

FIGURE ECON-2

Selected California Economic Indicators

	2001	Percent Change	Forecast		2003	Percent Change
			2002	Percent Change		
Personal income (\$ billions)	\$1,099.54	-0.5%	\$1,158.4	5.4%	\$1,229.7	6.2%
Nonfarm W&S employment (thousands)	14,487	-1.1%	14,628	1.0%	15,022	2.7%
Mining	25	3.2%	24	-2.3%	23	-4.2%
Construction	751	1.3%	733	-2.4%	761	3.8%
Manufacturing	1,812	-7.7%	1,815	0.2%	1,870	3.0%
High technology	478	-9.6%	474	-0.8%	493	4.0%
Transportation/utilities	723	-3.6%	722	-0.1%	755	4.6%
Wholesale & retail trade	3,307	-0.5%	3,361	1.6%	3,461	3.0%
Finance group	846	2.3%	866	2.4%	894	3.2%
Services	4,607	-1.6%	4,692	1.8%	4,822	2.8%
Government	2,417	3.6%	2,415	-0.1%	2,436	0.9%
Unemployment rate	6.0%		6.4%		5.7%	
Housing permits (thousands of units, annual rate)	149	-0.2%	153	2.7%	148	-3.1%
Consumer price index (Dec-Dec)	181.8	2.5%	187.4	3.1%	191.9	2.4%

Forecast based on data available as of April 2002.
Data are for the 4th quarter, except where otherwise noted.
Percent changes are 4th quarter to 4th quarter.



California Postsecondary Education Commission (CPEC)

2001-02	—
2002-03	-\$2.8 million

In light of the change in the State’s fiscal outlook, the May Revision proposes reducing CPEC’s General Fund by \$2.8 million from the level proposed in the Governor’s Budget to reflect elimination of 43.2 positions and related operating expenses and equipment, and TERADATA services received from the Teale Data Center.

Scholarshare Investment Board (SIB)

2001-02	-\$4 million
2002-03	-\$8 million

The May Revision proposes sufficient resources to fully fund awards to all eligible students under the Governor’s Scholarship Programs administered by the SIB. Given the latest estimate of the number of high school students that meet the criteria to receive a scholarship under the Governor’s Distinguished Mathematics and Science Scholars Program, the May Revision proposes an \$8 million reduction in funding for this purpose. The remaining \$6 million is sufficient to provide 2,400 scholarships.

In addition, based on the actual number of eligible participants for the Governor’s \$1,000 Scholars Program Awards being lower than originally estimated, it is expected that there will be approximately \$4 million in savings in 2001-02.

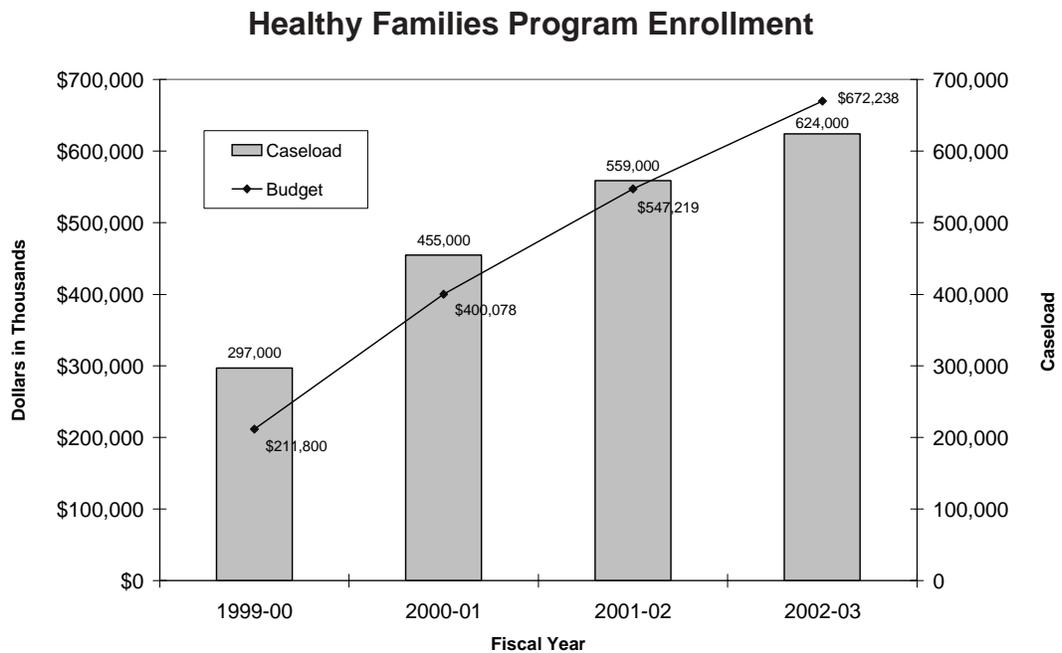


Health and Human Services

Healthy Families Program

Providing health care coverage to uninsured children remains a high priority for this Administration. Currently, more than 538,000 children are enrolled in the Healthy Families Program (HFP) with a total of 559,000 expected to be enrolled by the end of June 2002. It is expected that by June 30, 2003, a total of 624,000 children will be provided low-cost, comprehensive health care coverage through the HFP. See Figure HHS-1.

Figure HHS-1



The May Revision continues funding to facilitate the enrollment and eligibility of uninsured children into the HFP, as follows:

- ❖ \$2.6 million (\$1.4 million Tobacco Settlement Fund [TSF]) to establish a two-month HFP to Medi-Cal coverage bridge.



- ❖ \$270,700 (\$94,000 TSF) to support Rural Health Demonstration Projects that will allow children in migratory families to retain HFP coverage when they move between counties.
- ❖ \$588,000 (\$288,000 General Fund) for additional caseload resulting from implementation of the Child Health and Disability Prevention Gateway Program.

Health Insurance Portability and Accountability Act

In August 1996, the federal Health Insurance Portability and Accountability Act (HIPAA) was enacted. The purpose of the HIPAA is to improve the portability and continuity of health insurance coverage, provide administrative simplification, revise security procedures, and combat waste in health care service delivery. The HIPAA requires specific national standards for coding and tracking medical information, administrative simplification, and security and privacy of individual patient medical records. The management of activities related to the HIPAA will be complex as it affects many different areas within State agencies and programs. To ensure the successful implementation of HIPAA regulations, the Administration established the Office of HIPAA Implementation (OHI) within the Health and Human Services Agency to assume statewide leadership in this important endeavor. In addition, Chapter 635, Statutes of 2001 (SB 456), establishes specific requirements for the OHI to meet in its role as statewide HIPAA coordinator.

STATEWIDE HIPAA FUNDING

The May Revision increases General Fund expenditures for the HIPAA by \$194,000 while total funds are reduced by \$7.1 million. This funding is in addition to \$92.3 million (\$24.3 million General Fund) proposed in the Governor's Budget. The revised budget provides a total of \$85.2 million (\$24.5 million General Fund) for this purpose. The Administration recognizes the importance of this federal legislation and is working toward full compliance. The overall reduction in the May Revision will not adversely affect any critical compliance activities.

Figure HHS-2 reflects the anticipated 2002-03 HIPAA expenditures by department.



Figure HHS-2

**2002-03 HIPAA Funding
(Dollars in Thousands)**

Department	Governor's Budget		May Revision		Overall Funding	
	GF	TF	GF	TF	GF	TF
Health Services	\$16,751	\$78,622	-\$4,170	-\$12,500	\$12,581	\$66,122
Alcohol and Drug Programs	3,021	6,042	-750	-1,500	2,271	4,542
Mental Health	1,211	2,422		0	1,211	2,422
Developmental Services	1,257	2,514	51	101	1,308	2,615
Statewide Health Planning and Development	0	99		0	0	99
Health and Human Services Agency	2,045	2,624	2,645	2,895	4,690	5,519
Aging			130	200	130	200
Corrections			898	898	898	898
Youth Authority			591	591	591	591
Social Services			665	1,603	665	1,603
Personnel Administration				225	0	225
CalPERS				223	0	223
Veteran's Affairs			134	134	134	134
Total	\$24,285	\$92,323	\$194	-\$7,130	\$24,479	\$85,193

Department of Health Services

MEDI-CAL

2001-02 **\$87.1 million**
2002-03 **-\$758.3 million**

Current Year

The May Revision includes total Medi-Cal expenditures of \$27.1 billion (\$9.8 billion General Fund), an increase of \$324.8 million above the Governor's Budget. General Fund expenditures for Medi-Cal have increased by \$87.1 million, or 0.9 percent.

The number of persons projected to be eligible for Medi-Cal in 2001-02 is expected to decrease by 268,300 to 5,926,700 eligibles. This represents a decrease of about 4.3 percent below the level projected in the Governor's Budget. The revised caseload is 12.1 percent above 2000-01 caseload.

The net General Fund increase includes the following significant adjustments:



- ❖ \$72.5 million increase in the cost of inpatient services.
- ❖ \$70.8 million increase due to higher than anticipated caseload growth resulting from the elimination of quarterly status reports.
- ❖ \$7.8 million increase for higher county administrative costs.
- ❖ \$2.3 million increase to provide a managed care rate increase for the Santa Barbara Health Authority.
- ❖ \$28.9 million in estimated additional savings due to increased anti-fraud activities.
- ❖ \$15.7 million in estimated savings resulting from smaller than anticipated increases in caseload growth resulting from continuous eligibility for children.
- ❖ \$11.9 million in savings attributable to additional supplemental and federal drug rebates.
- ❖ \$9.8 million in estimated net savings due to a variety of other increases and decreases affecting the Medi-Cal program.

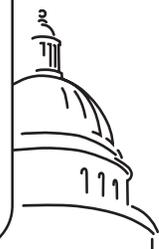
Budget Year

The May Revision includes total Medi-Cal expenditures of \$25.8 billion (\$9.3 billion General Fund), a decrease of \$1.1 billion (\$758.3 million General Fund) below the Governor's Budget.

The average monthly Medi-Cal caseload is expected to decrease by 490,600 beneficiaries to 6,008,500 eligibles. This represents a decrease of 7.5 percent below the Governor's Budget.

