



THE 2003-2004 STATE BUDGET

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## THE 2003-2004 STATE BUDGET

## OVERVIEW

The 2003 State Budget Act contains expenditures of \$99.1 billion, including \$71.1 billion from the General Fund. The reserve for economic uncertainties stands at \$1.2 billion, or 3.1 percent of General Fund expenditures.

The following tables provide important information, including a final General Fund summary, an outline of how the \$38.2 billion shortfall was closed and an update of General Fund expenditures by agency for all funds.

**2002-03 General Fund  
Budget Summary  
(in millions)**

	<u>2002-03</u>	<u>2003-04</u>
Prior Year Balance	-\$1,983	\$1,402
Revenues and Transfers	\$70,852	\$73,353
Deficit Financing Bond	\$10,675	-
<b>Total Resources Available</b>	<b>\$79,544</b>	<b>\$74,755</b>
Expenditures	<u>\$78,142</u>	<u>\$71,137</u>
<b>Fund Balance</b>	<b>\$1,402</b>	<b>\$3,618</b>
<b>Reserves</b>		
Liquidation of Encumbrances	\$1,402	\$1,402
Economic Uncertainties	\$0	\$2,216

**CLOSING THE \$38.2 BILLION GAP  
(in millions)**

Description	Amount	Percentage
Cuts	\$17,589.6	44.6
Fund Shifts	4,357.0	11.1
Other Revenue	4,466.3	11.3
Loans/Borrowing	2,326.2	5.9
Deficit Financing	10,675.4	27.1
<b>Total</b> (greater than \$38.2 billion, due to increased reserve)	<b>\$39,414.5</b>	<b>100.0%</b>

**General Funds, Special Funds, and Bond Funds  
By Agency**

**(in millions)**

	General Fund	Special Funds	Bond Funds	Total
K – 12 Education	\$29,318	\$59	\$3,668	\$33,045
Higher Education	8679	1025	1653	11,057
Health & Human Services	23,358	4,892	117	28,367
Youth & Adult Correctional	5,644	2	11	5,657
Resources	865	1,357	1,784	4,006
Environmental Protection	97	707	326	1,130
Courts	1,454	1,294	--	2,748
State & Consumer Services	444	551	25	1020
Business, Transportation & Housing	512	5,220	148	5,880
Local Government Subventions	314	2,950	--	3,264
Tax Relief	707	--	--	707
Other	-255	2,481	37	2,263
<b>Total</b>	<b>\$71,137</b>	<b>\$20,538</b>	<b>\$7,469</b>	<b>\$99,144</b>

THE 2003-2004 STATE BUDGET

## HEALTH AND HUMAN SERVICES

**4120 EMERGENCY MEDICAL SERVICES  
AUTHORITY**

- **Emergency Medical Services Authority** - Approves proposal to maintain the Emergency Medical Services Authority as a separate department.
- **Poison Control System Funding** - Approved \$6.9 million General Fund for Poison Control System Funding.

**4170 DEPARTMENT OF AGING**

- **Brown Bag Program** - Rejected elimination of the Brown Bag program.
- **Senior Nutrition Programs** - Rejected proposed reductions to Senior Nutrition Programs.
- **Senior Companion Program** - Restored \$500,000 in funding for the Senior Companion program, the December Revision had proposed to eliminate the program.
- **Respite Registry Program/ Foster Grandparent Program** - Eliminated all funding for the Respite Registry program and the Foster Grandparent program

**4200 DEPARTMENT OF ALCOHOL AND DRUG  
PROGRAMS**

- **Realignment** - Rejected realignment of Alcohol and Drug programs including regular drug treatment services, drug courts, and Proposition 36 funding.
- **County Discretionary Funding** - Reduced \$11.5 million General Fund in county discretionary funding for alcohol and other drug treatment services. This reduces funding to the minimum level required by the federal government. It is a 67 percent reduction to the counties, which may reduce service for an estimated 3,400 clients.

- **Drug Court Partnership Program** - Annualized funding for the Drug Court Partnership program to continue serving felony clients and scoring savings in the Department of Corrections in prison days avoided.
- **Substance Abuse Prevention and Treatment** - Appropriated \$644,000 in federal funds for Substance Abuse Prevention and Treatment.
- **Safe and Drug Free Schools and Communities Grant** - Appropriated \$1.68 million in federal funds.
- **State Incentive Grant** - Appropriated \$4.0 million in federal funds for the State Incentive Grant to implement science-based prevention programs and practices targeting binge drinking among 12 – 25 year old youth and young adults.
- Adopted placeholder Trailer Bill Language directing the Department to encourage counties to develop models similar to the Substance Abuse Recovery Management System.

## CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE

- **Funding** - The Governor vetoed all funding to continue the operations of the Child Development Policy Advisory Committee.

## 4260 DEPARTMENT OF HEALTH SERVICES

- **Medi-Cal Provider Rates** - Reduces Medi-Cal provider rates by 5 percent, a savings of \$115.12 million General Fund. Providers included in the rate reduction include but are not limited to: physicians, podiatrists, nurse practitioners, certified nurse midwives, nurse anesthetists, and organized outpatient clinics. Excluded from the rate reduction are: Long Term Care; hospital inpatient and outpatient; Federally Qualified Health Centers; Rural Health Centers and Adult Day Health Care.
- **Long-Term Care Rate** - Approves a long-term care rate increase of 3.8 percent, \$59.82 million General Fund.
- **Medi-Cal Dental Benefits** - Limits Medi-Cal dental benefits for adults, a savings of \$44 million General Fund.
- **Adult Medi-Cal Reporting Changes** - Changes annual reporting to semi-annual reporting for adults on Medi-Cal, \$21.25 million General Fund.
- **County Accountability** – Imposes administrative performance standards for counties in the Medi-Cal program, a savings of \$194 million General Fund.

- **Laboratory Reimbursement Limit** - Establishes an 80 percent of Medicare reimbursement limit in the Medi-Cal program for laboratories, a savings of \$10 million General Fund.
- **Intermediate Care/Developmental Disabilities Quality Assurance Fee** - Approves the institution of Intermediate Care/Developmental Disabilities Quality Assurance Fee, \$15.5 million General Fund increase.
- **Obsolete Medi-Cal Codes** - Eliminates obsolete Medi-Cal codes and stops reimbursement for those codes, a savings of \$17.5 million General Fund.
- **Procedure Codes** - Implements restrictions on some procedure codes to limit a provider's ability to cause secondarily referred services to be billed by another provider, a savings of \$8.0 million General Fund.
- **Teen Pregnancy Prevention Media Campaign** - Eliminates Teen Pregnancy Prevention Media campaign, a savings of \$7.82 million General Fund.
- **Recoveries From Estates** - Increases recoveries from estates for persons who received services from the Medi-Cal program after age 55, \$8.2 million General Fund.
- **AIDS Education and Prevention Outreach** - Reduces AIDS education and prevention outreach, a savings of \$1.24 million General Fund.
- **Transitional Medi-Cal** - Eliminates the second year of Transitional Medi-Cal, a savings of \$1.974 million General Fund.
- **Cancer Research Program** - Provides \$3.125 million General Fund for the Cancer Research Program.
- **Children's Services and Genetically Handicapped Persons Programs** - Approves proposal for contracting for pharmaceuticals, including blood replacement products, durable medical equipment and medical supplies in the California Children's Services and Genetically Handicapped Persons Programs (GHPP) and establishing utilization controls in the GHPP, a saving of \$8.5 million.

