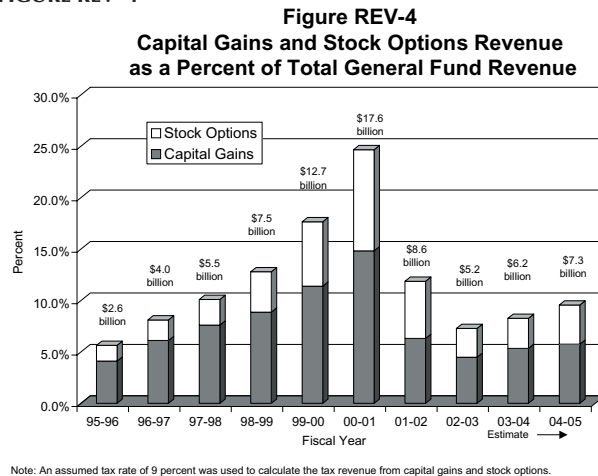


As has been noted for some time, the State's remarkable revenue growth in the late 1990s was driven by stock market-related gains, while the fall-off from 2000 through 2002 largely reflected the market's decline. With regard to market-related income, growth is expected to resume in 2004 and should continue, albeit at more sustainable levels. Figure REV-4 shows the portion of General Fund revenues from capital gains and stock options.

Despite the positive developments in the economic and revenue outlook, revenue growth alone will not solve the State's budget problems. Because of the accumulated deficit and the structural deficit, the Governor's Budget includes major program reductions and restructuring, as described in other sections.

Figure REV-5 provides a summary of the revenue forecast for 2003-04 and 2004-05, as well as a preliminary report of actual receipts for 2002-03.

FIGURE REV-4



Revenue Provisions

Last year, several revenue-generating provisions were enacted, including restricting abusive tax shelters, preventing banks from utilizing Regulated Investment Companies (RIC) to avoid California tax by improperly sheltering income, and increasing use tax collection. Figure REV-6 provides additional detail on these measures.

For 2004-05, the Governor's Budget and revenue forecast reflect the following:

- Personal Income Tax Integrated Nonfiler Compliance (INC) Program—**
 The Governor's Budget proposes to identify additional taxpayers who do not file tax returns, but owe personal income tax. The proposal is estimated to increase revenues by \$12 million in 2004-05, and \$43 million in 2005-06.

FIGURE REV-5

General Fund Revenue (Dollars in Millions)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
Personal income tax	\$32,710	\$35,117	\$38,043
Sales and use tax	22,415	23,714	25,022
Corporation tax	6,804	7,466	7,609
All other	9,393	8,330	5,733
Total revenues and transfers	\$71,322	\$74,627	\$76,407
Annual percent change	-1.3%	4.6%	2.4%

The 2002-03 total figure does not include \$9,242 billion in Economic Recovery Bond revenues.
 The 2003-04 total figure does not include \$3,012 billion in Economic Recovery Bond revenues.

FIGURE REV-6

**2003-04 Revenue Measures
Summary of Fiscal Impact
(Dollars in Millions)**

Chapter/Bill Number	Description	Fiscal Impact		
		2003-04	2004-05	2005-06
Chapter 656/SB 614	Restrict abusive tax shelters	\$90.0	\$90.0	\$50.0
Chapter 224/AB 1751	A portion of the sales tax revenue on gasoline remains in the General Fund	87.5	0.0	0.0
Chapter 718/SB 1009	Increase use tax collection on income tax returns	10.2	8.2	8.2
Chapter 655/SB 103	Regulated Investment Companies (RIC): prevent improper tax sheltering	10.0	0.0	0.0
Chapter 712/SB 808	Sales tax exemption on bunker fuel	-8.8	-17.5	-17.5
Various	Other (includes collection activities, Treasury Offset Program, etc.)	<u>10.7</u>	<u>2.8</u>	<u>2.8</u>
	Total	\$188.9	\$83.5	\$43.5

- **Sales tax on gasoline**—The sales tax on gasoline and diesel sales is allocated for transportation purposes. A portion of the sales tax on gasoline (and diesel sales) is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other sales, the PTA receives the “spillover” sales tax revenues. The Governor’s Budget proposes to maintain the base level of transfers to the PTA, but specifies that any excess sales tax revenue on gasoline remains in the General Fund, thereby increasing General Fund revenues by \$17.5 million in 2003-04, above the \$87.5 million expected at the 2003 Budget Act. This is a mid-year spending reduction proposal.
- **Natural Heritage Preservation Tax Credit**—The Governor’s Budget proposes to suspend the award of credits for two years, 2003-04 and 2004-05, for a General Fund revenue savings of \$8.7 million in 2003-04 and \$10.3 million in 2004-05. This is a mid-year spending reduction proposal.
- **Indian Gaming Revenues**—It is the intent of the Administration to renegotiate tribal gaming compacts with California’s 64 tribes that have gaming compacts, and to negotiate new compacts with any additional tribes that wish to commence class III gaming. Part of any such

renegotiation will include demands by the State that tribes currently gaming, or those wishing to game, pay a significant share of revenues to the State. Current estimates of annual income to California tribes as a result of gaming operations range between \$3 billion and \$5 billion. The Administration has announced a target State share of such revenues to be 25 percent on an annual basis. While it is uncertain that the Administration will actually receive the State’s target revenue percentage as a result of negotiations during calendar year 2004, there clearly will be improved revenue streams to the State from tribal gaming operations during 2004-05. Given that the full State share of 25 percent of tribal revenues may take some time to achieve, the Governor’s Budget projects \$500 million in additional revenue to the State from tribal gaming operations in 2004-05.

Revenues in Total

Overall, General Fund revenues and transfers represent 79 percent of total revenues. The remaining 21 percent are special funds dedicated to specific programs. The three largest revenue sources (personal income, sales, and corporation taxes) account for about 73 percent of total revenues.



Personal Income Tax— \$38.043 Billion

The personal income tax, the State's largest revenue source, is expected to contribute 50 percent of all General Fund revenues and transfers in 2004-05. Personal income tax revenues are forecast to increase by 7.4 percent for 2003-04 and 8.3 percent for 2004-05.

The California personal income tax is closely modeled after the federal income tax law. California's tax is imposed on net taxable income—that is, gross income less exclusions and deductions. The tax is progressive, with rates ranging from 1 percent to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

In addition, taxpayers may be subject to an alternative minimum tax (AMT), which is much like the federal AMT. This feature is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below a minimum level. The AMT is equal to 7 percent of the alternative minimum taxable income that exceeds an exemption amount.

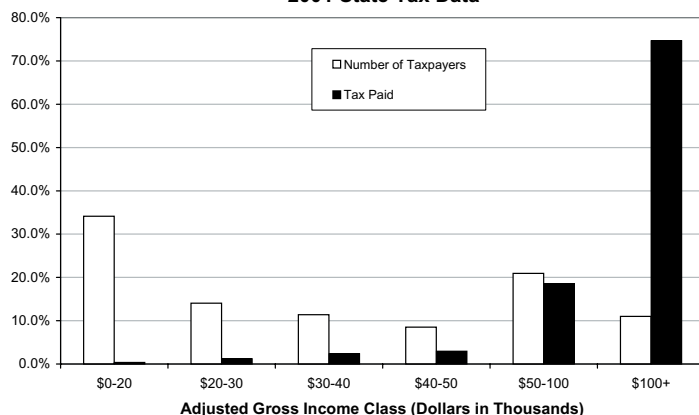
The personal income tax is adjusted annually by the change in the California Consumer Price Index to prevent taxpayers from being pushed into higher tax brackets by inflation only, without a real increase in income.

The challenge in forecasting personal income tax receipts is increased by the progressive nature of the tax, since one dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income return. In addition, very high-income taxpayers usually have considerable discretion over the timing of income and deductions. Thus, substantial changes in the portfolios or tax planning of relatively few high-income taxpayers can have a dramatic effect on State revenues. In 2001, for example, the top 11 percent of State taxpayers, those with adjusted gross incomes of over \$100,000, paid 75 percent of the personal income tax. This is demonstrated in Figure REV-7, which shows the percent of total returns and tax paid by adjusted gross income class. Data for 2002 will be available in the spring.

The stock market boom in the late 1990s—with Northern California's new high-technology Internet stocks leading the charge—swelled the State's personal income tax revenues. From 1995-96 through 2000-01, revenues grew at double-digit annual rates, primarily due to the exceptional growth in market-related income such as capital gains and stock options, which had become an increasingly common component of wage packages. In 2000-01, 25 percent of General Fund revenues were attributed to these two revenue sources, up from 6 percent in 1995-96. Capital gains income in 2000 was almost six times the level in 1995, stock option income had grown to ten times its 1995 level, and personal income tax revenues had more than doubled. In addition to the nearly vertical rise in capital gains and stock

FIGURE REV-7

Percent of Taxpayers and Percent of Tax Paid by Adjusted Gross Income Class 2001 State Tax Data



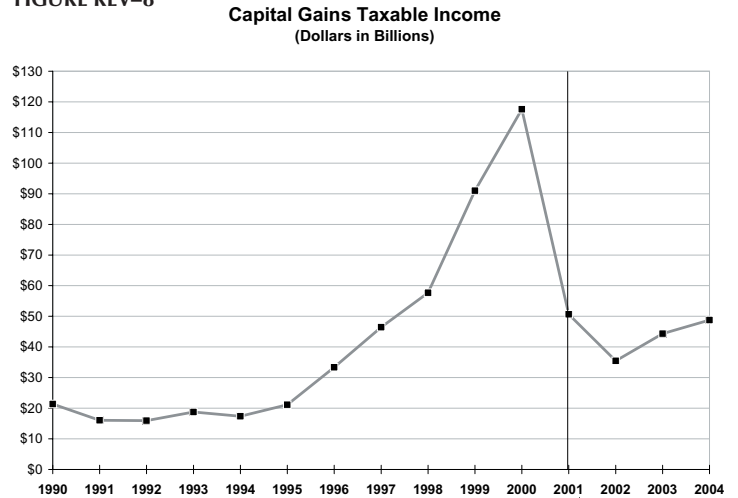
option income, revenue volatility was intensified by the fact that these market-related income sources were concentrated among high-income taxpayers: those at the highest marginal tax rate, where as previously noted, one dollar of income can generate nine times the revenue from a dollar on a low-income return.

Although it was clear that such phenomenal stock gains could not continue indefinitely and that revenues were increasingly vulnerable to a market turnaround, it was not clear when that turnaround would occur or how steep it would be. It occurred in 2001 and the drop was precipitous. Combined capital gains and stock option income fell by more than 50 percent and 2001-02 personal income tax revenues tumbled by \$11.6 billion—a 26 percent decline from the prior fiscal year.

Personal income tax revenue fell another 1 percent in 2002-03, the fiscal year when returns for the 2002 tax year were filed. Based on preliminary 2002 tax year data provided by the Franchise Tax Board, it is estimated that capital gains dropped another 30 percent in 2002, after declining by 57 percent in 2001.

This forecast assumes that the revenue bubble that burst in 2001-02 and 2002-03 is now completely deflated and moderate growth will resume in 2003-04. Based on improved performance in the stock market during 2003 and a more positive outlook for 2004, capital gains income is projected to increase 25 percent in 2003 and 10 percent in 2004. Over the same time period, combined capital gains and stock option income is forecast to increase 19 percent and 18 percent, respectively. The level of capital gains from 1990 through 2004 is shown in Figure REV-8. Aside from the assumptions regarding stock market performance, another key factor underlying this forecast is the expecta-

FIGURE REV-8



tion that the general economy has begun to grow more quickly and will continue to do so in 2004 and 2005.

Personal income tax revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

Personal Income Tax Revenue (Dollars in millions)

2002-03 (Preliminary)	\$32,710
2003-04 (Forecast)	\$35,117
2004-05 (Forecast)	\$38,043

Sales Tax—\$25.022 billion

Receipts from sales and use taxes—the State's second largest revenue source—are expected to contribute 33 percent of all General Fund revenues in 2004-05. Sales and use taxes are imposed on the retail sale or use of tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions are provided for certain necessities such as food for home consumption, prescription drugs, and electricity, making the tax more progressive than it would be otherwise. Additional



FIGURE REV-9

State and Local Sales and Use Tax Rates

State Rates

General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75%, and during 2002, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 State-local realignment.

Local Uniform Rates¹

Bradley-Burns	1.00% ²	Imposed by city and county ordinance for general purpose use. ³
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.

Local Add-on Rates⁴

Transactions and Use Taxes	up to 2.00%	May be levied in 0.25% increments up to a combined maximum of 2.0% in any county. ⁵ Any ordinance authorizing a transactions and use tax requires approval by the county Board of Supervisors or special purpose authority created by the county Board of Supervisors plus two-thirds of the voters.

¹ These locally-imposed taxes are collected by the State for each city and county and are not included in the State's revenue totals.

² The 1 percent rate may temporarily decrease by 0.25 percent on July 1, 2004, if voters approve the economic recovery bond proposal on the March 2004 ballot. Cities and counties would receive additional property tax revenues equal to the 0.25 percent sales tax reduction. A new 0.25 percent special fund sales tax would be implemented to repay the economic recovery bonds.

³ The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

⁴ These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the State for each jurisdiction and are not included in the State's revenue totals.

⁵ The two exceptions to the 2 percent maximum are Los Angeles County, which may exceed the limit by 0.5 percent and San Diego County, which is subject to a 1 percent maximum. Fresno, Nevada, Solano, and Stanislaus may levy transactions and use taxes in increments of 0.125 percent. To date, 39 counties and countywide special districts levy transactions and use taxes. Nine cities also impose transactions and use taxes on less than a countywide basis.

exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to goods used in space flight.

A summary of the sales and use tax rates currently imposed at the State and local levels is presented in Figure REV-9. Combined State and local tax rates currently imposed in each county are summarized in Figure REV-10.

Taxable sales declined by 0.1 percent in both 2001 and 2002. These declines followed year-over-year increases of 10 percent and

11.9 percent in 1999 and 2000, respectively. Preliminary data received for the first three quarters of 2003 indicate that growth in taxable sales has returned: sales for 2003 are expected to be up by 2.3 percent compared to 2002. Taxable sales are anticipated to grow at a faster rate in 2004 and 2005 due to the improving economy, increasing by 5.8 percent and 5.4 percent, respectively.

The sales and use tax revenue forecast is prepared by relating taxable sales by type of

FIGURE REV-10

**Combined State and Local Sales and Use Tax
Rates by County**
(Rates in Effect on January 1, 2003)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.25%	Madera	7.75%	San Joaquin	7.75%
Alpine	7.25%	Marin	7.25%	San Luis Obispo	7.25%
Amador	7.25%	Mariposa	7.75%	San Mateo	8.25%
Butte	7.25%	Mendocino	7.25%	Santa Barbara	7.75%
Calaveras	7.25%	Merced	7.25%	Santa Clara	8.25%
Colusa	7.25%	Modoc	7.25%	Santa Cruz	8.00%
Contra Costa	8.25%	Mono	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey	7.25%	Sierra	7.25%
El Dorado ^{1/}	7.25%	Napa	7.75%	Siskiyou	7.25%
Fresno ^{2/}	7.875%	Nevada ^{6/}	7.375%	Solano	7.375%
Glenn	7.25%	Orange	7.75%	Sonoma ^{7/}	7.50%
Humboldt	7.25%	Placer	7.25%	Stanislaus	7.375%
Imperial ^{3/}	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito	7.25%	Tulare	7.25%
Lake ^{4/}	7.25%	San Bernardino	7.75%	Tuolumne	7.25%
Lassen	7.25%	San Diego	7.75%	Ventura	7.25%
Los Angeles ^{5/}	8.25%	San Francisco	8.50%	Yolo ^{8/}	7.25%
				Yuba	7.25%

^{1/} 7.50% for sales in the City of Placerville (City of Placerville Public Safety Transactions and Use Tax).

^{2/} 8.175% for sales in the City of Clovis (City of Clovis Public Safety Transactions and Use Tax).

^{3/} 8.25% for sales in the City of Calexico (Calexico Heffernan Memorial Hospital District).

^{4/} 7.75% for sales in the City of Clearlake (City of Clearlake Public Safety Transactions and Use Tax).

^{5/} 8.75% for sales in the City of Avalon (Avalon Municipal Hospital and Clinic Transactions and Use Tax).

^{6/} 7.875% for sales in the Town of Truckee (Town of Truckee Road Maintenance Transactions and Use Tax).

^{7/} 7.625% for sales in the City of Sebastopol (City of Sebastopol Transactions and Use Tax).

^{8/} 7.75% for sales in both the City of Woodland (City of Woodland General Revenue Transactions and Use Tax) and the City of West Sacramento (City of West Sacramento Transactions and Use Tax).

goods purchased to economic factors such as income, employment, housing starts, new vehicle sales, and inflation. Details for 2002 sales by major component are presented in Figure REV-11. The forecast is then adjusted for significant legislation and other factors expected to affect sales tax revenues.

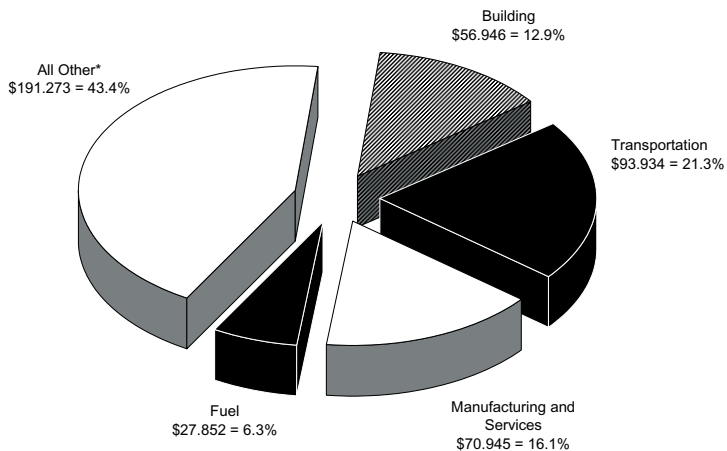
Effective January 1, 2002, the State sales tax rate returned to 5 percent after having fallen to 4.75 percent during the 2001 calendar year. This rate change was a result of a provi-

sion enacted in the early 1990s (Chapter 119, Statutes of 1991) that triggered a quarter-cent reduction in the tax rate if the State reserve exceeded 4 percent of General Fund revenues and transfers, during a two fiscal year period. This trigger formula was amended as part of the 2001 Budget Act (Chapter 156, Statutes of 2001) to require that the surplus exceed revenues by only 3 percent for a single year in order to activate the sales tax rate reduction. Consistent with what was assumed in the 2003 Budget Act, the reserve level was



FIGURE REV-11

2002 Taxable Sales by Major Components
(Dollars in Billions)



* Includes apparel, general merchandise, specialty goods, eating and drinking establishments, and agricultural goods.

not sufficient to trigger an additional year of reduction for 2004.

Current law specifies that certain State revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account (PTA). However, the Governor's Budget proposes to maintain the base level of transfers to the PTA, but specifies that any excess sales tax revenues on gasoline, which would otherwise be designated as PTA "spillover", be credited to the General Fund, for 2003-04 only. This is expected to increase General Fund revenues by \$17.5 million in 2003-04, above the \$87.5 million expected at the 2003 Budget Act.

The total transfer to the PTA is estimated to be \$210 million in 2003-04 and \$203 million in 2004-05. This money is excluded from General Fund totals.

Chapter 91, Statutes of 2000, created the Traffic Congestion Relief Fund. During 2000-01, \$500 million was transferred from the Retail Sales Tax Fund to this new fund from the sales tax on gasoline. Chapter 91 also required that for each quarter during the period commencing on July 1, 2001, and ending on June 30, 2006, the General Fund sales tax revenue from gasoline be transferred to the Transportation Investment Fund (TIF), with a portion of this transferred to the Traffic Congestion Relief Fund. Chapter 113, Statutes of 2001, delayed the implementation of this provision until July 1, 2003, but also added two years to the end of the Traffic Congestion Relief Program by extending the transfer of the sales tax on gasoline for two years.

Proposition 42, passed by voters in March 2002, amended the California Constitution to permanently dedicate the sales taxes on gasoline to transportation purposes beginning in 2003-04. The proposition included a provision that allows the Administration and the Legislature to suspend the sales tax transfer in a fiscal year if the transfer would result in a significant negative fiscal impact on the range of functions of government funded by the General Fund. Due to continued weakness in General Fund revenue, the Governor's Budget includes a suspension of the 2004-05 General Fund transfer to the TIF. This proposal will provide more than \$1.1 billion in General Fund relief.

FIGURE REV-12

Sales Tax Revenue
(Dollars in Thousands)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
General Fund	\$22,415,138	\$23,714,000	\$25,022,000
Sales and Use Tax—Realignment	2,279,419	2,359,300	2,493,500
Public Transportation Account	<u>204,468</u>	<u>210,445</u>	<u>202,848</u>
Total	\$24,899,025	\$26,283,745	\$27,718,348

Revenues from State-imposed sales tax rates are shown in Figure REV-12. The following table shows the General Fund sales tax revenue forecast for 2003-04 and 2004-05, compared with preliminary 2002-03 collections:

Sales and Use Tax Revenue (Dollars in millions)

2002-03 (Preliminary)	\$22,415
2003-04 (Forecast)	\$23,714
2004-05 (Forecast)	\$25,022

Corporation Tax—\$7.609 billion

Corporation tax revenues are expected to contribute 10 percent of all General Fund revenues in 2004-05. These revenues are derived from five taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that do not do business in the state but derive income from California sources. An example of this type of out-of-state company would be a corporation that maintains a stock of goods in California from which deliveries are made to fill orders taken by independent dealers or brokers.
- Corporations that have a limited number of shareholders and meet other requirements to qualify for State Subchapter S status are taxed at a 1.5 percent rate rather than the 8.84 percent imposed on other corporations. (Subchapter S status provides the limited liability of corporate status combined with the tax advantages of partnerships—i.e., the S-corporation's profits and losses flow through to its shareholders and are subject to tax at the appropriate personal income tax rate.)
- Banks and other financial corporations pay an additional 2 percent tax (i.e., "bank tax") on their net income. This tax is in lieu of local personal property taxes and business license taxes, but in addition to the franchise tax.
- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that high-income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- A minimum franchise tax of \$800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax.

In forecasting the corporation tax, the relationship of California taxable profits to national corporate profits is important. The forecast also involves analysis of the trend in California's non-farm employment level, California's unemployment rate relative to that of the nation's, as well as recent actual cash experience for this tax.

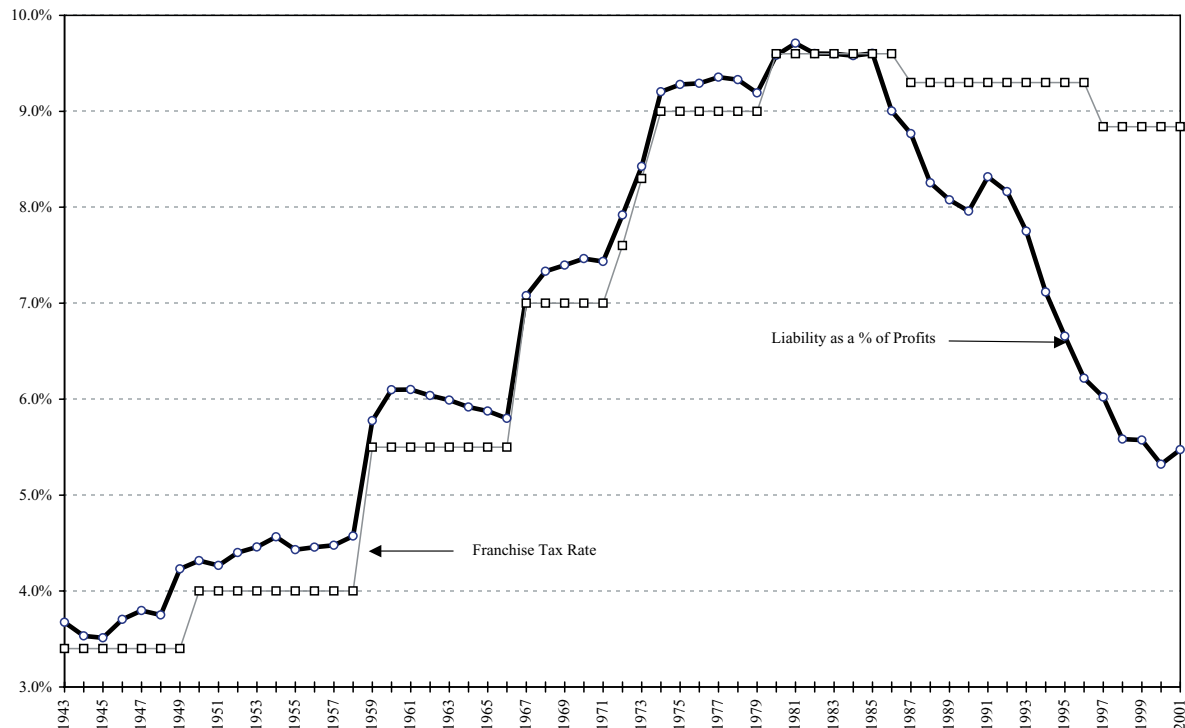
In recent years, S-corporation activity and use of credits (largely the research and development credit and the manufacturer's investment credit) were the primary factors contributing to a divergence between profit and liability growth. The election of S-corporation status results in a reduced corporate rate, with the income and tax liability on that income shifted to the personal income tax. S-corporations accounted for 31.2 percent of total taxable profits in 2001, whereas in 1991, their share was only 14.7 percent. This diverging trend between profits and liabilities can be seen in Figure REV-13.

Consistent with the economic outlook and reflecting a rather strong growth of corporation tax revenues in 2002-03, corporation tax revenues are expected to increase by 9.7 percent in 2003-04 and 1.9 percent in 2004-05. The estimate reflects the fiscal effects of legislation enacted in 2003, including the abusive tax shelters provisions



FIGURE REV-13

Corporations Reporting Taxable Profits Tax Liability as a Percent of Profits, by Tax Year



(Chapters 654 and 656, Statutes of 2003), and the provisions prohibiting banks to use specific mutual funds structures for tax avoidance purposes (Statutes 655, Statutes of 2003). The estimate also includes the sunset of the Manufacturers' Investment Credit (MIC) on January 1, 2004, as provided under existing law.

Corporation tax revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

Corporation Tax Revenue (Dollars in Millions)

2002-03 (Preliminary)	\$6,804
2003-04 (Forecast)	\$7,466
2004-05 (Forecast)	\$7,609

Insurance Tax—\$2.078 billion

The majority of insurance written in California is subject to a 2.35 percent gross premiums tax. This premium tax takes the place of all other State and local taxes except those on real property and motor vehicles. The basis of the tax is the amount of "gross premiums" received, less return premiums, upon business done in California.

There are some exceptions. Insurers transacting title insurance are taxed upon all

income received in this state, with the exceptions of interest, dividends, rents from real property, profits from the sale or disposition of investments, and income arising out of investments. Ocean marine insurers are taxed upon underwriting profits at a 5 percent rate. Other exceptions to the 2.35 percent rate include certain pension and profit-sharing plans, including qualified annuities, which are taxed at a lower rate of 0.5 percent, and certain specialized lines of insurance that are taxed at 3 percent.

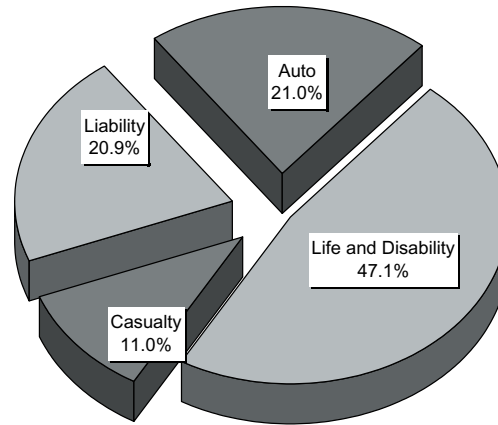
The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from almost 300 insurance companies, which represent approximately 65 percent of the insurance written in California.

Figure REV-14 illustrates the proportion of premiums written by insurance type from which the revenue is derived. For 2002, \$92.7 billion in taxable premiums written were reported, an increase of 14.3 percent over 2001. The most recent survey indicates that premiums written will increase by 7.5 percent in 2003 and by 9.1 percent in 2004. Due to factors such as tax deferrals, averaging, and various applied tax rates, revenues grow at different rates than premiums written. On a calendar year basis, revenues are expected to grow by 7.8 percent in 2003 and by 5.4 percent in 2004 based on survey responses.

This year's survey continues a fairly positive outlook for the property and casualty premium lines. The demand for most types of property-casualty insurance has held constant over the past few years since these lines are not particularly economically sensitive. However, life insurance premiums declined over 13 percent in 2001, but are up slightly since then. Double-digit growth in the workers compensation line from 2001

FIGURE REV-14

Insurance Premiums by Category



through 2003 is expected to slow to about 4 percent for 2004. Long-term, it is generally expected that demand for annuity products will increase with the aging population.

Revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

Insurance Tax Revenue (Dollars in Millions)

2002-03 (Preliminary)	\$1,880
2003-04 (Forecast)	\$1,985
2004-05 (Forecast)	\$2,078

Estate/Inheritance/Gift Taxes— \$135.4 million

Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as “the pick-up tax,” because it is designed to pick up the maximum credit allowed against the federal estate tax. The pick-up tax is computed on the basis of the federal “taxable estate,” with tax rates that range from 0.8 percent to 16 percent. This tax does not increase



the liability of the estate due to the fact that it would otherwise be paid to the federal government.

The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2005. Revenues will decline by more than \$1 billion from what they would have been in 2004-05, absent these changes in federal law. The provisions of the federal Act sunset after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted to make the provisions permanent.

Revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are as follows:

**Estate, Inheritance, and
Gift Tax Revenue**
(Dollars in Millions)

2002-03 (Preliminary)	\$647.4
2003-04 (Forecast)	\$396.8
2004-05 (Forecast)	\$135.4

FIGURE REV-15

Beer, Wine, and Distilled Spirits Revenue
(Dollars in Millions)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
Beer and Wine	\$150.3	\$148.0	\$148.0
Distilled Spirits	<u>140.2</u>	<u>144.0</u>	<u>146.0</u>
Total	\$290.5	\$292.0	\$294.0

**Alcoholic Beverage Taxes—
\$294 million**

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The rates vary with the type of alcoholic beverage.

The tax rate per gallon for beer, dry wine, and sweet wine is \$0.20. The tax rates per gallon for sparkling wine and distilled spirits are \$0.30 and \$3.30, respectively.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Overall, consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

Revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are shown in Figure REV-15.

Cigarette Tax—\$115 million

Proposition 10 increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds allocated to the Cigarette and Tobacco Products Surtax Fund. Thus, this proposition increased the total excise tax on other tobacco products by an amount equivalent to an increase in the cigarette tax of \$1 per pack.

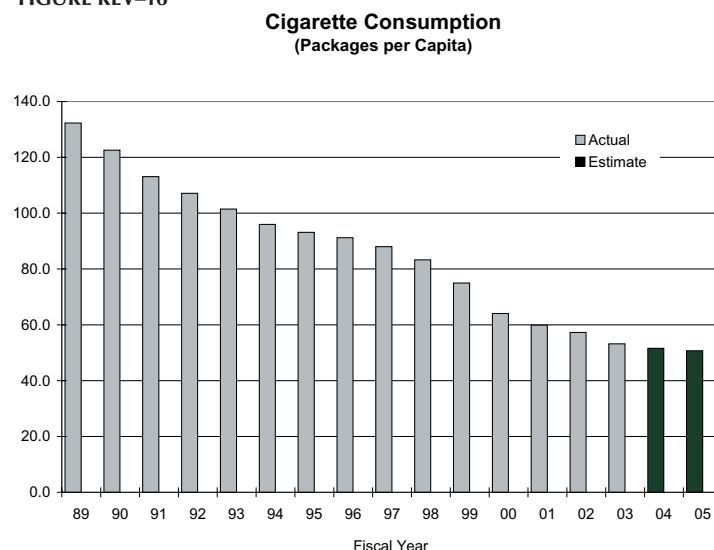
The State excise tax on cigarettes of 87 cents per pack is allocated as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution as specified in Proposition 10.
- Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rates levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Ten cents of the per-pack tax is allocated to the State's General Fund.
- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and State anti-smoking campaigns funded by Proposition 99 revenues and revenues from the Master Tobacco Settlement have all significantly reduced cigarette consumption.

Per capita consumption (based on population ages 18-64) declined on average 3.5 percent annually from 1982-83 through 1987-88, and then decreased even more rapidly with the onset of Proposition 99. During 1989-90,

FIGURE REV-16



per capita consumption was about 123 packs versus 83 packs in 1997-98—a 33 percent decrease over eight years. Price increases stemming from tobacco litigation—in conjunction with the State's excise tax hike in 1999—further reduced per capita consumption by approximately 36 percent over the last five years to 53 packs in 2002-03. The long-term downward trend in taxable consumption should continue to reduce cigarette sales in the range of 3.5 percent annually.

Wholesale price data provide the basis for the revenue estimate for other tobacco products, which include items such as cigars, chewing tobacco, and snuff. For 2002-03 other tobacco products contributed 4.2 percent to total tobacco revenues. Historically these taxes

FIGURE REV-17

Tobacco Tax Revenue (Dollars in Millions)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
General Fund	\$114.9	\$115.0	\$115.0
Cigarette and Tobacco Products Surtax Fund	322.3	310.0	308.0
Breast Cancer Fund	22.9	23.0	23.0
California Children and Families First Trust Fund	<u>595.4</u>	<u>585.0</u>	<u>583.0</u>
Total	\$1,055.5	\$1,033.0	\$1,029.0



have generally contributed less than 5 percent to the total of all the tobacco revenues collected on an annual basis. Based on recent consumption patterns, the long-term use of other tobacco products is expected to decrease at a rate similar to cigarettes.

Per capita consumption of cigarette packs from 1988-89 through 2004-05 is illustrated in Figure REV-16. Total tobacco tax revenues forecasted for 2003-04 and 2004-05, as compared with preliminary 2002-03 collections, are shown in Figure REV-17.

Special Fund Revenue

The California Constitution, codes, and statutes specify the uses of certain revenues, with receipts accounted for in various special funds. In general, special fund revenues consist of three categories of income:

- Receipts from tax levies that are allocated to specified functions, such as motor vehicle taxes and fees.
- Charges for special services provided for specific functions, including such items as business and professional license fees.
- Rental royalties and other receipts designated for particular purposes—for example, oil and gas royalties.

Taxes and fees related to motor vehicles comprise about 37 percent of all special fund revenue. Principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2004-05, \$7.9 billion in revenues will be derived from the ownership or operation of motor vehicles, a 5.3 percent increase from the 2003-04 level. About 39 percent of all taxes and fees collected on motor vehicles will be returned to local governments. The remaining portion is available for various

State programs related to transportation and services to vehicle owners.

Chapter 85, Statutes of 1991, created the Local Revenue Fund for the purpose of State-local program realignment. Revenue attributable to a 0.5 percent sales tax rate is transferred to this special fund. During 2004-05, local governments are expected to receive \$2.5 billion from this revenue source, up 5.7 percent from 2003-04. In addition to this revenue, approximately 24 percent of all vehicle license fees (including amounts back-filled by the General Fund) are transferred to the Local Revenue Fund. In 2003-04, this percentage was adjusted upward to hold the Local Revenue Fund harmless from the effects of the reduced level of fees due to the suspension of the offsets, which is described in the section below.

The Proposition 10 tobacco-related taxes are collected to primarily support early childhood development programs as specified. These proceeds are deposited to the California Children and Families First Trust Fund and are estimated at \$585 million in 2003-04, and \$583 million in 2004-05. Funds from the Proposition 99 tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at \$310 million in 2003-04 and \$308 million in 2004-05. An additional \$23 million for breast cancer research will be generated in both 2003-04 and 2004-05 by the 2 cents-per-pack cigarette tax enacted in 1993. The original 10 cents-per-pack tax on cigarettes is allocated to the General Fund.

Motor Vehicle Fees, \$4.58 billion—Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and various other charges related to vehicle operation.

The vehicle license fee (VLF) is imposed for the privilege of operating a vehicle on public highways in California. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. All of the revenues from this tax, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.

The VLF is calculated on the vehicle's "market value," which is the cost to the purchaser exclusive of sales tax, adjusted by a depreciation schedule. For motor vehicles, the schedule is based on an 11-year depreciation period; an 18-year depreciation period is used for trailer coaches. A 2 percent rate is applied to the depreciated value to determine the fee. Thus, revenue from this source is contingent on the number of vehicles in California, the ages of those vehicles, and their most recent sales prices.

As part of the State-local program realignment, Chapter 87, Statutes of 1991, revised the vehicle license fee depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. All of the revenue from this base change is transferred to local governments.

Chapter 322, Statutes of 1998, established a program to offset a portion of the vehicle license fees paid by vehicle owners. This program is referred to as an "offset" rather than a tax credit, because the total amount of VLF legally due from the taxpayer was not changed. Instead, the State paid or "offset" a portion of the amount due, and taxpayers paid the remaining balance. Beginning January 1, 1999, a permanent offset of 25 percent of the amount of the VLF owed became operative. Chapter 74, Statutes

of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent offset through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning on July 1, 2001, the VLF was permanently reduced by 67.5 percent.

This offset is expected to provide tax relief of \$3.952 billion in 2003-04 and \$4.062 billion in 2004-05. The General Fund has generally backfilled the offset so that the tax relief did not result in a revenue loss to local governments. As the amount paid by taxpayers has decreased due to increased tax relief, the amount backfilled by the General Fund has increased. However, in June 2003, the Director of Finance under the prior Administration sent a letter to the Department of Motor Vehicles and the Department of Housing and Community Development stating that there would be insufficient moneys available to be transferred from the General Fund to fund the offsets and General Fund offset payments to local governments were subsequently suspended. Chapter 231, Statutes of 2003, anticipated that an October 2003 fee increase would replace the funding lost from the suspension of the offsets, except for \$825 million lost in the first part of the fiscal year due to the lag, or gap, in implementing the higher fees, and authorized repayment of the gap loss in August 2006. That loss is now estimated by the Department of Motor Vehicles to be about \$1.3 billion.

On November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03 which provided that the prior Administration's suspension of the vehicle license fee offsets was in error in that it was not based on a reasonable interpretation of



the statutes. The Executive Order therefore rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

News articles indicate vehicle sales slowed after the offset was suspended, particularly for high-end vehicles. Once the offset was reinstated, sales reportedly picked up. The Governor's Budget forecast assumes that the suspension and reinstatement of the offset will only affect the timing of when auto sales occurred, but will not affect the annual level of sales.

In order to hold local governments harmless from the restoration of the offsets, Executive Order E-03/04-56 was issued on December 19, 2003. This Executive Order transferred approximately \$150 million from other budget items, and instructed the State Controller to issue additional payments, which are estimated at about \$2.5 billion, for total backfill funding to local governments in 2003-04 of approximately \$2.7 billion.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations

(mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF, which in this instance is administered by the Department of Housing and Community Development rather than the Department of Motor Vehicles. All other mobile homes are subject to the local property tax. Chapter 699, Statutes of 1992, provided that all trailer coach license fees that are administered by the Department of Motor Vehicles be deposited in the General Fund. Beginning in 1994-95, all other trailer coach license fees are also deposited in the General Fund.

Chapter 861, Statutes of 2000, replaced the current weight fee schedule for commercial trucks, which was based on unladen weight, with a gross vehicle weight schedule. This change was necessary to conform to the federal International Registration Plan by January 1, 2002. While Chapter 861 was intended to be revenue-neutral, the new fee schedule resulted in a substantial reduction in weight fee revenues. In order to address the revenue shortfall, Chapter 719, Statutes of 2003 was enacted to adjust the fee schedule to achieve revenue neutrality and improve enforcement.

Chapter 861 also provided that the vehicle license fee will no longer be charged on commercial trailers, and the loss in revenue to local governments from that exclusion will be backfilled by the General Fund. In order to address the current General Fund revenue shortfall, the Administration proposes that legislation be introduced to eliminate this backfill in 2004-05.

Allowing for scrappage and for vehicles entering and leaving California, the total number of fee-paid registrations, (autos, trucks, trailers, and motorcycles) including multi-state vehicles, is estimated at 29,055,000 for 2003-04 and 29,929,000 for 2004-05, a 3 percent increase. As can be seen in

FIGURE REV-18

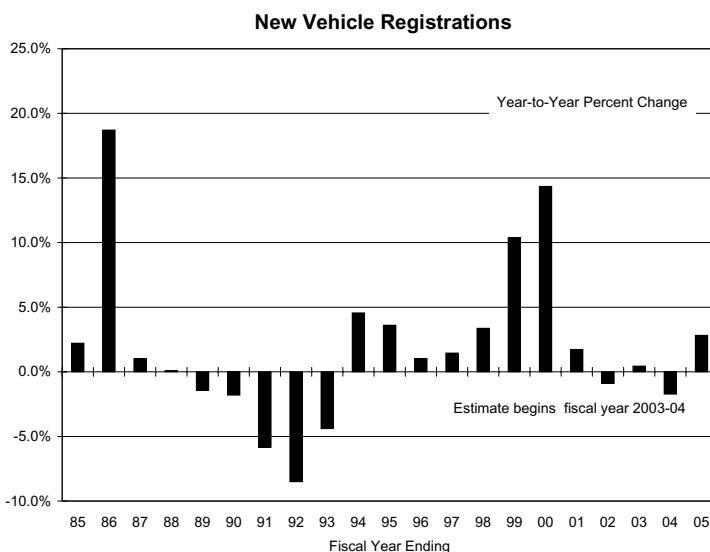


Figure REV-18, the 14.4 percent growth in new vehicle registrations in 1999-00 was at a 14-year high. This dramatic growth was due to extremely strong vehicle sales at that time. Vehicle sales have declined from these record highs and have remained stable at between 2.3 million and 2.4 million since 1999-00. The forecast assumes 2.37 million new registrations in 2004-05.

Motor vehicle fees revenue is summarized in Figure REV-19.

Motor Vehicle Fuel Taxes, \$3.32 billion—The motor vehicle fuel tax (levied on gasoline), diesel fuel tax (levied on diesel), and the use fuel tax (levied on alternative fuels such as liquefied petroleum gas, natural gas, and alcohol fuel) provide the major sources of funds for maintaining, replacing, and constructing State highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

The motor vehicle fuel tax (gas tax) is collected from distributors at the terminal rack level (i.e., the point at which fuel is loaded into ground transportation). Motor vehicle fuel is taxed at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gasoline, and specified blends of gasoline and alcohol sold for vehicular use on California public streets and highways.

The Motor Vehicle Fuel Tax Law also applies an excise tax of 2 cents per gallon on aircraft jet fuel sold at the retail level. Certain sales are exempt from the aircraft jet fuel tax, including those to certified air common carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Chapter 912, Statutes of 1994, established the Diesel Fuel Tax Law. Prior to the operative date of Chapter 912, diesel fuel had been taxed under the Use Fuel Tax Law. The diesel fuel tax is collected from distributors at the

FIGURE REV-19

Motor Vehicle Fee Revenue
(Dollars in Thousands)

	2002-03 Actual	2003-04 Forecast	2004-05 Forecast
Vehicle License Fees	\$1,429,025	\$1,307,685	\$1,479,964
Realignment	442,123	594,909	475,849
Registration, Weight, and Other Fees	2,018,454	2,301,286	2,622,885
Total	\$3,889,602	\$4,203,879	\$4,578,698

terminal rack level and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax-exempt uses, is not taxed.

Chapter 1053, Statutes of 2000, required that the State excise tax on gasoline be collected at the terminal rack level, rather than at the level at which the fuel changes ownership. Standardizing the point of collection conforms to federal law and is expected to increase compliance.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels remain untaxed until they are dispensed into a motor vehicle that is operated on California highways or is suitable for highway operation. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight in lieu of the 6 cents-per-gallon tax.

The Mills-Hayes Act specifies that a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain



common carriers. This excise tax is imposed in lieu of the other fuel taxes described above. Gasoline consumption has grown slowly over time, as conservation efforts have offset economic growth. Gasoline consumption rose 1.2 percent during 2002-03, and is estimated to increase by 1.7 percent in 2003-04 and by another 0.1 percent in 2004-05. The long-term growth rate for gas consumption is approximately 1.6 percent.

Because the majority of diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel consumption decreased by 2.0 percent in 2002-03, and is expected to rise by 3.1 percent in 2003-04 and 4.1 percent in 2004-05, due to the improving economy.

Proposition 111, enacted in June 1990 to generate new transportation funding, increased gasoline and diesel fuel tax rates by 5 cents per gallon each, effective August 1, 1990. Proposition 111 also increased gas and diesel fuel tax rates by an additional 1 cent-per-gallon each January 1 thereafter, until an 18-cent-per-gallon rate became effective January 1, 1994. The rates have remained constant since that time. Revenues raised by Proposition 111 equaled \$1.57 billion during 2002-03, and are expected to be \$1.59 billion and \$1.61 billion during 2003-04 and 2004-05, respectively.

Motor vehicle fuel revenues are shown in Figure REV-20.

Tax Relief and Local Government Financing Audit Findings

Tax Relief (Expenditure Items)

Tax Relief (minus vehicle license fee offset)

California homeowners and renters are provided assistance through a variety of tax relief programs. Additional relief is provided to low-income senior citizens and disabled persons, and to individuals who agree to hold their land in open space under the Williamson Act of 1965.

Motor Vehicle License Fee Relief

Vehicle owners are also provided relief from their VLFs. In 1998, an offset of 25 percent of the amount of the VLF owed was established. This program is referred to as an "offset" rather than a tax credit, because the total amount of VLF legally due from the taxpayer was not changed. Instead, the State paid or "offset" a portion of the amount due, and taxpayers paid the remaining balance, so that the tax relief did not result in a revenue loss to local governments. The offset percentage increased in subsequent years as additional resources became available and was permanently set at 67.5 percent beginning in 2001.

On June 20, 2003, the Director of Finance determined that there would be insufficient moneys available to be transferred from the General Fund to reimburse local governments for the offsets. This resulted in suspension of the offsets for bills due on or after October 1, 2003. Since the elimination of funding for the offsets was

FIGURE REV-20

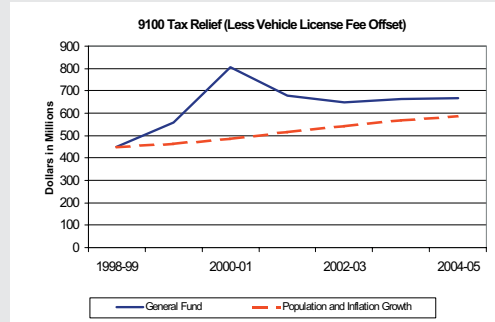
Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

	2002-03 Actual	2003-04 Forecast	2004-05 Forecast
Gasoline ^{1/}	\$2,725,706	\$2,804,573	\$2,806,676
Diesel	<u>474,378</u>	<u>493,321</u>	<u>512,842</u>
Total	\$3,200,084	\$3,297,894	\$3,319,518

^{1/} Does not include jet fuel.

Key Audit Findings—Tax Relief

- From 1998-99 to the 2003 Budget Act, General Fund expenditures have increased from \$449 million to \$667 million, an increase of \$218 million, or approximately 49 percent.
- Expenditures have been above population and inflation growth mainly due the Senior Citizens' Property Tax and Renters' Assistance programs, which were increased in 2000-01 by 150 percent (one-time) and by 45 percent in 2001-02 (ongoing) above the 1998-99 levels.

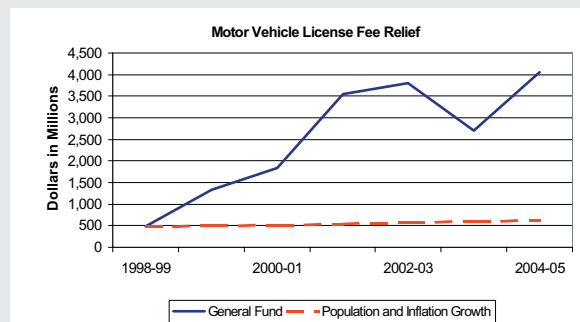


immediate, local governments experienced a “gap” in funding. At the time the 2003 Budget Act was enacted, it was estimated that this loss to local governments would amount to \$825 million. Chapter 231, Statutes of 2003, provided that this funding gap would be repaid to local government in 2006-07. In November 2003, the Department of Motor Vehicles provided estimates to the Department of Finance indicating that the amount of loan from local governments due to the implementation lag had increased to nearly \$1.3 billion, rather than the \$825 million that had been anticipated.

On November 17, 2003, the Director of Finance determined that the finding of the previous Director was in error and Governor Schwarzenegger issued Executive Order S-1-03, which provided that the prior Administration's suspension of the vehicle license fee offsets was not based on a reasonable interpretation of the statutes. The Executive Order therefore rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible. Consistent with Chapter 231, the Administration requested the Legislature to increase the local government loan due

Key Audit Findings—Motor Vehicle License Fee Relief

- In 2004-05, funding for vehicle license fee relief will be \$4.1 billion.
- 2003-04 expenditures are reduced by \$1.3 billion due to the “gap” loan authorized by Chapter 231, Statutes of 2003.
- Expenditures have been above population and inflation growth due to increases in the vehicle license fee tax relief provided.





to the implementation lag from \$825 million to \$1.3 billion. On December 18, 2003, Governor Schwarzenegger authorized the payment of \$2.65 billion to local governments to fully fund the 2003-04 offset, using authority in Section 27 of the 2003 Budget Act and Revenue and Taxation Code Sections 10754, 11000, and 11001.5. The Governor's Budget assumes that the offset for the remainder of the current year and in the budget year will be fully funded at \$2.65 billion in 2003-04 and \$4.06 billion in 2004-05.

Local Government Financing

Local Government Financing

Local governments receive a number of subventions from the State for designated purposes such as health, human services, and public safety programs. These local assistance expenditures are reflected in the individual budget areas for each specific program. (See the State-Local Assistance Section for a broader view of this overall assistance.) In addition, several programs have been established to provide general-purpose revenue to cities, counties, and special districts when special circumstances have

occurred. The Local Government Financing program includes those payments to local governments where the funds may be used for any general government purpose as well as funds for one-time, designated purposes. In order to deal with the State's current fiscal problem, several programs previously funded in this budget were eliminated last year including:

- High Technology Grants (\$18.5 million)
- Small/Rural County Sheriff Grants (\$18.5 million)
- Redevelopment Agency Subventions (\$1.4 million)

Program Enhancements and Other Budget Adjustments

Booking Fee Reimbursement—The Governor's Budget proposes to eliminate reimbursement to cities and special districts for booking fees paid to counties (\$38.2 million). In addition, the Administration will be supporting AB 1749, a bill that would eliminate counties' ability to charge booking fees.

Key Audit Findings— Local Government Financing

- From 1998-99 to the 2003 Budget Act, General Fund expenditures have increased from \$176 million to \$299 million, an increase of \$123 million, or approximately 70 percent.
- Expenditures have been above population and inflation growth largely due to one-time assistance to local governments and local public safety grants.
- Most of the subventions in this budget have either been reduced or eliminated.

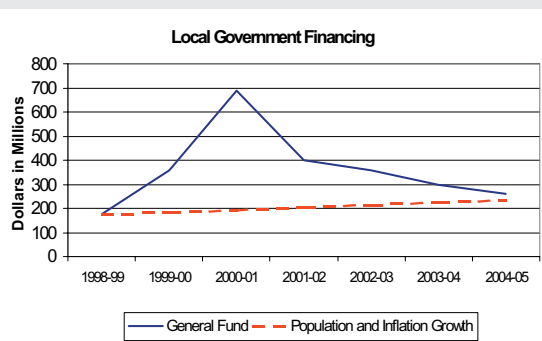


FIGURE REV-21

Summary of State Tax Collections
(Excludes Departmental, Interest, and Miscellaneous Revenue)

	Per Capita Personal Income ^{1/2/}	State Tax Collections (Dollars in Millions)		Taxes per Capita ^{1/}		Taxes per \$100 of Personal Income ^{3/}	
		General		General		General	
		Fund	Total	Fund	Total	Fund	Total
1967-68	\$3,878	\$3,558	\$4,676	\$185.55	\$243.86	\$4.78	\$6.29
1968-69	4,199	3,963	5,173	203.94	266.21	4.86	6.34
1969-70	4,535	4,126	5,409	208.96	273.94	4.61	6.04
1970-71	4,812	4,290	5,598	214.08	279.36	4.45	5.81
1971-72	5,034	5,213	6,597	256.22	324.24	5.09	6.44
1972-73	5,451	5,758	7,231	279.72	351.28	5.13	6.44
1973-74	5,947	6,377	7,877	305.57	377.45	5.14	6.35
1974-75	6,552	8,043	9,572	379.85	452.06	5.80	6.90
1975-76	7,091	9,050	10,680	420.19	495.87	5.93	6.99
1976-77	7,814	10,781	12,525	491.48	570.98	6.29	7.31
1977-78	8,569	12,951	14,825	579.41	663.25	6.76	7.74
1978-79	9,620	14,188	16,201	621.30	709.45	6.46	7.38
1979-80	10,845	16,904	19,057	726.83	819.41	6.70	7.56
1980-81	12,038	17,808	20,000	748.80	840.97	6.22	6.99
1981-82	13,209	19,053	21,501	784.78	885.62	5.94	6.70
1982-83	13,782	19,567	22,359	788.83	901.39	5.72	6.54
1983-84	14,505	22,300	25,674	880.14	1,013.30	6.07	6.99
1984-85	15,944	25,515	29,039	988.34	1,124.85	6.20	7.05
1985-86	16,934	26,974	30,898	1,021.63	1,170.25	6.03	6.91
1986-87	17,661	31,331	35,368	1,158.18	1,307.41	6.56	7.40
1987-88	18,665	31,228	35,611	1,126.67	1,284.81	6.04	6.88
1988-89	19,763	35,647	40,613	1,255.49	1,430.39	6.35	7.24
1989-90	20,819	37,248	43,052	1,278.16	1,477.32	6.14	7.10
1990-91	21,978	36,828	43,556	1,234.66	1,460.22	5.62	6.64
1991-92	21,992	40,072	48,856	1,315.63	1,604.02	5.98	7.29
1992-93	22,641	39,197	48,230	1,264.95	1,556.46	5.59	6.87
1993-94	22,805	38,351	48,941	1,224.73	1,562.93	5.37	6.85
1994-95	23,320	41,099	50,648	1,303.77	1,606.71	5.59	6.89
1995-96	24,328	44,825	54,805	1,413.54	1,728.24	5.81	7.10
1996-97	25,418	47,955	58,400	1,500.37	1,827.15	5.90	7.19
1997-98	26,549	53,859	64,826	1,659.66	1,997.63	6.25	7.52
1998-99	28,348	58,199	69,724	1,771.02	2,121.72	6.25	7.48
1999-00	29,785	70,027	81,773	2,095.53	2,447.03	7.04	8.22
2000-01	32,334	75,668	88,147	2,222.88	2,589.48	6.87	8.01
2001-02	32,536	62,654	73,237	1,804.21	2,108.96	5.55	6.48
2002-03 ^{p/}	32,693	64,879	75,420	1,836.05	2,134.36	5.62	6.53
2003-04 ^{e/}	33,367	69,104	80,120	1,923.08	2,229.65	5.76	6.68
2004-05 ^{e/}	34,721	73,315	86,106	2,010.09	2,360.78	5.79	6.80

^{1/} Per capita computations are based on July 1 populations estimates, benchmarked to the 1990 Census.

^{2/} Personal income data are on a calendar year basis (e.g., 2002 for 2002-03).

^{3/} Taxes per \$100 personal income computed using calendar year personal income (e.g. 2002 income related to 2002-03 tax collections).

^{p/} Preliminary.

^{e/} Estimated.



FIGURE REV-22

Outline of State Tax System as of January 1, 2004

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	\$0.20	Equalization ¹	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine	Gallon	\$0.20	Equalization	General
Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% ²	Franchise ³	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	6.65% ²	Franchise	General
Tobacco:				
Cigarette	Package	\$0.87 ⁴	Equalization	Cigarette Tax, Cigarette and Tobacco Products Surtax, Breast Cancer Act, and Calif. Children and Families First Trust Fund.
Other Tobacco Products	Wholesale price	48.89% ⁵	Equalization	Cigarette and Tobacco Products Surtax California Children and Families First Trust Fund Energy Resources Surcharge Fund
Energy Resources Surcharge				
	Kilowatt hours	\$0.0002	Equalization	
Horse Racing License				
	Amount wagered	0.4% - 2.0%	Horse Racing Board	Fair & Expo ⁶ , Satellite Wagering ⁷ , Wildlife Restoration, and General
Estate				
	Taxable Federal estate	0.8-16.0%	Controller ⁸	General
Insurance				
	Gross Premiums	2.35% ⁹	Insurance Dept.	General
Liquor license fees				
	Type of license	Various	Alcoholic Beverage Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	2.0% ¹⁰	Motor Vehicle Dept	Motor Vehicle License Fee and Local Revenue ¹¹
Fuel—Gasoline	Gallon	\$0.18	Equalization	Motor Vehicle Fuel ¹²
Fuel—Diesel	Gallon	\$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$30.00	Motor Vehicle Dept	Motor Vehicle ¹³
Weight Fees	Gross Vehicle Weight	Various	Motor Vehicle Dept	State Highway ¹⁴
Personal Income				
	Taxable income	1.0-9.3%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	7.0%	Franchise	General
Private Railroad Car				
	Valuation	¹⁵	Equalization	General
Retail Sales and Use				
	Receipts from sales or lease of taxable items	5.50% ¹⁶	Equalization	General and Local Revenue

Source: State of California, Department of Finance

¹ State Board of Equalization.² Minimum tax \$800 per year for existing corporations. New corporations are exempted from the minimum franchise tax for the first two years of operations.³ Franchise Tax Board.⁴ This tax is levied at the combined rate of 10 cents per pack of 20 cigarettes for the General Fund, 25 cents per pack for the Cigarette and Tobacco Products Surtax, 2 cents per pack for the Breast Cancer Act, and 50 cents per pack for the California Children and Families First Trust Fund.⁵ A tax equivalent to the tax on cigarettes; rate reflects the 50 cents per pack established by the California Children and Families First Initiative.⁶ For support of county fairs and other activities.⁷ For construction of Satellite Wagering Facilities and health and safety repairs at fair sites.⁸ State Controller's Office⁹ Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.¹⁰ Beginning January 1, 1999, vehicle owners paid only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) was paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapter 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent credit through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF offset was set at 67.5 percent. On June 20, 2003, the Director of Finance sent a letter to the DMV and the HCD stating that there would be insufficient monies available to be transferred from the General Fund to fund the offsets, so the offset was subsequently suspended. The 67.5 percent offset was reinstated effective November 18, 2003.¹¹ For return to cities and counties. Trailer coach license fees are deposited in the General Fund.¹² For administrative expenses and apportionment to State, counties and cities for highways, airports and small craft harbors.¹³ For support of State Department of Motor Vehicles, California Highway Patrol, other agencies and motor vehicle related programs.¹⁴ For State highways and State Department of Motor Vehicles administrative expense. Chapter 861, Statutes of 2000, replaced the current weight fee schedule for trucks, which is based on the unladen weight of commercial trucks and trailers, with a new schedule based on the gross weight capacity of trucks alone, in order to comply with the International Registration Plan standards. Chapter 719, Statutes of 2003, increased weight fees to achieve revenue neutrality as specified in Chapter 861.¹⁵ Average property tax rate in the State during preceding year.¹⁶ Includes a 5.00 percent rate for the State General Fund and Public Transportation Account and a 0.50 percent rate to the Local Revenue Fund for realignment.

FIGURE REV-23

Comparative Yield of State Taxes, 1970-71 through 2003-04 Includes both General and Special Funds (Dollars in Thousands)

Year Ending June 30	Sales and Use (a)	Personal Income	Corporation (b)	Tobacco (c)	Estate Inheritance and Gift (d)	Insurance (e)	Alcoholic Beverage (f)	Horse Racing (g)	Motor Vehicle Fuel (h)	Vehicle Fees (i)
1971	\$1,808,052	\$1,264,383	\$532,091	\$239,721	\$185,699	\$158,423	\$106,556	\$64,601	\$674,635	\$513,202
1972	2,015,993	1,785,618	662,522	247,424	220,192	170,179	112,091	69,380	712,426	547,845
1973	2,198,523	1,884,058	866,117	253,602	260,119	179,674	114,884	72,693	746,196	596,922
1974	2,675,738	1,829,385	1,057,191	258,921	231,934	201,697	119,312	78,289	742,702	644,448
1975	3,376,078	2,579,676	1,253,673	261,975	242,627	202,991	120,749	86,637	752,234	664,453
1976	3,742,524	3,086,611	1,286,515	268,610	316,648	241,224	125,313	96,117	766,555	749,936
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	127,485	102,702	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	132,060	111,591	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	140,059	112,856	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	138,940	127,002	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	142,860	129,779	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	139,523	119,626	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	136,209	120,159	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	137,433	141,001	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	135,786	133,814	1,159,637	2,137,326
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	132,262	131,592	1,194,172	2,515,295
1987	10,904,022	13,924,527	4,800,843	255,076	273,089	1,008,804	131,288	131,733	1,245,881	2,692,835
1988	11,650,531	12,950,346	4,776,388	250,572	304,148	1,158,321	128,734	132,208	1,293,254	2,966,334
1989	12,650,893	15,889,179	5,138,009	559,617	335,091	1,317,630	128,264	143,379	1,320,512	3,142,484
1990	13,917,771	16,906,568	4,965,389	787,076	388,527	1,167,684	128,524	147,920	1,349,146	3,305,711
1991	13,839,573	16,852,079	4,544,783	745,074	498,774	1,287,152	129,640	148,279	1,999,771	3,513,159
1992	17,458,521	17,242,816	4,538,451	726,064	446,696	1,167,307	321,352	130,042	2,457,229	4,369,862
1993	16,598,863	17,358,751	4,659,950	677,846	458,433	1,188,181	292,107	114,037	2,412,574	4,470,321
1994	16,857,369	17,402,976	4,809,273	664,322	552,139	1,196,921	275,797	118,215	2,547,633	4,518,795
1995	16,273,800	18,608,181	5,685,618	674,727	595,238	998,868	268,957	108,974	2,685,731	4,749,594
1996	17,466,584	20,877,687	5,862,420	666,779	659,338	1,131,737	269,227	106,057	2,757,289	5,009,319
1997	18,424,355	23,275,990	5,788,414	665,415	599,255	1,199,554	271,065	90,627	2,824,589	5,260,355
1998	19,548,574	27,927,940	5,836,881	644,297	780,197	1,221,285	270,947	81,930	2,853,846	5,660,574
1999	21,013,674	30,894,865	5,724,237	976,513	890,489	1,253,972	273,112	61,185	3,025,226	5,610,374
2000	23,451,570	39,578,237	6,638,898	1,216,651	928,146	1,299,777	282,166	44,130	3,069,694	5,263,245
2001	24,287,928	44,618,532	6,899,322	1,150,869	934,709	1,496,556	288,450	42,360	3,142,142	5,286,542
2002	23,795,936	33,051,107	5,333,030	1,102,806	890,627	1,595,846	292,627	42,247	3,295,903	3,836,795
2003	24,899,025	32,709,761	6,803,559	1,055,505	647,372	1,879,784	290,564	42,028	3,202,511	3,889,602
2004 *	26,283,755	35,117,000	7,466,000	1,033,000	396,800	1,985,000	292,000	42,245	3,300,369	4,203,880
2005 *	28,974,348	38,043,000	7,609,000	1,029,000	135,400	2,078,000	294,000	42,457	3,322,018	4,578,699

(a) Includes the 0.25 percent sales tax, which would be effective July 1, 2004, if approved by California voters in March 2004. This sales tax would be for repayment of economic recovery bonds.

(b) Includes the corporation income tax and, from 1989 through 1997, the unitary election fee.

(c) Proposition 99 (November 1988) increased the cigarette tax to \$0.35 per pack and added an equivalent tax to other tobacco products.

The Breast Cancer Act added \$0.02 per pack effective 1/1/94.

Proposition 10 (November 1998) increased the cigarette tax to \$0.87 per pack and added the equivalent of \$1.10 tax to other tobacco products.

(d) Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduces the State pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2005.

(e) The conclusion of litigation resulted in additional revenue of \$51 million in 1987-88, \$178 million in 1988-89, \$7 million in 1990-91, and \$5 million in 1991-92. It also resulted in refunds of \$46 million in 1993-94, \$127 million in 1994-95, \$39 million in 1995-96, \$15 million in 1996-97, and \$30 million in 1997-98.

(f) Alcoholic beverage excise taxes were significantly increased effective July 15, 1991.

(g) Beginning in 1988-89, includes revenues from satellite wagering that were not included in prior years.

(h) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.

(i) Registration and weight fees, motor vehicle license fees, and other fees. Due to the offset program, 1998-99 vehicle license fee values reflect a 25 percent reduction for 1999. The values reflect a 35 percent reduction from January 1, 2000, through June 30, 2001, and a 67.5 percent reduction thereafter. 2004-05 figures exclude a "gap loss" estimated at \$1.3 billion which will be paid in August 2006 as required by Chapter 231, Statutes of 2003.

* Estimated.

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DEMOGRAPHIC OUTLOOK

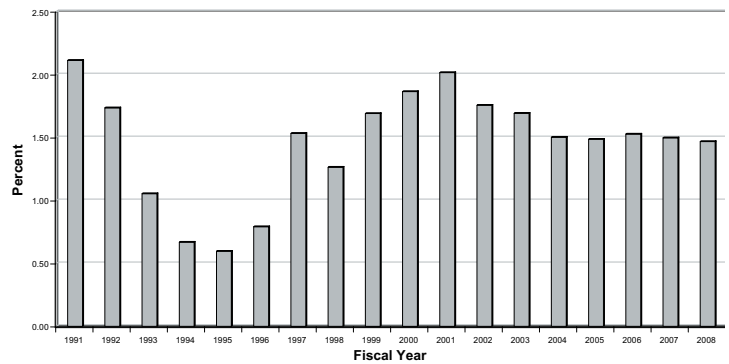
Population Overview

At nearly 36 million people as of mid-2003, California's population continues to experience strong growth. Despite a slowdown in the mid-1990s, the state has experienced population growth in excess of 1 percent per year since 1997 (see Figure DEM-1).

- The July 1, 2003, estimate of the population is 35,934,000. It is forecast to be 36,474,000 in 2004 and over 37 million in 2005. This reflects a short-term annual growth rate of just over 1.5 percent.
- Through the next five years, the state will grow by an average of 553,900 people each year. The state's growth in the first decade of this century is about equally attributable to natural increase (more babies being born than people dying) and net migration (people moving to California from other states and other countries, less those moving out)—53 percent and 47 percent, respectively.
- By July 2008, California will add nearly 3 million people to reach 38,703,000, a five-year growth rate of 7.7 percent. This compares to the 9.3 percent overall population growth since 1998.

FIGURE DEM-1

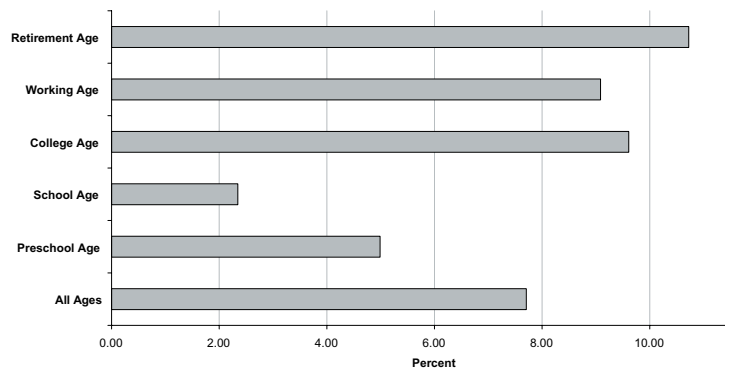
California's Annual Population Growth Rate



- Population growth rates vary significantly by age group. The state's total population growth of 7.7 percent contrasts with 5.0 percent growth in the pre-school age group and 2.3 percent growth in the school age group. On the other hand,

FIGURE DEM-2

California Population Five-Year Growth Rate by Age





the college-going age group will grow 9.6 percent while the working and retirement-age populations will grow in excess of 9 percent and 10 percent, respectively (see Figure DEM-2). The population in the working ages will increase by 1.7 million.

- In fall 2002, K-12 public school enrollment stood at over 6.2 million. Starting in 2000 and continuing through the decade, school enrollment growth will be slower than that of the general population because the number of births in the state declined in the 1990s.

K-12 EDUCATION

Proposition 98

From 1999-00 through 2003-04, more than \$2.7 billion was added to the Proposition 98 funding level above what was required by the California Constitution. In retrospect, it is clear that this was funded mainly by increases in General Fund tax proceeds that were not sustainable. Although the Administration has a fundamental commitment to schools, it is clear that part of the structural budget problem the State faces is due to this increase in education spending beyond what the State could afford without cutting other programs. Under Proposition 98, such increases become part of the Constitutional minimum for all following years.

Given the size of the budget problem to be solved, significant reductions in many programs outside of K-14 education are included in the Governor's Budget. Recognizing the importance to the State of maintaining the level of support for schools, the Administration chooses not to reduce State funding for K-14 education. The formula for the Proposition 98 funding level requires overall funding to increase by growth in per capita personal income and numbers of students and additionally to grow by an amount, called a maintenance factor adjustment. For 2004-05, it is estimated that this formula would require an increase in K-14 funding of \$3 billion.

The Governor's Budget proposes that schools retain an increase of nearly \$1 billion in property taxes allocated to schools, but that no additional State funding be added this year. This will allow normal K-12 funding adjustments for both student growth and cost-of-living adjustments to be made. Additionally, \$200 million in funding deferred from the Community Colleges' base budget last year is reflected in the 2004-05 totals, and additional funding for growth and equalization is provided, increasing Community College's share of the Proposition 98 guarantee.

Rebasing for General Fund Contributions to Proposition 98

The Constitutional provisions added by Proposition 98 allow a temporary rebasing of the required appropriations, if a bill is enacted pursuant to a two-thirds vote of the Legislature. The Governor's Budget proposes that the level of Proposition 98 appropriations be rebased at a level approximately \$2 billion less than otherwise required for 2004-05. Additional program funding capacity of approximately \$700 million is available within the existing funding level, due to the expiration of programs and adjusting for one-time costs incurred in 2003-04.



Agreements to Restore Funding

This action will create an additional \$2 billion maintenance factor that is required to be restored to the Proposition 98 budget in future years. Based on current projections of future revenue growth and other economic factors, the additional maintenance factor could be restored to the guarantee over the next three years, with substantial growth averaging approximately \$730 million per year as the economy expands. These funding additions will be in addition to the adjustments for student enrollment and per capita personal income. Thus, the Administration projects that this rebasing of the guarantee will impact school funding for only four years.

The Administration agrees to make general purpose funding a priority for 2004-05 and following years by first funding growth and cost-of living adjustments within the increases provided by the Proposition 98 guarantee. The Administration joins with the education community in proposing that priorities for the future restoration of the maintenance factor should: (1) restore deficits in apportionments, including cost-of-living adjustments, that were made in 2003-04; (2) fund valid deferred mandate reimbursements; and (3) the remaining funds would be split between general purpose apportionments and other State funding priorities in a 75 to 25 ratio.

Retiring Old Debts

Additionally, appropriations estimated to be required for 2002-03 and 2003-04 above the current level of the budgets for those years are proposed to be deferred and repaid in a series of statutory appropriations beginning in 2006-07. This will retire the outstanding debts to the schools from 1995-96 and 1996-97 of \$250.8 million and the additional amounts estimated to be needed to meet

the guarantee for 2002-03 and 2003-04 of \$517.9 million and \$448.4 million respectively. Funds appropriated for settle-up will be designated for one-time expenses such as instructional materials, training, and deferred maintenance.

K-12 Education Funding Reforms

Parents, students, school administrators, teachers, State and local auditors, Legislators, news reports, and other representatives of the public have raised numerous concerns with education funding in California over the years. Concerns include, but are not limited to:

- Too much of the funding is restricted to specific purposes.
- The focus is on implementing and accounting for programs—not results.
- Funding allocations are overly complex and do not appear fair.
- Parents, teachers, principals, and community members do not have effective input into academic program nor resource allocation decisions.
- Funding intended to help students with special needs may not be reaching the students or be spent effectively.

The Administration is interested in pursuing comprehensive reform of education finance. The proposals provide increased Flexibility, Accountability, Innovation and Responsibility (FAIR). The Governor's Budget reflects several proposals to make this FAIR start on education reform including:

- The shift of \$2 billion from 22 specified categorical programs to the revenue limits of the districts and county offices currently receiving the funds. Districts

will be free to continue the existing programs or shift funds to other uses, including innovative local programs. The programs being shifted currently provide money with fewer restrictions, are generally not targeted at special needs students, most districts receive funding from them and have historically stable allocations per district. Programs being retained as categorical funding are those that are earned by providing special services, such as vocational education; are legally mandated; are state-level services; are targeted to help special needs students; or are not exclusively school-based, such as child care.

■ Additional accountability measures accompany this funding, including:

- Improved access to information and opportunities for school principals, parents, teachers, and community members to have input on school budget decisions.
- State interventions in districts that consistently fail to meet academic growth targets.

- Restrictions on compensation for administrators of failing districts.
- Enhanced budget review by county offices.
- Requirements to provide standards-aligned instructional materials and adequately maintain facilities.

- \$110 million for equalizing base revenue limit funding.

K-12 Overview

Despite the fiscal challenge facing California, the K-12 education budget preserves core instructional programs through an increase of \$1.875 billion in total revenues to public schools. California's public schools continue to receive the resources to provide more than 6.2 million pupils a high-quality education and the tools to meet California's world-class standards.

As indicated in Figure K12-1, approximately \$58.1 billion will be devoted to California's 983 school districts and 58 county offices of education, resulting in estimated total per-pupil expenditures from all sources of \$9,398 in

FIGURE K12-1

Total Revenue for K-12 Education 2004-05 Governor's Budget

(Dollars in Millions)

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Change
K-12 Education¹										
General Fund	19,743,400	21,880,100	23,277,500	27,277,900	29,396,400	29,572,600	28,788,400	29,556,900	30,357,400	2.7%
Local Property Taxes	8,584,400	9,138,200	9,545,000	10,200,500	11,094,000	12,005,500	12,991,500	13,885,000	14,923,600	7.5%
Lottery	611,000	675,200	727,800	769,500	902,000	853,900	806,500	793,400	793,400	0.0%
Other State Funds	58,900	89,000	74,400	64,500	140,800	145,900	99,100	90,100	85,900	-4.7%
State School Fund (NonAdd)	(8,238)	(8,200)	(4,830)	(1,789)	(9,884)	(-3,008)	(-3,008)	(-3,008)	(-3,008)	0.0%
Federal Funds	2,990,800	3,472,700	3,858,800	4,438,900	5,005,300	5,442,600	6,390,700	7,118,800	7,159,500	0.6%
Local Debt Serv Taxes	425,800	498,300	611,700	706,700	827,800	1,012,900	1,195,500	1,195,500	1,195,500	0.0%
Local Miscellaneous	2,195,100	2,595,100	2,842,500	3,219,400	3,715,800	3,543,100	3,543,100	3,543,100	3,543,100	0.0%
Total Funds	34,609,400	38,348,600	40,937,700	46,677,400	51,082,100	52,576,500	53,814,800	56,182,800	58,058,400	3.3%

¹ 2002-03, 2003-04 and 2004-05 are estimated.



FIGURE K12-2

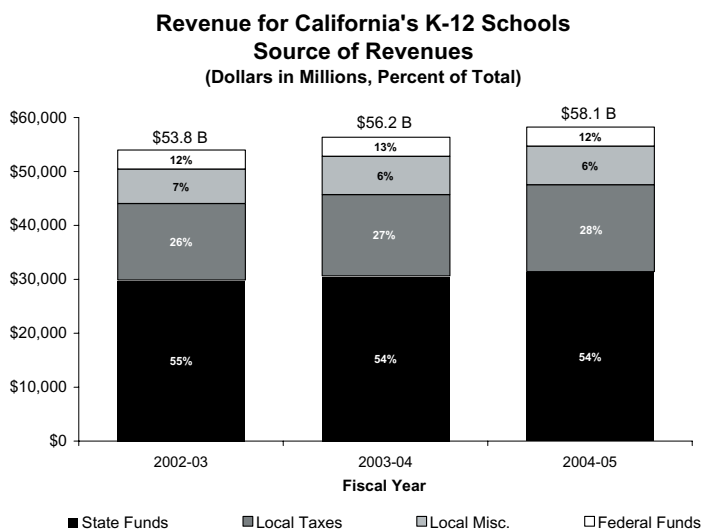
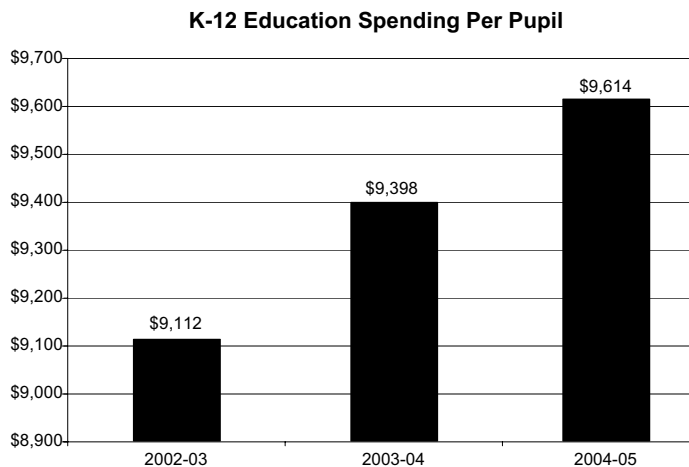


FIGURE K12-3



fiscal year 2003-04 and \$9,614 in fiscal year 2004-05 (see Figure K12-3). Figure K12-2 displays the various sources of revenues for schools.

Total 2004-05 Proposition 98 support for K-12 education will increase 1.1 percent over the 2003 Budget Act level, as adjusted for changes in local revenues and average daily attendance growth. This level of funding supports K-12 Proposition 98 per-pupil expenditures of \$6,945 in 2004-05, up from \$6,588 in 2002-03 and \$6,940 in 2003-04.

Funding reported by schools from their general funds and the various categories of expenditure, along with respective shares of total funding for each category, are displayed in Figure K12-4. All costs shown are those reported to the State by schools using the definitions specified in the California School Accounting Manual.

Proposition 98 Guarantee—Total 2002-03 Proposition 98 funding is \$43.6 billion, of which the General Fund share is \$28.8 billion. Because State tax revenues were higher than they were estimated to be last year, this funding level is currently estimated to be \$517.8 million below the revised constitutional minimum guarantee. Total 2003-04 Proposition 98 funding is \$45.9 billion, of which the General Fund share is \$30.2 billion. This funding level is currently estimated to be \$448.4 million below the updated constitutional minimum guarantee, again because of increased revenue estimates. These funding levels have been adjusted for changes in attendance and costs of apportionments programs, and no discretionary reductions to program levels are proposed. The estimated level of the guarantee has also increased since enactment of the 2003 Budget Act due to a shift of costs from 2003-04 to 2004-05 resulting from an increase in the deferral amount of the second principal apportionment.

Total 2004-05 Proposition 98 funding is proposed at \$46.7 billion, an increase of \$769 million over the revised 2003 guarantee. This level is \$2 billion less than the current estimate of the Proposition 98 guarantee for 2004-05. The Governor's Budget reflects a proposal to set this lower level of funding pursuant to legislation that would add this amount to the maintenance factor that is owed to schools in future years.

Property taxes are reduced \$1.3 billion to reflect the transfer of property taxes to local governments to offset sales taxes redirected to pay the debt service on the State's deficit reduction bonds. Property taxes are increased by \$1.3 billion by increasing city and county contributions to the Education Revenue Augmentation Fund as a substitute mechanism to sustain the level of Vehicle License Fee offset in 2003-04.

The General Fund comprises approximately 63.7 percent, or \$29.7 billion, of total proposed Proposition 98 funding (see Figure K12-5).

Deferred Appropriations—The budgets for the last several years have included savings generated by deferring appropriations from one year to the next. In 2003-04, a net amount of \$609.7 million in deferrals was made current. This one-time cost in 2003-04 results in fiscal capacity for program spending in 2004-05. The Governor's Budget reflects an ongoing level of deferrals of \$1.2 billion for K-12 education.

FIGURE K12-5

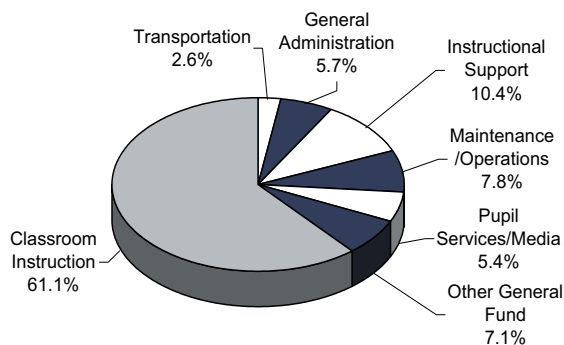
Proposition 98 (Dollars in Thousands)			
Proposition 98 Appropriation	2002-03	2003-04	2004-05
State General Fund	\$28,842,957	\$30,166,130	\$29,739,800
Local Revenue	14,780,926	15,778,671	16,973,852
Total	\$43,623,883	\$45,944,801	\$46,713,652
Total State and Local Distribution			
Department of Education	\$38,891,843	\$41,480,820	\$41,937,017
California Community Colleges	4,623,085	4,358,857	4,678,804
Department of Developmental Services	11,624	10,863	10,758
Department of Mental Health	17,851	13,400	8,400
Department of Youth Authority	37,685	36,781	34,041
State Special Schools	38,017	40,302	40,302
Indian Education Centers	3,778	3,778	4,330
Total	\$43,623,883	\$45,944,801	\$46,713,652
Proposition 98 Appropriations			
Percentage Share of General Fund	44.1%	43.5%	40.4%
SAL ^{1/} Revenues and Transfers			

^{1/} State Appropriations Limit, Article XIII B.

K-12 per pupil funding rises more slowly in 2004-05 due, in part, to the need to fund a \$200 million increase in California Community Colleges (CCC) spending levels as a result of a 2003-04 deferral.

FIGURE K12-4

Where Schools Spend Their Money



Classroom Instruction includes: general education, special education, and special projects.

General Administration includes: superintendent and board, district administration, other administration, centralized EDP, and maintenance and operations for administration.

Instructional Support includes: instructional administration, school site administration, and special projects administration.

Maintenance and Operations includes: utilities, janitorial and groundskeeping staff, and routine repair and maintenance.

Pupil Services includes: counselors, school psychologists, nurses, child welfare, and attendance staff. Media includes libraries and media centers.

Other General Fund includes: spending for tuition, facilities, contracts with other agencies, and transfers to and from other district funds.

(Based on 2001-02 data reported by schools.)

Child Care—Reflecting the Administration's view that children are a priority investment and that the lowest income families should be supported in their work participation and personal responsibility efforts, the Governor's Budget provides a total of approximately \$3 billion for the various child care programs administered by the State Department of Education (SDE), the Department of Social Services (DSS), and the CCC. These reflect savings of \$164.8 million from proposed reforms, expenditures, as well as caseload changes, the back-fill of one-time funding used in prior years, and provision of statu-



tory growth and cost-of-living adjustments (COLA) to non-caseload driven programs.

Functions of State Child Care Programs—

Subsidized child care services help low-income working families increase self sufficiency, contribute to school readiness of younger children, and support work participation of CalWORKs families through a variety of programs including voucher programs where parents pick the provider of choice, direct contract center based programs, State Preschool program, grants for Before and Afterschool programs, various programs for special populations, and a variety of programs designed to enhance the accessibility and quality of California's child care system. Programs specifically designed for CalWORKs families include Stage 1 administered by the DSS and Stages 2 and 3 administered by SDE. Services in Stages 1 and 2 are entitlement programs available to CalWORKs families for up to two years after they leave cash assistance. CalWORKs Stage 3 is not an entitlement program, but rather a discretionary program to continue

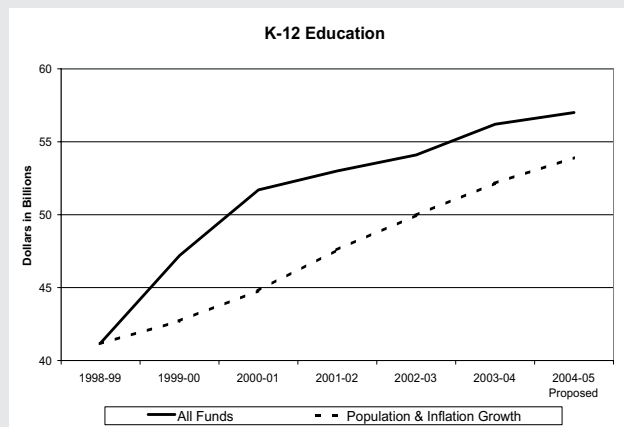
assistance to families after the entitlement ends if funding is available.

Improving Accountability and Service Delivery

School-Site Budgeting—An important core principle of the Administration's education policy is local control. This principle is a key reason why the Administration is increasing general purpose funding at the district level by fully funding growth and COLA, funding equalization, and shifting \$2 billion from categorical funding into revenue limits. While recognizing the responsibilities of school boards and district administrators, the Administration would like to foster increased control of resources at the school-site level. While no comprehensive proposal is being offered at this time, the Administration will be developing options for putting more control of school resources into the hands of parents, principals, and teachers at each school. Legislation accompanying the shift of categorical funding to revenue limits will call for more sunshine on local budgets and more

Key Audit Findings

- Total K-12 funding increased by \$14.8 billion, 36.1 percent, from 1998-99 to 2003-04.
- Discretionary increases in Proposition 98 expenditures in 1999-00 and 2000-01 added \$2.7 billion to the ongoing level of the minimum guarantee.
- Total annual General Fund program support for Child Care increased 52.7 percent between 1998-99 and 2003-04 primarily driven by a \$313 million increase for CalWORKs Stage 3, a \$162 million increase for State Preschool, and a \$71 million increase for Before and Afterschool programs.



opportunities for community and school-site participation in academic and budget decisions.

School District Academic Accountability—

The federal No Child Left Behind (NCLB) Act of 2001 includes a district level accountability system. However, this system is structured in a manner that is expected to result in interventions or sanctions for most, if not all, of the districts in the State. Therefore, the existing NCLB accountability system does not differentiate well between failing and improving districts and does not focus on the lowest-performing districts. Although individual schools have participated voluntarily in the State's accountability programs and are subject to State interventions and sanctions if they do not improve, there is no such State program for districts as a whole.

In conjunction with the movement towards providing districts more flexible funding, the Administration proposes to fill this gap in the State's accountability system by creating a set of district academic performance targets using the existing State testing system and the Academic Performance Index and applying it to all districts. The lowest performing districts that consistently fail to improve their schools' academic performance would be subject to the same types of State interventions and sanctions that individual schools are subject to under the existing school accountability programs.

Child Care Fraud and Compliance—

Child care fraud may cost the State well over \$100 million, assuming a 10 percent rate of fraud in alternative payment (AP) programs. These programs administer monthly payments to providers selected by the families in voucher programs. Documentation from counties like San Diego and Fresno that actively investigate child care fraud estimate the rate of fraud may range

from 30 percent to 40 percent. Other anecdotal evidence attests to specific instances of fraud, such as situations where parents claim child care costs for days and hours while they are not working, or collude with a provider to certify care that never takes place. A recent report by the SDE on fee and eligibility compliance requirements found that only 47 percent to 59 percent of contracting agencies are in compliance in these areas. These funds could be redirected to provide child care to others currently not receiving it or to reduce program costs.

The Governor's Budget proposes an augmentation of \$2 million in one-time federal funds for administrative start-up costs for a comprehensive anti-fraud proposal that is under development by the Administration. The Administration intends to work with the SDE to develop a legislative proposal by the 2004 May Revision. Implementation costs will be refined and appropriate adjustments to the Governor's Budget will be addressed at that time.

Major features of this proposal would likely clarify and define fraud; explicitly authorize its investigation and prosecution; establish criminal and/or administrative sanctions; require APs to collect overpayments; establish and standardize disqualification periods for persons and providers depending on the number and value of offense; establish fines; expand the scope of financial and compliance audits of direct service contractors and APs; and provide financial incentives for counties and APs to pursue fraud, perhaps allowing them to retain some portion of recovered funds (similar to Food Stamp and CalWORKs programs).

Child Care Reform—

According to a report released by the State and Consumer Services Agency in May 2001, California has the most generous eligibil-



ity, subsidy, and co-payment policies of any other large state. Modest changes included in the 2003 Budget Act have not materially changed this conclusion. Given the State's current fiscal situation, the Governor's Budget includes various reforms that are estimated to save the State \$164.8 million in 2004-05, assuming a 90-day implementation lag for required notice to families. Of this amount, \$123 million of the estimated savings are in programs administered by the State Department of Education and \$41.8 million of the savings are in Stage 1 administered by the Department of Social Services. Specific savings by program are as follows:

- \$41.8 million for Stage 1
- \$53.8 million for Stage 2
- \$32.5 million for Stage 3
- \$17.1 million for General Child Care
- \$16.3 million for the Alternative Payment Program
- \$3.3 million for the Latchkey program

The following principle policy goals are achieved through this proposal:

- Personal responsibility is promoted by lowering the income threshold when families are asked to share in the cost of child care. Gradual fee increases are proposed to prepare families for when they are no longer eligible for subsidies. Making families directly responsible for payments to providers also promotes this goal while reducing administrative costs on voucher administering agencies.
- Work participation is promoted by ensuring that CalWORKs families who are not able to obtain a slot in the general child

care system receive child care subsidies while they remain on assistance and for three years after leaving cash aid.

- Program effectiveness and quality will be enhanced by providing financial incentives for licensed providers to integrate early childhood development education principles and become accredited. Similarly, for license exempt providers, incentives are provided for health and safety training and use of early childhood development principles.
- Program equity is enhanced by implementing a tiered income eligibility structure that recognizes higher cost areas, by authorizing CalWORKs families to enter waiting lists for non-time limited general child care programs as soon as they begin earning income, by standardizing state policy on length of time a family can access subsidies for purposes of education and training, and by limiting subsidies for older children who have access to after school programs.
- Program integrity and efficiency will be enhanced by establishing lower reimbursement limits for lower quality care, improving compliance and actively pursuing fraudulent practices, and authorizing administrators to pursue overpayments made to providers and families through the offsetting of future payments.

Specific policy reforms include the following significant changes:

Child Care Family Fees—No large state begins family contributions at income levels as high as California does, nor do they provide child care subsidies up to California's current income ceiling. Personal responsibility is promoted by lowering the income threshold when families are asked to share in the

cost of child care. Gradual fee increases also prepare families for when they are no longer eligible for subsidies.

- A reduction is proposed in the fee-payment threshold, from 50 percent of the state median income (SMI) as adjusted for family size, to approximately 40 percent of the SMI, the level at which a family exits cash aid. Through gradual increases based on family income, fees would not exceed 10 percent of income as suggested in federal guidelines.
- It is proposed that the current fee exemption for Child Protective Services (CPS)-referred families be limited to one year. If a family were referred by a non-CPS professional, the fee exemption would be limited to a three-month respite period. A CPS referral would be required for any further service or extension of the exemption. No fee exemption would apply after the initial CPS referral period. These limits reasonably maintain protections for children while limiting State costs and encouraging timely resolution of CPS placement decisions.
- It is proposed that family fees be paid directly to the provider of the service. This would standardize practices among agencies that administer vouchers, saving administrative effort and further promoting personal responsibility.

Child Care Eligibility—As indicated above, most large states assess higher family fees and do not provide eligibility for families at income levels as high as California does. Many states do, however, recognize cost-of-living differences in various regions for purposes of determining eligibility. Therefore:

- A three-tiered income eligibility structure for general child care programs is pro-

posed to better compensate for the high cost of housing in certain counties. Savings would accrue by reducing the current income eligibility maximum in lower cost counties as defined by the county divisions applicable to CalWORKs assistance grants. This will contribute to greater equity in the distribution of limited subsidies.

- Beginning in 2005-06, annual adjustments for changes in income eligibility would be based on the California Necessities Index (CNI), a more stable index that better reflects the actual costs facing participating families.
- It is proposed that the need basis for child care related to education and training in SDE-administered programs all be limited to two years, consistent with the practice for CalWORKs programs. This will provide greater equity to families needing assistance to work.
- Additionally, services to 13 year olds would be permanently deleted, and services to 11 and 12 year olds would be continued only when local before and afterschool programs are not available.

Child Care Reimbursement Rate Limits—

California has the most generous policy of any other large state, allowing even license-exempt providers that do not serve private-pay clients to charge the State a rate equivalent to the 85th percentile of rates charged by licensed family day care homes competing in the market for unsubsidized families. No other state authorizes payments exceeding the 75th percentile of the market for licensed care, and many do not reimburse exempt providers at all.

Reforms to reimbursement rate limits are proposed to reduce documented excessive cost



practices and provide incentives to improve service quality. Therefore the Administration proposes that:

- Reimbursement rate limits would begin at the 40th percentile of the regional market (for license-exempt providers with no training) and would range up to the 85th percentile of the market for licensed providers serving unsubsidized families who can demonstrate the integration of early childhood development principles and have achieved accreditation. These sliding scales will provide incentives to providers to become licensed, improve the quality of child care, and provide a reasonable market-based reimbursement level tied to the quality of care when a provider serves only subsidized families.
- The SDE and DSS (which is the State's licensing entity) would develop a standardized process for determining quality of care for purposes of authorizing higher state reimbursement rate limits.

Time Limit Changes to CalWORKs

Stage 3—Current law entitles CalWORKs families to child care services for up to two years after they exit cash assistance in order to ensure successful transition to work and self sufficiency. Other low-income working families must apply to a waiting list for a slot to become available. Continuing Stage 3 for CalWORKs families proliferates an inequitable access policy based on cash assistance status and drives uncontrollable state costs. Therefore:

- It is proposed that all current and new CalWORKs families who have earned income from work be allowed to immediately compete on waiting lists for non-time limited general child care program slots with other working poor families.

- Further, all CalWORKs families would be assured of receiving services for up to three years after cash aid ends, instead of the continuous subsidy provided under current practice. This change effectively extends the entitlement for transitional care by a year.
- Any CalWORKs Stage 3 family who exceeds three years of transitional care in 2004-05 would be granted an extension of one additional year so that they will have time to make other arrangements, should they not be able to access a slot in the general child care programs.

State-Mandated Local Programs—The State Constitution and enabling statutes essentially require California to pay local government for the costs of State-required services, except in a few instances (such as when local government has a revenue source available to support the service, or if the related law creates a new crime or infraction, for example). Many bills have been passed in the expectation that little or no mandated costs would result, but after several years of legal process, a determination is made that very large reimbursements are owed, for several years in arrears as well as on an ongoing basis. The determinations made by the Commission on State Mandates (Commission) are often challenged in court and recent rulings have begun to limit previous Commission rulings that required reimbursement by the State.

State audits of specific education mandates have revealed a high rate of disallowable costs (as much as 100 percent in some instances) claimed by local agencies. Due to concerns about what the real liability of the State should be for mandates, as well as the fiscal condition of the State, all funding for mandates has been suspended or deferred.

It is clear that the state of mandate law has created a confusing, expensive process that is not resulting in either the expected reimbursement for local agencies nor informed fiscal choices for the Legislature and the Administration.

Potential State fiscal exposure in the education area alone is in the hundreds of millions of dollars (based on unaudited claims). Many claims for reimbursement have not been audited, so the State's true liability for mandates is not known.

The Administration plans to pursue legislation to reform and clarify mandate law in several areas:

- Clarifying that any State funding provided for a program through the Budget Act must be credited as an offset to any reimbursable costs, clarifying that the State may further limit the cost of mandates through budgetary controls.
- Requiring the Commission to submit recommended claiming rules, and an estimate of statewide fiscal impact of a mandate to the fiscal committees of the Legislature prior to formal adoption by the Commission, so that the Legislature can decide if the prospective reimbursable activities and costs match its intent when the legislation was enacted.
- Clarifying that only real additional costs are required to be reimbursed, eliminating reimbursement for the redirected time of existing employees and for the current level of effort for local entities that were already performing a subsequently mandated service. Reimbursement should be limited to the least costly approach—not whatever expensive method a local agency chooses to use. For instance, the state should not have to pay twice for school

janitors and supplies because it wishes to clarify that school bathrooms must be useable.

