



For only the third time in over 50 years, this Budget reflects an overall year-over-year General Fund expenditure decrease, despite population increases, program caseload growth, and price increases. Notwithstanding these challenges, this \$98.9 billion Budget preserves this Administration's core values by sustaining funding in the areas of education, public safety, vital seniors' programs, and health insurance for children. The Budget contains a General Fund reserve of \$1.035 billion.

With the Budget marked by the precipitous decline in revenues from the personal income tax on capital gains and stock options, California joins over 40 other states that face budget shortfalls as a result of unanticipated revenue losses. Similar to approaches in other states, this Budget closes a \$23.6 billion gap between expenditures and revenues through a combination of program reductions, loans, fund shifts, accelerations and transfers, and modest tax changes. A significant initial step in closing this gap was early enactment of over \$2 billion in 2001-02 mid-year spending reductions proposed by the Administration in November 2001. This Budget also continues to limit the growth in State government reducing State operations by as much as an additional \$750 million and by eliminating 7,000 positions beyond the 6,600 excess vacant positions already eliminated over the tenure of this Administration.

Difficult times lie ahead for California and the nation. Although California's economic recovery began sooner than that of the nation, with employment beginning to grow again in the state five months earlier than in the nation, modest personal income growth and the prolonged slide in the stock market will continue to be a drag on State revenues, particularly the personal income tax. Few states are expected to climb out of the deeper-than-expected national recession in one year, and most states will continue to face the challenge of closing significant budget gaps. This Budget reflects the tough decisions for meeting the challenge in 2002-03.



**2002-03 Budget  
Addressing a \$23.6 Billion Gap**  
(Dollars in Millions)

	Amount	Percent of Solution
Program Reductions	\$7,458	31.5%
Tobacco Settlement Securitization	4,500	19.0%
Loans	2,028	8.6%
Deferral of Education Disbursements (1 month)	1,728	7.3%
Fund Shifts	1,328	5.6%
Net Operating Loss (NOL) Deferral (2 year)	1,200	5.1%
Debt Restructuring	1,083	4.6%
Federal Tax Conformity/Tax Compliance	1,081	4.6%
Federal Funding Increases	1,081	4.6%
Fund Transfers	904	3.8%
Other Accelerations & Transfers	681	2.9%
Stock Options/Bonuses Withholding	400	1.7%
Teacher Tax Credit One-Year Suspension	170	0.7%
Total	\$23,642	100.0%

## Education

### K-12

**Proposition 98 Guarantee**—Total Proposition 98 spending is \$41.6 billion, an increase of \$3.3 billion, or 8.6 percent over 2001-02. Total K-12 spending per pupil increases from \$6,610 in 2001-02 to \$7,067 in 2002-03, a 6.9 percent increase.

**Growth**—The Budget includes \$727 million for increases in student population in both apportionments and categorical programs. Average daily attendance increases from 5,801,000 to 5,881,000, an increase of 1.37 percent.

**Cost of Living Adjustment (COLA)**—Although the statutory rate for 2002-03 is 1.66 percent, the Budget includes \$817 million for a 2.0 percent COLA for both apportionments and categorical programs.

**Proposition 98 Set-Aside**—The Budget reflects a total of \$143.3 million in Proposition 98 appropriations vetoed and set aside to be appropriated later in the fiscal year for any increased costs in existing programs such as enrollment or other necessary funding adjustments.



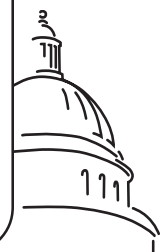
**Instructional Materials Block Grant**—The Budget includes \$400 million (\$150 million one-time) to provide standards-aligned instructional materials for K-12 students. After all pupils have standards-aligned textbooks in core curriculum areas, the funds can be used for a variety of instructional materials purposes, including supplemental and classroom library materials. This block grant replaces the existing Instructional Materials K-8, Instructional Materials 9-12, and K-4 Classroom Library programs.

**Professional Development**—The Budget contains \$86.3 million to ensure educators and administrators are provided with quality professional development programs as follows:

- ❖ **Mathematics and Reading Professional Development Program**—\$63.5 million to continue implementation of this program. Over a five-year period, more than 52,000 K-12 teachers and 22,000 instructional aides will receive 40 hours of intensive, out-of-classroom training in mathematics and/or reading instruction. Teachers will be provided with an additional 80 hours of follow-up training. Schools receive \$2,500 for each teacher trained and \$1,000 for each instructional aide trained.
- ❖ **Principal Training Program**—\$7.5 million for the second year of this three-year program that will provide 15,000 principals and vice-principals with training in instructional standards and effective school management techniques. Schools receive \$3,000 per person trained, which must be matched by \$1,000 from the school district.
- ❖ **Superintendent Training Program**—\$350,000 for the first year of this five-year program, which will provide superintendents of school districts with 40 hours of training in topics chosen collaboratively by the superintendent and the local governing board from a menu of training areas. School districts will receive \$1,500 per superintendent, which must be matched by \$1,000 from the school district.

**School Improvement**—The Budget provides a total of \$553.4 million for programs to assist and promote school improvement including:

- ❖ A total of \$441.3 million for assistance to low-performing schools through the High Priority Low Performing Schools Program, the Immediate Intervention/Underperforming Schools Program, and the Comprehensive School Reform Demonstration Program.
- ❖ \$77 million to pay the remaining balance of the \$144.3 million Governor's Performance Awards earned by schools in 2001-02.



- ❖ \$6.0 million Proposition 98 General Fund and up to \$29.1 million in federal Title I funds to support schools working with School Assistance and Intervention Teams or subject to other sanctions pursuant to the Immediate Intervention/Underperforming Schools Program. Schools working with a School Assistance and Intervention Team will receive at least \$75,000, up to a maximum of \$125,000, to contract for this team. Schools working with School Assistance and Intervention Teams or management teams would receive \$150 per pupil to implement academic improvement reforms. In addition, a portion of these funds will support a statewide system of school support to provide intensive support and technical assistance, including access to an assistance team, to school districts, county offices of education, and schools in need of improvement.

**Special Education**—The Budget includes \$72.4 million to provide a cost-of-living adjustment, and \$49.9 million to provide funding for program growth. The Budget also contains an additional \$8.2 million General Fund augmentation for special education, which will be used to provide a permanent increase to the base funding level for the program.

**No Child Left Behind**—The Budget reflects a total increase in federal funding of \$738 million, including the following significant increases:

- ❖ \$132 million for the new Reading First Program, which will provide additional teacher training, instructional materials, and other assistance to over 20,000 K-3 classrooms. California's application for this program was one of the first to be approved by the federal government.
- ❖ \$312 million, a 27 percent increase, for basic Title I grants to schools in lower-income areas of the state, including up to \$29 million for sanctions programs.
- ❖ \$109 million, a 50 percent increase, in Title II funding for teacher recruitment and development.
- ❖ \$74 million, a 47 percent increase, for English language learners from the Title I Migrant and Title III Immigrant Programs.
- ❖ \$29 million in new funding for enhanced student assessments and data collection.



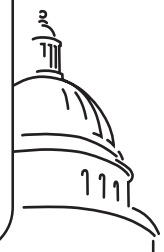
- ❖ \$83 million for the federal Enhancing Education through Technology program, which focuses on using technology as a tool to improve student achievement. Of this amount, the Budget allocates nearly \$41 million based on a federal formula, nearly \$41 million is allocated based on competitive grants targeted to high-need schools, and the remaining funds are for regional consortia to provide technical assistance and technology training to school districts. Grant funds can be used for a variety of technology-related purposes, including computer acquisition and professional development activities.
- ❖ The No Child Left Behind Act converts a formerly federal-administered after school program to a state-administered 21<sup>st</sup> Century Community Learning Centers (CCLC) After School Program. Commencing in 2002-03, California will receive \$42.5 million in CCLC funds for state operations costs and grants to local partnerships between schools and communities to provide academic support and a safe, constructive alternative for school students in the hours after the regular school day.

## Higher Education

**Enrollment Increases**—The Budget provides the University of California \$69.2 million to fund 7,700 additional enrollments, bringing total enrollment to 189,628. For the California State University, the Budget includes \$97.6 million to fund 15,278 additional enrollments, bringing total enrollment to 321,132. The Budget contains \$118.7 million for the California Community Colleges to fund an additional 32,200 students.

**Student Fees**—For the eighth year in a row, there will be no increase in system-wide fees for resident undergraduate or graduate students at the University of California and the California State University. In addition, student fees at California Community Colleges will remain at \$11 per unit, making it the most affordable higher education system in the nation.

**Cal Grants**—To help ensure affordability and access to higher education for deserving students, the Budget provides a total of \$629.3 million for the four types of Cal Grant awards. This represents an increase of \$90 million, or 17 percent, over the amount provided for Cal Grants in the 2001 Budget Act.



# Public Safety

## Homeland Security

### CALIFORNIA HIGHWAY PATROL (CHP)

In response to the terrorist attacks on September 11, 2001, the CHP was placed on 12-hour shifts to provide increased disaster response capacity and to protect sensitive public facilities. The Budget includes \$89.6 million for these security purposes, including \$32.5 million for overtime costs, \$26.7 million for five additional helicopters and crews to increase air coverage to 24 hours a day, 7 days a week, \$9.6 million for 101 new officer positions to protect key facilities (e.g., bridges, laboratories, etc.), \$16.1 million for 168 office positions and support staff to provide 24-hour staffing at 18 key truck inspection weigh stations, \$2.2 million for 24 officer positions to enable the CHP's participation in the numerous task forces and liaison activities with State, local, and federal agencies throughout the state, and \$2.5 million for protective equipment for CHP officers. These costs are expected to be reimbursed by the federal government.

### DEPARTMENT OF JUSTICE

The Budget provides an increase of \$6.7 million General Fund and 39 positions, as reimbursements from the Office of Criminal Justice Planning, to expand funding for the California Anti-Terrorism Information Center (CATIC), which provides investigative assistance to local and federal law enforcement, intelligence gathering, and a statewide database to analyze terrorist activities in the State. The Administration intends to reimburse the General Fund for this cost from future allocations of federal security-related funds.

### DEPARTMENT OF HEALTH SERVICES

The Budget provides \$50.8 million in federal grant funding, provided by the federal Centers for Disease Control and Prevention (CDC) and the Health Resources and Services Administration (HRSA), to support anti-bioterrorism activities by the State and its 58 counties, except Los Angeles County which has been provided direct grant funding. SB 406 contains this budget proposal to provide these funds to local health jurisdictions. Specifically, the Budget and SB 406 provide \$16.3 million to develop and enhance State-level preparedness, \$9.1 million to be distributed to the



Emergency Medical Services Authority to upgrade hospital preparedness planning, and \$25.4 million in direct subventions to counties for development of local anti-bioterrorism activities.

These funds will be used to upgrade infectious disease surveillance and investigation, enhance the readiness of hospital systems to deal with large numbers of casualties, and expand public health laboratory and communications systems capability.

## Local Public Safety

**Citizens' Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Programs**—The Budget provides \$232.6 million for the COPS program (\$116.3 million) and county juvenile justice crime prevention programs (\$116.3 million). The COPS program continues to provide all local law enforcement agencies with at least \$100,000.

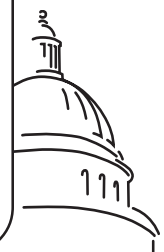
**Technology Funding for Local Law Enforcement**—The Budget includes \$18.5 million for the purchase of high-technology equipment. Local agencies will receive a minimum of \$15,000 and an additional per-capita amount.

**Rural and Small County Law Enforcement**—The Budget contains \$18.5 million for grants of \$500,000 each for rural and small county sheriffs' departments on an ongoing basis. These grants will be allocated to 37 specified counties to provide enhanced public safety resources.

**Booking Fees**—The Budget provides \$38.2 million to cities and special districts for reimbursement of jail booking fees paid to counties and other cities in 1997-98.

**War on Methamphetamine**—The Budget provides \$15 million General Fund to assist local law enforcement in the effort to eliminate the production and distribution of illegal drugs in California.

**High-Technology Theft Apprehension and Prosecution Program**—The Budget contains \$14.4 million General Fund (\$13.5 million local assistance and \$913,000 State operations) to provide resources to local task forces to combat high technology crimes and identity theft.



# Health and Human Services

## Children's Health

**Healthy Families Program**—The 1999 Budget Act expanded Healthy Families Program (HFP) coverage to uninsured children in families with income between 200 and 250 percent of the federal poverty level (FPL). For 2002-03, the Administration has provided a total of \$672.2 million for the Healthy Families Program. Due to expanded eligibility, continued outreach efforts, and application simplification, enrollment is expected to reach 624,000 children by June 30, 2003.