- **Family PACT** - Adopts Trailer bill language to qualify Male Involvement Program and Information and Education projects as part of the part of the Scope of Work of the Family PACT Medi-Cal Waiver, match \$4.2 million General fund with \$4.2 million Federal Funds and distribute the total \$8.4 million; \$2.6 million, Male Involvement; \$1.7 million, TeenSMART; \$3.4 million, Information and Education Projects and \$700 thousand for collateral materials.
- **Caseload Cost Increases** - Approves increased caseload and cost increase expenditures for the California Children's Services, Genetically Handicapped Persons Program and Child Health and Disability Prevention program, \$59.87 million General Fund increase of expenditures.
- **Adolescent Family Life Program** - Reduces funding for the Adolescent Family Life Program, a savings of \$1.62 million General Fund.
- **Perinatal Profiles Project** - Approves permanent funding for the Perinatal Profiles Project from the California Health Data and Planning Fund and provides \$200,000 for the Budget Year.
- **Disease Management Program** - Approves proposal to establish a Disease Management Program in Medi-Cal, \$279,000 General Fund increase of expenditures.
- **Medi-Cal Accounting** - Approves proposal to shift the state's accounting method from accrual to cash for the Medi-Cal program, a savings of \$930 million General Fund.
- **Quality Management Fee** - Approves proposal to institute a Quality Management Fee for Medi-Cal Managed Care plans, for a General Fund Savings of \$37.5 million.
- **Adult Day Health Care** – Rejects moratorium on Adult Day Health Care and unbundling of the reimbursement rate and instead adopts a slow growth proposal for Adult Day Health Care.
- **Anti-Hemophiliac Blood Factor** - Adopts a new reimbursement methodology for Anti-Hemophiliac Blood Factor, for a savings of \$1.225 million General Fund.
- **Durable Medical Equipment** - Adopts proposed changes to upper billing limit reimbursement for Durable Medical Equipment, prosthetic and orthotic appliances, medical supplies and incontinence supplies, a savings of \$5.968 million General Fund.
- **Medi-Cal Laboratory Services** - Adopts proposal to impose a per-beneficiary cap on selected Medi-Cal laboratory services for a savings of \$5.32 million General Fund.

- **Therapeutic Category Reviews** - Adopts proposal for conducting Therapeutic Category Reviews and resolving aged rebate disputes for a savings of \$34.7 million General Fund.
- **Medi-Cal Fraud Initiative** - Adopts proposed expansion of its Medi-Cal Fraud Initiative, a savings of \$20.1 million General Fund.
- **HIV/AIDS Drugs** - Adopts proposal to capitate HIV/AIDS drugs within Medi-Cal Managed Care Plans, a savings of \$109,300 General Fund.

## MANAGED RISK MEDICAL INSURANCE BOARD

- **County Initiative Matching Fund** - Implements the County Initiative Matching Fund in the Healthy Families Program.
- **Rural Health Demonstration Projects** - Adopts a repeal of the sunset of the Rural Health Demonstration Projects and provides funding of \$1.05 million from Proposition 99 which is provided as the match for federal funds.

## 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

- **Purchase of Services** - Adopts an unallocated reduction of \$10 million General Fund for Regional Centers purchase of services.
- **Service Coordinator caseload ratios** - Revises service coordinator caseload ratios for Regional Centers, a savings of \$13.9 million General Fund.
- **Parental Co-Payment** - Requires the Department of Developmental Services to report to the Legislature no later than April 1, 2004 on a plan to implement a parental co-payment for Regional Center services for the 2004-2005 fiscal year.
- **Provider Rate Limits** - Imposes provider rate limits in the Regional Center system, a savings of \$25.9 million General Fund.
- Adopts the Federal definition of "substantial disability", a savings of \$2.1 million General Fund.



4440

## Department of Mental Health

- **Provider Rates** - Rejected \$23 million General Fund reduction for a 10 percent provider rate reduction to County Mental Health Plans.
- **Realignment Proposal** - Rejected \$74.9 million General Fund realignment proposal for the Children's System of Care program and the Integrated Services for the Homeless program, while building in the flexibility to realign programs when revenues are approved.
- **Medi-Cal Managed Care Program** - Reduced \$12.2 million General Fund to the Mental Health Medi-Cal Managed Care program to reflect a 5 percent provider rate reduction to county mental health plans.
- **Hospital Caseload** - Reduced \$11.5 million General Fund in hospital caseload funding to more accurately reflect the cost of providing care to mental health patients in state hospitals.
- **Early and Periodic Screening, Diagnosis, and Treatment Program** - Reduced \$6.1 million General Fund in the Early and Periodic Screening, Diagnosis, and Treatment program for estimated over-budgeting in budget year costs.
- **Coalinga State Hospital** - Reduced \$2.0 million General Fund to reflect a delay in the activation of the Coalinga State Hospital.
- **Salinas Valley Psychiatric Program** - Reduced \$1.0 million in reimbursements from the Department of Corrections to reflect a delay in the activation of the Salinas Valley Psychiatric Program.
- Reduced \$2.5 million in reimbursements from the Department of Corrections to reflect the department's reduced usage of beds in the state hospitals.
- **Medi-Cal Accounting Method** - Reduced \$210 million in reimbursements to reflect the Medi-Cal change from accrual to cash accounting.
- **Transition from Homelessness** - Appropriated \$256,000 federal funds for Projects in Assistance in Transition from Homelessness.
- **Sexually Violent Predators** - Appropriated \$2.0 million General Fund for evaluations for Sexually Violent Predators.
- **Sexually Violent Predators Conditional Release Contracts** - Appropriated \$2.0 million General Fund for Sexually Violent Predator conditional release contracts for community treatment programs.
- **Early Mental Health Initiative** - Restored \$10 million Proposition 98 funding for the

Early Mental Health Initiative.

- Appropriated \$1.25 million in reimbursement from the Children and Families Commission for the Infant, Preschool, and Family Member Mental Health Initiative.
- **Community Services Activities** - Restored \$2.0 million General Fund for Community Services Activities.
- Redirected \$2.0 million in federal Substance Abuse and Mental Health Administration funding for the original model homeless mentally ill programs in the Adult Systems of Care.
- **Sunset of AB 947 (Gallegos)** - Adopted Trailer Bill Language to delete the sunset of AB 947 (Gallegos) Statutes of 1998 to continue the implementation of the psychologists' scope of practice in state hospitals.

## 4700 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

- **Consolidation of the Department** - Rejected the proposed consolidation of the department with the Department of Social Services.
- **Naturalization Services Program** - Eliminated all funding for the Naturalization Services Program, the program had been funded at \$2.9 million level.

## 5160 DEPARTMENT OF REHABILITATION

- **Work Activity Program** - Suspends the Work Activity Program rate adjustment, a savings of \$13.4 million General Fund.

## 5175 DEPARTMENT OF CHILD SUPPORT SERVICES

- **Foster Parent Training Fund** - Rejected proposed elimination of the Foster Parent Training Fund.
- **Federal Child Support Automation penalties** - Adopted a proposed 25 percent county share-of-cost for federal child support automation penalties.
- Adopted new child support collections legislation that will improve child support collections and result in additional funding, \$44.7 million in additional General Fund

savings.