General Purpose Funding Complexities—

The Administration is concerned about the complex and cumbersome current system for allocating general purpose funds among school districts. The current system, which is largely built on historical practice, is unnecessarily complex and results in significant funding complications among school districts that are difficult for parents, teachers, principals, and the general public to understand and can result in disparate levels of state support between districts. The following examples illustrate some of these complexities:

- Base revenue limits, the main source of general purpose funding for schools, range from a low of approximately \$4,400 per pupil to a high of approximately \$8,300 per pupil, with an average of approximately \$4,800 per pupil. The Governor's Budget provides \$110 million in equalization funding as one method of partially addressing this disparity in base funding levels.
- Basic aid districts receive funding over and above their revenue limit because of their high property values. These excess taxes, which are not reflected in State funding calculations, have grown rapidly over recent years and provide these districts with extra general purpose funding that other districts do not receive. Basic aid districts average over \$6,000 per pupil in general purpose funding (with several districts exceeding \$15,000 per pupil), compared to the statewide average of approximately \$4,800 per pupil.
- The per-meal funding rates among districts receiving the meals for needy pupils revenue limit add-on vary from \$0.003 to



more than \$160 per meal served. Some districts previously had this add-on rolled into their base revenue limit, while other districts are frozen out of receiving funding for the program because they did not have a program when the add-on was established.

- The continuation high school revenue limit add-on results in significant per-pupil funding differences because the calculation is based on a foundation funding level that is not adjusted for changes in the number of pupils served in subsequent years.
- Current statutes provide certain districts with exceptions from standard funding guidelines for necessary small schools, interdistrict attendance, and other programs, while holding other schools to the normal requirements.

Recognizing that any attempt at comprehensive reform in this area will require the input of the many stakeholders and understanding that some differences in funding levels may be appropriate for valid policy reasons, the Administration will continue to review various options for improving the current system, with the goal of reaching consensus on a less complex and disparate approach.

School District Fiscal Accountability—

Recent years have seen a large increase in the number of local education agencies (LEAs) in fiscal distress. For example, at the 2002-03 second Interim Financial Reporting period there were 64 LEAs with qualified or negative certifications, up from 24 in 2000-01. In that time period, three districts had imbalances between revenues and expenditures so severe as to necessitate emergency loans and a State takeover of operations. In some of these instances, opportunities to correct problems early were not taken advantage of

and there was confusion surrounding local and State responsibilities for fiscally troubled districts. The Administration is concerned that cost pressures, local budget decisions, constraints on State education spending growth combined with the statutory requirement for LEAs to fully restore their reserves for economic uncertainty by the 2005-06 fiscal year may lead to continuing trouble at the local level.

Given the fiscal problems many districts face, the Administration believes that current laws and procedures regarding school district budget oversight require reform. The Administration intends to develop a process for early identification of fiscally troubled districts using warning signs to allow districts to invite experts to assist them in avoiding insolvency. After discussions with the Superintendent of Public Instruction, the Office of the Secretary for Education, the County Office Fiscal Crisis and Management Assistance Team (FCMAT), and other representatives of the K-12 community, the Administration proposes to improve the process and ensure greater fiscal stability among LEAs. Specific reforms the Administration supports would:

- Provide greater specificity for definitions of fiscal insolvency.
- Establish clear guidelines for making budget projections.
- Require all district collective bargaining agreements to be subject to a 15-day review and comment on budget impact by the County Superintendent of Schools before board adoption.
- Provide clear authority for the Superintendent of Public Instruction to assign FCMAT to districts in fiscal distress. Currently, only districts and the

County Superintendent of Schools have this authority to call upon FCMAT.

- Modify the process regarding emergency loans and State takeovers for troubled LEAs in order to incorporate lessons learned from prior experiences and to limit delays in the event an emergency loan is required in the future.

Further, to ensure that the proposed shift of categorical funds to revenue limits will be budgeted prudently, the Administration proposes that all districts must present an allocation plan to the public and their county superintendent of schools that allows them to fully restore their reserve for economic uncertainty by the 2005-06 fiscal year, as required by current statute.

Administrator Compensation—The District Superintendents in the nine largest school districts in California earn an average base salary of \$203,813 annually, with a high of \$250,000 and a low of \$147,400. The Superintendent of the Los Angeles Unified School District earns \$250,000 annually, and is eligible for a performance bonus of up to an additional \$100,000 annually, exceeding the salaries for the Los Angeles County Executive Officer (\$244,429), the Los Angeles City Manager (\$214,375), and the Los Angeles City Mayor (\$181,319). The Governor of the State of California's annual salary is \$175,000.

Additionally, some districts have established separate retirement systems for administrators, outside of the California Public Employees' Retirement System (CalPERS) and the Social Security system. The legality and potential future liability of these systems is questionable.

Senior administrators often negotiate severance pay packages that include 18 months of

salary. In a few unfortunate circumstances, districts were forced to make such payments to administrators that led the district into insolvency.

While the Administration recognizes that a superintendent is an important position and recruiting top talent is difficult, these excessive compensation practices should be reformed.

Facilities Funding for Alternative Education Programs—The Administration is concerned about questionable State policies that authorize State School Facilities Program (SFP) funding for continuation high schools, community day schools, and county community schools that came to light during a recent review of a related matter.

The SFP provides State funding for the new construction and modernization of K-12 public school facilities in California. While funding is generally provided as matching funds on a per-pupil basis, small schools and alternative education schools (continuation high, community day, and county community schools) utilize a more favorable funding methodology, which is intended to recognize that certain economies-of-scale that can be achieved in larger schools cannot be achieved in small schools. Since county offices of education (COEs) cannot create bond indebtedness, they are considered eligible for "financial hardship," thus qualifying for full State funding under the SFP. Meanwhile, current revenue limits for community day and county community schools include allowances for the lease or rent of facilities.

While the Administration recognizes that many alternative schools may have facility needs, the current school facility funding policies for these schools likely result in excess State costs and are in need of significant reform. Principal concerns include:



- The methods for determining eligibility under the SFP for county office of education programs are questionable given that county court schools are the only required programs for COEs.
- County community and community day schools are permissive and may exist to the extent local school districts elect not to operate alternate education schools to meet the needs of their student enrollment. Therefore, it appears that it may be more appropriate for local school districts to provide the local match in these circumstances.
- Many students do not attend classes for the full school day and the length of alternative classroom instructional delivery can vary greatly from school to school. However, current allocation practices do not recognize these variances, which may result in significant underutilization of classroom facilities.
- As noted, in some cases, alternative school revenue limits were built with the assumption that facilities would be leased. Therefore, it is inappropriate for the State to build facilities without reducing the revenue limit funding per student.

The Administration intends to conduct a thorough review of this matter and will propose new policies that address these concerns.

Program Enhancements and Other Budget Adjustments

Average Daily Attendance Growth—

Attendance growth in public schools continues to be relatively low, primarily due to steady declines in birth rates beginning in the early 1990s. For the current year, total K-12 ADA is estimated to be 5,978,127.

This reflects an increase of 72,412 ADA, or 1.23 percent, over the 2002-03 fiscal year and is 12,368 lower than the 2003-04 May Revision estimate. For the budget year, total K-12 ADA is estimated to be 6,039,207. This reflects ADA growth of 61,080 or 1.02 percent, over the current year.

2003-04 Apportionment Adjustments—

The Governor's Budget reflects an increase of \$294.4 million for revised estimates related to district and county office revenue limit apportionments. This amount reflects General Fund cost increases of \$261.4 million due to a higher-than-anticipated June principal apportionment deferral and \$53.7 million due to local property tax adjustments, which are offset by a decreased growth estimate of \$20.7 million reflecting adjustments for revised ADA growth, CalPERS offset and unemployment insurance estimates.

2004-05 Apportionments—The Governor's Budget reflects an overall increase of \$2.8 billion in revenue limit funding, with major initiatives including a shift of over \$2 billion from categorical funding and \$110 million for equalization.

Apportionment Growth—The Governor's Budget fully funds statutory enrollment growth for school district (\$264.8 million) and county office of education (\$15 million) revenue limit apportionments, and special education (\$37.4 million). This reflects the Administration's goal of preserving core K-12 services even in the midst of the current budget shortfall.

California Public Employee's Retirement System—

The Governor's Budget fully funds an estimated \$106 million increase in the CalPERS school employer contribution rate. Failure to fund this increase would effectively reduce existing budgets for school districts and county offices of education.

Unemployment Insurance—The Governor's Budget fully funds an estimated \$136 million increase in local education agency Unemployment Insurance (UI) reimbursements. This increase is attributable to a more than doubling of the UI rate, due to increased benefit amounts and longer eligibility periods coupled with local staffing reductions.

Cost of Living Adjustment—The Governor's Budget fully funds an estimated \$554.8 million statutory COLA increase (1.84 percent) for school district and county office of education revenue limit apportionments.

Categorical Programs Growth and COLA—The Governor's Budget provides \$89 million for statutory growth adjustments and \$115 million for COLA adjustments for categorical programs, including Regional Occupational Centers and Programs and Adult Education.

Equalization—The Governor's Budget provides nearly \$110 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels. This equalization adjustment will apply to the revenue limits in place prior to the proposed shift of categorical funding.

Child Care Statutory Growth and Cost of Living Adjustments—\$27.5 million from Proposition 98 General Fund is provided for non-caseload driven programs (\$15.5 million for growth and \$22 million for COLA). Current statute provides for growth funding based on the change in the under four years of age population. The most recent demographic projection indicates population in that age group has increased 1.35 percent.

Charter Schools—In order to provide charter schools with more funding predictability and programmatic flexibility, the Governor's

Budget shifts charter school categorical block grant funds to charter school general purpose entitlements (\$21.9 million) and the Economic Impact Aid program (\$14.5 million). To mirror the per-student funding for the programs in the Charter Categorical Block Grant that are shifted to general purpose funding for districts, an increase of \$24.5 million in total funding is provided for charters in addition to the shifted funds. The Economic Impact Aid portion of the former charter school categorical block grant is added to the Economic Impact Aid program item, with a distinct allocation for charter schools.

Deferred Maintenance—The Governor's Budget fully funds the State Deferred Maintenance Program at \$250.3 million, an increase of \$173.3 million to the funding level provided in the 2003 Budget Act.

Instructional Materials—An augmentation of \$185 million is provided to restore funding for the Instructional Materials Block Grant to an amount closer to the level intended to provide for purchase of the 2002 English Language Arts adoption and to provide funding as an incentive to purchase the 2005 History and Social Science adoption. These additional funds are intended to remain as a separate categorical program to provide incentives for early purchase of newly adopted standards-aligned materials. The existing funding of \$175 million will be shifted to revenue limits.

Internet Access—\$20.2 million is provided to county offices of education to provide high-speed internet access for schools.

K-12 Categorical Funding—In order to streamline school funding and increase local flexibility, the Administration proposed reducing the number of State funded categoricals from 88 to 49 programs (including three consolidated programs). The Governor's



Budget provides \$9.5 billion for the remaining programs. Programs retaining separate funding include specific programs for services including class size reduction, child care and nutrition, services to special education and other programs that serve students with special needs, statewide accountability, legal requirements, targeted programs with earned ADA, programs being phased out, statewide services and oversight, and programs not supported by Proposition 98. The Governor's Budget proposes a shift of \$2 billion from 22 categorical programs to revenue limits for LEAs, including charter schools, currently receiving those funds. Funding is eliminated for seven smaller competitive grant programs, due to the sunset of the authorizing legislation or because they are proposed for suspension to provide more funding for general purposes. The funds shifted include any statutory growth and COLA adjustments for these programs.

The choices as to which programs to shift to revenue limits were based on a review of program allocation information by Administration Staff, and incorporated information provided in the recent Bureau of State Audits report on categorical funding. Programs were not evaluated on their merits. Programs were selected for inclusion in revenue limits include: programs where funding allocations to specific districts has been stable for several years, the programs currently do not require the funding to be earned by providing instruction to specific students, most districts get the funding, and there are few legal requirements or federal mandates to perform specific services. Specifically, the funding will be shifted from Home to School Transportation, School Improvement, Targeted Instructional Improvement Grants (for non-court ordered programs), Supplemental Grants, Instructional Materials, School Library

Materials, Staff Development Day Buyout, Beginning Teacher Support and Assessment, Intersegmental Staff Development, Bilingual Teacher Training, Mathematics and Reading Professional Development, Peer Assistance Review, Dropout Prevention, At-Risk Youth, Tenth Grade Counseling, English Learners Student Assistance, Year Round Schools, Specialized Secondary Program Grants, International Baccalaureate, Center for Civic Education, Pupil Residency Verification, and Teacher Dismissal Apportionments. The Administration proposes retaining these programs in the Education Code with the exception of specific funding requirements, which would be repealed. Thus allowing local education agencies to continue the program(s) or shift funds to a higher local priority.

Special Education—The Governor's Budget provides \$9.3 million in additional General Fund to provide adjustments under the special education formula, which includes increases of \$70 million for a 1.84 percent COLA, and \$37.4 million for growth. The Governor's Budget also reflects a local property tax increase of \$23.6 million and the use of an additional \$74.5 million in increased federal funds anticipated in the budget year as part of the statutory offset to the General Fund authorized by AB 602.

Principal Training—The Governor's Budget provides \$5 million for the fourth year of the Principal Training Program. This program will provide 15,000 principals and vice principals with training in instructional standards and effective school management techniques. Including the 2004-05 funding, sufficient funding will have been provided to train approximately 9,170 participants.

Pupil Testing—The Governor's Budget provides \$105.6 million, including federal funds, for various statewide exams. These

assessments provide valuable information to parents, teachers, schools, and the State regarding pupil performance, and are the foundation of the State's accountability system for both State and federal purposes. The assessments funded include:

- **Standardized Testing and Reporting (STAR) Exam**—\$65.5 million is provided for the STAR exam. This exam, which serves as the primary indicator for the Academic Performance Index, measures pupil performance on various State-adopted content standards, coupled with a national norm-referenced exam in grades 3 and 8.
- **High School Exit Exam (HSEE)**—\$21.2 million is provided for the HSEE. This exam helps to ensure that pupils who graduate from public high schools can demonstrate grade level competency in English-language arts, and mathematics. Under existing law, commencing with the Class of 2006, all pupils must pass the HSEE in order to receive a diploma. Funding includes \$498,000 for a study to determine the progress of middle schools and high schools in implementing instruction and curriculum aligned to those standards included on the HSEE, as well as \$2.5 million for workbooks that provide pupils and parents information regarding the exam.
- **California English Language Development Test (CELDT)**—\$18.8 million is provided for the CELDT. This exam is required for pupils whose primary language is not English in order to identify English language learners. This identification allows schools to better allocate resources to assist these pupils. In addition, schools are required to

annually assess English language learners to ensure that pupils who have attained proficiency in English do not continue to receive instruction using curriculum for English language learners. \$300,000 is included to create a vertical scale for the exam which would allow for a more accurate measure of school progress towards English proficiency for English Language Learners.

Accountability—The State has committed significant resources to improve the academic performance of low-performing schools. The need to continue this focus has not diminished. Therefore, the Governor's Budget continues to fund these programs:

- **Immediate Intervention/Underperforming Schools Program (II/USP)**—The Governor's Budget provides \$77.4 million, including federal funds, for the third year of implementation funding for schools that made significant progress but did not reach their growth targets, as well as schools in the Comprehensive School Demonstration Program. Additionally, the Governor's Budget includes \$32.7 million, including federal funds, for sanctions for those schools that failed to make significant progress during the two years they were provided with implementation funding.
- **High Priority Schools Grant Program**—The Governor's Budget includes \$208.6 million for the third year of funding for this program, including federal funds, which provides up to \$400 per pupil to the lowest-performing schools in the state to improve academic performance.

California School Information Services (CSIS)—The Governor's Budget includes \$4 million for technical support of participating districts, continued implementation



of Los Angeles Unified School District's CSIS-compatible student records system, and creation of unique identifiers for all California K-12 students in compliance with the No Child Left Behind Act.

Suspend Program Funding and Reflect Sunsetting Programs—\$32.6 million in savings will be achieved by eliminating funding for the following competitive grant programs: sunset Academic Improvement and Achievement Act (\$5 million), suspend Local Arts Education Partnership (\$6 million), suspend School to Career (\$1.7 million), suspend Healthy Start (\$2 million), sunset Charter School Facilities Grants (\$7.7 million), sunset Early intervention for School Success (\$2.2 million), and eliminate Teacher Credentialing-Pre-Internship (\$8 million). The funding provided by this is used to increase general purpose funding.

Educational Revenue Augmentation Fund (ERAF) Increase—During the State budget crises in 1992-93 and 1993-94, a series of measures were enacted requiring local governments (counties, cities, special districts, and redevelopment agencies) to shift a portion of the property taxes that they receive to the ERAF that was created in each county for allocation to school districts, county offices of education, and community college districts. Any property tax revenue growth from year to year is distributed among the local agencies and the county ERAF. Because the State uses the ERAF to support Proposition 98 requirements for schools and community colleges, any growth in the ERAF on an annual basis reduces the State's General Fund Proposition 98 obligation.

In 2003-04, local governments' vehicle license fee revenues were reduced by \$1.3 billion due to lag time necessary to implement higher fees when the offset was eliminated on June 20, 2003. Chapter 231, Statutes

of 2003, provided that this "gap" in funding would be repaid to local governments in 2006-07.

In response to the State's fiscal constraints, the Governor's Budget proposes to continue this gap level of reduction (\$1.3 billion) to local governments in the form of an increased ERAF shift beginning in 2004-05. Local governments would shift approximately \$1.3 billion of property tax revenues to the ERAF in order to decrease the State's General Fund Proposition 98 obligation. Details of the shift proposal will be forthcoming, but will adhere to the structure and methodology of the two prior shifts.

State Department of Education—SDE administers both State and federal education programs and operates the State Special Schools and Diagnostic Centers. The Governor's Budget provides \$112.8 million General Fund, \$172.1 million in other funds, and 2,487.6 personnel years for state operations in 2004-05. Significant federal funds increases include \$1.1 million in 2003-04 and \$688,000 in 2004-05 for work towards a longitudinal student database consistent with federal requirements; \$932,000 in 2003-04 and \$558,000 in 2004-05 for federal child nutrition reporting activities; and \$2 million in 2004-05 for child care fraud investigation.

Proposition 98 Reversion Account—One-time Proposition 98 Reversion Account uses totaling \$199.6 million are proposed as follows:

- \$98.1 million to restore the deferred funding for the Targeted Instructional Improvement Grant program to funding in the year districts incur the costs.
- \$46.3 million to partially restore deferred funding for the School Safety Program.

-
- \$32.7 million to be reserved for court awards and settlements.
 - \$15 million toward Stage 3 Child Care funding needs.
 - \$6.7 million for a 2001-02 shortfall in funding for the K-3 Class Size Reduction Program.
 - \$652,000 for a shortfall in 2002-03 child nutrition funding.

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HIGHER EDUCATION

Overview

The University of California (UC) and the California State University (CSU) perform an essential role in equipping Californians with the knowledge and skills required to meet the challenges of the future. Although the Administration recognizes these institutions are integral to California's economic well-being, the State's current fiscal situation requires that reductions be made to both UC and CSU. As a consequence of the State's current fiscal situation, it is necessary to increase fees for students at these institutions, reduce enrollments, and reduce other expenditures in a way that minimizes, to the greatest extent possible, the impact on classroom instruction.

California's community colleges (CCC) perform an integral role by ensuring that the State's residents are equipped to succeed in an increasingly challenging workplace. While the State's current fiscal situation requires reductions in UC and CSU, the California Constitution's Proposition 98 funding guarantee for K-14 education actually allows for some funding increases for the CCC system in 2004-05 relative to the current fiscal year. These funds are made available for expected increases in students from general population growth, including more prospec-

tive students who will not be able to enroll in UC or CSU as a result of the Legislature's prohibition of providing growth funding for UC and CSU as well as other budget reductions, among other priority needs.

Higher Education Access

Access remains a high priority for the Administration. However, given current fiscal constraints, university access cannot be guaranteed for as many students as in the past. Nevertheless, community colleges provide quality undergraduate instruction at significantly lower cost than that of the UC and CSU systems. The CCC will be asked to help accommodate some of the additional demand for lower division courses to prepare students for transfer as a priority when determining course sections to offer in 2004-05. Overall, sufficient access is provided in the Governor's Budget to ensure a place for every qualified student.

In accordance with legislative intent stated in Chapter 228, Statutes of 2003 (AB 1756), the Governor's Budget proposes no funding for enrollment growth at either UC or CSU. If enrollment growth were fully funded in 2004-05, UC estimates its enrollment would grow by approximately 5,000 full-time equivalent students (FTES), and CSU estimates



its enrollment would grow by approximately 10,000 FTES. Because no enrollment growth funding is proposed for 2004-05, the Administration recognizes that UC and CSU may need to expand enrollment growth-control measures that were initiated in 2003-04.

In view of the current fiscal situation, the Administration is also proposing to reduce the enrollment of new freshmen by 10 percent, which would result in approximately 3,200 fewer new students at UC, and 3,800 fewer new students at CSU. The Administration assumes most of these students would enroll in a community college, and transfer to a UC or CSU upon completing the requisite amount of transferable lower-division units. To ensure that these students enroll in the appropriate transferable courses, the Administration encourages the UC and CSU to establish a new dual admissions process for these otherwise-qualified freshmen, and proposes to provide UC and CSU \$500 per student, so they may furnish them with appropriate counseling. This equates to a budget year augmentation of \$1.6 million for UC and \$1.9 million for CSU, as a partial offset to the reduction for reduced enrollments. Additionally, students entering these new agreements would have their community colleges fees waived.

Total funded FTES for 2004-05 at UC and CSU are respectively proposed at 199,428 and 341,587.

Access to education in the CCC system is proposed to grow by approximately 3 percent through the allocation of \$125.1 million to fund growth in both credit and non-credit FTES. This increase will fund services for approximately 1,137,150

FTES in 2004-05 and should be sufficient, in conjunction with other proposals for the CCC, to ensure courses for students who may not be able access a slot at UC or CSU.

Improving Accountability and Service Delivery in the Universities

As a result of the audit of programs conducted by the Administration, several areas for controlling services and costs were identified. It was found that university fees are generally low compared to their value to students and by comparison with other states, financial aid policies contribute to unsustainable General Fund costs, and subsidies for graduate and professional students are currently too high. Due to the similarities

Higher Education Fees

■ 2003-04 Fee Comparison:^{a/}

	<u>UC^{c/}</u>	<u>Other Public Institutions</u>		
		<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Undergraduate	\$4,984	\$6,873	\$8,481	\$5,851
Graduate	\$5,219	\$9,133	\$12,933	\$7,756
<u>CSU^{c/}</u>				
Undergraduate	\$2,046	\$5,272	\$7,927	\$2,830
Graduate	\$2,256	na	na	na
<u>CCC</u>				
Full-Time Student ^{b/}	\$540	\$1,957	\$4,429	\$768

^{a/} 2004-05 fees are proposed to increase for undergraduate and graduate students by 10 and 40 percent, respectively.

^{b/} Comparison data for other states reflect 2002-03 fees.

^{c/} Fees for UC and CSU do not include campus-based fees of \$546 and \$526, respectively, because it is unknown whether similar fees are included in the comparable institution figures.

■ Both UC and CSU acknowledge that graduate level instruction costs are at least 50 percent higher than the costs of undergraduate instruction.

■ 2003-04 Professional School Fee Comparison:

	<u>UC</u>	<u>Other Public/Private Institutions</u>		
		<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Law	\$16,833	\$26,413	\$33,690	\$12,849
Medicine	\$15,657	\$27,959	\$35,450	\$17,949
Business Adm.	\$15,569	\$28,378	\$39,288	\$8,159

■ Percent of Instruction Paid by Students:

UC	29.3%
CSU	20.1%
CCC	11.3%

in mission, organization, and operations of UC, CSU, and Hastings College of the Law (HCL), this section presents applicable policy solutions that will help the State achieve significant cost reductions in these institutions.

New University Long Term Student Fee

Policy—Prior to the 10 percent fee increases implemented by UC and CSU in 2002-03 and 30 percent increases in 2003-04, students at a California public university had not experienced a fee increase in seven years. From 1994-95 through 2001-02, the State provided UC and CSU with General Fund resources sufficient to offset the revenues they would have generated by increasing student fees. In fact, the amounts received by the segments were sufficient to allow them to reduce fees by 5 percent in both 1998-99 and 1999-00. While this practice was possible in times of surplus, the significant decline in available General Fund resources made it impractical to continue this policy. Nevertheless, fees remain very low in comparison to other states and private institutions.

To ensure public university students are protected in the future from dramatic fee increases as a consequence of declines in General Fund resources, the Administration proposes to establish a long-term fee policy to ensure future fee increases are both moderate and predictable. Specifically, the Administration proposes to link future increases in undergraduate student fees to the increase in per-capita personal income, which reflects the ability of families to pay additional fees. However, to ensure sufficient flexibility to address unforeseen fiscal needs, the Administration proposes that the State policy provide sufficient flexibility to increase fees annually by as much as 10 percent.

Because the cost to educate a graduate student is significantly more than the cost to educate an undergraduate student, the

Administration proposes that UC and CSU be allowed to increase graduate student fees at rates that are higher than the annual growth in per-capita personal income until such time as the graduate fee at each segment is 50 percent higher than the undergraduate fee. Once this threshold is achieved, graduate fees would increase at the same rate as undergraduate fees.

Additionally, due to the State's fiscal constraints, it is necessary to reduce the traditional one-third of new fee revenue set aside for institutional financial aid to 20 percent. This may mean middle-income students receive less assistance, and consequently, may need to increase their family contribution or take out additional student loans.

The Administration's long-term student fee policy will have minimal effect on low-income students. Qualifying low-income students will continue to be eligible to receive federal Pell Grants and Cal Grants, and California's higher education segments will continue to provide financial aid to needy students.

New Policy Governing Excess Units—

Current policy in each higher education segment allows students to take as many units of instruction at uniform fee levels as necessary to achieve their educational objectives. Given the State's fiscal constraints, it is reasonable to limit the subsidized college level units a student can take to more equitably ration State funds. Therefore, the Governor's Budget proposes an elimination of the General Fund subsidy for UC and CSU students who take courses in excess of 110 percent of the total units required to earn their degree. This change will help ensure students graduate in a timely manner, and minimize the cost to the State.

Because most undergraduate majors at UC require 180 quarter units, students would



generally begin paying the additional per-unit charge after completing 198 units. Since most undergraduate majors at CSU require 120 semester units, students there would generally begin paying the additional per-unit charge after completing 132 units.

To allow the segments sufficient time to notify students of this new policy, and to avoid creating a major hardship for continuing students who have accumulated excess units in comparison to their current class standing, the Governor's Budget proposes to phase-in the savings that would otherwise be generated in 2004-05. The Governor's Budget further proposes to allow UC and CSU considerable flexibility in implementing this new policy in the most equitable fashion for both undergraduate and graduate students.

New Professional School Fee Policy—Most professional school graduates achieve significantly higher income levels after graduation than other graduates. It is reasonable to increase fees to that of comparable institutions, including private universities, depending on the state's need for certain professions, the overall cost of instruction, the current subsidy level, and the earnings potential for the specific profession.

The Governor's Budget proposes a 25 percent reduction in the total General Fund subsidy for UC professional school students, with the exception of nursing programs. In addition, other high-need disciplines such as medicine would receive a proportionally lower reduction of the subsidy. The 25 percent reduction also would apply to HCL. While the Governor's Budget anticipates UC and HCL will increase professional school fees to accommodate these reductions, the Administration proposes the segments have maximum flexibility to determine the percentage increase for each professional school student in context of competitive factors and the other relevant variables mentioned above.

Proposed Student Fee Adjustments—In 2003-04, the UC Board of Regents and the CSU Board of Trustees increased student fees by 30 percent to partially offset approximately \$540 million in unallocated General Fund reductions reflected in the 2003 Budget Act. These fee increases were in addition to 10 percent increases that each governing board implemented in 2002-03.

In view of the current fiscal situation, and consistent with the proposed fee policy, the

FIGURE HIED-1

Higher Education Full-Time Equivalent Students

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2004-05 vs. 2003-04
University of California	154,141	155,387	157,811	161,400	165,900	171,270	185,304	196,188	202,628 ^{1/}	199,428	(3,200)
Undergraduate	(116,176)	(117,465)	(119,852)	(123,227)	(127,208)	(132,026)	(144,091)	(152,527)	(159,242)	(154,896)	(4,346)
Graduate	(25,346)	(25,318)	(25,682)	(25,629)	(26,114)	(26,666)	(28,487)	(30,531)	(31,020)	(32,166)	1,146
Health Sciences	(12,619)	(12,604)	(12,277)	(12,544)	(12,578)	(12,578)	(12,726)	(13,130)	(12,366)	(12,366)	0
California State University	253,376	262,428	267,984	273,928	281,782	290,554	316,395	331,353	334,914	341,587	6,673
Undergraduate	(218,529)	(225,624)	(228,909)	(233,155)	(238,923)	(246,511)	(267,100)	(276,607)	(279,611)	(284,880)	(5,269)
Graduate/Post-baccalaureate	(34,847)	(36,804)	(39,075)	(40,773)	(42,859)	(44,043)	(49,295)	(54,746)	(55,303)	(56,707)	(1,404)
Community Colleges	870,720	902,839	925,328	961,049	998,297	1,041,829	1,105,000	1,128,954	1,104,030 ^{2/}	1,137,150 ^{2/}	33,120
Hastings	1,216	1,284	1,156	1,140	1,116	1,198	1,200	1,262	1,250	1,250	0
Total Students	1,279,453	1,321,938	1,352,279	1,397,517	1,447,095	1,504,851	1,607,899	1,657,757	1,642,822	1,679,415	36,593

^{1/} Budgeted. Estimated enrollment is 198,628 for UC

^{2/} Figure reflects DOF projection of budget FTES. There is insufficient data to project unfunded or over-cap levels.

FIGURE HIED-2

Higher Education Expenditures
General Fund, Lottery Funds, State School Fund,
Local Revenues and Student Fees
(Dollars in Millions)

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	One-Year Change	
											Amount	Percent
University of California ^{1/}												
Total Funds	\$2,769.2	\$2,963.9	\$3,096.9	\$3,480.6	\$3,694.6	\$4,228.0	\$4,482.6	\$4,418.5	\$4,519.5	\$4,505.7	-\$13.8	-0.3%
General Fund	1,917.7	2,030.3	2,180.4	2,517.8	2,715.8	3,191.6	3,322.7	3,150.0	2,868.2	2,670.5	-197.7	-6.9%
California State University ^{1/}												
Total Funds	2,229.2	2,417.8	2,513.5	2,741.1	2,813.1	3,104.5	3,433.2	3,525.9	3,677.2	3,587.9	-\$89.3	-2.4%
General Fund	1,629.7	1,824.5	1,872.4	2,098.7	2,175.4	2,429.0	2,680.7	2,697.1	2,622.5	2,409.6	-212.9	-8.1%
Community Colleges												
Total Funds	3,894.2	4,200.4	4,619.3	5,014.5	5,315.4	5,993.4	6,457.1	6,640.7	6,360.9	6,866.9	\$506.0	8.0%
General Fund & P98 ^{3/}	2,948.4	3,208.2	3,531.0	3,747.4	4,136.8	4,510.4	4,701.1	4,860.5	4,485.4	4,900.6	\$415.2	9.3%
Student Aid Commission (GF)	236.8	264.7	295.2	343.4	385.4	487.4	544.0	569.0	630.2	684.0	\$53.8	8.5%
Other Higher Education ^{2/}												
Total Funds	156.3	190.2	181.1	180.4	205.4	223.9	207.5	180.6	211.6	318.9	\$107.3	50.7%
General Fund	146.7	177.2	168.3	166.7	192.0	209.6	192.3	165.0	191.9	293.6	101.7	53.0%
Total Funds	\$9,285.7	\$10,037.0	\$10,706.0	\$11,760.0	\$12,413.9	\$14,037.2	\$15,124.4	\$15,334.7	\$15,399.4	\$15,963.4	\$564.0	3.7%
General Fund	\$6,879.3	\$7,504.9	\$8,047.3	\$8,874.0	\$9,605.4	\$10,828.0	\$11,440.8	\$11,441.6	\$10,798.2	\$10,958.3	\$160.1	1.5%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

^{3/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue as a component of the state's obligation under Proposition 98.

Governor's Budget proposes the following fee increases for both UC and CSU in 2004-05:

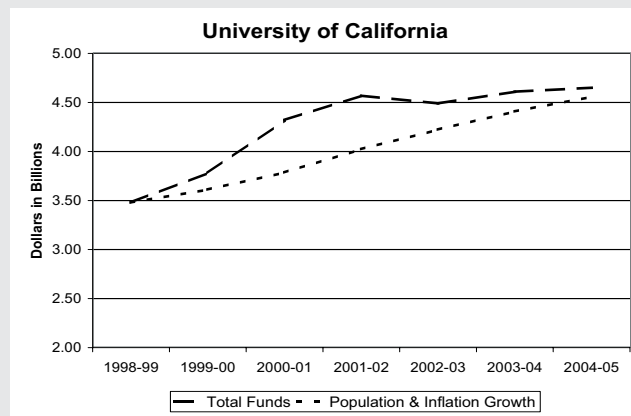
- A 10 percent increase in the systemwide undergraduate fee, which would raise this fee from \$4,984 to \$5,482 per year at UC, and from \$2,046 to \$2,251 per year at CSU.
- A 40 percent increase in the systemwide graduate fee, which would raise this fee from \$5,219 to \$7,307 per year at UC, and from \$2,256 to \$3,158 per year at CSU.
- A 20 percent increase in the out-of-state surcharge, which would raise this fee from \$13,730 to \$16,474 per year at UC, and from \$8,460 to \$10,152 per year at CSU.

Program adjustments for each higher education segment are discussed below. Enrollments for 2004-05 are indicated in Figure HIED-1. Total funding levels (exclusive of capital outlay) are shown in Figure HIED-2.



Key Audit Findings— University of California

- From 1998-99 to 2003-04 General Fund growth increased about 15 percent while enrollment grew 27.4 percent.
- While the total of all funds available for University operations in 2003-04 was \$13.8 billion, only approximately \$4.5 billion was available for basic core instructional and research related operations, reflecting growth of about 30 percent since 1998-99. The remainder of the funds are for designated uses, and are not available to support basic core operations.
- Options for controlling costs in 2004-05 include increasing the student-to-faculty ratio, eliminating General Fund support of outreach, reducing or eliminating support for special research programs, eliminating support for the Digital California Project, reducing the set-aside for institutional financial aid, and raising student share of costs, particularly for graduate students and professional schools.



University of California

Functions of the University of California

UC provides graduate and undergraduate instruction, and is the only segment authorized to independently award doctoral degrees as well as professional degrees in law, medicine, dentistry, and veterinary medicine. In addition, UC is the primary State-supported academic agency for research. UC has three missions: instruction, public service, and research. In addition to providing instruction, UC operates teaching hospitals and clinics, research institutes and laboratories, agricultural field stations, and the Cooperative Extension program.

Program Enhancements and Budget Adjustments

The Governor's Budget provides total funding of \$4.5 billion for UC including \$2.7 billion from the General Fund. The 2003-04 mid-year spending reduction proposal includes General Fund reductions of \$29.9 million to UC's 2003-04 budget. The Governor's Budget proposes additional General Fund reductions that, together with the extension of mid-year reductions, total \$372 million for 2004-05. Approximately \$196 million would be offset by proposed student fee increases. The Governor's Budget proposes to allocate the General Fund reductions as follows:

- \$45.4 million by reducing Academic and Institutional Support, which equates to

approximately a 7.5 percent reduction for these functions.

- \$35.2 million by increasing the student-to-faculty ratio by approximately 5 percent.
- \$33.3 million by eliminating General Fund support for outreach activities.
- \$24.8 million by reducing by 10 percent the enrollment of new freshmen.
- \$14.3 million by eliminating General Fund support for the Digital California Project. It is anticipated that K-12 schools may contribute voluntarily to continue the most beneficial elements of this program.
- \$11.6 million by reducing General Fund support for research by 5 percent.
- \$9.3 million for the first phase of eliminating the General Fund subsidy for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- \$4 million by eliminating the General Fund support augmentation for the Multi-Campus Research Units for Labor Studies.
- \$62.9 million by increasing undergraduate fees by 10 percent.
- \$57.7 million by increasing graduate fees by 40 percent.
- \$42.6 million by decreasing by 25 percent the General Fund subsidy for professional school students, except for those in nursing programs.
- \$32.6 million by increasing the surcharge for out-of-state students by 20 percent.

The Governor's Budget also proposes the following significant General Fund baseline augmentations for UC:

- Restoration of \$80.5 million of the unallocated reduction implemented in 2003-04, that was intended by the Legislature to be one-time in nature.
- \$10 million in one-time funding for costs associated with making the UC Merced campus operational in 2005-06.
- \$34.4 million for increases in annuitant health and dental benefit costs.

California State University

Functions of the California State University

CSU provides undergraduate instruction and graduate instruction through the master's degree and is both authorized to award doctoral degrees in conjunction with UC or a private institution and to conduct research related to its instructional mission. CSU enrolls students from the top one-third of the state's high school graduates, as well as those transfer students who have successfully completed specified college work. Many CSU students are older and/or employed and attend part-time, especially at the graduate level.

Program Enhancements and Budget Adjustments

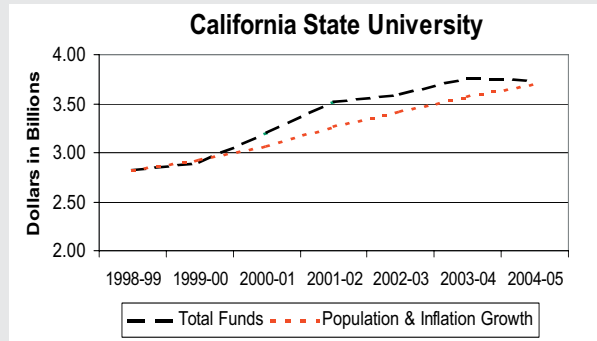
The Governor's Budget provides total funding of \$3.6 billion for CSU including \$2.4 billion from the General Fund. The 2003-04 mid-year spending reduction proposal includes General Fund reductions of \$23.7 million to CSU's 2003-04 budget. The Governor's Budget proposes additional General Fund reductions that, together with the extension



Key Audit Findings— California State University

- From 1998-99 to 2003-04 General Fund growth increased about 18 percent while enrollment grew 24 percent.
- While the total of all non-restricted funds for CSU in 2003-04 was \$5.5 billion, the basic operating budget for direct and indirect instructional costs, including General Obligation Bond debt service, was only \$3.6 billion, an increase of about 29 percent since 1998-99. The costs are funded from three primary sources: State General Fund (\$2.6 billion), student fee and services revenues (\$971 million) and the State Lottery Education Fund (\$39 million).

The other \$1.85 billion in non-restricted funds budgeted for CSU in 2003-04 are primarily for student-centered activities such as housing, food services, and parking (\$1.3 billion), federally funded student financial aid (\$251 million), and a variety of auxiliary activities specified by the federal government (\$301 million).
- Options for controlling costs in 2004-05 include increasing the student-to-faculty ratio, eliminating General Fund support of outreach, reducing the set-aside for institutional financial aid, and raising student share of costs.



of mid-year reductions, total \$311 million for 2004-05. Approximately \$101.5 million would be offset by proposed student fee increases. The Governor's Budget proposes to allocate the General Fund reductions as follows:

- \$52.6 million by reducing Academic and Institutional Support, which equates to approximately a 7.5 percent reduction for these functions.
- \$53.5 million by increasing the student-to-faculty ratio by approximately 5 percent.
- \$52 million by eliminating General Fund support for outreach activities.
- \$21 million by reducing by 10 percent the enrollment of new freshmen.
- \$24.4 million for the first phase of eliminating the General Fund subsidy for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- \$6 million by deferring 10 percent of General Fund support for the Common Management System.
- \$47.4 million by increasing undergraduate fees by 10 percent.
- \$37.9 million by increasing graduate fees by 40 percent.

- \$16.2 million by increasing the surcharge for out-of-state students by 20 percent.

The Governor's Budget also proposes the following significant General Fund baseline augmentations for CSU:

- Restoration of \$69.5 million of the unallocated reduction implemented in 2003-04, that was intended by the Legislature to be one-time in nature.
- \$155 million for increased Public Employees' Retirement System retirement contribution costs beginning in the current year.

Hastings College of the Law

Functions of the Hastings College of Law

Hastings was established in 1878 as the Law Department of the UC. However, it is an independent entity that today grants professional school law degrees in conjunction with the UC. Special concentrations include International and Comparative Law, Civil Litigation, Public Interest Law, and Taxation.

Program Enhancements and Budget Adjustments

The Governor's Budget provides a total budget of \$33.5 million for Hastings in 2004-05 including \$8.1 million in General Fund. The 2003-04 mid-year spending reduction proposal includes unallocated General Fund reductions of \$302,000 in the current year. The Governor's Budget proposes additional General Fund reductions that, in conjunction with extension of the current year reductions, total \$3.4 million for 2004-05. Approximately \$3 million would

be offset by student fee increases. The Governor's Budget proposes the following reductions:

- \$2.8 million by reducing the General Fund subsidy for law students by 25 percent.
- \$402,000 by reducing Academic and Institutional Support, which equates to approximately a 7.5 percent reduction for these functions.
- \$188,000 by increasing the surcharge for out-of-state students by 20 percent.

California Community Colleges

Functions of the California Community College

Community colleges are publicly supported local education agencies that offer academic and vocational education at the lower division level for both younger and older adult students; advance California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement; and provide remedial instruction to hundreds of thousands of adults throughout the state through basic skills courses and adult non-credit instruction.

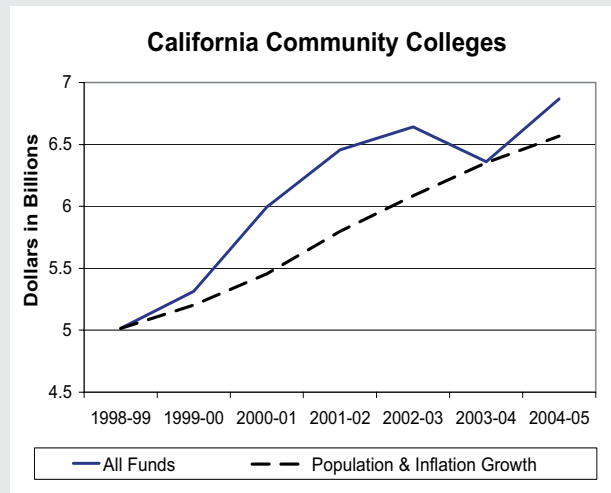
Improving Accountability and Service Delivery

Allocation Practices Should Ensure State Priorities Are Met—In recent years, abusive practices by public school and community college districts were discovered that resulted in excessive claims for concurrently enrolled K-12 students, especially for physical education classes. Although reductions were



Key Audit Findings— California Community Colleges

- Total funding in 2003-04 was \$6.4 billion from all sources, reflecting a 27 percent increase since 1998-99. FTES served increased by over 147,000 for a 15 percent increase. While the General Fund share was \$2.4 billion, reflecting about a 6 percent increase, property taxes included under the Proposition 98 guarantee increased 43 percent over that time period.
- Increasing student fees from \$18 per unit to \$26 per unit would generate up to \$100 million in additional fee revenue, which would offset General Fund support for the CCC. This fee level would enable students to receive the maximum federal Pell Grant award, whereas CCC fees are currently too low to make this federal benefit fully available to qualifying students.
- The Legislative Analyst's Office has previously estimated the national average at \$64 per unit. Raising fees to the national average would generate up to \$677 million in State savings.



made in the Budget to eliminate a portion of inappropriately earned funding and legislation designed to reform the use of this educational option was chaptered (Chapter 786, Statutes of 2003 [SB 338]), no detailed audits of districts for prior years have been conducted. Moreover, the legislation did not go as far as originally proposed by the Department of Finance. Thus, significant levels of low-priority instructional programs are continuing, denying higher priority course sections for adult students in need of transfer courses, vocational instruction, and basic skills training.

Additionally, the current formula used by the Chancellor's Office to allocate growth funds

does not recognize demand for the state's highest priorities and appears more intended to spread funding broadly and protect district budgets to the detriment of high-growth districts. This practice encourages low-priority course offerings which may contribute to the concurrent enrollment abuses mentioned above and works against efficient use of State funds.

In context of these problems, the Administration will further evaluate the statutory context that contributes to these issues for consideration of improving the allocation of general apportionment funding and growth to encourage better resource allocation for State priorities.

Student Fees Should Maximize Federal Financial Assistance and Provide Lower Subsidies for Bachelor's Degree Holders—

In order for the CCC to continue to provide a quality education and maintain access during current economic conditions, the Governor's Budget proposes to increase fees from the current level of \$18 per unit, to \$26 per unit in 2004-05. Students that already possess a Bachelor's or higher degree will pay a fee of \$50 per unit. As a result, fee revenue is estimated to increase by approximately \$91 million, replacing a like amount of General Fund. Even with this fee increase, the CCC will continue to be the most affordable higher education system in the nation, with resident students paying less than 40 percent of the national average for community colleges, or \$780 per year for a full 30-unit credit load. Those possessing Bachelor's or higher degrees would pay the equivalent of \$1,500 per year—significantly lower than either UC, CSU, or even the average community college fee for undergraduates in other states.

Consistent with the audit finding, setting fees at \$26 per unit will enable non-degree-holding students to maximize their eligibility for federal Pell Grants, thereby mitigating the effect of the fee increase and bringing additional federal funds to California. Additionally, the Governor's Budget includes funds to offset the fees waived for all students meeting Board of Governors' (BOG) fee waiver guidelines. Roughly 38 percent of all CCC students in 2003-04 received these BOG fee waivers.

Education Tax Credit

Increasing student fees at California's community colleges to the levels proposed by the Governor's Budget would enable students to access the maximum federal Pell Grant award of \$4,000 per school year. Student fees are currently too low to make the full federal award available to qualifying students, and these federal dollars are therefore not adequately offsetting educational costs for California students. Additionally, not all students may know that if they are making less

FIGURE HIED-3

Significant Revenue Sources for Community Colleges

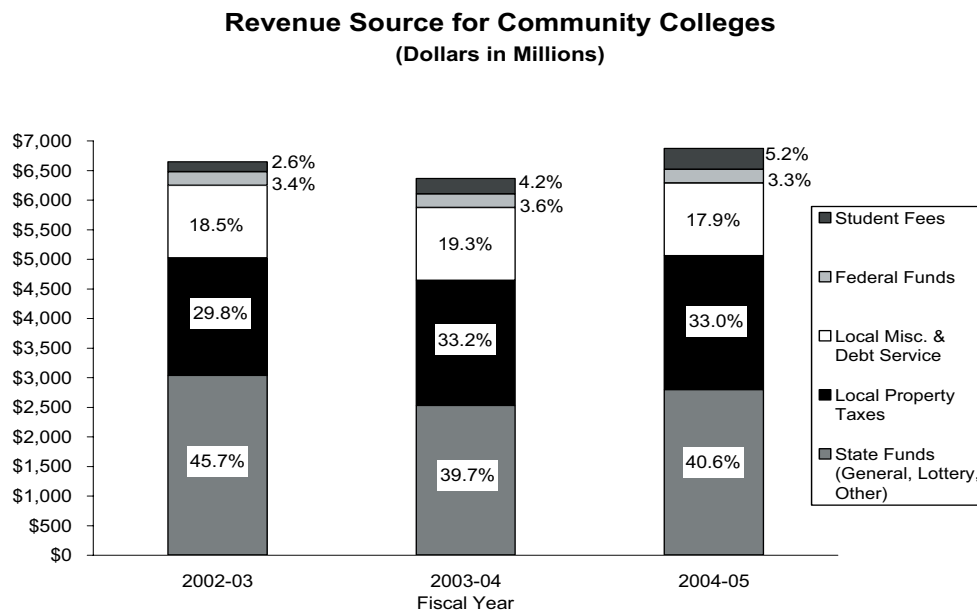
(Dollars in Millions)

Source of Funds	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Change From 2003-04	
												Dollars	Percent
State General Fund	\$1,342.7	\$1,600.3	\$1,872.5	\$2,108.3	\$2,259.7	\$2,551.5	\$2,796.8	\$2,847.0	\$2,879.5	\$2,370.6	\$2,636.1	\$265.5	11.2%
Lottery Fund	100.7	107.4	95.4	108.7	117.8	126.2	121.0	138.1	141.2	140.9	140.9	\$0.0	0.0%
Local Property Taxes	1,332.0	1,348.1	1,335.7	1,422.7	1,487.7	1,585.3	1,713.6	1,854.1	1,981.0	2,114.8	2,264.4	\$149.6	7.1%
Student Fees	174.9	166.9	163.5	166.5	160.2	155.2	156.7	164.0	169.2	265.1	356.1	\$91.0	34.3%
Other State Funds	7.0	7.1	6.4	7.4	7.3	10.0	12.4	11.9	11.3	11.0	10.9	-\$0.1	-0.9%
Federal Funds	146.1	143.7	142.1	150.0	160.8	185.5	197.5	225.9	228.2	228.2 ¹	228.2 ¹	\$0.0	0.0%
Local Miscellaneous	533.8	517	582	652	817	697.0	987.5	1,184.0	1,199.1	1,199.1 ¹	1,199.1 ¹	\$0.0	0.0%
Local Debt Service	<u>1.7</u>	<u>3.6</u>	<u>3.1</u>	<u>4.2</u>	<u>4.4</u>	<u>4.6</u>	<u>8.2</u>	<u>30.7</u>	<u>31.1</u>	<u>31.1</u> ¹	<u>31.1</u> ¹	\$0.0	0.0%
TOTAL REVENUE	\$3,638.8	\$3,894.1	\$4,200.4	\$4,619.3	\$5,014.5	\$5,315.4	\$5,993.4	\$6,455.7	\$6,640.6	\$6,360.8	\$6,866.8	\$506.0	7.6%

1/ 2003-04 and 2004-05 updated revenue estimates for federal, local miscellaneous and local debt service were not available as of Governor's Budget.



FIGURE HIED-4



than \$80,000 per year they may be eligible for a federal tax credit equal to their entire fee payments, up to \$1,000 per year, during their first two years of college. Fully accessing this tax credit could offset student costs and bring more federal dollars to California.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$6.9 billion for the CCC through a combination of State revenue, local property taxes, federal funds, student fees, lottery proceeds, and other local miscellaneous revenues. Of this amount, \$4.7 billion, including over \$2.4 billion in General Fund, counts toward the Proposition 98 guarantee. Figure HIED-3 shows total funding for the CCC in 2004-05. Figure HIED-4 shows the funding sources and their proportions from 2001-02 through 2004-05. Significant augmentations and other changes include:

- **\$125.1 million for Enrollment Growth—** This augmentation proposes 3 percent growth in apportionments that provides access for an additional 33,000 FTES, for a total of 1,137,150 FTES in 2004-05. This level of funded growth exceeds the 1.83 percent change in adult population, which is the current statutory index for system growth. Moreover, in context of expected enrollment attrition of some students in response to proposed fee increases, the Governor's Budget should provide space for significantly more new students because it does not capture any estimated attrition savings. The categorical reforms discussed below also will provide approximately \$4 million to fund additional growth in non-credit FTES.
- **\$80 million for Equalization—** Allocations are proposed to be made to districts currently funded below the 90th percentile of FTES funding systemwide. These allocations will

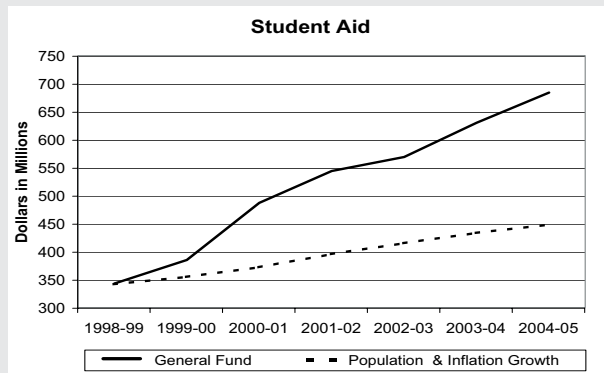
serve to reduce current disparities between districts, providing students with more uniform and equitable access to campus resources on a statewide basis. The equalization formula proposed is consistent with the current statutory formula used for K-12 districts.

- **Categorical Reform**—In order to provide additional flexibility to districts, the Governor's Budget consolidates several groups of programs into single larger programs and increases available discretionary funding in exchange for maintaining accountability for state priority student outcomes, similar to the priorities associated with the sunset Partnership for Excellence. These

consolidations are based either upon the programs currently having similar funding mechanisms or related purposes, and will allow each CCC district to better address its own unique needs, student populations, job environments, and local expectations. Separate programs totaling \$300.8 million, including Matriculation, three Part-Time Faculty programs, the Partnership For Excellence, and district allocations for technology are proposed to be shifted to general purpose funding allocations. Additionally, other programs are combined to reduce the overall number of programs. Finally, two small programs, Teacher and Reading Development Partnerships and the Fund for Instructional Improvement, will be

Key Audit Findings— Financial Aid Programs

- The Budget Act of 2003 provided the California Student Aid Commission a total of \$682.9 million in General fund for Local Assistance, reflecting increases of \$339.5 million (or 98.9 percent) above the 1998 Budget Act.
- Increases were mainly attributable to the enactment of the Cal Grant Entitlement Program in 2000. Prior to the entitlement, the number of Cal Grant awards was limited to funding provided in the 2003 Budget Act. Awards were made to financially needy students on a competitive basis. With the entitlement, recent public high school graduates who meet the minimum academic and financial need requirements will receive an award. Funding for entitlement awards has increased from \$101 million in 2001-02 to \$404.3 million in 2003-04 (or 300 percent).
- The need to keep pace with the number of eligible high school graduates has placed a significant fiscal pressure on the State. Options for reducing costs include increasing eligibility requirements, offsetting Pell Grant awards, and reducing the number and amount of awards.





discontinued and their funding made available for growth in non-credit FTES.

Mid-Year Spending Reduction Proposals— Implementation of Control Section 4.10 from the 2003 Budget Act resulted in the permanent reduction of \$1.87 million (all fund sources) and 32.5 positions from state operations in the CCC Chancellor's Office in the current year. While this reduction was required in order to reach the control section's statewide reduction requirements of \$1.1 billion and 16,000 positions, this and earlier reductions together have reduced the Chancellor's Office staffing by 35 percent since 2001-02. The categorical reform proposal will not only help districts reduce administrative expenditure tracking, but should substantially reduce unnecessary grant administration by the Chancellor's Office.

Financial Aid Programs

Functions of the California Student Aid Commission

California Student Aid Commission (CSAC) administers State financial aid to students attending all segments of public and private postsecondary education. CSAC administers federal and State authorized financial aid, including loans that are federally guaranteed, grants, and work-study programs.

Improving Accountability and Service Delivery

In order to help control the rapid growth in costs of Cal Grants and other financial aid programs in context of the current fiscal situation, the Governor's Budget proposes the following policy changes and reductions:

- \$32.7 million by reducing the maximum Cal Grant award for students at private colleges and universities from \$9,708

FIGURE HIED-5

Financial Aid Grants General Fund and Fee Revenue Funded (Dollars in Thousands)

Institution/Fund Source	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
University of California ^{1/}	\$180,700	\$195,481	\$196,427	\$212,299	\$226,864	\$234,054	\$259,700	\$287,761	\$355,654	\$388,758
General Fund	62,644	62,260	60,251	69,228	85,563	85,563	69,199	52,199	52,199	52,199
Fee Revenue	118,056	133,221	136,176	143,071	141,301	148,491	190,501	235,562	303,455	336,559
California State University ^{1/, 2/}	110,047	114,588	115,974	120,527	127,386	131,618	135,563	132,716	208,867	217,917
General Fund	47,659	47,684	48,417	54,180	65,647	65,647	65,647	51,147	51,147	33,785
Fee Revenue	62,388	66,904	67,557	66,347	61,739	65,971	69,916	81,569	157,720	184,132
Community Colleges ^{1/}										
General Fund	94,050	100,486	101,636	95,275	85,928	89,351	91,853	94,609	161,606	251,793
Student Aid Commission ^{1/}										
General Fund	236,768	264,671	295,199	343,409	385,379	487,438	543,962	569,024	630,165	683,999
Total	\$621,565	\$675,226	\$709,236	\$771,510	\$825,557	\$942,461	\$1,031,078	\$1,084,110	\$1,356,292	\$1,542,467
General Fund	441,121	475,101	505,503	562,092	622,517	727,999	770,661	766,979	895,117	1,021,776
Fee Revenues	180,444	200,125	203,733	209,418	203,040	214,462	260,417	317,131	461,175	520,691

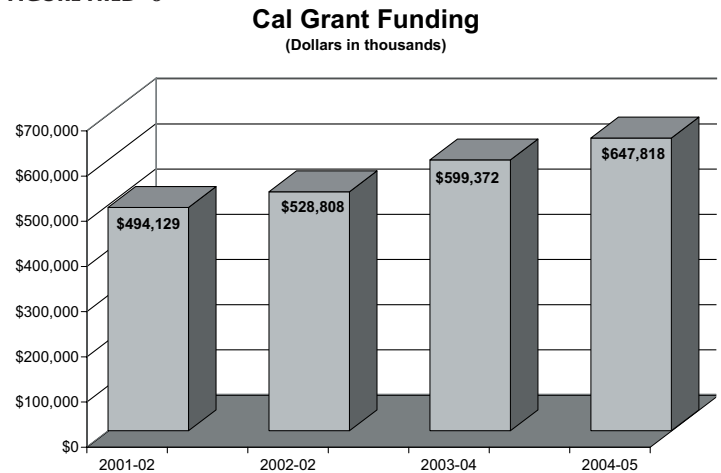
^{1/} Reflects budgeted amounts for 2003-04 and 2004-05.

^{2/} Includes \$14 million GF for EOP grants through 1998-99 and \$17 million from 1999-00 to 2003-04.

per year to \$5,482 per year. The latter figure is equivalent to what the annual undergraduate fee will be at UC, after the proposed 10 percent increase takes effect in 2004-05. This proposal would only impact new awards and would not affect awards issued before 2004-05.

- \$11.2 million by reducing the maximum allowable income for Cal Grant recipients by 10 percent. This proposal would not impact recipients who received an award issued before 2004-05.
- The Administration proposes to decouple Cal Grant awards from the tuition levels at UC and CSU. Otherwise, following current policy would require that Cal Grant awards be increased to cover the undergraduate fee increases proposed for UC and CSU. This policy change would avoid approximately \$23.6 million in additional General Fund costs in 2004-05.
- The Governor's Budget reduces the number of Assumption Program of Loans for Education warrants from 7,700 to 3,500, consistent with the proposed change in the mid-year revision. Reducing the annual number of new awards will save out-year costs of as much as \$46 million for each cohort as the warrants are redeemed. Moreover, in order to maximize the value of warrants issued, the Administration proposes that priority for awards be focused to students that are interested in pursuing teaching careers in areas where the needs are greatest (including mathematics, science, and reading, and providing instruction to students who are visually impaired).

FIGURE HIED-6



Program Enhancements and Other Budget Adjustments

The Governor's Budget provides \$684 million General Fund for the CSAC's financial aid grant programs in 2004-05, an increase of almost \$53 million after the 2003-04 mid-year spending reduction proposal is considered. (See Figures HIED-5 and HIED-6 for total financial aid and growth in CalGrants, respectively). The mid-year proposal includes General Fund Cal Grant reductions of \$50 million for the current year, reflecting estimated savings in the cost of awards from the amount estimated in the 2003 Budget Act. In addition to the savings proposals identified above, the Governor's Budget also includes the following General Fund baseline caseload increases to financial aid programs for 2004-05:

- \$43.7 million for growth in the Cal Grant Program. This reflects a net \$93.7 million year-to-year increase from the revised 2003-04 level projected by the CSAC.
- \$2.1 million for growth in the Assumption Program of Loans for Education Program and Law Enforcement Personnel Dependents Program.

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HEALTH AND HUMAN SERVICES

Health and human services programs provide medical, dental, mental health, and social services to California's most needy citizens. For the 2004-05 fiscal year, expenditures for all Health and Human Services Agency budgets total \$64.8 billion in combined State and federal funds. This includes expenditures for approximately 31,384 State employees. Figure HHS-1 displays expenditures for each major program area, and Figure HHS-2 displays program caseloads.

Overview

The Health and Human Services Agency (HHSA) oversees an array of departments and boards that provide essential services to many of California's most vulnerable and at-risk residents. Services provided through programs such as Medi-Cal, CalWORKs, and the regional centers touch the lives of millions of Californians and provide access to critical services that promote their health, well being, and ability to function in society.

Notwithstanding the value and import of HHSA services provided to state residents, many of its major programs represent significant contributors to the overall growth in State expenditures. The State's fiscal challenges compel the Administration to bring

overdue focus on and attention to structural reforms of HHSA's major entitlement programs.

The 2004-05 Governor's Budget proposes to restructure and reform a number of HHSA programs, including Medi-Cal and CalWORKs, and services provided to the developmentally disabled. To inform development of reform proposals, the Administration utilized a number of key principles:

- Maintain essential services to those most in need.
- Recognize children as a priority investment.
- Promote personal responsibility.
- Promote work participation.
- Enhance program effectiveness and accountability.

These reform proposals strike a responsible and reasonable balance between the twin imperatives of maintaining essential services to our state's most vulnerable and at-risk residents, while implementing strategies to better manage and control program costs over the long term.



Department of Health Services

The mission of the Department of Health Services (DHS) is to protect and improve the health of Californians. To accomplish this, the Department administers a broad range of public health programs and the California Medical Assistance Program for low-income individuals and families—Medi-Cal. In 2004-05, DHS' budget totals approximately \$34.3 billion (\$12.2 billion General Fund) and 5,505.1 personnel years. Funding for 2004-05 reflects a General Fund increase of approximately \$991.9 million compared to the 2003 Budget Act.

Public Health

The DHS administers numerous public health programs to prevent disease and premature death and to enhance the health and well-being of Californians. In addition, the DHS works to prevent and control chronic diseases such as Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome

(HIV/AIDS), cancer, cardiovascular disease, and environmental and occupational diseases. Further, the DHS protects the public from consuming unsafe drinking water, manages and regulates the safety of food, drugs, medical devices, and radiation sources, and operates vital public health laboratories that support these activities and programs.

Expenditures for all public health programs and state operations total \$3 billion (\$631.6 million General Fund) in 2004-05. This represents a decrease of \$55.6 million, or 8.1 percent, below General Fund expenditures in the 2003 Budget Act.

Public Health Funding Increases

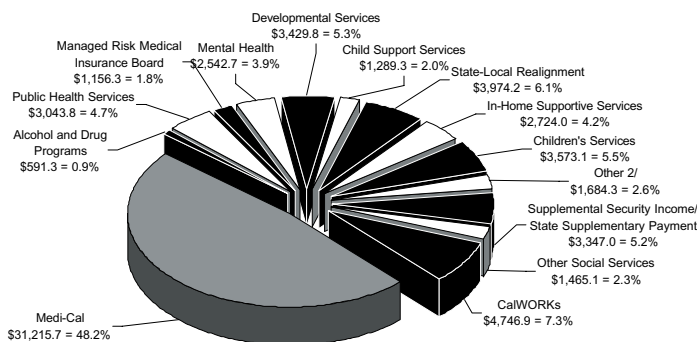
Richmond Laboratories—\$1.3 million (\$424,000 General Fund) in 2004-05 to install and maintain information technology systems that support Phase III of the Richmond Laboratory Campus construction. This phase will complete the consolidation of several decentralized laboratories and offices into one State laboratory and research facility at the Richmond Campus.

Vital Records—\$1.6 million special funds and 5.7 personnel years for the Vital Records Statewide Database are proposed for 2004-05. Implementation of the database will allow the DHS to provide automatically redacted copies of vital records to public parties, and thereby protect the privacy of specific information and help prevent fraudulent use of public records.

Electronic Death Registration System (EDRS)—\$388,000 in special funds for the maintenance and operation of the EDRS is proposed for 2004-05. The EDRS will provide automation of vital statistics on a statewide basis and will help address identity theft and related fraud by providing faster record review and administrative access.

FIGURE HHS-1

Health and Human Services Proposed 2004-05 Funding^{1/} All Funds (Dollars in Millions)



^{1/} Totals \$64,783.5 million for support and local assistance. This figure includes reimbursements of \$4,993.7 million and excludes county funds that do not flow through the State budget and enhanced federal funding.

^{2/} Includes Health and Human Services Agency, Department and Commission on Aging, Departments of Rehabilitation and Community Services and Development, Health and Human Services Agency Data Center, Office of Statewide Health Planning and Development, State Independent Living Council, Emergency Medical Services Authority, California Children and Families Commission, State Council and Area Boards on Developmental Disabilities, and California Workforce Investment Board, and set-asides.

FIGURE HHS-2

Major Health and Human Services Program Caseloads

	2003-04 Revised	2004-05 Estimate	Change
California Children's Services ^{a/} (treatment of physical handicaps)	172,384	177,374	4,990
Medi-Cal Certified Eligible	6,619,900	6,839,700	219,800
CalWORKs			
Avg. Monthly persons served	1,261,000	1,266,000	5,000
Avg. Monthly cases	479,000	481,000	2,000
Foster Care	78,028	80,032	2,004
SSI/SSP (support for aged, blind, and disabled)	1,153,305	1,177,670	24,365
In-Home Supportive Services	317,600	302,400	-15,200
Child Welfare Services ^{b/}	175,867	176,205	338
Non-Assistance Food Stamps	379,538	396,886	17,348
State Hospitals			
Mental health clients ^{c/}	4,712	4,605	-107
Developmentally disabled clients ^{d/}	3,526	3,367	-159
Community Developmentally Disabled Services			
Regional Centers	190,030	199,295	9,265
Vocational Rehabilitation	77,534	79,624	2,090
Alcohol and Drug Programs ^{e/}	372,500	390,100	17,600
Healthy Families Program ^{f/}			
Children	732,300	737,300	5,000

^{a/} Represents unduplicated quarterly caseload in the CCS Program.

^{b/} Represents Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement service areas on a monthly basis. Due to transfers between each service area, cases may be reflected in more than one service area.

^{c/} Represents the year-end population. Includes population at Vacaville and Salinas Valley CDC Facilities.

^{d/} Represents average in-center population.

^{e/} Represents Drug Medi-Cal and Prop 36 Clients.

^{f/} Represents the year-end population.

Bioterrorism Prevention

The Governor's Budget includes \$108.9 million federal funds and 94.8 person-years to enhance California's public health system's preparedness and response to bioterrorism, outbreaks of infectious diseases, and other public health threats and emergencies in 2004-05.

In response to the heightened threat of bioterrorism, Congress authorized fund-

ing through the Public Health and Social Services Emergency Fund to support activities related to countering potential biological threats to the civilian population. For the past two years, the DHS has been awarded grants from the Centers for Disease Control and Prevention and the Health Resources and Services Administration (HRSA), under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002.



Funding in the budget year will provide for the completion of preparedness planning and assessment functions, development of operational plans for the Strategic National Stockpile (a national repository of pharmaceuticals and medical supplies designed to supplement and re-supply State and local health agencies in the event of a national emergency within the U.S. or its territories), detailed training and tools to perform epidemiological investigations, enhancements to surveillance and laboratory capacities, development of a risk communication system, delivery of ongoing training of public health and health care providers, continued build-out of the DHS health alert network, and development of a local assistance program with substantial resources directed to local health jurisdictions. It will also focus on the capacity and ability of hospitals, emergency medical systems, and poison control centers to respond to bioterrorism events.

Children's Medical Services

Functions of the Children's Medical Services Programs

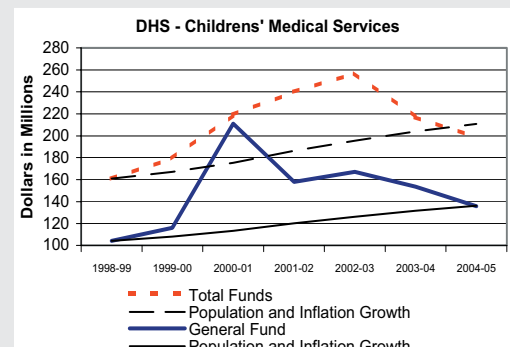
The Governor's Budget proposes a total of \$198.6 million (\$135.8 million General Fund) for DHS' Children's Medical Services Programs (CMS) local assistance funding, which is a decrease of \$40.7 million (\$43 million General Fund), below the 2003 Budget Act. Within the CMS are the following major programs: California Children's Services (CCS), Genetically Handicapped Persons Program (GHPP), and Child Health and Disability Prevention (CHDP). These programs provide medical services, case management, and therapy to persons with extraordinary medical needs who are not eligible for Medi-Cal because of their income status.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes to implement co-payments in GHPP beginning in 2004-05. This proposal will result in savings

Key Audit Findings— Children's Medical Services

- General Fund costs have increased nearly \$84.7 million, or 82 percent, between 1998-99 and the 2003 Budget Act.
- The increase in expenditures is the result of expanded caseload, health care inflation, and higher costs of blood factor products.
- The CMS includes caseload-driven programs. Though not entitlement programs, these programs have been treated as such, providing full funding as enrollment increases.



of approximately \$576,000 General Fund and will continue to maintain the same level of overall funding for the program which will serve an estimated 1,679 clients in the budget year.

To institute controls on unsustainable spending growth in these programs and to encourage better use of existing resources, the Governor's Budget proposes to continue in 2004-05 enrollment caps proposed for the GHPP and CCS in the 2003-04 Mid-Year Spending Reduction Proposals. In doing so, the Governor's Budget will continue to serve up to 1,679 clients in the GHPP and approximately 37,600 clients in the CCS at any point in time. When enrollment exceeds the proposed caps, CCS and GHPP clients will be added to waiting lists on a first-applied, first-served basis. As enrolled clients leave the programs, waiting list clients will be served.

Proposition 99 Expenditures

Californians continue to use fewer tobacco products each year, in part as a result of the effectiveness of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99).

FIGURE HHS-3

Cigarette and Tobacco Products Surtax Fund Proposition 99 Revenues 1989 to 2005 (Dollars in Millions)

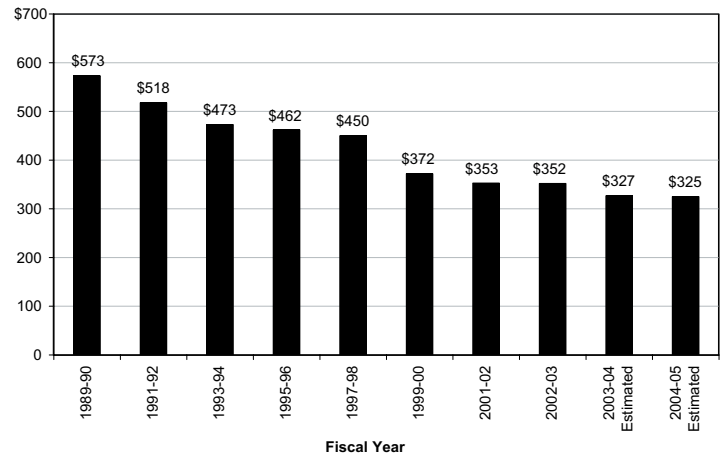


FIGURE HHS-4

Cigarette and Tobacco Products Surtax Fund (Proposition 99) Revenues and Expenditures - 2002-03 Actual (Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	\$12,878	-\$2,237	-\$678	\$8,825	\$428	\$15,769	\$34,985
Prior Year Adjustment	-	1,553	-1	-	190	726	2,219	4,687
Revenues	\$2,137	64,515	112,902	32,258	16,129	16,129	80,644	324,714
Proposition 10 Backfill	-	21,800	-	-	5,400	-	-	27,200
Interest	-	2,077	176	38	1,169	32	604	4,096
Total Revenues	\$2,137	\$102,823	\$110,840	\$31,618	\$31,713	\$17,315	\$99,236	\$395,682
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-\$8,125	-\$8,125
Net Resources	\$2,137	\$102,823	\$110,840	\$31,618	\$31,713	\$17,315	\$91,111	\$387,557
Expenditures:								
Department of Health Services	-	\$63,056	\$54,096	\$2,638	\$4,930	-	\$53,646	\$178,366
Department of Education	-	27,933	-	-	-	-	-	27,933
University of California	-	-	-	-	19,434	-	-	19,434
California Conservation Corps	-	-	-	-	-	\$277	-	277
Forestry and Fire Protection	-	-	-	-	-	366	-	366
Fish and Game	-	-	-	-	-	-	-	-
State Coastal Conservancy	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	13,635	-	13,635
Water Resources Control Board	-	-	-	-	-	1,916	-	1,916
Board of Equalization	\$2,137	-	-	-	-	-	-	2,137
Office of Statewide Health Planning	-	-	-	-	-	-	1,047	1,047
Access for Infants and Mothers	-	-	30,283	13,799	-	-	31,682	75,764
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Direct Pro Rata Charges	-	184	148	17	149	-	225	723
Total Expenditures	\$2,137	\$91,173	\$108,920	\$31,061	\$24,513	\$16,194	\$87,600	\$361,598
Reserve	\$0	\$11,650	\$1,920	\$557	\$7,200	\$1,121	\$3,511	\$25,959



FIGURE HHS-5

Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2003-04 Estimated
(Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	\$13,539	\$1,106	\$60	\$8,032	\$343	\$1,988	\$25,068
Prior Year Adjustment	-	-2,906	784	488	-837	771	1,502	-198
Revenues	\$2,387	61,513	107,647	30,756	15,378	15,378	76,891	309,950
Proposition 10 Backfill	-	13,400	-	-	3,300	-	-	16,700
Interest	-	1,478	176	17	1,169	17	97	2,954
Total Revenues	\$2,387	\$87,024	\$109,713	\$31,321	\$27,042	\$16,509	\$80,478	\$354,474
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-\$7,699	-\$7,699
Net Resources	\$2,387	\$87,024	\$109,713	\$31,321	\$27,042	\$16,509	\$72,779	\$346,775
Expenditures:								
Department of Health Services	-	\$58,920	\$33,462	\$2,328	\$4,738	-	\$41,886	\$141,334
Department of Education	-	26,560	-	-	-	-	-	26,560
University of California	-	-	-	-	21,625	-	-	21,625
California Conservation Corps	-	-	-	-	-	\$285	-	285
Forestry and Fire Protection	-	-	-	-	-	384	-	384
Fish and Game	-	-	-	-	-	775	-	775
State Coastal Conservancy	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	12,116	-	12,116
Water Resources Control Board	-	-	-	-	-	2,107	-	2,107
Personnel Administration	-	-	-	-	-	-	-	-
Board of Equalization	\$2,387	-	-	-	-	-	-	2,387
Office of Statewide Health Planning	-	-	-	-	-	-	1,047	1,047
Access for Infants and Mothers	-	-	50,660	13,768	-	-	26,872	91,300
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Rural Health Demonstration Project	-	-	-	-	-	-	1,047	1,047
Direct Pro Rata Charges	-	173	152	14	149	2	225	715
Total Expenditures	\$2,387	\$85,653	\$108,667	\$30,717	\$26,512	\$15,669	\$72,077	\$341,682
Reserve	\$0	\$1,371	\$1,046	\$604	\$530	\$840	\$702	\$5,093

Consequently, estimated resources (including revenue, carryover, interest, and Proposition 117 transfer funds) for 2003-04 will decline \$15.2 million from the 2003 Budget Act. 2004-05 total resources will be \$36.5 million below the 2003 Budget Act level, which continues the year-to-year decline in this revenue source (see Figure HHS-3 for tax revenues). Due to these declining revenues and higher expenditures in the Healthy Families and Access for Infants and Mothers programs, Proposition 99 funding to other health programs is decreased as noted below:

2003-04 Expenditures—The Governor's Budget proposes expenditures of \$141.3 million to fund existing DHS programs, which includes decreases of \$1.7 million in the California Healthcare for Indigents Program (CHIP) and \$3.2 million in DHS Health

Education expenditures. University of California Research will decline by \$2.2 million and the Department of Education by \$1.5 million.

2004-05 Expenditures—The Governor's Budget proposes expenditures of \$123.4 million for DHS programs. Funding for the Healthy Families and Access for Infants and Mothers programs was increased by \$5.7 million. Due to lower revenues, funding for health programs decline by an average of 15.5 percent. Decreases include:

- \$8 million for Health Education programs.
- \$7.4 million to University of California Research.
- \$6.1 million to the Breast Cancer Early Detection Program.

FIGURE HHS-6

Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2004-05 Estimated
(Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	\$1,371	\$1,046	\$604	\$530	\$840	\$702	\$5,093
Prior Year Adjustment	-	-	-	-	-	-	-	-
Revenues	\$1,997	61,201	107,101	30,600	15,300	15,300	76,501	308,000
Proposition 10 Backfill	-	13,400	-	-	3,300	-	-	16,700
Interest	-	1,478	176	17	1,169	17	97	2,954
Total Revenues	\$1,997	\$77,450	\$108,323	\$31,221	\$20,299	\$16,157	\$77,300	\$332,747
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-\$7,660	-\$7,660
Net Resources	\$1,997	\$77,450	\$108,323	\$31,221	\$20,299	\$16,157	\$69,640	\$325,087
Expenditures:								
Department of Health Services	-	\$50,932	\$29,248	\$2,328	\$5,026	-	\$35,817	\$123,351
Department of Education	-	23,020	-	-	-	-	-	23,020
University of California	-	-	-	-	14,253	-	-	14,253
California Conservation Corps	-	-	-	-	-	\$291	-	291
Forestry and Fire Protection	-	-	-	-	-	381	-	381
Fish and Game	-	-	-	-	-	-	-	-
State Coastal Conservancy	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	10,729	-	10,729
Water Resources Control Board	-	-	-	-	-	2,104	-	2,104
Board of Equalization	\$1,997	-	-	-	-	-	-	1,997
Office of Statewide Health Planning	-	-	-	-	-	-	-	-
Access for Infants and Mothers	-	-	53,055	13,837	-	-	26,872	93,764
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Rural Health Demonstration Project	-	-	-	-	-	-	1,047	1,047
Healthy Families Infants	-	-	-	-	-	-	3,155	3,155
Direct Pro Rata Charges	-	40	44	-	-	-	97	181
Total Expenditures	\$1,997	\$73,992	\$106,740	\$30,772	\$19,279	\$13,505	\$67,988	\$314,273
Reserve	\$0	\$3,458	\$1,583	\$449	\$1,020	\$2,652	\$1,652	\$10,814

- \$4.2 million to the California Healthcare for Indigents Program.
- \$3.6 million to the Department of Education.
- \$2.2 million to various resources departments.

To also help balance expenditures with reduced revenue projections, \$1 million for the Office of Statewide Health Planning and Development—Rural Health Grants is proposed to be eliminated.

Proposition 99 revenues and expenditures for 2002-03, 2003-04, and 2004-05 are reflected in Figures HHS-4 through HHS-6.

HIV/AIDS Treatment and Prevention

Functions of the HIV/AIDS Treatment and Prevention Program

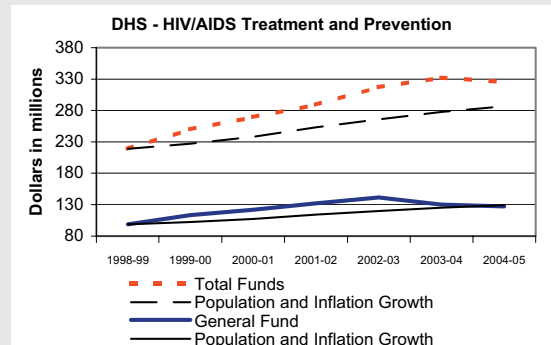
The DHS' HIV/AIDS Treatment and Prevention program administers local assistance programs that provide HIV education and prevention information, HIV counseling and testing, early intervention to prevent transmission, epidemiological studies, therapeutic monitoring, housing, home and community-based care, and HIV/AIDS drug assistance to low-income persons statewide.

The Governor's Budget includes a total of \$323.4 million (\$127.3 million General Fund) for the Office of AIDS' Treatment and Prevention program. This is a decrease of \$6.6 million, or 2 percent, below the



Key Audit Findings— HIV/AIDS Treatment and Prevention

- Costs have increased nearly \$33.7 million, or 35 percent, between 1998-99 and the 2003 Budget Act.
- Nearly half of the AIDS program expenditures are in the ADAP. Though the ADAP is not an entitlement program, caseload increases historically have been funded as such.
- Increased costs in ADAP are largely attributable to caseload growth, increased AIDS drug costs, and expensive new drug therapies.
- The program is not means tested and premiums could be added for recipients with higher incomes.



2003 Budget Act. Nearly half of the total HIV/AIDS program expenditures (\$207.3 million) are in the AIDS Drug Assistance Program (ADAP), which provides financial assistance to HIV/AIDS infected individuals to purchase the often-expensive drugs necessary to manage their disease. Though ADAP is not an entitlement program, caseload increases historically have been funded as such.

Improving Accountability and Other Budget Adjustments

Mid-Year Spending Reduction

Proposal—Beginning January 1, 2004, the Administration proposes to cap AIDS Drug Assistance Program enrollment at approximately 23,900 clients to help prevent unsustainable spending and to preserve the existing level of service for this program. When enrollment exceeds the proposed caps, clients will be added to waiting lists on a first-applied, first-served basis. As clients leave the programs, waiting list clients will be served. The Governor's Budget in-

cludes \$207.3 million (\$63.8 million General Fund) to purchase prescription AIDS drugs for the ongoing program caseload, maintaining the same level of program support as provided in 2003-04. It is estimated that this program will provide treatment to nearly 26,500 clients in 2004-05.

Medi-Cal

Functions of the Department of Health Services—Medi-Cal

Medi-Cal, California's Medicaid program, is a health care entitlement for low-income individuals and families who receive public assistance or lack health care coverage. Federal law requires Medi-Cal to provide a set of basic services such as doctor visits, laboratory tests, x-rays, hospital inpatient and outpatient care, and skilled nursing care. In addition, federal matching funds are available if states choose to provide any of numerous optional benefits. These services are delivered

by a wide range of public and private providers and facilities. Providers are reimbursed by the traditional fee-for-service method or by specific monthly payments under managed care. Medi-Cal serves one in five Californians.

2003-04 Expenditures—Medi-Cal expenditures are estimated to be \$29.2 billion (\$9.8 billion General Fund), a General Fund decrease of 7.6 percent below 2002-03. General Fund expenditures for 2003-04 are estimated to be \$187.1 million below the 2003 Budget Act, primarily because of the one-time enhanced Federal Medical Assistance Percentage (FMAP) of \$566.1 million received in 2003-04 (see Figure HHS-7).

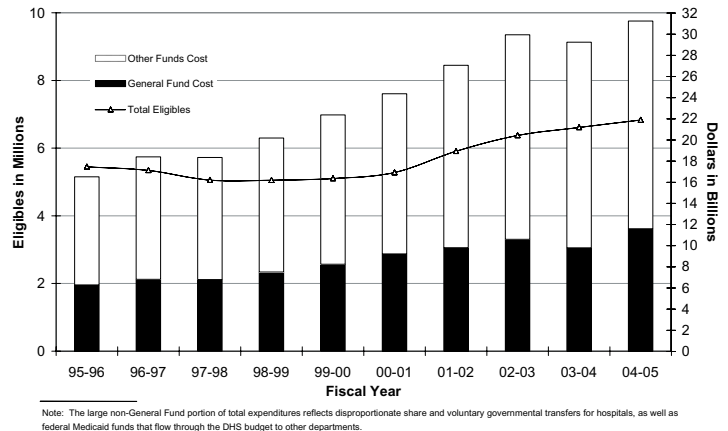
Figure HHS-8 displays annual General Fund costs per average monthly eligible beneficiary.

2004-05 Expenditures—Medi-Cal spending is projected to be \$31.2 billion (\$11.6 billion General Fund), a General Fund increase of \$1.6 billion, or 16.2 percent above the 2003 Budget Act. The General Fund increase primarily reflects the cost of using one-time savings in 2003-04 from the accrual-to-cash accounting change within the Medi-Cal program and the enhanced FMAP received in 2003-04 as a result of section 401(a) of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. Average monthly caseload is expected to increase in 2004-05 by approximately 219,800, or 3.3 percent, to 6.8 million eligibles. Figure HHS-7 displays year-to-year comparisons of Medi-Cal caseload and costs.

Some programs, such as mental health services, in departments other than the DHS, are also eligible for federal Medicaid reimbursement. The federal funding for these programs is included in Medi-Cal expenditure totals, but State and local matching funds typically appear in the budgets for the other State agencies or local governments. Consequently, nonfederal

FIGURE HHS-7

Medi-Cal Caseload and Costs, 1995-96 through 2004-05
(Eligibles in Millions, Dollars in Billions)



matching funds of over \$2.6 billion for those programs are not included in the Medi-Cal program costs.

Caseload—Currently, about 6.8 million people, or just under one in five Californians, qualify for Medi-Cal in any given month (see Figure HHS-9). The number of people eligible for Medi-Cal in 2003-04 is now estimated to be about 3.8 percent above the revised 2002-03 caseload. An increase of 3.3 percent above the 2003-04 caseload is expected to occur in 2004-05. This overall increase compares to an expected 3.3 percent increase in the state's population for the same two-year period.

The number of people made eligible for Medi-Cal through their eligibility for Public Assistance cash grants has been declining since 1995. These eligibles represent 40.6 percent of all Medi-Cal eligibles. Overall caseload is increasing, and the portion comprised of aged, blind, and disabled beneficiaries is expected to increase by 3.9 percent, to slightly more than 1,674,000 beneficiaries in 2004-05. Figure HHS-10 reflects Medi-Cal caseload by eligibility category.



FIGURE HHS-8

Annual Medi-Cal General Fund Cost per Average Monthly Eligible Beneficiary

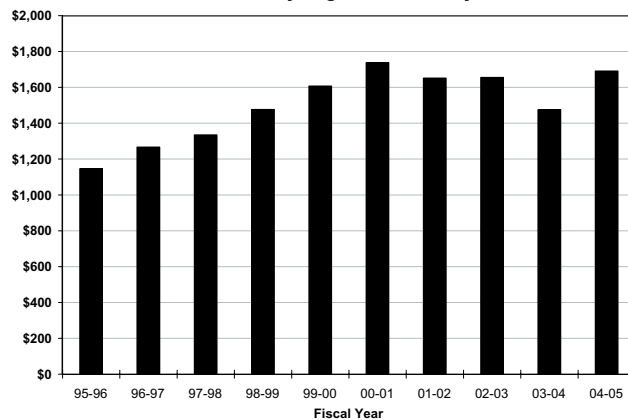


FIGURE HHS-9

Average Monthly Medi-Cal Eligibles as a Percentage of California Population

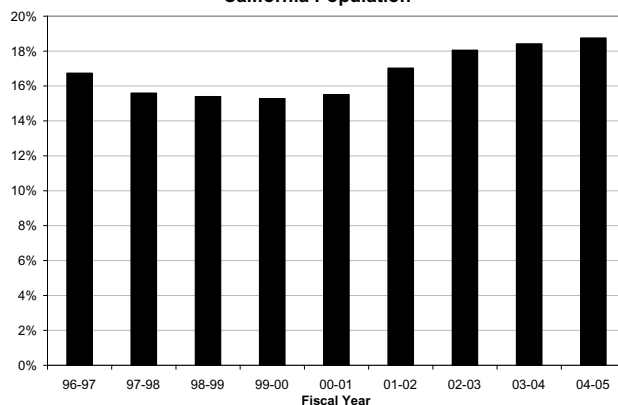


FIGURE HHS-10

Medi-Cal Caseload by Eligibility Category

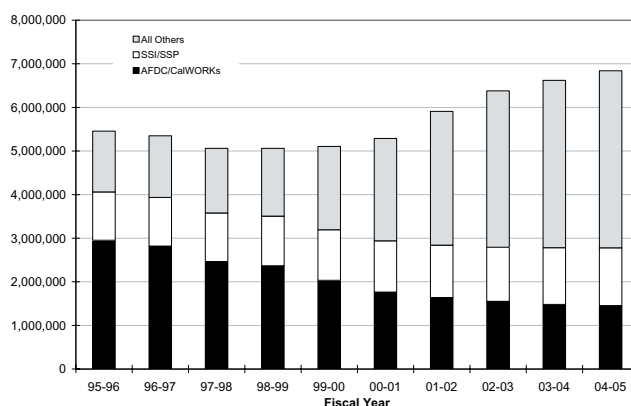


Figure HHS-11 shows federal data from 2001 (the most recent information available from the Centers for Medicare and Medicaid Services) for the ten most populous states. By percentage of state population, California served about 15.3 percent of state residents, exceeded only by New York. California also has one of the lowest average cost-per-recipient rates in the nation—\$4,607 per beneficiary, versus a national average of \$5,475 per beneficiary in federal fiscal year 2001.

California has achieved this rate primarily through negotiated hospital and drug rebate contracts, a high-level of utilization review, extensive prepayment controls, extensive anti-fraud efforts, and conservative provider rate reimbursements. Further, some program expansion populations, such as working parents and children, have resulted in a lower cost per eligible. However, program expansions have put tremendous pressure on the program that is impossible to sustain.

Benefits—All states are federally required to provide specific, basic medical services to Medicaid beneficiaries, including physician, nurse practitioner, and nurse-midwife services; hospital inpatient and outpatient services; specified nursing home care; laboratory and x-ray services; home health care; and early and periodic screening, diagnosis, and treatment services for children until age 21. In addition, federal matching funds are available for numerous optional services. These services include outpatient drugs, adult dental services, optometry, hospice, and occupational therapy. Currently, California offers virtually all optional benefits.

California provides more optional services than any other large state to both categorically eligible and to medically needy persons. Currently, Medi-Cal provides more

FIGURE HHS-11

Federal Medicaid Program - Interstate Comparisons
Ten Most Populous States
Federal Fiscal Year 2001

	Medicaid as a Percentage of State's Budget	Average Monthly Eligibles as a Percentage of Total Population	Expenditures, Total Funds (Dollars in Millions)	Average Monthly Eligibles	Expenditures Per Eligible	Federal Sharing Ratio (FMAP)
All States	19.6	12.9	\$200,431	36,608,300	\$5,475	
California	16.4	15.3	24,345	5,284,500	4,607	51.4
Texas	20.1	9.3	10,542	1,972,900	5,343	60.1
New York	25.3	16.4	20,203	3,114,500	6,487	50.0
Florida	17.0	11.2	8,897	1,831,700	4,857	56.4
Illinois	22.5	11.8	8,458	1,474,300	5,737	50.0
Pennsylvania	28.3	12.0	11,531	1,471,000	7,839	54.6
Ohio	19.8	12.1	8,367	1,378,600	6,069	58.7
Michigan	19.1	11.9	7,249	1,186,000	6,112	56.3
New Jersey	22.3	9.8	7,195	830,700	8,661	50.0
Georgia	19.4	12.7	4,831	1,063,100	4,544	59.0

Sources: National Association of State Budget Officers, the US Census Bureau, the federal Department of Health and Human Services, Centers for Medicare and Medicaid Services, and the Kaiser Commission on Medicaid and the Uninsured.

comprehensive benefits than most employer-funded comprehensive health care programs.

Drugs—During the last few years, the cost of drugs has increased dramatically (see Figures HHS-12 and HHS-13), and pharmaceutical costs have become a significant component of all health care costs. Tech-

nological advances in the development of new drugs, increased advertising of new and more expensive drugs, and expedited federal approval of new drugs have contributed to rising costs. As cost-control strategies, the Medi-Cal program utilizes a Medi-Cal List of contract drugs and a State supplemental rebate program.

FIGURE HHS-12

Prescriptions per User and Cost per Prescription
Fee-for-Service Drugs

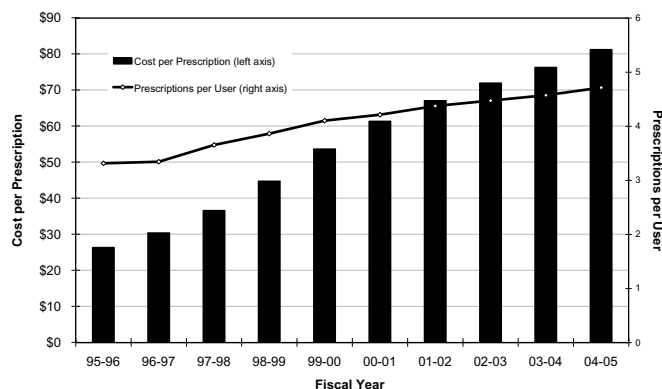
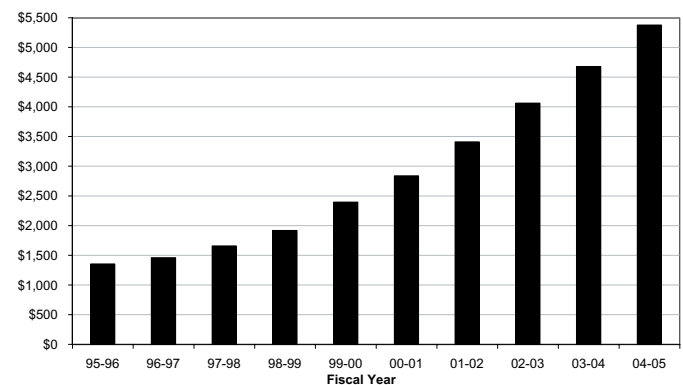


FIGURE HHS-13

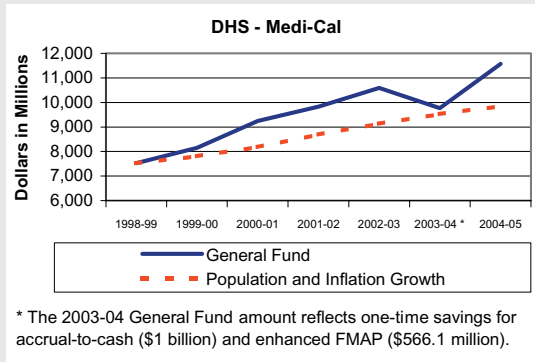
Total Fee-for-Service Drug Expenditures
(Dollars in Millions)





Key Audit Findings—Medi-Cal

- Medi-Cal General Fund expenditures have grown \$3.1 billion, or 41 percent, between 1998-99 and the 2003 Budget Act.
- Based on 2003-04 estimates, approximately \$1.2 billion of the Medi-Cal program's General Fund growth is attributable to several recent program expansions such as Continuous Eligibility for Children, Aged and Disabled Federal Poverty Level (FPL) Program, Elimination of the Quarterly Status Reports, and the 1931(b) Program Expansion.
- The first year's costs of these expansions were \$158 million General Fund. For 2004-05, it is projected that these same expansions will result in expenditures of nearly \$1.3 billion, or an 870 percent increase. The number of new eligibles from these expansions is estimated to be approximately 1.5 million, or 23 percent, of the 6.5 million caseload estimated for 2003-04.
- Other Medi-Cal expansions that are still in the early stages of implementation, but may result in significant General Fund costs in future years include the Accelerated Enrollment Program, the Child Health and Disability Prevention (CHDP) Gateway, and Express Lane Eligibility.
- As illustrated in Figure HHS-10, the number of beneficiaries categorically eligible for Medi-Cal, individuals and families who are automatically eligible because they are eligible for a cash grant or subsistence payment, has been declining since 1995. However, overall Medi-Cal caseload is increasing due to Medi-Cal eligibility expansions for aged and disabled, working parents, and children.
- Options for controlling costs within the Medi-Cal program include: revisiting recent eligibility expansions; reducing benefits; reducing provider payments; restructuring and reforming the program to provide the State with flexibility to meet essential needs of beneficiaries at costs that are affordable to the State, including simplification, a multi-tiered benefit structure for mandatory and optional beneficiaries, co-payments, eliminating some Medi-Cal services that exceed standard private health insurance benefit packages, and expansion of managed care; and expanding anti-fraud and audit efforts, including enhancing Medi-Cal estate recoveries by closing loopholes and expanding hospital billing audits to deter over billings and increase audit recoveries.