The budget year includes the following significant General Fund adjustments:

- ❖ \$73.3 million increase in the cost of inpatient services.
- ❖ \$9.1 million in increased costs to provide a long-term care rate increase.
- ❖ \$4.5 million increase to provide a managed care rate increase for the Santa Barbara Health Authority.
- ❖ \$105.9 million in estimated additional savings due to increased anti-fraud activities.
- ❖ \$17.1 million in savings attributable to additional supplemental and federal drug rebates.



- ❖ \$584.4 million in reduced expenditures due to a variety of other increases and decreases affecting the Medi-Cal program including the following significant reductions.

GENERAL FUND REDUCTIONS

Continued weakness in the stock market and the economy have caused State revenue receipts to be below forecast since the release of the Governor's Budget. The May Revision revenue estimate significantly reduces the available General Fund resources for the current and budget years. This revenue reduction, combined with expenditure adjustments required for enrollment, caseload, and population changes, necessitates the reduction or elimination of various program proposals included in the January Governor's Budget. In light of the State's fiscal constraints, the Administration is proposing the following reductions:

- ❖ **Selected Medi-Cal Optional Benefits**—\$526 million (\$263 million General Fund) for the elimination of certain Medi-Cal optional benefits.
- ❖ **Medi-Cal Quarterly Status Reports**—\$310.8 million (\$155.4 million General Fund) to reinstate Medi-Cal quarterly status reporting. This proposal will not affect the eligibility of children in Medi-Cal. In January 2001, the Administration established continuous eligibility for children. The 2002-03 Budget includes a total of \$374 million (\$187 million General Fund) to provide continuous eligibility for 471,550 children. Since 2000-01, the Administration has provided a total of \$654.6 million (\$327.3 General Fund) for this purpose.
- ❖ **1931(b) Medi-Cal Program**—\$184.2 million (\$92.1 million General Fund) to rescind the expansion of the 1931(b) Medi-Cal program, which had expanded Medi-Cal eligibility to two-parent working families with income up to 100 percent of the federal poverty level. This proposal will primarily affect two-parent income households who apply for Medi-Cal, but will retain current two-parent income recipients. Other applicants and some current beneficiaries (children and single parents) would still qualify for free Medi-Cal through another eligibility category or would qualify for Medi-Cal with a share-of-cost.
- ❖ **Provider Rate Reductions**—\$94 million (\$47 million General Fund) to further reduce Medi-Cal provider rates below the level proposed in the Governor's Budget.
- ❖ **Chapters 894 and 897, Statutes of 2001 (AB 59 and SB 493) Medi-Cal Expansion**—\$51.6 million (\$25.8 million General Fund) to defer the Medi-Cal expansion associated with the National School Lunch and Food Stamp programs. This expansion is proposed to be deferred until July 2005.



- ❖ **Early and Periodic Screening, Diagnosis, and Treatment Program—**\$65.1 million (\$35 million General Fund) to reflect the reduction of the State’s share of the cost of growth in the Early and Periodic Screening, Diagnosis, and Treatment Program and Therapeutic Behavioral Services Program.
- ❖ **Disproportionate Share Hospital Program Administrative Fee—**\$31 million General Fund to increase the Disproportionate Share Hospital administrative fee. This General Fund decrease, combined with the \$55.2 million General Fund reduction already proposed in the Governor’s Budget for this purpose, results in a total increase of \$86.2 million in the State administrative fee for 2002-03.
- ❖ **Pharmacy Reimbursement—**\$23.8 million (\$11.9 million General Fund) to rescind prescription drug reimbursement increases totaling \$0.40 per claim.
- ❖ **Medi-Cal/Healthy Families Program Outreach for Children—**\$18.6 million (\$7.2 million General Fund) to reflect the elimination of Medi-Cal/Healthy Families Program (HFP) media advertising. Important activities that facilitate the enrollment of children into Medi-Cal and the HFP will be continued. These activities include application assistance and a toll-free information help line.
- ❖ **Medical Case Management Program Expansion—**\$9 million (\$4.5 million General Fund) in savings achievable through the expansion of the Medical Case Management Program, which provides care to severely ill Medi-Cal beneficiaries in their home, avoiding more costly institutional care.
- ❖ **Dental Cleanings and Exams—**\$7.9 million (\$4 million General Fund) to limit dental cleanings and basic exams to one visit annually. This benefit was expanded in the 2000 Budget Act to include two dental cleanings and basic exams annually.
- ❖ **Contracting for Durable Medical Equipment and Lab Services—**\$6.6 million (\$3.3 million General Fund) to reflect savings as a result of competitively contracting for durable medical equipment and lab services.
- ❖ **Implementation of Chapter 684, Statutes of 2001 (AB 1075)—**\$499,000 (\$250,000 General Fund) to reduce 6.5 positions included in the Governor’s Budget for workload associated with Chapter 684. This legislation requires the Department of Health Services to develop staffing ratios and a new reimbursement methodology for nursing facilities. Despite this reduction, the Administration will continue to move forward with this important effort.
- ❖ **County Administration—**\$175.9 million (\$87.9 million General Fund) to reflect a 20 percent reduction in Medi-Cal county administration funding.



FEDERAL MEDICAL ASSISTANCE PERCENTAGE

The Federal Medical Assistance Percentage is the percentage of Medicaid costs reimbursed by the federal government and is based on U.S. Bureau of Census estimates of state population. The Governor's Budget proposed a \$400 million General Fund reduction in various departments and a corresponding increase in federal funding in the current year in anticipation of federal legislation that would provide an additional \$400 million to offset the cost of Medi-Cal services. In light of the continuing discussion of this issue in Congress, the May Revision now proposes this adjustment in 2002-03.

PUBLIC HEALTH

2001-02	<i>\$1.3 million</i>
2002-03	<i>\$27.8 million</i>

CASELOAD PROGRAMS

Current Year

The May Revision includes an increase of \$2.3 million General Fund, or 0.2 percent above the \$150.6 million provided in the Governor's Budget, due to an increase in caseload and health care costs in the California Children's Services (CCS), Child Health and Disability Prevention (CHDP), and Genetically Handicapped Persons programs.

Budget Year

The May Revision includes an increase of \$10.4 million General Fund, or 9.4 percent above the \$110.6 million provided in the Governor's Budget, due to an increase in caseload and health care costs in the CCS and Genetically Handicapped Persons programs. In addition, the May Revision proposes to provide budget year funding of \$35.7 million General Fund and \$56.7 million Tobacco Settlement Fund (TSF) for the CHDP program.

CHDP PROGRAM GATEWAY TO COMPREHENSIVE HEALTH CARE

The May Revision includes \$2.7 million (\$836,000 General Fund) to augment the CHDP program. This funding will be used to develop an Internet pre-enrollment application for Medi-Cal and the Healthy Families Programs (HFP).



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 or provide 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 HFP. The May Revision proposes to use 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 Medi-Cal or the HFP.

CANCER RESEARCH

The May Revision restores the \$25 million reduction made to the Cancer Research Program included in the Governor's Budget, by including \$12.5 million General Fund to match private funding sources. Cancer research funding is primarily directed to projects addressing gender-specific cancers.

ADULT INFLUENZA VACCINE PURCHASE

The May Revision includes an increase of \$2.6 million General Fund to fund price increases of \$3.70 per dose for the adult influenza vaccine. The Budget provides funding for 700,000 doses of the vaccine through local distribution centers, primarily to senior citizens. This increase more than doubles the Administration's support of vaccines for the elderly.

PUBLIC HEALTH PREPAREDNESS AND RESPONSE

The May Revision includes an increase of \$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, to support anti-bioterrorism activities by the State and its 58 counties, except Los Angeles County, which has been provided direct grant funding. 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. The federal funds are provided to California to meet seven critical "Focus Areas," as outlined in Figure HHS-3.



Public Safety

Department of Justice

2001-02	—
2002-03	\$2.7 million

AUGMENTATIONS

The May Revision proposes the following augmentations for the Department of Justice (DOJ):

California Anti-Terrorism Information Center (CATIC)—An increase of \$13.4 million General Fund and 78 positions to continue and expand funding for the CATIC program, which provides investigative assistance to local and federal law enforcement, intelligence gathering, and a statewide informational database to analyze terrorist activities within the State. This expansion would provide additional field and intelligence agents, along with a headquarters unit, to enhance the capabilities of the program. The Administration intends to reimburse the General Fund for this cost from future allocations of federal security-related funds.

Richmond DNA Laboratory—\$1.6 million General Fund for additional lease and tenant improvement costs for the Richmond DNA Laboratory.

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes reductions totaling \$12.3 million, as follows:

California Gang, Crime and Violence Prevention Partnership Program—\$1.5 million for the California Gang, Crime and Violence Prevention Partnership Program.

Spousal Abuser Prosecution Program—\$800,000 for the Spousal Abuser Prosecution Program.

Department of Justice Programs—\$10 million for allocation by the Department to its various divisions and programs.



Department of Corrections

2001-02	\$18.1 million
2002-03	\$185.9 million

INMATE/PAROLEE POPULATION/CASELOAD CHANGES

Current Year

Based upon the Department of Corrections' (CDC) spring estimates, the May Revision reflects an estimated June 30, 2002, population of 156,846 inmates. This is 437 more inmates than that projected in the Governor's Budget, and results in a cost of approximately \$9.8 million General Fund and \$219,000 Inmate Welfare Fund. The revised population estimate represents a decrease of 4,651 inmates (2.9 percent) from the June 30, 2001, population level.

The projected June 30, 2002, parolee population is 120,830. This is an increase of 307 parolees from the number projected in the Governor's Budget. The revised population estimate and related program changes results in a net increase of \$7.1 million. The revised parolee population estimate represents an increase of 1,194 parolees (1 percent) over the June 30, 2001, level.

The net effect of the changes listed above is a cost to the General Fund of \$16.9 million and a cost to the Inmate Welfare Fund of \$219,000.

Budget Year

Based upon the CDC's spring estimates, the May Revision reflects a June 30, 2003, population of 154,672 inmates, which is 1,049 fewer inmates than projected in the Governor's Budget. This decrease and related program changes result in a reduction of approximately \$3.5 million General Fund and an increase of \$19,000 Inmate Welfare Fund. The revised inmate population estimate reflects a decrease of 2,174 inmates (1.4 percent) from the revised June 30, 2002, population estimate.