**Child Health and Disability Prevention Program Gateway**—The Budget provides \$8.8 million to implement the Child Health and Disability Prevention (CHDP) Gateway Program. The CHDP currently provides health assessments to approximately 1.1 million children each year. However, the program does not directly provide follow-up treatment for conditions found during the health assessment nor dental or vision services. Most of the children covered by the CHDP program are also eligible for comprehensive health care under Medi-Cal or the Healthy Families program. The Budget provides for the use of the CHDP program as a gateway to streamline enrollment into these comprehensive health care programs. Under this plan, pre-enrolled children will be immediately eligible, for up to two months, for a CHDP health assessment and for comprehensive medical care provided through the Medi-Cal or Healthy Families programs.

**Childhood Lead Poisoning Prevention Program**—To better protect California's children from the adverse effects of lead exposure and to help improve educational outcomes among these children, the Budget provides \$22 million, an increase of \$7.2 million, to implement a comprehensive programmatic restructuring of the Childhood Lead Poisoning Prevention Program. As a result, more lead-exposed children will be identified, treated, and the source of their lead poisoning eliminated, and more sources of lead in the environment will be properly identified and managed, thus preventing future lead exposure and poisoning. The Budget provides funding for universal reporting of blood lead testing results, improved accountability measures, increased enforcement provisions, and improved case management services to be performed by local health jurisdictions.

## Vital Seniors' Programs

**Community-Based Alternatives to Long-Term Care**—The Budget includes \$2.9 billion (\$1.1 billion General Fund) for the Multipurpose Senior Services Program (MSSP), In-Home Supportive Services (IHSS), and Adult Day Health





Care (ADHC). The MSSP provides case management services for the frail elderly who are eligible for placement in a nursing facility but who wish to remain in the community. The IHSS and ADHC programs serve as community-based alternatives to long-term care by providing a variety of health, therapeutic, personal care, and social services to seniors and adults at risk of institutionalization.

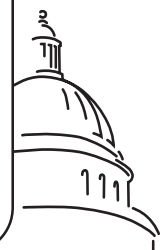
To further enhance efforts to improve the quality of provider services and strengthen recruitment and retention, beginning in 2002-03, the State will pay a share of costs for the IHSS public authority providers' wages and benefits up to \$10.10 per hour. This represents a \$1 per hour increase compared to the 2001-02 level.

**Community-Based Department of Aging Programs**—The Budget provides \$85.8 million (\$22.4 million General Fund) for community-based programs for seniors administered by the Department of Aging, including the Senior Nutrition, Alzheimer's Day Care Resource Centers, Respite, and Linkages Programs. Services under these community programs are provided to frail elderly and functionally impaired adults, and include congregate and home-delivered nutrition, temporary services to relieve caregivers, day care, and case management services.

**Medi-Cal Coverage for Aged and Disabled Beneficiaries**—The Budget continues to fund no-cost Medi-Cal for low-income seniors and disabled individuals, with an increase of approximately 20,500 individuals expected by June 2003. The Budget includes \$116.6 million (\$58.3 million General Fund) to support this expansion, which became effective January 1, 2001, as part of the Governor's Aging with Dignity Initiative.

**Long-Term Care Provider Rate Increase**—The Budget includes \$9.1 million General Fund to increase the reimbursement rate for long-term care facilities.

**Nursing Facility Staffing Ratio Increase**—Beginning January 1, 2000, the Medi-Cal staffing ratio of nursing hours to patients per day in nursing facilities increased from 2.92 to 3.2. the budget maintains funding of \$68.4 million (\$34.2 million General Fund) for this purpose.



## Resources and Environmental Protection

### CalFed

The CalFed Bay-Delta Program is an unprecedented effort to build a framework for managing California's most precious natural resource, water. California and the federal government have launched the largest, most comprehensive water management and ecosystem restoration program in the world. The CalFed Program includes participation by water users, environmentalists, business leaders, and representatives of local governments and tribal communities.

The Budget includes \$476.7 million for the State's share of the CalFed Bay-Delta Program (\$46.1 million General Fund, \$394.8 million bond funds, and \$35.8 million other funds) for the following activities:

- ❖ \$147.8 million for ecosystem restoration programs and projects
- ❖ \$102.1 million for surface and groundwater storage
- ❖ \$41.3 million for Delta conveyance projects
- ❖ \$34.6 million for drinking water quality projects
- ❖ \$150.9 million for water use efficiency, environmental water account, science, water transfers, watershed management, and Delta levees

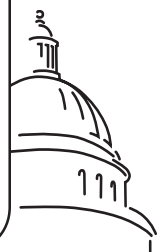
### Proposition 40 Initiatives

Of the \$2.6 billion allocated for resources acquisition and protection through Proposition 40, the Budget provides \$632.8 million and 76.7 personnel years as follows:

- ❖ \$172.9 million for urban park grants and Murray-Hayden competitive local grants administered through the Department of Parks and Recreation
- ❖ \$57.1 million for State Park System acquisitions and development
- ❖ \$81.4 million to the Wildlife Conservation Board for the rehabilitation, restoration, and protection of wildlife habitat



- ❖ \$215.9 million to state conservancies for a variety of land and water protection projects, including \$20 million for the San Francisco Bay Conservancy Program within the State Coastal Conservancy
- ❖ \$54.1 million to the Resources Agency for the acquisition and development of river parkways and for protecting urban streams
- ❖ \$25 million for the Carl Moyer Program within the Air Resources Board for projects that reduce air pollution in state and local recreation areas
- ❖ \$4 million to the California Conservation Corps for grants that support local corps programs
- ❖ \$8 million for the Department of Fish and Game for salmon and steelhead preservation programs
- ❖ \$10 million to the Department of Parks and Recreation for deferred maintenance at its 266 state park units
- ❖ \$4.4 million for project delivery costs and local grant administration





**2002-03 General Fund  
Budget Summary**  
(Dollars in Millions)

	<u>2001-02</u>	<u>2002-03</u>
Prior Year Balance	\$3,037	\$72
Revenues and Transfers	<u>\$73,898</u>	<u>\$79,158</u>
<b>Total Resources Available</b>	<b>\$76,935</b>	<b>\$79,230</b>
Expenditures	<u>\$76,863</u>	<u>\$76,722</u>
<b>Fund Balance</b>	<b>\$72</b>	<b>\$2,508</b>
<b>Budget Reserves</b>		
Reserve for Liquidation of Encumbrances	\$1,473	\$1,473
Special Fund for Economic Uncertainties	-\$1,401	\$1,035

**2002-03 Revenue Sources**  
(Dollars in millions)

	<u>General Fund</u>	<u>Special Funds</u>
Personal Income Tax	\$37,626	--
Sales Tax	22,958	\$2,516
Corporation Tax	7,327	--
Highway Users Taxes	--	3,244
Motor Vehicle Fees	15	5,181
Insurance Tax	1,759	--
Estate Taxes	646	--
Liquor Tax	288	--
Tobacco Taxes	121	941
Other	<u>8,418</u>	<u>4,007</u>
<b>Total</b>	<b>\$79,158</b>	<b>\$15,889</b>

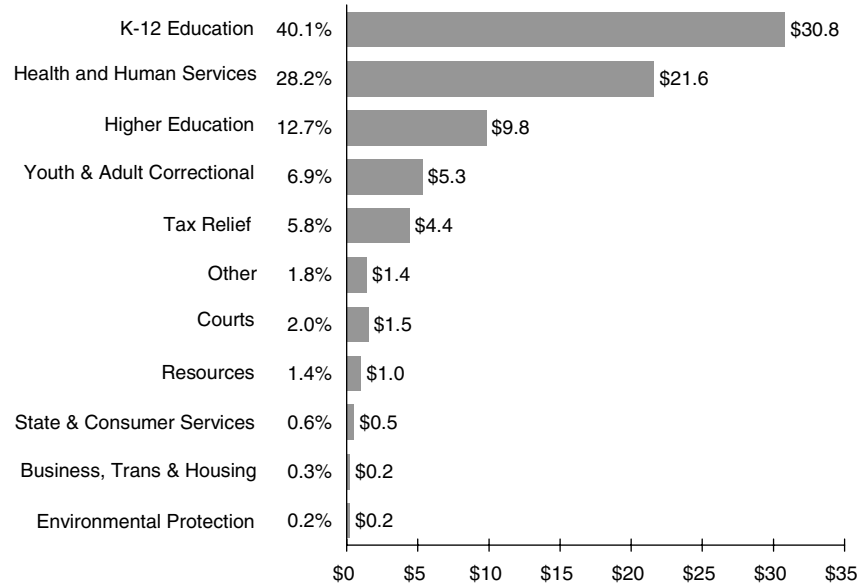
Summaries



**2002-03  
General Fund Expenditures  
by Agency  
(Dollars in Millions)**

	<u>2001-02</u>	<u>2002-03</u>
Legislative, Judicial, Executive	\$2,685	\$2,464
State and Consumer Services	715	471
Business, Transportation & Housing	645	228
Technology, Trade, and Commerce	75	42
Resources	1,545	1,041
Environmental Protection	437	173
Health and Human Services	22,093	21,633
Youth and Adult Correctional	5,544	5,285
K-12 Education	29,939	30,769
Higher Education	9,778	9,759
General Government/Tax Relief	3,407	4,857
<b>Total</b>	<b>\$76,863</b>	<b>\$76,722</b>

**2002-03 General Fund Expenditures  
(Dollars in Billions)**



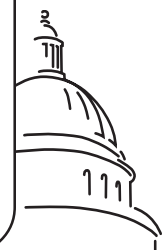
### 2002-03 Expenditures By Fund (Dollars in Millions)

Function	General Fund	Special Funds	Bond Funds	Total
Education (K-12)	\$30,769	\$63	\$473	\$31,305
Health and Human Services	21,633	4,799	--	26,432
Higher Education	9,759	762	807	11,328
Business, Transportation and Housing	228	6,643	188	7,059
Technology, Trade, and Commerce	42	9	--	51
Courts	1,519	79	--	1,598
Tax Relief	4,422	--	--	4,422
Local Government Subventions	438	2,353	--	2,791
Youth and Adult Corrections	5,285	20	4	5,309
Resources	1,041	1,147	1,110	3,298
Environmental Protection	173	638	182	993
State and Consumer Services	471	541	45	1,057
Other	942	2,300	3	3,245
<b>Total</b>	<b>\$76,722</b>	<b>\$19,354</b>	<b>\$2,812</b>	<b>\$98,888</b>

### General and Special Funds (Dollars in Millions)

Agency	Legislative Spending Plan	Governor's Vetoes	Enacted Budget
Legislative/Executive	\$1,328	\$0	\$1,328
Courts	1,626	-29	1,597
State and Consumer Services	1,012	-1	1,011
Business, Transportation & Housing	6,880	-8	6,872
Technology, Trade and Commerce	52	-1	51
Resources	2,191	-2	2,189
Environmental Protection	819	-8	812
Health and Human Services	26,609	-177	26,432
Youth and Adult Correctional	5,307	-3	5,304
Education (K-12)	30,835	-3 <sup>1/</sup>	30,832
Higher Education	10,530	-9 <sup>1/</sup>	10,521
Other	9,122	5	9,127
<b>Total</b>	<b>\$96,311</b>	<b>-\$235</b>	<b>\$96,076</b>

<sup>1/</sup> Does not include Prop 98 vetoes of \$143.2 million which have been set aside for future expenditures.



## EXECUTIVE OFFICE

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## BUDGET PROGRAM AREAS

Revenue Forecasting, Economic  
Projections, Demographic Research,  
Local Government, Business,  
Transportation and Housing, and  
Trade and Commerce ..... Connie Squires ..... 322-2263

Education ..... Jeannie Oropeza ..... 445-0328

Health and Human Services ..... Terrie Tatosian ..... 445-6423

Youth and Adult Correctional, Justice,  
Judiciary, General Government and  
State and Consumer Services ..... Calvin Smith ..... 445-8913

Resources, Environment, Energy,  
Capital Outlay and Legislation ..... Fred Klass ..... 324-0043

Employee Relations,  
Retirement Systems ..... Shelley Mateo ..... 445-3274

Budget Planning and Preparation,  
Cash Management, Statewide Issues ..... Yoshie Fujiwara ..... 445-5332

### California's Budget on the Internet

This document is also available on the Internet at the California Department of Finance  
website—<http://www.dof.ca.gov>





**State of California**  
Governor's Office

I object to the following appropriations contained in Assembly Bill 425.

Item 0450-101-0932—For local assistance, State Trial Court Funding. I reduce this item from \$2,069,477,000 to \$2,068,677,000 by reducing:

- (1) 10—Support for the operation of the Trial Courts from \$1,872,495,000 to \$1,871,695,000.