<b>5180 DEPARTMENT OF SOCIAL SERVICES</b>
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- **Realignment Proposal** - Does not contain any new Realignment proposal. The January budget had originally proposed realigning \$8.2 billion in State costs to counties and the May Revise reduced that proposal to \$1.9 billion package.
- **CalWORKS and SSI/SSP Grants** - Restored CalWORKS and SSI/SSP 6.2 percent grant reductions proposed in the January Budget.
- **CalWORKS and SSI/SSP COLA's** - Suspended the CalWORKS and SSI/SSP cost-of-living increases for the current year and the budget year.
- **Food Stamp Programs** - Adopted Trailer Bill Language to expand access to food stamp programs
- **CalWORKS Employment Services** - Restored \$35 million reduced for CalWORKS Employment Services.
- **Trailer Bill Language** - Rejected proposed Trailer Bill Language to suspend statutory increases in the level of reimbursement for In Home Supportive Services wages.
- **Independent Adoptions Program** - Increased the fee for Independent Adoptions Program to fully cover the costs of program.
- **Community Care Licensing Division** - Increased the licensing fees for facilities licensed by the Community Care Licensing Division.
- **Community Care Licensing Visits** - Reduced the frequency of community care licensing visits and targeting visit to the high-risk facilities.
- **Child Welfare Services and Foster Care Program Improvement Plan** - Rejected proposed funding for the Child Welfare Services and Foster Care Program Improvement Plan.

## THE 2003-2004 STATE BUDGET

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

<b>0558</b>	<b>OFFICE OF THE SECRETARY FOR EDUCATION</b>
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- **Academic Volunteer and Mentor Service Program (AVMSP).** Eliminates funding for this program, which provides \$5.7 million in Proposition 98 savings.
- **School-to-Career Program.** Provides \$1.7 million in program funding and moved the administration of the program from the Office of the Secretary for Education to the State Department of Education (SDE).

<b>6110</b>	<b>DEPARTMENT OF EDUCATION</b>
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- **Proposition 98 Funding.** Approved a total of approximately \$45.7 billion in Proposition 98 (i.e., K-12 and community colleges) expenditures for the 2003-04 Fiscal Year. This represents an increase of \$1.8 billion, or 4 percent, from the revised 2002-03 spending level. The per-pupil spending level is \$6,887, which represents a decrease of \$262 per pupil, above the 2002-03 Budget Act, as revised (See Table Below).

The 2003-04 K-12 Proposition 98 funding level assumes a continuation of the deferral of \$1.1 billion in programs, excluding special education, that are a part of the Second Principal Apportionment payment (P2). Likewise, Community College Proposition 98 funding includes the \$200 million deferral enacted as part of the 2003-04 Budget Act.

**Proposition 98 Budget Summary**

<b>2002-03 and 2003-04</b> (Dollars in Billions)			
	<b>2002-03</b>		<b>2003-04<sup>a</sup></b>
	<b>As Enacted</b>	<b>Revised<sup>a</sup></b>	
<b>K-12</b>	\$41.6	\$39.2	\$41.3
<b>Community Colleges</b>	\$4.8	\$4.6	\$4.3
<b>Other</b>	\$0.1	\$0.1	\$0.1
<b>Totals, Proposition 98</b>	\$46.5	\$43.9	\$45.7
<b>K-12</b>			
Average Daily Attendance (ADA)	5,880,576	5,911,519	5,990,495
Amount per ADA	\$7,067	\$6,624	\$6,887

Source: Legislative Analyst Office

- **Restoration of Across-the-Board Reductions.** As part of the 2003-04 January Proposed Budget, the Governor proposed \$835 million in across-the-board categorical reductions. The 2003-04 Budget Act, as enacted by Chapter 157, Statutes of 2003, does not contain these reductions and instead ensures full funding for the following programs:

K-3 Class Size Reduction Program	\$1.65 billion
9 <sup>th</sup> Grade Class Size Reduction Program	\$110.1 million
Economic Impact Aid	\$498.6 million
Staff Development Buyout Days	\$229.6 million
Child Nutrition	\$73.3 million
Math and Reading Professional Development Program	\$31.7 million

- **Rejection of the Governor's Categorical Block Grant.** Rejected the Governor's Block Grant Proposal, which is consistent with the Assembly Education Committee's action earlier this year. This means that each program that was proposed to be included in the block grant will retain its statutory authority and therefore, continues to have its own item number in the Budget Act. Likewise, as a conforming action, the Budget Act restores 97 positions and \$6.7 million in state operations funding to SDE that was originally associated with the block grant proposal.
- **Growth and Cost-of-Living Adjustment (COLA).** Fully funds growth for revenue limit apportionments (i.e., school districts and county offices of education) and special education for a total of \$576.7 million.

However, the budget does not include funding for growth or COLA for categorical programs. Likewise, the 2003-04 Budget includes the May Revise proposal to not provide a 1.8 percent COLA (approximately \$550 million) for revenue limit apportionments. However, AB 1754 (Committee on Budget), Chapter 227, Statutes of 2003, the Education Trailer Bill, establishes a "deficit factor," which requires the state to build back into the funding base beginning in 2005-06 (See Flexibility Language Below).

- **Revenue Limit Reduction.** Reduces revenue limit apportionments for school districts and county offices of education, as proposed in the May Revise, by \$350 million, or 1.198 percent. This reduction is considerably lower than the 2.15 percent proposed in January, which results in a net increase of \$262.4 million from the Governor's January budget. Likewise, AB 1754 (Committee on Budget), Chapter 227, Statutes of 2003, the Education Trailer Bill, establishes a "deficit factor" on revenue limit apportionments, which requires that these lost funds must be restored in 2005-06 (See Flexibility Language Below).

- **Targeted Program Reductions.** Includes the following targeted categorical program reductions, as proposed by the Governor in the May Revise (See Table Below). Other than the following reductions, there are not any other categorical program cuts.

<b>Program</b>	
Equalization	\$250 million
Deferred Maintenance	\$128.7 million
Summer School	\$85 million
Teaching as A Priority Block Grant*	\$89 million
Supplemental Grants	\$80 million
Instructional Materials	\$75 million
School Improvement	\$42 million
Elementary Intensive Reading Program*	\$31 million
Miller-Unruh Reading Program*	\$29 million
Peer Assistance and Review Program	\$25 million
Principal Training Program	\$22.5 million
School Library Materials	\$19 million
7 <sup>th</sup> and 8 <sup>th</sup> Grade Math Academies*	\$12.8 million
Gifted and Talented Program	\$10 million
Teacher Recruitment Centers	\$9.4 million
Adult and Regional Occupational Program	\$7 million
College Prep Partnership*	\$5 million
National Board Teacher Incentives	\$4.2 million
Advanced Placement Teacher Training	\$4.1 million
Education Technology Grants and California Technology Assistance Project	\$1 million
Institute for Computer Technology	\$574,000
<b>TOTAL</b>	<b>\$930.2 million<sup>a</sup></b>

\*Program is "suspended" for the 2003-04 Fiscal Year; therefore, there is not any funding available.

- **Basic Aid School Districts.** Restored \$138.4 million in "excess" property tax funding to basic aid school districts. Approved a \$9.9 million reduction for basic aid school districts whose property taxes exceed their revenue limits and therefore, do not receive any revenue limit funding from the state. This reduction requires AB 1754 (Committee on Budget), Chapter 227, Statutes of 2003, the Education Trailer Bill, to be enacted. Likewise, the Budget includes a \$17.8 million reduction, which eliminates the \$120 per pupil payment to basic aid school districts.
- **Special Education.** Accepted the Governor's May Revise proposal to fully fund growth for special education and provides \$69 million in new federal special education funding for mental health services, as authorized under AB 3632 (W. Brown), Statutes of 1994. Likewise, the Budget Act pays off the \$214 million in special education funding that was enacted as part of the P2 deferral in the 2002-03 mid-year adjustments.