Managed Care—Currently, approximately 3.5 million Medi-Cal beneficiaries (more than half of the people receiving Medi-Cal benefits

and services) are enrolled in managed care plans. Managed Care enrollment has increased from 2.4 million enrollees in 1999-00

to a projected total of 3.5 million enrollees in 2004-05. The funding for managed care plans has increased from \$3.4 billion (\$1.7 billion General Fund) in 1999-00 to \$5.4 billion (\$2.7 billion General Fund) in 2004-05.

The Medi-Cal Managed Care program is a comprehensive, coordinated approach to health care delivery designed to improve access to preventive primary care, improve health outcomes, and control the cost of medical care. Managed care includes three major health care delivery systems: the two-plan model, Geographic Managed Care (GMC), and County Organized Health Systems (COHS). Approximately 2.5 million, or 72.5 percent of Medi-Cal managed care beneficiaries, are enrolled in the two-plan model, first implemented in January 1996. Twelve counties were initially selected to offer beneficiaries a choice between two managed care plans. Each two-plan county offers the choice between a commercial plan selected through a competitive bidding process or the county-sponsored "local initiative." The commercial plan consists mainly of providers who have traditionally served the Medi-Cal population. The model assures continued participation by the "traditional" providers and maximizes the types of providers caring for beneficiaries.

The GMC model allows the State to contract with multiple managed care plans in a single county. The first GMC system was implemented in Sacramento in 1994. A second GMC system began operation in San Diego County in 1998-99. Approximately 342,000 beneficiaries are enrolled in GMCs.

The third model, the COHS, administers a prepaid, comprehensive case-managed health care delivery system. This system provides utilization controls, claims administration, and health care services to

all Medi-Cal beneficiaries residing in the county. Five COHSs serving seven counties are currently in operation. Approximately 621,100 beneficiaries are enrolled in COHSs.

2003-04 Mid-Year Spending Reduction Proposals

Generally speaking, since Medi-Cal costs are driven by the number of eligibles, the services provided, and the rates paid to providers for the services, options for controlling costs include serving fewer people (for example, by eliminating recent eligibility expansions), providing fewer services (for example, by eliminating optional benefits), or reducing rates paid to providers.

To begin the process of reducing escalating, unsustainable costs, the 2003-04 Mid-Year Spending Reduction Proposals included solutions to achieve General Fund savings of \$206.9 million in 2003-04 and \$479.4 million in 2004-05, as follows:

- Additional 10 percent rate reduction for specified Medi-Cal providers, including physicians, non-emergency medical transportation, home health, and other medical providers and services, achieving General Fund savings of \$160.9 million in 2003-04 and \$462.2 million in 2004-05.
- Elimination of the Wage Adjustment Rate Program, which was established in 2000-01 to provide supplemental payments to long-term care facilities that have a collectively bargained agreement to increase salaries, wages, or benefits for caregivers, to achieve General Fund savings of \$46 million in 2003-04.
- Capping enrollment in Medi-Cal for immigrants at the January 1, 2004 level (909,500 beneficiaries), to achieve General Fund savings of \$17.2 million in 2004-05.



Major Programmatic Reform

Over the past 30 years, the Medi-Cal program has grown dramatically—in the number and types of people served, in the array of services provided, in the systems used to deliver services, and in the costs incurred by California taxpayers. This growth has occurred within a federal program model that is cumbersome, overly complex, and provides the State with limited flexibility to make necessary modifications that reflect changing times. The federally dictated model is outdated and has resulted in program costs that California can no longer afford.

While the status quo is unacceptable, so too are the approaches employed in previous years that sought to control increasing Medi-Cal costs exclusively by eliminating large numbers of people from Medi-Cal and/or reducing optional benefits. Instead, if we are to protect the long-term viability of Medi-Cal and its ability to provide necessary medical services to eligible low-income residents, Medi-Cal must be restructured and reformed to provide the State with flexibility to meet essential needs of beneficiaries at costs that are affordable to the State.

The Governor's Budget proposes to restructure the Medi-Cal program by obtaining a Medicaid Demonstration Waiver from the federal government that would provide the State with the flexibility to continue to provide health care coverage to over 6.8 million currently eligible Californians, but do so in a more rational and affordable manner. At its core, this reform proposal would ensure that essential services continue to be provided to the low-income populations now covered by Medi-Cal while avoiding the need to make major, across-the-board reductions in program eligibility, benefits, or further provider rate reductions. By building on the reform concepts utilized by other states that have

successfully restructured their Medicaid programs and better aligning Medi-Cal coverage with private sector coverage, this proposal would restructure Medi-Cal to be a more modern model that would enable the State to invest limited resources in a more efficient manner.

The Administration's reform proposals revolve around the following key principles:

- Simplify Medi-Cal eligibility standards.
- Maintain core Medi-Cal benefits for all children and those adults in most need of these benefits.
- Continue coverage for higher-income adults, offering these beneficiaries a choice of benefit packages.
- Promote personal responsibility in decision making related to the utilization of health care services by implementing co-payments and premiums.
- Expand managed care.

Due to the time needed to obtain and implement a Medicaid waiver, this proposal may not reduce Medi-Cal expenditures in fiscal year 2004-05 (no savings are included in the Budget). The redesign, restructuring, and statutory changes for this effort must begin now to ensure that the waiver is available to control Medi-Cal costs in fiscal year 2005-06. The Administration intends to engage stakeholders, constituents, and the Legislature to help inform the design of these reform efforts. Implementation would use a phased-in approach, allowing the State to monitor the progress, and make adjustments as needed as implementation issues arise. It is anticipated that savings of \$400 million General Fund could be achieved in 2005-06. Other states are implementing similar

program reforms and anticipate savings ranging from 5 to 10 percent.

2004-05 Governor's Budget

The Governor's Budget embraces an alternative, strategic approach to controlling costs in the Medi-Cal program. The Governor's Budget proposes various reform measures to control costs and program growth, and expand Medi-Cal anti-fraud and audit efforts, as well as implement other program enhancements and efficiencies.

Medi-Cal Reform—This proposal would provide resources to the DHS to seek a Medicaid Demonstration Waiver to redesign the Medi-Cal program.

The key components of this proposal may include:

- **Simplification**—The State may simplify Medi-Cal eligibility by aligning Medi-Cal's eligibility standards and processes with those of CalWORKs and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. Income standards and property tests could be aligned with CalWORKs for children and families, and with SSI/SSP for the aged, blind, and disabled.
- **Multi-Tiered Benefit/Premium Structure**—The State may offer different benefit packages, and could require different premium amounts, for the various mandatory and optional populations within Medi-Cal. States are required to continue to provide the benefit package specified in their Medicaid State Plan to federally mandatory populations (children, disabled, and certain long-term care beneficiaries). However, states have additional flexibility under federal law (the Health Insurance Flexibility Initiative) to modify their current benefit packages for

optional Medicaid populations. With a federal waiver, California could structure a tiered benefit program that provides comprehensive benefits to the mandatory populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums.

- **Co-Payments**—The State may require co-payments from Medi-Cal beneficiaries for various services, deduct the co-payment amount from the provider reimbursement amounts, and give providers legal authority to require the co-payment as a condition of providing non-emergency care.
- **Conform Benefits to Private Plans**—The State may conform the basic Medi-Cal optional benefit package to that of private health plans. Other states, such as Oregon, offer selected optional benefits to all eligibility categories. A basic benefit package could include inpatient and outpatient services, physician services, laboratory and x-ray services, ambulance, prescription drugs, durable medical equipment, dental, and certain mental health services, but exclude other comprehensive benefits such as chiropractic and acupuncture services.
- **Managed Care Reform**—The State may expand managed care into additional counties, review and reform managed care reimbursement policy to ensure access and appropriate utilization, and encourage enrollment of the Aged, Blind, and Disabled into managed care. This proposal may not generate any budget year savings due to the lengthy process of reforming the managed care delivery system and securing State and federal



approvals. Implementation would begin in 2005-06, using a phased-in approach.

Medi-Cal Anti-Fraud and Audit Efforts—

The DHS anti-fraud efforts benefit Medi-Cal by generating either program savings or cost avoidance. Savings are achieved when actively fraudulent providers are identified, and claims are no longer paid or overpayments are recovered. Cost avoidance results when fraudulent providers are prevented from initial enrollment in Medi-Cal, avoiding fraudulent charges before they occur. Anti-fraud efforts implemented since 2000-01 have resulted in savings of \$371 million General Fund and cost avoidances of \$352 million General Fund.

The Governor's Budget includes the following proposals to further enhance efforts to combat fraud, waste, and abuse in the Medi-Cal program:

■ **Enhance Medi-Cal Estate Recoveries and Increase Long-Term Care**

Insurance Purchases—This proposal would close a loophole used by middle-income persons to prevent the State from recovering assets from their estates. Proposed statutory changes would authorize the DHS to recover Medi-Cal costs from annuities included in deceased beneficiaries' estates. Concurrent with this proposal, the DHS would continue to increase the number of middle-income persons purchasing long-term care insurance, which serves to control Medi-Cal program costs.

- **Expand Hospital Billing Audits—**This proposal would increase the number of field audits of fee-for-service (non-contract) hospital cost reports, home office cost reports, and related billings. Due to recent budget reductions, the DHS has substituted desk audits for some field

audits, resulting in a decrease in audit recoveries. However, as these positions deter over-billings and are cost-effective, the Governor's Budget proposes an additional 41 staff for the DHS at an annual cost of \$4.7 million (\$2.4 million General Fund), to be phased in during 2004-05 to achieve projected gross savings of approximately \$7.7 million (\$3.8 million General Fund), resulting in net 2004-05 savings of \$2.9 million (\$1.4 million General Fund). Annual savings of \$30.6 million (\$15.3 million General Fund) would be achieved beginning in 2005-06.

- **Provider Feedback—**This proposal would allow the DHS to send mid-year billing data to Medi-Cal providers with suspicious billing patterns. Previous efforts have resulted in decreased billings from those providers. The DHS would implement this proposal within existing resources, and savings of \$5 million (\$2.5 million General Fund) would be achieved in 2004-05.
- **Beneficiary Confirmations—**This proposal would allow the DHS to confirm receipt of services or products with selected Medi-Cal beneficiaries via mail or on-site visits. The DHS would implement this proposal within existing resources, and savings of \$2 million (\$1 million General Fund) would be achieved in 2004-05.
- **Restrict Electromyography and Nerve Conduction Tests to Specially-Trained Physicians—**Currently, any physician, regardless of their specialty, can bill Medi-Cal for electromyography (a test that measures muscle response to nerve stimulation) and nerve conduction tests. There has been a considerable

amount of fraud and abuse identified in the billing of these tests by physicians who are neither trained to conduct the tests nor interpret the results. This proposal would restrict the billing to neurologists, physical medicine, and rehabilitation trained physicians who have received specialized training in electromyography and nerve conduction tests. This proposal would result in savings of \$1.3 million (\$652,000 General Fund) in 2004-05 and \$2.3 million (\$1.1 million General Fund) annually thereafter.

- **Implement Counterfeit-Proof Prescription Pads**—This proposal would require all prescriptions for Medi-Cal beneficiaries to be written on prescription blanks obtained from State printing vendors, which would reduce forging and/or altering of prescriptions and provide an inventory of prescribers' drug orders. As there would be significant lead-time required for implementation of this proposal, there would be no savings in 2004-05; however, estimated savings in 2005-06 could be between \$7 million and \$14 million General Fund, with annualized savings increasing as the deterrent factor would also generate savings over time.
- **Convert 15 Limited-Term Medi-Cal Anti-Fraud Positions to Permanent**—The Budget Act of 2002 established 40 DHS positions for Medi-Cal anti-fraud activities. These positions perform provider enrollment and re-enrollment reviews to identify, investigate, and remove fraudulent providers from the Medi-Cal program. Fifteen of these positions were scheduled to expire June 30, 2004, to provide an opportunity to review the effectiveness of these positions. As a result of these additional 40 positions, savings

due to Medi-Cal provider enrollment reviews increased from \$35.9 million (\$17.9 million General Fund) in 2001-02 to \$59.7 million (\$29.9 million General Fund) in 2003-04. The Governor's Budget proposes to provide \$1,239,000 (\$443,000 General Fund) to continue these limited-term Medi-Cal anti-fraud positions permanently.

- **Transfer Medi-Cal Audit Positions from the State Controller's Office (SCO) to the DHS**—This proposal would shift the workload to 20 new positions at the DHS. This proposal would reduce state operations costs for this workload by approximately \$300,000 General Fund due to efficiencies achieved, and would provide better coordination.
- **Reduce Medi-Cal Provider Float**—This proposal would delay Medi-Cal check-writes by one week, to allow additional time for the DHS to investigate potentially fraudulent claims before checks are issued. This proposal would result in one-time General Fund savings of \$143.5 million in the 2004-05, and would not require statutory or regulatory changes, as provider payments would still be made within State and federal time limits. The Administration anticipates that the one-time savings would be replaced with some level of ongoing savings from reduced fraud.

Program Enhancements and Other Budget Adjustments

Assess Quality Improvement Fee on Medi-Cal Managed Care Plans—The Medi-Cal managed care plans provide health services to approximately 3.5 million beneficiaries. The Governor's Budget proposes to allow the DHS to assess a 6 percent



quality improvement fee on all lines of business within the Medi-Cal managed care plans as a vehicle for leveraging and receiving additional federal funding. Medi-Cal managed care plans wishing to participate would be required to break off the Medi-Cal portion of their business into a separate entity as a condition of federal approval.

This proposal would generate additional federal funding for the health plans and would result in savings of \$75 million for the General Fund in 2004-05.

This proposal replaces a 2003 May Revision proposal that would have allowed the DHS to assess a quality improvement fee on only the Medi-Cal line of business within the health plans. This proposal was approved by the Legislature and was included in the 2003 Budget Act, with savings of \$37.5 million General Fund assumed in 2003-04. The federal government has stipulated that the fee would have to be assessed on all lines of business within the health plan, not just the Medi-Cal line of business. As a result, the State will not be able to implement the proposal as included in the 2003 Budget Act.

Controlling County Administration Costs within the Medi-Cal Program—Because counties do not share in either the administrative or benefit costs of Medi-Cal, there is no incentive for counties to control Medi-Cal costs. The Governor's Budget proposes to implement a formal plan to control county welfare department allocations for Medi-Cal eligibility determinations. The DHS would submit a control plan to county welfare departments in January 2005, including productivity standards and overall performance standards. Budget bill language is also proposed to restrict county wage increases to specified cost-of-living adjustments (COLAs), with the intent of reducing the wide disparity

in efficiency that exists among the different counties. This proposal would result in savings of \$20 million (\$10 million General Fund) in 2004-05, with savings reaching \$40 million (\$20 million General Fund) at full implementation.

Adult Day Health Care (ADHC) Reform—

This proposal would institute ADHC reform by implementing a one-year moratorium on new ADHC centers and a moratorium on certification for increased capacity of existing ADHC centers. These centers would continue to be licensed by the DHS and would continue receiving private pay reimbursement. This proposal would also remove therapy and transportation from the bundled ADHC reimbursement rate, allowing the ADHC centers to bill for these services separately. This proposal would result in savings of \$25.4 million (\$12.7 million General Fund) in 2004-05.

Reduce Interim Rates by 10 Percent for Cost-Reimbursed Acute Care Hospitals—

Currently, the interim rate of payment for each cost-reimbursed acute care hospital is calculated, as closely as possible, to the reimbursable cost for providing services to Medi-Cal beneficiaries. The interim rate provides payments as services are being provided throughout the fiscal year. The annual cost report is then reviewed, audited, and reconciled to the interim payment previously made for the fiscal year five months after the hospital's fiscal year end.

The Governor's Budget proposes to reduce the interim rate paid to acute care hospitals by 10 percent effective December 1, 2003. The hospital would continue to be cost-settled at the end of the fiscal year, when the DHS has received and audited the hospital's cost reports. This proposal would not reduce the total Medi-Cal payments for hospital inpatient services, but would result in savings

of \$36.2 million (\$18.1 million General Fund) in 2003-04 and \$62 million (\$31 million General Fund) in 2004-05.

Revise Rate Methodology for Federally Qualified Health Centers and Rural Health Clinics

—These facilities, which serve a large portion of the low-income population, receive enhanced reimbursement from Medicare and Medi-Cal. Federal legislation required reimbursement to these facilities be changed to a Prospective Payment System effective January 1, 2001. The new rates were to be calculated using the average of the 1999 and 2000 cost reports. However, the prior Administration allowed the election of only the 2000 cost report as an alternative rate methodology. Additionally, the calculation of these rates was based on reported, un-audited cost information, resulting in an overstatement of costs in some instances.

This proposal would seek federal authority through a State Plan Amendment to eliminate the alternative rate methodology, and to recalculate and set the rates prospectively using the average of the 1999 and 2000 cost reports, as was originally required in the federal legislation, and base the rates on audited or reconciled cost information. This proposal would result in savings of \$7.6 million (\$3.8 million General Fund) in 2003-04, and \$64.5 million (\$32.2 million General Fund) in 2004-05.

Health Insurance Portability and Accountability Act

In August 1996, the federal Health Insurance Portability and Accountability Act (HIPAA) was signed into law. The HIPAA is designed to improve the availability of health insurance to working families and their children. It also requires administrative simplification, revised security procedures, and fraud control.

The HIPAA is comprised of several rules aimed at meeting these goals.

The HIPAA impacts 14 departments statewide, and the California Office of HIPAA Implementation (CalOHI) is statutorily required to provide statewide oversight for HIPAA implementation.

The 2003 Budget Act includes \$75.4 million (\$21.2 million General Fund) to continue HIPAA compliance efforts. The 2003-04 Mid-Year Spending Reduction Proposals reduced funding for the HIPAA in 2003-04 to \$61.2 million (\$15.8 million General Fund), primarily as a result of unexpended prior year or unneeded current year funding for contracts.

As part of development of the Governor's Budget, CalOHI performed a zero-based, statewide analysis of HIPAA resources by department. As a result, resources should be realigned between departments, including slight increases for the Departments of Aging, Mental Health, Veterans Affairs, and the Managed Risk Medical Insurance Board, and slight decreases for the Departments of Social Services, Alcohol and Drug Programs, Health Services, and CalOHI. The Governor's Budget proposes \$65 million (\$18.5 million General Fund) to continue HIPAA compliance efforts.

Emergency Medical Services Authority

Functions of the Emergency Medical Services Authority

The Emergency Medical Services Authority (EMSA) provides statewide coordination of emergency medical services (EMS), regulates the education, training, and certification of EMS personnel, develops guidelines for local



EMS, and coordinates the State's medical response to any disaster. The Governor's Budget proposes \$22.4 million (\$10.7 million General Fund) and 43 personnel years to carry out the Department's programs in 2004-05.

Program Enhancements and Other Budget Adjustments

Hospital Bioterrorism Preparedness Program—The Governor's Budget proposes that \$6 million in federal grant funds be utilized to support specific anti-bioterrorism activities by the State and its counties. The grant funds have been awarded by the federal Health Resources and Services Administration to the Department of Health Services, as part of a larger grant, and will be passed through to the EMSA. Specifically, the \$6 million will be used to increase the hospital, community clinic, and emergency medical system capac-

ity to respond to injuries and illnesses that result from incidents of bioterrorism, develop mutual aid plans to serve areas not currently covered by EMS agencies in the event of acts of bioterrorism, and enhance the capability of the California Poison Control System to report data suggestive of bioterrorism actions to local and State health departments in a timely manner.

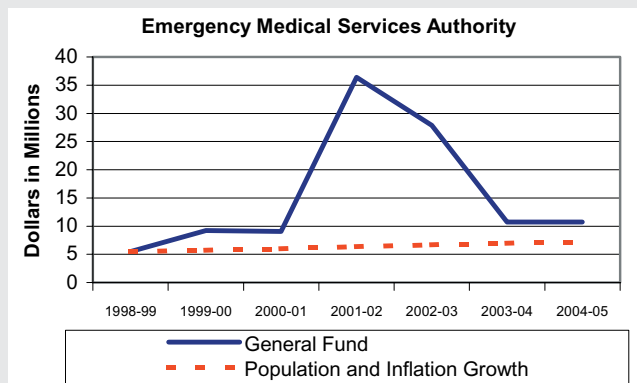
Managed Risk Medical Insurance Board

Functions of the Managed Risk Medical Insurance Board

The MRMIB administers programs that provide health care coverage through private health plans to certain groups without health insurance and develops policy and recommendations on providing health care insurance to the 6.3 million Californians

Key Audit Findings— Emergency Medical Services Authority

- The EMSA budget increased by \$9 million (\$5.3 million General Fund), or 95 percent, from 1998-99 to the 2003 Budget Act.
- The major General Fund increases in 2001-02 (\$30 million) and 2002-03 (\$20 million) were for support of local trauma care centers, which were the result of legislative budget augmentations. No General Fund was provided to the EMSA for trauma system support as of the 2003 Budget Act.
- The \$5.3 million General Fund growth from 1998-1999 to 2003-04 is largely attributable to a backfill of lost federal fund support for the California Poison Control System to provide a stable, ongoing funding source.



who go without health care coverage in a given year. The three programs administered by the MRMIB are the Healthy Families Program, the Access for Infants and Mothers program, and the Major Risk Medical Insurance Program.

Healthy Families Program (HFP)—This Program is a subsidized health insurance program for children in families with low-to-moderate income who are ineligible for no-cost Medi-Cal. This program provides low-cost health, dental, and vision coverage to eligible children from birth to age 19.

HFP expenditures for the MRMIB grew from \$59.3 million (\$15.6 million General Fund) in 1998-99 to \$839.1 million (\$305.5 million General Fund) in 2004-05, an increase of \$289.9 million General Fund, or 1,858 percent. Since year-end 1998-99, children's caseload has grown from about 132,000 to an expected 737,000 in 2004-05 for a total increase of 605,000 children, or 458 percent. Figure HHS-14 displays historical caseload and funding growth for the HFP.

Access for Infants and Mothers (AIM)—This program provides low-cost, comprehensive health insurance coverage to uninsured pregnant women with family incomes between 200 percent and 300 percent of the FPL. This coverage extends from pregnancy to 60 days postpartum, and covers infants up to two years of age. The Governor's Budget includes a total of \$117.3 million (\$98.6 million Perinatal Insurance Fund) for this program, a net decrease of \$750,000 (\$1.2 million General Fund decrease, \$2.6 million Perinatal Insurance Fund increase, and \$2.2 million federal funds decrease) below the 2003 Budget Act. These funding changes reflect updated caseload estimates, as well as the shift of certain infants born to AIM mothers into the HFP, in accor-

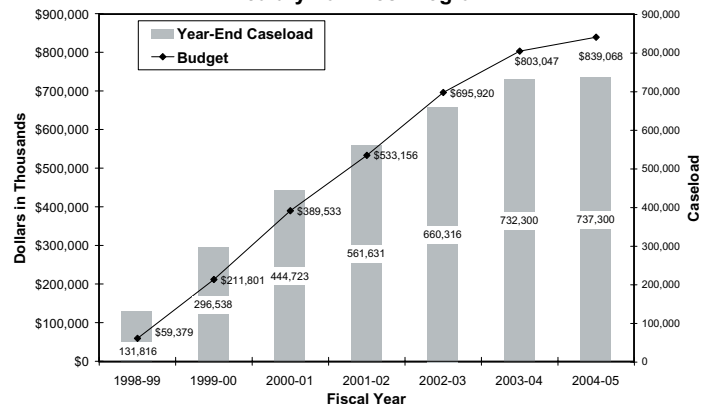
dance with the omnibus health trailer bill to the 2003 Budget Act.

The Budget for this program has increased from \$41.7 million (\$37.5 million Perinatal Insurance Fund) in 1998-99 to \$117.3 million (\$98.6 million Perinatal Insurance Fund) in 2004-05, for a total increase of \$75.6 million (\$61.1 million Perinatal Insurance Fund), or 181 percent. Since 1998-99, caseload has grown from 6,288 women and infants to a total of 14,139 women and infants in 2004-05, or an increase of 125 percent.

Major Risk Medical Insurance Program (MRMIP)—This program provides health care coverage to medically high-risk individuals and the medically uninsurable who are refused coverage through the individual health insurance market. Program enrollment is "capped" at the level of annual funding provided. The program currently provides benefits to a total of 7,088 persons, with 87 persons on the waiting list. The waiting list has declined due to the recent implementation of Chapter 794, Statutes of 2002 (AB 1401), which uses a market-based solution to reduce the waiting list of applicants. Pursuant to Chapter 794, effective September 1, 2003, subscribers who had been in the program for 36 months began

FIGURE HHS-14

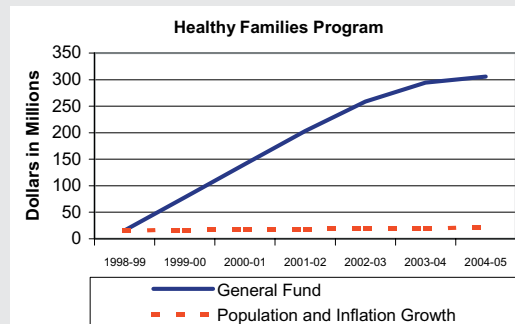
**Managed Risk Medical Insurance Board
Healthy Families Program**





Key Audit Findings— Healthy Families Program

- Costs have increased in the Healthy Families Program by \$279.7 million General Fund, or 1,705 percent, between 1998-99 and the 2003 Budget Act.
- These cost increases are largely due to increased caseload, which has grown by 459 percent in that same time period.
- To address the significant, unsustainable growth in expenditures, the program could be capped and higher premiums could be required for children in higher income families.



transitioning into guaranteed-issue coverage offered by health plans in the individual insurance market.

Improving Accountability and Service Delivery

In light of the significant, unsustainable growth in HFP expenditures, the Administration proposes to control future program expenditures by capping enrollment in the near term and providing higher-income program subscribers with a choice of benefit packages in the long term. These proposals would not disenroll any current program subscribers.

- **Cap Healthy Families Enrollment—**As proposed in the Mid-Year Spending Reduction Proposals, enrollment in the HFP is proposed to be capped at the January 1, 2004 level, or an estimated 732,300 children. Waiting lists will be established and as attrition occurs, new enrollments will be accepted. It is estimated that 20,000 children will leave the program monthly in the budget year due to age or income level changes. This proposal would not result in current year

savings due to the increased administrative costs to maintain the waiting list, but is expected to result in budget year savings of \$86.3 million (\$31.5 million General Fund). The enrollment cap would not apply to infants born to mothers enrolled in the AIM program.

- **Two-Tiered Benefit Structure for Children with Family Incomes Between 201 Percent and 250 Percent of the FPL—**Children enrolled in the program with family incomes between 201 percent and 250 percent of the FPL (monthly income between \$2,544 and \$3,180 for a family of three) would be offered a choice of benefit packages. A two-tiered benefit package is proposed—a basic benefit package would be offered excluding dental and vision coverage at current premium levels, and a comprehensive package would include all benefits with higher monthly premiums. Due to the need to notify subscribers of the new benefit options, this proposal would not be implemented until 2005-06, and no savings is assumed in 2004-05. This proposal would result in increased administrative costs of \$750,000 (\$263,000

General Fund) in the budget year to modify the HFP administrative system to accommodate the two benefit package options and provide for increased volume on the toll-free telephone assistance line.

Department of Mental Health

The Governor's Budget includes \$2.5 billion (\$910.7 million General Fund), a net increase of \$373.4 million (\$39 million General Fund) above the 2003 Budget Act for mental health programs. The Department of Mental Health (DMH) ensures a continuum of care exists throughout the state for children and adults who are mentally ill, by providing oversight of community mental health programs and direct services through the State hospitals.

State Hospitals

Functions of the State Hospitals

The state hospitals, directly operated by the DMH, provide long-term care services to the mentally ill. The General Fund supports judicially committed and penal code

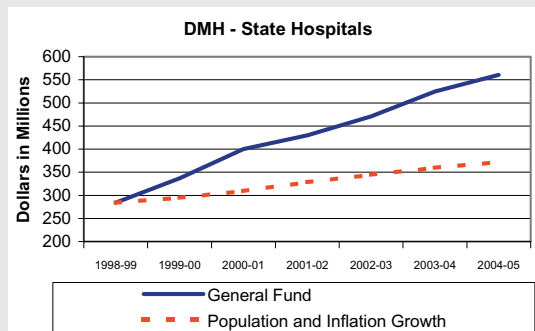
patients, while counties fund other civil commitments. Over the last ten years, the General Fund cost of operating the four state hospitals has increased 124 percent. Within state hospitals, the majority of costs are for treatment staff that provide 24-hour care for patients. In order to address both the increased per patient costs and unsustainable General Fund expenditures, it is necessary to reform how state hospital services and related clinical functions are provided to mentally ill individuals with criminal histories. The Governor's Budget proposes reforms that will achieve savings and cost avoidance of \$17.2 million General Fund in 2004-05 and \$25.6 million in 2005-06.

Improving Accountability and Service Delivery

Indeterminate Commitment of Sexually Violent Predators (SVPs)—In California, district attorneys are responsible for repeating the entire commitment process in order to extend the commitment beyond two years, even when there is no clinical indication that a SVP is ready for release. The recommitment process includes mandatory evaluations of

Key Audit Findings — State Hospitals

- General fund expenditures increased by \$215.6 million, or 76 percent, between 1998-99 and the 2003 Budget Act.
- Funding growth is primarily due to case-load increases.
- In 2002-03, it cost the State \$141,000 per patient per year.
- Cost containment measures must include programmatic reforms to utilize staff more effectively and efficiently and a process to prioritize which individuals will receive treatment within state hospitals.





patients and new commitment trials. This reform will result in savings to the State of \$2 million General Fund by changing the SVP commitment from two years to an indeterminate length in order to eliminate unnecessary evaluations. This proposal will also result in savings at the local level due to fewer commitment re-trials.

SVP Treatment Reform—A decrease of \$823,000 General Fund will be achieved by restructuring the supervision and treatment services provided in state hospitals to SVP patients. Approximately 60 percent of the SVP patients in state hospitals refuse to participate in treatment and reductions in treatment staff are recommended to achieve savings of \$9.2 million General Fund in 2005-06.

Require Civil Commitment Trials be Held Prior to Release From Prison—

The Administration encourages courts and local district attorneys to conduct commitment trials for SVPs prior to the inmate's release from prison, and proposes that individuals who have completed a prison sentence be kept in local custody while awaiting a commitment hearing. Many other states hold pre-trial SVPs in local custody, and savings of \$10.7 million General Fund can be achieved through this change.

Maintain State Hospital Population—

In order to curtail the unsustainable growth in General Fund expenditures for judicially committed patients, the DMH will develop a process to prioritize patient intake based on the need for treatment. Anticipated savings of \$2.8 million (\$3.7 million General Fund) will be achieved by limiting intake to those most in need of services.

Early Periodic Screening, Diagnosis, and Treatment Program

Functions of the Early Periodic Screening, Diagnosis, and Treatment Program

The Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program is an entitlement program for children and adults under 21. Under the EPSDT program, approximately 170,000 Medi-Cal eligible children and young adults receive any service that ameliorates a diagnosed mental illness. The Administration is committed to continuing vital mental health services for children and young adults, and the Governor's Budget includes \$787 million (\$365 million General Fund) to maintain these services.

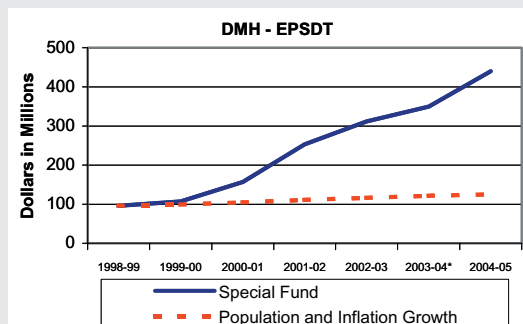
However, the EPSDT program has grown dramatically in recent years. In the last five years, General Fund expenditures increased by 285 percent and additional measures to control costs are necessary. Similar to the overarching Medi-Cal program, much of the growth is due to an antiquated federal model. The combination of broad federal eligibility criteria, a wide array of services, and limited fiscal incentives for counties to control costs result in program costs that California can no longer afford. The 2004-05 Governor's Budget proposes several measures that will allow California to continue to provide necessary mental health services in a more rational and affordable manner.

Improving Accountability and Service Delivery

- **Update Maximum Rates**—The current maximum rates for services were established using 1989-90 data, which have been updated annually with

Key Audit Findings — EPSDT

- Not including the accrual-to-cash accounting change, costs have increased 285 percent between 1998-99 and the 2003 Budget Act.
- Counties essentially control the amount and duration of treatment services, but have had little in the way of fiscal incentives to control costs because the State provides most of the matching funds for the non-federal growth in EPSDT program costs.
- There are currently no audits conducted specifically targeting this program.
- Options to contain costs include: ensuring that rates reflect actual costs, implementing oversight activities to monitor expenditures, seeking federal flexibility to reform the program so that the essential needs of beneficiaries can be met at costs that are affordable to the State.



COLAs. The DMH is responsible under the State's federal plan for adjusting the maximum rates paid for services based on actual costs. A survey of actual costs is an important measure in the effort to avoid unnecessary spending, and adjusting rates accordingly is estimated to save \$40 million General Fund. Utilizing this survey, the DMH will review and reform the rate structure to ensure the continued participation of local governments in serving both children and adults in the mental health system.

- **Increased Oversight**—In order to curtail fraud, waste, and abuse in the program, the DMH will initiate targeted audits of claims. No audits are currently conducted of expenditures specific to this program. Net savings of \$5.7 million General Fund are estimated, and savings may increase as a result of the deterrent effect the audits will create.

- **Federal Relief**—Consistent with the larger Medi-Cal reform effort, the State will also pursue federal authority to narrow the very broad medical necessity criteria. Such action is necessary in order to enable California to maintain its commitment to the children and young adults most in need of mental health services. Savings from the proposal is indeterminate at this time, but could be significant, starting in 2005-06.
- **Restructuring of Existing Programs**—As noted above, the Administration will continue to invest significant resources in this program to maintain necessary mental health services. Given the availability of a wide range of medically necessary services and large numbers of needy children and young adults receiving services under the EPSDT program, it is no longer necessary to continue the Children's System of Care program.



Community Mental Health Services

Functions of Community Mental Health Services

The Administration strongly believes that mental health services should be provided in communities, in order to prevent commitment to a state hospital or incarceration. The Governor's Budget includes \$1.8 billion (\$298.6 million General Fund), a net increase of \$304.2 million compared to the 2003 Budget Act, for community mental health services. The Administration remains committed to providing mental health services through the following programs:

Managed Care—This cost-effective program allows counties to manage treatment services effectively at a local level and provides a fiscal incentive for counties to stay within an annual allocation provided by the State. An increase of \$10 million (\$5.1 million General Fund) is proposed in the Governor's Budget to reflect

increased caseload in the managed care program.

Integrated Services for the Homeless—

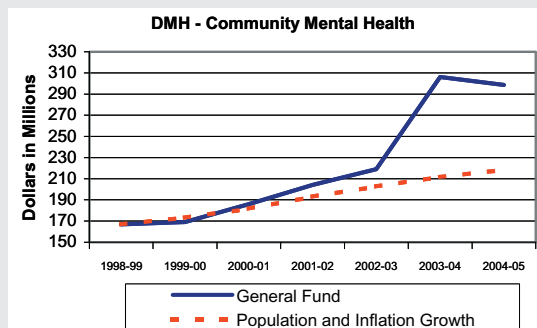
The Governor's Budget continues funding of \$54.9 million General Fund for the Integrated Services for Homeless Adults program, which has a proven track record of success in treating and providing services to the mentally ill. Additionally, evaluations have shown that this program leads to significant savings at the local level, and continuing this program provides essential fiscal relief to counties in these difficult times.

Preadmission Screening and Residential Review Program—

An increase of \$1.9 million (\$470,000 General Fund) is proposed for the expansion of the Preadmission Screening and Residential Review program. Through this Program, individuals admitted to nursing homes are evaluated to determine if specialized mental health treatment alternatives that are available in communities at lower costs, can better meet their needs.

Key Audit Findings— Community Mental Health

- General Fund expenditures for these programs grew more than \$90 million, or 39 percent, between 1998-99 and the 2003 Budget Act.
- Funding growth is primarily due to increases in the number of individuals receiving mental health managed care services and expansions in State-only discretionary programs such as Integrated Services for Homeless.
- The purpose of managed care is to provide mental health services to Medi-Cal eligible clients through a system of contracts between the DMH and county mental health departments.



Department of Developmental Services

For more than 30 years California has maintained a model program to provide services to individuals with developmental disabilities. However, this program has grown significantly in terms of the number of individuals receiving services, services provided, and the cost to California taxpayers. In the last five years alone, General Fund expenditures grew by more than \$1.1 billion, and this rate of growth is not sustainable.

The Mid-Year Reduction Plan included proposals to limit enrollment and eliminate services as an initial response to the need to immediately address uncontrolled growth in this area. The 2004-05 Governor's Budget presents an alternative approach to slowing growth in this program while maintaining the Lanterman Act entitlement to services for individuals with developmental disabilities.

The Administration's reform proposals revolve around the following key principles:

- Everyone who is eligible should be entitled to receive necessary services.
- There should be a share-of-cost for those who can afford to pay.
- Services should be provided in the least costly manner possible.
- Regional centers should be able to manage available resources in such a fashion as to insure the health and safety of all consumers.
- Allowable services and rates need to be clearly defined.
- Only necessary services and reasonable administration should be funded.

- Individuals with developmental disabilities should have the opportunity to live in the most integrated and least restrictive setting possible.

The Administration is hopeful that consumers, stakeholders, regional centers, and the Legislature will provide constructive input to facilitate the necessary changes and prevent the need for more drastic cost control measures in the future.

Regional Centers

Functions of the Regional Centers

The regional centers are non-profit corporations contracted by the Department of Developmental Services (DDS) to provide services mandated under the Lanterman Act to almost 200,000 people with developmental disabilities. The Governor's Budget proposes \$2.7 billion (\$1.8 billion General Fund) to support the regional centers in 2004-05. This includes support for the transfer of the Habilitation Services Program (HSP) from the Department of Rehabilitation (DOR) on July 1, 2004.

The Governor's Budget does not propose to create a cap on caseload or eliminate services, and achieves savings while continuing to provide services to everyone that is eligible. The proposed Budget includes an increase of \$27.8 million (\$3.1 million General Fund) over the revised current year estimates for regional center services (notwithstanding the net \$103.7 million increase for the transfer of the HSP).

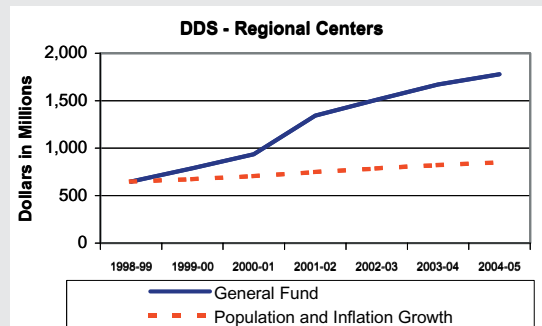
Improving Accountability and Service Delivery

Regional Center Cost Containment—This proposal maintains California's commitment to support individuals with developmental dis-



Key Audit Findings — Regional Centers

- Since 1998-99 the program has grown by \$1.1 billion General Fund, or 166 percent.
- Growth is attributable to increases in caseload, utilization of services, costs per consumer, and costs associated with community placement plans.
- Administrative costs at regional centers are high and the centers have a monopoly on community-based care.
- An increasing percentage of new consumers are diagnosed with autism, a disability requiring a greater number of expensive services.
- There are few limits on the services a consumer may receive, and no consideration is given to evaluating the marginal benefit to consumers or to whether resources could be better utilized for consumers with more critical needs.
- Options to contain costs must address either caseload, the scope of services, or cost of services. Specific proposals could include co-payments, statewide standards for services, individualized plans that include only necessary services, or modifying rate structures to capture additional federal funds.



abilities, and also reflects anticipated savings of \$100 million General Fund. The proposal also recognizes that program costs have grown 244 percent over the past ten years while caseload has grown 70 percent. In the past five years alone, General Fund expenditures have increased 166 percent. California cannot sustain future growth and costs of this magnitude. Changes must be pursued that will enable continued delivery of needed services to the most vulnerable consumers within reasonable limits. This proposal would reform service delivery by implementing:

- A co-payment from those who can afford to pay.
- A requirement that services be provided in the least costly manner possible.

- Meaningful statewide standards to allow regional centers to prioritize and manage the resources provided through the budget process to deliver necessary services and ensure the health and safety of all consumers.

It is the Administration's expectation that, taken together, these reforms will help regional centers and the State more effectively manage program costs while ensuring continued access to necessary services. To the extent cost containment measures implemented in 2003-04 (including rate freezes and operations reductions) slow the program's rate of growth, more dramatic reductions may be avoided. With constructive input from consumers, stakeholders, the regional centers,

and the Legislature, thoughtful and necessary changes can be made to ensure continued delivery of necessary services to those who need them most.

Prioritizing Need and Setting Standard Rates—Under the current system, consumers are entitled to receive any services regardless of the relative benefit provided if the service addresses an issue identified in the Individual Program Plan. By developing standards, the State and the regional centers will ensure all consumers receive necessary services within available funding. It will also be necessary to evaluate the rates paid for services if the State is to control these spiraling, unsustainable expenditures. Once standards have been established, the DDS will initiate a process of setting standard rates for all services, and regional centers will no longer be able to freely negotiate rates with third parties and expect the State to continue to fund the resultant costs.

Other Budget Adjustments

Transfer of Title XX Grant Funding to Regional Centers—A \$48 million General Fund Savings to reflect the shift of available Title XX Grant Funding to regional centers.

Unallocated Reduction to Regional Center Administration—As a contractor, the regional centers are responsible for determining the most effective use of funding provided for administration of the program. However, opportunities to achieve operational savings within the regional centers exist. The salaries of many regional center administrators exceeds those of comparable State officials. In some instances, compensation for executive directors even exceeds the Governor's authorized salary of \$175,000. The Administration proposes an unallocated reduction of \$6.5 million General Fund as an immediate response to control regional center adminis-

tration costs. The DDS will work to develop a long-term strategy to minimize excessive spending and waste on administrative activities and maximize the resources dedicated to direct services.

Developmental Centers

Functions of the Developmental Centers

The developmental centers are licensed and certified State facilities operated by the DDS. Staff at developmental centers currently provide 24-hour, direct-care to 3,500 individuals with developmental disabilities. The Governor's Budget proposes \$690.1 million (\$370.3 million General Fund) and 7,883.8 personnel years to carry out this program in 2004-05.

Improving Accountability and Service Delivery

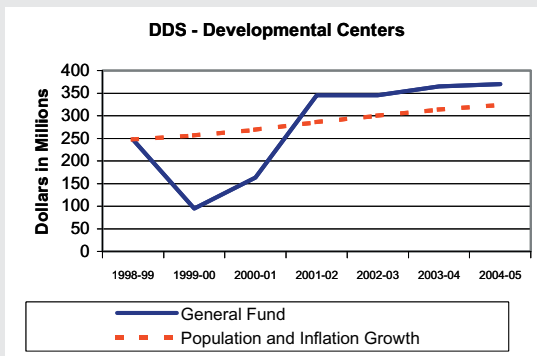
The United States Supreme Court's 1999 *Olmstead* decision and the State's Lanterman Act both support transitioning individuals with developmental disabilities from large institutions into community-based settings. In many instances, former developmental center residents experience an improved quality of life and better integration into their communities. However, without careful planning and a long-term strategy, an individual's transition can be more difficult than necessary.

Long-Term Strategy for Developmental Centers—Establishing a fiscally viable program is even more critical as the developmental center population continues to decline and the community's capacity to support individuals with significant medical needs expands. The system must be prepared to facilitate people's movement into more integrated community-based settings, while



Key Audit Findings— Developmental Centers

- General Fund expenditures have increased \$121.9 million, or 49 percent, between 1998-99 and the 2003 Budget Act.
- Funding growth since 1998-99 is attributable to increased utilization of services and costs associated with direct care and treatment.
- The average cost per resident rose from \$124,000 in 1998-99, to \$205,000 in 2004-05.
- The cost of providing care in large State-owned and operated facilities has become increasingly expensive and the State also faces significant capital improvement costs if these facilities remain in operation.
- Opportunities exist to improve the lives of individuals with developmental disabilities and to contain costs by transitioning people out of developmental centers into community-based settings as appropriate.



simultaneously recognizing that there is a limit to the amount of taxpayer funding available for these services.

As part of the overall strategy to define a manageable service delivery system, the Administration will revisit the issue of developmental center closure. The Agnews Developmental Center closure plan, due to the Legislature April 1, 2004, will begin to address the long-term policy for the developmental center system. Individuals can experience a better quality of life at lower costs in more fully integrated and less restrictive community-based settings. Although it cannot happen immediately, the Administration is committed to enhancing the existing system of community-based services to a level where hopefully large State-run institutions are no longer necessary and as many individuals as appropriate can live in their communities.

Increased Contracting for Non-Direct Care

Services—The Administration proposes that developmental center food services be provided through contract, to produce more cost-effective and higher-quality service for developmental center residents. The State currently contracts out for janitorial services at the developmental centers and this proposal expands upon current practice. This action will require legislative change and is consistent with other statewide efforts to increase effectiveness and efficiency by contracting for appropriate services.

Department of Alcohol and Drug Programs

Functions of the Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs oversees a variety of alcohol and drug treatment and prevention programs, including Drug Courts, Drug Medi-Cal, and the Substance Abuse and Crime Prevention Act. The Administration is committed to supporting programs with proven outcome-based results that encourage healthy communities. The Governor's Budget includes \$597.8 million (\$237.8 million General Fund), a net increase of \$5.1 million (\$2.4 million General Fund) above the 2003 Budget Act for substance abuse prevention programs.

Improving Accountability and Service Delivery

Performance Partnership Grants—The Governor's Budget includes an increase of \$260,000 federal funds to collect outcome data as part of the federal government's Performance Partnership funding process. Under the current system, there are few performance measure targets or specific outcome requirements. By October 2004,

California will be required to collect data in "core" indicator areas and implement a continuous quality improvement framework to assess the State's performance against objectives developed by the federal government in consultation with the states.

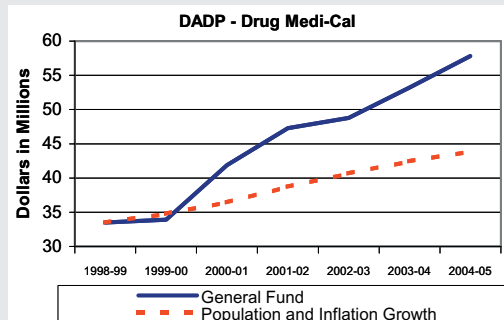
Program Enhancements and Other Budget Adjustments

Drug Medi-Cal—An estimated 67,000 individuals will receive substance abuse treatment services in 2004-05. Services provided include perinatal treatment, narcotic treatment, and outpatient drug free therapy. Because these programs may prevent more severe health and legal problems, the Governor's Budget includes an increase of \$3.1 million General Fund above the 2003 Budget Act for Drug Medi-Cal services. As part of the Administration's overall strategy to provide all services within the limits of available resources, rates for these services will be maintained at current levels.

Screening, Brief Intervention, Referral, and Treatment (SBIRT) Program—The State received a \$3.5 million federal grant for the new SBIRT program. Brief intervention and treatment can often be an effective method for working with casual drug users to prevent future substance abuse. The SBIRT

Key Audit Findings—Drug Medi-Cal

- Expenditures have grown by \$19.1 million, or 54 percent between 1999-00, when the program began, and the 2003 Budget Act.
- Funding increases since 1998-99 can be attributed primarily to caseload growth.
- There are few outcome measures for this program available at this time.





program relies on routine screens of a large number of patients in medical settings, and then immediately delivers brief interventions and treatments during medical visits. Funding will be allocated to selected counties and outcome data will be reported to the Department.

Department of Rehabilitation

Functions of the Department of Rehabilitation

The Department of Rehabilitation (DOR) is responsible for assisting people with disabilities, particularly those with the most significant disabilities, to obtain and retain employment and to maximize their ability to live independently in their communities. The Governor's Budget proposes \$350.6 million (\$44.2 million General Fund) and 1,864 personnel years to carry out the DOR's programs in 2004-05.

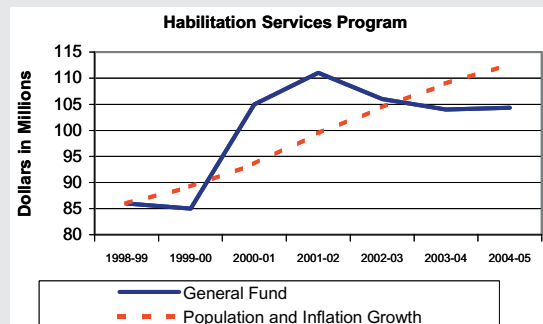
Program Enhancements and Other Budget Adjustments

Vocational Rehabilitation Services

Program—The Administration has demonstrated its strong support for persons with disabilities by providing sufficient funding for continuous service to the Most Significantly Disabled and Significantly Disabled. The Governor's Budget includes \$167 million (\$23.9 million General Fund) to continue services to an estimated 79,624 consumers. Through the DOR's service priority system, the Order of Selection, the Administration proposes to continue to serve the Most Significantly Disabled category, as well as applicants in the Significantly Disabled category.

Key Audit Findings — Department of Rehabilitation

- The Habilitation Services Program (HSP) budget increased by \$24.7 million (\$18.4 million General Fund), or 25 percent, from 1998-99 to 2003-04.
- The HSP will be transferred to the DDS effective July 2004.
- Growth is attributable to caseload, increases in the job coach and provider rates, and a wage pass-through.
- Because clients are working more hours, job-coaching hours have increased by 21 percent since 1998-99, resulting in increased program costs.
- While the majority of clients are served in sheltered settings, the number of clients working in the community increased by 1,383, or 22 percent, from 1998-99 to 2003-04.



Office of Statewide Health Planning and Development

Functions of the Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHDP) is responsible for helping California's health care systems meet the current and future health needs in the State. The OSHPD ensures health care facilities are capable of continued operation in the event of a disaster and improves delivery of and accessibility to health care in the State. The Governor's Budget proposes \$58.6 million (\$4.2 million General Fund) and 388 personnel years to carry out the OSHPD's mission in 2004-05.

Program Enhancements and Other Budget Adjustments

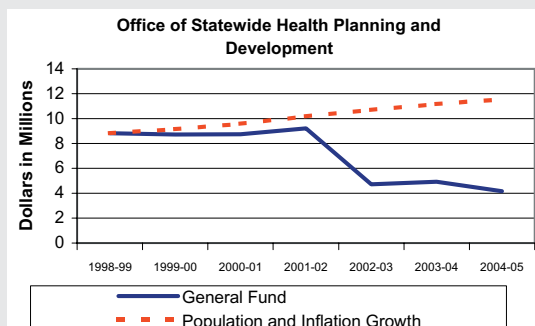
Health Facility Building Plan Approval—The Facilities Development Division is responsible for overseeing all aspects of general acute care hospital, psychiatric hospital, and multi-story skilled nursing home and intermediate care facility construction in California to ensure the facilities are safe

and available to provide care in the event of a major disaster. The Division manages these responsibilities by developing building standards, approving building plans, and observing construction to ensure the facilities meet State and federal standards. A statutory fee is charged to health facilities at the time of plan submission, which is deposited in the Hospital Building Fund, to support the activities of the Division. The Governor's Budget provides a total of \$27.6 million and 193 personnel years. To provide timely approval of building plans for the Division and avoid costly construction delays, the Governor's Budget reflects the addition of 44 personnel years and \$5.4 million Hospital Building Fund for increased Division workload.

Health Care Professionals for Medically Underserved Areas—In order to provide support to persons in medically underserved areas, the Administration is continuing scholarships and loan repayment grants to students and practicing healthcare professionals who agree to practice in these areas of the State. The Governor's Budget provides a total of \$4.1 million for scholarships and loan repayment grants. The Governor's Budget includes an additional \$650,000 Registered Nurse Education Fund to in-

Key Audit Findings— Office of Statewide Health Planning and Development

- The OSHPD budget decreased by \$191.1 million (\$4.3 million General Fund), or 78 percent, from 1998-99 to the 2003 Budget Act.
- The major decrease in special fund expenditures reflects the removal of \$181.4 million in special funds due to a change in accounting practices and the treatment of defaulted loans.





crease the scholarship and loan repayment amounts awarded to registered nurses and registered nursing students. In addition, the Administration for the first time is providing support for licensed mental health practitioners of \$206,000 Mental Health Practitioner Education Fund for loan repayment awards, and \$131,000 Vocational Nurse Education Fund for scholarships and loan repayments for vocational nurses and vocational nursing students. All awardees from these programs must agree to serve a minimum of one year in a medically underserved area of California.

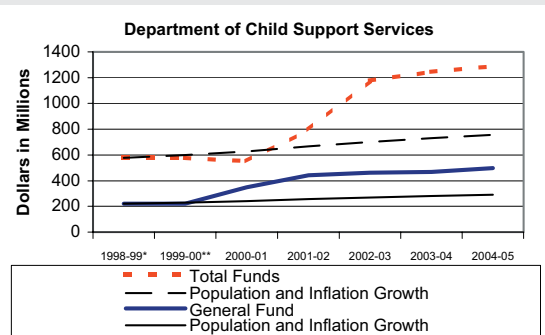
Department of Child Support Services

Functions of the Department of Child Support Services

The Child Support Program promotes the well-being of children and the self-sufficiency of families by delivering child support establishment and collection services that assist parents in meeting the financial, medical, and emotional needs of their children. To provide enhanced fiscal and programmatic direction and oversight of child support enforcement activities, Chapters 478 and 480, Statutes of 1999, established the Department of Child Support Services (DCSS). These measures authorized the implementation of a single, statewide child support system comprised of local child support agencies under the supervision of the new department. The DCSS

Key Audit Findings—Department of Child Support Services

- Expenditures increased by \$605.1 million (\$247.8 million General Fund), or 105 percent, from 1998-99 to the 2003 Budget Act.
- The increase in General Fund includes \$208.6 million for payment of the Alternative Federal Penalty, which is assessed by the federal government because of California's failure to implement a single, statewide child support automation system by the federal deadline. Exclusive of the Alternative Federal Penalty, all other child support program costs have increased by \$39.2 million General Fund, or 17.7 percent, since 1998-99.
- Collections distributed to families and to reimburse federal, State, and local governments for assistance costs increased from \$1.6 billion in 1998-99 to an estimated \$2.5 billion in 2003-04, or 54 percent. Over the same period, General Fund revenues (reimbursement for assistance costs) increased from \$238.3 million to \$355 million, or 49 percent.



assumed responsibility for child support enforcement activities in January 2000.

The DCSS is designated as the single State agency to administer the statewide program to secure child, spousal, and medical support, and determine paternity. The primary purpose is the collection of child support payments for custodial parents and their children. The Governor's Budget proposes approximately \$1.3 billion (\$499 million General Fund) and 320 personnel years for this purpose.

Program Administration

- **State Administration**—The Governor's Budget proposes total expenditures of \$36 million General Fund for state administration of the program. Departmental staff ensure a more effective program through expanded State-level direction and supervision of local child support agencies. Specific mandates require increased oversight of local program and fiscal operations.
- **County Administration**—The 2004-05 Governor's Budget proposes \$193.3 million General Fund to fund local agency administrative costs. While this represents a reduction from the amount derived from the methodology prescribed in statute to support local agency costs, it generally provides the same level of funding for local program expenditures that was provided in 2003-04.

Child Support Collections

The Child Support Program establishes and enforces court orders for child, spousal, and medical support from absent parents on behalf of dependent children and their caretakers. For display purposes only, the Governor's Budget reflects the total collec-

tions received, including payments to families and collections made in California on behalf of other states. The General Fund share of assistance collections is included in statewide revenue projections.

Child support collections for 2004-05 are projected to be \$2.4 billion (\$364.5 million General Fund), an increase of \$205 million (\$52.5 million General Fund) above the 2002-03 actual collections of \$2.2 billion (\$312 million General Fund). The 2003-04 projections reflect an increase in the collections of \$11 million General Fund compared to the 2002 May Revision projections, which is attributable to the anticipation of increased child support collections as the result of the Collections Enhancement initiative. In general, collections to reimburse governments for public assistance costs continue to decline as the child support caseload shifts from custodial parents who receive public assistance to those who have never, or no longer receive public assistance.

Child Support Automation

Chapter 479, Statutes of 1999, designated the Franchise Tax Board as the agent of the DCSS for the procurement, development, implementation, and maintenance and operation of the California Child Support Automation System (CCSAS). The State is responsible for developing and implementing the CCSAS and transitioning all counties onto this new system. In June 2003, the State entered into a contract with IBM Global Services to develop and implement the Child Support Enforcement component of the CCSAS. The State expects to have the new system completed by 2008-09.

Other Budget Adjustments

- **County Share of the Alternative Federal Penalty**—As a result of California's delay



in implementing a single, statewide automated system, the federal government has levied significant federal penalties against the State. In 2003-04, the federal penalty assessment is estimated to be \$195 million. Counties will pay 25 percent of the penalty in 2003-04, which offsets \$48.7 million in General Fund costs. This sharing ratio is consistent with that required for other social services programs. The Administration proposes that counties continue to pay 25 percent of the penalty in 2004-05 and future years. The county share of the penalty in 2004-05 would be \$55 million.

- **County Share of Child Support Collections**—It is proposed that the county share of child support collections be eliminated, and the dollars remitted as General Fund revenue in lieu of requiring further reductions to the Child Support Program. This will result in additional General Fund revenues of \$39.4 million, which are included in the revenue projections noted above.

California Department of Aging

Functions of the Department of Aging

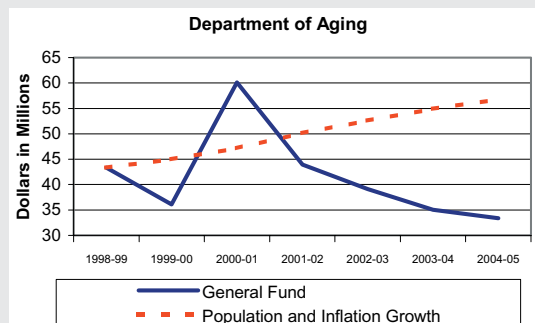
The Department of Aging is responsible for developing systems of home and community-based services that maintain individuals in home-like environments; developing, coordinating, and using resources to meet the long-term care needs of older individuals; and working with Area Agencies on Aging to manage federally and State-funded services at the community level. The Governor's Budget proposes \$185.3 million (\$33.4 million General Fund) and 123 personnel years to carry out the Department's programs in 2004-05.

Improving Accountability and Service Delivery

Long-Term Care Ombudsman Program—The Administration has demonstrated its strong support for quality of care provided to nursing home residents by proposing additional funding to expand the Long-Term

Key Audit Findings— California Department of Aging

- The Department of Aging budget increased by \$38 million, or 26 percent, from 1998-99 to the 2003 Budget Act. However, the General Fund support decreased by \$7.9 million, or 19 percent, while federal funds have increased \$39 million, or 39 percent.
- The overall spending growth can be attributed to federal fund expansions in the Supportive Services and Centers program.
- The General Fund spike in 2000-01 was related to a one-time augmentation of \$20 million for a long-term care innovation grant program to implement and expand community-based alternatives to nursing home care.



Care Ombudsman Program. The Governor's Budget reflects total funding of \$12.3 million, an increase of \$2.3 million in federal Medicaid reimbursements. This funding will enable the Long-Term Care Ombudsman Program to enhance the State's presence in approximately 6,400 residential care facilities for the elderly.

Block Grant—The Administration proposes to convert State support for aging programs to a block grant and reduce General Fund support by 5 percent (\$1.7 million General Fund). The block grant is expected to improve the efficiency of administering the various aging programs that serve the elderly. The block grant will provide more flexibility to utilize grant resources to better match local priorities and needs.

Department of Social Services

California Work Opportunity and Responsibility to Kids

Functions of the CalWORKs Program

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, and replaced the Aid to Families with Dependent Children (AFDC) program on January 1, 1998. The CalWORKs program is California's largest cash-aid program for children and families, and is designed to provide temporary assistance to meet basic needs (shelter, food, and clothing) in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work requirements and encouraging personal accountability. The program recognizes the differences among counties and affords them maximum program design

and funding flexibility to better ensure successful implementation at the local level.

Total CalWORKs expenditures of \$6.4 billion are proposed for 2004-05, including TANF and maintenance-of-effort (MOE) countable expenditures. The amount budgeted includes \$4.7 billion for CalWORKs program expenditures within the DSS budget, \$1.5 billion in other programs, and \$158.4 million for a CalWORKs program reserve. Other programs include the Statewide Automated Welfare System, Child Welfare Services (CWS), California Food Assistance Program (CFAP), State Supplemental Payment, Foster Care, State Department of Education child care, California Community Colleges child care and education services, Department of Child Support Services (DCSS) disregard payments, the DDS, and county expenditures (see Figure HHS-15). Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 479,000 cases in 2003-04, and 481,000 cases in 2004-05.

CalWORKs Employment Services—The Administration continues to invest in employment services, which allows recipients to move off of aid and into sustainable employment. The Governor's Budget includes an augmentation of \$191.9 million for employment services in 2003-04 and 2004-05. In addition, funding for employment services and administration in 2003-04 is increased by \$47.2 million above the 2003 Budget Act appropriation to fully fund projected caseload. This funding would enable counties to provide services tailored to their individual needs to move CalWORKs recipients from public aid to employment, which is the core of the CalWORKs program.

Total TANF Reserve—The Governor's Budget includes a \$158.4 million TANF reserve to be available for unanticipated



needs. A reserve of this magnitude is needed to mitigate the impact of several CalWORKs program pressures, including the reauthorization of the federal TANF program. While Congress and the President will consider several key policy changes, federal reauthorization legislation introduced to date would significantly increase the work participation

rate requirements. Substantial investments in child care and employment services would be needed in order to meet increased participation rate requirements. Failure to meet these increased requirements would result in significant federal penalties. Other CalWORKs program pressures include costs resulting from a federal audit of AFDC grant overpay-

FIGURE HHS-15

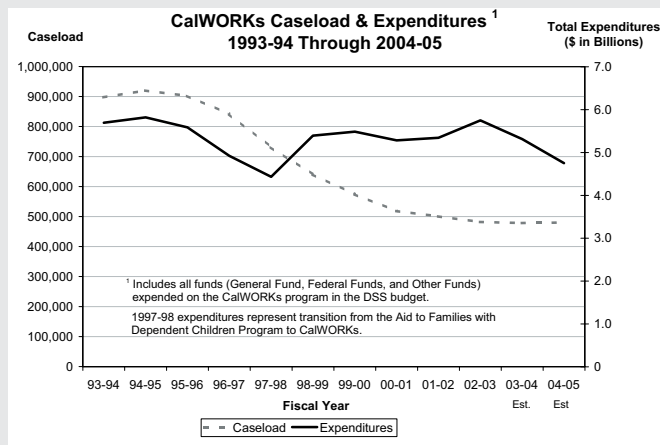
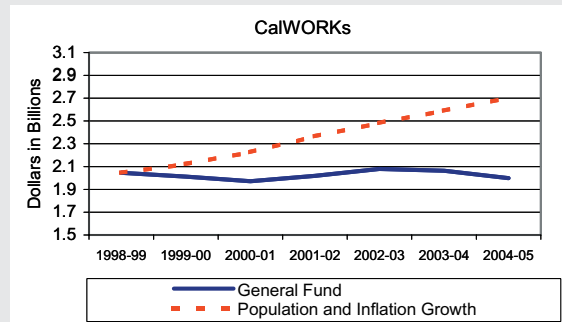
2004-05 CalWORKs Program Expenditures ¹
(Dollars in Millions)

CalWORKs Program:	2004-05
<u>In DSS Budget:</u>	
Assistance Payments	\$2,712
Employment Services	1,033
County Administration	292
DSS Child Care	495
Kin-GAP	77
Juvenile Probation	67
Tribal TANF	43
DSS Administration	27
Subtotal	\$4,746
<u>Other CalWORKs Expenditures:</u>	
Statewide Automated Welfare System	126
Child Welfare Services (CWS)	253
CWS Redesign Program Improvement Plan	18
California Food Assistance Program	4
State Supplementary Payment Program	10
Foster Care	56
State Department of Education Child Care	749
California Community Colleges Child Care	15
CCC Education Services	20
DCSS Disregard Payments	29
Department of Developmental Services	48
County Expenditures	148
Subtotal	\$1,475
CDE/DSS Child Care Holdback	\$52
General TANF Reserve	158
Total CalWORKs Expenditures	\$6,431

¹ Detail may not add to totals due to rounding.

Key Audit Findings— CalWORKs Program

- General Fund costs since 1998-99 have remained relatively flat as the State continues its policy to fund the program at the federally-required level. However, caseload is flattening after many years of decline and, without program changes to move more families from welfare-to-work and control costs, General Fund costs would significantly exceed the federally-required level beginning in 2004-05.
- California's caseload has not dropped as much as 20 other states.
- California's work requirements and time limits are more lenient than 20 other states.
- Options for controlling costs include:
 - ☐ Suspending the CalWORKs COLA.
 - ☐ Transferring TANF funds to achieve General Fund savings.
 - ☐ Reforming the CalWORKs program to move more recipients off of aid and into employment.



ment collections that occurred between 1996 and 2001.

Improving Accountability and Service Delivery

California's CalWORKs Program has made important progress in moving recipients from reliance on public assistance to work and self-sufficiency. Since CalWORKs' inception in January 1998, caseload has declined by nearly 35 percent and the number of work-

ing recipients has increased from less than 20 percent in 1996 to nearly 50 percent in 2002. The Administration seeks to maintain critical support and services for CalWORKs eligible families, while proposing to further strengthen the program through a greater emphasis on work participation and personal responsibility. Towards that end, the Administration's proposal will require more immediate and intensive job search efforts, require recipients to be involved in specific work-related activities, provide stronger



penalties for non-complying individuals, and reduce grant levels for non-working families who have exceeded their 60-month time limit.

In order to maintain the essential elements of the CalWORKs program, and to stay within the available federal and state maintenance-of-effort funds, additional changes will eliminate Temporary Assistance for Needy Families (TANF) funding for county juvenile probation services, adjust State funding for Tribal TANF programs to meet the actual caseloads being served, eliminate the 2004-05 CalWORKs cost of living adjustment (COLA), and reduce the basic CalWORKs grant. The changes will result in combined savings of \$520.9 million. The objectives of the CalWORKs reforms include:

- Requiring adults to look for work as soon as they apply for aid will lead to employment sooner and minimize reliance on public assistance. This will allow California to maximize available funding and ensure the largest number of recipients is provided with essential services.
- Requiring more specific work-related activities will promote earlier employment, reduce reliance on public assistance, and enhance California's ability to meet increased federal work participation requirements that are included in the TANF reauthorization proposals currently before Congress.
- Strengthening the penalty for failing to meet program requirements will reinforce the principle that parents have a responsibility to take advantage of the services designed to help them become self-sufficient and self-supporting and, failing participation, to be held accountable for their actions.

- Reducing safety net grants to non-working families who have exceeded their 60-month time limit will provide an incentive to parents to seek and secure work, while still providing a basic level of assistance for support of children in the home.
- Reducing CalWORKs grants will bring California grant levels more in line with other large states and provide funding to maintain welfare-to-work and supportive services necessary for moving adults into the workforce.
- Prioritizing available funding for core services will allow needy families to access welfare-to-work services that promote self-sufficiency.
- These proposals would not affect program eligibility and would avoid further grant reductions for families who are complying with program requirements.

Tightening Work Participation Requirements

- **Enhance Work Participation Requirements**—This would require families to participate at least 20 hours per week in core work activities within 60 days of the receipt of aid. In addition to employment, core work activities would primarily include activities which would lead directly to employment such as subsidized employment and on-the-job training. Adults would be required to participate in other approved activities as necessary to meet the remainder of the 32 hour-per-week work participation requirement. Currently, recipients are not required to participate in subsidized or unsubsidized employment until they have been on aid for 18 months.

- **Reduce Sanctioned Grants 25 Percent After One Month of Noncompliance—** This would reduce the child-only grant by 25 percent for families that fail to meet work participation requirements within one month of being sanctioned. Thirty-seven other states totally eliminate this grant for non-compliant families.
- **Reduce Safety Net Grants by 25 Percent—** Currently, once a recipient has been on aid for the maximum amount of time allowed by the federal government, or 60 months, cash assistance is reduced by the adult portion of the grant. This proposal would reduce by 25 percent the child-only safety net grant that is provided to non-working families that have reached their lifetime time limit. California and New York are the only large states to provide this safety net grant.

Prioritize Funding to Move Recipients into Sustainable Employment

- **Suspend CalWORKs Grant COLA—** This would maintain grants at their current levels. In addition to the grant, the family typically would be eligible for employment services, child care, Food Stamps, and Medi-Cal. In addition, the CalWORKs assistance payment structure continues to reward working families by allowing them to retain earnings in excess of twice the grant amount and still remain enrolled in the program.
- **Reduce Funding for Juvenile Probation—** This would reduce funding for services to at-risk youth by \$134.3 million, leaving \$67.1 million to reflect three months of funding for prevention, intervention, supervision, treatment, and incarceration programs for at-risk youth and juvenile offenders, allowing this program to expire in October 2004. In addition to the \$67.1 million in

federal TANF funding for county probation departments, the Budget includes \$100 million General Fund for Juvenile Justice Crime Prevention Act grants.

- **Eliminate Discretionary Programs—** This would eliminate funding for three small discretionary programs for low-income women requiring alcohol and other drug treatment services (\$2 million), at-risk youth (\$1.5 million), and Native Americans requiring mental health and substance abuse services (\$2.7 million). These individuals would still be able to receive similar services through county CalWORKs programs.
- **Reduce Funding for Tribal Programs—** This would reduce by \$30.5 million the amount of State funding provided to the tribal entities to reflect declining tribal caseload.

Mid-Year Spending Reduction Proposal—

The Administration has proposed Special Session legislation to reduce CalWORKs grant levels by 5 percent, which would result in savings of \$45.3 million in the current year and \$179.7 million in the budget year, assuming an April 1, 2004, implementation date. The Administration also proposes to redirect \$41.1 million in federal TANF Block Grant funds to the In-Home Supportive Services (IHSS) program in 2003-04 and \$119.5 million in federal TANF funds to the CWS program, the Foster Care program, and the DDS budget to offset General Fund costs in 2004-05.



Supplemental Security Income/ State Supplementary Payment

Functions of the SSI/SSP Program

The federal Supplemental Security Income (SSI) program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment (SSP) grant. These cash grants assist recipients with basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determi-

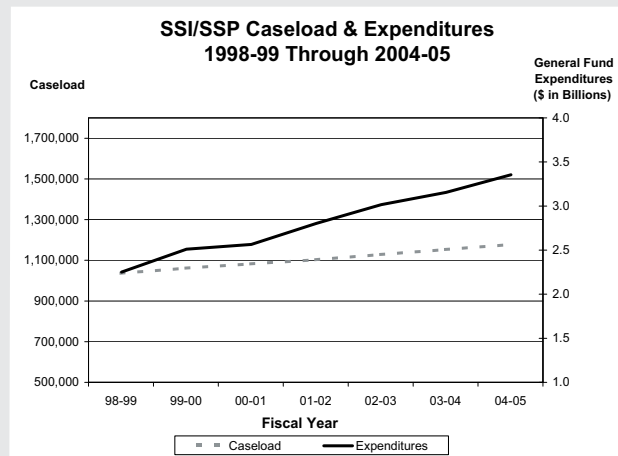
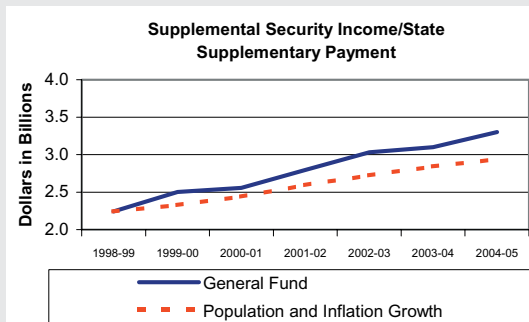
nations and grant computations and issuing combined monthly checks to recipients.

The Governor's Budget proposes \$3.3 billion General Fund for the SSI/SSP program in 2004-05. This represents a 1 percent decrease from the 2003 Budget Act.

The caseload in this program is estimated to be 1.2 million recipients in 2004-05, a 2.1 percent increase over the 2003-04 projected level. The SSI/SSP caseload consists of 30 percent aged, 2 percent blind, and 68 percent disabled persons.

Key Audit Findings— Supplemental Security Income/ State Supplementary Payment

- The General Fund expenditures in the SSI/SSP program grew by \$1.1 billion, or 51 percent, from 1998-99 to the 2003 Budget Act.
- Program growth is due primarily to the provision of statutory COLAs. Caseload grew only 11 percent from 1998-99 to the 2003 Budget Act.
- Options for controlling costs include:
 - Suspend January 2005 State COLA.
 - Do Not Pass-Through the January 2005 federal COLA.
 - Reduce grants to minimum levels required by the federal government.



Improving Accountability and Service Delivery

Suspension of Cost-of-Living Increases

- The SSI/SSP caseload grew by only 11 percent from 1998-99 to the 2003 Budget Act, compared to the much higher growth in the General Fund expenditures for the program during the same period. Cost growth in this program is primarily due to the provision of statutory COLAs.
- Given the State's severe fiscal constraints, and to control the unsustainable costs in the SSI/SSP program, the Administration proposes that the January 2005 State COLA of 2.8 percent be suspended, and the pass-through of the January 2005 federal COLA of 1.8 percent be withheld for General Fund savings of \$134.7 million in 2004-05 and \$269.4 million annually thereafter.
- The overall grant payment standards will not decrease and will remain at the current levels of \$790 for an individual and \$1,399 for a couple. These grant levels reflect a 2.1 percent federal COLA that was passed-through effective January 1, 2004. As reflected in Figure HHS-16, California continues to provide the highest level of cash grants to SSI/SSP recipients among the ten most populous states.

Mid-Year Spending Reduction Proposal—

The SSI/SSP program budget also reflects a reduction of \$5.5 million due to the proposed elimination of the California Veterans Cash Benefit Program, for certain veterans who no longer reside in the United States. This reduction was included in the December 2003 Mid-Year Spending Reduction Proposals.

FIGURE HHS-16

Comparison of the 2003 SSI/SSP Maximum Payments¹ for the Ten Most Populous States

State	Independent Living Arrangement			
	Aged and Disabled		Blind	
	Individuals	Couples	Individuals	Couples
California	\$778	\$1,382	\$842	\$1,602
New York	639	933	639	933
New Jersey	583	854	583	854
Pennsylvania	579	873	579	873
Michigan	566	850	566	850
Florida ²	552	829	552	829
Georgia ²	552	829	552	829
Texas ²	552	829	552	829
Illinois ³	552	829	552	829
Ohio ²	552	829	552	829

¹ The January 2003 federal maximum payments are \$552 per individual, and \$829 for a couple.

² Reflects the federal SSI maximum payment only, as these states do not provide supplemental payments for an independent living arrangement.

³ Illinois does not have a standard SSP allowance. Any supplements are based upon individual needs and circumstances.

In-Home Supportive Services

Functions of the IHSS Program

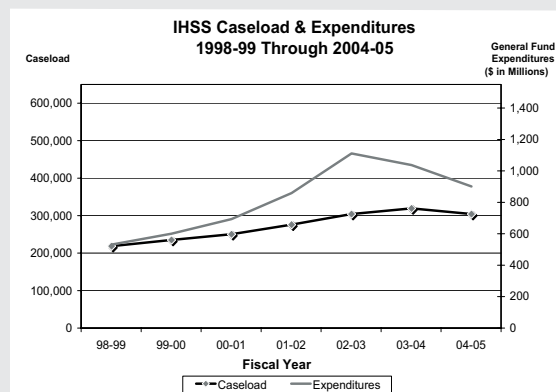
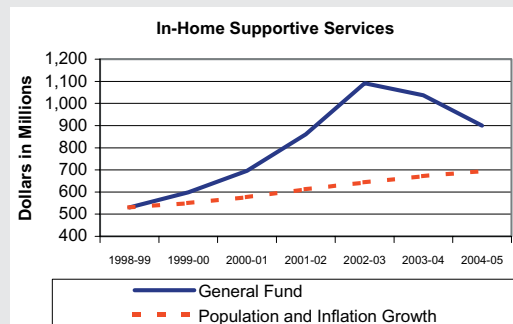
The IHSS program provides support services, such as house cleaning, transportation, personal care services, and respite care to eligible, low-income aged, blind, and disabled persons. These services are provided in an effort to allow individuals to remain safely in their homes and prevent premature institutionalization.

The Governor's Budget proposes \$899.4 million General Fund for the IHSS program in 2004-05. This represents a 29.4 percent decrease from the 2003 Budget Act. In the absence of programmatic changes to reduce costs, costs are projected to increase 9.4 percent above the 2003 Budget Act. The caseload in this program is estimated to be 302,000 recipients in 2004-05.



Key Audit Findings— In-Home Supportive Services

- General Fund expenditures in the IHSS program grew by \$743.3 million, or 140 percent, from 1998-99 to the 2003 Budget Act.
- Program growth is due primarily to increases in authorized service hours, and the wage and benefit levels up to which the State provides a share-of-cost. Caseload grew by 52 percent from 1998-99 to the 2003 Budget Act, while expenditures grew by almost three times as much.
- The State has limited control over provider wages because counties negotiate contracts and the State funds a majority of the costs.
- Options for controlling costs include:
 - Reduce the level up to which the State provides a share-of-cost for IHSS provider wages and benefits to the State minimum wage.
 - Maximize enrollment of clients on federally funded services by eliminating State funding for IHSS provided by family members.



Improving Accountability and Service Delivery

The IHSS caseload grew by 52 percent from 1998-99 to the 2003 Budget Act, compared to the much higher growth in the General Fund expenditures for the program during the same period. The primary reason for these cost increases has been an increase in IHSS provider wage and benefit costs. Given the State's severe fiscal constraints, and to control the unsustainable costs in the IHSS program, the Administration proposes to reduce the cost of providing services in the

IHSS program to avoid further, more significant reductions to services.

- **Quality Assurance**—Based on State-level case reviews conducted for a number of years, up to 25 percent of all paid services under the IHSS program may be unnecessary or not actually provided. The Administration intends to submit a proposal in the spring to improve the quality of IHSS need assessments and reduce over-authorization of service hours.
- **Reduce State Funding for Worker Wages and Benefits**—The Admini-

stration proposes to reduce the level up to which the State provides a share-of-cost for IHSS provider wages and benefits to the State minimum wage. This proposal would also reduce the wage component of contract provider rates to the minimum wage. Currently, the State shares up to \$10.10 per hour in provider wages and benefits, and up to the Maximum Allowable Contract Rates for contract providers. This reduction would be phased in as existing contracts with labor unions and private contractors expire. This proposal would result in General Fund savings of \$98 million in 2004-05 and \$130.7 million annually thereafter.

- **Make Optional the Employer-of-Record (EOR) Requirement**—The Administration proposes to make the EOR requirement optional to counties, and eliminate the State-share of funding for certain collective bargaining related activities, for General Fund savings of \$987,000 in 2004-05, and \$1.3 million annually thereafter. Currently, counties are required to establish an EOR to serve as the employer of IHSS providers for the purposes of collective bargaining over wages and benefits. Most counties have established public authorities to fulfill this requirement.
- **Make Optional the Advisory Committees Requirement**—The Administration proposes to make optional the requirement that each county establish an Advisory Committee for General Fund savings of \$1.2 million in 2004-05 and \$1.6 million annually thereafter. Currently, counties are required to maintain IHSS Advisory Committees to provide recommendations to the board of supervisors of a county on administration of the program.

In addition, the Administration proposes to require immediate family members to meet more of the responsibility and/or costs for caring for disabled and elderly persons:

- **Eliminate Domestic and Related IHSS Program Services in Shared Living Situations**—The Administration proposes to eliminate domestic and related services for recipients who live with their family members, when the need for these services is provided in common with other household members. These services include housecleaning, meal preparation, meal clean-up, laundry, food, shopping, and errands. This proposal would not affect the personal care and paramedical services which these recipients receive. This proposal would result in General Fund savings of \$26.3 million in 2004-05 and \$35.1 million annually thereafter.
- **Mid-Year Spending Reduction Proposal**—The Administration has proposed to eliminate the State-only Residual Program, which provided payments to parent and spouse caregivers, among other things. Many of these clients, however, will be eligible for the federally-funded portion of the IHSS program. This results in General Fund savings of \$88.8 million in 2003-04 and \$365.8 million General Fund in 2003-04 and ongoing.

Foster Care Program

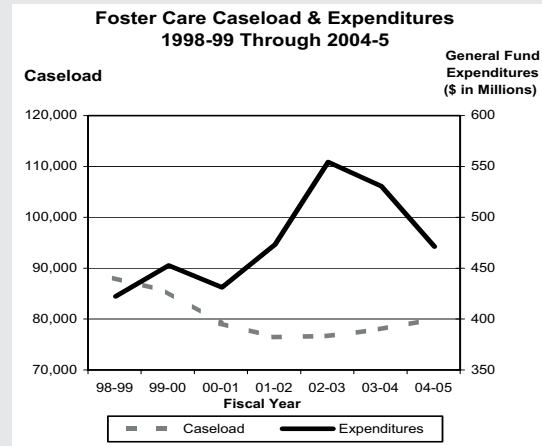
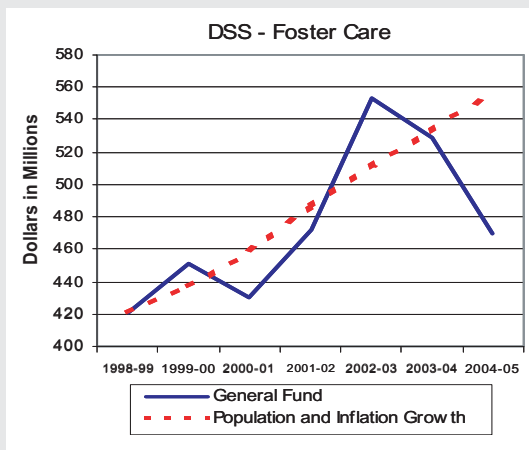
Functions of the Foster Care Program

The Foster Care Program provides cash payments for out-of-home care for children that have been removed from their own families due to abuse or neglect. The Governor's Budget includes \$1.1 billion (\$470.1 million



Key Audit Findings— Foster Care Program

- General Fund costs for this program have grown by \$95.7 million, or 23 percent, from 1998-99 to the 2003 Budget Act. However, caseload declined by 9 percent during the same period.
- Program growth is attributable to (1) COLAs, (2) rate increases for Group Homes, and (3) increased placements in higher-cost FFAs and Group Homes.
- Options for controlling costs include:
 - Restructure Foster Care Rates.
 - Establish Performance-Based Contracts for Foster Care.



General Fund) for foster care grants and administration.

Improving Accountability and Service Delivery

General Fund expenditures in the Foster Care Program have grown by 23 percent from 1998-99 to the 2003 Budget Act, while the program caseload has declined by 9 percent during the same period. The primary reason for the cost growth has been increased placements in higher-cost Foster Family Agencies (FFAs) and Group Homes.

In addition, the State failed a total of 12 out of 14 outcome measures in a federal review of California's CWS program conducted last year. Failure to improve these outcomes would result in significant federal penalties and the potential loss of federal funding for child welfare programs.

The Governor's Budget proposes program reforms to promote the care of more children in a family home environment and to shorten the period of time children spend in foster care, particularly in more restrictive placements such as group homes. These proposals are expected to save approximately \$20 million in 2004-05 and increasing amounts in subse-

quent years. The specifics of these proposals, including proposed legislation and refined savings estimates, will be developed in further detail and included in the 2004 May Revision. Potential proposals include:

- **Establish Performance-Based Contracts for Foster Care**—This proposal would require the higher-cost, higher-growth foster care providers (FFAs and Group Homes) to operate under performance-based contracts to require them to meet federal and State outcome measures, as a condition of payment.
- **Restructure Foster Care Rates**—This proposal would restructure the rates paid by the State for all foster care facilities to encourage counties to increase the use of less-restrictive, less-costly placements, and to establish a standard statewide rate for other high-cost specialized foster care services and payments.
- **Flexible Funding Waiver**—This proposal would pursue a federal waiver to apply federal foster care funds for flexible child welfare purposes, including prevention of child abuse and neglect, intensive services to keep children with their birth parents, reduce out-of-home placements, and enhance permanency. Federal law currently restricts the use of foster care funds to cover only those costs related to the care and supervision of foster children, thereby inhibiting the State's ability to target these funds to those children and families most in need and to provide preventative services.

The Administration intends to engage stakeholders, constituents, and the Legislature to help facilitate these reform efforts.

Mid-Year Spending Reduction Proposal—Given the State's current fiscal constraints,

the Administration proposed legislation to make funding for the Supportive Transitional Emancipation Program contingent on a Budget Act appropriation. This discretionary program provides financial assistance to emancipating foster youth up to age 21 if they are participating in an educational or training program. Although no counties have elected to participate in this program to date, the proposal would result in cost avoidance to the extent that one or more counties elect to participate in the future.

Community Care Licensing

Functions of Community Care Licensing

The Community Care Licensing program licenses and monitors approximately 92,000 community care facilities, which include child day care facilities, children's residential facilities, and elderly residential and day support facilities, and serve approximately 1.4 million clients. The Governor's Budget proposes \$124.9 million (\$42.2 million General Fund) for licensing activities that promote the health, safety, and quality of life of each person in community care facilities. This is an \$11 million (\$7 million General Fund), or 9.7 percent, increase from the 2003 Budget Act.

Mid-Year Spending Reduction Proposal—In order to prevent reductions to this vital health and safety program, the Administration proposed a licensing fee increase. Through the existing licensing fee structure, the DSS expects to collect approximately \$14 million in the current year, which represents only 40 percent of the General Fund costs of the Community Care Licensing program. The Administration proposes to increase fees for child day care, children's residential, adult care, and senior care facilities annually,



in approximately equal increments over a three-year period, until the General Fund cost of the licensing program is supported entirely by the fees collected. The proposal would also create parity in the fee schedule between large and small residential facilities, and would not affect small foster care providers such as Foster Family Homes. This proposal will result in increased General Fund revenues of approximately \$5.8 million in 2004-05.

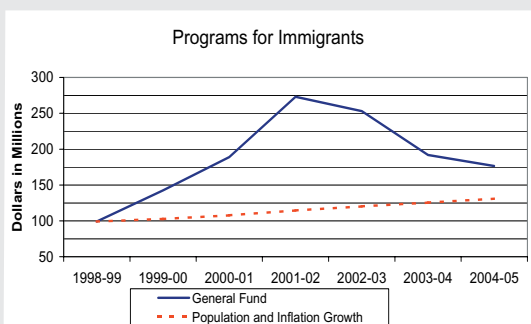
Programs for Immigrants

Functions of Health and Human Services Programs for Immigrants

The State administers a number of discretionary, State-funded programs that provide health and human services to

Key Audit Findings—Programs for Immigrants

- State expenditures in health and human services programs for immigrants have grown by 99 percent, while caseload has decreased by 48 percent from 1998-99 to the 2003 Budget Act.
- Overall, the State provides these services to approximately 44,000 immigrants for a total cost of over \$176.6 million annually.



immigrants. These benefits are provided to immigrants who are not covered under related federal programs. These programs include CalWORKs, the California Food Assistance Program (CFAP), the Cash Assistance Program for Immigrants (CAPI), and the HFP.

Improving Accountability and Service Delivery

In order to avoid further reductions to, or elimination of, these discretionary, State-funded programs for immigrants, the Administration proposes to restructure and consolidate the following programs and fund them in a single block grant to be provided to counties to provide basic safety net services to this population:

- **CalWORKs Benefits for Recent Documented Immigrants**—Provides cash and job-training benefits to documented immigrants that are barred from the federal TANF program.
- **California Food Assistance Program**—Provides food stamp coupons to documented immigrants who are not eligible for the federal Food Stamp Program.
- **Cash Assistance Program for Immigrants**—Provides cash benefits to elderly or disabled documented immigrants who are not eligible for SSI/SSP cash benefits.
- **Healthy Families Program for Documented Immigrants**—Provides comprehensive health care for low-to-moderate income documented immigrant children.

The Governor's Budget reflects savings of \$6.6 million General Fund due to anticipated

efficiencies resulting from this proposal. It is also anticipated that this proposal would provide counties with greater flexibility and better priority setting capability in providing health and human services to immigrants at the local level. Although the Governor's Budget does not reflect a single combined appropriation for these programs, the Administration will develop the proposal in further detail and anticipates including a combined appropriation in the 2004 May Revision.

Mid-Year Spending Reduction Proposal—

The Administration has proposed to cap enrollment in a number of discretionary State-funded health and human services programs for immigrants to achieve General Fund savings of \$25 million in 2004-05. This proposal included, in addition to the above programs, Medi-Cal non-emergency services for documented and undocumented immigrants.

Health and Human Services Agency Data Center

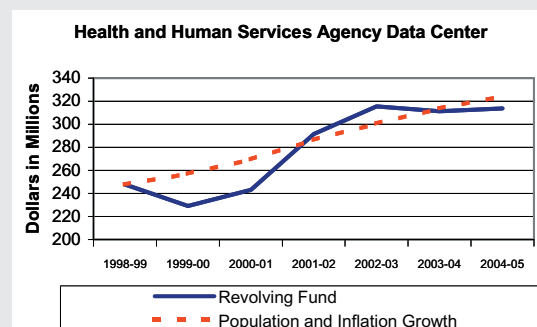
Functions of the Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC), one of the State's three consolidated data centers, provides the Health and Human Services Agency's various departments electronic data processing (EDP) capacity by using shared, centralized resources to minimize equipment and staff duplication. The central processors and peripheral equipment operate 24 hours a day, 7 days a week. Telecommunications network and software support services also are furnished. The HHSDC assists the Agency in identifying potential EDP-related applications and recommending policies on the appropriate use of EDP among client departments. Special project management activities are performed on behalf of the DSS. The HHSDC costs are reimbursed by service users.

The Governor's Budget proposes \$311.4 million and 474 personnel years to carry out the HHSDC's programs in 2004-05. For the

Key Audit Findings— Health and Human Services Agency Data Center

- The HHSDC budget increased by \$67.1 million, or 27 percent, from 1998-99 to the 2003 Budget Act.
- Pursuant to legislation (Chapter 225, Statutes of 2003), the Administration is considering a reorganization plan to consolidate the HHSDC and the Stephen P. Teale Data Center, effective in fiscal year 2004-05.





HHSDC's primary facility operations, the Governor's Budget includes a net increase of \$2.5 million in HHSDC Revolving Fund authority. For the special projects managed by the HHSDC for the DSS, the Governor's Budget proposes a net reduction in expenditure authority of \$5.9 million below the 2003 Budget Act.

Improving Accountability and Service Delivery

The HHSDC manages five major automation projects for the DSS. These systems assist in the administration of the CalWORKs, Food Stamps, CWS, and IHSS programs, and further the Administration's goal of providing quality services as efficiently as possible while preventing fraud and reducing long-term costs. The Governor's Budget includes \$414.8 million (\$149.5 million General Fund) to continue to develop, maintain, and operate these projects.

Statewide Automated Welfare System (SAWS)—The SAWS automates welfare eligibility processes and administrative functions for the CalWORKs, Food Stamp, Medi-Cal, Foster Care, Refugee, and County Medical Services (CMS) programs through the development of the following five systems:

- **Interim SAWS**—This consortium is comprised of 35 counties. The Governor's Budget includes \$36.3 million (\$13.3 million General Fund) for maintenance and operations (M&O) activities. This represents a decrease of \$753,000 (\$276,000 General Fund), due to the decreased cost for the new application maintenance contract.
- **Welfare Client Data System**—The Governor's Budget includes \$91.6 million (\$28.3 million General Fund) to continue the implementation of this system in 18
- counties. This represents an increase of \$5 million (\$2.4 million General Fund), to reflect an overall project delay of ten months. The delay is due to the need to incorporate a number of program changes required by the federal government into the application prior to pilot implementation.
- **Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting (LEADER) System**—The Governor's Budget includes \$15.6 million (\$3.4 million General Fund) for M&O of this single-county system. This represents an increase of \$1.4 million (\$309,000 General Fund), due to extending ongoing M&O costs through June 2005 and initiating procurement activities for a new M&O contract due to increased baseline costs.
- **Consortium IV**—The Governor's Budget includes \$89.7 million (\$26.8 million General Fund) to continue implementation of this system in the remaining four counties. This represents an increase of \$35.6 million (\$12.8 million General Fund) due to the inclusion of previously deferred scheduled activities.
- **Welfare Data Tracking Implementation Project (WDTIP)**—The SAWS WDTIP allows the four consortia to share CalWORKs time-limit tracking data. The Governor's Budget includes \$3.8 million federal funds for the WDTIP. This represents a decrease of \$3.3 million due to the completion of the LEADER conversion.

Statewide Fingerprint Imaging System (SFIS)—The SFIS is a database system that detects and reduces multiple-case fraud in the CalWORKs and Food Stamp programs. The Governor's Budget includes

\$8.5 million (\$8.3 million General Fund) for M&O activities. This represents a reduction of \$2.3 million (\$2.2 million General Fund) in the current year and a reduction of \$2.2 million General Fund in the budget year, resulting from savings due to a redesigned, more efficient computer network.

Electronic Benefit Transfer (EBT)—The EBT system will deliver public assistance benefits to eligible recipients through electronic funds transfer, automated teller machines (ATM), and point-of-sale terminals in retail outlets. Counties are statutorily required to use the EBT system to deliver Food Stamp benefits, and are also permitted to use the EBT system to deliver CalWORKs benefits. When operational, Food Stamp and CalWORKs recipients will be able to access their benefits via ATM-like cards, in lieu of monthly checks or Food Stamp coupons.

The Governor's Budget includes \$57.9 million (\$14 million General Fund) to continue statewide implementation. This represents a decrease of \$7 million (\$5.3 million General Fund) below the 2003 Budget Act. This is the result of revised caseload projections that lowered the anticipated number of CalWORKs and food stamp recipients using EBT, and a revised project schedule that now reflects statewide implementation in September 2004 instead of November 2004. Federal law required states to implement an EBT system to deliver Food Stamp Program benefits by October 1, 2002. California applied for a waiver and was granted a 41-month extension in order to complete statewide implementation.

Program Enhancements and Other Budget Adjustments

Case Management, Information, and Payrolling System (CMIPS)—The CMIPS processes eligibility determinations of:

(1) IHSS applicants; (2) provides case management services for recipients; (3) calculates IHSS authorized service hours and issues notices of action to recipients for any change in that service level; (4) provides payroll services for individual providers including income tax and other payroll taxes; (5) audits invoices for third-party contract providers; and (6) produces reports for program management. The Governor's Budget proposes \$1.7 million (\$1.1 million General Fund) to re-evaluate the CMIPS procurement strategy. The Administration proposes that this system be migrated to the California Medicaid Management Information System, administered by the DHS, which would result in a higher federal financial participation and savings to the State.

Child Welfare Services/Case Management System (CWS/CMS)—This system automates tracking and reporting information for the CWS, Foster Care, and Adoptions programs. The CWS/CMS, which is fully operational in all 58 counties, assists in the effective administration of the CWS program by enabling social workers to make better decisions for neglected and abused children, allowing social workers to spend more time providing services to clients rather than doing paperwork, and improving statewide information sharing. It also provides the counties with better program management information, facilitates compliance with federal reporting requirements, and provides statewide statistical information.

The Governor's Budget includes \$89.5 million (\$44 million General Fund) for contract-related costs for system M&O to continue these services. Overall, proposed CWS/CMS M&O funding for 2004-05 is \$14.8 million (\$7.7 million General Fund) less than the 2003 Budget Act funding level, due to adjustments for anticipated completion of activities to replace servers, software, and workstations statewide in 2003-04.