The spring population estimate for parolees as of June 30, 2003, is 119,865, which is 3,054 more parolees than projected in the Governor's Budget. This increase and related program changes result in a net increase of approximately \$5.5 million. The revised parolee population level projected for the budget year represents a decrease of 965 parolees (0.8 percent) from the revised population estimate for June 30, 2002.

The net effect of the augmentations listed above is a cost to the General Fund of \$2 million and a cost to the Inmate Welfare Fund of \$19,000.



AUGMENTATIONS

The May Revision proposes the following augmentations for the CDC:

Structural Workers' Compensation Shortfall—\$42.1 million one-time increase to fund the increased cost of workers' compensation.

Utilities—\$18 million to fund the Department's increased utilities costs.

Overtime—\$9.8 million to fund overtime for specified posted custody positions on a limited-term basis.

Contract Medical—\$115.5 million to address increased costs for contracted medical services to provide medically necessary health care services to inmates.

Board of Prison Terms Injunction—\$1.1 million to fund increased CDC workload associated with the permanent injunction against the Board of Prison Terms pursuant to the *Armstrong v. Davis* lawsuit.

Bargaining Unit 6 Contract Operational Costs—\$2.3 million in 2001-02 and \$4.7 million in 2002-03 to cover operational costs associated with the provisions of the Bargaining Unit 6 Memorandum of Understanding authorized by Chapter 1, Statutes of 2002.

Postage Increase—\$528,000 to cover the increased costs of postage related to the recent rise in the postal rates announced by the U.S. Postal Service.

Inmate Medical Services (*Plata* Lawsuit)—\$21.9 million to begin implementation of system-wide improvements in the provision of inmate health care services consistent with the requirements of the stipulated agreement in the *Plata* class action lawsuit, as well as a pilot Hepatitis C treatment program at Pelican Bay State Prison, as required by the court order in the *Madrid* lawsuit.

Mental Health Services Delivery System—*Coleman* Lawsuit Compliance—\$8.1 million to provide resources for additional mental health crisis beds, Psychiatric Services Unit beds, and increased nursing care of inmates in mental health crisis beds.

Correctional Treatment Center Licensure—\$1.2 million to obtain licensure for five Correctional Treatment Centers (CTC) in 2002-03 and two additional CTCs in 2003-04.



Recruitment and Retention Bonuses—Department of Mental Health and CDC—\$1.6 million to reimburse the Department of Mental Health for recruitment and retention bonuses for various classifications at Salinas Valley State Prison, and for recruitment and retention bonuses for CDC at Salinas Valley State Prison and the neighboring Correctional Training Facility for similar classifications.

Health Insurance Portability and Accountability Act (HIPAA)—\$898,000, on a one-year limited-term basis, to assess the potential impact of HIPAA on the Department and determine solutions and regulatory considerations for implementation.

Inmate Welfare Fund Budget Increase—\$542,000 Inmate Welfare Fund in 2001-02 and 2002-03 for the costs of prison canteens, as well as other inmate related projects and activities.

Local Assistance Augmentations—\$9.2 million on a one-time basis to fund increased costs for reimbursements to local jurisdictions for detaining State prisoners and parolees and parole revocation proceedings.

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes reductions totaling \$50.7 million for the CDC, including:

Delaying Substance Abuse Treatment Beds and Aftercare at the California Rehabilitation Center—\$2.5 million in one-time savings associated with a delay in implementation of in-prison and aftercare services for a 200-bed substance abuse treatment expansion, and aftercare savings related to delayed implementation of a 300-bed expansion.

Reducing Civil Addict Program—\$10 million from placing a 954 inmate cap on the number of Civil Addict commitments in the CDC.

Increasing Work Credits for Fire Camp Inmates—\$16.7 million associated with increasing the sentence credits for inmates assigned to fire camps from one day of credit for every day assigned to a camp to two days of credit for every day assigned to a camp.

Eliminating Monthly Range Training Program—\$3.6 million resulting from the elimination of the Monthly Range Training program, due to implementation problems.



Paroles Reduction—\$16 million reduction in the Community Correctional Program (Paroles) within the CDC. This reduction will be implemented by reducing non-critical parolee services, which will not affect parolee oversight or public safety.

Additional Security at Patton State Hospital—\$427,000 to reflect reduced staffing associated with a lower actual population than that projected in the Governor’s Budget at Patton State Hospital.

Delayed Activation of Salinas Valley State Prison Psychiatric Unit—\$1.1 million in 2001-02 and \$1.5 million in 2002-03 to reimburse the Department of Mental Health as a result of a four-month delay in the activation of the Salinas Valley Psychiatric Unit.

Department of the Youth Authority

2001-02	\$2.2 million
2002-03	-\$2 million

WARD/PAROLEE POPULATION/CASELOAD CHANGES

Current Year

For 2001-02, the May Revision estimate for the year-end institution population is 5,930, a decrease of 430 from the projection included in the Governor’s Budget. This population decline, offset by a significant decline in the level of county reimbursements, will result in a General Fund increase of \$2.1 million. In addition, the Youth Authority projects a year-end parole population of 4,150, a decrease of 80 from the projection included in the Governor’s Budget, which results a General Fund savings of \$118,000.

Budget Year

For 2002-03, the year-end institution population is projected to be 5,445, which is 655 fewer than anticipated in the Governor’s Budget. The combined effect of declining population and a significant decrease in the level of county reimbursements will result in a General Fund increase of \$5.4 million. The Youth Authority projects a year-end parole population of 4,080, a decrease of 75 from the level assumed in the Governor’s Budget, resulting in a savings of \$31,000.

AUGMENTATIONS

The May Revision proposes the following augmentations for the Department of the Youth Authority:



Mental Health Reorganization—\$1 million to initiate the reorganization of the Department's mental health delivery system to a case management model.

Postage Increase—\$32,000 to cover the increased postage costs related to the recent rise in the postal rates announced by the U.S. Postal Service.

Conditions of Confinement Class Action Lawsuit—\$3.5 million for additional staff and resources to aid the Department with the discovery and defense of a class action lawsuit.

Special Program Resources—Savings of \$619,000 and a redirection of \$1.3 million associated with the activation of 100 additional Specialized Counseling Program beds.

Bargaining Unit 6 Contract Operational Costs—\$157,000 in 2001-02 and \$628,000 in 2002-03 to cover operational costs associated with the provisions of the Bargaining Unit 6 Memorandum of Understanding.

Lease Revenue Payment—\$2,000 for lease revenue payments to reflect the increased cost of property insurance.

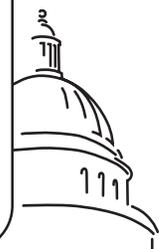
Health Insurance Portability and Accountability Act (HIPAA)—\$591,000 on a one-year, limited-term basis to assess the potential impact of HIPAA on the Department and determine solutions and regulatory considerations for implementation.

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes reductions totaling \$12.6 million General Fund for the Youth Authority, including:

Adjusting County Sliding Scale Reimbursements—\$7.6 million General Fund reduction and a \$7.6 million increase in Reimbursements associated with adjusting sliding scale fees by inflation.

Paroles Reduction—\$5 million in the Parole Services Program (Paroles) within the Department. This reduction will be implemented by reducing non-critical parolee services, which will not affect parolee oversight or public safety.



Office of Criminal Justice Planning

2001-02	—
2002-03	-\$28.6 million

GENERAL FUND REDUCTIONS

Due to the reduction in available General Fund resources for 2002-03, the May Revision proposes a \$28.6 million reduction to the Office of Criminal Justice Planning, including:

Local Assistance Grants—A 50 percent reduction in local assistance grants totaling \$19.4 million.

War on Methamphetamine—A reduction of \$5 million for local assistance funding, leaving a funding level of \$10 million.

High Technology Theft Apprehension and Prosecution Program—A reduction of \$4.2 million in local assistance funding for this activity, leaving a funding level of \$10 million.

Office of the Inspector General

2001-02	—
2002-03	-\$1 million

GENERAL FUND REDUCTION

Due to a reduction in available General Fund resources, the May Revision proposes a \$1 million reduction to the Office of the Inspector General.

Board of Corrections

2001-02	—
2002-03	-\$31.9 million

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes a reduction of \$31.9 million for the Board of Corrections, including:



Eliminating Support Funding Related to Juvenile Justice Program—Elimination of \$275,000 to reflect the deletion of the Juvenile Justice Crime Prevention Act funding.

Community Law Enforcement and Recovery (CLEAR) Program—A reduction of \$2 million to the CLEAR Program in Los Angeles County, and reappropriation of \$2 million of prior year funds to continue total CLEAR funding at \$3 million in 2002-03.

Challenge Grant II Funding—A decrease of \$12.3 million for the Challenge Grant II program to reflect elimination of fourth-year grant funding.

Mentally III Offender Crime Reduction (MIOCR) Grant—A decrease of \$17.3 million for the MIOCR Grant program to reflect elimination of third-year grant funding.

Board of Prison Terms

2001-02	-\$0.2 million
2002-03	-\$0.2 million

HEARING WORKLOAD ADJUSTMENT

The May Revision proposes reductions of \$193,000 in 2001-02 and \$223,000 in 2002-03 due to revised workload estimates associated with the projected number of parole consideration and parole revocation hearings.

Financial Assistance to Local Governments

Notwithstanding the change in the State’s fiscal outlook, the May Revision continues to provide for the following:

- ❖ \$18.5 million for technology grants to local law enforcement, a decrease of \$16.9 million from the Governor’s Budget.
- ❖ \$121.3 million for the Citizens Option for Public Safety (COPS) and Juvenile Crime Prevention programs, a decrease of \$111.3 million from the Governor’s Budget. The COPS Program would be funded at \$121.3 million while funding for the Juvenile Crime Prevention Program would be eliminated.



