

THE 2002-2003 STATE BUDGET

An Overview of The Governors 2002-03 Budget Proposal

On Thursday, January 10, 2002, Governor Davis unveiled his proposed budget for the 2002-03 fiscal year.

The budget is now in the hands of the Legislature to review, analyze, debate, revise, and return to the Governor. Assembly Bill 1777 (Cardenas) and Senate Bill (Peace) will serve as the budget bills for the Assembly and the Senate, respectively. Multiple "Trailer Bills" will also be introduced in both houses as vehicles for policy changes necessary to implement the final budget agreement.

The Governor's proposed 2002-03 budget reflects the challenges of California's current economic recession, with dramatic decreases in revenues in the current year and with modest growth in the budget year. The proposed budget uses Department of Finance (DOF) projections that forecast a combined current year and budget year General Fund shortfall of \$12.5 billion, approximately 16 percent of General Fund expenditures. In addition, it is anticipated that later forecasts, included the Legislative Analyst's February forecast, will project an even greater General Fund shortfall than what the proposed budget contains. The state of California's economy and the Governor's proposal to address shortfall are discussed in more detail in the section titled "Meeting the Budget Challenge", later in this Review.

Table 7

2002-03 GOVERNOR'S BUDGET General Fund Budget Summary (In Millions)		
	2001-02	2002-03
Prior Year Balance	\$2,782	\$1,485
Revenues and Transfers	\$77,083	\$79,305
Total Resources Available	\$79,865	\$80,790
Expenditures	\$78,380	\$78,806
Fund Balance	\$1,489	\$1,984
Reserve for Liquidation of Encumbrances	\$1,473	\$1,473
Reserve for Economic Uncertainties	\$12	\$511

For the budget year, the proposed budget contains \$80.1 billion in available General Fund resources of \$80.8 billion, an increase of \$1.1 billion over revised current year projections. The proposed budget contains \$78.8 billion in General Fund expenditures, an increase of \$500 million over revised current year projection. And the proposed budget contains \$2 billion in General Fund reserves, including \$500 million for economic uncertainties. Including Special Funds and Bond Funds, the proposed budget contains \$100 billion in expenditures.

REVENUES

The Governor's proposed budget contains \$79.3 billion in General Fund revenues for the budget year. This represents a 2.9 percent increase in revenues over revised current year projections. Table 1 displays the composition of General Fund revenues.

Table 1

GENERAL FUND REVENUE As FORECAST BY THE DEPARTMENT OF FINANCE 2000-01 TO 2002-03 (Dollars in Billions)			
	2000-01	2001-02	2002-03
Personal Income Tax (PIT)	\$44.6	\$38.5	\$42.6
Sales and Use Tax	21.3	21.2	22.9
Bank and Corporation Tax	6.9	5.3	5.9
All Other	-1.4	12.2	8.0
Totals	\$71.4	\$77.1	\$79.3
Annual Percent Change	-0.7%	7.9%	2.9%

Proposed Reserves. The Governor's proposed budget includes a minimal General Fund reserve for economic uncertainties of \$500 million. As a result of the budget shortfall, the proposed budget allocated General Funds to meeting minimum expenditures rather than retaining a significant reserve.

Federal Tax Conformity. The Governor's proposed budget includes state tax law changes to conform with various federal tax law changes, including retirement plan changes, qualified tuition changes, and dependant care credit changes. The combined conformity changes are projected to provide a net revenue gain of \$178 million in the budget year and revenue losses of \$59 million in 2003-04 and \$75 million in 2004-05. The proposed tax changes are discussed in more detail in the section titled "Tax Proposals", later in this Review.

EXPENDITURES

The Governor's budget proposes to appropriate \$78.8 billion from the General Fund in 2002-03, an increase of \$500 million over revised current year expenditures. Including General Fund, Special Funds and Bond Funds, the proposed budget contains expenditures of \$100 billion.

Of the General Fund expenditures, \$31.3 billion is proposed for K-12 education, 39.7 percent of the General Fund. Health and Human Services is proposed to receive \$22.4 billion, 28.4 percent of the General Fund. Higher Education (Community Colleges, the California State University, the University of California) is proposed to receive \$10 billion, 12.7 percent of the General Fund. Corrections, Courts, Business, Transportation and

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Housing, Tax Relief, State and Consumer Services, Environmental Protection and Resources are proposed to split the remaining 19.8 percent of the General Fund. Chart 1 graphs the Governor's budget proposal to display the relative appropriations in these major program areas.

2002-03 General Fund Expenditures
(Dollars in Billions)

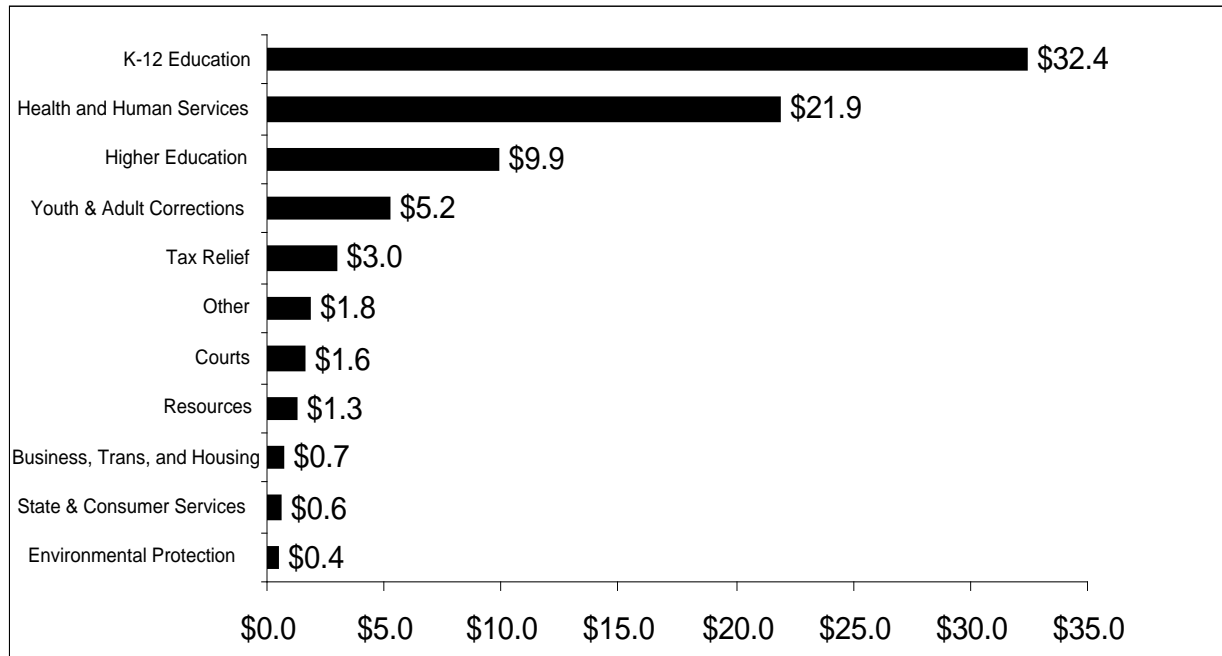


Table 5

GOVERNOR'S PROPOSED BUDGET GENERAL FUND SPENDING BY MAJOR PROGRAM AREA 2001-2002 AND 2002-2003 (Dollars in Millions)			
	2001-02	2002-03	% Change
K-12 Education	\$31,046	\$31,316	0.8%
Higher Education	9,934	9,985	0.5
Health and Welfare	21,722	22,441	3.3
Youth and Adult Corrections	5,372	5,274	-1.8
Tax Relief	3,079	4,424	43.7
Resources	1,558	993	-36.3
Environmental Protection	423	203	-52.0
General Government	1,125	580	-48.4
Legislative, Judicial, Executive	2,659	2,627	-1.2
State and Consumer Services	715	513	-28.3
Business, Transportation and Housing	678	378	-44.2
Technology, Trade and Commerce	69	72	4.3
Total	\$78,380	\$78,806	0.5%

Table 6

GOVERNOR'S PROPOSED BUDGET				
ALL FUNDS SPENDING BY MAJOR PROGRAM AREA 2001-02 AND 2002-03				
(Dollars in Millions)				
	General Fund	Special Funds	Bond Funds	Total
K-12 Education	\$31,316	\$63	\$472	\$31,851
Higher Education	9,985	745	648	11,378
Health and Welfare	22,441	4,787	--	27,228
Youth and Adult Corrections	5,274	20	--	5,294
Resources	993	1,106	628	2,727
Environmental Protection	203	636	141	980
Local Government Subventions	461	2,353	--	2,814
Tax Relief	4,423	--	--	4,423
State and Consumer Services	513	539	33	1,085
Business, Transportation and Housing	378	6,781	189	7,348
Courts	1,622	79	--	1,701
Technology, Trade and Commerce	72	9	--	81
Other	1,125	1,995	2	3,122
Total	\$78,806	\$19,113	\$2,113	\$100,032



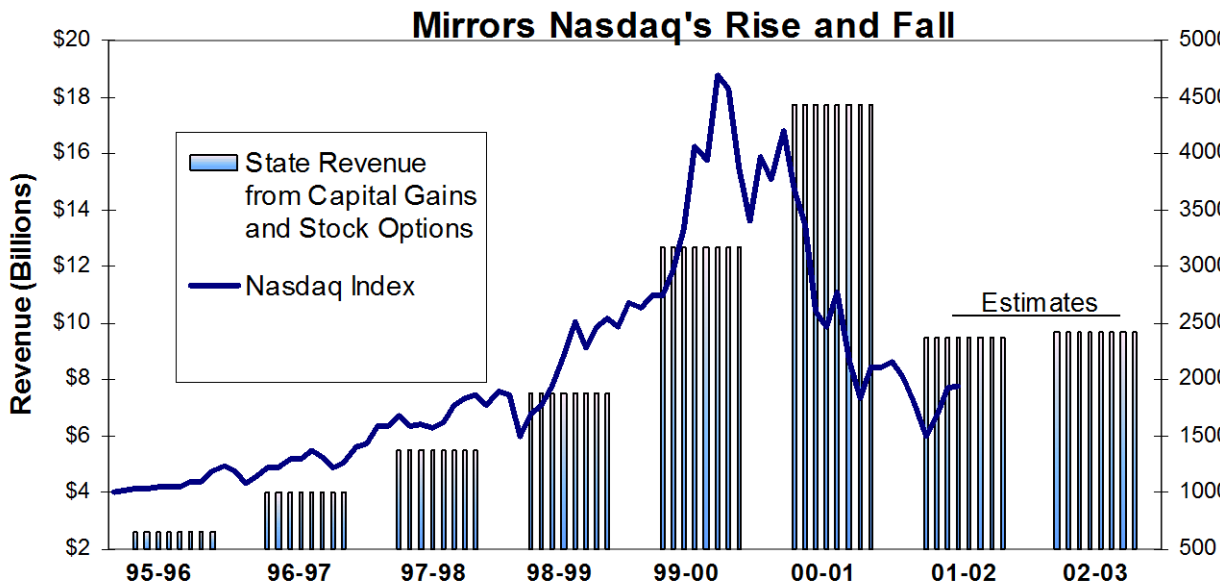
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BUDGETING TO MEET THE CHALLENGE

The current budget situation presents an immense challenge amid a unique set of circumstances.

Steep Revenue Drop Contrasts with Milder Economic Downturn. The Governor's Budget forecasts that revenues from the state's three main taxes (the personal income, sales and use, and bank and corporation taxes) will drop by \$7.9 billion, or 10.8 percent, in the current year. The fiscal crisis that California faced in the early 1990s was severe and prolonged, and it reflected a similarly severe and prolonged economic downturn. The context for the state's current budget problem, however, is fundamentally different. This is because the current dip in the economy is relatively mild, whereas the revenue decline now facing the state is much more severe. The impact of the economic slowdown on the state's revenues has been greatly magnified by the extraordinary rise and fall of the stock market, particularly the technology-heavy Nasdaq index, as illustrated in Figure X. The volatility of capital gains and stock option income is the single most important factor explaining the state's current budget problem. The budget estimates that state tax revenues from capital gains and stock options will fall by \$8.2 billion (46 percent) in the current year compared with 2000-01.

Figure X. California's Revenue from Capital Gains and Stock Options



The national economy entered a recession in 2001 after the longest economic expansion on record. California's economy also was negatively affected by slowed exports to weakened foreign economies as well as declines in tourism and business travel in the wake of the terrorist attacks of September 11th. Still, the current recession has been relatively mild compared with that of the early 1990s, and the state's economy is more diverse and resilient than it was then. Job growth has slowed considerably, falling from 3.7 percent in 2000 to 1.8 percent in 2001, but remains positive on a statewide basis, contrasting with the large job losses of the early 1990s.

Outlook for Recovery this Spring. Nationally, leading economic indicators and consumer confidence have been rising for several months. The U.S. Commerce Department has announced that the economy grew slightly, rather than contracting, in the last quarter of 2001. The Federal Reserve Board concluded recently that "the outlook for economic recovery has become more promising," and as a result decided to hold off on further interest rate cuts. Most economists expect a definite recovery to be underway by this Spring. By 2003, the budget anticipates that the state's economy will have returned to a pattern of solid, albeit unspectacular, growth, with personal income increasing by 7.5 percent and corporate profits growing by 10.5 percent. Overall, the outlook is for a relatively brief and modest slowdown with a resumption of growth during the first half of 2002. For 2002-03, the budget forecasts a 9.9 percent increase in General Fund revenues from the big three taxes.

Cautionary Points. Although the revenue outlook for 2002-03 is positive, several cautionary points should be kept in mind:

- **Heightened Uncertainty.** Uncertainty is always a factor in economic projections, particularly in light of current terrorist threats. Even a few months delay or interruption of economic recovery could reduce revenues by several billion dollars.
- **Forecast for Capital Gains and Stock Options May Be Optimistic.** The Legislative Analyst estimates that current-year revenues will be up to \$3 billion less than the budget estimate, primarily due to lower income from capital gains and stock options. Revenue receipts to date are lagging \$1 billion behind the budget estimate, according to the Legislative Analyst, and the stock market has not shown much sign of recovery yet. The Enron bankruptcy has harmed many individuals, companies and institutions, and it has raised concerns about potential accounting problems at other firms, which has adversely affected the market.
- **Tax Revenues Will Remain Below 2000-01 Level.** The severe drop in revenues in the current year creates a large hole that will take time to fill. Even with the solid revenue growth forecast for 2002-03, combined revenue from the big three taxes still would be \$1.4 billion less than in 2000-01.

The Budget Identifies A \$12.5 Billion Funding Gap

The \$12.5 billion budget gap identified in the Governor's Budget for 2002-03 is a two-year figure consisting of the following three components:

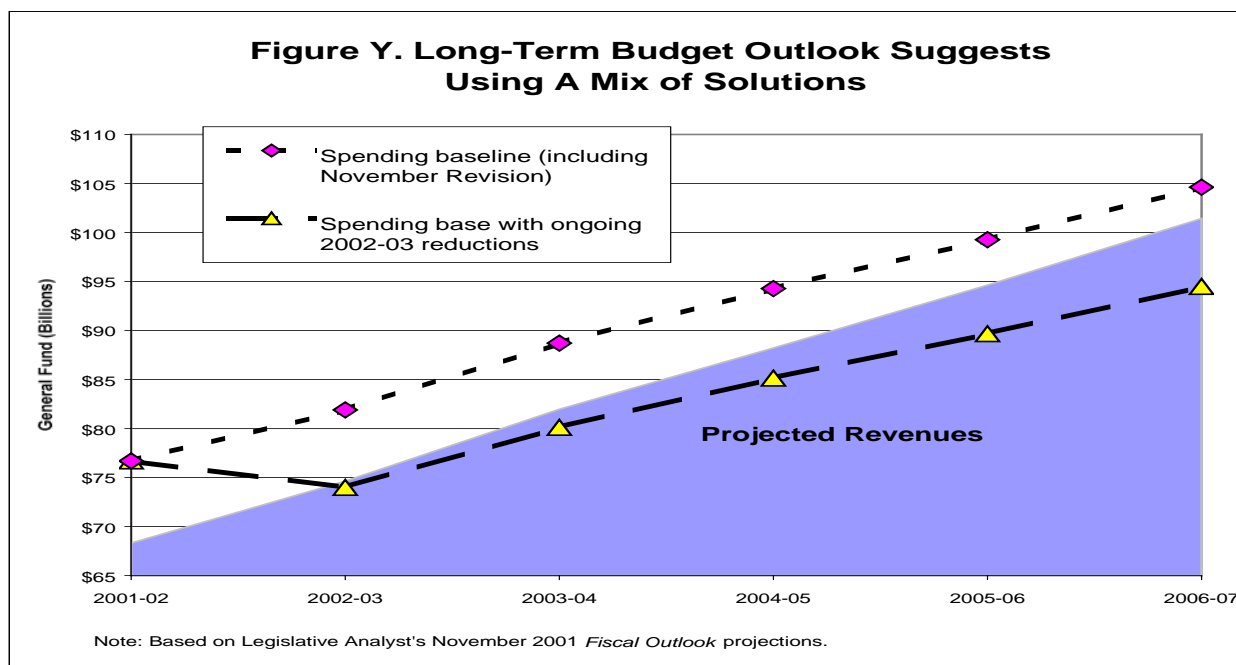
- **\$3 Billion Current-Year Shortfall.** Absent corrective action, the state General Fund would end the 2001-02 fiscal year with a deficit of about \$3 billion, according to the budget (prior to the "November Revision" SB 1 3X reductions). This represents a deterioration of \$5.6 billion in the six months since enactment of the 2001-02 Budget

Act, at which time the 2001-02 General Fund reserve was estimated at \$2.6 billion.

- **\$9 Billion Shortfall in 2002-03.** The 2002-03 shortfall amounts to 12 percent of current-year spending.
- **Creation of A Modest Reserve.** The budget includes a reserve of \$511 million at the end of 2002-03.

Operating Shortfall Declines in 2002-03. Although the budget shortfall grows to \$9 billion in 2002-03, the gap between spending and revenue actually shrinks somewhat compared with the current year. The \$3 billion budget gap in 2001-02 is the net result of a current-year operating shortfall (the difference between current spending and revenues) of \$10.5 billion less a \$7.5 billion carryover surplus from 2000-01. In 2002-03, the operating shortfall declines to \$9 billion, but there is no carryover surplus.

Budget Outlook Improves. Over the Long Term In her November 2001 report *California's Fiscal Outlook*, the Legislative Analyst presented five-year "baseline" revenue and spending projections for the General Fund, assuming existing law and budgeting practice. Figure Y illustrates the Analyst's General Fund revenue and spending projections. The projections have been modified to include the Governor's November Revision spending reductions of \$2 billion in 2001-02 and \$0.7 billion in 2002-03 and ongoing, which the Legislature largely adopted in SB 1. Although the Analyst's projections have not been updated to include baseline estimate adjustments reflected in the Governor's 2002-03 budget, they generally illustrate the rough magnitude and trends of the current and long-term budget problems facing the state.



The projections indicate that after the dramatic drop in revenues in the current year, baseline revenues are expected to grow faster than baseline spending through 2006-07 (the end of the forecast period). The Analyst's forecast estimates that revenues will grow at an average annual rate of 7.2 percent, compared with annual spending growth averaging 4.7 percent. As a result, revenues and spending gradually move closer to balance over the five years. The annual operating shortfall falls from the range of \$8 billion to \$9 billion in

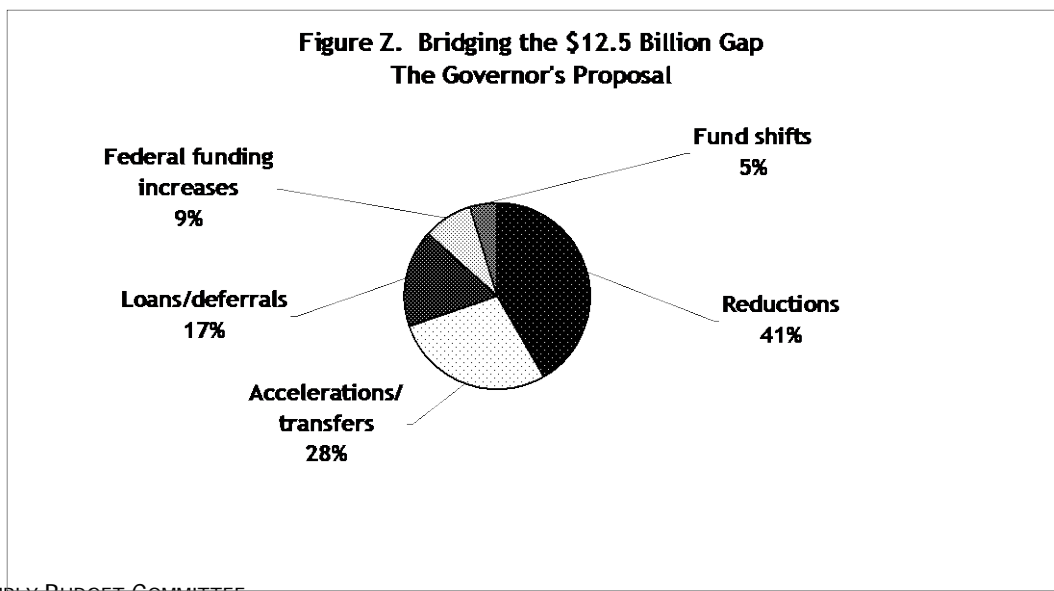
the current year to \$3.2 billion in 2006-07. The lower line in the figure illustrates the spending trend that would result from closing the 2002-03 budget gap entirely with ongoing spending cuts. Under this scenario, ongoing revenues exceed ongoing spending by increasing amounts each year, resulting in a cumulative surplus of almost \$18 billion by 2006-07. The picture would be essentially the same—the accumulation of a large surplus—using ongoing revenue increases (rather than spending cuts) to eliminate the 2002-03 budget gap.

The illustration in Figure Y above demonstrates that it is reasonable to use a mix of tools to solve the 2002-03 budget problem. Significant ongoing savings and/or revenue enhancements are needed, but the long-term outlook justifies flexibility. This is particularly true in light of the devastating impact that imposing \$9 billion of ongoing funding reductions would have to state programs in education, health care, and public safety. The ultimate budget package can, and should, include temporary savings and revenue measures, cost deferrals, and revenue accelerations. The Governor's Budget adopts this approach, although the specific proposals are likely to be refined at the time of the May Budget Revision in light of updated information on revenue, spending, and economic trends. One of the Legislature's major tasks during budget deliberations will be to evaluate the mix of budget solutions and balance them in a way that minimizes reductions in essential services in 2002-03 but also maintains the state's long-term fiscal health.

Bridging the Gap

Figure Z below illustrates how the Governor's Budget proposes to bridge the \$12.5 billion two-year budget gap. The solutions shown include a total of \$3 billion of November Revision savings enacted in SB 1 3X.

Reductions -- \$5.2 billion. Savings from reductions include \$2.5 billion from November Revision reductions, primarily in the current year, and \$2.8 billion of additional 2002-03 reductions. Reductions in education total \$2.3 billion, and consist of \$1.7 billion in K-12 Education and \$0.6 billion in Higher Education. The K-12 Education reductions primarily reflect elimination or reduction of one-time funds provided in the 2001-02 Budget Act, delays in the start-up of new or expanded programs, and capturing of various program savings. Education programs received the largest dollar reductions, but their share of total reductions (43 percent) is less than their share of General Fund spending (more than 50 percent). Other significant reductions are in health and social service programs—welfare grants to families, the elderly and the disabled will not receive any state cost-of-living increase.



Accelerations and Transfers -- \$3.5 billion. The most significant revenue acceleration proposed in the budget is the securitization of the state's tobacco settlement funds, which produces \$2.4 billion in 2002-03. This involves the sale of bonds to be repaid with \$190 million annually of the state's future tobacco settlement revenues.

Loans/Deferrals -- \$2.1 billion. The major proposals in this category include a \$672 million loan to the General Fund from the Traffic Congestion Relief Fund, payment deferrals totaling \$879 million to the Public Employees Retirement System and the State Teachers' Retirement System (plus future benefit improvements), and \$579 million in loans from a variety of special funds.

Federal Funding Increases -- \$1.1 billion. The largest federal funding increases assumed in the budget are a \$400 million increase in federal funding for Medi-Cal, \$350 million for security and bioterrorism costs; and \$181 million from relief from the child support automation penalty imposed on the state by the federal government.

Fund Shifts -- \$0.6 billion. These solutions includes shifts of financing for capital outlay projects from the General Fund to bond funds, various shifts to special fund support, and replacement of \$112 of K-12 education funding with a new federal special education grant.

Reimbursement of General Fund Loan for Electricity Purchases. Although not a budget "solution," a crucial assumption of the budget plan is that the sale of Department of Water Resources electricity bonds will take place in 2001-02 and repay the General Fund \$6.5 billion (including interest) for loans provided in 2001 to purchase electricity on behalf of ratepayers in the service territories of the three major investor-owned utilities. On February 1st the department and the Public Utilities Commission announced that they had agreed on the structure of a rate agreement to finance bond repayment, which is a crucial step towards issuing the bonds. Without this bond financing, the Governor's Budget would be short by \$6.5 billion. Furthermore, if the bond is delayed significantly, the state could face a cash shortage.

Long-term Projections Needed. At this time, the administration has not presented any long-term spending projections based on its 2002-03 budget proposal. Because the budget includes a number of major solutions that affect spending and revenue in future years, multi-year estimates are needed to evaluate the budget fully

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TERRORISM IN CALIFORNIA

Immediately after the plane crashes on September 11, 2001, it became apparent that those events would have an impact on the people of the State of California, and would also affect the way the affairs of the state are being conducted. The focus on California was particularly acute as three of the four planes that crashed were bound for the state. Within minutes of the plane crashes that day, the Director of the California Office of Emergency Services activated the statewide emergency management system.

California represents one of the largest economies in the world. As a result it has a very large infrastructure to support and protect. Elements of the infrastructure such as water systems, transportation and electrical transmission lines represent opportunities to cause disruption to a large number of people. Further, the state has a number of high profile buildings, landmarks and international corporations in the State. Attacks on any of these targets could cause loss of life and a disruption in the state's economy.

The Governor's proposed budget anticipates the receipt of \$350 million in federal funds to apply toward the costs of anti-terrorism efforts in 2001-02 and 2002-03. A portion of these funds have been identified for the following programs: \$89.6 million in budget year and \$39.5 million in the current year for the California Highway Patrol; \$24 million in the current year for Caltrans; \$6 million in the budget year and \$3.9 million in the current year for the Military Department; and \$20 million to other state agencies.

In addition to the use of specific federal funds, the numerous state and local agencies are increasing anti-terrorism activities. The following provides an overview of the budget impact of these activities as contained in the Governor's proposed budget.

California Highway Patrol

- **Additional Staffing During Alerts.** The proposed budget includes \$35.8 million in the current year and \$32.5 million in the budget year for overtime costs resulting from the increased use of 12 hour shifts in response to intelligence reports of general or specific threats to the state's security.
- **Additional Air Surveillance.** The proposed budget includes \$4.6 million in the current year and \$5.7 million in the budget year to increase the CHP air surveillance hours.
- **Additional Staff to Protect Key Facilities.** The proposed budget includes \$9.6 million to hire new road officers to replace officers diverted to protect key public and private facilities after the attacks of September 11.
- **Additional Staff for Truck Inspections.** The proposed budget includes \$16.1 million for an additional 168 officers and support staff to continue providing 24-hour staffing at 18 key weigh stations.

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- **Emergency Command Operations and Task Forces.** The proposed budget includes \$2.2 million for CHP officers to participate in numerous task forces and liaison activities with federal and other state agencies. In addition, the proposed budget includes \$2.5 million for protective equipment for CHP officers.

Military Department

- **Bridge Security Mission.** The proposed budget includes \$3.9 million in the current year and \$6.9 million in the budget year to cover the costs of the California National Guard providing security at the Golden Gate, San Francisco-Oakland Bay, Vincent Thomas, and Coronado Bridges.

Department of Justice

- **California Anti-terrorism Information Center (CATIC).** The proposed budget includes \$1.85 million in the current year to implement the CATIC to support anti-terrorism law enforcement activities by providing a state-level criminal intelligence database and by coordinating efforts and information with federal law enforcement. The budget anticipates additional federal funds for CATIC operation in the budget year.

Department of Transportation (Caltrans)

- **Bridge Security.** The proposed budget contains \$24.2 million in the current year for the cost of new surveillance systems, fencing, and other security improvements for the state's major bridges.

Department of Health Services

- **Support for Local Public Health Departments.** The proposed budget includes \$5 million in the current year for grants to local public health agencies to increase their ability to detect and respond to bioterrorism and chemical attacks.
- **Public Health Response to Bioterrorism Activities.** The proposed budget includes \$2.6 million for preparedness planning and readiness assessment, surveillance and epidemiology capacity, improved laboratory capacity for biological and chemical agents, and health alert network training.

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Governor's Childcare Reform Proposal

The Governor's budget includes major reforms of California's childcare system. These changes encompass virtually all of the aspects of the current childcare system, including eligibility criteria, family fees, provider reimbursement rates, eligibility priority, and program administration. The changes would save an estimated \$400 million per year, which is to be reinvested in additional childcare slots and expanded before-and-after school programs.

Background. In the spring of 2000, the Governor initiated a review of the state's child care policies with the goal of determining how to control increasing costs and increase program equity between working poor and former welfare recipients within existing resources. The proposal suggests changes to both the California Department of Education (CDE) programs as well as childcare programs linked to CalWORKs.

- **CDE Child Care.** CDE administers a variety of subsidized childcare programs serving low-income families. Programs include those serving CalWORKs families in "Stage 2" whose job or training schedule has stabilized (see below), former CalWORKs recipients who have left aid but are still eligible for subsidized care, and low-income working families that have never received CalWORKs (so called "working poor" families). These programs include half-day preschool programs for 3 and 4-year olds, center-based child care programs, child care for migrant families, child care for school-age children, alternative payment programs that allow families some choice as to what form of child care they receive (family-based, center-based, etc.), schoolsite after- and before-school programs administered by school districts and child care programs for school-age children. CDE also administers several support programs intended to improve the quality and availability of childcare programs.
- **CalWORKs Child care Services.** AB 1542 (Ducheny), Chapter 270, Statutes of 1999, established a three-stage child care delivery system for families in the CalWORKs program. Stage 1, which counties administer directly, begins upon entry into job search services and can last for up to six months. Stage 2 begins when the recipient's schedule for training or work stabilizes or when a recipient is transitioning off of aid and childcare is available through a local Stage 2 program. Stage 3 begins when a family has been off of aid for two years, and also is available to families receiving diversion services, long-term training, or who are employed at a wage that does not exceed 75 percent of the state median income. Stages 2 and 3 are funded through the State Department of Education (SDE), which administers those stages.

Problems with the Current System

In a May 2001 report on childcare fiscal reform, the current system was found to have the following problems:

- **Spiraling increased costs projected.** The State would need to commit significant additional funds to continue the existing scope of the program. The May 2001 report estimated that it would cost an additional \$400 million in 2002-2003 to continue to fully fund new families entering Stage 3 child care. The report projected that this figure would continue to increase. By 2004-2005, the report estimated that an additional \$629 million would be needed to continue the existing program.
- **Slots for working families scarce.** There is a shortage of subsidized slots. More working poor families qualify for subsidized childcare than can be served under the current level of state funding. As a result, long waiting lists for subsidized childcare exist statewide. The May 2001 report estimated that between 200,000 and 300,000 children were eligible for subsidized child care, but were not currently in the program. Fully funding all eligible families under the current system was estimated to cost an additional \$1.2 billion to \$1.8 billion per year.
- **Inequity between CalWORKs and non-CalWORKs families.** The current system fully funds continued childcare for families leaving CalWORKs for work. This funding allows working poor families that have left the CalWORKs program to continue to receive childcare, while other working poor families remain on waiting lists. Both the May 2001 report and the Governor have repeatedly cited this inequity as a driving force behind the reform proposal.

The charts on the following pages details the changes proposed in the Governor's budget:

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Proposed Change	Current System	Reform Proposal
Lower Income Eligibility for Families.	Currently families must earn less than 75 percent of the State Median Income in order to qualify for subsidized child care.	Reduce the maximum income a family can earn to qualify for child care. The maximum income varies by county with a 66 percent of State Median Income eligibility level for five Bay Area counties, 63 percent for high cost counties, and 60 percent for low cost counties.
Require all families receiving child care to pay fees.	Fees begin at 50 percent of the State Median Income, CalWORKs participants that earn below this income level don't pay fees.	All families pay fees, including CalWORKs participants. A small number of families referred by the Child Protective System would not have to pay fees for the first year.
Increase the family fees.	Fees are charged per family, not per child. Fee schedule does not vary by time on aide	Family fees are charged per child. The level of family fees is determined in a three step graduated fee schedule based upon income and time receiving a child care subsidy. Fees increase after five years of receiving the subsidy. After seven continuous years of care, a family's fees would increase to the percentage of cost of child care equaling the family's income percentage of the State Median Income. Family fees would be calculated retroactively based upon all of the years that a family has received a subsidy, including during participation in the CalWORKs program. The Alternative Provider (AP) is expected to determine the correct family fee rate for each family.
Change responsibility for fee collection.	Currently, the Alternative Provider collects fees from families.	Under the proposed system, the childcare providers must collect the fees from families.
Lower the maximum amount the State will pay providers for childcare slots.	Currently the State pays child care providers up to 93 percent of the Regional Market Rate for childcare. Licensed-exempt childcare providers are paid 90 percent of the maximum family day care rate.	The proposal reduces the reimbursement rate to 75 percent of the Regional Market Rate. Exempt providers would continue to receive 90 percent of the family day care rate.
Lower age eligibility.	Children up to 13 years of age are eligible for childcare.	Children up to 12 years of age are eligible for childcare.
Establish a new priority for opened childcare.	Families with the lowest income families get priority for opened child care slots	Families with over 32 hours of work activities and with lowest income get priority for opened childcare slots.
Eliminate Stage 3 child care.	After two years of CalWORKs Stage 2 child care, families continue to receive child care in Stage 3.	After two years of CalWORKs Stage 2 child care, families compete with other working poor families for available slots. This provision would go into effect by July 1, 2003.

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The Governor's proposed budget assumes \$401.4 resulting from the reform proposal. These savings are reinvested into additional childcare slots and \$30.1 million in afterschool programs. The table below details the savings from the reform as well as the new slots created with these savings.

Child Care Program	Savings from reform	Investment in new capacity
CalWORKs Stage I Child Care	\$50 million No child care slots lost	N/A--Stage I already fully funded
CalWORKs Stage II Child Care	\$132.8 million 5,964 child care slots lost	N/A--Stage II already fully funded
CalWORKs Stage III Child Care	\$58.5 million 4,209 child care slots lost	\$80.6 million 14,745 child care slots created
Alternative Provider Program	\$36 million 4,209 child care slots lost	\$235.4 million 36,233 child care slots created
General Child Care Program	\$124.1 million 9,221 child care slots lost	\$55.3 million 9,221 child care slots created
After School Program	None	\$30.1 million
Total	\$401.4 million 22,071 slots lost	\$401.4 million 66,199 child care slots created
Net increase of 41,128 child care slots		

The Governor's budget assumes that the Legislature will adopt these changes to the child care system in legislation prior to the adoption of the budget. The changes would go into effect on July 1, 2002, with some of the more complicated provisions phasing in gradually after that time.