FIGURE HHS-17

**California Children and Families Commission
Estimated Proposition 10 Tobacco Tax Allocations
(Dollars in Millions)**

	2003-04	2004-05
Total revenues	\$586.0	\$584.0
Less:		
Board of Equalization tax collection costs	2.3	1.7
Proposition 99 and Breast Cancer funding offset	21.7	21.7
Net revenues	\$562.0	\$560.6
County Allocation (80 percent)	449.6	448.5
State Commission Allocation (20 percent)	112.4	112.1
Mass Media Communications (6 percent)	33.7	33.6
Education (5 percent)	28.1	28.0
Child Care (3 percent)	16.9	16.8
Research and Development (3 percent)	16.9	16.8
Unallocated (2 percent)	11.2	11.2
Administration (1 percent)	5.6	5.6

California Children and Families Commission

Functions of the California Children and Families Commission

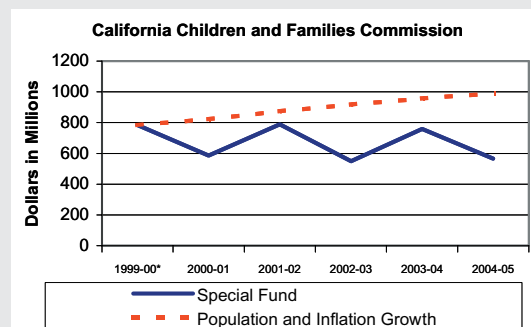
The California Children and Families Commission (Commission), established by Proposition 10 in November 1998, is responsible for developing a statewide system of information and services to strengthen early childhood development from the prenatal

stage to five years of age. Proposition 10 funds result in significant increases in baseline services because these continuously appropriated funds must supplement, not supplant, existing funds. In addition, the State Commission and county commissions working in collaboration may use Proposition 10 funds to leverage new federal funds.

The initiative, through its cigarette and other tobacco product taxes, is currently projected to generate \$586 million in 2003-04 and \$584 million in 2004-05. Proposition 10 includes provisions which replace the loss of Proposition 99 tobacco tax revenues for health education, research, and breast cancer programs due to the decreased consumption of tobacco products resulting from increased taxes pursuant to Proposition 10. The amounts replaced in 2003-04 and 2004-05 total \$21.7 million each year. Proposition 10 provides that 20 percent of funds remaining after the Proposition 99 replacement and tax collection cost are allocated to the State Commission for programs indicated in Figure HHS-17. The initiative also provides that the remaining 80 percent be allocated to county commissions for early childhood development programs including,

Key Audit Findings— California Children and Families Commission

- The Commission's budget increased by \$543 million from 1998-99 to the 2003 Budget Act. However, the Governor's Budget reflects a decrease of \$235.8 million, or 30 percent, since the Commission's first full year of funding in 1999-00, due to a decline in tobacco tax revenues.
- The Commission was established through a voter-approved initiative, which added a 50 cent-per-pack tax to cigarettes and tobacco products.



but not limited to, health care, child care, education, domestic violence prevention, maternal nutrition, and child abuse prevention.

State-Local Program Realignment

In 1991-92, State-Local Program Realignment restructured the State-county partnership by giving counties increased responsibilities and funding for a number of health, mental health, and social services programs. Realignment also provided an ongoing revenue source for counties by establishing a new one-half cent sales tax and an increase in the motor vehicle license fee (VLF). The one-half cent sales tax is a dedicated funding stream for realignment. The amount of VLF revenue available for realignment is not affected by the 67.5 percent reduction in VLFs that resulted from Chapter 5, Statutes of 2001,

because General Fund is provided to backfill these lost VLF revenues.

During 2001-02, the amount of sales tax growth required to be deposited into the Caseload Subaccount was deficient by \$123.6 million. This shortfall was partially restored with 2002-03 sales tax growth revenue, which totals \$50.4 million for the Caseload Subaccount. The remaining shortfall will be funded from future growth in sales tax revenue pursuant to current State law.

Realignment revenues in 2003-04 are estimated to total \$3.8 billion, which represents an increase of \$151.3 million compared to 2002-03. The \$3.8 billion is comprised of \$2.4 billion in sales tax revenues and \$1.4 billion in VLF. The VLF amount includes \$829.4 million General Fund to backfill for lost VLF revenues, as discussed above. The \$151.3 million in sales tax and VLF revenue growth will be distributed to the caseload, County Medical Services Program

FIGURE HHS-18

**Governor's Budget
1991-92 State-Local Realignment
2002-03 Estimated Revenues and Expenditures
(Dollars in Thousands)**

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$834,609	\$410,081	\$983,977	\$2,228,667
Vehicle License Fee Account	248,446	1,055,629	39,101	1,343,176
Total Base	\$1,083,055	\$1,465,710	\$1,023,078	\$3,571,843
Growth Funding				
Sales Tax Growth Account:				
Caseload Subaccount	—	—	\$50,433	\$50,433
County Medical Services Subaccount	—	—	(50,433)	(50,433)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	4,569	7,117	833	\$12,519
Total Growth	\$4,569	\$7,117	\$51,266	\$62,952
Total Realignment¹	\$1,087,624	\$1,472,827	\$1,074,344	\$3,634,795

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

Includes \$910.7 million General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.



(CMSP), and general growth accounts for allocation to counties.

For 2004-05, Realignment revenues are estimated to total \$4 billion, which represents an increase of \$174 million above 2003-04. The \$4 billion total includes \$2.5 billion in sales tax revenues and \$1.5 billion in VLF. The VLF amount includes \$988.3 million General Fund to backfill for lost VLF revenues. The \$174 million in sales tax and VLF revenue growth will be distributed to the caseload, CMSP, and general growth accounts for allocation to counties (see Figures HHS-18 through HHS-20).

Special Session Legislation—The revenue estimates above assume that legislation is adopted to eliminate the VLF “poison pill” language. The Court of Appeal, Fourth

Appellate District recently ruled that the state of California is required to reimburse the county of San Diego \$3.5 million for costs incurred to fund the county’s health care costs for the Medically Indigent Adults (MIA) Medical Treatment Program in the 1990-91 fiscal year (in 1991-92 this program was included in Realignment). Statute requires the VLF increase enacted as part of the 1991 State-Local Realignment be repealed if there is a State-reimbursable mandate finding for MIAs. As a result, counties could lose \$1.5 billion in annual revenue for the realigned programs. The Administration has proposed Special Session legislation to eliminate the “poison pill” language in order to preserve critical Realignment funding for counties.

FIGURE HHS-19

**Governor's Budget
1991-92 State-Local Realignment
2003-04 Estimated Revenues and Expenditures
(Dollars in Thousands)**

<u>Amount</u>	<u>Mental Health</u>	<u>Health</u>	<u>Social Services</u>	<u>Totals</u>
Base Funding				
Sales Tax Account	\$834,609	\$410,081	\$1,034,410	\$2,279,100
Vehicle License Fee Account	253,015	1,062,746	39,934	1,355,695
Total Base	\$1,087,624	\$1,472,827	\$1,074,344	\$3,634,795
Growth Funding				
Sales Tax Growth Account:	—	—	\$79,849	\$79,849
Caseload Subaccount	—	—	(79,849)	(79,849)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	26,093	40,648	4,758	71,499
Total Growth	\$26,093	\$40,648	\$84,607	\$151,348
Total Realignment¹	\$1,113,717	\$1,513,475	\$1,158,951	\$3,786,143

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.
Includes \$829.4 million General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.

FIGURE HHS-20

**Governor's Budget
1991-92 State-Local Realignment
2004-05 Estimated Revenues and Expenditures
(Dollars in Thousands)**

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$834,609	\$410,081	\$1,114,259	\$2,358,949
Vehicle License Fee Account	279,108	1,103,394	44,692	1,427,194
Total Base	\$1,113,717	\$1,513,475	\$1,158,951	\$3,786,143
Growth Funding				
Sales Tax Growth Account:	—	—	\$134,205	\$134,205
Caseload Subaccount	—	—	(134,205)	(134,205)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	14,541	22,651	2,651	39,843
Total Growth	\$14,541	\$22,651	\$136,856	\$174,048
Total Realignment¹	\$1,128,258	\$1,536,126	\$1,295,807	\$3,960,191

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.
Includes \$988.3 million General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.

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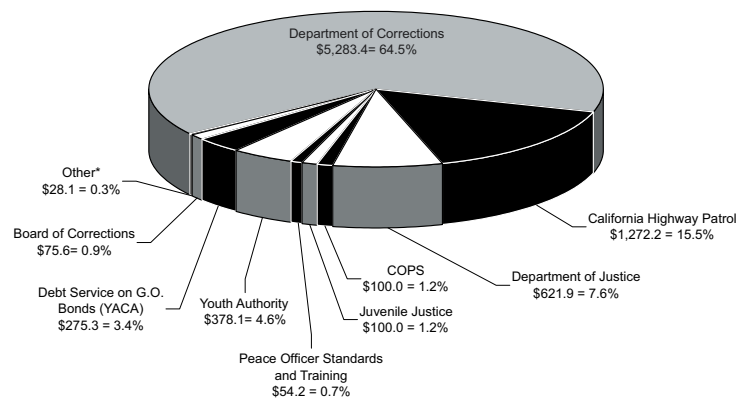
CORRECTIONS AND LAW ENFORCEMENT

The Governor's Budget includes funding to support the various programs within the Youth and Adult Correctional Agency, Department of Justice, Commission on Peace Officer Standards and Training, Office of the Inspector General, and the California Highway Patrol. Funding for these programs will be approximately \$8.2 billion in total funds, and reflects a 7.3 percent decrease over the revised 2003-04 Budget. The level of funding proposed for each of these agencies is shown in Figure CLE-1. Highlights of the more notable funding changes included in the Budget for these programs are further described below.

Youth and Adult Correctional Agency

The Youth and Adult Correctional Agency is composed of the following entities: the Secretary for the Youth and Adult Correctional Agency, the Department of Corrections, the Department of the Youth Authority, the Board of Prison Terms, the Board of Corrections, and the Commission on Correctional Peace Officers' Standards and Training.

FIGURE CLE-1
Proposed Public Safety Expenditures for 2004-05
All Funds
(Dollars in Millions)

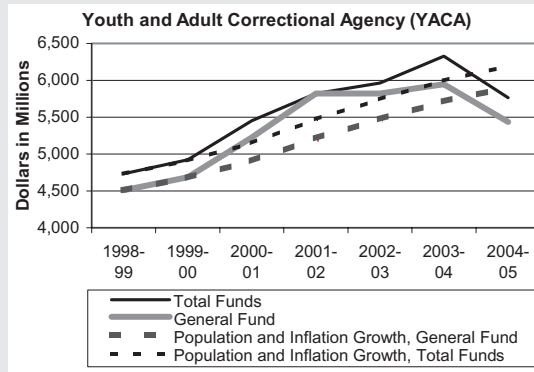


* Includes the Youth and Adult Correctional Agency, Board of Prison Terms, and the Commission on Correctional Peace Officer Standards and Training.



Key Audit Findings—Youth and Adult Correctional Agency

- The 2003 Budget Act appropriated \$5.6 billion from the General Fund to support the activities of these departments. This is an increase of \$1.1 billion, or 24 percent, from the levels provided in 1998-99.
- Increased operational costs of the California Department of Corrections and the Department of the Youth Authority such as escalating employee compensation and retirement costs, along with costs for workers' compensation benefits, utilities, and significant overtime usage have resulted in significant cost increases.
- Additional funding has been necessary to address court-ordered program expansions in the prison healthcare system, juvenile conditions of confinement including expanded treatment services, Americans with Disabilities Act-related lawsuits, and employee compensation and retirement costs.



Secretary for the Youth and Adult Correctional Agency

The Secretary for the Youth and Adult Correctional Agency is responsible for providing day-to-day policy direction and broad administrative guidance to the departments and boards relating to youth and adult detention services. The Secretary also provides oversight for the Narcotic Addict Evaluation Authority. Total funding for these programs will be approximately \$5.8 billion in 2004-05. This amount reflects a 9 percent decrease over the revised 2003-04 Budget.

Improving Accountability and Service Delivery

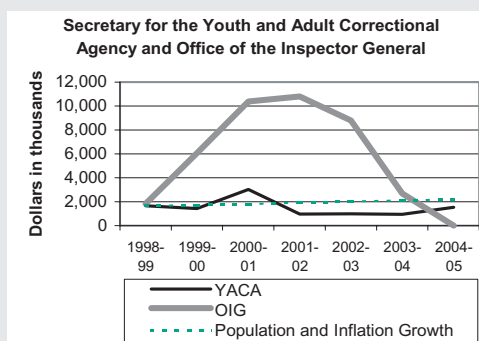
The Office of the Inspector General (OIG) has historically had the responsibility for oversight of the State's correctional system through audit and investigations of

the departments and boards within the Youth and Adult Correctional Agency. The Governor's Budget proposes the elimination of the OIG (\$2.8 million General Fund and 24 personnel years) and transfer of OIG's duties relating to the internal affairs practices of correctional agencies to the Secretary for the Youth and Adult Correctional Agency.

The Governor's Budget also provides \$630,000 and six personnel years for the Youth and Adult Correctional Agency to carryout the oversight functions previously required of the OIG. The Agency is committed, through the audits, investigations, and management reviews it will conduct, to examine all aspects of the operations of its departments and boards including administrative and fiscal issues.

Key Audit Findings—Secretary for the Youth and Adult Correctional Agency

- Since 1998-99, the Agency's budget has been reduced from \$1.9 million to \$1.2 million, a 38 percent reduction, which is primarily the result of the establishment of the Office of the Inspector General (OIG) as a separate entity outside of the Agency, and the Commission on Correctional Peace Officers' Standards and Training as a separate entity still reporting to the Agency, created in 1998-99 and 1999-00 respectively. Prior to this time, these functions were part of the Agency's direct operations.
- In 1998-99, OIG's budget was \$1.9 million General Fund. The Office's budget reached a high of \$10.8 million in 2002-03; however, significant reductions have returned OIG's budget to a level closer to the 1998-99 level. The 2003 Budget Act appropriated \$2.7 million General Fund, a 42-percent increase over the 1998-99 level. The increases were primarily due to resources provided to the OIG for additional audit, investigation, and management review workload increases. However, there have been significant reductions beginning in 2002-03 as part of the State's effort to address its budget issues.
- Options for controlling costs include reintegrating the OIG into the Agency Secretary's operations.



Department of Corrections

Functions of the Department of Corrections

The Department of Corrections (CDC) is responsible for the incarceration of convicted felons and the supervision of these felons after their release on parole. The CDC is responsible for providing safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic and vocational training, and health care. The Governor's Budget proposes \$5.3 billion and 51,216 personnel years for state operations and local assistance programs. In 2004-05, incar-

ceration and parole services will be provided through 33 institutions, 11 reception centers, 38 camps, and 13 community correctional facilities.

The CDC's average daily inmate population is projected to increase from 162,307 in the 2003-04 fiscal year, to 163,620 in 2004-05, an increase of 1,313 inmates, or 0.8 percent. The average daily parole population is projected to decrease from 114,276 in 2003-04, to 111,678 in 2004-05, a decrease of 2,598 parolees, or 2.2 percent. These population numbers do not include the effect of new programs included in the 2003 Budget Act. These programs will reduce institution population by providing new education programs, reducing parole



Key Audit Findings— Department of Corrections

- From fiscal year 1998-99 to the 2003 Budget Act, the Department's General Fund budget increased by approximately \$1.2 billion, a 29-percent increase. However, including adjustments in 2003-04 for unfunded population and employee compensation, along with retirement contributions, the increase is approximately \$1.6 billion, a 41 percent increase.
- Increased costs are attributable to inmate health care costs, workers' compensation, medical and psychiatric supplies, utilities, and retirement contributions.
- Increased costs are also attributable to employee contracts.
- The Department has had significant deficiencies over the last four years. A cause of these deficiencies, in addition to the items listed above, is custody-related expenditures for unbudgeted and unauthorized posts and posted positions.
- Options for controlling costs include the development of a consistent allotment methodology for allocating funding to institutions and holding them accountable for expenditure levels, contracting out subsidiary services and healthcare services, renegotiating labor contracts, and reforming parole policies.

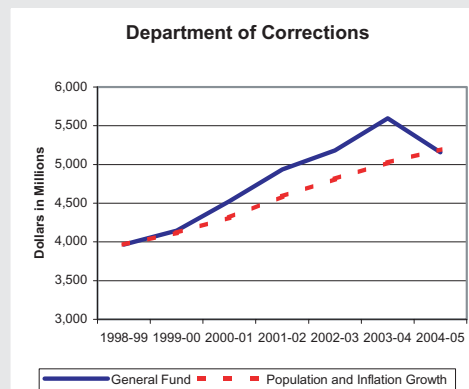
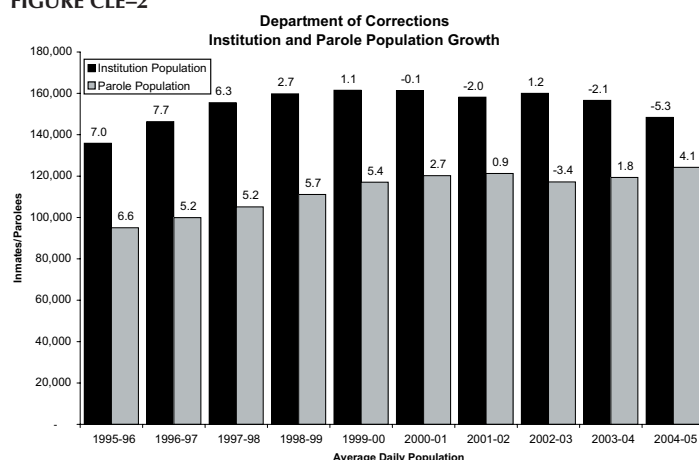


FIGURE CLE-2



This chart has changed from previous years, this chart is displaying average daily population, previous charts used population as of June 30.

revocations, and placing eligible inmates into drug treatment aftercare programs. These programs are projected to reduce the average daily inmate population in 2003-04 by 5,671, and in 2004-05 by 14,748, and increase average daily parolee population in 2003-04 by 5,071, and in 2004-05 by 12,546 (see Figure CLE-2).

California has an incarceration rate of 452 inmates per 100,000 population, compared to a nationwide rate of 476 inmates per 100,000, ranking it fifteenth among the 50 states, and fourth among the ten most populous states (see Figure

CLE-3). Adequate funding for State prison operations ensures the safety of the public and the officers and staff who supervise and work with confined criminals.

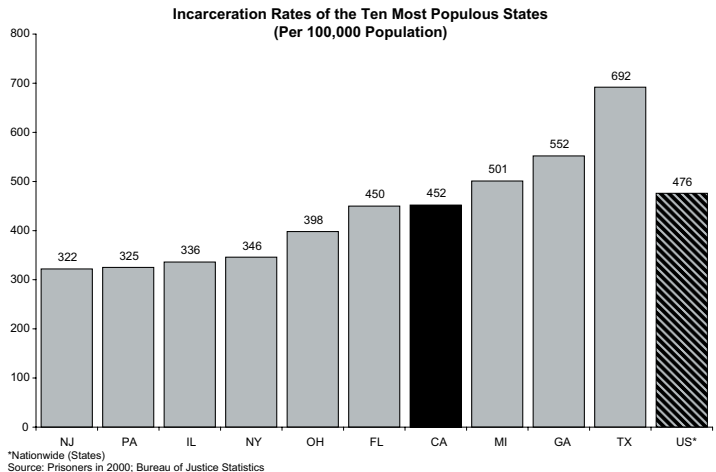
Improving Accountability and Service Delivery

The CDC has had significant fiscal deficiencies for the past several years, and it has become apparent that there is little fiscal accountability among CDC institutions, part of which is related to the institutions having little incentive to expend within the limits of a budget allotment that contains a shortfall from the outset. This reform package includes a two-step process and commitment designed to hold institutional management accountable for their budgeted resources. Those steps are: (1) ensuring adequate funding for required activities, and (2) developing Cost Control procedures to put a halt to expenditures for unauthorized activities and to restore methods of reconciling allotments to the approved budget. Many of the necessary tools for Cost Control Management already exist, but must be used more effectively.

To ensure that CDC has adequate funding for required activities, the Governor's Budget contains \$99.5 million and 1,239 personnel years to increase the budgeted relief factors for posted positions to allow employees in posted positions the opportunity to receive training, take accrued time off in a timely manner, reduce the liability for excess leave balances, and reduce staff overtime. In addition, during the spring process, funding and program levels for Administrative Segregation Units and medical guarding and transportation will be examined to determine what is required in order to ensure that these areas are correctly budgeted.

At the same time, each institution will need to be held accountable for its budget. CDC will

FIGURE CLE-3



be required to reconcile its post assignments with its approved and proposed budgets, as well as to determine meaningful allotments for the institutions that are predicated upon the reconciled post assignments and standardized costs of operating expenses. This process will cause any unauthorized custody-related expenditures to surface and will provide a tool to hold institution management accountable for their expenditures, as they would have to answer individually for exceeding their budgets. During the spring process, the implementation plan for the Information Technology (IT) needs for budgeting, accounting, personnel, and procurement is expected to be finalized. This IT system will provide great assistance to institutions and headquarters' staff in allocating the funding and implementing the cost control measures.

In addition to internal fiscal accountability, with the assumption of certain previously required duties and functions of the Office of the Inspector General, the Agency is determined to review all aspects of the operations of CDC, which in addition to fiscal accountability, will improve managerial accountability.



Parole Reform

Beyond internal fiscal controls, various programmatic changes need to be explored within the correctional system. A primary area to be examined is the parole program and the need to assess parole terms and revocation rates, along with potentially overhauling programs and supervision for parolees.

The CDC parole system is currently in a tangled web where parole violations are primarily dealt with by returning the parolees to prison, driving institutions' costs and the crowding of inmates. In addition to the costs and problems of overcrowding, the revocation sentences are served in reception centers or local jail beds where there has not traditionally been any type of program to address the reasons for their failure while on parole or provide additional preparation for their release. The CDC is currently embarking on a restructuring of its educational program to provide life skills courses at reception centers, primarily targeted at parole violators, but it is unknown as to the degree of success these classes will have as it relates to successful reintegration and reduced recidivism.

The State attempted to address part of the prison "revolving door" for parole violators by implementing community detention and a "dry out" program for nonserious, nonviolent parolees. While CDC is confident that this effort will reduce recidivism, and therefore decrease institution population and save dollars, California has not, unlike many other states, developed a continuum of graduated sanctions that can be used to respond to parole violators. As such, the likelihood remains that revocation time will continue to be primarily a punishment tool for parole violators, rather than a program to promote reintegration.

Therefore, the Administration is proposing a reevaluation of California's Parole System. The Administration's plan will first provide an assessment of who benefits from parole. In addition, the type and level of parole supervision needs to be examined to determine the most effective approach.

Beyond the assessment of who benefits from parole, the goal and mission will be modified for those on parole. The Administration's plan will have the goal that supervision and available programs must provide intervention for violators to reduce the likelihood of future criminal activity and promote compliance with the supervision strategy, and ensuring an appropriate and proportionate response to all violations of the conditions of parole, taking into account offender risk and the nature of the violation. In order to proactively intervene, programs for groups such as the mentally ill and drug users will need to be reviewed to determine if they are beneficial, and if so, properly funded.

On the other hand, violations of parole that are felonies should be prosecuted at the local level where appropriate. Instead of pushing criminals through the revolving door using parole revocation, repeat offenders need to go through the court system, and receive a new term in prison for subsequent law violations.

Operational Efficiencies

With the CDC male inmate population at an all-time high, there has been little need to plan for prison closures. However, a successful parole system should decrease recidivism rates and would have the desired effect of reducing institutions population. As a result, the Administration will create a Commission that would proactively evaluate and recommend future closures for both CDC and the Youth Authority. While a population reduc-

tion at State prisons will allow CDC to move inmates out of gyms and appropriately place inmates in suitable housing situations, there is a possibility that some facilities could be closed. Therefore, the Commission would review factors such as design of the facility, age and maintenance needs, capital project needs, ability to recruit and retain staff, the economic impact on a region, and the potential revenue to the State from selling the asset in order to recommend to the Administration and the Legislature a priority order for closing institutions as population declines.

Whereas population reductions provide substantial savings on the margin, entire institution closures nearly double the potential savings by avoiding fixed costs since a full closure allows CDC to eliminate the overhead of running an institution and base staffing, including administrative and maintenance positions, as well as posts that must be activated and filled regardless of the population level in the facility. However, much of this type of savings will not materialize immediately. As such, it is imperative that other operational efficiencies are created in the short run. An example of potential efficiencies includes returning post and employee resource management to CDC. In addition, contingent upon approval of a Constitutional amendment to ease restrictions on contracting for services, CDC needs to explore what type of services, such as health services, food services, and maintenance, could provide a cost benefit to the State if they were provided on a contractual basis.

The detailed reform proposal with associated budget reductions will be submitted to the Legislature as part of the May Revision. However, using the parameters discussed above, primarily for the CDC Parole System, it is the Administration's intent to work with the Legislature and vari-

ous stakeholders to develop programs that will be successful and, most of all, promote public safety.

Program Enhancements and Other Budget Adjustments

The Secretary of the Youth and Adult Correctional Agency (YACA) is developing a proposal with the goal of achieving a savings of \$400 million for fiscal year 2004-05. Since the majority of these savings will be due to reforms within the Department of Corrections, the \$400 million is being reflected as a pending reduction in the CDC budget. As part of the May Revision, when the proposal is completed, the actual savings amounts will be allocated to the affected departments within the Agency. Therefore, the Governor's Budget assumes a net expenditure amount of \$5.3 billion for CDC, which is a 7.8 percent decrease compared to the revised 2003-04 Budget.

The audit identified various cost controlling options for CDC including the development of a consistent allotment methodology for allocating funding to institutions and then holding wardens accountable for expenditure levels, contracting out subsidiary services and health care services, renegotiating labor contracts, and parole reforming revocation policies.

In light of the audit findings and in response to the State's fiscal crisis, the Secretary is developing a multifaceted reform proposal that is designed to reevaluate the State's correctional systems, including restoring fiscal control and accountability, assessing parole terms and revocation rates, reviewing and potentially revamping parole programs and supervision, evaluating and recommending the closure of facilities as populations decline or due to the age and condition of facilities, and examining opportunities to improve the operations and reduce costs.



Board of Corrections

Functions of the Board of Corrections

The Board of Corrections (BOC) is responsible for establishing standards for the construction and operation of local jails and juvenile detention facilities, compliance inspections, and employment standards and training for local corrections and probation personnel. In addition, the BOC administers various correctional facility construction and juvenile justice local assistance grant programs. The Governor's Budget proposes \$75.6 million and 68 personnel years for support of the BOC's programs.

Program Enhancements and Other Budget Adjustments

Transfer of Office of Criminal Justice Planning Juvenile Justice Grant Programs—An increase of \$36.1 million (\$507,000 General Fund, \$35.6 million Federal Trust Fund and

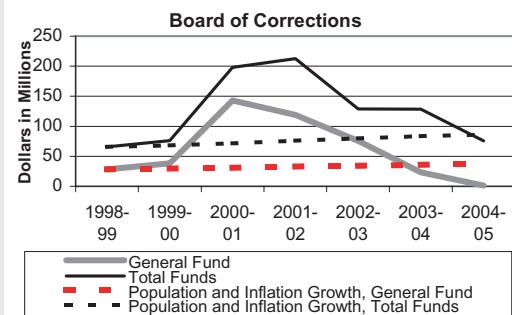
\$10,000 Reimbursements) and ten personnel years so that the BOC can administer a portion of the Criminal Justice Projects, now titled the Juvenile Justice Grants Program, transferred due to the elimination of the Office of Criminal Justice Planning.

Board of Corrections to be Fee Based—

The Budget proposes a decrease of \$1.7 million General Fund and an increase of \$1.9 million Board of Corrections Administration Fund associated with the BOC generally being supported through fees rather than the General Fund. This proposal will allow BOC to operate based on fees collected from local governments that wish to have the BOC continue the services it currently provides. These services include ensuring the establishment and continual reevaluation of minimum standards for local juvenile and adult detention facilities, conducting inspections of all local detention facilities biennially, and establishing recruitment, selection, and training standards for all local corrections personnel working in jails, juvenile detention facilities, or probation departments.

Key Audit Findings— Board of Corrections

- The Board's General Fund budget has increased from \$28.3 million in 1998-99 to \$44.8 million as of the 2003 Budget Act, an increase of \$16.5 million, or approximately 58 percent. In addition, federal funds have increased by approximately \$65 million to \$84.3 million over the same period, a 337 percent increase.
- The Board's expenditures experienced considerable variation between 1998-99 and the 2003 Budget Act. This was mainly attributable to multi-year grant programs and a significant increase in federal funds for local juvenile and adult detention facility construction. Many of the grant programs have either expired or will be expiring at the end of 2004-05.



BOC will retain some General Fund for costs associated with their continued responsibility of administration and oversight of grant programs until such programs expire. Specifically, funding will be retained for administering federal and State detention facility capital construction moneys for the construction or renovation of local detention facilities, and State-funded local corrections at-risk and offender pilot, demonstration and continuum of care programs.

Board of Prison Terms

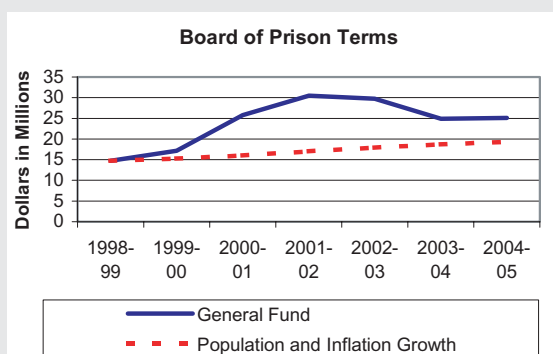
Functions of the Board of Prison Terms

The Board of Prison Terms considers parole release and establishes the length and

conditions of parole for all persons sentenced to the Department of Corrections under the indeterminate sentencing law, persons sentenced to prison for a term of less than life under Penal Code Section 1168(b), and those serving a sentence of life with the possibility of parole. The Board may suspend or revoke the parole of any prisoner who has violated the conditions of their parole. This population currently stands at approximately 26,000 inmates. The Board also determines the necessity for recission or postponement of parole dates for persons sentenced to prison for life, persons sentenced under Penal Code Section 1168(b), and persons sentenced under the indeterminate sentencing law. The Governor's Budget proposes \$25.1 million and 175 personnel years to support the operations of the Board.

Key Audit Findings— Board of Prison Terms

- The Board's General Fund budget has increased from \$14.7 million in 1998-99 to \$25.2 million as of the 2003 Budget Act, an increase of \$10.5 million, or approximately 71 percent.
- The Board's budget is primarily driven by inmate and parole population changes in the Department of Corrections. However, a federal court ruling in *Armstrong v. Davis*, resulted in a \$7.6 million General Fund increase in the 2000-01 fiscal year. *Armstrong v. Davis*, addresses violations of the Americans with Disabilities Act with respect to the parole revocation process. In addition, *Valdivia v. Davis*, a case in which the federal court determined that the parole hearing and revocation process violates due process protections in the United States Constitution, will likely result in the need for additional resources for the Board to address the court's findings.
- Options for controlling costs for the Board's budget are directly tied to any efforts made to reduce CDC inmate population or parolee recidivism rates.





Department of the Youth Authority

Functions of the Department of the Youth Authority

The Department of the Youth Authority protects the public from criminal activity of youthful offenders by housing wards committed to the Department by juvenile courts. In order to help these youthful offenders become productive California citizens, the Department provides education, training, and treatment services to the wards.

The Department projects an institution population of 4,055 youthful offenders by June 30, 2004, which is a decrease of 500 from the level anticipated in the 2003 Budget Act. The 2004-05 year-end institution popu-

lation is expected to decrease by 235 wards, resulting in a June 30, 2005, population of 3,820.

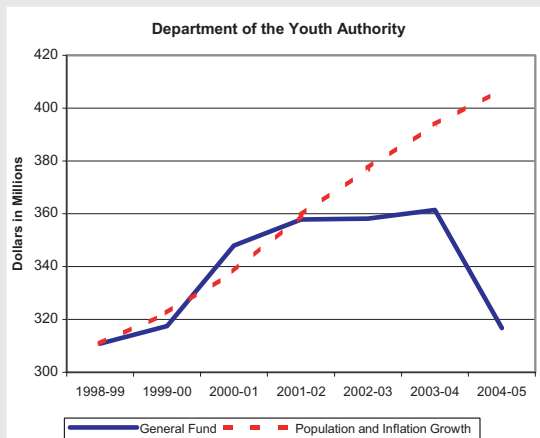
The Department operates ten institutions, including two reception center/clinics, and six conservation camps, two of which are institution-based camps. The total Department design capacity is 6,532 beds, which includes the institutions, camps, and contracted beds.

The Department supervises parolees through 16 offices located throughout the state. The parole population is projected to be 4,025 by June 30, 2004, and to decrease by 215 cases, to 3,810 by June 30, 2005.

The Governor's Budget proposes \$378.1 million and 3,798 personnel years for state operations and local assistance to provide treatment and training for youthful offenders in the care of the Department.

Key Audit Findings—Department of the Youth Authority

- Since the 1998-99 fiscal year, the Department's budget has increased by approximately \$35.8 million, an increase of 9 percent.
- The Department of the Youth Authority's overall budget is largely driven by population. However, ward and parolee treatment program expansions, some of which have been the result of federal court action, employee compensation and retirement costs, and increased operational costs, have all resulted in General Fund increases.
- Beginning in 2001-02, there have been various General Fund reductions in Department's budget including \$5 million in parole programs, \$6.3 million associated with the increase in the sliding scale fees, and \$4.4 million associated with two institution closures.
- Options for controlling costs include closing additional institutions to reflect the reduced bed capacity need.



Improving Accountability and Service Delivery

Concurrent with the effort to reform CDC's parole program, a review of the Department of Youth Authority's parole programs will also be undertaken. Issues to be considered will include a review of those wards who benefit from parole, the type and level of parole supervision to determine the most effective approach while maintaining public safety, and the availability of programs for parolees to provide them the best opportunity to be successful on parole.

In addition to parole reforms, the Department proposes to initiate specific reforms that will impact the ward and parolee populations beginning in the budget year, which include modifying law to reduce the age of the Department's jurisdiction for wards and parolees from 25-to-22 years of age, and implementing reforms to juvenile sentencing and providing for a casework-staffing model.

This proposal would allow the Department to re-engineer its system to focus its rehabilitative resources on a much more specialized population of youthful offenders. This would preserve the mission of the Department and that of the juvenile court by more effectively focusing efforts on training and treatment for juvenile offenders. This proposal would also solidify the Department's role in California juvenile justice by structuring the Department to deliver programs to a specialized population of violent, co-morbid, mentally ill, and gang member youth, which California counties lack the expertise and/or resources to serve.

Existing law would be amended to allow the Youth Authority to transfer juvenile offenders who cannot program safely to CDC under an adult disposition. If the juvenile did not fulfill

his/her treatment goals or in cases where juvenile offenders must be retained past age 22, the juvenile court judge could rescind the Department placement and order the juvenile to state prison. The sentencing model will allow the Department to use its scarce resources for those wards who demonstrate their willingness to be rehabilitated. It will decrease the need for the Department to use its facilities for wards requiring the maximum-security level of housing, since the proposal will allow the Department to remove the segment of the population that has demonstrated by their behavior and actions that they are more suitable for state prison. As a result, the Department will better fulfill its mission of providing training, treatment, and education for wards entrusted to its care.

Finally, this proposal would implement the casework-staffing pattern on Department general population living units. By restructuring living unit staff, a total of 48 hours of additional treatment time per week will be provided to wards. Based upon preliminary data, it appears that significant positive outcomes result from realignment of the staffing pattern in living units when this alignment is paired in training and standardized treatment curriculum. Specifically, the results from a pilot study indicate that "enhanced casework" staffing contributes to an increase in treatment activities, a reduction in time-adds, increase in time-cuts, and reduced violence.

The impact of this proposal in the budget year is a reduction of \$600,000; however, the savings are expected to increase significantly in the out-years.

In recognition of the Department's declining ward population, the Karl Holton Youth Correctional Facility, the male portion of the Ventura Youth Correctional Facility, and the Northern Youth Correctional Reception



Center and Clinic have been or are in the process of being closed this fiscal year. Facility closure is a departure from prior practice, where the Department has closed individual living units within each facility. While living unit closures have resulted in reductions to the Department's budget, this process has not captured the significant operating expenditures that can be saved when an entire facility is closed. In recognition of the audit finding and given that the Department projects a continuing decline in ward population, the Governor's Budget proposes the closure of Fred C. Nelles Youth Correctional Facility and a youth correction camp. The impact of these closures and already initiated closures will result in a General Fund savings of \$43.9 million in the budget year. Additionally, the impact of the program restructure discussed above will provide additional opportunities to explore further facility closures beyond the budget year. It is the Administration's expectation that any future facility closures will be reviewed as part of

the Agency's closure commission and issues to be considered shall include design of the facility, age and maintenance needs, capital project needs, ability to recruit and retain staff, the economic impact on a region, and the potential revenue to the State from selling the asset.

Department of Justice

Functions of the Department of Justice

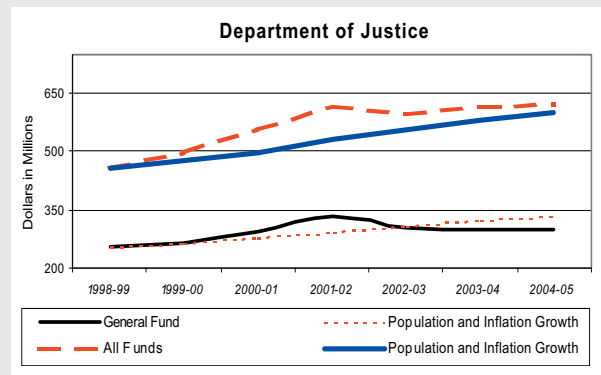
The Attorney General serves as the State's primary legal representative and chief law enforcement officer, and is responsible for ensuring that California's laws are uniformly enforced. For 2004-05, the Governor's Budget proposes \$621.9 million and 4,862 personnel years, including \$161.9 million for law enforcement programs, \$268.4 million for legal service programs, \$154.4 million for the Criminal Justice Information System program, \$14.3 mil-

Key Audit Findings — Department of Justice

■ Total funding for the Department has increased by \$159 million since the 1998-99 fiscal year, and the General Fund has increased by \$42 million or 16 percent.

■ Increases were included for the following items, but funding has been offset by various one-time or ongoing baseline reductions:

- A \$16 million augmentation for employee compensation costs in 1999-00.
- An increase of \$6 million for DNA Databank workload in 2000-01.
- Augmentations of \$10 million to replace expiring federal funds for the California Methamphetamine Program and \$2.8 million for Sexual Predator Apprehension Teams in 2001-02.



lion for the Gambling Control Division, and \$12.3 million for the Firearms Division.

Program Enhancements and Other Budget Adjustments

California Witness Protection Program—\$3 million Restitution Fund is proposed to continue the California Witness Protection Program. This Program was funded in prior years by the Restitution Fund; however, due to insufficient Restitution Fund resources in 2003-04, funding for the Program was provided by the General Fund. The Restitution Fund is now able to support this Program at the level provided in previous years.

California Methamphetamine Strategy Program (CALMS)—\$2.4 million federal funds is proposed to utilize grants provided by the United States Department of Justice to enhance CALMS program enforcement with electronic surveillance equipment.

In addition, the Governor's Budget includes a \$1 million General Fund reduction to the Bureau of Narcotic Enforcement and the elimination of 13 vacant positions that were previously authorized for the CALMS program, a reduction of \$2.5 million General Fund due to a decline in *Plata v. Davis* litigation workload, and an unallocated reduction of \$3 million General Fund for the Department of Justice. These reductions will not affect the ability of the Department to fulfill its law enforcement mission.

California Highway Patrol

Functions of the California Highway Patrol

The California Highway Patrol (CHP) is the State's largest law enforcement agency. It patrols over 105,000 miles of state highways and county roads, ensures the safe opera-

tion of commercial trucks through inspection at weigh stations, and protects State facilities and the people who work and conduct business in them. The Governor's Budget includes \$1.3 billion to fund 7,284 officers and 3,267 support staff.

Budget Adjustments

Pursuant to Control Section 4.10 of the 2003 Budget Act, CHP's budget has been adjusted to reflect salary savings of 150 uniformed positions (a reduction of about \$15 million). The CHP budget has not been increased to fund approximately \$30 million of employee compensation cost increases in 2003-04. These actions reduce the adjusted growth in the CHP budget to just slightly over the rate of growth in population and inflation for the same period.

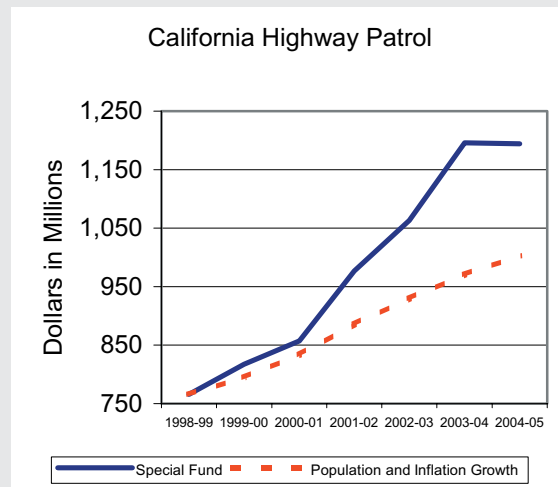


Key Audit Findings— California Highway Patrol

- From 1998-99 to the 2003 Budget Act, State funding for the CHP has grown from \$766 million to \$1.196 billion, an increase of \$430 million or about 56 percent. Of this amount, the support from the Motor Vehicle Account increased by \$403 million (94 percent of the increase).
- Prior to 2001-02, the CHP's expenditures approximated the growth in population and inflation.
- Beginning in 2001-02, the CHP's expenditures grew significantly faster than growth in population and inflation.
- By 2003-04, the CHP's special fund expenditures were almost 20 percent greater (approximately \$200 million) than if limited to increases consistent with growth in population and inflation. A significant share of those increases were related to:
 - Expenditures from State funds offsetting retirement costs that had previously been borne by retirement system investment earnings (approximately \$107 million)
 - Augmentations received by the CHP for homeland security activities (\$75 million in ongoing costs).

Adjusting for these significant increases, the 2003-04 expenditures would still be about 2 percent above the growth in population and inflation.

- Beginning in 2003-04, as a result of negotiations with the California Association of Highway Patrolmen, the Department of Personnel Administration agreed to a special pay for CHP officers. That special pay provides compensation calculated at time and a half for the officer's half-hour lunch. This adds about \$9.4 million to the cost of the CHP in 2003-04 and \$18.8 million in subsequent years.
- Because of the CHP's expenditures are anticipated to increase dramatically related to employee compensation adjustments provided during the past three years. These increases are anticipated to cost \$480 million over the next three years (to an annual cost of \$203 million in 2006-07).



CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

The California Environmental Protection Agency coordinates and supervises the State's environmental protection programs, with particular focus on restoring, protecting, and enhancing the State's environment.

The Secretary for Environmental Protection oversees the Air Resources Board, the Integrated Waste Management Board, the Department of Pesticide Regulation, the State Water Resources Control Board (which includes the nine Regional Water Quality Control Boards), the Department of Toxic Substances Control, and the Office of Environmental Health Hazard Assessment.

Continuing California's long tradition of worldwide environmental leadership, the 2004-05 Governor's Budget includes \$1 billion (\$69.8 million General Fund) and 4,275 personnel years. This includes ongoing support of efforts to address environmental health risks to children and other sensitive populations, transboundary and coastal pollution, ecological and human health risks from fuels and toxic substances, and water quality improvement.

Significant new activities in the Budget include \$52.3 million from the Electronic Waste Recovery and Recycling Account for the Integrated Waste Management

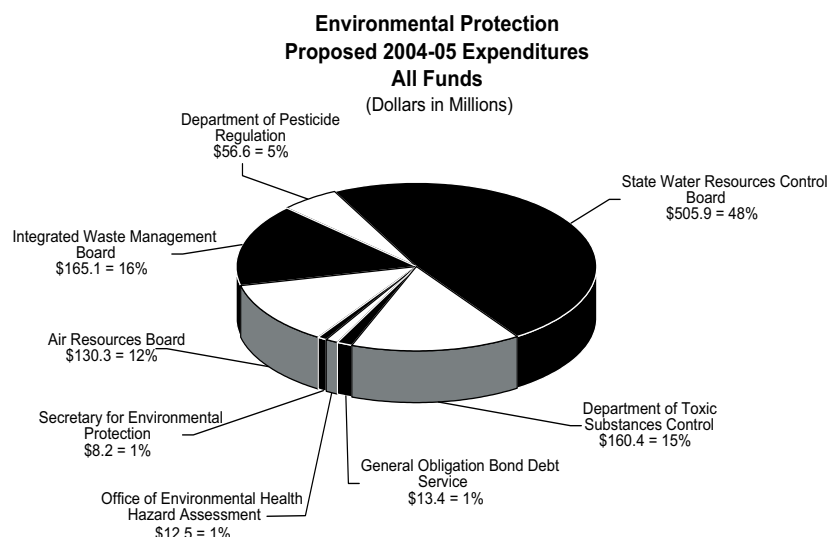
Board to take the lead in implementing the Electronic Waste Recycling Program established by Chapter 526, Statutes of 2003, to reduce and reuse the State's huge stockpile of electronic devices such as computer monitors and televisions.

Air Resources Board

Functions of the Air Resources Board

The Air Resources Board (Board) is responsible for protecting and improving California's air quality. The Board adopts and enforces regulations for motor vehicles, fuels, and consumer products, and oversees the activities of 35 local air pollution control and air quality

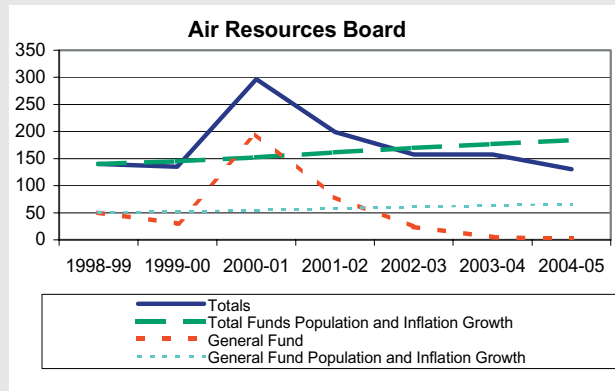
FIGURE ECON-1





Key Audit Findings— Air Resources Board

- Use of General Fund peaked in 2000-01 with one-time augmentations of \$45 million for the Carl Moyer Diesel Grant Program, and \$50 million for school bus replacements.
- \$50 million (one-time) in Proposition 40 Bond funds were scheduled over 2002-03 and 2003-04 for projects that reduce air pollution affecting state and local park and recreation areas.
- Funding for the Stationary Source Program shifted \$14.4 million from General Fund to regulatory fees (in the Air Pollution Control Fund) in 2003-04 to reduce dependence on the General Fund.



management districts (local districts). These local districts have primary responsibility for regulating emissions from stationary sources.

Program Enhancements and Other Budget Adjustments

The Governor's Budget totals \$130.3 million (\$2.2 million General Fund) and 915.8 personnel years. This is a decrease of more than \$35 million from the 2003 Budget Act, due to the expiration of \$29.6 million one-time funding for the Zero Emission Vehicle Grant Program and Carl Moyer Diesel Grant Program, and an ongoing reduction of \$7.6 million and 86.7 personnel years pursuant to Section 4.10 of the 2003 Budget Act.

The Governor's Budget includes \$3 million to continue equipment upgrades for the measurement and monitoring of small particulate matter (PM 2.5). The Board also plans to expend \$1.5 million (funded by fees on the manufacture and use of perchloroethylene) for the new Non Toxic Dry Cleaning Incentive

Grant Program established by Chapter 821, Statutes of 2003, to aid dry cleaners in transition to nontoxic and non-smog-producing technologies.

Water Resources Control Board

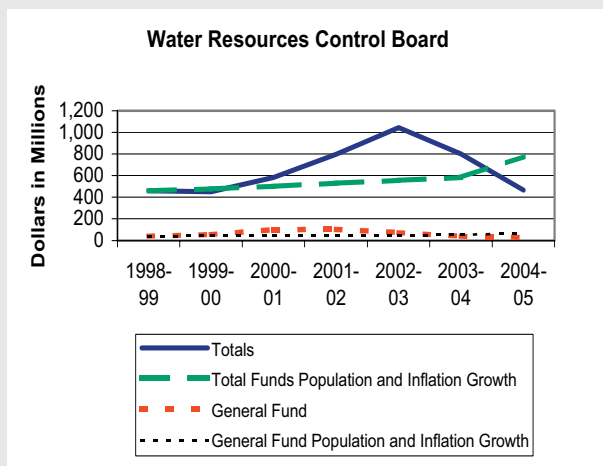
Functions of the Water Resources Control Board

The State Water Resources Control Board and the nine Regional Water Quality Control Boards are responsible for the preservation, enhancement, and restoration of the quality of California's water resources. State activities include regulatory oversight of surface, ground, and coastal waters; allocation of unappropriated water; control of unauthorized water diversions; and protection of water quality in watersheds and coastal waters from point and nonpoint sources of pollution. The Budget includes \$505.1 million (\$27.6 million

Key Audit Findings— Water Resources Control Board

■ Between 1998-99 and 2003-04, the Water Board's budget grew by \$342 million (74.5 percent). However, at the same time, the Water Board's General Fund appropriations dropped by \$1 million (0.2 percent).

■ Since 2000, the voters have approved three bond acts which have provided the Water Board with \$1.397 billion in new bond resources. Most Water Board expenditure growth is due to this new source of funding.



General Fund) and 1,475.5 personnel years for support of these ongoing programs.

Program Enhancements and Other Budget Adjustments

The 2004-05 Governor's Budget is \$668 million lower than the current year budget, largely due to plans to allocate bond funding during the spring budget process. Delaying this action until spring will allow additional time to identify options for restructuring and achieving greater efficiencies in departmental operations.

In light of the current condition of the General Fund, the Budget reflects a reduction of approximately \$10 million General Fund for various water quality programs such as: implementation of statewide septic tank standards, investigation of contaminated wells, technical support for the investigation of emerging pollutants, water quality management, water quality control planning, and Chromium 6 investigations. Of the \$10 million in General Fund reductions, about

\$5.1 million will be shifted to fees and special funds, for the following activities: information technology, administration, quality assurance, and water quality trend monitoring. These fund shifts will not require any increase in fees.

Toxic Substance Control

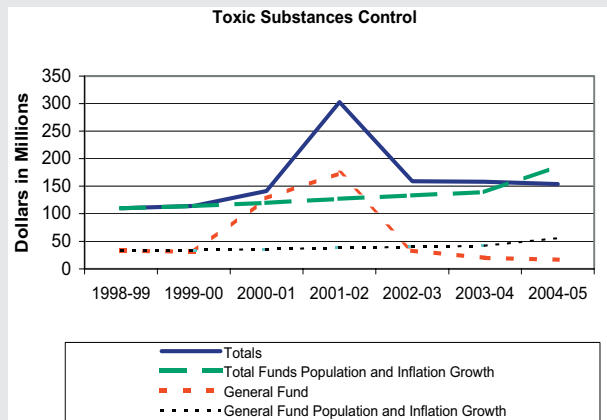
Functions of Toxic Substance Control

The Department of Toxic Substances Control (Toxics) is responsible for the prevention and remediation of environmental damage caused by hazardous wastes. Toxics regulates hazardous waste transportation, treatment, storage, and disposal in California; oversees cleanup of contaminated sites; and promotes pollution prevention. Specific programs include site mitigation, hazardous waste management, pollution prevention, waste minimization, and technology development.



Key Audit Findings— Toxic Substance Control

- Between 1998-99 and 2003-04, Toxics' total budget grew by \$48 million (43.6 percent). However, its General Fund budget declined by \$13 million (39.4 percent). Thus, Toxics has not been a source of General Fund growth.
- Toxics incurred a one-time spike in General Fund expenditures in 2001-02, when the State settled litigation with the U.S. Environmental Protection Agency over two Superfund sites at a cost of \$114 million.
- Toxics' remaining General Fund is dedicated to sensitive activities: the cleanup of clandestine drug labs and illegal off-highway dumping, and court-mandated remediation activities at the Stringfellow toxic dump site.



Program Enhancements and Other Budget Adjustments

The Budget totals \$160.4 million (\$17.2 million General Fund) and 966.3 personnel years.

The Budget proposes a reduction of \$3 million General Fund, by distributing administrative costs to Toxics' special fund resources, and to the staffing reductions required pursuant to Section 4.10 of the Budget Act of 2003. A total of 52 positions were eliminated by Section 4.10.

The following new activities will be performed:

- \$226,000 in special funds will be used to implement a Mobile Hazardous Materials Laboratory. This new mobile laboratory will provide Toxics with the ability to respond quickly and effectively to a wide variety of emergencies around the state.
- \$557,000 from the new Electronic Waste Recovery and Recycling Account will be used to support Toxics' responsibilities with respect to implementation of the Electronic Waste Recovery and Recycling Act. This new fee-supported program will provide for the collection of cathode ray tubes in televisions and computer monitors, thereby preventing the release of the toxic materials contained in these devices, and promoting their recycling.

NATURAL RESOURCES

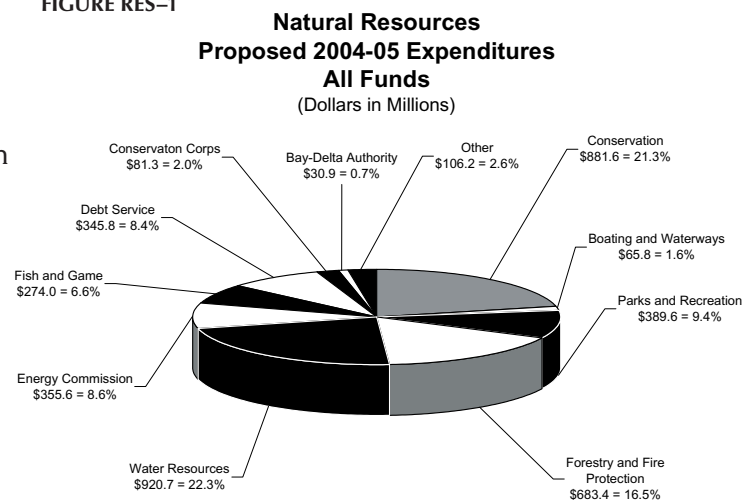
The Resources Agency consists of 24 departments, boards, commissions, and conservancies responsible for administering programs that conserve, preserve, restore, and enhance the rich and diverse natural and cultural resources of California. These organizations include the Departments of Fish and Game, Forestry and Fire Protection, Parks and Recreation, Water Resources, and Conservation. The Governor's Budget proposes \$4.1 billion (\$837.8 million General Fund) and 14,712.1 personnel years for state operations, local assistance capital outlay, and debt service activities.

The Governor's Budget is consistent with the Governor's "Action Plan for California's Environment."

- The Budget proposes to increase State Park fees. This increase will allow for continued operation of all facilities and continue to bolster the local economies in which the parks reside.
- The Budget continues to fund activities within the Department of Fish and Game, Department of Conservation, and Department of Forestry and Fire Protection to enforce existing environmental protection laws.

- The Administration remains committed to the State's responsibility to "Keep Tahoe Blue."
- California's participation in the CALFED Bay-Delta Program will continue to exceed the federal commitment.
- The Budget proposes to reduce the California Conservation Corps by \$12.8 million, which will result in a 14 percent reduction in the number of corps members served. The ongoing program will continue to provide vital resource protection services and train a full time equivalent of 1,200 corps members.

FIGURE RES-1





Resources Bond Funding

Over the past two years, voters have approved two bond measures, Proposition 50 (\$3.44 billion) and Proposition 40 (\$2.6 billion), to address California's water supply needs and protect the state's parks and wildlife habitats. The Administration will be evaluating various alternatives to reorganize and streamline existing resource conservation efforts. Therefore, the Governor's Budget proposes to defer the appropriation of bond funds in 2004-05 until the spring. However, the Administration remains committed to the implementation of the Lake Tahoe Environmental Improvement Program, CALFED, and improvements to State Park facilities, which will depend on bond funding for the 2004-05 fiscal year.

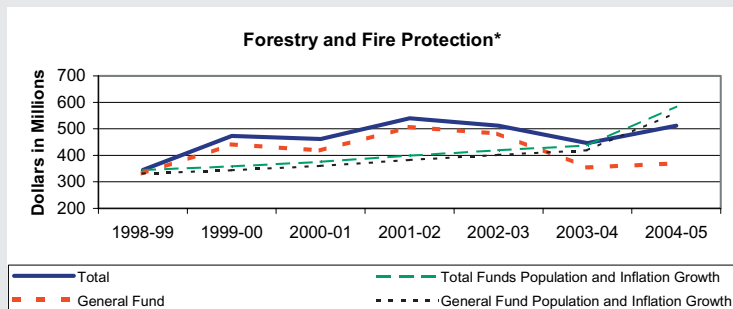
Department of Forestry and Fire Protection

Functions of the Department of Forestry and Fire Protection

The Department of Forestry and Fire Protection (CDF) provides fire protection and suppression on 31 million acres of non-federal wildlands, responds to emergencies, and protects and enhances forests, range lands, and watersheds. CDF also negotiates more than 140 cooperative agreements annually with counties, cities, and special districts to provide fully reimbursed fire protection services to local governments. The Budget includes \$634.6 million (\$366.2 million General Fund) and 5,185 personnel years.

Key Audit Findings— Department of Forestry and Fire Protection

- Fire suppression costs account for \$335 million of General Fund expenditures and can fluctuate significantly from year to year based on the frequency and severity of fire outbreaks. For example, fire suppression costs increased by almost \$85 million between 1998-99 and 1999-00, and approximately \$52 million between 2000-01 and 2001-02.
- Other General Fund cost increases over the study period are related to collective bargaining agreements for increased wages and retirement benefits, and upgrades to the communications dispatch system and air tanker fleet.



Program Enhancements and Other Budget Adjustments

The 2003 fire season was one of the worst on record. The fires which occurred in southern California at the end of October and the beginning of November were some of the most destructive in terms of acreage burned and structures destroyed, and fire suppression costs alone are expected to total \$65 million, \$40 million of which will be reimbursed by the federal government.

By way of illustration:

- The Cedar fire ranks first in terms of the number of acres burned—273,246 acres.
- Over 746,000 acres were burned in six counties.
- Five of the 14 fires ran in the top 20 largest California wildland fires in terms of structures destroyed.

General Fund expenditures were reduced by \$50 million in the 2003 Budget Act to reflect new fees for fire suppression costs within State Responsibility Areas (SRA). General Fund expenditures were also reduced by \$10 million in the 2003 Budget Act in anticipation of a new fee for timber harvest plan (THP) reviews to partially cover the cost of these reviews. The THP fees, however, were never enacted, which created a shortfall of \$10 million. As part of the Governor's Budget, the Administration will propose legislation to make some necessary changes to the SRA fee language and to enact the THP fees to cover the budget shortfall.

Department of Fish and Game

Functions of the Department of Fish and Game

The Department of Fish and Game manages California's diverse fish, wildlife, and plant resources, and habitats for their ecological values and enjoyment by the public. The Department also manages oil spill prevention programs and enforces environmental laws such as the California Endangered Species Act.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$271.2 million (\$37.3 million General Fund) and 2,040 personnel years. Significant adjustments include a \$1.8 million reduction for stream clearance and restoration activities, an increase of \$2.5 million for Salton Sea Quantification Settlement Agreement legislation implementation, and an increase of \$1.2 million for Marine Invasive Species Act implementation.

Department of Parks and Recreation

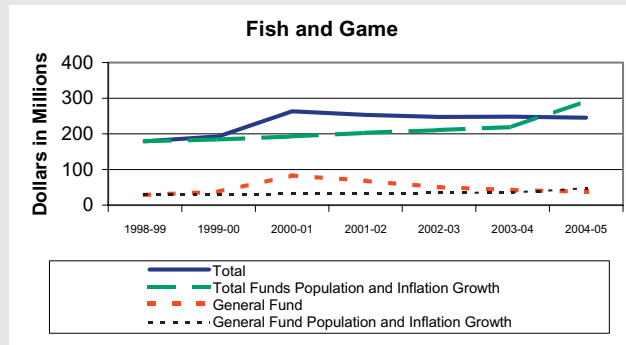
Functions of the Department of Parks and Recreation

The Department of Parks and Recreation is responsible for preserving the State's extraordinary biological diversity, natural and cultural resources, and high-quality outdoor recreational opportunities. The State Park System consists of 277 units including parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites.



Key Audit Findings— Department of Fish and Game

- Changes to General Fund include a \$5.2 million increase to implement the Marine Life Management Act of 1998, a \$3.8 million increase in California Environmental Quality Act document reviews, a \$3 million increase in enforcement and a \$1 million increase for endangered species recovery.
- General Fund peaked in 2000-01 with one-time funding provided for deferred maintenance and equipment (\$9.43 million) and to comply with the Americans with Disabilities Act (\$2.6 million). An additional 10 warden positions (\$1.17 million) and an increase in environmental document reviews (\$7 million) were funded but were subsequently eliminated through budget reductions.
- Non-General Fund expenditures grew primarily because of a \$17 million increase in federal funds for salmon restoration, a \$16 million increase in federal wildlife conservation and education grants, a \$7.7 million increase in bond funds, Proposition 13 (approved in March of 2000) for salmon and steelhead trout habitat restoration, and a \$2.3 million increase in federal funds for groundfish fisheries disaster relief. An additional 20 warden positions and a \$3.1 million increase in federal funds were funded in 2000-01.



Restructure of Park Fees

To prevent the reduction of hours and to maintain adequate public access expected of the State Park system, fees will increase by \$18 million, effective July 1, 2004. The increase in State Park fees results in a reduction in General Fund appropriations (\$15 million) and increased revenue for deferred maintenance (\$2 million) and park operations (\$1 million).

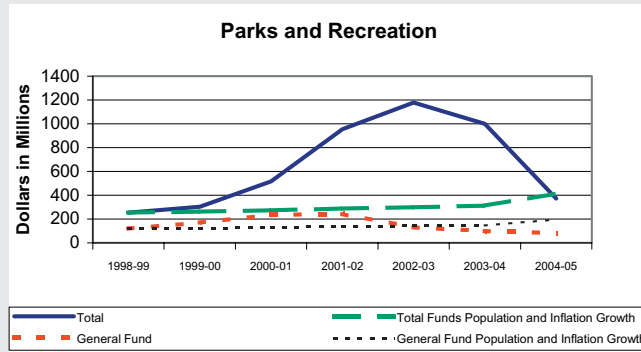
Maintaining current operations allows State Parks to continue serving millions of people who depend upon State Parks as their vacation destination. In addition, the

State Park system is a major part of local economies. More than 85 million people visit State Parks yearly, spending more than \$2.6 billion annually in local communities.

The new fees will keep the system open and healthy, while offering a sliding scale for affordability. Camping rates will range (sliding scale) from \$11.00 to \$25.00, and day use rate will range from \$4 to \$14 depending on location and level of demand.

Key Audit Findings— Department of Parks and Recreation

- General Fund expenditures decreased from \$116 million to \$90 million between 1998-99 and 2003-04 as a result of the statewide General Fund revenue shortfall. These reductions were partially offset by restoring the majority of park fees that were reduced in 2000-01, generating \$20 million in additional revenue. Reorganizing park operations resulted in a reduction of 90 positions, mainly in administration and other headquarters functions.
- Consideration should be given to promoting greater use of concessionaires within parks to provide value-added services and essential resource management support currently not possible due to budget constraints.



Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$389.8 million (\$82.3 million General Fund) and 2,994.2 personnel years for state operations (\$290.1 million), local assistance (\$41.1 million), and capital outlay (\$58.4 million).

Container Recycling Program and preserving farmland and open space.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$881.6 million (\$3.8 million General Fund) and 582.3 personnel years to carry out the Department's programs in 2004-05. The Governor's Budget proposes to shift funding for the administration of the Williamson Act and the California Farmland Conservancy Program from the General Fund to the Soil Conservation Fund and Proposition 12 bond funds. This fund shift will generate \$551,000 in General Fund savings. The Budget also proposes \$1.23 million Strong Motion Instrumentation and Seismic Hazards Mapping Fund for earthquake mapping and monitoring activities to ensure that buildings,

Department of Conservation

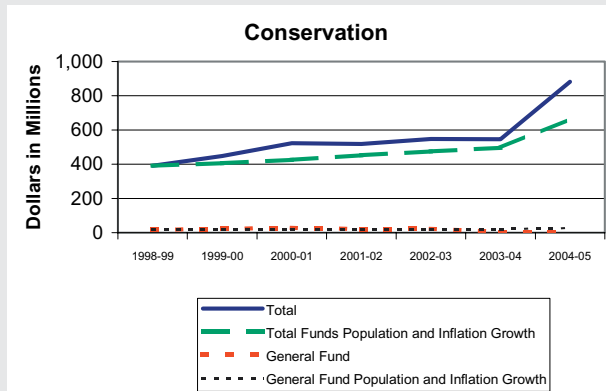
Functions of the Department of Conservation

The Department of Conservation administers a number of programs related to the state's geological resources, such as regulating oil, gas, and geothermal wells, studying and mapping earthquakes, and regulating surface mining activities. Conservation is also responsible for administering the Beverage



Key Audit Findings— Conservation

- Total expenditure increases are almost entirely attributable to the expansion of the Beverage Container Recycling Program. Legislation enacted in 1999 expanded the number of beverage containers included in the program, such as water bottles and noncarbonated sport drinks.



bridges, and homes are not significantly damaged from earthquakes.

Department of Water Resources

Functions of the Department of Water Resources

The Department of Water Resources (DWR) protects, conserves, and develops the state's water supply. DWR forecasts future water needs, evaluates and inventories existing water supplies, and explores conservation and storage options to meet the needs of the state's growing population. DWR is also responsible for maintaining and repairing levees in the Central Valley and responding to flood emergency situations.

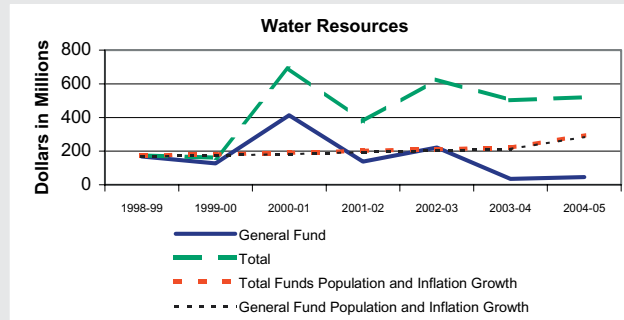
Although the state's investor-owned utilities have re-assumed the responsibility for purchasing electric power for their customers, DWR will expend \$5.4 billion from the Electric Power Fund for the purchase of electric power through long-term contracts. These costs are borne by ratepayers.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$405.9 million (\$45.8 million General Fund) and 2,537 personnel years to carry out the Department's programs in 2004-05. To meet the State's commitment to implement the Colorado River Quantification Settlement Agreement, which is a comprehensive agreement among various local water agencies to reduce the state's use of Colorado River water, the Governor's Budget proposes \$16.1 million for the lining of the All-American Canal. The Governor's Budget also proposes to redirect \$2.6 million General Fund from existing flood control projects for sediment removal at the Fremont Weir, which will reduce the risk of floods in the Sacramento area. The Governor's Budget includes a modest \$1.6 million General Fund reduction in various water management activities.

Key Audit Findings— Water Resources

- Total fund expenditures increased mainly because of bond funds authorized by Proposition 13 and Proposition 50.
- General Fund expenditures increased significantly in 2000-01 primarily because of a one-time augmentation of \$135 million for the CALFED Bay-Delta Program.
- The General Fund increase in 2002-03 is attributable to a one-time augmentation of \$116 million for the Flood Control Subventions Program, which provides funding to local agencies for flood control projects. The 2003-04 Mid-Year Revision proposes to revert \$105 million of these funds.



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ENERGY

A stable and secure energy supply is an essential requirement for a successful modern economy. Although California's energy supply has proved adequate for the past year, the severe shortages and high electricity prices of 2001 are not far behind us. Moreover, price stability has resulted primarily from the slowing of the State's economy rather than from positive actions by the State's policy makers.

Much of California's energy uncertainty began with the implementation of electricity restructuring. In 1996, California enacted Chapter 854, Statutes of 1996 (AB 1890), which began the transition from a highly regulated utility environment to a relatively open and free market. The restructuring was intended to promote competition in the electric industry, which in turn was to reduce prices for consumers and businesses. While the theory was good, its implementation under this Chapter proved disastrous. Today, the following implementation errors are generally agreed to have undermined what could have been a successful program:

- Mandatory divestiture of power plants. This contributed to insufficient electricity generation capacity, and allowed generators to game the market in 2001.
- Prohibition of long-term contracts, and the corresponding requirement that all power be purchased in the spot market.
- Policies that allowed stranded costs to be recaptured by utilities too rapidly, thereby putting upward pressure on prices.
- An unreasonably low target price that prevented potential new generators from entering California's power market.
- Failure to create demand-side infrastructure that would allow customers to respond to price spikes by reducing demand.

These mistakes undermined the reliability of California's electricity system. The wholesale power market established in California did not attract new suppliers because of its very low target price. The serious drought in California and the Northwest significantly reduced hydropower resources in 2001. Divestiture prevented utilities from meeting their own needs. Few demand-side options were available to quickly reduce demand. These factors allowed independent generators to manipulate the market, raising prices to extraordinarily high levels. Ultimately, California's major utilities were driven close to insolvency and the State was forced to



purchase power on their behalf. Even with its enormous purchasing power, and its ability to enter into long-term contracts, the State was unable to return electricity prices to the levels they had been before the crisis.

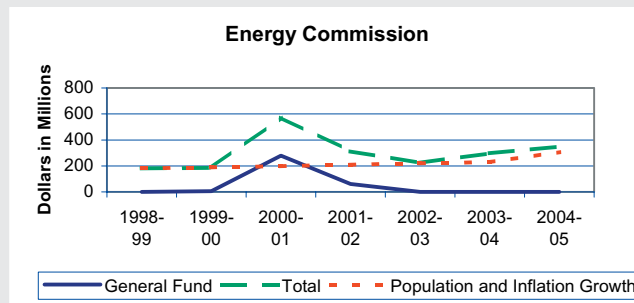
The energy crisis greatly damaged Californians. Few individuals or businesses were spared the consequences of power outages, higher energy prices, business failures, and utility bankruptcies. Most damaging is the paralysis that has set in among California's energy policy makers, whose apparent fear of repeating the crisis of 2001 has prevented them from taking effective action to promote energy security. Nevertheless, it is precisely this inaction that makes possible the recurrence of energy shortfalls.

In an effort to learn from past mistakes and move forward, the Administration's energy plan will pursue a strategy that involves the following actions:

- Create a uniform State strategy to stimulate private investment in our energy markets and align the State's energy agencies to support that strategy.
- Create a working wholesale power market based on the lessons learned from the crisis, other states, and the Federal Energy Regulatory Commission's standard market design.
- Assure adequate and diverse fuel for power generation.
- Encourage cost-effective conservation by increasing demand response to changing electricity markets.
- Enact electricity reserve requirements for power generators.

Key Audit Findings— California Energy Commission

- Legislation enacted in response to the energy crisis provided \$306 million in one-time General Fund in 2000-01. These funds were used to implement various energy conservation and efficiency projects. Since that time, no General Fund has been appropriated for Energy Commission programs.
- The two energy development programs that constitute much of the Commission's work are not supported by the General Fund. They include: (1) the Public Interest Energy Research program, which funds energy-related research, development, and demonstration projects such as research to reduce energy use, improve electric system reliability, and improve air quality, and (2) the Renewable Energy Program, which provides subsidies to existing, new, and emerging energy technologies, including solar, geothermal, and small landfill gas energy generation projects. Both of these programs are funded by a surcharge on energy utility bills that totals \$197.5 million annually.



Currently, many State departments have energy-related responsibilities. The most prominent are the California Energy Commission, the Public Utilities Commission (PUC), the California Power Authority, and the Electricity Oversight Board.

California Energy Commission

Functions of the California Energy Commission

The mission of the California Energy Commission is to ensure a reliable supply of energy that meets California's needs and complies with environmental, safety, and land use goals. The Commission processes applications to site new power facilities, encourages measures to reduce wasteful and inefficient use of energy, and monitors alternative ways to conserve, generate, and supply energy. The Budget proposes \$356 million and 456 personnel years for state operations and local assistance.

Public Utilities Commission

Functions of the Public Utilities Commission

The PUC is responsible for the regulation of investor-owned utilities, including gas, electricity, telephone, water, railroads, and certain passenger and household goods carriers to ensure the delivery of stable, safe, and economic services. Specific activities include enforcement of safety regulations, regulation of rates for services, and promotion of energy and resource conservation. The Budget proposes \$1.2 billion and 834 personnel years for state operations, including \$857 million for the telecommunications programs and \$246 million for the natural gas programs.

Electricity Oversight Board

Functions of the Electricity Oversight Board

The Electricity Oversight Board is responsible for overseeing the operation and reliability of the electricity transmission system; the operation, efficiency, and competitiveness of markets for bulk energy, transmission, ancillary services; and all activities of the Independent System Operator. The Budget proposes \$3.6 million and 22 personnel years for state operations.

California Power Authority

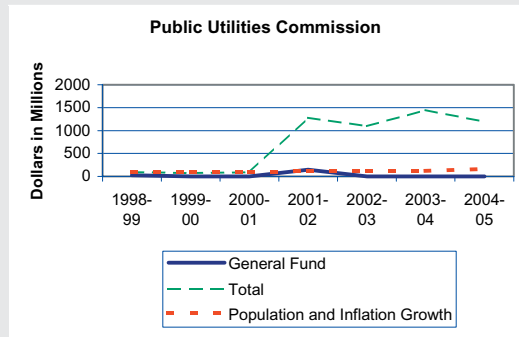
Functions of the California Power Authority

The purpose of the California Consumer Power and Conservation Financing Authority (Authority) is to help ensure that California has a sufficient supply of electricity at reasonable prices by promoting access of new projects to capital. Activities include promoting conservation, financing new projects, and advancing greater use of renewable energy. In spite of these responsibilities, the Authority has had limited success. It has not achieved financial self-sufficiency, nor does it appear that it will in the near future. Other State energy agencies and private entities already perform similar activities.



Key Audit Findings— Public Utilities Commission

- In 2003-04, the PUC's budget includes \$1.446 billion in total funds and no General Fund. This is an increase in total funds of \$1.35 billion (1,405 percent) since 1998-99.
- General Fund expenditures rose from \$28 million in 1998-99 to \$148.2 million in 2000-01 and dropped to none in 2003-04. These changes are mainly attributed to enactment of Chapter 7, Statutes of 2001, First Extraordinary Session (SB 5X), which provided approximately \$150 million one-time funds during the energy crisis to subsidize consumer electricity bills and purchase energy-efficient lighting and appliances.
- In the 2003-04 PUC budget, \$70 million supports the staff that performs Commission activities. The balance is used for contracts and reimbursements that promote telecommunications and natural gas public purpose programs. This is an increase of \$1.18 billion (or 1,121 percent) above the 1998-99 budget. These increases are due to a shift of existing telecommunications and natural gas public programs and funds from the utilities to the PUC. The telecommunications programs subsidize high-cost telephone operations, reduce telephone charges to low-income persons, and provide special telephone equipment to the deaf and disabled. The natural gas programs subsidize consumer electricity bills and help customers purchase energy efficient lighting, appliances, and other equipment. These programs may warrant further examination for possible reduction or elimination, which would then result in reduced rates paid by utility customers.
- The Budget Act of 2002 transferred a combined \$278.1 million from the California High Cost Fund A and B funds to the General Fund. In addition, the Budget Act of 2003 loaned \$150 million from the California Teleconnect Fund to the General Fund.



BUSINESS, TRANSPORTATION, AND HOUSING

The Business, Transportation, and Housing Agency includes programs that: plan, build, and maintain California's state transportation systems; ensure efficient and fair markets for the real estate industry, health care plans, and certain financial businesses; and assist community efforts to expand the availability of affordable housing for a growing workforce. In addition, the Agency contributes to public safety through the law enforcement activities of the California Highway Patrol and the Department of Alcoholic Beverage Control. Information on the Highway Patrol's budget can be found in the Corrections and Law Enforcement section. With the elimination of the Technology, Trade, and Commerce Agency, the Agency also contains programs that assist the state's infrastructure, small business finance, and economic development by encouraging and promoting economic activity and investment within the state.

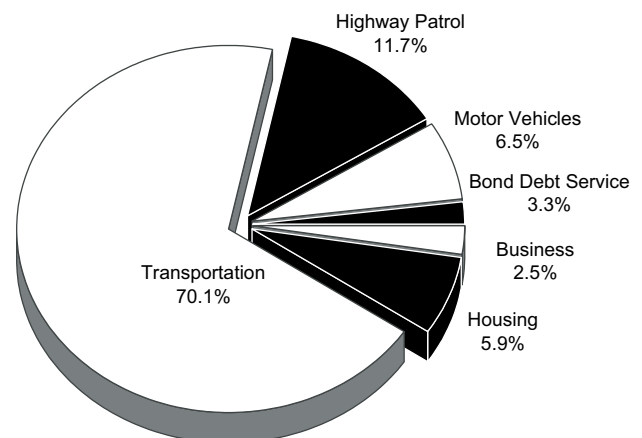
Figure BTH-1 displays the funding proposed in the Business, Transportation, and Housing portion of the Governor's Budget from all fund sources. The majority of the funding is provided from special fund revenues and federal funds. General Fund expenditures are made for general obligation bond debt service for transportation projects, bridge seismic retrofit, and housing bonds.

Office of the Secretary of Business, Transportation, and Housing

The Governor's Budget proposes \$28.7 million and 59 personnel years to support the activities of the Office of the Secretary. Along with the policy direction provided over its traditional complement of department programs, as of January 1, 2004, the Office of the Secretary also includes the following programs that were previously part of the Technology, Trade, and Commerce Agency:

FIGURE BTH-1

Business, Transportation, and Housing Agency 2003-04 Expenditures





the California Tourism Commission, the California Film Commission, the California Infrastructure and Economic Development Bank, the Small Business Loan Guarantee Program, and the Manufacturing Technology Program. These programs were transferred to the Office of the Secretary pursuant to the 2003 Budget Act and Chapter 229, Statutes of 2003 (AB 1757) and represent \$14.5 million and 37 personnel years in the Governor's Budget for the Office of the Secretary. This amount does not include expenditure of proceeds from bonding out existing projects by the California Infrastructure and Economic Development Bank. Budget trailer bill legislation will be required to permit these remaining programs to operate as envisioned by the Legislature. In addition, the Secretary of the Agency will be undertaking a review of how to best utilize these program resources to assist in economic development.

Transportation

The Department of Transportation, the California Transportation Commission, the California Highway Patrol, the Department of Motor Vehicles, the Office of Traffic Safety, and local government agencies administer transportation and related public safety programs. Transportation funding comes from State and federal fuel taxes, the sales and use tax on fuel, motor vehicle licensing and registration fees, weight fees for trucks, and local sales taxes. The Governor's Budget proposes total expenditures of \$9.6 billion in 2004-05 for roads, highways, mass transit and intercity rail, vehicle licensing and registration, and highway law enforcement

Resources for Transportation

Through California's borders, ports, rail, and highway corridors, California transportation

supports the mobility of goods and people, creates jobs directly and throughout the economy, and leverages local and federal resources for critical mobility and air quality projects.

The 2002 State Transportation Improvement Program (STIP) Fund Estimate, adopted by the California Transportation Commission (CTC) in August 2001, identified \$3.2 billion from federal and State resources available for new project programming in 2002-03 through 2006-07. Those resources were not fully realized, primarily because:

- The 2002 Fund Estimate assumed the federal transportation act reauthorization in federal fiscal year 2004 would result in a 20 percent increase in federal funds. Due to federal budget pressures, the federal funds increase has grown at less than the 20 percent projected. Federal action on transportation reauthorization will have an impact on future growth.
- Weight fee revenues have been less than expected due to the unintended consequences of Chapter 861, Statutes of 2000 (SB 2084).
- During that same period, the 2002 Fund Estimate assumed there would be \$502 million in Transportation Investment Fund (TIF) resources available. To date only a partial TIF transfer of \$289 million has occurred; \$189 million of which is proposed for repeal in the mid-year budget reductions due to budgetary pressures.

Over the course of the 2002 Fund Estimate period, the CTC programmed transportation projects assuming the 2002 Fund Estimate projection of available resources would materialize. The implications of this

programming level, when combined with the lower-than-anticipated resource levels, is reflected in the recently adopted 2004 STIP Fund Estimate. The lack of anticipated resources, including other transportation loans, also required the CTC to significantly slow allocations for projects. The 2004 Fund Estimate identifies the need to reschedule \$2.3 billion in projects into subsequent fiscal years, assuming a 2004-05 TIF transfer (as adopted in Proposition 42 in 2002 by the voters), and \$2.6 billion without a TIF transfer.

Suspension of the Proposition 42 Transfer

The Governor is committed to solving both the current fiscal crisis and the long-term structural deficit in the State Budget. The State's fiscal crisis has had many negative impacts on our economy. The ongoing crisis has forced the Administration to propose a suspension of the Proposition 42 transfer of \$1.127 billion (\$947.2 million for transfer to State funds and \$179.5 million for allocation to local governments) for the 2004-05 fiscal year. The TIF transfer was originally enacted with the 2000 Budget Act, during a period of budget surpluses. No new revenue was provided for the program at that time; instead, it was funded out of existing General Fund revenues. To fully fund the TIF transfers in the 2004-05 pursuant to Proposition 42 would require additional reductions in other General Fund areas.

Transportation Funding

Transportation funding alternatives must be identified to assist in economic growth, improve the mobility of people and goods in California and throughout the nation, and improve our quality of life. The Governor is committed to working with the transportation stakeholder, business, and labor communities in a full review of opportunities to fully

leverage State and federal transportation resources.

Federal Transportation Reauthorization

One of the most important issues before Congress is the reauthorization of the nation's surface transportation programs, which provide federal resources for highway, bridge, and transit projects. California has 12 percent of the national population, 13.5 percent of the national Gross Domestic Product, and the responsibility to move goods through California's borders and ports to and from consumers and businesses nationwide. This growth and economic activity must be reflected in federal transportation programs. The Administration will take an active role with California transportation stakeholders in seeking responsible overall funding levels from Washington, D.C., and a share of those programs that reflect California's critical role in the national economy and global trading system.

Department Of Transportation

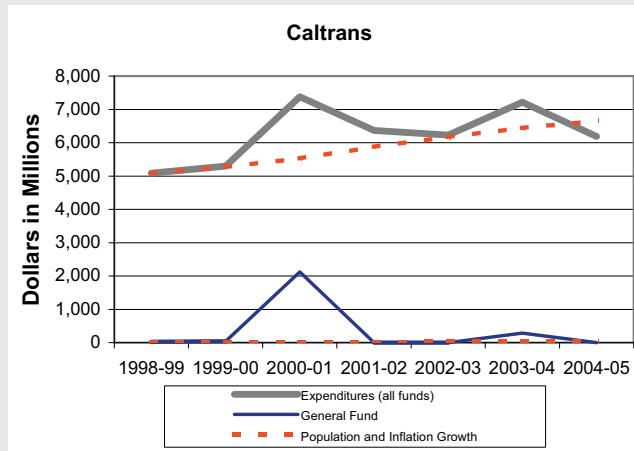
Functions of the Department of Transportation

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.



Key Audit Findings— Department of Transportation

- From 1998-99 to the 2003 Budget Act, total funding for Caltrans has increased from \$5.1 billion to \$7.2 billion, an increase of \$2.1 billion, or approximately 42 percent.
- Caltrans' budget expenditures have generally exceeded population and inflation growth over the audit period with larger gaps in 2001-02 and 2003-04.
- In 2001-02, a one-time \$2 billion transfer was received from the General Fund. This transfer was related to the inception of the Traffic Congestion Relief Program (TCRP). The TCRP, however, has ongoing costs that can no longer be sustained. TCRP projects were selected outside of normal transportation planning processes.
- In 2003-04, expenditures are higher due to a one-time acceleration of increased federal collections associated with the Administration's mid-year proposal to convert local programs to cash management.
- Expenditures in 2003-04 also reflect higher expenditures of Toll Bridge Seismic Retrofit funds and the expenditure of proceeds from "GARVEE" bonds.



Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$7.4 billion in 2004-05 expenditures for Caltrans from federal funds, various State funds (including financed resources), and reimbursements. Staffing of 20,585.2 personnel years is also proposed.

Transportation projects and operations generally are supported from dedicated special funds and federal funds. This approach guarantees funding for multi-year planning processes that need sustained revenues to

fund large projects. The major transportation funding sources are:

- State and federal fuel taxes deposited in the State Highway Account (SHA).
- Certain sales taxes on fuel deposited directly into the Public Transportation Account (PTA), which fund transit and intercity rail capital projects as well as transit operations.

Grant Anticipation Revenue Vehicles (GARVEE Bonds or GARVEEs)—GARVEEs are debt instruments where future federal-

aid highway funds are pledged to meet debt service requirements. The Administration endorses the use of GARVEE financing to infuse funds into transportation in the near term, especially during these times of fiscal constraint. The first issuance of these bonds is anticipated in February 2004.

The Governor's Budget includes an appropriation of \$800 million for new allocations from GARVEE bond proceeds and an appropriation of \$804.4 million for GARVEE bond debt service for the upcoming inaugural issuance of GARVEE debt.

Proposition 42—Passed by voters in March 2002, Proposition 42 amended the State Constitution to permanently dedicate State sales taxes on gasoline to transportation purposes beginning in 2003-04. That proposition included a provision that allows the Administration and the Legislature to suspend the sales tax transfer in a fiscal year for which the transfer would result in a significant negative fiscal impact on government functions funded by the General Fund.

The Proposition 42 transfer was partially suspended in 2003-04 due to the inability of the General Fund to support the full transfer. The Administration proposes to fully suspend the Proposition 42 transfer in 2004-05—an action that will reduce General Fund expenditures by more than \$1.1 billion. In addition, the Administration's mid-year proposals related to the Proposition 42 transfer include the following:

- Transfer \$189 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund in 2003-04. The TCRF will receive funding of \$289 million in 2003-04 from the partial Proposition 42 transfer.
- Repeal the special statutory designation of Traffic Congestion Relief Program

projects. These projects were selected outside the normal transportation planning process and are partially funded with Proposition 42 money. Notwithstanding the General Fund leveraging other transportation resources, General Fund resources are not available to fund these projects in the current year or budget year. To the degree that these are the highest-priority local or State projects, it is anticipated that funding will be sought through the STIP or other funding sources.

Capital Outlay—A 2004-05 authorization level of \$3.4 billion is proposed for transportation capital outlay programs. This level of authorization includes expenditures from proceeds of GARVEE bonds.

Local Assistance Programs—Caltrans provides State and federal transportation funds to local agencies through its local assistance budget. Funds are used primarily for local capital improvement projects of the State highway system, mass transit capital improvement projects, and bridge improvement projects. Funds are also used to provide discretionary assistance to local transportation agencies. The Governor's Budget proposes nearly \$1.1 billion in local assistance funding for transportation in 2004-05, including \$168 million from the SHA, \$862 million in federal funds, and \$24 million from special funds.

State Operations Budget—The Governor's Budget proposes \$2.9 billion in state operations funding supporting transportation in 2004-05, including \$1.9 billion from the SHA, \$494 million in federal funds, and \$560 million from special funds. This funding level represents an increase of \$44 million compared to currently estimated 2003-04 expenditures. This increase is primarily the result of expenditures for GARVEE debt service.



Caltrans Staffing—In total, the Governor's Budget proposes 20,585.2 personnel years in 2004-05 for Caltrans, a net decrease of 338 personnel years compared to the adjusted 2003-04 level. This decrease results primarily from the proposal to suspend the Proposition 42 TIF transfer.

California Transportation Commission

Functions of the California Transportation Commission

The CTC is responsible for the programming and allocation of resources for the construction of highway, passenger rail, and transit improvements once those resources and fiscal policies have been determined through the annual budget process. The Administration anticipates that the CTC will need to use its maximum flexibility to assist both Caltrans and local transportation agencies in reallocating resources to address former Traffic Congestion Relief Program projects if those projects are determined to be of sufficient priority.

Budget Adjustment

The Governor's Budget proposes to eliminate 3.0 positions and \$314,000 from the CTC's budget to conform with the elimination of the Traffic Congestion Relief Program.

High-Speed Rail Authority

Functions of the High Speed Rail Authority

The High-Speed Rail Authority (Authority) is planning the development and implementation of an intercity high-speed rail service. Chapter 697, Statutes of 2002,

places a \$9.95 billion general obligation bond measure before voters in 2004 (the Safe, Reliable, High-Speed Train Bond Act for the 21st Century) to fund the planning and construction of the system.

Budget Adjustment

Notwithstanding the potential merit of providing high speed rail as an alternative mode of transportation to the State's travelers and commuters, the Administration proposes to repeal Chapter 697. Given the State's current fiscal situation, it would be premature for the State to move forward with additional General Fund debt of this magnitude at this time. The needs for funding high speed rail will be reviewed as part of an overall discussion of transportation resources.

Department Of Motor Vehicles

Functions of the Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. The Governor's Budget proposes \$705 million and 8,290 personnel years for support of the DMV.

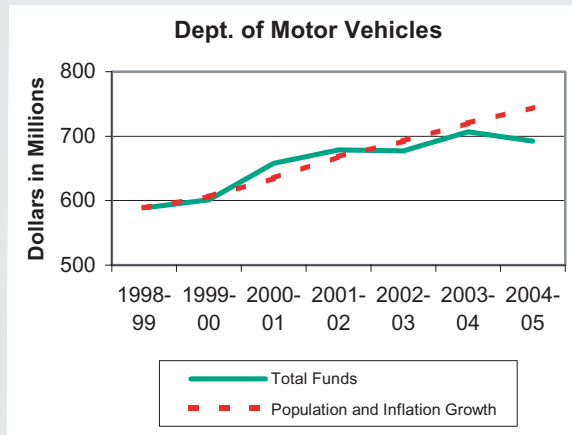
Department Of Alcoholic Beverage Control

Functions of the Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control administers the provisions of the

Key Audit Findings— Department of Motor Vehicles

- From 1998-99 to the 2003 Budget Act, total funding for the DMV has grown from \$589 million to \$707 million or approximately 20 percent. Of this amount, the support from the Motor Vehicle Account has increased by \$64 million (21 percent).
- During this same period, the total expenditures by the DMV were at or below the population and inflation growth level.



Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state. The Governor's Budget proposes total expenditures of \$42.8 million and 429.6 personnel years to support the Department.

Program Enhancements and Other Budget Adjustments

Replacement of Licensing and Case Management System—The Governor's Budget proposes funding of \$1.1 million to begin the first year of a three-year project to replace the obsolete California Alcoholic Beverage Information Network licensing system with a modern system which will meet the licensing and compliance information processing needs of the Department.

Department Of Financial Institutions

Functions of the Department of Financial Institutions

The Department of Financial Institutions (DFI) regulates depository institutions, including commercial banks, savings associations, credit unions, and other providers of financial services. The Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and travelers' checks. Companies licensed to transmit money abroad are also regulated by the Department. Programs are supported by assessment of the various industries and license and application fees. The Governor's Budget proposes total expenditures of \$23.6 million and 214.7 personnel years to support the DFI.



Program Enhancements and Other Budget Adjustments

California Financial Information Privacy Act—The Governor's Budget proposes to add \$1.9 million in special funds and 16.2 personnel years in the budget year so that the DFI can implement Chapter 241, Statutes of 2003. Chapter 241 imposes restrictions on financial institutions' ability to sell, share, transfer, or otherwise disclose a consumer's personal financial information with third parties.

Operational Recovery and System Security—The Governor's Budget also proposes an increase of \$185,000 and 1 personnel year to improve the Department's operational recovery strategy and information systems monitoring and security capabilities.

Department Of Corporations

Functions of the Department of Corporations

The Department of Corporations (DOC) administers and enforces State laws governing the offer and sale of securities and franchise investments, the licensing and regulation of securities broker-dealers and investment advisers, and the licensing and examination of mortgage brokers, finance lenders, and escrow companies. Through these activities, the Department protects the public and helps promote the integrity of California's financial services marketplace. The Governor's Budget proposes total expenditures of \$29 million and 276 personnel years to support the Department.

Program Enhancements and Other Budget Adjustments

California Financial Information Privacy Act—The Governor's Budget proposes to add \$1.9 million in special funds and 20.9 per-

sonnel years in the budget year so that the DOC can implement Chapter 241, Statutes of 2003. Chapter 241 imposes restrictions on financial institutions' ability to sell, share, transfer, or otherwise disclose a consumer's personal financial information with third parties.

Department Of Housing And Community Development

Functions of the Department of Housing and Community Development

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees the state's housing planning and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor's Budget proposes \$613.5 million and 481 personnel years for the Department's activities.

Stephen P. Teale Data Center

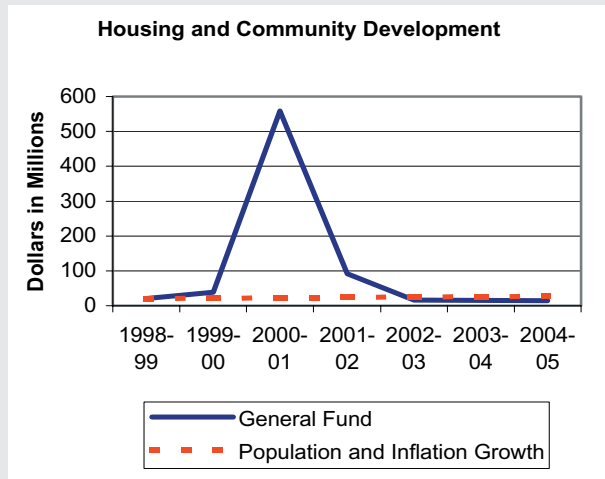
Functions of the Stephen P. Teale Data Center

The Stephen P. Teale (Teale) Data Center assists California State agencies in meeting their business objectives by providing a cost-effective range of quality information technology services and products. The 2004-05 Governor's Budget proposes \$95.7 million and 362 personnel years for support of Teale.

Pursuant to legislation (Chapter 225, Statutes of 2003), the Administration is considering a reorganization plan to consolidate the Teale Data Center and the Health and Human Services Data Center, effective in fiscal year 2004-05, consistent with the overall Executive Branch reorganization review.

Key Audit Findings— Department Of Housing And Community Development

- From 1998-99 to the 2003 Budget Act, General Fund support for the HCD has decreased from \$21 million to \$16 million, or 25 percent.
- In 1998-99, the growth in the HCD's General Fund expenditures from the prior year was just slightly above the increase in population and inflation.
- In 2000-01, the State's expenditures for housing grew substantially due to the one-time, approximately \$500 million housing initiative.
- However, in 2001-02, this amount started trailing back down to a level consistent with population and inflation growth. By 2002-03 and continuing into 2004-05, HCD's General Fund expenditures are below the population and inflation growth level.



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JUDICIAL BRANCH

The State Constitution vests California's judicial authority in a tripartite court system composed of the Supreme Court, the Courts of Appeal, and the trial courts. The Administrative Office of the Courts provides support to the Supreme Court, the Courts of Appeal, the trial courts, and the Judicial Council. The Commission on Judicial Performance administers judicial discipline.

For 2004-05, the Governor's Budget proposes approximately \$2.9 billion for the Judicial Branch, in combined General Fund, special funds, federal funds, and reimbursements: \$373.8 million (\$302.6 million General Fund) for the Judiciary; \$3.9 million General Fund for the Commission on Judicial Performance; \$2.2 billion (\$1.1 billion General Fund) for the trial courts; and \$276 million (\$147.3 million General Fund) for the judges' retirement costs.

Judiciary

Functions of the Judiciary

The Judiciary encompasses the activities of the Supreme Court, the Court of Appeals, the Judicial Council/Administrative Office of the Courts, and the Habeas Corpus Resource Center. The Supreme Court is the

highest court in the State judicial system, which reviews legal questions of statewide importance and appeals to all death penalty judgments. The six District Courts of Appeal hear appeals in all areas of civil and criminal law. The Judicial Council is the policy making body for the State judicial branch and the Administrative Office of the Courts is the Administrative arm of the Council. The Habeas Corpus Resource Center provides legal representation in death penalty habeas corpus proceedings in the Supreme Court and in the federal courts.