Resources and Environmental Protection

Proposition 40 - Natural Resources

The California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act of 2002 (Proposition 40) approved by the voters in March 2002 provides \$2.6 billion for protection of the environment and the development of recreational opportunities for the people of California. When combined with the \$2.1 billion provided by the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Act of 2000 (Proposition 12), and the \$1.97 billion provided by the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act of 2000 (Proposition 13), an unprecedented total of \$6.7 billion will be expended over the next few years to improve the quality of life in California. The May Revision includes \$803.5 million from Proposition 40 for a variety of state and local parks, open space, river protection, clean beaches, water and air quality, and development and restoration of historical and cultural facilities.

RIVER PARKWAYS

The Administration continues its commitment to establishing and enhancing river parkways throughout the state. Proposition 40 river parkway initiatives will protect open space, preserve habitat, and provide recreational opportunities along numerous rivers from the North Coast through the Central Valley to Southern California. The May Revision provides \$83.1 million for the following areas:

- ❖ \$37.5 million for various river parkway projects in Southern California
- ❖ \$13.5 million for projects in the Sierra and Central Valley
- ❖ \$9.6 million for Central Coast rivers
- ❖ \$2 million for projects in the North Coast
- ❖ \$18 million for the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy
- ❖ \$5 million, including \$2.5 million in reimbursements for the San Joaquin River Conservancy



CLEAN BEACHES, WATER QUALITY AND WATERSHED PROTECTION

The coastline is one of the most important characteristics of California—it is a major force in the economy, provides for year-around recreation, is a major draw for tourism, and provides irreplaceable habitat for hundreds of wildlife species. Polluted beaches pose a serious health threat that results in closures. Inland water quality problems affect the health of the coastline. The May Revision includes \$73 million for a variety of grants for urban stormwater projects, wastewater facilities, water recycling, and nonpoint source control projects.

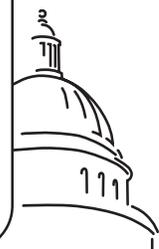
In addition, the Administration continues its efforts to minimize beach closures by focusing on the most popular beaches with water quality problems. The May Revision provides an additional \$23 million to further beach cleanup efforts over the next year. Coupled with previous allocations of bond funds, more than \$54 million has been provided to California communities for projects to improve beach water quality since last year.

The May Revision also provides over \$68 million for critical watershed protection projects such as the Bolsa Chica lowlands, Ballona Creek, the San Francisco Bay wetlands, and Palo Corona Ranch. Acquisition and restoration of watersheds is critical to prevent the loss of unique habitats and species, and to improve water quality.

HISTORICAL AND CULTURAL PRESERVATION AND LOCAL PARKS

The Administration is committed to preserving California's richly diverse cultural heritage and its unique historical resources. The May Revision includes \$107 million to acquire, develop, and protect significant resources by providing \$68 million for Historical and Cultural Preservation Opportunity Grants, \$27 million to California State Parks for four key historical projects, and \$12 million for the California Historic Preservation Competitive Grant Program.

As the population of California grows, the demands for local recreational opportunities grow. Toward satisfying this need, the May Revision provides \$80 million for projects specified in Proposition 40. Additional funds for local facilities will be allocated in future years upon completion of the development of guidelines and criteria as required by Proposition 40.



Secretary for Resources

2001-02	—
2002-03	-\$2.1 million

AUGMENTATIONS

The May Revision proposes the following augmentations:

- ❖ \$9.861 million federal funds for the Coastal Impact Assistance Program to mitigate the effects of oil and gas production along the California coastline.
- ❖ \$7.641 million Proposition 13 for River Parkway projects along the San Gabriel, San Dieguito, San Diego, and Tuolumne rivers.
- ❖ \$1.887 million Proposition 12 for the Folsom Powerhouse State Park. The Powerhouse is located along the American River in the City of Folsom and contains the original turbines installed in the 1800s, when high voltage electric power was first sent over transmission lines to downtown Sacramento.

GENERAL FUND REDUCTIONS

In light of the State's current fiscal constraints, the May Revision proposes a \$2.125 million fund shift from the General Fund to the Environmental License Plate Fund for the California Legacy Project and the California Ocean Resources Management Program. The Legacy Project is currently assessing the state's natural resources and habitat and developing a long-term set of priorities and targets for future investment in resource protection, habitat acquisition, and preservation.

California Conservation Corps

2001-02	—
2002-03	-\$7.2 million

GENERAL FUND REDUCTION

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes to reduce \$7.2 million and 10 positions for the Training and Work Program. The total number of corps members will be reduced from approximately 2,150 to 1,725. This reduction will be accomplished through normal attrition; no corps members will be released from the program early.



Energy Resources Conservation and Development Commission

2001-02	—
2002-03	-\$600,000

The May Revision proposes the following reductions:

- ❖ \$600,000 General Fund and 7 positions for power plant siting and certification activities.
- ❖ \$566,000 Local Government Geothermal Resources Development Account for local government geothermal grants and projects. Over the last several months, the price of electricity has fallen significantly. The program relies on royalty payments that are directly tied to the price of electricity. As a result, there is a need to correspondingly reduce program expenditures.

Department of Forestry and Fire Protection

2001-02	\$30 million
2002-03	\$1.5 million

AUGMENTATIONS

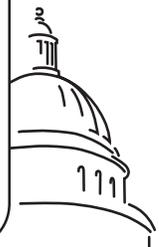
The May Revision proposes the following augmentations:

- ❖ \$30 million in 2001-02 for emergency fire suppression. Total emergency fire suppression costs for 2001-02 are projected to be \$130 million.
- ❖ \$1.5 million in 2002-03 for aircraft pilots and a maintenance services contract. This contract is critical to fire suppression efforts.

State Lands Commission

2001-02	—
2002-03	-\$600,000

The May Revision proposes a reduction of \$600,000 for the Mineral Resources Management and Land Management Programs offset by an increase of \$150,000 reimbursements, for a net reduction of \$450,000.



Wildlife Conservation Board

2001-02	-\$14 million
2002-03	—

GENERAL FUND REDUCTION

Given the State's current fiscal constraints, the May Revision proposes a \$14 million reduction to be offset with Proposition 40 funding for acquisition of sensitive habitat related to the University of Merced Grasslands Project.

California Coastal Commission

2001-02	—
2002-03	-\$1.1 million

GENERAL FUND REDUCTION

The May Revision proposes a \$1.1 million reduction for the Coastal Management Program. Approximately \$9.1 million General Fund and \$5.4 million special funds remain for managing and protecting coastal resources.

Department of Parks and Recreation

2001-02	—
2002-03	\$11.2 million

AUGMENTATIONS

The May Revision proposes the following augmentations:

- ❖ \$8.1 million General Fund and \$901,000 Off Highway Vehicle Trust Fund to implement the Transition Plan for Accessibility in State Parks, pursuant to the Americans with Disabilities Act.
- ❖ \$3.1 million General Fund for public safety and maintenance services to provide immediate public access to four properties in metropolitan Los Angeles: Lower Topanga Canyon, Mulholland Gateway, Cornfields, and Taylor Yards.



Department of Water Resources

2001-02	—
2002-03	-\$31.4 million

The May Revision proposes \$20 million Proposition 13 to provide grants to local agencies for projects that increase flood protection, protect agricultural land, and preserve and enhance wildlife habitat.

In addition, \$31.4 million will be transferred from the State Water Project to the General Fund in settlement funds received from the Independent Systems Operator for power purchased on behalf of investor-owned utilities prior to the Governor's January 2001 Emergency Proclamation.

CALFED Bay-Delta Program

2001-01	—
2002-03	-\$12.9 million

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes a \$12.9 million reduction for various CALFED programs, including Water Use Efficiency, Levees, Watershed, Drinking Water Quality, and Science Programs. However, these reductions will be partially offset by an additional \$11 million Proposition 13 for the CALFED Water Use Efficiency Program, which will provide funding for urban water conservation projects and promote more efficient water management practices.

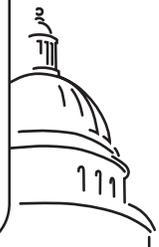
Air Resources Board

2001-02	—
2002-03	-\$9 million

GENERAL FUND REDUCTIONS

In light of the State's current fiscal constraints, the May Revision proposes the following reductions:

- ❖ \$6 million for incentive grants to promote the purchase of electric vehicles.



- ❖ \$3 million for air monitoring programs, leaving approximately \$2 million General Fund and \$10 million special funds to continue air monitoring activities.

Department of Pesticide Regulation

2001-02	—
2002-03	-\$3.4 million

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes a reduction of \$3.4 million and 23 positions from food tolerance assessments, total maximum daily load, toxic air contaminant standards, and pest management grant programs. Approximately \$13.6 million General Fund and \$42.7 million other funds will remain for these programs.

State Water Resources Control Board

2001-02	—
2002-03	-\$6.2 million

GENERAL FUND REDUCTIONS

In light of the State's current fiscal constraints, the May Revision proposes a reduction of \$6.2 million in stormwater contracts related to nonfiler search activities, providing technical and financial assistance to local agencies to facilitate compliance with permits, and promoting best management practices for the control of stormwater pollution.

Department of Toxic Substances Control

2001-02	—
2002-03	(\$15 million)

The May Revision proposes a \$15 million loan from the Hazardous Waste Control Account (HWCA) to the General Fund, to be paid back beginning in 2004-05. The HWCA is used for hazardous waste management activities, including regulation, permitting, and enforcement. These HWCA resources are available because of an unanticipated increase in revenues.



Office of Environmental Health Hazard Assessment

2001-02	—
2002-03	-\$1.4 million

GENERAL FUND REDUCTIONS

Due to the recent steep decline in General Fund revenues, the May Revision proposes a reduction of \$1.4 million and 10.5 positions from scientific literature research, technical services for development of risk assessments, and evaluations of contaminants. Approximately \$12.2 million General Fund and \$3.2 million other funds will remain for these programs.