The Governor's proposed budget results in a \$122.7 million net increase in programs budgeted from childcare and afterschool programs. In addition to the changes resulting from the reform proposal, the budget also provides an additional \$44.9 million in additional afterschool programs. The table below details the overall changes to various budget items:

Program	2001-2002 Estimates (Millions)	2002-2003 Proposed Budget (Millions)	Net Change	Reason for Change
Stage 1 Child Care	\$605.2	\$499.0	\$106.2	Reform savings and lower projected caseload
Stage 2 Child Care	670.6	645.2	-25.4	Reform savings and higher projected caseload
CalWORKs Child Care Reserve	90.0	100.0	10.0	Reserve increased to ensure full funding of Stage 1 and Stage 2
Stage 3 Child Care	260.3	80.6	-179.7	Most funding is shifted to APP program below.
Alternative Provider Program	208.2	626.0	417.8	Increase due to reform savings and shift of Stage 3 into APP program
General Child Care	604.4	535.6	-68.8	Net effect of reform savings
After School Programs.	87.8	162.8	75.0	Reform savings plus \$44.9 million in new funds.
Total	\$2,526.5	\$2,649.2	\$122.7	

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K - 1 2 E D U C A T I O N

DEPARTMENT OF EDUCATION

Major Provisions

The major provisions of the K-12 budget (Department of Education) include:

- An increase of \$1 billion in Proposition 98 expenditures, which meets the minimum K-14 funding requirements under law.
- Full funding of growth and cost-of-living adjustments in K-12 education, at a total cost of \$1.3 billion.
- An increase of \$75 million over the 2001-2002 year level for before and after school programs, which provide educational, enrichment and recreational activities for low-income school-age children.
- The consolidation of five different ongoing textbook and library materials programs into one ongoing block grant and three one-time amounts, for a total funding level of \$625 million, a slight increase over the funding level in last year's budget.
- The continuation of \$408.5 million of the \$845.4 million in cuts proposed by the Governor for the current year. For example, the proposed budget does not include funding for PERS reduction and revenue limit equalization, which were part of last year's budget agreement but were proposed to be cut in the current year. (The Legislature restored this cut in the current year in SB 1xxx (Peace))
- An increase of \$80 million over the revised current year level for the Math and Reading Professional Development Program, for a total funding level of \$110 million. This program was initiated last year to train every teacher in California, over several years, in the math and reading state standards.
- A major reform package for childcare programs, to commence in March, 2003. The reforms result in a total of \$400 million in cuts from childcare, all of which the Governor uses to increase the number of children in working poor families receiving childcare (including before/after school programs).

OVERALL K-12 FUNDING

The Governor's proposed budget includes a total spending level of \$53.9 billion for K-12 education, including all fund sources (General Fund and federal, lottery and other funds). This total spending level reflects a total increase of \$1.1 billion, or 2.1 percent, over the revised current year spending level. If the proposed current year cuts are not considered, the Governor's proposed total K-12 spending level reflects an increase of \$734 million, or 1.2 percent over the total spending level in the 2001-02 budget act, as passed last summer. In per-pupil terms, the total K-12 funding level in the Governor's proposed budget is \$9,236 for 2002-03, a \$93, or 1 percent increase over the revised 2001-02 total funding level of \$9,143 per-pupil.

The Governor's total spending increase over the revised current year spending level is mostly made up of increases in property tax revenues, which count towards the state's Proposition 98 spending level. Increases in General Fund (Proposition 98) expenditures account for about \$270 million of the \$1.1 billion increase in total spending over the revised current year level. (The Governor's proposed General Fund spending level for K-12 education in 2002-03 is actually lower than the General Fund spending level approved in the 2001-02 Budget Act (prior to cuts))

The Governor's budget does not include approximately \$700 million in additional federal funds that the state is expected to receive in 2002-03. This is because the federal appropriations bill that contained the federal funds was passed too late to include in the January budget proposal. The Governor's office is expected to include these additional funds in its May Revision of the budget. However, the Legislature may want to consider reviewing the new federal funds in advance of the May Revision, to have adequate time to consider the different policy options that the new funds imply. (See "Federal Funds" below)

Table 1

Total Revenue for K-12 Education

(Dollars in Millions)				
	2001-02*	2002-03	Dollar change	Percent change
General Fund	\$31,033	\$31,316	\$283	0.9%
Local Property Taxes	11,824	12,747	923	7.8
Federal Funds	5,545	5,480	-65	-1.2
Lottery Funds	813	813	0	0.0
Other Funds**	3,605	3,567	-38	-1.05
Total***	52,819	53,922	1,103	2.1
Total per-pupil****	\$9,143	\$9,236	\$93	1.0%

Source: Department of Finance.

*These figures reflect the General Fund cuts to the 2001-02 Budget Act. In absence of these cuts, the figure for the General Fund would be approximately \$454 million higher than shown.

**Includes local debt service, local miscellaneous revenue and other state funds.

***Figures are rounded off and may not add up.

**** Department of Finance estimates this figure using unduplicated ADA, including attendance in ROC/P's and adult education programs.

PROPOSITION 98

Proposition 98, known as "The Classroom Instructional Improvement and Accountability Act," was passed by the voters in November, 1988. The initiative amended the state constitution to provide for an annual minimum guaranteed level of funding for school and community college districts. This minimum annual funding guarantee is based on changes in statewide average daily attendance, changes in per capita General Fund revenues, and changes in per capita income from one year to the next.

Total Proposition 98 funding for K-12 and community colleges: The total Proposition 98 spending level for the budget year includes spending for K-12 education, community colleges and certain education activities carried out by other agencies. The Governor's proposed 2002-03 State Budget includes a total of \$46 billion in Proposition 98 funds, an increase of \$1 billion over the revised current year budget, or approximately 2.3 percent. This funding level meets the minimum K-14 funding level required by Proposition 98, at a "Test 2" level, and retires the full maintenance factor.

Proposition 98 resources consist of General Fund revenues and local property tax revenues. As noted in the table below, the Governor's budget assumes a 7.8 percent increase in local property tax revenues, which translates to an increase of over \$1 billion in revenues. This increase in property tax revenues is fortuitous, given the budget crisis and the General Fund deficit, because the increase in property tax revenues is enough to pay for the entire spending increase required by Proposition 98, eliminating the need to increase General Fund expenditures to meet the minimum Proposition 98 funding requirements. In fact, General Fund spending for Proposition 98 actually decreases slightly over the revised current year spending level.

The community college share of the total Proposition 98 funding level for the 2002-03 fiscal year is almost \$4.7 billion, or 10.2 percent. These figures are summarized in the table below.

Proposition 98 Allocation

(in millions)				
	2001-02*	2002-03	Amount Change	Percent Change
K-14 Proposition 98 Revenues				
General Fund	\$31,392	\$31,354	-\$38	-0.12%
Local Revenues	13,572	14,629	1,057	7.8
Total	\$44,964	\$45,983	\$1,019	2.27%
K-14 Proposition 98 Expenditures				
K-12 Education	\$39,958	\$41,193	\$1,235	3.09%
Community Colleges	4,548	4,684	136	2.99
Other Departments	108	106	-2	-1.85
Loan repayments	350	0	-350	100%
Total Proposition 98	\$44,964	\$45,983	\$1,019	2.27%
K-12 Proposition 98 per-pupil expenditures**	\$6,920	\$7,058	\$138	1.99%

Source: Department of Finance

*These figures include the General Fund cuts that the Governor proposed last November to the 2001-02 Budget Act. In absence of these cuts, the figure for the General Fund would be approximately \$454 million higher than shown.

**Figures for K-12 Proposition 98 per-pupil expenditures reflect expenditures per-average daily attendance.

Note: Figures may not add, due to rounding.

Proposition 98 Funding for K-12 education: As shown in the above table, total Proposition 98 funding for K-12 totals \$41.2 billion for 2002-03, as proposed by the Governor. This total amounts to a \$1.2 billion, or 3.1 percent, increase over the revised current-year funding level of approximately \$40 billion. However, if the proposed budget year Proposition 98 K-12 spending level is compared to the current year spending level as passed by the Legislature last year, the increase is \$734 million, or 1.9 percent. This is because the current year cuts reduce the current year Proposition 98 K-12 spending level by \$460 million below the level adopted in the 2001-02 Budget Act.

On a per-pupil basis, Proposition 98 funding for K-12 increases by \$138 over the proposed revised current year level, to a total funding level of \$7,058 per pupil -- a two percent increase. If the proposed per-pupil spending level is compared to the 2001-02 budget as passed by the Legislature (without the current year cuts), per-pupil funding increases by 0.8 percent.

Governor's Proposition 98 calculation may be revised upward. According to the Legislative Analyst's Office (LAO), the Governor's estimate of the Proposition 98 minimum funding level may increase by as much as \$935 million, depending on an indicator published by the federal government in April or May of this year. The Governor and the LAO both concur that the Proposition 98 guarantee will be based on a Test 2 calculation, which is mainly driven by changes in per-capita personal income. However, the Governor uses an estimate of the change in per-capita personal income of -3 percent, which the LAO believes is at the low end of a range of probable indicators. Its most recent forecast used an estimate of -1 percent, which would lead to a Proposition 98 minimum funding level that is \$935 million higher than that estimated by the Governor. The LAO believes that the per-capita personal income indicator to be published this spring probably will be somewhere between -3 percent and -1%, which would therefore necessitate a higher spending level, thereby exacerbating the current General Fund shortfall.

State still owes funding for prior-year Proposition 98 adjustments. As passed, the 2001-02 Budget Act contained \$250 million to partially pay for a total of \$352 million in needed adjustments to the Proposition 98 funding levels for the fiscal years 1995-96. These adjustments are necessary due to revised calculations of the minimum Proposition 98 guarantees for these years, which are a result of census-driven changes in population estimates for this time period. The 2001-02 Budget Act provided this \$250 million adjustment in the form of one-time funding to school districts to pay for increased energy costs and energy conservation measures, or other purposes.

The Governor's budget revises downward its estimate of the necessary prior-year adjustments to a total of \$251 million. However, SB 1xxx (Peace) eliminated any funding to pay for prior-year adjustments. (Although SB 1xxx retains \$75 million of the \$250 million in energy funds that the 2001-02 budget used to pay for prior-year adjustments, it does not apply the \$75 million to pay for prior-year adjustments because it uses reversion account funds for this purpose, and reversion account funds cannot be counted toward prior-year adjustments.)

■ Approved Current Year Adjustments

As reflected in SB 1 3X (Peace), the Current Year Adjustments for the K-12 budget (Department of Education) include:

A total of \$856.4 million in savings and cuts to programs that go to K-12 schools. All but \$6 million of this funding is Proposition 98 funds, with \$716.4 million being reductions in current year ongoing spending levels (thereby reducing the current year Proposition 98 spending level by that amount), and \$134 million is from prior-year Proposition 98 funds allocated from the Proposition 98 reversion account.

Savings from programs that received lower-than-expected participation levels.

\$174.5 million of the proposed cuts are from unexpended funds in various existing programs. Absent any immediate action, these funds would eventually be reverted in future years, and would be available in future budget to appropriate to schools for one-time uses. Therefore, the proposed cuts below only capture savings sooner than they would otherwise be available. The savings include:

- **\$6 million from Professional Development Institutes stipends.** University of California Professional Development Institutes were established two years ago by AB 2881 (Wright), and provide specific subject-matter training to beginning and veteran teachers. The 2001-02 Budget Act contained a total funding level of \$110.9 million for these institutes -- \$54 million for \$1000 stipends to participating teachers and the other \$56.9 million to pay for UC's costs of operating the institutes. In November the Governor proposed a \$6 million cut in the current year to the amount for UC operating costs, which the Legislature adopted. The Governor proposes to continue this cut in the budget year, due to lower-than-anticipated demand.
- **\$20 million from the Beginning Teacher Support and Assessment Program.** Due to lower-than-anticipated participation in this program, the Governor proposed a \$20 million reduction for this program, which the Legislature adopted, bringing total funding to \$84.6 million, for approximately 25,000 teachers. The Governor proposes to continue this cut into the budget year, although he provides \$3.6 million for a COLA, bringing total funding to \$88.3 million.
- **\$5 million from the National Board for Professional Teaching Standards Certification Incentives Program.** This program provides teachers who earn certification by this organization with \$10,000 bonuses (\$20,000 bonuses for working in low-performing schools). The Governor proposed a cut in this program, which the Legislature adopted, due to less-than-anticipated demand, leaving a total of \$10 million in funding. He proposes to continue this cut into the budget year.
- **\$10 million from 9th Grade Class Size Reduction Program.** This program provides incentive funding to high schools to reduce 9th grade class sizes in core subject areas. Participation has been much less than expected for several years, and this cut is consistent with similar cuts the budget made last year to this program. The Governor proposes to continue this cut into the budget year.
- **\$15 million from the Digital High School Program.** This program provides funding to high schools for education technology professional development, equipment and

technical support. The Governor proposed this cut (which the Legislature adopted) to reflect savings resulting from schools which had not yet completed installation projects and therefore were not yet eligible to receive ongoing operation grants. The Governor proposes to continue this cut into the budget year.

- **\$118.5 million from the Teaching as a Priority Block Grant.** This program was initiated two years ago by SB 1666 (Alarcon), to provide grants to low-performing schools to help them recruit and retain credentialed teachers. This cut is one-time and reflects delayed implementation, in which SDE distributed the first year's amount of funding in the program's second year of existence. (The Governor proposed to cut only \$20 million from this program in November, due to less-than-anticipated demand.) The Governor proposes to entirely restore this cut in the budget year, in anticipation of increased demand.

Savings from postponement, elimination or scaling back of new initiatives.

- **\$175 million from energy funds.** Last year's budget provided \$250 million in one-time funds to help school districts pay for increased energy costs. (While the Budget Act suggested that districts use the funds for increased energy costs, districts were not required to do so, and the funds were discretionary.) The funding was also counted toward prior-year upward adjustments in Proposition 98 minimum funding levels (see Proposition 98 section, above). In November, the Governor proposed to eliminate this funding. The Legislature chose to reduce this funding by \$175 million, leaving \$75 million available.
- **\$159 million from High Priority Schools Grant Program.** Last year's budget provided \$200 million for a new program to help the lowest performing 10 percent of schools improve. The program was contained in AB 961 (Steinberg). The Governor proposed to delay implementation of this program until the budget year, 2002-03, thereby saving \$197 million in the current year. However, in SB 1xxx (Peace) the Legislature re-appropriated \$38 million of this savings for planning grants for the lowest-performing 20 percent of schools. The Governor restores this cut in the budget year, for a total funding level of \$200 million for this program.
- **\$48.3 million from the Math and Reading Professional Development Program.** Last year's budget provided \$80 million for this new program, as part of a multi-year strategy to train all teachers in the state in the math and reading standards. Due to expected delays in implementation, the Legislature reduced this amount by \$48.3 million in the current year. The Governor proposes a total funding level for this program of \$110 million in the budget year.
- **\$66.7 million from the School Bus Safety II Mandate.** Last year's budget provided \$66.7 million to pay for mandate reimbursements related to the School Bus Safety II mandate, which requires schools to provide a number of safety measures related to children riding, entering and exiting school buses. Last year the Legislature requested that the State Auditor examine districts' claims for this mandate, as well as the claiming instructions issued by the Commission on State Mandates, due to concerns about the broad nature of the claims filed by districts. The Legislature decided to postpone payment of the current year claims, pending receipt of the audit findings regarding this claim. The Governor similarly proposes to postpone payment of the claims for this mandate in the budget year.

- **\$22.2 million from before and after school programs.** The Governor proposed to delay a \$15 million expansion of the existing after school program, and the implementation of \$15 million for a new before school program, created by AB 6 (Cardenas). The Legislature adopted all but \$7.5 million of this proposed cut, allowing for three months of implementation money to go out in the current year. The Governor proposes to restore this cut in the budget year and provide an additional \$45 million for the program.
- **\$4 million from the High Tech High School program.** The Governor proposed to reduce by \$4 million the total funding for this new program, created by AB 620 (Wayne), leaving \$6 million in one-time funds for the program. The proposed cut and accompanying trailer bill language would reduce the number of schools that can participate, from 20 to 10. In the budget, the Governor proposes \$4 million in one-time funds for this program.
- **\$5 million from the Charter School Facilities Grants program.** The Governor proposed a \$5 million reduction, which the Legislature adopted, from a new program to provide grants to build facilities for new charter schools in low-income areas, leaving a total of \$5 million available for the program. The program was created by SB 740 (O'Connell), and also included a requirement that charter schools obtain permission to run independent study programs and possibly face a 10 percent cut in funding for their independent study programs.

Cuts to base programs.

- **\$50 million from the Peer Assistance and Review Program.** The Governor proposes to reduce funding for this program by \$50 million, leaving \$84 million, and the Legislature adopted this cut in SB 1xxx. This program was created three years ago by AB 1x (Villaraigosa), to provide mentoring services to veteran teachers to help them improve their performance. The Governor proposes to continue this cut in the budget year, which would result in a rate reduction. School districts must collectively bargain implementation of this program.
- **\$100 million from the Certificated Staff Performance Awards Program.** In November, the Governor proposed a 50 percent cut to this program (\$50 million), which provides one-time cash bonuses of up to \$10,000 to teachers in schools that achieve minimum improvements in test scores. The Legislature adopted this cut, plus an additional \$50 million, to suspend the entire program in the current year. The Governor proposes a continuation of the \$50 million cut in the budget year, leaving \$50 million for the program.
- **\$12.7 million from Performance Awards.** The Legislature adopted a \$12.7 million cut to this program, which provides one-time awards to schools that achieve minimum improvements in test scores. The cut leaves \$144.3 million available for school awards in the current year. The Governor does not propose to continue this cut in the budget year.
- **\$38 million from Healthy Start Program.** The Governor proposed to cut \$38 million from this program, which provides four-year grants to school districts to establish on-site centers to improve health and service access to students and their families. The cut will not affect existing grantees, but would only postpone the distribution of new

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grants to a future date. The Governor proposes to continue this cut in the budget year, further delaying new grants.

- **\$1 million to eliminate High School Coach Training Program.** The Governor proposed to eliminate funding in the current year for the High School Coach Training Program, which provides reimbursements to school districts that provide health and safety training to high school sports coaches. The Governor cites unused prior-year funds as the reason for the cut, and the Governor proposes to continue the cut in the budget year.

Current year cuts, as proposed by the Governor and adopted by the Legislature
(\$ in millions)

Program	Cut proposed by Governor in Nov.	Cut adopted by Legislature in SB 1xxx (Peace)	Cut continued in 2002-03 proposed budget?
Healthy Start Grants -- postpone new grants	\$38.0	\$38.0	Yes
Charter School Facilities Grant	5.0	5.0	No
PERS offset, K-12 revenue limits - postpone (1)	35.0	0.0	Yes - \$35
Equalization, K-12 revenue limits - postpone (1)	40.0	0.0	Yes - \$40
Before/after school programs	29.7	22.2	No
High Priority Schools Program	197.0	159.0 (2)	No
Beginning Teacher Support and Assessment	20.0	20.0	Yes
Peer Assistance and Review Program	50.0	50.0	Yes
National Board for Professional Teaching Standards	5.0	5.0	Yes
Teaching as a Priority Block Grant	20.0	118.5 (3)	No
High School Coach Training	1.0	1.0	Yes
Certificated Staff Performance Awards	50.0	100.0	Yes - \$50
Governor's Performance Awards	0.0	12.7	No
Professional Development Institute Stipend	6.0	6.0	Yes
K-12 Per-pupil Block Grant	67.8	0.0	Yes - \$67.8
High Tech High Schools	4.0	4.0	Yes
Digital High schools	15.0	15.0	Yes
One-time Energy Relief	250.0	175.0	N/A (4)
9 th Grade Class Size Reduction	10.0	10.0	Yes
Math and Reading Professional Development Program	0.0	48.3	No - Gov. proposes increase.
Defer payment of School Bus Safety II mandate	0.0	66.7	Yes
Total	843.5	856.4 (5)	

1 The Legislature adopted these amounts on a one-time basis, with trailer bill language that suspends the adjustments in 2002-03 and re-instates them in 2003-04.

2The Legislature retained a total of \$38 million on a one-time basis in the current year for planning grants for the bottom 20 percent of schools: \$18 million for Decile I, \$20 million for Decile II.

3 The Legislature adopted this cut on a one-time basis, to capture savings due to delayed implementation. The amount of the cut is equal to one year's appropriation and does not affect the program's viability.

4 The current year funding was one-time; thus the 2002-03 effect is irrelevant.

5 The Legislature redirected \$12.9 million in K-12 savings to the following non-K-12 programs: \$5 million to restore the Governor's proposed current year cut to UC Teaching Hospitals and \$7.9 million to restore the Governor's proposed current year cut to the Public Library Foundation, which provides operational funding to local public libraries.

■ Major Provisions

The major provisions of the K-12 budget (Department of Education) include:

- **Full funding of growth and COLA.** The proposed budget fully funds the statutory cost-of-living adjustment, at 2.2 percent, and K-12 growth, at 1.2 percent, at a total cost of \$1.3 billion. Of this amount, \$843 million is for cost-of-living adjustments (\$687 million for apportionments, summer school and special education and \$156 million for categorical programs), and \$438 million is for growth (\$300 million for apportionments and \$138 million for categoricals). Full funding of growth and COLA should be helpful to school districts in this budget year, because much of it is discretionary funding that helps districts balance their budgets in the face of fiscal constraints.
- **Increase in before and after school programs.** The Governor proposes an increase of \$67.5 million over the revised current year level for before and after school programs, a grant program that provides educational, enrichment and recreational activities before and after school to low-income school-age children. The proposed increase reinstates a \$22.2 million cut in the current year to reflect delayed implementation and adds an additional increase of \$45 million. However, the Governor proposes to pay for \$30 million of this increase using savings derived from the major childcare reforms he proposes. As passed, the 2001-02 budget provided an increase of \$15 million to expand the existing after school grant program and \$15 million for a new before-school component, as delineated in AB 6 (Cardenas). The Governor states that his proposed increase would serve an additional 79,000 children. (For more information regarding this augmentation and the proposed childcare reform, see Childcare section below.)
- **Low-performing schools, II/USP.** The Governor proposes to fully fund the High Priority Schools Grant Program for Low-Performing Schools, a new grant program approved by the Legislature last year pursuant to AB 961 (Steinberg), Chapter 749, Statutes of 2001. This is consistent with a proposed current year cut that the Governor proposed in November and which the Legislature partially adopted, to postpone full implementation of this program until the 2002-03 year. This funding level will allow approximately more than 70 percent of the lowest performing 10 percent of schools statewide to participate in the program, which provides \$400 per pupil for schools to improve their academic performance.¹ However, the Governor does not propose to fund planning grants for a new cohort of schools in the Immediate Intervention in Underperforming Schools program (II/USP), which was initiated three years ago and provides \$200 per pupil to the lowest performing 50 percent of schools, to help them improve their academic performance. In past years, the budget has

¹ There is also approximately \$50 million in federal funds available for low-performing schools to participate in the Comprehensive School Reform Demonstration Program, a program similar to the High Priority Schools Grant Program and the Immediate Intervention in Underperforming Schools Program. This amount is roughly enough to fund the roughly 30 percent of Decile I schools that would be eligible to participate in the High Priority Schools Grant Program, but for whom there would not be enough Proposition 98 funding to allow their participation.

included funding for a new cohort (approximately 430 schools) to participate in the program.

- **Textbook consolidation.** The Governor proposes to consolidate five different ongoing textbook and library materials programs into one ongoing block grant and three one-time amounts, for a total funding level of \$625 million, a slight increase over the funding level in last year's budget. The Governor proposes to consolidate the following programs:

Existing textbook programs, including:

- The Schiff-Bustamante Instructional Materials fund, which provides funding to purchase standards-aligned textbooks for grades K-12.
- The Instructional Materials Fund for grades K-8 and the Instructional Materials Fund for grades 9-12, which districts can use to purchase both state-adopted materials and non-adopted materials.

Existing library materials programs, including:

- The California Public School Library Act of 1998, which provides per-pupil block grants to school districts to pay for school library books, equipment and library automation. Districts must submit library plans to obtain funds.
- The K-4 Classroom Library program, which provides funding to purchase non-textbook fiction and nonfiction books and periodicals for *classroom* libraries in grades K-4.

The new programs include \$250 million for an ongoing Instructional Materials Block Grant, \$200 million for Reading/Language Arts textbooks (2002-03 year only), \$100 million for school and classroom libraries (2002-03 year only), and \$75 million for science laboratory equipment (2002-03 year only). The old and new programs in the Governor's programs are summarized in the following table:

Governor's proposed textbook consolidation and proposed funding levels
(\$ in millions)

Program	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Off-Bustamante Instructional Materials Fund	\$250.0					
Instructional Materials Fund	137.0					
Instructional Materials Fund	35.8					
Library Materials	158.5					
Classroom Materials	25.0					
Instructional Materials Block Grant		\$250	\$350	\$450	\$550	\$600
After-School Time Supplement for English Language Arts Materials		200				
After-School Time Supplement for K-12 Library and K-4 Classroom Library Materials		100				
After-School Time Program for Science Equipment		75				
Total funding for instructional and library materials	\$606.3	\$625	\$350	\$450	\$550	\$600

Although the Governor proposes to continue the existing funding level in the budget year, he proposes total funding to decrease the following year and gradually build back up to the current funding level. The Governor proposes total funding for instructional materials at \$350 million total in 2003-04, increasing this amount by roughly \$100 million each year for a total of \$600 million by 2006-07. The graph below demonstrates total state funding levels for instructional and library materials over the next five years, as proposed by the Governor.

Dollars in millions

According to the Governor's office, the proposed funding levels in out years are timed to coincide with state textbook adoption cycles. For example, the State Board of Education recently approved new textbooks that are aligned to the state English and Language Arts standards. The Governor anticipates that districts will need funding to purchase these new textbooks, and provides this funding on a one-time basis. However, in January of 2003, the State Board is expected to adopt foreign language and other textbooks, for which the Governor is anticipating less demand and therefore lower local costs, and he correspondingly reduces state funding levels.

The effects of the proposed consolidation are unclear but appear to include the following:

- **Greater flexibility in keeping with new accountability system.** The Governor is to be commended for any proposals that attempt to increase local flexibility. Given that the state has moved toward an accountability system that focuses on outcomes, a reduction in the number of restrictions that districts have to improve these outcomes can only help schools be creative in making the necessary changes to achieve those outcomes.
- **Somewhat less flexibility for districts in the budget year, but more in out years.** In the budget year, while total funding level for textbooks is the same, the composition of the money provided is different, with ongoing money being replaced with one-time money, and the one-time money being earmarked for specific things, removing some flexibility that districts currently have under the existing programs. In out years, district flexibility will be greater but total funding will be less.
- **Money specifically earmarked for library materials will disappear.** The Governor proposes to eliminate the current programs that provide ongoing funding specifically for school and classroom libraries, although he provides block grant funds that can be used for instructional materials and library materials.
- **Funding amounts may be appropriate only for districts following state adoption cycles.** The proposed total funding levels across the five years assumes that districts' costs will correspond with textbook adoption cycles, which may or may not be the case. For example, some districts may have already purchased English/Language Arts textbooks under the previous supplemental adoption cycle, under which the State Board approved existing off-the-shelf textbooks that met the state standards. These districts may have no use for the proposed \$200 million set-aside for English/Language Arts textbooks, but may have been planning to use part of the funding under the old program to purchase textbooks aligned to the Math standards, which the State Board approved last year.

Special education.

The Governor's budget summary cites a proposed increase of \$94.5 million for special education, to pay for statutory growth and COLA and adjustments to the special education formula. When local property taxes are included, the total increase for growth and COLA is \$117.1 million.

The Governor's proposed budget also includes an increase of \$112.3 million in federal special education funds. This increase amounts to an approximate increase of 17 percent over the total amount received in the current year. However, the Governor proposes not to pass on

this increase to school districts, and instead uses the increase to offset the state's obligation to special education programs.

Last year, the Governor proposed to pass on an increase of \$97.9 million in federal special education funds to school districts, as a departure from the state's practice in prior years, in which it used increases in federal funds to offset General Fund spending. This action was lauded by school districts as a positive move toward helping schools meet the cost of serving special education students. In addition, school districts also received an increase of \$395 million in state Proposition 98 spending, as part of a \$620 million court settlement over the state's obligation to pay for state and federal mandated requirements regarding special education students.

Federal and state laws require that schools provide certain services to special education students, and California and the federal government provide some funding to help offset the costs of meeting those requirements. Existing federal laws regarding special education declare the federal government's intent to fund up to 40 percent of state's costs of meeting federal special education requirements, yet federal funding has never reached that level.

The increase in federal special education funds is the only increase in federal funding that the Governor includes in his January budget, and he only includes a portion of the total increase California will receive for children ages 3-21, which is \$131.6 million, or \$19.3 million more than the Governor includes. The Governor's office indicates that it plans to include the remaining \$700 million in new federal funds as part of the May Revise (see Federal Funds section).

Program cuts.

The Governor proposes a number of base program cuts, in addition to the textbook adjustments outlined below. They are as follows:

- **Continuation of proposed current year cuts.** The Governor's budget proposes to continue \$312 million of the \$845.4 million in cuts he proposed last November for the current year, some of which the Legislature did not adopt. For example, the proposed budget does not include funding for PERS reduction and revenue limit equalization, which were part of last year's budget agreement and were proposed to be cut in the current year, but which the Legislature restored in the current year on a one-time basis. The cuts that the Governor proposes to continue are outlined in Table XX.
- **Suspension of mandates.** The Governor proposes to suspend various laws that mandate school districts to perform certain duties, as well as postpone payment of the School Bus Safety II Mandate, for a total savings of \$89.7 million. By suspending certain state mandates, school districts will not have legal grounds to claim reimbursement for compliance because they will no longer be legally required to perform those duties, resulting in savings to the state. The Governor's proposed postponement of the School Bus Safety II mandate (\$66.7 million) is consistent with action the Legislature took last year to examine claims for these mandates, due to concerns about the broad nature of the claiming instructions given to districts for claiming reimbursements. The Legislature took action in SB 1xxx (Peace) to suspend payment for this mandate in the current year as well. The mandates proposed for suspension include:

- School District of Choice Transfer and Appeals (\$10.2 million) (Chapter 160, Statutes of 1993); Habitual Truants (\$5.4 million) (Chapter 1184, Statutes of 1975); Open Meetings Act (\$3.4 million) (Chapter 641, Statutes of 1986); School Discipline Rules (\$1.7 million) (Chapter 87, Statutes of 1986); Absentee Ballots-Schools (\$1.3 million) (Chapter 77, Statutes of 1978 and Chapter 920, Statutes of 1994); and Pupil Suspensions from Schools (\$1 million) (Chapter 134, Statutes of 1987).

If the Legislature chooses to suspend certain mandates to achieve savings, it may choose to suspend different mandates than the ones chosen by the Governor, given that the Governor's budget proposes funding for reimbursement of 37 remaining mandates, at a total cost of \$153 million. In particular, suspension of the School District of Choice Transfer and Appeals mandate may be problematic, given new federal requirements that failing schools allow their students to transfer to neighboring public schools.

- **Independent study.** The Governor proposes to reduce funding for independent study programs run by non-charter schools, by 10 percent, for an assumed savings of \$43 million. The Governor's proposal is somewhat consistent with a bill he signed last year to reduce funding by up to 20 percent for independent study programs run by charter schools (SB 740 (O'Connell), Chapter 892, Statutes of 2001).² However, that legislation allowed charter schools to seek and obtain a waiver from the cut by going before the State Board of Education, yet the Governor proposes that the cut for non-charters be non-waivable. This difference may create an imbalance between funding for charter and non-charter schools, contrary to current law which requires parity in funding for both types of schools.
- **Adult education and ROC/P's for CalWORKs participants.** The Governor proposes a total \$36 million cut by eliminating an existing set-aside for CalWORKs participants that wish to obtain job training through adult education and regional occupational centers and programs (ROC/P's). The Governor claims that the existing funding levels for adult education and ROC/P's can absorb CalWORKs participants, without requiring an additional set-aside. However, existing adult education programs and ROC/P's maintain waiting lists due to high demand for certain programs. In considering the proposed cut, the Legislature may wish to obtain information regarding how programs will absorb CalWORKs participants, and which participants or programs might be denied services as a result of these adjustments.
- **Additional categorical programs.** In addition, the Governor proposes to eliminate two existing categorical programs, for a total savings of \$27.7 million: 1) Demonstration Programs in Intensive Instruction (\$6.1 million), which has sunset, and 2) School Development Plans and Resource Consortia (\$21.6 million) -- this program facilitates the involvement of teachers in the development of curricula, instruction and student assessment. He also proposes to reduce \$5 million in funding from the College Preparation Partnership Program.

² SB 740 (O'Connell) requires charter schools to obtain approval from the State Board of Education in order to obtain state funding for independent study programs, and allows the Board to reduce funding. However, the State Board must provide justification for any cut, and if the State Board fails to grant approval by a certain date a charter school automatically receives full funding for its independent study program. SB 740 also creates a grant program to fund charter school facilities in low-income areas.

Programs to recruit, retain and train teachers. The Governor's proposed budget mostly maintains the current funding level for most of the existing teacher training and recruitment programs, except for:

- A total funding level of \$110 million for the Math and Reading Professional Development Program -- an increase of approximately \$80 million over the revised current year funding level, and an increase of \$30 million over the level provided in last year's budget. This program was initiated last year to train every teacher in California, over several years, in the math and reading state standards. Last year's budget provided \$80 million for this program, but due to expected delays in implementation in the current year, the Legislature reduced funding level for 2001-02 for this program by \$48.3 million, to \$31.7 million.
- A total funding level of \$118.7 million for the Teaching As A Priority Block Grant, thereby restoring the \$118.7 million one-time reduction, as reflected in SB 1xxx. This program was created two years ago and provides funds to low-performing schools to offer recruitment and retention bonuses to credentialed teachers.
- A reduction in funding levels for two alternative certification programs administered by the Commission on Teacher Credentialing (see below), which the Governor's budget summary cites as being due to anticipated savings: a) The Intern Program, which allows prospective teachers to work full-time as teachers while obtaining a credential (\$6.2 million reduction) and 2) the Paraprofessional Teacher Training Program, which provides paraprofessionals support to earn a college degree and eventually a teaching credential while working as instructional aides (\$4 million reduction).

Other adjustments.

In addition to the above, the proposed budget contains the following adjustments:

- A proposed consolidation of all existing apprenticeship programs, including programs administered by SDE, under the Department of Industrial Relations (DIR), as part of a proposal by the Governor to consolidate all workforce training programs.
- A proposed consolidation of all vocational and adult education programs under the California Community Colleges, as part of the same workforce training reform cited above. It is unclear whether the Governor's proposal would involve vocational education programs operated by regional occupational centers and programs (ROC/P's) (which serve adults and high school students) and vocational education and school-to-work programs operated by high schools for high school students. Many high schools are attempting to incorporate academic standards and high school graduation requirements into traditional vocational education courses. In light of this movement, the Legislature may wish to consider the following question: Will the administration and coordination of these high school programs by community colleges make it more difficult for schools and ROC/P's to accomplish this?
- Roughly the same funding level as provided in last year's budget for the state's testing programs, including: a) \$67.8 million for the STAR exam, b) \$18.3 million for the High School Exit Exam, c) \$17 million for the English Language Development test (with the

same rate provided to school districts for administration as in the current year), d) \$15.4 million for the Golden State Exams, and e) \$2.4 million for workbooks to help students prepare for the High School Exit Exam.

