

# FINAL REVIEW

## 2004-2005 STATE BUDGET

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ASSEMBLY BUDGET COMMITTEE



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# Overview & Summary of Charts

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## Overview

The 2004 State Budget Act encompasses many of the most significant fiscal and critical policy decisions made by the Legislature and the Administration.

On January 9, 2003, Governor Arnold Schwarzenegger introduced his proposed budget for the 2004-05 fiscal year. The proposed budget contained \$77.6 billion in available General Fund resources, \$76.1 billion in General Fund expenditures, and a \$635 million reserve (plus \$929 million reserved for encumbrances). The proposed budget included a total of \$16.2 billion in General Fund solutions.

The Governor's May Revision contained \$79.5 billion in available General Fund resources, \$77.6 billion in General Fund expenditures, and a \$998 million reserve. The revised budget included a total of \$15.1 billion in General Fund solutions. Subsequent to the release of the May Revision, the Administration made various adjustments to their proposal that resulted in the revised budget including \$79.6 billion in available General Fund resources, \$78.3 billion in General Fund expenditures, and a \$382 million reserve.

Through the Budget Subcommittee and the Budget Conference Committee processes, the entire budget was evaluated, debated and ultimately crafted by the Legislature. The Legislature rejected many of the Governor's most problematic proposals, primarily in the areas of Higher Education, Health Access, and Human Services. The final budget does not include any new general tax increases, and as a result maintains critical budget solutions proposed by the Governor, such as:

- Suspending the Proposition 98 guarantee for K-14 Education for the budget year and deferring past year Proposition 98 contributions, which together reduces school funding by \$3 billion;
- Raising student fees at every level of Higher Education;
- Cutting funds for local governments by \$1.3 billion; and
- Suspending Proposition 42, which reduces transportation funding for the budget year by \$1.2 billion.

In total, the 2004 State Budget Act contains \$80.4 billion in available General Fund resources, \$78.7 billion in General Fund expenditure's, and a \$768 million reserve, of which \$302 million is considered for Proposition 98 purposes and \$466 million is considered for non-Proposition 98 purposes. The revised budget included a total of \$13.9 billion in General Fund solutions.

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## General Fund Summary for 2004-05

(dollars in millions)

	Governor's Adjusted May Revision	As Passed by the Legislature	As Signed into Law
Beginning Balances	\$2,904 <sup>1</sup>	\$3,115	\$3,127
Revenues and Transfers for 2004-05	76,688 <sup>2</sup>	77,253	77,251
<b>Total Available Resources</b>	<b>\$79,592</b>	<b>\$80,368</b>	<b>\$80,378</b>
Expenditures	\$78,281 <sup>3</sup>	\$78,761	\$78,681
<b>Fund Balance</b>	<b>\$1,311</b>	<b>\$1,607</b>	<b>\$1,697</b>
Reserves:			
Liquidation of encumbrances	\$929	\$929	\$929
Economic Uncertainties*	382	678	768
<b>Prop. 98 Reserve</b>		(268)	(302)
<b>Non Prop 98 Reserve</b>		(410)	(466)

\*This amount does not include \$3.7 billion from Economic Recovery Bonds (ERBs) that could be available for economic uncertainty purposes, this is \$2 billion more than what would have been available under the Governor's January budget.

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<sup>1</sup> Beginning balance adjusted to reflect increase of \$88 million in prior year adjustments from Tax Amnesty proposal.

<sup>2</sup> Revenues and Transfers adjusted to reflect a decrease of \$200 million due to less in Tribal Gaming revenues and an increase of \$200 million due to reduced General Fund loan repayment to TCRF.

<sup>3</sup> Expenditure adjusted to reflect SRA fee backfill (\$45 million), funding Animal Shelter Mandate (\$14 million), withdrawal of Sexual Violent Predator proposal (\$13 million), reduced savings from pharmacy rate negotiations (\$28 million), modification to Corrections Medical proposal (\$11 million), appropriation for new Deficiency process (\$48 million), funding of all costs for Delta Levee repairs (\$25 million), increased contribution for STRS (\$94 million), reduced savings from employee comp negotiations (\$428 million), increased spending due to lowered federal funds expectations (\$80 million), and increased savings from cost of health benefits for employees and retirees (-\$83 million).

The following footnotes explain the Administration's changes to their May Revision figures:

## 2004-05 Expenditures by Fund

(dollars in millions)

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

## General Fund Solutions by Category

(dollars in millions)

Category	Prior Years	2004-05	Total	% of Total
Cuts	-\$762	-\$3,235	-\$3,998	28.7%
Cost Avoidance	-1,000	-3,424	-4,424	31.7%
Fund Shifts	-74	-1,489	-1,563	11.2%
Loans/Borrowing	1,230	-3,373	-2,143	15.4%
Transfers/Other Revenues	-241	-1,573	-1,814	13.0%
<b>Total</b> (may not add due to rounding)	<b>-\$848</b>	<b>-\$13,095</b>	<b>-\$13,944</b>	<b>100.0%</b>

## General Fund Solutions by Category

(dollars in millions)

Category	Prior Years	2004-05	Total	% of Total
Legislative, Judicial, Executive	-\$13	-\$183	-\$197	1.4%
State and Consumer Affairs	170	-484	-314	2.3%
Business, Trans. & Housing	-42	-1,533	-1,575	11.3%
Technology, Trade, and Commerce	-7	--	-7	0.0%
Resources	-169	-109	-277	2.0%
Environmental Protection	0	-10	-10	0.1%
Health and Human Services	-119	-1,285	-1,405	10.1%
Youth and Adult Correctional	-9	-224	-234	1.7%
K-12 Education (non Prop 98)	-2	-171	-172	1.2%
K-14 Education (Prop 98)	-999	-2,004	-3,003	21.5%
Higher Education (non Prop 98)	-167	-763	-929	6.7%
Local Government (ERAF)	0	-1,300	-1,300	9.3%
Labor Agency	-1	-3	-4	0.0%
General Government	-924	-1,877	-2,801	20.1%
Economic Recovery Bonds	1433	-2,012	-579	4.1%
Debt Service Savings (ERAF)	0	-1,136	-1,136	8.1%
<b>Total</b> (may not add due to rounding)	<b>-\$848</b>	<b>-\$13,095</b>	<b>-\$13,944</b>	<b>100.0%</b>



# Health and Human Services

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## Department of Health Services

### ■ MAJOR ACTIONS

- ◆ **Aids Drug Assistance Program (ADAP).** Provides full funding of ADAP, as proposed in the May Revision.
- ◆ **Caseload Caps on Health programs.** Provides full funding for all programs that the Governor proposed to be capped in his January budget proposal. The May Revision also provided full funding.
- ◆ **Medi-Cal Provider Rate Reduction.** Provides full funding for Medi-Cal provider rates. The Governor originally proposed a 10 percent provider rate reduction in its Mid-Year reduction and January 10 budget proposal. This was in addition to the five- percent rate reduction enacted as part of the 2003-2004 Fiscal Year Budget. The state has been enjoined by state courts from implementing the five- percent proposal on the Medi-Cal Program. The Court decision did not affect the state only health programs as the case was in the federal courts. The May Revision rescinded the proposed 10 percent rate reduction. The five percent rate reduction was left intact for the reductions for Medi-Cal Managed Care Plans and state-only programs such as California Children's Services and Genetically Handicapped Persons Program, Child Health and Disability Prevention Program, Breast and Cervical Cancer Early Detection Program and Muti-Purpose Senior Services Program. The Conference Committee exempted the state only programs from the five-percent rate reduction, leaving Medi-Cal Managed Care subject to the five percent rate reduction.
- ◆ **Healthy Families.** Trailer bill language authorizes the Managed Risk Medical Insurance Board to increase the Healthy Families insurance premiums for families with incomes between 200 percent and 250 percent. The 2004-2005 Fiscal Year Budget provides funding for Managed Risk Medical Insurance Board to establish the premium increase.
- ◆ **California Children's Services and Genetically Handicapped Persons Program Rate Restoration.** Restores the provider rates for the state-only programs that were not affected by the Court's decision to enjoin the state from applying the rates to the Medi-Cal Program. The state only program

providers are on par with the Medi-Cal providers as a result of the action by the Conference Committee.

