



STATE BUDGET HIGHLIGHTS

2004-05



Arnold Schwarzenegger, Governor
State of California

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OVERVIEW

2004-05 California State Budget

Governor Schwarzenegger's signing of the 2004 Budget Act caps seven months of substantial progress on each part of the four-point economic recovery plan he announced in January:

- In March, Californians approved Proposition 57—the Economic Recovery Bond Act—which will refinance a portion of the total inherited debt and which averted a cash crisis in June.
- Also in March, Californians approved Proposition 58, which requires balanced budgets, growing budget reserves, and gives the Governor new powers to keep State spending in balance.
- In April, the Governor forged a bipartisan agreement with the Legislature and signed SB 899—legislation that comprehensively overhauls and reforms the State's workers' compensation system—to move the State forward on business climate reform. And in July, agreement was reached to overhaul 2003 legislation that encouraged frivolous business lawsuits.
- And now, the Governor has signed a Budget Act that moves the State toward structural balance.

Confidence in California's new fiscal direction is evidenced by the fact that the State has already secured the first increase in its credit rating in four years—and only the fourth time the State's credit rating has been increased *before* a budget has been enacted.



Following are key features of the 2004 Budget Act:

- It contains no tax increases.
- It significantly reduces the state's structural deficit.
- It uses only \$2 billion of the Economic Recovery Bond to finance operations, compared to the \$11 billion used last year.
- It spends more than \$10 billion less than projected baseline spending in 2004-05.
- It improves the State's out-year fiscal forecast through an early repayment of nearly \$1.4 billion in transportation loans that had been scheduled for repayment in future years—freeing up new funds this year for transportation projects at the state and local levels.
- It makes permanent, the Governor's 2003 roll-back of the car tax—a tax cut totaling \$4.1 billion in this fiscal year.
- It contains reforms in the State's retirement system that will generate \$2.9 billion in savings over 20 years.
- It increases total per-pupil funding for K-12 students by \$282—from \$9,530 to \$9,812.
- It reflects the Governor's Compact with Higher Education that guarantees predictable tuition, annual increases in both student enrollment and per-pupil spending, and accountability measures for the University of California and California State University systems beginning in 2005.
- It provides for total year-over-year growth of more than \$600 million in funding for California Community Colleges.
- It rolls back more than \$100 million in fee increases.
- It incorporates the Governor's historic agreement with local governments to prevent the State from using local revenues to balance State budgets in future years.
- It implements needed reforms in the budgeting practices in the Department of Corrections.

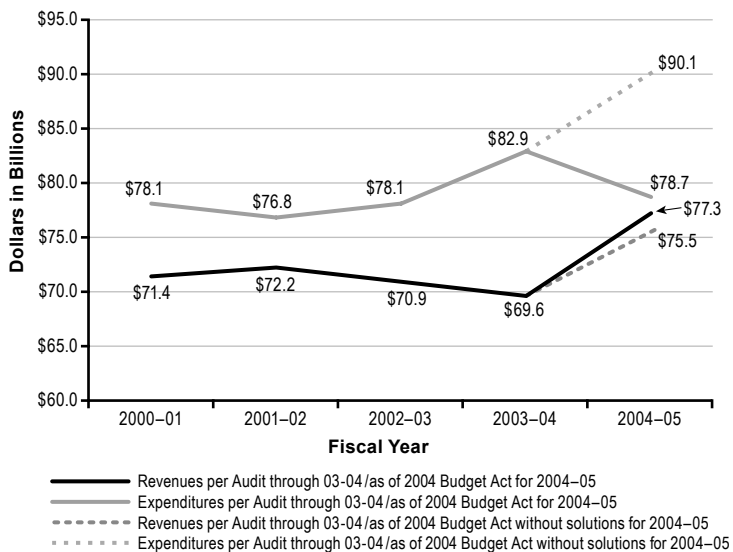
- It provides additional tools to law enforcement and parole agents at the Department of Corrections to adequately supervise parolees and reduce victimization by lowering the rate of recidivism.
- It implements procurement reform in state government, allows the State to sell surplus property faster, and will create California's first "e-budget" next year.

The Governor's signature of the 2004 Budget Act comes at a time when California's economy is continuing to rebound, as evidenced in several key indicators:

- Faster growth in personal income, with first-quarter 2004 growth of 5.8 percent compared to the same period in 2003.
- Growing taxable sales, with improving incomes fueling the sixth quarterly year-over-year growth in a row.
- A sharp turnaround in exports of made-in-California merchandise, with a remarkable 25 percent jump in first-quarter exports compared to the same period just one year ago—nearly double the growth in the nation's exports as a whole.
- Increased signs of a recovering tourism industry—including higher room rental rates, more bookings for conventions, and higher passenger counts at major California airports.



Closing the Gap



THE ECONOMY

Better employment gains in recent months have made the national and California economic recoveries more broad-based and sustainable. Improved job growth has joined renewed business investment, stronger personal income growth, robust residential construction, healthy real estate markets, and rebounding exports to create full-fledged recoveries.

Key Economic Indicators

(Annual Percent Change, except for New Housing)

	2003	Forecast	
		2004	2005
U.S. Real Gross Domestic Product	3.1	4.6	3.5
California Nonfarm Employment	-0.3	0.8	2.1
California Personal Income	3.7	5.4	5.6
California Consumer Price Index	2.3	2.5	2.3
California New Housing Units (Thousands of Total Units)	199	200	200

Forecast based on data available as of April 2004.

The Nation

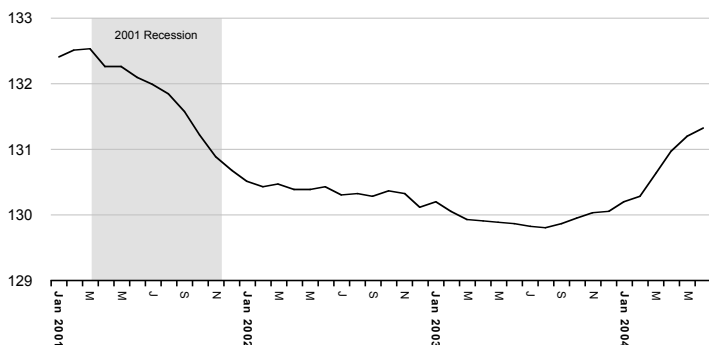
The nation's economic recovery accelerated sharply during the second half of 2003, and strong growth continued into 2004.



- Real gross domestic product surged 8.2 percent in the third quarter of 2003 before settling into a more sustainable pace. Economic output expanded a healthy 3.9 percent during the first quarter of 2004, driven by strong business investment—principally in information technology equipment and software—national defense expenditures, and rising exports.
- Nonfarm payroll employment began to grow more quickly in March 2004 and rose above its recession-ending level in April. During the four months ending with June 2004, payroll employment expanded by 1,024,000. The gains were widespread with all major industry sectors gaining jobs except for Government, where employment was unchanged.

U.S. Payroll Employment

Millions of Jobs



- Consumer spending has been a mainstay of the economy since the end of the recession. These expenditures rose by 3.8 percent at an annualized rate in the first quarter of 2004, spurred by large federal income tax refunds, the lingering effects of last year's tax cuts, mortgage refinancing, and improving consumer confidence.
- Home sales and construction have been exceptionally strong throughout the recovery, despite weak job growth. Investment in residential structures grew an average of 8.4 percent during 2002 and 2003.

- High energy prices present the major risk to a sustained recovery. Crude oil prices recently moved above \$40 per barrel. High oil prices could slow economic growth by cutting into consumer spending on other goods and services, spurring inflation, and potentially triggering aggressive Federal Reserve interest rate hikes.

California

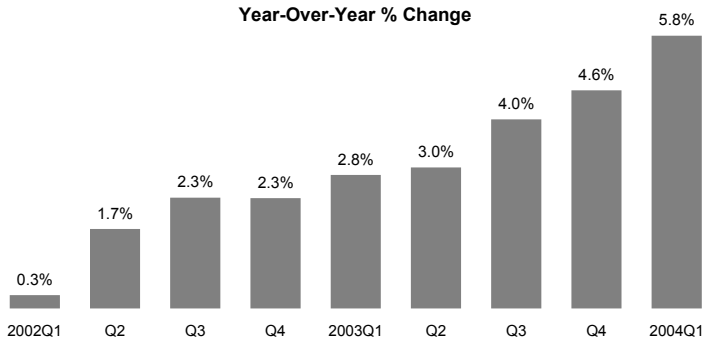
A stronger California economy is reflected in higher personal income growth, expanding exports, and improving labor markets.

- California personal income has increased in every quarter since the end of the national recession, with the rate of growth picking up considerably in recent quarters. In the first quarter of 2004, state personal income was 5.8 percent higher than its year-earlier level, ranking California 14th among the 50 states on that measure. For 2003 as a whole, personal income was up 3.6 percent in the state as compared to 3.4 percent in the nation.
- Exports of made-in-California merchandise in the first quarter of 2004 exceeded year-ago levels by 25 percent, a sharp recovery from the acute drop in exports in 2002 and the tepid 1.9 percent growth in 2003. The turnaround is attributed to the improving economies of many of the State's major trading partners—most notably Mainland China—and a weaker dollar. Exports of computer and electronics products jumped almost 20 percent from the first quarter of 2003.
- Construction in California has become more balanced, with commercial construction beginning to come back. Office construction expanded by 31 percent on a year-over-year basis during the first six months of 2004, a good sign of a pick-up in business investment in the state. Total nonresidential construction permitting during the first six months of 2004 was up 12 percent from the same months of 2003.



- Economic expansion and the specter of rising mortgage rates have prompted brisk home sales. Home sales during the first five months of 2004 were 6.7 percent better than during the same months of 2003. Increased sales and lean inventories have kept home prices moving up. The median price of existing single-family detached homes sold reached a record \$453,590 in May, more than 26 percent above the May 2003 median.

California Personal Income Growth
Year-Over-Year % Change



REVENUES

General Fund revenues are estimated to be \$74.6 billion for 2003-04 and \$77.3 billion for 2004-05. The 2004-05 May Revision, which included the following proposals, was the starting point for these estimates:

- Maintaining the base level of transfers to the Public Transportation Account (PTA), but specifying that any excess sales tax revenues on gasoline, which would otherwise be designated as PTA spillover, be credited to the Traffic Congestion Relief Fund as partial repayment of transportation loans. An estimated \$140 million in revenue is expected.
- Abusive tax shelter audit activities are expected to increase revenues by \$67 million in 2004-05.
- A personal income tax and corporation tax amnesty program during 2004-05 is expected to increase revenues by \$185 million.

The 2004 Budget Act revenue forecast used the Legislative Analyst's Office revenue forecast, which was \$355 million higher than the May Revision and included the following provisions:

- The sales and use tax was added to the tax amnesty program, which increases General Fund revenues by \$73 million, and the estimate for the personal income tax and corporation tax increased to \$260 million.



- Enactment of provisions to increase collection of the use tax for boats, airplanes, and vehicles is expected to increase General Fund revenues by \$26 million. These provisions would sunset July 1, 2006.
- A two-year suspension of the teacher tax credit for the 2004 and 2005 tax years is expected to increase General Fund revenues by \$210 million in 2004-05.
- Tribal gaming revenues of \$300 million for the General Fund are expected in 2004-05, with increasing amounts on an ongoing basis.
- Pension obligation bonds are expected to provide a General Fund benefit of \$929 million (\$353 million expenditure savings and revenue transfers of \$576 million).