FEDERAL FUNDS FOR K-12 EDUCATION

The state is expected to receive an increase of more than \$800 million in federal funds, due to a new federal education reform package only recently approved by Congress, the No Child Left Behind Act. Of this increase, the Governor was able to include only \$112.3 million of it (relating to federal special education funding) in his January budget, given the late timing of the federal passage. The Governor's office indicates that it plans to include the remaining funds in the May Revise. However, given the large amount of new funds, the policy decisions that they imply and the increased state administrative responsibilities that correspond to them, it would behoove the Legislature to consider these funds before the May Revise, in order to maximize the amount of time it has to consider various options.

Table I below summarizes federal education funds that California is expected to receive in 2002-03, for selected programs.

Funds for Selected State Formula-Allocated Programs for California
(dollars in millions)

Program	2001 appropriation	2002 appropriation	Change from 2001 appropriation
ESEA Title I --grants to local education agencies	\$1,186.0	\$1,454.0	\$268.0
ESEA Title I -- Reading First state grants 2	0.0	133.0	133.0
ESEA Title I -- Comprehensive School Reform	26.7	31.0	4.3
State Grants for Improving Teacher Quality 3	0.0	333.5	333.5
Class Size Reduction	174.7	0.0	- 174.7
Eisenhower Professional Development State Grants	53.7	0.0	-53.7
21 st Century Community Learning Centers 4	0.0	41.5	41.5
Education Technology State Grants	55.9	85.5	29.6
State Assessments	0.0	28.9	28.9
Language Acquisition State Grants	0.0	115.3	115.3
Immigrant Education	32.0	0.0	-32.0
Special Education -- grants to states	650.0	781.7	131.6
Special Education -- Preschool grants	39.8	39.8	0
Special Education -- grants for infants and families	47	50	3

Source: SDE

1 Figures may not add due to rounding

2 This program replaces the Reading Excellence Act

3 Class Size Reduction and Eisenhower Professional Development Grants have now become the State Grants for Improving Teacher Quality

4 This program was formerly administered by the federal government, and provided grants directly to school districts. The new federal law requires states to administer.

Title I. Of the above programs, there are several that stand out due to the amount of the funding increases and the importance of the program changes. In particular, the reauthorized ESEA Title I (a longstanding program to help low-income children) contains a number of changes and new requirements, some of which will pose a challenge for California to comply with. These changes include:

- **Accountability, testing.** The new law requires states to ensure that *all* pupils meet state-defined advanced or proficient level of achievement in twelve years. This is a departure from the previous law, under which states were held accountable for the aggregate progress of students. The new law also requires annual testing of students in certain grades and certain subjects, most of which California already complies with. However, the law requires that schools test 95percent of all subgroups in order to meet annual improvement targets, which is an increase over California's current requirement for high schools.
- **Accountability for English learners.** The former Title I rules required states to establish accountability systems under which schools had to make annual yearly progress toward state-defined goals. This requirement is further defined under the new law to require progress by subgroups. The subgroups defined by the new federal law are aligned with California's accountability system, with the exception of two subgroups that California does not currently include: English learners and special education students. In the case of the English learner subgroup, it is unclear whether this new requirement will necessitate a statewide definition of English learner, or perhaps statewide, universal criteria for determining when a student is fully fluent in English. Universal criteria might include performance benchmarks using the state English Language Development test, mentioned below.
- **Testing for English learners.** The new law includes a number of new testing requirements, with which California is already in compliance. One new requirement is that states annually test the English proficiency of English learners. Fortunately, California has already developed a statewide English Language Development test, which it can use to comply with the federal requirement. This test was administered for the first time this past spring. While many school districts and teachers note that the test has provided valuable information they didn't have before regarding the English proficiency of their students, administration of the test has been controversial, given the length of the test and the low reimbursement rate the state provides to school districts for administering it. The new federal requirement only underscores the need for the state to retain this test, fund it adequately and solve any existing problems, as it has successfully done with other statewide tests such as the standards-aligned portions of the STAR.
- **Highly-qualified teachers.** The new law requires that all teachers in California (not just schools receiving Title I funds) be "highly qualified"³ by December 31, 2005, in order for California to receive Title I funds. In addition, all Title I teachers hired on or after July 1, 2002 must be "highly qualified". (Charter schools are exempt from this requirement.) The law requires states to establish annual measurable objectives to achieve this goal by the deadline.

³ "Highly qualified" is to be defined by individual states, but could conceivably be defined in California as credentialed, in which case California would be far from compliance with federal law.

- **Supplemental instruction to students in failing schools.** The new law requires schools that have failed to meet state progress benchmarks for three years to offer tutoring or other supplemental instruction to its students, using at least 20percent of its Title I grant. Schools must also provide transportation to students to access the services. The law allows schools to use any state-approved vendor (public, private, or non-profit) to offer the tutoring. The approval of allowable vendors will substantially increase SDE's workload, given that it will have to develop criteria for approval and review hundreds of applications. It is unclear if SDE or school districts will administer the funds to the vendors -- a task that will create an additional burden, as SDE has experienced in its administration of federal adult education funds to community-based organizations.
- **Qualified paraprofessionals.** All Title I paraprofessionals hired after the beginning of this calendar year must have either completed two years of higher education study, or have an associates degree, or have completed a formal assessment (which California will have to develop). Within four years, all existing Title I paraprofessionals will have to have completed one of the above requirements. These requirements apply to all paraprofessionals, except for translators and those hired for parental involvement purposes.
- **Professional development.** School districts receiving Title I funds must spend at least 5percent of their Title I Part A grant to help teachers become credentialed. This is a new requirement, and will provide approximately \$69 million in new funds to districts for this purpose, presumably to help the state meet the requirement to have all teachers be credentialed in four years.

Title III, English learners. In addition, the new law contains stronger accountability provisions for English learners, as delineated in Title I, as well as a new program for English learners, Title III, the Language Instruction for Limited English Proficient and Immigrant Students Program. The program replaces the Immigrant Education Program and the Bilingual Education Grant Program, which was administered by the federal government and provided grants directly to school districts. The federal budget provides a total of approximately \$115 million to California for this new program, to distribute to school districts to help improve the achievement of English learners and immigrant children. Title III requires states to submit a plan as to how they will hold schools accountable for meeting annual improvement goals for English learners, as described in states' Title I plans. Schools must use the funding for activities related to meeting these objectives, including professional development, implementing school-wide restructuring programs related to language instruction, and developing new academic content instruction programs for English learners.

In addition, there are other federal programs whose implementation will pose policy decisions, as well as administrative burdens, to the state. These issues are summarized in the following table.

PRELIMINARY REPORT: 2002-2003 GOVERNOR'S PROPOSED STATE BUDGET

Federal funding increases for K-12 education and related policy issues for the Legislature to consider:

Federal program, and amount of increase	Policy Issues to consider in administering new money	State operations issues, responsibilities
Title I basic grants, \$268 million	<ul style="list-style-type: none"> ▪ How should California alter its accountability system to meet new federal requirements? ▪ How should English learners be defined as a subgroup for purposes of the new federal requirements? ▪ What criteria should the state establish for vendors that offer supplemental instruction in failing schools? 	SDE must establish criteria for vendors to offer supplemental instruction and review hundreds of applications.
Language Acquisition State Grants, \$115 million **	<ul style="list-style-type: none"> ▪ How can the state and locals leverage these funds to improve achievement for English learners? ▪ This program contains accountability provisions requiring grant recipients to meet annual improvement goals for English learners. What should those improvement goals be? How should the state hold districts accountable for meeting them? 	New program for SDE to administer. Previously, districts applied directly to the federal government for grants.
Reading First State Grants, \$132 million	<ul style="list-style-type: none"> ▪ This is a new program to help all K-3 students read at grade level. It replaces the Reading Excellence Act. How should the state distribute the funds (it has choice between two criteria: poverty and low reading scores)? ▪ How should the state spend the 20percent set-aside for administration, ▪ technical assistance and professional development? 	This is a new program for SDE to administer.
Assessment funding, \$28.9 million	<ul style="list-style-type: none"> ▪ How can and should state spend this money? ▪ Can the state use it to offset existing state costs of complying with federal requirements? ▪ Can and should we use it to supplement existing state funds, for example to increase the rate provided to school districts for administering the English Language Development Test? 	SDE is in need of support to administer the existing state testing system.
State Grants for Improving Teacher Quality, \$333 million	<ul style="list-style-type: none"> ▪ How can the state and locals leverage these funds to meet new Title I requirements that all teachers/paraprofessionals be qualified in four years? 	2.5percent is available for state activities, to help the state credential more teachers.
21 st Century Community Learning Centers, \$41 million	<ul style="list-style-type: none"> ▪ How can this funding be aligned with the state's after/before school program? ▪ How might this funding be used to meet the need for school-age childcare among working poor? 	New program for SDE to administer. CBO's may apply. Previously, districts applied directly to the fed.'s for grants.
Education technology, \$29.6 million	<ul style="list-style-type: none"> ▪ How can the state and locals use these funds to supplement their previous efforts to improve education technology? 	

*\$105 million more than existing level from two programs that are consolidated into this one, the Eisenhower Professional Development Program and the Class Size Reduction Program.

**\$83 million more than existing level from Immigrant Education program, which was consolidated into new program.

CHILDCARE

■ Major Provisions

The major provisions of the Childcare (Department of Education) Budget include:

- A major reform package for childcare programs, to commence in March, 2003. The reforms result in a total of \$400 million in cuts from childcare, all of which the Governor proposes to use to increase the number of children in working poor families receiving childcare (including before/after school programs). The reforms include a number of major statutory changes, which will have major effects on the providers that obtain state funding for providing childcare, as well as on the families that currently receive subsidized childcare. These reforms include reductions in the amount of funding given to providers for providing subsidized childcare, reductions in the scope of eligibility for families that want subsidized care, increases in fees that families must pay to obtain subsidized care, modifications to the current waiting list system, and various changes to the requirements that providers must meet in order to obtain funding. All of these changes are outlined in the section entitled "Childcare Reform" on page 9.
- An increase of \$75 million over the 2000-01 funding level for before and after school programs, which provide educational, enrichment and recreational activities for low-income school-age children. This increase is made up of a \$30 million increase adopted in last year's budget, which the Governor proposed to delay until 2002-03, and an additional \$45 million expansion. The Governor proposes to fund \$30 million of this increase from the eventual phase-out of the Extended Day and Latchkey childcare programs, which serve school-age children, for a net increase of at least 15,000 additional children served. (Note that in SB 1xxx (Peace), the Legislature also agreed to delay implementation of last year's \$30 million expansion, but only until March of this year, requiring \$7.5 million in the current year to pay for three months of implementation.)
- \$9.8 million in one-time federal funds to help improve the quality of license-exempt subsidized childcare programs over the next three years. This initiative includes a) outreach regarding state pre-kindergarten learning guidelines, early childhood development principles, and health and safety issues, b) expansion of the Trustline registration system, which provides criminal background information regarding prospective providers and employees, and c) the development of a certification process that might be used at a future date to provide incentives to license-exempt providers that improve development outcomes for the children they serve.
- Reduction of \$42 million from the Childcare Facilities Revolving Loan Fund, due to expected savings. This fund provides no-interest loans to school districts and other general childcare and state preschool providers to obtain childcare and preschool facilities. The Governor proposes that these funds be reverted to the Proposition 98 Reversion Account to be used for other one-time purposes in K-12.

- \$4 million in federal funds to support a three-year pilot program to improve the nutritional value of meals served in public schools, as outlined in Chapter 913, Statutes of 2001. These funds were awarded to the Department of Food and Agriculture to support California specialty crop production, and the Governor proposes to use these funds to support the new pilot program.

COMMISSION ON TEACHER CREDENTIALING

■ Major Provisions

The major provisions of the Commission on Teacher Credentialing (Department of Education) Budget include:

- A reduction of \$6.2 million from the Intern Program, which provides an alternative certification process for teaching candidates that wish to teach full-time while earning their credential. This program is one of three administered by CTC to help address the teaching shortage by providing alternative routes to obtaining a teaching credential. The proposed reduction would bring total funding for this program to \$25.6 million, down from \$31.8 million provided in last year's budget. The Governor's budget summary states that the proposed cut reflects expected savings.
- A reduction of \$4 million from the Paraprofessional Teacher Training Program, which supports working paraprofessionals (instructional aides) as they earn a college degree and eventually a teaching credential. This program is one of three administered by CTC to help address the teaching shortage by providing alternative routes to obtaining a teaching credential.⁴ The proposed reduction would bring total funding for this program to \$7.5 million, down from \$11.5 million provided in last year's budget. The Governor's budget summary states that the proposed cut reflects expected savings.
- A reduction of \$600,000 from the California Mathematics Initiative for Teaching Program, for a total funding level of \$1 million. This program helps address the shortage of credentialed math teachers.
- A reduction of \$1.2 million in General Fund for the Teacher Credentialing Service Improvement Project, which is a project to improve CTC's service in processing credentials and responding to inquiries about credentials from prospective teachers. The project is in its third year, and the Governor proposes to backfill the reduction with funds from the Teacher Credentials Fund.

⁴ The Governor proposes to maintain the current year funding level (of \$11.8 million) for the third alternative credentialing program administered by CTC, the Pre-Intern Program, which helps emergency credentialed teachers earn a credential.

THE 2002-2003 STATE BUDGET

HIGHER EDUCATION

California's higher education system is governed by *the Master Plan of Higher Education* (1960), which promises a high quality, affordable higher education for all California's who can benefit from it. *The Master Plan for Higher Education* also delineates different missions for each of the three segments of public higher education, the California Community Colleges (CCC), the California State University (CSU) and the University of California (UC). The California Student Aid Commission (CSAC) and the California Postsecondary Education Commission (CPEC) also play an integral role in implementing the goals of *The Master Plan for Higher Education*, with CSAC providing and overseeing financial aid and CPEC providing policy analysis and recommendations to the Governor and the State Legislature.

MAINTAINING ACCESS & EQUITY IN HIGHER EDUCATION

Higher education plays a key role in the economic health and well being of California. California's economy is increasingly dependent upon diverse and highly trained scientists, diverse and well-educated professionals, and diverse expert service providers. At a time when the state's economy is worsening, higher education will play a critical role in the state's economic recovery. A successful sustainable economic recovery must involve providing economic opportunities to all segments of California's population.

For the first time in California's history, the 2000 United States Census revealed that no single racial or ethnic group comprised a majority of California's 34 million residents. These demographic changes raise important public policy questions, including the pressing need to expand access to California's colleges and universities across the full spectrum of our racial and ethnic populations. Yet higher education enrollments, particularly at the University of California, do not come close to reflecting the diversity of our state. This mismatch continues to hold clear implications for the economic well being of California as a whole and for all of its residents individually.

Last year, in response to the continued decline in students of color being admitted to the University of California, the Legislature reviewed the University of California's efforts to maintain diversity in a post Proposition 209 regulatory environment. The review resulted in significant changes in the way the University conducts its admissions process and monitors its outreach efforts. Continuing to monitor the University's progress in the area of access and equity for all qualified students in California will continue to be at the forefront of budget discussions. Nevertheless, the UC is but one piece of a complex puzzle. Both the CSU and the California Community Colleges are also critical to the educational opportunities and economic well being of California's diverse population.

In this regard, CSU is not immune to critical review. This is especially true as the segment continues to respond to Tidal Wave II enrollment demands and its campuses become increasingly impacted. How the system responds to this challenge of enrollment demand and

who gets admitted into its campuses is just as important as how many students show up at the door. While it is true that the CSU has done a better job of enrolling a student body that looks more like the people of the state, the retention and graduation rates for all students, and student of color in particular, continue to be dismal with very little public attention to the problem. In addition, CSU has responded to what has been viewed as the under-preparation of some of its students by attempting to phase out remedial education. This policy objective has created a paradox where students who have met the eligibility criteria for admission to the system, as outlined in *the Master Plan for Higher Education*, are dismissed by the system within a year of enrollment if they do not successfully complete remedial courses. These are only a few of the issues that have an impact on equity at CSU.

During budget hearings last year, the Assembly found that the transfer function has continued to fail many California students and has not met the laudable goals outlined in *the Master Plan for Higher Education*. This is especially true with respect to students of color, who do not successfully transfer to a four-year institution in significant numbers. Although the California Community Colleges serve many functions, including providing vocational education and workforce training, and continue to do more with less resources, it is critical that students in all parts of the state have the educational opportunities that are offered to students at any of the community colleges. A very small number of community colleges do a satisfactory job in transferring students to a four-year institution, yet virtually all community colleges fail when it comes to getting students of color through the educational pipeline. While the Legislature will primarily focus its attention on addressing the state's current fiscal crisis, the Legislature may wish to begin to address the problems plaguing the transfer process, and consider budgetary adjustments or actions within existing resources that may lead to better results for California's students.

The annual budget process provides the Legislature an opportunity to assert what it believes is important for the well being of California. As the largest and most diverse state in the country, California has the opportunity to lead the nation in determining ways to tap its diverse human capital to yield long-term socioeconomic benefits for the state. Nowhere can the state better maximize the public benefits and opportunities of diversity than through its college and university campuses. As the Legislature deliberates on the Governor's proposed budget during a difficult and uncertain fiscal situation, it has an opportunity to continue to address these critical policy issues and insure that the promise of a higher education is maintained for all Californians who can benefit.

GOVERNOR'S PROPOSED BUDGET

The Governor's 2002-03 budget proposes approximately \$28.8 billion for higher education in California, an increase of \$729 million or 2.6 percent over the current year. Of these funds, \$9.6 billion is in General Fund support, which represents a General Fund increase of \$150.5 million, or 1.6 percent over, the current year.

Table 1 illustrates the Governor's 2001-02 proposed General Fund expenditures for higher education.

Table 1
PROPOSED GENERAL FUND SUPPORT
FOR SEGMENTS OF HIGHER EDUCATION

(Dollars in Millions)				
Segment	2001-02	2002-03	Change	Percent Change
CCC	\$2,819	\$2,739	-\$80	-2.8%
CSU	2,708	2,736	28	1.0
UC	3,327	3,367	40	1.2
Hastings College	15.1	15.4	0.3	2.0
CSAC	571	734	162	25.9
CPEC	3.8	3.3	-0.5	-13
Total	\$9,444	\$9,595	\$151	1.6%

This table includes only a few selected public program funds.

STUDENT FEES

For the eighth consecutive year, there will be no increases to system-wide mandatory student fees. Current fee levels at UC and CSU continue to be moderate in comparison to comparable institutions nationwide. Likewise, students will pay only a portion of the total cost of their education, with the majority of this cost being paid by the state. This, of course, does not take into consideration the additional costs of attending a higher education institution, including campus-based fees, housing and living expenses, as well as other related expenses.

Under the proposed budget, for UC, the 2002-03 cost of education for a general campus student is \$16,314. Of this amount, students pay \$3,429 or approximately 22 percent, and the General Fund supports approximately 69 percent. For CSU, the average cost of education for a general campus student is \$10,550, with students paying approximately 15 percent of this total cost, and the General Fund supporting 80 percent. A variety of other funding sources make up the difference between student fees and General Fund support.

For the community colleges, the General Fund and local property tax share is 94 percent of the \$4,678 cost of education, with students paying 3.3 percent of the cost of their education.

THE GOVERNOR'S "HIGHER EDUCATION PARTNERSHIP" REVISITED

In Spring 2000, UC and CSU each entered into a "Partnership Agreement" with the Governor that includes both funding and accountability principles. Similar to the previous four-year compact agreed to by the segments and the previous Governor, the intent of this agreement was to help stabilize higher education funding in California. The Partnership Agreement represented an

annual funding commitment from the Governor in exchange for specific accountability goals being met by both UC and CSU. Under the Partnership Agreement, UC and CSU agreed to make progress on specified accountability goals in key areas of importance to the state.

Unfortunately due to the state's worsening fiscal situation, the Governor has been unable to provide UC and CSU the full funding promised within the original framework of the partnership. While the Partnership Agreement initially promised an annual General Fund increase of 5 percent (4 percent base budget increase plus 1 percent for long-term core needs such as maintenance, equipment and libraries), the 2002-03 proposed budget provides a 1.5 percent General Fund increase for both UC and CSU.

Yet, elements of the partnership agreement continue to frame much of the Governor's higher education budget proposals, including allowing the two segments to have the flexibility of determining what the increased funding shall be used for. This notwithstanding, the Legislature is not bound by the Partnership Agreement and has the prerogative to set its own priorities for funding UC and CSU. The Community Colleges are not included in the Partnership Agreement since they are included under the Proposition 98 funding formula and have built into their budget the incentive and accountability based Partnership for Excellence program.

CALIFORNIA COMMUNITY COLLEGES

The California Community Colleges (CCC) provide a general education and vocational certificate programs at 108 Community Colleges through 72 local districts, which serve approximately 2.5 million students annually. By law, California Community Colleges admit any Californian seeking admission who has graduated from high school and may admit anyone who is 18 years of age or older and who is capable of profiting from the instruction offered. The Colleges may also admit any nonresident, possessing a high school diploma or the equivalent thereof. This policy of "open access" fulfills the Community College mission to provide all Californians with the opportunity for advanced education and training. *The Master Plan for Higher Education* envisioned this goal could be achieved through a tripartite mission: lower-division instruction for students preparing to transfer to the UC or the CSU; occupational training for those seeking entry or re-entry to the labor force; and basic skills instruction in language and computation for adults functioning below the collegiate level.

The California Community Colleges currently serves approximately 1,062,142 full-time equivalent (FTE) students. The Governor's proposed budget includes approximately \$6.3 billion for the California Community Colleges from all funds, reflecting an increase of \$104.2 million, or 1.7 percent over the \$6.2 billion provided in 2001-02. Proposition 98 funding constitutes about 75 percent of overall community college funding. The Governor's budget proposes \$4.7 billion of Proposition 98 funds for the Community Colleges. This amount represents 10.2 percent of the total Proposition 98 funds available (leaving 89.6 percent of Proposition 98 funds for K-12), which represents approximately the same amount that the Community Colleges received in the revised current year.

Table 2 below illustrates funding for the Community Colleges, which includes a General Fund decrease of \$80.1 million (\$78.4 of which is Proposition 98 funding), or 2.8 percent, below revised current year expenditures.

Table 2

California Community Colleges
Budget Summary
(Dollars in Millions)

Sources of Funds	2001-02	2002-03	Change	Percent Change
State General Fund	\$2,978.7	\$2,918.8	-\$59.9	-2.0%
Lottery Fund	138.1	138.1	0.0	0.0
Local Property Taxes	1,855.3	2001.9	146.6	7.9
Student Fees	162.4	167.3	4.9	3.0
Other State Funds	11.9	9.1	-2.8	-23.6
Federal Funds	216.2	219.4	3.2	1.5
Local Miscellaneous	825.6	837.8	12.2	1.5
Local Debt Service	5.4	5.5	0.1	1.5
Total	\$6,193.7	\$6,297.9	\$104.2	1.7%

This table includes only a few selected public program funds.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Community College's budget:

- **Teacher and Reading Development Partnership Program:** \$5 million in the Teacher and Reading Development Partnership Program and leaves \$5 million in the program. The program encourages community college students to pursue academic paths leading to careers in teaching.

■ Major Provisions

The major provisions of the proposed budget for the Community Colleges include:

- **Student Fees.** The Governor's proposed budget does not include an increase in student fees. Community College students will continue to pay \$11 per unit, the lowest in the nation. The budget also includes funds to offset the associated fees waived for all needy students. Under the Governor's proposal, this would be the eighth consecutive year without a fee increase.
- **Enrollment Growth.** The budget proposes \$118.7 million, for a three (3) percent growth in enrollment and selected categorical programs. This exceeds the statutory requirement of 1.94 percent growth by an additional \$40.4 million. The budgeted funds will allow the Community Colleges to accommodate an additional 31,864 full-time equivalent students, bringing the total FTE student level to approximately 1,094,006. However, this amount is less than the 3.5 percent growth requested by the Community Colleges Board of Governors.
- **Cost of Living Adjustments.** The budget proposes \$88.8 million for cost of living

adjustments to fund a 2.15 percent statutory COLA for both general purpose funds and categorical programs such as the Basic Skills program, Disabled Students Programs and Services, EOPS and CARE. This amount is equal to the COLA granted to the K-12 system.

- **Instructional Equipment & Library Materials.** The budget proposes an additional \$34 million for a total of \$49 million in funding for instructional materials, \$22.9 million of which is in one-time funding from the Proposition 98 Reversion Account and \$26.1 million of which is in ongoing Proposition 98 funds. The funds would be used to replace worn out, obsolete, or inadequate equipment and instructional materials and would continue the match requirement at the current rate of one local dollar for every three state dollars provided.
- **Scheduled Maintenance & Special Repairs.** The budget proposes an additional \$32 million for a total of \$49 million for scheduled maintenance and special repairs, \$22.9 million of which is in one-time funding from the Proposition 98 Reversion Account and \$26.1 million of which is in ongoing Proposition 98 funds. These funds would be used to augment resources available for scheduled maintenance and special repairs, hazardous substances removal, and American with Disabilities Act compliance projects and would continue the match requirement at the current rate of one local dollar for every state dollar.
- **Part-time Faculty.** The budget as proposed maintains \$57 million for Part-time faculty compensation and \$7.2 million for the Part-time Faculty Office Hours Program, shifting this funding from the Proposition 98 Reversion Account to the permanent base budget.
- **Teacher and Reading Development Partnerships.** The budget proposes to continue the proposed \$5 million reduction made in the current year but shifts the remaining \$5 million in the program from the Proposition 98 Reversion Account to the permanent base budget.
- **Capital Outlay.** The proposed budget includes \$169.4 million for 66 continuing and 3 Community College capital outlay projects at 56 campuses, including \$7.6 million in Proposition 1A Bond funds and \$161.8 million in proposed general obligation bond funding to be placed on the November 2002 ballot.

Program Reductions. The Governor also proposes a total of \$130.9 million in reductions for the California Community Colleges, including:

- **CalWORKs.** The Governor proposes a \$50 million reduction to CalWORKs program and an \$8 million reduction to the Temporary Aid for Needy Families (TANF) program. The Governor asserts that the state has sufficient funds to meet the federal maintenance-of-effort requirement for federal Temporary Aid for Needy Families funds. According to the Department of Finance, many of these services would now be provided to counties who would contract with community colleges to provide CalWORKs and TANF services. The Administration's proposal allows \$15 million to be available for CalWORKs childcare services and \$8 million in Federal funds would remain to support TANF program.
- **Matriculation Activities.** The Governor proposes a \$26.8 million reduction in matriculation services. These include student orientation, assessment, academic

counseling, admissions, follow-up, coordination, training, research and evaluations. The Department of Finance asserts that many of these services can still be provided through the community college general apportionment and reduction should not lead to the elimination of existing services. They also assert that Partnership for Excellence Funds should be used as necessary to maintain essential services. If approved, this reduction would leave \$44.5 million for these activities. The matriculation program requires a 3:1 district match, therefore the entire community college system would potentially lose a total of \$107.2 million in state and local funding for student support services.

- **Fund for Student Success.** The Governor proposes a \$10 million reduction from the Fund for Student Success that was created to provide short-term grants for pilot programs designed to improve student learning. The Department of Finance asserts that the objective of the short-term grants duplicates the goals of the Partnership for Excellence program and does not contain the same level of accountability. The California Community Colleges Chancellor's Office believes the goals of the Fund for Student Success program differ from the Partnership for Excellence program and should not be characterized in this fashion. If approved, this reduction would leave \$6.2 million for this program.
- **Telecommunications & Technology Infrastructure Program.** The Governor proposes a \$19.8 million reduction in the telecommunications and technology infrastructure program used for training and local improvements. If approved, this reduction would leave \$24.5 million for this program.
- **Economic Development.** The Governor proposes a \$9.9 million reduction for the Economic Development Program. Of this amount, \$1 million comes from funds appropriated to develop nursing curriculum and \$8.9 million to reduce funding for the Ed>Net centers, leaving \$36.8 million to support these programs.
- **Faculty & Staff Development.** The Governor proposes a \$5.2 million reduction to completely eliminate the Faculty & Staff Development Program ran out of the Chancellor's Office. The existing program augments training activities provided through the general apportionment and Partnership for Excellence funding. The Department of Finance asserts that there is no meaningful accountability for results in the program.
- **State Operations.** The Governor proposes a \$1.2 million reduction to eliminate 15.5 employee positions in the Community Colleges Chancellor's Office used to support the administration of various programs.

CALIFORNIA STATE UNIVERSITY

The California State University (CSU) system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. While each campus in the system has its own unique geographic and curricular character, all campuses offer undergraduate and graduate instruction for professional and occupational goals, as well as broad liberal education programs. In addition to providing baccalaureate and master level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and a limited number of doctoral degrees are offered jointly by the CSU with the University of California and with select private universities.

The California State University currently serves approximately 305,854 full-time equivalent (FTE) graduate and undergraduate students. The Governor's proposed budget for the CSU totals \$5.3 billion, an overall increase of \$33.2 million or 0.6 percent over the current budget year. Table 3 below illustrates the proposed funding for the CSU from selected program funds, which includes proposed General Fund expenditures of \$2.7 billion, an increase of \$28.2 million or 1.0 percent over the revised current year funds.

Table 3

California State University Budget Summary

(Dollars in Millions)

Sources of Funds	2001-02	2002-03	Change	Percent Change
General Fund	\$2,708	\$2,736	\$28	1.0%
Student Fees	685	706	21	3.0
Lottery Education Fund	60	38	-22	-37.3
Other Funds	1,791	1,797	6	0.4
Total	\$5,244	\$5,277	\$33	0.1%

This table includes only a few selected public program funds.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of California State University's budget:

:

- **Natural Gas Funds.** \$20 million in funds originally appropriated to cover unanticipated increases in natural gas costs. This reflects \$12 million in actual savings.
- **Unallocated Reduction.** \$9.5 million permanent unallocated reduction of to the segment's overall budget.

■ Major Provisions in the Budget Year

The major provisions of the proposed budget for CSU include:

- **Base Increase.** The Governor proposes a \$37.7 million increase in the state's base funding support, for a 1.5 percent general fund increase.
- **Student Fees.** For the eighth consecutive year, there is not a proposed increase in student fees, however, the Governor does not propose for the state to provide funding to continue the State's "buy-out" of a proposed student fee increase, creating a state savings of \$27.9 million.
- **Enrollment Growth.** The Governor proposes \$78.1 million to fully fund enrollment growth by 4 percent at 12,030 additional full-time equivalent students, including continued funding support for enrollment growth at ten CSU campuses during the summer term. In addition, the proposed budget provides \$1.2 million to fully fund year-round instruction at the Chico campus (240 FTES).
- **Capital Outlay.** The Governor proposes \$258.8 million for 20 continuing capital outlay projects at 15 campuses and 10 new capital outlay projects at the 9 existing campuses in proposed general obligation bond funding to be placed on the November 2002 ballot.

Program Reductions. The Governor also proposes a total of \$89.8 million in reductions for CSU, including:

- **Natural Gas Funds.** The Governor proposes a \$20 million continuation of the Governor's mid-year reduction related to lower natural gas costs.
- **Institutional Financial Aid Programs.** The Governor proposes a \$14.5 million reduction that the Governor asserts is excess funds provided in prior years when fees were at a higher level. If approved, this reduction would leave \$105 million in the program.
- **Teacher Training.** The Governor proposes a \$6.5 million reduction for the Educational Technology Professional Development Program. If approved, this reduction would leave \$6 million in the program.
- **Teacher Recruitment.** The Governor proposes a \$5 million reduction for the Cal-Teach Teacher Recruitment Program. If approved, this reduction would leave \$6 million in the program.

UNIVERSITY OF CALIFORNIA

The UC system includes eight general campuses, one health science campus in San Francisco and one new campus currently under development in Merced. The University of California, founded in 1868 as a public land-grant institution, is the primary state supported academic agency for research, with exclusive jurisdiction in public higher education over instruction in the professions of law, medicine, dentistry, and veterinary medicine. The University of California currently serves an estimated 181,031 full-time equivalent (FTE) graduate and undergraduate students.

The Governor's proposed budget includes a total of \$16 billion for the UC, an increase of \$414.9 million or 2.7 percent over the current year. Table 4 below illustrates the Governor's proposed budget for the UC from selected program funds, which includes proposed General Fund expenditures of \$3.4 billion, representing a General Fund increase of \$40.3 million or 1.2 percent over the revised current budget year.

Table 4

University of California
Budget Summary
(Dollars in Millions)

Sources of Funds	2001-02	2002-03	Change	Percent Change
General Fund	\$3,327	\$3,367	\$40	1.2%
Student Fees	663	688	24	3.6
UC General Funds Income	428	410	-18	-4
Lottery Education Fund	22	22	0	0.0
Teaching Hospitals	2,680	2,734	54	2.0
Federal/State Contracts & Grants	2,493	2,622	129	5.2
Department of Energy Labs	3,162	3,257	95	3.0
Other Funds	2,848	2,939	91	3.2
Total	\$15,623	\$16,038	\$415	2.7%

This table includes only a few selected public program funds.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the University of California's budget include:

- **Natural Gas Funds.** \$25 million in funds originally appropriated to cover unanticipated increases in natural gas costs.
- **Professional Development Institutes.** \$6 million in funds from the \$56.9 million originally appropriated for teacher training to conform to less than anticipated demand from K-12 districts.
- **Unallocated Reduction A** \$5 million one-time unallocated reduction of to the University's overall budget.

■ Major Provisions

The major provisions of the proposed budget for UC include:

- **Base Increase.** The Governor proposes a \$47.5 million increase in the state's base funding support, for a 1.5 percent general fund increase.
- **Student Fees.** For the eighth consecutive year, there is not a proposed increase in student fees, however, the Governor does not propose for the state to provide funding to continue the State's "buy-out" of a proposed student fee increase, creating a state savings of \$36.1 million.
- **Enrollment Growth.** The Governor proposes \$63.8 million to fully fund enrollment growth by 3.9 percent at 7,100 additional full-time equivalent students, including continued funding support for enrollment growth at the Berkeley, Los Angeles and Santa Barbara campus during the summer term. In addition, the proposed budget provides \$8.4 million to fund, at the agreed-upon marginal cost of instruction, the full cost of existing summer enrollment (897 FTE) at the Davis campus and to "buy down" summer fees for new summer enrollments at the Irvine, Riverside, San Diego and Santa Cruz campuses.
- **Capital Outlay.** The Governor proposes \$85.3 million for 14 new and 5 continuing capital outlay projects at the 9 existing campuses, including \$8 million in Proposition 1A Bond funds and \$74 million in proposed general obligation bond funding to be placed on the November 2002 ballot. In addition, the Governor proposes shifting \$308 million for the California Institutes for Science and Innovation to lease-revenue bonds.
- **UC Merced.** In addition to funds for UC Merced capital outlay projects, the Governor proposes to provide \$4 million in one-time funds for expenses associated with recruiting faculty in time for the accelerated opening of the campus by fall 2004.