- ◆ **Federally Qualified Health Centers/Rural Health Centers (FQHC/RHC).** Rejects the Governor's proposal to repeal the alternate reimbursement methodology for FQHCs and RHCs.
- ◆ **Pharmacy Reimbursement.** Approves the May Revision proposal to fundamentally change the reimbursement of pharmacists. There are two components to the pharmacist reimbursement: reimbursement for the drugs dispensed and a dispensing fee. Currently the pharmacists are overpaid for the cost of ingredients and underpaid for the professional service of dispensing the drugs. The new methodology reduces the reimbursement for drugs and raises the professional dispensing fee for the pharmacists, average wholesale price minus seventeen percent for the ingredients and \$7.25 for retail pharmacy dispensing fee and \$8 for long-term care closed door pharmacies. In addition, funding is provided for reimbursement of not-for-profit HIV/AIDS clinics which offer comprehensive medical services, including primary medical care, mental health, medical and/or psychosocial case management and pharmacy services, to Medi-Cal recipients receiving HIV/AIDS specific antiviral drugs.
- ◆ **Genetic Disease Testing.** Directs the Department of Health Services to expand statewide screening of newborns for genetic disorders to include tandem mass spectrometry screening for fatty acid oxidation, amino acid and organic acid disorders and congenital adrenal hyperplasia. Information with respect to the disorders is to be provided by the Department to all women receiving prenatal care and to all women admitted to a hospital for delivery. The cost of the program is to be covered by fees levied on providers and health plans.

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## Department of Developmental Services

### ■ MAJOR ACTIONS

- ◆ **Statewide Purchase of Services Standards.** Rejects the Governor's proposal for Statewide Purchase of Services Standards for the Regional Center System.
- ◆ **The Family Cost Participation Program.** Establishes a family co-payment program that would require families with incomes 400 percent of Federal Poverty Level or more to make co-payments for family services received under the aegis of the Regional Center System. The co-payment is sensitive to the family's income composition and required for respite, day care and camping.



- ◆ **Closure of Agnews Developmental Center.** Approves the May Revision proposal to delay the closure of the Agnews Developmental Center for one year. The Administration proposed spending \$11 million on upgrading the Sonoma Developmental Center so that up to 200 clients of Agnews could be placed there. The Conference Committee rejected the upgrades to Sonoma and instead directed the Department to utilize the funds for developing the community capacity to receive the clients from Agnews.
- ◆ **Cost Containment.** Establishes the Family Cost Program for the purpose of assessing cost participation for parents for selected services for children between the ages of 3 and 17 living in families with more than 400 percent of the federal poverty level. Continues successful cost containment measures adopted as part of the 2003-2004 Fiscal Year budget. The measures include an unallocated reduction to the Purchase of Services by Regional Centers, caps on payment to providers, and limitation on the start-up of new programs to those that are needed for the health and safety of the clients of the Regional Centers.

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## Department of Mental Health

### ■ MAJOR ACTIONS

- ◆ **AB 3632 Special Education Pupils Mandate.** Increases commitment to fund mandates for special education pupils to \$100 million in federal special education funding.
- ◆ **Children's System of Care.** The Governor vetoed \$20 million of General Funds from the budget that was provided to continue a continuum of care as part of a mental health safety net for children.
- ◆ **Early Mental Health Initiative.** Restores \$5 million in funding for cost effective programs for children in grades K - 3 to address early mental health problems. Also, provides for one departmental staff to run the grant process.
- ◆ **Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT).** Rejects the Administration's proposal to increase the counties' share of cost to 20 percent from 10 percent for the growth in the program. But, increases auditing of county claims for EPSDT expenditures for estimated savings of nearly \$9 million.
- ◆ **Coalinga State Hospital.** Delays the opening and activation of the newest state mental hospital in Coalinga by one month for a savings of nearly \$10 million General Fund.

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## Department of Social Services

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### CalWORKS

#### ■ MAJOR ACTIONS

- ◆ **CalWORKs Reforms.** Provides statutory changes to the CalWORKs program. These changes include:
  - ◆ **Universal Engagement.** Requires all CalWORKs participants to sign a welfare-to-work plan within 90 days of becoming eligible for CalWORKs.
  - ◆ **Expanded Work Requirements.** Requires all CalWORKs participants to engage in at least 20 hours of core work activities such as unsubsidized work and community services.
  - ◆ **Sanction Report.** Requires the DSS to report to the Legislature on the CalWORKs sanction policy, including the policy's implementation, and effect on work participation.
- ◆ **CalWORKs Grants.** Provides a 2.57 percent cost of living adjustment (COLA) for nine months of the fiscal year. The Governor's budget assumed that grant levels would be reduced by 5 percent and that no COLA would be provided to CalWORKs grants in the budget year.
- ◆ **CalWORKs Employment Services.** The Governor vetoed \$40 million for CalWORKs Employment Services leaving \$10 million above the May Revision funding level to partially address a \$150 million county shortfall in funding for Employment Services in the budget year. In addition, up to \$40 million in current year unspent single allocation funds would be reallocated to counties in the budget year.
- ◆ **TANF funds for Juvenile Probation.** Restores \$134 million in funding for county juvenile probation programs using General Fund rather than TANF in the Board of Corrections budget. The Governor's budget proposed to allow these county funds to sunset on October 1, 2004. These funds comprise a large percentage of the funding provided to counties for their juvenile probation activities.
- ◆ **Tribal TANF.** Reduces Tribal TANF funding by \$30.5 million but allows tribes to reallocate \$15 million in current year unspent funding. The trailer bill contains language to allocate future Tribal TANF funds based upon the actual caseload served by the tribes.

- ◆ **Indian Health Clinics.** Provides \$2.1 million for Indian Health Clinics reappropriated from prior year funds to partially restore the program. The Governor proposed to eliminate this program.
- ◆ **TANF Transfers.** Eliminates \$180 million in TANF transfers. The Governor's budget proposed to use these transfer funds to replace General Fund obligations in non-CalWORKs related programs.

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## Food Stamps

### ■ MAJOR ACTIONS

- ◆ **Transitional Food Stamps and expanded Food Stamp eligibility.** Continues recent legislation that expanded eligibility for the food stamp program. The Governor proposed repealing this program in January, but rescinded this proposal after analysis demonstrated that the proposal would result in net loss of General Fund revenue.

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## In Home Supportive Services

### ■ MAJOR ACTIONS

- ◆ **IHSS Residual Program Waiver.** Adopts a proposed waiver in order to enable cases receiving care in the IHSS Residual Program to qualify for federal funds, resulting in \$209 million in savings. In the May Revision, the Governor chose to seek federal funding for this program in lieu of a January proposal to eliminate all IHSS services that are not eligible for federal funding.
- ◆ **IHSS Provider Wages.** Continues existing law that requires the state to match county wages up to \$9.50 per hour plus \$.60 per hour for benefits. The Governor proposed to reduce the state's participation to the minimum wage level of \$6.75.
- ◆ **IHSS Employer of Record.** Continues existing law that requires all counties to have an employer of record. An employer of record is necessary for homecare workers to organize for purposes of collective bargaining.
- ◆ **IHSS Quality Assurance Initiative.** Approves the May Revision proposal to save \$11.4 million by improving the assessment of the IHSS caseload. The Quality Assurance Initiative will require the Department of Social Services (DSS) to adopt standard task guidelines and conduct case reviews as a

quality assurance program and prohibit an individual convicted of defrauding government health programs from providing or receiving IHSS.

- ◆ **Necessary Domestic Services.** Rejects proposed trailer bill language that would have sought a federal waiver to allow the state to cease providing some domestic services to IHSS recipients that live with relatives.

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## Child Care and Development and Afterschool

### ■ MAJOR ACTIONS

- ◆ **Time-limiting of Stage 3 Child Care.** Rejects Governor's proposal to institute a time limit on CalWORKs Stage 3 child care that would take effect in future years.
- ◆ **Tiered Reimbursement.** Rejects Governor's proposal to set child care providers maximum reimbursement rates at levels that reflect the market and accreditation levels of the providers. The proposed reimbursement levels would have reduced the maximum rate for most of the providers in the State.
- ◆ **Tiered Eligibility.** Rejects the Governor's proposal to set the maximum income a family could earn and still qualify for child care at lower levels for most counties in the state. The proposal would have set the maximum income level for each county at one of three different maximum income levels that corresponded with the county's cost of living.
- ◆ **Increase Family Fees.** Rejects the Governor's proposal to increase family fees for child care and expand the number of families required to pay a family fee.
- ◆ **Child Protective Services.** Limits eligibility for child protective services referrals to three months for non-county child protective services (CPS) programs and one year for county child protective services certified child care. After one year, child welfare services certified CPS cases could have their child care re-authorized.
- ◆ **Child Care Fiscal Integrity.** Requires California Department of Education to conduct an error rate study to determine the error rate, overpayments, and fraud in child care programs. Requires California Department of Education to develop best practices, in consultation with stakeholders, for the prevention and elimination of child care fraud and programmatic errors and the identification and collection of child care overpayments. Requires California Department of Education to amend child care contracts to implement best

practices for the prevention of fraud, overpayments, and errors, effective July 1, 2005.