Public Utilities Commission

2001-02	—
2002-03	\$7.9 million (special fund)

AUGMENTATIONS

The May Revision proposes the following augmentations:

- ❖ \$950,000 Public Utilities Commission Utilities Reimbursement Account (PUCURA) and 10 two-year limited-term positions to conduct rate-setting proceedings for Department of Water Resources energy procurement costs.
- ❖ \$871,000 PUCURA and 11 positions to conduct energy, telecommunications, and water utility audits.
- ❖ \$2,077,000 PUCURA and 19.5 positions to develop power plant performance standards and perform operation and maintenance inspections of facilities, pursuant to Chapter 16, Statutes of 2001, and Chapter 19, Statutes of 2002, both of the Second Extraordinary Session (AB 28XX and SB 39XX, respectively).
- ❖ \$4 million PUCURA to retain legal counsel for continued assistance with Pacific Gas and Electric bankruptcy issues and the Commission’s alternative reorganization plan.



Electricity Oversight Board

<i>2001-02</i>	<i>-\$620,000</i>
<i>2002-03</i>	<i>-\$730,000</i>

GENERAL FUND REDUCTIONS

The May Revision proposes General Fund reductions of \$620,000 in 2001-02 and \$730,000 in 2002-03 for the development and enforcement of power plant operating and maintenance protocols. Chapter 19, Statutes of 2002 of the Second Extraordinary Session (SB 39XX), reassigned most of these responsibilities to the Public Utilities Commission.

Capital Outlay

LEASE REVENUE DEBT COSTS

<i>2001-02</i>	<i>—</i>
<i>2002-03</i>	<i>-\$37.7 million</i>

The May Revision proposes reductions of \$37.7 million General Fund and \$6 million special fund in lease revenue debt costs. These savings result from changes in bond sale schedules and decreases in project costs.

Business, Transportation, and Housing

Department of Housing and Community Development

<i>2001-02</i>	<i>—</i>
<i>2002-03</i>	<i>-\$14.4 million</i>

AUGMENTATION

The May Revision proposes an increase of \$120,000 to redirect three positions on a three-year limited-term basis to perform mobilehome parks inspections.



GENERAL FUND REDUCTIONS

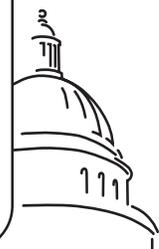
Due to the change in the State's fiscal outlook, the May Revision includes the following reductions:

Farmworker Housing Program—\$8.5 million for the Farmworker Housing program in light of the housing bond placed on the November 2002 ballot pursuant to Chapter 26, Statutes of 2002, which includes funds for this program.

Emergency Housing Assistance Program—\$6 million for the Emergency Housing Assistance Program, leaving \$5.3 million in resources available for this program.

In addition to the reductions above, the May Revision proposes the following transfers, loans, and fund shifts:

- ❖ **Child Care Facilities Financing Program**—An increased transfer of \$1.322 million from the Child Care and Development Facilities Loan Guarantee Fund to the General Fund.
- ❖ **Consolidated Predevelopment Loan Program**—A shift of \$110,000 in funding from the General Fund to the Predevelopment Loan Fund for the Consolidated Predevelopment Loan Program.
- ❖ **Mobilehome Purchase Program**—An increased loan of \$2.1 million from the Mobilehome Purchase Fund to the General Fund.
- ❖ **CalHOME Program**—A transfer of \$5.6 million from the Self-Help Housing Fund to the General Fund. The transferable funds were originally appropriated in the 2000 Budget Act.
- ❖ **Farmworker Housing Program**—A transfer of \$3 million from the Farmworker Housing Grant Fund to the General Fund. The transferable funds were originally appropriated in the 2000 Budget Act.
- ❖ **Interregional Planning Partnership Program**—A transfer of \$1.3 million from the Housing Rehabilitation Loan Fund to the General Fund. The transferable funds were originally appropriated in the 2000 Budget Act.



Department of Real Estate

2001-02	—
2002-03	—

Due to the change in the State's fiscal outlook, the May Revision includes an increased loan of \$1 million from the Real Estate Commissioners Fund to the General Fund.

Department of Transportation

2001-02	—
2002-03	-\$34.5 million

BUDGET ADJUSTMENTS

The May Revision proposes the following adjustments:

Project Delivery Workload—A reduction of \$38.1 million and 550 positions/379.5 personnel years reflecting an adjustment of staffing and related program resources required to deliver projects included in the adopted 2002 State Transportation Improvement Program. The Administration intends to pursue the establishment of additional positions administratively to the extent that viable options are identified for advance delivery that would require additional staffing in the budget year.

Establishment of Transportation Finance Bank Revolving Loan Program—An increase of \$3 million to establish a revolving loan program to provide flexible, short-term financing to public entities and public/private partnerships for the purpose of delivering transportation projects in California.

Extending Highway Work Zone Awareness Campaign—A redirection of \$5 million for one year to continue and expand the multi-lingual media/advertising campaign to increase public awareness of hazards in highway work zones. Caltrans will also analyze existing work zone accident and various cost data to determine whether the campaign has been successful in reducing work zone accidents, claims, litigation, and worker's compensation costs.



BUDGET REDUCTIONS

Due to the change in the State’s fiscal outlook, the May Revision also includes the following:

State Highway Account Loan—A current-year loan of \$50 million from the State Highway Account to the General Fund under Article XIX, Section 6, subdivision (b) (2) of the California Constitution.

Transportation Congestion Relief Fund Loan—An increased loan of \$373 million from the Transportation Congestion Relief Fund to the General Fund. No projects will be delayed as a result of this loan.

SPECIAL TRANSPORTATION PROGRAMS

2001-02	—
2002-03	-\$17.3 million

Statutory Formula Adjustment—The May Revision includes a reduction of \$17.3 million for Special Transportation Programs. This reduction results in a revised funding level of \$98 million, which reflects the statutorily required allocation of the program.

Department of California Highway Patrol

2001-02	—
2002-03	\$3.9 million (special fund)

AUGMENTATIONS

The May Revision proposes the following augmentations from the Motor Vehicle Account in anticipation of reimbursement from federal funds:

Border Security Equipment—An increase of \$3.1 million for the purchase, installation, and operation of nuclear weapon detection devices in order to enhance the security of California, its citizens, and infrastructure. These devices will be installed and operated at a total of eight inspection facilities located on or near the border of the State or at ports of entry that are staffed with California Highway Patrol personnel.



Security Personnel—An increase of \$649,000 for six additional officers to provide the security on and around the Golden Gate Bridge .

The May Revision also includes an increase of \$73,000 to fund a postage increase effective July 1, 2002.

Department of Motor Vehicles

2001-02	—
2002-03	\$3.1 million

The May Revision proposes an increase of \$2.554 million to fund a postage increase effective July 1, 2002.

Technology, Trade and Commerce

2001-02	—
2002-03	-\$17.4 million

GENERAL FUND REDUCTIONS

Due to the change in the State's fiscal outlook, the May Revision includes the following reductions:

Biomass to Energy Grant Program—\$2 million for the Biomass to Energy Grant Program.

Foreign Trade Office Program—\$2 million for the Foreign Trade Office Program.

Manufacturing Technology Program—\$2.7 million for the Manufacturing Technology Program.

Office of Military Base Reuse and Retention—\$1 million for the Office of Military Base Reuse and Retention.

Film Commission—\$300,000 in operating and equipment funding for the Film Commission.

Office of Foreign Investment—\$239,000 for support of the Office of Foreign Investment.



Office of Export Development—\$400,000 for support of the Office of Export Development.

Marketing and Communications Division—\$627,000 for support of the Marketing and Communications Division.

Division of Science, Technology and Innovation—\$803,000 for support of the Division of Science, Technology and Innovation.

Business Development Support—\$538,000 for support of the business development programs.

The May Revision proposes to suspend the following programs until the State's fiscal outlook improves:

Next Generation Internet Centers—A reduction of \$1 million for the Next Generation Internet Centers.

Rural e-Commerce Grant Program—A reduction of \$1 million for the Rural e-Commerce Grant Program.

Space Industry Development Grant Program—A reduction of \$1 million for the Space Industry Development Grant Program.

Additionally, the May Revision proposes to eliminate the following programs:

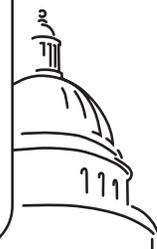
Defense Adjustment Matching Program—A reduction of \$500,000 to reflect the elimination of the Defense Adjustment Matching Program.

Regional Trade Offices—A reduction of \$2.566 million to reflect the elimination of the Regional Trade Offices.

Regulation Review Unit—A reduction of \$89,000 to reflect the elimination of the Regulation Review Unit.

Office of Permit Assistance—A reduction of \$226,000 to reflect the elimination of the Office of Permit Assistance.

Economic Development Support—A reduction of \$448,000 to reflect the elimination of the Economic Development Support Program.



FUND TRANSFERS AND LOANS

The May Revision includes the following transfers and loans to the General Fund:

Small Business Loan Guarantee Fund—A transfer of \$2.7 million from the Small Business Loan Guarantee Fund.

Infrastructure Bank Fund—A transfer of \$8 million from the Infrastructure Bank Fund.

Rural Economic Development Infrastructure Revenue Bond Fund—A transfer of \$8.4 million from the Rural Economic Development Infrastructure Revenue Bond Fund.

Petroleum Underground Storage Tank Financing Account—A loan of \$17 million from the Petroleum Underground Storage Tank Financing Account.

Petroleum Financing Collection Account—A loan of \$1 million from the Petroleum Financing Collection Account.

Local Government

FINANCIAL ASSISTANCE TO LOCAL GOVERNMENTS

2001-02	—
2002-03	-\$38.2 million

Due to the decline in the amount of General Fund resources available, the May Revision eliminates \$38.2 million to cities and special districts for reimbursement of booking fees paid to counties and other cities.

The May Revision also proposes to require multicounty special districts and community redevelopment agencies to pay into the Educational Revenue Augmentation Fund (ERAF). Multicounty special districts would annually pay approximately \$45 million in to the Educational Revenue Augmentation Fund (ERAF) while community redevelopment agencies would pay \$75 million.



Tax Relief

2001-02	—
2002-03	-\$1.305 billion

In light of the State’s current fiscal constraints, the May Revision deletes \$39 million in subventions to local governments for property tax losses incurred by enrolling agricultural land in Williamson Act contracts.