Program Enhancements and Other Budget Adjustments

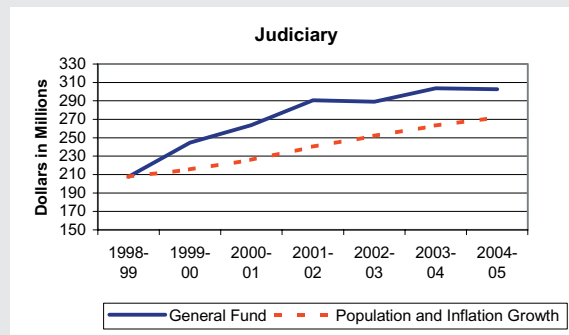
The 2004-05 Judicial budget totals \$373.8 million, which includes \$312.8 million in State operations and \$61 million in local assistance. This amount reflects a decrease in expenditures of \$8.3 million over the 2003 Budget Act.

Court Interpreter Program—The Judiciary budget includes an augmentation of \$235,000 from the Court Interpreter Fund to address increased costs of court interpreter certification activities and the one-time costs of developing written and oral examinations for two newly certified languages.



Key Audit Findings— Judiciary

- Since 1998-99 to 2003-04, total funding for the Judiciary has increased from \$253 million to \$365 million, an increase of \$112 million, or approximately 44 percent. Of this amount, General Fund support has increased by \$86 million (42 percent) and the balance of the increase is in reimbursement authority and limited special funds.
- The primary areas of increased General Fund costs in the Judiciary include:
 - ❑ \$12 million to establish 12 new Justice positions in the Court of Appeals beginning in 1999-00.
 - ❑ \$10 million to establish the Equal Access Fund local assistance program, beginning in 1999-00.
 - ❑ \$4 million to establish a trial court financial system beginning in 2001-02.
 - ❑ \$1.3 million for an 8.5 percent salary increase for Justices in the Supreme Court and Court of Appeals beginning in 2000-01.



Unallocated Reduction—Due to current economic conditions and the State’s fiscal constraints, the Judiciary budget reflects an ongoing unallocated General Fund reduction of \$9.8 million in 2004-05.

Court Judges, Assigned Judges, and Court Interpreters. Prior to 1997, the Superior Courts were operated and funded by each county.

State Trial Court Funding

Functions of the Trial Courts

The State Trial Court Funding budget provides local assistance funding to support the operations of California’s 58 Superior Courts. The State Trial Court Funding budget consists of the following four programs: Support for the Operations of the Trial Courts, Salaries for Superior

Improving Accountability and Service Delivery

The audit identified several areas where restructuring aspects of trial court operations could result in long-term savings, efficiencies, or cost avoidance.

These include the following:

- Restructuring the collective bargaining process between the courts, court employee unions, and the State, to allow for State-level participation in the negotiat-

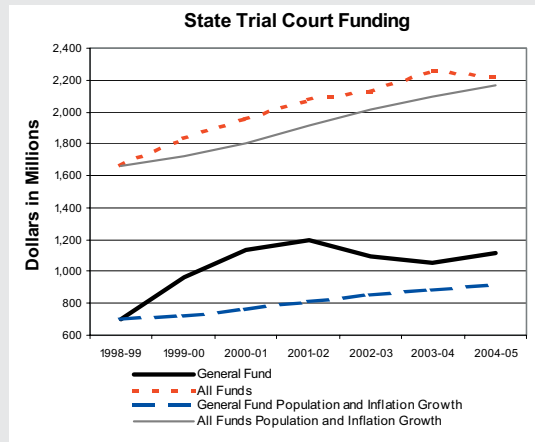
ing process. Currently, each local court negotiates with the local employee unions to determine court employee salaries and benefits without any representation of State-level interests in the negotiation process. However, funding for negotiated increases becomes the responsibility of the General Fund even though there has been no State-level participation in the negotiation process nor any State-level review or approval.

- Restructuring the way that court security is provided to allow courts greater cost controls and flexibility. Currently courts are required to contract with the county sheriff to receive court security services,

and the sheriff is authorized to determine the level of security needed in the court and to bill the court for the cost of these services. Over the past several years, local sheriff employee unions have negotiated significant salary and benefit increases, the costs of which are passed on to the courts, but are funded by the General Fund. The local courts and the State do not have the ability to affect local negotiations in this area but are expected to pay the costs of what is negotiated. Although some efforts are already underway to expand the use of more non-law enforcement security staff for certain court functions, more could be done to control costs in this area.

Key Audit Findings— State Trial Courts

- Funding for the State Trial Courts has increased from \$1.657 billion in 1998-99 to \$2.329 billion in 2003-04. General Fund support has increased from \$699 million to \$1.034 billion, an increase of \$335 million or 48 percent. The remainder of the support for the trial courts is provided by the Trial Court Trust Fund, which primarily receives revenue from court filing fees, fines, and a capped level of support from counties.



The primary areas of increased General Fund costs in the trial courts include:

- \$215.5 million associated with negotiated salary and benefit increases for trial court employees.
- \$86.5 million for increased costs of court security contracts.
- \$69.6 million associated with court modernization and technology initiatives.
- \$33.2 million in employee compensation increases.
- \$26 million in increased funding for family and children court services.
- \$25.4 million in increased costs of court employee retirement plans.



■ Restructuring the way that court employee benefits are currently provided to achieve greater consistency, cost controls, and economies of scale. Most court employees currently receive retirement, health, and other benefits through the county plans where the court is located. When changes are made to the types of benefits offered to county employees, often as a result of negotiations between the counties and their employees, court employees are included in those changes, and the costs are passed on to the courts, to be funded by the General Fund. Additionally, court employees throughout the state are members of a wide variety of benefit plans that offer different types of benefits, sometimes inconsistent with what state employees receive, and with costs that range significantly between plans.

The Administration would support the Judicial Branch in efforts to restructure court operations in these areas to provide greater State-level participation in local court labor negotiations, the provision of court security, and employees benefits. Such changes will allow courts to have more control over major cost drivers, improve consistency in how funding is spent in courts throughout the state, and ensure that court services are provided at a consistent and adequate level. These changes should be designed to allow the courts to achieve financial efficiencies and controls, and result in the avoidance of future cost increases.

Program Enhancements and Other Budget Adjustments

The 2004-05 Trial Court Funding budget includes \$1.1 billion General Fund and \$1.1 billion in non-General Fund resources, for a total of \$2.2 billion. This represents

an overall decrease of \$37.7 million and a General Fund increase of \$64 million from the 2003 Budget Act. This General Fund increase is primarily due to the restoration of one-time reductions and transfers made in the 2003 Budget Act.

The Trial Court Funding budget reflects the following reductions and savings:

Unallocated Reduction—Due to current economic conditions and the State's fiscal constraints, the State Trial Court Funding budget includes an ongoing unallocated General Fund reduction of \$59 million. With this ongoing reduction and the restoration of one-time reductions taken in the current year, General Fund support for the trial courts has increased by \$64 million over the 2003-04 fiscal year. The Administration would support various efforts to restructure court operations in a manner that will allow courts to achieve savings and efficiencies necessary to operate within the level of funding proposed on an ongoing basis.

General Fund Loan—The Administration proposes to loan the General Fund \$30 million from the State Court Facilities Construction Fund. With this loan, the State Court Facilities Construction Fund will have sufficient resources to continue the current level of support to the Judiciary in order to begin transferring court facilities from the counties to the State in 2004-05 pursuant to Chapter 1082, Statutes of 2002.

GENERAL GOVERNMENT

Franchise Tax Board

Functions of the Franchise Tax Board

The Franchise Tax Board (FTB) administers the personal income tax and corporation tax, as well as the Homeowners and Renters Assistance Programs, child support collections, child support automation, Department of Motor Vehicles collections, courts collections, and Political Reform Act audits. The FTB's tax collection activities represent over 60 percent of General Fund revenue.

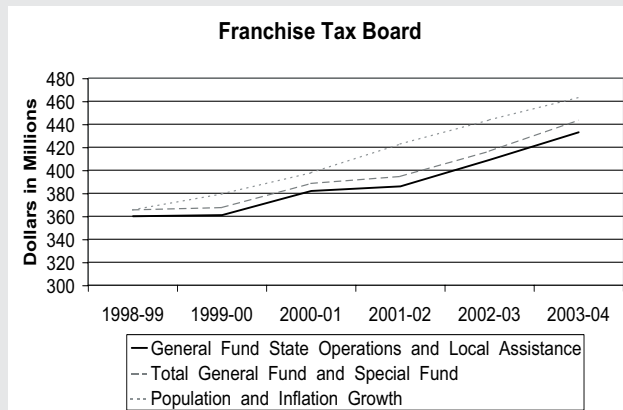
Improving Accountability and Service Delivery

Abusive Tax Shelters—Abusive tax shelters are considered one of the most significant areas of tax abuse at both the State and federal levels. The FTB is addressing the issue in the following ways:

- A memorandum of understanding has been signed between the State of California and the Internal Revenue Service to facilitate information sharing. The memorandum of understanding provides for the disclosure of federal returns

Key Audit Findings— Franchise Tax Board

- The Franchise Tax Board's General Fund and special fund expenditures have grown from \$366 million in 1998-99 to \$415 million in the 2003 Budget Act, a 13 percent increase.
- Budget increases have been due to increased audit and collection activities and due to legislative requirements related to child support collections and child support automation.





and return information related to abusive tax shelters for the purpose of identifying and bringing participants into compliance with California tax laws.

- The FTB audit program has currently redirected approximately 30 personnel years to abusive tax shelter audits. These audits could yield significant revenues over the next six to seven years. However, these revenues will be affected by both Internal Revenue Service actions and the voluntary compliance initiative. This issue will be reviewed in the spring to determine if additional funding is warranted to contract with financial products experts and economists to assist with these highly complex audits.

Child Support Enforcement—Chapter 479, Statutes of 1999, requires the FTB to develop a single, statewide, automated child support collection system, on behalf of the Department of Child Support Services. This system, the California Child Support Automation System (CCSAS), will track child support cases, collect payments from delinquent parents, and disseminate payments to the appropriate family. Development of this project began in July 2003, when the vendor contract was signed. The first phase of this major project should be completed in 2005-06.

Program Enhancements and other Budget Adjustments

The Governor's Budget proposes total expenditures of \$560.5 million and 5,075 personnel years in 2004-05 to support the FTB.

2003-04 Reduction—The FTB's budget was reduced by \$27 million General Fund and 480 positions in 2003-04 due to Control Section 4.10 of the 2003 Budget Act.

Child Support Enforcement—As noted above, the FTB is developing the CCSAS project, along with a private vendor, on behalf of the Department of Child Support Services. The FTB's budget for 2004-05 includes \$41.5 million General Fund and \$76.2 million federal fund reimbursements for vendor payments for the CCSAS project.

Board of Equalization

Functions of the Board of Equalization

The Board of Equalization (BOE) administers 23 tax programs, including the sales and use tax and the motor vehicle fuel tax. These programs generate approximately 33 percent of total State revenues. The 2004-05 Governor's Budget proposes total expenditures of \$326.8 million and 3,462 personnel years for the BOE.

Program Enhancements and other Budget Adjustments

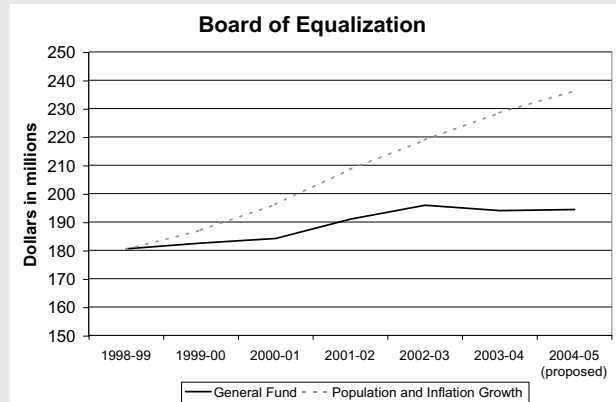
Cigarette and Tobacco Products Licensing Act

—The Budget proposes to add \$5.6 million in special funds and 40.6 personnel years in the current year and \$8.1 million in special funds and 80.7 personnel years in the budget year so that the BOE can implement Chapter 890, Statutes of 2003. This Chapter mandates the BOE to administer a statewide program to license businesses at all distribution levels of cigarette and tobacco products. This Chapter is intended to reduce evasion and to impose fines and penalties for those in violation of the law.

Annual Water Rights Fee—The Budget proposes to add \$664,000 in reimbursements and 2.1 personnel years in the current year and \$428,000 in special funds and 3.6 personnel years in the budget year so that the

Key Audit Findings— Board of Equalization

- From 1998-99 to the 2003 Budget Act, the BOE's General Fund expenditures have increased from \$181 million to \$201 million, an increase of \$20 million, or approximately 11 percent.
- The BOE's General Fund expenditures have been below population and inflation growth since 1998-99.



BOE can implement Chapter 741, Statutes of 2003. This Chapter requires the BOE to assess and collect various fees associated with the new annual water rights fee program on behalf of the State Water Resources Control Board.

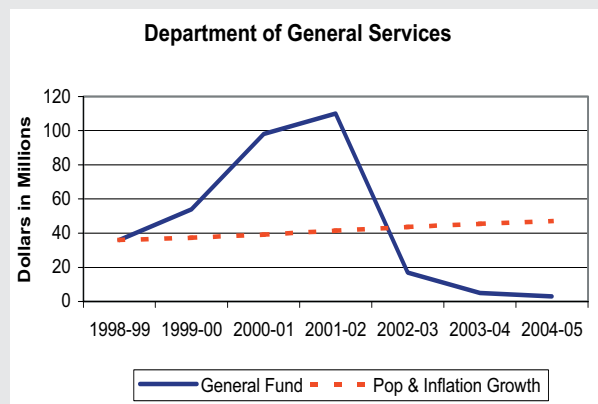
Department of General Services

Functions of the Department of General Services

The Department of General Services provides control and support for State agencies related to procurement, fleet administration, business services, administrative

Key Audit Findings— Department of General Services

- The General Fund budget for the Department of General Services decreased by \$31 million between 1998-99 and 2003-04, a reduction of 86 percent. DGS is primarily a fee-for-service agency.
- The major General Fund increases reflected in the chart are generally the result of limited-term expenditures associated with repairing the State Capitol after the 2001 truck crash, Energy Efficiency Projects authorized in special session legislation, and other energy-related emergency expenditures.





hearings, and is responsible for managing state-owned buildings and other property. The Department also administers the 911 Emergency Telephone Services program. The Department is a fee-for-service agency, and receives its funding support from rates, fees, and other charges paid by client departments. The Governor's Budget proposes \$874.5 million (\$3.0 million General Fund) and 3,524 personnel years for the Department.

Rate Restructuring

The Budget includes set-aside funding associated with increased rental rates in State buildings. Prior to allocating these funds, the Administration intends to conduct a review of statewide rental rates, including the methodology by which rates are set, the administrative overhead costs included in the rates, and the parity between building rates in different regions of the state, to determine whether rates can be set in a more equitable and efficient manner.

Department of Veterans Affairs

Functions of the Department of Veterans Affairs

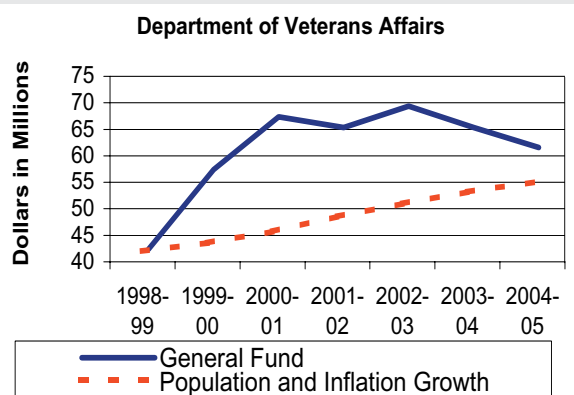
The Department of Veterans Affairs is responsible for providing services to California veterans and their dependents. The Department administers the Cal-Vet Farm and Home Purchase Program, assists veterans in obtaining State and federal benefits to which they are entitled, and operates veterans homes in Yountville, Barstow, and Chula Vista. The Governor's Budget includes \$293.7 million and 1,385 personnel years to support the Department's various programs.

Improving Accountability and Service Delivery

The Administration is committed to reassessing the operations of the Department, especially service delivery in the veterans homes, in light of operational challenges experienced in recent years and the need to adapt to the changing needs of the veteran population.

Key Audit Findings— Department of Veterans Affairs

- General Fund funding for this Department has increased by 55 percent from 1998-99 to 2003-04.
- The increase in funding is almost entirely attributable to operating costs for the new veterans home in Chula Vista, which opened in 2000.



Department of Fair Employment and Housing

Functions of the Department of Fair Employment and Housing

The Department of Fair Employment and Housing is responsible for enforcing State and federal anti-discrimination and civil rights laws. The Department's primary activities include: investigating complaints of discrimination to determine whether they can be substantiated; closing complaints that cannot be substantiated; resolving through mediation and negotiated settlements differences between those filing complaints and those accused of discrimination; and litigating violations of the law (on behalf of the State) in administrative hearings or in civil court when complaints are not resolved. The Governor's Budget proposes \$18.7 million (\$13.5 million General Fund) and 200 personnel years for the Department.

Federal Funds Augmentation—The Budget includes an augmentation of \$1.0 million (Federal Trust Funds) in 2003-04 and

2004-05 to properly align the Department's federal expenditure authority with its annual federal fund receipts, and to address a structural shortfall in the Department's operating budget.

Department of Consumer Affairs: Boards and Commissions

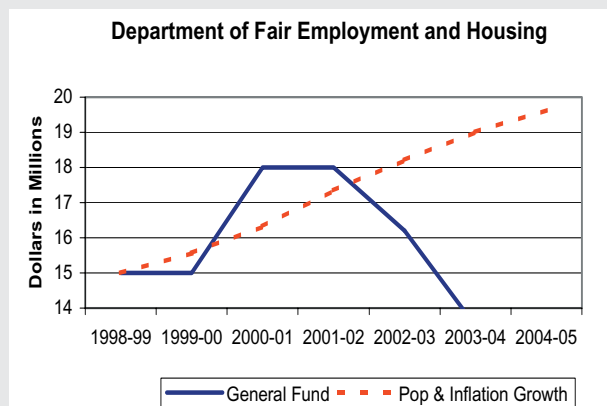
Functions of the Department of Consumer Affairs, Boards and Commissions

The Boards and Commissions are responsible for regulating various businesses and professions through examinations, licensing, and enforcement activities. Professional licensing fees support the activities of the Boards and Commissions. The 2004-05 Governor's Budget proposes \$185.3 million and 1,203 personnel years for the Boards and Commissions.

Athletic Commission Fund Shift—The Budget includes a reduction of

Key Audit Findings— Department of Fair Employment and Housing

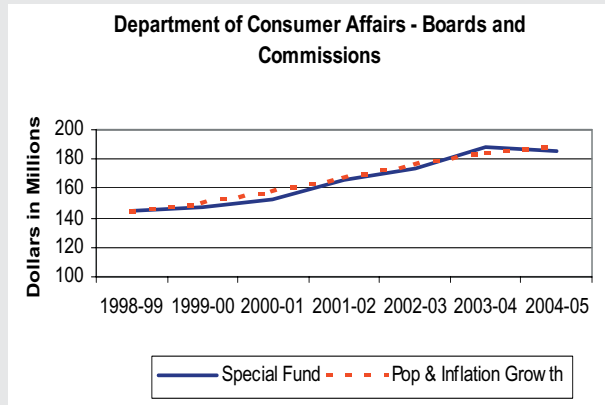
- The Department of Fair Employment and Housing experienced moderate budget growth in the years between 1998-99 and 2003-04, but this growth has been negated by budget reductions over the past two years.
- The General Fund Budget for the Department of Fair Employment and Housing decreased by \$1.5 million between 1998-99 and 2003-04, a reduction of 10 percent.





Key Audit Findings— Department of Consumer Affairs: Boards and Commissions

- The total budget for the Boards and Commissions under the Department of Consumer Affairs increased by \$43.3 million between 1998-99 and 2003-04, an increase of 29.9 percent.
- This growth can be generally attributed to increases in the number of professional licensing applicants, and enforcement activities.



\$619,000 General Fund and an increase of \$709,000 Athletic Commission Fund to convert support for the activities of the Athletic Commission to special fund fees. The Commission has always been fee-supported; however, these fees were deposited into the General Fund in support of the Commission. This change will bring the structure of the Commission's budget into conformity with those of the other professional licensing entities under the Department of Consumer Affairs.

Unlike the Boards and Commissions, these entities operate under the authority of the Director of Consumer Affairs. In addition to professional licensing and enforcement of professions including home furnishing and thermal insulation, security guards, and funeral homes, the Department also administers the statewide Smog Check Program. The 2004-05 Governor's Budget proposes \$145.6 million (\$0.5 million General Fund) and 1,288 personnel years for the Department.

Department of Consumer Affairs: Bureaus, Programs, and Divisions

Functions of the Department of Consumer Affairs' Bureaus, Programs, and Divisions

The Bureaus, Programs, and Divisions under the Department of Consumer Affairs perform various functions associated with the licensing and enforcement of different professions.

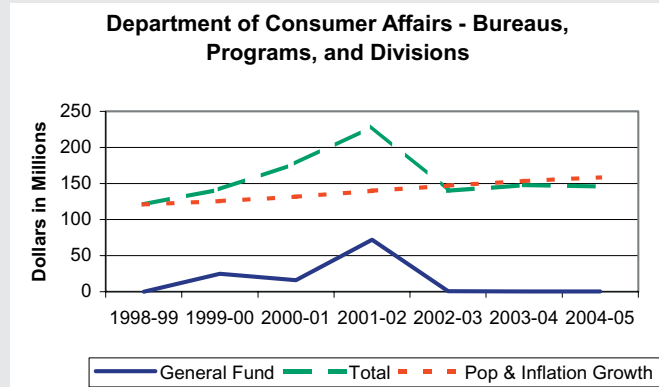
Office of Emergency Services

Functions of the Office of Emergency Services

In times of major emergency or disaster in California, the Office of Emergency Services (OES) coordinates emergency response activities to save lives, reduce property loss, and expedite recovery. The Governor's Budget proposes \$905.4 million (\$140.7 million General Fund, \$740.2 million federal funds,

Key Audit Findings— Department of Consumer Affairs: Boards, Programs, and Divisions

- The total budget for the Bureaus, Programs, and Divisions under the Department of Consumer Affairs increased by \$16.6 million between 1998-99 and 2003-04, an increase of 13.7 percent.
- The large General Fund increases reflected on the chart are the result of augmentations provided to the Department to perform outreach activities associated with the 2000 Census, and for public awareness campaigns related to energy conservation.



and \$24.5 million other funds) and 447 personnel years for the OES.

Program Enhancements and Other Budget Adjustments

Southern California Wildfires—The Governor's Budget proposes \$60 million in 2003-04 and \$40 million in 2004-05 for recovery from the wildfires in Southern California.

Homeland Security—The Budget proposes \$160.3 million federal funds (\$4.3 million state operations and \$156 million local assistance) for 2003-04 and \$4.6 million federal fund (\$1 million state operations and \$3.6 million local assistance) for 2004-05 to provide training, equipment, and planning for the purposes of homeland security. A spring budget change proposal will be proposed that will identify the federal fiscal year 2004 funds that will be available for additional Homeland Security funding.

Office of Criminal Justice Planning Transfer—Control Section 25.00 in the Budget Act of 2003 required the Department of Finance to submit an interim reorganization plan for the Office of Criminal Justice Planning (OCJP). The interim plan was submitted to and approved by the Joint Legislative Budget Committee. The plan proposes to transfer program activities related to Victims Services and Public Safety from OCJP to OES, pending a Governor's Reorganization Plan (GRP) that is due to be released in the spring. The Budget reflects the transfer of these programs effective January 1, 2004. Control Section 25.00 required the GRP to be submitted March 1, 2004. However, the Administration now plans on submitting the required GRP in May, as part of its statewide proposal to restructure State government.



California Science Center

Functions of the California Science Center

The California Science Center is an educational, scientific, and technological center located in Exposition Park, Los Angeles. Encompassed within the budget display for the Science Center is funding for support of the California African American Museum and the Office of the Park Manager.

The 2004-05 Governor's Budget proposes \$20.1 million (\$14.2 million General Fund) and 171 personnel years for the Science Center, the California African American Museum, and the Office of the Park Manager.

Science Center Elementary School and Center for Science Learning—The Budget proposes \$2.4 million (\$1.4 million General Fund) for the first year of operation of the newly-completed Science Center Elementary School, to be operated by Los Angeles Unified School District, and the Center for Science Learning.

Parking Structure—The Budget includes \$260,000 (Exposition Park Improvement Fund) for annual operational costs of the new parking structure in Exposition Park.

California Victim Compensation and Government Claims Board

Functions of the Victim Compensation and Government Claims Board

The Victim Compensation and Government Claims Board (Board) compensates victims of violent crime and eligible family members for certain crime-related financial costs, considers civil claims against the State, responds

to bid protests alleging improper or unfair acts of State agencies in the procurement of supplies and equipment, and provides for the reimbursement to counties of costs associated with special elections called by the Governor. Chapter 84, Statutes of 2003, placed the Board under the jurisdiction of the State and Consumer Services Agency effective January 1, 2004. The 2004-05 Governor's Budget proposes \$141.3 million and 301 personnel years for the Board.

Government Claims Program—The Governor's Budget proposes to shift costs associated with the Government Claims Program to reimbursements, for General Fund savings of \$809,000 beginning in 2004-05. Under this proposal, filers of civil claims against the State would pay a filing fee, which would be refunded upon approval and payment of the claim. Included within this reduction plan is a proposal to require charities that participate in the California State Employees Charitable Campaign to support the full cost of the certification program. To date, the General Fund has supported these costs.

State Personnel Board

Functions of the State Personnel Board

The State Personnel Board (SPB) enforces civil service statutes, prescribes probationary periods and classifications, reviews disciplinary actions, and adopts other rules authorized by statute. The Board is comprised of five members appointed by the Governor to ten-year terms. The 2004-05 Governor's Budget proposes \$17.1 million (\$3.3 million General Fund) and 120 personnel years for the SPB.

Reduction in Responsibilities—The Governor's Budget proposes a \$600,000

General Fund reduction for the SPB. Though this reduction will further limit the ability of the SPB to provide some services to non-paying clients, State agencies will still be able to obtain various SPB services on a reimbursable basis.

Military Department

Functions of the Military Department

The Military Department is responsible for the command, leadership, and management of the California Army and Air National Guard, whose purpose is to provide military service support to California, as well as the nation. These services are provided through

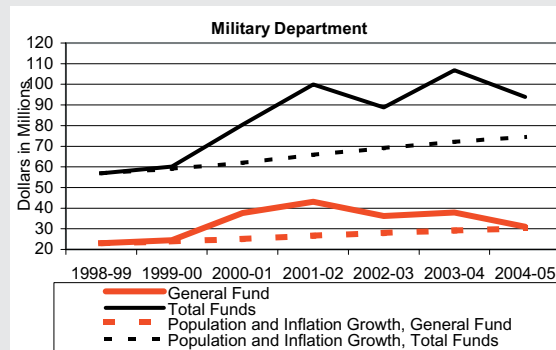
118 armories, 10 air bases, and three army bases located throughout California. The Governor's Budget proposes \$93.8 million and 654 personnel years for the Department. The Department also receives an additional \$571.3 million in federal funds that are not deposited in the State treasury.

Program Enhancements and Other Budget Adjustments

Homeland Security—\$8.8 million federal funds and five personnel years in 2003-04 and \$2.1 million federal funds and seven personnel years in 2004-05 to provide a homeland security augmentation for equipment, training, exercises, and infrastructure.

Key Audit Findings— Military Department

- Total funding for the Department has increased from \$56.9 million in 1998-99 to \$90 million as of the 2003 Budget Act, a 58 percent increase.
 - This increase is primarily due to increased receipt of federal funds for support of various Military Department programs, and additional General Fund resources, as discussed below.
- General Fund support increased approximately \$9 million or 9 percent over the six-year period.
 - The Department's General Fund increases peaked in 2001-02 when the Turning Point Academy and other youth programs were supported by \$15.2 million General Fund. As of the 2003 Budget Act \$5.5 million General Fund was appropriated for the same purpose, this comprises approximately \$5.0 million of the increase in General Fund. The Turning Point Academy and the administrative component of the Cadet Corps have been eliminated since 2001-02.
- Option for controlling costs include reducing or eliminating General Fund support for Youth Programs.





Bridge Guarding—\$5.5 million General Fund in 2003-04 associated with the California National Guard providing 24-hour, seven-days-a-week coverage at the Golden Gate Bridge.

Fresno Firefighter Positions—\$298,000 federal funds and four personnel years in 2003-04 and \$383,000 federal funds and five personnel years in the 2004-05 to provide additional firefighter positions at the Fresno Air National Guard Base.

Armory Project Managers—\$360,000 federal funds and three personnel years to provide additional project managers to operate the Military Construction program.

Joint Training and Experimentation Program Manager Position—\$113,000 federal funds and one personnel year in 2003-04 and \$133,000 federal funds and one personnel year in 2004-05 to provide one State Active Duty position to manage the Joint Training and Experimentation Program.

Family Assistance Officer for the “Operation Ready” Families Program—\$101,000 federal funds and one personnel year in 2003-04 and \$129,000 federal funds and one personnel year in 2004-05 to provide a Family Assistance Officer of the “Operation Ready” Families Program.

Youth Program Reductions—In response to the audit findings, the Governor’s Budget proposes a reduction of \$1.4 million General Fund and ten personnel years associated with reductions to the Starbase Program, Challenge Program and the California Cadet Corps.

CALIFORNIA LABOR AND WORKFORCE DEVELOPMENT AGENCY

Functions of the Labor and Workforce Development Agency

The Labor and Workforce Development Agency oversees programs designed to foster job creation, business development, and ensure profitable, safe, and healthful working conditions through education and enforcement efforts. The 2004-05 Governor's Budget includes \$2.1 million and 13 personnel years for the Agency.

Workers' Compensation Reform

California's business competitiveness has been severely impacted because of high worker's compensation costs for a long time—the system has grown from \$11 billion to \$28 billion in just five years. It is one of the key reasons continually cited by employers for either not expanding or relocating their businesses in the state.

California needs a workers' compensation system that provides necessary care for injured employees and reasonable costs for overburdened employers. Governor Schwarzenegger's reform package proposes the following:

- Ensures that California's standards are in line with nationally recognized workers' compensation standards. The Governor's

goal is to bring affordability to California's workers' compensation system so that costs are at or below the average rate for the entire country.

- Reforms the medical treatment side of the system, by infusing proven methods of delivering medical care so that injured workers receive faster, more consistent treatment so they return to work sooner. It emphasizes the importance of qualified medical professionals, rather than attorneys and judges, to heal injured workers.
- Reforms the permanent disability side of the system by requiring the use of objective standards and nationally recognized guidelines for impairment. The changes will provide uniformity and consistency.
- Provides innovative approaches to solving the problem by creating the option of "Direct-Access to Care" coverage so that employers can maximize the benefits of the group health model while ensuring adequate coverage to employees.

The Governor's goal is to create for California a stable, cost-effective workers' compensation system that will stand the test of time and not have to be revisited every few years. Employees need this stability so that when



they need care it is available; employers need it so they can plan for future business growth.

Employment Development Department

Functions of the Employment Development Department

The Employment Development Department (EDD) administers the Unemployment Insurance and Disability Insurance programs and collects personal income tax from employers. In addition, it administers a variety of labor exchange and job training programs, including the Job Services and Workforce Investment Act programs. The 2004-05 Governor's Budget proposes \$12.618 billion (\$18.8 million General Fund) and 10,072 personnel years for the Department.

Paid Family Leave—The Governor's Budget includes \$395.5 million for the first full year of operation of the Paid Family Leave program authorized by Chapter 901, Statutes of 2002 and Chapter 797, Statutes of 2003. Withholdings from employee pay began on January 1, 2004 and benefit payments will commence July 1, 2004.

Unemployment Insurance—Significant fund solvency issues must be resolved to ensure adequate funding for benefits to workers who become unemployed through no fault of their own, while minimizing the cost impact to the employer community. The Administration is working with stakeholders from both labor and business to identify options and reach consensus on this problem. Any budgetary changes that may be needed as a result of the Administration's efforts will be addressed in the 2004 May Revision.

Employment Training Panel—The Employment Training Panel (ETP) is a significant economic development tool for business

in California. The ETP, in partnership with business, labor, and government, provides funds for training California's workforce in the skills necessary for businesses to successfully compete in the global economy, while providing workers with good jobs paying good wages. Since its creation in 1982, the ETP has funded the training of workers in more than 50,000 companies across the state. Approximately 70 percent of the businesses the program serves are companies with 100 or fewer workers. The program targets frontline workers in manufacturing, high-technology, life sciences, and other high-wage businesses. The Governor's Budget proposes \$53 million for the ETP to provide training funds for California's workforce and employers.

Department of Industrial Relations

Functions of the Department of Industrial Relations

The primary functions of the Department of Industrial Relations (DIR) are to foster, promote, and develop the welfare of the wage earners of California, to improve their working conditions, and to advance their opportunities for profitable employment. The 2004-05 Governor's Budget proposes \$289.9 million (\$62.2 million General Fund) and 2336 personnel years for the Department.

Workers' Compensation—A number of workers' compensation cost containment reforms, enacted pursuant to Chapters 635 and 639, Statutes of 2003, took effect January 1, 2004. The DIR has implemented fee schedule changes for pharmaceuticals, inpatient hospital care, outpatient hospital care, and ambulatory surgical centers effective January 1, 2004. These provisions

are expected to result in savings to employers of up to \$5 billion in the first year of implementation. Continued reform of the workers' compensation system through additional legislative, regulatory, and administrative changes, is a high priority of the Administration. Any budgetary changes needed as a result of the final reform package will be addressed in the 2004 May Revision.

Labor Law Enforcement—California's businesses must be able to compete on a level playing field in order to ensure their long-term success and allow for both job retention and the creation of new jobs. The Governor's Budget protects DIR's labor law enforcement programs, which aim to penalize those who place law-abiding employers at a disadvantage, and who bring potential harm to their employees, by violating California labor laws.

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CAPITAL OUTLAY

Capital Outlay Program

The state owns various types of infrastructure to facilitate the delivery of its numerous programs. These facilities vary from 140 higher education campuses with over 11,000 buildings, public safety facilities to incarcerate over 167,000 offenders in 33 adult prisons and 11 institutions for youths, 140 highway patrol offices, 5 facilities for the mentally ill, and 5 centers for the developmentally disabled. In addition, there are 273 park units covering 1.45 million acres and 225 wildlife and ecological reserves covering a million acres. Finally, the state manages over 23 million square feet of office space, one-third of which is owned and two-thirds leased.

Program Enhancements and Other Budget Adjustments

The 2004-05 Governor's Budget proposes \$1.55 billion for the capital outlay program, not including funding for transportation, K-12 schools, and State conservancies (the Business, Transportation, and Housing, Education, and Natural Resources sections describe the funding provided for those programs). Of this amount, \$769.2 million is for continuing phases of 139 previously approved projects, and \$780.8 million is for 141 new projects. Funding for this program comes from a number of sources including the General Fund, various special funds, general obligation bonds, lease-revenue bonds,

Key Audit Findings

- The fundamental review of state government provides the opportunity to evaluate the departmental needs for office space and other programmatic space needs. Recent reductions in the state workforce should result in cost efficiencies from consolidations of space, opportunities for the renegotiation of state-occupied leases as well as potential relocation of offices.
- In addition, recognizing that the current process for the state to identify its unneeded and underutilized properties can be improved, the Administration will explore opportunities to reform the statewide management of assets to ensure that the long-term needs of the state will continue to be met without undue expense.



and federal funds. Of the \$1.55 billion total, the General Fund contributes \$32.6 million, which represents only 2 percent of total capital outlay expenditures. Figure CO-1 summarizes the proposed capital outlay program by agency, and Figure CO-2 summarizes the program by funding source.

FIGURE CO-1

Total Capital Outlay Funding for 2004-2005 by Agency
(Dollars in thousands)

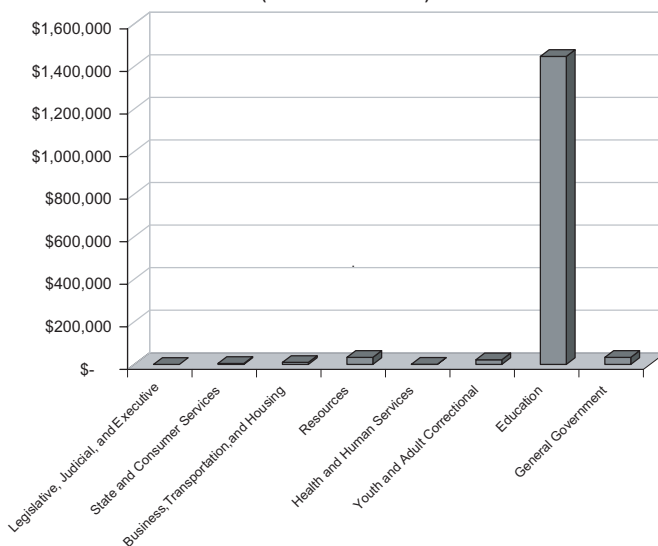
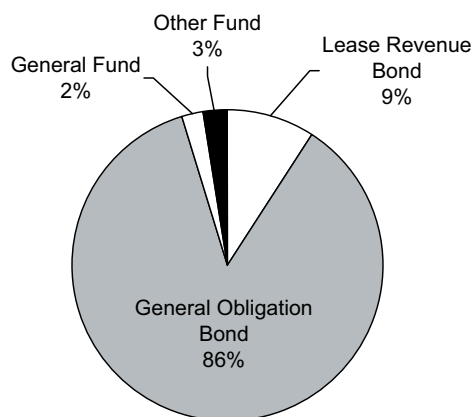


FIGURE CO-2

Capital Outlay by Funding Source



Education

The 2004-05 capital outlay program for education totals \$1.45 billion. All but \$41 million of this funding is proposed from Proposition 55. Proposition 55 is the \$12.3 billion K-12 and higher education facilities bond, which will be on the March 2004 ballot for voter approval. If approved by the voters, the total amount of Proposition 55 available for higher education facilities will be \$2.3 billion to be allocated over the next two years. Of this total, \$690 million will be allocated to each of the University of California and the California State University, and \$920 million will be allocated to the California Community Colleges. The remainder of the \$10 billion is for K-12 facilities which will be allocated by the State Allocation Board. If the bond is not approved at the March election, the statute provides that it will be included on the November 2004 ballot.

California Community Colleges—The Governor's Budget proposes \$617.6 million from general obligation bonds including \$576.2 million from the proposed Proposition 55 bonds. This includes \$236.2 million for 52 new projects in 30 districts and \$381.4 million for 39 continuing projects in 29 districts. These projects will correct seismic deficiencies, provide programmatic upgrades in instructional and library facilities, and construct new classrooms and laboratories to help meet the needs of increased enrollment. New projects include a communication arts building at Cuyamaca College, an agricultural sciences complex at Mt. San Antonio College, library facilities at campuses in the Long Beach Community College District, modernization of classrooms at Fresno City College, and a student services building at Santa Rosa Junior College.

University of California—\$339.4 million of the \$394.4 million is proposed from Proposition 55 bonds. The remaining \$55 million will be provided by lease-revenue bond financing for the construction of a Genomics Building at the Riverside campus. The \$339.4 million in general obligation bonds provides \$274 million for 19 continuing projects and \$65.4 million for 16 new projects at 7 campuses. New projects include physical sciences facilities at Davis and the Engineering Unit 3 at Irvine to accommodate enrollment growth, the Materials Science and Engineering building at Riverside to accommodate program delivery changes, renovation of the UCLA Center for Health Sciences South Tower and the Riverside Geology and Physics building to address code and seismic deficiencies, and the Santa Cruz Digital Arts building and the San Diego Music building to address growth in specialized programs.

California State University—The Governor's Budget proposes \$345 million from the Proposition 55 bonds. This includes funding of \$49.4 million for the continuing phases of seven projects, and \$278.5 million for 13 new projects, and \$17.1 million for minor projects at CSU's 23 campuses. CSU projects include new facilities for the San Bernardino College of Education to accommodate enrollment growth, modernization of science facilities located in Long Beach Peterson Hall on the Long Beach campus, renovation of a former science building on the Pomona campus for reassignment to other academic programs, and seismic renovation of Warren Hall at the Hayward campus.

Department of Education, State Special Schools—\$69.9 million is proposed to replace a dormitory and campus chiller system to address critical infrastructure needs at the California School for the Deaf in Riverside.

Hastings College of Law—The Governor's Budget proposes \$18.8 million for the correction of code and seismic deficiencies in the school's academic and administrative building in San Francisco.

Resources Agency

The 2004-05 capital outlay program for this agency, totals \$34.4 million. Over the past two years, voters have approved two bond measures, Proposition 40 (\$2.6 billion) and Proposition 50 (\$3.44 billion) to address California's water supply needs and protect the state's parks and wildlife habitats. The Administration will be evaluating various alternatives to reorganize and streamline existing resource conservation efforts. Therefore, the Governor's Budget proposes to defer the appropriation of some bond funds until the spring.

Department of Parks and Recreation—\$22.6 million is proposed to come from special funds (\$10.1 million), bond funds (\$8.8 million), and federal funds (\$3.7 million) to continue 5 projects, 1 new project, various minor projects, acquisitions, and budget planning funding. The new project would replace a deteriorating water storage system in order to provide reliable and adequate water supplies for park use and fire protection in the Samuel P. Taylor State Park.

Department of Forestry and Fire Protection—\$9.3 million includes \$5.2 million lease-revenue bonds for 4 continuing projects and \$4.1 million General Fund to renovate a critical telecommunications facility and convert 7 high-priority lease-revenue bond projects to General Fund. This is necessary to overcome issues that prevent debt financing these projects and risk the completion of these critical infrastructure projects.



Department of Boating and Waterways—\$2.3 million is proposed to be funded by the Harbors and Watercraft Revolving Fund for project planning (\$80,000) and a minor capital outlay program (\$2.2 million).

Department of Water Resources—\$270,000 will cover engineering and design activities for the American River Long Term Project, which will raise Folsom Dam by seven feet. General Fund will be redirected from existing flood control projects to provide funding for this purpose.

Department of Fish and Game—\$1.2 million includes \$457,000 Fish and Game Preservation Fund and \$776,00 various special funds for project planning and a minor capital outlay program.

Youth and Adult Correctional Agency

The 2004-05 capital outlay program for this agency, totals \$21.6 million.

California Department of Corrections—The Governor's Budget proposes \$18.8 million from the General Fund for 3 continuing projects and 4 new projects (\$11 million), statewide minor projects (\$5 million), a statewide evaluation of mental health facilities (\$1.8 million), and statewide budget packages and studies (\$1 million). The proposed new projects address water issues at California Men's Colony, Deuel Vocational Institution, and High Desert State Prison/California Correctional Center and provide for a hemodialysis clinic at the California Substance Abuse Treatment Facility and State Prison.

Department of the Youth Authority—\$2.8 million is proposed from the General Fund for minor capital outlay projects and budget packages.

Business, Transportation, and Housing Agency

The 2004-05 capital outlay program for this agency, totals \$9.2 million.

Department of Transportation—\$100,000 will cover studies, planning, and budget packages to be funded from the State Highway Account.

California Highway Patrol—\$250,000 from the Motor Vehicle Account will fund a study to review options for consolidating headquarters personnel in Sacramento from five locations to one.

Department of Motor Vehicles—\$8.8 million is proposed from the Motor Vehicle Account, the State Highway Account, and the Motor Vehicle License Fee. This includes \$7.5 million to complete the Sacramento Headquarters 5th Floor Asbestos Removal and Seismic Retrofit project and \$1.35 million to begin the design phase of the 6th Floor Asbestos Removal, Seismic Retrofit, and Building re-skinning project.

Other Departments

Department of Food and Agriculture—\$19.7 million, which includes \$6.4 million State Highway Account and \$12.8 million lease-revenue bonds for the construction phase of the Truckee Agricultural Inspection Station project.

Military Department—\$12.3 million of which \$5 million General Fund is proposed to complete the construction of a new armory in Bakersfield in order to accommodate two new transportation units that have been assigned to that area. In addition, the federal government will contribute \$6.4 million for the new armory as well as \$836,000 for general planning purposes.

Department of General Services—

\$4.7 million is proposed from Seismic Bonds for one new seismic project, program management, and project studies.

Department of Mental Health—

\$429,000 General Fund includes \$170,000 for a minor security project at Atascadero State Hospital. The remaining \$259,000 is a fund shift for the design of satellite kitchens at Metropolitan State Hospital because the nature of these improvements is not compatible with lease-revenue financing.

Department of Health Services—

\$200,000 General Fund will be used to perform a study that will identify the Department of Health Services' future laboratory needs in Southern California.

Pay-As-You-Go Versus Long-Term Financing

The State employs two approaches to funding infrastructure: direct appropriations, also called “pay-as-you-go” funding, and long-term financing. Long-term financing includes general obligation bonds, lease-revenue bonds, leases with purchase option, or installment purchase agreements. The General Fund, special funds, and federal funds all support infrastructure either as a source of direct appropriations or, for long-term financing by paying debt service or lease costs.

Figure CO-3 displays actual expenditures for long-term financing and pay-as-you-go funding for the capital outlay program over the last six years as well as the proposed

expenditures for the budget year. The majority of the expenditures have come from the over \$25 billion of general obligation bonds that have been approved by the voters since 2000. Figure CO-4 presents the total pay-as-you-go funding by fund source over the same time period.

FIGURE CO-3

**Pay As You Go vs. Long-Term Financing
Capital Outlay Expenditures 1998-99 - 2004-05**
(Dollars in Millions)

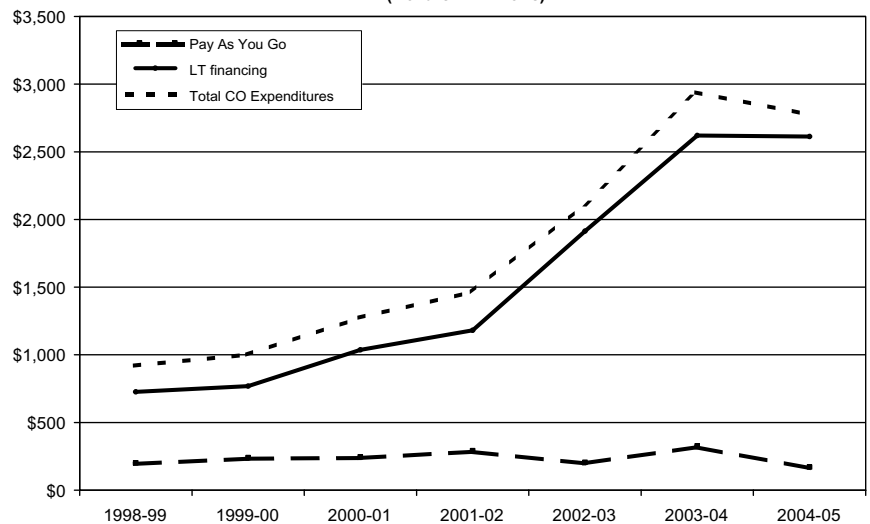
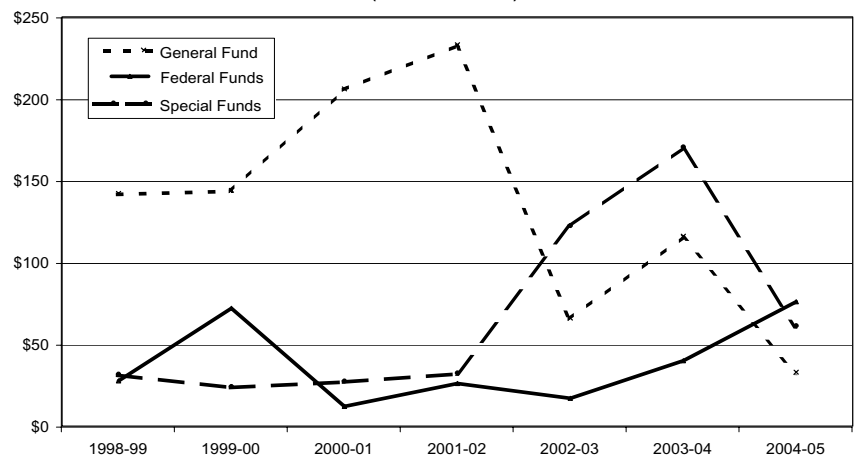


FIGURE CO-4

**Capital Outlay Expenditures by Fund Source
1998-99 - 2004-05**
(Dollars in Millions)





General Obligation Bonds

California currently owes \$27.7 billion in principal on outstanding non-self liquidating general obligation (GO) bonds as of the end of calendar year 2003. The General Fund cost for the payment of interest and redemption on these bonds is \$1.9 billion in 2003-04, and is estimated at \$3.1 billion in 2004-05. This amount could vary depending on the actual amount of bonds that are sold during the year.

Lease-Revenue Bonds

The lease-revenue method of financing projects has been used for higher education facilities, state prison construction, general purpose office buildings, and other types of projects when a lease can be created that provides a marketable security for the issuance of the bonds.

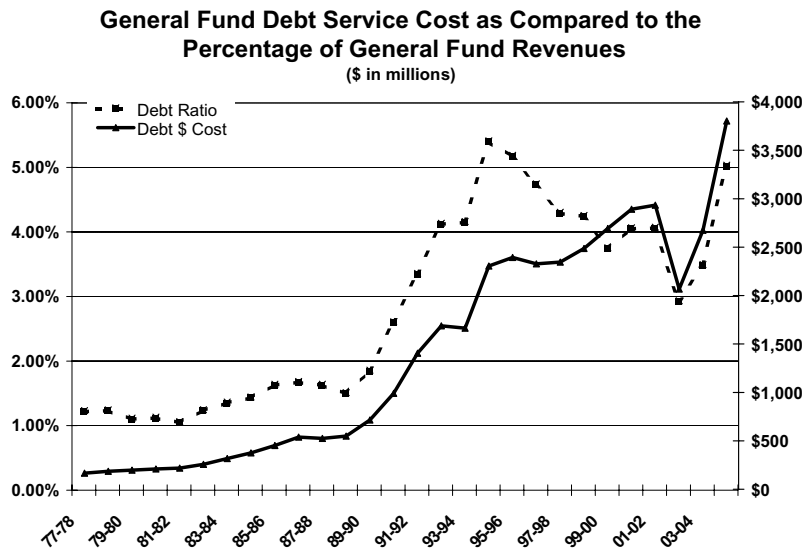
Outstanding lease-revenue bonds totaled \$6.762 billion as of November 1, 2003, and are estimated to total \$7.445 billion as of June 30, 2004, and \$8.063 billion as of

June 30, 2005. The cost for lease payments, including principal, interest, administration, and insurance, was \$569.6 million in 2002-03. These costs are estimated to be \$653.6 million in 2003-04 and \$731.7 million in 2004-05.

Debt Service

A common measure of bonded indebtedness is the ratio of net tax-supported debt to General Fund revenues. Using this measure, California's debt ratio for 2003-04 is 3.5 percent and would rise to 5 percent in 2004-05. The debt ratio for current year is unusually low as it reflects the results of a debt restructuring program that the State conducted over the previous two years. Figure CO-5 displays the historical debt service ratio as well the debt service costs for California from 1977-78 until the budget year.

FIGURE CO-5



CALIFORNIA'S FAIR SHARE OF FEDERAL FUNDS

California has increasingly become a donor State, meaning that California taxpayers contribute far more to the federal budget than California receives in federal services. Actions at the federal level have resulted in the State paying for increased costs or expansion of federal-state-local programs, as well as for significant costs for new programs. In recent years, the tax payments that Californians have made to the federal government have significantly exceeded the amount of federal expenditures made in the State. Although there are differing estimates of the magnitude of the gap, the non-partisan California Institute for Federal Policy Research estimates the figure for federal fiscal year 2002 at \$58 billion. Additionally, the federal government is increasingly assessing sanctions against California for not meeting rigid administrative requirements. The Administration will work with the federal government and the State's congressional delegation to increase the State's share of federal funding. As such, the Governor's Budget assumes that California will be successful in securing a minimum of \$350 million to offset General Fund costs in the 2004-05 fiscal year.

The following are various programmatic examples of inequities in federal funding policies:

Homeland Security

State expenditures in lieu of federal reimbursement for costs related to homeland security have placed significant strain on State resources. The California Highway Patrol alone will have expended approximately \$265 million on homeland security without federal reimbursements. Federal funds thus far received by the State have not included funds to reimburse homeland security costs of the California Highway Patrol.

Further, distribution of these funds by the federal government is based on an equal allocation to each state in addition to a per capita allocation. This allocation methodology does not recognize that California has a higher threat and vulnerability to terrorist attacks than most other states. For example, California has tourist destinations and transportation centers that serve the entire nation (e.g., ports of Long Beach and Oakland, international airports, and facilities at the Mexico border) which put the State at greater risk, yet the funding provided by the federal government does not acknowledge this reality.

In an effort to address this unfairness, California's congressional delegation, has introduced legislation that would require the



federal Department of Homeland Security to distribute homeland security funds based on threat and vulnerability assessments rather than on population. The expectation is that through a change in the allocation methodology, the federal government will begin to provide the funding necessary to assist California in its effort to combat and respond to the terrorist threats facing the State.

Transportation

California's transportation system supports the national economy and global trading system more than that of any other state. California represents 13.5 percent of the national Gross Domestic Product, 12 percent of the nation's population and is growing by 600,000 persons per year. Californians are doing more than their fair share to address congestion and goods movement problems, passing local transportation sales tax initiatives in 18 counties that represent over 85 percent of the state's population, which have provided \$2.3 billion per year for the past three years (local initiatives, on average, commit one-third of their resources to transit, one-third to projects on the State Highway System, and one-third to local projects) and approving Proposition 42 with 71 percent of the vote to commit the sales tax on gasoline to address our own transportation problems. Yet, California receives on average only 9.6 percent of the United States Department of Transportation's Surface Transportation Program.

Much of California's congestion is related to goods movement and tourism, which are drivers of the national economy and global trading system. California handled 53 percent of the total United States merchandise international trade in 2001 and more than half of all the imports coming into the state are transported elsewhere nationally. Working with California's

bipartisan delegation to increase federal investment in the national transportation program and a share for California that more appropriately reflects California's contribution to the economy and trade system is one of the Administration's federal priorities.

Medi-Cal

States and the federal government share responsibility for financing the Medicaid program, known as Medi-Cal in California. The federal government matches State spending for the services Medicaid covers on an open-ended basis, with the federal matching rate varying by state from 50 to 77 percent (Figure 1). The federal matching rates, or Federal Medical Assistance percentage (FMAP), are determined by the United States Department of Health and Human Services pursuant to the Social Security Act, and are based on states' per capita income (PCI) compared to the national average. Use of PCI in determining the FMAP disadvantages California, as it is a poor measure of the state's poverty level. It is important to note that California has a high PCI, but also has a high poverty rate.

According to the General Accounting Office, PCI was first used in the 1950s as an indicator of a state's ability to finance programs as well as of a state's poverty level, assuming that low-income states would have higher poverty rates. Since that time, a formal poverty definition has been created, and better measures of fiscal capacity now exist. Thus, formulas originally drafted to help poor people by assuming they reside in low-income states actually shortchange California's large poor population and drain the treasuries of the State and local governments as they backfill the shortfall in federal funds.

Although Section 401(a) of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided California temporary fiscal relief through an enhanced FMAP rate of 53 percent through June 30, 2004, California's FMAP is scheduled to return to 50 percent on July 1, 2004. As such, the Administration will seek further fiscal relief through a continued increase in the federal share of the State's Medi-Cal costs.

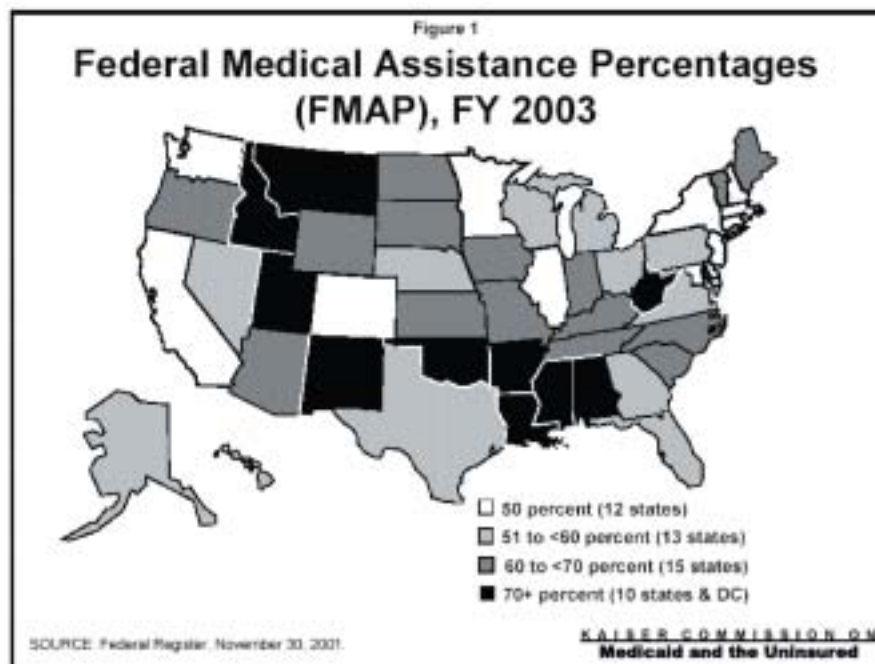
Additionally, the Department of Health Services estimates that the Medi-Cal program will provide emergency and non-emergency services to nearly 863,000 undocumented persons in 2004-05. Although the State receives federal matching funds for emergency services, the State's General Fund is the sole source of funding for non-emergency services such as prenatal, long-term care, and breast and cervical cancer treatment services. It is estimated that General Fund expenditures of approximately \$181.7 million will be incurred in 2004-05 to provide these services. The Administration will seek federal matching funds for Medi-Cal non-emergency services for undocumented persons.

Incarceration of Undocumented Felons

The Department of Corrections and the Youth Authority expect to spend approximately \$711.2 million in 2004-05 for the incarceration of undocumented persons. For 2004-05, it is estimated that California will receive approximately \$66.2 million in federal State Criminal Alien Assistance Program funding. At this level of funding, the State will be reimbursed for only 9.3 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with \$645 million in costs in excess of the level of federal reimbursements. The Administration will work with the State's Congressional delegation to secure a more appropriate level of reimbursement.

Child Care Funds

According to an August 2003 report by the California Bureau of State Audits, the allocation of funding under the "mandatory





funds” component of the federal Child Care and Development Fund grant is based upon historical State funding shares under federal child care programs that have not existed since the early 1990s. If the funding allocation for this component was updated to use recent census data, as the “matching funds” component of the same grant already does, then the State could get a significantly larger and more appropriate share of the overall federal grant (approximately \$66 million in 2001-02).

Education Tax Credit

Increasing student fees at California’s community colleges to the levels proposed by the Administration would enable students to access the maximum federal Pell Grant award of \$4,000 per school year. Student fees are currently too low to make the full federal award available to qualifying students, and these federal dollars are therefore not adequately offsetting educational costs for California students. Additionally, not all students may know that if they are making less than \$80,000 per year they may be eligible for a federal tax credit equal to their entire fee payments, up to \$1,000, during their first two years of college. Fully accessing this tax credit could offset student costs and bring more federal dollars to California.

RELIEF FROM FEDERAL REQUIREMENTS AND SANCTIONS

Numerous federal requirements create significant administrative burdens and expenditures for California that cannot be justified, especially given the severe condition of the State's General Fund. Additionally, the State continues to be subject to increasing federal sanctions that restrict the State's ability to reinvest in critical programs to benefit both State and federal taxpayers. The State continues to seek increased federal flexibility and recognition of the extended timeframes needed to implement statewide automation projects or achieve federal performance measures in a state with the size and complexity of California.

As a result of actions at the federal level, the State has incurred increased administrative costs and penalties, and continues to face the threat of significant additional penalties and sanctions. The examples below detail \$560 million in additional costs that California has incurred to date, and an additional \$670 million in potential costs, penalties, and sanctions facing the State in the near term. In the current dire fiscal environment, the State must seek relief from these overly burdensome federal requirements and sanctions.

Department of Mental Health

Managed Care Federal Regulations

The Department of Mental Health (DMH) will incur an \$8.2 million (\$4.1 million General Fund) cost in 2004-05 associated with ensuring that the Medi-Cal Specialty Mental Health Services Consolidation program complies with new federal regulations governing managed care programs. The DMH is required to provide informational materials and provider lists to the estimated 350,000 managed care clients, and informational materials and a toll-free number to request a provider directory to an estimated 3.2 million Medi-Cal beneficiaries. Although the current requirements reflect a negotiated compromise with the federal Centers for Medicare and Medicaid Services, the Administration may pursue additional modifications to relieve California of the requirement to provide informational materials to all beneficiaries.



Department of Child Support Services

Alternative Federal Penalty Relief

As a result of California's delay in implementing a single, statewide-automated child support system, the federal government has levied significant federal penalties against the State. As of June 30, 2003, the State has paid cumulative penalties of \$562 million. The penalty amount is 30 percent of the prior federal fiscal year expenditures on the Child Support Program. As expenditures for the development of a statewide-automated child support system increase, the penalty will also increase. The federal penalty is estimated to be \$195 million in 2003-04 and is estimated to increase to \$220 million in 2004-05 due to increased expenditures for the development of a statewide-automated child support system.

In July 2003, the State procured a vendor to develop and implement one component of a statewide-automated child support system and expects to procure a vendor for the second component of the system by January 2005. As the State is making a good faith effort to implement a single, statewide-child support automation system, the State should not be penalized for expenditures associated with its attempt to comply with this federal requirement.

Department of Social Services

Food Stamp Error Rate Sanction

California was sanctioned by the federal government for federal fiscal years 2001 and 2002, in the amount of \$176.9 million,

because county error rates for Food Stamp Program eligibility and benefit determination were above the national average. Based on current State regulations, counties must fund 90 percent of this sanction while the State is responsible for the remaining 10 percent.

As a result of actions taken by the State, including the implementation of the Prospective Budgeting/Quarterly Reporting system, and providing additional training at the local level, the Food Stamp error rate has been reduced by more than half, from 17.37 percent in federal fiscal year 2001 to 6.61 percent in federal fiscal year 2003. This reduction in the error rate should significantly reduce the likelihood of additional penalties in the future. Further, due to the recently enacted federal Food Stamp Reauthorization Act of 2002, it is anticipated that future penalties, if any, would be significantly lower than those levied in federal fiscal years 2001 and 2002. Lastly, the Department of Social Services (DSS) is currently appealing the existing federal sanctions to either reduce or eliminate these penalties, and therefore California's payments have been delayed until a final decision is reached on the sanction.

Child Welfare Services/Case Management System

The Child Welfare Services/Case Management System (CWS/CMS) is a State and federally required comprehensive statewide database, case management tool, and reporting system for the CWS program. Because the State was making efforts to add functionality to make the CWS/CMS compliant with all of the federal child welfare system requirements, the federal government was providing enhanced federal funding. However, as currently operating, the CWS/CMS is not compliant with 14 out of 87 of these requirements.

In June 2003, the federal government indicated that California would no longer receive enhanced funding for the system unless the State submitted and completed a plan for obtaining full compliance. The General Fund impact of the loss of enhanced funding for the CWS/CMS would be a cost of \$18.2 million in 2003-04 and \$17.4 million in 2004-05 and subsequent years. In September 2003, the DSS was further notified that the federal government did not approve the annual funding request for the CWS/CMS. This recent decision to deny all funding may result in additional annual costs between \$54 million and \$65 million beginning in 2003-04. The DSS is currently preparing a plan to obtain full compliance and negotiating with the federal government to ensure continued funding for the system and to reduce any potential federal penalties.

Block Grant funds to implement the State's Improvement Plan. Given that no states have passed all of the federal outcome measures, the Administration plans to continue its dialog with the federal government to ensure that performance expectations are realistic and achievable. The federal government has agreed to meet with the State in January 2004 to consider renegotiating the terms of the approved plan due to the State's fiscal constraints and limited resources.

Child Welfare Services Program Improvement Plan

The State failed a total of 12 out of 14 outcome measures in a federal review of California's Child Welfare Services program conducted last year. Pursuant to federal requirements, the DSS submitted a Program Improvement Plan to the federal government in response to these findings of noncompliance. The State's plan was approved on June 24, 2003. If the State fails to achieve federal program improvement goals, it will have to pay \$18.1 million General Fund to the federal government in the first year of non-compliance. Federal penalties could increase to \$49 million in the second year and \$73.9 million in the third year, if the State does not meet federal program improvement targets.

The Governor's Budget includes \$5.2 million General Fund and \$18 million in federal Temporary Assistance for Needy Families

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STATE-LOCAL ASSISTANCE

Both the United States and California economies slowed in 2001. Due to its dependence on the personal income tax with its highly volatile capital gains component, the State faces significant fiscal challenges. However, local revenue sources, such as sales and property taxes are less volatile. Consequently, cities and counties have not experienced such drastic swings in revenues as has the State.

Due to the State's current fiscal environment, reductions were required to local government funding in a number of areas. However, the Governor's Budget continues the Administration's efforts to support high-priority programs of mutual concern to both State and local governments, such as public safety, health and human services, housing, transportation, and resources, as discussed below. The funding provided for these programs totals nearly \$6.7 billion.

In addition, the Budget includes full reimbursement to local governments for the vehicle license fee offset program, totaling approximately \$4.1 billion for 2004-05. Important to note, however, is that in 2003-04, local governments' vehicle license fee revenues were reduced by \$1.3 billion due to lag time necessary to implement higher fees when the offset was eliminated on June 20, 2003. Chapter 231, Statutes

of 2003, provided that this "gap" in funding would be repaid to local governments in 2006-07. Due to the State's current fiscal environment, this Budget proposes a continuation of the 2003-04 gap level of reduction (\$1.3 billion) to local governments in the form of an increased Educational Revenue Augmentation Fund (ERAF) shift beginning in 2004-05. Local governments would shift approximately \$1.3 billion of property tax revenues to the ERAF in order to decrease the State's General Fund Proposition 98 obligation.

Public Safety

The Governor's Budget contains approximately \$450 million for public safety including the following major programs:

- \$200 million for the Citizens' Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Programs. COPS supports front-line local law enforcement, sheriffs' departments for jail construction and operations, and district attorneys for prosecution. Through the program, local governments receive a minimum grant of \$100,000 for front-line law enforcement services; all other funds are allocated on a per-capita basis. The



juvenile crime prevention programs use various strategies to provide a swift and graduated response for at-risk youth and juvenile offenders, including intensive case management, early intervention, and substance abuse treatment.

- \$147.9 million for 911 Emergency Services. These funds reimburse local dispatch centers for 911 equipment purchases and costs of receiving 911 emergency service calls from citizens.
- \$30.2 million to provide aid to local agencies for repair and restoration of public real property in stricken areas in time of disaster and to provide assurance that all public facilities will be restored in order to provide necessary services to the citizens of the affected areas. This program also provides individual assistance to people who have been affected by disasters.
- \$25.5 million for local peace officer training assistance expenditures, including instructional costs, travel and per diem reimbursement, and necessary overtime paid to enable line officers to receive in-service training in areas of critical need.
- \$9.5 million for War on Methamphetamine Program. These funds are provided to multi-jurisdictional law enforcement groups to combat methamphetamine manufacturing and production.
- \$8.2 million for the Vertical Prosecution Block Grant. These funds are allocated to county district attorney's offices, for activities including vertical prosecution of cases involving unlawful sexual intercourse, investigation efforts, victim advocate services, referral services, and collaborative efforts with local law en-

forcement agencies. These funds are intended to allow local agencies to create specialized units of prosecutors, investigators, and/or victim advocates who could provide additional emphasis and expertise for the victims of crime.

- \$5 million for payments to counties for the costs of homicide trials. This program provides reimbursement to small and rural counties to offset specified costs of homicide trials and hearings.

Health and Human Services Programs

The State provides substantial assistance to local governments for various health and human services programs. Despite the significant fiscal challenges facing the State, the Governor's Budget continues to make local health and human services programs a priority. This assistance totals approximately \$5 billion, and nearly \$4 billion of this amount is provided to counties to support health, mental health, and social services programs through State-Local Realignment. The remaining \$1 billion is provided to counties for specific health care, social services, public health activities, Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS) programs, and county oversight functions, as follows:

Health Care

- \$162.7 million for Alcohol and Drug Programs. This funding supports drug court programs and discretionary regular and perinatal alcohol and drug programs.
- \$82.5 million for California Children's Services. This program provides treatment to children with certain physical

limitations and chronic health conditions or diseases.

- \$76.9 million for Mental Health Programs including Integrated Services for Homeless Adults, services for brain damaged adults, the Early Mental Health Initiative, and other discretionary mental health programs.
- \$49.3 million for the Genetically Handicapped Persons Program. This program provides health coverage for Californians 21 years of age and older who have specific genetic diseases including cystic fibrosis, hemophilia, sickle cell disease, and certain neurological and metabolic diseases.
- \$42.4 million for the California Healthcare for Indigents Program. The California Healthcare for Indigents Program allocates Proposition 99 (Tobacco Tax) funds to participating counties. These funds reimburse providers for uncompensated health care for individuals who cannot afford care and for whom no other source of payment is available.
- \$22.3 million for Uncompensated Hospital Emergency Services. These funds reimburse physicians for uncompensated emergency services provided to the indigent population.

Social Services

- \$103.9 million for Adult Protective Services. These funds are for counties to investigate and provide services to adults age 65 or older, and dependent adults age 18-64, who are reported to be endangered by abuse, neglect, or exploitation.

- \$71.1 million for Child Welfare Services Base Funding Adjustment. These funds maintain the base Child Welfare Services program at the level proposed in the 2000 Budget Act to allow counties to maintain a specified level of social workers despite declining caseloads.

- \$67.1 million for Juvenile Probation. These funds are provided to county probation departments to provide services to at-risk youth.

- \$57.2 million for Child Welfare Services Augmentation. This augmentation provides for additional county social workers in recognition of the funding and staffing need identified in the workload study completed pursuant to the requirements of Chapter 785, Statutes of 1998 (SB 2080).

Public Health

- \$72.2 million for Bioterrorism Funding. These monies are provided to first responder agencies at the local level for anti-bioterrorism activities.
- \$15.8 million for Tobacco Control. These funds are allocated to local lead agencies, which are required to develop and implement a comprehensive tobacco control program that focuses on community norm change strategies.
- \$11.9 million for the Adolescent Family Life Program. Case management is provided to pregnant and parenting teens to improve birth outcomes, teach parenting skills, and ensure completion of high school by the teen parent.



- \$11 million for Statewide Childhood Lead Poisoning Prevention Program. All local jurisdictions are eligible to apply for this funding.
- \$31.7 million for Clinic Grants. The Clinics Program provides local assistance funding to selected non-profit, community-based primary care clinics, clinic associations, and collaboratives of clinics.
- \$7.5 million for Tuberculosis Control. These funds are used to support the highest priority tuberculosis control activities in local health jurisdictions in California that continue to report significant numbers of cases of disease each year.
- \$5.2 million for Hospital Bioterrorism Preparedness funding to increase hospital, community clinic, and Emergency Medical Services capacity to respond to incidents of bioterrorism and develop mutual aid plans to serve areas not currently covered by Emergency Medical Services agencies in the event of acts of bioterrorism.

HIV/AIDS

- \$23.8 million for HIV Education and Prevention. On an annual basis, the Office of AIDS provides funds to 61 local health departments to provide direct services such as HIV/AIDS education, prevention case management, referrals, and support services to individuals at high risk for HIV transmission and individuals living with HIV/AIDS.
- \$6.7 million for HIV Care. These funds are provided to 30 local health departments to provide direct services to

individuals living with HIV/AIDS. These services include AIDS case management and early intervention.

- \$8.8 million for HIV Counseling and Testing. These funds are allocated to 61 local health departments to provide direct services such as HIV counseling, testing, and referral services to individuals at high risk for HIV transmission.
- \$7.1 million for HIV/AIDS Surveillance. These monies are allocated to 61 local health departments to implement, expand, and monitor the HIV and AIDS case reporting systems.

County Oversight

- \$110.5 million for the Statewide Automated Welfare System. This system automates welfare eligibility determinations, benefit calculations, and case management functions to support counties in the administration of several programs including CalWORKs, Food Stamps, Medi-Cal, and Foster Care, among others.
- \$14 million for the Electronic Benefit Transfer System. This system provides automated delivery, redemption, and reconciliation of food stamp benefits. The system supports county administration of this program.
- \$8.3 million for the Statewide Fingerprint Imaging System. This system provides for fingerprint imaging of Food Stamp and CalWORKs recipients to detect and deter multiple aid-case fraud. The system supports county administration of these programs.

Transportation

In addition to significant federal fund sources, the Governor's Budget contains approximately \$535 million in State funds for transportation purposes that directly benefit local governments, including the following major programs:

- \$177.6 million for State Highway Account funds budgeted as Capital Outlay. These moneys are for State Transportation Improvement Plan projects selected by local agencies through their Regional Transportation Improvement Plans.
- \$161.4 million for State Highway Account budgeted as Local Assistance. These funds are for a variety of programs including State Transportation Improvement Plan projects delivered and selected by local agencies through their Regional Transportation Improvement Plans.
- \$101.4 million for the State transit assistance program, which provides operating funds to local transit agencies and can be used for road purposes in small counties.
- \$75 million for the Proposition 116 Bond Program for project expenditures related to projects designated in the bond act.
- \$7.2 million for bicycle transportation grants.
- \$7 million for planning grants.
- \$5.1 million for airport grants and loans.

Resources and Environmental Protection

The Governor's Budget provides assistance totaling approximately \$204 million

in 2004-05 including the following major programs:

- \$16.5 million for Public Small Craft Harbor Planning and Construction Loans. Boat launching facility loans to develop marinas and expand/rehabilitate existing marina facilities.
- \$87.5 million for loans to local agencies from the State Water Pollution Control Revolving Fund.
- \$16.1 million for the Lining of the All-American Canal. This project will line portions of the All-American Canal and the Coachella Canal, which branches off from the All-American, to prevent water loss from seepage. This project is part of a comprehensive plan to reduce California's annual use of Colorado River water from 5.3 million acre-feet to 4.4 million acre-feet.
- \$14.1 million for local assistance to County Agricultural Commissioners for pesticide enforcement and the restricted materials use permit program.
- \$10.1 million for assistance to local air pollution control districts (35 statewide) for enforcement and compliance activities (i.e., of stationary sources) to improve air quality.
- \$10 million for Launching Facilities Grants. These grants are for the construction of launching ramps, shore side or floating restrooms, boarding floats, shore protection, car/trailer parking, utilities, landscaping, and irrigation.
- \$10 million for entitlement grants for establishing and maintaining used oil and filter collection and information programs.



- \$8.7 million for cleanup of clandestine drug laboratories. Funding is for State field staff who relieve local governments of the responsibility for cleaning up hazardous and toxic sites.
- \$8.1 million for Boating Safety and Enforcement for boating safety and enforcement programs. Each county is entitled to receive State financial aid for boating safety and enforcement programs on waters under its jurisdiction. A boating safety and enforcement program includes search and rescue operations, recovery of drowned bodies, enforcement of State and local measures for regulation of boating activities, inspection of vessels, and supervision of organized water events.
- \$6 million for grants to local entities for local solid waste enforcement.
- \$5 million for grants for clean up of solid waste sites where the responsible party is unknown or unable to pay for timely remediation.
- \$25 million for Jobs-Housing/Workforce. This program provides incentives for local agencies to permit housing projects.
- \$24 million for Building Equity and Growth In Neighborhoods. Bond funds are provided to specified metropolitan areas to reduce barriers to housing development.
- \$22.4 million for the CalHome program. This program provides bond funds for single-family homes for low-income residents.
- \$15 million for Farmworker Housing. This program provides bond funds for housing projects (usually sponsored by private non-profit organizations) for farm workers.
- \$13 million for the California Infrastructure and Economic Development Bank (CIEDB). The CIEDB provides loans for local government infrastructure projects.
- \$5.3 million for the Office of Migrant Services. The program pays for the operating costs of local Migrant Farmworker Centers. The centers are constructed on local property, but with State funds.

Housing and Community Development

The Governor's Budget contains approximately \$235 million for programs to assist in the creation, rehabilitation, and purchase of affordable housing, including the following major programs:

- \$82 million for the HOME Investment Partnerships Program. This program provides Federal funds for a variety of economic benefit projects and programs related to housing issues.
- \$47 million for the Community Development Block Grant

Public Libraries

The Governor's Budget provides assistance to libraries of approximately \$160 million in 2004-05 including the following major programs:

- Up to \$128.4 million for the California Cultural and Historical Endowment to encourage libraries and non-profits to develop and collect items of historical and cultural significance for the state.
- \$15.8 million for the Public Library Foundation. The Public Library Foundation allocates State funds to local public libraries for the provision of basic library services, such as maintaining service hours and purchasing books.
- \$12.1 million for the Direct Loan and Interlibrary Loan program. The Direct Loan and Interlibrary Loan program provides reimbursement for handling costs when a public library lends materials to another library or to a resident of another library's jurisdiction. The program supports equal access to library materials for all Californians.
- \$5.3 million for the California English Acquisition and Literacy Program. The California Literacy Campaign provides one-on-one tutoring of illiterate adults and the recruitment and training of tutors.

Other Funding

- \$60 million for grants to county assessors for property tax administration.
- \$55.2 million for pest detection and eradication to protect the State's people, commerce, and environment. \$38.2 million is local assistance for county pest detection and eradication efforts; \$17 million is for State detection and eradication efforts (which would otherwise be performed by local governments or not performed at all) and administration of the State and local program.

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STATEWIDE ISSUES

A Fundamental Review of State Government

California government is filled with skilled and dedicated men and women, but without focused leadership State agencies have been left to drift instead of serving the public most effectively. The California Performance Review will be a comprehensive examination of what government does and how it is done. Led by people that understand the problems government faces firsthand, the Performance Review will transform state government and energize the bureaucracy so that they provide the best services to the public in the most efficient way.

California has a procurement acquisition system so laden with process that it can take years to complete purchases that can and must be completed within months. Acquisition processes need a complete overhaul so they make good business sense for the state. California state government has largely missed the productivity gains and service improvements that the private sector secured in the 1990s through the aggressive application of information technology to support basic business operations. Government must join the 21st century.

The result of the California Performance Review will be a leaner government, a better provider of services, and an organization that takes advantage of the talents and abilities of everyone within state government. This will restore the public's full trust and confidence in government and fulfill our promise to make government work for all Californians.

The California Performance Review will build upon earlier efforts to reform and reinvent government. However, this review will focus on specific, tangible reforms in each area of government operations rather than moving boxes around on an organizational chart. The implementation of the Performance Review will recognize that state government has a special obligation to serve the public. While there are lessons to be learned from the private sector, government can never be just another business.

Piecemeal reform is not enough; instead fundamental change is necessary from top to bottom.

To address these truly fundamental governance issues, the Administration will establish the California Performance Review. The initiative has four major components:



- 1. Executive Branch Reorganization—**
The State will restructure the Executive Branch of government to make decision-making in the branch more responsive to the public's needs and interests and make government operations more transparent, manageable, and cost-effective.
- 2. Program Performance Assessment and Budgeting—**The State will implement a program to make regular, detailed, and rigorous evaluations of program performance (focusing on prioritization of program needs, return on program investment, and effective program management) and will make program elimination or modification decisions and budget decisions that reflect those evaluations.
- 3. Improved Services and Productivity—**
The State will pursue a customer-focused transformation of government operations to provide convenient, responsive, and cost-effective services, benefits, and information to the public. In addition, the State will replace duplicative and conflicting financial, human resources, and procurement management systems with a common set of modern systems that are interoperable across all departments in state government. A Constitutional amendment to allow for competition in government through outsourcing opportunities will provide one of the necessary tools for reform.
- 4. Acquisition Reform—**The State will overhaul its acquisition program significantly to improve the quality and timeliness of its acquisitions. Best practices used by the federal government, other states, and the private sector will be examined and adopted as appropriate to secure the best values in State acquisitions.

The leadership and energy to make these reforms happen can be found both inside and outside of government. There are a handful of people in America that possess the experience with a performance review of this magnitude and they have agreed to be a part of the outside team that will train and manage 125–150 senior career managers, borrowed from within the state government bureaucracy, to conduct this review.

The Administration will also form the California Performance Review Commission, which may consist of legislators, business men and women, representatives from local government, other Constitutional Officers, and other interested parties. The Commission will provide counsel, advice, and conduct public hearings to get input from the general public on the current performance of government operations and ways to improve that performance.

Improving Accountability and Service Delivery

Executive Order S-4-03 instructed departments to disencumber non-essential contracts and purchase agreements funded by the General Fund where the goods and services have not been received. At this time, it is estimated that \$50 million of one-time General Fund savings could be achieved.

Key Findings— Charging Encumbrances

- Certain encumbrances seem to take an excessive period of time to liquidate and may tie up funds for a longer period of time unnecessarily.

In addition to canceling current encumbrances, the Department of Finance will convene a work group of selected departments and other control agencies in January to review current practice, statutes, and regulations to determine the timing and appropriateness of charging an encumbrance. Currently, most budget act appropriations for support and local assistance are active for three years. During the first year, the appropriations are available for expenditure and encumbrance. Then two years are provided for liquidation of encumbrances existing as of the end of the first year. The objective of the review is to consider changes to minimize the time between encumbrance recognition and the receipt of goods and services resulting in more timely realization of unused appropriation amounts.

Fraud, Waste, and Abuse

Since taking office, the Governor has received numerous suggestions from the public, legislators, and advocacy groups regarding specific areas of fraud, waste, and abuse in state government. Some of these are identified as key findings in this document. In order to take a systematic approach to this review, the Department of Finance staff will be tasked with investigating potential fraud, waste, and abuse in state government. Findings will be reported by May 1, 2004, and savings proposals will be submitted at this time.

Employee Compensation

Function of Employee Compensation

The goal of the State's employee compensation program is to provide a reasonable and competitive package of salary and benefits so the State can attract and maintain a competent workforce without unduly burdening the

taxpayers of California. For most employees, this is accomplished through collective bargaining conducted pursuant to the State Employer-Employee Relations Act. The State currently has approximately 160,000 employees represented through 21 bargaining units, plus approximately 35,000 employees who are classified as managers, supervisors, or confidential employees who are not covered by collective bargaining.

Improving Accountability and Service Delivery

As the current contracts expire, this Administration will bargain on behalf of the taxpayers of California to create a compensation package that is reasonable without extravagances adopted by the previous Administration. The Administration sees the greatest opportunity for improving accountability through reforming the State's retirement programs.

California Public Employees' Retirement System

Function of CalPERS

The CalPERS administers retirement and health benefits for more than 1.4 million past and present employees for State and local agencies in California. Most State employees participate in a defined benefit retirement system that will guarantee them monthly re-



Key Audit Findings—Employee Compensation

- For most State employees, cessation of employees' 5 percent contribution to the California Public Employees' Retirement System (CalPERS), plus credit for one day of additional leave time each month, plus credit for a 5 percent higher salary base for determining retirement benefits, were all provided so the employees would delay by one year the effective date of a scheduled 5 percent salary increase.
- Since California Highway Patrol officers do not contribute to their retirement, they could not receive cessation of the employees' 5 percent contribution to CalPERS that most employees received above. To provide the officers with a benefit that offered a similar economic value, a special pay provision was provided that will compensate the officer's half hour lunch at time and a half.
- The Department of Forestry and Fire Protection (CDF) is in the third year of a five-year contract. Increases to planned overtime were included as part of this contract. During a firefighters normal 72-hour stay at the fire station, 24 hours are scheduled as normal work time (base salary) and 19 hours are scheduled as planned overtime. Before the contract, planned overtime was paid at half of the base salary hourly rate. Planned overtime will increase as follows for the term of the contract:
 - In 2003-04, planned overtime will be paid at three-fourths of the base salary.
 - In 2004-05, planned overtime will be paid at the base salary.
 - In 2005-06, planned overtime will be paid at 1 1/2 of the base salary.
 - In 2006-07, planned overtime will be paid year-round instead of only during the fire season. In summary, by 2006-07, firefighters will be getting paid 1 1/2 of their base salary year-round for planned overtime.

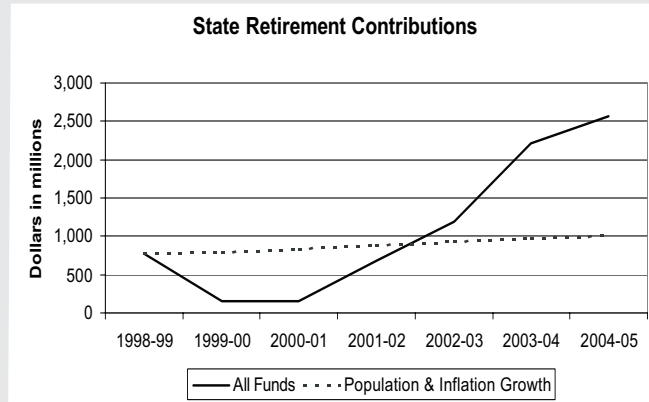
tirement benefit stipends for life based upon final compensation, age at retirement, and years of service; there are different formulae for each of the retirement categories (such as safety members, industrial members, police officers, and firefighters, etc.). While some employees pay a fixed percentage of their salaries into the retirement system, the State pays the preponderance needed to ensure that the retirement system remains actuarially sound.

Improving Accountability and Service Delivery

Under the previous Administration, retirement benefits for State employees were significantly improved with the enactment of Chapter 555, Statutes of 1999 (SB 400). Most State employees can currently retire at age 55, and enjoy a retirement calculation under which their benefit will be the number of years of service multiplied by 2 percent, with the product of this calculation multiplied by the employee's highest salary for 12 consecutive months. Prior to SB 400, the same employee

Key Audit Findings— Public Employees' Retirement System

- Under the State's current retirement benefits, most employees who retire at age 55 with 35 years of service can enjoy a monthly retirement check that is 70 percent of their salary for the remainder of their life. For some employees, the benefits improve to ensure lifetime retirement payments, which are 90 percent of pay while working if they retire at age 50 after working only 30 years.
- In 1999-00, the State's contributions to the retirement system were approximately \$160 million. Since that time the State's contributions to CalPERS for State employees has skyrocketed to more than \$2.1 billion in 2003-04, more than 13 times the contribution made four years ago.
- The pension obligation bond that was proposed for the current year was simply a way to delay the State's annual contribution, rather than part of a long-term restructuring of pension benefits.



General Fund Savings (Dollars in Thousands)

Year	State Contribution Without Pension Reform Package	Increased Employee Contributions	New Employee Benefit Change	Pension Obligation Bond Proceeds	Debt Service on Pension Obligation Bonds	State Contribution With Pension Reform Package	Annual Savings from Pension Reform Package
2004-05	\$1,361,871	-\$13,882	-\$6,415	-\$929,450	\$0	\$412,125	\$949,746
2005-06	1,398,331	-19,226	-17,077	-19,506	55,835	1,398,358	-27
2006-07	1,435,768	-27,850	-35,688	0	57,007	1,429,237	6,531
2007-08	1,474,207	-43,960	-72,285	0	57,007	1,414,969	59,238
2008-09	1,513,675	-41,536	-82,219	0	57,007	1,446,927	66,748
2009-10	1,554,199	-39,589	-149,263	0	98,020	1,463,368	90,832
2010-11	1,595,809	-37,416	-172,425	0	98,882	1,484,851	110,958
2011-12	1,638,533	-35,366	-195,245	0	98,882	1,506,804	131,728
2012-13	1,682,400	-33,431	-217,774	0	98,881	1,530,076	152,323
2013-14	1,727,442	-31,604	-240,062	0	98,882	1,554,657	172,784
2014-15	1,773,689	-29,881	-262,155	0	98,882	1,580,536	193,153
2015-16	1,821,175	-28,253	-284,100	0	98,882	1,607,704	213,471
2016-17	1,869,932	-26,717	-305,941	0	98,882	1,636,156	233,776
2017-18	1,919,995	-25,266	-327,721	0	98,881	1,665,888	254,107
2018-19	1,971,397	-23,897	-349,483	0	98,881	1,696,898	274,499
2019-20	2,024,176	-22,604	-371,268	0	98,882	1,729,186	294,990
2020-21	2,078,368	-21,382	-393,116	0	98,881	1,762,751	315,617
2021-22	2,134,011	-20,229	-415,066	0	98,882	1,797,598	336,413
2022-23	2,191,143	-19,139	-437,157	0	98,882	1,833,729	357,415
2023-24	2,249,805	-18,110	-459,428	0	98,881	1,871,148	378,657
Total	\$35,415,928	-\$559,337	-\$4,793,886	-\$948,956	\$1,709,220	\$30,822,968	\$4,592,960



would have been required to be 60 years old before enjoying this generous formula. Similar improvements were made for all other State employees' retirement categories.

SB 400 was passed in part because it was not expected to have an immediate effect on the amount of the State's annual contribution. When the Legislature adopted SB 400, the stock market was still at historically high levels and CalPERS had a substantial surplus. CalPERS assured the State that the retirement system had a sufficient surplus to absorb the cost of the increased retirement benefits for nine years, or until 2009. Substantial investment losses that the retirement system suffered from 2000 through 2002 make that assurance unsupportable.

In the fiscal environment for the foreseeable future, the State can no longer afford the current retirement program without a reduction in benefits or an increase in employees' contributions toward the benefits. Beginning in 2004-05, the State will be pursuing two strategies to control the State's costs for pension benefits. Because the State's existing workforce has already made financial decisions based upon the commitment of the post-SB 400 retirement formulae, the State will be seeking to increase employees' annual retirement contributions by 1 percent of their gross pay rather than change retirement benefits. In most cases this increase will be from 5 percent to 6 percent. For most new employees who have had no expectation of a specific retirement formulae, the State will be pursuing legislation to return to the pre-SB 400 formulae.

In order to realize immediate benefits from these reforms, the State will be seeking new pension obligation bonds to pay a portion of its pension contributions until the effect of returning to the pre-SB 400 benefit levels is sufficiently recognized in CalPERS' actuarial projections.

Beginning in the third year of this reform proposal, the savings in annual General Fund contributions to CalPERS will more than offset the annual debt service for the pension obligation bond and will continue to grow each year thereafter. Over the next 20 years, these changes are expected to save the General Fund \$4.6 billion.

The table on the previous page compares the State's expected General Fund costs for retirement with General Fund costs after reforms. For example, in 2009-10 the current retirement program would cost \$1.6 billion, from the General Fund (\$2.8 billion all funds) but after adjusting for savings of \$39.6 million from increased employee contributions, \$149.3 million from new employee benefit changes and costs of \$98 million for debt service on pension obligation bonds, the annual savings from the pension reform package would be \$90.8 million.

Even after these changes, the State's retirement package will be extremely generous and will allow State employees to retire earlier than many private-sector employees. In addition, State employees will continue to be secure in the knowledge that a volatile investment market will not affect retirement benefits because they will continue to be covered by a defined benefit retirement plan; this is in stark contrast to the concerns of many private sector employees. As a way to save money and provide employees with more flexibility, the private sector has generally opted away from defined benefit retirement plans and instead provides defined contribution plans. Under a defined contribution plan, the employer provides either a set amount or matches a percentage of the employee's contribution to an employee's retirement account. The employee often determines how these funds are invested. The employer does not guarantee a retirement benefit, so the

risk that investments will not return sufficient gains to adequately fund the employee's retirement is borne by the employee.

Health and Dental Benefits for Retired Annuitants

Functions of Health and Dental Benefits for Retired Annuitants

Since 1962, the State has provided its retirees with continuing health care coverage similar to the health care coverage for active employees. Dental coverage was added as a continuing benefit for retired annuitants in 1982. These benefits are considered to be "vested," so current employees as well as retired annuitants will continue to receive them. Generally, the State's contribution toward these costs is the combination of the total average premium cost for the employee, and 90 percent of the average premium cost for dependents.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes an increase of \$195.3 million in 2004-05 based on both premium and enrollment growth. The Administration will continue to examine ways to reduce future health care benefit costs.

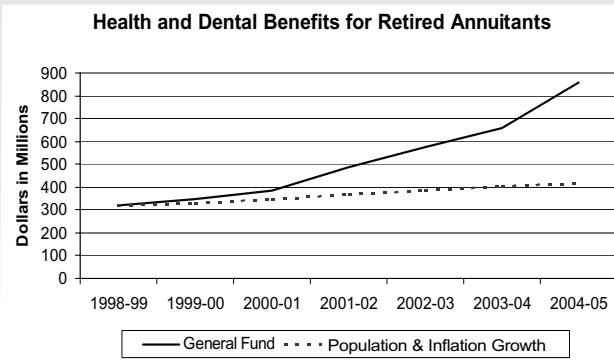
State Teachers' Retirement System

Functions of the State Teachers' Retirement System

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to certificated teachers in public schools from kindergarten through the community college system. There are approximately 430,000 active and 150,000 retired members of STRS. Members contribute 8 percent of their salary and school districts, as the employer, contribute 8.25 percent of the employees' salary for the defined benefit program. The State also contributes 2.017 percent of teachers' salaries toward the defined benefit program.

Key Audit Findings—Health and Dental Benefits for Retired Annuitants

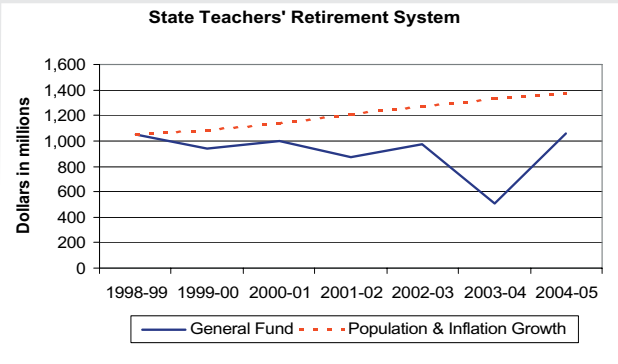
- The Budget Act of 2003 provides a total of \$661 million from the General Fund to pay for health and dental benefits of retired state employees. This is an increase of \$343 million (or 108 percent) above the 1998 Budget Act. The reason for the substantial increase in cost since 1998-99 is due to increases in the number of state retirees and large increases in health care premium costs.





Key Audit Findings—State Teachers' Retirement System

- The 2003-04 Supplemental Benefit Maintenance Account contribution was reduced by \$500 million by Chapter 6, Statutes of 2003, First Extraordinary Session (SB 20X), which made a statutory commitment to restore the funds, with interest, if purchasing power protection cannot be maintained at the 80 percent level through July 1, 2036.
- The Supplemental Benefit Maintenance Account was established in 1990 to ensure that retired teachers' pension payments would maintain at least 68.2 percent of their original purchasing power, with the purchasing power "floor" being raised to 75 percent in 1998 and then to 80 percent in 2002. Over the same period, the State's contribution for this benefit has increased from 0.5 percent of teacher payroll to 2.5 percent of teacher payroll.



and 2.5 percent of teachers' payroll toward the Supplemental Benefit Maintenance Account (SBMA).

Program Enhancements and Other Budget Adjustments

Benefits Funding—Pursuant to Education Code Section 22955, the State contributes annually 2.017 percent of teacher payroll for Benefits Funding. The Governor's Budget proposes to increase funding for Benefits Funding by \$21 million as a result of an increase in teacher payroll.

SBMA—The SBMA augments annuitant retirement payments to provide 80 percent purchasing power protection. Purchasing power protection benefits are cost-of-living adjustments intended to maintain the retiree's current retirement benefit at a percent of the original benefit at retirement in constant dollars. Pursuant to Education Code

Section 22954, the State contributes annually 2.5 percent of teacher payroll to the SBMA.

The Governor's Budget proposes to increase funding for the SBMA by \$526.1 million, \$26.1 million as a result of an increase in teacher payroll and \$500 million to reflect that the 2003-04 \$500 million reduction was a one-time action.