- ◆ **Child Development Policy Advisory Committee.** Eliminates funding for the Child Development Policy Advisory Committee. Funding for the committee was vetoed in the 2003-04 Budget.
- ◆ **Afterschool programs.** Establishes afterschool programs as the preferred placement for 11 and 12 year olds. Allows expansion of afterschool enrollment caps to accommodate additional 11 and 12 year old students. Allocates \$61.8 million in new 21<sup>st</sup> Century federal funds, with a priority for serving 11 and 12 year olds and an increased allocation for high school programs of \$5 million.
- ◆ **One-time Federal Afterschool Funds.** Allocates \$20 million to expand grant caps for 11 and 12 year olds and to expand the sessions for afterschool programs. Allocates the balance of the one-time funds (about \$5.4 million) for training, standards-aligned materials and other allowable one-time costs.

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## Immigrant Programs

### ■ MAJOR ACTIONS

- ◆ **Immigrant Programs.** Provides full funding for the California Food Assistance Program (CFAP), Cash Assistance Program for Immigrants (CAPI), and CalWORKs for Legal Immigrants at the State level. The Governor's January Budget proposed to block grant these programs to counties at a level below full funding.
- ◆ **SSI Advocacy Project.** Approves requirements that counties with large CAPI populations implement a program designed to increase the number of CAPI recipients that qualify for federal SSI/SSP. The advocacy project will save \$3.1 million in the budget year.
- ◆ **California Cash Veterans Benefit Program.** Restores funding for the California Cash Veterans Benefit program, which allows 1,700 Filipino Veterans of WWII that left California to return to the Philippines to maintain their SSI/SSP grant levels at the level they received in California.

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## Child Welfare and Foster Care

### ■ MAJOR ACTIONS

- ◆ **Foster Care Reform.** Approves \$21.9 million in savings by 1) reducing foster care caseload to reflect the outcome of reforms already enacted in AB 636 (Steinberg), 2) shifting to an annual reassessment of foster care caseloads, 3) and eliminating State reimbursement of audit costs for small group home providers. Rejects other proposals that would have reduced the foster family rates for probate guardians and relative caregivers and would have empowered the Department of Social Service to issue regulations regarding contracting and auditing of foster care contractors.
- ◆ **Child Welfare Services Funding.** The Governor vetoed \$24.1 million (\$17.1 million General Fund) and budget bill language that eliminated the county share for \$40 million in Child Welfare funding. However, the Governor later signed SB 1612 (Speier) which restored this funding. If the funding had not been restored, the loss could have resulted in the loss of over 700 front line social workers needed to respond to 130,000 child abuse investigations, or 49,000 children that could not receive the help they need to find a permanent home outside of foster care.
- ◆ **County Share for Child Welfare Services Augmentation Funding.** Rejects the proposal that would require counties to match state and federal funds given to them to address a critical shortage in child welfare social workers.
- ◆ **Child Welfare Services-Case Management System (CWS-CMS).** Modifies the CWS-CMS computer system to allow enhanced federal participation. The state's effort will focus on addressing federal concerns about the procurement and structure of the current system. Also requires the Department of Social Services to consider various options for the re-procurement of the system in future years.

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## Supplemental Security Income/State Supplemental Program (SSI/SSP)

### ■ MAJOR ACTIONS

- ◆ **Federal COLA pass through.** Rejects Governor's proposal to not pass-through the 2.2 percent January 1, 2005 federal COLA for the SSI portion of the SSI/SSP program.

- ◆ **State COLA.** Delays the 2.75 percent COLA for the SSP portion of the SSI/SSP program until April 1, 2005.

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## Community Care Licensing

### ■ MAJOR ACTIONS

- ◆ **Community Care Licensing Fees.** Allows for an increase in the Community Care Licensing Fees during the budget year, but does not authorize future fee increases for General Fund savings of \$3.9 million. The Governor's budget proposed raising the licensing fee over three years to fully cover the costs of the Community Care Licensing Division.
- ◆ **Fingerprinting fee for small child care providers.** Accepts, for one year, the Governor's proposal to require small child care providers to pay the fees the FBI and Department of Justice charge for fingerprinting as part of the Community Care Licensing process. Under current law, the state will begin paying for these fees again on July 1, 2004
- ◆ **Increased Community Care Licensing Staffing.** Authorizes \$5.9 million for 76.7 positions to handle an increase in workload and a backlog of community care licensing workload.

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## Department of Child Support Services

### ■ MAJOR ACTIONS

- ◆ **Federal Automation Penalty.** Defers the \$220 million federal penalty to Fiscal Year 2005-2006. Counties would not have to pay a penalty in the budget year.
- ◆ **Local Share of Child Support Collections.** Continues the reimbursement of the county share of child support collections, The Governor's budget had proposed that the State keep the estimated \$39 million county share in the budget year.
- ◆ **Child Support Statewide Automation System.** Provides \$18.2 million to continue the Child Support Statewide Automation System. The state must complete this system to avoid the federal automation penalty in future years.

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## Department of Aging

### ■ MAJOR ACTIONS

- ◆ **Block Granting of Aging Funds.** Rejects the Governor's proposal to block grant and reduce funding for community-based services to local agencies on aging.

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## Department of Community Services and Development

### ■ MAJOR ACTIONS

- ◆ **Naturalization Services Program.** Appropriates \$1.5 million to conduct citizenship training through community-based nonprofits.





# K-12 Education

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## Department of Education

### ■ MAJOR ACTIONS

- ◆ **Total Proposition 98 for K-12 education.** Provides a Proposition 98 per-pupil funding level of \$7,004 for the fiscal year 2004-05, an increase of \$173 per pupil over the revised 2003-04 funding level. (According to the LAO these amounts count deferred amounts toward the fiscal year in which school districts have committed the resources).
- ◆ **Automatic pay-off of prior-year Proposition 98 settle-up funds.** Makes annual appropriations of \$150 million each fiscal year, beginning in the 2006-07 fiscal year, to school districts and community colleges until the Director of Finance reports to the Legislature that the totality of the appropriations have paid off any amount that the state owes ("Proposition 98 settle up funds") to fulfill the minimum Proposition 98 guarantee during the 1995-96 through 2003-04 fiscal years.
- ◆ **Growth and COLA.** Fully funds growth and COLA for revenue limits and categorical programs (at a 2.41 percent COLA rate).
- ◆ **Deferred maintenance.** Provides an increase of \$66 million over the level proposed by the Governor in his May Revise. This would bring total funding for this program to \$250 million, an increase of \$173 million over last year's funding level. The total funding level of \$250 million would increase funding substantially above levels in previous years. Increased funding for this program is consistent with a) funding priorities expressed by the Education Coalition and b) the priorities of the plaintiffs in the Elizer Williams et. al. v. State of California lawsuit.
- ◆ **Instructional materials.** Provides an increase of \$88 million over the level proposed by the Governor in his May Revise, for a total funding level of \$363 million. This funding level includes a \$30 million set-aside for instructional materials for English learners (see below). The total funding level of \$363 million would mean an increase of \$188 million over last year's funding level and would increase funding substantially above levels in recent years. Increased funding for this program is consistent with a) funding priorities expressed by the Education Coalition and b) the priorities of the plaintiffs in the Elizer Williams et. al. v. State of California lawsuit.

- ◆ **Supplemental Instructional Materials for English Learners.** Sets aside \$30 million in instructional materials funding (see above) on a one-time basis for supplemental instructional materials that help English learners master English. This funding is intended to pay for materials that supplement the base instructional materials that are aligned to state academic standards.
- ◆ **Funding for Williams Lawsuit Settlement.** Provides \$138 million in one-time funding for instructional materials funding for the lowest performing 20% of schools (schools in the lowest two deciles, using the Academic Performance Index). This funding is intended to be consistent with the goals of settling the Elizer Williams et. al. v. State of California lawsuit, in which plaintiffs in certain school districts argue that the state does not do enough to ensure that all students have access to a) adequate instructional materials, b) clean and sufficient facilities and c) highly-trained teachers. The budget also leaves \$50 million in one-time funds available (unappropriated) for any provisions related to settling the lawsuit. This funding is appropriated in SB 550 (Vasconcellos) and SB 6 (Alpert), which were part of a package of bills that were approved by the Legislature subsequent to the approval of the budget to implement the Williams lawsuit settlement.
- ◆ **Revenue limit deficit reduction.** Provides \$270 million for revenue limit deficit reduction funding (discretionary funding increase of \$270 million, provided to all districts on an equal basis), as proposed by the Governor in April.
- ◆ **Revenue limit equalization.** Provides \$110 million for revenue limit equalization, as proposed by the Governor in his May Revise. This would provide additional discretionary funding to districts based on their pupils' excused absence<sup>4</sup> rates in the late 1990's, with more funding going to districts with low excused absence rates and less going to districts with high excused absence rates. Also contains intent language to enact a new formula for any additional equalization funds approved in subsequent fiscal years.
- ◆ **Categorical reform.** Rejects the Governor's proposal to roll funding for numerous categorical programs into the revenue limit. Instead, the subcommittee deferred to other legislative proposals currently being considered that would combine different similar categorical programs into subject-related block grants.