Program Reductions. The Governor also proposes a total of \$61 million in reductions for UC, including:

- **K-12 Minority Outreach Programs.** The Governor proposes a \$4.2 million reduction from K-12 outreach programs designed to increase diversity at UC due to the precipitous decline in admissions of underrepresented students resulting from the elimination of affirmative action. This proposed reductions are in addition to a \$2 million budget reduction to these programs in the final current year budget initiated by the Governor's veto.
- **Natural Gas Costs.** The Governor proposes a \$25 million continuation of the Governor's mid-year reduction related to lower natural gas costs.
- **Institutional Financial Aid Programs.** The Governor proposes a \$17 million reduction that he asserts is excess funds provided in prior years when fees were at a higher level. If approved, this reduction would leave \$69.2 million in state funds and \$574 million from all sources of funds (not including loan or work-study programs) for both undergraduate and graduate need based financial aid.
- **Digital California Project.** The Governor proposes a \$4.8 million reduction for the K-12 Internet2 program through the Digital California Project. If approved, this reduction would leave \$27.2 million in the program.
- **Teacher Training.** The Governor proposes a \$4 million reduction in the California Subject Matter Projects and continuation of the proposed \$6 million reduction for the Governor's Professional Development Institutes reflecting a lower than expected demand for training of K-12 teachers. If approved, these reductions would leave \$50.9 million for the Professional Development Institutes and \$31.3 million for the California Subject Matter Projects.

HASTINGS COLLEGE OF LAW

Hastings College of Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and was affiliated with the University of California by the Legislature in the same year. A board of directors, who are appointed by the Governor for 12-year terms, oversees the college. The juris doctor degree is granted by the Dean of Hastings and the Regents of the University of California.

The Governor's budget proposes a total of \$30.3 million for Hastings College of Law, representing an overall decrease of \$387,000, or 1.3 percent, from the current year. Of these funds, \$15.4 million is in General Fund support, which reflects an increase of \$307,000 or 2.0 percent over the current year.

■ Major Provisions

The major provisions of the Hastings College of Law budget include:

- **General Fund Support.** The Governor proposes a \$227,000 in the base budget, which corresponds to the 1.5 percent increase provided by the Governor to UC and CSU in their base budgets. According to Hastings College, funds from this increase will be used to continue salary increases granted in 2001-02.
- **Annuitant Benefits.** The Governor proposes an increase of \$80,000 for annuitant benefits increases.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission's (CSAC) mission is making education beyond high school financially accessible to all Californians. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant program, which is the primary state source of intersegmental financial aid. In addition, the Commission administers the Federal Guaranteed Student Loan Program.

In 2000, the Legislature and the Governor dramatically expanded the scope of the Cal Grant program by establishing the Cal Grant Entitlement Award Program (Chapter 403, Statutes of 2000), which guarantees a financial aid grant to all students who graduate from high school in 2000-01 or beyond, and meet the minimum grade point average, family financial need requirements and general program eligibility requirements. Cal Grant awards generally cover the cost of fees at public colleges and are worth up to \$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year. Student who do not qualify for the Cal Grant Entitlement Program (either due to high school graduation date, GPA or financial requirements) have another opportunity to receive a Cal Grant by competing for 22,500 annual awards, provided they meet financial, academic and general program eligibility requirements. Of the 22,500 awards, 11,250 are reserved specifically for California Community College students.

The Governor's proposed budget includes a total of \$1.3 billion for CSAC, \$162 million or 14.1 percent over the current year. Of these total funds, the Governor proposes \$734 million in General Fund support, an increase of \$162 million or 28.4 percent. The proposed budget specifically provides for \$694.3 million for all types of Cal Grants, an increase of \$155 million, or 28.8 percent, over the \$539.3 million budgeted in the current year. The \$155 million augmentation in funding will allow CSAC to provide approximately 87,500 new financial aid awards (65,000 entitlement and 22,500 competitive awards) to needy students, consistent with Chapter 403, Statutes of 2000.

Table 5 reflects the Governor's proposed budget for CSAC from selected program funds:

Table 5

California Student Aid Commission
Budget Summary

(Dollars in Millions)

Sources of Funds	2001-02	2002-03	Change	Percent Change
General Fund	\$571	\$734	\$163	28.4%
Federal Trust Funds	9.5	9.5	0	0.0
Federal Student Loan Operating Fund	91	91	0	0.0
Federal Student Loan Reserve Fund	468	468	0	0.0
Reimbursements	7.5	7.2	-0.3	-4.0
T o t a l	\$1,147	\$1,309	\$162	14.1%

This table includes only a few selected public program funds.

Major Provisions

- **Cal Grant Entitlement Program Adjustments.** The Governor proposes a \$49.4 million decrease in the current year for the Cal Grant program due to unanticipated savings in the Cal Grant Entitlement Program.
- **All Cal Grants.** The budget includes a proposed increase of \$227.4 million to fund both Entitlement and Competitive Award programs (new and continuing recipients). The increase is partially offset by a \$130.2 million decrease primarily due to the phasing out of the old Cal Grant A and B programs, resulting in a net increase of \$97.2 million (\$94.2 General Fund and \$3.0 million in Federal Funds).
- **Assumption Program of Loans for Education (APLE).** The Governor proposes an increase of \$10.6 million in the budget year to make loan assumption payments due to the growth in the APLE program.
- **State Operations.** The Governor proposes a \$483,000 reduction (\$225,000 in current

year and \$258,00 in budget year) for State Operations in accordance with the Governor's budget reduction plan. There is also a one-time reduction of \$120,000 in the current year budget for operating expenses and equipment.

- **Other Fund Reductions.** The budget includes a \$300,000 reduction in reimbursement authority for the Child Development Teacher and Supervisor Grant Program which sunsets on June 30, 2002.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. The commission serves as a principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC's responsibilities include analysis and recommendations related to long-range planning for public postsecondary educational sectors.

The Governor's budget proposes a total of \$11.9 million for CPEC, \$8.6 million of which are federal funds for the Dwight D. Eisenhower Professional Development Program of training grants for K-12 teachers, and 3.3 million in General Fund support. This represents a General Fund decrease of \$469,000 or 12.4 percent over the current year.

■ Major Provisions

- **Mathematics and Technology Teacher Pipeline Program.** The Governor proposes to reduce the Commission's budget for this program by \$125,000 in the current year due to the sunset of the program.
- **Dwight D. Eisenhower Professional Development Program.** The Governor proposes augmenting the Commission's budget by \$2.1 million in federal funds for the current year, which will provide additional grants through this program.
- **General Fund Reductions.** The Governor has reduced the Commission's General Fund budget by \$200,000 (5.4 percent) in the current year through a series of actions affecting most state agencies.
- **2001 Eligibility Study.** The Governor proposes a reduction \$96,000 in one-time funds provided for this study and provides an augmentation \$14,000 for one limited-term position to continue work on the study.
- **State Operations.** The Governor proposes a reduction of \$332,000 in State Operations, including the elimination of four positions (\$315,000) and a reduction of general support (\$17,000), in addition to the above reductions.

CALIFORNIA STATE LIBRARY

The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs such as the California Literacy Campaign, develops technological systems to improve resource sharing and enhance access to information, and administers the Public Library Foundation Act, which establishes a formula under which the State contributes funding for basic local library services.

The Governor's proposed budget includes a total of \$105.7 billion for the California State Library, a reduction of about \$366.3 million or 77.7 percent over the current year. Of these total funds, the Governor proposes \$84.8 million in General Fund support, a reduction of \$16.1 million or 15.9 percent from the revised current year.

■ Major Provisions

The major provisions of the California State Library budget include:

- **Public Library Foundation.** The Governor proposes a reduction of \$11.2 million for the Public Library Foundation. This reduction would reduce the amount available to local libraries.
- **State Operations.** The Governor proposes a reduction of \$3.1 million in State Operations, including the elimination of 18.2 personnel years. These reductions will affect library acquisitions, outreach and technical assistance to local libraries, regional resource sharing and the California Research Bureau.
- **Library Maintenance and Repairs.** The Governor proposes a \$76,000 augmentation for maintenance and repairs for the Library and Courts buildings.

THE 2002 - 2003 STATE BUDGET

HEALTH SERVICES

DEPARTMENT OF HEALTH SERVICES

The Department of Health Services (DHS) is responsible for protecting the health of the public at large through various programs aimed at disease control, food safety and environmental safety, as well as providing publicly-subsidized health insurance (through the Medi-Cal program) to individuals who are unable to afford private health insurance.

Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Health Services budget:

- **Health Insurance Portability and Accountability Act.** \$13.5 million funding budgeted for Health Insurance Portability and Accountability Act compliance.
- **Cancer Research Program.** \$7.1 million reduction to Cancer Research Program.
- **Bi-national Health Initiative.** \$530,000 reduction to the Binational Health Initiative.

Major Provisions

The major provisions of the Department of Health Services budget include:

- **Tobacco Settlement Fund.** The budget proposes to allocate \$538 million from the Tobacco Settlement Fund: \$247.1 for children in the Healthy Families Program; \$127.1 million for eligible Medi-Cal services that benefit two-parent working families with incomes less than 100 percent of the Family poverty level; \$35 million for Youth Anti-Tobacco, a \$15 million increase in funding; \$27.9 million for Breast and Cervical Cancer Treatment; \$20 million for Prostrate Cancer Treatment; \$17.5 million for the Expanded Access to Primary Care Program (EAPC) for children shifted to the EAPC Program from the Child Health and Disability Prevention Program.
- **Tobacco Settlement Fund Bond.** The budget proposes to issue a \$2.4 billion bond backed by Tobacco Settlement Revenues. The bond will be placed in the General Fund to maintain the health care safety net.
- **Medi-Cal Federal Matching Assistance Percentage (FMAP).** The budget proposes a \$400 million General Fund reduction and a corresponding increase in federal

funding in anticipation of federal legislation that will provide an additional \$400 million to offset the costs of Medi-Cal.

- **Legal Services.** The budget projects a \$135,000 General Fund savings through restricting hearings over audit disputes and departmental actions taken against healthcare providers stemming from fiscal audits to the Sacramento area or telephone conference.
- **Child Health and Disability Prevention Program (CHDP).** The budget proposes to eliminate the CHDP program, \$122.6 million General Fund savings and a reduction of 10 positions. Children eligible for services under CHDP would be switched to Medi-Cal and Healthy Families, a \$78.1 million, (\$42.0 million General Fund), increase. Children in families with family income of less than 200 FPL not eligible for either Medi-Cal or Healthy Families would be eligible for EAPC program and the programs funding would increase by \$17.5 million. In addition \$263,000 General Fund would be used to restore four positions to the California Children's Services/Genetically Handicapped Prevention Program.

MEDI-CAL PROGRAM

■ Major Provisions

The major provisions for the Medi-Cal budget include:

- **Provider Rates.** The budget proposes to reduce provider rates by \$155.1 million, \$77.6 million General Fund. The rates for providers of children's and long-term care services would be excluded from the rate reduction. DHS will convene a work group to determine the best way to achieve the savings and will ensure that rates are no lower than the 1999-2000 reimbursement levels.
- **Co-payments.** The budget projects a savings of \$62.2 million (\$30.6 million General Fund) through the implementation of co-payments in the Medi-Cal Program.
- **County Administration.** The budget projects a savings of \$186.5 million, \$116.9 million General Fund, from the elimination of the cost-of-living and cost-of-doing business increases for county administration.
- **1931(b) Expansion.** The General Fund expenditures would increase by \$143.8 million and the Tobacco Settlement Fund would decline by \$143.8 million for a fund shift for the expansion of the Medi-Cal 1931(b) program.
- **Medi-Cal Drug Program.** The budget projects total savings of \$200.8 million, \$100.4 million General Fund, from increased drug rebates, resolving disputes over rebates, therapeutic category reviews and duration of therapy and frequency of billing audits.
- **Enhanced Federal Opportunities.** The budget proposes \$50 in General Fund Savings by maximizing additional federal revenue opportunities.

- **Medi-Cal Outreach.** The budget projects a savings of \$20.7 million, \$4.7 million General Fund, through a reduction in funding earmarked for advertising for the Medi-Cal and Healthy Families Programs.
- **Outstationed Eligibility Workers.** The budget projects savings of \$8.0 million, \$4.0 million General Fund, through the elimination of the enhanced funding of outstationed workers.
- **Disproportionate Share Hospitals.** The budget projects a savings of \$55.2 million from a one year increase in the administrative fee charged to the counties for the program.
- **Quality Awards.** The budget projects a \$4 million savings through the elimination of the Quality Awards for nursing facilities.
- **Hospital Outpatient Services.** The budget projects an \$11.4 million General Fund increase for hospital outpatient rate increase of 3.3 percent, the first of three 3.3 percent increases that were included in the Orthopedic Hospital lawsuit.
- **Express Lane Eligibility.** The budget provides \$42.1 million, \$21.1 million General Fund, to implement the Express Lane mandates of AB 59 and SB 493 which permit parents to request Medi-Cal coverage through the National School Lunch Program.
- **Nursing Home Staffing Ratios.** The budget provides \$5.3 million, \$2.7 million General Fund, and 55.5 positions to implement the staffing mandates and development of a reimbursement methodology required by AB 1075.
- **Women, Infants and Children Supplemental Nutrition Program.** The budget would increase the staffing of the program to create a fraud unit in the program.

PUBLIC HEALTH

■ Major Provisions

The major provisions for the Public Health budget include:

- **Childhood Lead Poisoning Prevention Program.** The budget would increase the program by \$7.2 million special funds to implement a programmatic restructuring.
- **Expanded Access to Primary Care (EAPC).** The budget proposes to augment the program through a continuation of the \$10.0 million General Fund increase in the 2001-2002 budget and adding \$17.5 million of Tobacco Settlement Funds to ensure that health assessments and immunizations are continued for children with family incomes up to 200 percent of the FPL who are ineligible for either Medi-Cal or Healthy Families and are shifted from the Child Health and Disability Prevention Program to EAPC.

- **California Children's Services/Genetically Handicapped Persons Program.** The budget proposes a \$10.5 million General Fund increase to the program to meet a 5.4 percent projected growth rate of the program.
- **HIV/AIDS Program.** The budget proposes to increase the HIV/AIDS budget by \$22.4 million, \$20.4 million General Fund, for the continuing growth in the AIDS Drug Assistance Program.
- **Richmond Public Health Laboratory.** The budget proposes an increase of \$5.5 million, \$4.0 million General Fund, for the newly completed Richmond Public Health Laboratory
- **Cancer Research.** The budget proposes to eliminate the Cancer Research Program for a savings of \$25 million General Fund.
- **Birth Defects Monitoring.** The budget proposes to reduce the funds for collection and analysis of birth defect data, \$1.6 million General Fund.
- **Bi-National Border Health.** The budget proposes to save \$1.0 million General Fund from eliminating activities related to the California-Mexico Health Initiative.
- **County Medical Services Program (CMSP).** The budget proposes to reverse the commitment the state made to the 34 small counties when they took over the County Medical Services Program in 1995. The state would charge CMSP for its costs in administering CMSP, a savings of \$5.0 million General Fund.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (MRMIB) contracts to provide health insurance coverage to populations that have traditionally had a difficult time obtaining private insurance due to pre-existing conditions, or the high cost of insurance. The MRMIB also administers the Healthy Families Program.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the managed Risk Medical Insurance Board budget:

- **Parental Expansion.** \$54.3 million reduction in Tobacco Settlement Funds to reflect a delay in the start-up of the parental expansion in the Healthy Families Program.

■ Major Provisions

The major provisions for the Managed Risk Medical Insurance Board budget include:

- **Parental Expansion.** The budget year projects a postponement of the parental expansion until July 2003 and, therefore, a decline in the expenditure of \$160.5 million Tobacco Settlement Funds.
- **Current Year Healthy Families Enrollment.** The budget for the children's portion of the program is expected to increase by \$58.1 million Tobacco Settlement Funds, 623,306 children are now projected to be enrolled whereas the estimate in November 2001 projected the enrollment would be 558,888.
- **Budget Year Healthy Families Enrollment.** The current year budget is increased by \$20.3 million to reflect higher than anticipated enrollment of children, 558,888 compared to 524,848 projected in the 2001-2002 fiscal year budget.
- **Access for Infants and Mothers (AIM).** The AIM program is projected to increase by \$300,000 General Fund to serve additional federally eligible infants.
- **Child Health and Disability Prevention Transfer.** The project projects an increase of \$5.8 million Tobacco Settlement Funds for the coverage of the 20,666 children that will move to Healthy Families from the discontinued Child Health and Disability Prevention Program.
- **General Fund Transfer.** The budget projects a transfer of \$126.0 million General Fund shift to the Tobacco Settlement Funds.
- **Rural Health Demonstration Projects.** The budget projects a decrease of \$2.0 million General Funds because the Rural Health Demonstration Projects which are to develop and enhance existing health care delivery networks for special populations and to address geographic access barriers are eliminated.
- **Perinatal Insurance Fund.** Expenditures from the Perinatal Insurance Fund are projected to increase by \$8.4 million to reflect a caseload growth in the program.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) is responsible under the Lanterman Act for ensuring that persons with developmental disabilities receive the services and support they need to help lead more independent and productive lives, and allow them to make choices and decisions about their own lives.

■ Major Provisions

The major provisions for the Department of Developmental Services budget include:

- **Caseload Growth.** The budget proposes to increase the Regional Center budget by \$151.7 million General Fund for the projected caseload growth of 9,725 consumers.
- **Purchase of Services.** The budget proposes to reduce Regional Center purchases of services by \$52 million General Fund through the implementation of statewide standards for purchase of services.
- **Developmental Center Certification.** The budget proposes \$13.7 million General Fund to replace federal funds due to the decertification of the Secure Treatment Program units at Porterville Developmental Center and a delay in the certification of the Canyon Springs Facility.
- **Autism.** The budget proposes \$17.2 million General Fund for the increased purchase of services costs at the Regional Centers for the increase in the number of consumers diagnosed with autism.
- **Special Incident Reporting System.** The budget provides \$9 million General Fund, a \$2 million increase in the budget year, to fully fund a co-ordinated comprehensive multi-level risk management system to help prevent consumer abuse, exploitation, victimization, neglect and injury and to meet federal requirements.
- **Community Placement Plan.** The budget provides \$20.5 million General Fund for a community placement planning process that better identifies individual's needs when moving from the Developmental Centers to the community.
- **Developmental Centers' Population.** The Developmental Centers' population is projected to decrease from 3,686 to 3,636 residents, a net loss of 50 residents.
- **Janitorial Contracts.** The budget provides \$8.5 million, \$5 million General Fund, for janitorial contracts, which include mandated health benefit costs.
- **Pilot Project, Agnews Developmental Center.** The budget provides \$.4 million General Fund for the Unit Clerk Pilot Project at Agnews.

- **Lanterman Developmental Center.** The budget provides \$3.8 million General Fund to complete the capital outlay construction phase of the Security Improvement Project at Lanterman.
- **Staffing.** The budget proposes to reduce the staffing at the Developmental Centers by 22 non-level of care positions and 33 administrative and program positions in headquarters, a \$3.5 million General Fund savings.
- **Purchases and Services.** The budget proposes a reduction of by \$1.4 million General Fund purchases and services.
- **CDDIS.** The Budget proposes a delay of the implementation of the California Developmental Disabilities Information System, which will replace the Regional Centers' automated fiscal accounting and program monitoring system, will be delayed.

DEPARTMENT OF MENTAL HEALTH

The Department of Mental Health is responsible for the delivery of mental health treatment services through a state-county partnership as well as the involuntary treatment of the mentally disabled. The DMH operates four state hospitals for the mentally disabled and acute psychiatric units at the California Medical facility in Vacaville.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Mental Health budget:

- **Dual Diagnosis Projects.** The budget projects a decline in General Fund expenditures of \$400,000 for a Dual Diagnosis Project.

■ Major Provisions

The major provisions for the Department of Mental Health budget include:

- **Early and Periodic Screening, Diagnosis and Treatment Program.** The budget projects a \$70.0 million General Fund expansion in the Early and Periodic Screening, Diagnosis and Treatment Program.
- **Therapeutic Behavioral Services.** The budget projects a \$8.2 million General Fund increase for compliance in the Emily Q v. Bonta lawsuit which requires the Department and County Mental Health Plans to provide Therapeutic Behavioral Services as a Medi-Cal benefit.

- **Managed Care Program.** The budget projects a General Fund increase of \$14.0 million in the Managed Care Program for both inpatient and specialty mental health services to reflect: changes in the number of Medi-Cal beneficiaries; a cost adjustment factor based on the medical component of the national Consumer Price index; a one percent reduction in growth for managed care inpatient services; an adjustment to reflect a change in the state's Medi-Cal sharing ratio; and a reduction of the funding of two HMOs servicing Sacramento County.
- **San Mateo Pharmacy.** The budget projects a \$1.9 million increase in reimbursements from the Department of Health Services to reflect adjustments to the funding level for the San Mateo Pharmacy and Laboratory Services Field Test.
- **Community Treatment Facility.** The budget projects an increase of \$1.2 million to continue the payment of a supplemental rate for Community Treatment Facility beds until an appropriate rate structure for the facilities can be developed.
- **Supportive Housing.** The budget projects a \$17.5 million General Fund decrease in supportive housing, \$3.5 million General Fund will remain in the program and none of 31 currently funded or newly awarded projects will be affected by the funding reduction.
- **Special Education.** The budget projects a deferral of advance payments for the Special Education Pupils Program for a one time savings of \$12.3 million General Fund.
- **Children's System of Care.** The budget projects a decline of \$4.1 million General Fund in the Children's System of Care.
- **East Valley Pavilion.** The budget projects a decline of \$2.7 million General Fund in supplemental funding to Santa Clara County for the closure of the East Valley Pavilion.
- **General Fund Adjustments.** The proposed budget would reduce the Department's support funding by \$3.276 million General Fund and 18 positions in the budget year.
- **Dual Diagnosis Projects.** The budget projects a \$1.5 million General Fund decline in Dual Diagnosis Projects.
- **Seriously Emotionally Disturbed Pupils.** The budget proposes to increase funding \$12 million General Fund for the newly established local mandate for services to seriously emotionally disturbed pupils.
- **Mentally Disordered Offenders.** The budget proposes to increase General Fund spending by \$184,000 to fund an increase in the number of evaluations required to be completed on potentially Mentally Disordered Offenders.
- **State Hospitals.** The budget proposes to increase General Fund expenditures for state hospitals by a net \$9.44 million, 155 positions and 122 beds.
- **Atascadero State Hospital.** The budget proposes to increase expenditures from the Public Building Construction Fund by \$13.7 million within the secure perimeter of Atascadero State Hospital for additional patient treatment space.

- **Metropolitan State Hospital.** The budget would increase expenditures from the Public Building Construction by \$7.1 million for a new 27,000 square foot school building at Metropolitan State Hospital.
- **Patton State Hospital.** The budget proposed to increase General Fund expenditures by \$603,000 for the installation of a dual tone personal alarm system in the G, T, O and P buildings at Patton State Hospital.

THE 2002-2003 STATE BUDGET

SOCIAL SERVICES PROGRAMS

DEPARTMENT OF SOCIAL SERVICES

CalWORKs

The 1996 federal welfare reform law eliminated the Aid to Families with Dependent Children (AFDC) entitlement program and replaced it with the Temporary Assistance for Needy Families (TANF) block grant. In response to the new federal law, California established the California Work Opportunity and Responsibility to Kids (CalWORKs) program. The CalWORKs program was implemented on January 1, 1998. Like the former AFDC Program, CalWORKs provides cash grants and welfare-to-work services to single-parent families and to unemployed two-parent families whose incomes are too low to meet their basic needs. However, CalWORKs places increased emphasis on moving families from welfare to work and providing services to help them achieve this goal. County welfare departments carry out most CalWORKs functions under the statewide supervision of the Department of Social Services (DSS).

California's federal welfare block grant amount has been \$3.9 billion each year through federal fiscal year 2002 (ending September 30, 2002). In addition, the budget estimates that \$253 million of unspent TANF funds will carry over into 2002-03 from the current year and \$600 million of CalWORKs County Performance Incentives will be recovered from Counties, resulting in a total of \$4.2 billion of TANF funds available in 2002-03. The budget proposes to spend \$4.0 billion of these federal funds, leaving reserves totaling \$205 million (\$165 million for childcare and \$50 million as a general TANF reserve).

To receive federal TANF block grants, the state must meet a maintenance-of-effort (MOE) requirement. The MOE requirement generally provides that state (including county) funding for welfare and other types of support and assistance for needy families must be at least 80 percent of the amount that the state spent for AFDC in federal fiscal year 1994 - or \$2.9 billion. The MOE level decreases to 75 percent if the state meets federal work participation requirements, as California currently does, reducing the minimum MOE spending level to \$2.7 billion, a savings of \$182 million. The budget also assumes \$30 million from the Employment Training Fund will be transferred to the CalWORKs program as part of the state MOE. The budget proposes state funding for the CalWORKs Program at this minimum MOE amount in 2002-03.

The Governor's proposed budget provides a total of \$6.7 billion for the CalWORKs program in 2002-03 (excluding reserves). Of this amount \$6.3 billion is included in the DSS budget, with the remaining funds budgeted through other departments and counties. Table 1 summarizes the major budget proposals associated with CalWORKs.

Table 1

GOVERNOR'S CALWORKS BUDGET PROPOSAL 2001-02 (Dollars in Millions)	
	(all funds)
Welfare Grants	\$3,392
Basic Employment Services (including Welfare-to-Work funds)	1,173
Substance Abuse Services	55
Mental Health Services	54
Child Care	476
Kin-GAP (guardian assistance)	99
County Administration	488
TANF Funds for County Probation Programs	201
Dept. of Social Services Administration	24
OTHER CALWORKS EXPENDITURES IN DEPT. OF SOCIAL SERVICES	377
OTHER CALWORKS EXPENDITURES IN OTHER DEPARTMENTS	363
Total	\$6,702

Major Provisions

The major provisions of the CalWORKs budget include:

- **Caseload Decline Ends.** Welfare caseloads are projected to increase for the first time in seven years during 2002-2003. The caseload is estimated to be approximately 520,307 families (1,476,994 persons) in 2001-02 and is projected to increase to approximately 532,451 families (1,461,242 persons) in 2002-03. This represents an increase of approximately 1.3 percent in the number of families on CalWORKs. Since January 1995, State caseloads fell from close to 921,000 families to an estimated 519,112 families in January 2002, a reduction of over 400,000 families or 43 percent.

The increase in families on aid is explained, in part, by the softening economy and a projected rise in the number of child-only cases, in which the parents are not eligible for assistance but their children remain eligible. The growth of child-only cases explains why the number of families on aid is projected to increase but the number of persons receiving aid is still projected to decrease. The increase in the caseload results in an additional cost to the TANF program of \$124.2 million compared with current year appropriation.

- **Grant Levels get no COLA in 2002-2003.** The Governor's Budget proposes suspending the CalWORKs aid payment cost-of-living adjustments (COLAs) for 2002-2003. Existing law requires annual COLAs to CalWORKs grants effective October 1 each year. In difficult economic years, the Governor and the Legislature have amended this statute to allow a "suspension" of these COLAs. The statutory COLA is based on the increase in the California Necessities Index (CNI), which would have been 3.89 percent in 2002-2003. Elimination of the COLA results in savings to the TANF program of \$112 million in 2002-2003.

The maximum CalWORKs grant increases with family size, and there are two regional grant levels. Grants are 4.9 percent lower in 41 designated low/moderate cost counties than in the 17 designated high-cost counties. Families with non-exempt income receive less than the maximum grant. However, the CalWORKs grant structure encourages families to return to work by reducing grants by less than the amount earned, so that families may earn more than twice the maximum grant amount before they lose their grant entirely.

Table 2 illustrates the impact of not providing COLAs upon the CalWORKs maximum grants for a family of three in both high and low cost counties. Annual COLAs have been provided for CalWORKs grants since 1998-99. However, from 1989-90 through 1997-98, grants were either reduced or frozen each year. As a result, the purchasing power of the maximum family grant has declined by about 30 percent since 1989-90 and currently is about 45 percent less than the poverty level.

Table 2

MAXIMUM MONTHLY CALWORKS GRANTS (Family of Three)			
	ESTIMATED GRANT WITH COLAs	PROPOSED GRANT WITH COLAs SUSPENDED	DIFFERENCE
High Cost Counties*	\$705	\$679	\$26
Low Cost Counties**	672	647	25

* 41 low-cost counties.

** 17 high-cost counties.

- **Shortfall in Employment Services Funding.** Recipients are required to enter into a welfare-to-work plan after an assessment. The plan must include the activities and services that will move the recipient into employment. The Governor's proposed budget includes \$786 million for basic job training and employment services in 2002-03. While the budget reduces funds for Employment Services by only two percent in 2002-2003, the current level of funding is far below the amount required for counties to fully-fund their employment services models. Despite modest increases in funding during the last two fiscal years, many counties must use one-time CalWORKs performance incentive funds for core services because the actual cost of providing core employment services to CalWORKs participants exceeds their state allocation for employment services.

Counties will face increasing difficulty maintaining the integrity of their welfare-to-work programs as a rise in caseload combined with a reduction in funding. The problem will be exacerbated by cuts to other State programs serving CalWORKs clients such as the Adult Education program in the California Department of Education and the California Community Colleges CalWORKs program. Counties can still utilize these programs, but they will be forced to use their existing employment services allocation for services that were once separately funded.

Some counties will be impacted more than others by this shortfall. As a result of a county allocation methodology utilized in prior fiscal years, there is a wide disparity in levels of employment services funding across counties. While the budgeted employment services level will impact all counties, some counties will more acutely feel these effects.

- **Recapturing of County Fiscal Incentive Funding in 2002-03.** Existing law provides for performance incentive payments to counties equal to 50 percent of savings resulting from persons leaving CalWORKs for employment, grant reductions due to earnings, and diversions of CalWORKs applicants. Counties may use these payments for a broad range of purposes, consistent with federal TANF requirements.

Counties will have earned \$1.2 billion through the end of 2001-2002, but have only spent \$160.7 million through September 2001. Most of these unspent incentive funds are held by counties in interest bearing accounts. Recently, the federal government notified the state that it was in violation of the Cash Management Act by giving counties federal funding for performance incentives that were not going to be immediately spent. In December 2001, DSS notified counties that it would begin the process of recovering the remaining balances of fiscal incentives plus accrued interest from the counties' accounts and would return these funds to the federal government. The federal government requires the state and counties to forfeit the accrued interest on these incentive funds, but the state and counties will still be able to draw down the TANF funds allocated for the performance incentives. Thus, the recovery of these funds will not prevent counties from spending their incentive funds--it only transfers these funds from the county coffers to the federal coffers.

The Budget assumes that \$600 million in performance incentives funding will remain unspent at the beginning of fiscal year 2002-2003. The 2002-2003 budget assumes that \$169.1 million of these recaptured incentive funds will be used to fund the CalWORKs program at the state level, with the remaining \$430.9 million to be reallocated proportionally back to counties. While the budget redirects some of the remaining performance incentive funds for state operations of the CalWORKs program, it does not remove the state's obligation to the counties for these funds. In effect, the transfer of the performance incentive funds represents a "loan" to the state from counties.

As previously discussed in the Employment Services section, in the current year, many counties have relied upon CalWORKs performance incentives to fill the gap between their employment services program expenditures and their employment services county allocation. The proposed \$169.1 million reduction in the available performance incentive funds, while not permanent, also places increased pressure on counties ability to continue funding their current employment services model.

- **Child Care reform impacts CalWORKs Child Care Services.** AB 1542 (Ducheny), Chapter 270, Statutes of 1999, established a three-stage child care delivery system for families in the CalWORKs program. Stage 1, which counties administer directly, begins upon entry into job search services and can last for up to six months. Stage 2 begins when the recipient's schedule for training or work stabilizes or when a recipient is transitioning off of aid and childcare is available through a local Stage 2 program. Stage 3 begins when a family has been off of aid for two years, and also is available to families receiving diversion services, long-term training, or who are employed at a wage that does not exceed 75 percent of the state median income. Stages 2 and 3 are funded through the State Department of Education (SDE), which administers those stages.

The budget proposes a major structural change to childcare that will result in over \$182 million in savings to the CalWORKs program in 2002-2003. The Governor's

childcare proposal contains reforms such as charging all families for a portion of care and decreasing provider reimbursement rates. These changes will apply to families receiving childcare through all three stages of the CalWORKs program. Please see the childcare issue section for more details on the proposed changes to childcare.

- **State will provide counties with funding as part of a "County Program Grant."** The State is proposing to give counties more flexibility in the expenditure of CalWORKs funds. Currently, counties are provided a "single allocation" which contains funding for CalWORKs Stage I Child Care, CalWORKs Employment Services, and CalWORKs program administrative costs. Counties can currently shift funds between these three different activities, as long as they remain within the overall amount of their single allocation. In 2002-2003, the budget proposes to expand county flexibility by providing counties with a "County Program Grant" which would contain the elements of the existing single allocation, with the addition of the allocations for CalWORKs Mental Health, CalWORKs Substance Abuse, and Juvenile Assessment/Treatment Facilities and Probation Camps. Counties could shift funds within this combined allocation to better meet their needs.
- **Five Percent of County Program Grant held back as a reserve for aid payments.** The 2001 Budget Bill contains language that would hold back five percent of the County Program Grant. These funds would be used in the event unexpected costs from caseload increases in the CalWORKs and KinGAP programs exceed budget projections. This provision effectively creates a reserve for aid payments using funds allocated for services. Given the uncertainty regarding the level of CalWORKs caseloads, the holdback would add additional fiscal strain upon counties' welfare-to-work programs.
- **Juvenile Assessment/Treatment Facilities and Probation Camps funding to remain unchanged.** The budget continues \$201.4 million in TANF funding for these programs. In 2002-2003, counties will receive these funds as part of the "County Program Grant." However, counties will not be able to use TANF funds to supplant existing county funds for probation programs.
- **Substance Abuse/Mental Health Treatment Services funding to remain unchanged.** Counties are required to specify any necessary substance abuse and mental health treatment services in the county plans. The budget proposes \$55 million for substance abuse services. The budget also includes \$54 million for mental health services. In 2002-2003, counties will receive these funds as part of the "County Program Grant".
- **Youth Development Services Project funding to remain unchanged.** The Youth Development Services Project provides \$1.5 million of CalWORKs funds to local community-based agencies, primarily Boys and Girls Clubs. The budget continues to fund this program, which began in 2001-2002.
- **Fraud Incentive Payments reduced.** The budget proposes to eliminate the State portion of the CalWORKs Fraud Incentive payments made to counties. Under current CalWORKs law, counties receive 25 percent of the state share of savings, including federal TANF funds, resulting from the detection of fraud. The budget would allow only the federal TANF funds to be returned to counties for savings of \$5.1 million. CalWORKs recipients are ineligible for benefits for any fraudulent misrepresentation or failure to disclose information for six months for the first offense, twelve months for the second offense, and permanently for the third offense. Also, recipients are

permanently ineligible for benefits if the recipient is found by a court or pursuant to an administrative fair hearing to have misrepresented their place of residence, submitted documents for nonexistent children or fraudulently received benefits in excess of \$10,000. The budget estimates \$59.6 million of fraud and overpayments will be collected in 2002-2003.

- **CalWORKs funding for adult education eliminated.** The budget proposes to eliminate \$36 million in General Fund in the California Department of Education (CDE) for adult education and the Regional Occupational Collaborative program (ROC/P). These programs will continue to exist, but they will no longer have slots reserved for CalWORKs participants. The Governor's budget assumes that CalWORKs participants can receive adult education through existing county programs or through the base allocation for the ROC/P program contained in the CDE budget.
- **California Community Colleges CalWORKs program eliminated.** The budget proposes to eliminate the CalWORKs program at community colleges for savings of \$58.4 million. The existing program provides job placement services, work-study, and other educational-related work experience to CalWORKs participants. The budget assumes that individual community colleges and/or counties could continue to provide these services with existing resources.
- **EDD Intensive Services for CalWORKs reduced.** The budget proposes to reduce EDD Intensive Services by \$3.6 million. Currently through the Intensive Services program, EDD provides job-training resources to hard to serve CalWORKs participants. The budget assumes that counties could still provide these services using existing Workforce Investment Act funding and/or counties could continue to provide these services using existing resources.
- **DSS State Operations reduced.** The budget reduces DSS State operations by \$2 million.

