



GOVERNOR'S
Budget
Highlights
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Gray Davis, Governor
State of California

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OVERVIEW

The U.S. and California economies are taking longer than expected to recover from the current downturn, and the stock market has lost a considerable amount of ground since midyear. This has resulted in a significant downward revision in State revenues. General Fund revenues from the major tax sources are expected to fall to \$65.8 billion in 2003-04—far below the level of income the State expected to receive in the budget year as recently as the 2002-03 May Revision. This decline is by far the most dramatic loss of revenues California has experienced since World War II. This delay in the economic recovery has resulted in a budget shortfall in the current year and budget year totaling \$34.6 billion.

The Governor's Budget presents a balanced spending plan for the 2003-04 fiscal year and simultaneously calls for structural reform to enable California to meet its future physical infrastructure and human resources demands.

Resolving the Immediate Fiscal Crisis—The 2003-04 Budget closes the \$34.6 billion budget gap and reflects five key elements:

- ◆ It is balanced, whereby expenditures match available revenues.



- ◆ It includes difficult, but balanced decisions that are comprised of cuts/savings, State-local program realignment with dedicated revenue sources, fund shifts, transfers/other revenue, and loans/borrowing.
- ◆ It includes revenue increases only for local government. There are no tax increases for State government in this Budget.
- ◆ It contains a \$531 million reserve.
- ◆ It substantially eliminates the anticipated \$12 billion structural shortfall between revenues and expenditures in 2003-04.

Ensuring California's Long-Term Fiscal Integrity—This Budget calls for the development of a new fiscal blueprint for California's future:

- ◆ It calls Californians to action to reform both our existing revenue and expenditure policies to enable the State to provide for the needs of its citizens in the future, especially during periods of economic downturns.
- ◆ It seeks structural reform in State and local governance and finance to achieve more rational and responsive service delivery systems.
- ◆ It proposes restoration of Executive Branch authority to make mid-year adjustments to the budget when revenues fall significantly below budgeted forecasts.
- ◆ It urges the creation of a special budget reserve for proceeds from extraordinary revenue growth to be used for one-time expenditures.



Primary Features of the 2003-04 Governor's Budget

A Balanced Approach—This Budget contains substantial reductions in spending, increases revenues for local governments to preserve key programs pursuant to the State-Local Program Realignment, relies little on loans and borrowing, and spreads program reductions across all areas of State government.

Key Priorities Protected—With a shortfall of this magnitude, no area of the Budget can be held harmless. However, the Budget minimizes the impact of reductions to the greatest degree possible in several key program areas:

- ◆ **K-12 Education**—Education remains this Administration's first priority. Reductions to K-12 education account for 23.9 percent of all solutions to close the budget gap — significantly less than its proportionate share of General Fund spending (40.1 percent).
- ◆ **Health Coverage for Children**—This Budget protects funding to ensure every eligible child gets health coverage under the Healthy Families and Medi-Cal for Children programs and continues to expand efforts that streamline the enrollment process.
- ◆ **Public Safety**—This Budget protects key public safety programs, including enhanced security measures enacted after September 11, 2001, the Citizens' Option for Public



Safety, Juvenile Crime Prevention, Technology Funding for Local Law Enforcement, and the Rural and Small County Law Enforcement Assistance programs.

- ◆ **Environmental Protection**—This Budget continues funding of critical environmental programs by using bond funds, thereby reducing General Fund costs in 2003-04. This Budget also expands the principle of “polluter pays” by shifting the funding source for several enforcement and regulatory programs to fees paid by the regulated industries.

Clear Policy Choices—This Budget targets most reductions to specific programs, and in some cases, eliminates programs altogether where reduced levels of funding will render those programs ineffective.

All Tax Increases Go to Local Governments—This Budget contains no general tax increases for State government. Rather, this Budget increases taxes to preserve critical programs that are proposed to be realigned to local governments, including those serving our senior citizens and children and youth. These programs would be subject to significant reductions if they continued to be supported by the State General Fund.

Structural Reform—This Budget calls for action on key reform proposals to develop a new fiscal blueprint for California. These reform measures, among other things, must address an outdated revenue structure, an over-reliance on volatile revenue sources, and changes to statutory spending policies.



**Addressing A \$34.6 Billion Budget Gap:
Administration Takes Early Action**

- ◆ Governor submits 2002-03 Mid-Year Spending Reduction Proposals totaling \$10.2 billion to the Legislature in December 2002.
- ◆ Governor calls the Legislature into Extraordinary Session beginning December 9, 2002, to facilitate prompt action on these proposals.
- ◆ Administration directs state departments to freeze current-year spending, identify General Fund savings, and reduce expenditures.
- ◆ Since the beginning of this Administration's first term, more than 12,600 vacant state positions have been eliminated.



BRIDGING THE GAP

The delay in the national and California economic recoveries is projected to result in a budget shortfall in the current year and budget year combined of \$34.6 billion. This funding gap is calculated by comparing the total revenues expected to be received by the State with the cost of providing current services pursuant to existing statute and reflecting changes in caseload, enrollment, and population.

For the second year in a row, the Governor proposed significant mid-year budget actions to help close the budget gap. The total savings of \$10.2 billion associated with the 2002-03 Mid-Year Spending Reduction Proposals are comprised of cuts/savings, State-local realignment, fund shifts, transfers/other revenues, and loans/borrowing.

To close the balance of the \$34.6 billion budget gap, the 2003-04 Governor's Budget proposes additional budget measures totaling \$24.4 billion. Figure 1 outlines the measures comprising the overall solution to closing the entire \$34.6 billion shortfall.



FIGURE-1

Addressing the Overall \$34.6 billion Gap

(Dollars in millions)

	<u>December Revision</u>	<u>Additional Measures</u>	<u>Total</u>	<u>%</u>
Cuts/Savings	\$8,966.4*	\$11,761.9	\$20,728.3	59.9%
State-Local Realignments	191.6*	7,962.4	8,154.0	23.6%
Fund Shifts	815.6	1,087.1	1,902.7	5.5%
Transfers/Other Revenue	199.7*	1,914.6	2,114.3	6.1%
Loans/Borrowing	25.4	1,657.9	1,683.3	4.9%
Totals	\$10,198.7	\$24,383.9	\$34,582.6	100.0%

*\$500 million property tax from Redevelopment Agencies was classified as "Other Revenue" in the Mid-Year Spending Reduction Proposals plan. It is now used to offset Proposition 98 expenditures (as cuts/savings).

**\$191.6 million of Proposition 98 CalWORKs Stage 3 elimination was classified as "Cuts/Savings" in the Mid-Year Spending Reduction Proposals plan. This amount is currently part of the State-local realignment package.



PRESERVING CRITICAL PROGRAMS

Faced with a \$34.6 billion budget gap, the State has an opportunity to build upon the success of the 1991 State-Local Program Realignment. The 2003-04 Governor's Budget reflects the Administration's commitment to preserving some very critical programs by not reducing their funding levels, either transferring responsibility or changing the State-local cost-sharing ratios for them, and dedicating a revenue stream to support the resulting additional local financial obligations. The costs of the programs proposed to be realigned and the dedicated revenue stream, outlined below, totals approximately \$8.3 billion. Realignment of these programs will result in General Fund savings of \$8.2 billion.

Mental Health and Substance Abuse—Consistent with the realignment of community mental health programs in 1991, the Budget proposes to transfer responsibility for the Integrated Services for Homeless Adults and Children's Systems of Care programs from the State to the counties. Additionally, the Budget reflects the shift of alcohol and drug programs to the counties. The transfer of these programs will result in General Fund relief totaling \$306 million.



Children and Youth—The Budget proposes to shift responsibility for the child care programs currently administered by the Department of Education to the counties, and transfer 100 percent of the nonfederal share-of-costs to the counties for the Child Welfare Services, Adoptions Assistance, and Foster Care programs. This will result in General Fund relief totaling \$2.307 billion.

Healthy Communities—The Budget reflects the transfer of responsibility for certain health and social services programs to the counties as well as a 15 percent and 50 percent share-of-cost for Medi-Cal and CalWORKS-related programs, respectively, resulting in General Fund relief totaling \$2.671 billion.

Specific programs under this proposal include Expanded Access to Primary Care, Grants in Aid for Clinics, Indian Health, Rural Health Services Development, Seasonal Agricultural/Migratory Workers, Black Infant Health, Local Maternal and Child Health, Adolescent Family Life, County Health Managed Care, California Healthcare for Indigents, Rural Health Services, Public Health Subvention, Adult Protective Services, Cash Assistance Program for Immigrants, California Food Assistance, Medi-Cal, and CalWORKS.

Long-Term Care—The Budget shifts responsibility for 100 percent of the nonfederal share of In-Home Supportive Services program costs to the counties as well as 100 percent of the nonfederal share of Medi-Cal long-term care costs. This will result in General Fund relief totaling \$2.571 billion.

Court Security—The Budget provides an alternative funding source to support the security needs of the local trial courts. This would result in General Fund relief totaling \$300 million.



Dedicated Revenue Stream for Realignment—The Budget includes the following revenue increases totaling \$8.334 billion to support the additional financial obligations for counties under realignment, provide an alternative funding source for court security, and backfill lost cigarette tax revenues resulting from the proposed cigarette excise tax increase that otherwise would be available pursuant to the provisions of Proposition 10, Proposition 99, and the Breast Cancer Fund program statute. Proceeds from these revenue increases will be deposited into the newly established Enhanced State and Local Realignment Fund for allocation to counties and relevant State departments and funds.

Increase sales tax rate by one cent	\$4.58 billion
Add 10 percent and 11 percent personal income tax brackets	\$2.58 billion
Increase excise tax by \$1.10 on cigarettes and tobacco products	\$1.17 billion
Total:	\$8.33 billion

Principles of State-Local Program Realignment

Consistent with the 1991 State-Local Program Realignment, the program realignment proposed in this Budget adheres to one or more of the following principles:

- ◆ Assignment of program responsibility should be made to the most appropriate level of government—State or local. Under this principle, programs that accrue primarily local benefits and result in cost savings to local governments should be administered locally.



- ◆ Assignment of program responsibility should be made to the governmental entity where the service is currently provided. Transfers of programs currently administered by the counties minimize implementation hurdles because program administration infrastructures already exist locally.
- ◆ Realignment should result in improved service delivery, with broad discretion given to the responsible entity. The entity responsible for defining eligibility and service levels is in the best position to foster innovation.
- ◆ Revising State-local sharing ratios and sharing the financial obligation for program costs should produce fiscal incentives to encourage the most cost-effective approaches for addressing program needs.
- ◆ Identified funding sources should accompany realigned programs to the responsible entity. A dedicated revenue stream provides greater funding stability with no reliance on annual legislative appropriations.



**State-Local Realignment**

(Dollars in Millions)

Department	Program	GF Savings	Cost to Counties
Mental Health and Substance Abuse			
DADP	Local Programs	\$219	\$219
DADP	Drug Courts/State Operations	12	11
DMH	Children's System of Care/State Operations	20	20
DMH	Integrated Services For Homeless/State Operations	55	55
	Mental Health and Substance Abuse Total	\$306	\$305
Children and Youth			
DSS	Child Abuse Prevention, Intervention, and Treatment	\$13	\$13
DSS	Foster Care Grants	460	460
DSS	Foster Care Administration	34	34
DSS	Child Welfare Services	596	596
DSS	Adoption Assistance	217	217
DSS	Kin-GAP	19	19
SDE	Child Care	968	1,031
	Children and Youth Total	\$2,307	\$2,370
Healthy Communities			
DHS	15 Percent County Share of Medi-Cal Benefits Costs	\$1,620	\$1,620
DHS	Adolescent Family Life Program	14	14
DHS	Black Infant Health Program	4	4
DHS	Local Health Department Maternal and Child Health (MCH) Program	3	3
DHS	Expanded Access to Primary Care (EAPC)	24	24
DHS	Indian Health Program (IHP)	7	7
DHS	Rural Health Services Development Program (RHSD) and Grants in Aid (GIA) for Clinics Program	9	9
DHS	Seasonal Agricultural and Migratory Workers (SAMW) Program	7	7
DHS	Managed Care Counties		(0.9)
DHS	California Health Care for Indigents (CHIP)		(46.2)
DHS	Rural Health Services		(4.4)
DHS	County Health Services Public Health Subvention	1	1
DHS	Reductions to Rural Health Care and MCH State Operations	2	
DSS	Cash Assistance Program for Immigrants	95	95
DSS	Adult Protective Services	61	61
DSS	California Food Assistance Program	15	15
DSS	Food Stamp Administration	268	268
DSS	CalWORKs Administration	120	120
DSS	CalWORKs Employment Services	423	423
	Cost of Prop 99-funded Programs		58
	Healthy Communities Total	\$2,671	\$2,727
Long-Term Care			
DHS	Realign Medi-Cal Long-Term Care	\$1,400	\$1,400
DSS	In-Home Supportive Services	1,086	1,086
DSS	In-Home Supportive Services Administration	85	85
	Long-Term Care Total	\$2,571	\$2,571
Court Security			
Trial Courts	Court Security	<u>\$300</u>	<u>\$300</u>
	Total Realignment	\$8,154	\$8,273



K-12 EDUCATION

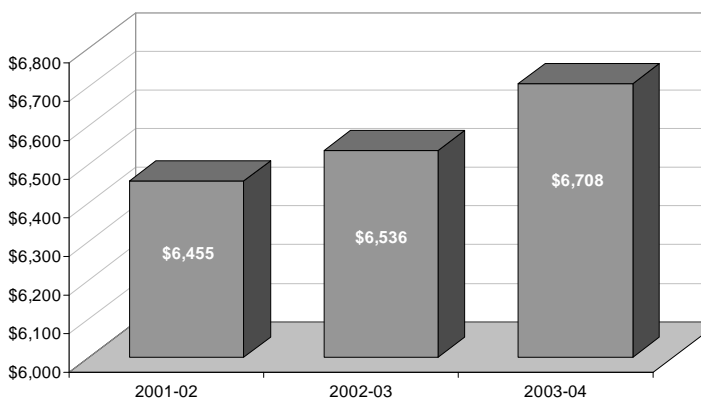
Overview

Despite the fiscal challenge facing California, the K-12 education budget preserves core instructional programs and key reforms and adheres to the Proposition 98 funding requirements. Thus, California's public schools continue to receive the resources to provide more than 6.2 million pupils a high quality education and the tools to meet California's world-class standards. The significant drop in General Fund revenues as a result of the delayed economic recovery requires that funding be reduced, even in the highest priority programs. The funding formula for Proposition 98 recognizes this by providing that the guarantee reflect changes in General Fund revenue growth.

While recognizing that reducing expenditures will be a challenge for the schools, it is important to note that significant improvements in funding and school performance have been made in recent years and that much of that effort can be preserved and built upon.



Proposition 98 K-12 Per Pupil Funding



Adjusted for a comparison to the Child Care Realignment Proposal in 2003-04.

- ◆ Total 2003-04 K-12 funding from all sources is now \$53.0 billion, a \$496.8 million decrease from 2002-03 and a \$12.6 billion increase over the 1998-99 level. The most significant reason for the decline in year-over-year total funding is a one-time suspension of State Teachers' Retirement System contributions.
- ◆ Total 2003-04 per-pupil expenditures from all sources are \$8,899, down \$173 from 2002-03 and up \$1,556 from the 1998-99 level.
- ◆ Proposition 98 per-pupil spending for the budget year will increase to \$6,708, which is \$172 over the 2002-03 level and \$1,066 over the 1998-99 level, approximately a 3.8 percent average annual increase over the course of this Administration.



- ◆ Total Proposition 98 support for K-12 education will increase by over \$1.4 billion in 2003-04, to \$39.9 billion. This represents a 28.8 percent increase (\$8.9 billion) from the 1998-99 level.

K-12 Cost Increases

Enrollment Growth—Attendance growth in public schools continues to be relatively low, primarily due to steady declines in birth rates beginning in the early 1990s. For the current year, total K-12 Average Daily Attendance (ADA) is estimated to be 5,895,275. This reflects an increase of 1.48 percent over the 2001-02 fiscal year. For the budget year, total K-12 ADA is estimated to be 5,954,154, or 1.00 percent over the current year.