- **Public Employee Retirement System (PERS) and Equalization.** Accepted the Governor's May Revise proposal to provide \$35 million in PERS offset funding. Also, the Budget delays \$250 million in equalization funding that was originally proposed as part of the January budget (See Targeted Reductions Above).
- **Healthy Start.** Provides \$2 million in funding to fully fund one cohort and maintain current funding levels for existing programs. However, the Budget Act does not contain funding for new cohorts beyond the 2003-04 Fiscal Year.
- **High Priority Schools Grant Program (HPSGP) and Immediate Intervention / Underperforming Schools Program (II/USP).** Accepted the Governor's May Revise proposal to fully restore a total of \$65.3 million for II/USP and HPSGP. This includes fully funding the 86 HPSGP schools at \$400 per pupil. Likewise, the Budget provides \$4.5 million to fund additional decile 1 schools, as ranked on the Academic Performance Index, for HPSGP. Therefore, the Budget Act includes a total of \$233.8 million (\$218.4 million Proposition 98 General Fund) for HPSGP and \$123.4 million (\$99.1 million Proposition 98 General Fund) is provided to continue funding schools in the Second and Third Cohorts of II/USP and the Comprehensive School Reform Program.
- **State Assessments.** Accepted the Administration's January budget proposals to fund the following: 1) Standardized Testing and Reporting (STAR) Program (\$64.4 million), 2) California English Language Development Test (\$18.5 million), 3) the California High School Exit Exam (\$21.2 million), and 4) the elimination of the Assessments in Career Education (\$874,000 in savings).

The Budget Act reduces assessment funding by \$15.7 million, which includes \$5.7 million in savings from the elimination of the Golden State Examinations and \$10 million in unallocated reductions. Likewise, as part of a Budget Conference Committee agreement, AB 1266 (Committee on Budget), the Education "Policy" Trailer Bill, proposes to eliminate the nationally norm-referenced test (NRT), or the CAT-6, in all grades except 3 and 8 beginning in the 2004-05 Fiscal Year.

- **Regional Occupational Center / Programs (ROC/Ps).** Rejects the Governor's proposal to limit ROC/P funds to students under the age of 16 years and restores \$12 million to conform to this action.
- **Education Mandates.** The Budget provides \$1,000 for each of 36 K-12 local education mandates and defers the remainder of payments for an additional year. The School Crimes Reporting II and School Bus Safety II Mandates are suspended.

- **Federal Funds.** The Budget includes over \$2.8 billion in federal No Child Left Behind Act funds for local use, reflecting a total increase of \$333 million, or 13 percent, compared to 2002-03. The following table reflects the significant increases:

Program	(in millions)
<b>Title I – Basic Grants</b> - This is a 15 percent increase. \$3.7 million, a 14 percent increase, for support to schools facing federal sanctions and interventions.	\$211
<b>Title II, Part B – Improving Teacher Quality.</b> This is a 6 percent increase, which brings total funding for this program to \$341.4 million.	20.5
<b>Reading First</b> – competitive grants to improve reading in grades K-3. <sup>a</sup> This is a 10 percent increase, which brings total program funding to \$145.2 million	13.6
<b>Title III</b> – formula grants to help schools improve the achievement of English learners. This is a 19 percent increase, which makes a total of \$132.8 million available for this program.	21.4
<b>Title VI</b> – funding to help the state implement programs related to assessments. <sup>b</sup> This is a 4 percent increased, which makes total funding at \$30.6 million.	1.2
<b>21<sup>st</sup> Century Community Learning Center Programs</b> – federal after school program	34.7
<b>TOTAL</b>	<b>\$302.4</b>

<sup>a</sup>Of the increased amount (\$13.6 million), first priority for funding is for eligible alternative/bilingual programs.

<sup>b</sup>Of this amount, \$3 million is set aside for the development of a primary language state aligned to state academic content standards, pursuant to legislation enacted in the 2003-04 Legislative Session.

- **Title I – School Sanctions/Intervention/Assistance.** Approved a total of \$48.85 million in federal funds for support and assistance to schools subject to state intervention due to lack of improvement, as defined by federal law. Of this amount, \$8.6 million is used to fund School Assistance and Intervention Teams at 96 schools, \$13.6 million is used to provide \$150 per pupil for intervention at 96 schools, and the remaining \$17.6 million is allocated subject to legislation in the 2003-04 legislative session.
- **Advanced Via Individual Determination (AVID) Program.** Restored \$5.1 million (non-Proposition 98) in program funding that was proposed to be reduced in the January budget.
- **Principal Training Program.** Approved the Administration's May Revise proposal to reduce \$22.5 million from this program. After this reduction, there is \$5 million remaining for the program, which enables the state to continue to receive Bill and Melinda Gates Foundation funding.
- **Charter Schools.** Restores \$4.3 million to the Charter Schools Facilities Grant program and \$4.2 million in across-the-board reductions to the Charter School Categorical Block Grant.



- **Flexibility Language.** In order to help local educational agencies (LEAs) absorb the budget reductions, AB 1754 (Committee on Budget), Chapter 227, Statutes of 2003, the Education Trailer Bill, provides limited-term flexibility, as outlined by the following provisions:
  - Reduces the standards for minimum reserves for economic uncertainty for school districts to half of their required levels as of May 1, 2003, thereby lowering the reserve requirement to a range of .5 to 2.5 percent effective in 2003-04 and 2004-05.
  - Reduces school district maintenance reserves from 3 to 2 percent in 2003-04.
  - Permits LEAs to access the 2002-03 ending balances for categorical programs – excluding Economic Impact Aid, Special Education, Targeted Instructional Improvement Grants, Instructional Materials, and Public School Accountability Act programs and deferred funding from 2001-02 to 2003-04 – in order to mitigate the revenue limit reductions and provide local budgeting flexibility in 2003-04.
  - Calculates a deficit factor for LEA revenue limit reductions and foregone COLA's in 2003-04 so that in 2005-06 these factors are restored to revenue limit calculations, as if revenue limit losses had not occurred.

## THE 2003-2004 STATE BUDGET

## HIGHER EDUCATION

**6120 CALIFORNIA STATE LIBRARY**

- **Transaction Based Reimbursement Rescinded** - The budget includes \$12.2 million to rescind the prior proposal to shift funding from the Transaction Based Reimbursements to local fees.
- **User Fees** - The budget includes an increase by \$2.0 million to offset a lower, more achievable level of user fees (\$1.0 million) for supporting State Library services.
- **California Civil Liberties Public Education Program** - The budget includes a restoration of \$500,000 for the California Civil Liberties Public Education Program and removed the statutory sunset for the program.
- **Literacy Programs** - The budget includes an augmentation by \$5.3 million for the consolidation of literacy programs in hopes of streamlining administration and providing local flexibility for literacy services.
- **Library of California** - The budget eliminates the Library of California.
- **Public Library Foundation** - The budget reduces the Public Library Foundation by \$15.8 million, leaving \$15.8 million for local library operations and materials in the budget year.

**6360 COMMISSION ON TEACHER CREDENTIALING**

- **Categorical Programs** - The budget includes a \$3.2 million reduction to categorical programs.

**6420 CALIFORNIA POSTSECONDARY EDUCATION COMMISSION**

- **Rejected Consolidation** - Restored \$1.5 million to the commission and rejected the Governor's consolidation proposal, maintaining an independent coordinating agency for policy related to statewide higher education.

6440

## UNIVERSITY OF CALIFORNIA

The budget provides \$2.9 billion in General Fund support for UC in 2003-04. This is \$248 million, or 7.9 percent, less than was provided in the prior year. However, most of this amount (\$216 million) will be backfilled by increased student fee revenue, for a net reduction of \$31.9 million, or 1 percent.