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<sup>4</sup> Pupil absences due to illness, doctor's appointment, family emergencies, etc.

- ◆ **Special Education:** Augments by:
  - ◆ \$31 million in federal special education funding to help pay for the costs of providing mental health services to special education students, pursuant to implementing legislation this augmentation brings total funding for this purpose to \$100 million.
  - ◆ \$37.7 million in federal special education funds to pay for a new formula for foster children in special education, including those who are in licensed children's institutions who attend nonpublic schools; the trailer bill also includes language to implement the new formula.
  - ◆ The Governor vetoed legislation that the legislature provided which gave \$700,000 in federal special education funds for 4 new family empowerment centers, which assist families of special education children in understanding the special education system and in obtaining appropriate services for their children.
  
- ◆ **Childcare:**
  - ◆ **Time-limiting of Stage 3 Child Care.** Rejects Governor's proposal to institute a time limit on CalWORKs Stage 3 child care that would take effect in future years.
  - ◆ **Tiered Reimbursement.** Rejects Governor's proposal to set child care providers maximum reimbursement rates at levels that reflect the market and accreditation levels of the providers. The proposed reimbursement levels would have reduced the maximum rate for most of the providers in the State.
  - ◆ **Tiered Eligibility.** Rejects Governor's proposal to set the maximum income a family could earn and still qualify for child care at lower levels for most counties in the state. The proposal would have set the maximum income level for each county at one of three different maximum income levels the corresponded with the county's cost of living.
  - ◆ **Increase Family Fees.** Rejects Governor's proposal to increase family fees for child care and expand the number of families required to pay a family fee.
  - ◆ **Child Protective Services.** Limits eligibility for child protective services referrals to three months for non-county child protective services (CPS) program and one year for county child protective services certified child care. After one year, child welfare services certified CPS cases could have their child care reauthorized.

- ◆ **Child Care Fiscal Integrity.** Requires CDE to conduct an error rate study to determine the error rate, overpayments, and fraud in child care programs. Requires CDE to develop best practices, in consultation with stakeholders, for the prevention and elimination of child care fraud and programmatic errors and the identification and collection of child care overpayments. Requires CDE to amend child care contracts to implement best practices for the prevention of fraud, overpayments, and errors, effective July 1, 2005.
- ◆ **Child Development Policy Advisory Committee.** Eliminates funding for the Child Development Policy Advisory Committee. Funding for the committee was vetoed in the 2003-04 Budget.
- ◆ **Afterschool programs.** Establishes after school programs as the preferred placement for 11 and 12 year olds. Allows expansion of after school enrollment caps to accommodate additional 11 and 12 year old students. Allocates \$61.8 million in new 21<sup>st</sup> Century federal funds, with a priority for serving 11 and 12 year olds and an increased allocation for high school programs, for a total of \$5 million. Allocates \$20 million to expand grant caps for 11 and 12 year olds and to expand the sessions for after school programs. Allocates the balance of the one-time funds (about \$5.4 million) for training, standards-aligned materials, and other allowable one-time costs.
- ◆ **Old Mandate Claims.** Provides \$58.4 million in one-time funds to pay off a portion of the total outstanding mandate claims that the state owes to local school districts. Specifically, the funding will pay the oldest unpaid claims that are no longer subject to audit, based on current law.
- ◆ **Federal Reading First funds.** Provides \$29.6 million in federal Title I Reading First funds to provide diagnostic reading assessments and remedial reading instruction to young students being considered for referral to special education, as proposed in the May Revise. Also requires any further changes to the program be considered through legislation, and contains other clarifying language that reflect legislative priorities.
- ◆ **Federal Title I School Improvement Funding.** Provides \$68 million in federal Title I funding as required by federal law to help struggling schools and districts pursuant to legislation enacted during this session.
- ◆ **Emergency Loans.** Assumes \$167 million in savings, a part of an administration proposal to refinance emergency loans through the state's Infrastructure Bank, pursuant to legislation that is currently being considered by the Legislature. Also provides \$60 million in non-Proposition 98 funds for emergency loans legislation for Vallejo City Unified School District.

- ◆ **Healthy Start.** Restores the \$2 million cut that the Governor proposed in his January 9 budget, which would have eliminated funding for the program. This program provides grants to school districts to set up school-based centers to serve the health-related education needs of the student population and their families.
- ◆ **Arts Work.** The Governor vetoed the Legislature's \$6 million restoration leaving no funding for the program. Before the funding was vetoed the program provided grants to school districts to improve their arts programs.
- ◆ **Academic Improvement and Achievement.** The Governor vetoed the Legislature's restoration of \$5 million leaving no funding for the program. Before the funding was vetoed, this program provided college preparation assistance to schools and districts with historically low rates of sending students to college.
- ◆ **School-to-Career Program.** The Governor vetoed the Legislature's \$1.7 million restoration leaving no funding for this program. Before the funding was vetoed this program provided grants to school districts to improve linkages with the business community.
- ◆ **Charter school facilities grant program.** Restores \$7.7 million cut to this program, as the Governor proposed in the May Revise. This program provides funding to charter schools in low-income areas, to pay for leasing costs when these charter schools are unable to secure non-leased buildings.
- ◆ **Advancement Via Individual Determination (AVID).** The Legislature restored a \$1.3 million cut proposed by the Governor's May Revise to this program, which helps school districts improve the college attendance rates of their students. However, the Governor vetoed this restoration leaving \$9 million for this program.
- ◆ **Primary Language Test Development.** Contains \$3 million in federal testing funds for the state to develop a standards-aligned primary language test for English language learner students.
- ◆ **Website for Translated School Documents for Parents.** Provides \$267,000 for an Internet website to improve the availability of translated school documents for parents that don't read English.
- ◆ **School Library Materials.** The budget provides \$4.2 million for school library materials, the same level provided in last year's budget.



# Higher Education

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## California Community Colleges

### ■ MAJOR ACTIONS

- ◆ **Student Fees.** Increases fees from \$18 to \$26 per unit for all students effective fall of 2004. The Legislature restored funding for the \$50 differential fee proposal for BA holders.
- ◆ **Equalization Funding.** Provides \$80 million for equalization funding. This increase will help equalize the amount each district is funded per full-time equivalent (FTE) student.
- ◆ **Enrollment Growth.** Includes an additional \$27 million for enrollment growth that would accommodate about 7,200 full-time equivalent (FTE) students.
- ◆ **Noncredit Funding.** Increases funding for noncredit courses by an additional \$2 million for a total of \$6 million. The state funds noncredit courses, which include basic skills, English Second Language (ESL), Citizenship, short-term vocational programs and courses for the disabled.

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## California State University

### ■ MAJOR ACTIONS

- ◆ **Redirection Proposal.** Restores \$21.1 million in savings associated with the proposed redirection of 10 percent of new freshmen to the community colleges.
- ◆ **Enrollment Funding.** Provides \$12.2 million for enrollment growth. Combined with the redirection restoration, this funding will allow the university to accommodate another 5,950 full FTES.
- ◆ **Academic Preparation and Student Support Services Programs.** Restored funding to the current year level of \$52 million. Of this amount, \$7 million come from the General Fund and \$45 million come from CSU's internal redirected funds.

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## University of California

### ■ MAJOR ACTIONS

- ◆ **Redirection Proposal.** Restores \$12 million in funding associated with the proposed redirection of 10 percent of new freshmen to the community colleges. The UC has committed to using \$12 million of their own funds to take back the students that were offered the Guaranteed Transfer Option Program (GTO). This funding will allow the University to accommodate another 1,548 Full Time Equivalent (FTE) students.
- ◆ **Academic Preparation Programs.** Restores \$29.3 million General Fund maintaining the 2003 Budget Act funding level.
- ◆ **Institute for Labor and Employment.** Restores \$3.8 million in funding for the institute consistent with the proposed five percent reduction for all other research institutes.
- ◆ **UC Merced.** Includes a \$20 million augmentation for the campus. This consists of \$10 million in base funding and \$10 million in one-time funds. The funding will allow the campus to open in the fall of 2005 with 1,000 students.