Apportionment Growth—Statutory enrollment growth funding of \$358.7 million for school district and county offices of education apportionments (\$321.5 million) and special education (\$37.2 million) is fully funded. This reflects the Administration's goal of preserving core K-12 services even in the midst of the current budget shortfall.

Public Employees' Retirement System (PERS)—The Budget fully funds the estimated \$381.7 million increase in the PERS school employer contribution rate. Failure to fund this increase would effectively reduce existing funding for school districts and county offices of education.

Unemployment Insurance—The Budget provides full funding for the estimated \$35.2 million increase in local education agency Unemployment Insurance (UI) reimbursements. This increase is attributable to a doubling of the UI rate.



Equalization—The Budget provides funding of \$250 million for school district revenue limit equalization. This represents an increase of \$47 million over the amount appropriated in Chapter 1167, Statutes of 2002.

Special Education—The Budget provides sufficient funding between the 2002-03 and 2003-04 fiscal years to fully fund the State's statutory share of costs. The Budget also provides \$8.99 million in one-time funds to fully fund the 2001-02 deficit in Special Education due to ADA increases.

Proposed Reductions

Across the Board Reductions—\$980.8 million from 3.66 percent reductions to all programs including apportionments, proposed in the December 2002 are proposed to be continued in 2003-04.

Additional Mid-Year Spending Reduction Proposals—\$356.8 million in a one-time fund shift to use prior year savings, \$98.8 million from eliminating Stage 3 child care, \$73.5 million from other specific reductions and K-12 savings are also continued in 2003-04, except \$390 million that is one-time in nature.

Categorical Programs and Block Grant—To bring Proposition 98 funding to the Proposition 98 funding level in the current year, \$482 million in additional savings is proposed by reducing certain K-12 categorical programs by an additional 7.46 percent in 2002-03, continuing into 2003-04. Over the two years, categorical program reductions total \$1.086 billion, with affected programs reduced by various percentages up to 12 percent. To provide significant additional flexibility to districts to manage within these reduced funding levels, it is proposed that 64 programs be consolidated into a \$5.1 billion block grant for the purposes of:



professional development, instructional materials and technology, specialized and targeted instructional programs, school safety, and student services.

Other Reductions:

- ◆ \$886 million is saved by not funding cost-of-living adjustments for Proposition 98 programs, including general purpose apportionments.
- ◆ \$106 million in daily attendance driven adjustments to categorical programs is not funded, consistent with the decision to reduce these programs.
- ◆ \$870 million is saved by not funding the cost of various new mandates identified by the Commission on State Mandates and deficiencies for mandated programs that have been reported by the State Controller.

Preserving Key Reforms

Test scores show that several programs focused on early grades and the acquisition of basic language and mathematics skills are working. Since the Stanford 9 exam was first given in March 1998, the greatest gains in reading skills have been in grades 2-4. Similar results are demonstrated on the new California Standards Test for Language Arts. The Administration proposes to preserve these programs outside of the block grant:

- ◆ K-3 Class Size Reduction—\$1.480 billion
- ◆ Math and Reading Professional Development—\$28 million
- ◆ Principal Training—\$26 million
- ◆ Assistance to low performing schools—\$354 million



- ◆ Standardized testing—\$120 million

K-3 Class Size Reduction—The Budget proposes \$1.480 billion for this program in 2002-03 and 2003-04. In view of the reductions totaling 10.82 percent in this program, the Budget includes amendments to Budget Act language to allow this program to receive transfers of funding from other categorical programs, including the proposed categorical block grant in 2003-04.

Pupil Testing—The Budget provides \$120.2 million, including federal funds, for various statewide exams. These assessments provide valuable information to parents, teachers, schools, and the State regarding pupil performance and are the foundation of the State's accountability system.

- ◆ Standardized Testing and Reporting (STAR) Exam—Serves as the primary indicator for the Academic Performance Index and measures pupil performance on various State-adopted content standards, coupled with a national norm-referenced exam. The Budget includes \$66.1 million for this exam.
- ◆ High School Exit Exam (HSEE)—Commencing with the 2003-04 school year, all pupils must pass the HSEE in order to receive a diploma, unless the State Board of Education acts to delay this requirement pursuant to Chapter 716, Statutes of 2001. The Budget includes \$21.2 million for this exam.
- ◆ California English Language Development (ELD) Exam—This exam is required to be administered to pupils whose primary language is not English within 30 days of enrollment and annually thereafter to pupils identified as English language learners. This assessment allows schools to ensure pupils are being taught using the correct curriculum. The Budget includes \$18.5 million for this exam.



Accountability—The State has committed significant resources during this Administration to improve the academic performance of low-performing schools.

- ◆ **Immediate Intervention/Underperforming Schools Program (II/USP)**—The Budget provides \$127.6 million, including federal funds, for the second year of implementation funding for schools in the third cohort, as well as a third year of implementation funding for schools in the second cohort that made significant progress but did not reach their growth targets. Additionally, the Budget includes \$32.9 million, including federal funds, for sanctions for those schools that failed to make significant progress during the two years they were provided with implementation funding.
- ◆ **High Priority Schools Grant Program**—The Budget includes \$193.8 million, including federal funds, for the second year of funding for this program, which provides up to \$400 per pupil to the lowest-performing schools in the State to improve academic performance.

Standards-Based Training Programs—The Budget includes \$26.2 million for the Principal Training Program and \$27.9 million for the Mathematics and Reading Professional Development Program. These programs were established in 2001 to teach existing school staff new curriculum and professional standards. While the Administration remains committed to both of these programs, budgetary constraints necessitate the extension of the timeframes for the completion of these training programs. It is anticipated that the Principal Training Program will be completed in 2004-05. The completion date for the Mathematics and Reading Professional Development Program is dependent on the funding



levels in future years. These programs remain outside the block grant because they represent a time-limited effort, rather than an ongoing staff development program.

K-12 School Facilities

Proposition 47—Proposition 47, approved on the November 2002 statewide ballot, provides \$11.4 billion for K-12 education facilities through the State School Facilities Program and \$1.65 billion for higher education facilities. The K-12 funding includes \$6.3 billion for new construction projects, \$3.3 billion for modernization projects, \$1.7 billion for critically overcrowded schools, and \$50 million for joint use projects. Within the approved amounts, Proposition 47 sets aside \$2.9 billion for new construction projects and \$1.9 billion for modernization projects for which school districts had submitted applications to the State Allocation Board on or before February 1, 2002. At its December 18, 2002, meeting, the State Allocation Board apportioned \$3.35 billion for new construction projects and \$2.07 billion for modernization projects.

Charter School Facilities—Pursuant to Chapter 935, Statutes of 2002, Proposition 47 sets aside up to \$100 million of the new construction general obligation bond funds for charter schools. Applications for funding under this program must be processed in accordance with provisions of the State School Facilities Program. In addition, the California School Finance Authority (CSFA) must review and determine that a charter school applicant is “financially sound” as set forth in provisions of AB 14, as a condition of receiving funds under the Charter School Facilities Program.



Child Care

Child Care Realignment—In the 2002-03 Governor's Budget, the Administration proposed child care reforms to provide efficient, equitable child care services to California's neediest families and to stabilize the unsustainable growth in CalWORKs Stage 3 child care. The proposal was subsequently withdrawn to allow for more time for input requested by the Legislature and stakeholders. However, since the 2002-03 Budget was enacted, the fiscal condition of the State has worsened while the caseload for Stage 3 child care services continues to grow. Moreover, the current child care system is complex and difficult to manage due to the multiple State and local agencies involved in the system. Some problems with the current system include:

- ◆ Three-stage CalWORKs system creates needless seams between Stage 1 and Stage 2.
- ◆ A family who exhausts its eligibility for care in Stage 2 and has not applied on waiting lists for other subsidized child care programs, could potentially be exposed to an interruption in services received.
- ◆ All working poor families are not treated in an equitable manner.
- ◆ Programs administered through direct contract centers are administratively complex and burdensome, resulting in millions of unspent dollars annually, thus depriving other families of services.
- ◆ Access to high quality child care is inequitable across the state, as centers are not evenly distributed between neighborhoods and regions.



- ◆ Recent comments from Alternative Payment providers indicate that the system is fraught with inefficiencies, abuse, and fraud.

In view of these concerns, the Administration proposes that all Child Care and Development Programs, with the exception of State Preschool and the After School Education and Safety Programs, be transferred to counties, and CalWORKs Stage 3 child care services be eliminated effective April 1, 2003. By giving counties both responsibility to administer child care services in conjunction with other social service programs for the same families and a financial stake in child care expenditures, the proposal would facilitate greater coordination for needy families, enhance accountability and fraud prevention, reduce a layer of bureaucracy and administrative costs, and facilitate integration of local priorities and funding sources (including Proposition 10 funding) to fill gaps in meeting child care needs more equitably than can be done while administered as a disconnected State program.

As a result of the Administration's proposal, almost \$1.9 billion in revenues is being made available to counties for child care, including an estimated \$519.0 million in Child Care and Development Fund federal funds, over \$1 billion from new revenues, plus \$344.0 million from the Temporary Assistance for Needy Families (TANF) Block Grant normally earmarked for Stage 2 child care to counties as part of CalWORKs. These funds will meet the child care needs of cash aid recipient families, former CalWORKs recipient families, and other working poor families, with greater local flexibility for local determination of the families most in need of child care subsidies.

The State Department of Education's (SDE) child care budget for the 2003-04 fiscal year retains \$421.5 million for State Preschool (\$314.2 million) and the After School Education and Safety Program (\$107.3 million). In addition, SDE's child care budget



includes \$11 million for Preschool quality enhancements (\$5 million) and adequate reserves for other contract close-outs (\$6 million) from one-time funds.

California State Library

The Budget proposes the following adjustments for the California State Library:

- ◆ **December 2002 Mid-Year Spending Reduction Proposals**—\$15.8 million in 2002-03 and 2003-04 from the Public Library Foundation program of grants to support local library operations, \$500,000 in 2002-03 and \$1.0 million in 2003-04 to phase out civil liberties public education that has received the intended three years of funding for developing instructional materials, and \$1.0 million in 2002-03 and \$1.5 million in 2003-04 offset by federal increases for state operations.
- ◆ **Library Fees**—\$15.1 million in new fee authority to replace General Fund for direct and interlibrary loans of materials (\$12.1 million) and State administrative costs (\$3.0 million).
- ◆ **Literacy Program Consolidation**—A consolidation of existing literacy services to streamline administration and enhance local flexibility. The Budget provides \$5.3 million General Fund for this purpose.
- ◆ **Library of California**—\$1.0 million in savings by eliminating this program that is primarily administrative at this time.
- ◆ **State Operations**—\$1.3 million in State administrative savings resulting from the elimination and downsizing of identified local assistance programs.



- ◆ **Library Construction and Renovation Bond Fund Audits—**Appropriating \$398,000 from bond funds for state operations to ensure that the newly authorized funds are used appropriately.

Governor's Scholars Awards

The Administration is proposing trailer bill legislation to authorize delayed disbursement of funding for Governor's Scholars Awards and Governor's Math and Science Scholars Awards until the recipients complete the 11th grade. Since students may not access their awards until they graduate high school, this revision will have no adverse fiscal impact. Because the program is an individual entitlement, this change can be made only prospectively.

This adjustment, and expected reductions in the number of awards from new standards aligned tests, will generate \$78 million in General Fund savings in 2003-04.



Proposition 98
(Dollars in Thousands)

Proposition 98 Appropriation	2001-02	2002-03	2003-04
State General Fund	\$29,682,180	\$28,897,639	\$28,225,485
Local Revenue	13,570,034	15,013,304	15,867,659
Total	\$43,252,214	\$43,910,943	\$44,093,144

- Due to the decline in General Fund revenues, the 2002-03 Proposition 98 minimum guarantee fell by \$2.6 billion since enactment of the 2002 Budget Act.
- The 2003-04 Proposition 98 minimum guarantee is calculated based on the proposed 2002-03 funding level. The minimum guarantee increases by \$78.4 million in 2003-04. The 2003-04 proposed funding level exceeds the minimum guarantee by \$103.8 million.



HIGHER EDUCATION

Higher Education Funding Total Funds (Dollars in Millions)

	2001-02	2002-03	2003-04	One-Year Change Amount	Percent
University of California ^{1/}	\$4,482.6	\$4,408.0	\$4,520.2	\$112.2	2.5%
California State University ^{1/}	3,433.2	3,477.3	3,565.6	\$88.3	2.5%
Community Colleges	6,457.8	6,533.2	6,129.4	-\$403.8	-6.2%
Student Aid Commission	544.0	621.3	699.4	\$78.1	12.6%
Other Higher Education ^{2/}	207.5	171.7	194.2	\$22.5	13.1%
Total Funds	\$15,125.1	\$15,211.5	\$15,108.8	-\$102.7	-0.7%

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

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

Overview

The Governor's Budget supports California's systems of higher education by continuing to provide full access and high quality learning experiences, while remaining affordable to all qualified



students, and accountable to the public. Despite the State's economic condition, the Budget continues the Administration's focus on accessibility, quality, and accountability.

The 2003-04 Budget provides total funding from all sources of \$4.5 billion for the University of California (UC), an increase of \$112 million or 2.5 percent. This includes \$3.0 billion in General Fund resources, reflecting a reduction of 4.2 percent below the 2002-03 level, but still an increase of 19.7 percent over the last five years.

The Budget also provides total funding of almost \$3.6 billion for the California State University (CSU), an increase of \$88 million or 2.5 percent. This includes total General Fund of \$2.6 billion reflecting a reduction of 3.9 percent below the 2002-03 level, but an increase of 23.1 percent over the last five years.

The Budget provides over \$6.1 billion from all sources for the California Community Colleges (CCC) including approximately \$4.5 billion from General Fund and Proposition 98 related sources. Total funding is reduced approximately \$400 million, or 6.2 percent, primarily reflecting Proposition 98 funding reductions. Overall CCC funding in 2003-04 reflects a 22.2 percent increase over the past five years.

Due to the unprecedented fiscal shortfall, the Budget proposes to increase CCC fees for the first time in ten years from \$11 per unit to \$24 per unit. This will help offset the reductions in General Fund while still keeping California's Community Colleges the most accessible and affordable in the nation. The Budget also includes increases in fee revenues at UC and CSU based on the actions of the UC Regents and CSU Trustees in the current year and in anticipation of further fee increases in those segments in the budget year.



Both UC and CSU will set aside one-third of their fee revenues for financial aid, and CCC fee waivers will ensure needy students do not pay fees. In addition, the Administration has anticipated increased grant levels for the Cal Grant Program in both the current and budget years to ensure low income students will not be denied an education due to lack of resources. It is expected that fees will remain significantly below the average of comparable institutions in all three segments, with Community Colleges remaining the most affordable system in the nation.

Although the State's fiscal condition requires significant General Fund reductions in all the higher education segments, the reductions are intended to minimize the impact on direct instruction and ensure continued high quality. Moreover, enrollment growth of 55,000 full-time equivalent students (FTES) is funded, providing room for over 1.6 million FTES.

University of California

For 2003-04, total funding for the university will increase by 2.5 percent over the revised current year. The Governor's Budget proposes to fund a 4.5 percent increase in enrollment at the University of California (UC). However, due to the significant decline in State revenues, General Fund expenditures will decline by 4.2 percent for the university, or approximately \$133.7 million.

The Budget anticipates the UC Board of Regents will increase student fees in 2003-04 to compensate for a portion of the proposed General Fund reductions. The Budget assumes additional revenue from anticipated future student fee increases over the amount projected for receipt in 2002-03.



Student Enrollment—The Budget includes \$117.2 million to fund an increase of 8,000 additional FTES. This amount also provides funding for approximately 5,000 FTES in over-enrollment that was not anticipated in the 2002-03 fiscal year.

Other Augmentations—The Budget provides a total of \$51 million for lease-revenue bond debt service, increased annuitant health benefit costs, and UC Merced start-up costs.