FOOD STAMPS

The federal Food Stamp program provides monthly coupon benefits to assist low-income households in purchasing food to maintain adequate nutritional levels. Currently the average benefit per person in California is about \$70 per month. The federal government funds the total costs of the benefit, while the state and counties share the costs for administration. For 2002-03, the Governor's proposed budget includes a total of \$739 million for food stamp administration, of which the state and counties would provide \$282 million and \$104 million, respectively.

■ Major Provisions

The major provisions of the Food Stamps budget include:

- **Budget Assumes that the Federal Government will pay for Immigrant Food Program.** The budget assumes legal non-citizen immigrants receiving benefits as part of the California Food Assistance Program will become eligible for federal food stamps, resulting in General Fund savings of \$35.1 million. Federal welfare reform law made non-citizens ineligible for the Federal Food Stamp program (with certain limited exceptions). This law denied eligibility to approximately 120,000 adults, children, and seniors for food stamps in California. The 1998-99 budget package created the California Food Assistance Program (CFAP). Initially, eligibility was limited to non-citizen adult legal immigrants who entered the United States prior to August 22, 1996 (the date of enactment of federal welfare reform). The 1999-00 and 2000-01 budget packages extended CFAP eligibility to post August 22, 1996 entrants. The budget assumes that federal legislation is passed to restore federal eligibility for the population covered by this state-only program (children and seniors). If the assumed federal eligibility change is not adopted, CFAP recipients will continue to receive benefits.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PROGRAM

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The federal government funds SSI cash benefits for eligible persons. The state contributes the SSP portion of the grant as a supplement to the SSI grant.

■ Major Provisions

The major provisions of the Supplemental Security Income/State Supplementary Program budget include:

- **Caseload continues to increase.** The SSI/SSP caseload is projected to be approximately 1.1 million, which is a two percent increase over the current-year

estimated caseload. Disabled and blind persons make up 70 percent of the caseload, and elderly persons over 65 years of age make up 30 percent of the caseload. The budget proposes \$3 billion in General Fund support for the program in 2002-03, which represents a 7.3 percent increase over current-year General Fund expenditures. The basic caseload increase results in a cost increase of about \$129 million in 2002-03.

- **Budget funds only federal portion of SSI/SSP COLA.** The Governor's proposed budget suspends the General Fund portion of the SSI/SSP Cost of Living Adjustments (COLAs). However, SSI/SSP payments will still receive a COLA from the federal government. The federal government provides a COLA for the SSI portion of the grant based on the percentage increase in the Consumer Price Index (CPI), estimated at 1.8 percent. The State normally increases benefits based upon the California Necessities Index (CNI), which is slightly higher than the SSI rate. For 2002-2003, the CNI rate is estimated at 3.89 percent. The suspended State COLA would pay for both the amount needed to provide the full CNI COLA for the SSP portion of the grant plus the additional cost of providing the higher CNI COLA for the SSI portion of the grant.

The 2002-03 budget funds the full-year cost of the current-year COLA of 5.31 percent granted January 2002. Providing this COLA on a full-year basis increases General Fund costs in 2002-03 by an estimated \$175 million. Currently, an aged or disabled adult receives \$750 a month (\$1,332 for couples). The grant will increase to \$759 (\$1,347 for couples) on January 1, 2003, due to the federal SSI COLA. If the State portion of the COLA were not suspended, an aged or disabled adult would receive \$779 per month (\$1,384 for couples).

- **Cash Assistance Program for Immigrants (CAPI).** Federal law denies SSI to non-citizen seniors who are legal immigrants (with limited exceptions) without at least ten years of Social Security work credits and who were not already receiving SSI grants as of September 30, 1998. The CAPI program provides state-only grants similar to those in the regular SSI/SSP program (\$10 less for individuals and \$20 less for couples). The program primarily serves Pre-August 22, 1996 legal immigrants who were not SSI/SSP recipients as of the 1998 grandfathering date. Eligibility for CAPI also extends to post-August 22, 1996 legal immigrants whose sponsor has either died, is disabled, or is abusive, or can qualify given the deeming of the sponsor's income.

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides services to eligible low-income aged, blind, and disabled persons to enable them to remain independent and continue to live safely in their homes. Services include meal preparation, laundry, and other personal care assistance. The program has two major subcomponents. The Personal Care Services Program (PCSP) is funded as a Medi-Cal benefit and receives federal Medicaid matching funds. The Residual Program provides IHSS services that do not qualify for Medi-Cal funding, such as IHSS services provided by a spouse. Generally, the state and the counties share the nonfederal costs of PCSP services, and the entire cost of Residual services, 65 percent and 35 percent, respectively.

The budget proposes total funding of approximately \$2.6 billion, of which \$1 billion is from the General Fund, \$961 million from federal funds, and \$530 million from county funds for

support of the IHSS program in 2002-03. This represents a 9.7 percent General Fund increase over the current-year budget. The caseload for the program is estimated to be 283,580 in 2002-03, which is an increase of 6.4 percent over the estimated current year caseload. Cost increases in 2002-03 reflect caseload growth and increased wages and benefits for IHSS care providers due to increases in the minimum wage and additional increases in provider pay and benefits in counties that use a Public Authority (PA) to deliver IHSS services.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the In-Home Support Services budget:

- **Unspent prior-year IHSS Administration funding.** \$7.4 million reduction of unexpended IHSS Administration funding from the prior fiscal year. These funds are normally available for liquidation over 3 years, the November Revise allows the balances to be reverted one year earlier. This reversion had no impact upon the program in the current or budget year.
- **Reverting current year savings for IHSS Administration.** \$369,000 reduction in IHSS services administrative cost that are not projected to be spending during the current year. This reversion will have no impact upon the program's level of service in the current year.
- **Reverting current year savings for IHSS Services.** This action reverted \$5 million in projected savings to the IHSS program. These savings are anticipated due to counties actually paying providers a lower wage than projected. However, these savings do not impact upon the program's level of services and do not curtail the State's commitment to pay the state share of provider wages up to \$8.50 per hour.

■ Major Provisions

The major provisions of the In-Home Supportive Services budget include:

- **No Increase in State Participation Limit for Public Authority Funding** Existing law provides for the state participation limit to increase by \$1.00 per hour of care giving each year if General Fund revenues grow by at least 5 percent. The 2001 Budget assumed General Fund growth of 3.3 percent, which did not trigger this automatic increase in State participation. However, the 2001 Budget still provided an additional \$1.00 per hour of state participation to Public Authority counties.

The Governor's proposed budget does not provide an increase in the State participation level above the current \$9.10 per hour level. In addition, the 2002 budget proposes to suspend the reimbursement increase trigger in current law for 2002-2003. By the end of 2002-03, the budget anticipates that six counties will have adopted provider rates at or above the current \$8.50 per hour state participation limit for wages, and eight counties would be at or above the \$0.60 per hour state participation limit for benefits. The 2002 Budget Act includes \$118 million (General Fund) for the state share of provider

rate increases in PA counties up to \$9.10 per hour (\$8.50 wages and \$0.60 benefits). However, several major PA counties have set PA provider rates significantly lower than the maximum for state participation. Los Angeles County, for example, has not set provider rates at the maximum state participation level.

SPECIAL CIRCUMSTANCES FOR ADULTS

The budget proposal for 2002-03 reduces funding for the Special Circumstances Program from the current-year level of \$5 million to \$4.5 million (General Fund). This program, administered by the counties, offers time-limited benefits for nonrecurring needs in order to assist in maintaining individuals in their homes. Benefits may include housing repairs, moving expenses, home modifications, foreclosure prevention, and recovery from catastrophe. The program assists persons participating in SSI/SSP, CAPI, and IHSS.

COMMUNITY CARE LICENSING DIVISION

The Community Care Licensing Division (CCLD) within the Department of Social Services develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. Licensed facilities include day care, foster family homes and group homes, adult residential facilities, and residential facilities for the elderly.

The budget proposes expenditures of \$126 million (\$44.9 million General Fund) for the CCLD in 2002-03. Total funding increases by \$6.2 million, 5 percent over the current-year budget act. The additional funds pay for an expected increase in the number of licensed facilities. The budget also includes \$550,000 for improved childcare and after-school licensing.

FOSTER CARE

The Foster Care (FC) Program provides out-of-home care on behalf of children meeting the following criteria: removal from the physical custody of a parent or guardian as a result of a judicial determination that remaining in the home would be contrary to the child's welfare and adjudication as a dependent or ward of the court; residing with a non-related legal guardian; voluntarily placed by a parent or guardian; relinquished for the purposes of adoption; or placed pursuant to the Indian Child Welfare Act.

The budget proposes \$1.6 billion (\$426 million General Fund, \$473 million federal funds, and \$651 million in county funds) for Foster Care payments in 2002-03. Expenditures increase by 0.7 percent (include a \$14 million General Fund increase) in 2002-03, compared with the current year.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Foster Care budget include:

- Savings from unexpended balance for Foster Care programs. \$9.8 million reduction from two Foster Care programs. The action recovers savings of \$5.0 from a slower than anticipated implementation of the Supportive Transitional Emancipation Program. In addition, \$4.8 million is reduced from the Foster Care Transitional Housing Placement Program has also been reverted, allowing \$5.2 million to operate the program over the next two years.

■ Major Provisions

The major provisions of the Foster Care budget include:

- Caseloads decrease, but costs increase. The Foster Care program provides grants for eligible children if they are living with a foster care provider under a court order or a voluntary agreement between the child's parent and a county welfare or probation department. The budget estimates that caseload for 2002-03 will be 75,455, a decrease of 6.1 percent from the current year, following an estimated decrease of 0.8 percent in the current year. The caseload declines to reflect the diversion of a portion of the traditional foster care caseload into the CalWORKs Kin-GAP Program, which was implemented on January 1, 2000. The Kin-GAP Program helps to support children in permanent placements with relatives.

Table 3 describes the different types of foster care placements.

Table 3

FOSTER CARE PLACEMENTS	
Placement Type	Description
Foster Family Homes	<ul style="list-style-type: none"> ▪ A residential facility that serves no more than six foster children ▪ Provides 24-hour care and supervision in a licensee's home ▪ Foster care grant may be supplemented for care of children with special needs
Foster Family Agency Homes	<ul style="list-style-type: none"> ▪ Homes operating under nonprofit foster family agencies which provide professional support ▪ These placements are required by law to serve as an alternative to group home placement
Group Homes	<ul style="list-style-type: none"> ▪ A facility of any capacity that provides 24-hour non-medical care, supervision, and services to children ▪ Generally serve children with more severe emotional or behavioral problems who require a more restrictive environment

- **No Foster Care COLA in 2002-2003.** The Governor's budget proposes to suspend the Foster Care cost-of-living increase (COLA). Current law requires rate increases be funded for those children placed in Foster Family Home (FFH), Foster Family Agency (FFA) and Group Home (GH) placements. The COLA would have been equal to the increase in the California Necessities Index, estimated to be 3.89 percent for 2002-2003.

CHILD WELFARE SERVICES

The Child Welfare Services (CWS) program provides various services to abused and neglected children, children in foster care, and their families. These services include

- 1) Immediate social worker response to allegations of child abuse and neglect;
- 2) Ongoing services to children and their families who have been identified as victims, or potential victims of abuse and neglect; and
- 3) Services to children in foster care who have been temporarily or permanently removed from their family because of abuse or neglect.

The average monthly caseload is estimated to be 174,000. The budget proposes a total of \$2 billion (\$646 million General Fund) to support the CWS programs in 2002-03. This represents an increase of approximately \$3 million in General Fund expenditures from the current year.

The proposed budget continues to provide \$120.8 million (\$74.3 million General Fund) for additional county CWS workers, expressly targeted for the emergency response, family reunification, family maintenance, and permanent placement components of CWS. This funding will allow counties to reduce the workloads of caseworkers responding to approximately 174,000 cases of abused and neglected children each month. Through its Child Welfare Stakeholders' Group, DSS currently is conducting a review of existing CWS programs, components and systems, which is expected to lead to recommendations for improvement over the next three years.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Child Welfare Services budget:

- **Recovery of prior year unspent Child Welfare Services program funding.** \$20.2 million of savings from the prior fiscal year on various Child Welfare Programs. These funds are normally available for liquidation after three years, SB 1 3X allows the balances to be liquidated a year earlier. This reduction has no impact upon the program in the current or budget year.
- **Capturing current year savings for Child Welfare Services related programs.** \$1 million reverted of the projected savings in three Child Welfare Services related

programs. These reductions will have no impact upon the overall level of services in Child Welfare Services.

ADULT PROTECTIVE SERVICES

County welfare departments administer the Adult Protective Services (APS) Program, which assists elderly and dependent adults who are functionally impaired, unable to meet their own needs, or who are victims of abuse, neglect or exploitation. Enhanced APS program requirements took effect in 1999 and require counties to respond to reports of abuse on a 24-hour emergency basis. Services include emergency shelter, food, transportation, and in-home protective care.

The Budget includes \$78.9 million (\$55.3 million General Fund) for APS. The Budget also includes \$18.6 million (\$11.5 million General Fund) for the County Services Block Grant program that provides funding for county social service programs, including APS.

The budget proposes an increase of \$8.6 million over the 2001 Budget Act, however this increase is accounted for by an increase in claiming of federal revenue by counties. Counties have already claimed much of the federal funding available, so this projected increase may not be realized.

DEPARTMENT OF CHILD SUPPORT SERVICES

Effective January 1, 2000, the state created the Department of Child Support Services (DCSS). The child support program had previously been administered through the Department of Social Services. At the local level, the 58 District Attorneys managed the child support system. Between January 2001 and January 2003, counties are to transition these programs to a new local child support agency.

The DCSS is the designated state agency to administer the federal Title IV-D state plan for securing child and spousal support, medical support, and determining paternity. The DCSS's functions include:

- Establishing statewide policy and creating greater uniformity in the administration of child support;
- Establishing a single statewide automation system;
- Directly overseeing and supervising the child support functions of local agencies;
- Enhancing customer service; and
- Increasing the efficiency of child support enforcement operations.

The budget proposes \$995 million (\$288.5 million General Fund) and 215.3 positions to support the DCSS and county child support activities in 2002-03. The proposed budget also projects that DCSS will collect \$2.4 billion in child support payments in 2002-03, resulting in a General Fund savings of \$353.7 million (in collections that offset state assistance costs for families).

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the DCSS budget:

- **Recovery of Local Child Support Administration Incentives.** This action reverts an unspent balance of \$30.5 million from 2000 and \$10 million allocated in the current year for the Child Support Administration Incentives.

■ Major Provisions

The major provisions of the budget include:

- **Federal Penalties Relief.** California's delay in implementing a single, statewide automated system has resulted in significant federal penalties. In the current year, the federal penalty is estimated to be \$152 million (General Fund). The budget assumes that federal legislation will pass that will allow the state to reinvest the penalty in child support expenditures above the 1997 level. This legislation would result in a one time \$181.3 million savings to the General Fund.
- **Federal and State Incentives.** Counties earn incentives based on 13.6 percent of distributed child support collections. The state receives federal incentive funds based on the state's performance in meeting certain standards. If the state receives a decreased amount of federal incentive funds, additional state funds would be used to fund the incentive program at the 13.6 percent level. If the state receives increased federal incentive funds, the state contribution would decrease. Counties use these incentive funds to pay for their individual nonfederal share of administering the child support program. Counties pay 100 percent of the nonfederal costs of administering the program. Any excess incentive funds are reinvested in the child support program.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) provides employment and job training services and administers federal funds provided under the federal Workforce Investment Act (WIA) and the Wagner-Peyser Act. The EDD also administers the Unemployment Insurance (UI) and Disability Insurance (DI) programs. The Governor's proposed budget includes expenditures of \$8.7 billion (\$28 million General Fund) for the EDD in 2002-03 primarily from federal funds and special funds. This represents essentially the same expenditure level as in the current year.

The Workforce Investment Act. WIA replaces the former federal Job Training Partnership Act (JTPA). The proposed budget includes \$801 million in federal WIA funds for employment programs in 2001-02. The state's funding under WIA has increased by about 60 percent over the amount spent in 1999-00, the last full year of JTPA funding.

The state's workforce development system is based on a network of "one-stop" career centers, which provide a full range of job training, education, and employment services at a single neighborhood location. The 65-member California Workforce Investment Board oversees the program.

The department also administers federal Welfare-to-Work funds, which are targeted at hard-to-serve welfare recipients.

■ Major Provisions

The major provisions of the Employment Development Department budget include:

- **Third Year of funding for Faith-Based Initiative.** The budget proposes \$4 million (General Fund) to continue contracts with faith-based organizations to deliver employment services. This funding will be provided via a competitive grant process to faith-based organizations that are uniquely suited to provide services to individuals facing multiple barriers to assimilation into the workforce. In 2001-02 the Employment Development Department received 684 proposals from faith-based organizations representing all regions of the state, requesting over \$184 million. Final award recommendations are currently under consideration by the Administration.
- **Job Agent Program Eliminated.** The budget reflects a General Fund savings of \$2.7 million as a result of eliminating the Job Agent program in 2002-2003. The program provides employment-related services to economically disadvantaged individuals who have multiple barriers to employment. The budget assumes that clients affected by this reduction would continue to be directed to other employment programs able to meet their needs.
- **Reduction of the Intensive Services Program.** The budget includes savings of \$3.7 million from EDD Contingent Funds to reflect a reduction in the Intensive Services program in 2002-2003. This program provides case management assistance for individuals who face barriers to employment. The budget assumes that employment training resources will continue to be available for job seekers through core EDD services.

DEPARTMENT OF AGING

The California Department of Aging (CDA) administers the federal Older Americans Act and the State Older Californians Act. The CDA works with local Area Agencies on Aging (AAAs) to provide various services to the elderly and functionally impaired adults at the community level. The Governor's proposed budget includes total expenditures of \$159 million, of which \$45 million is from the General Fund, for support of the CDA in 2002-03.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Aging budget:

- **Reduce new funds for Task Force on Legal Services.** \$100,000 reduction for the Task Force on Legal Services. AB 830 (Cohn) requires the Department of Aging to establish a task force, conduct a study, and make recommendations to the Legislature on issues relating to legal services for seniors. The Department will establish the task force using existing funding.

■ Major Provisions

The Major Provisions of the budget include:

- **Linkages Program reduced.** The Governor's budget reduces the Linkages Program by \$126,000 General Fund. The Linkages Program, currently supported with \$8.3 million (General Fund), serves 3,600 clients in 36 programs operated by the 33 local Area Agencies on Aging. These programs provide case management and supportive services to seniors who may not qualify for other state or federal programs, but still need assistance in order to remain in their homes. The proposed reduction will result in the loss of 94 annual slots serving 147 clients annually.
- **Department State Operations to decrease by 15 percent.** The proposed budget reduces Department of Aging support by \$945,000 (General Fund). The Department intends to preserve only the most critical and mandated functions with appropriate resources.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

The Department of Alcohol and Drug Programs (DADP) funds prevention, treatment and recovery programs for approximately 500,000 Californians with some form of alcohol and /or other drug abuse problem. The budget provides \$223 million from the General Fund (\$544 million all funds) for drug and alcohol treatment programs, a decrease of \$20 million from the General Fund (\$99 million all funds) compared to 2001-2002.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the DADP budget:

- **Unexpended funding liquidated.** \$10.5 million reversion (General Fund) and \$11 million (federal funds) to capture prior-years savings in the Drug Medi-Cal caseload. This reduction has no impact upon the program in the current or budget year.
- **HIPAA implementation savings.** Programs to comply with the Health Insurance Portability and Accountability Act have experienced a one-time savings of \$2.7 million (General Fund) and \$2.6 million (federal funds). This action captures this Health Insurance Portability and Accountability Act implementation savings.

■ Major Provisions

The major provisions of the budget include:

- **Drug Medi-Cal caseload adjustment.** The 2002-2003 budget includes a reduction of Drug Medi-Cal costs by \$3.7 million General Fund and \$3.9 million federal funds to reflect a lower than projected caseload in the current year. These funds are normally available for liquidation after 3 years, the November Revise allows the balances to be liquidated two years earlier. This reduction has no impact upon the program in the current or budget year.
- **Reduced funding for Technical Assistance Contracts.** The budget reduces Technical Assistance Contracts by \$850,000. These contracts provide training and technical assistance in the areas of substance abuse treatment and recovery issues for target populations and programs. This reduction reduces these contracts to their fiscal year 1999 levels.
- **Non-Drug Medi-Cal Services reduced.** The Budget reduces funding for Non-Drug-Medi-Cal services by \$7.5 million or 2.7 percent. These services include group and individual counseling; residential services; detoxification; prevention; case management; relapse prevention; and ancillary services.

- **Drug Court Partnership Program ends a year early.** The Budget assumes savings of \$4 million by ending the Drug Court Partnership Program in 2001. The four year program would have allocated the additional funds to existing grantees in 2002-2003.
- **Perinatal Services Reduced.** The Budget proposes to reduce Perinatal Alcohol and Other Drug Services by \$2.5 million. The Perinatal Services funding is used for an array of services targeting recent and expecting mothers. Counties will still have discretion to use other eligible funds to support these services.
- **Drug Medi-Cal caseload adjustment.** The Budget includes \$9.6 million (\$3.7 million General Fund) to reflect a change in the types of Drug Medi-Cal services expected to be provided as part of the Drug Medi-Cal program.

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

The Department of Community Services and Development (DCSD) administers the Low-Income Energy Assistance Program (LIHEAP) and the Community Services Block Grant (CSBG). In addition, the DCSD plans, coordinates, and evaluates programs that provide services to the poor and advises the Governor on the needs of the poor.

The LIHEAP provides cash grants and weatherization services, which assist low-income persons in meeting their energy needs. The CSBG provides funds to community action agencies for programs intended to assist low-income households.

The Governor's proposed budget includes total expenditures of \$128 million for the DCSD in 2002. This represents a decrease of \$51 million (28 percent) from estimated current year expenditures.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the DCSD budget:

- **California LIHEAP program reduced by \$23.4 million.** This action reverts \$24.3 million for the California LIHEAP program, leaving \$30 million remaining for the program. The California LIHEAP program was authorized by Chapter 7 of the Statute of 2001, First Extraordinary Session as amended by Chapter 111, Statutes of 2001, supplements the federal LIHEAP program. The program goal is to increase energy conservation and reduce demand for energy services in low-income households, and also to assure that the most vulnerable households can cope with high energy costs. This action also adopted language to limit the use of the remaining California LIHEAP funds to energy assistance payments for low-income households.
- **Naturalization Services Program reduced by \$1.6 million.** This action reduces the Naturalization Services Program by \$1.6 million in the current year, leaving \$4.9 million for program. The Naturalization Program provides outreach services, citizenship testing, and naturalization assistance to legal immigrants.

THE 2002 - 2003 STATE BUDGET

CRIMINAL JUSTICE

DEPARTMENT OF CORRECTIONS

The mission of the California Department of Corrections (CDC) is to provide for the control, care and treatment of men and women who have been convicted of serious crimes. The CDC addresses its mission and mandate through four major program areas: Institutions, Health Care Services, Community Correctional Programs (primarily Parole Services) and Administrative Services.

The CDC system includes:

- 33 institutions, including health care facilities providing medical, dental and mental health services to inmates. The system also includes an additional prison being developed in Delano.
- 11 reception centers for processing individuals into the adult correctional system whom have been sentenced to state prison.
- 11 community correctional facilities (facilities operated by non-CDC entities that house low-level inmates).
- 38 fire and conservation camps (allowing CDC to provide inmate firefighters and other labor forces to the appropriate state agencies as circumstances require).
- The Richard A. McGee Correctional Training Center (where correctional officer cadets as well as other CDC personnel receive training).
- 130 parole offices and four out-patient psychiatric service clinics.

Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Corrections:

- **Substance Abuse Bed Expansion.** \$1.6 million one time reduction due to the delay of the 500-bed substance abuse program expansion. The 2001 Budget Act appropriated \$3.9 million to bring on line 500 substance abuse beds. The reduction would continue to fund 300 beds in the current year and delay the implementation of 200 of those beds until 2002-03.

■ Major Provisions

The major provisions of the Department of Corrections budget include:

- **Preventing Parolee Crime.** \$10.6 million fund shift to federal funds for the Preventing Parolee Crime Program. Funds will come from the federal Workforce Investment Act through the Employment Development Department. The funding shift would be for programs run by the Jobs Plus Program, Offender Employment Continuum, Computerized Literacy Learning Centers and Employment Development Department. Total funding for this program is \$31.5 million.
- **Female Offender Treatment Program.** \$2 million fund shift to federal funds for the Female Offender Treatment and Employment Program (FOTEP). Federal funds will come from the Workforce Investment Act program and will support employment training. This program is part of effort to provide intensive training and counseling to female parolees to assist in the successful reintegration into society upon the release from prison and the completion of substance abuse treatment programs. It currently serves 989 persons annually.
- **Patton State Hospital Safety.** \$427,000 (two year limited term) for increased medical guarding, transportation and perimeter security at Patton State Hospital which is operated by the Department of Mental Health. Funding for this purpose will be needed until the completion and activation of the Sexually Violent Facility at Coalinga.
- **Liability Response Unit/ Major Litigation Unit.** Redirection of \$1.843 million in legal settlement funds to establish the Liability Response Unit (LRU) and the Major Litigation Unit (MLU). The LRU provides the department with early assessment of inmate related lawsuits and provides the department with strategies for early disposition of these suits. MLU would monitor the compliance with court ordered remedial plans and provide the department with risk management capabilities.
- **Reduced Litigation Settlement Authority.** \$3.2 million reduction in the litigation settlement authority of the department to reflect a reduced costs of settlements.
- **DOSH Medical Evaluations.** \$620,000 (General Fund for a two year limited term) to fund medical evaluations of staff in accordance with the provisions of AB 1127 (Chapter 615, Statutes of 1999) which required state agency be subject to civil penalties for Division of Occupational Safety and Health (DOSH) violations. These evaluations are part of the plan for the department to develop a Respiratory Protection Program. The court found that the Department's California State Prison Solano was not in compliance with Title 8 of the California Code of Regulations related to Respiratory Protection and ordered those employees to receive medical evaluations.
- **Electromechanical Doors.** \$11.7 million reappropriation of General Funds from the Budget Act of 2001 for the repair and replacement of electromechanical door systems for Solano State Prison (Vacaville), California Correctional Center (Susanville) and Wasco State Prison.

- **Worker's Compensation Costs.** \$22.4 million permanent augmentation to fund additional costs associated with workers' compensation claims. \$1.1 million of this amount will be used for increased service fees paid to the State Compensation Insurance Fund.
- **Vacant Positions.** Restoration of 81.8 continuously vacant positions and \$5.162 million abolished pursuant to the provisions of AB 2866 (Chapter 127, Statutes of 2000). In addition the department would like to apply the abolishment of another 56.9 positions (unknown dollars) to the reduction of 826 positions approved in the Budget Act of 2001.
- **Plata.** The Department is anticipated to request funding in the spring for the implementation of a settlement regarding inmate health care issues pursuant to Plata v Davis.

DEPARTMENT OF THE YOUTH AUTHORITY

The Department of the Youth Authority is responsible for the protection of society from the criminal and delinquent behavior of young people (generally ages 12 to 24, average age 19). The department operates training and treatment programs that seek to educate, correct, and rehabilitate youthful offenders rather than punish them. The department operates 11 institutions, including two reception centers/clinics, and six conservation camps. In addition, the department supervises parolees through 16 offices located throughout the state.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Youth Authority:

- **Mental Health Treatment.** \$3.1 million departmental reduction that includes a \$2.067 million General Fund savings in the current year to the \$4.3 million augmentation appropriated in 2001-02, a proposal that added 75 mental health treatment beds. The proposed reduction would result in an addition of 35 beds in the current year. This will provide an ongoing savings of \$1.6 million (and 9.4 PYs) annually from amounts proposed in the 2001 Budget Act.
- **Sex Offender Treatment.** The 2001 Budget Act provided the department with an augmentation of \$2.8 million to establish a 50-bed treatment program for juvenile sex offenders and provided funding for 35 residential placement beds. Reductions of \$1.96 million in the current year will fund only the residential placement beds. This action would result in an ongoing savings of \$726,000 (an 5.7 PYs).
- **Substance Abuser Treatment.** \$520,000 reduction in substance abuse treatment services. This action would result in ongoing savings of \$470,000.

■ Major Provisions

The major provisions of the Department of the Youth Authority budget include:

- **Department Program Compliance.** \$725,000 and 4.8 PYs to implement a program compliance unit to monitor departmental compliance with established policies.
- **Increased Energy Costs.** \$1 million to permanently increase the department baseline budget for the increased costs of natural gas electricity, propane gas, diesel fuel and gasoline.
- **Holiday Staffing Costs.** \$171,000 to fund additional staffing costs associated with the Cesar Chavez holiday.

DEPARTMENT OF JUSTICE

Under the direction of the Attorney General, the Department of Justice (DOJ) enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. The department accomplishes its mission through many diverse programs ranging from its Legal Divisions and Crime Prevention programs to the Division of Law Enforcement, O.J. Hawkins Data Center and Criminal Justice Information Systems component, and Division of Gambling Control.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Justice:

- **Violent Crime Information Network.** \$587,000 reduction for additional data storage capacities to the Violent Crime Information Network to comply with the provisions of Chapter 544 Statutes of 2001 which requires the additional registration of certain college students to campus police as well as local law enforcement agencies.

■ Major Provisions

The major provisions of the Department of Justice budget include:

- **Department of Consumer Affairs; Legal Representation.** \$2 million and 16.4 positions (70 percent two-year limited term and 30 percent permanent) to provide additional legal services to client agencies within the department of consumer affairs.
- **Western States Regional Training Center; Drug Lab Training.** \$2.7 million and three positions in federal funds to expand current training capabilities and the

Creation of the Western States Regional Training Center related to the investigation and dismantling of clandestine drug laboratories. Funding is proposed through the federal Community Oriented Police Services (COPS) \$1.3 million augmentation is proposed in the current year to address expenditures associated with the preparation to begin classes on July 1, 2002.

- **Hate Crimes Database.** \$596,000 and 4.3 positions on a permanent basis to staff the statewide hate crime database.
- **On-Going Tobacco Litigation.** \$1.2 million and six positions on a permanent basis to continue staffing for Tobacco litigation and enforcement. The Governor's budget also proposes the securitization of a portion of the tobacco payments pursuant to the master settlement agreements.
- **Indian Gaming Background Checks.** \$1.9 million and 24.3 positions for a two-year limited term basis to provide investigative resources to address criminal background checks of persons related to tribal Indian gaming casinos.
- **Gambling Control Database.** \$1.3 million and 2 positions to establish a new gambling control database. This database will be supported through funding from cardroom (20percent) and Indian casino (80percent) fees and assessments.
- **Predatory Lending Practices.** \$606,000 and 5.7 positions to investigate and prosecute predatory lending practices. Funding will be made from an outside trust fund established pursuant to previous litigation settlement.
- **Asset Forfeiture Expenditures.** \$3.6 million over a four year period (\$1.2 million in 2002-03) to purchase replacement computers from excess federal asset forfeiture funds.
- **Capitol Truck Crash Litigation.** \$988,000 in legal costs associated with litigation to assert the State's claim for reimbursement for the cost of repairing the State Capitol damaged as a result of a truck crash.
- **Stringfellow Litigation; Insurance Recoveries.** \$3.1 million to provide continued support for litigation in the Newman v Stringfellow case for 2002-03.
- **Increased Forensic Laboratory Costs.** \$405,000 in 2002-03 and \$785,000 on an ongoing basis to pay for increased maintenance, operation and utilities costs for the Fresno and Santa Rosa laboratories.
- **False Claims.** \$1.5 million in permanent funding to continue staffing for the false claims section of the Department of Justice.
- **Representation of the Courts.** \$471,000 to provide representation to the Administrative Office of the Courts.
- **National Criminal History Information System.** \$2.3 million in one-time funding to continue implementation of national criminal history information system. This proposal would utilize carryover federal funding to complete the conversion of criminal history records to a format compatible with record searches from federal agencies.

- **CALFED Legal and Litigation Support.** \$468,000 to continue to provide legal counsel to the CALFED program and to provide defense of the program against impending litigation.
- **Handgun Safety Certificate.** \$2.6 million to support the Handgun Safety Certificate program pursuant to Chapters 940 and 942, Statutes of 2001.
- **Criminal History Background Checks.** \$979,000 to perform criminal history background checks for securities dealers/brokers and recreational employees and volunteers.
- **Prohibited Firearms Ownership Database.** \$1 million to create the Armed Prohibited Persons System which is a database of persons who have previously purchased a firearm but now are prohibited from possession. The development of this database is based upon a sample review of the existing file of persons purchasing a firearm and the subsequent enactment of Chapter 944, Statutes of 2001.
- **General Fund Relief.** Reduction in General Fund expenditures of \$26.5 million as part of the statewide General Fund Relief Program.
- **California Antiterrorism Information Center.** The department is expected to submit a funding proposal in the spring for the California Antiterrorism Information Center.

OFFICE OF CRIMINAL JUSTICE PLANNING

The goal of the Office of Criminal Justice Planning (OCJP) is to improve the criminal justice system in California by providing financial and technical assistance to local governments, state agencies, and the private sector. Services provided by OCJP include but are not limited to: development of state-of-the-art approaches for crime prevention and victim services programs; administration of grant funding to local agencies and organizations; development and distribution of information on crime prevention and victim services; and coordination of information exchanges between criminal justice agencies and community organizations.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Office of Criminal Justice Planning:

- **LA Crime Lab.** \$82 million redirected from the General Fund to lease revenue bonds for the construction of the Los Angeles Police Department- Los County Sheriff forensic laboratory. This proposal will require approval by the Legislature through separate legislation. Additional Legislation is needed to fund the lab with lease revenue funds.

■ Major Provisions

The major provisions of the Office of Criminal Justice Planning budget include:

- **General Fund Relief.** \$719,000 reduction in program expenditures pursuant to the statewide General Fund Relief Program.

BOARD OF CORRECTIONS

The state's Board of Corrections (Board) oversees operation of the state's local jails and juvenile detention facilities. The Board establishes facility operation standards and inspects facilities biennially. Additionally, the board administers jail bonds and federal construction funds. The Board's mandate includes establishing staff training standards, and reimbursing local law enforcement agencies for the costs of training. Finally, the Board is responsible for the oversight of a number of juvenile justice grant programs that are conducted by the counties including the Schiff Cardenas Juvenile Justice grant.

■ Major Provisions

The major provisions of the Board of Corrections budget include:

- **Community Law Enforcement Program.** \$3 million to provide ongoing support for the Community Law Enforcement and Recovery (CLEAR) Program. This program provides a multi-disciplinary approach to decreasing gang activity and restore community safety. Separate legislation is anticipated to provide funding for this program in 2001-02.
- **Juvenile Justice Grants.** \$116.2 million to continue juvenile justice grants to counties. This program is designed to encourage the use of innovative and proven methods of reducing juvenile crime and recidivism at the local level.