Revenue Forecast Comparison Current vs. Comparable Recovery Periods

		% Change
DOF	03/04 - 04/05	6.3*
LAO	03/04 - 04/05	6.6
Actual	93/94 - 94/95	7.0
Actual	94/95 - 95/96	10.0

*May, June, and July revenue collections are tracking with our estimates

K-12 EDUCATION

In recognition of the State's fiscal condition, the Administration and the education community agreed to rebase the 2004-05 Proposition 98 funding guarantee by \$2 billion and direct available funding to specific priorities. The Budget Act maintains this agreement. Additionally, funding required under Proposition 98 for 2002-03 and 2003-04 that was not anticipated in the budgets for those years will be provided as part of a multi-year settle-up of Proposition 98 obligations, beginning in 2006-07. The Administration has agreed that the priorities for spending any amounts above the levels needed for programs funded in the 2003-04 fiscal year are as follows: (1) growth in enrollment and cost-of-living adjustments, (2) restoring general-purpose revenue limit funding reductions made in the 2003 Budget Act, (3) paying valid State-mandate claims, and (4) providing additional general purpose funds and funding for State priorities in a 75 percent to 25 percent ratio, respectively.

FIGURE K-12-1

Proposition 98

(Dollars in Thousands)

	2002-03	2003-04	2004-05
General Fund Appropriation	28,892,385	30,411,562	34,003,295
Local Revenue	14,802,929	15,789,049	12,985,590
Total Funded Guarantee	43,695,314	46,200,611	46,988,885
General Fund Reserve for P98			301,569
Base Guarantee Level	44,182,000	46,681,716	49,294,450
Savings	486,686	481,105	2,003,996



As shown in Figure K-12-1, compared to Proposition 98 funding that would have been provided in this Budget without this agreement, the Budget reflects \$968 million in one-time savings for 2002-03 and 2003-04 and an ongoing savings of \$2 billion beginning in 2004-05. The \$2 billion annual savings from rebasing the guarantee will eventually be reduced in the future when General Fund revenue growth exceeds personal income growth. Also, beginning in 2006-07, \$150 million per year will be provided to settle-up an estimated \$1.2 billion in various prior-year Proposition 98 obligations dating back to 1995-96 and including 2002-03 and 2003-04.

Despite the proposed rebasing of the guarantee, there is approximately \$2.3 billion in additional funding capacity within the Proposition 98 budget for 2004-05 compared to the 2003-04 enacted Budget. Additionally, the Budget reflects \$302 million in General Fund reserves for Proposition 98, which were generated by increased revenues reflected in the final budget agreements.

The General Fund contribution to the guarantee increases by \$3.6 billion from 2003-04 to 2004-05, while the local revenue contribution (property taxes) is reduced by \$2.8 billion. This large funding shift reflects the agreement with California's local governments to shift Vehicle License Fee revenues to the State, replace those revenues with additional property tax allocations, and hold schools harmless by providing additional General Fund moneys and reallocating local property taxes. Additionally, there is modest growth in the underlying property tax estimate, and the portion of school property tax shifted to cities and counties for the deficit bond financing arrangement is \$1.136 billion, which represents a savings to the General Fund of the same amount as compared to the original deficit bond-financing proposal in the 2003-04 Budget. Property taxes are increased and General Fund for Proposition 98 is saved by \$1.3 billion as part of the local government agreement.

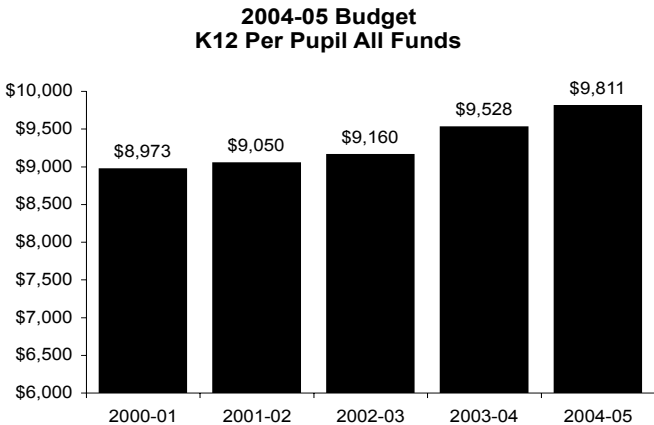
In total, the Proposition 98 portion of the Budget reflects General Fund budget solutions of \$4.44 billion in 2004-05. This is a an 11.5-percent reduction in General Fund cost savings realized with the adoption of these solutions. Additionally, the K-12 budget reflects \$170.9 million in non-

Proposition 98 General Fund savings, amounting to a 14.4 percent savings from the non-Proposition 98 portion of the K-12 Budget, excluding debt service.

K-12 Proposition 98 Per Pupil Funding

Funding per pupil under Proposition 98 decreases from the revised 2003-04 estimate to 2004-05 estimate as shown in Figure K-12-2. Per pupil funding of \$7,007 in 2004-05 represents a growth of \$410 per pupil from the 2002-03 level, with a slight decrease of \$2 from the 2003-04 level. This decrease is significantly affected by the \$259 million in one-time expenditures from funds that were not part of the 2003 Budget Act. Compared to the 2003 Budget Act level of \$6,887 per pupil, 2004-05 ongoing per pupil expenditures have increased \$120. Total General Fund allocations of \$30.9 billion for K-12 education now represent 41.3 percent of the General Fund budget.

FIGURE K-12-2



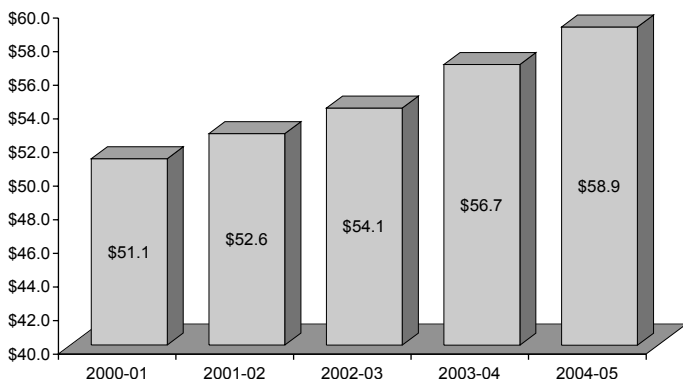
Total K-12 Funding

Total funding from all sources is increasing as shown in Figure K-12-3. An increase of \$2.2 billion over 2003-04 brings total funding to \$58.9 billion. Total funding per pupil increases by \$283 from \$9,528 in 2003-04 to \$9,811 in 2004-05. This represents a 3 percent increase over the adjusted estimate for 2003-04.



FIGURE K-12-3

**K-12 Funding
2004-05 Budget**
(Dollars in Billions)



From 2003-04 to 2004-05, General Fund dollars for K-12 spending increases by \$4.3 billion, while local property taxes fall by \$2.4 billion and federal funds grow by \$422.5 million. Major General Fund changes include the following:

- An increase of \$2.8 billion to Proposition 98 General Fund.
- An increase of \$397 million in the use of Proposition 98 Reversion Account funds.
- An increase of \$590.9 million in contributions to the State Teachers' Retirement System.
- An increase of \$737.9 million in bond debt service.
- A net decrease for emergency loans to school districts (\$60 million in 2003-04 and repayment of \$178 million in 2004-05).

Enrollment Growth—The Budget reflects \$508.5 million to provide enrollment growth increases for apportionments (\$412.3 million), Special Education (\$35.6 million), and other categorical programs (\$60.6 million).

Cost of Living Adjustments (COLA)—The Budget includes \$1 billion to provide a 2.41 percent COLA increase to K-12

programs. Included in this amount is funding for apportionments (\$740.5 million), Special Education (\$91 million), and other categorical programs (\$173.7 million).

Revenue Limits—Revenue limit funding constitutes the basic funding source for classroom instruction. The Budget provides a net increase of over \$1.2 billion to district and county office of education revenue limits. This includes funding for enrollment growth, a COLA adjustment, equalization, increases in the cost of Unemployment Insurance reimbursements, and \$270 million to reduce the deficit factor on base revenue limits from 1.2 percent to 0.3 percent.

Equalization—The Budget includes \$109.9 million for equalization of school district revenue limits. This closes 26 percent of the remaining gap of the targeted percentile of the distribution of revenue limits.

Unemployment Insurance—The Budget provides \$120.1 million to fully fund the increase in local education agency (UI) reimbursements. This increase is attributable to an increase in the UI rate from 0.30 percent of projected salaries, to 0.65 percent.

Public Employees' Retirement System (PERS) Offset—The Budget reflects net reductions to district and county office revenue limits of \$155.9 million to reflect savings provided by current PERS contribution rates. Included in this amount is over \$36 million to local education agencies to mitigate the PERS offset to revenue limits, which provides additional general purpose revenues.

Special Education—The Budget includes an additional \$38.4 million to partially fund a revised formula for allocating funds for pupils with exceptional needs who reside in licensed children's institutions. The Budget also includes \$100 million for the provision of mental health services for children with exceptional needs, subject to legislation to clarify responsibilities for service delivery. In total, the Budget provides over \$2.7 billion in General Fund and nearly \$1.1 billion in federal funds for Special Education.

Instructional Materials—The Budget includes \$363 million in ongoing funding for instructional materials, representing an increase of \$188 million over the previous fiscal year.



Of this amount, \$30 million is allocated on a one-time basis for the purchase of supplemental materials to help students with a primary language other than English quickly develop grade-level English language skills. Additionally, \$138 million is appropriated for the purchase of standards-aligned materials for schools ranked in deciles 1 and 2 of the Academic Performance Index. This appropriation is intended to address issues raised in the *Williams v. State of California* litigation.

Deferred Maintenance—The Budget includes \$250.3 million for district deferred maintenance needs. The level budgeted fully funds the program. This represents an increase of \$173.3 million over the 2003-04 level.

Williams Litigation—The Budget includes \$50 million in 2003-04 Proposition 98 funding available for funding one-time assistance to students and schools as a part of efforts to settle this litigation that has raised issues about the disparate availability of qualified teachers, well-maintained facilities, and up-to-date instructional materials in schools serving predominantly low-income, minority, and English-learning students.

Reading First—The Budget includes \$174.2 million federal funds for the Reading First program, including \$29.6 million from prior years. The funding is available to: (1) support the two existing cohorts of Reading First districts, (2) provide funding for a third cohort, and (3) increase the funding rate available for all three cohorts to \$8,000 per teacher on a one-time basis.

Accountability—The Budget provides \$423.2 million (\$249.2 million Proposition 98 General Fund) for programs to assist and promote academic performance including:

- \$208.7 million (\$193.1 million Proposition 98 General Fund) for the third year of funding to assist low performing schools through the High Priority Schools Grant Program, which provides grants of \$400 per pupil.
- \$66.4 million (\$53.1 million Proposition 98 General Fund) for the third year of implementation funding for schools in the Immediate Intervention/Underperforming Schools Program, which provides grants of \$200 per pupil.

- \$43.6 million in federal funds for new Comprehensive School Reform Program grants at \$200 per pupil for low-performing schools.
- \$37.7 million (\$3 million Proposition 98 General Fund) to assist schools subject to sanctions pursuant to State and federal accountability programs.
- \$66.8 million in federal Title I School Improvement funds for accountability activities, to be expended pursuant to pending legislation.

Pupil Testing—The Budget provides \$112.6 million (\$77 million Proposition 98 General Fund) for various statewide assessments which provide valuable information to parents, teachers, schools, and the State regarding pupil performance and are the foundation of the State’s accountability system:

- \$66.5 million for the Standardized Testing and Reporting (STAR) Exam.
- \$21.2 million for the High School Exit Exam (HSEE).
- \$21.9 million for the California English Language Development Exam.
- The Budget also provides \$3 million for the development of primary language tests aligned to State-adopted academic content standards for mathematics and language arts, pursuant to legislation. Once developed, these assessments would be given in place of the Spanish Assessment of Basic Education, which is a norm-referenced Spanish-language exam.