December 2002 Mid-Year Spending Reduction Proposals—The December 2002 package proposes a reduction of \$74 million in the 2002-03 fiscal year, including a \$26.3 million reduction to academic and institutional support and student services; \$19 million unallocated base reductions; \$18 million in savings from research projects; and \$10.9 million total for AP On-line, Outreach, Public Service, and the K-12 Internet Initiative.

2003-04 General Fund Reductions—The Budget proposes no increases for the Partnership Agreement which saves \$236 million, and additional General Fund base reductions totaling \$373 million in 2003-04 including:

- ◆ \$214 million in unallocated base reductions.
- ◆ \$76 million in reductions for academic and institutional support, students services, and public services.
- ◆ \$33 million for outreach.
- ◆ \$29 million for research.
- ◆ \$15 million for the Subject Matter Projects professional development program.
- ◆ \$5.5 million for AP On-Line and K-12 Internet Initiative.



California State University

For 2003-04, total funding will increase by 2.5 percent over the revised current year budget. The Governor's Budget proposes to fund a 5 percent increase in enrollment at the California State University (CSU). However, due to the significant decline in State revenues, General Fund expenditures will decline by 3.9 percent for CSU, or approximately \$105.8 million.

The Budget anticipates the CSU Board of Trustees will increase student fees in 2003-04 to compensate for the proposed General Fund reductions. The Budget assumes future anticipated student fee increases over the amount projected for receipt in 2002-03.

Student Enrollment—The Budget includes \$150.9 million to fund an increase of 16,000 additional FTES. This amount also provides funding for approximately 8,000 FTES in over-enrollment that was not anticipated during the 2002-03 fiscal year.

Other Augmentations—The Budget provides a total of \$70 million for increased Public Employees' Retirement System costs, increased annuitant benefit costs, and additional lease-revenue bond debt service.

December 2002 Mid-Year Spending Reduction Proposals—The December 2002 package proposes \$59.6 million in unallocated reductions in 2002-03.

2003-04 General Fund Reductions—The Budget proposes no increases for the Partnership Agreement which saves \$201 million and \$326 million in additional base General Fund reductions to CSU's budget in 2003-04 including:

- ◆ \$143 million in unallocated base reductions.



- ◆ A total of \$112 million in reductions for academic and institutional support and student services.
- ◆ \$53 million through increasing the faculty-to-student ratio from 18.9 to 1 to 19.9 to 1.
- ◆ \$13 million in outreach reductions.
- ◆ \$5 million to eliminate funding for the Cal Teach Program and the Bilingual Teacher Recruitment Program and to reduce funding for the Student Fellows Program.

California Community Colleges

The 2003-04 Governor's Budget includes over \$6.1 billion in total funding for the California Community Colleges (CCC). Of this amount, \$4.1 billion, including \$1.9 billion in General Fund, counts towards the Proposition 98 guarantee. The Budget provides 3.0 percent growth for apportionments, which will allow the CCC to accommodate 1.1 million FTES.

December 2002 Mid-Year Spending Reduction Proposals—

The December 2002 package proposes a \$97.5 million across-the-board reduction of 3.66 percent to all CCC programs including apportionments; an \$80 million reduction to reflect the estimate of non-compliant FTES claimed in 2001-02 by community college districts providing instruction to concurrently enrolled K-12 students; and a \$396,000 reduction to state operations. These reductions are continued in 2003-04. Additionally, a one-time \$33.3 million decline in 2002-03 property tax revenues is not proposed to be backfilled due to the State's overall revenue shortfall.

CCC Student Fees—The Budget for 2003-04 proposes to increase fees from the current level of \$11 per unit to \$24 per unit in order to maintain access. As a result, fee revenue will increase by approximately \$149 million, replacing a like amount of General



Fund. Even with the fee increase, the CCC will continue to be the most affordable higher education system in the nation, with fees that are less than 40 percent of the national average for community colleges. The Budget also includes a \$215.3 million decrease in apportionments to reflect estimated short-term attrition related to fee increases.

Governor's Budget Reductions—The Budget proposes the following additional significant reductions:

- ◆ \$211.5 million in 2003-04 to selected categorical programs that generally augment services provided with discretionary funds.
- ◆ \$60.3 million to all CCC categorical programs in both the 2002-03 fiscal year and the 2003-04 fiscal year for the CCC's share of the K-14 Proposition 98 7.46 percent across-the-board reduction.
- ◆ \$2.4 million in 2003-04 to the Fund for Student Success, consistent with the 50 percent reduction proposed to outreach programs for other higher education segments.
- ◆ \$1.5 million in 2003-04 due to the elimination of the CCC Health Fees Mandate.

California Postsecondary Education Commission

In view of the State's current fiscal situation, the Governor's Budget proposes to reduce the Commission's General Fund Budget by \$1.4 million, from \$2.1 million to \$700,000. This reduction will result in the elimination of 23.5 of the Commission's 28.5 positions.



Financial Aid Programs

The Governor's Budget proposes to increase Cal Grant funding to fully cover the student fee increases enacted by UC and CSU in 2002-03, and anticipates further increases the segments may implement in 2003-04.

The total General Fund for Cal Grant A and B awards will increase by \$82 million over the amount projected for expenditure in 2002-03, from \$577 million to \$659 million. These figures include \$5.4 million in 2002-03 and \$13.8 million in 2003-04 to reflect current year fee actions of the governing boards and assumes further fee increases in 2003-04.

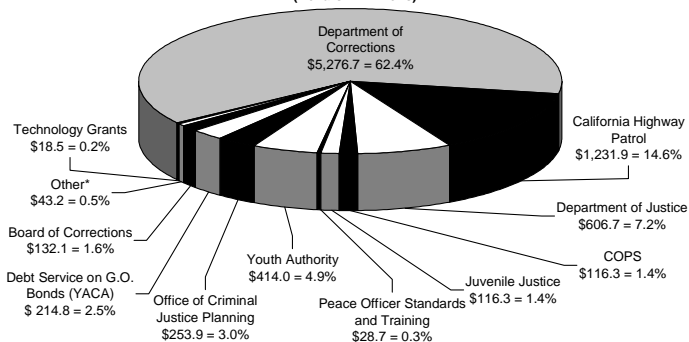
In view of the current General Fund situation, the Budget proposes the following General Fund reductions to specific financial aid programs:

- ◆ \$10 million to reflect a 9 percent reduction in the value of new Cal Grant A and B awards provided to recipients at private colleges and universities.
- ◆ \$5 million through eliminating the State Work Study Program.
- ◆ \$4 million by reducing the number of new Cal Grant C awards from 10,730 to 7,690.
- ◆ \$3 million by reducing the number of new Cal Grant T awards from 1,390 to 850.



PUBLIC SAFETY

Proposed Public Safety Expenditures for 2003-04
All Funds
 (Dollars in Millions)



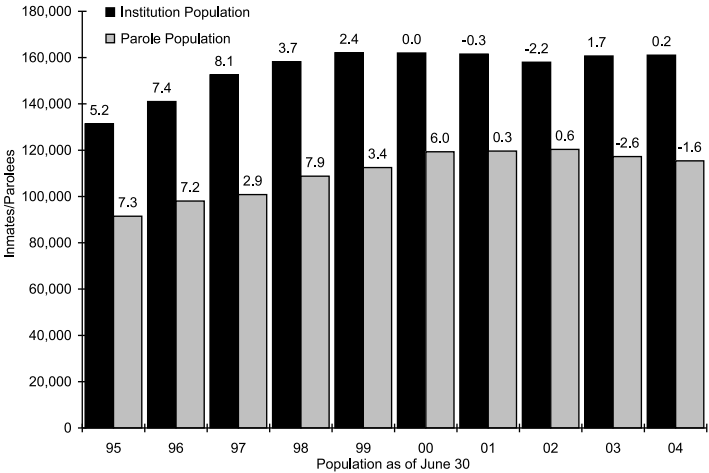
* Includes the Youth and Adult Correctional Agency, Office of the Inspector General, Youthful Offender Parole Board, Board of Prison Terms, and the Commission on Correctional Peace Officer Standards and Training.

The 2003-04 Governor's Budget proposes total funding of approximately \$8.5 billion for various programs within the Youth and Adult Correctional Agency, Department of Justice, Office of Criminal Justice Planning, Commission on Peace Officer Standards and Training, Office of the Inspector General, and the California Highway Patrol. The amount proposed is a 0.7 percent decrease over the revised 2002-03 Budget amount. The more significant funding changes for these programs are:



Department of Corrections

**Department of Corrections
Institution and Parole Population Growth**



Figures above the bars represent the percentage change from the prior year

Prison Population—Prison inmate population is projected to increase from 160,661 on June 30, 2003, to 161,039 by June 30, 2004, an increase of 378 inmates, or 0.2 percent. In 2003-04, incarceration and parole services will be provided through 34 institutions, 11 reception centers, 38 camps, and 11 community correctional facilities.

Parole Population—The State parolee population is projected to decline to 117,233 by June 30, 2003. This population is projected to decrease to 115,387 by June 30, 2004, a decrease of 1,846 parolees, or 1.6 percent.



Academic and Vocational Education—The Budget contains a reduction of \$46.2 million from the academic and vocational education budgets, which will more closely align the Department's education budget with historical expenditures.

Conversion of the Northern California Women's Facility—The Budget includes a reduction of \$10.2 million due to the closure of the Northern California Women's Facility. It is anticipated the facility will be re-opened as a male facility in the 2004-05 fiscal year.

Change in Academy Training—The Budget proposes a reduction of \$3.6 million by changing the training from 16 weeks at the Academy to 12 weeks at the Academy and 4 weeks of on-the-job training at an institution.

Arts in Corrections Program—The Budget includes a reduction of \$2.6 million through an elimination of the Arts in Corrections Program, which will be replaced by the Handicraft Program, a non-instructional arts and crafts program.

Inmate Security Plan—The Budget includes an augmentation of \$5.5 million to implement standardized staffing at authorized Administrative Segregation Units statewide, implement three regional gang debriefing teams, and develop standardized staffing packages for all institutions.

Sick Leave Relief—The Budget contains an augmentation of \$14.7 million to provide sick leave relief for posted positions.

San Quentin Condemned Staffing—The Budget provides an augmentation of \$604,000 to provide additional security to control violence of condemned inmates.



500-Bed Substance Abuse Treatment Expansion—The Budget includes \$5.4 million for a 500-bed expansion of the Substance Abuse Treatment Program, bringing the total budgeted substance abuse beds statewide to 9,001.

Workers' Compensation Shortfall—The Budget provides \$115.8 million, which includes continuation of \$64.5 million in one-time funding, for increased workers' compensation expenditures.

Fiscal Impact of Collective Bargaining—The Budget includes \$6.7 million for the operational impacts of the most recent collective bargaining agreements, including costs to begin the activation of Institutional Vacancy Plan positions, parole agent caseload reduction, legal representation costs, and survivor benefits for excluded employees.

Statewide Offender Management System—The Budget provides \$1.3 million to develop a plan for the replacement of several automated and manual offender management systems.

Utilities Shortfall—The Budget includes an augmentation of \$9.7 million for utilities costs.

Mental Health Services Delivery System—The Budget contains an augmentation of \$4.2 million to provide additional mental health crisis beds for mentally ill inmates.

Correctional Treatment Center Licensing—The Budget provides \$1.5 million to license both the California Institution for Women and the Central California Women's Facility as Correctional Treatment Centers.

Inmate Medical Services—The Budget includes \$499,000 to provide telemedicine services at the four female institutions.



Nurse-to-Patient Staffing Ratio—The Budget contains an augmentation of \$1.4 million for additional clinical staff to ensure compliance with Department of Health Services' regulations that establish minimum licensed nurse-to-patient ratios.

Incarceration of Undocumented Felons

The State of California currently spends approximately \$574.4 million in the Departments of Corrections and Youth Authority related to the incarceration of undocumented persons. The Budget anticipates that the State will receive approximately \$154.5 million in 2002-03 and 2003-04 from the federal government under the State Criminal Alien Assistance Program as a partial reimbursement of these costs.

Department of the Youth Authority

Institution and Parole Population—The Youth Authority projects an institution population of 5,095 on June 30, 2004, which is a decrease of 245 wards from the anticipated population of 5,340 on June 30, 2003. The parole caseload is projected to be 3,830 by June 30, 2004, which is a decrease of 210 cases from an estimated caseload of 4,040 on June 30, 2003.

Correctional Treatment Centers—The Budget includes \$675,000 in 2002-03 and \$1.5 million in 2003-04 for staff and resources to facilitate the implementation of Correctional Treatment Centers at the Youth Authority.



Mental Health Intermediate Care Facility—The Budget provides \$844,000 in 2002-03 and \$3.4 million in 2003-04 to reimburse the California Department of Mental Health to staff and equip a 20-bed inpatient Intermediate Care Facility at the Southern Youth Correctional Reception Center and Clinic.

English Language Learners—The Budget includes \$1.2 million to meet the federal Office of Civil Rights standards for English Language Learner students.

Americans with Disabilities Act—The Budget provides \$500,000 to begin the design, construction, and alteration of Youth Authority facilities to comply with standards set out in the Americans with Disabilities Act Accessibility Guidelines.

Infrastructure Migration Project—The Budget includes \$1.3 million to continue the Infrastructure Migration Project, which will enable the Department to continue its transition to the industry standard operating system.

Sliding Scale Fee Adjustment—The Budget includes a reduction of \$7.1 million General Fund and an increase of \$7.1 million in reimbursements due to an inflation adjustment to the sliding scale fees charged to counties for youthful offenders committed to the Youth Authority.

Other Adjustments—In addition to the adjustments noted above, the Budget reflects reductions totaling \$6.7 million spread over the Department's institutions, paroles, and administration programs. These reductions will not affect the Department's ability to provide treatment services and training for youthful offenders committed to its custody.



Board of Prison Terms

Life Prisoner and Parole Revocation Hearings—The Budget includes \$1.4 million in 2002-03 and \$675,000 in 2003-04 to address a projected increase in parole revocation workload.

Proposition 36 Implementation—The Budget proposes a redirection of \$1.1 million to the Department of Corrections associated with the transfer of responsibility for Proposition 36 referrals to drug treatment.

Revise Mentally Disordered Offender Process—The Budget includes a reduction of \$1 million to reflect a reduction in the number of hearings conducted by Deputy Commissioners in the Offender Screening Section.

Board of Corrections

Elimination of Local Assistance for Standards and Training for Corrections—The Budget includes a reduction of \$16.8 million Corrections Training Fund associated with the partial reimbursement of tuition, travel, per diem, and staff replacement costs for training local correctional officers. The portion of local correctional officer training costs currently paid for by the State would now become the responsibility of local correctional agencies.

Office of the Inspector General

Management Review Audits—The Budget includes a reduction of \$449,000 by requiring fewer management review audits of Wardens of the Department of Corrections and Superintendents of the Youth Authority to be conducted by the Office.



Investigation of Acts of Retaliation—The Budget proposes a reduction of \$1 million by requiring that investigations of complaints of intentional engagement in an act of reprisal, retaliation, threat, or coercion from an employee of the Youth and Adult Correctional Agency, be conducted on a permissive rather than on a required basis as currently mandated by law.

Administrative Positions—The Budget includes a reduction of \$330,000 due to reductions in administrative positions commensurate with the reductions in audits and investigations.

Department of Justice

The Budget includes total expenditures of \$606.7 million for the Department of Justice. This amount includes reductions of \$22.9 million General Fund, which is not expected to affect the ability of the Department to fulfill its law enforcement mission. The Budget proposes the following significant adjustments for 2003-04:

Energy Litigation—\$9.5 million General Fund on a two-year limited term basis to continue the investigation and litigation of illegal activity that has been determined to be responsible for California's energy crisis.

California Youth Authority (CYA) Class Action Lawsuit—\$4.3 million to defend the CYA in a class action lawsuit challenging CYA policies and procedures concerning conditions of confinement.



Medi-Cal Fraud and Elder Abuse Workload—\$545,000 General Fund and \$1.6 million federal funds to provide permanent funding for the investigation, arrest, and prosecution of Medi-Cal fraud, elder abuse and neglect, and poor quality of care in federal Medi-Cal funded facilities.