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## California Student Aid Commission

### ■ MAJOR ACTIONS

- ◆ **Change in Income Qualifications.** Restores \$11.2 million associated with the proposal to reduce the Cal Grant income ceilings by 10 percent. This proposal would have resulted in 4,450 fewer new Entitlement awards and a reduction to the competitive eligible pool of 19,000 students.
- ◆ **Competitive Cal Grants.** Restores \$5.4 million for new Cal Grant Competitive awards. This May Revise proposal would have resulted in 5,625 fewer new competitive award recipients in 2004-05.
- ◆ **Grants for Private University Students.** Restores \$22 million in funding to mitigate the proposal to reduce these awards by 44 percent. Of this amount, \$12.5 million will be transferred from the Student Loan Operating Fund and \$9.5 million will come from the General Fund. The maximum award for students attending private and independent universities will be \$8,322 instead of \$9,708.



# Natural Resources and Environmental Protection

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## Resources Agency

### ■ MAJOR ACTIONS

- ◆ **River Parkways and Sierra Nevada Cascades Grant Programs.** Approves trailer bill language to define and direct the programs, and appropriated more than \$14.2 million (Propositions 40 and 50) for the programs.

### ■ GOVERNOR'S VETOES

- ◆ **River Parkways and Sierra Nevada Cascades Grant Programs.** The Governor reduced the Legislative appropriation by \$33.4 million to ensure future-year funding for the programs.

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## Energy Resources Conservation and Development Commission

### ■ MAJOR ACTIONS

- ◆ **ERPA Fund Shift.** Transfers \$12.0 million from the Energy Resources Programs Account to the General Fund.

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## California Conservation Corps

### ■ MAJOR ACTIONS

- ◆ **Restoration of Corpsmember Health Benefits.** Rejects the Governor's proposal to eliminate health benefits to 1,200 corpsmembers.



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## Department of Forestry and Fire Protection

### ■ MAJOR ACTIONS

- ◆ **State Responsibility Area (SRA) Fire Fee.** Repeals the fee, forgives the \$52.2 million General Fund loan from the 2003-04 fiscal year, and provides \$50 million in General Funds to back-fill the revenue loss.

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## State Lands Commission

### ■ MAJOR ACTIONS

- ◆ **Tideland Oil Revenue.** Approves the transfer of more than \$165 million to the General Fund for royalties paid to the State for offshore oil stores. Directs any surplus revenues to fund activities of the California Ocean Protection Act and statewide fish hatcheries.

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## Department of Fish and Game

### ■ MAJOR ACTIONS

- ◆ **Marine Life Protection Act.** Provides \$500,000 in state matching funds for implementation activities of the Marine Life Protection Act.
- ◆ **Ecosystem Restoration Program.** Approves \$72 million in Proposition 50 funding for DFG's responsibilities for implementing this CALFED program element.

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## Department of Parks and Recreation

### ■ MAJOR ACTIONS

- ◆ **State Park Fees.** Approves \$15 million General Fund reduction to departmental support, to be offset through newly increased fees.

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## Department of Water Resources

### ■ MAJOR ACTIONS

- ◆ **Bond-Funded Programs.** Approves approximately \$126 million in bond funding for the Groundwater Storage Grant Program, various grants and loans to assist local water projects, as well as DWR's CALFED activities.
- ◆ **Salton Sea Restoration Activities.** Provides \$7.2 million in reimbursements from bond funds for studies relating to the restoration of the Salton Sea.
- ◆ **Colorado River Management Account.** Defers \$16.1 million in General Fund costs for the lining of the Coachella Canal, for one year.

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## CALFED Bay-Delta Authority

### ■ MAJOR ACTIONS

- ◆ **Bond-Funded Programs.** Approves \$21.7 million in bond expenditures for the CALFED Science, Ecosystem Restoration, and Watershed Restoration Programs.

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## Secretary for Environmental Protection

### ■ MAJOR ACTIONS

- ◆ **Hexavalent Chromium.** The Governor vetoed the \$1.9 million appropriated by the Legislature to assist the metal plating industry in preventing hazardous materials from entering the environment.
- ◆ **Streamlining of Administrative Activities.** Provides for a consolidation of Agency-wide administrative activities to reduce duplication.

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## Air Resources Board

### ■ MAJOR ACTIONS

- ◆ **Smog Check / Carl Moyer Program Funding.** Provides \$30.5 million for half-year funding of the Carl Moyer Memorial Air Quality Standards Attainment Program through a restructuring of the Smog Check program,

increasing the new vehicle exemption fee, but extending the exemption from 4 to 6 years.

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## Integrated Waste Management Board

### ■ MAJOR ACTIONS

- ◆ **Implementation of SB 20 (Electronic Waste Recycling Act).** Approves \$73.1 million in programmatic activities relating to the E-Waste Program.

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## State Water Resources Control Board

### ■ MAJOR ACTIONS

- ◆ **Bond-Funded Programs.** Approves more than \$48 million in bond funding (Propositions 13 and 50) for water quality protection and pollution prevention programs, including the Groundwater Monitoring Program, the Agricultural Water Quality Grant Program, Water Recycling, Watershed Protection, and the Non-Point Source Pollution Control Program.
- ◆ **Dairy Water Quality Program.** Includes \$5.0 million specifically to provide grants to assist dairies in pollution prevention projects.

# General Government and Local Government

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## Local Government

### MAJOR ACTIONS

- ◆ **Governor's \$1.3 Billion Local Government Savings.** Adopts budget savings of \$1.3 billion in 2004-05 by taking the following actions:
  - ◆ \$4.1 billion General Fund savings by eliminating General Fund "backfill" payments to cities and counties for Vehicle License Fee (VLF) offsets.
  - ◆ \$2.8 billion net General Fund cost for increased support to K-14 education to replace an equal net amount of property tax revenue shifted from K-14 education to local governments. The \$2.8 billion net figure is based on the following calculation: \$4.1 billion of increased General Fund cost to replace the VLF backfill to cities and counties, less a \$700 million shortfall in the backfill amount for cities and counties in 2004-05 and less \$600 million shifted from special districts and redevelopment agencies to K-14 education.

These actions recognize the \$1.3 billion in state savings that the Governor proposed in the May Revision "agreement" with local government in terms of its fiscal effect. More specifically, the budget actions are consistent with the Governor's proposals to eliminate the VLF backfill to cities and counties and replace the funds with property tax shifted from K-14 education (increased state General Fund apportionments will hold education harmless). For 2004-05 and 2005-06, there will be a \$700-million shortfall in the VLF backfill replacement, which will be shared equally by cities and counties. The budget plan also calls for a two-year shift of \$600 million of property tax revenues to K-14 education from special districts (\$350 million) and redevelopment agencies (\$250 million). Guarantees for repayment of state obligations for the 2003-04 VLF "gap" loan and of mandate reimbursement deferrals are addressed in budget trailer legislation.

- ◆ **Proposition 1A.** The budget package also places a constitutional amendment on the November general election ballot, as requested

by the administration, to protect local government resources in the future. Proposition 1A includes the following major provisions:

- ◆ Prohibits future property tax shifts from local government. The prohibition may be suspended by law but no more than twice in any 10 years and any shift must be repaid within three years.
- ◆ Protects the rate and method of allocation of the local sales tax.
- ◆ Protects VLF funding for Realignment and other local government purposes.
- ◆ Generally requires the state to reimburse local governments for mandated costs on a timely basis or to suspend unfunded mandates and clarifies that the state must reimburse local governments when it increases their funding share for a state-mandated programs are
- ◆ **VLF "Poison Pill."** Approves trailer bill language to repeal the "poison pill" provision that eliminates VLF funding for Realignment programs if county responsibility for the care of medically indigent adults is found to be a reimbursable state-mandated local program. The poison pill has been activated by a final court decision in a case brought by San Diego County. AB 1457 temporarily continues Realignment VLF funding through 2003-04.
- ◆ **Booking Fee Subventions.** Restores \$38.2 million to provide subventions for booking costs related to county bookings of persons arrested by cities or special districts in 2004-05. Budget trailer legislation limits booking fees in 2004-05 to amounts charged in January 1, 2004. Ends subventions after 2004-05 and limits county booking fee charges to no more than half of actual cost.
- ◆ **International Registration Plan (IRP) Trailer VLF Backfill.** Maintains \$11.9 million General Fund subvention to continue to fund counties for the remaining Realignment portion of the VLF backfill for IRP Trailers, which are now exempt.
- ◆ **Continued Deferral of Mandate Reimbursements.** Approves continued deferral of reimbursements to local governments for the cost of carrying out most state-mandated programs or activities. This action is consistent with legislative intent expressed in the 2003-04 Budget Package and with the Governor's Budget. Also suspended several mandates and adopted Trailer Bill language to repeal five mandates as requested by the administration and to direct the Commission on State Mandates to revisit the parameters and guidelines for four mandates. The Local Government trailer bill requires payment of all deferred mandates over a 5-year period beginning in 2006-07.