JUDICIAL BRANCH

The Judicial budget of the state is comprised of the budgets of the Supreme Court, the Courts of Appeal, and the Administrative Office of the Courts and the Habeas Corpus Resource Center. (Trial court funding is treated as a separate budget item) For 2002-03 it totals \$349.8 million (\$289.2 million state operations and \$60.6 million in local assistance).

Supreme Court is the highest court in the California judicial system. The court comprising the Chief Justice and six associate justices address petitions seeking review of decisions from the Courts of Appeal and original petitions for extraordinary relief such as writs of mandate and

habeas corpus. The Court grants review of and issue opinions on issues of statewide importance. Also pursuant to the State Constitution, all death penalty judgments are appealed directly to Supreme Court.

There are six District Courts of Appeal, which hear appeals from the trial courts and original proceedings in nine locations around the state.

The Judicial Council of California is the policy making body for the state judiciary. The council has 21 members with the Chief Justice serving as the chair. The Administrative Office of the Courts is the administrative arm of the Council and supports their policies.

The Habeas Corpus Resource Center provides legal representation for indigent petitioner in death penalty habeas corpus before the California Supreme Court and federal courts. The Center also recruits and trains attorneys in order to expand the pool of private counsel qualified to accept appointments in habeas corpus death penalty proceedings in an effort to reduce the number of underrepresented persons on death row.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Judicial Branch:

- **Workload Reductions.** \$7.7 million reduction in 2001-02 in current year savings and workload reductions in the Court Appointed Counsel programs.

■ Major Provisions

The major provisions of Judicial Branch budget include:

- **General Fund Relief.** \$3.9 million General Fund savings to be contributed toward the statewide General Fund Relief Program.

TRIAL COURT FUNDING

The Trial Court Funding Act of 1997 (Chapter 850, Statutes of 1997) was enacted to provide a stable funding source for the State's trial courts. It provided a limit to the counties contributions in support of the courts to that of the 1994-95 levels. County contributions are paid to the Trial Court Trust Fund which supports all court operations. Payments to the Trust Fund are made from local fine and penalty revenue in an amount received by the State in 1994-95.

This budget item includes \$2.2 billion (\$1.2 billion General Fund, \$1 billion other funds). This represents a decrease of \$21.3 million from the revised 2001-02 budget.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments to Trial Court funding:

- **General Fund Relief.** \$28.2 million reduction in 2001-02 in support of the statewide General Fund Relief Program.

■ Major Provisions

The major provisions to Trial Court funding include:

- **Trial Court Employee Benefits.** \$14.4 million in 2002-03 to fund increased costs associated with services and benefits provided to trial court employees provided by local agencies.
- **Trial Court Security.** \$13.4 million in 2002-03 to address increased costs associated with providing security at the trial courts.
- **Memorandum of Understanding.** \$51.7 million in 2002-03 to fund increased needs for the courts including the increased costs related to local memorandum of understanding with collective bargaining units.
- **General Fund Relief.** \$65.945 million General Fund reduction in 2002-03 in support of the statewide General Fund Relief Program.
- **New Fresno Courthouse.** \$17.559 million to support the construction of a new courthouse in the fifth appellate district (in Fresno).
- **Santa Ana Courthouse.** \$14.350 million to support the construction of a new courthouse in the fourth appellate district (in Santa Ana).

THE 2002-2003 STATE BUDGET

TAX PROPOSALS

The Governor's 2002-03 State Budget proposes a number of revisions in state taxes, including conformity with federal pension and retirement tax changes made by the recently enacted Economic Growth and Tax Relief Reconciliation Act of 2001. These changes will avoid conflicts between federal and state tax law and enable Californians to take advantage of expanded tax benefits for retirement savings. Including with other proposed changes and a one-time revenue acceleration, the Governor's tax proposals will increase General Fund revenues by a net total of \$203.4 million in 2002-03 (with net revenue reductions in subsequent years). Table 1 summarizes the estimated revenue effect of these changes in 2002-03.

Table 1
Governor's Tax Proposals
Estimated Effect on General Fund Revenues
2002-03
(in Millions)

<i>Federal Conformity</i>	
Pension/IRA	-\$44.0
AMT treatment of charitable contributions of appreciated property	-12.0
Dependent care tax credit	6.0
Qualified tuition plans	-1.0
Increase estimated payment percentage (revenue acceleration)	210.0
Require corporations to use federal tax elections for state purposes	30.0
<i>Other</i>	
Reduce interest paid on corporate and estate tax overpayments	25.4
Total	\$202.4
Detail does not add to total due to rounding.	

The budget also proposes legislation to clarify the recently enacted partial sales tax exemption for diesel fuel used to transport agricultural products.

Major Provisions

The major components of the Governor's tax proposal include:

- **Critical retirement plan changes.** The Budget proposes to conform to changes made in the federal Economic Growth and Tax Relief Reconciliation Act of 2001. This includes such things as increased Individual Retirement Account (IRA) contribution limits (from

\$2,000 to \$3,000 in 2002 and up to \$5,000 by 2008, and indexed thereafter), pension (401k, 457, 403b, SEPs) catch-up contributions for individuals age 50 or older (an additional \$1,000 in 2002 rising to \$5,000 by 2006, and indexed thereafter), changes in rules for defined benefit and SIMPLE plans, and increased limits on deferrals under state and local deferred compensation plans. In addition, this proposal would prevent the potential for retirement plans to be disqualified for State tax purposes if they follow federal law changes adopted in the future.

- **Qualified Tuition Plans.** Distributions from qualified tuition savings programs, such as California's Golden State Scholarshare Program, would be tax-free, rather than being included in the income of the student.
- **Dependent Care Tax Credit.** The new federal law increased the maximum amount of expenses to which the federal credit percentage credit could be applied (from \$2,400 for one child and \$4,800 for two or more to \$3,000 for one child and \$6,000 for two or more), and also increased the maximum federal credit percentage for the lowest income taxpayers. This proposal would base the State's child care credit on these new federal amounts and credit percentages. The maximum State credit a taxpayer with two dependents could receive would increase by \$416—from \$907 to \$1,323.
- **Estimated Payment Rules.** To avoid underpayment penalties under federal law, 90 percent of tax due for the year must be paid either through withholding or estimated tax payments. California's requirement is only 80 percent. This proposal would conform State law to federal law. This proposal provides a revenue acceleration of \$210 million in 2002-03, when taxpayers would increase their state estimated payments for the 2003 tax year to meet the new requirement. However, this gain would essentially be offset by reduced final payments in 2003-04 because this proposal does not change total tax liability.
- **Alternative Minimum Tax (AMT) Treatment of Charitable Contributions.** Federal law does not treat charitable contributions of certain appreciated property as a tax preference item for purposes of the alternative minimum tax. This proposal would conform to those federal rules.
- **Consistent Federal and State Tax Elections.** Currently, corporations may elect different tax treatment for federal and State tax purposes. Although there are as many as fifteen elections, the largest effect is from Subchapter S vs. Subchapter C elections, Section 338 (how a company acquisition is treated), and installment sales. A separate State election permits multistate/national corporations to move gain to other states or tax jurisdictions, frequently resulting in the gain not being subject to tax by any state or tax jurisdiction. This proposal would prohibit a separate state election for all federal elections that apply for California purposes with two exceptions—the election to itemize deductions and the election to allow a taxpayer to deduct disaster losses in the immediately preceding taxable year.
- **Reduce Interest Rate on Corporate and Estate Tax Overpayments.** Currently, the interest rate paid on corporate and estate tax overpayments is the federal short term rate plus three percentage points, which is now 7 percent. This is far higher than

market rates. The Governor's proposal would reduce the rate to the lesser of the three-month treasury bill rate or 5 percent, which is similar to what is done for sales tax overpayments. This change will save the State \$25.4 million in interest expenses.

- **Clarify Agricultural Sales Tax Exemption for Diesel Fuel.** Chapter 156, Statutes of 2001, (AB 426, Cardoza), a 2001 budget trailer bill, provides a state sales tax exemption for diesel fuel, which included the transportation of farm products to the marketplace. In a signing message, the Governor indicated that "The State sales tax exemption for diesel fuel used in farming should better define that it is intended only to apply to delivery to the first destination from the farm. This will target the benefits to those intended—the farmers." The budget seeks clarifying legislation to accomplish this. The Board of Equalization is currently considering regulations that would extend this exemption beyond the first destination—in some cases exempting all diesel fuel used in getting commodities to the final consumer. Board of Equalization staff estimate that this broader definition would result in additional revenue losses of \$50 million more than estimated when AB 426 was enacted. This loss would affect the Public Transportation Account.

THE 2002-2003 STATE BUDGET

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

SECRETARY OF RESOURCES

The Resources Agency, through its various departments, boards, commissions, and conservancies, is responsible for administering programs that conserve, preserve, restore, and enhance the rich and diverse natural and cultural resources of California.

For the Secretary of Resources, the Governor's Budget proposes \$4.0 billion and 16,225.1 personnel years for state operations, local assistance activities, and capital outlay.

Figure 1 and Table 1 provide an overview of the Resources agency.

Figure 1

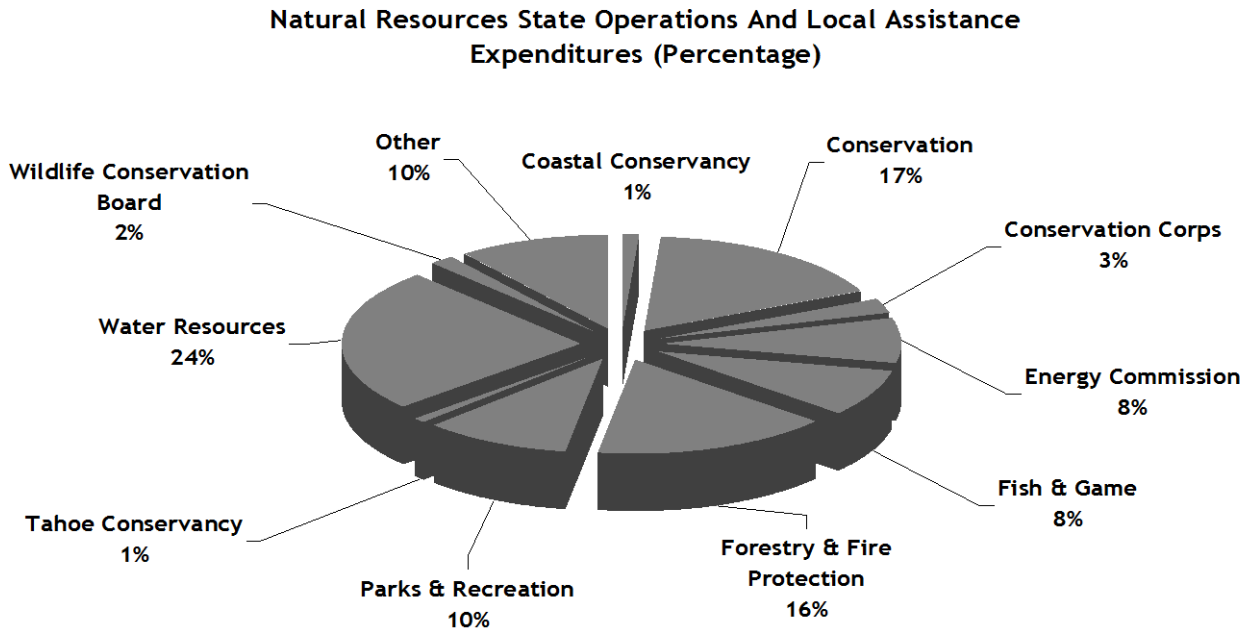


Table 1

**Agency and Departmental Expenditures: State Operations
and Local Assistance (00-01 to 02-03)**
(Dollars in Millions)

Department	2000-01	2001-02	Proposed 2002-03
Agency Secretary	\$38.00	\$227.20	\$168.60
Conservation	531.50	548.10	529.50
Parks & Recreation	435.30	1,148.40	316.40
Fish & Game	278.00	272.10	253.10
Water Resources	1,519.90	885.30	803.10
Energy Commission	605.40	392.00	243.60
State Coastal Conservancy	5.40	7.90	5.50
Conservation Corps	92.60	93.10	83.80
Coastal Commission	16.60	16.80	16.50
Forestry & Fire Protection	595.20	648.10	498.20
Total	\$4,117.90	\$4,239.00	\$2918.30

Major Provisions

The major provisions of the Secretary of Resources budget include:

- **Coastal County and City Offshore Energy Assistance Grant Program.** \$3.1 million (General Fund) reduction. This reduction reflects a one-year suspension of the program to address the General Fund shortfall.
- **Ecosystem Restoration Account.** \$15.2 million (Special Fund) reduction to expenditures from the Bay-Delta to ensure future-year funding for the program.
- **Natural Resources Bond Expenditure.** \$10.0 million from the Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Bond Act of 2002 (Proposition 40, March 2002 Ballot Initiative) for unspecified local assistance grants for expenditure by the Secretary of Resources.

**DEPARTMENT OF FORESTRY AND FIRE
PROTECTION**

The Department of Forestry and Fire Protection provides fire protection services for range lands, timberlands, and lands owned by the state or private agencies. The Office of the Fire Marshal is responsible for protecting life and property from fire through the development of fire prevention regulations.

The Governor's proposed 2002-03 budget includes \$551.0 million (\$312.3 million General Fund) for the Department's state operations, local assistance, and capital outlay.

■ Major Provisions

The major provisions of the Department of Forestry and Fire Protection budget include:

- **Cost Sharing with Local Jurisdictions** \$20.0 million (General Fund) reduction offset with \$20.0 million reimbursement increase to reflect updated appropriate in State Responsibility Areas.
- **Administrative Functions.** \$793,000 (General Fund) and 5.7 personnel years for various
- **Resource Management Programs.** \$601,000 General Fund and 5.4 personnel years for various.
- **State Demonstration Forests.** \$2.8 million (special funds) reduction due to declining income from sales of forest products from the. This decline will reduce funding available for the California Forest Improvement Program, Fuels Management and Urban Forestry.
- **Pre-Fire Operational Expenses for Fire Crews.** \$200,000 Reimbursements for inmate crew expenses associated with Pre-Fire Projects for local agreements with Fire Safe Councils and Resource Conservation Districts.
- **Biomass.** \$690,000 Federal Trust Fund augmentation to expand the opportunities for utilization of biomass waste material by implementing fuels management programs to enhance the economy and environment.

CALIFORNIA CONSERVATION CORPS

The California Conservation Corps (CCC) assists federal, state and local agencies, and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women. The CCC provides more than three million hours of conservation work each year. In addition to tree planting, stream clearance, trail building, park development, landscaping, energy conservation, forest improvements, plant nursery operations, and wildlife habitat restoration, the CCC responds to emergencies caused by fires, floods, earthquakes, and other natural disasters.

The Governor's proposed 2002-03 budget includes \$96.1 million (\$54.2 million General Fund) for the Corps' state operations, local assistance, and capital outlay.

■ Major Provisions

The major provisions of the California Conservation Corps' budget include:

- **Weatherization and Energy Efficient Rehabilitation Program.** \$5.3 million (General Fund) for the Weatherization and Energy Efficient Rehabilitation Program.

- **Mare Island Facility Staffing.** \$790,000 (General Fund) and reducing corps-member count by 60 due to the loss of the Mare Island facility.
- **Pilot Programs.** \$543,000 (General Fund) and 1.9 personnel years for pilot programs.
- **Resource Conservation Projects.** \$3.5 million (Prop 12 Park Bond) and 2.9 personnel years (one-time) augmentation to continue resource conservation projects.
- **Capital Outlay Projects.** \$12.2 million (special funds) for one replacement residential facility and \$659,000 (General Fund) for two minor capital outlay projects.

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation is responsible for preserving and managing California's natural and cultural resources, state parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites. The Department provides fire protection services for range lands, timberlands, and lands owned by the state or private agencies. More than 70 million citizens annually use the 3,000 miles of trails, 18,000 campsites, 811 miles of lake, reservoir and river frontage, and 280 miles of coastline that are part of the system. California parks are a tourist destination, a regular part of the school curriculum, and a recreational haven for California residents.

The Governor's proposed 2002-03 budget includes \$374.5 million (\$112.4 million General Fund) for the Department's state operations, local assistance, and capital outlay.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Parks and Recreation budget:

- **Local Park Projects.** \$40.5 million (General Fund) of unencumbered local parks projects funding appropriated in the 1999 and 2000 Budget Acts. Of this amount, \$608,000 is for administrative support for local grants.

■ Major Provisions

The major provisions of the Department of Parks and Recreation budget include:

- **General Operating Expenses and Equipment.** \$17.1 million reduction (General Fund) for general operating expenses and equipment. These funds are to be partially offset through \$15.0 million State Parks and Recreation Fund, payable from the Motor Vehicle Fuel Account.
- **Operating Expenses and Equipment** \$2.7 million (General Fund).

- **Deferred Maintenance.** \$10.0 million State Parks System Deferred Maintenance Account for deferred park maintenance. The Administration states that these funds will be replaced with \$10.0 million (Proposition 40, March 2002 Bond Measure), pending the outcome of the March 2002 election.
- **Capitol Outlay.** \$39.2 million bond funds, \$9.2 million special funds, \$1.5 million federal funds and \$8.2 million reimbursements for 33 major projects, budget development and minor projects.
- **Local Assistance Grant Programs.** \$48.1 million for ongoing local assistance grant programs (special funds).
- **Park Bond Auditing.** \$329,000 (Prop 12 Park Bond Funds) and 2.7 personnel years for auditing local assistance grants and capital outlay expenditures associated with the Prop 12 park bond.

TAHOE CONSERVANCY

The California Tahoe Conservancy acquires, preserves, and manages lands in the Lake Tahoe Region to protect the natural environment, provide public access and recreational facilities, and preserve wildlife habitat. In addition, programs that benefit Lake Tahoe are funded in the Tahoe Regional Planning Council and the Department of Parks and Recreation.

The Governor's proposed 2002-03 budget includes \$24.7 million (\$3.1 million General Fund) for the Conservancy's state operations, local assistance, and capital outlay.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Tahoe Conservancy budget:

- **Projects.** \$4.8 million (General Fund) reduction for Stream Environment Zones and other capital outlay projects.

■ Major Provisions

The major provisions of the Tahoe Conservancy budget include:

- **Soil Erosion Control Grants.** \$5.0 million (Prop 12 Park Bond Funds) for soil erosion control grants consistent with the Lake Tahoe Environmental Improvement Program.
- **Lake Tahoe Environmental Improvement Program.** \$15.7 million (\$14.3 million Prop 12 Park Bond Funds and \$1.4 million other special funds) for the Lake Tahoe EIP.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources protects, conserves, develops, and manages California's water. The department has a major responsibility for supplying suitable water for personal use, irrigation, industry, recreation, power generation, and fish and wildlife; for flood management and the safety of dams. The department also provides flood control forecasting and assistance to local agencies, and coordinates the state involvement in the CALFED Bay-Delta process. The department also provides flood control forecasting and assistance to local agencies, and coordinates state involvement in the CALFED Bay-Delta process.

The Governor's proposed 2002-03 budget includes \$1.32 billion¹ (\$114.7 million General Fund) for the Department's state operations, local assistance, and capital outlay.

CALIFORNIA ENERGY RESOURCES SCHEDULING (CERS).

This program purchases electricity on behalf of customers of the state's three investor-owned utilities and is funded from the DWR Electric Power Fund. The budget estimates that CERS' cost for electric power purchases will decline from \$6.7 billion in the current year to \$4.2 billion in 2002-03. Projected administrative costs decline from \$61.8 million in the current year (including a deficiency expenditure of \$39.3 million) to \$28.4 million in 2002-03. The budget also assumes that DWR will sell \$12.5 billion of electricity revenue bonds in the current year, enabling the repayment of a General Fund loan of \$6.2 billion and interest of \$413 million during 2001-02.

¹ Does not include expenditures associated with the Department's electrical power purchasing activities. See CERS discussion above for electrical power purchasing details.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Water Resources budget:

- **Power Plant Construction Bonus Program.** \$14.0 million transfer to the General Fund from the Power Plant Construction Bonus Program.
- **CALFED Bay-Delta Program.** \$1.9 million (General Fund) reduction from the CALFED Bay-Delta Program.
- **CALFED Bay-Delta Program.** \$20.6 million (General Fund) reduction to various programmatic components of the CALFED Bay-Delta Program.

■ Major Provisions

The major provisions of the Department of Water Resources budget include:

- **Water Conservation/Watershed Assessments.** \$2.3 million (General Fund) reduction from water conservation, watershed assessments, and water quality data collection activities.
- **CALFED Bay Delta Program.** \$4.6 million (General Fund) reduction from the CALFED Bay-Delta Program.
- **CALFED Bay Delta Pprogram.** \$10.6 million (General Fund) reduction to various programmatic elements of the CALFED Bay-Delta Program.
- **Bay-Delta Multipurpose Water Management Subaccount.** \$4.4 million augmentation for the construction of the Tracy Fish Test Facility.
- **Natural Resources Bond Expenditure.** \$51.1 million (Proposition 40, March 2002 Bond Measure) augmentation for the Watershed, Water Quality, and Ecosystem Restoration elements of the CALFED Bay-Delta Program. This assumes the passage of Prop 40 on the March 2002 Ballot.

ENERGY COMMISSION

The Energy Commission is responsible for encouraging efficient energy uses to assure a reliable energy supply. The commission is responsible for siting electric power plants, developing energy conservation standards, monitoring and forecasting energy supplies and usage, and for energy research and development. Other state agencies also play a role in energy regulation and supply, including the Public Utilities Commission, the new California Consumer Power and Conservation Financing Authority, the Electricity Oversight Board, the Independent System Operator and the power purchasing operations of the Department of Water Resources.

The budget proposes total spending of \$247.2 million in 2002-03 for the commission—a reduction of \$147.7 million (37 percent) from estimated current-year spending. This large spending reduction primarily reflects one-time General Fund spending in the current year funded by in Chapters 7 and 8, Statutes of 20001, First Extraordinary Session, (SB 5X and AB 29X) for energy conservation and renewable energy programs. The special session legislation provided both direct General Fund appropriations to the commission as well as transfers to various commission special funds. Direct General Fund spending falls by \$73.3 million (93 percent)--to \$5.7 million--in the budget year.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Energy Commission's Budget:

- **Agricultural Peak Load Demand.** SB 1 3X reverts \$44.1 reduction of funds provided by SB 5X for grants to the agriculture industry to reduce peak electricity demand. The reverted funds consist of funds that have not been committed to specific projects, and leave \$4.7 million available for closing out existing commitments and possibly funding some additional projects.
- **Expedited Local Power Plant Reviews.** SB 1 3X reverts \$3 million (General Fund) reduction of funds provided by SB 28X (Sher) for grants to local governments to help expedite their reviews of power plant siting applications. None of these funds had been committed.
- **Data Collection and Fuel Cell Planning.** SB 1 3X reverts \$2.2 million (General Fund) appropriated in the 2001 Budget Act for electricity consumption data gathering (\$1.9 million) and for planning of hydrogen fueling stations (\$300,000).

■ Major Provisions

The major provisions of the Energy Commission's budget include:

- **Power Plant Siting.** Reduction of \$1.4 million (General Fund) for power plant siting activities, partially offset by new fee revenue of \$250,000 from a \$25,000-per-application fee.
- **Data Collection.** Reduction of \$1.7 million (General Fund) to eliminate the 2002-03 component of electricity consumption data collection activities proposed for deletion in the current year.
- **Loan from Renewable Resource Trust Fund.** The budget proposes a \$150 million loan to the General Fund from this trust fund, which is used to improve the competitiveness of in-state renewable energy projects. The General Fund would pay interest at the rate earned by the Pooled Money Investment Account when the loan is drawn. The budget does not specify a repayment date, but expresses intent that repayment be made so as to ensure no adverse affect on this program. A balance of \$98.4 million would remain in the fund at the end of 2002-03, according to the budget.

DEPARTMENT OF CONSERVATION

The Department of Conservation protects public health and safety, ensures environmental quality, and supports the state's long-term viability in the use of California's earth resources. The Department provides policy direction, education, regulation and dissemination of information concerning agricultural and open space lands and soils;

beverage container recycling; geology and seismology; and mineral, geothermal and petroleum resources.

The Governor's proposed 2002-03 budget includes \$529.5 million (\$21.8 million General Fund) for the Department's state operations and local assistance.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Conservation budget:

- California Farmland Conservancy. \$4.5 million (General Fund) reduction from the program.

■ Major Provisions

The major provisions of the Department of Conservation budget include:

- Lead Agency CEQA Funding. \$925,000 (General Fund) and 6.5 positions for the department to act as the lead CEQA agency for new oil drilling in Kern County.
- Farmland Conservancy Program. \$5.0 million (Prop 12 Park Bond Funds) for the California Farmland Conservancy Program.

DEPARTMENT OF FISH AND GAME

The Department of Fish and Game is charged with the management of California's diverse fish, wildlife, and plant resources, and the habitats upon which they depend. Implicit in this duty is habitat protection and maintenance in a sufficient amount and quality to ensure the survival of all species and natural communities. The department is also responsible for the diversified use of fish and wildlife including recreational, commercial, scientific and educational uses. The Department manages 800,000 acres of wildlife habitat, including 98 wildlife areas and 99 ecological preserves, holds conservation easements on another 102,000 acres, and regulates sport taking of fish and game.

The Governor's proposed 2002-03 budget includes \$257.0 million (\$56.8 million General Fund) to the Department for state operations, local assistance, and capital outlay.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Fish and Game budget:

- CALFED Watershed Management Program. \$320,000 (General Fund) reduction for the bio-diversity conservation program, a component of the CALFED Watershed Management Program.

■ Major Provisions

The major provisions of the Department of Fish and Game budget includes:

Various Reductions

- The budget proposes reductions of \$2.1 million (General Fund) from review projects pursuant to the California Environmental Quality Act; \$1.2 million (STET) for various CALFED program activities; \$1.0 million (General Fund) from local assistance grants under the Natural Community Conservation Planning program; and a \$8.0 million (Salmon and Steelhead Trout Restoration Account) transfer to be transferred to the proposed California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Bond Act. This Act has yet to be passed by the voters.

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY, OFFICE OF THE SECRETARY

The Secretary for Environmental Protection, working with the boards, departments, and office comprising the California Environmental Protection Agency (CalEPA), coordinates and supervises the State's environmental protection programs and administers state and federal clean air, clean water, hazardous waste, and solid waste programs to safeguard our environment and the public health.

The Governor's Budget includes \$1.2 billion (\$203 million General Fund) and 4,966.8 personnel years in support of environmental protection programs.

Figure 2 and Table 2 provide an overview of the Resources agency.

Figure 2

Environmental Protection State Operations and Local Assistance Expenditure by Department (Percentage)

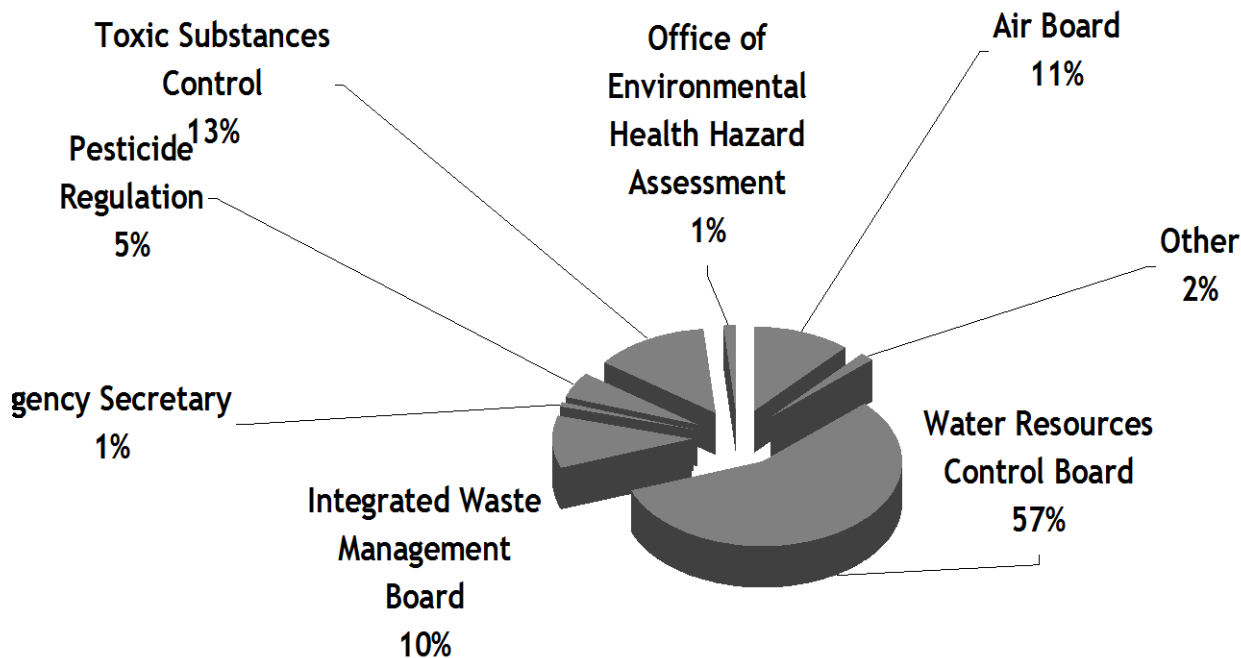


Table 2

**Agency and Departmental Expenditures: State Operations
and Local Assistance (00-01 to 02-03)**

(Dollars in millions)

Department	2000-01	2001-02	Proposed 2002-03
Agency Secretary	\$8.6	\$9.5	\$7.5
Air Resources Board	299.5	217.2	133.6
Integrated Waste Management	105.0	124.4	117.2
Water Resources Control Board	550.7	1,058.2	663.6
Toxic Substances Control	143.3	302.2	156.3
Pesticide Regulation	60.0	63.0	59.7
Office of Environmental Health Hazard Assessment	14.6	18.3	16.8
Total	\$1,181.70	\$1,792.80	\$1154.70

Major Provisions

The major provisions of the California Environmental Protection Agency, Office of the Secretary budget include:

- **Various Reductions.** A reduction of 27.4 positions related to elimination of 12 Permit Assistance Centers to finalize the closure of these centers, as \$2.0 million was reduced in the Current-Year Budget Act and \$352,000 (General Fund) reduction to the Scientific Peer Review Program.

AIR RESOURCES BOARD

The Air Resources Board helps protect the public health of Californians by ensuring that federal and State health-based air quality standards are achieved and exposure to air toxins are reduced through a variety of controls for mobile and stationary sources of pollution. The Board adopts and enforces emission standards for motor vehicles, fuels, consumer products, and toxic air contaminants. The Board's research, monitoring, and emission inventory programs are the scientific and technical foundations that support regulatory activities.

The Governor's proposed 2002-03 budget includes \$133.6 million (\$31.0 million General Fund) for the Board's state operations and local assistance.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Air Resources Board budget:

- **Various Air Quality Programs.** \$23.0 million (Natural Resources Infrastructure Fund) reduction of funds intended for various air quality programs.

■ Major Provisions

The major provisions of the Air Resources Board budget includes:

- **Various Reduction.** \$5.5 million (Motor Vehicle Account) and \$4.4 million (General Fund) spending reduction in various stationary and mobile source-related programs.

INTEGRATED WASTE MANAGEMENT BOARD

The California Integrated Waste Management Board promotes the following waste management practices: source reduction, recycling and composting, reuse, and environmentally safe transformation and land disposal.

The board protects public health and safety and the environment through the regulation of solid waste facilities, including landfills and has the responsibility for addressing the state's solid waste management needs and assisting local governments in reducing solid waste.

The Governor's proposed 2002-03 budget includes \$117.2 million (\$116,000 General Fund) for the Board for State operations and Local Assistance.

■ Major Provisions

The major provisions of the Integrated Waste Management budget includes:

- **Waste-to-Energy Conversion Grants.** \$1.5 million (Integrated Waste Management Account) to promote energy generation through the use of solid waste residuals and gas released from landfills.

STATE WATER RESOURCES CONTROL BOARD

The mission of the State Water Resources Control Board (Water Board) and the nine Regional Water Quality Control Boards is to preserve and enhance the quality of California's water resources and ensure proper allocation and efficient use of water resources for the benefit of present and future generations. Activities include regulatory oversight of the state's surface, ground, and coastal waters; control of unauthorized

water diversions; and protection of water quality in watersheds and coastal waters from point source and non-point sources of pollution.

The Governor's proposed 2002-03 budget includes \$663.6 million (\$87.3 million General Fund) for the Board's for State operations and Local Assistance.

■ Major Provisions

The major provisions of the State Water Resources Control Board budget include:

- **Various Reductions.** \$2.7 million (General Fund) reduction to various programs.
- **Water Bond Local Assistance.** \$70.9 million (Prop 13 Water Bond Funds) and 1.0 personnel year for local assistance grants and implementation of the 2000 Water Bond.
- **System for Water Information Management, Phase 2.** \$4.3 million (General Fund) and 5.0 positions to continue development of Phase 2 of the System for Water Information Management.
- **Underground Storage Tank Cleanup Fund Augmentation.** \$22.4 million (Underground Storage Tank Cleanup Fund) one-time augmentation for claim payments.
- **Implementation of "Polluter Pays" Principle.** \$15.0 million (Waste Discharge Permit Fund) to offset for Core Regulatory program activities previously funded by General Fund dollars.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control protects public health and the environment by regulating hazardous waste management activities, overseeing or performing cleanup activities at sites contaminated with hazardous substances, encouraging pollution prevention and the development of environmentally protective technologies and providing regulatory assistance and public education.

The Governor's proposed 2002-03 budget includes \$156.3 million (\$31.4 million General Fund) to the Department for State operations and Local Assistance.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Toxic Substances Control budget:

- **Brownfields.** \$44.0 million Cleanup Loans and Environmental Assistance to Neighborhoods (CLEAN) transfer to the General Fund. The CLEAN program cleans up urban brownfield toxic waste sites.

■ Major Provisions

The major provisions of the Department of Toxic Substances Control budget include:

- **Direct Site Cleanup.** \$4.8 million fund shift from General Fund to the Toxic Substances Control Account (TSCA).
- **Military Base Cleanups.** \$2.0 million fund shift from General Fund to TSCA for oversight.
- **California Land Environmental Restoration and Reuse Act.** \$350,000 (CLEAN Account) to implement provisions of SB 32 (Escutia), California Land Environmental Restoration and Reuse Act.
- **Infrastructure Augmentation.** \$4.6 million (TSCA) and \$2.3 million (HWCA) one-time, and \$871,000 (TSCA) and \$429,000 (HWCA) ongoing, for moving costs, modifications to leased space, modular furniture, disaster preparedness supplies, and increased rent for office space.

DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation protects public health and the environment through the nation's most rigorous and comprehensive program to evaluate pesticides and control pesticide use. The mission of the Department is to protect human health and the environment by regulating pesticide sales and use, and fostering reduced-risk pest management.

The Governor's proposed 2002-03 budget includes \$59.7 million (\$17.0 million General Fund).

■ Major Provisions

The major provisions of the Department of Pesticide Regulation budget include:

- **Various Reductions.** \$744,000 (General Fund) reduction for risk assessments and various other programs; \$3.4 million (special funds) fund shift for various programs; and \$2.5 million (General Fund) for bioassessment of the San Joaquin Watershed, Pest Management Alliance grants, and various other programs.