Forensic Crime Lab Fees—A \$3.5 million increase in reimbursements, and an offsetting decrease in General Fund for a proposal to charge local agencies a portion of the costs for processing and analyzing physical evidence.

Spousal Abuse Prosecution Program—A reduction of \$3 million General Fund due to the elimination of the program to assist district attorneys and city attorneys in the vertical prosecution of spousal abuse.

Office of Criminal Justice Planning

The 2003-04 Budget includes total expenditures of \$253.9 million for the Office of Criminal Justice Planning (OCJP). The Budget reflects a state operations reduction of \$319,000 General Fund and two positions. In addition, the Budget includes the following:

Domestic Violence Programs—The transfer of \$9.5 million (\$730,000 General Fund, \$8.8 million Federal Fund) in local assistance funding to the Department of Health Services to consolidate all domestic violence programs within one agency. In addition, the OCJP budget reflects a reduction of \$359,000 Federal Fund state operations funding and 1.4 positions associated with this transfer.



Local Assistance Reductions—A reduction of \$3.4 million General Fund associated with reductions to various public safety local assistance programs, as well as a reduction of \$214,000 General Fund associated with various victims services local assistance programs.

Commission on Peace Officer Standards and Training

The Budget includes total expenditures of \$28.7 million for the Commission on Peace Officer Standards and Training to continue programs that establish training standards, develop and certify courses, and assist law enforcement agencies in providing necessary training and career development programs. The Budget proposes the following significant adjustment for 2003-04:

Training Reimbursement—A reduction of \$28.3 million Peace Officers Training Fund as a result of the elimination of the program that partially reimburses local law enforcement agencies for the cost of student travel and per diem and reimbursement of overtime to replace line officers during training. This results in savings that will be transferred to the General Fund.



HEALTH AND HUMAN SERVICES

Department of Health Services

Medi-Cal

The Governor's Budget proposes \$24.7 billion (\$7 billion General Fund) for the Medi-Cal program in 2003-04, a General Fund decrease of 28.9 percent below the 2002 Budget Act. The General Fund decrease is mainly due to the Administration's realignment of \$3 billion in Medi-Cal expenditures to the counties.

Since 1998-99, Medi-Cal beneficiaries have increased from 5 million eligibles to nearly 6.3 million eligibles projected for 2003-04, an increase of 1.3 million beneficiaries.

2003-04 Eligibility Expansions for Children

The Administration continues to demonstrate its commitment to maximizing health care coverage for uninsured children by implementing two expansions that will greatly facilitate their enrollment into Medi-Cal. This streamlining of enrollment, referred to as Express Lane eligibility, will link Medi-Cal eligibility with that of other public programs that serve low-income individuals.



- ◆ **Eligibility for Children Receiving Free School Lunches—**Chapter 894, Statutes of 2001 (AB 59), will facilitate enrollment into Medi-Cal for uninsured school children by linking Medi-Cal eligibility with free school lunch eligibility. This expansion will result in 5,850 additional children receiving Medi-Cal coverage in 2003-04. The Budget provides \$4.3 million (\$2.1 million State funding) to support this expansion.
- ◆ **Facilitating Medi-Cal Enrollment and Eligibility for Persons Receiving Food Stamps—**Chapter 897, Statutes of 2001 (AB 493), facilitates the enrollment of low-income, uninsured families in the Medi-Cal program by linking Medi-Cal eligibility with the Food Stamp Program. This linkage of food stamp eligibility with the Medi-Cal program will result in an additional 11,000 parents and children receiving Medi-Cal coverage in 2003-04. The Budget provides \$8.5 million (\$4.2 million General Fund) to support this expansion.

Continued Support of Health Care for Children

The Budget includes proposals to continue recent program expansions, known as Continuous Eligibility for Children and Accelerated Enrollment for Children, and to implement a gateway into Medi-Cal and the Healthy Families Program (HFP) through the Child Health and Disability Prevention (CHDP) program, as follows:

- ◆ **Continuous Eligibility for Children—**Chapter 945, Statutes of 2000 (AB 2900) provides 12-month continuing Medi-Cal eligibility to children 19 years of age and younger. The 2003-04 Budget includes a total of \$486.6 million (\$243.3 million General Fund) to provide continuous



Medi-Cal eligibility for an estimated 471,500 children. Since 2000-01, the Administration has provided a total of \$1.3 billion (\$638.9 million General Fund) to support this expansion.

- ◆ **Accelerated Enrollment: Single Point-of-Entry**—The Accelerated Enrollment Program, implemented July 1, 2002, enables the Department of Health Services (DHS) to temporarily enroll children under the age of 19 into the Medi-Cal program. These children are entitled to temporary, fee-for-service, full-scope, no-cost Medi-Cal while the county welfare department makes a final determination regarding their eligibility for Medi-Cal. Approximately 67,700 children are expected to receive Medi-Cal benefits.
- ◆ **CHDP Program Gateway to Medi-Cal**—The CHDP program currently provides health assessments to approximately 1.1 million children each year. The 2003-04 Budget proposes to provide the use of the CHDP program as a gateway to streamline enrollment into Medi-Cal or the HFP. 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. The Budget includes funding of \$283.9 million (\$137.1 million General Fund) for the Gateway program. The Budget also includes reduced funding for the CHDP program (\$80.6 million General Fund), for a net funding increase of \$56.5 million General Fund.

Proposed General Fund Savings

- ◆ **County Administration Accountability**—The Budget proposes to fully fund counties for Medi-Cal eligibility workload. The Budget includes \$49.3 million (\$24.6 million



General Fund) in 2002-03 and \$33.4 million (\$16.7 million General Fund) in 2003-04 to allow counties to perform regular redeterminations. As a result, savings of \$388 million (\$194 million General Fund) will be achieved in 2003-04. Annual savings, beginning in 2004-05, are estimated to reach \$642 million (\$321 million General Fund).

- ◆ **Medi-Cal County Share-of-Cost**—The Governor's Budget proposes General Fund savings of \$1.6 billion by transferring 15 percent of Medi-Cal costs to counties along with a dedicated revenue stream. This proposal is intended to give counties the incentive to administer Medi-Cal eligibility determinations more efficiently. This proposal would not result in reduced eligibility or benefits for Medi-Cal beneficiaries (see Preserving Critical Programs section).
- ◆ **Realignment of Medi-Cal Long-Term Care**—The Governor's Budget includes General Fund savings of \$1.4 billion to reflect the transfer of fiscal responsibility for Medi-Cal long-term care services to counties, along with a dedicated revenue stream. The State would be responsible for administering services, while counties would be responsible for the costs. Oversight functions, such as licensing and complaint investigation, would remain under State control. This proposal would not result in reduced eligibility or benefits for Medi-Cal beneficiaries (see Preserving Critical Programs section).
- ◆ **1931(b) Medi-Cal Program**—The December 2002 Mid-Year Spending Reduction Proposals included a proposal to rescind the expansion of the 1931(b) Medi-Cal program, and implement the previous income standard in effect before the expansion in March 2000. This proposal would result in budget year savings of \$236 million (\$118 million General Fund). This proposal would mainly affect new applicants,



approximately 350,000 applicants in 2002-03 and 2003-04. Current beneficiaries would not be eliminated from the Medi-Cal program under this proposal.

- ◆ **Medi-Cal Quarterly Status Reports**—The December 2002 Mid-Year Spending Reduction Proposals included a proposal to reinstate the Medi-Cal quarterly status reporting requirement, resulting in budget year savings of \$170 million (\$85 million General Fund). It would also reduce the number of adults receiving Medi-Cal benefits by 193,000 in 2003-04.
- ◆ **Medi-Cal Aged and Disabled Federal Poverty Level (A&D FPL) Program**—The Budget proposes to reduce the individual A&D FPL eligibility income limit to the Supplemental Security Income/State Supplementary Payment benefit level. The Budget includes savings of \$127.6 million (\$63.8 million General Fund) as a result.
- ◆ **Second Year of Transitional Medi-Cal (TMC)**—Effective October 1, 1998, California implemented a second year of TMC for persons 19 years or older if they received the first year of federal TMC and met the income requirements. The Budget proposes to eliminate the State-only program, resulting in the retention of one year of transitional Medi-Cal coverage. This proposal will affect approximately 1,830 average monthly eligible beneficiaries. The 2003-04 savings estimate of \$2 million General Fund assumes an implementation date of October 1, 2003.
- ◆ **Optional Benefits Elimination**—Currently, Medi-Cal offers all 34 federally-optional services. Due to limited fiscal resources, the Administration proposed to eliminate eight of these services in December 2002, for savings of \$126.5 million (\$63.3 million General Fund) in 2002-03 and \$548.1 million



(\$274 million General Fund) in 2003-04. The Governor's Budget proposes to eliminate an additional ten optional benefits for 2003-04 savings of \$175.6 million (\$87.8 million General Fund). These include: (1) hospice, (2) non-emergency medical transportation, (3) optometry, (4) optician/lab services, (5) physical therapy, (6) prosthetics, (7) orthotics, (8) speech/audiology, (9) hearing aids, and (10) durable medical equipment. Pursuant to federal requirements, these benefits will still be provided to children under 21 and beneficiaries of long-term care services.

- ◆ **Provider Rate Reductions**—The 2000 Budget Act included Medi-Cal provider rate increases totaling approximately \$800 million. Given the State's current economic climate, it is necessary to reduce provider rates by 5 percent, achieving savings of \$479.3 million (\$241.9 million General Fund) in 2003-04. This reduction is in addition to the December 2002 proposed 10 percent reduction, which resulted in 2002-03 savings of \$185.3 million (\$90.4 million General Fund) and 2003-04 savings of \$948.3 million (\$478.6 million General Fund). Hospital inpatient and outpatient services, federally-qualified health clinics, and rural health clinics will be exempt from the reduction.
- ◆ **Wage Adjustment Rate Program**—The 2001 Budget Act included \$14 million (\$7 million General Fund) as a supplemental payment to long-term care facilities that have a collectively bargained agreement to increase salaries, wages, or benefits for caregivers. The regulations to implement these wage increases have not been finalized. Due to the budget shortfall, the Administration proposes to eliminate the



Program. This will result in 2002-03 savings of \$42 million (\$21 million General Fund) and \$50 million (\$25 million General Fund) in 2003-04.

Strengthening Long-Term Care

The Governor's Budget proposes \$1.6 million (\$805,000 General Fund) and 19 positions to address increased workload in the Complaint Investigation and Fingerprint Investigation units. These additional staff will work to ensure that vulnerable long-term care beneficiaries are protected from caregiver abuse and neglect. In addition, the Governor's Budget includes \$2.8 million (\$707,000 Federal Citation Penalty Account, \$2.1 million federal funds) and 29 positions to expand the Health Facility Consumer Assistance Center. The Health Facility Consumer Assistance Center improves the efficiency of nursing home complaint investigation by providing a central point for complaint receipt, prioritization, assignment to investigators, and consumer contact.

Public Health

The Budget includes the following major funding augmentations:

- ◆ **Breast Cancer**—\$1.7 million federal funds in the Breast and Cervical Cancer Control Program (BCCCP) to reflect additional federal grant funding. The Proposition 99 funding support for the BCCCP program was reduced by a similar amount, to maintain program funding at \$33.3 million in 2003-04. In addition, \$4.8 million was shifted from state operations to local assistance to align funding with new State regulations on contracting.



- ◆ **Women, Infants, and Children's (WIC) Supplemental Nutrition Program**—\$15.5 million in federal funds in the current year and \$84.4 million in the budget year for the WIC Supplemental Nutrition program. This increase will allow 24,000 additional low-income pregnant and breastfeeding women, infants, and children under five years of age to receive supplemental food, nutritional education, and referrals to health and social services.
- ◆ **Proposition 50**—The Budget includes \$112.3 million from Proposition 50, the Water Security, Clean Drinking Water, Coastal, and Beach Protection Act of 2002, for the DHS to facilitate various statewide water security improvements and to provide safe drinking water grants and loans primarily targeted at Southern California water agencies to help them reduce Colorado River water use. (See Protecting the Environment section.)
- ◆ **Public Health Caseload Program Efficiencies and Drug Rebate**—\$439,000 General Fund, \$282,000 federal funds, and 8 positions (7.3 personnel years) to provide client and provider information to contain rising expenditures in the Genetically Handicapped Persons Program (GHPP), and to develop, implement, and operate a drug rebate program for the California Children's Services and GHPP programs. Implementation of the rebate program will result in an additional \$3.6 million General Fund savings in 2003-04.
- ◆ **Low-Level Radioactive Waste**—\$1.7 million Radiation Control Fund to meet the requirements of Chapters 891 and 513, Statutes of 2002, which require enhanced monitoring and oversight of the storage and disposal of low-level radioactive waste (LLRW). Specifically, generators of LLRW will provide detailed information to the DHS concerning all LLRW



sent to disposal facilities, stored for disposal by decay, or stored for future disposal. The DHS will develop LLRW disposal facility regulations, provide outreach to industry, maintain specified information, and prepare an annual summary report.

- ◆ **Asthma Initiative**—Continued funding of \$2.8 million in reimbursements and 4 limited-term positions (3.7 personnel years) in 2003-04 for the Childhood Asthma Initiative. The initiative strives to decrease asthma morbidity and improve the quality of life of children with asthma who are less than five years old.

Proposition 99 Expenditures

Californians continue to use fewer tobacco products each year, in part as a result of the effectiveness of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99). As a result, estimated revenues for 2003-04 will decline \$15.7 million. In 2003-04, total resources will be \$27.2 million, or \$338.4 million, below the 2002 Budget Act level. In addition, the AIM program is expected to increase by 41 percent, increasing Proposition 99 expenditures by \$26.8 million. As a result of declining revenues and higher expenditures in the AIM program, Proposition 99 funding to other health programs decreases, as noted below:

- ◆ **2002-03 Expenditures**—The Budget proposes expenditures of \$176.1 million to continue the base level of services for all programs, except for decreases of \$1.1 million in the Expanded Access for Primary Care (EAPC) program and \$12.4 million in the California Healthcare for Indigents Program (CHIP), and an increase of \$10.9 million in AIM.



- ◆ **2003-04 Expenditures**—The Budget proposes expenditures of \$135.4 million (\$77.3 million DHS and \$58.1 million realignment) for DHS Proposition 99-funded programs. Funding for health programs decline by an average of 9.2 percent, with three exceptions—the Comprehensive Perinatal Outreach, the Breast Cancer Early Detection programs, and State administration. The Comprehensive Perinatal Outreach program, a discretionary program, was eliminated consistent with other outreach reductions, resulting in a savings of \$1.3 million. The Breast Cancer Early Detection Program was reduced by 10 percent, or \$1.7 million, to match a similar increase in federal grant funding. The program will remain at its current total funding of \$33.3 million in 2003-04. State administration was reduced by 14 percent, or \$1.4 million, in recognition of smaller programs requiring less administration.
 - ◇ \$16.1 million is proposed for the anti-tobacco media campaign in 2003-04 as part of the total \$68.3 million Proposition 99-funded effort to reduce tobacco use.
 - ◇ \$58.1 million will be transferred to the counties to support EAPC, CHIP, and County Health Services, which are proposed to be realigned.

Other Public Health Adjustments

- ◆ **HIV/AIDS Program Reductions and Implementation of Co-Payments**—The Budget maintains the Administration's commitment to fighting the AIDS epidemic by providing \$293.5 million (\$124.8 million General Fund) for HIV/AIDS prevention, education, and care and treatment programs. The Budget proposes an increase of \$8.3 million General Fund to



the AIDS Drug Assistance Program (ADAP). The Budget also proposes a drug co-payment be charged to ADAP recipients with incomes between 200 and 400 percent of the FPL. Recipients with average annual incomes between \$21,643 and \$30,233 will pay approximately \$1,299 to \$1,814 annually for the life-sustaining drugs provided by ADAP.