The Administration also proposes to temporarily reduce the Vehicle License Fee (VLF) offset level from 67.5 percent to 25 percent on January 1, 2003. This was the VLF offset level in effect when the Administration took office in 1999. This proposal will result in a General Fund savings of \$1.276 billion in 2002-03 and \$1.1 billion in 2003-04. Local governments would continue to receive their current level of funding.

Judicial Branch

Judiciary

2001-02	—
2002-03	-\$2.8 million

GENERAL FUND REDUCTION

Judiciary Reduction—Due to the decline in available General Fund resources, the May Revision proposes a one-time funding reduction of \$2.8 million for the Judiciary.

State Trial Court Funding

2001-02	—
2002-03	-\$49.6 million

AUGMENTATION

The May Revision proposes \$9.6 million General Fund for increased costs associated with providing security at trial court facilities.



GENERAL FUND REDUCTION

Trial Court Funding Reduction—In light of the State’s current fiscal outlook, the May Revision proposes a one-time reduction of \$59.2 million to the Trial Court Trust Fund with a corresponding \$59.2 million reduction to the General Fund transfer to the Trial Court Trust Fund.

General Government

Department of General Services

<i>2001-02</i>	—
<i>2002-03</i>	<i>\$23,000</i>

AUGMENTATION

The May Revision proposes an augmentation of \$1.5 million General Fund to reflect the transfer of executive information technology funds from the Department of Information Technology to the Department of General Services (DGS).

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes reductions totaling \$1.5 million for DGS, including:

California Portal—\$1.2 million General Fund for operation of the California Portal.

Asbestos Abatement/Underground Storage Tanks—\$300,000 to be allocated by the Department to the Asbestos Abatement Program and the Underground Storage Tank Program.



Department of Consumer Affairs

2001-02	—
2002-03	-\$0.2 million

GENERAL FUND REDUCTIONS

In light of the State's current fiscal constraints, the May Revision proposes a reduction of \$215,000 for the Department of Consumer Affairs' Office of Privacy Protection, Consumer Relations and Outreach Division, and the State Athletic Commission.

Labor and Workforce Development Agency

2001-02	—
2002-03	\$1.8 million

AUGMENTATION

The May Revision proposes a redirection of \$1.8 million (all funds) and 17 positions from the Employment Development Department, the Department of Industrial Relations, and the California Workforce Investment Board to support the operations of the California Labor and Workforce Development Agency, which is proposed to be established pursuant to Governor's Reorganization Plan No. 1 of 2002.

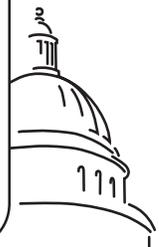
Department of Industrial Relations

2001-02	—
2002-03	-\$2.5 million

AUGMENTATIONS

The May Revision proposes the following increases to the Department of Industrial Relations:

Postal Rate Increase—\$174,000 (\$141,000 General Fund, \$33,000 other funds) to cover the increased postage costs related to the rise in postal rates by the U.S. Postal Service effective July 1, 2002.



AB 749 Base Budget Realignment—A General Fund augmentation of \$563,000, and a corresponding special fund reduction of \$563,000 to realign the base budget for the Commission on Health and Safety and Workers Compensation effective January 1, 2003, pursuant to the provisions of AB 749 (Chapter 6, Statutes of 2002).

GENERAL FUND REDUCTIONS

Due to the decline in available General Fund resources, the May Revision proposes the following reductions:

Divisions of Labor Standards Enforcement and Apprenticeship Standards—\$2 million reflecting the 2001-02 General Fund augmentation to these divisions.

Elevator Inspection Fund Shift—\$1 million, with a corresponding increase of \$1 million Elevator Safety Account to continue the Elevator Safety Inspection Program at the existing level.

Governor’s Office

2001-02	—
2002-03	-\$0.2 million

GENERAL FUND REDUCTION

Due to the change in the State’s fiscal outlook, the May Revision proposes a reduction of \$200,000 for the Governor’s Office, resulting in a reduction of 8.5 percent including the Governor’s Budget and the May Revision.

Lieutenant Governor’s Office

2001-02	—
2002-03	-\$50,000

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes a reduction of \$50,000 for the Lieutenant Governor’s Office, resulting in a reduction of 6.8 percent including the Governor’s Budget and the May Revision.



Secretary of State

2001-02	—
2002-03	-\$950,000

Due to the State’s current fiscal constraints, the May Revision proposes a reduction of \$950,000 from the Secretary of State’s Office and its operations, resulting in a reduction of 7.8 percent including the Governor’s Budget and the May Revision. This reduction is not intended to adversely affect election-related functions and activities.

Department of Insurance

2001-02	—
2002-03	-\$1.8 million

GENERAL FUND REDUCTION

The May Revision proposes a decrease of \$1.8 million General Fund and a corresponding increase of \$1.8 million from the Insurance Fund to reflect a transfer of funding to support the Premium Tax Program.

Office of Emergency Services

2001-02	—
2002-03	-\$5 million

Due to the recent decline in General Fund revenues, the May Revision proposes a reduction of \$5 million from local disaster assistance funding for the Office of Emergency Services.

California Science Center

2001-02	—
2002-03	-\$1.1 million

GENERAL FUND REDUCTIONS

In light of the State’s current fiscal constraints, the May Revision proposes a reduction of \$1.1 million General Fund to be allocated to various programs, including Education, the California African American Museum, and Exposition Park Management.



Office of the State Public Defender

2001-02	—
2002-03	-\$0.3 million

GENERAL FUND REDUCTION

Due to the decline in available General Fund resources, the May Revision proposes a reduction of \$250,000 to reflect the elimination of currently vacant positions.

Office of Planning and Research

2001-02	—
2002-03	-\$0.5 million

GENERAL FUND REDUCTIONS

Due to the change in the State's fiscal outlook, the May Revision proposes reductions totaling \$511,000 for the Office of Planning and Research (OPR), including:

Cesar Chavez Day of Service and Learning Grant Program—\$139,000 for the Cesar Chavez Day of Service and Learning Grant Program.

OPR Support Budget—\$372,000 for the support of OPR and the Governor's Office on Service and Volunteerism.

Military Department

2001-02	—
2002-03	-\$1.8 million

GENERAL FUND REDUCTIONS

Due to the decline in available General Fund resources for 2002-03, the May Revision proposes the following reductions:

- ❖ \$900,000 for the Army National Guard, the Air National Guard, Support to Civil Authority, and the State Military Reserve Programs without any adverse effects relating to preparedness.
- ❖ \$900,000 for the California Cadet Corps and Youth Programs.



In addition, the May Revision proposes a reduction of \$6 million federal funds to reflect the discontinuation of the bridge guarding security mission at four bridges.

Department of Veterans Affairs

HEADQUARTERS

2001-02	—
2002-03	\$0.1 million

The May Revision proposes \$134,000 for an assessment of the changes needed to business processes and to develop an implementation plan, to ensure Department of Veterans Affairs programs are compliant with the federal Health Insurance Portability and Accountability Act.

YOUNTVILLE HOME

2001-02	—
2002-03	\$1.3 million

The May Revision proposes a reduction of \$1.3 million General Fund and a corresponding increase of \$1.3 million federal funds. These changes are due to an increase in the United States Department of Veterans Affairs (USDVA) per diem rate.

BARSTOW HOME

2001-02	—
2002-03	-\$0.5 million

The May Revision proposes a \$533,000 reduction in General Fund, a \$278,000 reduction in reimbursements, and a \$114,000 increase in federal funds. These changes are due to an increase in the USDVA per diem rate and a reduction in the budgeted census level due to a delay in reaching full occupancy at the Home, as well as minor adjustments to lease revenue.



CHULA VISTA HOME

2001-02	—
2002-03	-\$0.9 million

The May Revision proposes a \$867,000 reduction in General Fund, a \$290,000 reduction in Reimbursements, and a \$398,000 increase in federal funds. These changes are due to an increase in the USDVA per diem rate and a reduction in the budgeted census level due to a delay in reaching full occupancy at the Home.

Department of Information Technology

2001-02	—
2002-03	-\$2.8 million

GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes a reduction of \$2.8 million for the Department of Information Technology. Of this amount, \$1.5 million will be transferred to the Department of General Services to provide funding for executive information technology services. The Administration intends to work with the Legislature to restructure state information technology governance and oversight functions.

Agricultural Labor Relations Board

2001-02	—
2002-03	-\$0.5 million

Due to the State's current General Fund constraints, the May Revision proposes a reduction of \$519,000 for the Agricultural Labor Relations Board.

Workers' Compensation Benefit Program

2001-02	—
2002-03	-\$1 million



GENERAL FUND REDUCTIONS

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes a reduction of \$1 million for this program, with a corresponding increase of \$1 million from the Subsequent Injuries Moneys Account.

California Arts Council

2001-02	—
2002-03	-\$16.3 million

GENERAL FUND REDUCTIONS

Due to the change in the State’s fiscal outlook, the May Revision proposes reductions totaling \$16.3 million for the California Arts Council, including:

State Operations—\$1.1 million for state operations, leaving \$1.5 million to administer remaining grant programs.

Local Assistance—\$15.1 million for local assistance projects and grant programs, which will leave \$6 million for the Arts in Education Program, \$5 million for Organizational Support Grants, and \$2 million for the Tools for Tolerance Program at the Simon Wiesenthal Center.

Department of Food & Agriculture

2001-02	—
2002-03	-\$7.1 million

GENERAL FUND REDUCTIONS

Due to the recent decline in General Fund revenues, the May Revision proposes reductions totaling \$7.1 million for the Department of Food and Agriculture, including:

Measurement Standards—\$180,000 for the Measurement Standards Program.

Plant Pest Diagnostic Lab Program—\$580,000 for the Plant Pest Diagnostic Lab Program.

Buy California—\$3 million for the Buy California Program.



General Agricultural Activities—\$800,000 for market and commodities research.

Wildlife Services and Nuisance Control—\$983,000 for the Wildlife Services and Nuisance Control Program.

Pierce’s Disease Management and Control—\$1.57 million for the Pierce’s Disease Program and related state operations.

Reimbursable State Mandates Program

2001-02	-\$30 million
2002-03	-\$216.1 million

Due to the lower level of General Fund resources available for 2002-03, the May Revision proposes a reduction of \$168.3 million to reflect the suspension of payment for various reimbursable state mandate claims received by the State.