- ◆ **Santa Barbara County Formation Commission Loan.** Approves May Revision request to provide \$400,000 to the Santa Barbara County Formation Commission to meet its statutory requirements related to the pending election on the formation of Mission County.
- ◆ **Rural County Sheriff Subvention.** Restores the Rural County Sheriff Subvention Program. This program, which provides \$500,000 to each of the 37 smallest counties by population, was suspended for 2004-05. Trailer bill language would restore this program in the budget year.

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## Energy

### ■ MAJOR ACTIONS

- ◆ **Energy Commission**
  - ◆ **Transfer Account Surplus.** Transfers \$12 million of surplus funds in the Energy Resources Programs Account to the General Fund.
  - ◆ **Power Plant Siting.** Approves request for \$18.9 million for the Power Plant Siting Program in 2004-05.
  - ◆ **Hydrogen Fueling Station.** Approves Governor's proposal to reappropriate \$925,000 as a state contribution to a project with the Alameda-Contra Costa Transit District to construct and operate a hydrogen fueling station to demonstrate the use of hydrogen in fuel-cell-powered buses.
  - ◆ **Climate Action Registry.** Designates \$200,000 of existing energy research funding for support of the Climate Action Registry.
- ◆ **Electricity Oversight Board.** Approves the Governor's proposal for \$3.6 million (special funds) and 21.9 personnel-years of staff.
- ◆ **California Consumer Power and Energy Conservation Financing Authority.** The Legislature augmented by \$800,000 (special funds) to operate the authority through 2004-05 and rejected the administration's proposed Trailer Bill language to repeal the statutory authorization for the Power Authority. The Governor vetoed this augmentation and requested legislation to eliminate the Power Authority.
- ◆ **Public Utilities Commission's Teleconnect Program.** Adopts trailer bill language, effective July 1, 2005, requiring the PUC to take into account the federal E-Rate subsidy program before providing Teleconnect subsidies for

telephone and high-speed telecommunications services to schools and libraries, and to direct the PUC to better target the Teleconnect program to achieve its purpose of enhancing access to advanced telecommunications services and closing the "digital divide."

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## Tax Administration

### ■ MAJOR ACTIONS

#### Franchise Tax Board (FTB)

- ◆ **Child Support Enforcement Project.** Approves total increase of \$46.5 million (\$17 million General Fund and \$29.5 million federal reimbursements) requested for the continued development of the Child Support Enforcement Project. Additional vendor payments will be due because the project is proceeding ahead of schedule. Successful completion of the project is crucial to meeting federal requirements and eliminating federal penalties that currently total \$220 million annually.
- ◆ **Taskforce on Abusive Tax Shelters.** Approves an increase of \$4.7 million requested by the administration for contracts for tax shelter experts and to backfill 42 audit positions to work on abusive tax shelter cases. These increased resources will result in an estimated \$28 million of General Fund revenue in 2004-05 and \$390 million through 2008-09. Also increased the task force by an additional \$2.8 million that the FTB indicated it could use to further augment expert contract resources and backfill an additional 25 auditors who were redirected to abusive tax shelter cases. FTB estimates that this additional augmentation is necessary to achieve \$6.5 million of budgeted General Fund revenue in 2004-05 (\$13 million in 2005-06).
- ◆ **Amnesty Program.** Approves May Revision request for \$10.2 million (General Fund) and 72 temporary positions to administer an amnesty program under the Personal Income Tax and the Corporation Tax.. The budget estimates that the program will result in a net increase of \$263 million of General Fund revenues for the two FTB-administered taxes.
- ◆ **Political Reform Audit Program.** Rejects Governor's proposal to shift costs for audits to campaign financial statements from the General Fund to fees for a savings of \$1.4 million. The FTB conducts random field audits on behalf of the Fair Political Practices Commission.
- ◆ **Litigation Cost.** Approves May Revision request for \$1.3 million in additional litigation costs to defend the state in a Nevada lawsuit against the FTB.

- ◆ **Fees for Special Services.** Shifts \$1 million of General Fund costs to fee revenues due to charging fees for installment agreements and rush services to taxpayers.
- ◆ **Phase III Building Occupancy.** Augments by \$6.5 million as requested by the administration for costs associated with the completion and occupancy of one million square feet of new space at the FTB's Butterfield campus.

### **State Board of Equalization (BOE)**

- ◆ **Restoration of Revenue Staff.** Approves an augmentation of \$7.3 million (\$4.7 million General Fund) to restore 140 revenue-related positions that were eliminated as a result of current-year position reductions. This action represents a reduction of 20 positions and \$1 million (\$675,000 General Fund) from the amount requested in the May Revision. The 20 positions are to be provided through redirection of non-revenue-related positions instead. The BOE estimates that the position restorations and redirections will increase General Fund revenues from the sales and use tax by \$24.8 million in 2004-05 and \$31.6 million in 2005-06 plus additional local sales and use tax revenue.
- ◆ **Alternative Cigarette Tax Stamp.** Approves \$4.9 million requested in the May Revision to contract for a new counterfeit-proof cigarette tax stamp to meet the requirements of SB 1701 (Peace) of 2002. Also adopted Supplemental Report Language to have BOE report on the feasibility of obtaining financial participation from cigarette manufacturers in the future.
- ◆ **Amnesty Program.** Augments by \$2.3 million in 2004-05 to administer the sales and use tax portion of the tax amnesty program. The budget estimates a revenue gain of \$73 million from this effort in 2004-05.
- ◆ **Curtainwall Repairs.** Reduced May Revision request for \$718,000 (General Fund) to perform studies and prepare preliminary plans for repairing leaking window seals on the BOE's headquarters building down to \$59,000 to prepare a bid package.

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## **Alternative Energy & Advanced Transportation Financing Authority**

### **■ MAJOR ACTIONS**

- ◆ **Increase in Bonding Authority.** Adopts trailer bill language to increase the bonding capacity of the authority from \$350 million to \$1 billion in order to assist in financing planned energy projects.



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## Department of Housing and Community Development

### ■ MAJOR ACTIONS

- ◆ **Emergency Housing Program.** The Governor vetoed the Legislature's restoration of \$1.3 million (General Fund) to maintain operating grants for homeless shelters at the same level as in the current year.
- ◆ **Sweep Surplus/Dormant Funds.** Transfers to the General Fund a total of \$8 million in surplus/unnecessary non-bond funds remaining in the Child Care and Development Facilities Direct Loan and Loan Guaranty Funds and the School Facilities Fee Assistance Fund. The Administration included this action in the May Revision.
- ◆ **Regional Housing Needs Assessment.** Adopts trailer bill language to require the Commission on State Mandates to review the regional housing needs assessment mandate and delete unnecessary components of the mandate for cities and counties.
- ◆ **Enterprise Zone Program.** Approves \$668,000 and six positions requested by the administration to carry out required monitoring and enforcement duties for enterprise zones and to establish up to three new zones as authorized by existing law. Funding will be provided by new fee revenue.
- ◆ **Reappropriation for Orange Cove.** The Governor vetoed the \$400,000 (General Fund) that was previously appropriated for the Central Valley Infrastructure Grant Program to extend the time available for the city of Orange Cove to receive a grant.

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## Deficiency Process

### ■ MAJOR ACTIONS

- ◆ **Replaces the Deficiency Process.** Deletes Budget Control Section 27.00, which provides for deficiency spending—the ability of the administration to authorize additional spending after the budget is enacted that will require subsequent deficiency appropriations by the Legislature. Also adopts trailer bill language to repeal the statutory authority for the creation of deficiencies. Instead, the budget provides \$50 million from the General Fund (and smaller amounts from special funds) for allocation by the Director of Finance to address contingencies and emergencies during the interim, with any larger supplemental funding needs to be addressed in legislative appropriations,

rather than through administrative actions prior to major unbudgeted spending increases.

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## Bond Financing

### ■ MAJOR ACTIONS

- ◆ **Economic Recovery Bonds.** Approves the Governor's May Revision proposal to reduce from \$3 billion to \$2 billion the amount of Proposition 57 bond proceeds used to finance 2004-05 spending. Approximately \$3.8 billion of Proposition 57 bond authority will remain available for use after 2004-05.