- ◆ **Consolidation of Emergency Medical Services Authority into the DHS**—The Budget proposes the consolidation of the Emergency Medical Services Authority into the DHS in order to provide program savings and greater efficiencies. Under this proposal, the DHS will provide the statewide coordination of emergency medical services (EMS), regulate the education, training, and certification of EMS personnel, develop guidelines for local emergency medical services, and coordinate the State's medical response to any disaster.
- ◆ **Cancer Research**—The December 2002 package included a proposal to reduce expenditures for cancer research, for General Fund savings of \$6.3 million in 2002-03. The Budget further proposes to eliminate State-funded cancer research as existing research contracts expire. This will capture General Fund savings of \$12.5 million in 2003-04.
- ◆ **Prostate Cancer**—The December 2002 package included a proposal to reduce funding for the Prostate Cancer Treatment Program for General Fund savings of \$10 million in 2002-03, due to lower than anticipated participation in the program. The Budget proposes to further reduce funding by another \$5 million for a total General Fund reduction of \$15 million in the budget year.



- ◆ **Outreach and Media Activities**—The Budget eliminates a number of outreach and media campaigns to preserve General Fund resources for treatment programs and other direct services, resulting in savings of \$11.8 million. Most of the outreach information is available through other resources, including the news media, federal programs, public service announcements, and online information maintained by the DHS.
- ◆ **Healthy Communities Realignment**—The Budget proposes to transfer program responsibility and funding for a number of public health programs to counties. These programs will continue to draw matching federal funds and \$58.1 million in Proposition 99 funding. The current funding level for the public health programs being realigned is approximately \$143.4 million (\$66.6 million General Fund). The shift of funding and program responsibility will allow local governments to determine priorities and needs while maintaining the same funding level in 2003-04.

Managed Risk Medical Insurance Board

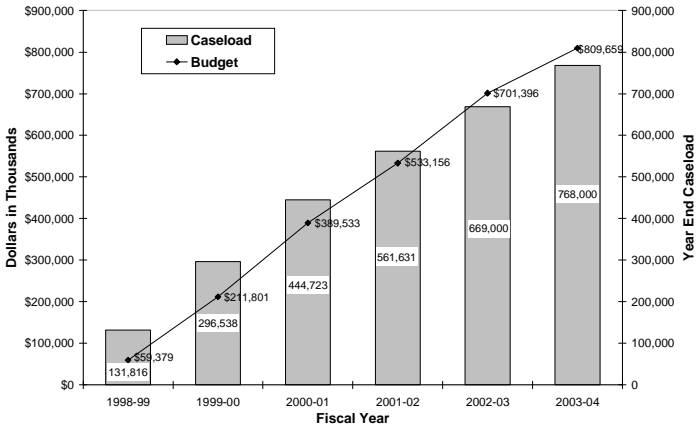
Healthy Families Program (HFP)—Since 1998-99, HFP caseload has grown from about 132,000 to an expected 669,000 children by June 30, 2003, and 768,000 in 2003-04 for a total increase of 636,000 children, or 482 percent.

HFP expenditures for the Managed Risk Medical Insurance Board (MRMIB) grew from \$211.8 million (\$76.2 million State funding) in 1999-00 to \$809.7 million (\$303.6 million State funding) in 2003-04, an increase of \$227.4 million State funding, or 298 percent.



FIGURE HHS-1

**Managed Risk Medical Insurance Board
Healthy Families Program Local Assistance Funding**



The Budget reflects the following significant changes for the HFP:

- ◆ Due to the continuing economic downturn, the Administration is proposing to delay implementation of the HFP Parents Expansion until July 2006. This will allow the State to maintain HFP coverage for all eligible children.
- ◆ In order to maintain sufficient resources for the ongoing HFP caseload, the Budget proposes to discontinue the Rural Health Demonstration Project (RHDP) in 2003-04. The 2002 Budget Act included \$4.8 million (\$1.7 million State funding) in the MRMIB and \$3 million in the DHS for the RHDP.



Access for Infants and Mothers (AIM)—This program provides comprehensive care to pregnant women up to 60 days post-partum and their infants up to two years of age with family incomes between 200 and 300 percent of the federal poverty level (FPL). The Budget includes a total of \$117.5 million (\$97.3 million Perinatal Insurance Fund) for this program, an increase of \$33.5 million (\$25.7 million Perinatal Insurance Fund) above the 2002 Budget Act. This funding increase will be used to provide coverage to an additional 2,800 women and 23,100 children. A total of 9,530 women and 138,240 infants are expected to enroll in this program in 2003-04.

Child Development Policy Advisory Committee

The Administration proposes legislation to eliminate the Child Development Policy Advisory Committee effective July 1, 2003, for ongoing savings of approximately \$625,000 (\$367,000 General Fund). Eliminating the Committee is consistent with the Administration's proposal to transfer Department of Education child care programs to counties under State-Local Program Realignment.

Department of Community Services and Development

Consolidation of the Department of Community Services and Development (DCSD) into the Department of Social Services (DSS)—The Budget proposes the consolidation of the DCSD into the DSS in order to improve program efficiency and effectiveness. The consolidation would result in a shift of \$155.1 million and 113.2 positions to the DSS. In addition, nine DCSD positions will



be eliminated and \$922,000 in federal funds will be shifted from State administration to local assistance for allocation to local Low-Income Home Energy Assistance Program and Community Services Block Grant service providers. These programs will be coordinated with other DSS programs which assist low-income families.

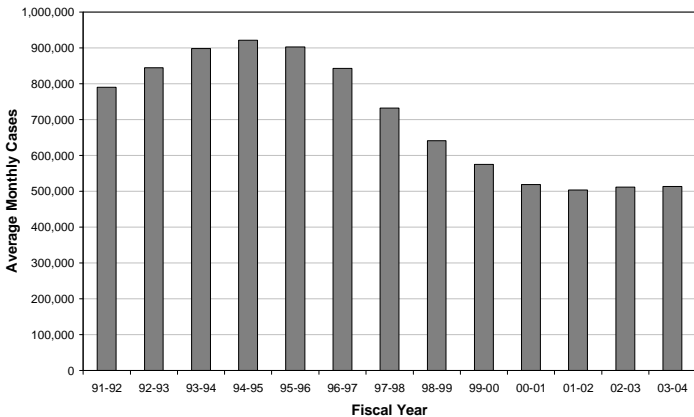
Department of Social Services

California Work Opportunity and Responsibility to Kids

The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$6.7 billion, which includes \$5.8 billion for direct CalWORKs program expenditures, \$598 million in other programs, and \$200 million for a CalWORKs program reserve. Other programs include the

FIGURE HHS-2

CalWORKs Caseload 1991-92 through 2003-04



Statewide Automated Welfare System, Child Welfare Services, California Community Colleges education services, Department of Child Support Services disregard payments, and non-CalWORKs child care.

- ◆ **Program Successes**—California has experienced significant success with its CalWORKs program. The number of aid recipients who are employed has increased from 19 percent in 1996, to 49 percent in 2001. The average monthly wage for aided families has grown from \$596 prior to CalWORKs to \$815 in 2001. Caseload reductions have occurred in every county. To date, the State has received over \$140 million in federal bonuses for its successful operation of the CalWORKs program as compared to other states.
- ◆ **Caseload Trends**—Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 511,000 cases in 2002-03, and 514,000 cases in 2003-04. This represents a major improvement from the rapid growth of the early 1990s, when caseload peaked in 1994-95 at 921,000 cases. Policy reforms that promote self-sufficiency and encourage job skills training, along with increased child care services, financial incentives encouraging work, and until recently, an improved private sector economy, have assisted recipients and potential recipients in finding employment.
- ◆ **Grant Levels**—Consistent with the reduction to the Supplemental Security Income/State Supplementary Payment grant, CalWORKs cash grants will be reduced by approximately 6 percent from the level in the 2002 Budget Act. However, as discussed below, increased funding for employment services will be provided so that recipients can continue to move toward employment. The monthly cash grant for a family of



three would decrease to \$637 in Region I and \$607 in Region II. This grant level will allow a family of three living in Region I to earn up to \$1,499 per month before its grant would be reduced to zero. In addition to the grant amount, the family typically would be eligible for employment services, child care, food stamps, and Medi-Cal. The reduction in the cash grant allows \$65.7 million in Temporary Assistance for Needy Families (TANF) funds to be transferred to the federal Title XX Block Grant in order to offset General Fund costs within the Department of Developmental Services.

- ◆ **CalWORKs Employment Services**—The Budget provides a one-time augmentation of \$241.5 million for employment services. This funding will enable counties to provide services tailored to their individual needs to move CalWORKs recipients from welfare to work. In addition, as discussed in the Preserving Critical Programs section, CalWORKs administration and employment services are proposed for realignment in 2003-04. Under this proposal, counties would be given a 50 percent share-of-cost for administration and employment services, totaling \$543.7 million, along with a dedicated revenue stream.
- ◆ **CalWORKs Child Care**—The Budget funds the projected need for child care for CalWORKs recipients. Funding is included in the DSS budget for Stage I child care, in which counties initially place CalWORKs families and continue to provide services until their financial condition stabilizes. Realignment funding will be provided to counties for families whose financial condition has stabilized, thus allowing them to be moved out of Stage I child care.



- ◆ **Total TANF Reserve**—The Budget includes a \$200 million TANF reserve to be available for unanticipated needs. A reserve of this magnitude is needed to mitigate the impact of several CalWORKs program pressures, including the reauthorization of the federal TANF program. While Congress and the President will consider several key policy changes, federal legislation for reauthorization introduced to date would significantly increase the work participation rates, which could require substantial investments in employment services.

Supplemental Security Income/State Supplementary Payment Program

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are projected to be over \$2.3 billion, a decrease of \$741 million, or 24.2 percent, from the 2002-03 projected level. Program caseload is estimated to increase to 1.1 million recipients in 2003-04, a 0.7 percent increase over the 2002-03 projected level.

Given the State's current fiscal constraints, the Administration proposes that the June 2003 and January 2004 State cost-of-living adjustments (COLAs) be suspended. In addition, it is proposed that, effective July 2003, the SSI/SSP grant payment standards be reduced to the federally-required maintenance-of-effort level. The combined SSI/SSP grant will be reduced to \$708 for an individual and \$1,225 for a couple, a reduction of \$49 and \$119, respectively.

In January 2004, a 2.4 percent federal COLA will be provided, increasing monthly grants for aged/disabled recipients by \$14 to \$722 for an individual and by \$19 to \$1,244 for a couple. The monthly grants for blind recipients will increase by \$14 to \$777 for an individual and by \$19 to \$1,391 for a couple.



In-Home Supportive Services

The revised 2002-03 Budget includes \$2.8 million General Fund to provide an average 16 percent increase in the current Maximum Allowable Contract Rates for that mode of service delivery effective July 2002. In addition, the revised Budget includes \$20.5 million General Fund to provide funding for a \$1 per hour increase, effective July 2002, in the maximum rate in which the State shares in Public Authority In-Home Supportive Services (IHSS) provider wage and benefit costs. This increase, required by current law, has raised wages and benefits from \$9.10 per hour to \$10.10 per hour.

Adoptions

Independent Adoption Program (IAP) Elimination—In order to protect other vital programs, the Administration proposes legislation to eliminate the IAP in 2003-04 for a General Fund savings of \$2.8 million. The proposal assumes that no new applications will be accepted after March 31, 2003. Services similar to the ones provided under the IAP are available through private adoption agencies.

Programs Proposed for State-Local Realignment

The 2003-04 Budget proposes to realign a number of social services programs to the counties, along with a dedicated revenue stream. The programs within DSS proposed for realignment and associated General Fund savings are as follows:

In-Home Supportive Services—\$1.2 billion General Fund savings. The IHSS program provides support services, such as house cleaning, transportation, personal care services, and respite care to eligible, low-income aged, blind, and disabled persons.



These services are provided in an effort to allow individuals to remain safely in their homes and prevent premature institutionalization.

Cash Assistance Program for Immigrants (CAPI)—\$95.3 million General Fund savings. The CAPI is a cash-benefit program for documented immigrants who are ineligible for the SSI/SSP program due to their immigration status.

Food Assistance Programs—\$282.6 million General Fund savings. Savings include \$268.1 million from shifting the State share of administration of the federal Food Stamp Program, and \$14.5 million from the California Food Assistance Program (CFAP) realignment. The CFAP provides food assistance to documented persons who are not eligible for the federal program solely because of their immigration status.

Adult Protective Services (APS)—\$60.8 million General Fund savings. The APS is a county-administered program that investigates abuse, neglect, or exploitation of elderly or dependent adults.

Child Abuse Prevention, Intervention, and Treatment (CAPIT)—\$13.4 million General Fund savings. This program provides prevention and intervention services for children at risk of abuse or neglect.

Foster Care—\$494.2 million General Fund savings. The total savings includes \$34.1 million from shifting the State share of administration of the program, and \$460.1 million from realigning the State share-of-cost for grant payments.

Child Welfare Services (CWS)—\$596.3 million General Fund savings. The CWS program provides a variety of emergency, in-home care services for abused and neglected children and their families, including child protective services.



Adoption Assistance Program (AAP)—\$217 million General Fund savings. This program provides financial assistance to families adopting children with special needs, who otherwise would remain in foster care.

CalWORKs—\$543.7 million General Fund savings from implementing a 50 percent county share-of-cost in CalWORKs Employment Services and Administration. CalWORKs provides temporary cash assistance, employment services, and child care to needy families to assist them in moving off welfare.

Kinship Guardianship Assistance Payment Program (Kin-GAP)—\$18.6 million General Fund savings as a result of shifting the Kin-GAP Program to counties. The Kin-GAP Program provides foster care grants to relative caregivers who assume guardianship of foster children.

Department of Developmental Services

The 2003-04 Budget includes \$3.2 billion (\$2 billion General Fund), an increase of \$354 million (\$142.5 million General Fund) above the 2002 Budget Act for programs serving persons with developmental disabilities. This increase reflects an additional 10,800 consumers for a total caseload of 196,700.

Regional Centers

The Governor's Budget includes a net increase of \$321 million (\$121 million General Fund) for 2003-04 due to increased caseload, higher service utilization rates, and program modifications. The regional center population is projected to increase by 10,870 consumers, to a total of 193,100. Major program changes include:



- ◆ **Regional Center Purchase of Service**—A reduction of \$100 million General Fund through the implementation of statewide purchase of service standards across the 21 regional centers.
- ◆ **Maximizing Federal Funds**—A reduction of \$92.1 million General Fund and a commensurate increase in federal reimbursement as a result of the Department's continuing efforts to maximize federal financial participation.
- ◆ **Transfer of Title XX Grant Fund to Regional Centers**—\$65.7 million General Fund savings to reflect a shift of Title XX funding to regional centers.
- ◆ **Implementing a Parental Co-Payment**—An increase in General Fund revenues of \$31.6 million resulting from the implementation of a proposal requiring parents to share in the cost of providing services to their children.
- ◆ **Aligning State and Federal Eligibility Definitions**—A \$2.1 million General Fund reduction by redefining the State's definition of "substantial disability," which is used to determine whether individuals are eligible for service. The redefinition will align the State and federal definitions, requiring limitations in three of the seven major life activity domains in order to establish eligibility. The revised definition would be applied prospectively so that those currently receiving services would not be affected.
- ◆ **Transfer of Habilitation Services Program (HSP)**—An increase of \$115.4 million General Fund and 18 positions to reflect the cost of transferring the HSP from the Department of Rehabilitation (DOR). The transfer will result in more efficient delivery of services to consumers with developmental disabilities.



Developmental Centers

The developmental center budget includes a net increase of \$27 million (\$17.8 million General Fund) as the result of increased staffing costs. The developmental center population is projected to decrease by 70 consumers from 3,660 to 3,590.

Bay Area Project, Agnews Assessment—The Administration proposes to close Agnews Developmental Center by July 2005. The Department will establish a planning team to assess consumer needs and identify additional resources necessary to successfully move current Agnews' consumers into community placements or other developmental centers, as appropriate. These efforts will result in services being provided in less restrictive settings as well as future savings of \$25 million (\$14 million General Fund) due to the lower cost of care resulting from the elimination of the significant fixed cost of operating the aging Agnews facility.

Department of Mental Health

The Governor's Budget includes \$2.3 billion (\$786.8 million General Fund), a net increase of \$206.8 million (a reduction of \$33.4 million General Fund) above the 2002 Budget Act for state hospitals and community mental health programs.