An amendment to Section 11.80 of the 2002-03 Budget Bill is proposed to reflect the removal of a set-aside amount of \$30 million to address potential deficiencies in mandate appropriations for the 2002-03 fiscal year. In addition, the Department of Finance will not be allocating the \$30 million set-aside pursuant to Section 11.80 of the 2001 Budget Act (Chapter 106, Statutes of 2001) for deficiencies in mandates from prior-year appropriations, providing a savings of \$30 million in 2001-02.

Finally, budget bill language is proposed to authorize the reversion in existing balances for various past-year mandate appropriations to retain savings of funds that have not yet been expended to pay local mandate claims, resulting in a savings of \$17.8 million for 2002-03.

Franchise Tax Board

2001-02	—
2002-03	\$9.352 million

Due to the change in the State’s fiscal outlook, the May Revision proposes the following:

- ❖ Increasing the settlement program by four positions and \$520,000 to reduce the backlog in the Franchise Tax Board’s (FTB’s) settlement program.
- ❖ Increasing collections staff by 51 positions and \$3.78 million to increase the FTB’s tax collection activities.



- ❖ Adding 41 positions and \$3.289 million to allow the FTB to waive penalties and interest on delinquent accounts.
- ❖ Adding two positions and \$260,000 to accelerate the completion of protested tax appeals.
- ❖ Providing 14 positions and \$799,000 to expand the Integrated Non-Filer Compliance (INC) Project.

State Retirement Contributions

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

2001-02	—
2002-03	\$75.9 million

State Employer Retirement Contribution Rates

As a result of CalPERS' June 30, 2001 actuarial valuation of the retirement system, the State's 2002-03 obligation to CalPERS is estimated to increase by \$75.9 million General Fund (\$154.5 million total funds) from the Governor's Budget. As the General Fund payment to CalPERS is made on a quarterly basis, one quarter in arrears, the total General Fund payment for 2002-03 will be \$583.8 million.

STATE TEACHERS' RETIREMENT SYSTEM (STRS)

2001-02	—
2002-03	\$42.7 million

General Fund contributions to STRS will increase by \$42.7 million for 2002-03 (from \$932.8 million to \$975.5 million). This is due to a higher-than-anticipated increase in the 2001 calendar year teacher payroll base, which is the basis for the statutory formula.



Health and Dental Benefits for Annuitants

2001-02	-\$27.6 million
2002-03	\$23 million

The May Revision includes an increase of \$23 million General Fund (from \$553.6 million to \$576.6 million) for annuitant health and dental benefits in 2002-03 due primarily to health premium increases. In addition, a decrease of approximately \$27.6 million General Fund in the current year is reflected due to lower-than-anticipated health benefit expenditures as a result of lower enrollment.

Employee Compensation

2001-02	—
2002-03	\$54.5 million

The Administration has successfully negotiated Memoranda of Understanding (MOUs) with 19 of the 21 Collective Bargaining Units (Units). Of the 19 MOUs, 15 have been ratified and 4 are awaiting ratification by either the membership of the Units, the Legislature, or both. The Administration continues to negotiate with the 2 Units without MOUs. Generally, for excluded employees, the Administration authorized salary and benefit adjustments similar to those provided to corresponding represented employees.

The May Revision includes \$89.5 million (\$54.5 million General Fund) for employee compensation over the amount included in the Governor's Budget. The additional employee compensation costs are primarily the result of significant increases in health benefit premiums, since, generally, the employer's maximum monthly health benefit contribution will increase to absorb two-thirds of the weighted average premium increase of health maintenance organizations effective January 2003. Additionally, there are increased costs resulting from the four collective bargaining agreements recently adopted.



Other General Fund Adjustments

The May Revision also includes the following General Fund adjustments:

Control Section 4.20—Reduction in Health Benefits Administrative Fee

- ❖ \$2.7 million in General Fund savings from a one-time reduction in the health benefit administrative fee paid to the California Public Employees' Retirement System (CalPERS).

Control Section 3.80—Premium Offset for Employer-paid Life Insurance

- ❖ \$827,000 in General Fund savings as a result of a one-time offset for employer-paid life insurance premiums. The demutualization proceeds received from the State's carrier for employee life insurance will provide the offset.

DEPARTMENT OF PERSONNEL ADMINISTRATION

- ❖ \$149,000 General Fund augmentation and one position to address the increased collective bargaining workload.
- ❖ \$1.8 million General Fund reduction for the Rural Health Care Equity Program. This adjustment reflects the anticipated decrease in the number of State employees and annuitants without access to a CalPERS contracted Health Maintenance Organization, beginning January 2003.

Statewide Issues

Significant Federal Funding Adjustments

The May Revision updates several of the federal funding increase proposals contained in the Governor's Budget, as follows:

Medi-Cal Offset—Congress is currently considering multiple proposals and legislative vehicles to address states' needs for Federal Medical Assistance Percentage (FMAP) funding relief. Thus, \$400 million in additional federal relief is anticipated in 2002-03 rather than in 2001-02 as proposed in the Governor's Budget.



Child Support System Penalty Relief—The Governor’s Budget assumed that California would receive a waiver of federal penalties imposed due to delayed implementation of a statewide automated child support system, for an estimated \$181.3 million in General Fund savings. The May Revision anticipates federal legislation will be enacted to provide approximately one-half the relief, resulting in relief of only \$89.7 million. The penalty will be shared between the State General Fund (\$44.9 million) and counties (\$44.8 million).

Food Stamps for Legal Immigrants—The May Revision includes an increase of \$92.2 million General Fund for the California Food Assistance Program (CFAP), to reflect the delayed restoration of federal Food Stamp eligibility for a limited number of recipients in the budget year. However, the net General Fund impact of the delay will be substantially less than this amount due to the fact that a share of these costs are countable towards the State’s CalWORKs maintenance-of-effort requirement.

Bridge Security—Responsibility for protecting the state’s bridges will be shifting from the National Guard to the California Highway Patrol. The May Revision includes an increase of six officers to provide a level of security, specifically for the Golden Gate Bridge, above that proposed in the Governor’s Budget. While the receipt of federal funds for these activities in 2002-03 is still expected, the expenditure of funds for these activities is proposed from the Motor Vehicle Account, to be repaid by the subsequent receipt of federal funds.

Furthermore, the events of September 11th prompted calls for greater security on the state’s heavily used toll bridges and major non-toll bridges in San Diego, Long Beach, and the San Francisco Bay Area. The Budget includes \$24.2 million to install 276 new cameras, associated communications, and monitoring stations on these bridges. State Highway Operations and Protection Program funds have been used to pay these one-time costs. However, it is anticipated that federal funds will be received to offset these costs. An April 1 Finance Letter included \$755,000 in ongoing federal funds to maintain this bridge security system.

Controlling the Growth of State Government

In spring 2000, the Administration moved aggressively to control the growth of State government by eliminating 3,500 excess vacant positions. Subsequently, the Administration continued this effort by eliminating an additional 600 positions in 2000-01 and 2,500 positions in 2001-02. The Administration now proposes in the May Revision to eliminate an additional 4,000 positions, for a total of over 10,000 positions eliminated, to further constrain the growth of the State bureau-



cracy and ensure funds are not budgeted for unnecessary positions in the future. These reductions will be specified by departments in detailed plans to be submitted to the Director of Finance by July 1, 2002.

Eliminating Excess Vacant Positions

In July 2000, Section 12439 of the Government Code was amended to require the State Controller to abolish positions that are vacant continuously for six consecutive pay periods during a fiscal year. The Bureau of State Audits recently released a report suggesting that some departments may be transmitting inappropriate personnel transactions to the State Controller in order to circumvent the provisions of Section 12439. The Administration proposes substantial amendments to Government Code Section 12439 to prohibit departments from circumventing its provisions and to direct the State Controller to abolish positions continuously vacant for six months even when the period of vacancy crosses fiscal years. The amendments will also clarify the conditions under which some continuously vacant positions should not be abolished. These changes will permit the Administration and the Legislature to more easily identify and eliminate unnecessary positions.

General Obligation Bonds and Commercial Paper Debt Service

2001-02	-\$14.6 million
2002-03	\$11.7 million

Current Year

The Governor’s Budget anticipated current year General Obligation (GO) bond debt service expenditures of approximately \$2.541 billion. A Finance Letter dated February 14, 2002, reduced debt service by \$223 million to reflect the State Treasurer’s debt restructuring plan for fiscal year 2001-02. In addition, to reflect savings from Commercial Paper costs, accrued interest, and premiums from bond sales that occurred in November 2001 and February and April 2002, there will be additional savings of \$14.6 million in the current year.

Budget Year

The Governor’s Budget anticipated budget year GO bond debt service expenditures of approximately \$2.572 billion. A Finance Letter dated February 14, 2002, reduced debt service by \$859.8 million to reflect the State Treasurer’s debt restructuring plan for fiscal year 2002-03. Additionally, there will be a net increase of \$11.7 million in the budget year due primarily to increased Commercial Paper costs and an increase in the sales volume for fixed rate bonds in the fall of 2002. The increased costs will



be partially offset by lower than estimated interest costs for the spring 2002 sales and a reduction in the sales volume for variable rate bonds in the fall of 2002 and spring of 2003.

The net General Fund decrease will be \$2.9 million over the two fiscal years.

Statewide Software Licenses

The May Revision proposes adding Control Section 11.10 to the budget. This control section requires the Department of Finance to notify the Legislature before a department enters into or amends a statewide software license contract where the value of the contract or amendment is greater than \$1.5 million. Departments are required to prepare a business case review for statewide software license purchases and submit the business case to the Department of Finance and the Department of Information Technology for review and approval.

2002-03 State Appropriations Limit Calculation

Pursuant to Article XIII B of the California Constitution, the 2002-03 State Appropriations Limit (SAL) is estimated to be \$59.591 billion. The revised limit is the result of applying the growth factor of 0.46 percent. The revised 2002-03 limit is \$1.092 billion above the \$58.499 billion estimated in January. This increase is due to changes in the following factors:

	January Percentage	May Revision Percentage
Per Capita Personal Income	-3.01	-1.27
State Civilian Population	1.89	1.83
K-14 Average Daily Attendance	1.37	1.63

The SAL for 2001-02 does not change since it was statutorily established by Section 12.00 of the 2001 Budget Act.