I am deleting the \$800,000 legislative augmentation to increase funding for family court services activities. Although this program is meritorious, deletion of funding for this program expansion is necessary in light of current fiscal constraints. With this action, \$111.5 million remains to support family court services.

Item 0450-111-0001—For transfer by the Controller to the Trial Court Trust Fund. I reduce this item from \$1,108,568,000 to \$1,079,568,000.

I am deleting the \$800,000 legislative augmentation to increase funding for family court services activities to conform to the action taken in Item 0450-101-0932.

I am reducing this transfer by \$28,200,000 on a one-time basis. This is a technical adjustment consistent with the January 10 proposal to reduce the 2001-02 transfer by this amount. Since the transfer to the Trial Court Trust Fund for fiscal year 2001-02 was inadvertently not reduced, this action is necessary and will still provide sufficient resources in the Trial Court Trust Fund to meet the level of appropriation provided in this act for 2002-03.

Item 0860-490—Reappropriation, Board of Equalization. I revise this item from \$639,000 to \$339,000 as follows:

" Notwithstanding any other provision of law, as of June 30, 2002, the unencumbered balance of the appropriation, not to exceed ~~\$639,000~~ \$339,000, provided in the following citations are reappropriated until June 30, 2003, upon review and approval of the Department of Finance for (1) preliminary plans, working drawings, or construction of any project for the alteration of a state or leased facility to facilitate the transition of new Board of Equalization members; and (2) the upgrade of one of the two CEA 1 allocations to the CEA 2 level in each of the elected Board Member offices to recognize the increased level of duties and responsibilities required. 0001—General Fund

- (1) Item 0860-001-0001, ~~10000000~~—Personal services, Budget Act of 2001 (Ch. 106, Stats. 2001)
- (2) Item 0860-001-0001, ~~30000000~~—Operating Expenses and Equipment, Budget Act of 2001 (Ch. 106, Stats. 2001)"

I am deleting \$300,000 of the \$639,000 reappropriation, which was for the purposes of facility upgrades for incoming Board members and upgrades of Board member positions. My reduction will enable \$300,000 to revert to the General Fund.

Item 0954-101-0001—For local assistance, Scholarshare Investment Board. I revise this item by deleting Provision 2.

I am deleting Provision 2, which states legislative intent to delay payments for 9<sup>th</sup> and 10<sup>th</sup> grade awards for the Governor's Scholars Program by one year. Current law requires that awards be provided to all students who meet the criteria for an award under this program. Therefore, this language expresses intent to enact a substantive change of law, which can only be included within a single subject bill, not the Budget Act.

Item 1730-001-0001—For support of the Franchise Tax Board. I reduce this item from \$402,384,000 to \$401,298,000 by reducing:

(1) 10-Tax Programs from \$384,174,000 to \$383,088,000.

I am deleting the legislative augmentation of \$250,000 for the City Business Tax Program that allows the Franchise Tax Board to purchase information regarding local business tax licenses from cities. This reduction is necessary to provide for a prudent General Fund reserve in light of the State's current fiscal condition.

I am deleting the legislative augmentation of \$836,000 and 21.5 personnel years, which would provide funding for the tax assistance call center. While I am supportive of efforts in this area, I am unable to support this augmentation due to fiscal constraints and limited resources in the General Fund. With this action, approximately \$15 million in funding remains for the call center.

2240-104-0001—For transfer, upon order of the Director of Finance, to the Farmworker Housing Grant Fund. I reduce this item from \$13,984,000 to \$10,984,000 and by deleting Provision 2.

I am reducing this item by \$3,000,000 and deleting Provision 2. This reduction is necessary to keep State spending growth in line with revenues and provide for a prudent General Fund reserve for economic uncertainties. At my Homelessness Summit in April 2002, I signed the Housing and Emergency Shelter Trust Fund Act of 2002, which places a \$2.1 billion housing bond on the November 5, 2002, general election ballot. If approved by the voters, that bond would provide an unprecedented \$200 million for farmworker housing programs.

I am deleting Provision 2 to conform to this action. That provision would decrease this item by \$8,500,000 only if the voters in the November general election approve the Housing and Emergency Shelter Trust Fund Act of 2002.

Item 2640-102-0046—For local assistance, Special Transportation Programs. I delete this item.

I am deleting the \$5,100,000 legislative augmentation for Special Transportation Programs. The program will receive its statutory allocation of \$98,018,000 even with this deletion. I am taking this action to conform the budget to the extent possible to the 2002 State Transportation Improvement Program (STIP) Fund Estimate. The Fund Estimate identifies \$39.2 million of Public Transportation Account funds available for allocation by the California Transportation Commission for intercity rail and other projects through the STIP. I cannot support an augmentation for Special Transportation Programs at this time because the resources available for STIP allocations will be less than estimated and I want to ensure the retention of any available resources for that purpose.

Item 2660-013-0042—For transfer by the Controller, upon order of the Director of Finance, from the State Highway Account, State Transportation Fund, to the Traffic Congestion Relief Fund. I revise this item by deleting Provision 2.

I am deleting Provision 2 that requires the transfer from the State Highway Account to the Traffic Congestion Relief Fund be made on an “as needed” basis rather than once at the beginning of the fiscal year. This language would require additional monitoring and accounting activities by the Department of Transportation, the Department of Finance, and the State Controller’s Office that would otherwise not be necessary, which results in additional costs to the State. As such, this language is unnecessarily restrictive and interferes with the Administration’s ability to manage State programs.

Item 2660-491—Reappropriation, Department of Transportation. I revise this item by deleting Schedule (3) under 0001-General Fund of this item.

I am deleting Schedule (3) by reducing the amount available for reappropriation by \$1,500,000 in unexpended funds in Item 2660-101-0001, Budget Act of 2000, for the purpose of a transit station project in Santa Clara County. My veto will enable the \$1,500,000 to revert to the General Fund. The reappropriation would have redirected the funds to a child care facility project adjacent to the transit station. Notwithstanding the merits of this project, this action is essential due to limited resources in the General Fund. It should be noted that this Budget Act contains \$1,403,396,000 in State funds for the Department of Education to fund child development and childcare programs. Additionally, the Department of Housing and Community Development administers a loan program for the construction of new childcare facilities.

Item 2660-496—Reversion, Department of Transportation. I revise this item by decreasing Schedule (1) by \$16,937,000 and Schedule (2) by \$48,720,000.

I am revising Schedules (1) and (2) as follows to provide funds for unanticipated encumbrances for transportation projects:

0042—State Highway Account

- (1) Item 2660-101-0042, Budget Act of 1998 (Ch. 324, Stats. 1998)
  - (a) 20.25-Highway Transportation—State Local Partnership ~~\$88,937,000~~  
\$72,000,000
- (2) Item 2660-101-0042, Budget Act of 1999 (Ch. 50, Stats. 1999)
  - (a) 20.30-Highway Transportation—Local Assistance ~~\$65,720,000~~ \$17,000,000

Item 2920-001-0001—For support of Technology, Trade, and Commerce Agency. I reduce this item from \$20,719,000 to \$20,468,000 by reducing:

- (3) 10-Economic Development from \$7,445,000 to \$7,345,000;
- (4) 20-International Trade and Investment from \$3,814,000 to \$3,664,000;
- (8) 60-Economic Research and Strategic Initiatives from \$563,000 to \$562,000;

and by deleting Provision 2.

I am reducing funding for the Office of Military Base Reuse and Retention by \$100,000. This reduction is necessary to help provide for a prudent General Fund reserve in light of the State's current fiscal condition. This reduction is consistent with the reductions I proposed for this program in the May Revision. With this reduction, \$193,000 still remains to support the Office of Military Base Reuse and Retention. The next round of military facility closures will not take place until 2005, allowing time to reconsider this program's funding in 2003-04 to the extent fiscal conditions then allow.

I am reducing funding for the evaluation of the foreign trade offices by \$150,000. AB 3000, the general government trailer bill to the 2002-03 Budget Bill includes provisions that will require any proponents of a new foreign trade office to submit a proposed business plan for any newly proposed international trade office. The Technology, Trade, and Commerce Agency will evaluate any new offices proposed by this Administration from within its existing funding. As such, additional funds are not required for this activity.

I am reducing this item by \$1,000 from Economic Research and Strategic Initiatives and deleting Provision 2, which would declare the Legislature's intent that, although no additional funds are appropriated in this item, the activities of the California Economic Strategy Panel shall be funded from this item. This agency's budget constraints do not permit redirecting resources to fund the activities of the panel.

Item 2920-011-0001—For support of Technology, Trade, and Commerce Agency. I reduce this item from \$5,192,000 to \$4,692,000 by reducing:

- (1) For transfer to the Small Business Expansion Fund (0918) from \$5,162,000 to \$4,662,000,

and by deleting Provision 1.

I am reducing this item by \$500,000 and deleting Provision 1, which would specify that these funds are for the establishment of the Small Business Financial Development Corporation in southeast Los Angeles. The need for such a new financial development corporation has not been demonstrated, and there are several of the 11 existing financial development corporations already located in the Los Angeles area. This reduction is also necessary to limit program expansions and provide for a prudent General Fund reserve in light of the State's current fiscal condition.

Item 3110-001-0001—For support of Special Resources Programs. I reduce this item from \$430,000 to \$200,000 and delete Provision 1.

This item provides matching funds for federal grants under the National Sea Grant College Program Act. Over the past three years, I have provided over \$2.3 million for grants associated with this program. I believe this program has merit and have committed this Administration to increased participation in accordance with my environmental protection priorities. However, these reductions are necessary to limit program expansions and provide for a prudent General Fund reserve in light of the State's current fiscal condition. With these reductions, \$200,000 still remains to support the Sea Grant program. Matching grants for this year should be evaluated and prioritized within the \$300 million research budget for the University of California.

I am deleting Provision 1, which would have allocated \$80,000 of this item to the University of Southern California. I support the existing grant allocation process that is the statutory

responsibility of the Resources Agency, acting upon recommendation from the Sea Grant Advisory Panel. This deletion conforms to the appropriation reductions specified above.

Item 3360-001-0465—For support of Energy Resources Conservation and Development Commission. I reduce this item from \$51,247,000 to \$49,247,000 by reducing:

- (2) 20-Energy Resources Conservation from \$23,532,000 to \$21,532,000.

I am reducing the legislative augmentation for Dairy Waste-to-Energy Programs from \$5,000,000 to \$3,000,000. I believe that this level of funding will serve the important goals of helping to address water pollution problems associated with dairies and providing an additional source of fuel to generate energy without resulting in the need to increase surcharges on California's electric customers.

Item 3810-301-6029—For capital outlay, Santa Monica Mountains Conservancy. I reduce this item from \$20,000,000 to \$12,000,000 by reducing:

- (1) 50.20.001-Capital outlay acquisitions from \$20,000,000 to \$12,000,000.

I have submitted an expenditure plan for Proposition 40 that meets current environmental acquisition priorities for the Santa Monica Mountains Conservancy Zone and the Rim of the Valley Corridor, and is fiscally responsible. Reduction of this item corresponds to the expenditure priorities associated with that plan.

Item 3835-301-6029—For capital outlay, Baldwin Hills Conservancy. I reduce this item from \$20,000,000 to \$15,000,000.

- (1) 20-Capital Outlay Acquisition and Improvement Program from \$35,000,000 to \$30,000,000.

I have submitted an expenditure plan for Proposition 40 that meets current environmental acquisition priorities for the Baldwin Hills Conservancy and is fiscally responsible. Reduction of this item corresponds to the expenditure priorities associated with that plan.

Item 3860-001-6029—For support of Department of Water Resources. I delete this item and Provision 1 to make a technical correction to the Budget Bill.

This technical veto will conform to the Legislature's intent; the funding provided in this item is duplicative of Item 3860-001-6031. Therefore, in order to correct this technical error in the Budget Bill, I am deleting this item.

Item 3900-001-0044—For support of State Air Resources Board. I reduce this item from \$55,654,000 to \$53,854,000 by reducing:

- (1) 15-Mobile Source from \$101,157,000 to \$99,357,000.

I am deleting the \$1,300,000 legislative augmentation for Community Health and the \$500,000 legislative augmentation for Global Warming. Although meritorious, these program expansions cannot be funded at this time because of fiscal constraints and limited resources in the Motor Vehicle Account. With this action, \$2,235,000 still remains to support the Community Health program.

Item 3900-101-0044—For local assistance, State Air Resources Board. I reduce this item from \$15,111,000 to \$10,111,000 by reducing:

- (1) 35-Subvention from \$15,111,000 to \$10,111,000.