Child Care and After School Programs

The Budget includes approximately \$2.7 billion for subsidized child care, including \$2.2 billion for programs in the Department of Education (SDE). SDE programs provide services to approximately 375,200 children, including those of California Work Opportunity and Responsibility to Kids (CalWORKs) families and other low-income families in a variety of high quality center based and parental choice voucher programs.



Services also are provided through the Department of Social Services (DSS) to CalWORKs families participating in employment training or work activities. The DSS budget includes \$485.4 million to serve 83,000 children in Stage 1, plus a reserve of \$56.2 million within the overall Temporary Assistance for Needy Families (TANF) reserve sufficient to serve 9,800 children in CalWORKs Stages 1 or 2 should estimated caseloads fully materialize.

Child Care Reform—The Administration agreed to defer for one-year the most significant reforms proposed in January in order to work with the Legislature on optimal savings strategies. As a result, the Budget provides \$119.5 million on a one-time basis. Of this amount, the Budget allocates \$27.3 million from the Proposition 98 Reversion Account and \$8.9 million from the TANF reserve as a contingency to provide services for 11 and 12 year olds in subsidized child care programs due to a policy change that makes before and after school programs the preferred placement for this age group.

Fiscal Integrity and Fraud Prevention—Also, as part of the January budget, the Administration committed to work with SDE to develop a comprehensive statewide fiscal accountability and anti-fraud proposal. Work on the proposal progressed throughout the spring, and legislation has been agreed upon to begin to address instances of overpayments and fraud occurring in the subsidized system. \$1.5 million in federal funds are provided to support this effort. \$530,000 and 5.5 new positions are provided to SDE to implement a Compliance Monitoring Unit to perform annual compliance audits of each alternative payment agency. In addition, \$1 million is provided to SDE for expenses of county fraud investigation experts and district attorneys necessary to consult with SDE in the development and implementation of an error rate study authorized through trailer bill legislation.

Before and After School Programs—The Budget includes over \$284 million in State and federal funds to provide before and after school enrichment programs for 275,000 children. Priority for expending over \$60 million in new federal 21st Century Community Learning Center funds will be placed on increasing slots for 11 and 12 year olds and their eligible younger siblings in order to accommodate these children in

before and after school programs, rather than in more expensive subsidized child care programs.

Also included in the total is \$20 million in one-time federal funds to be used to expand grant caps to increase slots for 11 and 12 year olds, increase days of program operation, and increase grant caps for programs with waiting lists.

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HIGHER EDUCATION

Overview

Total Funding—The Budget continues to recognize the significant contributions and benefits to society from broad access to higher education at the University of California (UC), the California State University (CSU), and California's Community Colleges (CCC). Although it was necessary to reduce General Fund spending in the UC and CSU, negative effects to core instructional programs were minimized through adoption of prudent fee increases, improved efficiency, and reductions to non-instructional programs. Moreover, total spending for the CCC significantly increases by over \$608 million, approximately a 9.6 percent increase over 2003-04 funding totals, including funding sufficient for 50,000 additional full-time equivalent student (FTES) to maintain full student access to higher education.

The Budget provides total Higher Education funding of over \$16.2 billion from all revenue sources including approximately \$11.1 billion from the General Fund and Proposition 98 resources. This total reflects a year-over-year increase over revised 2003-04 expenditures of \$810 million (5.3 percent), including \$260 million from General Fund and Proposition 98 sources. Notwithstanding these increases, **this total reflects General Fund solution savings of over \$1.1 billion in 2004-05 or an 11 percent reduction in General Fund cost compared to what the budget would have been without the solutions.** When combined with 2003-04 state operations and local assistance solutions of \$155 million resulting from prior year and mid-year actions, higher education General Fund savings total \$1.3 billion toward closing the budget gap. These totals include



\$400 million of Proposition 98 related solutions for Community Colleges.

As noted in Figure HIED-1, University of California (UC) funding totals almost \$4.6 billion, including \$2.7 billion from the General Fund. California State University (CSU) funding totals approximately \$3.6 billion, including over \$2.4 billion General Fund. Total funding for the California Community Colleges (CCC) totals over \$6.9 billion, including \$5.0 billion from General Fund and Proposition 98 sources, of which nearly \$3.3 billion is from the General Fund alone. The California Student Aid Commission financial aid budget totals \$799 million, including \$637 million General Fund for various programs, including the Cal Grants entitlement and other programs.

FIGURE HIED-1

Higher Education Funding Total and General Funds (Dollars in millions)

	2002-03	2003-04	2004-05	One-Year Change	
				Amount	Percent
University of California¹					
Total Funds	\$4,418.5	\$4,519.5	\$4,556.5	\$37.0	0.8%
General Fund	3,150.0	2,868.2	2,721.0	-147.2	-5.1%
California State University¹					
Total Funds	3,525.9	3,677.2	3,628.0	-49.2	-1.3%
General Fund	2,697.1	2,622.5	2,448.0	-174.5	-6.7%
Community Colleges					
Total Funds	6,588.5	6,321.1	6,929.4	608.3	9.6%
General Fund & P98 ²	4,869.9	4,528.5	5,047.4	518.9	11.4%
Student Aid Commission					
Total Funds	585.2	688.7	799.2	110.5	16.0%
General Fund	569.0	672.8	636.8	-36.0	-5.4%
Other Higher Education³					
Total Funds	180.6	199.2	303.6	104.4	50.7%
General Fund	165.0	179.6	278.2	98.6	53.0%
Total Funds	\$15,298.7	\$15,405.8	\$16,216.7	\$810.9	5.3%
General Fund & P98²	\$11,451.0	\$10,871.6	\$11,131.4	\$259.8	2.4%

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

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

New Higher Education Compact—The Administration reached agreement on a new Higher Education Compact with both UC and CSU to provide funding stability in the future in recognition of both the necessary reductions in the 2003 and the 2004 Budget Acts, and the unique contributions higher education provides for the State's economy and its citizenry. Significant provisions of the Compact include the following:

- **Long-Term Fee Policy**—The Compact's fee policy links future undergraduate and graduate fee increases to increases in per-capita personal income, but provides flexibility to increase fees not more than an average of 10 percent a year over the next three years. In the budget year, fees are increased 14 percent for undergraduates and 20 percent for graduate students—25 percent for CSU graduate students majoring in non-teacher preparation programs. The long-term policy will ensure that public university students are protected from future dramatic fee increases as a consequence of declines in General Fund resources.
- **Institutional Financial Aid**—Both segments will set aside between 20 percent and 33 percent of new fee revenues for financial aid to preserve accessibility for financially needy students.
- **Enrollment Growth**—The State will provide funding for enrollment of 2.5 percent per year at an agreed-upon marginal cost of instruction. For UC, this growth rate represents an increase of about 5,000 students, annually. For CSU, the increase would be about 8,000 students per year.
- **Basic Budget Support**—To help preserve and enhance the quality of university instruction by addressing competitive faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases, the State will provide a 3 percent increase to the prior year's base in 2005-06 and 2006-07, and a 4 percent increase to the prior year's base in 2007-08 through 2010-11.
- **Core Academic Support**—As the State's fiscal condition stabilizes, the State will provide an additional 1 percent



increase to the prior year's base beginning in 2008-09 to address areas critical to supporting the quality of academic programs including instructional equipment, instructional technology and libraries, and ongoing building maintenance.

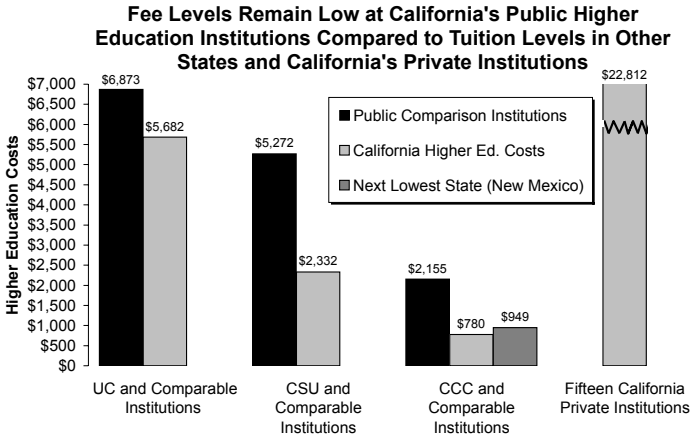
- **Community College Transfers**—The UC and the CSU will improve articulation for community college transfers and maintain the Master Plan's ratio of 40:60 between lower and upper division students. UC will complete major course articulation agreements with all CCC campuses by 2005 and CSU has committed to complete course major articulation of at least three courses in each high demand major with all CCC campuses by June 2006.
- **Accountability**—The Compact includes rigorous accountability elements to measure the segments' achievement towards the Administration's higher education goals, including key student outcomes such as efficiency in graduating students as measured by progression to degree and persistence and graduation rates.

Community Colleges—The Budget recognizes the Governor's strong commitment to this segment as evidenced by the 9.6 percent overall funding increase which includes significant increases for enrollment growth and general purpose funding. Also, recognizing the extremely low fees currently in place, the Budget increases fees for undergraduates to \$26 per credit unit, a level that is only 30 percent of the national average. This fee level will remain the lowest in the nation by nearly \$200 annually, and for the first time will allow students to qualify for the maximum federal Pell Grant award. The Budget also continues \$37 million to continue efforts at increasing awareness of the availability of financial aid for needy students, including Board of Governors Fee Waivers, federal Pell Grants, and federal education tax credits.

University of California

The Budget provides total funding from all sources of \$4.6 billion for UC, an increase of \$37 million or 0.8 percent above

FIGURE HIED-2



Fees for UC and CSU include the 2004-05 14 percent increase. CCC fees reflect an increase from \$18 per unit to \$26 per unit. Comparable institution data for UC and CSU reflect 2003-04 fee levels, while comparable CCC data are based on 2003-04 fees. The fees for UC and CSU include systemwide fees, only, and do not include campus-based fees of \$546 and \$526, respectively, because it is unknown whether similar fees are included in the comparable institution fee levels.

the revised 2003-04 level. This funding includes \$2.7 billion in General Fund resources, reflecting a net reduction of \$147.2 million or 5.1 percent below 2003-04, which reflects a 2003-04 mid-year General Fund spending reduction of \$29.9 million to UC's 2003-04 budget. Also, as part of the 2003-04 Mid-Year budget solutions, UC transferred \$53.5 million from the sale of surplus land at UC Riverside to the General Fund in exchange for an equivalent amount of lease-revenue bond authorization for the construction of an Agricultural Genomics research facility at UC Riverside.

The Budget includes the following General Fund reductions for 2004-05 totaling \$321.8 million, which reflects a 10.6 percent General Fund cost savings compared to what the budget would have been without these solutions:

- \$45.4 million reduction to Academic and Institutional Support.
- \$35.3 million by increasing the student-to-faculty ratio by approximately 5 percent.



- \$24.8 million by reducing and shifting General Fund support for 10 percent of new freshmen to internal fund sources.
- \$14.3 million by eliminating General Fund support for the Digital California Program.
- \$11.8 million by reducing General Fund support for research by 5 percent.
- \$1.1 million for eliminating the General Fund subsidy for students who take excess units.
- \$88.4 million through a 14 percent increase in the undergraduate fee.
- \$25.5 million through a 20 percent increase in the graduate fee.
- \$42.6 million by decreasing by 25 percent the General Fund subsidy for students in professional school programs other than nursing.
- \$32.6 million through a 20 percent increase in the surcharge for out-of-state students.

The Budget also includes the following significant General Fund augmentations for UC:

- \$80.5 million to restore the one-time unallocated reduction implemented in 2003-04.
- \$10 million in one-time funding for costs associated with making the UC Merced campus operational in 2005-06.
- \$34.4 million for increases in annuitant health and dental benefit costs.