**The UC budget includes the following augmentations:**

- **Enrollment Growth** - The budget includes \$117 million in General Fund support to support projected enrollment growth increase of 8,000 full-time equivalent students, bringing enrollment system-wide to 197,628. This funding would also be used to support approximately 5,000 full-time equivalent students for who enrollment growth funding was not provided in the current year.
- **Lease-revenue Bond Debt Service** - The budget includes a \$24 million authorization in additional funding for lease-revenue bond debt service.
- **Health Benefits** - The budget includes a \$16 million augmentation for increased health benefits costs.
- **UC Merced** - The budget includes \$7.3 million for startup costs at UC's new campus in Merced. (This is \$4.0 million less than the amount proposed in the Governor's budget, and reflects the Legislature's intent that the opening of the campus be delayed from fall 2004 to fall 2005.)

**The UC budget includes the following reductions:**

- **Unallocated Base Reductions** - The budget includes \$292.9 million in unallocated base reductions (some of which will be made up through a 30 percent increase in student fees).
- **K-12 Outreach Programs** - The budget includes a \$37.8 million reduction for K-12 outreach programs designed to prepare educationally disadvantaged students to attend the University and ensure diversity.
- **Student Services** - The budget includes a \$19 million reduction in student services.
- **Academic and Institutional Support** - The budget includes a \$16.5 million reduction to academic and institutional support.
- **California Subject Matter Projects** - The budget includes a \$15 million reduction for the California Subject Matter Projects.
- **Public Service Programs** - The budget includes a \$12.5 million reduction in public

service programs.

- **Research Programs** - The budget includes a \$10.8 million reduction for research programs.
- **Digital California Project** - The budget includes a \$6.6 million reduction for the Digital California Project.
- **Community Teaching Internships** - The budget includes a \$1.3 million reduction and the elimination of the Community Teaching Internships program.
- **Labor and Employment Institute** - The budget includes a \$500,000 reduction in the Labor and Employment Institute.

<b>6610</b>	<b>CALIFORNIA STATE UNIVERSITY</b>
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The budget provides \$2.5 billion in General Fund support for CSU in 2003-04. This is \$215 million, or 7.9 percent, less than was provided in the prior year. However, most of this reduction (\$160 million) is offset by increased student fee revenue, for a net reduction of \$55 million, or 2 percent, from the prior year.

**The CSU budget includes the following augmentations:**

- **Enrollment Growth** - The budget includes a \$151 million in General Fund support to support projected enrollment growth increase of 16,056 full-time equivalent students, bringing enrollment system-wide to 337,188. This funding would also be used to support approximately 8,000 full-time equivalent students for who enrollment growth funding was not provided in the current year.
- **Public Employees Retirement System** - The budget includes a \$68 million augmentation for increased Public Employees Retirement System costs.
- **Health Benefits** - The budget includes a \$1.0 million augmentation for increased health benefits costs.
- **Lease-revenue Bond Debt Service** - The budget includes a \$1.0 million authorization in additional funding for lease-revenue bond debt service.

**The CSU budget includes the following reductions:**

- **Unallocated Base Reductions** - The budget includes \$204 million in unallocated base reductions (some of which will be made up through a 30 percent increase in student fees).
- **Academic and Institutional Support/Public Service** - The budget includes \$58.1 million in reductions to academic and institutional support and public services.
- **Student-faculty Ratio** - The budget includes a \$53.5 million reduction by increasing the student-faculty ratio from 18.9:1 to 19.9:1
- **Student Services** - The budget includes a \$53.2 million reduction to student services.
- **K-12 Outreach Programs** - The budget includes a \$12.6 million reduction for K-12 outreach programs designed to prepare disadvantaged students for a higher education at the CSU.
- **Cal Teach** - The budget includes a \$2.0 million reduction through the elimination of the Cal Teach teacher recruitment program.
- **Bilingual Teacher Recruitment Program** - The budget includes a \$2.0 million reduction for the Bilingual Teacher Recruitment Program.
- **Other Program Reductions** - The budget includes \$700,000 in other program reductions.

**The CSU budget includes the following restoration:**

- **Fellows Program** - The budget includes a \$1.2 million restoration of funding for the Executive, Legislative and Judicial Fellowship program (includes a 10 percent reduction from the current year).

## COMMUNITY COLLEGES

The budget appropriates \$2.3 billion in General Fund support for CCC in 2003-04. However, the budget also provides \$200 million in General Fund support in 2003-04 loaned from the next fiscal year. When other fund sources, including student fees and property taxes are considered, CCC's total funding increases about 0.7 percent from 2002-03 to 2003-04.

**The Community Colleges budget includes the following:**

- **Restorations** - The budget includes the restoration of approximately \$202.3 million for base apportionment's and categorical program thereby mitigating reductions to the classroom and protecting programs specifically designed to provide educational assistance to the most needy and disadvantaged within the state's community college system.
- **Enrollment Growth** - The budget includes \$57.9 million for enrollment growth of 1.5 percent, or 16,427 FTE students.
- **Student Fees** - The budget includes \$90.7 million in new fee revenue, resulting from an increase in student fees from \$11 per unit to \$18 per unit.
- **Financial Aid Outreach** - The budget includes a shift of \$38 million from the Partnership for Excellence to financial aid programs. This funding is intended to encourage and assist students in applying for and receiving financial aid as a way to mitigate the impact of the fee increase on needy students.
- **Concurrent Enrollment** - The budget includes a reduction of \$25 million from "concurrent enrollment" programs which enroll high school students in CCC courses. Budget bill language would also restrict future funding for this program.
- **Deferral** - The budget allows CCC to "defer" \$200 million in costs incurred in 2003-04 until 2004-05. In this way, CCC is able to increase its programmatic costs by \$200 million without a corresponding increase in its Proposition 98 appropriations in 2003-04. In effect, CCC will receive a \$200 million loan from 2004-05 funds.

<b>7980</b>	<b>CALIFORNIA STUDENT AID COMMISSION</b>
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The budget provides a total of \$683 million for the Student Aid Commission. This is \$92 million, or 15 percent, more than 2002-03 expenditures. Of the total appropriation, \$652 million is for the Cal Grant programs, \$30 million is for the Assumption Program of Loans for Education, and the remainder is for three very small, specialized financial aid programs.

The budget raises Cal Grant awards for UC and CSU students to cover anticipated fee increases and maintains all other award amounts at their current-year levels. In addition, UC and CSU operate their own financial aid programs for their students. Funding for these programs, which comes from student fee revenue, would increase by \$214 million, or 71 percent, in 2003-04.

**The Student Aid Commission budget includes the following augmentations:**

- **Cal Grant Entitlement and Competitive Program** - The budget increases the Cal Grant Entitlement and Competitive program by \$5.4 million in the current year and \$13.8 million in the budget to reflect fee increases for resident students at the state's colleges and universities in the current year. The budget also reflects an additional increase in Cal Grant award amounts due to anticipated fee increases (unspecified amount) in the budget year.

**The Student Aid Commission budget includes the following reductions:**

- **Revised Estimates** - The budget includes a \$20 million reduction in the Cal Grant Entitlement program to reflect revised estimates in the number of Cal Grant Entitlement awards that will be issued in 2003-04.
- **Cal Grant T** - The budget includes a \$6.0 million reduction and the elimination of the Cal Grant T.
- **State Work-study Program** - \$5.0 million reduction and elimination of the State Work-study program.

**The Student Aid Commission budget includes the following restorations:**

- **APLE Awards** - The budget includes the issuance of 200 new APLE awards.
- **Cal Grant C** - The budget includes \$4.0 million to maintain the level of vocational grants given under the Cal Grant C program.

## THE 2003-2004 STATE BUDGET



## NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

### 0540 SECRETARY FOR RESOURCES

- **General Fund Support** - Deleted all \$1.4 million of General Fund support to the Secretary, approximately an additional 10 percent reduction over the Governor's proposals.