State Hospitals—The Governor's Budget includes \$660.4 million (\$513.4 million General Fund), a net increase of \$71.6 million (\$62.3 million General Fund) above the 2002 Budget Act for state hospitals. This funding level will support a total caseload of 4,800 state hospital commitments.

Community Mental Health Services—The Budget includes \$1.6 billion (\$224.3 million General Fund), a net increase of \$131.9 million in total funds, and a reduction of \$95.9 million



General Fund compared to the 2002 Budget Act for community mental health services. The following significant adjustments are included in the 2003-04 Budget:

- ◆ A General Fund savings of \$74.9 million as a result of the realignment of the Integrated Services for the Homeless and the Children's System of Care programs. (See Preserving Critical Programs section.) Under realignment, counties will be provided with a dedicated revenue source to support these and other programs proposed to be realigned to counties. Realignment will give counties greater flexibility in the program administration and use of these funds.
- ◆ An increase of \$230.4 million in reimbursements for the Early and Periodic Screening, Diagnosis, and Treatment services. The full effect of cost control measures implemented in the 2002-03 Budget will not be known until the 2004-05 fiscal year and the revised methodology assumes a smaller growth rate.
- ◆ An increase of \$34 million (\$17 million General Fund) for local mental health plans to reflect caseload growth and ensure compliance with new federal regulations governing operation of the Medicaid managed care program.
- ◆ Elimination of the Early Mental Health Services program to achieve General Fund savings of \$15 million.
- ◆ A 10 percent rate reduction to mental health managed care that will result in a \$46 million (\$23 million General Fund) savings.



Department of Alcohol and Drug Programs

The Budget includes \$483.1 million (\$5.6 million General Fund), a decrease of \$94.6 million (\$231.1 million General Fund) below the 2002 Budget Act for substance abuse treatment programs.

Realignment—The 2003-04 Budget proposes to realign multiple alcohol and drug programs, including Drug Medi-Cal services, drug court programs, Proposition 36 funding, and non-Medi-Cal alcohol and other drug services (See Preserving Critical Programs section.) Under realignment, counties will be provided with a dedicated local revenue source to support these programs. Realignment will give counties greater flexibility in the use of these funds and in the administration of alcohol and drug programs.

Drug Medi-Cal Caseload—Current year costs will decrease by \$7.6 million (\$3.8 million General Fund) compared to the 2002 Budget Act as a result of changes in caseload, lower costs for specified services, and a change in the types of services utilized. The 2003-04 caseload is projected to be 71,300 clients. Budget year program expenditures are estimated to decrease by \$2.6 million compared to the 2002 Budget Act.

State Incentive Grant—The Department has received a \$4 million federal grant award to implement science-based prevention programs and practices targeting binge drinking among 12-25 year old youth and young adults.



Emergency Medical Services Authority

Consolidation of Emergency Medical Services Authority (EMSA) into the DHS—The Administration proposes legislation to consolidate the EMSA into the DHS, effective July 1, 2003. The consolidation will result in savings of \$342,000 (\$138,000 General Fund) and the elimination of 5 positions.

Department of Rehabilitation

Habilitation Services Program (HSP)—To improve service to developmentally disabled persons, the Budget proposes the transfer of the HSP to the Department of Developmental Services (DDS) for consolidation within the Regional Centers. The clients served in the HSP are DDS clients, and consolidation would ensure more efficient service delivery and eliminate the duplicative administrative costs for the program, resulting in a net General Fund savings of \$1.5 million and 11 positions.

Work Activity Program (WAP) and Supported Employment Program (SEP)—The Budget includes a decrease of \$2.1 million (\$1.5 million General Fund) in 2002-03 and \$8.8 million (\$6.3 million General Fund) in 2003-04 to reflect a 5 percent reduction in provider rates for the WAP and SEP programs, as proposed in the December 2002 package. In conjunction with the rate reduction, the Administration has also proposed the suspension of the statutory WAP rate adjustment to avoid costs of \$16.9 million (\$12.3 million General Fund).



Office of Statewide Health Planning and Development

Family Physician Training Program (FPTP)—To provide an ongoing, stable funding source for the FPTP, the Administration proposes legislation to establish a surcharge on various medical licenses. The fee revenue would offset approximately \$4.5 million General Fund that supports the administration and operation of the program. The FPTP provides support to medical training institutes for the expansion of family practice resident, primary care physician assistant, osteopathic family physician, and primary care nurse practitioner residency programs.

Department of Child Support Services

Chapters 478 and 480, Statutes of 1999, established the Department of Child Support Services (DCSS) and authorized the implementation of a single statewide child support system comprised of local child support agencies under the supervision of the new Department. The Budget proposes approximately \$1.2 billion (\$470.2 million General Fund) and 245.3 personnel years for state operations and local assistance.

Child Support Collections—In 2003-04, the DCSS estimates total collections of over \$2.3 billion, including payments to families and collections made in California on behalf of other states. The General Fund share for assistance collections, which is included in statewide revenue projections, is estimated at \$320.2 million in 2003-04.



County Administration—The Budget proposes \$231.2 million General Fund for local agency administrative costs. This funding level reflects a maintenance of the prior year expenditure levels, adjusted for costs that will not recur.

Child Support Automation—Chapter 479, Statutes of 1999, designated the Franchise Tax Board as the agent of the DCSS for the procurement, development, implementation, and maintenance and operation of the California Child Support Automation System. The State is responsible for all costs associated with developing, implementing, and transitioning all counties onto this new system. In 2002-03, California will pay an estimated \$188.2 million General Fund in federal penalties, as a result of California's delay in implementing a single, statewide-automated system, an increase of \$98.5 million above the current year. The Administration proposes legislation that requires a 25 percent county share of the increased penalty, which would offset \$51.8 million in General Fund costs.

Department of Aging

Long-Term Care Ombudsman Program—The Administration continues to demonstrate strong support for nursing home residents, through the Long-Term Care Consumer Protection Initiative, by providing additional funding to expand the Long-Term Care Ombudsman Program. The Budget reflects an increase of \$3.3 million (\$2.3 million Federal Citation Penalties Account, Special Deposit Fund). This will enable the Long-Term Care Ombudsman Program to fund part-time staff members to oversee an additional 650 volunteer resident advocates in long-term care facilities.



PROTECTING THE ENVIRONMENT

Proposition 50

The Budget proposes \$1.1 billion from Proposition 50 for protection of the state's water resources. These funds will be used to provide grants and loans to local water agencies to meet safe drinking water standards, protect the state's water supplies from terrorist attack, reduce water pollution through the capture of additional storm water and agricultural runoff, and acquire environmentally sensitive watersheds, wetlands, and beaches.

Proposition 40

The Budget proposes \$816.7 million from Proposition 40 to continue efforts to protect the state's parks and wildlife habitats. These funds will be used for a number of environmental improvement projects, including park acquisitions, wetlands conservation projects, coastal protection acquisitions, public access development, salmon habitat preservation, and projects that improve Lake Tahoe.



CALFED

The Budget proposes \$582.1 million for the State's share of the CALFED Bay-Delta Program (\$18.4 million General Fund, \$531.2 million bond funds, and \$32.5 million other funds). These funds will be used to address environmental concerns in the Delta while ensuring adequate water supplies for agricultural and urban users.

River Parkways

The Budget proposes \$32.9 million (\$7.9 million from Proposition 40 and \$25 million from Proposition 50) to develop and protect river parkways. Priority will be given to projects consistent with approved watershed plans that also include water quality and watershed protection benefits while expanding recreation opportunities.

Fund Shifts

State Parks—The Budget proposes a fee increase for various park services beginning January 2003. These fees, including day-use and camping fees, are estimated to generate an additional \$20 million of revenue annually. Fees, however, generally will remain at lower levels than before they were reduced by the Administration in 2000.

Fishing and Hunting Licenses—The Budget proposes to increase annual general resident license fees from approximately \$30 to \$33.50. In addition, various special licenses for fishing and hunting of particular species will be increased. These increases will generate an additional \$4 million.



Regulatory Fees for Enforcement—Consistent with the “polluter pays” principle:

- ◆ **Clean Air**—The Budget proposes to increase fees on stationary sources of air pollution, thereby generating \$10 million in new revenues.
- ◆ **Clean Water**—The Budget includes a \$13.6 million funding shift for the State Water Resources Control Board Core Regulatory Program from the General Fund to waste discharge fees. These fees are used to permit and monitor discharges, and take enforcement action where dischargers are out of compliance with their permits.
- ◆ **Pesticide Regulation**—The Budget proposes to shift all General Fund support for the Department of Pesticide Regulation by increasing the mill assessment on the sales of pesticides (\$7.5 million), implementing greater collection efficiencies (\$2.0 million), and increasing license and examination fees (\$1.1 million).



BUSINESS, TRANSPORTATION, AND HOUSING

Department of Housing and Community Development

The Budget includes \$647.2 million for the Department of Housing and Community Development's activities, including \$466.5 million in Proposition 46 expenditures from the Housing and Emergency Shelter Trust Fund.

Office of Real Estate Appraisers

The Budget proposes to consolidate the Office of Real Estate Appraisers into the Department of Corporations.

Department of Managed Health Care

The Budget includes \$34.5 million for the Department of Managed Health Care and the Office of Patient Advocate.



Department of Transportation

The Budget includes nearly \$6.4 billion in expenditures by the Department of Transportation (Caltrans) and 20,582.6 personnel years, including nearly \$2.0 billion for programs that assist local governments in constructing and operating highway, road, and transit systems, and nearly \$1.6 billion in capital outlay expenditures for state highway construction projects.

The Mid-Year Spending Reduction Proposals included \$1.8 billion related to the Caltrans budget, including the following:

- ◆ Suspension of the 2003-04 General Fund transfer to the Transportation Investment Fund (\$1 billion).
- ◆ Return of the Traffic Congestion Relief Fund (TCRF) to the General Fund (\$100 million).
- ◆ Forgiveness of planned 2003-04 General Fund loan repayment to the TCRF (\$500 million).

California Transportation Commission

To ensure the continuation of high priority Traffic Congestion Relief Program (TCRP) projects, the Administration has directed the California Transportation Commission (CTC) to take a leadership role by coordinating the efforts of Caltrans, the CTC, and local transportation agencies to re-evaluate transportation funding and project priorities relative to redirecting State Highway Account (SHA), Public Transportation Account, and local funds toward TCRP projects through the State Transportation Improvement Plan process and the CTC allocation authority.



High Speed Rail Authority

The Budget proposes to consolidate the High Speed Rail Authority into the Department of Transportation.

Office of Traffic Safety

The Budget proposes to consolidate the Office of Traffic Safety, currently a freestanding office, with the Office of the Secretary for Business, Transportation, and Housing.

California Highway Patrol

The Budget includes \$1.232 billion and 10,485.3 personnel years for support of the California Highway Patrol (CHP).

Department of Motor Vehicles

The Budget includes \$681.9 million and 8,433.7 personnel years for support of the Department of Motor Vehicles (DMV).

Motor Vehicle Account Fee Proposals

The Motor Vehicle Account (MVA) is the major funding source for the DMV and the CHP. Numerous factors have led to the erosion of MVA resources, including existing MVA fees not keeping pace with inflation and higher annual retirement costs.

The Budget assumes fee proposals that would provide nearly \$194 million in new MVA revenues. The Budget also proposes to realign \$67 million of certain program activity costs to appropriate



fund sources and to provide an indexing mechanism to periodically adjust for inflation. These proposals and the amount of revenue (in parentheses) are outlined below:

- ◆ Increasing the base annual vehicle registration cost by \$3 (\$41 million).
- ◆ Increasing the two \$1 CHP vehicle registration surcharges to a total of \$6 (\$54 million).
- ◆ Increasing the costs of a noncommercial driver's license, up to \$24 for a five-year license (\$30 million).
- ◆ Establishing additional penalties for failure to file transfer of title documents (\$11 million).
- ◆ Issuing identification (ID) cards to seniors free of charge and increasing the ID card fees for all others to \$20 (\$9 million).
- ◆ Activating the Business Partner Automation fee, setting the fee at \$3 (\$2 million).
- ◆ Standardizing a variety of DMV fees at \$15 (\$16 million).
- ◆ Establishing a new Public Safety Surcharge on telephone usage (\$30 million). This new revenue source will be used to fund CHP costs that are not eligible from either the SHA or the MVA.
- ◆ Increasing funding from the SHA by \$16 million to fully fund SHA eligible costs.
- ◆ Increasing funding from the State Emergency Telephone Number Account by \$51 million to fully fund 9-1-1 activities performed by the CHP.



TECHNOLOGY, TRADE, AND COMMERCE

The Governor's Budget includes \$111 million and 130 personnel years for the Technology, Trade, and Commerce Agency. The Agency has reorganized to maintain operational integrity within the reduced funding levels for the following programs: California Infrastructure and Business Finance; Economic Development—Boards and Commissions; Global Economic Development; Contracts, Grants, and Loans; and Economic Research and Strategic Initiatives.

The Agency's budget includes reductions of \$27.3 million. These reductions are in addition to the ongoing program reductions and eliminations identified in the Mid-Year Spending Reduction Proposals. The mid-year proposals also included \$11.4 million in one-time reductions and return of fund transfers to the General Fund.

California Infrastructure and Economic Development Bank—Through its Infrastructure State Revolving Fund (ISRF) Program, the California Infrastructure and Economic Development Bank provides low-cost loans to local agencies for a wide variety of critical public infrastructure. In 2003-04, the Bank expects to leverage the ISRF Program through the issuance of revenue bonds totaling approximately \$150 million. This will greatly expand the



lending capacity of the ISRF Program beyond its original appropriation, which has been committed. Through its Conduit Revenue Bond Financing Program, the Bank issues industrial development revenue bonds for small to mid-size manufacturing companies, 501(c)(3) bonds for nonprofit public benefit corporations, and revenue bonds for government.



GENERAL GOVERNMENT

Department of Industrial Relations

The 2003-04 Governor's Budget includes total expenditures of \$244.5 million (\$63.3 million General Fund) for the Department of Industrial Relations (DIR). This amount includes a reduction of \$95.2 million General Fund, primarily resulting from the conversion of funding support for DIR's workers' compensation programs to 100 percent user funding.

General Fund savings is also achieved by transferring administration and claims payment responsibilities for the Uninsured Employers Program to the State Compensation Insurance Fund, and by recognizing workload efficiencies resulting from the creation of the Labor and Workforce Development Agency. DIR's workplace safety, labor standards enforcement, and job training programs are not significantly impacted by the proposed reductions. In addition, the Budget proposes the following augmentation for 2003-04:



AB 749 Implementation—The Budget includes \$9.2 million (special funds) and 68 personnel years for DIR to implement Chapter 6, Statutes of 2002 (AB 749). Chapter 6 enacted cost-saving reforms for employers and increased benefits to injured workers. This augmentation provides for additional workers' compensation judge teams, enhanced audit activities, fraud prevention, and implementation of an occupational health and safety education program.

Employment Development Department

Trade Adjustment Assistance—The Budget includes \$17 million to provide training and other types of assistance to workers who have become unemployed due to the relocation of production to other countries. This increased funding level reflects the consolidation of grants formerly provided pursuant to the North American Free Trade Agreement with those provided under the newly reauthorized federal Trade Adjustment Assistance program.

Department of General Services

The 2003-04 Budget includes total expenditures of \$837.1 million (\$3 million General Fund) for the Department of General Services. This amount includes a \$13.7 million General Fund reduction resulting from a shift in funding support for various departmental services to user support. In addition, the Budget proposes the following for 2003-04:

Asset Planning and Enhancement—The Budget includes \$250,000 Property Acquisition Law Money Account to fund consultant services to assist in the marketing and sale of two



properties in Southern California. The combined sale of these properties is estimated to generate up to \$10 million in additional General Fund revenue in 2003-04.

Department of Veterans Affairs

The Governor's Budget includes \$328.2 million to support the Department's various programs.

Examination of Revenue and Expenditure Issues—A comprehensive review of the Department's expenditures and revenues will be conducted, as they relate to cash flow issues at the veterans homes, repayment of General Fund loans from previous years, and the possible need for deficiency funding. The Administration plans to address these issues during the Spring budget process.