California State University

The Budget provides total funding of nearly \$3.6 billion for CSU, a decrease of \$49.2 million or 1.3 percent below the revised 2003-04 level. The funding level includes \$2.4 billion in General Fund resources, a reduction of \$174.5 million or

6.7 percent below the 2003-04 level, which reflects a 2003-04 mid-year General Fund spending reduction of \$23.7 million to CSU's 2003-04 budget.

The Budget includes the following General Fund reductions for 2004-05 totaling \$283.0 million, which reflects a 10.4 percent General Fund cost savings compared to what the Budget would have been without these solutions:

- \$52.6 million reduction to Academic and Institutional Support, which equates to approximately a 7.5 percent reduction for these functions.
- \$53.5 million by increasing the student-to-faculty ratio by approximately 5 percent.
- \$45 million by shifting General Fund support for outreach activities to internal fund sources.
- \$24.4 million for eliminating the General Fund subsidy for students who take excess units to earn their degree.
- \$6 million by deferring 10 percent of General Fund support for the Common Management System.
- \$63.4 million by increasing undergraduate fees by 14 percent.
- \$21.9 million by increasing graduate fees by 20 percent for teacher preparation students and 25 percent for non-teacher preparation students.
- \$16.2 million by increasing by 20 percent the surcharge for out-of-state students.

The Budget also includes the following significant General Fund augmentations for CSU:

- \$69.5 million to restore the one-time unallocated reduction implemented in 2003-04.
- \$12.2 million for enrollment growth.



- \$2 million for annuitant dental benefits.

California Community Colleges

The Budget provides over \$6.9 billion from all sources for the CCC, an increase of 9.6 percent over the 2003 Budget Act level. This includes over \$4.8 billion in Proposition 98 resources, of which more than \$3 billion is from the General Fund, and also reflects \$200 million deferred from 2003-04.

The Budget includes the following significant Proposition 98 General Fund augmentations for CCC:

- \$148.1 million to fund an additional 39,000 FTES in 2004-05. Combined with base resources sufficient to fund an additional 11,000 FTES in those districts with declining enrollment in the current year, the Budget provides resources for 50,000 additional FTES and a system wide total of almost 1,143,000 FTES.
- \$80 million for equalizing disparities in per student credit instruction funding levels among colleges. These funds will provide the vast majority of colleges with additional unrestricted resources for addressing their most critical needs.
- \$100.1 million to provide a COLA of 2.41 percent for general-purpose apportionments for all districts.
- \$16.7 million increase for categorical programs, including \$6 million to expand matriculation services for non-credit students and another \$10.7 million for growth and COLA for programs historically receiving those adjustments including Basic Skills, matriculation, Disabled Students Programs and Services, and Extended Opportunity Programs and Services.
- \$200 million net year-to-year increase compared to the 2003 Budget Act associated with the continued deferral of a portion of the final payment for district apportionments that was initiated in the last budget. Continuing this deferral will preserve student access and program spending in 2004-05 while keeping expenditures within the Proposition 98 Guarantee to minimize out-year

spending requirements. Trailer legislation includes an appropriation for 2005-06 to ensure the resources will be provided right after the end of the fiscal year.

- \$28.4 million is provided on a one-time basis under the 2003-04 Proposition 98 Guarantee for grants for the purposes of funding deferred maintenance, instructional materials, and other infrastructure related costs.

The CCC budget totals also reflect significant increases in the non-Proposition 98 General Fund contributions the State makes for the CCC districts' PERS retirement costs and general obligation bond debt service on districts' capital outlay projects which, when combined, increase a total of \$101.7 million for 2004-05.

The Budget for CCC reflects \$400 million in fund shift solutions to help close the state's General Fund shortfall. None of the Community College fund shift solutions reduce college expenditures. These solutions include:

- The \$8 per unit increase in student fees, which generates approximately \$68.2 million of revenue to offset General Fund expenditures.
- One-time use of Proposition 98 Reversion Account funds to support the Foster Parent Training Program, allowing \$5.4 million in revenues to be transferred to the General Fund.
- \$326.1 million of solutions that increase the community colleges' share of property taxes, which offset General Fund spending related to the state's Economic Recovery Bonds and the ERAF shift as part of the local government deal.

Student Aid Commission

The Budget provides \$799.2 million in total funds—an increase of \$110.5 million above the revised 2003-04 level—and \$636.8 million General Fund for the California Student Aid Commission's local assistance financial aid grant programs in 2004-05. The General Fund level reflects a decrease of \$36 million below the revised 2003-04 level. However, this



is more than offset by an increase of \$146.5 million on a one-time basis from surplus Student Loan Operating Fund (SLOF) revenues.

The augmentations for 2004-05 include the following:

- \$91.5 million for growth in the Cal Grant Program.
- \$2.1 million for growth in payments for previously authorized warrants for the Assumption Program of Loans for Education Program (APLE) and the Law Enforcement Personnel Dependents Program.

The Budget includes the following General Fund reductions for 2004-05 totaling \$157.2 million which reflects a 19.8 percent General Fund cost savings compared to what the Budget would have been without these solutions:

- \$10.7 million by reducing the maximum Cal Grant award for students at private colleges and universities from \$9,708 per year to \$8,322 per year. This reduction will not affect recipients who received an award issued before 2004-05.
- \$146.5 million one-time General Fund Cal Grant cost shift to surplus SLOF revenues.

HEALTH AND HUMAN SERVICES

The Budget underscores the Administration's firm commitment to providing essential health and human services to California's most vulnerable and at-risk residents. It includes total expenditures of \$68.2 billion in combined State and federal funds and 30,429.7 State positions for all 12 departments and one board under the purview of the Agency.

The combined General Fund for both state operations and local assistance for all departments under the Agency in the Budget represents approximately \$25.5 billion. This is an increase of \$2 billion over the 2003 Budget Act. **However, the General Fund amount would have been much larger (\$26.8 billion), were it not for the significant savings (approximately \$1.3 billion) that have been included in this budget.** Some of the most notable savings proposals that are included in the Budget are as follows:

Program Reform To Improve Outcomes

California Work Opportunity and Responsibility to Kids (CalWORKs)—\$79.2 million General Fund savings from delaying the CalWORKs COLA for three months, implementing a reform that strengthens work participation requirements, and transferring TANF to achieve General Fund savings.

In-Home Supportive Services (IHSS)—\$11.4 million General Fund from implementing an IHSS Quality Assurance and Fraud Prevention Program (details in the Department of Social Services section).



Foster Care Reform—\$22 million General Fund savings from implementing Foster Care reforms (details in Foster Care Section).

Budget Cuts To Reduce Spending

Medi-Cal—\$358.6 million General Fund savings to realign fee-for-service pharmacy reimbursement more closely with the pharmacy industry's cost structure, assess a 6 percent quality improvement fee on business within the Medi-Cal managed care plans to leverage and receive additional federal funding, implement two separate Medi-Cal checkwrite delays (occurring in July 2004 and June 2005), reflect a one-year moratorium on the certification of new Adult Day Health Centers as Medi-Cal providers, and expand audits and anti-fraud efforts.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program—\$37.7 million General Fund savings related to delaying the January 2005 COLA until April 2005 and implementing Supplemental Security Income advocacy efforts.

Regional Centers—\$95.1 million General Fund savings in the purchase of services budget to reflect the impact of the continuation of cost containment measures on the base funding and growth trends, the implementation of the Family Cost Participation Plan, and increased federal funding.

Maximizing Federal Funding

Securing California's fair share of federal funds is crucial in order for California to regain its financial standing. Agency budgets include \$795.8 million in new federal funds or penalty relief:

In-Home Supportive Services (IHSS)—\$216.5 million General Fund from the Independence Plus Waiver to obtain federal funding for the State-only IHSS Residual Program. The Independence Plus Waiver is anticipated to bring in \$340.4 million in federal funds for California's IHSS program annually. These additional federal funds are estimated to

result in General Fund savings of \$216.5 million annually and provide savings of \$123.9 million annually to counties for their share of the IHSS program.

Food Stamp Error Rate Sanction—California was sanctioned by the federal government for federal fiscal years 2000, 2001, and 2002 in the amount of approximately \$187 million because county error rates for Food Stamp Program eligibility and benefit determination were 17.4 percent, well above the national average of 8.7 percent. Based on State regulations, counties were to have funded 90 percent of this sanction while the State would have been responsible for the remaining 10 percent.

Success in greatly reducing the error rate has allowed California to reach an agreement with the U.S. Department of Agriculture that will virtually eliminate the amounts paid as a result of the sanction. The settlement will mitigate the State's net liability by first waiving the original penalty. In return, California will be required to take steps such as placing reinvestment funds at-risk during performance evaluations and relinquishing claims to certain federal performance bonuses and payments. If future performance evaluations indicate target error rates are not being met, the State will be obligated to use those reinvestment funds to further improve the program.

Child Support Alternative Federal Penalty Relief—Due to progress and a good-faith effort in implementing a single, statewide automated child support system, the federal government approved a deferral a \$220 million penalty until State fiscal year 2005-06.

The State is aggressively pursuing development and certification of a statewide-child support automation system in an attempt to reduce or eliminate future penalties.

Department of Health Services

The Budget includes \$36.3 billion (\$12.6 billion General Fund) for the Department of Health Services (DHS), an increase of \$4.2 billion (\$2 billion General Fund) above the revised 2003-04 Budget level. DHS administers a broad



range of public health programs and the California Medical Assistance Program (Medi-Cal), which provides health care services to qualified low-income persons and families.

Public Health Programs

West Nile Virus—The Budget includes \$977,000 General Fund and 2.0 positions to develop a long-term, strategic plan and program to coordinate and maintain surveillance, prevention, and control of the spread of West Nile virus. As of July 30, 2004, 64 human cases of West Nile virus have been confirmed in California.

AIDS Drug Assistance Program—The Budget includes total funding of approximately \$234.2 million (\$66.5 million General Fund) to fully fund projected caseload and eliminate enrollment caps for the AIDS Drug Assistance Program (ADAP) in 2004-05. Based on an average cost per case for the year 2003-04 of \$7,864, a total of 29,781 cases will be served in 2004-05.

Therapeutic Monitoring Program—The Budget includes \$4 million General Fund to provide viral load testing and HIV resistance testing in the Therapeutic Monitoring Program (TMP) for HIV/AIDS infected individuals enrolled in ADAP. These tests allow clinicians to monitor patient responses to treatment, and help to ensure that patients are receiving effective drug therapies.

Newborn Screening Program—The Budget includes \$2.7 million from the Genetic Disease Testing Fund to expand the Newborn Screening program to include Tandem Mass Spectrometry, which will provide for screening of an additional 30 treatable genetic diseases. The current program screens for four treatable genetic diseases. It is anticipated that this expansion will also result in significant future cost avoidance in Medi-Cal, special education, and developmental services.

Community Challenge Grants—The Budget includes \$20 million to continue funding for Community Challenge Grants, to promote responsible parenting and reduce the number of teenage and unintended pregnancies, and assist in offsetting future costs associated with welfare dependency.

Medi-Cal

The Budget includes total Medi-Cal expenditures of \$33 billion (\$11.9 billion General Fund), an increase of \$4.3 billion (\$2 billion General Fund) over the revised 2003 Budget. The average monthly Medi-Cal caseload is expected to be 6,695,000 beneficiaries in 2004-05. This represents an increase of 2.1 percent above the revised 2003 Budget level.

Medi-Cal Rate Increase for County Organized Health Systems (COHS)—To maintain the viability of the Medi-Cal COHS health plans, the Budget includes \$15.2 million General Fund for a 3 percent increase in the Medi-Cal reimbursement rate paid to these health plans.