I am deleting the \$5,000,000 legislative augmentation for subventions to local air districts. This action is necessary because of fiscal constraints and limited resources in the Motor Vehicle Account. With this action, \$10,111,000 still remains for local air districts.

Item 3980-001-0001—For support of Office of Environmental Health Hazard Assessment. I reduce this item from \$12,929,000 to \$12,220,000 by reducing:

- (1) 10-Health Risk Assessment from \$15,997,000 to \$15,288,000.

I am deleting the \$709,000 legislative augmentation for risk assessments, evaluations of contaminants, and the development of standards. This action is necessary to keep State spending growth in line with revenues and provide for a prudent General Fund reserve for economic uncertainties. With this action, \$15,288,000 still remains to support the Office of Environmental Health Hazard Assessment.

Item 4120-101-0001—For local assistance, Emergency Medical Services Authority. I reduce this item from \$31,486,000 to \$26,486,000 by reducing:

- (1) 10-Emergency Medical Services Authority from \$40,005,000 to \$35,005,000,

and by revising Provision 7.

I am sustaining \$20,000,000 and vetoing \$5,000,000 of the \$25,000,000 legislative augmentation for support of the state's trauma system providers. Recognizing trauma centers have experienced increasing fiscal pressure, I sustained \$25,000,000 in 2001-02 to assist the State's trauma care providers. This reduction is necessary in light of the State's current fiscal constraints.

I am revising Provision 7 to conform to this action.

- "7. The State Controller shall transfer ~~\$25~~ \$20 million in funds appropriated in this item to the Trauma Care Fund."

Item 4130-490—Reappropriation, California Health and Human Services Agency Data Center. I revise this item by revising Provision 1.

In order to correct a technical error in the Budget Bill, I am amending Provision 1 by deleting the requirement that the amount of funding reappropriated for automation projects be consistent with the amount approved by the Department of Information Technology (DOIT) in a special project report or equivalent document. As statutory authority for the DOIT expired on June 30, 2002, this language is no longer applicable.

- "1. It is the intent of this item to continue funding approved activities for the automation projects that, due to schedule changes, result in unexpended appropriations one year and the need for additional funding in the following year. Therefore, notwithstanding any other provision of law, the balance of the appropriations for these automation projects

may, upon approval of the Department of Finance, be reappropriated for transfer to and in augmentation of the corresponding items in this act. The funds reappropriated by this provision shall be made available consistent with the amount approved by the Department of Finance ~~and the Department of Information Technology~~ based on an approved special project report or equivalent document not sooner than 30 days after providing notification in writing to the chairperson of the fiscal committee of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.”

Item 4260-001-0001—For support of Department of Health Services. I revise this item by reducing:

- (1) 10-Public and Environmental Health from \$309,846,266 to \$284,446,266;
- (41) Amount payable from the Federal Trust Fund (Item 4260-001-0890) from -\$358,240,000 to -\$332,840,000;

and by deleting Provision 4.

I am reducing the amount payable from the Federal Trust fund by \$25,400,000 as a technical adjustment. This funding, intended to support the State’s efforts to combat bioterrorism, has been included in a separate appropriation bill, SB 406. Therefore, inclusion in Budget Act totals is no longer necessary. I am also deleting \$25,400,000 from the Federal Trust Fund in Item 4260-001-0890 to conform to this action.

The May Revision proposed, and the Legislature approved, 91 State positions and funding for 43 contract staff for the Department to expand the Medical Case Management Program (MCMP). The MCMP provides in-home care to severely ill Medi-Cal beneficiaries, allowing them to avoid costly institutional care. Savings of \$18 million (\$9 million General Fund) were adopted to reflect this expansion. To achieve the budgeted savings, the Department requires a total of 91 staff. Therefore, the total of 134 staff approved for this activity is overstated by 43.

In addition to the MCMP expansion, the Legislature also approved additional savings-generating activities proposed in the May Revision. However, an insufficient number of positions were proposed, and subsequently approved by the Legislature, to achieve the estimated savings through those activities. Therefore, I am directing the Department of Health Services to utilize 12 of the excess 43 MCMP positions as appropriate to ensure that the Department meets the savings targets adopted by the Legislature. I am eliminating the remaining 31 excess positions. However, I am allowing the department to retain the funding and directing Department of Health Services to fill the positions as soon as possible to ensure that the savings are achieved.

I am deleting Provision 4 as a technical adjustment. This language was included in the 2001-02 Budget Act to govern funding for the Medi-Cal assisted living waiver benefit. A portion of the funding is reappropriated to 2002-03 through Item 4260-490. Therefore, this provision is no longer necessary.

Item 4260-001-0890—For support of Department of Health Services. I reduce this item from \$357,215,000 to \$331,815,000.

I am reducing this item by \$25,400,000 to conform to the action I have taken in Item 4260-001-0001.

Item 4260-101-0001—For local assistance, Department of Health Services. I reduce this item from \$9,789,639,000 to \$9,749,203,000 by reducing:

- (1) 20.10.010-Eligibility (County Administration) from \$1,523,866,000 to \$1,464,257,000;
- (3) 20.10.030-Benefits (Medical Care and Services) from \$23,172,770,000 to \$23,156,945,000;
- (5) Amount payable from the Federal Trust Fund (Item 4260-101-0890) from -\$14,951,031,000 to -\$14,916,033,000;

and by deleting Provisions 12 and 15.

I am deleting Provision 12. Due to the delay of the budget, September 30, 2002 is no longer a meaningful date for a facility to apply for reimbursement through the Wage Adjustment Rate Program, as described in Section 14110.65 of the Welfare and Institutions Code. Nonetheless, a specific timeframe for when nursing homes can submit a plan is necessary. As such, I am directing the Department of Health Services to issue instructions that allow submittal of a rate adjustment request form up until 30 days after the effective date of the final regulations.

Partially restoring the rates paid to Medi-Cal providers is a priority of my Administration as well as the Legislature. In order to accomplish the intent of the Legislature, the Director of the Department of Health Services will be reducing the provider rates to the pre-August 2000 level, pursuant to AB 442. I am sustaining funding to allow exemptions, as prescribed in AB 442, from provider rate reductions for the following services: California Children's Services, non-emergency medical transportation, home health services, shift nursing, and family planning physician services. However, the Director can then use existing authority to develop regulations that would partially restore Medi-Cal provider rates by implementing my January 10 budget proposal and rescinding the May Revision rate reductions. The rescission of the May Revision provider rate reductions would take effect retroactively to the date of my signing AB 442, the omnibus health trailer bill. Any funding adjustments needed to effectuate these outcomes will be addressed in my revised 2002-03 budget submitted to the Legislature in January 2003.

I am sustaining \$58,959,000 of the \$87,959,000 legislative augmentation which restored the 20 percent reduction I proposed in Medi-Cal county administration funding. The total funding provided represents an approximate 6 percent reduction for counties to continue the work they perform on behalf of the State. This reduction is necessary in light of the State's fiscal constraints and is consistent with General Fund reductions being applied to State agencies and departments. In addition, I am sustaining the \$58,959,000 of the \$87,959,000 legislative augmentation to the Federal Trust Fund, Item 4260-101-0890, to conform to this action.

I am deleting the \$5,997,000 legislative augmentation for implementation of the Medi-Cal expansion that on July 1, 2002, would link children's Medi-Cal eligibility with eligibility for the National School Lunch Program, pursuant to Chapter 894, Statutes of 2001 (AB 59). Although I am supportive of this program, it would not be fiscally prudent to implement this program expansion given the current economic situation. I am deleting \$5,998,000 from the Federal Trust Fund, Item 4260-101-0890 to conform to this action. I am also deleting Provision 15 to conform to this action.

I am deleting the \$5,439,000 legislative augmentation that reflected the rejection of my proposal to implement a county share of cost associated with the Early and Periodic Screening,



Diagnosis, and Treatment (EPSDT) program. The May Revision proposed to require counties to provide a 10 percent match to any new growth in the cost of the EPSDT Program. It is my intention to proceed administratively to implement this reform. This match will give counties an incentive to control costs for this program, which have recently been increasing by over 30 percent per year.

Item 4260-101-0890—For local assistance, Department of Health Services. I reduce this item from \$14,951,031,000 to \$14,916,033,000.

I am reducing this Item by \$34,998,000 to conform to the action I have taken in Item 4260-101-0001.

Item 4260-111-0001—For local assistance, Department of Health Services. I reduce this item from \$425,121,000 to \$423,121,000 by reducing:

- (2) 10.20.010-Environmental Management from \$26,344,000 to \$944,000;
- (9) 20.40-Primary Care and Family Health from \$1,502,101,430 to \$1,498,101,430; and
- (20) Amount payable from the Federal Trust Fund (Item 4260-111-0890) from -\$1,078,375,000 to -\$1,050,957,000.

I am deleting the \$2,000,000 legislative augmentation to update the Children's Health and Disability Prevention Program (CHDP) periodicity schedule. The Department of Health Services reviews the appropriateness of care provided in CHDP within programmatic and fiscal constraints. Due to fiscal constraints and limited General Fund resources, I cannot support an augmentation for this program expansion. In addition, the administration has proposed the CHDP Gateway to pre-enroll children into Medi-Cal or the Healthy Families Program so that they would receive comprehensive medical care in addition to health screening.

I am also deleting the \$2,000,000 legislative augmentation from the Federal Trust Fund in Item 4260-111-0890 to conform to this action.

I am reducing the amount payable from the Federal Trust fund by \$25,400,000 as a technical adjustment. This funding, intended to support the State's efforts to combat bioterrorism, has been included in a separate appropriation bill, SB 406. Therefore, inclusion in Budget Act totals is no longer necessary. I am also deleting \$25,400,000 from the Federal Trust Fund in Item 4260-111-0890 to conform to this action.

Item 4260-111-0236—For local assistance, Department of Health Services. I revise this item by deleting Provision 1.

I am deleting Provision 1 which would redirect funding from the California Healthcare for Indigents Program to the Children's Treatment Program (CTP). Although I am very supportive of children's health care programs, this provision reduces the Administration's flexibility in providing funds to local health care providers. In addition, the new Child Health and Disability Prevention Gateway Program should greatly mitigate the need for CTP funding by placing large numbers of children in comprehensive health care in either the Medi-Cal or Healthy Families Program.

Item 4260-111-0890—For local assistance, Department of Health Services. I reduce this item from \$1,078,357,000 to \$1,050,957,000.

I am reducing this item by \$27,400,000 to conform to the action I have taken in Item 4260-111-0001.

Item 4260-113-0001—For local assistance, Department of Health Services. I reduce this item from \$29,791,000 to \$22,125,000 by reducing:

- (1) 20.10.010-Eligibility (County Administration) from \$12,709,000 to \$11,547,000;
- (3) 20.10.030-Benefits (Medical Care and Services) from \$80,620,000 to \$59,722,000; and
- (4) Amount payable from the Federal Trust Fund (Item 4260-113-0890) from -\$63,630,000 to -\$49,236,000.

I am deleting the \$7,666,000 legislative augmentation for the Medi-Cal to Healthy Families two-month bridge. I have already provided \$13.6 million (\$4.7 million General Fund) for a one-month coverage bridge for children. Although I am supportive of providing a coverage bridge for children transitioning from Medi-Cal to the Healthy Families Program, I cannot support extending this program for an additional month or expanding the program to include parents due to fiscal constraints and limited General Fund resources.

I am also deleting the \$14,394,000 legislative augmentation from the Federal Trust Fund in Item 4280-113-0890 to conform to this action.

Item 4260-113-0890—For local assistance, Department of Health Services. I reduce this item from \$63,630,000 to \$49,236,000.

I am reducing this item by \$14,394,000 to conform to the action I have taken in Item 4260-113-0001.

Item 4260-301-0001—For capital outlay, Department of Health Services. I delete this item to make a technical correction to the Budget Bill.

The May Revision proposed deletion of this item with which the Legislature concurred. However, the item was inadvertently left in the final version of the Budget Bill. This technical veto will conform the Budget Act to the May Revision.

Item 4260-490—Reappropriation, Department of Health Services. I revise this item by revising Provision 1.

In order to correct a technical error in the Budget Bill, I am amending Provision 1 by deleting the requirement that the amount of funding reappropriated for automation projects be consistent with the amount approved by the Department of Information Technology (DOIT) in a special project report or equivalent document. As statutory authority for the DOIT expired on June 30, 2002, this language is no longer applicable.

- “1. It is the intent of this item to continue funding approved activities for the automation projects that, due to schedule changes, result in unexpended appropriations one year and the need for additional funding in the following year. Therefore, notwithstanding any

other provision of law, the balance of the appropriations for these automation projects may, upon approval of the Department of Finance, be reappropriated for transfer to and in augmentation of the corresponding items in this act. The funds reappropriated by this provision shall be made available consistent with the amount approved by the Department of Finance ~~and the Department of Information Technology~~ based on an approved special project report or equivalent document not sooner than 30 days after providing notification in writing to the chairperson of the fiscal committee of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.”