DEPARTMENT OF FOOD AND AGRICULTURE

The Department of Food and Agriculture promotes and protects the state's agriculture industry through marketing and industry inspections. The Department also develops California's agricultural policies, assures accurate weights and measures in commerce, and provides financial oversight to county, district, and citrus fairs.

The Governor's 2002-03 proposed budget includes \$280.7 million (\$102.6 General Fund) for the Department's state operations, local assistance, and capital outlay.

■ Major Provisions

The major provisions of the Department of Food and Agriculture budget includes:

- **Various Reductions.** \$121,000 (General Fund) and 1.6 personnel years in information technology support for plant health activities; \$274,000 (General Fund) in research funds for existing and potential pests; \$24,000 (General Fund) in various operating expenses for the Policy and Planning activities; and \$100,000 in various operating expenses in the administrative budgets.
- **Mediterranean Fruit Fly Preventative Release Program.** \$9.2 million (General Fund) and 131.0 personnel years to make permanent, the Mediterranean Fruit Fly preventative release program.
- **Agriculture Inspection Station Capital Outlay.** \$14.8 million (special funds) for the Yermo Agriculture Inspection Station. \$6.4 million (special funds) for the Dorris Agriculture Inspection Station.

THE 2002 - 2003 STATE BUDGET

GENERAL GOVERNMENT

DEPARTMENT OF HOUSING AND COMMUNITY
DEVELOPMENT

The Department of Housing and Community Development (HCD) strives to expand and preserve safe and affordable housing options for all Californians. Specifically, the Department administers housing finance, economic development and rehabilitation programs, proposes housing policy, analyzes and implements building codes, and enforces construction standards for manufactured homes.

The Governor's proposed budget includes \$208 million for HCD, a \$139 million decrease from current year expenditures.

Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Housing and Community Development budget:

- **Jobs-Housing Balance.** Elimination of funding (\$59.7 million) for Jobs-Housing Balance Improvement incentive grants.
- **Downtown Rebound.** Elimination of funding (\$4.1 million) for the Downtown Rebound Program. Of this, \$3.1 million is from the loan component and \$1.0 million is from the grant component.
- **Multifamily Housing.** \$45.1 million reduction from the Multifamily Housing Program, which leaves \$43.8 million for projects that can begin construction by the end of 2002. Additionally, the budget eliminates \$29.45 million (baseline funding) in 2002-03 for this program. If voters approve a housing bond in November, the administration anticipates that MHP will receive funding from it.

Major Provisions

The major provisions of the Department of Housing and Community Development budget include:

- **Farmworker Housing Program.** \$13.9 million (General Fund) for the Farmworker Housing Grant Program for grants to local governments and non-profit agencies. This reflects a \$3.6 million reduction from current year funding levels. According to the

Department, the remaining funds will help develop 625 to 1,000 units of rental or homeowner housing for agricultural workers.

- **Emergency Housing Assistance Program.** \$11.3 million (General Fund), which reflects a \$2 million reduction, from current year funding, for grants to counties and non-profit organizations through the Emergency Housing Assistance Program (EHAP). This will help finance the creation of emergency shelters for homeless individuals and families.
- **Office of Migrant Services.** \$565,000 redirection of unused Special Funds for the Office of Migrant Services (OMS). These dollars will be used for health and safety infrastructure repairs at migrant farm worker housing centers.
- **Self-Help Housing.** \$2.1 million reduction from elimination of the Self-Help Housing Program.
- **Other Reductions.** \$652,000 reduction in State Operations (General Fund), which includes the redirection of two positions to special funded activities (Multifamily Housing Program and Mobilehome Parks Fund) that have experienced increased workloads. The remaining savings come from reductions in Personnel Services and Operating Expense & Equipment.

MILITARY DEPARTMENT

As the department responsible for the command, leadership and management of the California Army and Air National Guard, the Military Department provides military service supporting California and the nation through 118 armories, 10 air bases, and 3 army bases throughout the state. The California National Guard's missions are to provide: mission ready forces to the federal government as directed by the President; emergency public safety support to civil authorities as directed by the Governor; and support to the community as approved by proper authority.

The proposed 2002-03 budget includes \$95.9 million (State Funds) and \$464 million (Federal Funds) for the Military Department. This reflects a decrease of \$7.4 million and an increase of \$20 million respectively.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Military Department budget:

- **Turning Point Academy.** \$2.1 million reduction for Turning Point Academy, which has experienced lower than expected cadet enrollment.

■ Major Provisions

The major provisions of the Military Department budget include:

- **Bridge Security.** \$6.0 million (Federal Funds) and 97.0 personnel years for security at the Golden Gate, San Francisco-Oakland Bay, Vincent Thomas, and Coronado bridges.
- **Turning Point Academy.** \$3 million (General Fund) and 32 personnel years for Turning Point Academy (TPA). This \$4.4 million reduction from current year funding is based on lower projected cadet enrollment for 2002-03. To address low enrollment, the administration will propose legislation to expand eligibility criteria.
- **Army National Guard.** \$480,000 (Federal Funds) and 3.8 Civil Service Personnel Years to provide support for the Construction and Facilities Management Branch of the Army National Guard, which is responsible for maintaining, modernizing, and repairing the Department's armories, support facilities, and training sites.
- **Firefighters.** \$2.3 million (Federal Funds) for forty-two State Active Duty Firefighters for the Air National Guard's 129th Rescue Wing at Moffett Field.
- **Environmental Program.** \$800,000 (Federal Funds) and 4.8 State Civil Service Personnel Years for the Department's Environmental Program, which is responsible for ensuring statewide environmental compliance.
- **Modernization Plan Reduction.** \$1.9 million General Fund reduction for the Army National Guard Modernization Plan.
- **Grizzly Youth Challenge Academy.** \$155,000 General Fund reduction for the Grizzly Youth Challenge Academy, which is a six-month resident program for 16-18 year old high school dropouts.

TECHNOLOGY, TRADE AND COMMERCE

Created in 1992, the Technology, Trade and Commerce Agency promotes economic growth by coordinating and facilitating business development, job creation and job retention efforts. The Agency also oversees the state's international trade programs through foreign investment, export cultivation, and strategic planning and research projects.

The proposed budget includes \$263.1 million for the Agency, an increase of \$40.6 million over current year expenditures.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter , Statutes 2002 provides the following adjustments for the Technology, Trade and Commerce Agency budget:

- **Renewable Energy.** \$29.9 million General Fund transfer from the Renewable Energy Loan Guarantee Fund.
- **Foreign Trade Offices.** \$457,000 current year savings from not opening foreign trade offices in India and the Philippines and \$457,000 savings by eliminating ongoing funding in 2002-03.

■ Major Provisions

The major provisions of the Technology, Trade and Commerce Agency budget include:

- **Manufacturing Technology.** \$600,000 General Fund reduction for the Manufacturing Technology Program (MTP), leaving \$5.4 million for program activity. According to the Agency, MTP strives to improve the competitiveness of Small and medium sized manufacturers through the formation of joint state, federal, academic, and private sector partnerships.
- **Next Generation Internet.** \$1.0 million General Fund reduction for the Next Generation Internet Program, a 50 percent reduction of current year funding. The Next Generation Internet Program provides improved Internet access to businesses and companies throughout the state.
- **Rural E-Commerce.** \$1.0 million General Fund reduction for the Rural E-Commerce Grant Program, a 50 percent reduction of current year funding. This program provides grants to rural communities that are competing for federal telecommunications matching grants.
- **Space Industry Development.** \$1.0 million General Fund augmentation for the consolidated Space Industry Development Program. This includes \$923,000 (on-going) for the Highway to Space Competitive Program, Space Flight Competitive Grant Program, and Reusable Launch Vehicles and \$77,000 (on-going) for program support and management.
- **Biomass to Energy.** \$2.0 million General Fund reduction for the Biomass to Energy Grants Program. This leaves \$6.0 million for continuation of this program. The program provides an incentive to reduce open-field burning of agricultural waste, to use renewable sources for electrical power, and to sustain the biomass industry.
- **Major Corporate Projects.** \$223,000 reduction by eliminating the Major Corporate Projects Program, which serves to attract and retain investment in California.

- **Small Business Loans.** \$150,000 reduction for the Small Business Loan Guarantee Program. This leaves approximately \$1.9 million (\$886,000 General Fund and \$1.0 million Federal Fund) for program activity.
- **Military Base Retention.** \$100,000 General Fund augmentation for consultant services for the Office of Military Base Retention and Reuse Program. The next round of base closures is scheduled to occur in 2005. This proposal would provide technical assistance to military bases in preparation for the expected closures.
- **Small Business Development.** \$1.2 million (Federal Funds) augmentation for Small Business Development Centers, which will allow for an increase in local assistance services and professional development training.
- **Underground Petroleum Tanks.** \$6.0 million (Special Funds) increase in grants for the Petroleum Underground Storage Tank Financing Account, which provides upgrade or replacement of tanks to comply with environmental requirements implemented by SB 989 (Sher), Chapter 812, Statutes of 1999.
- **Export Finance Fund.** \$8.0 million General Fund transfer from the Export Finance Fund, which will reduce funding for loan guarantees and capture an additional \$400,000 (General Fund) and 6.3 personnel years for reduced support.
- **Environmental Technology.** \$293,000 (General Fund) and 3.0 personnel years for elimination of the Environmental Technology Export Program, which helps companies expand their sales of environmental technology and services overseas.
- **Small Business Expansion.** \$8.0 million transfer from the Small Business Expansion Fund to the General Fund, which leaves \$29.5 million to guarantee loans.

DEPARTMENT OF VETERANS AFFAIRS

The Department of Veterans Affairs (CDVA) provides services to California Veterans and their dependents, and to eligible members of the California National Guard. The principle activities of the CDVA include:

1. Providing home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds;
2. Assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service officers, and direct educational assistance to qualifying dependents and;
3. Operating veterans' homes in Yountville, Barstow, and Chula Vista with several levels of medical rehabilitation services, as well as residential services. For the Barstow and

Chula Vista Homes, the budget assumes full occupancy in all levels of care by September 2002.

The Governor's Budget includes \$338.5 million (\$64.9 million General Fund) for CDVA, a decrease of \$2.5 million from current year funding.

■ Major Provisions

The major provisions of the Department of Veterans Affairs budget include:

- **Veterans Service Offices.** \$175,000 (Special Fund) increased spending authority for the Veterans Service Office Fund, which provides funding to counties for County Veterans Service Offices (CVSO). The CVSOs provide disability compensation, pension, education, life insurance, and home loan assistance and services to veterans and their dependents. This increased spending authority would be for a two-year limited term.

DEPARTMENT OF CORPORATIONS

The Department of Corporations protects the public and provides businesses through administration and enforcement of state laws regulating securities, franchise investment, lenders, and fiduciaries. The Department is responsible for licensing, examination, investor and consumer education, and responding to public inquiries and complaints.

The Governor's budget includes \$35.3 million (State Corporations Fund) for the Department of Corporations, which reflects a \$9.0 million increase over current year funding.

■ Major Provisions

The major provisions of the Department Corporations budget include:

- **CAL-EASI.** \$938,000 for the California Electronic Access to Securities Information (CAL-EASI) pilot project, which started on July 1, 2001 and will be completed by June 30, 2003. The project will create a new, streamlined business document management system, which includes access over the Internet.
- **Information Technology.** \$134,000 increase for the Information Technology unit of the Department. Funding will be used for additional staff training and support.
- **STOPP.** \$10.0 million for implementation of the Statewide Outreach on Predatory Practices Program (STOPP). Components of this program include a statewide media campaign, a one-stop contact center through which individuals can communicate with the Department, and

an increase in investigation and enforcement activities related to predatory lending practices.

AGRICULTURAL LABOR RELATIONS BOARD

The Agricultural Labor Relations Board (ALRB), was created by the Agricultural Labor Relations Act of 1975, which is responsible for conducting secret ballot elections to determine collective bargaining representation in agriculture and for investigating and resolving unfair labor practice disputes.

The Governor's proposed budget includes a total of \$5.2 million (General Fund) for 2002-03, a decrease of \$200,000 over the revised current year budget.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Department of Industrial Relations (DIR) has the responsibility to protect the workforce, improve the working conditions, and advance opportunities for profitable employment in California. The Department enforces workers' compensation laws, adjudicates workers' compensation claims, administers programs to prevent industrial injuries and deaths, promulgates regulations, and enforces laws relating to wages, hours, and conditions of employment.

The Governor's proposed budget includes a total of \$258.7 million (\$155.5 million General Fund) for 2002-03, a decrease of \$10.6 million over the revised current year budget.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Industrial Relations budget:

- **Current Year General Fund Reduction.** A reduction of \$1.0 million (General Fund) for Worker Safety Training Grants.

■ Major Provisions

The major provisions of the Department of Industrial Relations budget include:

- **General Fund Reduction for Division of Workers' Compensation.** A reduction of \$7.3 million (General Fund) and 90.5 position for the Division of Workers' Compensation (DWC). DWC oversees the provision of workers' compensation benefits for California employees and employers, including administration of the exclusive judicial system for resolution of work injury claims. The DWC currently operates 25 courts, referred to as "WCAB District Offices," throughout the state from Eureka to San Diego. According to the DIR, this elimination of funding is expected to result in a reduction in the number of audits performed by the claims Adjudication Unity, the Vocational Rehabilitation Unit and the

Audit Unit. Additionally, the department states that a longer retention period is to be expected with case files going before the Workers' Compensation Appeals Board.

- **General Fund Reduction for Division of Occupational Safety and Health (DOSH).** A reduction of \$3.5 million (General Fund) and 25 positions in DOSH. According to the DIR, this elimination of funding will result in fewer general compliance safety inspections and consultations performed annually. However, the department has submitted a budget request for a funding shift enabling the department to continue with its safety inspections and consultations focused on high hazard industries.
- **General Fund Reduction in the Division of Administration.** A reduction of \$2.0 million (General Fund) for the Division of Administration. This will result in the elimination of the Labor Relations Unit, the Collections Unit, and a reduction in services provided through public information, legal services for the Uninsured Employers Fund, and information technology services.
- **Commission on Health and Safety and Workers' Compensation Research (CHSWC) Projects.** An augmentation of \$1.2 million (Special Fund) for the CHSWC. This funding will enable the CHSWC to perform three research projects:
 - The Adequacy of Future Medical Payments.
 - An Accounting of the Full Employer Cost Associated with Injuries.
 - Analyzing the Use of Social Welfare Programs by Injured Workers.
- **Case Management System.** An augmentation of \$1.1 million for Division of Labor Standards Enforcement (DLSE). This funding will enable DLSE to implement a Case Management System to facilitate the identification of repeat offenders and track employers with a history of labor law violations, management of accounts receivable for maximizing the collection of fees, and improved ability to share data collected within the division and with other federal and state agencies.

CALIFORNIA SCIENCE CENTER

The California Science Center is an educational, scientific and technological center administered by a nine-member board of directors appointed by the Governor. It is located in Exposition Park, a 160-acre tract in South Central Los Angeles, which is owned by the State in the name of the Science Center. The Science Center is a place where children, teachers and families can explore how science is relevant to their everyday lives.

The Governor's proposed budget includes a total of \$18.6 million (\$14.1 million General Fund) for 2002-03, a decrease of \$2.7 million over the revised current year budget.

■ Major Provisions

The major provisions of the California Science Center budget include:

- **Science Center Phase II.** An augmentation of \$96.9 million (Special Fund and Private Donations) for the construction of the Science Center Phase II project, a four story addition to the existing Science Center. The project combines science exhibits with live animal exhibits, including a two-story reef tank.
- **California African American Museum.** A reduction of \$435,000 (General Fund) and 4.7 personnel years for the California African American Museum.
- **Education Program.** \$740,000 (General Fund) and 10.5 personnel years for the Science Center's Education Program.

DEPARTMENT OF CONSUMER AFFAIRS

The predominant duty of the Department of Consumer Affairs is the education and protection of consumers to ensure a fair and honest marketplace. In addition, and within the scope of its purpose, the Department of Consumer Affairs oversees professional and occupational practices on behalf of the state's consumers through nine bureaus and programs. It shares this oversight and regulatory authority with 28 quasi-independent committees, boards, and commissions.

The Governor's proposed budget includes a total of \$337.2 (\$2.3 million General Fund) in 2002-03, a decrease of \$97.5 million over the revised current year budget.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Department of Consumer Affairs budget:

- **Fund Transfer.** A transfer of \$44.0 million from the High Polluter Repair or Removal Account to the General Fund. These funds reflect the remaining monies, plus interest, collected from the Smog Impact Fee.

■ Major Provisions

The major provisions of the Department of Consumer Affairs budget include:

- **Auto Body Repair Inspection Pilot Program.** \$430,000 (Special Funds) for the Bureau of Automotive Repair (BAR). Specifically, this funding would allow BAR to

prosecute documented cases of fraud resulting from the Auto Body Repair Inspection Pilot Program.

- **Consumer Assistance Program Reduction.** A reduction of \$26.5 million (Special Fund) and 18.5 positions in the Consumer Assistance Program to align program expenditures with revenues. This reduction is in response to the current year transfer of funding from the HPPRA account to the General Fund.

OFFICE OF EMERGENCY SERVICES

The Office of Emergency Services (OES) coordinates emergency activities to save lives, reduce property loss and speed recovery from the effects of a major disaster. OES provides leadership, assistance and support to state and local agencies in planning the most effective use of available resources in the event of a catastrophic emergency. The Governor's proposed budget includes \$ 644.2 million (\$63 million General Fund, \$575.4 million federal funds and \$25.8 million other funds) and 510 personal years in 2002-03. This represents a reduction of \$225.2 million from the estimated current year budget of \$869.4 million. A majority of this decline is due to a \$180.1 million reduction in estimated federal fund expenditures and a \$44.5 million reduction in general fund expenditures. This reduction is almost entirely contained in the reduction in expenditures in the Disaster Assistance Program (DAP) (\$222.5 million). This program provides aid to local agencies for the repair and restoration of public real property in disaster areas pursuant to the Federal Disaster Relief Act (PL-93-288). Budget year expenditures for DAP will be \$26.3 million higher than expenditures in 2000-01.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Office of Emergency Services:

- **Tri-Net Earthquake Monitoring System.** \$1.0 million permanent reduction for the statewide expansion of the currently operating in Southern California.

■ Major Provisions

The major provisions of the Office of Emergency Services:

- **State Strategic Committee on Terrorism (SSCOT).** \$562,000 for the SSCOT. This committee is a multi-agency advisory group created to address various aspects of terrorism investigation. The main goal of SSCOT is to prepare an assessment of the state's ability to execute a fully coordinated emergency response to an act of terrorism. This augmentation would continue the assessment of the ability of the state and local governments to respond in a coordinated manner to acts of terrorism. In addition it would provide resources to develop plans to more actively and effectively respond to these threats.

- **IT Contracts.** \$1.2 million reduction in participation of the statewide General Fund Relief Program. This reduction will include the closure of the Redding and Santa Barbara offices and the termination of IT contracts.
- **Terrorism Response Programs.** \$3.1 million in federal spending in response to a grant from the US Office of Justice Planning for terrorism response programs.

FRANCHISE TAX BOARD

The Franchise Tax Board (FTB) administers the Personal Income Tax (PIT), the Bank and Corporation Tax (BCT) laws, and several non-tax and audit programs that contribute over 60 percent of General Fund revenue. The mission of the Franchise Tax Board is to collect the proper amount of tax revenue and operate its programs at the least cost. The Franchise Tax Board also collects delinquent debts and child support payments on behalf of other governmental agencies. The Governor's proposed budget includes expenditures of \$437million (\$399 million General Fund) for the FTB in 2002-03. Total spending is essentially unchanged from the current year spending (General Fund spending increases by \$1.6 million). Total proposed staffing also remains essentially flat at 5,528 personnel-years.

Although, total funding and staffing remain virtually constant, the budget proposes some significant redirections. Savings from a variety of cost and service reductions primarily are used to increase audit and collection staff, resulting in an estimated total General Fund revenue increase of \$79.5 million in 2003-04.

■ Major Provisions

The major provisions of the Franchise Tax Board budget include:

- **Mandated Electronic Filing.** Savings of \$2.2 million and 80 personnel-years due to reduced processing workload by requiring electronic filing by tax professionals with 100 or more client returns.
- **Various Savings and Service Reductions.** Savings of \$4.3 million and 53.5 personnel-years. These reductions include a total of \$2 million from reducing consulting contracts in information technology and child support automation and a savings of \$1.3 million from reducing call-center and other taxpayer customer services.
- **Integrated Nonfiler Compliance Project.** Reduction of \$2.7 million due to partial completion of system enhancements. This project seeks to locate and collect taxes due from persons who did not file a tax return.
- **Child Support Replacement Project.** General Fund savings of \$1.9 million (net savings from all funds is \$393,000). The budget proposes General Fund and special fund savings due to the elimination of one-time contract costs for this project, which

collects delinquent child-support payments. The budget also includes an increase of 21.9 personnel-years for child support collections staff funded by \$1.9 million of federal funds from the Department of Child Support Services.

- **Augment Collections Staff.** Increase of \$6.2 million and 78.8 personnel-years to address tax collection workloads with better than a 5:1 cost/benefit ratio. The budget estimates that these additional positions will generate revenue of \$27.5 million in 2002-03.
- **Increase Audit Staff.** Augmentation of \$4.5 million and 44.6 personnel-years to address audit workloads with better than a 5:1 cost/benefit ratio. The budget estimates that these additional positions will generate revenue of \$52 million in the budget year.
- **Cost Increases and Technology Maintenance.** Increase of \$2.9 million--\$1.5 million for baseline audit travel and printing cost increases and \$1.4 million for various mission-critical technology maintenance issues.

BOARD OF EQUALIZATION

The State Board of Equalization (Board) administers 21 tax programs for support of state and local government activities, including Sales and Use Taxes; Motor Vehicle Fuel License Tax; Diesel and Use Fuel Tax; Alcoholic Beverage Tax; Cigarette Tax; Cigarette and Tobacco Products Surtax; Insurance Tax; Energy Resources Surcharge; Emergency Telephone Users Surcharge; Hazardous Substances Tax; Integrated Waste Management Fee; Underground Storage Tank Fees; Oil Spill Prevention Fees; Occupational Lead Poisoning Fees; Childhood Lead Poisoning Prevention Fees; Tire Recycling Fees; Private Railroad Car Tax; and Timber Yield Tax. The Board also assesses utility property for local property tax purposes, and provides guidance to local governments in the administration of the property tax. The board also is an appellate body for contested decisions by the Franchise Tax Board, which administers the personal income tax and the bank and corporation tax.

The five-member Board is established by the State Constitution. Four members are elected to represent equalization districts, and the State Controller serves as an ex officio, voting member. The Board administers programs generating taxes exceeding \$44.6 billion, including an estimated \$22.9 billion of General Fund sales tax revenue in 2002-03.

The Governor's proposed budget for the board provides a total of \$311.7 million for 2002-03, a decrease of \$7.2 million (2.3 percent) from estimated spending in the current year. The board's proposed General Fund support declines by \$6 million (3 percent) to \$193.3 million in 2002-03. The budget proposes to reduce the board's staff by 172.7 personnel-years (4.5 percent) to a total of 3,657.9 personnel years in the budget year.

■ Major Provisions

The major provisions of the Board of Equalization budget include:

- **3-percent General Fund Reduction.** Reduction of \$6.2 million and 146 positions, primarily in the Sales and Use Tax Program, but also affecting the administration of property taxes, cigarette and tobacco taxes, and the alcoholic beverage tax. These reductions include \$1.2 million (38 positions) for clerical support at field offices; \$694,000 (15 positions) to reduce field office supervisor-to-staff ratios; \$950,000 (25 positions) for headquarters planning and operations staff; and \$1 million for (13 positions) for technology services staff and contract services from the Teale Data Center. The budget does not identify any revenue loss resulting from these tax administration reductions.
- **Data Entry System Replacement.** Increase of \$635,000 (\$508,000 General Fund) to replace the data entry system used for tax return processing.
- **Increased Field Office Rental Rates.** Increase of \$489,000 (\$159,000 General Fund) to pay higher rental rates for the board's field offices.
- **Workload Shift to Proposition 10 and Proposition 99 Funds.** Increase of \$1.1 million from the California Children and Families First Trust Fund (\$720,000)—created by Proposition 10—and the Cigarette and Tobacco Products Surtax Fund—created by Proposition 99—for investigations and enforcement to reduce evasion of the tobacco tax laws. This increase is offset an equivalent reduction \$1.1 million reduction (\$627,000 General Fund) in investigative resources for the sales and use tax and the diesel fuel tax programs. The administration proposes to begin this funding and workload shift in the current year through the deficiency process.

STATE TREASURER

The State Treasurer provides banking services to state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer has custody of all monies and securities belonging to, or held in trust by, the state; invests state funds; and administers state bond sales and bond redemption and interest payments. The Treasurer also pays warrants drawn by the State Controller and other agencies, and oversees a number of state financing entities. The budget includes \$26.1 million (\$12.3 million General Fund) for the Treasurer's Office in 2002-03, a decrease of \$5.4 million (\$4.8 million General Fund) or 17 percent from estimated current-year spending. This reduction reflects a lower funding need in the budget year for Phase II development of the Treasurer's new Debt Management System.

■ Major Provisions

The major provisions of the State Treasurer's budget include:

- **Debt Management System.** A one-year increase of \$2.1 million (\$1.8 million General Fund) in operating expenses for the final year of the second phase of development of the Debt Management System.
- **Tobacco Settlement Securitization.** Increase of \$220,000 General Fund and two positions for increased workload related to the Tobacco Settlement Securitization Revenue Bonds. The budget also includes a current-year augmentation of \$140,000 and one position for the bond sale.

SCHOLARSHARE INVESTMENT BOARD

The Golden State Scholarshare Trust Program, is a state-sponsored, college savings program that gives Californians the opportunity to invest on a tax-advantaged basis to meet the costs of higher education, as allowed by federal law. Participants may invest for their children's college costs over a number of years. Under recent federal tax legislation, earnings on invested funds are federally tax exempt. Administrative costs for the program are paid from a portion of the investment returns.

The board also maintains the scholarship investment accounts for the Governor's Scholars Program, established by SB 1688 (Polanco), Chapter 404, Statutes of 2000. This program awards \$1,000 scholarships to each public high school student who demonstrates high academic achievement on the STAR test. The Governor's Distinguished Mathematics and Science Scholars Program awards \$2,500 scholarships to students who win a Governor's Scholars Award and also demonstrate high achievement in math and science by achieving specified scores on Advanced Placement, Golden State, or International Baccalaureate examinations.

The budget proposes \$129.3 million from the General Fund for the Governor's Scholarship Programs in 2002-03, and increase of \$10 million (8.4 percent) from estimated current-year spending. Administrative costs for the Scholarshare savings program, which are funded by fees, remain flat at \$1 million.

■ Major Provisions

The major provisions of the ScholarShare Investment Board budget include:

- **Governor's Scholars Programs.** Increase of \$10 million (General Fund) to address an expected increase in students eligible for both the Governor's Scholars Program and the Governor's Distinguished Mathematics and Science Scholars Program.
- **Tax Conformity for Scholarshare Savings.** The Governor's tax proposals include providing a state income tax exemption for earnings in Scholarshare savings accounts, in conformity with a recent federal tax law change. Currently, earnings are taxable to the student beneficiary. The estimated annual General Fund revenue loss from this change is \$1 million.

ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

This Financing Authority was established for the purpose of providing California industry an alternative method of financing the construction and installation of facilities using alternative methods and sources of energy. Such construction can help meet the energy needs of the State in a manner which minimizes degradation of the environment and conserves scarce energy resources. Chapter 1218, Statutes of 1994, expanded the purpose of the Authority to include the financing and development of advanced transportation technologies. The Authority consists of five members: the State Treasurer (Chairperson); the State Controller; the Director of Finance; the Chairperson of the Energy Resources Conservation and Development Commission; and the President of the Public Utilities Commission.

The Authority is authorized to issue up to \$350 million in revenue bonds to finance alternative energy projects. As of June 30, 2001, \$181.6 million in bonds had been sold, and \$59.2 million remain outstanding. Chapter 8, Statutes of 2001(AB 29X), appropriated \$25 million from the General Fund to the Authority develop a financial assistance program for renewable energy technologies.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Alternative Energy and Advanced Transportation Financing Authority budget:

- **Reversion of AB 29X Funds.** The budget assumes approval of a current-year adjustment to revert essentially all (\$24.9 million) of the General Fund appropriation for renewable energy technologies. At this time, the Authority has developed program guidelines, but has not committed any project funding.

GENERAL FUND LOANS FROM FINANCING ENTITIES

The budget proposes loans to the General Fund totaling \$60 million from two state financing entities. The General Fund would pay interest at the rate earned by the Pooled Money Investment Account when the loans are drawn. The budget does not specify a repayment date, but expresses intent that repayment be made so as to ensure no adverse affect on the programs of the financing authorities.

■ Major Provisions

The proposed General Fund loans from financing entities are as follows:

- **Tax Credit Allocation Committee.** The budget proposes a total of \$40 million of loans from the committee's funds. The committee allocates state tax credits for low-income housing development. A \$20 million loan from the Occupancy Compliance Monitoring Account (which funds ongoing monitoring of each housing project) would leave an estimated \$17.8 million in the account to support annual expenditures of \$1 million. Another \$20 million loan from the Tax Credit Allocation Fee Account would leave an estimated \$10.4 million to support annual expenditures of \$1.5 million.
- **Pollution Control Financing Authority.** The budget proposes a \$20 million loan to the General Fund from the Pollution Control Financing Authority Fund. The authority issues revenue bonds to finance private pollution control and resource recovery projects.

PUBLIC UTILITIES COMMISSION

The Public Utilities Commission (PUC) regulates investor-owned utilities, including gas, electricity, telephone, water, and railroads, and certain passenger and household goods carriers to ensure the delivery of stable, safe, and economic services. The commission has traditionally met this responsibility through enforcement of safety regulations, controlling industry rates for services, and promoting energy and resource conservation.

The budget proposes total funding of \$1.3 billion entirely from special funds for the PUC in 2002-03, a decrease of \$329 million (20 percent). Proposed staffing declines slightly (2.7 percent), to 921.9 personnel-years in 2002-03. The large funding decline is due primarily to the deletion of one-time General Fund support for energy programs (\$151.3 million) and projected spending changes in the Universal Service Telephone Programs, which account for \$1.1 billion of the spending budgeted in the PUC.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the Public Utilities Commission's budget:

- **Oil and Gas Retrofits.** Reverts \$9.6 million (General Fund) appropriated by Chapter 7, Statutes of 2001, First Extraordinary Session (SB 5X) for energy audits and to subsidize installation of more efficient technologies and oil and natural gas facilities.
- **California Alternative Rates for Energy (CARE) Program.** Reverts \$83.8 million of the \$100 million appropriated to augment this program from the General Fund by SB 5X. The CARE Program subsidizes utility bills for low-income households. Ratepayer funds provide ongoing financing for the CARE Program.
- **High-Cost B Fund Transfer.** SB 1 3X transfers \$35.5 million of surplus funds in the California High-Cost Fund-B to the General Fund. The High-Cost Fund-B receives revenue from surcharges on telephone bills of customers of the major telephone companies in California. Money in the fund is reallocated among the companies to compensate them for their excess expenses in serving high-cost areas within their service territories. Language adopted with the transfer prohibits any surcharge increase due to the transfer.

■ Major Provisions

The major provisions of the Public Utilities Commission's budget include:

- **"Green Team" Funding Shift.** The budget proposes to shift \$2.7 million from the General Fund to ratepayer funds for support for energy rate stability and conservation activities under the California Energy Security and Reliability Act of 2000 (AB 970, Ducheny), which established the Governor's Clean Energy Green Team. This shift would eliminate General Fund support for the PUC.
- **PG&E Bankruptcy.** The budget includes a current-year deficiency of \$3.4 million from ratepayer funds for legal and financial expertise to assist with debt financing, bankruptcy, and reorganization issues related to PG&E's proposed reorganization plan.

CALIFORNIA CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

Senate Bill 6X (Burton)--Chapter 10, Statutes of 2001, First Extraordinary Session—created the California Consumer Power and Conservation Financing Authority. The purposes of the authority include augmenting electric generating facilities and to ensure a sufficient and reliable supply of electricity; providing financing incentives for investment in cost-effective energy-efficient appliances and energy demand reduction, to increase power reserves; financing for the retrofit of inefficient electric powerplants, renewable energy and conservation; and, where appropriate, developing strategies for the authority to facilitate a dependable supply of natural gas at reasonable prices to the public. The authority is required to provide the Legislature with its Energy Resource Investment Plan by February 15, 2002. The budget indicates that authority staffing will increase from 14.4 personnel years in the current year to 32.3 personnel years in 2002-03.

■ Major Provisions

The major provisions of the California Consumer Power and Conservation Financing Authority budget include:

- **Carryover of General Fund Loan.** The budget proposes to carry over into 2002-03 \$5.5 million remaining unspent from the current year General Fund loan of \$10 million. These loan funds currently provide all of the authority's support.

CALIFORNIA VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD

The primary objectives of the California Victim Compensation and Government Claims Board (formerly known as the Board of Control) are to compensate victims of violent crime and eligible family members for certain crime-related financial losses; consider and settle all civil claims against the State; establish state travel allowances; consider bid protests; and determine reimbursement for county costs of special elections for legislative and congressional seats. The budget proposes \$155.4 million (\$1.8 million General Fund) for the board's programs in 2002-03, an increase of \$6.4 million (4.3 percent). Proposed staffing declines slightly (3.4 percent) to 341.8 personnel years in 2002-03.

■ Major Provisions

The major provisions of the California Victim Compensation and Government Claims Board's budget include:

- **Hearing Officers.** \$468,000 (Restitution Fund) augmentation to provide five hearing officers to improve the level of service to victims by accelerating timeframes in

which appeals can heard and resolved, by traveling to the communities in which victims reside, and providing more personal and private attention to victims.

- **Eliminate Vacant Positions.** \$941,000 (Restitution Fund) reduction to eliminate 11 vacant positions.
- **Claims Review Unit.** \$966,000 (Restitution Fund) augmentation to establish claims review units within the counties that administer the victims of crime program locally. The augmentation helps assure continued federal funding by addressing audit finds from a federal review of the claims process.
- **Loan to General Fund.** The budget proposes a \$20 million loan to the General Fund from the Restitution Fund, which receives certain penalty and fine revenue. The General Fund would pay interest at the rate earned by the Pooled Money Investment Account when the loan is drawn. The budget does not specify a repayment date, but expresses intent that repayment be made so as to ensure no adverse affect on this program. A balance of \$129.1 million would remain in the fund at the end of 2002-03, according to the budget.

DEPARTMENT OF GENERAL SERVICES

The Department of General Services is responsible for the management, review control and support of state agencies as assigned by the Governor and specified by statute. The department provides support services to operating departments to achieve greater efficiency and economy than they can individually provide themselves.

The Governor's proposed budget includes a total of \$853.5 million (\$23.0 million General Fund) for 2002-03, a decrease of \$60.2 million over revised current year budget.

■ Major Provisions

The major provisions of the Department of General Service's (DGS) budget include:

- **General Fund Reduction.** A reduction of \$2.5 million (General Fund) pursuant to the Governor's Office request of departments to propose a 15 percent General Fund reduction for the 2002-03 fiscal year. DGS plans to offset this reduction with a Service Revolving Fund expenditure authority increase of \$2.4 million in its eBusiness Center and a reduction of \$115,000 (General Fund) for the Asbestos Abatement Program.
- **Security for California Home Page and E-Mail Activity.** \$5.8 million (General Fund) to continue restructuring and support the critical use of the California Home Page, as well as responding to increased e-mail activity. According to the DGS, the California Home Page and e-mail project have linkages to each other and affect the entire Executive Branch of government. The department states that these services are critical, enabling government to work in a responsive manner with citizens while

taking advantage of technology and the Internet. The request for general funds is an attempt to verify the security network infrastructure and eliminate or decrease the number of hacking attempts on these systems.