Pharmacy Reimbursement Realignment—The Budget includes General Fund savings of \$52.1 million to realign fee-for-service pharmacy reimbursement more closely with the pharmacy industry's cost structure. Beginning September 1, 2004, Medi-Cal will reimburse pharmacists for drug ingredient costs at the average wholesale price minus 17 percent, and will set the professional dispensing fee at \$8.00 for long-term care prescriptions and \$7.25 for all other prescriptions.

Quality Improvement Assessment Fee on Medi-Cal Managed Care Plans—The Budget includes the Administration's proposal to allow the DHS to assess a 6 percent quality improvement fee on all lines of business within the Medi-Cal managed care plans as a vehicle for leveraging and receiving additional federal funding. This assessment fee will generate additional federal funding for the health plans, and net State savings of \$9 million General Fund.

Medi-Cal Checkwrite Delays—The Budget includes one-time General Fund savings of \$286.9 million, due to two separate Medi-Cal checkwrite delays. The first delay will occur in July 2004, and will be ongoing. The second delay will occur in June 2005, reflecting the delay of the last checkwrite to the next fiscal year. This will minimize the impact on providers by delaying only one payment and not delaying all payments an additional week.



Adult Day Health Center Reform—The Budget includes General Fund savings of \$3.3 million to reflect a one-year moratorium on the certification of new Adult Day Health Centers as Medi-Cal providers. The moratorium will allow exceptions for certain classes of centers, such as federally qualified rural health clinics, and for centers in unserved or underserved counties.

Non-Contract Hospital Audits—The Budget includes 20.0 new positions and General Fund savings of \$3.1 million for expanded audits of hospitals that receive cost-based reimbursement from Medi-Cal. These audit efforts are expected to generate annual General Fund savings of \$8.8 million beginning in 2005-06.

Various Anti-Fraud Efforts—The Budget includes General Fund savings of \$4.2 million to reflect new Medi-Cal anti-fraud efforts. The DHS will restrict electromyography and nerve conduction tests to specially trained providers, send mid-year billing data to Medi-Cal providers with suspicious billing patterns, and confirm receipt of services with selected Medi-Cal beneficiaries.

Treatment Authorization Request (TAR) Workload—The Budget includes 18.0 new positions and \$512,000 General Fund to address the increased workload related to evaluating TARs received from Medi-Cal providers.

Federally Qualified Health Centers (FQHCs) Rate Adjustments—FQHCs, which are community health centers in medically underserved areas, provide critical health services for low-income families. The Budget includes \$69.7 million General Fund to provide rate adjustments for FQHCs, including the costs of managed care differential payments, additional payments for services to Medicare crossover beneficiaries, and scope-of-service changes authorized by the federal Benefits Improvement and Protection Act of 2000.

Managed Risk Medical Insurance Board

Healthy Families Program

The Budget includes Healthy Families Program (HFP) expenditures of \$871.5 million (\$318.9 million General Fund), an increase of \$78.4 million (\$28 million General Fund) above the revised 2003-04 Budget level. Year-end caseload is expected to reach 774,100 children, compared to 714,400 in 2003-04.

HFP Premium Increase—The Budget includes \$750,000 (\$263,000 General Fund) for administrative costs to implement increased premiums for all children in the program with family incomes above 200 percent of the Federal Poverty Level (FPL), effective July 1, 2005. Subscribers at all income levels will be offered the same benefit package, but subscribers above 200 percent of the FPL will be charged higher monthly premiums for program benefits. The monthly premiums will be increased from \$9 per child and \$27 for three or more children to \$15 per child and \$45 for three or more children. Even with this proposed premium increase, families' total out-of-pocket costs (premiums and co-payments) will not exceed the 5 percent maximum allowed under federal regulations.

Department of Developmental Services

The Budget includes \$3.5 billion (\$2.2 billion General Fund) for the Department of Developmental Services, an increase of \$264.9 million (\$256.4 million General Fund) above the revised 2003-04 Budget level. Total caseload is expected to reach 202,562 consumers, compared to 193,476 in 2003-04.

Developmental Centers—The Budget provides \$705.2 million (\$378.7 million General Fund) for the Developmental Centers, a net decrease of \$9.4 million from the revised 2003-04 Budget level, primarily due to a decreasing population and removal of one-time funding. The Budget supports a population of 3,307, a decrease of 139 consumers from 2003-04.



Regional Centers—The Budget includes \$2.8 billion (\$1.8 billion General Fund) for Regional Centers, a net increase of \$270.1 million (\$235.8 million General Fund) above the revised 2003-04 level. This includes support for the transfer of the Habilitation Services Program from the Department of Rehabilitation on July 1, 2004. The Budget supports a population of 199,255, an increase of 9,225 consumers above 2003-04. The Budget also reflects General Fund savings of \$7 million from an unallocated reduction in the Regional Centers purchase of services budget.

Family Cost Participation—The Budget provides \$838,000 General Fund for Regional Centers operations to reflect the implementation of the Family Cost Participation Program. This program will require parents who meet specified criteria to financially contribute to the cost of services provided to their child. This program is estimated to save \$570,000 in 2004-05 and \$3.1 million in 2005-06.

Department of Mental Health

The 2004 Budget includes \$2.6 billion (\$962.6 million General Fund) for the Department of Mental Health, an increase of \$243.4 million (\$68 million General Fund) above the revised 2003-04 Budget level.

State Hospitals—The Budget includes \$733.1 million (\$587.1 million General Fund) for State hospitals, a net increase of \$48.1 million (\$46.8 million General Fund), or 7 percent above revised 2003-04 expenditures. This funding will support a total population of 5,003 patients, an increase of 282 patients from the 2003-04 population level. The Budget reflects \$9.5 million General Fund savings from delaying the activation of Coalinga State Hospital by one month to September 2005.

Department of Social Services

California Work Opportunity and Responsibility to Kids—The Budget includes total CalWORKs expenditures of \$6.7 billion, which includes \$5.2 billion for CalWORKs pro-

gram expenditures within the Department of Social Services budget, \$1.3 billion in other programs, and \$171.1 million for a CalWORKs program reserve. Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 474,000 cases in 2003-04, and 473,000 cases in 2004-05.

CalWORKs Employment Services—The Budget continues to invest in employment services that allow recipients to move off of aid and into sustainable employment. The Budget includes an augmentation of \$191.9 million for employment services in 2003-04 and \$241.9 million in 2004-05.

Community Challenge Grants—The Budget includes the transfer of \$20 million federal TANF Block Grant funds to the DHS to fund Community Challenge Grants in 2004-05. By promoting responsible parenting and reducing the number of teenage and unintended pregnancies, this program assists in offsetting future costs associated with welfare dependency.

Strengthening Work Participation Requirements—The Budget includes CalWORKs reforms that require families to participate in at least 20 hours of core work activities per week while allowing for necessary educational activities that are focused on obtaining employment. Enhancing work participation requirements will help to move families quickly into employment and off of aid. Through employment, families will become less reliant on aid and program costs will be reduced.

Prioritize Funding to Move Recipients into Sustainable Employment—To adhere to the policy of maintaining program costs within the TANF Block Grant and TANF maintenance-of-effort level, the Budget prioritizes funding to invest in services that enable recipients to leave aid and become self sufficient. For example, the Budget suspends the July 2004 CalWORKs grant COLA for three months in 2004-05. The funds saved by suspending the COLA are used to provide valuable employment services and childcare that enable families to leave aid sooner. In addition, families would continue to be eligible for Food Stamps and Medi-Cal.

Foster Care Reform—The Budget provides \$1.1 billion (\$518.6 million General Fund) for foster care grants and administration. The Budget includes a series of ongoing and



new program reforms that will achieve anticipated savings of \$22 million General Fund in 2004-05, as follows:

- Ongoing efforts, which include “Family-to-Family”, now implemented in 23 counties, and the development of tools and processes associated with the Child Welfare Services Redesign, along with other programmatic efforts, are projected to save \$17.3 million General Fund in 2004-05.
- The Budget reduces the frequency of redetermination of federal foster care eligibility from every six months to every year, consistent with federal law, and also eliminates Group Home and Foster Family Agency financial audit cost reimbursements for small providers, resulting in savings of \$4.7 million General Fund in 2004-05.

Community Care Licensing Fees—The Budget includes increased fees for licensed community care facilities, which will generate additional fee revenue of \$5.8 million. This fee increase is designed to more closely align revenues with the cost of licensing functions. Total community care licensing fees are estimated at \$20.8 million for 2004-05.

In-Home Supportive Services—General Fund expenditures in the In-Home Supportive Services (IHSS) program are projected to be \$1.2 billion - an increase of \$41.1 million or 3.7 percent from 2003-04.

Given the State’s severe fiscal constraints, and to control the unsustainable growth of costs in the IHSS program, the Budget includes several measures to insure the quality of services provided while reducing the cost of providing services in the IHSS program. The Administration anticipates approval of its application for a federal Plus Waiver to obtain federal funding for the program in lieu of eliminating the IHSS Residual Program. Currently, 80 percent of IHSS recipients are eligible for federal matching funds, and the waiver would provide eligibility to the remaining 20 percent, which will result in annual General Fund savings of \$216.5 million.

The Budget also establishes an IHSS Quality Assurance and Fraud Prevention Program. This program, comprised of both State and county quality assurance units, will enable the con-

tinued operation of the IHSS program and ensure the quality of necessary services provided to individuals. The implementation of IHSS Quality Assurance efforts is estimated to result in General Fund savings of \$11.4 million in 2004-05.

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 \$3.3 billion, an increase of \$328.1 million from 2003-04. The receipt of \$238.1 million in federal funding in 2003-04 accounts for the majority of this increase. This one-time federal funding resulted from the Federal Fiscal Relief Funding, Jobs and Growth Tax Relief Reconciliation Act of 2003. Program caseload is estimated to increase to 1.2 million recipients, a 2.4 percent increase over the 2003-04 projected level.

The Budget includes the January 2005 federal COLA of 2.2 percent to SSI/SSP recipients. However, given the State's severe fiscal constraints, the State COLA of 2.8 percent for SSI/SSP recipients will be suspended until April 2005. This will result in General Fund savings of \$34.6 million in 2004-05. Even so, California's SSI/SSP payment standards continue to be the highest among the nation's ten most populous states.

Department of Community Services and Development

Naturalization Services Program—The Budget allocates funding of \$1.5 million General Fund for the Naturalization Services Program, which provides funding to local government and community-based organizations to assist immigrants in obtaining citizenship. This funding will enable naturalization services to be provided to approximately 4,300 individuals in 2004-05.

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PUBLIC SAFETY

Department of Corrections

Fiscal Accountability—In order to ensure accountability is real and achievable, the Department of Corrections (CDC) has taken the necessary steps to provide the wardens and fiscal managers with the necessary tools to operate the prisons within the Department's appropriation. CDC reconciled its Post Assignment Schedule to the approved budget, and either eliminated unauthorized positions or came through the Budget process to obtain funding for required, but unfunded activities.

In addition, funding will be allocated to the institutions consistent with both the cost of the authorized level of positions and the estimated expenditures for Operating Expenses and Equipment, based on historical expenditure patterns. Using this process, the institutions will have allotments that are more accurately aligned with actual expenditures.

In addition to the steps taken to achieve fiscal accountability, the Budget includes a variety of program enhancements, efficiencies, and a reduced level of funding for employee compensation that will achieve a **savings of \$241.7 million. Without these reductions, the CDC budget would have grown to \$6.06 billion. Instead, the Budget includes \$5.82 billion General Fund for CDC, which is a reduction of 4.2 percent.**

Prison Population—Prison inmate average daily population is projected to decrease from 161,876 in 2003-04 to 157,259 in 2004-05, a decrease of 4,617 inmates, or 2.9 percent. This projection does not reflect the population decrease antici-



pated in various savings proposals included in the Budget. In 2004-05, incarceration services will be provided through 33 institutions, 11 reception centers, 38 camps, and 12 community correctional facilities.