Item 4280-101-0001—For local assistance, Managed Risk Medical Insurance Board. I reduce this item from \$69,709,000 to \$19,695,000 by reducing:

- (2) 40-Healthy Families Program from \$771,619,000 to \$634,791,000; and
- (4) Amount payable from the Federal Trust Fund (Item 4280-101-0890) from -\$479,448,000 to -\$392,634,000.

I am deleting the \$50,014,000 legislative augmentation for the Healthy Families Program (HFP) Parent Expansion. Although I am supportive of expanding Healthy Families coverage to include parents, I cannot support this augmentation and program expansion due to fiscal constraints and limited General Fund resources. I am also deleting the \$86,814,000 legislative augmentation from the Federal Trust Fund in Item 4280-101-0890 to conform to this action.

Item 4280-101-0890—For local assistance, Managed Risk Medical Insurance Board. I reduce this item from \$479,448,000 to \$392,634,000.

I am reducing this item by \$86,814,000 to conform to the action I have taken in Item 4280-101-0001.

Item 4280-102-0001—For local assistance, Managed Risk Medical Insurance Board. I reduce this item from \$4,009,000 to \$1,593,000 by reducing:

- (1) 40-Healthy Families Program from \$48,292,000 to \$41,788,000, and
- (3) Amount payable from the Federal Trust Fund (Item 4280-102-0890) from -\$32,869,000 to -\$28,781,000.

I am deleting the \$2,416,000 legislative augmentation for the Healthy Families Program Parent Expansion. Although I am supportive of expanding Healthy Families coverage to include parents, I cannot support this augmentation and program expansion at this time due to fiscal constraints and limited General Fund resources. I am also deleting the \$4,088,000 legislative augmentation from the Federal Trust Fund in Item 4280-102-0890 to conform to this action.

Item 4280-102-0890—For local assistance, Managed Risk Medical Insurance Board. I reduce this item from \$32,869,000 to \$28,781,000.

I am reducing this item by \$4,088,000 to conform to the action I have taken in Item 4280-102-0001.

Item 4300-101-0001—For local assistance, Department of Developmental Services. I reduce this item from \$1,458,170,000 to \$1,452,555,000 by reducing:

- (2) 10.10.020-Purchase of Services from \$1,780,703,000 to \$1,775,088,000.

I am deleting the \$5,615,000 legislative augmentation for Community Placement Plan activities. The Legislature provided an augmentation for one-time grants to develop community resources. In my January Budget, I proposed a total of \$50,220,000 for Community Placement Plan activities, including an augmentation of \$20,400,000. This reflected my ongoing commitment to provide community-based services to developmentally disabled consumers. With this base reduction, the funding level I proposed in my January Budget will be maintained to facilitate the movement of Developmental Center consumers into the community.

Item 4440-001-0001—For support of Department of Mental Health. I reduce this item from \$28,442,000 to \$28,172,000 by reducing:

- (1) 10-Community Services from \$33,679,000 to \$33,409,000,

and by deleting Provision 2.

I am deleting \$150,000 for county plans for children's mental health services pursuant to legislation (AB 2740) to be enacted during the 2001-02 regular session. The counties are already required to assess mental health needs and develop plans to meet those needs. Section 5772 of the Welfare and Institutions Code requires the local mental health boards at the county level to complete these responsibilities. Since these bodies already exist and have the responsibility for developing plans to meet mental health needs, additional systems and funding do not appear to be needed. Consequently, I cannot support this augmentation at this time.

I am also deleting \$120,000 and Provision 2, which requires that \$120,000 in General Fund savings achieved through the elimination of vacant positions be redirected for the Protection and Advocacy, Inc., contract. In my January Budget, I proposed to reduce the contract for patient rights advocacy from \$800,000 to \$680,000 to achieve General Fund savings. The reduction to the patients' rights contract will reduce administrative expenses and will not affect the availability of services to assist individuals with mental illness. However, the Legislature subsequently redirected \$120,000 to restore the proposed reduction to the patients' rights contract. Although I am supportive of patient rights advocacy, I cannot support this legislative augmentation at this time due to fiscal constraints and limited General Fund resources.

Item 4440-101-0001—For local assistance, Department of Mental Health. I reduce this item from \$106,128,000 to \$80,328,000 by reducing:

- (1) 10.25-Community Services—Other Treatment from \$1,142,885,000 to \$1,127,446,000;
- (3) 10.47-Community Services—Children's Mental Health Services from \$33,800,000 to \$20,000,000; and
- (6) Reimbursements from -\$1,081,852,000 to -\$1,076,413,000;

and by deleting:

- (2) 10.40-Community Services—Adult System of Care (\$2,000,000).

I am sustaining \$20,000,000 of the \$33,800,000 legislative augmentation provided for Children's System of Care (CSOC). I note with concern that this program has been unable to provide outcome data for all the children served by this program or documented cost savings in the same manner as the Integrated Services for Homeless Adults (ISHA) program. However, I remain supportive of children's mental health programs, and note that, this Administration provided sufficient funding to implement the CSOC statewide with a \$15.5 million General Fund augmentation in 2000-01, bringing total funding to \$41.9 million General Fund. I reduced the program by \$2.1 million last year because of the State's economic situation. At that time, I noted that \$13 million for mental health services for children in the Healthy Families Program was available to assist children who were not eligible for Medi-Cal. This year, the fiscal challenges facing the State are even greater. Finally, I am directing the Department of Mental Health to restructure the CSOC to provide better accountability and documented cost savings.

I am reducing \$10,000,000 for ISHA. I note that this Administration launched this program in 1999-00 with \$10 million, and subsequently provided significant augmentations: \$45.6 million in 2000-01, and \$10 million in 2001-02, for a total funding of \$65.6 million. However, the State's current fiscal challenges necessitate this \$10 million reduction. At my Homelessness Summit in April 2002, I signed the Housing and Emergency Shelter Trust Fund Act of 2002, which places a \$2.1 billion housing bond on the November 5, 2002, general election ballot. If approved by the voters, this bond would provide \$195 million for 2,380 to 2,530 of units of transitional housing and \$195 million for emergency shelters to assist an estimated 31,160 homeless adults.

I am eliminating \$2,000,000 for the Adult Systems of Care. I proposed this reduction as part of the May Revision, and the Legislature restored the funding. The Adult Systems of Care program is a categorical program, supplementing the realignment funding the counties receive. The counties will receive over \$1.1 billion in Realignment funding for mental health services and have an incentive to continue this program as offsetting savings occur predominately at the local level.

I am reducing reimbursements by \$5,439,000 to delete the legislative augmentation that reflected the rejection of my proposal to implement a county share in the costs associated with the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program. The May Revision proposed to require counties to provide a 10 percent match to any new growth in the cost of the EPSDT Program. It is my intention to proceed administratively to implement this reform. This match will give counties an incentive to control costs for this program, which have recently been increasing by over 30 percent per year. This conforms to my action in Item 4260-101-0001. I am highly supportive of children's mental health programs and note that I am sustaining \$20 million for the CSOC program.

Item 4440-101-0890—For local assistance, Department of Mental Health. I reduce this item from \$59,629,000 to \$57,629,000 by deleting:

(1.5) 10.47-Community Services—Children's Mental Health Services (\$2,000,000).

I am reducing \$2,000,000 for the Children's Mental Health Services to conform to my action for the Children's Systems of Care Program in Item 4440-101-0001.

Item 4700-101-0001—For local assistance, Department of Community Services and Development. I revise this item by reducing:

(2) 47-Naturalization Services from \$8,476,000 to \$7,601,000, and

(3) Reimbursements from -\$5,875,000 to -\$5,000,000.

I am deleting the \$875,000 legislative augmentation in reimbursements from the Employment Development Department for the Naturalization Services Program (NSP) to conform to the actions taken in Item 5100-001-0869. With these actions, the Budget retains \$7.9 million General Fund for the NSP.

Item 5100-001-0869—For support of state programs under the Workforce Investment Act, Employment Development Department. I revise this item by deleting Provisions 3, 4, and 5.

I am deleting Provision 3, which would require the Employment Development Department (EDD) to allocate \$875,000 to the Department of Community Services and Development for naturalization and citizenship services. Under the federal Workforce Investment Act (WIA), the Governor has the authority to allocate 25 percent of WIA dislocated workers funding for Rapid Response allocation to areas that experience disasters, mass layoffs or plant closings, or other events that precipitate substantial increases in unemployment. This provision would decrease the funding available to the Administration to quickly respond to such events.

I am also deleting Provision 4 because it places a limit of \$4 million on the amount of funds available for the Faith-Based Initiative. Section 128 of the federal WIA allows the Governor to allocate 15 percent of the WIA funds allotted to California, for the purposes of statewide and employment training activities. Although this funding is subject to legislative appropriation, the language in Provision 4 impinges on the authority of this Administration to allocate funding for this critical program, which provides job services and training to many individuals not traditionally served by the current system of workforce development.

However, I have no concerns with the compromise language developed in Provision 4 that pertains to issues other than the funding limitation. I am directing the EDD to provide grants to community organizations, including faith-based and secular organizations that are not owned or operated as pervasively sectarian institutions, and that have been limited in their ability to take advantage of this funding due to limited resources and a lack of experience in dealing with the competitive contracting process and the allocation processes currently in place at the local level. No pervasively sectarian religious organization is eligible for funds under this item, but a separate nonprofit entity or affiliate that is a tax-exempt organization under the federal Internal Revenue Code, may apply for and receive grants under its own auspices. In awarding grants, the EDD shall use a competitive bidding process that includes provisions regarding existing constitutional protections. Grants or contracts awarded shall comply with the California Constitution, State and federal civil rights laws, and the United States Constitution with regard to pervasively sectarian organizations.

Of the amount allocated for the Faith-Based Initiative, it is my intent that the department may use up to \$250,000 for administrative expenses, subject to approval by the Department of Finance.

I am also deleting Provision 5, which would require the EDD to allocate \$300,000 to the Youthbuild program. I sustained General Fund augmentations for this program of \$1 million in 2000-01 and \$250,000 in 2001-02. However, this legislative augmentation is inappropriate. Specifically, Section 128 of the federal WIA authorizes the Governor to allocate 15 percent of

the WIA funds allotted to California, for the purposes of statewide and employment training activities. This Provision would decrease the amount of funding available to the Administration to address critical workforce development needs.

Item 5100-001-0870—For support of Employment Development Department. I revise this item by reducing:

- (1) 10-Employment and Employment Related Services from \$206,768,000 to \$204,749,000;
- (2) 21-Tax Collections and Benefit Payments from \$728,916,000 to \$588,751,000; and
- (14.5) Amount payable from the Unemployment Fund-Federal (Item 5100-001-0871) from -\$177,120,000 to -\$34,936,000.

I am revising this item to conform to the action I have taken in Item 5100-001-0871.

Item 5100-001-0871—For support of Employment Development Department. I reduce and revise this item from \$177,120,000 to \$34,936,000 and revise Provisions 2 and 3.

I am sustaining \$500,000 of the \$140,665,000 legislative augmentation from Reed Act funds for various information technology (IT) and infrastructure projects, so that \$140,165,000 can remain in the Unemployment Insurance (UI) Trust Fund. Providing full funding for these projects at this time may increase UI taxes paid by employers in the future. After the IT project proposals have been subjected to the Feasibility Study Review and budget review processes, the projects could be considered for available Reed Act funding at that time. However, I am sustaining the expansion of the Tax System Review, in order to include an analysis of enhanced data capability for Employment Development Department (EDD) information technology systems into an existing study of EDD Tax Branch business processes and automated systems. This analysis is scheduled to be completed in 2002-03.

I am revising this item and Provision 2 to conform to this action.