Payment of Interest on General Fund Loans

2001-02	-\$10 million
2002-03	\$254 million

Current Year

The Governor's Budget anticipated the interest cost on internal borrowing to be \$30 million General Fund. Based upon actual costs through mid-April and anticipated costs through the end of the fiscal year, the May Revision estimates the interest cost on internal borrowing to be \$20 million.

The Governor's Budget included \$95 million for interest cost on external borrowing. There is no change to the interest cost on external borrowing for 2001-02. The Revenue Anticipation Notes were sold at a cost of \$95 million. The total 2001-02 General Fund savings are \$10 million.

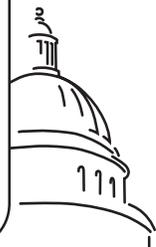
Budget Year

The Governor's Budget anticipated the interest cost on internal borrowing to be \$50 million General Fund. The May Revision continues this assumption.

The Governor's Budget anticipated the interest cost on external borrowing to be \$56 million General Fund. This estimate was based upon the assumption that \$2.5 billion Revenue Anticipation Notes (RANs) would be issued in October 2002 and redeemed in June 2003.

The Administration has been monitoring the State's cash condition closely with the State Controller's Office and the State Treasurer's Office. On April 25, 2002, the Governor approved the Controller's request to establish the General Cash Revolving Fund, the initial step necessary to issue Revenue Anticipation Warrants (RAWs). The Controller is anticipated to sell \$7.5 billion of RAWs in June 2002. The structure and maturity date(s) of RAWs and the sizing of RANs to be issued in 2002-03, if needed, have not been determined yet. Based upon the above, the revised estimate for external borrowing costs is \$310 million, or an increase of \$254 million. The estimate should be sufficient to cover the interest cost of RAWs and RANs, if needed, and any credit enhancement that may be required.

The May Revision estimates are preliminary pending completion of cash flow projections. The need for internal and/or external borrowing will ultimately be based on the cash flow projection for the Budget Act together with new information when available, rather than the May Revision or the Governor's Budget.

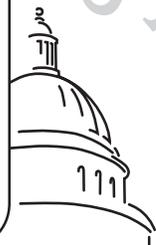


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**2002-03 May Revision
General Fund
Budget Summary
(Dollars in Millions)**

	<u>2001-02</u>	<u>2002-03</u>
Prior Year Balance	\$2,986	-\$123
Revenues and Transfers	<u>\$73,775</u>	<u>\$78,603</u>
Total Resources Available	\$76,761	\$78,480
Expenditures	<u>\$76,884</u>	<u>\$76,491</u>
Fund Balance	-\$123	\$1,989
Budget Reserves		
Reserve for Liquidation of Encumbrances	\$1,473	\$1,473
Special Fund for Economic Uncertainties	-\$1,596	\$516

Summary Charts



2002-03 Revenue Sources
(Dollars in millions)

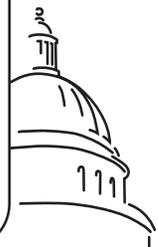
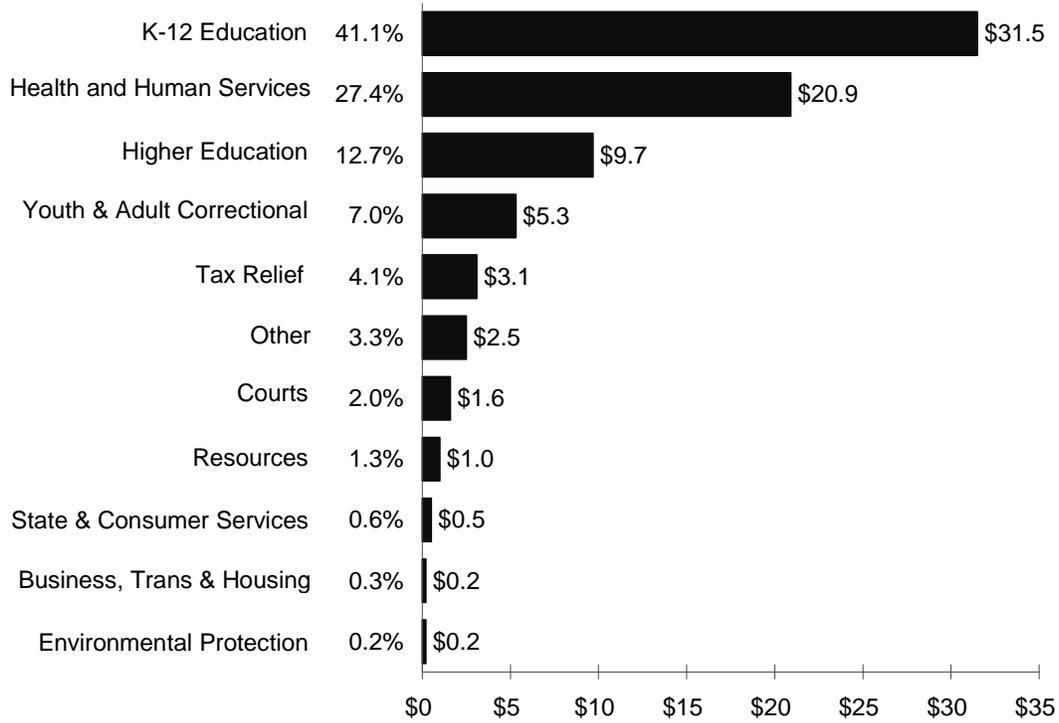
	General Fund	Special Fund
Personal Income Tax	\$37,057	--
Sales Tax	22,958	\$2,516
Corporation Tax	7,297	--
Highway Users Taxes	--	3,244
Motor Vehicle Fees	26	5,181
Insurance Tax	1,759	--
Estate Taxes	646	--
Liquor Tax	288	--
Tobacco Taxes	596	941
Other	<u>7,976</u>	<u>4,458</u>
Total	\$78,603	\$16,340

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

	2001-02	2002-03
Legislative, Judicial, Executive	\$2,659	\$2,523
State and Consumer Services	714	471
Business, Transportation & Housing	645	223
Technology, Trade, and Commerce	74	54
Resources	1,545	965
Environmental Protection	436	179
Health and Human Services	22,103	20,934
Youth and Adult Correctional	5,544	5,339
K-12 Education	30,015	31,454
Higher Education	9,778	9,720
General Government/Tax Relief	<u>3,371</u>	<u>4,629</u>
Total	\$76,884	\$76,491



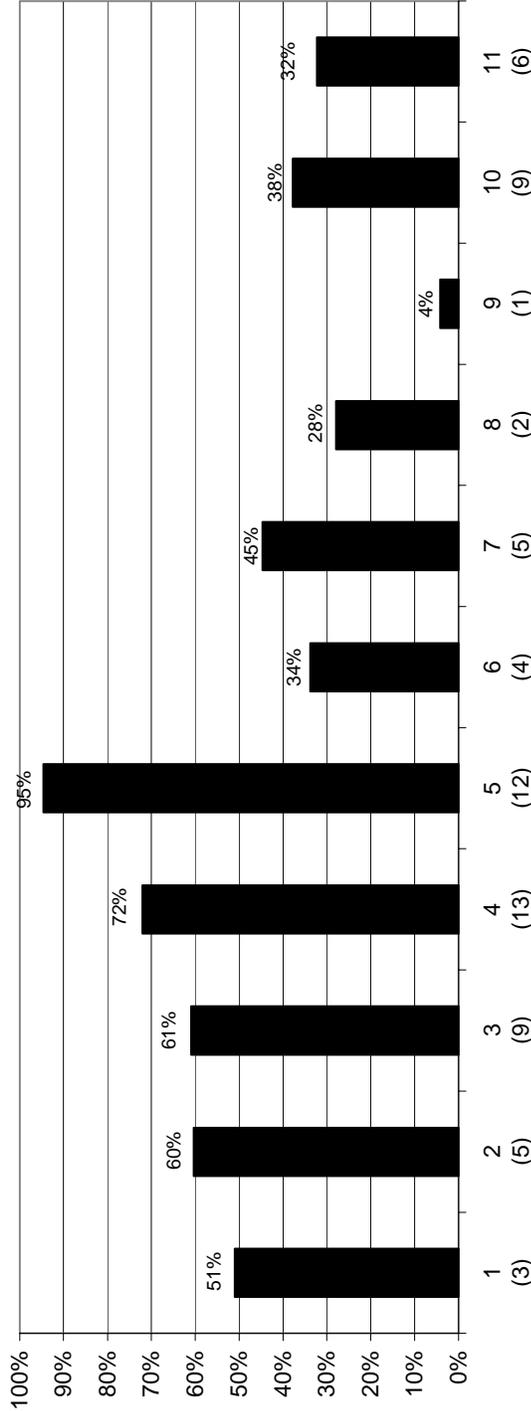
**2002-03 General Fund Expenditures
(Dollars in Billions)**





General Fund Expenditure Growth Comparison Since 1959 in Four-Year Increments

(The parenthetical number beneath each bar represents the number of times faster GF expenditures grew compared to population during each four-year period.)



- 1. 1958-59 (\$1.2 to 1962-63 (\$1.9)
- 2. 1962-63 (\$1.9 to 1966-67 (\$3.0)
- 3. 1966-67 (\$3.0 to 1970-71 (\$4.9)
- 4. 1970-71 (\$4.9 to 1974-75 (\$8.3)
- 5. 1974-75 (\$8.3 to 1978-79 (\$16.3)
- 6. 1978-79 (\$16.3 to 1982-83 (\$21.8)
- 7. 1982-83 (\$21.8 to 1986-87 (\$31.5)
- 8. 1986-87 (\$31.5 to 1990-91 (\$40.3)
- 9. 1990-91 (\$40.3 to 1994-95 (\$42.0)
- 10. 1994-95 (\$42.0 to 1998-99 (\$57.8)
- 11. 1998-99 (\$57.8 to 2002-03 (\$76.5)

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