### 3340 CALIFORNIA CONSERVATION CORPS

- **Health Benefits** - Denied the Administration's requested \$3.25 million (General Fund) in cuts that would eliminate health benefits to all corps members statewide and eliminate grants to local conservation corps.

### 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

**Approved the following May Revision proposals for loans, transfers, and reversions to the General Fund (with modifications as noted):**

- \$20 million loan from the Public Interest Research, Development and Demonstration (PIER) Fund, with repayment required by June 30, 2005.
- \$2.0 million transfer from the Energy Resources Programs Account (ERPA)--an increase of \$1.025 million from the May Revision proposal.
- \$1.3 million transfer from the Energy Technologies, Research, Development, and Demonstration Account.
- \$1.6 million transfer from the Local Geothermal Resources Development Account (\$580,000 more than the May Revision proposal).
- \$4.9 million reversion from unexpended balances appropriated for energy conservation programs and projects by AB X1 29 (Kehoe) of 2001 and AB 970 (Ducheny) of 2000.
- Earmarked \$200,000 from existing PIER funds for support of the California Climate Action Registry.



**Approved the following January Budget requests:**

- \$1.6 million (ERPA) for electricity usage data collection and analysis.
- \$1.9 million (Katz Schoolbus Fund) for replacement of high-emissions school buses.
- \$800,000 (ERPA) redirection from power plant siting to assessment of price and supply relationships between natural gas and electricity.
- \$50,000 (Renewable Resource Trust Fund) for initial studies to implement the Renewable Resources Portfolio Standard.

**Approved the following additional items:**

- \$6.0 million (Renewable Resource Trust Fund) for incentives for clean-burning biomass plants using agricultural waste that otherwise would be burned in open fields.
- \$5.75 million additional transfer to the General Fund from surplus ERPA revenues within the statutory maximum of the ERPA electricity surcharge.
- \$615,000 from imposing new fees for power plant siting applications (ERPA savings are transferred to the General Fund).

**3480 DEPARTMENT OF CONSERVATION**

- Approved \$182.0 million in loans from various departmental special funds, including the Beverage Container Recycling Fund.
- Approved the Administration's proposed \$10.0 million (Proposition 40) for the Department's Farmland Conservancy Program.

**3790 DEPARTMENT OF PARKS AND RECREATION**

- Approved shift of \$95.7 million (Proposition 50) from the Department of Parks and Recreation to the State Library for grants to preserve Historic and Cultural Resources.
- Provided \$49.0 million (Off-Highway Vehicle Account) for the acquisition, planning and construction of park space for off-highway vehicles and buffer zones around existing facilities.

**3860 DEPARTMENT OF WATER RESOURCES**

- Reverted \$38.8 million (General Fund) for previously authorized Colorado River projects.
- Provided \$9.9 million (Proposition 50) for grants consistent with Proposition 50's Water Security provisions.

**3870 CALFED BAY-DELTA AUTHORITY**

- Approved a \$216.4 million (various fund) shift of funding from the Department of Water Resources to the Bay Delta Authority, thereby creating the Authority.
- Approved more than \$13 million in General Fund reductions through programmatic reductions and fund shifts to Proposition 50 funds where applicable.

**0555 SECRETARY FOR ENVIRONMENTAL PROTECTION**

- Deleted an additional \$440,000 of General Fund support for the Secretary over the Governor's proposed

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**3910 CALIFORNIA INTEGRATED WASTE  
MANAGEMENT BOARD**

- **Loans to General Fund** - Approved \$30.5 million in loans to the General Fund, \$19.0 million (various special funds) as proposed by the Governor and increased these by \$11.5 million.
- **Support to the Board** - Reduced support to the Board by \$684,000 (Special Funds), eliminating multiple staff support positions for each Board Member.

**3940 STATE WATER RESOURCES CONTROL  
BOARD**

- Approved \$33.1 million (Proposition 50) in grants relating to Integrated Regional Water Management activities, providing Trailer Bill Language to create a statutory framework for the program and criteria for the award of funds.
- Approved the May Revise request for a \$20.3 million (Proposition 50) shift to the CALFED Program for Watershed Program activities.
- Approved \$84.3 million (Proposition 50) for the boards efforts to ensure safe and clean water, pursuant to Proposition 50's Clean Water and Water Quality Programs.

## THE 2003-2004 STATE BUDGET

## CRIMINAL JUSTICE

**0250 JUDICIAL BRANCH**

- **Administrative Reductions** - Authorized the savings of \$500,000 through the consolidation of administrative functions.
- **Unallocated Reductions** - Reduced operational funding for the Judiciary by \$8.5 million.
- **Appellate Courthouse, Orange County** - Authorized the reappropriation of funds to identify a new replacement site for the Appellate Court Building currently in Santa Ana.
- **Appellate Courthouse, Fresno** - Authorized the reappropriation for continued funding for the replacement of the Appellate Court Building in Fresno.
- **Trial Court Facilities Act** - Provided \$10.7 million to implement the Trial Court Facilities Act of 2002. This would start the process for the conversion of court building maintenance and construction from the counties to the state.
- **Accounting Processing Center** - Provided \$346,000 to implement the Accounting Processing Center that would allow for the improved fiscal accountability of the trial courts.

**0280 COMMISSION ON JUDICIAL PERFORMANCE**

- **Unallocated Reduction** - Approved a \$621,000 (10 percent) unallocated reduction for the Commission on Judicial Performance.

**0390 CONTRIBUTIONS TO THE JUDGES' RETIREMENT SYSTEM**

- **Reserve Reduction** - Approved the reduction of the reserve to the Judges' Retirement System. This would save the General Fund \$10.3 million.
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<b>0450</b>	<b>TRIAL COURT FUNDING</b>
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- **Loan** - Approved a loan from the State Court Facilities Construction Fund of \$80 million.
- **Unallocated Reduction** - Reduced operational funding for the Trial Courts by \$85 million.
- **Workers' Compensation Costs** - Approved the increase of \$5.5 million to fund workers' compensation increases for the trial courts. This amount is based upon current year expenditures and does not reflect any cost increases that may occur in the Budget year.
- **Retirement Benefits** - Authorized the increase of \$5.5 million to fund increases in employer contributions for employee retirement benefits.
- **Security Costs** - Approved the increase of \$3.6 million due to increases in court security costs.
- **Realignment, Security Costs** - Rejected the Administration's proposal to transfer trial court security costs from the General Fund to counties after a restructure of the state local realignment program. This plan would have resulted in \$300 million General Fund savings.
- **Services of Restraining Orders, Chapter 1009/2002** - Approved the increase of \$3.0 million to reimburse local law enforcement agencies for service of protective orders, restraining orders or injunctive orders related to domestic violence, stalking, or threat of sexual assault. Pursuant to Chapter 1009 Statutes of 2002, the service of these orders is exempt from fee.
- **Electronic Court Reporting** - Declined to accept the Administration's proposal to use electronic reporting in courtrooms.
- **Trial Transcripts** - Declined to accept the Administration's proposal to transfer the ownership rights of court transcripts from court reporters to the court.
- **Retirement Contributions** - Approved minimum retirement contributions for court interpreters as the transition from independent contractors to court employees.
- **Contracting Out** - Approved limits on the cleaning and maintenance contracts for court facilities.