Contracting For Services

Improving Accountability and Service Delivery

In November 2000, the voters of California recognized the imprudence of the restrictions on contracting for architectural and engineering services when they added Article XXII to the Constitution. The Administration will be pursuing a new Constitutional amendment to expand Article XXII to permit the

**Key Audit Findings—
Contracting for Services**

- The Constitutional provisions establishing the State's civil service system have been interpreted by the Courts to severely limit the State's ability to contract with non-State entities to provide ministerial function even when doing so could improve services, improve efficiency or, in some cases, reduce costs.

State to contract with non-State entities for ministerial functions whenever doing so will reduce costs, improve efficiency, or improve services. The Governor's Budget anticipates that the electorate will once again recognize the prudence of contracting for services when appropriate by including General Fund savings of almost \$1 million that will result from contracting out food services for the State's developmental centers.

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APPENDICES AND SCHEDULES

Appendix/Schedules

Budgetary Process

Glossary of Budget Terms

Description of Fund Classifications in the Treasury

Description of Key Schedules

Schedules:

Schedule 1 General Budget Summary

Schedule 2 Total State Spending Plan

Schedule 3A Total State Spending Plan by Generally Accepted Accounting Principles (GAAP) Fund Classification

Schedule 3B Comparison of California's Current Fund Structure and GAAP Fund Structure

Schedule 4 Personnel Years and Salary Cost Estimates

Schedule 5A Statement of Estimated Accounts Payable and Accounts Receivable

Schedule 5B 2002-03 Cashflow Statement

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Schedule 5D 2004-05 Cashflow Statement

Schedule 6 Summary of State Population, Employees and Expenditures

Schedule 7 General Fund Statement of Fund Balance

Schedule 8 Comparative Statement of Revenues

Schedule 9 Comparative Statement of Expenditures

Schedule 10 Summary of Fund Condition by Fund

Schedule 11 Statement of General Obligation Bond and Commercial Paper Debt of the State of California

Schedule 12A .. State Appropriations Limit Summary

Schedule 12B... Statement of Revenues to Funds Excluded from the State Appropriations Limit

Schedule 12C .. Non-Tax Revenues in Funds Subject to the State Appropriations Limit

Schedule 12D .. State Appropriations Limit, Transfers from Excluded Funds to Included Funds

Schedule 12E ... Expenditures Excluded from the State Appropriations Limit

Budgetary Process

The Governor's Budget is the result of a process that begins more than one year before the budget becomes law. When presented to the Legislature on January 10 of each year, the Governor's Budget incorporates revenue and expenditure estimates based upon the most current information available through late December. In the event that the Governor wants to change the budget presented to the Legislature, including adjustments resulting from changes in population, caseload, or enrollment estimates, the Department of Finance (Finance) proposes adjustments to the Legislature during budget hearings through Finance Letters. During late spring, usually May, Finance submits revised revenue and expenditure estimates for both the current and budget years to the Legislature. This update process is referred to as the May Revision. Finance also prepares monthly economic and cash revenue updates during the fiscal year. Listed below are the key documents used in the budget process.

Title	Purpose	Prepared/Issued By	When
Budget Letters and Management Memos	Convey Administration guidelines for budget preparation to agencies and departments.	Governor/Finance	January through December
Budget Change Proposal	Document that proposes to modify or change the existing level of service, propose new programs or delete existing programs.	Agencies and departments submit to Finance for analysis	July through September
Governor's Budget	Governor's proposed budget for the upcoming fiscal year.	Governor/Finance	January 10
Governor's Budget Summary	A summary of the Governor's Budget.	Governor/Finance	January 10
Budget Bill	Requests spending authorization to carry out Governor's expenditure plan (legislative budget decision document).	Finance/Legislature	January 10
Budget Analysis	Analysis of the budget, including recommendations for changes to the Governor's Budget.	Legislative Analyst	February
May Revision of General Fund Revenues and Expenditures	Update of General Fund revenues, expenditures, and reserve estimates based on the latest economic forecast.	Finance	Mid-May
Budget Act	The primary annual expenditure authorization as approved by the Governor and Legislature, including a listing of Governor's vetoes.	Legislature/Governor	Late June, or enactment of the Budget
Final Budget Summary	Update of the individual Budget Act items with changes by the Governor's vetoes, including budget summary schedules.	Finance	Late July–August or 1–2 months after Budget enactment
Final Change Book	Update of changes to the detailed fiscal information in the Governor's Budget.	Finance	Late July–August or 1–2 months after Budget enactment

Glossary of Budget Terms

The following budgetary terms are used frequently throughout the Governor's Budget, the Governor's Budget Summary, and the annual Budget (Appropriations) Bill. Definitions are provided for terminology that is common to all publications. For definitions of terms unique to a specific program area, please refer to the individual budget presentation.

Administration Program:

The general program name used by departments for an accounting of central management costs such as the Director's Office, Legal Office, Human Resources, Accounting, and Business Services functions that generally serve the whole department, i.e., indirect or overhead costs.

"Administration-distributed" is the general program name for the distribution of indirect costs to the direct program activities of a department. In most departments, all administrative costs are distributed to other programs.

Allocation:

A distribution of funds or an expenditure limit established for an organizational unit or function.

Appropriation:

An authorization from a specific fund to a specific agency/department or program to make expenditures/incur obligations for a specified purpose and period of time. The Budget Act contains many appropriations or items. These appropriation items are limited to one year, unless otherwise specified. Appropriations are made by the Legislature in the annual Budget Act and in other legislation. Continuous appropriations (see definition below) can be provided by legislation or the California Constitution.

Augmentation:

An increase to an appropriation, as provided by various control sections, Budget Bill language, or legislation.

Authorized Positions:

Regular ongoing positions approved in the final budget of the preceding year less positions abolished because of continued, extended vacancy. The detail of authorized positions by classification is published in the Salaries and Wages

Supplement for State organizations. Changes in authorized positions are listed following each department's budget presentation in the Governor's Budget. (See Proposed New Positions.)

Balance Available:

Generally, the portion of a fund balance that is available for appropriation. It is the excess of assets of a fund over its liabilities and reserves; or commonly called amount available for appropriation. It is also the unobligated balance of an appropriation.

Baseline Budget:

A baseline budget reflects the anticipated costs of carrying out the current level of service or activities as authorized by the Legislature. It may include an adjustment for cost increases, but does not include changes in level of service over that authorized by the Legislature.

Budget, Program/Traditional:

A plan of operation for a specific period of time expressed in financial terms. A *program budget* expresses the operating plan in terms of the costs of activities to be undertaken to achieve specific goals and objectives. A *traditional budget* expresses the plan in terms of the costs of the goods or services to be used to perform specific functions.

The Governor's Budget is primarily a program budget. However, a summary of proposed expenditures for goods and services (Summary by Object) is included for State Operations.

Budget Bill/Act:

The initial Budget Bill is prepared by the Department of Finance (Finance) and is submitted to the Legislature in January, accompanying the Governor's Budget. It is the Governor's proposal for spending authorization for the subsequent fiscal year. The Constitution requires the Legislature to pass the Budget Bill and forward it by June 15 to the Governor for signature. After signature by the Governor, the Budget Bill becomes the Budget Act. The Budget Act is the main legal authority to spend or obligate funds.

Budget Change Proposal (BCP):

A BCP is a proposal to change the level of service or funding sources for activities authorized by the Legislature, or to propose new program activities not currently authorized.

Budget Year (BY):

The next fiscal year, beginning July 1 and ending June 30, for which the Governor's Budget is submitted. The year following the current fiscal year.

Capital Outlay (CO):

The expenditure of funds to acquire land or pay the cost of planning and construction of new buildings, or additions to and modification of existing buildings, and the equipment which is related to such construction.

Carryover Appropriations:

The balance of appropriations available for expenditure in years subsequent to the year of enactment.

Category:

A grouping of related objects of expenditure (goods or services), such as Personal Services, Operating Expenses and Equipment, and Special Items of Expense.

Changes in Authorized Positions:

A schedule included in each budget presentation in the Governor's Budget which reflects personnel staffing changes made subsequent to the adoption of the current year budget (transfers, positions established, and selected reclassifications). It also includes proposed new positions and reductions of positions for the budget year.

Character of Expenditure:

A classification identifying the purpose of the expenditures. (See State Operations, Local Assistance, and Capital Outlay.)

Codes, Uniform:

A set of codes, used in all major fiscal systems of California State government. These codes identify organizations, programs, funds, appropriation structures, receipts, and line-item objects of expenditure. The Uniform Codes Manual, published by Finance, lists all such uniform codes. (See Section 1.50 of the Budget Act for an explanation of the codes used for Budget Act appropriation items.)

Continuous Appropriation:

An amount, specific or estimated, available each year under a permanent constitutional or statutory expenditure authorization that exists from year to year without further legislative action. The amount available may be a specific, recurring sum each year; all or a specified portion of the proceeds of specified revenues that have been dedicated permanently to a certain purpose; or whatever amount is required for the purpose as determined by formula—such as school apportionments.

Control Sections, Budget Act:

The Budget Act is divided into sections. Section 1.00 establishes a citation for the legislation. Section 1.50 provides a description of the format of the act and limited authority to make technical changes to the budget. Section 2.00 contains the itemized appropriations. Sections 3.00 through 99.50 are general sections, also referred to as control sections, that provide additional authorizations or place additional restrictions on one or more of the itemized appropriations contained in the budget.

Cost of Living Adjustments (COLAs)**Statutory/Discretionary:**

Increases provided in State-funded programs that include periodic adjustments predetermined in State law (statutory), e.g., K-12 education apportionments; and adjustments that may be established at optional levels (discretionary) by the Legislature each year.

Current Year (CY):

A term designating the operations of the present fiscal period, as opposed to the past or future periods (i.e., the time period we are in now). For the State, the fiscal year begins July 1 and ends the following June 30.

Deficiency:

A lack or shortage of (1) money in a fund, (2) expenditure authority due to an insufficient appropriation, or (3) expenditure authority due to a cash problem, e.g., reimbursements not received on a timely basis.

Encumbrance:

An obligation placed on an appropriation to pay for goods or services that have been ordered by means of contracts, salary commitments, etc., but not yet received.

Expenditure:

Generally, this term designates the amount of an appropriation used for goods and services whether paid or unpaid, including expenses, provisions for debt retirement not reported as a liability of the fund from which retired, and capital outlays where the accounts are kept on an accrual basis or a modified accrual basis. Where the accounts are kept on a cash basis, the term designates only actual cash disbursements.

Enrollment, Caseload, & Population (ECP):

Adjustments that occur due to increases/decreases in enrollment for the educational segments, caseload adjustments for programs such as Medi-Cal and human services programs, and population adjustments for State hospitals and youth and correctional facilities.

Federal Funds:

In State budget usage, this term describes all funds received directly from an agency of the federal government but not those received through other State departments. Generally, State departments must initially deposit such federal funds in the Federal Trust Fund, a fund in the State Treasury.

Final Budget:

The final budget is the Governor's Budget as amended by actions taken on the Budget Bill. A Final Change Book is published by Finance after enactment of the Budget Act to reflect the changes made by the Legislature in their review of the Budget Bill and by the Governor by power of line item veto. It includes a detailed list of changes by item number.

Finance Letters:

Proposals made by the Director of Finance to the chairpersons of the committees in each house of the Legislature that consider appropriations to amend the Budget Bill and Governor's Budget from that submitted January 10 to reflect a revised plan of expenditure for the current or budget year.

Fiscal Year (FY):

A 12-month State accounting period that varies from the calendar year and the federal fiscal year. In California State government, the fiscal year runs from July 1 through the following June 30. It is the period during which obligations are incurred, encumbrances are made and appropriations are expended. The Governor's Budget presents three years of detailed fiscal data for the past, current, and budget years.

The State fiscal year is often referenced by the first calendar year of the fiscal year, e.g., ``04'' or ``2004'' means the 2004-05 fiscal year. By contrast, the federal fiscal year is referenced by the last calendar year of the fiscal year, e.g., ``05'' or ``2005'' means the 2004-05 fiscal year, and lasts from October 1, 2004 through September 30, 2005.

Fund:

A legal entity that provides for the segregation of moneys or other resources in the State Treasury for specific activities or obligations in accordance with specific restrictions or limitations. A separate set of accounts must be maintained for each fund to show its assets, liabilities, reserves, and fund balance, as well as, its income and expenditures. The assets of a fund may also be placed into separate accounts to provide for limitations on specified fund income or expenditures.

(See ``Description of Fund Classifications in State Treasury,'' which follows in this volume.)

Fund Balance:

Excess of the assets of a fund over its liabilities. (See ``Balance Available.'')

Fund Condition Statement:

A statement included in the Governor's Budget for the General Fund, special funds, special accounts in the General Fund, selected bond funds, and selected nongovernmental cost funds to disclose beginning reserves, revenues and transfers, expenditures, fund balance, and ending reserves.

General Fund (GF):

The General Fund is the predominant fund for financing State government programs. It is used to account for revenues that are not specifically designated to be accounted for by any other fund. The primary sources of revenue for the General Fund are the personal income tax, sales tax, and corporation taxes. A complete itemization of the revenue sources are listed in Summary Schedule 8. The General Fund is used as the major funding source for education (K-12 and higher education), health and human services programs, youth and adult correctional programs, and tax relief. Summary Schedule 9 provides a listing of expenditures for the General Fund.

Intraschedule Transfer:

A control section of the Budget Act authorizes Finance to augment or reduce any program,

project, or function by transfer from any other program, or project or function within the same appropriation.

Generally, transfers cannot exceed, in the aggregate, 20 percent of the amount scheduled. Lower limits exist for appropriations which exceed \$2,000,000.

Item:

(See ``Appropriation.'')

Governmental Cost Funds:

(See ``Special Funds.'')

Limited-Term Positions:

A limited-term position is any position that has been authorized for a specific length of time with a set termination date. Limited-term positions may be authorized during the budget enactment process or in transactions approved by Finance.

Line-Item:

(See ``Objects.'')

Local Assistance:

Expenditures made for the support of local government activities.

Local Mandates:

(See ``State-Mandated Local Program.'')

May Revision:

An annual update to the Governor's proposed January budget containing revised General Fund revenues, and specified expenditures for the Governor's Budget. Finance is required to submit its May Revision to the Legislature by May 14.

Merit Salary Adjustment:

A cost factor resulting from the periodic increase in salaries paid to personnel occupying authorized positions. Personnel generally receive a salary adjustment of five percent per year to recognize proficiency in the work performed up to the upper salary limit of the classification.

Minor Capital Outlay:

Minor Capital Outlay consists of construction projects or equipment acquired to complete a construction project estimated to cost less than \$400,000.

Objects (line-items):

A subclassification of expenditures based on type of goods or services. For example, the Personal Services category includes the objects of Salaries and Wages and Staff Benefits. These may be further subdivided into line items such as State Employees' Retirement, Workers' Compensation, etc. Objects do not reflect a function or purpose to be served by the expenditure. A Summary by Object is provided for each department's budget in the Governor's Budget for State Operations and Local Assistance, where applicable. Finance publishes a Uniform Codes Manual which reflects the standard line-item objects of expenditure.

Past Year (PY):

The fiscal year just completed. (See Fiscal Year.)

Personnel Years:

The actual or estimated portion of a position expended for the performance of work. For example, a full-time position that was filled by an employee for half of a year would result in an expenditure of 0.5 personnel years.

Positions:

(See ``Authorized Positions.'')

Programs:

The activities of an organization grouped on the basis of common objectives. Programs are comprised of elements that can be further divided into components and tasks (the lowest defined program activity).

Proposed New Positions:

A request for an authorization for the employment of additional people for the performance of work. Proposed new positions may be for limited time periods (limited-term) and for full or less than full-time. Proposed new positions may be for an authorization sufficient to employ one person, or for a sum of funds (blanket) from which several people may be employed.

Proposition 98:

An initiative passed in the November 1988, and amended in the June 1990 elections that provides a minimum funding guarantee for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs for Kindergarten

through grade 14 (K–14) beginning with fiscal year 1988–89. Also, used to refer to any expenditures that fulfill the guarantee.

Reappropriation:

The extension of the availability of an appropriation for expenditure beyond its set termination date, usually for the same purpose. Reappropriations are usually authorized by the Legislature for one year extensions at a time.

Receipts:

Describes an increase in the assets of a fund including revenues, as well as, transfers from other funds, federal receipts, and fund reimbursements.

Reconciliation With Appropriations:

A statement in each budget presentation that sets forth the source and amount of appropriations, by fund, available to the department and the disposition of such appropriated funds. Statements are presented by fund for each character of expenditure, i.e., State Operations, Local Assistance, and Capital Outlay.

Reimbursements:

An amount received as a repayment of the cost of work, or service performed, or of other expenditures made for, or on behalf of, another governmental unit or department. Reimbursements represent the recovery of an expenditure. Reimbursements are available for expenditure in accordance with the budgeted amount (scheduled in an appropriation).

Reserve:

An amount set aside in a fund balance to provide for expenditures from the unencumbered balances of continuing appropriations, economic uncertainties, future apportionments, pending salary or price increase appropriations, and appropriations for capital outlay projects.

Revenue:

The addition of cash or other current assets of governmental costs funds (receipts) that do not increase any liability or reserve and do not represent the recovery of an expenditure, i.e., reimbursements. Generally, revenue is derived from taxes, licenses and fees, or investment earnings. Revenues are deposited in a fund for future appropriation.

Reversion:

The return of the unused portion of an appropriation to the fund from which the appropriation was made. The undisbursed portion of an appropriation reverts two years (four years for federal funds) after the last day of availability for encumbrance. The Budget Act often provides for the reversion of unused portions of appropriations when such reversion is to be made prior to the statutory limit.

Salary Savings:

Salary savings reflect personnel cost savings resulting from vacancies and downward reclassifications as a result of turnover of employees. The amount of budgeted salary savings is an estimate generally based on past experience.

Special Fund for Economic Uncertainties:

Statutes and the control sections of the Budget Act provide for the establishment of a Special Fund for Economic Uncertainties in the General Fund and a reserve for economic uncertainties in each special fund to provide for emergency situations.

Special Funds:

Special funds is a generic term used for “governmental cost funds” other than the General Fund. Governmental cost funds are commonly defined as those funds used to account for revenues from taxes, licenses, and fees where the use of such revenues is restricted by law for particular functions or activities of government. Examples of special funds are the transportation funds, fish and game funds, and the professions and vocations funds. Revenues, expenditures, and the condition of special funds are summarized in Schedules 8, 9, and 10 in the Governor’s Budget Summary.

Staff Benefits:

An object of expenditure for the State costs of contributions for employees’ retirement, OASDI, health benefits, workers’ compensation, unemployment insurance, industrial disability leave benefits, and nonindustrial disability leave benefits.

State Appropriations Limit (SAL):

The State Appropriations Limit is defined in Section 8 of Article XIII B of the California Constitution. It was enacted by the passage of Proposition 4 at the November 6, 1979, general election. This initiative imposed a limit on the annual growth in the level of certain appropriations from tax proceeds. The growth in the appropriations limit is calculated using the prior year’s limit, adjusted for

changes in the cost of living and the change in population. Other adjustments may be made for such reasons as the transfer of services from one governmental entity to another.

State-Mandated Local Program:

State reimbursements to local governments for the cost of activities required by legislative and executive acts. This requirement was established by Chapter 1406, Statutes of 1972 (SB 90) and further ratified by the adoption of Proposition 4 (a constitutional amendment) at the November 6, 1979, general election. (See ``Governor's Budget: 8885 Commission on State Mandates.'')

State Operations:

Expenditures for the support of State government, exclusive of capital outlay, and expenditures for local government activities.

Summary by Object:

A summary of past, current, and budget year expenditures for goods and services for each organization presented for State Operations, Local Assistance, and Capital Outlay expenditures.

Summary of Program Requirements:

At the front of each departmental budget is a Summary of Program Requirements. It presents the various departmental programs by title, dollar totals, personnel years, and source of funds for the past, current, and budget years.

Summary Schedules:

The Governor's Budget Summary includes schedules which summarize State revenues, expenditures, and other fiscal and personnel data for the past, current, and budget years.

Tax Expenditures:

Subsidies provided through the taxation systems.

Transfers:

As reflected in fund condition statements, transfers reflect the movement of resources from one fund to another based on statutory authorization or specific legislative transfer authority.

Unencumbered Balance:

The balance of an appropriation after encumbrances (balances on Controller's records after accruals are posted).

Description of Fund Classifications

in the Treasury

Revenues and expenditures in the program budget and the summary schedules reflect the activities of many separate funds. Summary Schedule 10 provides a complete list of governmental cost funds. The Index lists those funds for which Fund Conditions are included in the budget and references the page number. General Fund and Special Fund expenditures represent the cost of government and are included in budget totals, and along with selected Bond Funds, are included in the overall expenditure totals.

General Fund. Used to account for all revenues and activities financed therefrom that are not required by law to be accounted by any other fund. Most State expenditures are financed from the General Fund. Normally, the only difference between the General Fund and the other governmental costs funds is the restriction placed on the use of the other governmental cost funds.

Special Funds. Consists of governmental cost funds used to account for taxes and revenues that are restricted by law for particular functions or activities of government. The funds included in these classifications are primarily for the regulation of businesses, professions, and vocations; transportation; law enforcement; and capital outlay.

General Fund Special Accounts. Legislatively created accounts or dedicated revenues within the General Fund. Moneys credited to such accounts may be used only for the purposes specified in the legislation. As a result of Chapter 942, Statutes of 1977, these special accounts are treated as special funds, and revenues and expenditures are included in the special fund totals in the summary schedules of the budget. They are therefore excluded from the General Fund unrestricted revenues, expenditures, and reserves.

Other Funds. Expenditures from funds that do not represent a cost of government are not included in the budget totals. They consist of moneys that were derived from sources other than general or special taxes, licenses, fees, or other state rev-

enues. Included are receipts from the federal government, funds created for accounting purposes, receipts from sale of lands, or moneys held in trust. These funds are segregated into the following classifications:

Working Capital and Revolving Funds. Funds created to finance internal service activities rendered by a State agency to other State agencies or to local governments for which charges are made at cost. The charges are reflected as expenditures in the budget of the agency receiving the commodity or service.

Public Service Enterprise Funds. Self-supporting activities operated by the State for the benefit of the public. Funds are derived from charges to those who use the service and no support is derived from taxes, licenses, or other State revenues.

Bond Funds. Used to account for the receipt and disbursement of proceeds from the sale of bonds and to finance projects for which the bonds were authorized. Expenditures are considered a cost of government at the time interest payments are made and as the bonds are redeemed.

Retirement Funds. Moneys held in trust by the State for retirement benefit payments.

Trust and Agency Funds. Funds holding moneys in trust pending disbursements to trustors, moneys received from the federal government to be expended for specific purposes, and other funds that do not derive their sources from taxes or other State revenues, or are in the nature of transitory funds created for the convenience of accounting receipts or disbursements that are not necessarily revenues or expenditures.

Selected Bond Funds. Selected bond funds are General Obligation Bond funds that are nonself-liquidating. Included in the overall expenditure totals of Schedules 1 and 9 for budget purposes are expenditures from the selected bond funds. The following page provides a complete listing of those selected bond funds.

<i>Fund No.</i>	<i>Fund Name</i>	<i>Fund No.</i>	<i>Fund Name</i>
6004	Agriculture and Open Space Mapping Subaccount	6028	Higher Education Capital Outlay Bond Fund of 2002
6011	Arroyo Pasajero Watershed Subaccount	6041	Higher Education Capital Outlay Bond of 2004
0546	Bay-Delta Ecosystem Restoration Account	0714	Home Building and Rehabilitation Fund
6026	Bay-Delta Multipurpose Water Management Subaccount	6037	Housing and Emergency Shelter Trust Fund
0743	Bond Proceeds Account, State School Building Lease-Purchase Fund	6027	Interim Water Supply and Water Quality Infrastructure and Management Subaccount
6038	Building Equity and Growth in Neighborhoods (BEGIN) Fund	6017	Lake Elsinore and San Jacinto Watershed Subaccount
0404	Central Valley Project Improvement Subaccount	0794	Library Construction and Renovation Fund, California
0703	Clean Air and Transportation Improvement Fund	0543	Local Projects Subaccount ¹
0740	Clean Water Bond Fund, 1984 State	6019	Nonpoint Source Pollution Control Subaccount
0737	Clean Water and Water Conservation Fund, State	6039	Preservation Opportunity Fund
0764	Clean Water and Water Reclamation Fund, 1988	0751	Prison Construction Bond Fund, 1990
6029	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund, California	0747	Prison Construction Fund, 1988
6022	Coastal Nonpoint Source Control Subaccount	0746	Prison Construction Fund, 1986
6018	Coastal Watershed Salmon Habitat Subaccount	0724	Prison Construction Fund, 1984
6025	Conjunctive Use Subaccount	6000	Public Library Construction and Renovation Fund, California
0796	County Correctional Facility Capital Expenditure and Youth Facility Bond Fund, 1988	0728	Recreation and Fish and Wildlife Enhancement Fund
0409	Delta Levee Rehabilitation Subaccount ¹	0545	River Parkway Subaccount
0423	Delta Tributary Watershed Subaccount ¹	6015	River Protection Subaccount
0422	Drainage Management Subaccount ¹	0544	Sacramento Valley Water Management and Habitat Project Subaccount ¹
0788	Earthquake Safety and Housing Rehabilitation Bond Account, Housing Rehabilitation Loan Fund, California	6001	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Fund
0768	Earthquake Safety and Public Building Rehabilitation Fund of 1990	0707	Safe Drinking Water Fund, California
0445	Feasibility Projects Subaccount ¹	0005	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund
6005	Flood Protection Corridor Subaccount	6016	Santa Ana River Watershed Subaccount
0748	Fish and Wildlife Habitat Enhancement Fund	0424	Seawater Intrusion Control Subaccount ¹
0710	Hazardous Substance Cleanup Fund	0653	Seismic Retrofit Bond Fund of 1996
0791	Higher Education Capital Outlay Fund, June 1990	0418	Small Communities Grant Subaccount ¹
0705	Higher Education Capital Outlay Bond Fund of 1992	0413	South Delta Barriers Subaccount ¹
0658	Higher Education Capital Outlay Bond Fund of 1996	6008	State Capital Protection Subaccount
0574	Higher Education Capital Outlay Bond Fund of 1998	0417	State Revolving Fund Loan Subaccount ¹
		6020	State Revolving Fund Loan Subaccount
		0119	State School Facilities Fund, 1998
		6036	State School Facilities Fund, 2002
		0742	State Urban and Coastal Park Fund
		0797	Unallocated Bonds Funds-Select
		6007	Urban Stream Restoration Subaccount
		0701	Veterans' Home Fund

<i>Fund No.</i>	<i>Fund Name</i>	<i>Fund No.</i>	<i>Fund Name</i>
6021	Wastewater Construction Grant Subaccount	0419	Water Recycling Subaccount ¹
6014	Water and Watershed Education Subaccount	6031	Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002
6023	Water Conservation Account	6013	Watershed Protection Subaccount
0446	Water Conservation and Groundwater Recharge Subaccount ¹	0786	Wildlife, Coastal and Park Land Conservation Fund of 1988, California
0790	Water Conservation Fund, 1988	6010	Yuba Feather Flood Protection Subaccount
0744	Water Conservation and Water Quality Bond Fund, 1986		

¹ Account or subaccount of Safe, Clean, Reliable, Water Supply Fund.

Description of Key Schedules

The Budget Summary includes summary information in various schedules. The following schedules are those that may be the most useful for the public, private sector, or other levels of government.

SCHEDULE 1. *General Budget Summary*—Provides for a summary of total statewide revenues and expenditures for the General Fund and special funds plus expenditure totals for the selected bond funds.

SCHEDULE 2. *Total State Spending Plan*—Provides in a single schedule the State's total spending plan. In addition to the General Fund, special funds, and selected bond funds, expenditures from nongovernmental cost funds, federal funds, and reimbursements are shown.

SCHEDULE 3A. *Total State Spending Plan by Generally Accepted Accounting Principles (GAAP) Fund Classification*—Provides in a single schedule the State's Total Spending Plan (Schedule 2) rearranged into GAAP Fund Classifications.

SCHEDULE 3B. *Comparison of California's Current Fund Structure and GAAP Fund Structure*—Provides a comparison of California's Current Fund Structure to GAAP Fund Classifications.

SCHEDULE 4. *Personnel Years and Salary Cost Estimates*—Provides personnel year data and corresponding dollar amounts by functional breakdown and position classifications. This schedule reflects net data after salary savings.

SCHEDULE 5A. *Statement of Estimated Accounts Payable and Accounts Receivable*—Provides actual payable and receivable amounts as of June 30, 2003, and estimated amounts for June 30, 2004, and June 30, 2005.

SCHEDULE 5B. *2002–03 Cashflow Statement*—Provides actual receipts, disbursements, borrowable resources, and loan balances for fiscal year 2002–03.

SCHEDULE 5C. *2003–04 Cashflow Statement*—Provides projected receipts, disbursements, borrowable resources, and loan balances for fiscal year 2003–04.

SCHEDULE 5D. *2004–05 Cashflow Statement*—Provides projected receipts, disbursements, borrowable resources, and loan balances for fiscal year 2004–05.

SCHEDULE 6. *Summary of State Population, Employees, and Expenditures*—Provides historical data of state population, employees, and expenditures.

SCHEDULE 7. *General Fund: Statement of Financial Condition*—Provides the financial condition of the General Fund as of June 30 from the most recently available information from the State Controller.

SCHEDULE 8. *Comparative Statement of Revenues*—Provides General Fund and special fund revenue detailed amounts within three main breakdowns of: (1) major taxes and licenses, (2) other revenues, and (3) transfers.

SCHEDULE 9. *Comparative Statement of Expenditures*—Provides a listing of expenditures in the same order as the printing of budgets displayed in the Governor's Budget for the General fund, special funds, selected bond funds, and federal funds for State Operations, Local Assistance, Capital Outlay, and Unclassified.

SCHEDULE 10. *Summary of Fund Condition Statements*—Provides for the General Fund and each special fund the beginning reserve, income, expenditures, transfers, and ending reserve for each of the three fiscal years displayed in the Governor's Budget.

SCHEDULE 11. *Statement of General Obligation Bond and Commercial Paper Debt of the State of California*—Provides a listing of all general obligation bonds including maturity dates, authorized amount of bond issues, amounts of unissued bonds, redemptions, and outstanding issues. It also provides a listing of authorized and outstanding commercial paper which is issued in-lieu of general obligation bonds.

SCHEDULE 12A. *State Appropriations Limit (SAL) Summary*—Provides a summary of Schedules 12B through 12E, calculates the SAL Appropriations, displays the SAL Limit, and calculates the SAL Limit Room or Surplus.

SCHEDULE 12B. *Revenues to Excluded Funds*—Provides a listing of revenues to special funds that are not included in the calculation of total appropriations subject to the State Appropriations Limit.

SCHEDULE 12C. *Non-tax Revenues in Funds Subject to Limit*—Provides a total of nontax revenues for General and special funds deposited in funds that are included in the calculation of total appropriations subject to the State Appropriations Limit.

SCHEDULE 12D. *State Appropriations Limit, Transfer from Excluded Funds to Included Funds*—

Provides the detail of transfers between funds that are used in calculating the appropriations subject to the State Appropriations Limit.

SCHEDULE 12E. *Excluded Appropriations*—Provides a distribution of exclusions from appropriations subject to the State Appropriations Limit.

SCHEDULE 1
GENERAL BUDGET SUMMARY ¹
(In Thousands)

2002-03	Reference to Schedule	General Fund	Special Funds	Selected Bond Fund Expenditures	Expenditure Totals
Prior year resources available	10	-\$1,474,172	\$7,417,537		
Revenues and transfers	8	71,321,566	15,230,733		
Economic Recovery Bonds	8	9,242,000	-		
Expenditures	9	77,482,135	18,282,052	\$11,014,509	\$106,778,696
Fund Balance ²	10	\$1,607,259	\$4,366,218		
<i>Reserve for Liquidation of Encumbrances</i> ⁴		928,661	-		
<i>Reserves for Economic Uncertainties</i> ³		-	4,366,218		
<i>Special Fund for Economic Uncertainties</i> ³		678,598	-		
2003-04					
Prior year resources available	10	\$1,607,259	\$4,366,218		
Revenues and transfers	8	74,627,441	18,317,786		
Economic Recovery Bonds	8	3,012,000	-		
Expenditures	9	78,028,100	19,406,356	\$10,444,161	\$107,878,617
Fund Balance ²	10	\$1,218,600	\$3,277,648		
<i>Reserve for Liquidation of Encumbrances</i> ⁴		928,661	-		
<i>Reserves for Economic Uncertainties</i> ³		-	3,277,648		
<i>Special Fund for Economic Uncertainties</i> ³		289,939	-		
2004-05					
Prior year resources available	10	\$1,218,600	\$3,277,648		
Revenues and transfers	8	76,406,739	20,803,316		
Expenditures	9	76,061,869	21,143,762	\$1,937,905	\$99,143,536
Fund Balance ²	10	\$1,563,470	\$2,937,202		
<i>Reserve for Liquidation of Encumbrances</i> ⁴		928,661	-		
<i>Reserves for Economic Uncertainties</i> ³		-	2,937,202		
<i>Special Fund for Economic Uncertainties</i> ³		634,809	-		

¹ The General Budget Summary includes the revenues and expenditures of all State funds that reflect the cost of State government and selected bond fund expenditures. The transactions involving other nongovernmental cost funds are excluded. The amounts included in this schedule for expenditures and revenues may not agree with those shown in Schedules 8, 9, and 10 due to rounding.

² The Fund Balance for the General Fund includes amounts for unencumbered balances of continuing appropriations at the end of the 2002-03, 2003-04, and 2004-05 fiscal years of \$587,418; \$471,285; and \$155,900 (in thousands) respectively.

³ The Special Fund for Economic Uncertainties and the Reserves for Economic Uncertainties provide sources of funds to meet expenditures.

⁴ The Reserve for Liquidation of Encumbrances represents an amount which will be expended in the future for State obligations for which goods and services have not been received. This Reserve treatment is consistent with accounting methodology prescribed by Generally Accepted Accounting Principles (GAAP) and Government Code Section 13306.

Schedule 2 TOTAL STATE SPENDING PLAN

This Schedule is included for informational purposes to show in one place the expenditures of all funds which are accounted for by the State.

A basic premise in a consolidation such as this is that the State is the financial unit and individual funds are subsidiary units to the State. This is similar to financial units in the private sector in which diversified commercial corporations with several subsidiaries report their operation on a consolidated basis—but is a contrast to traditional governmental accounting, which has held that the individual funds are the financial units and should not be consolidated with other funds or types of funds. A total consolidation presents both theoretical and practical problems because of the individual nature of each fund. In essence, each fund is a separate fiscal and legal entity that operates under the specific legal provisions that created it. Examples of problems which may arise from an unqualified consolidation are: (1) funds are accounted for in a different manner, (2) duplication of expenditures results, (3) expenditures from non-State funds are included, and (4) expenditures are included for quasi-State operations such as Workers' Compensation and for payment of retirement benefits for other governmental units.

In order to minimize misinterpretations, this Schedule is displayed in three parts. Part A summarizes the total State spending plan, including nongovernmental cost funds. Part B summarizes only expenditures from the funds which are collectively identified as nongovernmental cost funds. Reimbursements received from the public or other levels of government are deducted from State expenditures. Part C summarizes these reimbursement expenditures.

TOTAL STATE SPENDING PLAN—PART A GOVERNMENTAL COST, SELECTED BOND FUNDS, AND FEDERAL FUNDS

As stated above, Part A summarizes expenditures from funds which are traditionally included as part of State expenditure summaries in the Governor's Budget and other State financial reports, as well as nongovernmental cost funds. The major portion of the expenditures shown in Part A is for the General Fund and the various special funds, which are commonly referred to as "governmental cost funds". This term is used because these funds are used to account for moneys which are derived from general and special taxes, licenses, fees, or other revenue sources to provide financing for State activities which are for the general purposes of State government.

The selected bond funds are included in Part A because of the historical legislative interest in showing these expenditures in budget totals. It should be noted that there is a duplication in showing these expenditure amounts from bond proceeds because the expenditures are included both when bond proceeds are spent and when debt service is paid.

The federal funds have also been included in Part A because of interest in the level of the State's expenditure of federal funds. The detail of expenditures by department for the General Fund, special funds, selected bond funds and federal funds is shown in Schedule 9.

TOTAL STATE SPENDING PLAN—PART A (in Thousands)

Fund Type	2002-03 State Spending	2003-04 State Spending	2004-05 State Spending
GOVERNMENTAL COST FUNDS			
GENERAL FUND	77,482,135	78,028,100	76,061,869
SPECIAL FUNDS.....	18,282,052	19,406,356	21,143,762
SELECTED BOND FUNDS	11,014,509	10,444,161	1,937,905
TOTAL FUND CLASSIFICATION GOVERNMENTAL COST FUNDS	\$106,778,696	\$107,878,617	\$99,143,536
NONGOVERNMENTAL COST FUNDS			
PUBLIC SERVICE ENTERPRISE FUNDS.....	16,668,454	18,921,473	17,698,792
WORKING CAPITAL AND REVOLVING FUNDS.....	2,584,712	2,443,471	2,195,786
BOND FUNDS—OTHER.....	8,268	141,850	500,935
RETIREMENT FUNDS.....	12,222,664	13,894,397	14,631,261
OTHER NONGOVERNMENTAL COST FUNDS	28,272,881	28,754,100	36,309,793
TOTAL FUND CLASSIFICATION NONGOVERNMENTAL COST FUNDS	\$59,756,979	\$64,155,291	\$71,336,567
FEDERAL FUNDS			
FEDERAL FUNDS	54,732,625	57,971,771	55,000,430
TOTAL FUND CLASSIFICATION FEDERAL FUNDS.....	\$54,732,625	\$57,971,771	\$55,000,430
TOTAL.....	\$221,268,300	\$230,005,679	\$225,480,533

TOTAL STATE SPENDING PLAN—PART B NONGOVERNMENTAL COST FUNDS

Nongovernmental cost funds are used to account for moneys which are derived from sources other than general or special taxes, licenses, fees, or other State revenues. Although federal funds and bond funds are classified as nongovernmental costs funds, they are included in Part A for reasons cited therein. The nongovernmental cost funds shown in Part B are segregated into the following classifications.

PUBLIC SERVICE ENTERPRISE FUNDS

Public Service Enterprise Funds are used to account for the transactions of self-supporting enterprises which render services for a charge primarily to the general public.

Activities which are accounted through Public Service Enterprise Funds include toll bridges, harbor facilities, disability insurance, college housing, and veterans farm and home loan financing. Bond funds and sinking funds related to a public service enterprise are included in this classification.

Public Service Enterprise Funds differ from Working Capital and Revolving Funds in that, in the latter, fees for services rendered are largely from other State agencies or local governments.

It should be noted that expenditures shown below from the Compensation Insurance Fund do not include benefit payments to State employees because the State is self-funded. The expenditures shown are benefits paid from funding provided through insurance premiums and therefore are not true State costs.

WORKING CAPITAL AND REVOLVING FUNDS

Working Capital and Revolving Funds are used to account for the internal service activities rendered by a State agency to other State agencies or to local governments. Activities which are accounted through Working Capital and Revolving Funds include centralized purchasing for stores, consolidated data center services, printing, architectural services, manufacturing, surplus money investment, payroll disbursement, automotive management, and building operations.

Working Capital and Revolving Funds differ from the Public Service Enterprise Funds, which render services primarily to the general public. To the extent that services are provided to other State agencies, expenditures shown in Working Capital and Revolving Funds are duplicative of expenditures shown in the agencies.

BOND FUNDS

Bond Funds are used to account for the receipt and disbursement of bond proceeds. They do not account for bond retirement since the liability created by the sale of bonds is not a liability of these funds. Bonds are retired and the interest obligations thereon are paid through the provisions specified in the bond act.

Bond Funds related to a public service enterprise are included in the Public Service Enterprise Fund classification.

RETIREMENT FUNDS

Retirement Funds are used to account for employer and member contributions received by various retirement systems, the investment of these moneys, annuity payments, refunds to members, and other receipts and disbursements. The amounts shown below reflect both administrative costs and benefits paid to annuitants. For the Public Employees' Retirement Fund and the Teachers' Retirement Fund, funding includes non-State sources and expenditures therefrom are not true State costs. Also, costs funded from amounts transferred into these funds from other State agencies are duplicative of expenditures shown in the agencies.

OTHER NONGOVERNMENTAL COST FUNDS

For selected programs, the State budget has traditionally included funding provided by county funds and university funds for informational purposes. Because of inclusion in the budget, these expenditures are shown in Schedule 2. The balance of funds shown in this classification are for Trust and Agency Funds which are used to account for moneys and properties that are received from other than federal sources and which are held and disbursed from the State Treasury by the State as trustee or custodian.

The following provides detail for the significant funds and amounts which comprise the various categories of Nongovernmental Cost Funds:

TOTAL STATE SPENDING PLAN—PART B (in Thousands)			
Funds	2002-03 Amount	2003-04 Amount	2004-05 Amount
PUBLIC SERVICE ENTERPRISE FUNDS			
Housing Finance Fund, California.....	21,051	27,187	27,187
Water Resources Development Bond Fund.....	437,689	364,151	367,630
Central Valley Water Project Const Fund.....	85,696	126,280	126,723
Central Valley Water Project Revenue Fd.....	216,579	269,072	269,209
Compensation Insurance Fund.....	6,817,652	6,625,869	6,488,485
Employment Training Fund.....	157,530	82,432	77,786
Harbors and Watercraft Revolving Fund.....	69,671	80,759	61,108
Health Facility Const Loan Insurance Fd.....	13,562	4,688	4,311
Uninsured Employers Benefits Trust Fund.....	6,927	25,380	25,380
Univ Continuing Education Revenue Fd, St.....	129,895	121,310	122,684
Univ Dormitory Revenue Fd, Calif State.....	132,653	149,355	163,468
University Parking Revenue Fund, State.....	42,378	51,206	51,206
Unemployment Compensation Disability Fd.....	3,063,569	3,871,678	4,291,086
Veterans Farm & Home Building Fund 1943.....	210,521	189,825	182,508

Funds—Continued	2002-03 Amount	2003-04 Amount	2004-05 Amount
Child Care Facilities Revolving Fund	14,196	15,350	-
Safe Drinking Water State Revolving Fd.....	17,937	-	-
Infrastructure & Economic Devl Bank, Cal	31,592	4,892	5,239
Dept Water Resources Electric Power Fund.....	5,176,058	6,814,301	5,414,760
CA Consumer Pwr & Conservation Fin Auth.....	6,994	78,835	424
OTHERS.....	16,304	18,903	19,598
TOTAL PUBLIC SERVICE ENTERPRISE FUNDS	\$16,668,454	\$18,921,473	\$17,698,792
WORKING CAPITAL AND REVOLVING FUNDS			
Architecture Revolving Fund	34,731	37,784	35,772
Charter School Revolving Loan Fund.....	4,226	13,785	-
Equipment Service Fund	161,434	153,528	152,806
HHS Agency Data Ctr Revolving Fund, CA.....	316,389	313,674	311,412
Public Buildings Construction Fund.....	1,396,954	1,234,549	975,480
Service Revolving Fund	570,405	574,909	601,137
Water Quality Control Fund, State.....	17,649	20,373	20,731
Stephen P Teale Data Center Revolv Fd.....	89,503	98,191	95,698
OTHERS.....	-6,579	-3,322	2,750
TOTAL WORKING CAPITAL AND REVOLVING FUNDS	\$2,584,712	\$2,443,471	\$2,195,786
BOND FUNDS—OTHER			
Transportation Financing Subaccount, SHA.....	-	133,027	492,568
OTHERS.....	8,268	8,823	8,367
TOTAL BOND FUNDS—OTHER	\$8,268	\$141,850	\$500,935
RETIREMENT FUNDS			
Judges' Retirement Fund	115,213	121,218	128,495
Public Employees' Retirement Fund.....	6,890,924	7,984,413	8,148,329
Teachers' Retirement Fund	5,186,293	5,754,057	6,315,667
Teachers' Health Benefits Fund.....	22,387	25,904	29,176
OTHERS.....	7,847	8,805	9,594
TOTAL RETIREMENT FUNDS.....	\$12,222,664	\$13,894,397	\$14,631,261
OTHER NONGOVERNMENTAL COST FUNDS			
Indian Gaming Revenue Share Trust Fund	29,942	96,569	46,000
Emerg Serv & Supplemental Payments Fund.....	673,422	859,448	805,754
Student Loan Operating Fund	84,340	107,029	106,501
Self-Help Housing Fund	-263,887	96,646	78,830
Lottery Education Fund, Calif State.....	973,917	961,733	961,733
Flexelect Benefit Fund	17,386	18,852	18,781
Public Employees' Health Care Fund	846,066	1,048,683	1,301,270
Medi-Cal Inpatient Pymt Adjustment Fund	586,083	1,239,089	1,000,765
University Lottery Education Fund, Cal S.....	31,905	64,344	38,807
School Employees Fund	85,428	155,105	120,757
Inmate Welfare Fund	46,816	53,620	51,474
Joe Serna, Jr. Farmworker Housing Grant	-174,138	106,889	34,161
Housing Rehabilitation Loan Fund	-938,888	254,131	194,885
Special Deposit Fund.....	21,047	20,288	18,823
Public Employees Contingency Res Fd.....	16,572	16,902	17,822
Emergency Housing and Assistance Fund	-178,698	31,863	31,815
Local Property Tax Revenues.....	14,767,155	15,781,986	16,958,373
Various Other Unallocated NGC Funds	-199	-23,498	168,156
Higher Education Fees and Income—UC/CC	1,414,885	1,892,834	2,167,617
University Funds—Unclassified.....	5,354,916	5,691,776	5,882,232
Other Unclassified Funds	2,750,638	1,035,604	1,005,747
WIC Manufacturer Rebate Fund	205,704	262,401	263,001
County Health Initiative Matching Fund.....	-	53,846	53,846
Ratepayer Relief Fund	-	14,581	14,499
Child Support Collections Recovery Fund.....	297,828	298,955	298,063
Deficit Recovery Fund	-	-3,012,000	3,012,000
Extramural Nonfederal Unclassified Funds.....	1,555,854	1,555,566	1,591,659
Extramural Funds	8,711	12,767	6,106
OTHERS.....	60,076	58,091	60,316
TOTAL OTHER NONGOVERNMENTAL COST FUNDS	\$28,272,881	\$28,754,100	\$36,309,793
TOTAL.....	\$59,756,979	\$64,155,291	\$71,336,567

**TOTAL STATE SPENDING PLAN—PART C
REIMBURSEMENTS
(in Thousands)**

Funds	2001-02 Amount	2002-03 Amount	2003-04 Amount
REIMBURSEMENTS	6,106,235	7,781,840	7,421,354

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

State funds are classified or grouped for financial reporting using two different perspectives. One perspective is based upon legal/budgetary requirements and is the perspective used in Governor's Budget presentations. The second is in accordance with generally accepted accounting principles (GAAP) for governments.

The objective of GAAP is to standardize the accounting and financial reporting of organizations regardless of customs and jurisdictional legal provisions. GAAP provides a uniform set of rules so that financial reports are consistent from year to year and comparable between governmental entities.

The following two charts illustrate the effect of conversion of legal/budgetary fund classifications to GAAP fund classifications:

Schedule 3A shows the "Total State Spending Plan" data shown in Schedule 2 rearranged into the GAAP classifications.

Schedule 3B uses 2004-05 Governor's Budget totals to show California's legal/budgetary fund structure compared to GAAP classifications.

SCHEDULE 3A TOTAL STATE SPENDING PLAN BY GAAP FUND CLASSIFICATION (In Thousands)

GAAP Fund Structure	2002-03	2003-04	2004-05
Governmental Funds			
General Funds	\$77,482,135	\$78,028,100	\$76,061,869
Special Revenue Funds	54,324,029	58,232,921	57,748,011
Capital Project Funds	153,409	234,121	145,056
Total Governmental Funds	<u>\$131,959,573</u>	<u>\$136,495,142</u>	<u>\$133,954,936</u>
Proprietary Funds			
Enterprise Funds	14,976,814	16,327,918	14,434,081
Internal Service Funds	1,190,623	1,201,224	1,218,221
Total Proprietary Funds	<u>\$16,167,437</u>	<u>\$17,529,142</u>	<u>\$15,652,302</u>
Fiduciary Funds			
Retirement Funds	12,199,582	13,867,206	14,600,449
Trust and Agency Funds—Other	18,703,927	19,380,841	17,788,884
Trust and Agency Funds—Federal	9,157,690	9,382,557	8,057,045
Total Fiduciary Funds	<u>\$40,061,199</u>	<u>\$42,630,604</u>	<u>\$40,446,378</u>
Funds Outside State Treasury			
Other	33,080,091	33,350,791	35,426,917
Total Funds Outside State Treasury	<u>\$33,080,091</u>	<u>\$33,350,791</u>	<u>\$35,426,917</u>
TOTAL SPENDING, ALL FUNDS	<u>\$221,268,300</u>	<u>\$230,005,679</u>	<u>\$225,480,533</u>

SCHEDULE 3B
COMPARISON OF CALIFORNIA LEGAL/BUDGETARY
FUND STRUCTURE AND GAAP FUND STRUCTURE
USING 2004-05 BUDGET TOTALS
(In Thousands)

FUND STRUCTURE BASED ON GAAP CLASSIFICATIONS										
CURRENT FUND STRUCTURE	Governmental Funds				Proprietary Funds		Fiduciary Funds		Funds Outside State Treasury	Totals
	General Fund	Special Revenue Funds	Capital Projects Funds	Total Governmental Funds	Enterprise Funds	Internal Service Funds	Retirement Funds	Trust and Agency Funds		
Governmental Cost Funds										
General Funds.....	\$76,061,869	-	-	\$76,061,869	-	-	-	-	-	\$76,061,869
General Fund Special Accounts.....	-	\$1,690,428	-	1,690,428	\$76,434	\$21,396	-	\$9,339	-	1,797,597
Transportation Funds.....	-	5,129,505	-	5,129,505	-	-	-	2,610,382	-	7,739,887
Feeder Funds.....	-	-	-	-	-	-	-	-	-	-
Other Governmental Cost Funds.....	-	11,591,939	\$1,510	11,593,449	-	-	-	12,829	-	11,606,278
Total Governmental Cost Funds.....	\$76,061,869	\$18,411,872	\$1,510	\$94,475,251	\$76,434	\$21,396	-	\$2,632,550	-	\$97,205,631
Selected Bond Funds.....	-	5,929	138,567	144,496	-	-	-	1,793,224	\$185	1,937,905
Total Governmental Cost Funds and Selected Bond Funds.....	\$76,061,869	\$18,417,801	\$140,077	\$94,619,747	\$76,434	\$21,396	-	\$4,425,774	\$185	\$99,143,536
Nongovernmental Cost Funds										
Public Service Enterprise Funds.....	-	-	4,520	4,520	13,325,400	-	-	4,368,872	-	17,698,792
Working Capital and Revolving Funds.....	-	-	134	134	978,096	1,196,825	-	20,731	-	2,195,786
Bond Funds—Other.....	-	-	-	-	-	-	-	500,935	-	500,935
Trust and Agency Funds:										
Retirement Funds.....	-	-	-	-	-	-	\$14,600,449	30,812	-	14,631,261
Trust and Agency Funds—Federal.....	-	39,296,543	-	39,296,543	-	-	-	8,057,045	7,646,842	55,000,430
Trust and Agency Funds—Other.....	-	33,667	325	33,992	54,151	-	-	8,441,760	-	8,529,903
Other Nongovernmental Cost Funds.....	-	-	-	-	-	-	-	-	27,779,890	27,779,890
Total Nongovernmental Cost Funds.....	-	\$39,330,210	\$4,979	\$39,335,189	\$14,357,647	\$1,196,825	\$14,600,449	\$21,420,155	\$35,426,732	\$126,336,997
TOTAL SPENDING, ALL FUNDS.....	\$76,061,869	\$57,748,011	\$145,056	\$133,954,936	\$14,434,081	\$1,218,221	\$14,600,449	\$25,845,929	\$35,426,917	\$225,480,533

SCHEDULE 4
PERSONNEL YEARS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(Dollars in Thousands)

	Personnel Years			Dollars		
	Authorized 2002-03	Estimated 2003-04	Proposed 2004-05	Authorized 2002-03	Estimated 2003-04	Proposed 2004-05
Under Administration Control						
Executive.....	13,115.6	12,391.5	12,290.6	\$722,189	\$708,545	\$712,606
State and Consumer Services.....	12,885.9	11,710.8	11,572.1	619,567	576,903	577,865
Business, Transportation and Housing						
Business and Housing.....	1,984.5	1,929.8	1,974.0	107,222	109,537	115,115
Transportation.....	41,185.8	39,480.5	38,921.7	2,424,787	2,324,300	2,324,004
Technology, Trade and Commerce Agency.	258.7	21.2	-	14,320	4,270	-
Resources.....	13,936.0	13,118.1	12,917.0	740,975	730,479	719,800
California Environmental Protection Agency...	4,580.1	4,260.7	4,242.9	270,154	255,047	258,025
Health and Human Services Agency	31,034.0	30,175.5	29,774.9	1,560,894	1,560,105	1,583,246
Youth and Adult Correctional Agency.....	50,898.2	51,327.7	52,702.9	2,971,507	3,141,231	3,273,525
Education						
K thru 12 Education	2,958.7	2,853.1	2,843.7	156,471	155,038	156,708
Higher Education-Community Colleges/Other.	461.5	372.4	371.6	25,968	21,569	21,913
Labor and Workforce Development Agency.	2,600.7	2,400.0	2,404.8	144,239	135,589	137,691
General Government	6,869.9	6,264.7	5,928.1	348,091	328,770	321,756
NET TOTALS, SALARIES AND WAGES.....	182,769.6	176,306.0	175,944.3	\$10,106,384	\$10,051,383	\$10,202,254
Not Under Administration Control						
Legislative	736.9	749.1	749.1	\$50,103	\$50,474	\$51,791
Judicial	1,570.0	1,632.6	1,653.1	135,752	143,835	146,669
Public Employees' Retirement System.....	1,669.6	1,743.1	1,743.1	87,021	92,765	94,449
State Teachers' Retirement System	580.6	634.1	645.4	28,619	31,343	32,667
California Housing Finance Agency	233.7	264.1	264.1	13,487	15,422	15,422
Forestry and Fire Protection.....	1,641.3	1,759.2	1,806.8	93,954	96,307	99,559
University of California.....	74,506.6	72,584.6	69,584.6	3,826,925	3,776,485	3,626,485
Hastings.....	221.7	221.9	221.9	18,197	17,752	18,477
California State University	44,202.8	43,049.3	43,049.3	2,239,795	2,248,736	2,248,736
Employment Development Department	11,284.8	9,968.1	10,072.0	485,940	481,778	488,783
Workers' Compensation Benefits.....	8,182.0	9,195.0	10,053.0	358,242	339,872	353,467
Bureau of State Audits	144.0	142.0	139.5	8,509	8,501	8,446
TOTALS	144,974.0	141,943.1	139,981.9	\$7,346,544	\$7,303,270	\$7,184,951

SCHEDULE 4—Continued
PERSONNEL YEARS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(Dollars in Thousands)

	Personnel Years	Dollars
	Actuals 2002-03	Actuals 2002-03
Under Administration Control		
Executive.....	12,880.2	\$710,890
State and Consumer Services.....	12,835.2	610,129
Business, Transportation and Housing		
Business and Housing.....	1,997.9	107,101
Transportation	41,015.2	2,284,588
Technology, Trade and Commerce Agency.....	189.5	12,749
Resources.....	13,981.9	779,862
California Environmental Protection Agency.....	4,462.0	266,313
Health and Human Services Agency	29,857.6	1,541,126
Youth and Adult Correctional Agency.....	49,268.5	3,018,509
Education		
K thru 12 Education	2,826.6	150,080
Higher Education-Community Colleges/Other	422.6	24,337
Labor and Workforce Development Agency	2,453.5	137,922
General Government	6,553.1	346,205
NET TOTALS, SALARIES AND WAGES	178,743.8	\$9,989,811
Not Under Administration Control		
Legislative	713.5	\$47,947
Judicial	1,473.8	129,251
Public Employees' Retirement System	1,546.1	83,764
State Teachers' Retirement System.....	502.6	26,350
California Housing Finance Agency	223.0	12,238
Forestry and Fire Protection.....	1,602.8	92,869
University of California.....	75,181.1	3,902,908
Hastings	222.1	17,971
California State University	43,107.8	2,357,111
Employment Development Department	9,821.7	417,768
Workers' Compensation Benefits.....	8,138.0	359,293
Bureau of State Audits	118.0	6,890
TOTALS	142,650.5	\$7,454,360
	Personnel Years	Dollars
	Proposed 2004-05	Proposed 2004-05
Position Classification		
Civil Service	199,326.2	\$11,177,885
Constitutional	252.0	35,113
Statutory	173.3	20,488
Exempt		
Various Departments	3,318.9	260,021
Higher Education		
University of California.....	69,584.6	3,626,485
Hastings College of the Law	221.9	18,477
California State University	43,049.3	2,248,736
NET TOTALS, SALARIES AND WAGES	315,926.2	\$17,387,205

**SCHEDULE 5A
CASHFLOW STATEMENTS
STATEMENT OF ESTIMATED ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE
GENERAL FUND**

(Dollars in Thousands)

	Actual 2002-03 Fiscal Year Accruals ¹			Estimated 2003-04 Fiscal Year Accruals			Estimated 2004-05 Fiscal Year Accruals		
	Accounts payable June 30, 2003	Accounts receivable June 30, 2003	Net accruals June 30, 2003	Accounts payable June 30, 2004	Accounts receivable June 30, 2004	Net accruals June 30, 2004	Accounts payable June 30, 2005	Accounts receivable June 30, 2005	Net accruals June 30, 2005
STATE OPERATIONS									
Legislative/Judicial/Executive	\$323,509	\$163,730	\$159,779	\$333,214	\$168,642	\$164,572	\$343,210	\$173,701	\$169,509
State and Consumer Services	96,818	101,563	-4,745	99,723	104,610	-4,887	102,715	107,748	-5,033
Business, Transportation and Housing	27,252	3,872	23,380	28,070	3,988	24,082	28,912	4,108	24,804
Technology, Trade and Commerce ²	14,436	22,784	-8,348	14,869	14,869	-	-	-	-
Resources	533,386	279,720	253,666	549,388	288,112	261,276	565,870	296,755	269,115
California Environmental Protection	91,344	59,442	31,902	94,084	61,225	32,859	96,907	63,062	33,845
Health and Human Services:									
Health Services	72,264	199,466	-127,202	74,432	205,450	-131,018	76,665	211,614	-134,949
Developmental Services	46,183	61,088	-14,905	47,568	62,921	-15,353	48,995	64,809	-15,814
Mental Health	164,347	207,389	-43,042	169,277	213,611	-44,334	174,355	220,019	-45,664
Other Health and Human Services	134,296	184,457	-50,161	138,325	189,991	-51,666	142,475	195,691	-53,216
Youth and Adult Correctional	1,730,458	1,590,608	139,850	1,782,372	1,638,326	144,046	1,835,843	1,687,476	148,367
Education:									
Department of Education	86,140	36,993	49,147	88,724	38,103	50,621	91,386	39,246	52,140
University of California	167,445	-	167,445	172,468	-	172,468	177,642	-	177,642
California State University	408,228	130,992	277,236	420,475	134,922	285,553	433,089	138,970	294,119
Other Education	51,199	13,525	37,674	52,735	13,931	38,804	54,317	14,349	39,968
General Government	206,900	189,214	17,686	213,107	194,890	18,217	219,500	200,737	18,763
Totals, State Operations	\$4,154,205	\$3,244,843	\$909,362	\$4,278,831	\$3,333,591	\$945,240	\$4,391,881	\$3,418,285	\$973,596
LOCAL ASSISTANCE									
Public Schools K-12	\$488,125	\$209,624	\$278,501	\$502,769	\$215,913	\$286,856	\$517,852	\$222,390	\$295,462
California Community Colleges	75,705	60,786	14,919	77,976	62,610	15,366	80,315	64,488	15,827
Other Education	13,405	3,430	9,975	13,807	3,533	10,274	14,221	3,639	10,582
Alcohol and Drug Abuse	61,207	13,008	48,199	63,043	13,398	49,645	64,934	13,800	51,134
Health Services	1,373,020	132,977	1,240,043	1,414,211	136,966	1,277,245	1,456,637	141,075	1,315,562
Developmental Services	231,302	313,758	-82,456	238,241	323,171	-84,930	245,388	332,866	-87,478
Mental Health	30,890	188,134	-157,244	31,817	193,778	-161,961	32,772	199,591	-166,819
Social Services	103,113	247,718	-144,605	106,206	255,150	-148,944	109,392	262,805	-153,413
Other Health and Human Services	38,069	29,107	8,962	39,211	29,980	9,231	40,387	30,879	9,508
Tax Relief	3,813	128,430	-124,617	3,927	132,283	-128,356	4,045	136,251	-132,206
Other Local Assistance	166,965	97,611	69,354	171,974	100,539	71,435	177,133	103,555	73,578
Totals, Local Assistance	\$2,585,614	\$1,424,583	\$1,161,031	\$2,663,182	\$1,467,321	\$1,195,861	\$2,743,076	\$1,511,339	\$1,231,737
TOTALS, ALL CHARACTERS	\$6,739,819	\$4,669,426	\$2,070,393	\$6,942,013	\$4,800,912	\$2,141,101	\$7,134,957	\$4,929,624	\$2,205,333

¹ Information per the State Controller's Office.

² Agency abolished effective January 1, 2004.

Note: Numbers may not add due to rounding.

SCHEDULE 5B
CASHFLOW STATEMENTS
ACTUAL 2002-03 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)

2002-03 FISCAL CASHFLOW	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	TOTAL
BEGINNING CASH BALANCE.....	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,397	\$3,612	\$5,626	\$5,705	\$6,395	\$0
RECEIPTS:													
Alcoholic Beverage Excise Tax	\$28	\$24	\$25	\$25	\$25	\$23	\$30	\$20	\$21	\$25	\$24	\$19	\$289
Corporation Tax	180	56	1,106	184	21	1,090	-78	171	1,152	1,209	214	1,205	6,510
Cigarette Tax	17	12	-1	21	7	10	9	11	10	7	11	8	122
Inheritance, Gift and Estate Taxes	97	71	77	69	72	89	67	91	136	59	52	52	932
Insurance Tax	14	15	361	14	10	367	15	15	37	628	15	380	1,871
Personal Income Tax	2,042	1,972	3,367	2,311	1,538	3,668	5,094	1,291	983	5,500	1,339	3,360	32,465
Retail Sales and Use Tax	894	2,700	1,652	884	2,830	1,839	899	3,106	1,549	741	2,989	2,182	22,265
Income from Pooled Money Investments ..	17	22	21	12	18	15	12	20	15	14	25	20	211
Energy Repayment	0	0	0	164	6,456	0	0	0	0	0	0	0	6,620
Transfer from Special Fund for Economic Uncertainties	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	40	180	2,492	141	503	127	2,593	263	80	-1,797	227	2,453	7,302
TOTAL Receipts	\$3,329	\$5,052	\$9,100	\$3,825	\$11,480	\$7,228	\$8,641	\$4,988	\$3,983	\$6,386	\$4,896	\$9,679	\$78,587
DISBURSEMENTS:													
State Operations:													
University of California	\$245	\$261	\$307	\$373	\$304	\$313	\$244	\$307	\$317	\$371	\$70	\$16	\$3,128
Debt Service	0	189	208	228	119	83	-2	169	216	238	125	154	1,727
Other State Operations	1,243	1,034	1,562	1,359	1,211	1,055	1,213	926	1,039	1,274	1,006	895	13,817
Social Services	1,188	802	1,002	702	372	539	776	530	703	574	325	359	7,872
Medi-Cal Assistance	851	843	698	1,269	627	1,079	888	784	904	1,074	841	341	10,199
Other Health and Human Services	40	11	64	59	7	51	32	64	-11	80	29	25	451
Schools	2,092	3,484	2,550	2,286	2,306	2,773	2,183	4,081	3,308	2,531	2,297	432	30,332
Teachers' Retirement	653	0	0	108	0	0	108	0	0	108	0	-1	976
Other	762	943	1,225	506	1,029	1,202	651	530	933	964	547	881	10,173
TOTAL Disbursements	\$7,074	\$7,567	\$7,616	\$6,890	\$5,975	\$7,095	\$6,093	\$7,391	\$7,409	\$7,214	\$5,240	\$3,101	\$78,666
EXCESS RECEIPTS/(DEFICIT)	-\$3,745	-\$2,515	\$1,485	-\$3,065	\$5,505	\$132	\$2,548	-\$2,403	-\$3,427	-\$828	-\$344	\$6,578	-\$79
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties ..	\$0	\$0	\$0	\$0	-\$2,241	-\$132	-\$151	\$2,525	\$0	\$0	\$0	-\$2,525	-\$2,525
Other Internal Sources	3,745	2,515	-1,485	-4,435	-763	0	0	1,093	5,441	907	1,034	-8,475	-423
2002 Revenue Anticipation Warrants	0	0	0	-1,500	-6,000	0	0	0	0	0	0	0	-7,500
Revenue Anticipation Notes	0	0	0	9,000	3,500	0	0	0	0	0	0	-12,500	0
2003 Revenue Anticipation Warrants	0	0	0	0	0	0	0	0	0	0	0	10,965	10,965
TOTAL, Net Temporary Loans	\$3,745	\$2,515	-\$1,485	\$3,065	-\$5,504	-\$132	-\$151	\$3,618	\$5,441	\$907	\$1,034	-\$12,535	\$517
ENDING CASH BALANCE	\$0	\$0	\$0	\$0	\$0	\$0	\$2,397	\$3,612	\$5,626	\$5,705	\$6,395	\$6,395	\$438
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties ..	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525
Other Internal Sources	10,127	10,819	8,170	7,624	7,998	7,806	7,610	7,389	7,899	10,709	10,661	7,877	7,877
2002 Revenue Anticipation Warrants	7,500	7,500	7,500	6,000	0	0	0	0	0	0	0	0	0
Revenue Anticipation Notes	0	0	0	9,000	12,500	12,500	12,500	12,500	12,500	12,500	12,500	0	0
2003 Revenue Anticipation Warrants	0	0	0	0	0	0	0	0	0	0	0	10,965	10,965
TOTAL, Available/Borrowable Resources ..	\$20,151	\$20,843	\$18,195	\$25,148	\$23,022	\$22,831	\$22,634	\$22,413	\$22,924	\$25,734	\$25,685	\$21,367	\$21,367
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties ..	\$2,525	\$2,525	\$2,525	\$2,525	\$283	\$151	\$0	\$2,525	\$2,525	\$2,525	\$2,525	\$0	\$0
Other Internal Sources	4,169	6,683	5,198	763	0	0	0	1,093	6,534	7,441	8,475	0	0
2002 Revenue Anticipation Warrants	7,500	7,500	7,500	6,000	0	0	0	0	0	0	0	0	0
Revenue Anticipation Notes	0	0	0	9,000	12,500	12,500	12,500	12,500	12,500	12,500	12,500	0	0
2003 Revenue Anticipation Warrants	0	0	0	0	0	0	0	0	0	0	0	10,965	10,965
TOTAL, Cumulative Loan Balances	\$14,194	\$16,708	\$15,223	\$18,288	\$12,783	\$12,651	\$12,500	\$16,118	\$21,559	\$22,466	\$23,500	\$10,965	\$10,965
UNUSED BORROWABLE RESOURCES	\$5,958	\$4,136	\$2,972	\$6,860	\$10,239	\$10,180	\$10,134	\$6,295	\$1,365	\$3,268	\$2,185	\$10,402	\$10,402

Note: Numbers may not add due to rounding.

SCHEDULE 5C
CASHFLOW STATEMENTS
ESTIMATED 2003-04 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	TOTAL
2003-04 FISCAL CASHFLOW													
BEGINNING CASH BALANCE	\$438												
RECEIPTS:													
Alcoholic Beverage Excise Tax	\$32	\$25	\$25	\$28	\$29	\$24	\$26	\$18	\$20	\$23	\$23	\$23	\$296
Corporation Tax	252	117	1,325	261	66	957	119	172	1,408	1,369	233	1,324	7,603
Cigarette Tax	10	13	8	8	7	11	10	9	9	10	10	10	115
Inheritance, Gift and Estate Taxes	60	42	50	59	53	43	42	42	42	42	43	43	561
Insurance Tax	18	14	424	17	13	421	11	18	278	345	22	404	1,985
Personal Income Tax	2,326	2,246	3,689	2,458	1,823	3,996	5,433	1,514	1,096	5,750	1,239	3,558	35,128
Retail Sales and Use Tax	899	2,817	1,790	924	2,868	1,874	1,015	3,221	1,804	637	3,329	2,358	23,536
Income from Pooled Money Investments	11	10	16	2	17	12	11	12	15	9	8	15	138
Transfer from Special Fund for Economic Uncertainties	0	0	0	0	0	0	308	0	0	0	0	0	308
Economic Recovery Bond Proceeds	0	0	0	0	0	0	0	0	0	0	9,242	3,012	12,254
Other	123	74	2,457	99	586	328	718	219	84	118	208	669	5,683
TOTAL Receipts	\$3,731	\$5,358	\$9,784	\$3,856	\$5,462	\$7,666	\$7,693	\$5,225	\$4,756	\$8,303	\$14,357	\$11,416	\$87,607
DISBURSEMENTS:													
State Operations:													
University of California	\$300	\$227	\$305	\$295	\$292	\$262	\$237	\$271	\$302	\$324	\$174	-\$126	\$2,863
Debt Service	11	235	203	234	150	84	-2	288	180	218	165	164	1,930
Other State Operations	1,332	1,528	634	1,034	1,249	1,040	1,129	842	937	1,182	917	678	12,502
Social Services	863	854	1,323	891	823	615	854	645	433	240	110	710	10,361
Medi-Cal Assistance	1,143	824	755	924	576	954	890	704	922	957	918	872	10,457
Other Health and Human Services	-4	44	69	21	47	35	17	51	21	52	32	20	405
Schools	3,284	3,580	2,886	2,213	1,840	2,671	4,074	3,100	2,611	2,440	1,934	339	30,972
Teachers' Retirement	172	0	0	113	0	0	113	0	0	113	0	-1	510
Other	1,016	499	49	846	570	702	902	906	809	720	531	4,218	11,768
TOTAL Disbursements	\$8,117	\$7,791	\$6,224	\$6,589	\$5,547	\$6,363	\$8,214	\$6,807	\$6,215	\$6,246	\$4,781	\$6,875	\$79,768
EXCESS RECEIPTS/(DEFICIT)	-\$4,386	-\$2,432	\$3,560	-\$2,733	-\$85	\$1,304	-\$521	-\$1,581	-\$1,459	\$2,057	\$9,576	\$4,541	\$7,839
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties ..	\$2,525	\$0	\$0	\$0	\$0	-\$1,190	\$521	\$360	\$0	\$0	-\$2,216	\$2,216	\$2,216
Other Internal Sources	1,424	2,432	-3,560	-267	85	-114	0	1,221	1,459	-2,057	-623	471	471
2003 Revenue Anticipation Warrants	0	0	0	0	0	0	0	0	0	0	0	-10,965	-10,965
2003 Revenue Anticipation Notes	0	0	0	3,000	0	0	0	0	0	0	0	-3,000	0
TOTAL, Net Temporary Loans	\$3,949	\$2,432	-\$3,560	\$2,733	\$85	-\$1,304	\$521	\$1,581	\$1,459	-\$2,057	-\$2,839	-\$11,278	-\$8,278
ENDING CASH BALANCE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,736	\$0	\$0
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties ..	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216
Other Internal Sources	8,125	8,065	8,216	7,978	8,023	6,996	6,874	7,034	6,537	6,357	7,218	9,519	9,519
2003 Revenue Anticipation Warrants	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	0	0
2003 Revenue Anticipation Notes	0	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Available/Borrowable Resources	\$21,614	\$21,554	\$21,706	\$24,467	\$24,513	\$23,485	\$23,055	\$23,215	\$22,718	\$22,539	\$23,400	\$11,735	\$11,735
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties ..	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$1,335	\$1,856	\$2,216	\$2,216	\$2,216	\$0	\$2,216	\$2,216
Other Internal Sources	1,424	3,856	296	29	114	0	0	1,221	2,680	623	0	471	471
2003 Revenue Anticipation Warrants	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	0	0
2003 Revenue Anticipation Notes	0	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Cumulative Loan Balances	\$14,913	\$17,346	\$13,786	\$16,519	\$16,604	\$15,300	\$15,821	\$17,403	\$18,861	\$16,805	\$13,965	\$2,688	\$2,688
UNUSED BORROWABLE RESOURCES	\$6,701	\$4,209	\$7,920	\$7,949	\$7,909	\$8,185	\$7,234	\$5,813	\$3,857	\$5,734	\$9,435	\$9,048	\$9,048

Note: Numbers may not add due to rounding.

SCHEDULE 5D
CASHFLOW STATEMENTS
ESTIMATED 2004-05 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)

2004-05 FISCAL CASHFLOW	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
BEGINNING CASH BALANCE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RECEIPTS:													
Alcoholic Beverage Excise Tax	\$28	\$24	\$26	\$25	\$25	\$25	\$28	\$19	\$21	\$24	\$25	\$24	\$294
Corporation Tax	266	171	1,334	291	-11	1,228	112	175	1,343	1,210	229	1,346	7,694
Cigarette Tax.....	10	10	10	10	10	10	9	8	9	10	9	10	115
Inheritance, Gift and Estate Taxes	46	46	46	21	22	22	21	22	22	21	22	22	333
Insurance Tax	14	27	447	16	20	451	12	19	295	327	24	426	2,078
Personal Income Tax	2,457	2,292	4,008	2,639	1,917	4,377	5,774	1,619	1,350	6,242	1,379	3,865	37,919
Retail Sales and Use Tax	758	3,144	1,848	942	3,243	1,919	1,036	3,425	1,840	570	3,625	2,567	24,917
Income from Pooled Money Investments ..	9	9	9	13	19	14	15	16	20	14	12	24	174
Transfer from Special Fund for Economic	0	0	0	0	0	0	1,581	0	0	0	0	0	1,581
Uncertainties.....	85	139	202	15	636	174	377	245	269	499	235	545	3,420
TOTAL, Receipts	\$3,673	\$5,862	\$7,930	\$3,972	\$5,881	\$8,220	\$8,965	\$5,548	\$5,169	\$8,917	\$5,560	\$8,829	\$78,525
DISBURSEMENTS:													
State Operations:													
University of California	\$237	\$198	\$215	\$262	\$237	\$241	\$223	\$254	\$282	\$303	\$165	\$48	\$2,665
Debt Service.....	2	355	387	478	226	278	2	354	227	293	160	332	3,094
Other State Operations	1,291	1,046	1,330	1,353	1,071	960	1,181	855	940	882	920	1,070	12,899
Social Services	838	825	1,126	950	540	603	766	545	606	637	66	718	8,220
Medi-Cal Assistance	734	1,071	851	1,111	865	1,060	1,040	834	1,075	1,114	1,071	668	11,494
Other Health and Human Services.....	23	29	48	35	18	34	16	49	20	50	31	34	387
Schools.....	2,961	2,884	2,267	2,625	2,259	2,504	3,854	3,237	2,709	2,569	1,854	1,107	30,830
Teachers' Retirement.....	703	118	0	118	0	0	118	0	0	118	0	0	1,057
Other	1,571	619	271	575	478	298	364	327	476	397	311	983	6,670
TOTAL, Disbursements	\$8,360	\$7,027	\$6,495	\$7,507	\$5,694	\$5,978	\$7,564	\$6,455	\$6,335	\$6,363	\$4,578	\$4,959	\$77,316
EXCESS RECEIPTS/(DEFICIT)	-\$4,687	-\$1,165	\$1,436	-\$3,535	\$186	\$2,242	\$1,402	-\$907	-\$1,166	\$2,553	\$982	\$3,869	\$1,209
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties ..	\$0	\$0	\$0	\$0	\$0	\$0	-\$1,581	\$0	\$0	\$0	\$0	\$0	-\$1,581
Other Internal Sources	4,687	1,165	-1,436	-465	-186	-2,242	180	907	1,166	-2,553	-982	131	373
Revenue Anticipation Notes.....	0	0	0	4,000	0	0	0	0	0	0	0	-4,000	0
TOTAL, Net Temporary Loans	\$4,687	\$1,165	-\$1,436	\$3,535	-\$186	-\$2,242	-\$1,401	\$907	\$1,166	-\$2,553	-\$982	-\$3,869	-\$1,208
ENDING CASH BALANCE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties ..	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$635	\$635	\$635	\$635	\$635	\$635	\$635
Other Internal Sources	9,459	9,593	9,341	8,964	8,589	8,214	7,882	8,039	7,434	7,087	7,449	6,538	6,538
Revenue Anticipation Notes.....	0	0	0	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	0	0
TOTAL, Available/Borrowable Resources	\$11,676	\$11,809	\$11,558	\$15,180	\$14,806	\$14,430	\$12,517	\$12,674	\$12,069	\$11,722	\$12,083	\$7,173	\$7,173
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties ..	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$635	\$635	\$635	\$635	\$635	\$635	\$635
Other Internal Sources	5,159	6,324	4,888	4,423	4,237	1,995	2,175	3,082	4,249	1,695	714	844	844
Revenue Anticipation Notes.....	0	0	0	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	0	0
TOTAL, Cumulative Loan Balances	\$7,375	\$8,540	\$7,104	\$10,639	\$10,453	\$8,211	\$6,810	\$7,717	\$8,883	\$6,330	\$5,348	\$1,479	\$1,479
UNUSED BORROWABLE RESOURCES	\$4,301	\$3,269	\$4,453	\$4,541	\$4,352	\$6,219	\$5,708	\$4,957	\$3,185	\$5,391	\$6,735	\$5,694	\$5,694

Note: Numbers may not add due to rounding.

SCHEDULE 6
SUMMARY OF STATE POPULATION, EMPLOYEES, AND EXPENDITURES

Year	Population ¹ (Thousands)	Employees	Employees Per 1,000 Population	Personal Income (Billions)	Revenue		Expenditures		Expenditures per Capita		Expenditures per \$100 of Personal Income	
					General Fund	Total	General Fund ²	Total ³	General Fund ²	Total ³	General Fund ²	Total ³
					(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)
1950-51	10,643	61,000	5.7	\$20.0	\$672	\$994	\$587	\$1,006	\$55.15	\$94.52	\$2.94	\$5.03
1951-52	11,130	63,860	5.7	23.2	734	1,086	635	1,068	57.05	95.96	2.74	4.60
1952-53	11,638	65,720	5.6	25.7	774	1,151	714	1,177	61.35	101.13	2.78	4.58
1953-54	12,101	69,928	5.8	27.6	798	1,271	809	1,381	66.85	114.12	2.93	5.00
1954-55	12,517	74,099	5.9	28.4	879	1,434	852	1,422	68.07	113.61	3.00	5.01
1955-56	13,004	77,676	6.0	31.2	1,005	1,578	923	1,533	70.98	117.89	2.96	4.91
1956-57	13,581	88,299	6.5	34.2	1,079	1,834	1,030	1,732	75.84	127.53	3.01	5.06
1957-58	14,177	98,015	6.9	36.8	1,111	1,751	1,147	1,891	80.91	133.39	3.12	5.14
1958-59	14,741	101,982	6.9	38.6	1,210	1,925	1,246	1,932	84.53	131.06	3.23	5.01
1959-60	15,288	108,423	7.1	42.4	1,491	2,198	1,435	2,086	93.86	136.45	3.38	4.92
1960-61	15,863	115,737	7.3	44.8	1,598	2,338	1,678	2,525	105.78	159.18	3.75	5.64
1961-62	16,412	122,339	7.5	47.5	1,728	2,451	1,697	2,406	103.40	146.60	3.57	5.07
1962-63	16,951	128,981	7.6	51.3	1,866	2,668	1,881	2,703	110.97	159.46	3.67	5.27
1963-64	17,530	134,721	7.7	54.8	2,137	3,057	2,064	3,182	117.74	181.52	3.77	5.81
1964-65	18,026	143,896	8.0	59.4	2,245	3,295	2,345	3,652	130.09	202.60	3.95	6.15
1965-66	18,464	151,199	8.2	63.5	2,509	3,581	2,580	4,059	139.73	219.83	4.06	6.39
1966-67	18,831	158,404	8.4	69.1	2,895	4,073	3,017	4,659	160.21	247.41	4.37	6.74
1967-68	19,175	162,677	8.5	74.4	3,682	4,927	3,273	5,014	170.69	261.49	4.40	6.74
1968-69	19,432	171,655	8.8	81.6	4,136	5,450	3,909	5,673	201.16	291.94	4.79	6.95
1969-70	19,745	179,583	9.1	89.5	4,330	5,743	4,456	6,302	225.68	319.17	4.98	7.04
1970-71	20,039	181,581	9.1	96.4	4,534	5,919	4,854	6,556	242.23	327.16	5.04	6.80
1971-72	20,346	181,912	8.9	102.4	5,395	6,897	5,027	6,684	247.08	328.52	4.91	6.53
1972-73	20,585	188,460	9.2	112.2	5,780	7,366	5,616	7,422	272.82	360.55	5.01	6.61
1973-74	20,869	192,918	9.2	124.1	6,978	8,715	7,299	9,311	349.75	446.16	5.88	7.50
1974-75	21,174	203,548	9.6	138.7	8,630	10,405	8,349	10,276	394.30	485.31	6.02	7.41
1975-76	21,538	206,361	9.6	152.7	9,639	11,567	9,518	11,452	441.92	531.71	6.23	7.50
1976-77	21,936	213,795	9.7	171.4	11,381	13,463	10,467	12,632	477.16	575.86	6.11	7.37
1977-78	22,352	221,251	9.9	191.5	13,695	15,962	11,686	14,003	522.82	626.48	6.10	7.31
1978-79	22,836	218,530	9.6	219.7	15,219	17,711	16,251	18,745	711.64	820.85	7.40	8.53
1979-80	23,257	220,193	9.5	252.2	17,985	20,919	18,534	21,488	796.92	923.94	7.35	8.52
1980-81	23,782	225,567	9.5	286.3	19,023	22,104	21,105	24,511	887.44	1,030.65	7.37	8.56
1981-82	24,278	228,813	9.4	320.7	20,960	23,601	21,693	25,022	893.53	1,030.65	6.76	7.80
1982-83	24,805	228,489	9.2	341.9	21,233	24,291	21,751	25,330	876.88	1,021.17	6.36	7.41
1983-84	25,337	226,695	8.9	367.5	23,809	27,626	22,869	26,797	902.59	1,057.62	6.22	7.29
1984-85	25,816	229,845	8.9	411.6	26,536	31,570	25,722	30,961	996.36	1,199.30	6.25	7.52
1985-86	26,403	229,641	8.7	447.1	28,072	33,558	28,841	34,977	1,092.34	1,324.74	6.45	7.82
1986-87	27,052	232,927	8.6	477.8	32,519	37,767	31,469	38,079	1,163.28	1,407.62	6.59	7.97
1987-88	27,717	237,761	8.6	517.3	32,534	38,773	33,021	40,452	1,191.36	1,459.47	6.38	7.82
1988-89	28,393	248,173	8.7	561.1	36,953	43,322	35,897	44,634	1,264.29	1,572.01	6.40	7.95
1989-90	29,142	254,589	8.7	606.7	38,750	46,453	39,456	48,594	1,353.92	1,667.49	6.50	8.01
1990-91	29,828	260,622	8.7	655.6	38,214	47,024	40,264	51,446	1,349.87	1,724.76	6.14	7.85
1991-92	30,458	261,713	8.6	669.8	42,026	53,117	43,327	56,280	1,422.52	1,847.79	6.47	8.40
1992-93	30,987	260,939	8.4	701.6	40,946	52,526	40,948	56,480	1,321.46	1,822.70	5.84	8.05
1993-94	31,314	265,035	8.5	714.1	40,095	52,384	38,958	53,083	1,244.11	1,695.18	5.46	7.43
1994-95	31,523	269,004	8.5	735.1	42,710	54,942	41,961	54,613	1,331.12	1,732.48	5.71	7.43
1995-96	31,711	271,076	8.5	771.5	46,296	59,266	45,393	59,870	1,431.46	1,887.99	5.88	7.76
1996-97	31,962	271,966	8.5	812.4	49,220	62,831	49,088	64,523	1,535.82	2,018.74	6.04	7.94
1997-98	32,452	271,254	8.4	861.6	54,973	69,424	52,874	68,528	1,629.30	2,111.67	6.14	7.95
1998-99	32,862	282,860	8.6	931.6	58,615	74,281	57,827	75,260	1,759.69	2,290.18	6.21	8.08
1999-00	33,417	296,076	8.9	995.3	71,931	87,536	66,494	84,864	1,989.83	2,539.55	6.68	8.53
2000-01	34,040	311,239	9.1	1,100.7	71,428	88,419	78,053	96,382	2,292.98	2,831.43	7.09	8.76
2001-02	34,727	323,603	9.3	1,129.9	72,263	89,804	76,752	99,220	2,210.15	2,857.14	6.79	8.78
2002-03	35,336	321,394	9.1	1,155.2	80,564	95,794	77,482	106,779	2,192.72	3,021.82	6.71	9.24
2003-04	35,934	318,249	8.9	1,199.0	77,639	95,957	78,028	107,879	2,171.43	3,002.14	6.51	9.00
2004-05	36,474	315,926	8.7	1,266.4	76,407	97,210	76,062	99,144	2,085.38	2,718.21	6.01	7.83

¹ Population as of July 1, the beginning of the fiscal year.

² Includes Special Accounts in General Fund from 1973-74 to 1976-77.

³ Expenditures include payments from General Fund, Special Funds and Selected Bond Funds beginning in 1963-64.

SCHEDULE 7
GENERAL FUND
(In Thousands)
STATEMENT OF FUND BALANCE
June 30, 2002

The following information summarizes the adjustments which have been incorporated by the Department of Finance to the State Controller's Office preliminary General Fund balances to arrive at the June 30, 2003, General Fund balance shown on the Governor's Budget Summary, Schedule 1.