Member Fees—The Budget proposes to restore member fees in the residential care units of the veterans homes to the levels that existed prior to a recent fee reduction. This would result in a \$1.15 million decrease in General Fund funding provided to the Department and a corresponding increase in reimbursements.

Department of Food and Agriculture

The Governor's Budget proposes \$269 million (\$86.6 million General Fund and \$182.4 million in other funds) for the Department of Food and Agriculture, including the following adjustments:

Specialty Crop Support Program—The Budget includes \$22.9 million in federal funds in 2003-04 to continue funding for market promotion and development programs.



Mediterranean Fruit Fly Preventative Release Program—The Budget continues \$8.9 million General Fund to reduce the growing threat to California from invasive pests.

Hydrilla Eradication—The Budget includes an augmentation of \$1.2 million in special funds for eradication efforts associated with the noxious water weed, hydrilla.

Detection and Trapping—The Budget includes an augmentation of \$3.4 million federal funds to bolster statewide trapping and detection programs for the Mexican fruit fly, the Japanese Beetle, and other harmful insects negatively affecting California's agriculture.

Buy California—A savings of \$1.5 million General Fund is proposed for this program. As noted above, marketing activities will continue with the support of available federal funding.

Pest Control—The Budget contains a reduction of \$1.5 million in Weed & Vertebrae and Bio-Control Programs commensurate with internal streamlining of these activities.

Agricultural Inspection Stations—A reduction of approximately \$1.4 million for Agricultural Inspection Stations is included in the Budget.

California Victim Compensation and Government Claims Board

Victim Compensation Program Claims Payments—The Budget includes \$199.1 million in 2002-03 and \$171.2 million in 2003-04 to fund the cost of medical and dental expenses, mental health counseling expenses, and prescription medication expenses for victims of violent crimes. In order to bring Restitution Fund



expenditures in line with revenues, the Board has taken a number of administrative actions and has proposed legislation aimed at containing costs and increasing revenues. These measures are expected to allow the Board to continue to provide a high level of service to crime victims while eliminating unnecessary administrative expenditures.

Claims Processing System—The Budget includes an augmentation of \$430,000 Federal Trust Fund in 2003-04 for the continued modernization of the Victim Compensation Program's computerized claims processing system. This project is expected to increase the efficiency of the Board related to processing victim compensation claims.

Local Mandate Funding (Non-Education Issues)

The Governor's Budget proposes to continue the deferral of mandates payments, preserving the obligation of local governments to provide the mandated activities as well as the obligation of the State to reimburse those entities in the future, with interest. The estimated deferred obligation in 2003-04 for non-education mandates (including amounts deferred in 2002-03) is approximately \$769 million.



JUDICIAL BRANCH

The 2003-04 Governor's Budget includes a total of \$2.8 billion (\$1.2 billion General Fund) for the Judicial Branch:

(Dollars in Millions)

	Total	General Fund
State Judiciary	\$345	\$289
State Trial Court Funding	2,204	791
Commission on Judicial Performance	3	3
Judges' Retirement Costs	254	132

For the Judiciary, the 2003-04 Budget reflects total expenditures of \$345 million. Specifically, the Judiciary's budget includes the following adjustments:

- ◆ \$635,000 to implement the Trial Court Interpreter Labor and Employee Relations Act (Chapter 1047, Statutes of 2002).
- ◆ General Fund savings of \$500,000 related to consolidating administrative functions at the Courts of Appeal.



- ◆ An unallocated General Fund reduction of \$8.5 million in 2002-03 and \$17.7 million in 2003-04.

Over the course of this Administration, expenditures for the State Judiciary have increased by approximately \$87.2 million.

For the Commission on Judicial Performance, the 2003-04 Budget reflects total expenditures of \$3.1 million, which reflects an unallocated reduction of \$1 million.

For State Trial Court Funding, the 2003-04 Budget reflects total expenditures of \$2.2 billion. For the trial courts, the Budget includes the following adjustments:

- ◆ \$8.4 million in fiscal year 2002-03 and \$14.3 million in fiscal year 2003-04 to meet various needs of the trial courts, including health benefit increases.
- ◆ \$32.6 million to address increased costs associated with providing security at trial court facilities.
- ◆ \$20 million for increased retirement costs for trial court employees.
- ◆ \$4.5 million to address increased costs associated with providing court interpreters to assist non-English speaking defendants in trial court proceedings.
- ◆ \$3.9 million to implement the Trial Court Interpreter Labor and Employee Relations Act (Chapter 1047, Statutes of 2002).
- ◆ An unallocated General Fund reduction of \$36 million in 2002-03 and \$116 million in 2003-04.
- ◆ General Fund savings of \$22 million related to increased flexibility to contract with various law enforcement agencies to provide court security.



- ◆ General Fund savings of \$31 million as a result of implementing electronic reporting of court proceedings.
- ◆ General Fund savings of \$5.5 million related to court ownership of court reporting transcripts.
- ◆ General Fund savings of \$2.5 million related to consolidating administrative functions at the trial courts.

The Administration proposes to implement the following fee increases to support the operation of the trial courts. The revenue from these fees will partially offset the General Fund support provided to the trial courts.

- ◆ A security fee of \$20 per court filing, which will result in revenue of \$34 million annually.
- ◆ A \$10 increase in the trial motion fee, resulting in revenue of \$1.2 million annually.
- ◆ Transferring \$31 million in annual revenue from various undesignated fees on court-related activities from the counties to the courts.

An additional General Fund savings of \$300 million will be accomplished by providing a dedicated revenue source for court security.

Over the course of this Administration, expenditures for State Trial Court Funding have increased by approximately \$538 million.



CAPITAL OUTLAY

The Governor's Budget includes \$1.9 billion for the capital outlay program, not including funding for transportation, K-12 schools, and State conservancies. The General Fund contributes \$26.4 million of the total; \$675.0 million is proposed from lease-revenue bonds; and \$1.18 billion is from the 2002 Kindergarten–University Public Education Facilities Bond Act funds and other general obligation (GO) bonds.

The Budget includes:

- ◆ Nearly \$1.07 billion from Proposition 47 funds, passed in November 2002, and \$3 million from other GO bonds for numerous construction projects within the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) that help meet the needs of increasing enrollment, replacement of aging facilities, and renovation of existing buildings to address fire, life, and safety, as well as seismic concerns.
- ◆ \$29.6 million lease-revenue bonds to replace and renovate various facilities for the Department of Forestry and Fire Protection.

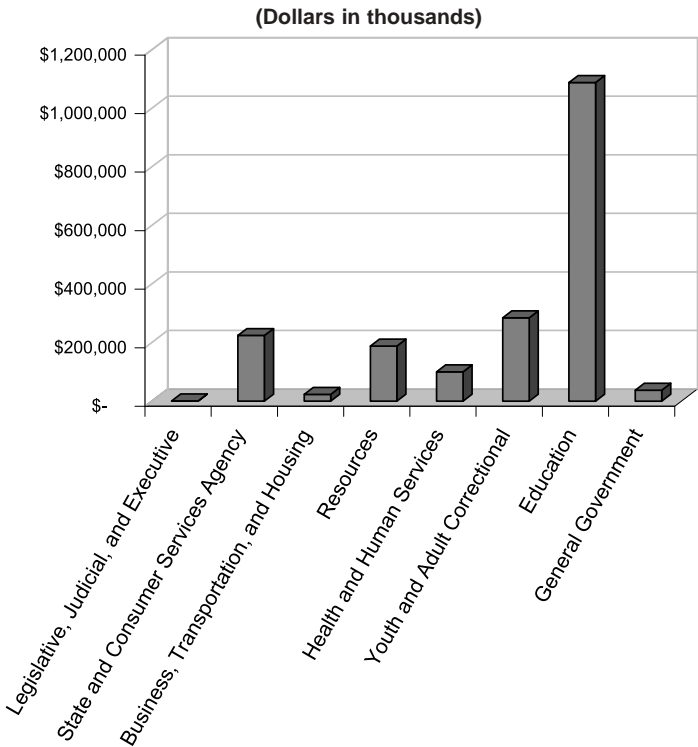


- ◆ \$2.9 million Motor Vehicle Account to replace a California Highway Patrol office in Williams.
- ◆ \$19.6 million in Motor Vehicle Account, State Highway Account, and the Vehicle License Fee Account to complete three projects for the Department of Motor Vehicles and fund two continuing projects.
- ◆ \$50.3 million in lease-revenue bonds to construct a 96-bed expansion and a recreation complex in the forensic area at the Porterville Developmental Center.
- ◆ \$16.9 million in lease-revenue bonds to provide equipment for the Sexually Violent Predator facility for the Department of Mental Health.
- ◆ \$29.9 million in lease-revenue bonds for three safety and renovation projects at various state hospitals for the Department of Mental Health.
- ◆ \$32.8 million in lease-revenue bonds for the California Conservation Corps to relocate two residential facilities.
- ◆ \$107.9 million for the Department of Parks and Recreation to fund 41 major projects, minor projects, and budget planning funding to allow for the planning and executing of various acquisitions, historical restorations, development, and restoration projects.
- ◆ \$220 million in lease-revenue bonds for the construction of a new facility at California State Prison, San Quentin to house the condemned inmate population.



- ◆ \$11.0 million in lease-revenue bonds to expand the Hawaii Medfly Rearing Facility for the Department of Food and Agriculture.
- ◆ \$14.7 million in General Fund to complete the Lancaster Armory and the Los Alamitos Airfield Electrical Distribution System.

Total Capital Outlay Funding for 2003-04 by Agency



INFORMATION TECHNOLOGY

Information technology (IT) is an indispensable tool of modern government and one in which the State has invested heavily. When the statutory authorization for the Department of Information Technology (DOIT) sunset in July 2002, the Administration and Legislature agreed that major reforms were needed to achieve effective statewide planning for and management of information technology.

Information Technology Governance in Transition

- ◆ The Legislature preserved funding in the budget for two core activities—oversight and security—providing \$2 million to the Department for Finance (Finance) for these purposes. The Administration therefore began the 2002-03 fiscal year with three tasks: create an interim IT governance structure during the transition until a new statutory framework could be adopted effective January 1, 2004; implement oversight and security programs that worked; and propose a permanent plan to the Legislature for IT governance.



- ◆ In May 2002, the Administration directed state agencies in Executive Order D-57-02 to implement IT management reforms. The Administration also appointed a State Chief Information Officer (CIO) within the Governor's Office to coordinate the control agencies and departments that have lead IT responsibilities and to provide leadership on statewide IT issues. These efforts resulted in a collaborative governance model that is neither centralized nor decentralized. Finance, with the guidance of the State CIO, is the control agency most directly accountable for ensuring that the fundamentals of IT governance are met during this transition period.
- ◆ In developing an oversight program, Finance has defined project oversight, assigned broad roles building on the direction provided in the Executive Order, and is currently developing a framework for project reviews and reporting. Project oversight identifies and quantifies any issues and risks affecting project components and implements appropriate remediation plans for the identified project risks.
- ◆ In developing a statewide security program, Finance reached out to key partner agencies for planning assistance, creating an interagency "community" approach to a security program. This approach relies on clear definition of roles and wise use of the existing resources to create an informed community of state IT professionals who focus on mitigating the highest IT security risks.
- ◆ The critical next steps for security include: identifying existing statewide security resources and authorities; implementing a security communication plan; beginning risk identification; improving security awareness and knowledge; managing security incidents; and establishing the confidentiality of security information.



New Statutory Framework for Information Technology Governance

- ◆ The first step towards a permanent governance structure is to build consensus on a broad vision for the use of information technology in state operations and on basic governance principles that guide the State towards that vision. A working vision is: *The State will manage, deploy, and develop its information technology resources to support responsive and cost-effective state operations, and to establish timely and convenient delivery of state services, benefits, and information.*
- ◆ The Administration believes that effective statewide management of IT is based on clear strategic thinking, sound management of the existing IT operations, and demonstrated accountability. The future governance structure needs to address all three requirements. In particular, public trust in the State's IT governance needs to be restored.
- ◆ Basic governance principles will guide the State towards a new governance structure. These principles include the following:
 - ◇ Strategic planning must address both current and anticipated needs, and there must be a bridge between strategic decision-making and operational activity.
 - ◇ Sound administration is based on assigning governance tasks by expertise: service agencies primarily have operational responsibility, control agencies have oversight responsibilities, and the CIO should remain primarily at the strategic level. An Information Technology Board could provide a public forum for coordination and the highest level of IT program oversight.



- ◇ The responsibility for ensuring compliance with state policy and procedure must be embraced at each level of governance: project managers, department Information Security Officers, department Chief Information Officers, department directors, agency secretaries, Department of General Services, Finance, and the State CIO.
- ◆ By February 1, 2003, the Administration will provide a specific proposal and draft legislation for a permanent IT governance structure that is based on the fundamental principles above.



STATEWIDE ISSUES

Controlling the Growth of State Government—The Administration recognizes the importance of controlling the size of the State workforce, and has eliminated 6,600 vacant positions in previous budgets. This budget reflects the elimination of an additional 6,000 vacant positions in the current year and more than 1,900 positions associated with program reductions in the current and budget years. The current Hiring Freeze will also continue through the current fiscal year, which will further limit the size of the State workforce.

State Teachers' Retirement System (STRS)—The Governor's Budget proposes to reduce the General Fund payment to STRS that provides for teacher purchasing power maintenance by \$500 million in 2003-04. In exchange, the State will make a statutory commitment to restore the funds if purchasing power protection at the 80 percent level cannot be maintained through July 1, 2036. In addition, the Budget reflects a deferral of payments to STRS through either pension obligation bonds or loan agreements executed with STRS. This proposal will result in reduced General Fund expenditures of approximately \$448 million in 2003-04.



California Public Employees' Retirement System (CalPERS)—

The Budget reflects a deferral of payments to CalPERS through either pension obligation bonds or loan agreements executed with CalPERS. This proposal will result in reduced General Fund expenditures of approximately \$1.1 billion in 2003-04.

Employee Compensation—The Department of Personnel Administration will negotiate, through the collective bargaining process, where applicable, an \$854 million (\$470 million General Fund) reduction in 2003-04 employee compensation costs. In addition, the Rural Health Care Equity Program, which assists with the out-of-pocket health care expenses for employees and annuitants who live in rural areas that are not covered by the State's contracts with HMOs, will no longer include annuitants as of February 1, 2003.

Advisory Boards and Commissions—The Administration directs all advisory boards and commissions to limit their meetings to one annually.



ECONOMIC OUTLOOK

Key Economic Indicators

(Annual Percent Change, except for New Housing)

	2002	Forecast	
		2003	2004
U.S. Gross Domestic Product, adjusted for inflation	2.3 %	2.5 %	3.5 %
California Nonfarm Employment	-0.7 %	0.7 %	2.1 %
California Personal Income	0.9 %	3.3 %	5.3 %
California Consumer Price Index	2.5 %	2.8 %	3.2 %
California New Housing Units	159,000	157,000	162,000

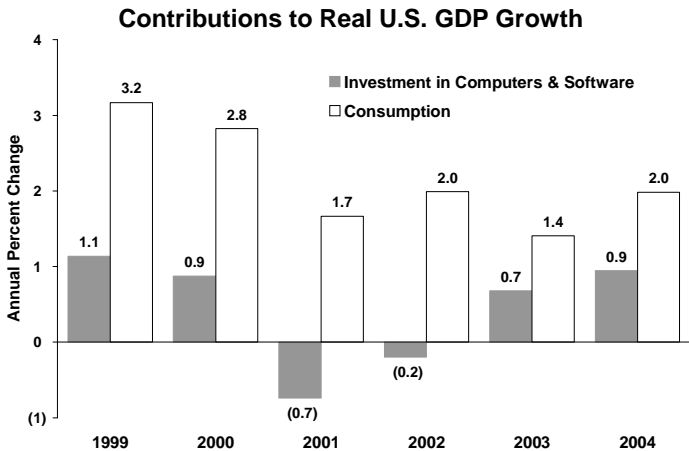
The national and California economies were growing slowly as 2002 came to a close. Labor markets were weak in California and most of the rest of the nation; the state and national economies were experiencing jobless recoveries. Better had been expected from both economies at midyear. Their recovery is now projected to be sluggish through most of 2003, and economic growth in 2004, less robust than had been expected.