0820

## DEPARTMENT OF JUSTICE

- **License 2000 Database** - Approved continued funding for the License 2000 Database to support gaming licensing activities in the Department of Justice in conjunction with the California Gambling Control Commission.
- **Local Forensic Fee** - Declined to accept Administration proposal to charge local governments for forensic services provided by the Department of Justice. This proposal would result in General Fund savings of \$3.5 million.
- **Do Not Call Program** - Approved \$261,000 from the General Fund to support and coordinate the federal Do Not Call program in California. This program would limit telephone solicitor access to the public.
- **Energy Litigation Funding** - Approved in conjunction with budget trailer legislation to deposit the proceeds of litigation settlement with electricity generators into a new fund subject to legislative appropriation for the primary purpose of ratepayer relief and to support ongoing energy stabilization litigation costs. Proceeds of existing settlements will total approximately \$110 million, and additional significant amounts could result from future settlements. The shift in funding for the department's litigation would increase the General Fund by \$13.2 million. Alternately, litigation settlements could still be used to provide ratepayer relief in lieu of transfer to the ratepayer fund.
- **Witness Protection Program** - Approved the restoration of \$3.0 million in funding for the Witness Protection Program. This program seeks to protect crime witnesses from retaliation threats, and other intimidation. The Budget Act funds this program from the Driver Training Fund.
- **Criminal Appeal Workload** - Approved \$3.7 million to fund increased workload in criminal appeals.
- **Forensic Laboratory, Santa Barbara** - Approved continued funding for the Santa Barbara Crime Laboratory project.
- **Energy Settlement Funds** - Approved the transfer of funding for energy litigation to the settlement funds under the Williams Co. litigation. This would save \$14.3 million from the General Fund.
- **Spousal Abuse Vertical Prosecution** - Restored the funding for the Spousal Abuse Vertical Prosecution Program

5240

## DEPARTMENT OF CORRECTIONS

- **Community Correctional Facilities** - Approved the closure of three Community Correctional Facilities by January 1, 2004.
- **Correctional Education Programs** - \$27.5 million by implementing changes to correctional educational programs that will focus on maximizing educational opportunities to inmates. This restructuring will result from additional good behavior credits being earned by the inmates.
- **Mentally Ill Parole Services** - \$10.3 million savings resulting from enhanced parole services to mentally ill parolees that would reduce recidivism.
- **Parole Violators** - \$50.4 million savings resulting from enhanced use of treatment options for technical parole violators.
- **Overtime Limits** - Expressed legislative intent that the Department limit overtime by correctional officers to 80 hours a month. This change would be subject to collective bargaining agreements between the State and the appropriate bargaining unit.
- **Delano II Bonds** - Approved savings of \$2.8 million resulting from the decision not to pay down interim financing bonds for the Delano II prison.
- **Dual Vocational Institution Heating Project** - Approved \$1.0 million for the heating and air conditioning project at the infirmary at Duel Vocational Institution, Tracy.
- **CIM Chino Security Lighting** - Approved \$1.3 million for security lighting at the California Institution for Men, Chino.
- **CIM Chino, Electrified Fence** - Approved \$466,00 for an electrified fence at the California Institution for Men, Chino.
- **Population Adjustment** - Approved \$58.5 million for additional costs associated with the increase in estimated population.
- **Electromechanical Doors** - Approved continuing funding of \$11.7 million to continue replacement and repairs of electromechanical doors at various prisons.
- **Business Information System** - Approved continued funding of \$1.4 million for the Business Information System.
- **DNA** - Approved \$1.7 million to support the taking of samples of inmates for DNA typing and classification.

- **Office of Investigative Services** - Approved the reduction of \$956,000 for the Office of Investigative Services. This will result in the closure of the Southern California Office and would reallocate the workload to the Northern and Central Regional Office.
- **7K Training** - Approved the reduction of \$2.3 million for the elimination of the correctional sergeants involved in the 7K training. Under the current bargaining agreement this type of training has been superceded.
- **Delano II Opening** - Approved the delay of the opening of the Delano II prison until 2005. This would result in savings of \$8.8 million.
- **Medical Services** - Approved the review of the medical services program. This is expected to reduce medical expenditures by \$13 million.
- **Correctional Academy** - Approved an additional correctional officer academy of 640 correctional officers in the Budget year that would result in reduced overtime costs of \$4.6 million.
- **Substance Abuse Treatment** - \$20.1 million savings from the early substance abuse treatment for non-violent and non-serious inmate's 120 days before release from prison.
- **Mental Health Treatment** - \$2.6 million savings due to an estimated reduction of demand in beds contracted with the Department of Mental Health.
- **Condemned Housing** - Approved the proposed new combined housing unit for condemned inmates and attached medical facility at California State Prison, San Quentin to be funded through \$220 million of bonds. The Budget Act also approved the construction of a separate stand alone medical facility at San Quentin as an alternative to the integrated facility.
- **Psychiatric Programs, Salinas Valley Prison** - Approved the delay of the Psychiatric Program at the Salinas Valley Prison.
- **Substance Abuse Beds** - Approved the delay of 500 substance abuse beds for savings of \$5.4 million. In addition, the Budget Act deletes funding for another 500 substance abuse beds that are currently not being filled. This would result in additional savings of \$5.0 million.



<b>5430</b>	<b>BOARD OF CORRECTIONS</b>
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- **Juvenile Correctional Inspection Program** - Continue funding for the Local Juvenile Correctional Facility Inspection Program. Up to \$176,000 of existing funds could be used for this purpose
- **Juvenile Justice Grants** - \$275,000 of the funding for the Schiff-Cardenas Juvenile Justice Grants could be used by the Board for administrative costs associated with that program.
- **Correctional Officer Training** - Provides \$16.1 million from the Correctional Officer Training Fund to support the training of local correctional officers. (Pending approval of Trailer Bills SB 1042 and SB 1044)

<b>5440</b>	<b>BOARD OF PRISON TERMS</b>
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- **Reduced Workload** - Approved the reduction of \$3.5 million due to a reduction in the predicted workload for hearings for parole revocation and mentally disordered offenders.

<b>5450</b>	<b>YOUTHFUL OFFENDER PAROLE BOARD</b>
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- **Consolidation** - Approved the decrease of \$1.6 million for the board due to the implementation of Chapter 4, Statutes of 2003 (SB 459, Burton) that eliminates the Board and consolidates these functions with the Department of Youth Authority. The consolidation would result in a net savings of \$175,000

<b>CALIFORNIA YOUTH AUTHORITY</b>
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- **Facility Consolidation** - Approved the savings of \$3.6 million due the consolidation of juvenile correctional facilities.
- **Population Adjustment** - Approved a reduction of \$900,000 due to a reduction in estimated ward population.
- **Youthful Offender Parole Board Consolidation** - Approved \$1.5 million related to the consolidation of the Youthful Offender Parole Board in the department.
- **Sliding Scale** - Approved an increase of 17 percent (\$6.0 million) in county juvenile commitment fees. This increase reflects the increase in inflation since the fees were established in 1997. This includes a \$1.1 million offset to the estimated savings,

which will reflect adjustments in population.

- **Future Consolidation** - Directed California Youth Authority to close a juvenile correctional facility no later than March 1, 2005. This would be in addition to the 2003-04 consolidations that resulted in the \$36 million savings. The Budget Act identifies legislative intent for the Department to use up to 50 percent of the 2005-06 savings associated with the closure to be directed toward enhanced parole services, improved diagnosis of mental health needs, enhanced mental health programs, improved sex offender treatment, and improved substance abuse treatment for the wards. The Department would also be responsible to track wards entered in these programs for five years after release from California Youth Authority facilities to determine the impact of these programs on recidivism.
- **Relief Positions** - Approved \$1.5 million to provide posting relief for sergeants in accordance with collective bargaining agreements.
- **Sick Leave Relief Positions** - Approved \$1.1 million to provide funding for sick leave relief costs.