JUNE 30, 2003, GENERAL FUND BALANCE PER STATE CONTROLLER'S OFFICE		-\$7,536,236
ADJUSTMENTS TO STATE CONTROLLER'S OFFICE FUND BALANCE:		
Adjustments to prior years:		
Savings per pending legislation	\$29,700	
Adjustment for timing difference in expenditures	<u>-103,682</u>	
Total Adjustments to Prior Years.....		-\$73,982
Revenue Adjustment:		
Economic Recovery Bonds accrued in 2002-03	<u>\$9,242,000</u>	
Total Revenue Adjustments.....		\$9,242,000
Transfer Adjustments:		
Adjustment for treatment of transfer from Child Care Revolving Fund	-\$70,000	
Adjustment for treatment of loan from Contractors' State License Fund	11,213	
Adjustment for treatment of loan from Agriculture Fund.....	<u>15,290</u>	
Total Transfer Adjustments		-\$43,497
Expenditure Adjustments:		
Adjust Proposition 98 for differences in property taxes and apportionments	\$194,950	
Federal Immigration Funding—adjustment accrual	19,218	
PERS 4th quarter adjustment	-172,282	
Adjustment for timing differences in reappropriations and carryovers.....	-104,595	
Savings per pending legislation	79,013	
Revision to encumbrance adjustment.....	<u>-19,158</u>	
Total Expenditure Adjustments		-\$2,854
Other Adjustments.....		<u>\$21,828</u>
ADJUSTED STATE CONTROLLER'S OFFICE FUND BALANCE		<u><u>\$1,607,259</u></u>
JUNE 30, 2003, GENERAL FUND BALANCE PER GOVERNOR'S BUDGET, SCHEDULE 1		<u><u>\$1,607,259</u></u>

SCHEDULE 8
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

Sources	Actual 2002-03			Estimated 2003-04			Estimated 2004-05		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
MAJOR TAXES AND LICENSES									
Alcoholic Beverage Taxes and Fees.....	\$290,564	-	\$290,564	\$292,000	-	\$292,000	\$294,000	-	\$294,000
Corporation Tax.....	6,803,559	-	6,803,559	7,466,000	-	7,466,000	7,609,000	-	7,609,000
Cigarette Tax.....	114,894	\$940,611	1,055,505	115,000	\$940,100	1,055,100	115,000	\$916,700	1,031,700
Horse Racing (Parimutuel) License Fees.....	2,037	39,991	42,028	2,035	40,210	42,245	2,335	40,122	42,457
Estate, Inheritance and Gift Tax.....	647,372	-	647,372	396,800	-	396,800	135,400	-	135,400
Insurance Gross Premiums Tax.....	1,879,784	-	1,879,784	1,985,000	-	1,985,000	2,078,000	-	2,078,000
Trailer Coach License (In-Lieu) Fees.....	15,592	2,388	17,980	15,990	2,388	18,378	16,020	2,388	18,408
Motor Vehicle License (In-Lieu) Fees.....	-	1,885,148	1,885,148	-	1,916,594	1,916,594	-	1,969,813	1,969,813
Motor Vehicle Fuel Tax (Gasoline).....	-	2,728,133	2,728,133	-	2,807,048	2,807,048	-	2,809,176	2,809,176
Motor Vehicle Fuel Tax (Diesel).....	-	474,378	474,378	-	493,321	493,321	-	512,842	512,842
Motor Vehicle Registration.....	-	1,986,474	1,986,474	-	2,268,908	2,268,908	-	2,590,478	2,590,478
Personal Income Tax.....	32,709,761	-	32,709,761	35,117,000	-	35,117,000	38,043,000	-	38,043,000
Retail Sales and Use Tax-Realignment.....	-	2,279,419	2,279,419	-	2,359,300	2,359,300	-	2,493,500	2,493,500
Retail Sales and Use Taxes.....	22,415,138	204,468	22,619,606	23,714,000	210,455	23,924,455	25,022,000	202,848	25,224,848
Retail Sales and Use Tax-Fiscal Recovery.....	-	-	-	-	-	-	-	1,256,000	1,256,000
TOTALS, MAJOR TAXES AND LICENSES.....	\$64,878,701	\$10,541,010	\$75,419,711	\$69,103,825	\$11,038,324	\$80,142,149	\$73,314,755	\$12,793,867	\$86,108,622
MINOR REVENUES									
REGULATORY TAXES AND LICENSES									
General Fish and Game Taxes.....	-	1,126	1,126	-	1,517	1,517	-	1,535	1,535
Energy Resource Surcharge.....	-	471,673	471,673	-	501,668	501,668	-	502,829	502,829
Quarterly Public Util Commission Fees.....	-	86,689	86,689	-	108,173	108,173	-	75,247	75,247
Penalties on Pub Util Comm Qtrly Fees.....	-	3	3	-	-	-	-	-	-
Hwy Carrier Uniform Business License Tax.....	368	-	368	300	-	300	300	-	300
Off-Highway Vehicle Fees.....	-	7,022	7,022	-	7,000	7,000	-	7,250	7,250
Liquor License Fees.....	-	40,735	40,735	-	42,123	42,123	-	43,377	43,377
Genetic Disease Testing Fees.....	-	63,753	63,753	-	64,205	64,205	-	64,205	64,205
Other Regulatory Taxes.....	12,812	60,133	72,945	-	81,015	81,015	-	87,998	87,998
New Motor Vehicle Dealer License Fee.....	-	1,340	1,340	-	1,419	1,419	-	1,419	1,419
General Fish and Game Lic Tags Permits.....	-	69,641	69,641	-	79,724	79,724	-	84,548	84,548
Duck Stamps.....	-	53	53	-	53	53	-	53	53
Elevator and Boiler Inspection Fees.....	209	11,953	12,162	209	14,907	15,116	209	16,700	16,909
Industrial Homework Fees.....	2	-	2	2	-	2	2	-	2
Employment Agency License Fees.....	719	4,845	5,564	719	8,069	8,788	719	8,069	8,788
Employment Agency Filing Fees.....	108	-	108	108	-	108	108	-	108
Teacher Credential Fees.....	-	14,273	14,273	-	13,697	13,697	-	13,697	13,697
Teacher Examination Fees.....	-	12,254	12,254	-	13,040	13,040	-	13,692	13,692
Insurance Co License Fees & Penalties.....	-	27,307	27,307	-	28,067	28,067	-	29,282	29,282
Insurance Company Examination Fees.....	-	18,460	18,460	-	20,120	20,120	-	20,120	20,120
Real Estate Examination Fees.....	-	9,837	9,837	-	5,336	5,336	-	4,875	4,875
Real Estate License Fees.....	-	22,530	22,530	-	16,915	16,915	-	16,659	16,659
Subdivision Filing Fees.....	-	8,386	8,386	-	7,909	7,909	-	7,631	7,631
Building Construction Filing Fees.....	-	4,404	4,404	-	7,905	7,905	-	7,905	7,905
Domestic Corporation Fees.....	-	9,093	9,093	-	9,500	9,500	-	11,100	11,100
Foreign Corporation Fees.....	-	1,126	1,126	-	1,135	1,135	-	1,135	1,135
Notary Public License Fees.....	-	1,559	1,559	-	3,622	3,622	-	3,622	3,622
Filing Financing Statements.....	-	4,029	4,029	-	4,056	4,056	-	4,056	4,056
Candidate Filing Fee.....	94	-	94	1,472	-	1,472	94	-	94
Beverage Container Redemption Fees.....	-	570,799	570,799	-	690,397	690,397	-	902,487	902,487
Explosive Permit Fees.....	-	1	1	25	-	25	25	-	25
Processing Fees.....	-	2	2	-	2	2	-	2	2
Hazardous Waste Control Fees.....	-	62,202	62,202	-	63,768	63,768	-	64,884	64,884
Other Regulatory Fees.....	8,778	1,308,702	1,317,480	-	1,550,291	1,568,637	25,692	1,619,343	1,645,035
Other Regulatory Licenses and Permits.....	41,422	340,320	381,742	18,346	365,302	404,484	39,005	377,388	416,393
Renewal Fees.....	69	147,688	147,757	69	149,907	149,976	69	153,957	154,026
Delinquent Fees.....	1	4,466	4,467	1	4,127	4,128	1	3,990	3,991
Private Rail Car Tax.....	6,416	-	6,416	6,416	-	6,416	6,416	-	6,416

SCHEDULE 8—Continued
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 2002–03, 2003–04, AND 2004–05
(Dollars in Thousands)

Sources	Actual 2002–03			Estimated 2003–04			Estimated 2004–05		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Insurance Department Fees, Prop 103	-	24,589	24,589	-	27,638	27,638	-	26,908	26,908
Insurance Department Fees, General	-	17,902	17,902	-	19,361	19,361	-	20,283	20,283
Insurance Fraud Assessment, Workers Comp	-	30,995	30,995	-	31,254	31,254	-	34,754	34,754
Insurance Fraud Assessment, Auto	-	35,452	35,452	-	35,401	35,401	-	35,401	35,401
Insurance Fraud Assessment, General	-	1,761	1,761	-	1,791	1,791	-	1,792	1,792
Totals, REGULATORY TAXES AND LICENSES	\$70,998	\$3,497,103	\$3,568,101	\$66,849	\$3,980,414	\$4,047,263	\$72,640	\$4,268,193	\$4,340,833
REVENUE FROM LOCAL AGENCIES									
Architecture Public Building Fees	-	32,218	32,218	-	32,000	32,000	-	32,000	32,000
Penalties on Traffic Violations	-	86,722	86,722	-	87,833	87,833	-	88,496	88,496
Penalties on Felony Convictions	-	52,487	52,487	-	56,587	56,587	-	62,587	62,587
Fines-Crimes of Public Offense	-	3,559	3,559	-	3,559	3,559	-	3,559	3,559
Fish and Game Violation Fines	-	586	586	-	586	586	-	586	586
Penalty Assessments on Fish & Game Fines	-	580	580	-	761	761	-	783	783
Interest on Loans to Local Agencies	1,164	1,238	2,402	1,160	456	1,616	1,160	414	1,574
Add'l Assmnts on Fish & Game Fines	-	90	90	-	120	120	-	120	120
Narcotic Fines	3,116	-	3,116	1,000	-	1,000	1,000	-	1,000
Fingerprint ID Card Fees	-	53,768	53,768	-	57,264	57,264	-	65,092	65,092
Misc Revenue From Local Agencies	311,886	486,586	798,472	382,532	486,002	868,534	420,702	487,567	908,269
Open Space Cancellation Fee Deferrd Taxes	3,717	1,278	4,995	1,775	1,350	3,125	164	2,036	2,200
Rev Local Govt Agencies-Cost Recoveries	968	-	968	2,500	-	2,500	2,500	-	2,500
Totals, REVENUE FROM LOCAL AGENCIES	\$320,851	\$719,112	\$1,039,963	\$388,967	\$726,518	\$1,115,485	\$425,526	\$743,240	\$1,168,766
SERVICES TO THE PUBLIC									
Pay Patients Board Charges	19,207	-	19,207	18,825	-	18,825	18,754	-	18,754
State Beach and Park Service Fees	-	38,854	38,854	-	52,700	52,700	-	70,700	70,700
Parking Lot Revenues	-	7,361	7,361	-	8,337	8,337	-	8,879	8,879
Fire Prevention and Suppression	1,630	-	1,630	100	-	100	100	-	100
Emergency Telephone Users Surcharge	-	139,267	139,267	-	141,671	141,671	-	150,171	150,171
Sales of Documents	630	3,494	4,124	399	1,858	2,257	397	1,826	2,223
General Fees—Secretary of State	28	15,732	15,760	28	17,932	17,960	28	15,732	15,760
Parental Fees	-	1,887	1,887	-	1,750	1,750	-	1,750	1,750
Guardianship Fees	8	-	8	10	-	10	10	-	10
Miscellaneous Services to the Public	5,657	227,148	232,805	4,078	229,701	233,779	4,068	338,120	342,188
Receipts From Health Care Deposit Fund	8,165	-	8,165	8,000	-	8,000	8,000	-	8,000
Medicare Receipts Frm Federal Government	5,152	-	5,152	5,270	-	5,270	5,270	-	5,270
California State University Fees	-	818,980	818,980	-	1,016,523	1,016,523	-	1,165,573	1,165,573
Personalized License Plates	-	40,400	40,400	-	40,990	40,990	-	41,171	41,171
Totals, SERVICES TO THE PUBLIC	\$40,477	\$1,293,123	\$1,333,600	\$36,710	\$1,511,462	\$1,548,172	\$36,627	\$1,793,922	\$1,830,549
USE OF PROPERTY AND MONEY									
Income From Pooled Money Investments	189,577	401	189,978	137,000	399	137,399	172,000	399	172,399
Income From Surplus Money Investments	37,075	107,086	144,161	6,601	94,528	101,129	6,601	98,228	104,829
Interest Income From Loans	6,233	3,930	10,163	5,665	3,726	9,391	5,786	2,729	8,515
Interest Income From Interfund Loans	-	15,017	15,017	174	2,695	2,869	174	250	424
Income From Other Investments	-	7,223	7,223	-	22,588	22,588	-	12,955	12,955
Income From Condemnation Deposits Fund	-	1,617	1,617	-	1,580	1,580	-	1,390	1,390
Federal Lands Royalties	-	21,322	21,322	-	18,375	18,375	-	18,375	18,375
Oil & Gas Lease-1% Revenue City/County	255	-	255	199	-	199	166	-	166
Rentals of State Property	8,474	42,236	50,710	8,894	29,606	38,500	9,061	28,435	37,496
Misc Revenue Firm Use of Property & Money	30,966	31,407	62,373	32,276	35,886	68,162	32,276	28,993	61,269
School Lands Royalties	-	101	101	-	58	58	-	58	58
State Lands Royalties	78,470	5,000	83,470	71,538	7,900	79,438	121,152	-	121,152
Totals, USE OF PROPERTY AND MONEY	\$351,050	\$235,340	\$586,390	\$262,347	\$217,341	\$479,688	\$347,216	\$191,812	\$539,028
MISCELLANEOUS									
Attorney General Proceeds of Anti-Trust	-	1,109	1,109	-	1,210	1,210	-	1,210	1,210
Penalties & Interest on UI & DI Contrib	-	77,746	77,746	-	80,156	80,156	-	83,344	83,344
Sale of Fixed Assets	14,946	43	14,989	188,974	1	188,975	312	1	313

SCHEDULE 8—Continued
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 2002–03, 2003–04, AND 2004–05
(Dollars in Thousands)

Sources	Actual 2002–03			Estimated 2003–04			Estimated 2004–05		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Sale of Confiscated Property.....	5,907	—	5,907	5,810	—	5,810	5,810	—	5,810
Sale of State's Public Lands.....	—	4,145	4,145	—	6,706	6,706	—	1,482	1,482
Proceeds From Estates of Deceased Person.....	75	—	75	350	—	350	350	—	350
Revenue-Abandoned Property.....	257,533	—	257,533	616,716	—	616,716	294,359	—	294,359
Escheat of Unclaimed Checks & Warrants.....	28,990	2,032	31,022	27,933	1,214	29,147	28,027	1,147	29,174
Miscellaneous Revenue.....	2,502,737	200,066	2,702,803	2,363,788	181,583	2,545,371	844,846	640,427	1,485,273
Bond Proceeds.....	9,242,000	—	9,242,000	3,012,000	1,160,435	4,172,435	—	—	—
Penalties & Infrst on Personal Income Tx.....	—	14,517	14,517	—	14,960	14,960	—	15,482	15,482
Other Revenue—Cost Recoveries.....	458	43,073	43,531	25	59,256	59,281	25	79,188	79,213
Settlements/Judgments (not Anti-trust).....	—	476,069	476,074	10,252	531	10,783	203,502	531	204,033
Uninsured Motorist Fees.....	5	—	2,357	2,400	—	2,400	2,400	—	2,400
Traffic Violations.....	—	2,662	2,662	—	2,662	2,662	—	2,662	2,662
Parking Violations.....	6,971	973	7,944	7,001	440	7,441	7,001	460	7,461
Penalty Assessments.....	53,724	83,071	136,795	25,304	111,848	137,152	25,304	72,267	97,571
Civil & Criminal Violation Assessment.....	673	5,041	5,714	628	17,167	17,795	628	17,122	17,750
Fines and Forfeitures.....	—	292,342	292,342	—	287,938	287,938	—	289,238	289,238
Court Filing Fees and Surcharges.....	—	175,861	175,861	—	327,495	327,495	—	337,815	337,815
Penalty Assessments on Criminal Fines.....	—	12,783	12,783	—	43,084	43,084	—	43,084	43,084
Totals, MISCELLANEOUS.....	\$12,116,376	\$1,391,533	\$13,507,909	\$6,261,181	\$2,296,686	\$8,557,867	\$1,412,564	\$1,585,460	\$2,998,024
TOTALS, MINOR REVENUES.....	\$12,899,752	\$7,136,211	\$20,035,963	\$7,016,054	\$8,732,421	\$15,748,475	\$2,294,573	\$8,582,627	\$10,877,200
TOTALS, REVENUES.....	\$77,778,453	\$17,677,221	\$95,455,674	\$76,119,879	\$19,770,745	\$95,890,624	\$75,609,328	\$21,376,494	\$96,985,822
TRANSFERS AND LOANS									
General Fund.....	—332,256	332,256	—	—238,466	209,966	—28,500	—51,500	51,500	—
Property Acquisition Low Money Account.....	2,700	—2,700	—	—	—	—	—	—	—
Motor Vehicle Parking Facility Money Acct.....	—	—13	—13	—	—	—	—	—	—
Disability Access Account.....	10,000	—10,000	—	—	—	—	—	—	—
Hazardous Materials Enforce Train Acct.....	—	—55	—55	—	—	—	—	—	—
Hazardous Waste Control Account.....	15,000	—15,000	—	—	—	—	—	—	—
Fingerprint Fees Account.....	2,000	—2,000	—	2,000	—2,000	—	—	—	—
Site Remediation Account.....	1,000	—1,000	—	—	—	—	—	—	—
Aeronautics Account STF.....	6,000	—6,000	—	4,762	—4,762	—	745	—745	—
Highway Account, State, STF.....	202,477	—202,477	—	666,395	—666,395	—	47,239	—47,239	—
Motor Vehicle Account, STF.....	23	—25	—2	4,244	—4,244	—2	4,244	—4,246	—2
Colorado River Management Account.....	22,000	—22,000	—	38,766	—38,766	—	—	—	—
Motor Vehicle Fuel Account, TIF.....	—	—17,301	—17,301	—	—18,195	—18,195	—	—19,024	—19,024
Corporations Fund, State.....	29,000	—29,000	—	44,907	—44,907	—	1,000	—1,000	—
Barbering/Cosmetology Fd, St Bd of.....	9,000	—9,000	—	—	—	—	—	—	—
State Employee Scholarship Fund.....	356	—356	—	—	—	—	—	—	—
Alcohol Beverage Control Fund.....	2,433	—2,433	—	2,000	—2,000	—	—	—	—
Cal-OSHA Targeted Inspection & Consult.....	—	—	—	1,000	—1,000	—	—	—	—
Health Statistics Special Fund.....	4,200	—4,200	—	1,500	—1,500	—	—	—	—
Acupuncture Fund.....	—	—24,563	—24,563	—	—2,003	—	—	—	—
Department of Agriculture Account, Ag Fd.....	24,563	—	—	415	—415	—	577	—577	—
Rural Economic Development Fund.....	—	—	—	98,300	—98,300	—	—	—	—
Workers' Compensation Managed Care Fund.....	—	—	—	108	—108	—	—	—	—
Beverage Container Recycling Fund, CA.....	188,000	—188,000	—	4,000	—4,000	—	—	—	—
Soil Conservation Fund.....	1,100	—1,100	—	10,000	—10,000	—	—	—	—
Commerce Marketing Fund.....	—	—	—	—	—	—	—	—	—
Chiropractic Examiners Fund.....	—	—	—	—	—	—	—	—	—
Trial Court Improvement Fund.....	43,110	—43,110	—	—	—	—	—	—	—
Debt Limit Allocation Committee Fund, Cal.....	2,000	—2,000	—	—	—	—	—	—	—
Corrections Training Fund.....	—	—	—	9,606	—9,606	—	10,257	—10,257	—
Debt & Investment Advisory Comm Fund, Cal.....	—	—	—	5,500	—5,500	—	—	—	—
Driver Training Penalty Assessment Fund.....	11,959	—11,959	—	19,538	—19,538	—	19,831	—19,831	—
Employment Development Dept Benefit Audit.....	13,126	—13,126	—	11,940	—11,940	—	55	—55	—
Employment Development Contingent Fund.....	64,649	—64,649	—	70,939	—70,939	—	36,912	—36,912	—

SCHEDULE 8—Continued
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 2002–03, 2003–04, AND 2004–05
(Dollars in Thousands)

Sources	Actual 2002–03			Estimated 2003–04			Estimated 2004–05		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Energy and Resources Fund	601	-601	-	300	-300	-	300	-300	-
Fair and Exposition Fund	246	-246	-	246	-246	-	246	-246	-
Asset Forfeiture Distribution Fund	8,760	-8,760	-	-	-	-	-	-	-
Genetic Disease Testing Fund	-	-	-	1,000	-1,000	-	3,060	-3,060	-
Insurance Fund	10,000	-10,000	-	-	-	-	-	-	-
Rural Development Fund	-	-	-	53	-53	-	-	-	-
Workplace Health & Safety Revolving Fund	4,655	-4,655	-	-	-	-	-	-	-
Workers' Comp Administration Revolv Fund	2,805	-2,805	-	-	-	-	-	-	-
Tire Recycling Management Fund, Calif	-	-	-	17,097	-17,097	-	-	-	-
Business Fees Fund, Secty of State's	5,278	-5,278	-	3,446	-3,446	-	8,547	-8,547	-
Private Security Services Fund	-	-	-	4,000	-4,000	-	-	-	-
Protective Services Fund	-	1,406	1,406	-	-	-	-	-	-
Osteopathic Medical Bd of Calif Contn Fd	2,600	-2,600	-	-	-	-	-	-	-
Glass Processing Fee Account	-	-	-	39,000	-39,000	-	-	-	-
Technical Assistance Fund	600	-600	-	713	-713	-	713	-713	-
Business Reinvestment Fund	3,056	-3,056	-	193	-193	-	-	-	-
PET Processing Fee Acct, Bev Cont Rec Fd	-	-	-	45,000	-45,000	-	-	-	-
Recycling Market Development Rev Loan	-	-	-	1,853	-1,853	-	-	-	-
Loss Control Certification Fund	-	-	-	-	-	-	-	-	-
Residential Earthquake Recovery Fund, CA	1,903	-1,903	-	-	-	-	2,900	-2,900	-
Motor Carriers Permit Fund	-	-	-	-	-	-	-	-	-
Financial Institutions Fund	4,221	-4,221	-	-	-	-	-	-	-
Credit Union Fund	2,000	-2,000	-	1,800	-1,800	-	-	-	-
Psychology Fund	5,000	-5,000	-	-	-	-	-	-	-
Real Estate Fund	10,900	-10,900	-	-	-	-	-	-	-
Pub Sch Ping Design & Constr Rev Revlv Fd	35,000	-35,000	-	-	-	-50,569	-	-	-
Indian Gaming Special Distribution Fund	18,979	-18,979	-	-	-	-	-	-	-
False Claims Act Fund	2,000	-2,000	-	3,500	-3,500	-	-	-	-
Public Int Res, Dev & Demonstratn Progrm	3,794	-3,794	-	20,000	-20,000	-	-	-	-
Renewable Resource Trust Fund	161,608	-170,508	-8,900	-	-	-	-	-	-
Integrated Waste Management Account	-	-	-	4,768	-4,768	-	-	-	-
Parks and Recreation Fund, State	19,800	-19,800	-	-	-	-	-	-	-
Job Creation Investment Fund	290	-290	-	4	-4	-	-	-	-
Real Estate Appraisers Regulation Fund	1,000	-1,000	-	2,000	-2,000	-	-	-	-
Vehicle Inspection and Repair Fund	100,000	-100,000	-	14,000	-14,000	-	-	-	-
Underground Storage Tank Cleanup Fund	-	-	-	3,200	-3,200	-	-	-	-
Petro Undergrnd Storage Tank Financ Acct	21,500	-21,500	-	36,140	-36,140	-	-	-	-
Olympic Training Account, California	100	-100	-	100	-100	-	100	-100	-
Wildlife Restoration Fund	27,765	-27,765	-	-	-	-	-	-	-
Occupancy Compliance Monitoring Account	32,000	-32,000	-	-	-	-	-	-	-
Tax Credit Allocation Fee Account	27,000	-27,000	-	3,000	-3,000	-	-	-	-
Publ Utilities Comm Utilities Reimb Acct	-	-	-	15,000	-15,000	-	-	-	-
High-Cost Fund-A Admin Committee Fd, Cal	27,200	-27,200	-	-	-	-6,165	-	-	-
Energy Resources Programs Account	-	-	-	9,365	-15,530	-	-	-	-
High-Cost Fund-B Admin Committee Fd, Cal	250,900	-250,900	-	-	-	-	-	-	-
Child Care & Dev Fac Ln Guaranty Fd	2,706	-	2,706	-	-	-	-	-	-
Energy Tech Research, Dev, & Demo Acct	2,530	-2,530	-	1,288	-1,288	-	-	-	-
Financial Responsibility Penalty Account	-	-	-	1,763	-1,763	-	1,763	-1,763	-
Teleconnect Fd Admin Comm Fd, Cal	2,539	-2,539	-	150,000	-150,000	-	-	-	-
Other Unallocated Special Funds	-	-	-	9,813	-9,813	-	390,157	-390,157	-
Local Govt Geothermal Resource Subacct	-	-	-	1,594	-1,594	-	-	-	-
Water Resources Development Bond Fund	31,400	-	31,400	-	-	-	11,500	-	11,500
Harbors and Watercraft Revolving Fund	-	-	-	-	100	100	-	-	-
Rural Econ Dev Infrastructure Rev Bd Fd	10,100	-	10,100	3,000	-	3,000	-	-	-
Mobilehome Park Purchase Fund	10,100	-	10,100	-	-	-	970	-970	-
Toxic Substances Control Account	-	-	-	-	-	-	-	-	-
Small Craft Harbor Improvement Fund	4,800	-	4,800	-	-	-	-	-	-
Scholarshare Administrative Fund	280	-280	-	200	-	200	450	-	450

SCHEDULE 8—Continued
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 2002–03, 2003–04, AND 2004–05
(Dollars in Thousands)

Sources	Actual 2002–03			Estimated 2003–04			Estimated 2004–05		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Vincent Thomas Bridge Toll Revenue Fund.....	-	-	-	-	-	-	-	6,997	6,997
Agriculture Building Fund.....	-	405	405	-	405	405	-	405	405
Architecture Revolving Fund.....	1,000	-	1,000	13,226	-	13,226	-	-	-
Equipment Service Fund.....	-	5,494	5,494	-	14,915	14,915	-	-	-
Drinking Water Treatment & Research Fund.....	-	-	-	1,000	-1,000	-	-	-	-
Upper Newport Bay Ecological Maint & Presv.....	999	-999	-	-	-	-	-	-	-
Infrastructure & Economic Devl Bank, Cal.....	16,000	-	16,000	-	-	-	-	-	-
Public Buildings Construction Fund.....	59,526	-	59,526	-	-	-	-	-	-
Petroleum Financing Collection Account.....	1,000	-	1,000	90	-	90	-	-	-
Grant and Loan Collection Account.....	-	-	-	857	-	857	-	-	-
Governor's Residence Account.....	-	-3,471	-3,471	-	-	-	-	-	-
Accountancy Fund.....	6,000	-6,000	-	270	-270	-	-	-	-
Architects Board Fund, California.....	-	-	-	1,800	-1,800	-	-	-	-
Contractors' License Fund.....	11,000	-11,000	-	8,700	-8,700	-	-	-	-
School Building Aid Fund, State.....	23,744	-	23,744	23,744	-	23,744	23,744	-	23,744
Dentistry Fund, State.....	5,000	-5,000	-	5,000	-5,000	-	-	-	-
Landscape Architects Fd, CA Bd/Arch Exam.....	-	-	-	1,225	-1,225	-	-	-	-
Registered Nursing Fund, Board of.....	12,000	-12,000	-	-	-	-	-	-	-
Pharmacy Board Contingent Fund.....	6,000	-6,000	-	-	-	-	-	-	-
Court Reporters Fund.....	-	-	-	1,250	-1,250	-	-	-	-
Behavioral Science Examiners Fund.....	6,000	-6,000	-	-	-	-	-	-	-
Structural Pest Control Fund.....	2,000	-2,000	-	-	-	-	-	-	-
Vocational Nurse Examiners Fund.....	-	-	-	2,000	-2,000	-	-	-	-
Psychiatric Technicians Account.....	-	-	-	1,000	-1,000	-	-	-	-
Export Finance Fund.....	8,000	-	8,000	2,974	-	2,974	-	-	-
Self-Help Housing Fund.....	14,518	50,000	64,518	23,507	-	23,507	-	-	-
Audit Repayment Trust Fund.....	273	-	273	-	-	-	-	-	-
Export Promotion Ac:CA (World Trade Com).....	-	-	-	9	-	9	-	-	-
Superfund Bond Trust Fund.....	-	2,300	2,300	-	2,600	2,600	-	2,700	2,700
Housing Trust Fund, Cal.....	2,000	-	2,000	2,085	-	2,085	-	-	-
Industrial Relations Unpaid Wage Fund.....	1,800	-	1,800	-	-	-	-	-	-
Small Business Expansion Fund.....	10,995	-	10,995	-	-	-	-	-	-
Litigation Deposit Fund.....	-	-	-	546	-	546	-	-	-
Economic Development Grant & Loan Fd, CA.....	-	-	-	2,769	-	2,769	-	-	-
Joe Serna, Jr. Farmworker Housing Grant.....	4,548	-	4,548	27,143	-	27,143	-	-	-
Forest Resources Improvement Fund.....	-	-	-	-	-	-	3,000	-	3,000
Housing Rehabilitation Loan Fund.....	28,620	-	28,620	41,380	-	41,380	-	-	-
Pollution Control Financing Authority Fd.....	25,000	-	25,000	-	-	-	-	-	-
Managed Care Fund.....	1,000	-1,000	-	-	-	-	-	-	-
Rental Housing Construction Fd.....	1,834	-	1,834	-	-	-	-	-	-
Renewable Resources Investment Fund.....	-	-	-	652	-	652	-	-	-
Special Deposit Fund.....	6,515	4,183	10,698	2,750	-	2,750	2,000	-	2,000
Foster Children and Parent Train Fund.....	33	-	33	-	-	-	-	-	-
Manufactured Home Recovery Fund.....	800	-	800	-	-	-	-	-	-
Predevelopment Loan Fund.....	1,900	-	1,900	-	-	-	-	-	-
World Trade Commission Fd, Cal St.....	-	-	-	120	-	120	-	-	-
Emergency Housing and Assistance Fund.....	1,617	-	1,617	-	-	-	-	-	-
Various Other Unallocated NGC Funds.....	1,428	-	1,428	2,707	-	2,707	192,463	-	192,463
Electrician Certification Fund.....	405	-405	-	-	-	-	-	-	-
Permanent Amusement Ride Safety Insp Fd.....	-	-	-	875	-875	-	-	-	-
Garment Industry Regulations Fund.....	-	-	-	1,094	-1,094	-	-	-	-
Film California First Fund.....	2,000	-2,000	-	-	-	-	-	-	-
Jobs-Housing Balance Improvement Account.....	212	-212	-	-	-	-	-	-	-
Traffic Congestion Relief Fund.....	1,145,000	-1,145,000	-	189,000	-189,000	-	-	-	-
Special Reserve Fund Vehicle License Fee.....	47,829	-47,829	-	-	-	-	-	-	-
Occupational Therapy Fund.....	459	-459	-	882	-882	-	-	-	-
Tobacco Settlement Fund.....	141,000	-141,000	-	4,276	-4,276	-	-	-	-

SCHEDULE 8—Continued
COMPARATIVE STATEMENT OF REVENUES: FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

Sources	Actual 2002-03			Estimated 2003-04			Estimated 2004-05		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Apprenticeship Training Contribution Fd.....	1,400	-	-	1,400	-	-	-	-	-
Alcohol Beverages Control Fund	-	-	-	2,338	-	-	3,638	-	-
State Court Facilities Construction Fund	-	-	-	-	-	-	30,000	-	-
Responsibility Area Fire Protection Fund	-	-	-	-	-	-	52,500	-	-
C/A Consumer Pwr & Conservation Fin Auth	4,502	29,540	34,042	-	4,255	4,255	-	-	-
TOTALS, TRANSFERS AND LOANS	\$2,785,113	-\$2,446,488	\$338,625	\$1,519,562	-\$1,452,959	\$66,603	\$797,411	-\$573,178	\$224,233
TOTALS, REVENUES AND TRANSFERS	\$80,563,566	\$15,230,733	\$95,794,299	\$77,639,441	\$18,317,786	\$95,957,227	\$76,406,739	\$20,803,316	\$97,210,055

SCHEDULE 9

Appendix 33

Appendix 34

Appendix 34

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05			
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds
Statewide Distributed Costs												
General Obligation Bonds-LIE												
State Operations	-	-	-	-	-	1,591	-	-	1,591	-	6,647	-
Totals, Statewide Distributed Costs	-	-	-	-	-	1,591	-	-	1,591	-	6,647	-
TOTALS, LEGISLATIVE, JUDICIAL, AND EXECUTIVE	\$2,459,385	\$1,395,780	\$176	\$3,855,341	\$643,678	\$2,528,055	\$1,664,788	\$185	\$4,193,028	\$970,265	\$2,616,312	\$1,535,561
State Operations	1,210,124	328,538	176	1,538,838	47,386	1,239,002	383,569	185	1,622,756	66,739	1,238,917	377,539
Local Assistance	1,243,983	1,067,229	-	2,311,212	596,292	1,288,684	1,281,219	-	2,569,903	903,526	1,377,395	1,158,022
Capital Outlay	5,278	13	-	5,291	-	369	-	-	369	-	-	-
STATE AND CONSUMER SERVICES												
Secretary for State and Consumer Service												
State Operations	767	-	-	767	-	746	-	-	746	-	746	-
California Science Center												
State Operations	12,764	2,907	-	15,671	-	12,794	2,971	-	15,765	-	14,232	3,188
Capital Outlay	2,088	-	-	2,088	-	-	-	-	-	-	-	-
Totals, California Science Center	\$14,852	\$2,907	-	\$17,759	-	\$12,794	\$2,971	-	\$15,765	-	\$14,232	\$3,188
Consumer Affairs-Regulatory Boards												
State Operations	683	165,332	-	166,015	-	629	184,051	-	184,680	-	-	181,520
Consumer Affairs-Bureaus, Programs, Divs												
State Operations	656	133,159	-	133,815	1,072	485	141,190	-	141,675	1,141	485	139,305
Dept of Fair Employment and Housing												
State Operations	16,200	-	-	16,200	7,155	13,537	-	-	13,537	6,346	13,500	-
Fair Employment and Housing Commission												
State Operations	1,196	-	-	1,196	-	1,092	-	-	1,092	-	1,091	-
Franchise Tax Board												
State Operations	409,435	7,999	-	417,434	-	432,902	11,169	-	444,071	-	441,973	12,281
Capital Outlay	288	-	-	288	-	-	-	-	-	-	-	-
Totals, Franchise Tax Board	\$409,723	\$7,999	-	\$417,722	-	\$432,902	\$11,169	-	\$444,071	-	\$441,973	\$12,281
Department of General Services												
State Operations	16,975	60,996	10,874	88,845	-	5,000	74,110	13,168	92,278	-	3,000	75,047
Local Assistance	-	110,469	1,190	111,659	-	-	146,849	2,391	149,240	-	-	147,925
Capital Outlay	-	-	11,830	11,830	1,884	-	-	16,676	16,676	-	-	-
Totals, Department of General Services	\$16,975	\$171,465	\$23,894	\$212,334	\$1,884	\$5,000	\$220,959	\$32,235	\$258,194	-	\$3,000	\$222,972
State Personnel Board												
State Operations	6,468	-	-	6,468	-	4,035	-	-	4,035	-	3,288	-
Local Assistance	-	-	-	-	-	1	-	-	1	-	1	-
Totals, State Personnel Board	\$6,468	-	-	\$6,468	-	\$4,036	-	-	\$4,036	-	\$3,289	-
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
Totals, Business and Housing	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
Totals, Business and Housing	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
Totals, Business and Housing	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
Totals, Business and Housing	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
Totals, Business and Housing	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
Totals, Business and Housing	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
Totals, Business and Housing	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	-	705	-	705	-	4,429	1,374	-	5,803	-	4,820	1,324
TOTALS, STATE AND CONSUMER SERVICES	\$467,520	\$480,862	\$23,894	\$972,276	\$10,111	\$471,221	\$560,340	\$32,235	\$1,063,796	\$7,487	\$478,316	\$559,266
State Operations	465,144	370,393	10,874	846,411	8,227	471,220	413,491	13,168	897,879	7,487	478,315	411,341
Local Assistance	-	110,469	1,190	111,659	-	1	146,849	2,391	149,241	-	1	147,925
Capital Outlay	2,376	-	11,830	14,206	1,884	-	-	16,676	16,676	-	-	-
BUSINESS, TRANSPORTATION, AND HOUSING												
Business and Housing												
Sec for Business, Transport and Housing												
State Operations	-	705										

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Dept of Alcoholic Beverage Control															
State Operations	-	35,372	-	35,372	-	-	39,791	-	39,791	-	-	40,321	-	40,321	-
Local Assistance	-	1,500	-	1,500	-	-	1,500	-	1,500	-	-	1,500	-	1,500	-
Totals, Dept of Alcoholic Beverage Control ..	-	\$36,872	-	\$36,872	-	-	\$41,291	-	\$41,291	-	-	\$41,821	-	\$41,821	-
Alcoholic Beverage Control Appeals Board															
State Operations	-	703	-	703	-	-	867	-	867	-	-	873	-	873	-
Department of Financial Institutions															
State Operations	-	19,373	-	19,373	-	-	21,171	-	21,171	-	-	23,257	-	23,257	-
Dept of Corporations															
State Operations	-	25,699	-	25,699	-	-	26,456	-	26,456	-	-	28,978	-	28,978	-
Dept of Housing & Community Development															
State Operations	5,409	20,191	-	25,600	5,982	4,949	21,846	340	27,135	7,491	4,949	21,846	340	27,135	7,586
Local Assistance	10,871	-96,774	1,975,345	1,889,442	138,361	10,732	37,500	44,125	92,357	139,850	9,292	37,500	39,325	86,117	139,850
Totals, Dept of Housing & Community Development	\$16,280	-\$76,583	\$1,975,345	\$1,915,042	\$144,343	\$15,681	\$59,346	\$44,465	\$119,492	\$147,341	\$14,241	\$59,346	\$39,665	\$113,252	\$147,436
Office of Real Estate Appraisers															
State Operations	-	3,017	-	3,017	-	-	3,349	-	3,349	-	-	3,338	-	3,338	-
Department of Real Estate															
State Operations	-	29,805	-	29,805	-	-	31,282	-	31,282	-	-	30,914	-	30,914	-
Department of Managed Health Care															
State Operations	-	32,633	-	32,633	-	-	35,795	-	35,795	-	-	35,301	-	35,301	-
Totals, Business and Housing	\$16,280	\$72,224	\$1,975,345	\$2,063,849	\$144,343	\$20,110	\$220,931	\$44,465	\$285,506	\$147,341	\$19,061	\$225,152	\$39,665	\$283,878	\$147,436
Transportation															
California Transportation Commission															
State Operations	-	2,063	6	2,069	-	-	2,180	39	2,219	-	-	1,715	39	1,754	-
Local Assistance	-	-	61,052	61,052	-	-	-	75,000	75,000	-	-	-	75,000	75,000	-
Totals, California Transportation Commission ..	-	\$2,063	\$61,058	\$63,121	-	-	\$2,180	\$75,039	\$77,219	-	-	\$1,715	\$75,039	\$76,754	-
Special Transportation Programs															
Local Assistance	-	98,018	-	98,018	-	-	104,606	-	104,606	-	-	101,424	-	101,424	-
Department of Transportation															
State Operations	-	2,172,966	19,273	2,192,239	490,091	-	2,109,987	25,893	2,135,880	416,134	-	2,083,110	22,055	2,105,165	494,110
Local Assistance															
Aeronautics Program	-	2,440	-	2,440	-	-	5,053	-	5,053	-	-	4,308	-	4,308	-
Highway Transportation Program	-	271,374	-	271,374	676,684	-	422,042	-	422,042	1,955,828	-	169,760	-	169,760	761,843
Mass Transportation Program	-	329,979	-	329,979	18,055	-	19,064	-	19,064	45,636	-	9,736	-	9,736	54,523
Transportation Planning Program	-	7,558	-	7,558	44,803	-	10,593	-	10,593	44,000	-	8,796	-	8,796	46,000
State-Mandated Local Programs	-	-	-	-	-	-	2	-	2	-	-	1	-	1	-
Totals, Local Assistance	-	\$611,351	-	\$611,351	\$739,542	-	\$456,754	-	\$456,754	\$2,045,464	-	\$192,601	-	\$192,601	\$862,366
Capital Outlay	-	757,534	32,294	789,828	1,480,728	289,000	900,816	41,000	1,230,816	801,835	-	1,033,297	11,000	1,044,297	1,070,618
Unclassified	-	-	-	-	-	-	-	-	-	31,000	-	-	-	-	31,000
Totals, Department of Transportation	-	\$3,541,851	\$51,567	\$3,593,418	\$2,710,361	\$289,000	\$3,467,557	\$66,893	\$3,823,450	\$3,294,433	-	\$3,309,008	\$33,055	\$3,342,063	\$2,458,094
High-Speed Rail Authority															
State Operations	-	6,472	-	6,472	1,250	-	2,592	-	2,592	1,242	-	1,099	-	1,099	-
Office of Traffic Safety															
State Operations	-	327	-	327	40,011	-	395	-	395	57,994	-	392	-	392	57,994
Local Assistance	-	-	-	-	35,345	-	-	-	-	26,384	-	-	-	-	26,384
Totals, Office of Traffic Safety	-	\$327	-	\$327	\$75,356	-	\$395	-	\$395	\$84,378	-	\$392	-	\$392	\$84,378

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Dept of the California Highway Patrol															
State Operations	-	1,131,638	-	1,131,638	14,232	-	1,191,570	-	1,191,570	12,873	-	1,190,237	-	1,190,237	13,585
Capital Outlay	-	9,782	-	9,782	-	-	6,096	-	6,096	-	-	250	-	250	-
Totals, Dept of the California Highway Patrol	-	\$1,141,420	-	\$1,141,420	\$14,232	-	\$1,197,666	-	\$1,197,666	\$12,873	-	\$1,190,487	-	\$1,190,487	\$13,585
Department of Motor Vehicles															
State Operations	1,598	673,443	-	675,041	63	10,762	691,521	-	702,283	-	-	689,997	-	689,997	-
Capital Outlay	-	21,612	-	21,612	-	-	19,050	-	19,050	-	-	8,863	-	8,863	-
Totals, Department of Motor Vehicles	\$1,598	\$695,055	-	\$696,653	\$63	\$10,762	\$710,571	-	\$721,333	-	-	\$698,860	-	\$698,860	-
Totals, Transportation	\$1,598	\$5,485,206	\$112,625	\$5,599,429	\$2,801,262	\$299,762	\$5,485,567	\$141,932	\$5,927,261	\$3,392,926	-	\$5,302,985	\$108,094	\$5,411,079	\$2,556,057
Statewide Distributed Costs															
General Obligation Bonds-BT&H															
State Operations	188,544	-	-	188,544	-	198,136	-	-	198,136	-	355,888	-	-	355,888	-
Totals, Statewide Distributed Costs	\$188,544	-	-	\$188,544	-	\$198,136	-	-	\$198,136	-	\$355,888	-	-	\$355,888	-
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	\$206,422	\$5,557,430	\$2,087,970	\$7,851,822	\$2,945,605	\$518,008	\$5,706,498	\$186,397	\$6,410,903	\$3,540,267	\$374,949	\$5,528,137	\$147,759	\$6,050,845	\$2,703,493
State Operations	195,551	4,154,407	19,279	4,369,237	551,629	218,276	4,180,176	26,272	4,424,724	495,734	365,657	4,152,702	22,434	4,540,793	573,275
Local Assistance	10,871	614,095	2,036,397	2,661,363	913,248	10,732	600,360	119,125	730,217	2,211,698	9,292	333,025	114,325	456,642	1,028,600
Capital Outlay	-	788,928	32,294	821,222	1,480,728	289,000	925,962	41,000	1,255,962	801,835	-	1,042,410	11,000	1,053,410	1,070,618
Unclassified	-	-	-	-	-	-	-	-	-	31,000	-	-	-	-	31,000
TECHNOLOGY, TRADE, AND COMMERCE AGENCY															
Technology, Trade, and Commerce Agency															
State Operations	29,237	281	-	29,518	1,659	5,187	300	-	5,487	-	-	-	-	-	-
Local Assistance	16,120	-3,337	-	12,783	5,971	-	-915	-	-915	18	-	-	-	-	-
Totals, Technology, Trade, and Commerce Agency	\$45,357	-\$3,056	-	\$42,301	\$7,630	\$5,187	-\$615	-	\$4,572	\$18	-	-	-	-	-
TOTALS, TECHNOLOGY, TRADE, AND COMMERCE AGENCY	\$45,357	-\$3,056	-	\$42,301	\$7,630	\$5,187	-\$615	-	\$4,572	\$18	-	-	-	-	-
State Operations	29,237	281	-	29,518	1,659	5,187	300	-	5,487	-	-	-	-	-	-
Local Assistance	16,120	-3,337	-	12,783	5,971	-	-915	-	-915	18	-	-	-	-	-
RESOURCES															
Secretary for Resources															
State Operations	4,581	2,630	96,253	103,464	9,975	-	2,647	98,324	100,971	255	-	2,671	3,347	6,018	269
Local Assistance	3,000	-	13,109	16,109	-	-	-	86,354	86,354	-	-	-	-	-	-
Totals, Secretary for Resources	\$7,581	\$2,630	\$109,362	\$119,573	\$9,975	-	\$2,647	\$184,678	\$187,325	\$255	-	\$2,671	\$3,347	\$6,018	\$269
Special Resources Program															
State Operations	200	-	-	200	-	-	200	-	200	-	-	200	-	200	-
Local Assistance	-	4,126	-	4,126	-	-	4,071	-	4,071	-	-	4,071	-	4,071	-
Totals, Special Resources Program	\$200	\$4,126	-	\$4,326	-	-	\$4,271	-	\$4,271	-	-	\$4,271	-	\$4,271	-
California Tahoe Conservancy															
State Operations	-	2,946	825	3,771	-	-	2,804	854	3,658	-	-	3,018	854	3,872	-
Local Assistance	311	-	4,740	5,051	-	-	713	11,020	11,733	-	-	-	-	-	-
Capital Outlay	2,428	2,941	5,826	11,195	-	63	1,357	21,910	23,330	-	-	1,192	-	1,192	-
Totals, California Tahoe Conservancy	\$2,739	\$5,887	\$11,391	\$20,017	-	\$63	\$4,874	\$33,784	\$38,721	-	-	\$4,210	\$854	\$5,064	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
California Conservation Corps															
State Operations	45,688	31,251	653	77,592	-	35,402	36,883	1,864	74,149	-	22,611	28,546	-	51,157	-
Local Assistance	-	-	6,852	6,852	-	-	-	6,900	6,900	-	-	-	-	-	-
Capital Outlay	-	250	-	250	-	481	-	-	481	-	29	-	-	29	-
Totals, California Conservation Corps	\$45,688	\$31,501	\$7,505	\$84,694	-	\$35,883	\$36,883	\$8,764	\$81,530	-	\$22,640	\$28,546	-	\$51,186	-
Energy Resources Conservation & Dev Com															
State Operations	250	203,034	-	203,284	4,845	620	269,576	-	270,196	11,266	-	336,790	-	336,790	9,104
Local Assistance	-	248	-	248	-	-	17,040	-	17,040	-	-	3,478	-	3,478	-
Totals, Energy Resources Conservation & Dev Com	\$250	\$203,282	-	\$203,532	\$4,845	\$620	\$286,616	-	\$287,236	\$11,266	-	\$340,268	-	\$340,268	\$9,104
Renewable Resources Investment Program															
State Operations	-	2,097	-	2,097	-	-	1,200	-	1,200	-	-	1,200	-	1,200	-
Colorado River Board of California															
State Operations	166	14	-	180	-	-	14	-	14	-	-	-	-	-	-
Department of Conservation															
State Operations	21,529	503,971	468	525,968	1,077	5,003	643,878	887	649,768	1,720	3,790	865,332	1,479	870,601	1,687
Local Assistance	120	-	6,133	6,253	-	-	-	25,257	25,257	-	-	-	-	-	-
Totals, Department of Conservation	\$21,649	\$503,971	\$6,601	\$532,221	\$1,077	\$5,003	\$643,878	\$26,144	\$675,025	\$1,720	\$3,790	\$865,332	\$1,479	\$870,601	\$1,687
Dept of Forestry and Fire Protection															
State Operations	435,038	5,737	1,088	441,863	17,616	466,784	67,338	1,541	535,663	66,077	366,152	71,100	241	437,493	26,108
Local Assistance	1	-	1,268	1,269	-	-	-	1,175	1,175	-	-	-	-	-	-
Capital Outlay	1,336	-	-	1,336	-	951	-	-	951	-	4,106	-	-	4,106	-
Totals, Dept of Forestry and Fire Protection	\$436,375	\$5,737	\$2,356	\$444,468	\$17,616	\$467,735	\$67,338	\$2,716	\$537,789	\$66,077	\$370,258	\$71,100	\$241	\$441,599	\$26,108
State Lands Commission															
State Operations	10,406	7,000	-	17,406	-	9,130	8,749	-	17,879	-	9,100	9,846	-	18,946	-
Department of Fish and Game															
State Operations	47,889	131,297	11,421	190,607	45,483	37,020	131,572	10,841	179,433	62,893	36,734	134,891	3,087	174,712	63,180
Local Assistance	589	836	-	1,425	-	635	996	-	1,631	-	618	933	-	1,551	-
Capital Outlay	1,665	649	1,554	3,868	-	15	835	766	1,616	14	-	1,300	203	1,503	1,230
Totals, Department of Fish and Game	\$50,143	\$132,782	\$12,975	\$195,900	\$45,483	\$37,670	\$133,403	\$11,607	\$182,680	\$62,907	\$37,352	\$137,124	\$3,290	\$177,766	\$64,410
Wildlife Conservation Board															
State Operations	319	1,184	740	2,243	-	292	1,498	4,762	6,552	-	193	1,562	4,133	5,888	-
Capital Outlay	21,301	-3,368	258,423	276,356	-	7,900	12,434	1,125,593	1,145,927	-	-	377	21,000	21,377	-
Totals, Wildlife Conservation Board	\$21,620	-\$2,184	\$259,163	\$278,599	-	\$8,192	\$13,932	\$1,130,355	\$1,152,479	-	\$193	\$1,939	\$25,133	\$27,265	-
Department of Boating & Waterways															
State Operations	-	-	-	-	3,507	-	-	-	-	5,653	-	-	-	-	5,653
Local Assistance	-	541	-	541	3,098	-	500	-	500	2,128	-	500	-	500	2,128
Totals, Department of Boating & Waterways, California Coastal Commission															
State Operations	10,716	438	-	11,154	3,110	9,549	394	-	9,943	2,983	9,549	394	-	9,943	2,983
Local Assistance	-	509	-	509	-	3	740	-	743	-	-	359	-	359	-
Totals, California Coastal Commission	\$10,716	\$947	-	\$11,663	\$3,110	\$9,552	\$1,134	-	\$10,686	\$2,983	\$9,549	\$753	-	\$10,302	\$2,983
State Coastal Conservancy															
State Operations	-	-	2,312	2,312	49	-	-	3,692	3,692	122	-	-	2,709	2,709	120
Local Assistance	125	-	-	125	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	527	2,635	123,197	126,359	453	-	10,555	272,963	283,518	4,623	-	3,752	1,348	5,100	2,000
Totals, State Coastal Conservancy	\$652	\$2,635	\$125,509	\$128,796	\$502	-	\$10,555	\$276,655	\$287,210	\$4,745	-	\$3,752	\$4,057	\$7,809	\$2,120

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Native American Heritage Commission															
State Operations	330	-	-	330	-	531	-	-	531	-	516	-	-	516	-
Department of Parks and Recreation															
State Operations	128,561	115,738	25,882	270,181	3,838	97,295	138,217	36,456	271,968	3,027	82,316	167,605	22,883	272,804	3,527
Local Assistance	3,280	29,236	327,017	359,533	10,249	-	28,269	790,221	818,490	48,627	-	20,705	-	20,705	20,400
Capital Outlay	485	4,812	77,056	82,353	1,598	51	59,098	204,925	264,074	4,502	-	14,206	34,922	49,128	5,000
Totals, Department of Parks and Recreation, Santa Monica Mountains Conservancy	\$132,326	\$149,786	\$429,955	\$712,067	\$15,685	\$97,346	\$225,584	\$1,031,602	\$1,354,532	\$56,156	\$82,316	\$202,516	\$57,805	\$342,637	\$28,927
State Operations	-	464	198	662	-	-	269	429	698	-	-	200	429	629	-
Capital Outlay	-	-	11,610	11,610	-	-	-	23,263	23,263	-	-	-	-	-	-
Totals, Santa Monica Mountains Conservancy	-	\$464	\$11,808	\$12,272	-	-	\$269	\$23,692	\$23,961	-	-	\$200	\$429	\$629	-
San Francisco Bay Conserv & Develop Comm															
State Operations	3,465	-	-	3,465	-	3,112	-	-	3,112	-	3,113	-	-	3,113	-
San Gabriel/Lower LA Rivers/Mnts Consrvy															
State Operations	-	265	359	624	-	-	263	541	804	-	-	33	734	767	-
Capital Outlay	-	-	575	575	-	-	-	34,325	34,325	-	-	-	-	-	-
Totals, San Gabriel/Lower LA Rivers/Mnts Consrvy	-	\$265	\$934	\$1,199	-	-	\$263	\$34,866	\$35,129	-	-	\$33	\$734	\$767	-
San Joaquin River Conservancy															
State Operations	-	201	-	201	-	-	248	117	365	-	-	241	106	347	-
Baldwin Hills Conservancy															
State Operations	-	266	-	266	-	-	266	112	378	-	-	292	101	393	-
Capital Outlay	-	-	220	220	-	-	-	21,980	21,980	-	-	-	-	-	-
Totals, Baldwin Hills Conservancy, Delta Protection Commission	-	\$266	\$220	\$486	-	-	\$266	\$22,092	\$22,358	-	-	\$292	\$101	\$393	-
State Operations	-	143	-	143	-	-	138	-	138	-	-	138	-	138	-
San Diego River Conservancy															
State Operations	-	-	-	-	-	-	265	-	265	-	-	265	-	265	-
Coachella Valley Mountains Conservancy															
State Operations	-	128	-	128	-	-	261	111	372	-	-	288	100	388	-
Capital Outlay	-	-	3,844	3,844	-	-	-	14,617	14,617	-	-	-	-	-	-
Totals, Coachella Valley Mountains Conservancy	-	\$128	\$3,844	\$3,972	-	-	\$261	\$14,728	\$14,989	-	-	\$288	\$100	\$388	-
Department of Water Resources															
State Operations	61,511	1,835	42,763	106,109	3,632	28,437	9,521	228,225	266,183	11,307	29,481	9,287	22,428	61,196	11,307
Local Assistance	122,800	24,678	85,880	233,358	-	-	38,766	188,641	227,407	-	16,100	-	3,682	19,782	-
Capital Outlay	11,379	-	3,193	14,572	-	26,310	-	13,900	40,210	-	270	-	-	270	-
Totals, Department of Water Resources, California Bay-Delta Authority	\$195,690	\$26,513	\$131,836	\$354,039	\$3,632	\$54,747	\$48,287	\$430,766	\$533,800	\$11,307	\$45,851	\$9,287	\$26,110	\$81,248	\$11,307
State Operations	-	-	-	-	-	10,916	-	135,222	146,138	29,352	8,515	-	884	9,399	5,000
General Obligation Bonds-Resources															
State Operations	207,233	-	-	207,233	-	244,715	-	-	244,715	-	345,778	-	-	345,778	-
TOTALS, RESOURCES	\$1,147,229	\$1,078,732	\$1,113,459	\$3,339,420	\$108,530	\$985,215	\$1,491,575	\$3,367,788	\$5,844,578	\$254,549	\$938,971	\$1,684,772	\$124,670	\$2,748,413	\$159,696
State Operations	977,882	1,010,639	182,962	2,171,483	93,132	948,806	1,316,201	523,978	2,788,985	194,655	917,848	1,633,899	63,515	2,615,262	128,938
Local Assistance	130,226	60,174	444,999	635,399	13,347	638	91,095	1,109,568	1,201,301	50,755	16,718	30,046	3,682	50,446	22,528
Capital Outlay	39,121	7,919	485,498	532,538	2,051	35,771	84,279	1,734,242	1,854,292	9,139	4,405	20,827	57,473	82,705	8,230

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
CALIF ENVIRONMENTAL PROTECTION AGENCY															
Secretary for Environmental Protection State Operations	2,459	2,740	-	5,199	-	1,325	2,973	-	4,298	-	1,325	2,721	-	4,046	-
State Air Resources Board															
State Operations	23,598	73,500	25,000	122,098	10,810	4,493	112,033	23,000	139,526	11,540	2,224	102,812	-	105,036	11,352
Local Assistance	-	10,111	-	10,111	-	-	10,637	-	10,637	-	-	10,111	-	10,111	-
Capital Outlay	-	2,397	-	2,397	-	-	-	-	-	-	-	-	-	-	-
Totals, State Air Resources Board.....	\$23,598	\$86,008	\$25,000	\$134,606	\$10,810	\$4,493	\$122,670	\$23,000	\$150,163	\$11,540	\$2,224	\$112,923	-	\$115,147	\$11,352
CA Integrated Waste Management Board															
State Operations	46	85,159	119	85,324	11	-	84,870	136	85,006	106	-	138,116	136	138,252	-
Local Assistance	-	27,876	-	27,876	-	-	27,893	-	27,893	-	-	26,223	-	26,223	-
Totals, CA Integrated Waste Management Board.....	\$46	\$113,035	\$119	\$113,200	\$11	-	\$112,763	\$136	\$112,899	\$106	-	\$164,339	\$136	\$164,475	-
Department of Pesticide Regulation															
State Operations	9,839	26,426	-	36,265	1,770	1,813	39,855	-	41,668	2,138	-	39,817	-	39,817	2,167
Local Assistance	2,882	10,779	-	13,661	-	2,882	11,460	-	14,342	-	1	14,125	-	14,126	-
Totals, Department of Pesticide Regulation...	\$12,721	\$37,205	-	\$49,926	\$1,770	\$4,695	\$51,315	-	\$56,010	\$2,138	\$1	\$53,942	-	\$53,943	\$2,167
State Water Resources Control Board															
State Operations	71,858	284,730	3,654	360,242	30,252	37,249	308,011	12,236	357,496	36,495	27,560	312,029	11,352	350,941	36,481
Local Assistance	-	-	62,186	62,186	105,064	-	-	667,441	667,441	90,000	-	-	-	-	90,000
Totals, State Water Resources Control Board, Department of Toxic Substances Control	\$71,858	\$284,730	\$65,840	\$422,428	\$135,316	\$37,249	\$308,011	\$679,677	\$1,024,937	\$126,495	\$27,560	\$312,029	\$11,352	\$350,941	\$126,481
State Operations	31,299	87,578	1,291	120,168	24,586	19,644	113,288	545	133,477	20,688	17,150	115,748	-	132,898	21,516
Capital Outlay	-	-	-	-	-	900	-	-	900	-	-	-	-	-	-
Totals, Department of Toxic Substances Control	\$31,299	\$87,578	\$1,291	\$120,168	\$24,586	\$20,544	\$113,288	\$545	\$134,377	\$20,688	\$17,150	\$115,748	-	\$132,898	\$21,516
Ofc of Environmental Health Hazard Asmt															
State Operations	10,888	733	-	11,621	3	9,135	2,779	-	11,914	-	8,135	2,784	-	10,919	-
General Obligation Bonds-Environmental State Operations	16,977	-	-	16,977	-	13,378	-	-	13,378	-	13,365	-	-	13,365	-
TOTALS, CALIF ENVIRONMENTAL PROTECTION AGENCY															
State Operations.....	\$169,846	\$612,029	\$92,250	\$874,125	\$172,496	\$90,819	\$713,799	\$703,358	\$1,507,976	\$160,967	\$69,760	\$764,486	\$11,488	\$845,734	\$161,516
Local Assistance	166,964	560,866	30,064	757,894	67,432	87,037	663,809	35,917	786,763	70,967	69,759	714,027	11,488	795,274	71,516
Capital Outlay	2,882	48,766	62,186	113,834	105,064	2,882	49,990	667,441	720,313	90,000	1	50,459	-	50,460	90,000
HEALTH AND HUMAN SERVICES	-	2,397	-	2,397	-	900	-	-	900	-	-	-	-	-	-
Secretary for Cal Health & Human Serv Ag															
State Operations	3,219	-	-	3,219	-	3,886	-	-	3,886	-	3,831	-	-	3,831	-
State Council Developmental Disabilities State Operations	-	-	-	-	6,454	-	-	-	-	7,612	-	-	-	-	6,725
Emergency Medical Services Authority State Operations	1,229	1,446	-	2,675	1,745	963	1,419	-	2,382	1,881	962	1,402	-	2,364	1,606
Local Assistance	26,486	-280	-	26,206	898	9,786	-	-	9,786	2,004	9,786	-	-	9,786	2,004
Totals, Emergency Medical Services Authority	\$27,715	\$1,166	-	\$28,881	\$2,643	\$10,749	\$1,419	-	\$12,168	\$3,885	\$10,748	\$1,402	-	\$12,150	\$3,610

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Ofc Statewide Health Planning-Development															
State Operations	592	38,160	-	38,752	279	453	39,671	-	40,124	285	235	45,607	-	45,842	285
Local Assistance	3,502	1,047	-	4,549	735	4,476	1,047	-	5,523	1,000	3,931	-	-	3,931	1,000
Totals, Ofc Statewide Health Planning-Development	\$4,094	\$39,207	-	\$43,301	\$1,014	\$4,929	\$40,718	-	\$45,647	\$1,285	\$4,166	\$45,607	-	\$49,773	\$1,285
Department of Aging															
State Operations	4,678	186	-	4,864	6,500	3,582	194	-	3,776	7,008	3,487	193	-	3,680	7,054
Local Assistance	34,128	1,417	-	35,545	136,206	31,452	1,418	-	32,870	132,402	29,879	1,580	-	31,459	132,402
Totals, Department of Aging	\$38,806	\$1,603	-	\$40,409	\$142,706	\$35,034	\$1,612	-	\$36,646	\$139,410	\$33,366	\$1,773	-	\$35,139	\$139,456
Commission on Aging															
State Operations	-	-	-	-	265	-	-	-	-	322	-	-	-	-	313
Department of Alcohol and Drug Programs															
State Operations	5,588	3,887	-	9,475	18,000	5,420	7,233	-	12,653	22,800	5,395	3,978	-	9,373	23,076
Local Assistance	229,625	-2,977	-	226,648	246,887	227,780	-2,977	-	224,803	263,556	232,398	-2,977	-	229,421	258,734
Totals, Department of Alcohol and Drug Programs	\$235,213	\$910	-	\$236,123	\$264,887	\$233,200	\$4,256	-	\$237,456	\$286,356	\$237,793	\$1,001	-	\$238,794	\$281,810
Child Development Policy Advisory Comm															
State Operations	315	-	-	315	-	-	-	-	-	-	-	-	-	-	-
CA Children & Families Commission															
State Operations	-	3,812	-	3,812	-	-	4,400	-	4,400	-	-	4,900	-	4,900	-
Local Assistance	-	529,419	-	529,419	-	-	750,625	-	750,625	-	-	560,950	-	560,950	-
Totals, CA Children & Families Commission	-	\$533,231	-	\$533,231	-	-	\$755,025	-	\$755,025	-	-	\$565,850	-	\$565,850	-
Department of Health Services															
State Operations	256,731	175,606	-	432,337	349,111	235,666	177,308	2,172	415,146	428,298	242,951	171,501	2,207	416,659	450,686
Local Assistance															
Public Health Services	421,475	467,050	-	888,525	1,160,658	406,974	157,118	115,017	679,109	1,359,359	388,610	136,642	-	525,252	1,238,455
Medical Assistance Program	10,554,141	-	-	10,554,141	17,470,019	9,764,786	-	-	9,764,786	17,353,593	11,569,091	3,200	-	11,572,291	17,838,674
State Mandated Local Programs	7	-	-	7	-	4	-	-	4	-	4	-	-	4	-
Totals, Local Assistance	\$10,975,623	\$467,050	-	\$11,442,673	\$18,630,677	\$10,171,764	\$157,118	\$115,017	\$10,443,899	\$18,712,952	\$11,957,705	\$139,842	-	\$12,097,547	\$19,077,129
Capital Outlay	-	-	-	-	-	-	-	-	-	-	200	-	-	200	-
Totals, Department of Health Services	\$11,232,354	\$642,656	-	\$11,875,010	\$18,979,788	\$10,407,430	\$334,426	\$117,189	\$10,859,045	\$19,141,250	\$12,200,856	\$311,343	\$2,207	\$12,514,406	\$19,527,815
California Medical Assistance Commission															
State Operations	1,052	-	-	1,052	-	1,096	-	-	1,096	-	1,096	-	-	1,096	-
Managed Risk Medical Insurance Board															
State Operations	1,746	1,719	-	3,465	3,616	1,566	1,983	-	3,549	3,738	1,590	1,747	-	3,337	3,677
Local Assistance	24,511	339,713	-	364,224	440,477	301,721	136,804	-	438,525	614,122	312,002	141,989	-	453,991	635,485
Totals, Managed Risk Medical Insurance Board	\$26,257	\$341,432	-	\$367,689	\$444,093	\$303,287	\$138,787	-	\$442,074	\$617,860	\$313,592	\$143,736	-	\$457,328	\$639,162
Department of Developmental Services															
State Operations	363,558	252	-	363,810	2,338	384,103	331	-	384,434	2,938	390,341	296	-	390,637	2,926
Local Assistance	1,510,633	1,800	-	1,512,433	46,995	1,670,773	1,100	-	1,671,873	49,262	1,778,744	1,500	-	1,780,244	50,415
Capital Outlay	1,168	-	-	1,168	-	-	-	-	-	-	-	-	-	-	-
Totals, Department of Developmental Services	\$1,875,359	\$2,052	-	\$1,877,411	\$49,333	\$2,054,876	\$1,431	-	\$2,056,307	\$52,200	\$2,169,085	\$1,796	-	\$2,170,881	\$53,341

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Department of Mental Health															
State Operations	522,778	784	-	523,562	3,164	572,857	356	-	573,213	3,377	612,048	203	-	612,251	3,401
Local Assistance	324,938	927	-	325,865	59,629	306,071	1,219	-	307,290	58,616	298,610	1,219	-	299,829	58,516
Capital Outlay	758	-	-	758	-	325	-	-	325	-	429	-	-	429	-
Totals, Department of Mental Health.....	\$848,474	\$1,711	-	\$850,185	\$62,793	\$879,253	\$1,575	-	\$880,828	\$61,993	\$911,087	\$1,422	-	\$912,509	\$61,917
Dept of Community Services & Development															
State Operations	1,478	-	-	1,478	7,279	114	-	-	114	9,152	-	-	-	-	9,625
Local Assistance	4,362	-	-	4,362	176,186	103	-	-	103	147,003	-	-	-	-	154,536
Totals, Dept of Community Services & Development.....	\$5,840	-	-	\$5,840	\$183,465	\$217	-	-	\$217	\$156,155	-	-	-	-	\$164,161
Department of Rehabilitation															
State Operations	43,472	-	-	43,472	263,096	45,599	-	-	45,599	274,059	44,200	-	-	44,200	277,830
Local Assistance	104,736	-	-	104,736	16,954	104,349	-	-	104,349	17,234	-	-	-	-	17,234
Totals, Department of Rehabilitation.....	\$148,208	-	-	\$148,208	\$280,050	\$149,948	-	-	\$149,948	\$291,293	\$44,200	-	-	\$44,200	\$295,064
Department of Child Support Services															
State Operations	27,900	-	-	27,900	68,162	34,392	-	-	34,392	82,883	35,987	-	-	35,987	86,383
Local Assistance	431,803	-	-	431,803	344,946	434,348	-	-	434,348	395,202	463,285	-	-	463,285	405,096
Totals, Department of Child Support Services.....	\$459,703	-	-	\$459,703	\$413,108	\$468,740	-	-	\$468,740	\$478,085	\$499,272	-	-	\$499,272	\$491,479
Department of Social Services															
State Operations	94,779	4,158	-	98,937	296,862	93,315	6,137	-	99,452	317,676	96,575	6,136	-	102,711	324,169
Local Assistance															
CalWorks	2,077,770	-	-	2,077,770	3,606,670	2,059,507	-	-	2,059,507	3,157,531	1,995,329	-	-	1,995,329	2,662,791
Foster Care	511,241	-	-	511,241	433,456	486,596	-	-	486,596	513,213	426,177	-	-	426,177	559,676
SSI/SSP	3,004,300	-	-	3,004,300	-	3,143,584	-	-	3,143,584	238,123	3,345,805	-	-	3,345,805	-
Refugee Cash Assistance	-	-	-	-	4,870	-	-	-	-	4,758	-	-	-	-	5,185
County Administration	322,254	-	-	322,254	405,681	335,779	-	-	335,779	431,560	310,013	-	-	310,013	418,042
Community Care Licensing	7,803	30	-	7,833	10,016	6,148	30	-	6,178	7,339	5,093	30	-	5,123	6,971
Child Welfare Services.....	587,478	415	-	587,893	1,128,635	627,518	415	-	627,933	1,141,709	609,870	415	-	610,285	1,195,757
Special Programs	65,857	-	-	65,857	16,963	65,102	-	-	65,102	18,595	64,912	-	-	64,912	18,595
IHSS	1,085,857	-	-	1,085,857	-	1,033,218	-	-	1,033,218	-	896,681	-	-	896,681	-
Other Programs	392,479	489	-	392,968	382,289	382,714	932	-	383,646	525,291	417,100	1,200	-	418,300	457,430
Totals, Local Assistance	\$8,055,039	\$934	-	\$8,055,973	\$5,988,580	\$8,140,166	\$1,377	-	\$8,141,543	\$6,038,119	\$8,070,980	\$1,645	-	\$8,072,625	\$5,324,447
Totals, Department of Social Services.....	\$8,149,818	\$5,092	-	\$8,154,910	\$6,285,442	\$8,233,481	\$7,514	-	\$8,240,995	\$6,355,795	\$8,167,555	\$7,781	-	\$8,175,336	\$5,648,616
State-Local Realignment															
Local Assistance	-	2,738,117	-	2,738,117	-	-	2,970,741	-	2,970,741	-	-	2,985,888	-	2,985,888	-
General Obligation Bonds-H&HS															
State Operations	3,185	-	-	3,185	-	3,005	-	-	3,005	-	2,825	-	-	2,825	-
TOTALS, HEALTH AND HUMAN SERVICES.....	\$23,059,612	\$4,307,177	-	\$27,366,789	\$27,116,041	\$22,789,131	\$4,257,504	\$117,189	\$27,163,824	\$27,593,501	\$24,599,472	\$4,067,599	\$2,207	\$28,669,278	\$27,314,754
State Operations.....	1,332,300	230,010	-	1,562,310	1,026,871	1,386,017	239,032	2,172	1,627,221	1,162,029	1,441,523	235,963	2,207	1,679,693	1,197,756
Local Assistance	21,725,386	4,077,167	-	25,802,553	26,089,170	21,402,789	4,018,472	115,017	25,536,278	26,431,472	23,157,320	3,831,636	-	26,988,956	26,116,998
Capital Outlay	1,926	-	-	1,926	-	325	-	-	325	-	629	-	-	629	-
YOUTH AND ADULT CORRECTIONAL AGENCY															
Sec for Youth and Adult Corrections															
State Operations	889	-	-	889	-	906	-	-	906	-	1,535	-	-	1,535	-
Office of the Inspector General															
State Operations	8,780	-	-	8,780	-	4,410	-	-	4,410	-	-	-	-	-	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05			
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds
CA Department of Corrections												
State Operations	5,126,785	-	-	5,126,785	2,057	4,694,965	-	-	4,694,965	792,448	5,110,931	-
Local Assistance												
Transportation of Prisoners	143	-	-	143	-	278	-	-	278	-	278	-
Returning Fugitives	2,693	-	-	2,693	-	2,593	-	-	2,593	-	2,593	-
Court Costs and County Charges	12,261	-	-	12,261	-	12,261	-	-	12,261	-	9,705	-
Asst to Counties for Detentn of Parolees	41,365	-	-	41,365	-	32,138	-	-	32,138	62,300	32,138	-
State Mandated Local Programs	1	-	-	1	-	1	-	-	1	-	1	-
Totals, Local Assistance	\$56,463	-	-	\$56,463	-	\$47,271	-	-	\$47,271	\$62,300	\$44,715	-
Capital Outlay	8,356	-	689	9,045	-	14,911	-	11,308	26,219	-	18,840	-
Totals, CA Department of Corrections	\$5,191,604	-	\$689	\$5,192,293	\$2,057	\$4,757,147	-	\$11,308	\$4,768,455	\$854,748	\$5,174,486	-
Board of Corrections												
State Operations	4,050	2,217	-	6,267	1,127	4,079	2,463	-	6,542	1,370	1,342	4,247
Local Assistance	92,766	16,128	-	108,894	35,722	19,179	-	-	19,179	100,619	1	-
Totals, Board of Corrections	\$96,816	\$18,345	-	\$115,161	\$36,849	\$23,258	\$2,463	-	\$25,721	\$101,989	\$1,343	\$4,247
Board of Prison Terms												
State Operations	29,767	-	-	29,767	-	24,886	-	-	24,886	-	25,124	-
Youthful Offender Parole Board												
State Operations	3,152	-	-	3,152	-	1,658	-	-	1,658	-	-	-
Department of the Youth Authority												
State Operations	353,929	-	-	353,929	737	356,767	-	-	356,767	2,701	314,396	-
Local Assistance												
Transportation of Words	9	-	-	9	-	78	-	-	78	-	78	-
Asst to Counties for Detentn of Parolees	856	-	-	856	-	1,403	-	-	1,403	-	1,403	-
Regional Youth Education Centers	2,285	-	-	2,285	-	2,281	-	-	2,281	-	-	-
Yg Men as Fathers Preventing/Mentor Prog	1,062	-	-	1,062	-	850	-	-	850	-	850	-
Totals, Local Assistance	\$4,212	-	-	\$4,212	-	\$4,612	-	-	\$4,612	-	\$2,331	-
Capital Outlay	919	-	-	919	-	4,394	-	-	4,394	-	2,750	-
Totals, Department of the Youth Authority	\$359,060	-	-	\$359,060	\$737	\$365,773	-	-	\$365,773	\$2,701	\$319,477	\$1,495
Correctional Peace Officer Standards/Trg												
State Operations	2,102	-	-	2,102	-	1,077	-	-	1,077	-	1,077	-
Federal Immigration Funding-Incarcerath												
State Operations	-85,400	-	-	-85,400	85,400	-66,183	-	-	-66,183	66,183	-66,183	66,183
General Obligation Bonds-VAC												
State Operations	229,751	-	-	229,751	-	213,479	-	-	213,479	-	275,296	-
TOTALS, YOUTH AND ADULT CORRECTIONAL AGENCY	\$5,836,521	\$18,345	\$689	\$5,855,555	\$125,043	\$5,326,411	\$2,463	\$11,308	\$5,340,182	\$1,025,621	\$5,732,155	\$4,247
State Operations	5,673,805	2,217	-	5,676,022	89,321	5,236,044	2,463	-	5,238,507	862,702	5,663,518	4,247
Local Assistance	153,441	16,128	-	169,569	35,722	71,062	-	-	71,062	162,919	47,047	-
Capital Outlay	9,275	-	689	9,964	-	19,305	-	11,308	30,613	-	21,590	-
EDUCATION												
K thru 12 Education												
Office of the Secretary for Education												
State Operations	2,238	-	-	2,238	-	1,790	-	-	1,790	-	1,572	-
Local Assistance	6,882	-	-	6,882	-	-	-	-	-	-	-	-
Totals, Office of the Secretary for Education	\$9,120	-	-	\$9,120	-	\$1,790	-	-	\$1,790	-	\$1,572	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Scholarshare Investment Board															
State Operations	1,108	-	-	1,108	-	1,151	-	-	1,151	-	1,082	-	-	1,082	-
Local Assistance	118,249	-	-	118,249	-	-	-	-	-	-	-	-	-	-	-
Totals, Scholarshare Investment Board.....	\$119,357	-	-	\$119,357	-	\$1,151	-	-	\$1,151	-	\$1,082	-	-	\$1,082	-
Department of Education															
State Operations.....	117,447	1,950	1,810	121,207	98,663	113,371	2,116	2,290	117,777	135,315	112,879	2,012	2,290	117,181	136,061
Local Assistance															
Adult Education.....	307,820	-	-	307,820	89,742	591,741	-	-	591,741	82,194	615,287	-	-	615,287	76,194
Apportionments—District and County ..	14,962,853	11,333	-	14,974,186	-	15,866,001	11,333	-	15,877,334	-	17,701,323	11,333	-	17,712,656	-
Child Development.....	1,478,494	-	-	1,478,494	1,006,023	1,409,081	-	-	1,409,081	1,056,859	1,386,150	-	-	1,386,150	896,177
Child Nutrition	85,397	-	-	85,397	1,347,022	84,734	-	-	84,734	1,444,865	89,621	-	-	89,621	1,616,804
Categorical Programs	7,295,234	26,800	-	7,322,034	2,610,311	6,951,057	25,899	-	6,976,956	2,969,816	4,940,605	22,464	-	4,963,069	2,943,690
Pupil Assessment.....	101,861	-	-	101,861	15,286	85,860	-	-	85,860	44,316	79,360	-	-	79,360	32,028
Special Education	2,499,139	-	-	2,499,139	797,772	2,903,000	-	-	2,903,000	951,484	2,674,600	-	-	2,674,600	1,025,095
State-Mandated Local Programs	7,608	-	-	7,608	-	36	-	-	36	-	39	-	-	39	-
Totals, Local Assistance.....	\$26,738,406	\$38,133	-	\$26,776,539	\$5,866,156	\$27,891,510	\$37,232	-	\$27,928,742	\$6,549,534	\$27,486,985	\$33,797	-	\$27,520,782	\$6,589,988
Totals, Department of Education	\$26,855,853	\$40,083	\$1,810	\$26,897,746	\$5,964,819	\$28,004,881	\$39,348	\$2,290	\$28,046,519	\$6,684,849	\$27,599,864	\$35,809	\$2,290	\$27,637,963	\$6,726,049
California State Library															
State Operations	15,893	493	2,645	19,031	5,374	12,273	726	4,527	17,526	5,969	12,298	589	4,354	17,241	6,153
Local Assistance	57,382	-	-	57,382	12,518	37,016	40	126,670	163,726	12,518	37,016	40	-	37,056	12,518
Totals, California State Library	\$73,275	\$493	\$2,645	\$76,413	\$17,892	\$49,289	\$766	\$131,197	\$181,252	\$18,487	\$49,314	\$629	\$4,354	\$54,297	\$18,671
Education Audit Appeals Panel															
State Operations	41	-	-	41	-	1,396	-	-	1,396	-	1,296	-	-	1,296	-
CA State Summer School for the Arts															
State Operations	888	-	-	888	-	756	-	-	756	-	756	-	-	756	-
Contributions to Teachers Retirement Sys															
Local Assistance	975,522	-	-	975,522	-	509,763	-	-	509,763	-	1,056,842	-	-	1,056,842	-
Retirement Costs for Community Colleges															
Local Assistance	-74,140	-	-	-74,140	-	-40,271	-	-	-40,271	-	-90,466	-	-	-90,466	-
CA Occupational Info Coordinating Comm															
State Operations	-	-	-	-	346	-	-	-	-	335	-	-	-	-	343
School Facilities Aid Program															
Local Assistance	-	-764	7,263,886	7,263,122	-	-	-801	4,664,872	4,664,071	-	-	-801	29,162	28,361	-
Commission on Teacher Credentialing															
State Operations	32	27,238	-	27,270	2,862	18	26,529	-	26,547	79	-	23,569	-	23,569	147
Local Assistance	39,774	-	-	39,774	423	39,814	-	-	39,814	378	31,814	-	-	31,814	-
Totals, Commission on Teacher Credentialing, General Obligation Bonds-K-12	\$39,806	\$27,238	-	\$67,044	\$3,285	\$39,832	\$26,529	-	\$66,361	\$457	\$31,814	\$23,569	-	\$55,383	\$147
State Operations	788,650	-	-	788,650	-	989,051	-	-	989,051	-	1,664,978	-	-	1,664,978	-
Totals, K thru 12 Education	\$28,788,372	\$67,050	\$7,268,341	\$36,123,763	\$5,986,342	\$29,557,638	\$65,842	\$4,798,359	\$34,421,839	\$6,704,128	\$30,317,052	\$59,206	\$35,806	\$30,412,064	\$6,745,210
Higher Education-Community Colleges															
Bd of Governors of Calif Comm Colleges															
State Operations	10,887	-	1,013	11,900	-	8,647	-	1,117	9,764	-	8,648	-	1,117	9,765	-
Local Assistance															
Apportionments for Community Colleges.....	2,241,213	531	-	2,241,744	-	1,767,640	1,496	-	1,769,136	-	1,937,102	1,496	-	1,938,598	-
Extended Opportunity Program + CARE ..	96,065	-	-	96,065	-	94,892	-	-	94,892	-	-	-	-	-	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Student Financial Aid Administration	8,100	-	-	8,100	-	46,447	-	-	46,447	-	47,265	-	-	47,265	-
Disabled Students	83,608	-	-	83,608	-	82,583	-	-	82,583	-	82,583	-	-	82,583	-
Teacher and Reading Development.....	2,268	-	-	2,268	-	3,700	-	-	3,700	-	-	-	-	-	-
Matriculation	54,307	-	-	54,307	-	54,307	-	-	54,307	-	54,307	-	-	54,307	-
Support for Academic Senate.....	497	-	-	497	-	467	-	-	467	-	467	-	-	467	-
Faculty and Staff Diversity	1,859	-	-	1,859	-	1,747	-	-	1,747	-	1,747	-	-	1,747	-
Instructional Improvement.....	880	-	-	880	-	312	-	-	312	-	-	-	-	-	-
Economic Development.....	25,377	-	-	25,377	-	35,790	-	-	35,790	-	35,790	-	-	35,790	-
Transfer Education and Articulation.....	1,974	-	-	1,974	-	1,974	-	-	1,974	-	1,974	-	-	1,974	-
Hazardous Substances	8,000	-	-	8,000	-	4,404	-	-	4,404	-	-	-	-	-	-
Foster Parent Training Programs.....	1,866	-	-	1,866	-	1,754	-	-	1,754	-	1,754	-	-	1,754	-
Instructional Equipment	-	-	-	-	-	12,470	-	-	12,470	-	-	-	-	-	-
Telecommunications & Technology	9,683	-	-	9,683	-	22,050	-	-	22,050	-	-	-	-	-	-
Virtual University	-	-	-	-	-	1,347	-	-	1,347	-	-	-	-	-	-
Scheduled Maintenance.....	-	-	-	-	-	12,471	-	-	12,471	-	-	-	-	-	-
Part-Time Faculty Compensation.....	57,000	-	-	57,000	-	50,828	-	-	50,828	-	50,828	-	-	50,828	-
Fund for Student Success	6,233	-	-	6,233	-	6,158	-	-	6,158	-	-	-	-	-	-
Welfare Reform	35,000	-	-	35,000	-	34,580	-	-	34,580	-	34,580	-	-	34,580	-
Part-Time Faculty Health Insurance.....	1,000	-	-	1,000	-	1,000	-	-	1,000	-	1,000	-	-	1,000	-
Part-Time Faculty Office Hours Program.....	7,172	-	-	7,172	-	7,172	-	-	7,172	-	7,172	-	-	7,172	-
State-Mandated Local Programs.....	1	-	-	1	-	1	-	-	1	-	2	-	-	2	-
Scheduled Maintenance (Reapp).....	17,248	-	-	17,248	-	-	-	-	-	-	-	-	-	-	-
Instructional Equipment (Reapp).....	17,249	-	-	17,249	-	-	-	-	-	-	-	-	-	-	-
CCC Part for Excellence SWAP	33,310	-	-	33,310	-	-	-	-	-	-	-	-	-	-	-
CCC TIP SWAP	8,817	-	-	8,817	-	-	-	-	-	-	-	-	-	-	-
CCC Economic Development SWAP.....	8,816	-	-	8,816	-	-	-	-	-	-	-	-	-	-	-
Instructional Improvement (Reapp).....	-	-	-	-	-	104	-	-	104	-	-	-	-	-	-
Growth for Non-Credit Programs.....	-	-	-	-	-	-	-	-	-	-	4,012	-	-	4,012	-
Targeted Student Services.....	-	-	-	-	-	-	-	-	-	-	101,050	-	-	101,050	-
Physical Plant & Instructional Services	-	-	-	-	-	-	-	-	-	-	29,345	-	-	29,345	-
Telecommunications & Technology Services	-	-	-	-	-	-	-	-	-	-	23,397	-	-	23,397	-
Totals, Local Assistance	\$2,727,543	\$531	-	\$2,728,074	-	\$2,244,198	\$1,496	-	\$2,245,694	-	\$2,414,375	\$1,496	-	\$2,415,871	-
Capital Outlay	-	-	146,780	146,780	-	-	-	510,499	510,499	-	-	-	744,468	744,468	-
Totals, Bd of Governors of Calif Comm Colleges	\$2,738,430	\$531	\$147,793	\$2,886,754	-	\$2,252,845	\$1,496	\$511,616	\$2,765,957	-	\$2,423,023	\$1,496	\$745,585	\$3,170,104	-
General Obligation Bonds-HI Ed-CC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	66,927	-	-	66,927	-	76,642	-	-	76,642	-	122,601	-	-	122,601	-
Retirement Costs-HI Ed-CC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance	74,140	-	-	74,140	-	40,271	-	-	40,271	-	90,466	-	-	90,466	-
Totals, Higher Education-Community Colleges, Higher Education-UC, CSU and Other	\$2,879,497	\$531	\$147,793	\$3,027,821	-	\$2,369,758	\$1,496	\$511,616	\$2,882,870	-	\$2,636,090	\$1,496	\$745,585	\$3,383,171	-
CA Postsecondary Education Commission State Operations	2,127	-	-	2,127	356	1,999	-	-	1,999	508	1,999	-	-	1,999	411
Local Assistance	-	-	-	-	8,218	-	-	-	-	8,579	-	-	-	-	8,579
Totals, CA Postsecondary Education Commission	\$2,127	-	-	\$2,127	\$8,574	\$1,999	-	-	\$1,999	\$9,087	\$1,999	-	-	\$1,999	\$8,990

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05			
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds
University of California												
State Operations	3,150,011	37,954	-	3,187,965	6,008,945	2,868,203	39,664	-	2,907,867	6,225,780	2,670,529	32,453
Capital Outlay	26,286	-	52,172	78,458	-	39,591	-	393,225	432,816	-	-	-
Totals, University of California	\$3,176,297	\$37,954	\$52,172	\$3,266,423	\$6,008,945	\$2,907,794	\$39,664	\$393,225	\$3,340,683	\$6,225,780	\$2,670,529	\$32,453
Hastings College of Law												
State Operations	14,422	-	-	14,422	-	11,081	-	-	11,081	-	8,119	-
Capital Outlay	-	-	831	831	-	-	-	1,044	1,044	-	-	-
Totals, Hastings College of Law	\$14,422	-	\$831	\$15,253	-	\$11,081	-	\$1,044	\$12,125	-	\$8,119	-
California State University												
State Operations	2,697,142	818,980	-	3,516,122	628,930	2,622,462	1,016,523	-	3,638,985	671,592	2,409,558	1,165,573
Capital Outlay	1,000	-	226,481	227,481	-	-	-	307,840	307,840	-	-	-
Totals, California State University	\$2,698,142	\$818,980	\$226,481	\$3,743,603	\$628,930	\$2,622,462	\$1,016,523	\$307,840	\$3,946,825	\$671,592	\$2,409,558	\$1,165,573
California Student Aid Commission												
State Operations	9,930	-	-	9,930	447,965	-	-	-	-	533,324	-	-
Local Assistance	559,095	-	-	559,095	11,086	630,165	-	-	630,165	10,221	683,999	-
Totals, California Student Aid Commission	\$569,025	-	-	\$569,025	\$459,051	\$630,165	-	-	\$630,165	\$543,545	\$683,999	-
General Obligation Bonds-Hi Ed												
State Operations	148,411	-	-	148,411	-	178,863	-	-	178,863	-	283,466	-
Totals, Higher Education-UC, CSU and Other	\$6,608,424	\$856,934	\$279,484	\$7,744,842	\$7,105,500	\$6,352,364	\$1,056,187	\$702,109	\$8,110,660	\$7,450,004	\$6,057,670	\$1,198,026
TOTALS, EDUCATION	\$38,276,293	\$924,515	\$7,695,618	\$46,896,426	\$13,091,842	\$38,279,760	\$1,123,525	\$6,012,084	\$45,415,369	\$14,154,132	\$39,010,812	\$1,258,728
State Operations	7,026,154	886,615	5,468	7,918,237	7,193,441	6,887,703	1,085,558	7,934	7,981,195	7,572,902	7,299,781	1,224,196
Local Assistance	31,222,853	37,900	7,263,886	38,524,639	5,898,401	31,352,466	37,967	4,791,542	36,181,975	6,581,230	31,711,031	34,532
Capital Outlay	27,286	-	426,264	453,550	-	39,591	-	1,212,608	1,252,199	-	-	-
LABOR AND WORKFORCE DEVELOPMENT AGENCY												
Sec for Labor and Workforce Development												
State Operations	7	-	-	7	-	-	-	-	-	-	-	-
Employment Development Department												
State Operations	22,861	18,584	-	41,445	756,059	18,799	17,898	-	36,697	945,406	18,787	67,556
Local Assistance	-	-	-	-	8,447,639	-	-	-	-	8,396,655	-	-
Capital Outlay	-	-	-	-	72	-	-	-	-	-325	-	-
Totals, Employment Development Department	\$22,861	\$18,584	-	\$41,445	\$9,203,770	\$18,799	\$17,898	-	\$36,697	\$9,341,736	\$18,787	\$67,556
California Workforce Investment Board												
State Operations	-	-	-	-	4,459	-	-	-	-	5,012	-	-
Agricultural Labor Relations Board												
State Operations	4,662	-	-	4,662	-	4,841	-	-	4,841	-	4,841	-
Department of Industrial Relations												
State Operations	149,695	54,890	-	204,585	29,917	89,359	120,618	-	209,977	28,575	62,153	149,230
Local Assistance	-	-	-	-	-	2	-	-	2	-	2	-
Totals, Department of Industrial Relations	\$149,695	\$54,890	-	\$204,585	\$29,917	\$89,361	\$120,618	-	\$209,979	\$28,575	\$62,155	\$149,230
TOTALS, LABOR AND WORKFORCE DEVELOPMENT AGENCY	\$177,225	\$73,474	-	\$250,699	\$9,238,146	\$113,001	\$138,516	-	\$251,517	\$9,375,323	\$85,783	\$216,786
State Operations	177,225	73,474	-	250,699	790,435	112,999	138,516	-	251,515	978,993	85,781	216,786
Local Assistance	-	-	-	-	8,447,639	2	-	-	2	8,396,655	2	-
Capital Outlay	-	-	-	-	72	-	-	-	-	-325	-	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
GENERAL GOVERNMENT															
General Administration															
Office of Criminal Justice Planning															
State Operations	10,625	1,463	-	12,088	6,719	5,014	818	-	5,832	3,582	-	-	-	-	-
Local Assistance	57,420	16,311	-	73,731	164,636	22,477	8,156	-	30,633	85,104	-	-	-	-	-
Totals, Office of Criminal Justice Planning.....	\$68,045	\$17,774	-	\$85,819	\$171,355	\$27,491	\$8,974	-	\$36,465	\$88,686	-	-	-	-	-
Comm on Peace Officer Standards & Train	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	-	29,699	-	29,699	-	-	26,926	-	26,926	-	-	26,979	-	26,979	-
Local Assistance	-	21,313	-	21,313	-	1	22,609	-	22,610	-	1	25,944	-	25,945	-
Totals, Comm on Peace Officer Standards & Train	-	\$51,012	-	\$51,012	-	\$1	\$49,535	-	\$49,536	-	\$1	\$52,923	-	\$52,924	-
State Public Defender															
State Operations	10,924	-	-	10,924	-	11,177	-	-	11,177	-	11,176	-	-	11,176	-
Pay to Court for Cost of Homicide Trial															
Local Assistance	5,508	-	-	5,508	-	5,000	-	-	5,000	-	5,000	-	-	5,000	-
California Arts Council															
State Operations	1,949	258	-	2,207	682	1,075	887	-	1,962	963	1,075	893	-	1,968	963
Local Assistance	17,426	550	-	17,976	279	-	-	-	-	-	-	-	-	-	-
Totals, California Arts Council.....	\$19,375	\$808	-	\$20,183	\$961	\$1,075	\$887	-	\$1,962	\$963	\$1,075	\$893	-	\$1,968	\$963
Public Employment Relations Board															
State Operations	4,282	-	-	4,282	-	4,556	-	-	4,556	-	4,556	-	-	4,556	-
Department of Personnel Administration															
State Operations	43,160	139	-	43,299	-	47,638	1,897	-	49,535	-	26,363	3,407	-	29,770	-
CA Citizens Compensation Commission															
State Operations	8	-	-	8	-	14	-	-	14	-	14	-	-	14	-
Workers' Compensation Benefits															
Subsequent Injuries															
State Operations.....	2,000	-	-	2,000	-	-	-	-	-	-	-	-	-	-	-
Disaster Service Workers															
Local Assistance.....	426	-	-	426	-	-	-	-	-	-	-	-	-	-	-
Totals, Workers' Compensation Benefits	\$2,426	-	-	\$2,426	-	-	-	-	-	-	-	-	-	-	-
Board of Chiropractic Examiners															
State Operations	-	1,932	-	1,932	-	-	2,321	-	2,321	-	-	2,318	-	2,318	-
Board of Pilot Commissioners															
State Operations	-	997	-	997	-	-	1,197	-	1,197	-	-	1,207	-	1,207	-
California Horse Racing Board															
State Operations	-	8,222	-	8,222	-	-	8,159	-	8,159	-	-	8,163	-	8,163	-
Department of Food and Agriculture															
State Operations	91,047	75,736	414	167,197	73,123	73,479	85,395	1,000	159,874	53,066	67,094	88,037	1,000	156,131	35,090
Local Assistance	10,439	46,995	-	57,434	-	10,434	59,673	-	70,107	-	5,911	59,173	-	65,084	-
Capital Outlay	-	20	-	20	-	-	-	-	-	-	-	10,427	-	10,427	-
Totals, Department of Food and Agriculture ..	\$101,486	\$122,751	\$414	\$224,651	\$73,123	\$83,913	\$145,068	\$1,000	\$229,981	\$53,066	\$73,005	\$157,637	\$1,000	\$231,642	\$35,090
Fair Political Practices Commission															
State Operations	6,475	-	-	6,475	-	6,714	-	-	6,714	-	5,688	-	-	5,688	-
Political Reform Act of 1974															
State Operations	-	-	-	-	-	-	-	-	-	-	998	-	-	998	-
Public Utilities Commission															
State Operations	-	1,068,415	-	1,068,415	971	-	1,265,009	-	1,265,009	997	-	1,191,069	-	1,191,069	993

Appendix 48

[illegible]

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Vietnam Veterans Memorial Commission	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Obligation Bonds-Gen Govt	11,549	-	-	11,549	-	11,348	-	-	11,348	-	23,000	-	-	23,000	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals, General Administration	\$431,915	\$1,387,012	\$453	\$1,819,380	\$1,000,140	\$374,913	\$1,607,548	\$13,443	\$1,995,904	\$824,203	\$295,711	\$1,535,135	\$35,549	\$1,866,395	\$782,953
Tax Relief															
Tax Relief															
Local Assistance															
Senior Citizens Property Tax Assistance.....	37,543	-	-	37,543	-	37,036	-	-	37,036	-	37,036	-	-	37,036	-
Senior Citizens Property Tax Deferral	11,583	-	-	11,583	-	11,900	-	-	11,900	-	11,900	-	-	11,900	-
Senior Citizens Renters Tax Assistance.....	146,999	-	-	146,999	-	146,355	-	-	146,355	-	146,355	-	-	146,355	-
Homeowners' Property Tax Relief	414,211	-	-	414,211	-	427,600	-	-	427,600	-	433,200	-	-	433,200	-
Subventions for Open Space	38,997	-	-	38,997	-	39,420	-	-	39,420	-	39,750	-	-	39,750	-
Substandard Housing	44	-	-	44	-	44	-	-	44	-	-	-	-	-	-
Vehicle License Fee Offset	3,797,368	-	-	3,797,368	-	2,702,542	-	-	2,702,542	-	4,062,075	-	-	4,062,075	-
State-Mandated Local Programs	3	-	-	3	-	3	-	-	3	-	3	-	-	3	-
Totals, Local Assistance	\$4,446,748	-	-	\$4,446,748	-	\$3,364,900	-	-	\$3,364,900	-	\$4,730,319	-	-	\$4,730,319	-
Totals, Tax Relief	\$4,446,748	-	-	\$4,446,748	-	\$3,364,900	-	-	\$3,364,900	-	\$4,730,319	-	-	\$4,730,319	-
Local Government Subventions															
Local Government Financing															
Local Assistance	359,884	-	-	359,884	-	298,572	-	-	298,572	-	260,005	-	-	260,005	-
Shared Revenues															
Shared Rev/Apprt-Off-Hwy License Fees															
Local Assistance.....	-	1,664	-	1,664	-	-	1,500	-	1,500	-	-	1,500	-	1,500	-
Shared Rev/Apprt-Fed Rcpts Fld Cntrl Lnds															
Local Assistance.....	-	-	-	-	116	-	-	-	-	120	-	-	-	-	120
Shared Rev/Apprt-Fed Rcpts Forest Rsrvs															
Local Assistance.....	-	-	-	-	60,937	-	-	-	-	61,000	-	-	-	-	61,000
Shared Rev/Apprt-Fed Rcpts Grazing Land															
Local Assistance.....	-	-	-	-	68	-	-	-	-	70	-	-	-	-	70
Shared Rev/Apprt-Fed Potash Lease Rnfls															
Local Assistance.....	-	-	-	-	2,651	-	-	-	-	2,700	-	-	-	-	2,700
Shared Rev/Apprt-MV License Fees															
Local Assistance.....	47,759	1,152,804	-	1,200,563	-	5,931	1,029,416	-	1,035,347	-	-	1,210,189	-	1,210,189	-
Shared Rev/Apprt-Tideland Revenues															
Local Assistance.....	231	-	-	231	-	73	-	-	73	-	73	-	-	73	-
Shared Rev/Apprt-MV Fuel Tx County Rds															
Local Assistance.....	-	341,678	-	341,678	-	-	340,392	-	340,392	-	-	343,176	-	343,176	-
Shared Rev/Apprt-MV Fuel Tx City Streets															
Local Assistance.....	-	242,386	-	242,386	-	-	239,187	-	239,187	-	-	241,726	-	241,726	-
Shared Rev/Apprt-MV Fuel Tx Co Rd/Cty St															
Local Assistance.....	-	145,517	-	145,517	-	-	142,643	-	142,643	-	-	143,067	-	143,067	-
Shared Rev/Apprt-MV Fuel Co&Cty/															
St&Hwy															
Local Assistance.....	-	357,966	-	357,966	-	-	366,784	-	366,784	-	-	369,848	-	369,848	-
Shared Rev/Apprt-Geothermal Rsrcs Dvlp															
Local Assistance.....	-	2,845	-	2,845	-	-	1,600	-	1,600	-	-	1,600	-	1,600	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Shared Rev/Apprt-Local Transportation Fd	-	149,914	-	149,914	-	-	-	-	-	-	-	-	-	-	-
Local Assistance.....	-	149,914	-	149,914	-	-	-	-	-	-	-	-	-	-	-
Totals, Shared Revenues	\$47,990	\$2,394,774	-	\$2,442,764	\$63,772	\$6,004	\$2,121,522	-	\$2,127,526	\$63,890	\$73	\$2,311,106	-	\$2,311,179	\$63,890
Totals, Local Government Subventions	\$407,874	\$2,394,774	-	\$2,802,648	\$63,772	\$304,576	\$2,121,522	-	\$2,426,098	\$63,890	\$260,078	\$2,311,106	-	\$2,571,184	\$63,890
Debt Service															
Payment of Interest on PMIA Loans															
State Operations	2,229	-	-	2,229	-	2,200	-	-	2,200	-	2,200	-	-	2,200	-
Tobacco Settlement Revenue Shortfall															
State Operations	-	-	-	-	-	1	-	-	1	-	1	-	-	1	-
Economic Recovery Bond Debt Service															
State Operations	-	-	-	-	-	-	-	-	-	-	-	1,256,000	-	1,256,000	-
Payment of Interest on Gen Fund Loans															
State Operations	338,670	-	-	338,670	-	272,640	-	-	272,640	-	169,861	-	-	169,861	-
Interest Payments to the Federal Govt															
State Operations	5,051	273	-	5,324	-	6,500	501	-	7,001	-	6,500	501	-	7,001	-
Totals, Debt Service	\$345,950	\$273	-	\$346,223	-	\$281,341	\$501	-	\$281,842	-	\$178,562	\$1,256,501	-	\$1,435,063	-
Statewide Expenditures															
Health & Dental Benefits for Annuitants															
State Operations	560,918	-	-	560,918	-	702,614	-	-	702,614	-	856,075	-	-	856,075	-
Eqty Cim Vct Comp Gov Cims, Sltrmts DOJ															
State Operations	4,823	250	-	5,073	23	3,614	137	-	3,751	282	-	-	-	-	-
Augmentation for Contingencies or Emerg															
State Operations	-	-	-	-	-	2,000	1,500	-	3,500	-	2,000	1,500	-	3,500	-
Capital Outlay Planning and Studies Fdng															
Capital Outlay	1,000	-	-	1,000	-	1,000	-	-	1,000	-	1,000	-	-	1,000	-
General Fund Deficit Recovery Payments															
Unclassified	-	-	-	-	-	3,012,000	-	-	3,012,000	-	-3,012,000	-	-	-3,012,000	-
Reserve for Liquidation of Encumbrances															
Unclassified	473,288	-	-	473,288	-	-	-	-	-	-	-	-	-	-	-
Brown v. US Dept of Health and Human Svs															
State Operations	-	-	-	-	-	48,000	-	-	48,000	-	48,000	-	-	48,000	-
Statewide Proposition 98 Reconciliation															
Local Assistance	-701,616	-	-	-701,616	-	-71,319	-	-	-71,319	-	-285,892	-	-	-285,892	-
Local Assistance															
Section 3.60 Rate Adjustments	-	-	-	-	-	-	-	-	-	-	173,018	105,444	-	278,462	-
State Operations															
PERS General Fund Payment	93,121	-	-	93,121	-	-	-	-	-	-	304,221	-	-	304,221	-
Statewide Gen. Adm Exp (Pro Rata)															
State Operations	-310,531	28,188	-	-282,343	368	-342,008	10,547	174	-331,287	-	-349,060	5,452	-	-343,608	-
Local Assistance	-14,996	8,471	-	-6,525	-	-	-	-	-	-	-	-	-	-	-
Totals, Statewide Gen. Adm Exp (Pro Rata) ..	-\$325,527	\$36,659	-	-\$288,868	\$368	-\$342,008	\$10,547	\$174	-\$331,287	-	-\$349,060	\$5,452	-	-\$343,608	-
Various Departments															
State Operations	-1,656	-816	-	-2,472	-	-204,537	-25,442	-	-229,979	-	-186,932	-16,706	-	-203,638	-
Local Assistance	-	18,612	-	18,612	-	-	31,650	-	31,650	1,266	-	45,900	-	45,900	-
Totals, Various Departments	-\$1,656	\$17,796	-	\$16,140	-	-\$204,537	\$6,208	-	-\$198,329	\$1,266	-\$186,932	\$29,194	-	-\$157,738	-
Totals, Statewide Expenditures	\$104,351	\$54,705	-	\$159,056	\$391	\$3,151,364	\$18,392	\$174	\$3,169,930	\$1,548	-\$2,449,570	\$141,590	-	-\$2,307,980	-

SCHEDULE 9—Continued
COMPARATIVE STATEMENT OF EXPENDITURES BY ORGANIZATION UNIT, CHARACTER, FUNCTION AND FUND
FISCAL YEARS 2002-03, 2003-04, AND 2004-05
(Dollars in Thousands)