~~“5100-001-0871—For support of Employment Development Department, for payment to Item 5100-001-0870, payable from the Unemployment Fund Federal, to be available for expenditure until the end of the 2006-07 fiscal year, except that moneys subject to Provision 3 of this item are available for expenditure during the 2002-03 fiscal year.....\$177,120,000 \$34,936,000”~~

“2. The following amounts shall be used as follows:

- ~~(a) \$20,000,000 for administrative costs to create an alternate base period, which would allow for expansion of the Unemployment Insurance (UI) program by using recent wages for the purpose of establishing benefit eligibility.~~
- ~~(b) \$65,000 for administrative costs to create and implement a trigger mechanism for UI extended benefits.~~
- (c) \$500,000 for the review of the Employment Tax System through a contract with a qualified consulting firm to review business operations and automated systems of EDD's tax programs.
- ~~(d) \$6,500,000 to upgrade the UI call centers to expand capacity and improve customer service.~~
- ~~(e) \$5,100,000 to develop electronic UI claim filing over the Internet.~~

- (f) ~~—\$500,000 to fund a study with a qualified consultant for improving EDD's single client database system to enhance efficiency and effectiveness of claim filing and benefit payments, to improve program integrity, and to reduce fraud.~~
- (g) ~~—\$100,000,000 to upgrade EDD's single client database.~~
- (h) ~~—\$7,000,000 to redesign the UI benefit payment system to enable claimants to certify by using the telephone and Internet.~~
- (i) ~~—\$1,000,000 to redesign the UI adjudication process by the development of a computer-based application.~~
- (j) ~~—\$500,000 to be allocated via competitive process for support of physical and program access to one-stops. These are in addition to any Workforce Investment Act funds allocated for this purpose."~~

I am also deleting the \$1,519,000 augmentation in Reed Act funds to continue employment services for veterans, so that these funds can remain in the UI Trust Fund and possibly reduce UI taxes paid by employers in the future. In addition, veterans still receive high priority for employment services and benefits in the EDD Employment Services Program, and the EDD indicates that veterans will not lose any assistance as a result of this action. As a result, it is not necessary to appropriate Reed Act funds for this purpose. I am revising Provision 3 to conform to this action.

"3. During the 2002-03 fiscal year only, \$34,436,000 shall be used to support Employment and Employment Services and Tax Collection and Benefit Payment Programs and ~~\$1,519,000 shall be used to support veteran's employment activities.~~"

Item 5100-011-0890—For support of Employment Development Department. I reduce this item from (\$775,267,000) to (\$633,083,000).

I am revising this item to conform to the action I have taken in Item 5100-001-0870.

Item 5120-001-0890—For support of the California Workforce Investment Board. I revise this item by deleting Provision 3.

Provision 3 would make the expenditure of \$1,120,000 contingent upon the California Workforce Investment Board (CWIB) submitting a report to the Legislature on the role of the CWIB and the Employment Development Department in the California Labor and Workforce Development Agency with respect to the implementation of the Workforce Investment Act (WIA) and other specified information. I believe it would be premature to require the CWIB to define its role within the new agency, before the Secretary for the new agency has a chance to formulate and communicate the agency's plans to simplify, strengthen, and improve the operation of the State's workforce development programs. In addition, the CWIB has indicated it has recently released reports to the Legislature demonstrating progress in implementing the WIA. However, I am directing the CWIB to update the Legislature on its progress in the development of certification protocols for local One-Stop Centers during legislative hearings on the 2003-04 Budget.

Item 5175-101-0001—For local assistance, Department of Child Support Services. I revise this item by reducing:

(1) 10-Child Support Services from \$974,893,500 to \$974,893,000,

and by deleting Provision 8.



In order to correct a technical error in the Budget Bill, I am reducing Schedule (1) by \$500 and deleting Provision 8, which requires a county share of costs for any penalty imposed by the federal government for California's failure to implement an automated statewide child support collection system. This provision was inadvertently left in the final version of the Budget Bill.

Item 5175-101-0890—For local assistance, Department of Child Support Services. I reduce this item from \$282,224,000 to \$281,899,000.

In order to correct a technical error in the Budget Bill, I am reducing this item by \$325,000. This technical veto will conform to the Legislature's intent, and is consistent with the legislative action taken in Item 5175-101-0001, which reduced the funding for the increase in postage costs.

Item 5175-495—Reversion, Department of Child Support Services. I revise this item from \$25,215,000 to \$10,935,000 as follows:

"As of June 30, 2002, ~~\$25,215,000~~ \$10,935,000 of the unencumbered balance of the appropriation provided in the following citation shall revert to the fund from which the appropriation was made:

0001—General Fund

(1) Item 5175-101-0001, Budget Act of 2001 (Ch. 106, Stats. of 2001)

(a) 10.01-Child Support Administration.....\$640,000

(b) 10.02-Child Support Incentive .....~~\$24,575,000~~ \$10,295,000."

On June 19, 2002, the California State Supreme Court denied the State's petition for hearing the Statewide Automated Child Support System (SACSS) case. This was the State's final opportunity to have the amount of the SACSS judgment reduced. The State is now obligated to pay Lockheed Martin the amount of an appellate court ruling, plus interest on the principal amount of the judgment. I am reducing the amount of this reversion by \$14,280,000 to enable the Department of Child Support Services to use these funds towards payment of the judgment, to prevent additional interest charges to the State.

Item 5180-101-0001—For local assistance, Department of Social Services. I revise this item by deleting Provision 10:

I am deleting Provision 10, which allows counties to direct \$100,000 from the Mental Health and Substance Abuse services allocation to develop a replicable outcome system for CalWORKs mental health and substance abuse treatment. This language could create a future fiscal pressure to exceed the available amount of federal Temporary Assistance for Needy Families Block Grant funds and maintenance-of-effort funding pursuant to funding outcome systems in other counties, or could force a decrease in CalWORKs spending in other areas because of budgetary constraints in 2003-04.

Item 5180-141-0001—For local assistance, Department of Social Services. I reduce this item from \$421,675,000 to \$414,875,000 by reducing:

(1) 16.80-County Administration from \$717,951,000 to \$701,437,000; and

(4) Amount payable from the Federal Trust Fund (Item 5180-141-0890) from -\$537,945,000 to -\$528,231,000.

I am reducing this item by \$16,514,000 (\$6,800,000 General Fund) to reduce funding for county administration of the Food Stamp Program. This action is necessary due to the significant decline in General Fund revenue. I am sustaining \$372.9 million (\$157.5 million General Fund) for county administration of the Food Stamp Program.

Item 5180-141-0890—For local assistance, Department of Social Services. I reduce this item from \$776,573,000 to \$528,231,000.

I am reducing this item by \$9,714,000 to conform to actions taken in Item 5180-141-0001.

I am also reducing this item by \$238,628,000 to correct a technical error in the Budget Bill. This technical veto is consistent with the Legislature's intent and legislative actions taken in this item.

Item 5180-151-0001—For local assistance, Department of Social Services. I reduce this item from \$782,148,000 to \$745,606,000 by reducing:

- (1) 25.25-Children's Services from \$1,903,347,000 to \$1,848,623,000;
  - (a) 25.25.010-Child Welfare Services from \$1,802,078,000 to \$1,752,554,000;
  - (b) 25.25.020-Adoptions from \$81,286,000 to \$76,086,000;
- (4) Reimbursements from -\$69,879,000 to -\$68,817,000; and
- (6) Amount payable from the Federal Trust Fund (Item 5180-151-0890) from -\$1,195,571,000 to -\$1,172,876,000.

I am deleting \$17,150,000 General Fund and \$9,974,000 Federal Trust Fund from the Child Welfare Services Program augmentations; and \$10,817,000 General Fund, \$10,521,000 Federal Trust Fund, and \$1,062,000 reimbursements in order to suspend the cost-of-doing business adjustment for the Child Welfare Services Program. I am retaining \$1.8 billion (\$616.7 million General Fund) for the Child Welfare Services Program. As cost-of-living adjustments are not being granted for other social services programs, I am suspending the proposed 2002-03 cost-of-doing business adjustment due to the State's current fiscal situation.

For the last three years, this Administration has aggressively funded the Adoptions and Kinship Guardianship Assistance Payment programs. These two programs, among others, have significantly reduced the caseload for much of the Child Welfare Services (CWS) program. Notwithstanding this reduction in caseload, this Administration has provided funding for the CWS program in excess of that justified by current social worker caseload and workload standards, providing a total of \$420.4 million (\$237.9 million General Fund) more over the last three years to counties than caseload requires: \$68.4 million (\$40 million General Fund) in 1999-00, \$125.9 million (\$74.3 million General Fund) in 2000-01, and \$226.1 million (\$123.6 million General Fund) in 2001-02. In light of the State's current fiscal situation, these reductions are necessary to more closely align funding to current caseload standards.

Similarly, I am deleting \$3,000,000 General Fund and \$2,200,000 Federal Trust Fund for recent Adoptions Program cost-of-doing business augmentations due to fiscal constraints and limited resources in the General Fund. I am retaining funding of \$76.1 million (\$38.5 million General Fund) for the Adoptions Program.

I am reducing this Item by \$5,575,000 to correct a technical error in the Budget Bill. This technical veto will conform to the Legislature's intent, and is consistent with the legislative action to reduce funding for the Adult Protective Services program by \$5.6 million General Fund. This reduction was correctly reflected in schedule (2) (e) 25.35.050-County Services Block Grant; however, it was not included in the total for this item.

Item 5180-151-0890—For local assistance, Department of Social Services. I reduce this item from \$1,195,571,000 to \$1,172,876,000.

I am reducing this item by \$22,695,000 to conform to the actions taken in Item 5180-151-0001.

Item 5180-491—Reappropriation, Department of Social Services. I revise this item by revising Provision 1.

In order to correct a technical error in the Budget Bill, I am amending Provision 1 by deleting the requirement that the amount of funding reappropriated for automation projects be consistent with the amount approved by the Department of Information Technology (DOIT) in a special project report or equivalent document. As statutory authority for the DOIT expired on June 30, 2002, this language is no longer applicable.

“1. It is the intent of this item to continue funding approved activities for the automation projects that, due to schedule changes, result in unexpended appropriations one year and the need for additional funding in the following year. Therefore, notwithstanding any other provision of law, the balance of the appropriations for these automation projects may, upon approval of the Department of Finance, be reappropriated for transfer to and in augmentation of the corresponding items in this act. The funds reappropriated by this provision shall be made available consistent with the amount approved by the Department of Finance ~~and the Department of Information Technology~~ based on an approved special project report or equivalent document not sooner than 30 days after providing notification in writing to the chairperson of the fiscal committee of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.”

Item 5460-485—Reappropriation (Proposition 98), Department of the Youth Authority. I delete this item.

I am deleting the \$2,600,000 reappropriation from the Proposition 98 Reversion Account, provided on a one-time basis to the Department of the Youth Authority for the enrichment of educational services. The additional funding for educational services has not been justified. This action will maintain Proposition 98 funding consistent with the level of the current ward population.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$45,131,000 to \$45,081,000 by reducing:

- (2) 20-Instructional Support from \$74,829,840 to \$74,779,840;
- (3) 30-Special Programs from \$43,401,280 to \$43,291,280; and
- (9) Amount Payable from Federal Trust Fund (Item 6110-001-0890) from -\$126,105,000 to -\$125,995,000.

I am reducing this item by \$50,000 to reflect savings that will occur in this item as a result of sustaining a legislative augmentation of \$53,000 as reflected in Provision 17 of Item 6110-001-0890, for monitoring and technical assistance for the California Youth Authority special education activities. That augmentation enables the Department to recover indirect costs that are billable to federal funds. Because the Department's costs for oversight of this activity will not significantly increase overall departmental indirect costs, funds in this General Fund item can be reduced with no effect on services to other programs.

I am reducing Schedules (3) and (9) by \$110,000 to conform to the action taken in Item 6110-001-0890.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$126,105,000 to \$125,995,000.

I am reducing the \$388,000 legislative augmentation for two additional staff for implementation of the 21<sup>st</sup> Century Community Learning Centers Program by \$110,000. While I am sustaining the two additional positions and \$278,000, the amount reduced reflects indirect costs which have not been adequately justified. Five positions and \$523,000 remain available for the purposes of implementing the new federal program, which should be sufficient.

Item 6110-113-0001—For local assistance, Department of Education. I revise this item by reducing:

(4) 20.70.030.006—STAR Program from \$15,827,000 to \$15,027,000.

This reduction is a technical adjustment to reflect the correct amount in Schedule (4). While the item total reflects the intended funding level, Schedule (4) contains \$800,000 more than intended.

Item 6110-123-0890—For local assistance, Department of Education. I delete Provision 2.

I am deleting Provision 2, which would require legislative notification prior to the adoption or amendment of any plan for disbursement of \$39,131,000 in federal funds for innovative programs to local education agencies. This is inconsistent with federal law, which required California to submit its application for funding under the No Child Left Behind Act prior to enactment of the budget. I understand this language was only intended to apply to new programs where allocation is subject to legislative direction. Consistent with this, I am deleting this provision because the reporting requirements for this existing program would needlessly delay the disbursement of these federal funds, which are disbursed based on a federally-mandated formula.

Item 6110-130-0001—For local assistance, Department of Education. I reduce this item from \$12,300,000 to \$10,300,000 by revising Provision 1.