- **East End Project Building Maintenance.** \$5.2 million (Special Funds) to the Building and Property Management Branch (BPM). The new Capitol Area East End Complex is scheduled for completion and will begin occupancy March 1, 2003. The maintenance and operation of this complex is the responsibility of BPM. This funding request is to provide BPM the expenditure authority required to operate this complex.
- **Ziggurat Building.** \$5.4 million (\$56,000 General Fund & Various Special Funds) to fund increased costs for Fiscal Year 2002-03 as a result of its consolidation during Fiscal Year 2001-02, from ten dispersed locations in the Sacramento downtown area, to the Ziggurat building located at 707 3rd Street in West Sacramento.

DEPARTMENT OF INSURANCE

The Office of the Insurance Commissioner has the responsibility to enforce insurance law as found in the California Insurance Code. The Department conducts examinations of insurance companies to ensure that their operations are consistent with the requirements of the Insurance Code and that they are financially viable. The Department also investigates complaints and responds to consumer complaints; reviews and approves insurance rates; and administers the conservation and liquidation of insolvent insurance companies.

The Governor's budget includes \$166.0 million (\$1.8 million General Fund) in 2002-03, a decrease of \$2.4 million over the revised current year budget.

■ Major Provisions

The major provisions of the Department of Insurance budget include:

- **General Fund Reduction.** A reduction of \$21,000 (General Fund) in operating expenses and equipment for the Premium Tax Audit Bureau and Tax Processing Unit.
- **Increased Audits.** \$636,000 (General Fund) and 6.6 personnel years to increase the number of audits performed annually and to provide additional support necessary to cover increases in the audit workload of both the Premium Tax Audit Bureau and Tax Processing Unit.

SECRETARY OF STATE

The Secretary of State (SOS), a constitutionally established office, serves as the chief election officer and is responsible for the administration and enforcement of election laws. The SOS also administers and enforces laws regarding security agreements, and the filing of corporate and limited partnership documents. In addition the SOS appoints notaries public, enforces

notary laws, and is responsible for the procurement and preservation of various documents of historical significance.

The Governor's proposed budget includes a total of \$75.8 million (\$37.6 million General Fund), a decrease of \$9.2 million over the revised current year budget.

■ Major Provisions

The major provisions of the Secretary of State's (SOS) budget include:

- **Business Automation Project (BPA).** \$5.7 million (Special Fund) to continue the Business Automation Project (BPA). According to the SOS, the BPA project would enhance commerce in California by implementing technology that would standardize and simplify the processing of business and security interest filings in the Business Programs Division (BPD), and would provide convenient public access to information the BPD. The following are the services the BPD currently administers through mail, in person delivery at public counter and by telephone:
 - Corporate Filings
 - Corporate Records
 - Statement of Corporate Officers and Other Business Entity Filing and Records
 - Special Filings and Trademarks
 - UCC Filing and Records

This special fund request would allow the SOS to automate these services, and consequently streamline these services to better serve their customers.

- **General Fund Reduction.** A total General Fund reduction of \$1.4 million which will affect the following:
 - \$778,000 reduction for maintenance and support of Information Databases.
 - \$239,000 reduction for outreach and promotion for the Safe at Home Program. This program aims to keep victims of domestic violence safe by maintaining a private avenue, other than their home, for them to receive mail or information regarding their dangerous situation.
 - \$412,000 reduction for the elimination of an Associate Programmer Analyst; a specialist position in the Policy and Planning unit. This unit is responsible for routinely updating the SOS Administrative Manual, Fee Directory, and the issuance of Management Memos and Bulletins. Rather than centralizing this function, it is proposed that the Divisions absorb this workload.

DEPARTMENT OF PERSONNEL ADMINISTRATION

The Department of Personnel Administration (DPA) manages the non-merit aspects of the State's personnel system. The goals of the DPA are to insure proper administration of existing terms and conditions of employment for the State's civil service employees, and to represent the Governor as the employer in all matters concerning State employer-employee relations.

The Governor's proposed budget includes \$67.03 million (\$42.5 million General Fund), a decrease of \$13.2 million from the revised current year budget.

■ Major Provisions

The major provisions of the Department of Personnel Administration's (DPA) budget include:

- **Labor Relations and Benefits Administration Augmentation.** \$208,000 (General Fund) and 4.0 Staff Service Analyst (SSA) positions. This permanent General Fund augmentation would enable the DPA to retain 4.0 SSA positions to provide analytical support in the collective bargaining process, in supplementing contract provisions including the Rural Health Program, and in negotiations related to budget reductions and possible layoffs.
- **State Training Center Classes.** \$579,000 increase in reimbursement expenditure authority to fund enrollment growth in State Training Center classes, distance learning program classes, and other training, development and tracking functions. These increases are fully reimbursable.
- **General Fund Reduction.** \$211,000 (General Fund) reduction affecting the following:
 - \$74,000 reduction from a redistribution of Administration costs.
 - \$42,000 reduction from the elimination of 1.0 Legal Support Supervisor 1. The Legal Support Supervisor is responsible for supervising approximately 13 clerical staff, as well as assigning work, assessing performance, providing instruction and training, and other duties. These duties will be dispersed to the Chief counsel and /or other supervising attorneys.
 - \$25,000 reduction in the Labor Relations Division (LRD). This will reduce the allotment for meeting rooms and will require LRD to use a combination of state and union meeting rooms.
 - \$70,000 reduction from the elimination of 1.0 Personnel Program Advisor. This position is responsible for responding to departments regarding classification proposals, studies and projects and support for Labor Relations activities.

THE 2002 - 2003 STATE BUDGET

TRANSPORTATION

The Governor's proposed budget includes expenditures on roads, highways, mass transit, vehicle licensing and registration, and public safety of \$11.2 billion, an increase of 12.1 percent over revised current year spending. Transportation funding includes the Department of Transportation, California Transportation Commission, California Highway Patrol, Department of Motor Vehicles, Special Transportation Programs, High Speed Rail Authority, and Office of Traffic Safety as shown in Table 1. Transportation programs are funded with state and federal fuel taxes, sales and use taxes on diesel fuel, bond proceeds, motor vehicle and driver licensing fees, truck and trailer fees, and local sales taxes.

Table 1

Transportation Expenditures (All Funds) (Dollars in Millions)			
Agency	Revised 2001-02 Expenditures	Proposed 2002-03 Expenditures	Percent Change
Caltrans	\$7,818.7	\$8,987.1	14.9
California Highway Patrol	1,078.6	1,191.3	10.4
Department of Motor Vehicles	687.3	666.7	-3.0
California Transportation Commission	127.2	127.9	.6
Special Transportation Programs	171.0	115.4	-32.5
Office of Traffic Safety	84.6	84.6	--
High Speed Rail Authority	3.6	8.5	136.1
TOTALS	\$9,971.0	\$11,181.5	12.1

DEPARTMENT OF TRANSPORTATION

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system of more than 50,000 miles of highway and freeway lanes. Caltrans also provides rail passenger services under a contract with Amtrak and provides support to over 100 local airports. The Governor's proposed budget includes \$9 billion for 2002-03, an increase of \$1.2 billion, or 14.9 percent, over revised current-year spending.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the current year for the Department of Transportation budget:

- **Rail Fund Shift.** Shifts \$20 million for double-tracking project on the San Joaquin Intercity Rail Corridor from the General Fund to the State Highway Account.

■ Major Provisions

The major provisions of the Department of Transportation budget include:

- **Transportation Congestion Relief Program.** To address the significant budget shortfall the Governor's budget proposes to loan \$672 million from the Transportation Congestion Relief Program (TCRP) to the General Fund and to loan \$474 million from the State Highway Account (SHA) to the Transportation Congestion Relief Fund (TCRF), which funds the specific projects under the TCRP. The Governor's budget also proposes trailer bill language to ensure that the loans when funds are needed to meet projects cash needs.

The TCRP was established by legislation enacted in 2000 and made historic changes in transportation financing. The TCRP provided significant new funding for 142 specific congestion relief projects, the State Transportation Improvement Program (STIP), local streets and roads, and the Public Transportation Account. At the time, the plan was to provide a total of \$6.8 billion from the General Fund, including a \$1.5 billion appropriation and \$5.3 billion from the transfer of sales taxes on gasoline from 2001-02 through 2005-06.

As a result of the economic downturn beginning in 2001, the Legislature and the Administration enacted legislation to delay the beginning of the sales tax transfer until 2003-04 and extended the transfer through 2007-08. The revision of the funding timetable saved approximately \$1.1 billion for current year and the budget year combined. Also, the revision increases total funding for the TCRP to \$8.1 billion.

In addition, the Legislature passed a proposed Constitutional Amendment that will be before voters on March 5, 2002 to continue the sales tax transfer permanently.

STATE TRANSPORTATION IMPROVEMENT PROGRAM (STIP)

The STIP is a four-year planning document that is adopted every two years by the California Transportation Commission (CTC). The STIP identifies projects to be funded from the SHA, the TIF, the PTA, and federal transportation funds over the next four-year period. Beginning in 2002, the STIP will identify projects to be funded over a five-year period.

Each regional transportation planning agency is allocated a share of the STIP's programming capacity. Of available funds to the program, 75 percent are allocated to regional projects. The remaining 25 percent of available funds are allocated to interregional projects that are identified by Caltrans.

In August of 2001 adopted the 2002 STIP Fund Estimate. According to the Fund Estimate, \$3.9 billion will be available for programming between 2002-03 and 2006-07. The 2002 STIP will be adopted in August of 2002.

Other Significant Caltrans Investments. The proposed budget contains the following significant investments for Caltrans:

- **Bridge Security Upgrades.** As a result of the events of September 11, 2001, the state expended significant funds to provide security on the states bridges to protect against additional terrorist attacks. The Governor's proposed budget includes \$24.2 million in federal funds to reimburse the state for the costs of these activities.
- **Improved Information Systems for Better Project Delivery.** The Governor's proposed budget contains \$77 million to plan and deliver a series of projects supporting integrated systems of financial management, land management, and construction contract payments.
- **Storm Water Compliance.** The Governor's proposed budget includes \$23.4 million and 167.5 personnel years to implement the Storm Water Management Plan and to comply with the Federal Clean Water Act.
- **Mobile Fleet Greening Strategy.** The Governor's proposed budget includes \$10 million to continue the replacement and retrofit of Caltrans' vehicles from conventional diesel fuel and gasoline to cleaner burning fuels.
- **Freeway Service Patrol.** The Governor's proposed budget includes \$5 million for a new competitive grant component of the Freeway Service Patrol program. The grants will expand the service based on specific criteria for relieving traffic congestion.
- **Litter and Graffiti Removal.** The Governor's proposed budget includes \$2.8 million for one-time mural restoration in the Los Angeles area, a two-year urban youth training program conducted by the California Conservation Corps, and a pilot program involving the use of litter removal vehicles.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol (CHP) is responsible for ensuring the safe, lawful, and efficient transportation of persons and goods along the state's highway system, and providing protective services and security for state employees and property.

The Governor's proposed budget includes \$1.2 billion for the CHP, an increase of \$.1 billion, or 10.4 percent, over revised current year funding.

■ Major Provisions

The major provisions of the California Highway Patrol budget include:

- **Terrorism Related Safety and Security Efforts.** The Governor's proposed budget includes \$39.5 million for 2001-02 and \$89.6 million for 2002-03 from federal funds for terrorism related safety and security efforts. This includes a total of \$67.4 million for the cost of 12 hour shifts when on high alert, a total of \$31 million for 24 officers and five air crafts for increased air patrol of state infrastructure and event security, \$14.4 million for 150 officers to staff key truck inspection stations, \$3.8 million for 47 officers to protect state facilities, \$7.7 million and 52 new positions for other critical security needs.
- **Motor Vehicle Account Reductions.** In recent years, the state's retirement system was able to fund the costs of the CHP's retirement plan from investment earnings. As a result of stock market declines, however, \$107 million is required from the MVA to meet the retirement plan obligations. As result, the Governor's proposed budget includes \$32.1 million in MVA reductions, including \$8.5 million from CHP programs. The CHP reductions are: \$3 million for equipment reductions, \$2 million for operating expenses, \$1.5 million for deferral of special repairs projects, \$1.5 million for gasoline purchases as a result of lower pump prices, and \$500,000 for vehicle purchases.

Other Significant CHP Investments. The Governor's proposed budget includes the following significant investments for the CHP: \$2.4 million to improve the Highway Patrols' telecommunications infrastructure; \$11.9 million for additional workers' compensation costs; \$87.5 million to fund retirement costs previously funded through the Public Employee Retirement System (PERS) investment earnings and \$18.1 million for retirement cost increases.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles' (DMV) responsibilities include protecting the public interest in vehicle ownership by registering vehicles and promoting public safety on roads and highways by issuing driver licenses. In addition, the DMV licenses and regulates vehicle-related businesses and provides revenue collection services for state and local agencies. The Governor's proposed budget includes \$666.7 million for the DMV, an decrease of \$19.5 million, from the revised current year spending.

■ Approved Current Year Adjustments

SB 1 3X (Peace), Chapter 1, Statutes 2002 provides the following adjustments for the current year for the Department of Transportation budget:

- Reverts \$117.7 million to the General Fund from Smog Impact Fee Refunds that have not been claimed.

■ Major Provisions

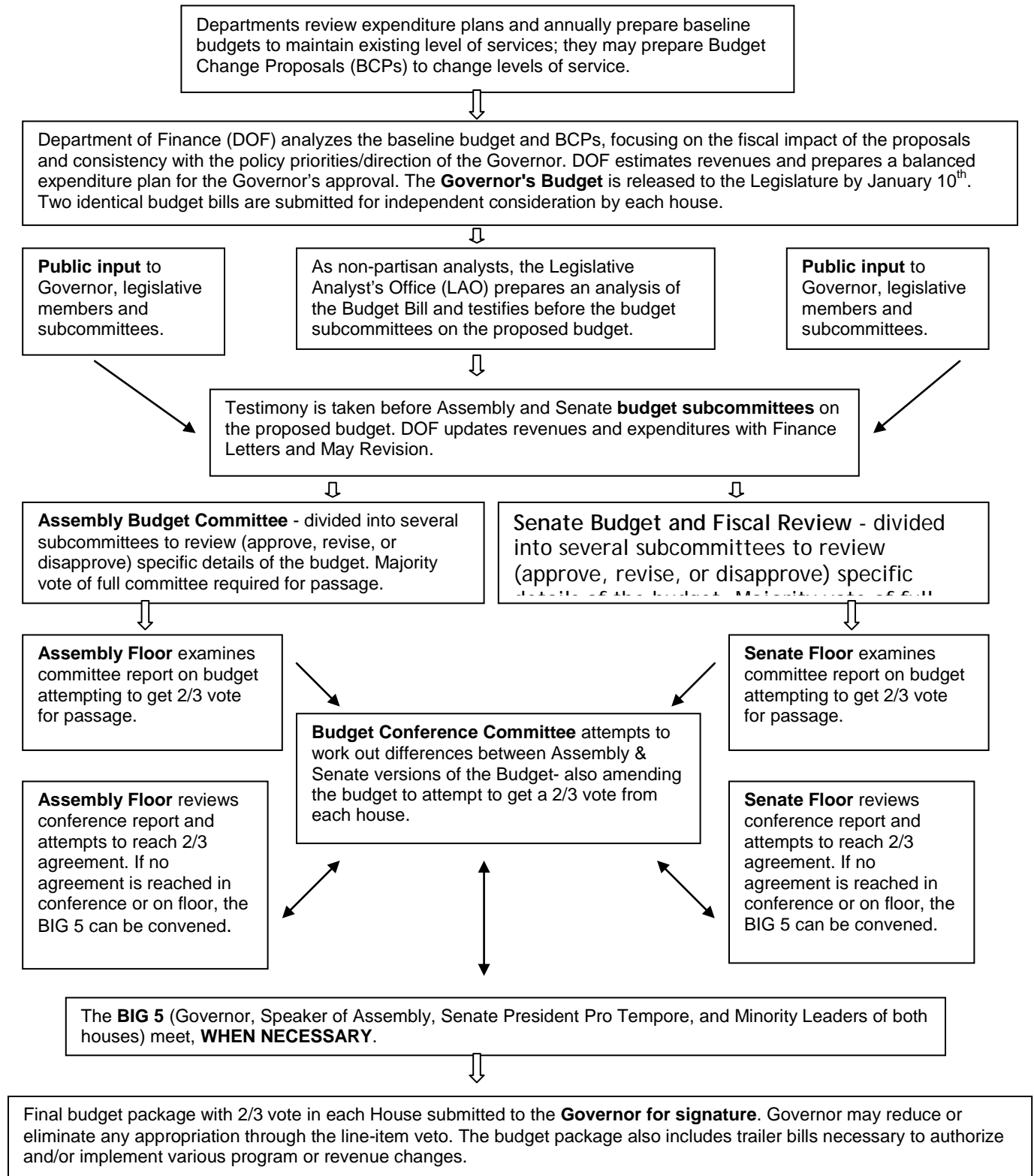
The major provisions of the Department of Motor Vehicles budget include:

- **Penalty and Fee Changes.** The Governor's proposed budget includes \$71 million in increased penalties and fees within the Department of Motor Vehicles to mitigate the fund balance problem of the MVA that has resulted from MVA funds being required to backfill retirement costs as a result of the stock market decline and other significant account pressures. These include:
 - \$25 million from penalty increases of 90 percent for late payments on the \$30 vehicle registration.
 - \$2 million from increasing filing fees to the cost of the hearing for driving-under-the-influence offenders who appeal their suspensions.
 - \$40 million from increasing fees to \$4 per record for information provided to insurers and others who request driver record information.
 - \$4 million (beginning in 2003-04) from the imposition of a \$5 fee to retake the driving test.

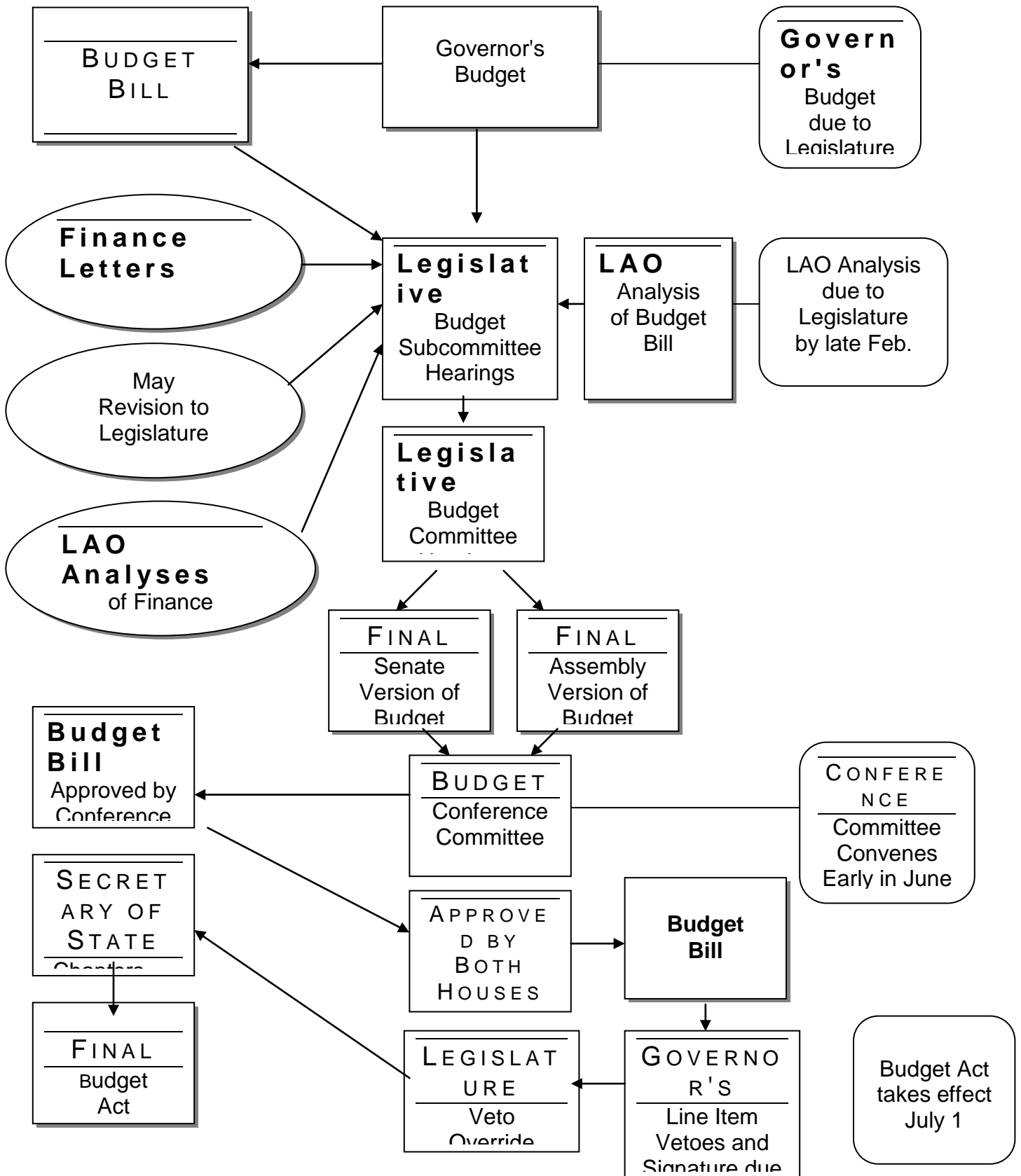
Motor Vehicle Account Reductions. The Governor's proposed budget includes \$10.8 million in reductions to programs funded by the MVA to mitigate the fund balance problem that has resulted from MVA funds being required to backfill retirement costs as a result of the stock market decline and other significant account pressures.

- **Other Significant DMV Investments.** The Governor's proposed budget includes the following significant investments for the DMV:
 - \$2 million to install queuing systems in 33 additional field offices for improved management of customer lines.
 - \$2.5 million to continue the replacement of obsolete terminals in field offices.
 - \$10.5 million for retirement cost increases.
 - \$5 million for additional worker's compensation costs.

THE ANNUAL BUDGET PROCESS



THE LEGISLATIVE BUDGET CYCLE



Appendix D: GLOSSARY OF BUDGET TERMS

AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC): Prior to August 22, 1996, the federal AFDC program provided cash grants to families and children whose incomes were not adequate to meet their basic needs.

AVERAGE DAILY ATTENDANCE (ADA): Regular attendance, is equal to the average number of pupil actually attending classes who are enrolled for at least the minimum school day, or have a valid excuse. In adult education and ROC/ROPs, one unit of ADA is credited for each 525 classroom hours.

ALLOCATION: A distribution of funds, or expenditure limit established for an organization.

ALTERNATIVE PAYMENT PROGRAM (AP): These programs offer an array of child care arrangements for parents, including in-home care, family day care, and center care. This service most often takes the form of a vendor payment issued monthly to a provider selected by the family. The AP program is intended to increase parental choice and accommodate the individual needs of the family. Some county welfare departments are contractors

BUDGET BILL: The budget bill accompanies the Governor's Budget and contains itemized recommended expenditures. The budget bill is prepared by the Department of Finance and is submitted to the chairpersons of the fiscal committees of the Assembly (Budget Committee) and the Senate (Budget and Fiscal Review) for introduction into the Legislature.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS): This is the new welfare program which the state established in response to federal welfare reform law. CalWORKS replaced the former Aid to Families with

under this program.

APPROPRIATION: An authorization from a specific fund to a specific agency to make expenditures/incur obligations for a specified purpose and period of time.

AUGMENTATION: An increase in an allotment.

AUTHORIZED POSITIONS: Those ongoing positions approved in the final budget of the preceding year, less positions abolished because of continued, extended vacancy.

BASELINE BUDGET: A baseline budget reflects the anticipated costs of carrying out the current level of services or activities as authorized by the Legislature. It includes adjustment for cost increases, but does not include changes in level of service over that authorized by the Legislature.

BUDGET YEAR (BY): The next fiscal year beginning July 1 and ending June 30 for which the Governor's Budget is submitted. The year following the current fiscal year.

BUDGET ACT: The budget bill, after signing by the Governor, becomes the Budget Act. Dependent Children (AFDC) program on January 1, 1998.

CAPITOL OUTLAY: Expenditures which result in the acquisition of or addition to major fixed assets (land, buildings, and equipment related to construction).

CARRY-OVER APPROPRIATIONS:

Appropriations with balances available for expenditure in years subsequent to the year of enactment.

CASE DATA SYSTEM (CDS): One of the Statewide Automated Welfare System (SAWS) consortia, consisting of 18 counties.

CATEGORICAL PROGRAMS: A categorical program is typically intended to supplement a regular program by addressing specific areas of specialized need. Categorical programs in education generally target either one or any combination of the following groups: underachievers; at-risk students; gifted and talented; limited-English speakers; handicapped; and those from low income areas.

CHILD WELFARE SERVICES CASE MANAGEMENT SYSTEM(CWS/CMS): A statewide database, case management tool, and reporting system for the Child Welfare Services program.

COMPENSATORY EDUCATION PROGRAMS: Compensatory education programs assist students who are

CONTROL SECTIONS, BUDGET ACT: The Budget Act is divided into sections. Section 1.00 establishes a citation for the legislation. Section 1.50 provides a description of the format of the act. Section 2.00 contains the itemized appropriations. Sections 4.00 through 36.00 are general sections, also referred to as control sections, which place additional restrictions on one or more of the itemized appropriations contained in Section 2.00.

COST OF LIVING ADJUSTMENTS (COLAs) - STATUTORY/DISCRETIONARY: Increases provided in state-funded programs which include periodic adjustments predetermined in state law (statutory), i.e., K-12 education apportionments; and adjustments which may be established at optional levels (discretionary) by the Legislature each year.

CURRENT YEAR: The current State fiscal period, i.e., the time we are in now. State fiscal years begin July 1 and end June 30.

CHILD WELFARE SERVICES (CWS): This program provides various services to abused and neglected children.

educationally disadvantaged due to poverty, language barriers, or cultural differences, or who experience learning difficulties in specific subject areas. State funded compensatory education programs include Economic Impact Aid, Indian Education, and the Miller-Unruh Reading Program.

CONFERENCE COMMITTEE: Each year a conference committee on the budget bill is appointed to resolve the differences between the versions of the budget bill adopted by each house of the Legislature. In appointing members to the conference committee from their respective houses, the Assembly Speaker and the Senate Rules Committee each select two members from those voting "yes" and one member who votes "no" on the budget bill.

CONSORTIA IV: One of the SAWS consortia.

DEFICIT FACTOR: When an appropriation to the State School Fund for revenue limits -- or any special categorical program -- is insufficient to pay all claims for state aid, a deficit factor is applied to reduce the allocation of state aid to the amount appropriated.

ELECTRONIC BENEFIT TRANSFER (EBT): EBT is the automation of benefit delivery process through technology, such as plastic cards, which results in the elimination of paper benefits.

EQUALIZATION AID: The extra state aid provided in some years to a low revenue district to increase its base revenue limit toward the statewide average. No equalization aid was provided from 1989-90 through 1995-96.

EXPENDITURE: Generally, this term designates the amount of an appropriation used for goods and services ordered and received whether paid or unpaid, including expenses, provisions for debt retirement not reported as a liability of the fund from which retired, and capitol outlays where the accounts are kept on an accrual basis or a modified accrual basis. Where the accounts are

kept on a cash basis, the term designates only actual cash disbursements.

FEDERAL FUNDS: In state budget usage, this term describes all funds received directly from an agency of the federal government. State agencies must initially deposit such federal funds in the Federal Trust Fund, a fund in the State Treasury.

FINANCE LETTERS: Proposals made by the Director of Finance to the chairpersons of the committees in each house which consider appropriations to amend the Budget Bill and Governor's Budget from that submitted January 10, to reflect a revised plan of expenditure for the Budget years.

FISCAL YEAR (FY): A 12-month state accounting period which varies from the calendar year and the federal fiscal year. In California state government, the fiscal year runs July 1 through the following June 30. It is the period during which obligations are incurred, encumbrances are made, and appropriations are expended. The Governor's Budget presents three years of detailed fiscal data for the past, current, and budget years.

FULL-TIME EQUIVALENT STUDENTS (FTE): This is similar to the concept of ADA for K-12, but is related to the number of instructional hours provided to students on an annual basis.

FUND BALANCE: Excess of the assets of a fund over its liabilities and reserves.

GENERAL ASSISTANCE (GA): Under current law, counties are required to assist all indigent persons who generally have no other means of support. The GA program serves this purpose.

GENERAL FUND: The General Fund is the predominant fund for financing state operations. It is used to account for revenues which are not specifically designated to be accounted for by any other fund. The primary sources of revenue for the General Fund are the personal income tax, sales tax, and bank and

corporations taxes. The General Fund is used as the major funding source for education (K-12 and higher education), health and welfare programs, youth and adult correctional programs, and tax relief.

GENERAL OBLIGATION (GO) Bonds: General Obligation bonds are a form of long-term borrowing in which the State issues municipal securities and pledges its full faith and credit to their repayment. Interest rates and maturities are set in advance. Bonds are repaid over many year through semi-annual debt service payments. The California Constitution requires that GO bonds be approved by a majority vote of the public and sets repayment of GO debt before all other obligations of the State except those for K-14 education.

IMMIGRATION REFORM AND CONTROL ACT (IRCA): In 1986, the Federal Government passed IRCA, allowing for changes in immigration status for over 1.8 million individuals and their families. This act is more commonly referred to as "amnesty for immigrants".

IN HOME SUPPORTIVE SERVICES (IHSS): This program provides services to eligible aged, blind, and disabled persons in order to enable them to remain independent and in their own homes.

INTERIM STATEWIDE AUTOMATED WELFARE SYSTEM (ISAWS): One of the SAWS consortia consisting of 35 small counties.

JOB TRAINING PARTNERSHIP ACT (JTPA): The federal act which authorizes job training programs for primarily youth and unskilled adults who are economically disadvantaged, or who face barriers to employment.

LEASE-REVENUE BONDS: Lease revenue bonds are a variant of revenue bonds used in the state's capitol outlay program. The revenue stream backing the bond is created from lease payments made by the occupying department. The entity issuing the bonds (usually Public Works Board or a joint authority) retains title to the facility until

the debt is retired. As with revenue bonds, lease-revenue bonds do not require voter approval.

LIMITED-TERM POSITIONS: A limited-term position is any position which has been authorized for a specific length of time with a set termination date. Limited term positions may be authorized during the budget enactment process or in transactions approved by the Department of Finance.

LOCAL ASSISTANCE: Expenditures made for the support of local government activities.

LOS ANGELES ELIGIBILITY, AUTOMATED DETERMINATION, EVALUATION REPORTING SYSTEM (LEADER): One of the SAW consortia, LEADER is the automated system for Los Angeles County.

MAINTENANCE OF EFFORT LEVEL

(MOE LEVEL): Generally, the MOE level represents the level of funding that a government entity must maintain as a requirement for receiving other funds.

MAY REVISION: An annual update to the Governor's proposed January budget containing revised General Fund revenues, and specified expenditures for the Governor's Budget. The Department of Finance is required to submit its May Revision to the Legislature by May 14.

MEGA-ITEM: The mega-item was created in 1992. The mega-item provides funding for 37 education categorical programs is a single appropriation. Some of the major programs in the mega-item are Court-Ordered Desegregation; Economic Impact Aid; Home-to-School Transportation;

Instructional Materials, and the School Improvement Program.

MINOR CAPITAL OUTLAY: Minor Capital Outlay consists of construction projects or equipment acquired to complete a construction project estimated to cost less than \$200,000.

PAST YEAR: The fiscal year just completed. (See Fiscal Year.)

PERSONAL INCOME TAX (PIT): The PIT is similar to the federal income tax, taxing net income. Tax brackets range from 1 to 50 percent of net income. The state's PIT is one of the most progressive in the nation, which means that, compared to other states, California collects less from low and moderate income earners and more from taxpayers with high and very high incomes.

PERSONNEL YEARS: The actual or estimated portion of a position expended for the performance of work. For example, a full-time position which was filled by an employee for half a year would result in an expenditure of .5 personnel years.

POSITIONS: (See Authorized Positions.)

PROPOSITION 98: An initiative passed in November 1988, and amended in the June 1990, election which provides a minimum funding guarantee for school districts, community college districts, and other state agencies that provide direct elementary and secondary instructional programs for students in Kindergarten through grade 14 beginning with fiscal year 1988-89.

PROPOSITION 99: Funds dedicated to various health and education programs pursuant to a voter-passed initiative and subsequent legislation. The source of revenue for Proposition 99 is a portion of the tax on tobacco products.

REAPPROPRIATION: The extension of an appropriation for expenditure beyond its set termination date and/or for a new purpose. Reappropriations are usually authorized by the Legislature for one year extensions at a time.

RECIDIVISM: A tendency to relapse and return to criminal habits, and subsequently be reincarcerated.

REVENUE: The addition to cash or other current assets of governmental funds (receipt) which do

not increase any liability or reserve and do not represent the recovery of expenditure, i.e., reimbursements. Generally, revenue is derived from taxes, licenses, and fees or investment earnings.

REVENUE BONDS: Revenue bonds are a form of long-term borrowing in which the debt obligation is secured by a revenue stream produced by the project. Because revenue bonds are not backed by the full-faith credit of the state, they may be enacted in statute. Revenue bonds do not require voter approval.

REVENUE LIMIT: The maximum amount of revenue that a district may collect annually for general purposes from local property taxes and state aid.

SALES TAX: The sales tax is a tax on the sale of retail goods. Many basic necessities such as food for home use and prescription drugs are exempt from the sales tax. Other sales tax exemptions exist to promote various industries.

SPECIAL FUND: Taxes and revenues restricted by law for specific expenditures. Funds are primarily for the regulation of businesses, professions and vocations.

STATE OPERATIONS: Expenditures for the support of state government, exclusive of capital investments and expenditures for local government activities.

STATEWIDE AUTOMATED CHILD SUPPORT SYSTEM (SACHS): The state's automated system for child support enforcement.

STATEWIDE AUTOMATED WELFARE SYSTEM (SAWS): This system would automate welfare eligibility determination, benefit computation, benefit delivery, and case management.

STATEWIDE FINGERPRINT IMAGING SYSTEM (SIS): The system for fingerprinting welfare recipients.

SUPLANT: In budget terms, supplanting is generally the act of replacing an existing source

of funds with a new fund source to provide the same level of service.

SUPPLEMENTAL FUNDS: Funds provided to increase services or to provide for equalization.

SUPPLEMENTAL REPORT LANGUAGE: A report prepared by the Legislative Analyst and adopted by the conference committee on the budget bill, which contains language on statements of intent or requests for studies.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PROGRAM (SSI/SSP): This program provides cash assistance to eligible aged, blind, and disabled persons.

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF): Established on August 22, 1996, the federal TANF program replaced the AFDC program. The TANF program provides welfare block grants to state to provide time-limited benefits to families.

UNEMPLOYMENT INSURANCE (UI): The program provides benefit payments to eligible workers who are temporarily unemployed.