Parole Population—The State parolee average daily population is projected to increase from 114,227 in 2003-04 to 117,813 in 2004-05, an increase of 3,586 or 3.1 percent. This projection does not reflect the decrease in parole population that is anticipated in various savings proposals included in the Budget.

In order to ensure fiscal accountability, and to avoid cost overruns (deficiencies), the CDC has taken the necessary steps to provide the wardens and fiscal managers with the necessary tools to operate the prisons within the Department's appropriation. The Department reconciled its post assignment schedule to the authorized budget authority, and is implementing an allotment methodology that aligns the individual prison budgets with the total Departmental appropriation contained in the 2004 Budget Act. In addition, the following program enhancements and improvements are included in the 2004 Budget Act:

Community Protection through Parolee Accountability—The State's goal is to improve public safety and reduce victimization by lowering the rate of recidivism among parolees. The Budget includes additional resources to add tools to law enforcement and parole agents to adequately supervise parolees by expanding the range of sanctions for parolees and enhancing services where appropriate.

More specifically, CDC will implement programs that will increase the accountability of parolees in California's Parole System. Parole policies will promote effective pre-release planning, re-entry transition into the community, supervision and enforcement strategies, swift and appropriate sanctions for parole violations, and discharge practices that provide incentives for successful reintegration into the community.

In addition to the initial step of adding tools for law enforcement and parole agents, CDC will evaluate the existing delivery of academic and vocational education, treatment programs, as well as in-prison job opportunities, to ensure that these programs are predicated upon evidenced-based

practices proven to improve the re-entry success rate of inmates when they eventually are released to parole.

As a result of these changes, the Budget assumes a savings of \$86.8 million.

Operational Efficiencies—The Budget reflects a savings of \$35.3 million due to reducing energy expenditures, consolidating the purchase of some correctional equipment and various goods, the elimination of positions and streamlining various processes at headquarters, and savings associated with the need to only train one class of cadets at the Basic Correctional Officer Academy.

Employee Compensation—The Budget reflects a savings of \$62.5 million as a result of renegotiating the collective bargaining agreement with Bargaining Unit 6.

Medical Improvements—The Budget reflects a savings of \$36.9 million associated with using CDC physicians to perform liver biopsies instead of contracting for this service, modifying prescription practices for certain high-cost drug categories without compromising quality of care standards, using Nurse Practitioners to perform certain mental health functions, implementing the recommendations of the Bureau of State Audits regarding contract medical practices, and improving contract rates for emergency medical services.

In addition to the enhancements and improvements and consistent with the effort to provide fiscal accountability at CDC, the Budget includes funding to address required activities of the Department. The significant issues include the following:

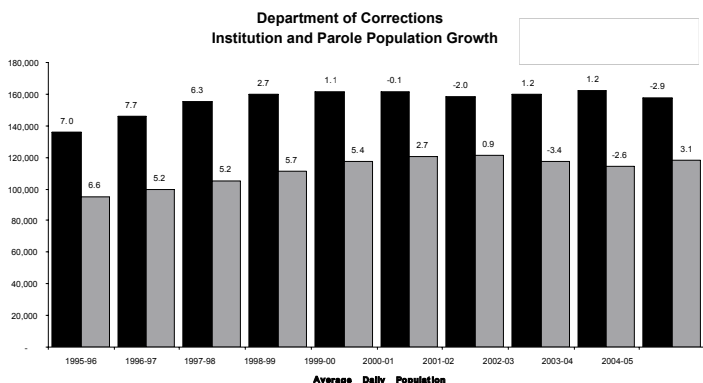
Post Relief—\$99.5 million to increase the budgeted relief factors for posted positions to allow employees in posted positions the opportunity to receive training, take accrued time off, reduce the liability for excess leave balances, and reduce staff overtime.

Administrative Segregation Overflow—\$16.8 million to establish Administrative Segregation units at those institutions that show an ongoing need for additional beds. Additionally, funding will be provided to headquarters to address overflow needs on a case-by-case basis. Also, the Department will develop a strategy to more effectively use Administrative Segregation and Security Housing Unit beds.



Medical Guarding and Transportation—\$18.2 million to provide proper staffing and funding for guarding and transportation of inmates in need of medical attention outside of the prisons.

Valdivia Remedial Plan—\$22.2 million to provide sufficient staffing and resources to implement the remedial plan, required by *Valdivia v. Schwarzenegger*, which will enhance the provision of due process to parolees held on suspicion of violation.



This chart has changed from previous years, this chart is displaying average daily population, previous charts used population as of June 30.

Incarceration of Undocumented Felons

The Department of Corrections and the Youth Authority are budgeted to expend approximately \$617.5 million in 2004-05 for the incarceration of undocumented persons. For 2004-05, it is estimated that California will receive approximately \$78.2 million in federal State Criminal Alien Assistance Program funding. At this level of funding, the State will be reimbursed for only 12.7 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with \$539.3 million in costs in excess of the level of federal reimbursements. The Administration continues to work with Congress to secure California's fair share of federal reimbursement.

Department of the Youth Authority

Institution and Parole Population—The Youth Authority projects an institution population of 3,895 on June 30, 2005, which is a decrease of 55 wards from the anticipated population of 3,950 on June 30, 2004. The parole caseload is projected to be 3,755 by June 30, 2005, which is a decrease of 345 cases from an estimated caseload of 4,100 on June 30, 2004.

Institution Closures—The Budget reflects a reduction of \$36.7 million due to the closure of the Fred C. Nelles Youth Correctional Facility, a youth conservation camp and additional savings associated with the closure of facilities previously proposed. The closures are necessary to accommodate the continuing decline in ward population.

Post Relief Factor—The Budget includes \$3.4 million to increase the existing budgeted relief coverage for posted positions, to meet mandated training requirements, and for vacation usage.

Department of the Youth Authority

Restructuring the Youth and Adult Correctional Agency—The Budget includes an increase of \$1.7 million to provide increased oversight and policy direction to departments under supervision of the Youth and Adult Correctional Agency. Funding for this proposal is provided through corresponding reductions to the California Department of Corrections (\$1,515,000) and the Department of the Youth Authority (\$200,000).

Office of the Inspector General

Reestablish the Office of the Inspector General and Establish the Office of Independent Review—The Budget includes \$8.3 million to continue the operations of the Office, and to establish an Office of Independent Review, to provide



oversight of internal affairs cases at the California Department of Corrections and the Department of the Youth Authority.

Board of Prison Terms

Valdivia Remedial Plan—\$34.8 million to provide sufficient staffing and resources to implement the court ordered remedial plan, which will enhance the provision of due process to parolees held on suspicion of violation.

Department of Justice

The Budget includes total expenditures of \$632.2 million for the Department of Justice (DOJ). This amount includes a reduction of \$3 million General Fund, which is not expected to affect the ability of the Department to fulfill its law enforcement mission. In addition, the Budget includes the following augmentations for 2004-05:

Structural Deficit—An augmentation of \$7.3 million General Fund to support the Criminal Law, Civil Law, and Public Rights Divisions. In addition, the DOJ will increase hourly attorney rates to address a structural deficit that has occurred as a result of increased workload and litigation costs.

Flood Litigation Workload—An increase of \$1.5 million General Fund to address ongoing litigation resulting from the California floods of 1986 and 1997.

California Witness Protection Program—An augmentation of \$3 million Restitution Fund to continue this program which offers protection to victims and witnesses from retaliation, threats, and other intimidation.

California Methamphetamine Strategy Program (CALMS)—An increase of \$2.4 million federal funds to utilize grants provided by the U.S. Department of Justice. This funding will provide electronic surveillance equipment for CALMS enforcement.

Board of Corrections

County Probation Funding—The Budget contains \$134.3 million to provide for county juvenile probation services from November 2004 through June 2005. This is in addition to \$67.1 million in federal TANF funding included in the Department of Social Services to cover July 2004 through October 2004.

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RESOURCES

Resources and Environmental Protection

The Budget makes cleaning our air and water and preventing the loss of life, property and environmental damage from catastrophic forest fires a priority. Although these programs have sustained reductions totaling \$287.5 million over 3 years since 2002-03, the Budget includes \$4.5 billion in 2004-05, including the following:

Carl Moyer Program—The Budget includes \$30.5 million for the 2004-05 fiscal year and \$61 million in succeeding years for the Carl Moyer Memorial Air Quality Standards Attainment Program. This program reduces emissions of smog forming pollutants, saves lives, and cuts associated health costs by over a billion dollars per year. The new fee structure that supports this program also will reduce consumer inconvenience and cut smog inspection fees paid by consumers by \$48.5 million annually.

SRA Fees—The Budget includes \$102.5 million General Fund over two years to repeal fees and augment funding for fire protection services in State Responsibility Areas. This funding will prevent increased assessments or reduced fire protection on property owners in many rural areas throughout the state.

CALFED—The Budget includes \$409 million total state funding for the CALFED Bay-Delta Program. The State has contributed a disproportionate share of total funding for this program over the past three years. However, the State also has made significant progress in securing \$389 million in additional federal contributions for CALFED, which will help



ensure that important water supply and environmental restoration programs receive adequate funding.

Agriculture and Dairy Water Quality Improvement Grants—

The Budget includes \$25 million for the implementation of Agriculture and Dairy Water Quality Improvement grants. This funding will improve agricultural water quality through monitoring, demonstration projects, research, and construction of agricultural drainage improvements. The funding also will be used to reduce pollutants in agricultural drainage water through reuse, integrated management, and treatment.

BUSINESS, TRANSPORTATION AND HOUSING

The 2004 Budget Act includes expenditures of nearly \$12.9 billion for roads, highways, mass transit and intercity rail, vehicle licensing and registration, and highway law enforcement.

Department of Transportation

The 2004 Budget Act and related legislation includes nearly \$9.3 billion in expenditures by the Department of Transportation (Caltrans) and 21,350 personnel years, including nearly \$1.1 billion for programs that assist local governments in constructing and operating highway, road, and transit systems, and nearly \$3.8 billion in capital outlay expenditures for state highway construction projects.

Transportation Funding Improves—The Budget Act and accompanying legislation (AB 687, Chapter 91, Statutes of 2004) makes possible \$1.397 billion in funding for transportation through early repayment of prior transportation loans. This infusion of funding is accomplished by dedicating \$1.214 billion in potential bond proceeds resulting from the Tribal-State gaming compacts between five tribes and the State, as well as transferring \$140 million of “spillover” revenues and providing \$43 million in General Fund for early loan repayments.

Transportation Investment Fund Transfer—Legislation accompanying the Budget Act provides a suspension of Proposition 42 gasoline sales tax money transfers to the Transportation Investment Fund (TIF) for a General Fund



savings of \$1.2 billion. The suspension is to be repaid by June 30, 2008. AB 687 also allocates bond proceeds for early repayment of both the 2004-05 as well as the 2003-04 TIF suspension if additional compacts are signed with securitization provisions.

Special Transportation Programs—Revenues to the Public Transportation Account from fuel sales tax for local transit projects are anticipated to be \$117.3 million.

High-Speed Rail Authority—In response to the Administration's proposal, Chapter 71, Statutes of 2004 (SB 1169, Murray), defers the vote on the Safe, Reliable High-Speed Train Bond Act for the 21st Century from November 2004 until November 2006.

Department of Housing and Community Development

In 2004-05, the Budget Act anticipates that the Department of Housing and Community Development will allocate \$427.5 million in funds from the Housing and Emergency Shelter Trust Fund Act of 2002, authorized by Proposition 46 of the November, 2002 General Election. These funds will be used for the development of housing for special needs populations, farm workers, and low-income families, as well as provide capital development funding for emergency shelters and incentives for local communities to increase affordable housing for all Californians.