	Actual 2002-03				Estimated 2003-04				Estimated 2004-05						
	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Funds	Selected Bond Funds	Budget Total	Federal Funds
Augmentation for Employee Compensation	-	-	-	-	-	-	-	-	-	-	464,288	279,848	-	744,136	-
Augmentation for Employee Compensation State Operations.....	-	-	-	-	-	-	-	-	-	-	464,288	279,848	-	744,136	-
Totals, Augmentation for Employee Compensation.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Statewide Savings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Fund Credits from Federal Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	-50,113	-	-	-50,113	-	-71,581	-	-	-71,581	-	-88,949	-	-	-88,949	-
PERS Payment Recovery	-	-	-	-	-	-	-	-	-	-	-352,550	-	-	-352,550	-
State Operations.....	-	-	-	-	-	-	-	-	-	-	-352,550	-	-	-352,550	-
PERS Deferral	-	-	-	-	-	-304,221	-	-	-304,221	-	-352,550	-	-	-352,550	-
State Operations.....	-	-	-	-	-	-304,221	-	-	-304,221	-	-352,550	-	-	-352,550	-
Federal Recoveries	-	-	-	-	-	-	-	-	-	-	-350,000	-	-	-350,000	350,000
Unclassified.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Antiterrorism Federal Reimbursements	-	-	-	-	209,200	-	-	-	-	-	-	-	-	-	-
State Operations.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Estimated Unidentifiable Savings	-	-	-	-	-	-72,000	-	-	-72,000	-	-72,000	-	-	-72,000	-
State Operations.....	-	-	-	-	-	-108,000	-	-	-108,000	-	-108,000	-	-	-108,000	-
Local Assistance.....	-	-	-	-	-	-180,000	-	-	-180,000	-	-180,000	-	-	-180,000	-
Totals, Estimated Unidentifiable Savings.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Past Years' Disencumbrances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations.....	-50,000	-	-	-50,000	-	-	-	-	-	-	-	-	-	-	-
Totals, Statewide Savings.....	-100,113	-	-	-100,113	-	-555,802	-	-	-555,802	-	-1,324,049	-	-	-1,324,049	-
TOTALS, GENERAL GOVERNMENT.....	\$5,636,725	\$3,836,764	\$453	\$9,473,942	\$1,273,503	\$6,921,292	\$3,747,963	\$13,617	\$10,682,872	\$889,641	\$2,155,339	\$5,524,180	\$35,549	\$7,715,068	\$1,196,843
State Operations.....	926,163	1,328,470	414	2,255,047	418,637	354,052	1,503,883	1,347	1,859,282	153,100	901,353	3,071,160	1,173	3,973,686	141,953
Local Assistance.....	4,232,050	2,508,224	-	6,740,274	228,687	3,530,419	2,244,080	-	5,774,499	150,260	4,609,767	2,442,593	-	7,052,360	63,890
Capital Outlay.....	5,224	70	39	5,333	13,034	24,821	-	12,270	37,091	35,093	6,219	10,427	34,376	51,022	69,702
Unclassified.....	473,288	-	-	473,288	613,145	3,012,000	-	-	3,012,000	551,188	-3,362,000	-	-	-3,362,000	921,298
GRAND TOTAL.....	\$77,482,135	\$18,282,052	\$11,014,509	\$106,778,696	\$54,732,625	\$78,028,100	\$19,406,356	\$10,444,161	\$107,878,617	\$57,971,771	\$76,061,869	\$21,143,762	\$1,937,905	\$99,143,536	\$55,000,430
State Operations.....	18,180,549	8,945,910	249,237	27,375,696	10,288,170	16,946,343	9,926,998	610,973	27,484,314	11,565,308	18,462,452	12,041,860	120,207	30,624,519	10,831,361
Local Assistance.....	58,737,812	8,536,815	9,808,658	77,083,285	42,333,541	57,659,675	8,469,117	6,805,084	72,933,876	44,978,533	60,928,574	8,028,238	147,169	69,103,981	42,068,546
Capital Outlay.....	90,486	799,327	956,614	1,846,427	1,497,769	410,082	1,010,241	3,028,104	4,448,427	845,742	32,843	1,073,664	1,670,529	2,777,036	1,148,225
Unclassified.....	473,288	-	-	473,288	613,145	3,012,000	-	-	3,012,000	582,188	-3,362,000	-	-	-3,362,000	952,298
BUDGET ACT TOTALS.....	\$3,895,040	9,809,256	603,498	64,307,794	45,335,371	52,944,148	10,296,371	2,748,476	65,988,995	48,217,918	53,322,715	11,199,450	1,472,557	65,994,722	45,785,097
State Operations.....	16,543,155	7,721,886	185,780	24,450,821	2,897,185	15,566,932	8,491,986	481,016	24,539,934	4,101,342	16,198,627	9,260,132	94,384	25,553,143	3,143,858
Local Assistance.....	37,317,471	1,937,535	123,638	39,378,644	41,704,747	37,345,662	1,717,553	1,194,225	40,257,440	43,589,875	37,441,460	1,637,259	24,000	99,102,719	41,795,024
Capital Outlay.....	34,414	149,835	294,080	478,329	733,439	31,554	86,832	1,073,235	1,191,621	495,701	32,628	302,059	1,354,173	1,688,860	465,215
Unclassified.....	-	-	-	-	-	-	-	-	-	-	-350,000	-	-	-350,000	381,000
STATUTORY APPROPRIATIONS.....	19,920,717	4,693,957	2,153,319	26,767,993	564,671	18,917,447	6,192,291	254,597	25,364,335	645,317	22,674,932	7,054,981	157,175	29,887,088	696,811
State Operations.....	-48,343	1,146,815	19,921	1,118,393	459,447	-166,581	1,360,734	27,344	1,221,497	544,343	-291,565	2,770,971	23,331	2,502,737	544,356
Local Assistance.....	19,969,060	3,299,459	2,101,104	25,369,623	105,224	19,084,028	4,168,605	186,253	23,438,886	90,000	22,966,497	3,742,346	122,844	26,831,687	90,000
Capital Outlay.....	-	247,683	32,294	279,977	-	-	662,952	41,000	703,952	10,974	-	541,664	11,000	552,664	62,465
CONSTITUTIONAL APPROPRIATIONS.....	1,661,227	2,757,313	-	4,418,540	-	2,219,208	2,001,472	-	4,220,680	-	3,093,844	2,460,752	-	5,554,596	-
State Operations.....	1,661,227	-	-	1,661,227	-	1,930,208	-	-	1,930,208	-	3,093,844	-	-	3,093,844	-
Local Assistance.....	-	2,757,313	-	2,757,313	-	-	2,290,472	-	2,290,472	-	-	2,460,752	-	2,460,752	-
Capital Outlay.....	-	-	-	-	-	289,000	-289,000	-	-	-	-	-	-	-	-

SCHEDULE 9—Continued

Estimated 2004-05

SCHEDULE 10
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
General Fund	-\$1,474,172	\$80,563,566	\$77,482,142	\$1,607,252	\$77,639,441	\$78,028,093	\$1,218,600	\$76,406,739	\$76,061,869	\$1,563,470
SPECIAL FUNDS										
Abandoned Watercraft Abatement Fund (0577).....	\$1,629	-	\$544	\$1,085	\$100	\$500	\$685	-	\$506	\$179
Accumancy Fund (0704).....	8,707	\$5,068	7,078	6,697	9,300	9,783	6,214	\$8,673	8,540	6,347
Acupuncture Fund (0108).....	2,080	2,113	1,787	2,406	463	2,224	635	2,225	2,114	746
Administration Acct, Child & Families (0638).....	14,557	5,901	3,812	16,646	5,919	4,400	18,165	5,906	4,900	19,171
Aeronautics Account STF (0041).....	11,238	-304	2,638	8,296	858	5,128	4,026	5,118	4,383	4,761
Agricultural Biomass Utilization Account (3021).....	530	-	291	239	-	239	-	-	-	-
Agricultural Export Promotion Acct, CA (0124).....	182	97	56	223	210	250	183	89	250	22
Agricultural Pest Control Research Acctnt (0112).....	78	2	-	80	2	-	82	2	-	84
Air Pollution Control Fund (0115).....	8,095	13,248	8,150	13,193	25,629	30,915	7,907	27,878	30,952	4,833
Air Toxics Inventory and Assessment Acct (0434).....	136	954	954	136	951	957	130	951	991	90
Alcohol Beverage Control Fund (0081).....	3,725	38,368	36,873	5,220	-3,710	-	1,510	-1,510	-	-
Alcohol Beverages Control Fund (3036).....	-	-	-	-	43,510	41,292	2,218	42,564	41,821	2,961
Alcoholic Beverage Control Appeals Fund (0117).....	421	785	703	503	846	867	482	883	873	492
Antirterrorism Fund (3034).....	-	904	-	904	950	-	1,854	950	-	2,804
Appellate Court Trust Fund (3060).....	-	-	-	-	3,562	3,544	18	3,603	3,621	-
Apprenticeship Training Contribution Fd (3022).....	2,659	1,510	110	4,059	1,454	1,516	3,997	2,854	1,496	5,355
Architects Board Fund, California (0706).....	2,747	2,143	2,555	2,335	1,237	2,709	863	2,079	2,732	210
Army Discretionary Improvement Account (0485).....	103	62	45	120	150	150	120	150	150	120
Asbestos Consultant Certification Acct (0368).....	16	404	338	82	399	316	165	399	318	246
Asbestos Training Approval Account (0369).....	102	91	193	-	235	221	14	235	231	18
Assembly and Senate, Operating Funds of (0160).....	21	-	-	21	-	-	21	-	-	21
Asset Forfeiture Distribution Fund (0196).....	8,760	-8,760	-	-	-	100	402	-	100	-
Assistance for Fire Equipment Acct, State (0437).....	395	55	8	442	60	-	-	60	-	362
Athletic Commission Fund (0326).....	-	-	-	-	-	-	-	1,077	709	368
Attorney General Antitrust Account (0012).....	4	1,111	1,114	1	1,215	1,177	39	1,215	1,187	67
Audit Fund, State (0126).....	1,725	1,757	-	1,725	-	-	1,725	-	-	1,725
Barbering/Cosmetology Fd, St Bd of (0069).....	12,622	-	10,555	3,824	11,001	11,732	3,093	11,127	11,379	2,841
Beach and Coastal Enhancement Acct, Calif (0371).....	911	1,234	1,206	939	1,463	2,113	289	1,644	1,469	464
Behavioral Science Examiners Fund (0773).....	8,148	-2,017	4,345	1,786	4,841	4,600	2,027	4,852	4,582	2,297
Beverage Container Recycling Fund, CA (0133).....	201,060	296,443	413,965	83,538	459,170	531,989	10,719	781,151	712,575	79,295
Bicycle Transportation Account, STF (0045).....	1,020	7,496	6,967	1,549	7,562	7,241	1,870	7,627	7,229	2,268
Bimetal Processing Fee Acct, Bev Cont Re (0277).....	251	189	79	361	1,190	86	1,465	412	86	1,791
Board of Corrections Administration Fund (3073).....	-	-	-	-	-	-	-	1,886	1,886	-
Boxer's Neurological Examination Account (0492).....	106	66	69	103	73	100	76	71	103	44
Breast Cancer Control Account (0009).....	2,623	15,701	16,866	1,458	15,502	14,747	2,213	13,972	16,185	-
Breast Cancer Fund (0004).....	3,022	176	133	3,065	-2,916	148	1	146	146	1
Breast Cancer Research Account (0007).....	3,965	16,208	16,346	3,827	16,110	16,500	3,437	14,579	16,577	1,439
Business Fees Fund, Secty of State's (0228).....	1,398	30,248	31,646	-	36,661	36,661	-	29,360	29,360	-
Business Reinvestment Fund (0274).....	3,285	-3,056	34	195	-193	-	2	-	-	2
Cal-OSHA Targeted Inspection & Consult (0096).....	8,403	11,744	12,758	7,389	8,500	12,711	3,178	10,000	13,081	97
Cancer Research Fund (0589).....	2,652	-	-182	2,834	-	2,742	92	-	3	89
Car Wash Worker Fund (3072).....	-	-	-	-	80	-	80	160	160	80
Car Wash Worker Restitution Fund (3071).....	-	-	-	-	40	-	40	90	80	50
Caseload Subacct, Sales Tax Growth Acct (0354).....	-	50,433	50,433	-	79,849	79,849	-	134,205	134,205	-
Cemetery Fund (0717).....	2,052	1,535	1,028	2,559	2,080	1,860	2,779	2,158	1,980	2,957
Certification Acct, Consumer Affairs Fd (0166).....	215	885	753	347	826	837	336	826	870	292

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
Certification Fund (0271).....	551	1,408	949	1,010	1,373	1,139	1,244	1,373	1,139	1,478
Child Abuse Fund, DOJ (0566).....	472	499	350	621	502	323	800	507	329	978
Child Care Acct, Child & Families Trust (0636).....	6,212	17,955	2,713	21,454	17,859	39,313	-	17,818	17,818	-
Child Health and Safety Fund (0279).....	426	2,316	1,775	967	2,562	1,822	1,707	2,562	1,820	2,449
Childhood Lead Poisoning Prevention Fund (0080).....	10,995	20,259	17,565	13,689	20,259	26,319	7,629	20,259	25,321	2,567
Children & Families First Trust Fd, Cal (0623).....	677	1,298	1,975	-	2,347	2,347	-	1,703	1,703	-
Chiropractic Examiners Fund (0152).....	4,885	2,267	1,933	5,019	-1,776	2,321	922	2,224	2,318	828
Cigarette & Tobacco Products Compliance (3067).....	-	-	-	-	22,100	5,598	16,502	2,700	8,161	11,041
Cigarette & Tobacco Products Surfax Fund (0230).....	1,901	187	2,137	-49	2,437	2,387	1	1,997	1,997	1
Clinical Laboratory Improvement Fund (0098).....	-1,390	3,951	2,561	-	3,969	3,969	-	3,969	3,502	467
Cinup Loans Envrnmntl Asst Neighood Act (1003).....	1,263	744	807	1,200	-404	71	725	-359	50	316
Coachella Valley Mountains Conservancy (0296).....	1	-	-	1	31	32	-	32	32	-
Coastal Access Account, SCCF (0593).....	901	516	126	1,291	500	1,528	263	500	428	335
Collins-Dugan Calif Conserv Corps Reimb (0318).....	13,520	32,678	30,907	15,291	25,729	36,290	4,730	25,729	27,940	2,519
Colorado River Management Account (0050).....	79,000	-22,000	17,995	39,005	-	38,999	6	-	-	6
Commerce Marketing Fund (0145).....	147	70	74	143	-80	63	-	-	-	-
Community Revitalization Fee Fund (3038).....	-	243	59	184	300	236	248	300	249	299
Competitive Technology Fund (0173).....	27	1	28	-	-	-	-	-	-	-
Conservatorship Registry Fund (0195).....	13	72	48	37	50	48	39	50	47	42
Construction Management Education Acct (0093).....	352	65	-	417	30	15	432	30	15	447
Contingent Fd of the Medical Board of CA (0758).....	13,746	35,524	36,452	12,818	35,286	38,471	9,633	35,094	37,893	6,834
Continuing Care Provider Fee Fund (0163).....	1,064	863	941	986	720	975	731	720	975	476
Contractors' License Fund (0735).....	21,547	35,783	46,747	10,583	55,638	46,317	19,904	46,789	46,105	20,588
Corporations Fund, State (0067).....	34,543	5,089	25,698	13,934	18,480	26,456	5,958	23,617	28,978	597
Corrections Training Fund (0170).....	425	19,005	18,400	1,030	2,280	2,518	792	1,719	2,361	150
Courtesy Children & Families Acct (0585).....	86,694	448,295	452,334	82,655	450,162	532,817	-	449,078	449,078	-
Court Collection Account (0242).....	2,104	22,241	22,084	2,261	39,002	37,289	3,974	54,002	51,416	6,560
Court Interpreters' Fund (0327).....	61	142	84	119	144	84	179	144	319	4
Court Reporters Fund (0771).....	1,615	800	655	1,760	-611	621	528	577	627	478
Credit Union Fund (0299).....	2,866	1,463	3,266	1,063	3,105	3,441	727	5,169	3,891	2,005
Dam Safety Fund (3057).....	-	-	-	-	7,800	7,369	431	7,800	7,369	862
Deaf & Disabled Telecomm Prtg Admin Comm (0483).....	-	-	-	-	78,540	69,117	9,423	78,540	69,165	18,798
Dealers' Record of Sale Special Account (0460).....	3,818	6,907	8,482	2,243	7,295	8,425	1,113	7,427	8,436	104
Debt & Investment Advisory Comm Fund, Cal (0171).....	5,125	2,345	1,643	5,827	-3,182	1,868	777	2,318	1,862	1,233
Debt Limit Allocation Committee Fund, Cal (0169).....	3,516	-602	887	2,027	3,075	1,091	4,011	1,001	1,079	3,933
Delta Flood Protection Fund (0176).....	668	2	-	670	70	-	740	70	-	-
Dental Auxiliary Fund, State (0380).....	1,098	1,360	1,471	987	1,358	1,477	868	1,367	1,512	723
Dentally Underserved Account (3039).....	-	-	-	-	1,000	935	65	1,000	935	130
Dentistry Fund, State (0741).....	8,829	3,187	6,681	5,335	2,399	6,940	794	6,537	6,825	506
Department of Agriculture Account, Ag Fd (0111).....	45,863	66,800	89,886	22,777	98,989	109,296	12,470	98,596	111,040	26
Developmental Disabilities Prog Dev Fund (0172).....	12	1,900	2,128	-216	1,758	1,431	111	1,758	1,496	373
Developmental Disabilities Services Acct (0496).....	448	13	25	436	8	43	401	8	300	109
Diesel Emission Reduction Fund (0314).....	178	212	224	166	203	-	369	203	-	572
Disability Access Account (0006).....	9,740	-5,596	4,892	-748	7,905	6,720	437	17,905	6,646	11,696

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
Disaster Relief Fund (0372)	11	-	-	11	-	-	11	-	-	11
Dispensing Opticians Fund (0175)	194	159	183	170	158	238	90	155	244	1
Domestic Violence Trng & Education Fund (0642)	2,957	933	1,621	2,269	933	1,805	1,397	933	1,811	519
Drinking Water Operator Cert Special Act (0247). Drinking Water Treatment & Research Fund (0622)	1,357	1,378	1,147	1,588	1,630	1,214	2,004	1,440	1,208	2,236
Driver Training Penalty Assessment Fund (0178) ...	-30	5,000	210	4,760	4,000	4,964	3,796	5,000	4,969	3,827
Driving-Under-the-Influence Prog Lic Trs (0139) ...	842	1,106	1,014	934	1,106	1,055	985	1,106	1,055	1,036
Drug and Device Safety Fund (3018)	1,331	1,118	1,451	998	1,286	1,634	650	1,286	1,634	302
DNA Testing Fund, Department of Justice (0255). Earthquake Emergency Invest Acct-NDA Fd (0257)	962	2,092	503	2,551	1,950	1,032	3,469	1,979	1,075	4,373
Earthquake Risk Reduction Fund of 1996 (0308)..	789	16	315	490	10	315	185	4	-	189
Education Acct, Child & Families Trust Fd (0634). Educational Telecommunication Fund (0349)	100	-	-	100	-	95	5	-	5	-
Electrician Certification Fund (3002)	25,137	1,000	1,000	-	1,000	1,000	-	1,000	1,000	-
Electronic and Appliance Repair Fund (0325)	1,014	31,764	27,247	29,654	29,598	59,252	-	29,530	29,530	-
Electronic Waste Recovery & Recycling (3065) ...	76	-45	-588	1,602	-	1,602	1,602	-	-	1,602
Elevator Safety Account (0452)	1,483	1,812	1,634	1,661	2,000	1,918	97	2,000	1,913	184
Emerg Medical Svcs Trng Prog Approvl Fd (0194). Emergency Clean Water Grant Fund (0486)	-	9,493	8,671	4,196	11,653	12,040	1,448	1,837	1,914	1,371
Emergency Food Assistance Program Fund (0122)	329	271	224	376	273	287	3809	13,446	12,116	2,120
Emergency Medical Services Personnel Fnd (0312)	2	-	2	-	-	-	362	275	271	366
Emergency Telephone Number Acct, State (0022)	392	369	317	444	393	444	393	417	393	417
Employment Development Contingent Fund (0185)	286	961	946	301	1,049	1,131	219	1,087	1,131	175
Employment Development Dept Benefit Audit (0184)	38,233	139,274	115,363	62,144	141,671	154,722	49,093	150,171	155,063	44,201
Energy and Resources Fund (0188)	-3,460	22,981	19,521	-	17,927	17,927	-	54,914	54,914	-
Energy Conservation Assistance Ac. State (0033). Energy Facility License and Compliance (3062). Energy Resources Programs Account (0465)	1,000	-1,000	-	-	-	-	-	12,642	12,642	-
Energy Tech Research, Dev. & Demo Acct (0479)	644	206	-	850	-	-	850	-	-	850
Environmental Enhancement Fund (0322)	723	30,076	-1,983	32,782	1,949	28,391	6,340	1,997	-1,897	10,234
Environmental Laboratory Improvement Fnd (0179)	21,028	46,437	51,135	16,330	615	615	10,147	840	615	225
Environmental License Plate Fund, Calif (0140) ...	3,321	76	-158	3,555	-1,250	351	1,954	54,665	50,251	14,561
Environmental Protection Trust Fund (0225)	1,171	149	4	1,316	318	1,002	632	48	307	1,481
Environmental Quality Assessment Fund (3035)	-554	3,270	2,613	103	3,471	3,482	92	3644	3,483	253
Environmental Water Fund (0244)	9,086	29,021	34,429	3,678	29,021	31,422	1,277	29,021	30,190	108
Environment Enhanc & Mitigat Demo Prgm Fd (0183)	922	1,093	43	1,972	1,617	-	3,589	894	-	4,483
Expedited Site Remediation Trust Fund (0456)	-	194	6,683	2,741	531	530	1	565	553	13
Export Document Program Fund (0082)	9,230	388	11,300	10,352	324	90	3,141	400	-	3,541
Exposition Park Improvement Fund (0267)	21,264	469	-	1,968	475	3	10,586	277	10,090	773
Fair and Exposition Fund (0191)	1,499	275	102	806	275	147	2,440	485	2,920	5
False Claims Act Fund (0378)	633	3,177	2,907	1,260	3,114	2,971	934	3,660	3,188	1,061
Family Law Trust Fund (0587)	990	27,051	26,710	670	26,854	27,454	1,403	26,766	26,758	1,875
Farm & Ranch Solid Waste Cleanup & Abate (0558)	329	-141	7,403	4,743	10,186	11,355	3,574	13,686	11,348	78
	5,886	1,918	2,432	5,372	1,888	3,306	3,954	1,888	3,415	5,912
	1,066	342	296	1,112	1,026	1,018	1,120	1,026	1,020	2,427
										1,126

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
Farmworker Remedial Account (0023)	513	72	41	544	64	102	506	64	102	468
Film California First Fund (3005)	3,108	-2,000	-	1,108	-	35	1,073	-	-	1,073
Financial Institutions Fund (0298)	8,847	11,802	15,820	4,829	16,605	17,378	4,056	16,741	19,017	1,780
Financial Responsibility Penalty Account (0487) ..	2,161	132	-	2,293	899	-	3,192	899	-	4,091
Fingerprint Fees Account (0017)	12,425	51,791	56,078	8,138	55,250	59,142	4,246	65,043	61,402	7,887
Fire and Arson Training Fund, Calif (0198)	282	1,309	1,361	230	1,477	1,597	110	1,478	1,583	5
Fire Marshal Licensing & Cert Fund, St (0102)	451	1,791	1,802	440	1,800	1,857	383	1,800	1,884	299
Fire Safety Subaccount (3012)	1,761	39	626	1,174	344	1,135	39	-	-	39
Firearm Safety Account (0032)	336	340	219	457	-	320	481	349	317	513
Firearms Safety and Enforcement Spec Fd (1008)	657	2,520	1,952	1,225	2,704	2,709	1,220	2,630	2,903	947
Firearms Safety Training Fund Special Ac (0015) ..	177	132	235	74	-74	-	-	-	-	-
Fiscal Recovery Fund (3059)	-	-	-	-	-	-	-	1,256,000	1,256,000	-
Fish and Game Preservation Fund (0200)	11,889	77,857	92,219	-2,473	89,710	89,685	-2,448	97,972	95,006	518
Fish and Wildlife Pollution Account (0207)	8,969	2,628	2,278	9,319	714	2,480	7,553	664	2,502	5,715
Food Safety Acct, Pesticide Reg Fd, Dept (0224) ..	469	14	418	65	416	350	131	185	306	10
Food Safety Fund (0177)	1,395	4,028	4,632	791	3,856	4,301	346	3,856	4,121	81
Forest Practice Regulatory Fund (3032)	-	-	-	-	5,000	5,000	-	10,000	10,000	-
Foster and Small Family Insurance Fund (0131) ...	1,724	-	-1,333	3,057	1,205	-	3,057	-	-	3,057
Funeral Directors and Embalmers Fund, St (0750) ..	2,151	1,374	1,028	2,497	1,205	1,411	2,291	1,201	1,491	2,001
Gambling Control Fines & Penalties Acct (0569) ..	562	5	40	527	3	289	241	3	43	201
Gambling Control Fund (0567)	3,037	4,726	6,554	1,209	6,359	7,018	550	8,194	8,532	212
Garment Industry Regulations Fund (3004)	667	2,650	2,362	955	1,906	2,254	607	3,000	2,251	1,356
Garment Manufacturers Special Account (0481) ..	886	484	37	1,333	468	200	1,601	468	200	1,869
Gas Consumption Surcharge Fund (3015)	97,017	176,854	252,709	21,162	247,217	247,220	21,159	247,217	248,153	20,223
Genetic Disease Testing Fund (0203)	8,643	68,938	68,136	9,445	68,579	69,287	8,737	66,219	70,631	4,325
Geology and Geophysics Fund (0205)	472	757	681	548	624	766	406	644	736	314
Geothermal Resources Development Account (0034)	392	4,893	4,942	343	2,800	2,800	343	2,800	2,800	343
Glass Processing Fee Account (0269)	24,916	36,756	35,674	25,998	10,033	35,615	416	55,604	55,503	517
Golden Bear State Pharmacy Asst Program (3029)	641	-	255	386	-	-	386	-	-	386
Governor's Residence Account (0700)	3,453	-3,453	-	-	-	-	-	-	-	-
Graphic Design License Plate Account (0078)	844	988	811	1,021	931	887	1,065	931	893	1,103
Guide Dogs for the Blind Fund (0024)	117	139	119	137	136	137	136	136	141	131
Habitat Conservation Fund (0262)	23,551	8,125	3,322	28,354	7,702	34,017	2,039	7,652	8,312	1,379
Hazardous & Idle-Deserted Well Abate Fnd (0275)	105	141	131	115	104	100	119	104	100	123
Hazardous Liquid Pipeline Safety, Calif (0209) ...	2,290	1,155	1,433	2,012	1,253	2,285	980	1,253	2,227	6
Hazardous Materials Enforce Train Acct (0010) ...	49	-49	-	-	-	-	-	-	-	-
Hazardous Spill Prevention Acct, RAPRF (0059) ...	10	-	-	10	-	-	10	-	-	10
Hazardous Subst Clearing Account (0484)	622	2,646	3,141	127	2,902	2,939	90	2,702	2,737	55
Hazardous Substance Subaccount (0455)	3,893	1,139	2,073	2,959	476	2,788	647	3,476	2,561	1,562
Hazardous Waste Control Account (0014)	30,688	25,024	40,931	14,781	43,046	51,405	6,422	43,001	47,455	1,968
Health Care Benefits Fund (3054)	-	511	511	-	1,459	-	1,459	1,778	-	3,237
Health Data & Planning Fund, CA (0143)	5,704	15,460	15,026	6,138	16,806	16,738	6,202	17,187	16,377	7,012
Health Ed Acct, Clg & Tob Pr Surfax (0231)	14,431	88,392	91,173	11,650	76,391	85,653	2,388	76,079	73,992	4,475
Health Statistics Special Fund (0099)	4,855	12,841	13,626	4,070	15,980	16,791	3,259	16,980	17,055	3,184
Health subaccount, Sales Tax Account (0353)	-	410,081	410,081	-	410,081	410,081	-	410,081	410,081	-
Hearing Aid Dispensers Fund (0208)	760	576	417	919	581	564	936	581	632	885
High Polluter Repair or Removal Account (0582) ..	2,970	19,049	13,789	8,230	22,949	20,753	10,426	23,232	20,833	12,825
High-Cost Fund-A Admin Committee Fd, Cal (0464)	14,279	48,602	36,295	26,586	66,159	61,694	31,051	66,159	59,269	37,941
High-Cost Fund-B Admin Committee Fd, Cal (0470)	443,972	154,069	434,737	163,304	478,802	522,142	119,964	478,802	482,384	116,382

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
Higher Education Earthquake Account 1987 (0377).....	22	-	-	22	-	-	22	-	-	22
Higher Education Fees and Income-CSU (0498).....	100	818,980	818,980	100	1,016,523	1,016,523	100	1,165,573	1,165,573	100
Highway Account, State, STF (0042).....	1,637,054	2,232,020	3,027,445	841,629	2,356,319	2,667,906	530,042	2,881,184	2,577,639	833,587
Highway Users Tax Account, TIF (0062).....	25	1,088,427	1,088,452	-	1,089,977	1,089,977	-	1,098,961	1,098,961	-
Historic Property Maintenance Fund (0365).....	3,410	1,065	1,500	2,975	1,161	1,521	2,615	1,155	1,507	2,263
Home Furnish & Thermal Insulat Fd, Burea (0752).....	2,104	3,183	3,056	2,231	3,280	3,679	1,832	3,272	3,641	1,463
Hospital Building Fund (0121).....	5,240	58,799	22,222	41,817	40,610	21,903	60,524	36,610	27,196	69,938
Hospital Svc Acct, Cig & Tob Pr Surtax (0232).....	-2,238	58,402	54,244	1,920	32,770	33,614	1,076	29,829	29,292	1,613
HICAP Fund, State (0289).....	1,850	1,438	1,611	1,677	1,700	1,612	1,765	1,700	1,773	1,692
Illegal Drug Lab Cleanup Account (0065).....	7,623	65	1,135	6,553	60	1,970	4,643	62	2,071	2,634
Indian Gaming Special Distribution Fund (0367).....	253	79,778	11,597	68,434	38,091	43,383	63,142	86,645	13,075	136,712
Industrial Development Fund (0215).....	641	90	339	392	248	464	176	364	459	81
Industrial Medicine Fund (0079).....	4,489	1,158	1,750	3,897	-1,839	2,058	-	-	-	-
Industrial Rel Construction Enforce Fd (0216).....	3	96	55	44	95	54	85	95	55	125
Infant Botulism Treatment & Prevention (0272).....	362	108	469	1	800	800	1	108	-	109
Inland Wetlands Cons Fd, Wildlife Rest (0266).....	1,634	59	434	1,259	52	1,002	309	52	303	58
Insurance Fund (0217).....	28,610	146,155	159,584	15,181	176,650	173,222	18,609	171,522	170,997	19,134
Integrated Waste Management Account (0387).....	13,304	48,296	46,534	15,066	43,685	49,220	9,531	46,053	48,277	7,307
Internatl Student Exch Visitor Plamt Org (0288).....	30	5	-	35	5	-	40	5	-	45
Job Creation Investment Fund (0393).....	299	-284	11	4	-4	-	-	-	-	-
Jobs-Housing Balance Improvement Account (3006).....	212	-212	-100,000	100,000	-	25,467	74,533	-	25,473	49,060
Judicial Admin Efficiency & Modernization (0556).....	17,488	991	17,780	699	743	45	1,397	743	2	2,138
Lake Tahoe Conservancy Account (0286).....	1,666	924	1,734	856	1,050	1,032	874	1,050	986	938
Landscape Architects Fd, CA Bd/Arch Exam (0757).....	1,425	786	655	1,556	-417	801	338	746	881	203
Law Library Special Account, Calif State (0020).....	408	552	493	467	600	726	341	615	589	367
Leaking Undergrd Stor Tank Cost Recovery (0025).....	977	29	-	1,006	16	-	1,022	10	-	1,032
Licensed Midwifery Fund (0755).....	5	18	-	23	18	-	41	20	-	61
Lifetime License Trust Acct, Fish & Game (0219).....	2,639	605	-	3,244	483	-	3,727	472	-	4,199
Loc Pub Prosecutors & Pub Defenders Trng (0241).....	519	864	859	524	864	864	524	864	868	520
Local Agency Deposit Security Fund (0240).....	128	358	287	199	300	352	147	320	349	118
Local Airport Loan Account (0052).....	6,588	1,386	2,459	5,515	545	2,850	3,210	474	2,854	830
Local Govt Geothermal Resource Subacct (0497).....	6,108	2,162	5,401	2,869	-319	284	2,266	1,276	3,542	-
Local Jurisdiction Energy Assistance (0429).....	2,931	311	2,606	636	265	901	-	302	278	24
Local Revenue Fund (0330).....	-	-910,252	-910,252	-	-828,934	-828,934	-	-987,842	-987,842	-
Local Transportation Loan Acct, SHA, STF (2501).....	-	-	-	-	393	-	393	7	-	400
Loss Control Certification Fund (0284).....	2,241	-1,829	411	2	-	-	2	-	-	2
Low-Level Radioactive Waste Disposal Fnd (0227).....	426	9	-	435	-	-	435	-	-	435
Major Risk Medical Insurance Fund (0313).....	904	41,346	26,860	15,390	40,029	40,109	15,310	40,000	40,002	15,308
Managed Care Fund (0933).....	3,416	33,269	32,633	4,052	33,506	35,795	1,763	34,970	35,301	1,432
Mandates Claims Fund, State (0360).....	461	-	-	461	-	-	461	-	-	461
Marine Invasive Species Control Fund (0212).....	1,883	1,140	1,125	1,898	1,140	1,530	1,508	3,500	3,126	1,882
Mass Media Comm Acct, Child & Fam Trust (0631).....	12,238	34,858	28,146	18,950	34,717	53,667	-	34,635	34,635	-
Medical Waste Management Fund (0074).....	1,298	911	1,028	1,181	911	1,106	986	911	1,164	733
Medically Underserved Account (3040).....	-	-	-	-	1,150	1,000	150	1,150	1,000	300
Mental Health Practitioner Education Fd (3064).....	-	-	-	-	-	-	-	233	206	27
Mental Health Subaccount, Sales Tax Acct (0351).....	-	834,609	834,609	-	834,609	834,609	-	834,609	834,609	-

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
Mexican Amer Vet's Memrl Beautif/Enhance (0120).....	185	3	-	188	2	5	185	2	10	177
Mine Reclamation Account (0336).....	734	1,133	1,241	626	1,270	1,513	383	2,680	2,700	363
Missing Children Reward Fund (0113).....	20	-	-	20	-	-	20	-	-	20
Missing Persons DNA Data Base Fund (3016).....	2,598	3,034	2,831	2,801	2,943	3,085	2,659	2,941	3,103	2,497
Mobilehome Manufactured Home Revolv Fd (0648).....	206	15,636	15,694	148	16,874	16,866	156	16,874	16,866	164
Mobilehome Park Revolving Fund (0245).....	702	3,912	4,497	117	4,448	4,513	52	4,498	4,513	37
Mosquito-borne Disease Surveillance Acct (0478).....	8,920	-4,373	4,541	133	42	37	138	46	37	147
Motor Carriers Permit Fund (0292).....	1,228	1,969	1,179	2,018	1,911	1,251	6	-	-	6
Motor Carriers Safety Improvement Fund (0293).....	298,240	1,390,626	1,569,803	119,063	1,632,740	1,639,864	111,939	1,881,710	1,624,717	368,932
Motor Vehicle Account, SIF (0044).....	33,875	-4,992	24,300	4,583	26,117	25,579	5,121	26,009	22,863	8,267
Motor Vehicle Fuel Account, TIF (0061).....	12,895	15,707	18,161	10,441	17,503	23,138	4,806	25,047	21,396	8,457
Motor Vehicle Insurance Account, State (0026).....	29	1,435,320	1,435,349	-	1,314,499	1,314,499	-	1,486,778	1,486,778	-
Motor Vehicle License Fee Account, TIF (0064).....	-718	4,553	4,886	-1,051	5,562	5,057	-546	5,639	5,092	1
Motor Vehicle Parking Facil Moneys Acct (0003).....	237	1,135	1,372	-	1,135	1,135	-	1,135	1,135	-
Narcotic Treatment Program Licensing Trf (0243).....										
Native Species Conserv & Enhancement Acc (0213).....	138	6	-	144	-	-	144	-	-	144
Natural Resources Infrastructure Fund (0383).....	-1,646	5,000	-	3,354	7,900	382	10,872	-	-	10,872
New Motor Vehicle Board Account (0054).....	2,673	1,349	1,457	2,565	1,428	1,778	2,215	1,428	1,780	1,863
Nontoxic Dry Cleaning Incentive Trst Fd (3070) ..	-	-	-	-	-	-	-	1,500	1,500	-
Nuclear Planning Assessment Special Acct (0029).....	-7	3,111	3,367	-263	4,213	3,944	6	3,750	3,749	7
Nursing Home Admin St Lic Exam Fund (0260)	547	386	328	605	335	483	457	335	467	325
Occupancy Compliance Monitoring Account (0448).....	29,199	-26,781	933	1,485	38,524	1,024	38,985	5,218	1,048	43,155
Occupational Lead Poisoning Prev Account (0070).....	2,508	2,598	2,829	2,277	2,598	3,360	1,515	2,598	3,422	691
Occupational Therapy Fund (3017).....	370	777	424	723	487	663	547	1,422	675	1,294
Off Highway License Fee Fund (0261).....	-	1,664	1,664	-	1,664	1,500	-	1,500	1,500	-
Off-Highway Vehicle Trust Fund (0263).....	77,292	49,165	54,450	72,007	58,553	102,804	27,756	52,501	67,808	12,449
Oil Spill Prevention & Administration Fd (0320)	6,559	24,222	23,370	7,411	26,470	28,956	4,925	26,515	29,251	2,189
Oil Spill Response Trust Fund (0321).....	56,519	4,400	2,522	58,397	2,790	1,306	59,881	2,440	1,300	61,021
Oil, Gas and Geothermal Administrative (3046).....		-	-	-	13,294	13,294	-	13,845	13,544	301
Olympic Training Account, California (0442)	1	-	-	1	-	-	1	-	-	1
Optometry Fund, State (0763).....	971	995	1,116	850	986	1,099	737	980	1,310	407
Osteopathic Medical Bd of Calif Contn Fd (0264).....	2,722	-1,589	730	403	924	993	334	973	1,013	294
Other Unallocated Special Funds (0494).....	-	-2,539	-773	-1,766	-9,813	-23,896	12,317	-390,157	370,132	-747,972
Outpatient Setting Fd of Medical Board (0210)....	53	1	-	54	58	24	88	4	23	69
Parks and Recreation Fund, State (0392).....	22,619	62,094	77,892	6,821	94,805	96,742	4,884	112,805	117,079	610
Payphone Service Providers Committee Fd (0491).....	4,716	784	921	4,579	362	851	4,090	362	936	3,516
Peace Officers' Training Fund (0268).....	-2,232	54,115	51,400	483	50,956	49,552	1,887	51,229	52,923	193
Pedestrian Safety Account, SIF (2500).....	8,202	172	7,153	1,221	157	-	1,378	159	39	1,498
Penalty Acct, Ca Bev Container Recyc Fd (0276).....	812	170	-	982	166	-	1,148	168	-	1,316
Perinatal Insurance Fund (0309).....	2,247	80,663	81,553	1,357	97,832	97,631	1,558	98,972	99,532	998
Permanent Amusement Ride Safety Insp Fd (3003).....	157	734	770	121	1,755	1,774	102	2,630	1,762	970
Pesticide Regulation Fund, Dept of (0106).....	7,117	36,896	37,016	6,997	46,667	51,487	2,177	52,772	54,131	818
Petro Undergrnd Storage Tank Financ Acct (0440).....										
Pharmacy Board Contingent Fund (0767).....	50,454	-19,113	-2,851	34,192	-34,086	106	-	-	-	-
Physical Therapy Fund (0759).....	10,928	47	6,573	4,402	5,641	7,253	2,790	5,480	7,214	1,056
	1,853	1,716	2,167	1,402	1,753	2,453	702	1,732	2,239	195

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
Physician Assistant Fund (0280)	1,578	793	887	1,484	676	847	1,313	800	853	1,260
Physician Svc Acct, Cig & Tob Pr Surtax (0233) ..	-678	3,890	2,655	557	2,398	2,342	613	2,173	2,328	458
Pierce's Disease Management Account (3010) ..	6,127	3,964	3,344	6,747	5,044	3,550	8,241	5,044	5,490	7,795
Pilot Commissioners' Special Fd. Board (0290) ..	3,130	521	997	2,654	335	1,198	1,791	318	1,207	902
Podiatric Medicine Fund, Board of (0295)	903	873	879	897	851	1,069	679	846	1,071	454
Political Reform Audit Fund (3052)	-	-	-	-	-	-	-	1,422	1,422	-
Pressure Vessel Account (0453)	80	2,914	2,604	390	3,656	3,743	303	3,656	3,739	220
Private Investigator Fund (0769)	1,018	715	588	1,145	732	702	1,175	733	598	1,310
Private Postsec & Vocatn Ed Admin Fund (0305) ..	1,306	5,076	5,545	837	6,365	5,709	1,493	6,413	5,616	2,290
Private Security Services Fund (0239)	2,627	6,942	5,458	4,111	3,909	7,113	907	8,012	6,737	2,182
Professional Engineer & Land Surveyor Fd (0770) ..	3,098	5,694	7,132	1,660	7,851	7,172	2,339	8,283	7,339	3,283
Professional Forester Registration Fund (0300) ..	538	167	179	526	149	194	481	149	192	438
Propane Safety Insp/Enforcmt Prog Trust (0051) ..	368	79	-	447	-447	-	-	-	-	-
Property Acquisition Law Money Account (0002) ..	-1,283	808	4,374	-4,849	13,283	3,557	4,877	2,522	6,318	1,081
Psychiatric Technicians Account (0780)	1,120	1,322	1,021	1,421	287	1,175	533	1,242	1,055	720
Psychology Fund (0310)	5,520	-1,787	2,870	863	3,172	2,782	1,253	3,399	2,787	1,865
Pub Sch Ping Design & Constr Rev Rv Fd (0328) ..	32,291	-2,203	26,780	3,308	32,567	30,042	5,833	67,567	29,708	43,692
Publ Utilities Comm Utilities Reimb Acct (0462) ..	5,200	102,891	95,060	13,031	86,330	81,556	17,805	72,804	76,434	14,175
Public Beach Restoration Fund (3001)	15	-	-	15	-	-	15	-	-	15
Public Int Res. Dev & Demonstratn Progm (0381) ..	36,637	77,840	86,041	28,436	66,925	73,658	21,703	67,788	69,147	20,344
Public Res Acct, Cig & Tob Pr Surtax (0235) ..	1,154	16,161	16,194	1,121	15,395	15,674	842	15,317	15,010	1,149
Public Rights Law Enforcement Special Fd (3053) ..	-	-	-	-	533	518	15	533	518	30
Public Transportation Account, STF (0046)	130,856	197,810	227,389	101,277	237,901	271,707	67,471	225,580	274,056	18,995
Public Util Comm Transport Reimb Acct (0461) ...	4,469	6,371	7,438	3,402	6,800	7,263	2,939	6,953	7,675	2,217
PET Processing Fee Acct, Bev Cont Rec Fd (0278) ..	13,400	52,122	49,612	15,910	41,407	50,881	6,436	69,899	69,667	6,668
Radiation Control Fund (0075)	8,929	12,406	16,144	5,191	18,281	18,359	5,113	18,281	18,362	5,032
Rail Accident Prevention & Response Fund (0058)	21	-	-	21	-	-	21	-	-	21
Real Estate Appraisers Regulation Fund (0400) ..	4,650	4,732	3,017	6,365	870	3,349	3,886	4,350	3,338	4,898
Real Estate Fund (0317)	20,186	27,085	29,805	17,466	29,239	31,282	15,423	26,944	30,914	11,453
Recycling Market Development Rev Loan (0281) ..	11,653	3,751	5,729	9,675	2,565	8,154	4,086	7,512	10,575	1,023
Reg Environmental Health Specialist Fd (0335) ..	653	151	197	607	151	228	530	151	244	437
Registered Nurse Education Fund (0181)	1,224	739	1,091	872	1,106	1,226	752	1,448	1,897	303
Registered Nursing Fund, Board of (0761)	19,678	3,389	15,141	7,926	15,278	16,716	6,488	15,264	15,743	6,009
Removal & Remedial Action Acct, HWCA (0294) ..	880	2,726	2,715	891	4,530	4,170	1,251	6,939	6,666	1,524
Renewable Resource Trust Fund (0382)	144,064	9,754	63,645	90,173	144,375	136,258	98,290	146,015	221,456	22,849
Research & Devel Acct, Child & Fam Trust (0637) ..	21,401	18,235	10,279	29,357	18,059	47,416	-	18,018	18,018	-
Research Acct, Cig & Tob Pr Surtax (0234)	9,015	22,698	24,513	7,200	19,847	26,363	684	19,769	19,279	1,174
Residential Earthquake Recovery Fund, CA (0285)	5,404	116	1,736	3,784	50	889	2,945	-2,850	28	67
Respiratory Care Fund (0319)	1,191	1,890	1,976	1,105	1,927	2,411	621	1,909	2,374	156
Responsibility Area Fire Protection Fund (3063) ..	-	-	-	-	52,500	52,500	-	52,500	52,500	-
Restitution Fund (0214)	49,074	103,549	114,981	37,642	110,439	119,415	28,666	116,768	115,370	30,064
Rigid Container Account (3024)	-	-	-	-	1,000	1,000	-	1,031	1,031	-
Rural Development Fund (0218)	36	-	-17	53	-53	-	-	-	-	-
Rural Economic Development Fund (0123)	1,514	116	-198	1,828	-1,943	-115	-	-	-	-
Safe Drinking Water and Toxic Enforcement (3056) ..	-	-	-	-	350	337	13	350	337	26
Safe Drinking Water Account (0306)	4,296	8,860	7,844	5,312	8,860	8,445	5,727	8,860	8,430	6,157
Sale of Tobacco to Minors Control Acct (0066) ..	320	196	235	281	236	370	147	236	370	13
Salmon & Steelhead Trout Restoration Acc (0384)	254	-	254	-	-	-	-	-	-	-
San Fran Bay Area Conservancy Prog Acct (0316)	7	-	-	7	-	-	7	-	-	7
Satellite Wagering Account (0192)	57	12,661	12,687	31	12,430	12,442	19	12,430	12,251	198
School Facilities Fee Assistance Fund (0101)	8,917	50,020	3,226	55,711	20	12,500	43,231	20	12,648	30,603

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Actual Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
School Fund, State (0342)	14,048	13,333	11,864	15,517	13,333	12,829	16,021	13,333	12,829	16,525
School Land Bank Fund (0347)	42,937	4,131	19	47,049	6,615	-	53,664	1,308	-	54,972
Seismic Gas Valve Cert Fee Acct (0450)	-	-	-	-	75	75	-	75	75	-
Seismic Safety Retrofit Account- STF (0056)	17,507	-17,507	-	-	-	-	-	-	-	-
Self-Insurance Plans Fund (0396)	2,249	2,574	2,744	2,079	2,550	2,805	1,824	2,550	2,857	1,517
Senafie Operating Fund (0348)	308	-	-	308	-	-	308	-	-	308
Sexual Habitual Offender, DOJ (0142)	3,035	2,304	2,519	2,820	2,302	2,634	2,488	2,291	2,664	2,115
Sexual Predator Public Information Acct (0256) ..	120	95	54	161	88	57	192	258	58	392
Site Operation and Maintenance Account (0458)	2,476	22	1	2,497	21	49	2,469	21	51	2,439
Site Remediation Account (0018)	3,388	6,706	7,360	2,734	7,814	9,271	1,277	7,987	8,258	1,006
Social Services Subaccount, Sales Tx Acc (0352) ..	-	983,977	983,977	-	1,034,410	1,034,410	-	1,114,259	1,114,259	-
Soil Conservation Fund (0141)	1,452	214	1,303	363	1,420	1,350	433	2,106	2,036	503
Solid Waste Disposal Site Cleanup Tr Fd (0386) ..	6,498	5,892	9,016	3,374	5,284	5,539	3,119	5,284	5,419	2,984
Special Reserve Fund Vehicle License Fee (3011) ..	48,519	-47,829	690	-	-	-	-	-	-	-
Special Telephone Solicitors Fund (1009)	-	1,000	1,000	-	-	-	-	-	-	-
Speech-Language Pathology & Audiology (0376)	225	605	459	371	660	518	513	713	519	707
State Court Facilities Construction Fund (3037) ...	-	19,665	-	19,665	-7,651	11,020	994	34,237	10,591	24,640
State Employee Scholarship Fund (0077)	366	-356	10	-	-	-	-	-	-	-
Strong-Motion Instrumentation Spec Fund (0398) ..	8,662	4,782	3,228	10,216	4,451	4,538	10,129	-10,129	-	-
Strong-Motion Instrumnt & Seismic Mapping (0338)	1,564	1,939	1,862	1,641	1,860	3,367	134	16,144	7,966	8,312
Structural Pest Cntrl Educ & Enforcemnt Fd (0399)	487	277	273	491	254	276	469	253	277	445
Structural Pest Control Fund (0775)	3,968	1,031	2,789	2,210	2,792	3,319	1,683	2,783	3,352	1,114
Structural Pest Control Research Fund (0168)	675	106	604	177	101	94	184	101	132	153
Substance Abuse Treatment Trust Fund (3019)	920	-	185	735	-	503	232	-	232	-
Surface Impoundment Assessment Account (0482)	1,098	10	-	1,108	10	179	939	10	180	769
Surface Mining and Reclamation Account (0035)	847	1,106	1,602	351	1,120	1,144	327	1,120	1,143	304
Tax Credit Allocation Fee Account (0457)	24,941	-22,487	1,200	1,254	29,735	1,515	29,474	4,585	1,546	32,513
Teacher Credentials Fund (0407)	1,126	14,473	15,400	199	16,697	16,838	58	13,897	13,891	64
Technical Assistance Fund (0270)	1,241	2,581	2,763	1,059	3,237	3,138	1,158	3,237	3,138	1,257
Teleconnect Fd Admin Comm Fd, Cal (0493)	149,503	44,460	17,162	176,801	-147,521	26,444	2,836	2,479	5,314	1
Telephone Medical Advice Services Fund (0459) ..	82	217	83	216	64	133	147	233	128	252
Test Development and Admin Acct, Tc Fd (0408) ..	3,852	12,314	11,839	4,327	10,440	9,691	5,076	13,892	9,678	9,290
Tire Recycling Management Fund, Calif (0226) ..	18,121	32,904	28,302	22,723	14,702	31,406	6,019	32,495	31,530	6,984
Tissue Bank License Fund (0076)	313	277	183	407	277	317	367	277	275	369
Tobacco Settlement Fund (3020)	83,814	458,066	533,597	8,283	-4,276	4,007	-	-	-	-
Toil Bridge Seismic Retrofit Acct, STF (0650)	349,607	129,944	278,134	201,417	1,306,507	709,983	797,941	594,406	637,311	755,036
Toxic Substances Control Account (0557)	32,594	30,197	32,461	30,330	31,258	43,270	18,318	30,511	44,850	3,979
Traffic Congestion Relief Fund (3007)	1,269,673	-576,009	316,664	377,000	-80,778	296,222	-	-	-	-
Transcript Reimbursement Fund (0410)	58	102	98	62	303	307	58	303	309	52
Transitional Housing for Foster Youth Fd (3028)	1,509	-	180	1,329	-	495	834	-	815	19
Transportation Investment Fund (3008)	-	-	-	-	-289,000	-289,000	-	-	-	-
Transportation Rate Fund (0412)	431	1,743	1,363	811	1,765	1,818	758	1,765	1,808	715
Trauma Care Fund (3027)	5	-	-3	8	-	7	1	-	1	-
Traumatic Brain Injury Fund (0311)	1,041	1,050	1,093	998	996	1,575	419	1,003	1,422	-
Travel Seller Fund (0158)	1,104	801	922	983	945	1,009	919	945	1,003	861
Trial Court Improvement Fund (0159)	136,900	45,674	101,705	80,869	74,548	132,751	22,666	84,548	107,214	-
Trial Court Trust Fund (0932)	92,652	851,482	919,559	24,575	1,058,189	1,082,764	-	996,580	996,580	-
Unallocated Acct, Cig & Tob Pr Surtax (0236)	17,988	40,441	54,918	3,511	41,414	44,157	768	41,074	40,080	1,762
Unallocated Acct, Child & Families Trust (0639) ..	7,341	11,898	9,940	9,299	11,939	21,238	-	11,912	11,912	-

SCHEDULE 10—Continued
SUMMARY OF FUND CONDITION BY FUND AS OF JUNE 30, 2002, 2003, 2004, and 2005
(Dollars in Thousands)

Fund	Reserves June 30, 2002	Actual Revenues 2002-03	Actual Expenditures 2002-03	Actual Expenditures 2002-03	Reserves June 30, 2003	Estimated Revenues 2003-04	Estimated Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenues 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005
Underground Storage Tank Cleanup Fund (0439).....	133,106	212,176	248,663	248,663	96,619	195,683	242,911	49,391	198,883	245,260	3,014
Underground Storage Tank Fund (0475).....	1,759	28	1,029	1,029	758	30	401	387	30	400	17
Underground Storage Tank Tester Account (0436).....	49	35	23	23	61	37	62	36	37	61	12
Unified Program Account (0028).....	2,265	2,545	3,044	3,044	1,766	3,010	3,459	1,317	3,010	3,402	925
Universal Lifeline Telpne Svc Trst Admin (0471).....	160,656	193,645	221,254	221,254	133,047	207,345	245,861	94,531	207,345	240,356	61,520
Upper Newport Bay Ecological Maint & Presv (0433).....	799	-999	-200	-200	-	-	-200	200	-	-200	400
Used Oil Recycling Fund, California (0100).....	15,596	19,567	30,412	30,412	4,751	21,237	23,915	2,073	21,221	21,580	1,714
Vehicle Inspection and Repair Fund (0421).....	106,081	25,330	104,672	104,672	26,739	109,029	107,279	28,489	132,613	106,089	55,013
Vehicle License Collection Acct, LRF (0329).....	-	14,000	14,000	14,000	-	14,000	14,000	-	14,000	14,000	-
Vehicle License Fee Account (0332).....	-	1,343,176	1,343,176	1,343,176	-	1,355,695	1,355,695	-	1,427,194	1,427,194	-
Vehicle License Fee Growth Account (0334).....	-	12,518	12,518	12,518	-	71,499	71,499	-	39,843	39,843	-
Veterans Cemetery Master Devl Fund, NoCA (0180).....	50	-	50	50	-	-	-	-	-	-	-
Veterans Service Office Fund (0083).....	617	499	470	470	646	496	516	626	496	514	608
Veterinary Medical Board Contingent Fund (0777).....	1,158	1,419	1,687	1,687	890	1,745	1,817	818	1,754	1,511	1,061
Victim Witness Assistance Fund (0425).....	3,451	12,810	16,972	16,972	-711	17,356	17,083	-438	17,459	16,764	257
Victims of Corporate Fraud Compensation (3042).....	-	-	-	-	-	-	-	-	1,600	1,600	-
Vietnam Veterans Memorial Account (0473).....	33	1	-	-	34	1	2	33	1	2	32
Vocational Nurse Education Fund (3068).....	2,308	4,501	4,086	4,086	2,723	2,570	4,211	1,082	4,488	4,651	14
Waste Discharge Permit Fund (0779).....	3,417	34,154	28,741	28,741	8,830	51,394	52,466	7,758	51,394	52,587	919
Water Device Certification Special Acct (0129).....	394	145	158	158	381	170	191	360	170	191	339
Water Fund, California (0144).....	14,338	311	-	-	14,649	25	-	14,674	25	-	14,699
Water Rights Fund (3058).....	-	-	-	-	-	5,000	4,617	383	8,700	8,192	891
Waterfowl Habitat Preservation Acct, Cal (0211).....	3,371	72	60	60	3,383	43	208	3,218	26	217	3,027
Wildlife Restoration Fund (0447).....	27,706	-25,033	1,190	1,190	1,483	3,596	1,428	3,651	2,199	1,478	4,372
Wine Safety Fund (0116).....	325	-	20	20	305	-	50	255	-	54	201
Winter Recreation Fund (0449).....	258	333	285	285	306	300	449	157	300	342	115
Work and Family Fund (0258).....	5,075	-	161	161	4,914	-	1,500	3,414	-	3,407	7
Workers' Comp Administration Revolv Fund (0223).....	2,792	25,053	21,075	21,075	6,770	105,281	77,284	34,767	103,028	107,239	30,556
Workers' Compensation Managed Care Fund (0132).....	592	453	235	235	810	878	544	1,144	716	551	1,309
Workers' Occupational Sfty & Health Ed (3030) ..	-	1,090	-	-	1,090	1,090	1,079	1,101	1,090	1,079	1,112
Workplace Health & Safety Revolving Fund (0222).....	3,954	-2,730	724	724	500	919	-	500	-	-	500
Yosemite Foundation Acct, ELPF (0071).....	7	919	912	912	14	-	851	82	919	843	158
Totals, Special Funds.....	\$7,417,537	\$15,230,733	\$18,282,058	\$18,282,058	\$4,366,212	\$18,317,786	\$19,406,353	\$3,277,645	\$20,803,316	\$21,143,760	\$2,937,201
GRAND TOTALS	\$5,943,365	\$95,794,299	\$95,764,200	\$95,764,200	\$5,973,464	\$95,957,227	\$97,434,446	\$4,496,245	\$97,210,055	\$97,205,629	\$4,500,671

Schedule 11
STATEMENT OF GENERAL OBLIGATION BOND AND COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA
(Dollars in Thousands)

(This statement does not include bonds issued under authority of state instrumentalities that are not general obligations of the State of California.)

Fund	Bond Act	General Obligation Bonds					Proposed Sales		Commercial Paper	
		Maturity	Authorized	Unissued	Outstanding	Redeemed	Jan-Jun 2004	Jun-Dec 2004	through December 31, 2003	Finance Cmte
									Authorization	Outstanding
BUSINESS, TRANSP & HOUSING										
0703	Clean Air & Transp Improv (1990)	1991-2033	\$1,990,000	\$283,415	\$1,304,415	\$402,170	\$71,343	\$65,225	\$242,490	-
0714	Housing & Homeless (1990)	1991-2023	150,000	-	6,410	143,590	-	-	-	-
6037	Housing and Emergency Shelter (2002)		2,100,000	2,100,000	-	-	13,182	7,024	980,000	-
0756	Passenger Rail & Clean Air (1990)	1991-2021	1,000,000	10,565	583,590	405,845	2,362	2,162	10,565	-
0653	Seismic Retrofit (1996)	1997-2032	2,000,000	269,645	1,601,895	128,460	18,696	14,451	269,645	-
	Total, Business, Transp & Housing		\$7,240,000	\$2,663,625	\$3,496,310	\$1,080,065	\$105,583	\$88,862	\$1,502,700	-
NATURAL RESOURCES										
0722	Ca Park & Recreational Facil (1984)	1985-2027	\$370,000	\$1,100	\$120,640	\$248,260	-	-	-	-
0721	Ca Parklands (1980)	1982-2024	285,000	-	25,795	259,205	-	-	-	-
0707	Ca Safe Drinking Water (1976)	1981-2027	175,000	2,500	37,030	135,470	-	-	-	-
0707	Ca Safe Drinking Water (1984)	1986-2027	75,000	-	24,645	50,355	-	-	-	-
0707	Ca Safe Drinking Water (1986)	1991-2030	100,000	-	57,790	42,210	-	-	-	-
0793	Ca Safe Drinking Water (1988)	1991-2033	75,000	7,100	49,015	18,885	\$1,296	\$1,761	\$5,100	-
6001	Ca Safe Drinking Water (2000)	2001-2033	1,970,000	1,575,802	382,705	11,493	184,330	169,700	702,002	-
0786	Ca Wildlife, Coast, & Park Land Cons (1988)									
	1990-2032		776,000	7,330	396,000	372,670	-	-	-	-
0734	Clean Water (1970)	1972-2011	250,000	-	4,000	246,000	-	-	-	-
0734	Clean Water (1974)	1978-2011	250,000	-	8,165	241,835	-	-	-	-
0740	Clean Water (1984)	1986-2024	325,000	-	76,000	249,000	-	-	-	-
6029	Clean Water, Clean Air, and Parks (2002) .	2008-2033	2,600,000	2,471,815	128,185	-	166,079	143,372	134,455	-
0716	Community Parklands (1986)	1990-2022	100,000	-	39,345	60,655	-	-	-	-
0748	Fish & Wildlife Habitat Enhance (1984)	1986-2029	85,000	3,000	24,190	57,810	-	-	3,000	-
0720	Lake Tahoe Acquisitions (1982)	1986-2017	85,000	-	25,740	59,260	-	-	-	-
0402	Safe, Clean, Reliable Water Supply (1996) .	1998-2033	995,000	507,165	460,125	27,710	71,807	70,889	281,165	-
0005	Safe Neighborhood Parks (2000)	2001-2033	2,100,000	1,287,690	794,895	17,415	184,876	140,885	758,885	-
0733	State Beach, Park, Rec & Hist Facil (1974) .	1967-2003	250,000	-	-	250,000	-	-	-	-
0742	State, Urban & Coastal Park (1976)	1978-2029	280,000	-	12,935	267,065	-	-	-	-
0744	Water Conserv & Water Quality (1986)	1993-2031	150,000	27,600	67,550	54,850	-	-	-	-
0790	Water Conserv (1988)	1991-2033	60,000	11,500	37,280	11,220	1,352	1,545	6,266	-
	Total, Natural Resources		\$11,356,000	\$5,902,602	\$2,772,030	\$2,681,368	\$609,740	\$528,152	\$1,890,873	-
ENVIRONMENTAL PROTECTION										
0737	Clean Water & Water Conserv (1978)	1981-2028	\$375,000	-	\$32,920	\$342,080	-	-	-	-
0764	Clean Water & Water Reclam (1988)	1991-2029	65,000	-	46,000	19,000	-	-	-	-
0710	Hazardous Substance Cleanup (1984)	1986-2005	100,000	-	5,000	95,000	-	-	-	-
6031	Water Security, Coastal & Beach Protection (2002)	2008-2033	3,440,000	\$3,367,330	72,670	-	\$278,521	\$153,400	\$1,259,430	-
	Total, Environmental Quality		\$3,980,000	\$3,367,330	\$156,590	\$456,080	\$278,521	\$153,400	\$1,259,430	-
HEALTH AND WELFARE										
0729	Senior Center (1984)	1986-2006	\$50,000	-	\$7,250	\$42,750	-	-	-	-
	Total, Health & Welfare		\$50,000	-	\$7,250	\$42,750	-	-	-	-

Schedule 11—Continued
STATEMENT OF GENERAL OBLIGATION BOND AND COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA
(Dollars in Thousands)

(This statement does not include bonds issued under authority of state instrumentalities that are not general obligations of the State of California.)

		General Obligation Bonds					Proposed Sales		Commercial Paper	
		Sales through December 31, 2003							through December 31, 2003	
Fund	Bond Act	Maturity	Authorized	Unissued	Outstanding	Redeemed	Jan-Jun 2004	Jun-Dec 2004	Finance Cmte Authorization	Total Outstanding
YOUTH AND ADULT CORRECTIONAL										
0711	Co Corr Facil Cap Expend (1986).....	1989-2022	\$495,000	-	\$201,980	\$293,020	-	-	-	-
0796	Co Corr Facil Cap Expend & Youth Facil (1988)	1991-2030	500,000	-	296,480	203,520	-	-	-	-
0725	Co Jail Cap Expend (1981).....	1984-2011	280,000	-	51,225	228,775	-	-	-	-
0727	Co Jail Cap Expend (1984).....	1986-2009	250,000	-	47,000	203,000	-	-	-	-
0723	New Prison Construction (1981).....	1983-2006	495,000	-	44,250	450,750	-	-	-	-
0724	New Prison Construction (1984).....	1985-2006	300,000	-	32,500	267,500	-	-	-	-
0746	New Prison Construction (1986).....	1989-2017	500,000	\$1,500	166,620	331,880	-	-	\$1,500	-
0747	New Prison Construction (1988).....	1991-2021	817,000	12,260	401,130	403,610	-	-	12,260	-
0751	New Prison Construction (1990).....	1991-2021	450,000	6,125	231,805	212,070	\$1,758	\$786	6,125	-
Total, Youth & Adult Correctional.....			\$4,087,000	\$19,885	\$1,472,990	\$2,594,125	\$1,758	\$786	\$19,885	-
EDUCATION—K-12										
0794	Ca Library Constr & Renov (1988)	1991-2031	\$75,000	\$2,595	\$46,570	\$25,835	-	-	-	-
6000	Ca Library Constr & Renov (2000)	2001-2033	350,000	345,450	4,530	20	\$27,546	\$22,435	\$47,350	-
0119	Class Size Reduction K-U Pub. Ed. Facil (1998) K-12	1999-2033	6,700,000	347,235	6,079,150	273,615	224,112	101,516	347,235	-
0657	Public Education Facil (1996) K-12	1997-2033	2,025,000	46,790	1,703,610	274,600	13,663	11,154	46,790	-
6036	Public Education Facil (2002) K-12	2008-2033	11,400,000	6,167,360	5,232,640	-	1,768,680	1,324,504	6,167,360	-
0739	School Bldg & Earthquake (1974)	1997-2026	40,000	-	30,655	9,345	-	-	-	-
0789	School Facilities (1988)	1990-2011	800,000	-	370,480	429,520	-	-	-	-
0708	School Facilities (1990)	1992-2033	800,000	2,550	475,435	322,015	573	386	2,550	-
0745	School Facilities (1992)	1993-2033	1,900,000	17,290	1,170,100	712,610	1,392	1,369	17,290	-
0743	State Sch Bldg Lease-Purch (1982)	1984-2005	500,000	-	20,210	479,790	-	-	-	-
0743	State Sch Bldg Lease-Purch (1984)	1987-2011	450,000	-	102,500	347,500	-	-	-	-
0743	State Sch Bldg Lease-Purch (1986)	1990-2011	800,000	-	266,800	533,200	-	-	-	-
0776	1988 School Facil Bond Act (Nov)	1991-2033	800,000	2,665	417,515	379,820	351	331	2,665	-
0774	1990 School Facil Bond Act (Jun)	1991-2033	800,000	2,990	439,915	357,095	848	769	2,990	-
0765	1992 School Facil Bond Act (Nov)	1994-2033	900,000	6,614	570,697	322,689	914	788	6,614	-
Total, Education—K-12.....			\$28,340,000	\$6,941,539	\$16,930,807	\$4,467,654	\$2,038,079	\$1,463,252	\$6,640,844	-
HIGHER EDUCATION										
0574	Class Size Reduction K-U Pub. Ed. Facil (1998) HI-Ed.....	1999-2033	\$2,500,000	\$549,525	\$1,908,135	\$42,340	\$228,008	\$158,199	\$549,525	-
0782	Higher Education Facil (1986).....	1989-2011	400,000	-	123,500	276,500	-	-	-	-
0785	Higher Education Facil (1988).....	1990-2033	600,000	10,440	293,550	296,010	-	-	3,440	-
0791	Higher Education Facil (Jun 1990)	1991-2033	450,000	2,130	250,920	196,950	51	23	2,130	-
0705	Higher Education Facil (Jun 1992)	1993-2033	900,000	8,280	639,255	252,465	955	421	4,840	-
0658	Public Education Facil (1996) HI-Ed	1997-2033	975,000	38,330	866,660	70,010	740	336	29,630	-
6028	Public Education Facil (2002) HI-Ed	2008-2033	1,650,000	1,634,680	15,320	-	62,982	54,394	266,680	-
Total, Higher Education.....			\$7,475,000	\$2,243,385	\$4,097,340	\$1,134,275	\$292,736	\$213,373	\$856,245	-

Schedule 11—Continued

STATEMENT OF GENERAL OBLIGATION BOND AND COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA
(Dollars in Thousands)

(This statement does not include bonds issued under authority of state instrumentalities that are not general obligations of the State of California.)

Fund	Bond Act	Maturity	General Obligation Bonds				Proposed Sales		Commercial Paper			
			Sales through December 31, 2003	Authorized	Unissued	Outstanding	Redeemed	Jan-Jun 2004	Jun-Dec 2004	Finance Cmte Authorization	through December 31, 2003	Total Outstanding
GENERAL GOVERNMENT												
0768	Earthquake Safety & Public Bldg. Rehab (1990)	1991-2022		\$300,000	\$59,450	\$204,770	\$35,780	\$13,101	\$7,205	\$59,450	-	-
0701	Veterans' Homes (2000)			50,000	50,000	-	-	5,293	6,940	45,000	-	-
6032	Voting Modernization (2002)			200,000	200,000	-	-	55,189	38,030	155,000	-	-
	Total, General Government			\$550,000	\$309,450	\$204,770	\$35,780	\$73,583	\$52,175	\$259,450	-	-
Total, All Agencies.....												
				\$63,078,000	\$21,447,816	\$29,138,087	\$12,492,097	\$3,400,000	\$2,500,000	\$12,429,427	-	-
SELF-LIQUIDATING BONDS ¹												
	Ca Water Resources Dev (1959)	1973-2024		\$1,750,000	\$167,600	\$795,270	\$787,130	-	-	-	-	-
	Veterans Bonds	1958-2032		4,510,000	605,585	1,812,850	2,091,565	na ²	na ²	\$105,585	-	-
	Total, Self-Liquidating Bonds			\$6,260,000	\$773,185	\$2,608,120	\$2,878,695	-	-	\$105,585	-	-
Total.....												
TOTAL				\$69,338,000	\$22,221,001	\$31,746,207	\$15,370,792	\$3,400,000	\$2,500,000	\$12,535,012	-	-

¹ The California Water Resource Development Bond Act and the Veterans Bond Acts are public service enterprises that have their own revenues to finance their respective debt service expenditures.
² Amounts not available.

Source: State Treasurer's Office.

Schedule 12-A
STATE APPROPRIATIONS LIMIT SUMMARY
(Dollars in Millions)

	2002-03			2003-04			2004-05		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Schedule 8:									
Revenues and Transfers	\$80,564	\$15,230	\$95,794	\$77,639	\$18,318	\$95,957	\$76,407	\$20,803	\$97,210
Less/Add: Transfers	-2,785	2,446	-339	-1,520	1,453	-67	-797	573	-224
Schedule 12-B:									
Less: Revenues to Excluded Funds.....	-	-7,887	-7,887	-	-9,494	-9,494	-	-9,316	-9,316
Schedule 12-C:									
Less: Non-Tax Revenues to Included Funds.....	-12,656	-352	-13,008	-6,858	-380	-7,238	-2,103	-424	-2,527
Schedule 12-D:									
Add: SAL Transfers	351	41	392	106	4	110	17	4	21
TOTAL, SAL REVENUES AND TRANSFERS	\$65,474	\$9,478	\$74,952	\$69,367	\$9,901	\$79,268	\$73,524	\$11,640	\$85,164
Schedule 12-E:									
Less: Exclusions	-26,469	-4,021	-30,490	-26,933	-4,082	-31,015	-28,634	-5,362	-33,996
TOTAL, SAL APPROPRIATIONS			\$44,462			\$48,253			\$51,168
CALCULATION OF LIMIT ROOM:									
Appropriations Limit (Sec. 12.00)			\$59,591			\$61,702			\$63,977
Less: Total SAL Appropriations.....			-44,462			-48,253			-51,168
Appropriation Limit Room/(Surplus)			\$15,129			\$13,449			\$12,809

Schedule 12-B
STATE APPROPRIATIONS LIMIT
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)

Source Code	Source	Actual 2002-03	Estimated 2003-04	Estimated 2004-05
MAJOR REVENUES:				
110500	Cigarette Tax	\$917,725	\$917,100	\$893,700
110900	Horse Racing Fees-Licenses	25,924	25,542	25,542
111100	Horse Racing Fines and Penalties	1,396	1,400	1,400
111300	Horse Racing Miscellaneous	12,549	12,518	12,430
114300	Other Motor Vehicle Fees	1,653	1,488	1,488
115400	Mobilehome In-Lieu Tax	2,388	2,388	2,388
	TOTAL, MAJOR TAXES AND LICENSES	\$961,635	\$960,436	\$936,948
MINOR REVENUES:				
REGULATORY TAXES AND LICENSES:				
120200	General Fish and Game Taxes	1,126	1,517	1,535
120300	Energy Resource Surcharge	471,673	501,668	502,829
120600	Quarterly Public Util Commission Fees	86,689	108,173	75,247
120700	Penalties on Pub Util Comm Qtrly Fees	3	-	-
120900	Off-Highway Vehicle Fees	3,314	3,000	3,000
121000	Liquor License Fees	40,735	42,123	43,377
121100	Genetic Disease Testing Fees	63,753	64,205	64,205
121200	Other Regulatory Taxes	60,133	81,015	87,998
121300	New Motor Vehicle Dealer License Fee	1,340	1,419	1,419
121500	General Fish and Game Lic Tags Permits	69,641	79,724	84,548
121600	Duck Stamps	53	53	53
122400	Elevator and Boiler Inspection Fees	11,953	14,907	16,700
122700	Employment Agency License Fees	4,845	8,069	8,069
122900	Teacher Credential Fees	14,273	13,697	13,697
123000	Teacher Examination Fees	12,254	13,040	13,692
123100	Insurance Co License Fees & Penalties	27,307	28,067	29,282
123200	Insurance Company Examination Fees	18,460	20,120	20,120
123400	Real Estate Examination Fees	9,837	5,336	4,875
123500	Real Estate License Fees	22,530	16,915	16,659
123600	Subdivision Filing Fees	8,386	7,909	7,631
123800	Building Construction Filing Fees	4,404	7,905	7,905
124100	Domestic Corporation Fees	9,093	9,500	11,100
124200	Foreign Corporation Fees	1,126	1,135	1,135
124300	Notary Public License Fees	1,559	3,622	3,622
124400	Filing Financing Statements	4,029	4,056	4,056
125100	Beverage Container Redemption Fees	570,799	690,397	902,487
125200	Explosive Permit Fees	1	-	-
125300	Processing Fees	2	2	2
125400	Hazardous Waste Control Fees	62,202	63,768	64,884
125600	Other Regulatory Fees	1,308,702	1,550,291	1,619,343
125700	Other Regulatory Licenses and Permits	315,428	340,495	352,317
125800	Renewal Fees	147,688	149,907	153,957
125900	Delinquent Fees	4,466	4,127	3,990
127100	Insurance Department Fees, Prop 103	24,589	27,638	26,908
127200	Insurance Department Fees, General	17,902	19,361	20,283
127300	Insurance Fraud Assessment, Workers Comp	30,995	31,254	34,754
127400	Insurance Fraud Assessment, Auto	35,452	35,401	35,401
127500	Insurance Fraud Assessment, General	1,761	1,791	1,792
	TOTAL, REGULATORY TAXES AND LICENSES	\$3,468,503	\$3,951,607	\$4,238,872
REVENUE FROM LOCAL AGENCIES:				
130600	Architecture Public Building Fees	32,218	32,000	32,000
130700	Penalties on Traffic Violations	86,722	87,833	88,496
130800	Penalties on Felony Convictions	52,487	56,587	62,587
130900	Fines-Crimes of Public Offense	3,559	3,559	3,559
131000	Fish and Game Violation Fines	586	586	586
131100	Penalty Assessments on Fish & Game Fines	580	761	783
131300	Add'l Assmnts on Fish & Game Fines	90	120	120
131600	Fingerprint ID Card Fees	53,768	57,264	65,092
131700	Misc Revenue From Local Agencies	486,034	485,402	486,952
	TOTAL, REVENUE FROM LOCAL AGENCIES	\$716,044	\$724,112	\$740,175

Schedule 12-B—Continued
STATE APPROPRIATIONS LIMIT
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)

Source Code	Source	Actual 2002-03	Estimated 2003-04	Estimated 2004-05
	SERVICES TO THE PUBLIC:			
140600	State Beach and Park Service Fees	38,854	52,700	70,700
140900	Parking Lot Revenues	7,361	8,337	8,879
141100	Emergency Telephone Users Surcharge	139,267	141,671	150,171
141200	Sales of Documents	2,636	889	872
142000	General Fees—Secretary of State	15,732	17,932	15,732
142200	Parental Fees	1,887	1,750	1,750
142500	Miscellaneous Services to the Public.....	158,621	159,701	266,620
142800	California State University Fees	818,980	1,016,523	1,165,573
143000	Personalized License Plates	40,400	40,990	41,171
	TOTAL, SERVICES TO THE PUBLIC	\$1,223,738	\$1,440,493	\$1,721,468
	USE OF PROPERTY AND MONEY:			
150200	Income From Pooled Money Investments.....	401	399	399
150300	Income From Surplus Money Investments	76,806	63,988	64,086
150400	Interest Income From Loans	3,930	3,726	2,729
150500	Interest Income From Interfund Loans	15,017	2,695	250
150600	Income From Other Investments.....	7,223	22,588	12,955
151200	Income From Condemnation Deposits Fund.....	1	1	1
151800	Federal Lands Royalties.....	21,322	18,375	18,375
152200	Rentals of State Property	5,016	3,990	4,051
152300	Misc Revenue Frm Use of Property & Money.....	12,779	20,603	12,542
152400	School Lands Royalties	101	58	58
152500	State Lands Royalties.....	5,000	7,900	-
	TOTAL, USE OF PROPERTY AND MONEY	\$147,596	\$144,323	\$115,446
	MISCELLANEOUS:			
160100	Attorney General Proceeds of Anti-Trust	1,109	1,210	1,210
160200	Penalties & Interest on UI & DI Contrib.....	77,746	80,156	83,344
160400	Sale of Fixed Assets.....	43	1	1
160600	Sale of State's Public Lands.....	3,836	6,704	1,381
161000	Escheat of Unclaimed Checks & Warrants	1,187	630	584
161400	Miscellaneous Revenue	179,125	158,982	618,666
161500	Bond Proceeds.....	-	1,160,435	-
161800	Penalties & Intrst on Personal Income Tx	14,517	14,960	15,482
161900	Other Revenue—Cost Recoveries	43,073	59,256	79,188
163000	Settlements/Judgments (not Anti-trust).....	476,069	531	531
164100	Traffic Violations.....	2,662	2,662	2,662
164200	Parking Violations.....	973	440	460
164300	Penalty Assessments	83,071	111,848	72,267
164400	Civil & Criminal Violation Assessment.....	5,041	17,167	17,122
164600	Fines and Forfeitures	292,342	287,938	289,238
164700	Court Filing Fees and Surcharges	175,861	327,495	337,815
164800	Penalty Assessments on Criminal Fines.....	12,783	43,084	43,084
	TOTAL, MISCELLANEOUS.....	\$1,369,438	\$2,273,499	\$1,563,035
	TOTAL, MINOR REVENUES.....	\$6,925,319	\$8,534,034	\$8,378,996
	TOTALS, Revenue to Excluded Funds (MAJOR and MINOR)	\$7,886,954	\$9,494,470	\$9,315,944

Schedule 12-C
STATE APPROPRIATIONS LIMIT
NON-TAX REVENUES IN FUNDS SUBJECT TO LIMIT
(Dollars In Thousands)

Source Code	Source	Actual 2002-03		Estimated 2003-04		Estimated 2004-05	
		General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
MAJOR REVENUES:							
111100	Horse Racing Fines and Penalties.....	\$141	-	\$180	-	\$180	-
111200	Horse Racing Fees-Unclaimed P-M Tickets.....	311	-	320	-	320	-
111300	Horse Racing Miscellaneous.....	1	-	5	-	5	-
114200	Driver's License Fees.....	-	\$139,289	-	\$169,389	-	\$203,239
114300	Other Motor Vehicle Fees.....	-	28,751	-	29,726	-	30,701
114400	Identification Card Fees.....	-	7,560	-	16,305	-	25,050
TOTAL, MAJOR TAXES AND LICENSES.....		\$453	\$175,600	\$505	\$215,420	\$505	\$258,990
MINOR REVENUES:							
REGULATORY TAXES AND LICENSES:							
120800	Hwy Carrier Uniform Business License Tax.....	368	-	300	-	300	-
120900	Off-Highway Vehicle Fees.....	-	3,708	-	4,000	-	4,250
121200	Other Regulatory Taxes.....	12,812	-	-	-	-	-
122400	Elevator and Boiler Inspection Fees.....	209	-	209	-	209	-
122600	Industrial Homework Fees.....	2	-	2	-	2	-
122700	Employment Agency License Fees.....	719	-	719	-	719	-
122800	Employment Agency Filing Fees.....	108	-	108	-	108	-
124500	Candidate Filing Fee.....	94	-	1,472	-	94	-
125200	Explosive Permit Fees.....	-	-	25	-	25	-
125600	Other Regulatory Fees.....	8,778	-	18,346	-	25,692	-
125700	Other Regulatory Licenses and Permits.....	41,422	24,892	39,182	24,807	39,005	25,071
125800	Renewal Fees.....	69	-	69	-	69	-
125900	Delinquent Fees.....	1	-	1	-	1	-
TOTAL, REGULATORY TAXES AND LICENSES.....		\$64,582	\$28,600	\$60,433	\$28,807	\$66,224	\$29,321
REVENUE FROM LOCAL AGENCIES:							
131500	Narcotic Fines.....	3,116	-	1,000	-	1,000	-
131700	Misc Revenue From Local Agencies.....	311,886	552	382,532	600	420,702	615
131900	Rev Local Govt Agencies-Cost Recoveries.....	968	-	2,500	-	2,500	-
TOTAL, REVENUE FROM LOCAL AGENCIES.....		\$315,970	\$552	\$386,032	\$600	\$424,202	\$615
SERVICES TO THE PUBLIC:							
140100	Pay Patients Board Charges.....	19,207	-	18,825	-	18,754	-
141000	Fire Prevention and Suppression.....	1,630	-	100	-	100	-
141200	Sales of Documents.....	630	858	399	969	397	954
142000	General Fees—Secretary of State.....	28	-	28	-	28	-
142300	Guardianship Fees.....	8	-	10	-	10	-
142500	Miscellaneous Services to the Public.....	5,657	68,527	4,078	70,000	4,068	71,500
142600	Receipts From Health Care Deposit Fund.....	8,165	-	8,000	-	8,000	-
142700	Medicare Receipts Frm Federal Government....	5,152	-	5,270	-	5,270	-
TOTAL, SERVICES TO THE PUBLIC.....		\$40,477	\$69,385	\$36,710	\$70,969	\$36,627	\$72,454
USE OF PROPERTY AND MONEY:							
152000	Oil & Gas Lease-1% Revenue City/County.....	255	-	199	-	166	-
152200	Rentals of State Property.....	8,474	37,220	8,894	25,616	9,061	24,384
152300	Misc Revenue Frm Use of Property & Money.....	30,966	18,628	32,276	15,283	32,276	16,451
152500	State Lands Royalties.....	78,470	-	71,538	-	121,152	-
TOTAL, USE OF PROPERTY AND MONEY.....		\$118,165	\$55,848	\$112,907	\$40,899	\$162,655	\$40,835
MISCELLANEOUS:							
160400	Sale of Fixed Assets.....	14,946	-	188,974	-	312	-
160500	Sale of Confiscated Property.....	5,907	-	5,810	-	5,810	-
160600	Sale of State's Public Lands.....	-	309	-	2	-	101
160700	Proceeds From Estates of Deceased Person.....	75	-	350	-	350	-
160900	Revenue-Abandoned Property.....	257,533	-	616,716	-	294,359	-
161000	Escheat of Unclaimed Checks & Warrants.....	28,990	845	27,933	584	28,027	563
161400	Miscellaneous Revenue.....	2,502,737	20,941	2,363,788	22,601	844,846	21,761
161500	Bond Proceeds.....	9,242,000	-	3,012,000	-	-	-
161900	Other Revenue—Cost Recoveries.....	458	-	25	-	25	-
163000	Settlements/Judgments (not Anti-trust).....	5	-	10,252	-	203,502	-
164000	Uninsured Motorist Fees.....	2,357	-	2,400	-	2,400	-

Schedule 12-C—Continued
STATE APPROPRIATIONS LIMIT
NON-TAX REVENUES IN FUNDS SUBJECT TO LIMIT
(Dollars In Thousands)

Source Code	Source	Actual 2002-03		Estimated 2003-04		Estimated 2004-05	
		General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
164200	Parking Violations.....	6,971	—	7,001	—	7,001	—
164300	Penalty Assessments	53,724	—	25,304	—	25,304	—
164400	Civil & Criminal Violation Assessment.....	673	—	628	—	628	—
	TOTAL, MISCELLANEOUS	\$12,116,376	\$22,095	\$6,261,181	\$23,187	\$1,412,564	\$22,425
	TOTAL, MINOR REVENUES	\$12,655,570	\$176,480	\$6,857,263	\$164,462	\$2,102,272	\$165,650
	TOTALS, Non-Tax Revenue						
	(MAJOR and MINOR)	\$12,656,023	\$352,080	\$6,857,768	\$379,882	\$2,102,777	\$424,640

Schedule 12-D
STATE APPROPRIATIONS LIMIT
TRANSFERS FROM EXCLUDED FUNDS TO INCLUDED FUNDS
(Dollars in Thousands)

	Actual 2002-03		Estimated 2003-04		Estimated 2004-05	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
From Fingerprint Fees Account (0017) to General Fund (0001) (per Item 0820-011-0017, Budget Acts of 2002 and 2003).....	2,000	-	2,000	-	-	-
From Site Remediation Account (0018) to General Fund (0001) (per Item 3960-011-0018, Budget Act of 2002).....	1,000	-	-	-	-	-
From Corporations Fund, State (0067) to General Fund (0001) (per pending legislation)	-	-	500	-	-	-
From Corporations Fund, State (0067) to General Fund (0001) (per Item 2180-011-0067, Budget Acts of 2003 and 2004).....	-	-	44,407	-	1,000	-
From Corporations Fund, State (0067) to General Fund (0001) (per Item 2180-012-0067, Budget Act of 2002).....	9,000	-	-	-	-	-
From Health Statistics Special Fund (0099) to General Fund (0001) (per Item 4260-012-0099, Budget Acts of 2002 and 2003)	4,200	-	1,000	-	-	-
From Rural Economic Development Fund (0123) to General Fund (0001) (per Chapter 229, Statutes of 2003).....	-	-	2,003	-	-	-
From Commerce Marketing Fund (0145) to General Fund (0001) (per Chapter 229, Statutes of 2003).....	-	-	108	-	-	-
From Energy and Resources Fund (0188) to General Fund (0001) (per Public Resources Code Section 26042.4).....	295	-	300	-	300	-
From Energy and Resources Fund (0188) to General Fund (0001) (per Section 11.52, Budget Act of 2002).....	306	-	-	-	-	-
From Fair and Exposition Fund (0191) to General Fund (0001) (per Item 8570-011-0191, Budget Acts of 2002 and 2003).....	246	-	246	-	246	-
From Workers' Comp Administration Revolv Fund (0223) to General Fund (0001) (per Item 8350-011-0223, Budget Act of 2002).....	2,805	-	-	-	-	-
From Business Fees Fund, Secty of State's (0228) to General Fund (0001) (per Government Code Section 12176)	4,278	-	3,446	-	8,263	-
From Business Fees Fund, Secty of State's (0228) to General Fund (0001) (per Item 0890-001-0228, Budget Act of 2004).....	-	-	-	-	284	-
From Business Fees Fund, Secty of State's (0228) to General Fund (0001) (per Item 0890-011-0228, Budget Act of 2002).....	1,000	-	-	-	-	-
From Technical Assistance Fund (0270) to General Fund (0001) (per Health and Safety Code Section 1523.2 (c)).....	-	-	713	-	713	-
From Technical Assistance Fund (0270) to General Fund (0001) (per Item 5180-011-0270, Budget Act of 2002).....	600	-	-	-	-	-
From Business Reinvestment Fund (0274) to General Fund (0001) (per Government Code Section 16351).....	-	-	193	-	-	-
From Business Reinvestment Fund (0274) to General Fund (0001) (per Item 0890-011-0274, Budget Act of 2002).....	3,056	-	-	-	-	-
From Loss Control Certification Fund (0284) to General Fund (0001) (per Item 8350-011-0284, Budget Act of 2002).....	1,903	-	-	-	-	-
From Residential Earthquake Recovery Fund, CA (0285) to General Fund (0001) (per Item 0845-011-0285, Budget Act of 2004).....	-	-	-	-	2,900	-
From Motor Carriers Permit Fund (0292) to General Fund (0001) (per Revenue and Taxation Code Section 7236).....	4,221	-	-	-	-	-

Schedule 12-D—Continued
STATE APPROPRIATIONS LIMIT
TRANSFERS FROM EXCLUDED FUNDS TO INCLUDED FUNDS
(Dollars in Thousands)

	Actual 2002-03		Estimated 2003-04		Estimated 2004-05	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
From Public Int Res, Dev & Demonstratn Progrm (0381) to General Fund (0001) (per Item 3360-011-0381, Budget Act of 2002).....	3,794	-	-	-	-	-
From Renewable Resource Trust Fund (0382) to General Fund (0001) (per Chapter 3, Statutes of 2003, First Extraordinary Session).....	6,308	-	-	-	-	-
From Renewable Resource Trust Fund (0382) to General Fund (0001) (per Item 3360-012-0382, Budget Act of 2002).....	5,300	-	-	-	-	-
From Parks and Recreation Fund, State (0392) to General Fund (0001) (per Item 3790-011-0392, Budget Act of 2002).....	19,800	-	-	-	-	-
From Petro Undergrnd Storage Tank Financ Acct (0440) to General Fund (0001) (per Chapter 229, Statutes of 2003).....	-	-	36,140	-	-	-
From High-Cost Fund-A Admin Committee Fd, Cal (0464) to General Fund (0001) (per Item 8660-011-0464, Budget Act of 2002).....	27,200	-	-	-	-	-
From Energy Resources Programs Account (0465) to General Fund (0001) (per Item 3360-013-0465, Budget Act of 2003).....	-	-	9,365	-	-	-
From High-Cost Fund-B Admin Committee Fd, Cal (0470) to General Fund (0001) (per Item 8660-011-0470, Budget Act of 2002).....	250,900	-	-	-	-	-
From Energy Tech Research, Dev, & Demo Acct (0479) to General Fund (0001) (per Item 3360-011-0479, Budget Act of 2003).....	-	-	1,288	-	-	-
From Drinking Water Treatment & Research Fund (0622) to General Fund (0001) (per Item 4260-011-0622, Budget Act of 2003).....	-	-	1,000	-	-	-
From Managed Care Fund (0933) to General Fund (0001) (per Chapter 3, Statutes of 2003, First Extraordinary Session).....	1,000	-	-	-	-	-
From Apprenticeship Training Contribution Fd (3022) to General Fund (0001) (per Item 7350-011-3022, Budget Act of 2003).....	-	-	1,400	-	-	-
From Apprenticeship Training Contribution Fd (3022) to General Fund (0001) (per Item 8350-011-3022, Budget Act of 2002).....	1,400	-	-	-	-	-
From Alcohol Beverages Control Fund (3036) to General Fund (0001) (per Business and Professions Code Section 25761).....	-	-	2,338	-	3,638	-
From Seismic Safety Retrofit Account, STF (0056) to Highway Account, State, STF (0042) (per Item 2660-011-0056, Budget Act of 2002).....	-	13,027	-	-	-	-
From Seismic Safety Retrofit Account, STF (0056) to Highway Account, State, STF (0042) (per Streets and Highways Section 179).....	-	4,480	-	-	-	-
From Environmnt Enhanc & Mitigat Demo Prgm Fd (0183) to Highway Account, State, STF (0042) (per Item 2660-011-0183, Budget Act of 2002).....	-	10,185	-	-	-	-
From Environmental License Plate Fund, Calif (0140) to Motor Vehicle Account, STF (0044) (per Public Resources Code Section 21191).....	-	3,890	-	3,890	-	3,890
From Motor Carriers Permit Fund (0292) to Motor Vehicle Account, STF (0044) (per Chapter 805, Statutes of 2002).....	-	9,332	-	-	-	-
TOTALS.....	\$350,612	\$40,914	\$106,447	\$3,890	\$17,344	\$3,890

Schedule 12-E
STATE APPROPRIATIONS LIMIT
EXCLUDED APPROPRIATIONS
(In Millions)

Budget	Fund	Actual 2002-03	Estimated 2003-04	Estimated 2004-05
DEBT SERVICE:				
9600 Bond Interest and Redemption (9600-510-0001)	General	\$1,661	\$1,930	\$3,093
(9590-501-0001)	General	2	2	2
9618 Economic Recovery Bond Debt Service	Special	-	-	1,256
TOTAL—DEBT SERVICE		\$1,663	\$1,932	\$4,351
QUALIFIED CAPITAL OUTLAY:				
Various (Ch. 3 Except DOT)	General	\$90	\$121	\$33
2660 Dept. of Transportation (Ch. 3 Mass Transportation)	General	-	-	-
Various (Ch. 3 Except DOT)	Special	109	107	43
Various Qualified Capital Outlay	General	234	178	145
Various Qualified Capital Outlay	Special	-	-	-
Lease-Revenue Bonds (Capital Outlay)	General	467	527	578
Lease-Revenue Bonds (Capital Outlay)	Special	16	16	16
TOTAL—CAPITAL OUTLAY		\$916	\$949	\$815
SUBVENTIONS:				
6110 K-12 Apportionments (6110-601-0001)	General	\$14,783	\$15,661	\$17,407
6110 K-12 Supplemental Instruction (6110-104, 204, 205-0001)	General	372	365	360
6110 K-12 Class Size Reduction (6110-234-0001)	General	1,659	1,659	1,652
6110 K-12 ROCP (6110-105-0001)	General	16	370	391
6110 K-12 Apprenticeships (6110-103-0001)	General	10	10	10
6110 Charter Sch Block Grant (6110-211-0001)	General	31	36	5
State Subventions Not Counted in Schools' Limit	General	-3,835	-3,818	-6,436
6110 County Offices (6110-608-0001)	General	169	193	294
6870 Community Colleges (6870-101-0001)	General	2,606	2,189	2,357
SUBVENTIONS—EDUCATION		\$15,811	\$16,665	\$16,040
2240 Jobs/Housing Balance Incentive Grants	General	-	-	-
5195 State-Local Realignment				
Vehicle License Collection Account	Special	\$14	\$14	\$14
Vehicle License Fees	Special	442	595	476
(9100-602-0001) Vehicle License Fee GF Backfill (Realignment)	General	911	829	988
9100 Tax Relief (9100-101-0001, Programs 60, 90)	General	453	468	473
9210 Local Government Financing				
(9210-103-0001)	General	-	-	-
(9210-118-0001)	General	-	-	-
(9210-601-0001)	General	38	38	-
(9210-603-0001)	General	-	-	-
9350 Shared Revenues				
(9430-640-0064)	Special	1,429	1,308	1,480
(9100-603-0001) VLF GF backfill (Shared Rev.)	General	2,887	1,873	3,074
(9430-601-0001) Trailer VLF GF backfill (Shared Rev.)	General	12	6	-
SUBVENTIONS—OTHER		\$6,186	\$5,131	\$6,505
COURT AND FEDERAL MANDATES:				
Various Court and Federal Mandates (HHS)	General	\$2,941	\$2,867	\$3,037
Various Court and Federal Mandates (HHS)	Special	-	-	-
Various Court and Federal Mandates	General	777	1,246	988
Various Court and Federal Mandates	Special	144	145	143
TOTAL—MANDATES		\$3,862	\$4,258	\$4,168

Schedule 12-E—Continued
STATE APPROPRIATIONS LIMIT
EXCLUDED APPROPRIATIONS
(In Millions)

<u>Budget</u>	<u>Fund</u>	<u>Actual 2002-03</u>	<u>Estimated 2003-04</u>	<u>Estimated 2004-05</u>
PROPOSITION 111:				
PTA Gasoline (Including Spillover)	Special	\$66	\$66	\$65
Motor Vehicle Fuel Tax: Gasoline	Special	1,336	1,349	1,353
Motor Vehicle Fuel Tax: Diesel	Special	236	245	255
Weight Fee Revenue	Special	229	237	261
TOTAL—PROPOSITION 111		\$1,867	\$1,897	\$1,934
TAX REFUND:				
9100 Tax Relief (9100-101-0001, Programs 10, 30, 50)	General	\$185	\$183	\$183
Smog Impact Fee Refund	General	—	—	—
TOTAL—TAX RELIEF		\$185	\$183	\$183
EMERGENCIES:				
		—	—	—
TOTAL EXCLUSIONS:				
<i>General Fund</i>		\$30,490	\$31,015	\$33,996
<i>Special Funds</i>		\$26,469	\$26,933	\$28,634
		\$4,021	\$4,082	\$5,362