I am deleting \$2,000,000 of the legislative augmentation for provision of Advanced Placement teacher training or tutoring services pursuant to Section 52247 of the Education Code. These reductions are necessary to limit program expansions and provide for a prudent General Fund reserve in light of the State's current fiscal condition. With these reductions, \$10,300,000 still remains to support the Advancement Via Individual Determination program.

I am revising Provision 1 to conform to this action.

- "1. Of the funds appropriated, \$1,300,000 is available for administration of the Advancement Via Individual Determination (AVID) centers and \$6,000,000 is available for competitive outreach grants to local education agencies for the AVID program. Notwithstanding any other provision of law, the remaining ~~\$5,000,000~~ \$3,000,000 shall be used solely for the provision of advanced placement teacher training or tutoring services, pursuant to Section 52247 of the Education Code."

Item 6110-136-0890—For local assistance, Department of Education. I revise this item by deleting Provision 8.

I am deleting Provision 8 of this item, which makes the receipt of \$1,495,541,000 in Title I federal funds by school districts contingent upon the reporting of unspecified data that is necessary to meet the data reporting requirements of the federal No Child Left Behind Act of 2001. While it will likely be necessary for school districts to provide data to the State to meet these reporting requirements, federal law does not allow the State to condition the receipt of these funds on the provision of data. Thus, this language may constitute a state mandate requiring reimbursement from the General Fund. Item 6110-113-0890 contains \$6,880,000 for federally required data collection.

Item 6110-137-0890—For local assistance, Department of Education. I revise this item by deleting Provision 1.

I am deleting Provision 1 of this item, which requires legislative notification prior to adopting or amending any plan for the expenditure of \$2,426,000 in federal Rural and Low Income School Grant funds pursuant to the federal No Child Left Behind Act. This provision conflicts with federal law that required the State Board of Education to submit the State's consolidated application prior to enactment of the budget bill. These funds are provided on a formula basis and are intended to provide small school districts with general purpose discretionary funding. I believe the notification requirement would delay the allocation of the funds and also impede the intended flexibility.

Item 6110-156-0001—For local assistance, State Department of Education. I reduce this item from \$605,038,000 to \$582,038,000 by reducing:

- (2) 10.50.010.008-Remedial education services for participants in the CalWORKs from \$31,739,000 to \$8,739,000,

and by revising Provision 2.

I am reducing the \$23,000,000 augmentation for remedial education services for CalWORKs participants. This augmentation consisted of \$10,000,000 for support services and \$13,000,000 for additional instruction for CalWORKs recipients in adult education programs or regional occupation centers and programs (ROC/Ps). With this action, \$9,900,000 in federal Temporary Assistance for Needy Families (TANF) funds remains in the Adult Education and ROC/P items to provide additional instruction for CalWORKs recipients in programs that are at or above their authorized average daily attendance cap. Support services are also provided through the federal Perkins Vocational and Technical Education Act, funded at \$138,445,000 and required

to target CalWORKs participants in the welfare-to-work program. The funds reduced from this item are reserved for Proposition 98 contingencies in 2002-03. I am revising Provision 2 to conform to this action.

- “2. The funds appropriated in Schedule (2) constitute the funding for both remedial education and job training services for participants in the CalWORKs program (Art. 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code). Funds shall be apportioned by the Superintendent of Public Instruction for direct instructional costs only to school districts and Regional Occupational Centers and Programs (ROC/Ps) that certify that they are unable to provide educational services to CalWORKs recipients within their adult education block entitlement or ROC/P block entitlement, or both. ~~However, of the funds appropriated in Schedule (2) of this item, an amount not to exceed \$10,000,000, as negotiated through an interagency agreement between the State Department of Education and the State Department of Social Services, shall be provided for Adult Education Programs, and ROC/Ps for the purposes of providing instructional and training supportive services for CalWORKs eligible members. These services shall include any of the following:~~
- ~~(a) Career and educational guidance and counseling.~~
  - ~~(b) Training-related assessment.~~
  - ~~(c) Transportation to the classroom or worksite during training.~~
  - ~~(d) Job readiness training and services.~~
  - ~~(e) Job development and placement.~~
  - ~~(f) Postemployment support and followup to ensure job retention.~~
  - ~~(g) Coordination and referrals to other services provided through the State Department of Social Services, the Employment Development Department, the Local Workforce Investment Boards, community colleges, the Department of Rehabilitation, the Economic Development Agency, and other community resources.~~
  - ~~(h) Curriculum and instruction development to provide short term integrated programs leading to employment.~~
  - ~~(i) Staff development costs resulting from policy development and training occurring between instructional staff and county welfare agencies in the coordination of the program.~~
  - ~~(j) One-time excess program startup costs.~~
- ~~Allocations shall be distributed by the Superintendent of Public Instruction as equal statewide dollar amounts, based on the number of CalWORKs eligible family members served in the county and subject to instructional and training support services needed annually by each agency as identified in the county CalWORKs Instruction and Job Training Plan required by Section 10200 of the Education Code.”~~

Item 6110-161-0001-For local assistance, Department of Education (Proposition 98). I am revising this item by revising Provision 15.

I am revising Provision 15 of this item by \$754,000 to conform to reductions required as a result of the Legislature’s revision to the level of Education Revenue Augmentation Fund available in 2002-03, and as a result of technical changes required to conform to providing a 2.0 percent cost of living adjustment for special education.

- “15. Of the amount provided in Schedule (1) of this item, ~~\$8,943,000~~ \$8,189,000 shall be appropriated in the following priority sequence:
- (a) The Superintendent of Public Instruction shall allocate any additional amount, if needed, to augment the amounts appropriated in Schedules (1) and (2) of this item to ensure full funding for the 2002-03 fiscal year.
  - (b) Once the Superintendent of Public Instruction has determined that none of the programs in Schedules (1) and (2) of this item require any additional funding pursuant to the statutory formulas contained in Chapter 854 of the Statutes of 1997 (AB 602), the remaining amount shall be allocated pursuant to Section 56836.158 of the Education Code.”

Item 6110-161-0890—For local assistance, Department of Education. I reduce this item from \$800,319,000 to \$798,369,000 by reducing:

- (4) 10.60.050.021—IDEA, Capacity Building, Special Education from \$44,858,000 to \$42,908,000,

and by revising Provision 3 and 12.

I am deleting the \$1,700,000 legislative augmentation provided to expand the existing Family Empowerment Centers on Disabilities. I share the desire to improve results for all children, especially those with disabilities, which is why I signed legislation last year establishing the Family Empowerment Centers funded in this item. However, given that my Budget already provides \$2,372,000 for local assistance grants for Family Empowerment Centers on Disabilities, and given that the 12 centers funded through the existing resources have only recently been established, I believe funding to expand this program would not be prudent until results from existing efforts are reviewed.

I am deleting the \$250,000 legislative augmentation to fund licensed children’s institution growth. My Budget already provides \$1,000,000 for local assistance grants for emergency impaction on Special Education Local Plan Areas as the result of licensed children’s institution growth, and I have not been provided with adequate justification to warrant a program augmentation.

I am revising Provisions 3 and 12 to conform to these actions.

- “3. Of the funds appropriated in Schedule (4) of this item, up to ~~\$1,250,000~~ \$1,000,000 may be used to fund licensed children’s institution growth pursuant to Section 56836.18 of the Education Code.”
- “12. Of the funds appropriated in Schedule (4) of this item, ~~\$4,072,000~~ \$2,372,000 shall be used for the purposes of establishing Family Empowerment Centers on Disabilities pursuant to Chapter 690, Statutes of 2001.”

Item 6110-194-0001—For local assistance, Department of Education. I reduce this item from \$1,105,000 to \$105,000 by deleting:

- (1) 20.60.101.001-Administrator Training and Evaluation Program (1,000,000),

and by revising Provision 2.

I am reducing the legislative augmentation of \$1,000,000 in support costs for the Administrator Training and Evaluation Program. This reduction is necessary to provide for a prudent General Fund reserve and eliminate the former Administrator Training and Evaluation Program. With this reduction, \$14,336,000 still remains for Principal and Administrator Training and Evaluation Program training activities in programs established by this Administration.

Item 6110-194-0890—For local assistance, Department of Education. I reduce this item from \$5,000,000 to \$4,350,000, and delete Provisions 2, 3 and 4.

I am deleting \$250,000 and Provision 2 which would be used for data collection and evaluation related to the effectiveness of professional development programs. While I recognize the importance of evaluating the effectiveness of programs, given many of these programs are relatively new and the scarcity of resources, I believe funds should be focused on providing training.

I am deleting \$400,000 and Provisions 3 and 4 which would earmark these funds for an evaluation of cultural competency training for teachers and provide professional development to substitute teachers, respectively. Both of these programs could be established by pending legislation. I believe it is premature to set aside these funds before the policy merits of the respective related legislation have been decided. In addition, according to the legislation which would establish the substitute teacher training, funding would not be necessary until 2003-04.

Item 6110-195-0890—For local assistance, Department of Education. I reduce this item from \$317,526,000 to \$317,026,000 by reducing:

(1) 20.60.280—Improving Teacher Quality Local Grants from \$315,472,000 to \$314,972,000, and by deleting Provision 1.

The reduction in Schedule (1) funding is a technical veto to account for this item over-appropriating the total amount of available federal funds by \$500,000.

I am deleting Provision (1), which specifies the uses of these federal funds. I would have preferred language that would have directed these funds to be used on a priority basis to ensure that class size reduction programs are maintained and teachers receive standards-aligned training. As federal law requires, the State has submitted an application for these funds that specifies their uses; therefore this language is unnecessary.

Item 6110-197-0890—For local assistance, Department of Education. I revise this item by deleting Provisions 2(b), 2(c), 2(d), and 2(h), and revising Provision 2(i).

I am deleting Provision 2(b) because this language is unnecessarily restrictive. It would limit the availability of \$3,500,000 to direct grants for programs serving middle and elementary school pupils to provide equitable access to and participation in programs. Analysis has not been performed to indicate the level of need for these types of grants. Furthermore, placing restrictions on these funds would limit the number of slots that could be created to serve additional children.

I am deleting Provision 2(c) because this language would restrict the availability of \$1,000,000 to fund direct grants for family literacy services for families of students participating in the 21<sup>st</sup> Century Community Learning Programs. Although I support family literacy programs, this



allocation duplicates existing efforts funded through federal Title 3 Literacy funds and other available federal and state funding sources to provide family literacy. Limiting the availability of these funds would restrict the creation of additional before and after school slots.

I am deleting Provisions 2(d) because this language is unnecessarily restrictive. It would limit the availability of \$2,500,000 to grants for high school programs. Denying accessibility to these funds to middle and elementary school programs, would restrict the creation of additional slots in an area where there is a known need. I am also deleting Provision 2(h) because the language would establish a program with reimbursement policies that conflict with those contained in existing statute, Article 22.5 (commencing with Section 8483.7) of Chapter 2 of Part 6 of Division 1 of the Education Code.

I am revising Provision 2(i) because this language conflicts with language contained in Provision 2(f) of this Item which requires programs to adhere to daily funding rates pursuant to Article 22.5 (commencing with Section 8482.5) of Chapter 2 of Part 6 of Division 1 of the Education Code.

"(i) Earned but unexpended funds may be carried forward to subsequent years consistent with federal requirements. ~~In year one, the full grant may be retained.~~"

As stated above, this language is unnecessarily restrictive and would result in higher costs per pupil. There is approximately \$14 million in quality applications pending for the existing Before and After School Learning and Safe Neighborhoods Partnership Program. The overall state need, however, is much greater. Given the success of this program in showing consistent patterns of positive results on student achievement, attendance, behavior, and reductions in grade attendance, I would prefer that the 21<sup>st</sup> Century federal funds be used to expand the existing program rather than creating additional cost pressures.

Item 6110-200-0001—For local assistance, Department of Education. I reduce this item from \$19,000,000 to \$2,000,000.

I am reducing the legislative augmentation of \$19,000,000 for Healthy Start Support Services by \$17,000,000. This reduction is necessary to limit program expansions and provide for a prudent General Fund reserve in light of the State's current fiscal condition. The program level started with this augmentation would cause costs to multiply in future years. This action will have no effect on schools currently operating this program, as full funding for the multi-year grant period has been provided in past budgets.

The funds reduced from this item are reserved for Proposition 98 contingencies in 2002-03.

Item 6110-205-0001—For local assistance, Department of Education. I revise this item by deleting Provision 3.