California Highway Patrol

Staffing—The 2004 Budget Act includes an augmentation of \$28 million from the Motor Vehicle Account to restore reductions related to Control Section 4.10 of the 2003 Budget Act and to fund cost increases resulting from bargaining unit agreements. This augmentation will provide sufficient funding to permit the California Highway Patrol (CHP) to fill 270 existing positions on a full-time basis in 2004-05.

Homeland Security—The Budget Act includes \$23.1 million in funding for response to alerts of potential terrorist attacks, increased protection of sensitive public facilities, as well as localized events where intelligence indicates the possibility of terrorist activity, and to coordinate intelligence and communication efforts of federal, state and local law enforcement.

In addition to this CHP funding, the Budget also reflects an increase of \$2 million federal funds to establish and maintain the Office of Homeland Security. The mission of the Office is to develop and coordinate a comprehensive State strategy that includes prevention, preparedness, and response and recovery.

Department of Motor Vehicles—The Budget Act includes a \$16.9 million augmentation for increased workers' compensation, health benefits, and Industrial Disability Leave costs. Fully funding these costs permits the Department of Motor Vehicles to maintain the equivalent of about 400 positions that assist customers in field offices.

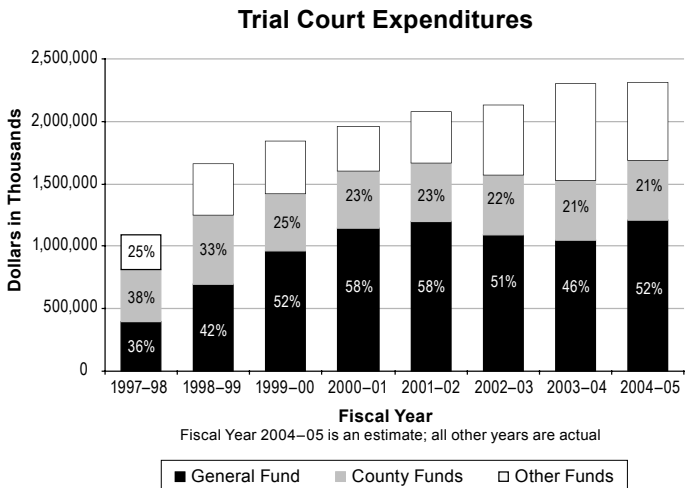
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JUDICIAL BRANCH

State Judiciary

Juror Pay—The Budget reflects a \$2.3 million General Fund reduction associated with the elimination of juror pay for government employees.

Court Facility Transfer—The Budget contains \$23.3 million from the State Court Facility Construction Fund and the Trial Court Facilities Trust Fund for the Administrative Office of the Courts to continue implementation of the transfer of trial court facilities from the counties to the State pursuant to Chapter 1082, Statutes of 2002.





Unallocated Reduction—An unallocated reduction totaling \$8.5 million General Fund, \$5.5 million one-time and \$3 million on-going, is included in the Budget for the Judiciary.

State Trial Court Funding

Trial court expenditures for 2004-05 total approximately \$2.3 billion, with 52 percent comprised of State General Fund dollars, 21 percent from county funds, and 27 percent from other funds including fines, penalties, and fees remitted to the Trial Court Trust Fund and Trial Court Improvement Fund.

Court Security—The Budget includes \$28.8 million General Fund to support the increased costs of contractual security costs at the trial courts.

Court Staff Retirement—The Budget contains \$23.1 million General Fund to support the increased costs of court employee retirement benefits.

Judges Salary and Benefits—An augmentation of \$8.1 million General Fund is included in the Budget to fund increased employer costs of salary and benefits for judges.

Salary and Benefit Contract Costs—An augmentation of \$9.6 million General Fund is included in the Budget to fund increased employer costs of salary and benefits for court employees.

Non-Salary Driven Benefit Increases—An augmentation of \$11.5 million General Fund is included in the Budget to fund increased employer costs of non-salary driven benefits for court employees.

Unallocated Reduction—An unallocated reduction totaling \$75 million General Fund, \$55 million one-time and \$20 million on-going, is included in the Budget for State Trial Court Funding.

GENERAL GOVERNMENT

Office of Emergency Services

Southern California Wildfires—The Budget includes \$35.9 million for recovery from the wildfires in Southern California.

Federal Homeland Security Funding—The Budget contains \$210.1 million federal funds to provide training, equipment, and planning for the purposes of homeland security.

Department of Industrial Relations

Workers' Compensation Reform—The Budget includes \$20.1 million (Workers' Compensation Administration Revolving Fund) for the Department of Industrial Relations to implement the workers compensation reform measures passed in fall 2003, and includes provisional language authorizing the Director of Finance to further increase the Department's appropriation after reviewing a plan for the implementation of SB 899 (Chapter 34, Statutes of 2004), which the Governor signed in April.

Enforcement of Labor Code Violations—The Budget includes \$120.7 million for the Department of Industrial Relations' Division of Labor Standards Enforcement and Cal-OSHA to enforce the State's labor laws including conditions of employment, wages, and workplace safety issues. The Budget reflects the enactment of SB 1809, which creates an administrative procedure for employees to report Labor Code



violations, thereby reducing the potential for costly lawsuits against employers.

Punitive Damages

Enactment of provisions to collect a share of punitive damages is expected to provide a General Fund benefit of \$450 million per year for two years.

CAPITAL OUTLAY

The Budget added \$1.6 billion for the capital outlay program, not including funding for transportation, K–12 schools, State conservancies, and the State Water Project. The General Fund contributes \$37.7 million of the total; \$166.4 million is proposed from lease-revenue bonds; and \$1.4 billion is from higher education bonds and other general obligation bonds. Finally, the Budget reflects \$1.5 billion in expenditures authorized in prior years.

The Budget includes new funding, as noted below:

- \$1.3 billion from Proposition 47 and Proposition 55 funds for numerous construction projects within the University of California, the Hastings College of the Law, the California State University, and the California Community Colleges that help meet the needs of increasing enrollment, replace aging facilities, and renovate existing buildings to address fire, life, and safety, as well as seismic concerns.
- \$73.3 million in lease-revenue bonds for the Department of Education, State Special Schools to replace a dormitory and campus chiller system to address critical infrastructure needs at the California School for the Deaf in Riverside.
- \$82.8 million from bond and special funds for the Department of Parks and Recreation for projects that address critical safety issues, Off-Highway Vehicle Park improvement projects, and funding for various acquisitions.



- \$24.2 million General Fund for the Department of Corrections for capital outlay projects to address critical infrastructure deficiencies, security concerns, and health and safety issues, that include cell security lighting, arsenic removal from potable water, space to treat hemodialysis patients, and facility improvements for parole hearings.
- \$12.8 million in lease-revenue bonds and \$6.4 million from the State Highway Account for the Department of Food and Agriculture to complete the relocation of an Agricultural Inspection Station in Truckee. This relocation is part of Caltrans' Master Plan to address traffic concerns and highway improvements in Truckee.
- \$8.8 million from the Motor Vehicle Account, State Highway Account, and the Vehicle License Fee Account to complete continuing projects for the Department of Motor Vehicles as part of the renovation of its headquarters.
- \$5 million General Fund and \$6.4 million in matching federal funds for the construction of a new armory in Bakersfield to accommodate two new transportation units.
- \$3.4 million General Fund for the Department of Forestry and Fire Protection, consisting of \$1 million to acquire property rights that are necessary to complete one project using previously authorized lease-revenue bonds, \$1.9 million to convert a high priority lease-revenue bond project to General Fund due to issues preventing debt financing, and \$500,000 for the renovation of a critical emergency communications facility.

LOCAL GOVERNMENT

Historically, the State has had significant control over local government revenues. Due to its ability to allocate property tax revenues, the State in the early 1990's chose to allocate additional property tax to schools in order to reduce the State General Fund's obligation for education funding. This significantly reduced the amount of property tax revenues going to cities, counties, and special districts.

This budget makes a historic change by proposing constitutional protection for over \$25 billion of local revenues. If the voters approve Proposition 1A (SCA 4) in November, the State would be prohibited from reducing local governments' share of the property tax below current levels. In a fiscal emergency, the State could borrow up to 8 percent of local property tax revenues, provided the amount borrowed would be paid back within three years and a number of conditions are met. In addition, local sales taxes would explicitly be protected and could not be reallocated by the State.

The Budget also simplifies the current car-tax relief and makes it permanent. By reducing the rate from 2 percent to 0.65 percent and eliminating the confusing "offset," cities and counties will no longer have to rely on the State to backfill lost revenues. Instead, they will receive increased property tax revenues to compensate for the reduction in revenues associated with the car-tax relief. In addition, future State controllers and directors of finance will no longer have the option or ability to raise the tax by themselves.

For 2004-05 and 2005-06, cities, counties, and special districts will give up \$350 million each of their property



tax revenues, with redevelopment agencies contributing \$250 million, for a total of \$1.3 billion per year. For helping the State with its current budget problems, local governments will receive permanent constitutional protection for their revenues for all future years, if Proposition 1A is approved by the voters in November.

Proposition 1A will also protect local governments by prohibiting the State from mandating activities on local governments, but deferring payment for these costs. If the State does not provide funding for the activity, the requirement on local governments would be suspended. In addition, the definition of what constitutes a mandate on local governments would be broadened to better reflect when added costs are imposed on local governments.

Local Public Safety

- **Citizens' Option for Public Safety/Juvenile Justice grants**—\$100 million is provided to cities and counties for front-line law enforcement, county jail operations, and district attorneys. An additional \$100 million is authorized for county juvenile justice programs.
- **Booking fees**—The enacted Budget includes continued funding of \$38.2 million to reimburse cities and special districts for fees paid to counties to book prisoners into the county jail. In subsequent years, this reimbursement will be eliminated and the fees will be reduced by 50 percent.
- **Small/Rural Sheriffs**—The Budget includes \$18.5 million to provide grants of \$500,000 each to county sheriffs of 37 specified small and rural counties for supplemental public safety funding.

STATEWIDE ISSUES

Pension Reform—The Budget reflects a reform to the State's pension retirement system estimated to save approximately \$2.9 billion over the next 20 years. Each new employee hired by the State in Miscellaneous and Industrial retirement categories will contribute to a retirement account for the first two years of service before the State begins contributing to PERS on their behalf. Employees will have the option of using their contributions to purchase service credit from PERS, withdrawing the contributions, or transferring the contributions into a retirement account of their choice after 48 months. For those employees who elect to purchase service credit, the State will pay the difference between the employees' accumulated contributions and the actuarial cost of the service credit.

Health and Dental Benefits for Annuitants—The Budget includes a reduction of \$60.5 million General Fund from the amount proposed in the Governor's January budget as a result of lower-than-anticipated increases in dental and health care premiums for 2004-05.

State Teachers' Retirement System (STRS)—The Budget restores the General Fund payment to STRS that provides for teacher purchasing power maintenance of \$584.9 million in 2004-05. Additionally, the recent valuation of the STRS indicated an unfunded liability of 18 percent. Pursuant to Education Code Section 22955(b), the State will make an additional contribution of \$94 million to offset the unfunded liability.



Pension Obligation Bonds—The Budget reflects the State's issuance of pension obligation bonds to **fund approximately \$929 million of the State's 2004-05 retirement obligation to CalPERS**. This will free up an equal amount of General Fund money and the General Fund will be responsible for all future bond redemption costs. The State will make interest-only payments of approximately \$55.8 million (interest only) from 2005-06 through 2008-09 and \$93.7 million in each fiscal year from 2009-10 through 2024-25.

Strategic Sourcing—The Budget includes Control Section 33.50, which **authorizes the Administration to capture savings of \$96 million General Fund through the Strategic Sourcing initiative**. Led by the State and Consumer Services Agency, the Administration intends to leverage the State's buying power using innovative tools to reengineer the State's procurement processes, resulting in significant budget savings and workplace efficiencies.