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## Secretary of State

### ■ MAJOR ACTIONS

- ◆ **Help America Vote Act (HAVA).** Augments by \$264 million in Federal Fund expenditure authority to implement HAVA.

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## Department of General Services

### ■ MAJOR ACTIONS

- ◆ **Statewide Rental Rates.** Approves Control Section 4.60 which requires a review of the methodology used to set State Rental Rates.
- ◆ **Strategic Sourcing.** Approves savings of \$96 million resulting from Strategic Sourcing procurement reform. Strategic Sourcing is a procurement strategy of leveraging the State's purchasing power to procure goods and services on a statewide basis.
- ◆ **Asset Management.** Approves savings of \$50 million resulting from reforms in the management and liquidation of the State's real property assets. Legislative approval will be required for all proposed sales, transfers of ownership, and similar transactions contained within this proposal.

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## Office of the Inspector General For Veterans Affairs

### ■ MAJOR ACTIONS

- ◆ **Elimination of Inspector General of Veterans' Affairs.** Approves reduction of \$424,000 resulting from the elimination of the Inspector General for Veterans' Affairs.

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## Employment Development Department

### ■ MAJOR ACTIONS

- ◆ **Employment Training Panel.** Approves \$40 million in reimbursement authority augmentation from expected workers' compensation savings for the Employment Training Panel.
- ◆ **Paid Family Leave Act.** Approves \$395 million augmentation in special funds to fund the Paid Family Leave Program authorized by Chapter 901, Statutes of 2002 and Chapter 797, Statutes of 2003.

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## Department of Industrial Relations

### ■ MAJOR ACTIONS

- ◆ **Implementation of Worker's Compensation Reform.** Augments by \$20.1 million and 174.3 personnel years to implement Chapters 635 and 639, Statutes of 2004 dealing with worker's compensation reform.

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## Military Department

### ■ MAJOR ACTIONS

- ◆ **Homeland Security.** Provides \$8.8 million in federal funds for 2003-04 and \$2.1 million in federal funds for 2004-05 to provide homeland security augmentations for equipment, training, exercises and infrastructure.
- ◆ **Youth Program Reductions.** Saves \$1.1 million in General Funds resulting from various youth program reductions.

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## Department of Veterans Affairs

### ■ MAJOR ACTIONS

- ◆ **Miscellaneous Reductions.** Saves \$631,000 in General Funds through programmatic flexibilities and reductions. This no longer includes the proposal to contract-out for Food and Security Services at the Yountville Veterans Home.

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## Arts Council

### ■ MAJOR ACTIONS

- ◆ **Local Assistance Augmentation.** The Governor vetoed the Legislature's \$1 million augmentation for the Arts Council.

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## California Law Revision Commission

### ■ MAJOR ACTIONS

- ◆ **Workload Reduction.** The Governor vetoed a \$150,000 augmentation to the California Law Revision Commission. This augmentation would have provided 1.75 positions to the Commission and increase the number of available attorney hours by 3,000. This would be partially accomplished by allowing for the redirection of administrative functions away from the legal staff to support staff. Over the Commission's 50-year history, it has assisted the Legislature and the Administration by researching existing law and making recommendations on statutory amendments regarding over 20,000 sections. Ultimately, 85 percent of these recommendations were adopted into law. The success rate is attributed to the Commission's policies of carefully considering its recommendations and seeking comment from a broad cross-section of stakeholders. The Commission currently has over 40 requests for assistance pending and has a backlog of 5.2 years related to its highest priorities, which include the restructuring of the State's trial courts and the review of administrative procedures. With the proposed legislative augmentation, the Commission predicted the elimination of its backlog on the highest priority projects in 2.9 years. In view of the Governor's veto, the Administration would have the option of using other state legal counsel to reduce the Commission's backlog of high priority legal issues before the State. With an average billing rate of \$132 per hour, the use of 3,000 hours a year for 2.9 years would cost \$1.148 million. Alternately, the use of outside counsel at \$350 per hour would cost the State \$3.045 million.



# Public Safety

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## Secretary for Youth and Adult Correctional Agency (YACA)

### ■ MAJOR ACTIONS

- ◆ **Agency Leadership Team.** Redirects \$1.7 million in funds from the Department of Corrections and the Department of Youth Authority to establish positions at the agency level to provide policy and operational support for the Secretary of Youth and Adult Correctional Agency.
- ◆ **Restore Office of Inspector General (OIG).** Returns oversight of the OIG. This is commensurate with a reduction of \$630,000 to the Agency budget.

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## Office of the Inspector General

### ■ MAJOR ACTIONS

- ◆ **Reorganization.** Places the oversight of the OIG with the Governor rather than the Youth and Adult Correctional Agency as proposed in the Governor's Budget and provides funding of \$3.3 million for investigative services.
- ◆ **Office of Independent Review (OIR).** Increases budget for OIR by \$4.9 million and 25 positions including the creation of the Office of Independent Review that will oversee investigations by the Department of Corrections and the Department of Youth Authority. OIR is based upon a model developed by the Los Angeles County Sheriff's Department.

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## Office of Emergency Services (OES)

### ■ MAJOR ACTIONS

- ◆ **Homeland Security Grants.** Provides additional federal fund expenditures of \$156 million for the State Homeland Security Grant Program, Law Enforcement Terrorism Prevention Program. Citizen Corps Program and

Urban Area Security Initiative. In addition, OES will be increased by \$519,000 to administer these grants.

- ◆ **Office of Homeland Security.** Approves additional federal funds expenditures of \$1 million to expand the Office of Homeland Security.

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## Department of Justice

### ■ MAJOR ACTIONS

- ◆ **1986, 1997 Flood Litigation.** Provides ongoing support of \$1.5 million to settle flood litigation cases against the state from 1986 and 1997.
- ◆ **Legal Division Workload.** Supports additional costs of \$11.3 million in the Criminal Law, Civil Law and Public Rights Law Divisions. Of this increase \$4.0 million will be funded through a \$7-per-hour increase in attorney hours charges.
- ◆ **Prohibited Gun Owners Database.** Implements the Armed Prohibited Persons System used to identify persons prohibited by law from owning a firearm through the reappropriation of \$2.7 million.
- ◆ **Santa Barbara Crime Laboratory.** Provides \$13.6 million construction funding for the Santa Barbara forensic crime laboratory. Of the previously appropriated funds \$5.518 million is to be reappropriated. Of additional funds \$8.098 million are to be made available due to higher than expected construction costs.
- ◆ **Juvenile Court and Probation.** Includes funding of \$2.0 million to capture, transmit and retain juvenile history information through the Juvenile Accountability Incentive Block Grant (JAIBG). \$7.9 million has been awarded to date from this grant.
- ◆ **Automated Criminal History.** Provides support for the update of the Criminal History System with \$2 million from the Fingerprint Fee Account.
- ◆ **Underwriters Litigation.** Provides ongoing support of \$5.1 million for litigation to compel insurers to indemnify the State related to losses suffered related to the Stringfellow toxic site.
- ◆ **Methamphetamine Grants.** Provides ongoing support of \$2.4 million for the California Methamphetamine Strategy from federal funds. These funds will enhance the department's electronic surveillance capabilities.

- ◆ **National Criminal History Improvement.** Implements a thumbprint identification system for the disposition of criminal arrest with \$3 million of federal funds.

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## Department of Corrections

### ■ MAJOR ACTIONS

- ◆ **Population Increase.** Provides support for increased inmate population from the Fall 2003 estimate which will result in additional General Fund expenditures. An augmentation of \$177.5 million has been provided for this purpose. The average daily population for 2004-05 is now 8,387 more than estimated in the Governor's Budget.
- ◆ **Valdivia v Schwarzenegger.** Appropriates \$22.2 million for enhanced procedures for parolees held on suspicion of violation pursuant to the department's Remedial Plan. Budget Bill Language will allow the Director of Finance to increase this amount as needed in the Budget Year.
- ◆ **Administrative Segregation.** Appropriates \$16.8 million to establish administrative segregation units and build funding pool for unexpected costs above budgeted amounts.
- ◆ **Medical Guarding and Transportation.** Increases funding by \$18.2 million to support the costs of medical guarding and transportation.
- ◆ **Business Information System.** Appropriates \$4.6 million to support of the department's efforts to integrate financial, human resources, procurement and litigation information.
- ◆ **Employee Discipline Remedial Plan.** Appropriates \$1.9 million for enhanced staffing to support the department before the State Personnel Board in employee disciplinary hearings. It will also comply with the Employee Discipline Remedial Plan submitted to the court as part of the Madrid v Woodford settlement.
- ◆ **Agency Restructuring.** Transfers \$1.5 million to the Youth and Adult Correctional Agency in support of the Agency Secretary.
- ◆ **Valdivia Facilities.** Approves \$5.4 million to fund the construction and modification of facilities in order to hold additional parole hearings pursuant to the Valdivia Remedial Plan.