I am deleting Provision 3 of this item, which authorizes the Department of Education to establish a pilot program for allocating this funding for the Elementary School Intensive Reading Program as a block grant for up to 20 districts, rather than through hourly reimbursement for services rendered. This proposed pilot is a significant alteration in the program's current structure. The proposal does not contain any reasonable accountability to ensure that students receive necessary remedial services through this program, and may in fact reduce the total hours of

service provided to students. Any program change of this magnitude should be considered in policy legislation, including review by legislative policy committees rather than solely through the budget process.

Item 6110-211-0001—For local assistance, Department of Education (Proposition 98). I reduce this item from \$49,721,000 to \$35,650,000.

I am reducing this Item for two reasons. First, technical reductions are necessary to reflect both the Legislature's action to shift the calculation methodology for the block grant to appropriations made in the final Budget Act as well as the adjustments made to final school district funding levels, including the deferrals and reductions to categorical programs included in the final version of the Budget, that have the effect of reducing this item's statutory growth calculation. Second, I am reducing the item to reflect my objection to the Legislature's intent to include the Instructional Materials Realignment Program (IMRP) in the block grant. I believe that allowing charter schools to use equivalent funding intended for IMRP purposes in any manner they choose would both undermine the Administration's objective to ensure availability of standards-aligned instructional materials for all students and unnecessarily increase state costs. Charter schools would still be eligible to receive their share of over \$400,000,000 available for IMRP remaining in the Budget.

The funds reduced from this item are reserved for Proposition 98 contingencies in 2002-03.

Item 6110-223-0001—For local assistance, Department of Education. I delete this item and Provisions 1 and 2.

I am deleting the legislative augmentation of \$36,000,000 for PERS offset mitigation because the May Revision already provided \$97,000,000 to fund the state's share of PERS costs for school classified employees. As rates increase in the future, the state will fund the entire amount of the employer's share of this cost, and the offset will diminish.

I am also deleting the legislative augmentation of \$42,000,000 for equalization adjustments for school district revenue limit apportionments. Given the subsequent \$406,000,000 augmentation contained in AB 2781 to be provided commencing with 2003-04 for revenue limit equalization, this one-time appropriation should be set aside for Proposition 98 contingencies in light of the State's current fiscal conditions.

The funds reduced from this item are reserved for Proposition 98 contingencies in 2002-03.

Item 6110-241-0001—For local assistance, Department of Education. I delete this item and Provision 1.

I am deleting this item, which provides \$150,000 for low-performing high schools, as it inadvertently made an appropriation for local assistance that was intended to provide state operations funding to support a new program to be created in pending legislation. This local assistance appropriation cannot be used for the intended purpose. In addition, I believe it is premature to earmark funding in the Budget until the policy merits of the legislation are decided.

The funds reduced from this item are reserved for Proposition 98 contingencies in 2002-03.

Item 6360-001-0407—For support of the Commission on Teacher Credentialing. I revise this item by deleting Provision 6.

I am deleting Provision 6, which would require the Commission to reduce processing times for first-time and new-type credential applications to 25 days. This is inconsistent with current statute that requires credentials to be processed in 60 days. The Teacher Credentialing Service Improvement Project will not be sufficiently complete to allow the Commission to realize significant savings in the staff time required to process credential renewal applications in 2002-03. Consequently, this provision could force the Commission to redirect resources from the processing of credential renewal applications, thereby generating an unacceptable increase in the time required to process these applications. Alternatively, this language could result in the Commission requesting additional funding and positions to meet this timeframe.

Item 6610-001-0001—For support of California State University. I reduce this item from \$2,617,173,000 to \$2,616,983,000 by reducing:

(1) Support from \$3,494,437,000 to \$3,494,247,000,

and by deleting Provisions 18, 19, and 20.

I am deleting \$190,000 legislative augmentation to conduct a California State University (CSU) Export Delivery Study (\$140,000) and to fund the CSU Centers for Excellence (\$50,000), pursuant to separate legislation. Notwithstanding the potential merits of the subject legislation, it is premature to include funding in the budget for these activities. I am willing to consider the legislation on its merits, and any funding necessary, once it is approved by the Legislature. I am deleting Provisions 18 and 19 to conform to these actions.

I am deleting Provision 20 because it requires the CSU to defer new expenditures for the CMS/Peoplesoft project, prohibits the University from entering into any new agreements needed to maintain the implementation schedule, and delays the completion of the project by one year. This language would increase project costs for the University and would delay the operational efficiencies the University believes will be achieved when the project is completed and delay staff training. I encourage the University to cooperate fully in the audit currently in progress of the project and expect continued adherence to all relevant information technology policies and bid procedures.

Item 6870-101-0001—For local assistance, Board of Governors of the California Community Colleges (Proposition 98). I reduce this item from \$2,670,792,000 to \$2,659,792,000 by reducing:

(12) 20.10.070-Matriculation from \$64,307,000 to \$54,307,000;

and by deleting:

(12.5) 20.20.015-Faculty and Staff Development (\$1,000,000);

and by revising Provision 1.

I am reducing the legislative augmentation for Matriculation by \$10,000,000, and I am also deleting the proposed augmentation of \$1,000,000 to continue the Faculty and Staff Development program. With this action, \$54,307,000 still remains to support Matriculation

services. I also note that the general apportionment funding increase of over \$192 million in this Budget is more than \$43 million above the statutory requirement. Therefore, this Budget provides sufficient funds for colleges to sustain matriculation services if they are a priority. Further, funding for the Faculty and Staff Development program contains little meaningful accountability and represents only a fraction of the funds used by districts for training. I believe this is a significantly lower priority for state assistance than direct classroom instruction. Districts may use discretionary funds, as necessary, to fund these activities on a priority basis. I am revising Provision 1 to conform to this action.

“1. The funds appropriated in Schedules (1), (2), (3), (4), (5), (6), (8), (10), (11), (12), ~~(12-5)~~ (14), (15), (16), (17), (18), (22), and (25) are for transfer by the Controller during the 2002-03 fiscal year to Section B of the State School Fund.”

The funds reduced from this item are reserved for Proposition 98 contingencies in 2002-03.

Item 6870-485—Reappropriation, (Proposition 98) California Community Colleges. I revise this item from \$53,189,000 to \$34,497,000 by deleting Schedule (3).

In order to correct a technical error in the Budget Bill, I am reducing this item by \$9,692,000. I am also deleting the legislative augmentation of \$9,000,000 for Special Services for CalWORKs Recipients. I am supportive of this program as indicated by the \$20,000,000 General Fund restoration I provided for this program in the May Revision, for which local districts will provide an additional \$20,000,000. With this reduction, a total of \$63,000,000, will remain to support CalWORKs recipients attending community colleges.

Item 6870-486—Reappropriation, (Proposition 98) California Community Colleges. I delete this item.

I am deleting Item 6870-486, which would provide authority for the Chancellor to reappropriate for specified purposes up to \$20 million in prior year savings from categorical programs in Item 6870-101-0001. Such authority would limit the flexibility of the Administration and Legislature to allocate Proposition 98 Reversion Account funds for future high priority K-14 demands.

Item 7980-001-0001—For support of Student Aid Commission. I revise this item by reducing:

(1) 15-Financial Aid Grants Program from \$12,342,000 to \$12,244,000, and

(5) Reimbursements from -\$3,195,000 to -\$3,097,000.

I am revising this Item to delete a \$98,000 legislative augmentation for reimbursements from the Student Loan Operating Fund to cover administrative costs for the Assumption Program of Loans for Education related to 1,000 additional awards added as part of an action to suspend the Governor's Teaching Fellowships for one year. The 2001 Budget Act included \$253,000 for three additional positions to administer this program, conduct a study to assess the administrative process for this and other Specialized Programs, and make recommendations for efficiency measures. The need for additional resources for this purpose has not been justified. In addition, it would be premature to provide additional funding until those recommendations have been made and considered.

Item 8100-101-0001—For local assistance, Office of Criminal Justice Planning. I reduce this item from \$45,856,000 to \$45,687,000 by reducing:

- (6) 50.20.352-Youth Emergency Telephone Referral from \$338,000 to \$169,000.

This reduction is necessary to provide for a prudent General Fund reserve for economic uncertainties. With this action, \$169,000 remains to support the Youth Emergency Telephone Referral program. I am revising Provision 3 to make two technical changes to this provision.

- "3. Of the amount appropriated in this item, \$800,000 appropriated in Schedule (20.5) shall be available for competitive grants for the California Innocence Protection Program. The OCJP shall make the funds available for the purpose of assisting convicted persons who are attempting to establish their actual innocence through the use of postconviction DNA testing. Grants shall only be used to represent indigent inmates convicted of a crime in a California court. Applications for funding provided pursuant to this item shall only be received from qualified nonprofit organizations meeting guidelines established by the American Bar Association for operating legal clinics using law students. It is the intent of the Legislature that funds provided to qualifying nonprofit organizations shall be made *available* as soon as possible in the interest of justice and shall be disbursed within 60 days of receipt of an application for funding. For qualified nonprofit organizations receiving funding under this program, at least 25 percent of their total budget for these purposes must come from other sources, which may include in-kind contributions.

Funding for this program shall not be expended for the purpose of court-approved DNA forensic testing under Section 1405 of the Penal Code.

Entities receiving funding under this program shall report to the OCJP the number of the requests received and the number of cases in which any of the following have occurred: (1) a preliminary investigation was conducted, (2) a full investigation was conducted and DNA testing was sought, (3) the appellant was represented in court proceedings or an attempt was made to vacate a conviction, and (4) an appellant's conviction was vacated or overturned as a direct result of the representation by the entity ~~or attorney~~. The entities shall also provide detailed expenditure reports semiannually and annually on the use of funds provided under this program. These semiannual and annual reports shall also list all staff positions supported by this funding and their compensation. The OCJP shall prepare and submit a report to the Joint Legislative Budget Committee on or before February 1, 2003, on the foregoing information for each entity receiving funding under this program."

Item 8100-112-0001—For transfer by the Controller to the High Technology Theft Apprehension and Prosecution Program Trust Fund. I reduce this item from \$13,518,000 to \$13,300,000.

I am reducing the amount available for transfer to the High Technology Theft Apprehension and Prosecution Program Trust Fund by \$218,000. This is a technical correction to this General Fund transfer item. The amount shown here reflects the total local assistance program funding, including federal funds, rather than the General Fund transfer portion that is appropriately scheduled in this item.

Item 8350-001-0001—For support of Department of Industrial Relations. I reduce this item from \$141,031,000 to \$136,815,000 by reducing:

- (3) 30-Workers' Compensation Administration from \$99,405,000 to \$94,805,000;

- (5) 36-Commission on Health & Safety and Workers Compensation from \$2,666,000 to \$1,408,000; and
- (20) Amount payable from the Workers' Compensation Administration Revolving Fund (Item 8350-001-0223) from -\$20,992,000 to -\$19,938,000;

and by deleting:

- (38) Amount payable from the Workers' Occupational Safety and Health Education Fund (Item 8350-001-3030) (-\$588,000).

I am deleting the legislative augmentations provided to the Department of Industrial Relations for AB 749-related activities for training grants, workers compensation studies, and workload in the Division of Workers Compensation. Although I agree that AB 749 will increase the responsibilities of the department, these augmentations have not been fully justified. AB 749 does not take effect until January 1, 2003, and in light of the state's current fiscal condition, I have instructed the department to absorb the associated workload during the first six months of implementation for these purposes. To the extent that a comprehensive justification based on actual workload needs is available in the future, I would consider funding at that time. I am, however, retaining the \$1 million augmentation included in this item for fraud prevention activities.

Item 8350-001-0223—For support of Department of Industrial Relations. I reduce this item from \$20,992,000 to \$19,938,000 to conform to my action in Item 8350-001-0001.

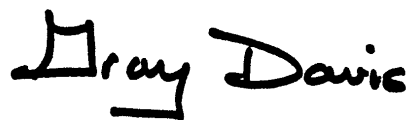
Item 8350-001-3030—For support of Department of Industrial Relations. I delete this item.

I am deleting this item to conform to my previous action in Item 8350-001-0001.

Item SEC. 9.40—Proposition 40 Administration Cost Limits. I delete this Control Section.

I am deleting this control section which would restrict administrative expenditures for Proposition 40 bond funds to five percent of budget appropriations for all grant programs and property acquisitions made in the budget year. This is inconsistent with the provisions of Proposition 40, which require all program delivery and administrative costs be paid through the Bond Act. I have submitted an expenditure plan for Proposition 40 that meets current environmental acquisition priorities and is fiscally responsible. This plan sets aside adequate funds to deliver these necessary projects in a timely manner, in accordance with the intent of the electorate. I am directing all affected agencies and departments to provide for effective program delivery while controlling their administrative costs.

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 425.

A handwritten signature in black ink that reads "Gray Davis". The signature is stylized, with a large, looped "G" and a cursive "Davis".

GRAY DAVIS