The Nation

- ◆ The national economy entered the fourth quarter of 2002 with four consecutive quarters of economic growth behind it. Economic growth slowed considerably in the fourth quarter, and for the year as a whole, the economy grew by about 2.3 percent, adjusting for inflation. That was not enough growth to convince employers to take on new workers, however. In fact, average nonfarm payroll employment fell nearly 1.0 percent from 2001, and unemployment averaged about 5.8 percent, up from 4.8 percent in 2001.
- ◆ Excess capacity will keep capital equipment spending plans modest in many industries. Still, low interest rates, expansive federal fiscal policy, increased spending by businesses on computers and software, and continued, if somewhat more modest, gains in consumer spending will provide enough stimulus to keep the recovery going in 2003. Growth will be modest during the first half of 2003. Firms will squeeze as much output from their current workers as possible, resulting in negligible employment gains. By the end of 2003, however, they will find it necessary to increase hiring in order to meet increased production schedules.
- ◆ The major risk to the outlook is a significant retrenchment by consumers. Consumers have spent aggressively for many years, and their debt loads have increased considerably. Further, their confidence has waned somewhat. The primary development that could boost the economy beyond expectations is a significant new federal fiscal stimulus package made up of well-designed, effective tax breaks and targeted increases in government spending.





California

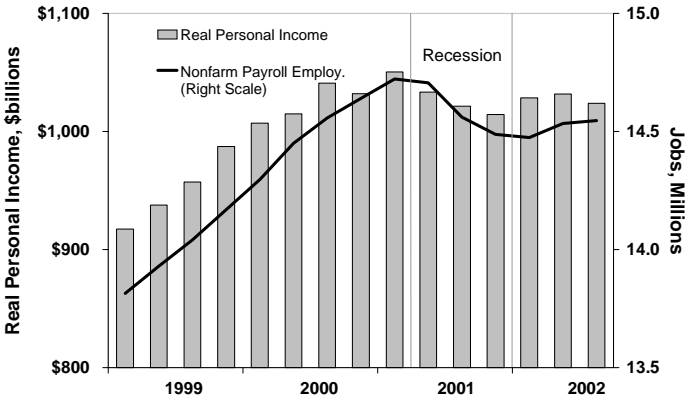
- ◆ Like the nation, California is experiencing a jobless recovery. The state economy improved in the first half of 2002, with employment and total state personal income posting gains. The improvement faltered at midyear, however. The state lost jobs between June and November, and personal income likely fell in the third quarter. In addition, unemployment failed to improve, as the rate varied between 6.4 percent and 6.5 percent for most of the year.
- ◆ The California economy entered 2003 with little momentum. Labor markets were weak with no signs that significant improvement was imminent. The outlook for the California economy in 2003 depends heavily on the fate of the national economy. Near-historic low interest rates should help the state economy in 2003, as should continued strong spending on



national defense and homeland security. On balance, the outlook for the California economy is for slow growth in 2003 and moderate growth in 2004. Unemployment will likely increase somewhat in 2003 before falling in 2004.

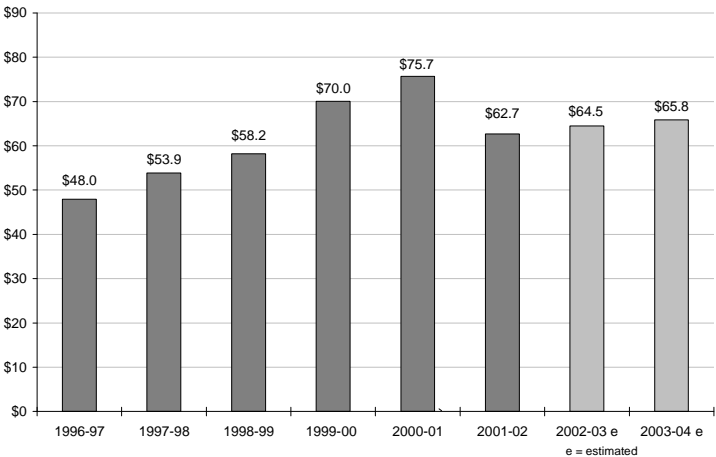
- ◆ The main risk to the outlook for the state economy is the same as that for the national economy—a retrenchment by consumers. In addition, the state is more at risk to a delay in the high-tech recovery. As for the nation, the economy could be stronger than expected if a new federal fiscal stimulus package made up of well-designed, effective tax breaks and targeted increases in government spending is enacted.

Jobless Recovery California



REVENUE ESTIMATES

Major General Fund Taxes and Licenses
(Dollars in Billions)



Because the anticipated recovery of the U.S. and California economies has not yet materialized, the decline in the State's revenues was more pronounced than what was expected at the time the 2002-03 May Revision was prepared. Since enactment of the 2002 Budget Act, the General Fund revenue forecast for



major taxes and licenses has decreased by \$7.7 billion for the past year and current year combined. In addition, a decline of 5.5 percent in revenues, or \$4 billion, to \$69.2 billion is expected for 2003-04. When the three years are compared to the estimates made last May without the revenue measures proposed in this Budget, the three-year drop amounts to \$17.7 billion.

As has been noted during the past year, the State's remarkable revenue growth in recent years was driven by stock market related gains, while the current fall-off largely reflects the market's decline. Revenues began to weaken beginning early in 2001 and year-over-year losses in personal income tax withholding are believed to be attributable primarily to the loss of stock option income, which plunged with the slowing economy and the market's retreat. Taxpayers are also anticipating less non-wage income—primarily capital gains—which has eroded estimated payment receipts. Similarly, consumers have cut back, resulting in a deterioration in purchases of taxable goods. This softness in revenues is expected to continue until mid-2003, when modest growth is expected to resume.

Major Revenue Sources

Personal income tax revenues are projected to be \$32.9 billion in 2002-03 and \$33.6 billion in 2003-04. Preliminary data indicate that capital gains peaked in 2000 before plunging an estimated 60 percent in 2001. Given the general weakness in the market during 2002, this forecast assumes capital gains will decline by an additional 15 percent in 2002 before returning to positive growth of 7 percent in 2003.



Sales and use tax revenue is forecast at \$22.3 billion in 2002-03 and \$23.2 billion in 2003-04. Taxable sales for 2002 are expected to be down by 2.2 percent compared to 2001. Sales growth is expected to resume during 2003, but at a modest pace—up 3.4 percent—due to a slowly recovering economy during the first half of the year. In 2004, the rate of increase is expected to accelerate to 5.6 percent, consistent with economic growth.

Corporation tax revenues are expected to total \$6.5 billion in 2002-03 and \$6.4 billion in 2003-04. Taxable profits are estimated to increase by 0.6 percent in 2002 before rebounding 10.9 percent in 2003. Revenue growth will be held down somewhat by credit usage and S-corporation activity.

The Governor's Budget revenue forecast also reflects the following proposals:

- ◆ **Regulated Investment Companies**—The Budget proposes to prevent banks from utilizing Regulated Investment Companies to avoid California tax by improperly sheltering income, thereby increasing revenues by \$45 million in 2003-04.
- ◆ **Corporation Tax Subpart F Income Exclusion**—The Budget proposes to clarify that existing law does not allow certain corporations to exclude a portion of their income, called Subpart F income, from a water's edge combined report. The Budget also proposes to conform to federal law in the coordination of Subpart F income and U.S.-source income. Because these proposals would clarify existing law, they will have no effect on revenues. However, these changes will close potential tax loopholes.



- ◆ **Manufacturers' Investment Credit (MIC) Clarification**—The Budget proposes clarifying that the MIC is intended to apply to manufacturing activities as specified in the Standard Industrial Code. This proposal would increase revenues by an estimated \$50 million in 2003-04.
- ◆ **Extension of the Sunset Provision for the Manufacturers' Investment Credit**—Based on the Budget's economic forecast, decreases in manufacturing employment are expected to cause the MIC to sunset on January 1, 2004. However, the Budget proposes to revise the MIC provisions and extend the sunset date in order to continue the stimulus this credit provides for jobs and investment, thereby assisting the economic recovery.

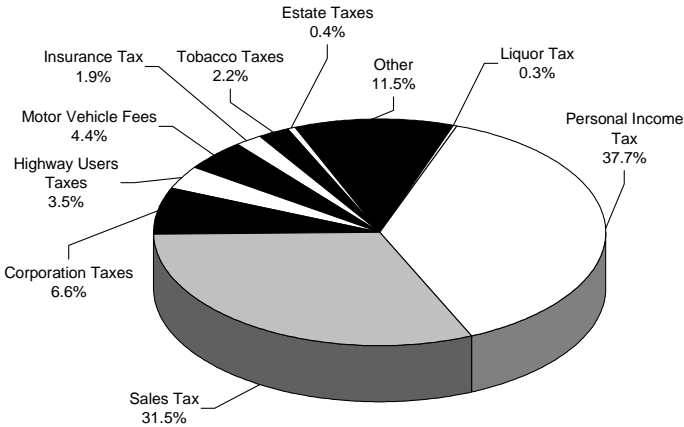


SUMMARY CHARTS

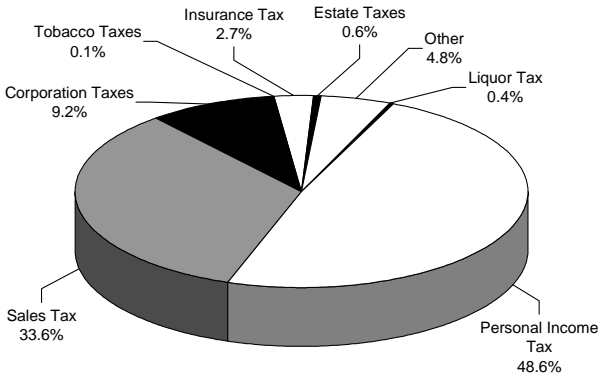


Revenues
2003-04 Fiscal Year

Total Revenues and Transfers

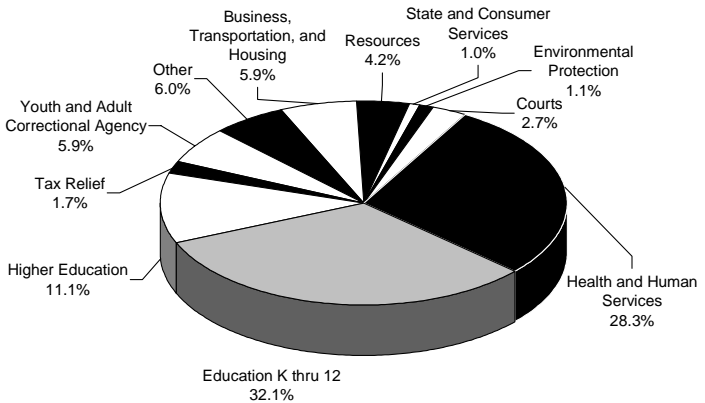


General Fund Revenues and Transfers

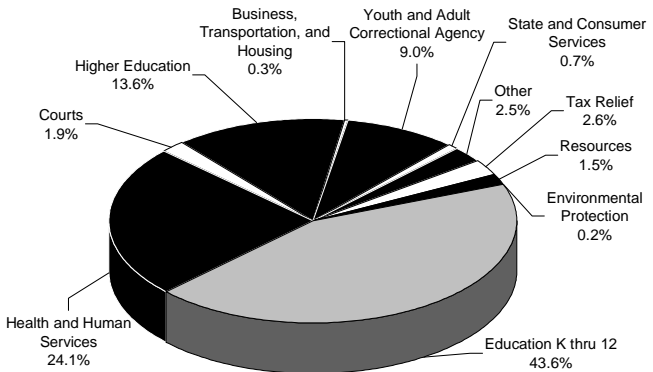


Expenditures 2003-04 Fiscal Year

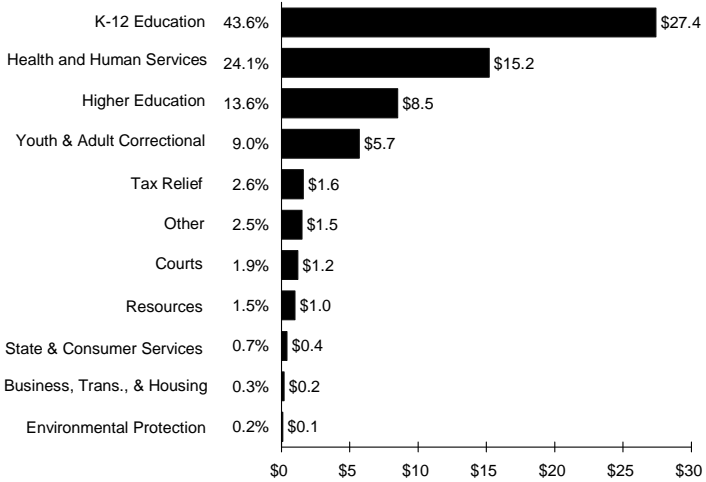
Total Expenditures (Including Selected Bond Funds)



General Fund Expenditures



2003-04 General Fund Expenditures (Dollars in Billions)



- ◆ K-12 Education continues to be the State's top funding priority—over 43 cents of every General Fund dollar is spent on K-12 education.
- ◆ Combined with higher education funding, the State will spend over 57 cents of every General Fund dollar on education.
- ◆ Education, health and human services, and public safety expenditures constitute over 90 percent of all State General Fund expenditures.



2003-04 Expenditures By Fund

(Dollars in Millions)

Function	General Fund	Special Funds	Bond Funds	Total
Education (K-12)	\$27,390	\$59	\$3,540	\$30,989
Health and Human Services	15,146	12,021	112	27,279
Higher Education	8,509	1,019	1,210	10,738
Business, Transportation, and Housing	216	5,274	147	5,637
Technology, Trade, and Commerce	21	5	--	26
Courts	1,216	1,416	--	2,632
Tax Relief	1,614	--	--	1,614
Local Government Subventions	345	2,326	--	2,671
Youth and Adult Corrections	5,639	2	7	5,648
Resources	959	1,263	1,862	4,084
Environmental Protection	100	686	272	1,058
State and Consumer Services	438	548	18	1,004
Other	1,176	1,845	36	3,057
Total	\$62,769	\$26,464	\$7,204	\$96,437

2003-04 Revenue Sources

(Dollars in millions)

	General Fund	Special Funds
Personal Income Tax	\$33,610	\$2,580
Sales Tax	23,210	7,087
Corporation Tax	6,361	--
Highway Users Taxes	--	3,332
Motor Vehicle Fees	18	4,227
Insurance Tax	1,830	--
Estate Taxes	404	--
Liquor Tax	292	--
Tobacco Taxes	101	1,991
Other	3,327	7,686
Total	\$69,153	\$26,903



2003-04
General Fund Expenditures
by Agency
(Dollars in Millions)

	<u>2002-03</u>	<u>2003-04</u>
Legislative, Judicial, Executive	\$2,477	\$2,167
State and Consumer Services	480	438
Business, Transportation, & Housing	206	216
Technology, Trade, and Commerce	46	21
Resources	1,115	959
Environmental Protection	175	100
Health and Human Services	23,029	15,146
Youth and Adult Correctional	5,674	5,639
K-12 Education	29,067	27,390
Higher Education	9,447	8,509
Labor and Workforce Development	153	90
General Government	<u>3,592</u>	<u>2,094</u>
Total	\$75,461	\$62,769



**2003-04 Governor's Budget
General Fund
Budget Summary
(Dollars in Millions)**

	<u>2002-03</u>	<u>2003-04</u>
Prior Year Balance	-\$2,133	-\$4,451
Revenues and Transfers	<u>\$73,144</u>	<u>\$69,153</u>
Total Resources Available	\$71,011	\$64,702
Expenditures	<u><u>\$75,462</u></u>	<u><u>\$62,769</u></u>
Fund Balance	-\$4,451	\$1,933
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$1,402	\$1,402
Special Fund for Economic Uncertainties	-\$5,853	\$531



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California's Budget on the Internet

*This document is also available on the Internet at the
California Department of Finance website—www.dof.ca.gov*