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## Board of Corrections (BOC)

### ■ MAJOR ACTIONS

- ◆ **Violent Offender Grants.** Reappropriates \$6.3 million in federal funds to support of the Violent Offender Incarceration/Truth in Sentencing Grant.
- ◆ **CYA Juvenile Justice Reforms.** Rejects \$500,000 in support of a study on Juvenile Justice reforms at the state and local levels pending further information from the Administration on the details of the study.

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## Board of Prison Terms (BPT)

### ■ MAJOR ACTIONS

- ◆ **Valdivia Hearings.** Appropriates \$35.4 million to support additional workload to the Board associated with the implementation of the Valdivia Remedial Plan intended to provide due process to parolees charged with violation of their terms of parole.

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## Department of Youth Authority

### ■ MAJOR ACTIONS

- ◆ **Population Adjustment.** Appropriates \$6.3 million for increased population at CYA.
- ◆ **Post Relief Factors.** Provides additional funding of \$3.5 million to support relief coverage for posted positions. Of this amount, \$964,000 is to provide vacation relief while \$2.5 million is for training post relief for employees.

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## Judiciary

### ■ MAJOR ACTIONS

- ◆ **Salary, and Benefits.** Approves proposal to provide \$4.3 million for increases for Judges salaries and benefits, employee salaries and the increased costs of security contract services provided by the California Highway Patrol.



- ◆ **Trial Court Facilities.** Adopts proposal to appropriate \$23.3 million to staff the workload of courthouse facilities acquisition, construction and maintenance.

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## State Trial Court Funding (Courts)

### ■ MAJOR ACTIONS

- ◆ **Unallocated Reduction.** Adopted an unallocated reduction of \$70 million to court operations. \$50 million of this amount is a one-time reduction. The remaining \$20 million of this reduction is on-going.
- ◆ **Staff Retirement.** Additional funding for court staff retirement costs, court security, judges salary and benefits, county charges totaling \$94.1 million.
- ◆ **Jury Fees.** Reduction of jury fees to government employees that are currently compensated for jury duty resulting in a savings of \$2.3 million.
- ◆ **Court Security.** Extended court security fees through June 30, 2005.

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## California Gambling Control Commission

### ■ MAJOR ACTIONS

- ◆ **Costs for Tribal Compact Negotiations.** Appropriates \$1 million from the Indian Gaming Special Distribution Fund to pay for outside counsel costs related to negotiating tribal compacts.
- ◆ **Costs for Tribal Gaming Bond.** Appropriates \$500,000 from the Indian Gaming Special Distributions Fund to pay for legal costs associated with the issuance of the Tribal Gaming Bond.
- ◆ **Revenue Distribution.** Appropriates \$96.5 million from the Indian Gaming Revenue Sharing Trust Fund in support of non-gaming tribes. These funds come from revenues generated by gaming tribes.
- ◆ **Local Government Assistance.** Appropriates \$30 million from the Indian Gaming Special Distribution Fund to assist local governments in mitigating the impact of local tribal casinos.

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## Employee Compensation

### ■ MAJOR ACTIONS

- ◆ **Pension Obligation Bonds.** Approves the issuance of pension obligation bonds pursuant to the California Pension Restructuring Bond Act that will provide an additional \$949 million to the State to offset the employer retirement contribution in 2004-05. The Bond Act requires the Director of Finance to determine that a pension reform plan is enacted that would result in lower overall pension costs to the State.
  
- ◆ **Pension Reform.** Requires that new employees delay participation into the state's defined benefit retirement program for 24 months. Instead, the employee would contribute to a defined contribution plan. At a later time, the employee would be able to convert the contribution for service credit, roll it over into an IRC 401(k) plan or receive the funds. This change to the pension plan is estimated to bring savings of over \$2.5 billion over 20 years.



# Transportation & Information Technology

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## Department of Transportation (Caltrans)

### ■ MAJOR ACTIONS

- ◆ **Repayment of Transportation Loans.** Provides repayment of various transportation loans, including:
  - ◆ \$1.2 billion from one-time Tribal Gaming Revenues to repay General Fund loans from the Traffic Congestion Relief Fund (TCRF).
  - ◆ \$183.0 million from the General Fund to the TCRF, this includes \$140 million from estimated 2004-05 "spillover" revenues.
  - ◆ \$477 million to the State Highway Account (SHA) from the TCRF.
  - ◆ \$275 million to the Public Transportation Account (PTA) from the TCRF.
  - ◆ \$192 million in advanced repayment of local streets and roads funding due for repayment in 2008-09.
- ◆ **Proposition 42.** Suspends Proposition 42 for 2004-05 as proposed by the Governor to provide General Fund relief of \$1.2 billion. This amount is to be repaid by 2007-08.
- ◆ **Traffic Congestion Relief Program (TCRP).** Provides full funding of \$527 million for the TCRP. This amount consists of \$74 million of existing funds, \$163 million funds resulting from the repayment of loans to the General Fund, and \$290 million from additional one-time Tribal Gaming Revenues. Contingent upon the receipt of one-time Tribal Gaming Revenues, the budget meets all cash needs for TCRP, including projects with existing allocations, reimbursement of local governments for funds forwarded for TCRP projects, and projects that will receive their first allocations in the budget year.
- ◆ **Use of One-Time Tribal Gaming Revenues for Transportation.** Provides allocation of all one-time Tribal Gaming Revenues (\$1.2 billion) resulting from the re-negotiation of gaming compacts to transportation, according to the following:

- ◆ \$457 million for State Highway Account (SHA).
- ◆ \$275 million for the Public Transportation Account (PTA).
- ◆ \$290 million for the TCRP.
- ◆ \$192 million for local streets and roads.
- ◆ **Environmental Enhancement and Mitigation Program (EEMP).** Allocates the proposed \$10 million for the EEMP program for projects in the current year (\$5 million) and projects in the budget year (\$5 million).
- ◆ **Aeronautics Account.** Rejects of the Governor's proposal to transfer \$750,000 from the Aeronautics Account to the General Fund.
- ◆ **GARVEE Bonds.** Removes the specific appropriation of GARVEE bond proceeds from the budget, instead leaving the specific amount to the consideration of the California Transportation Commission in accordance with existing law. It is anticipated that the CTC will approve approximately \$800 million in GARVEE bonds, which will provide significant funding for projects throughout California. Prior to approving amounts larger than \$800 million requires consultation with the Business, Transportation, and Housing Agency and the Department of Finance.
- ◆ **Capital Outlay Support.** Approves of approximately 1,350 new capital outlay support positions for the transportation projects as proposed by the Governor, though the allocation of the increase between state staff and contract staff was adjusted to correspond to the same ratio between the two as used in the enactment of the current year budget.
- ◆ **Accounting Change of Local Transportation Projects.** Approves the Governor's proposed shift from accrual accounting to cash accounting for the management of local transportation projects, which is estimated to generate an additional \$200 million in federal funds for the budget year.

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## Special Transportation Programs

### ■ MAJOR ACTIONS

- ◆ **Increased Funding.** Approves funding increase of \$15.9 million for total funding of \$117.4 million for Special Transportation Programs line of the budget, as proposed by the Governor. This funding supports the State Transit Assistance program for local transit agencies.

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## California Highway Patrol

### ■ MAJOR ACTIONS

- ◆ **Increased Uniformed Officers.** Approves funding increase of \$25 million above the amount proposed by the Governor to hire an additional 250 uniformed officers to fill existing positions. According to information provided by the CHP, the roads are less safe staffing has declined over the years, since the terrorist attacks of September 11<sup>th</sup>. Despite significant workload increases.

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## Department of Motor Vehicles

### ■ MAJOR ACTIONS

- ◆ **Reimbursement for Increased Identification Card Fees.** Reduces the fee for California Identification Cards (IDs) from \$20 to \$6 for indigent Californians that meet specific requirements. As part of the Budget Act of 2003, the fee for IDs increased from \$6 to \$20. Getting an ID card is a critical first step for Californians needing to put their lives back on track, the \$14 increase has strained non-profits that assist Californians obtain IDs.

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## Stephen P. Teale Data Center

### ■ MAJOR ACTIONS

- ◆ **Consolidation of Data Centers.** Approves the proposed Control Section to authorize the consolidation Stephen P. Teale Data Center and the Health and Welfare Agency Data Center due to no specific proposal being complete.