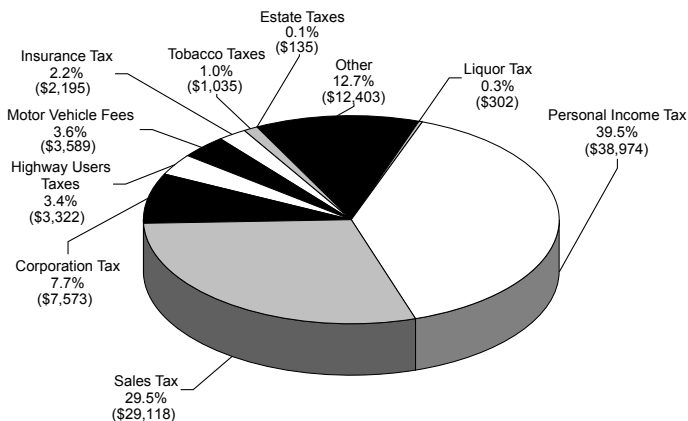
Surplus Property—The Budget includes **\$75 million General Fund revenue from increased sales from the State's underused and underutilized properties**. This will result from the suspension of various requirements for one-year relating to how the State disposes of its surplus properties in order to achieve greater General Fund resources.

Local governments will be required to notify the State of their interest in purchasing the property within 60 days of receiving notification of the property's availability and complete the sale within 90 days of receiving notification. If the sale is not completed within this timeframe, the State will then offer the properties for sale to private entities or individuals.

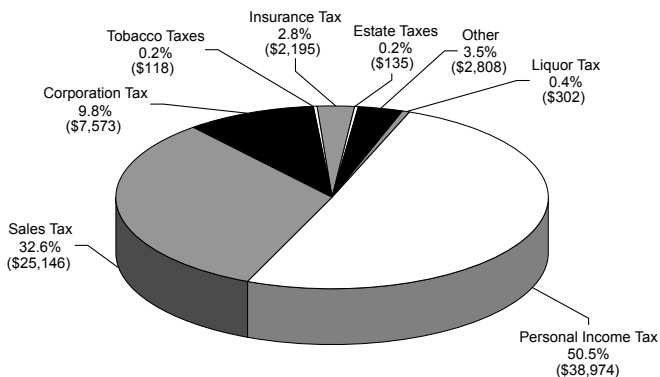
SUMMARY CHARTS



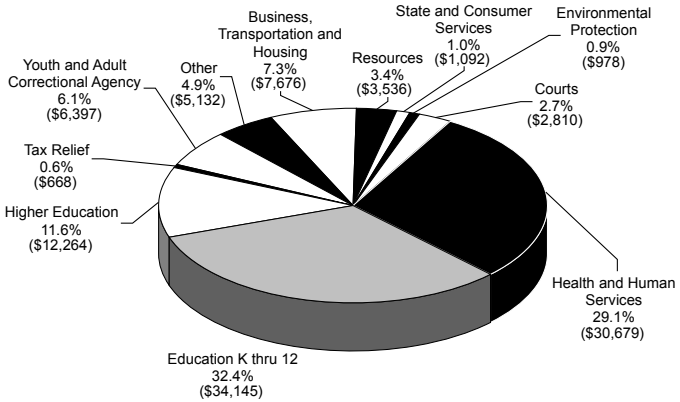
2004-05 Total Revenues and Transfers (Dollars in Millions)



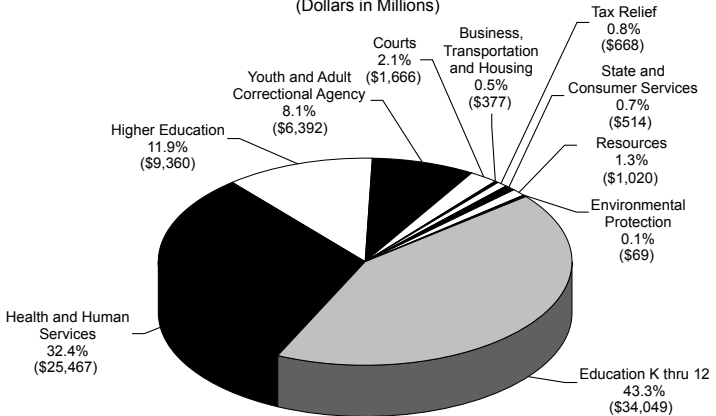
2004-05 General Fund Revenues and Transfers (Dollars in Millions)



Total Expenditures (Including Selected Bond Funds) (Dollars in Millions)



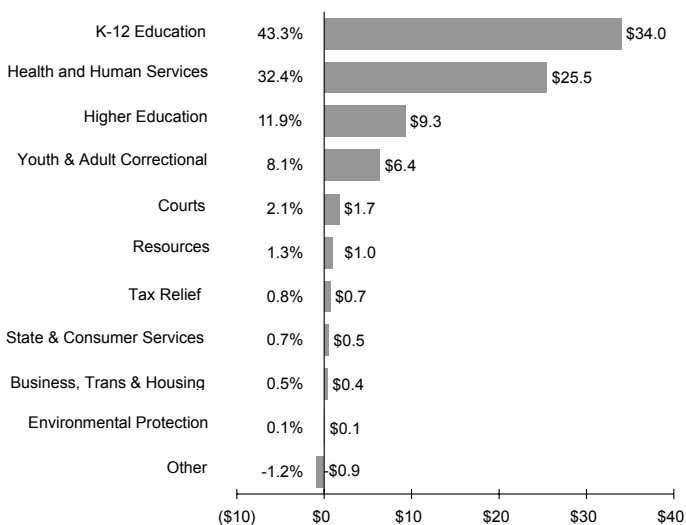
2004-05 General Fund Expenditures (Dollars in Millions)



Percentages do not total 100%, due to the "Other" category being -1.2% (\$-901).



2004-05 General Fund Expenditures (Dollars in Billions)



2004-05 Expenditures By Fund (Dollars in Millions)

Function	General Fund	Special Funds	Bond Funds	Total
Education (K-12)	\$34,049	\$60	\$36	\$34,145
Health and Human Services	25,467	5,102	110	30,679
Higher Education	9,360	1,203	1,702	12,265
Business, Transportation and Housing	377	7,152	147	7,676
Courts	1,666	1,144	--	2,810
Tax Relief	668	--	--	668
Local Government Subventions	333	1,707	--	2,040
Youth and Adult Corrections	6,392	2	2	6,396
Resources	1,020	1,655	861	3,536
Environmental Protection	69	824	85	978
State and Consumer Services	514	562	16	1,092
Other	-1,234	4,290	36	3,092
Total	\$78,681	\$23,701	\$2,995	\$105,377



2004-05 Revenue Sources
(Dollars in Millions)

	<u>General Fund</u>	<u>Special Funds</u>
Personal Income Tax	\$38,974	--
Sales Tax	25,146	\$3,972
Corporation Tax	7,573	--
Highway Users Taxes	--	3,322
Motor Vehicle Fees	16	3,574
Insurance Tax	2,195	--
Estate Taxes	135	--
Liquor Tax	302	--
Tobacco Taxes	118	917
Other	<u>2,792</u>	<u>9,610</u>
Total	\$77,251	\$21,395

**General Fund Expenditures
by Agency**
(Dollars in Millions)

	2003-04	2004-05	Change
Legislative, Judicial, Executive	\$2,549	\$2,730	\$181
State and Consumer Services	471	514	43
Business, Transportation & Housing	516	377	-139
Technology, Trade, and Commerce	6	--	-6
Resources	986	1,020	34
Environmental Protection	91	69	-22
Health and Human Services	22,969	25,467	2,498
Youth and Adult Correctional	5,424	6,392	968
K-12 Education	29,767	34,049	4,282
Higher Education	8,795	9,360	565
Labor and Workforce Development	112	85	-27
General Government	5,948	-1,382	-7,330
Total	\$77,634	\$78,681	\$1,047



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

	2003-04	2004-05
Prior Year Balance	\$4,178	\$3,127
Revenues and Transfers	\$74,570	\$77,251
Economic Recovery Bonds	<u>\$2,012</u>	<u>\$ -</u>
Total Resources Available	\$80,760	\$80,378
Expenditures	\$75,621	\$80,693
Transfer to and Use from Deficit Recovery Fund	<u>\$2,012</u>	<u>-\$2,012</u>
Total Expenditures	\$77,633	\$78,681
Fund Balance	\$3,127	\$1,697
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$929	\$929
Special Fund for Economic Uncertainties	\$2,198	\$768
Prop 98 Reserve		\$302
Non Prop 98 Reserve		\$466

General Fund Solutions by Agency (Dollars in Thousands)

Agency	2002-03	2003-04	2004-05	Total	% of Total
Legislative, Judicial, Executive	-\$12,000	-\$2,577	-\$182,604	-\$197,181	1.4%
State and Consumer Services	0	169,593	-484,386	-314,793	2.3%
Business, Transportation, and Housing	0	-42,317	-1,532,845	-1,575,162	11.3%
Technology, Trade, and Commerce	0	-6,600	0	-6,600	0.0%
Resources	-132,200	-36,460	-108,676	-277,336	2.0%
Environmental Protection	0	0	-10,259	-10,259	0.1%
Health and Human Services	-66,940	-52,211	-1,285,457	-1,404,608	10.1%
Youth and Adult Correctional	0	-9,000	-224,783	-233,783	1.7%
K-12 Education (Non Prop 98)	0	-1,590	-170,878	-172,468	1.2%
K-14 Education (Re-Base Prop 98 Growth)	-517,836	-481,105	-2,003,996	-3,002,937	21.5%
Local Government Contribution (ERAF)	0	0	-1,300,000	-1,300,000	9.3%
Higher Education (Non Prop 98)	-46,600	-119,532	-763,076	-929,208	6.7%
Labor Agency	0	-808	-2,818	-3,626	0.0%
General Government	-323,116	-600,508	-1,877,447	-2,801,071	20.1%
Economic Recovery Bonds	1,433,400	0	-2,012,000	-578,600	4.1%
Debt Service Savings (ERAF)	0	0	-1,136,000	-1,136,000	8.1%
Totals	\$334,708	-\$1,183,115	-\$13,095,225	-\$13,943,632	100.0%

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EXECUTIVE OFFICE

DONNA ARDUIN
Director of Finance
 (916) 445-4141

MICHAEL GENEST
Chief Deputy Director, Budgets
 (916) 445-9862

DAVID HARPER
Deputy Director, Legislation
 (916) 445-8610

H.D. PALMER
Deputy Director, External Affairs
 (916) 323-0648

ANNE SHEEHAN
Chief Deputy Director, Policy
 (916) 445-8582

STEVE KESSLER
Deputy Director, Operations
 (916) 445-4923

ROBERT C. CAMPBELL
Chief Counsel
 (916) 324-4856

BUDGET PROGRAM AREAS

Revenue Forecasting, Economic Projections, Demographic Research, Local Government, and Business, Transportation, and Housing **Connie Squires** ... (916) 322-2263

Education..... **Jeannie Oropeza**(916) 445-0328

Health and Human Services **Patrick Kemp**(916) 445-6423

Youth and Adult Correctional, Justice, Judiciary, General Government, and State and Consumer Services **James Tilton** ... (916) 445-8913

Resources, Environment, Energy, Capital Outlay, Legislation, and TIRU/TOSU.....**Fred Klass**(916) 324-0043

Employee Compensation, Retirement Systems **Tom Dithridge** ... (916) 445-3274

Budget Planning and Preparation, Cash Management, Statewide Issues.....**Veronica Chung-Ng** ... (916) 445-5332

Integrated Continuous Budget System **Randal H. Baker** ... (916) 445-1777

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