## OFFICE OF CRIMINAL JUSTICE PLANNING

- **Reorganization** - Approved six-month funding for the Office of Criminal Justice Planning. The Budget Act would also transfer grant program oversight to other departments pursuant to a future Administration plan. Funding has been set aside to for these successor agencies to continue programs for the second half of the fiscal year.
- **Cal Meth Grant** - \$5.5 million reduction to the Cal-Meth Grant that supports local law enforcement agencies anti-methamphetamine programs in Northern and Central California
- **Vertical Prosecution Programs** - Reduces funding for local vertical prosecution programs to \$8.0 million. It would also consolidate all vertical prosecution programs administered by Office of Criminal Justice Planning into one block grant.

## 8830 CALIFORNIA LAW REVIEW COMMISSION

- **On-Going Funding** - Declines to adopt the Administration's proposal to eliminate the California Law Review Commission and appropriates a budget of \$550,000.

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<b>8840</b>	<b>CALIFORNIA COMMISSION ON UNIFORM STATE LAWS</b>
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- **On-Going Funding** - Declines to adopt the Administration's proposal to eliminate the California Commission on Uniform State Laws and appropriates a budget of \$122,000.

<b>9210</b>	<b>LOCAL GOVERNMENT FINANCE</b>
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- **Educational Revenue Augmentation Fund** - Did not adopt the Governor's Budget proposal for a \$250 million property tax shift from redevelopment agencies to schools (via the Educational Revenue Augmentation Fund (ERAF) in each county). The proposed action would have reduced the state's Proposition 98 school funding requirement by \$250 million.
- **Booking Fee Subventions** - Rejected elimination of Booking Fee Subventions and restored \$38.2 million for that purpose.
- **Special Supplemental Subventions** - Rejected elimination of Special Supplemental Subventions to certain redevelopment agencies and restored \$900,000 for that purpose.
- **Law Enforcement Technology Grants** - Approved the elimination of the Local Law Enforcement High Technology Equipment Grant. This will result in savings to the General Fund of \$18.5 million.
- **Rural County Law Enforcement Grants** - Retained on-going funding of \$18.5 million to 37 counties for the Rural County Law Enforcement Grants. (Pending approval of Trailer Bill SB 1044)
- **COPS/Juvenile Justice Grants** - Approved \$200 million for the Citizens' Option for Public Safety (\$100 million) and the Juvenile Justice Crime Prevention Program (\$100 million).

THE 2003-2004 STATE BUDGET

## GENERAL GOVERNMENT

**0552 OFFICE OF THE INSPECTOR GENERAL**

- **Administrative Reductions** - Approved reductions of \$330,000 in administration services.
- **Workload Reduction** - Approved reductions of \$5.0 million due to proposed reduced workload.

**0690 OFFICE OF EMERGENCY SERVICES**

- **California Integrated Seismic Network** - Approved the reduction of \$580,000 for the maintenance of the California Integrated Seismic Network.
- **California Specialized Training Institute** - Approved the reduction of \$332,000 for the California Specialized Training Institute.
- **Disaster Assistance Division, Pasadena Office** - Approved the reduction of \$1.1 million for closure of the Pasadena Regional Office in the Disaster Assistance Division.
- **Disaster Assistance Funding** - Approved \$5.1 million reduction in local assistance disaster funding.
- **Administrative Reductions** - Approved \$354,000 in reductions for departmental administration.
- **Workers' Compensation** - Restored \$663,000 reduced by the Governor's Budget to pay workers' compensation insurance premiums for volunteer disaster workers.

<b>0860</b>	<b>STATE BOARD OF EQUALIZATION</b>
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- **Collection of Use Tax** - Provided \$2.3 million for start-up and administrative costs to improve collection of use tax on interstate Internet and mail-order sales by including a line for use tax payment on the personal income tax form in cooperation with the Franchise Tax Board. This will result in an estimated General Fund revenue gain of \$8.0 million in 2003-04 (plus a \$4.0 million local revenue gain) from improved use-tax compliance. Implementing legislation is pending.
- **Cigarette and Tobacco Products Taxes** - Approved budget request for \$678,000 (\$77,000 General Fund) and 2.8 personnel-years for enhanced enforcement of cigarette and tobacco products taxes to implement the pilot program in Chapter 881, Statutes of 2002, which requires Board of Equalization to replace the current cigarette stamps and meter impressions with encrypted stamps or meter impressions that can be read by scanning devices.

<b>0950</b>	<b>STATE TREASURER</b>
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- **Realignment of Administrative Costs** - Approved requested funding shift of \$613,000 from the General Fund to reimbursements for services as a result of a realignment of administrative costs.
- **Mandate Suspensions** - Suspended the state mandate requirement for local governments to prepare Investment Reports and County Treasury Oversight Reports. This action was consistent with a May Revision request.

<b>0956</b>	<b>CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION</b>
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- **Loan to the General Fund** - Approved a \$5.5 million loan to the General Fund from the commission's special fund. The Governor's Budget proposed a \$3.0 million loan, and the May Revision increased the amount to \$5.5 million.

<b>0968</b>	<b>CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE</b>
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- **Loan to the General Fund** - Approved Budget request for a \$3.0 million loan to the General Fund from the committee's Special Fund.

0985

## CALIFORNIA SCHOOL FINANCE AUTHORITY

- **Charter Schools Facilities Program** - Approved \$531,000 from 2002 state school bond funds and three positions to implement the Charter Schools Facilities Program, as requested by the May Revision.

## 1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

- **Mid-Year Reduction** - Continued a 5 percent mid-year reduction to the department's budget for a General Fund savings of \$1.6 million in 2003-04. Rejected Budget proposal for additional 15 percent cut (\$2.2 million).

1730

## FRANCHISE TAX BOARD

- **Operating Budget** - Approved budgeted savings in the board's General Fund operating budget of \$9.1 million in 2002-03 and \$1.1 million in 2003-04.
- **Tax Return E-Filing** - Reduced by \$1.2 million because of reduced tax return processing workload resulting from requiring e-filing by all tax professionals who file 100 or more tax returns annually. The Governor's Budget included savings of \$1.4 million. The Subcommittee action results in slightly smaller savings because it allows taxpayers to refuse e-filing. The e-filing requirement is included in the General Government Budget Trailer Bill (AB 1756).
- **Outreach** - Approved requested reduction of \$451,000 and 4.7 personnel-year for outreach activities.
- **Phase III Building Project** - Approved budget request for an augmentation of \$813,000 for initial moving expenses and costs for the Department of General Services associated with the board's Phase III Building Project.
- **Political Reform Audit Program** - Rejected budget proposal to impose \$1.4 million of fees for support of the Political Reform Audit Program. Under the program, the Franchise Tax Board audits candidates and other entities on behalf of the Fair Political Practices Commission.
- **Court Collections Program** - Approved requested increase of \$2.0 million (special fund) and 24.8 personnel-years to serve additional counties under the Court Collections Program.
- **Integrated Nonfiler Compliance Program** - Augmented by \$800,000 and 14

positions to increase General Fund revenue by \$4.4 million by expanding the Integrated Nonfiler Compliance Program. The expansion reduces the threshold of estimated tax liability from \$200 to \$100.

- **Penalty and Interest Waiver Program** - Approved an April Finance Letter request to augment by \$493,000 to continue the Penalty and Interest Waiver Program through December 2003 because of a late start in 2002-03 and increased workload. The extension will avoid a potential revenue loss of \$4.7 million.

## DEPARTMENT OF GENERAL SERVICES

- Denied the Governor's proposed 911-surcharge rate increase.

## 1920 STATE TEACHERS' RETIREMENT SYSTEM

- **Pension Obligation Bonds** - Does not assume the use of pension obligation bonds for payment of the state's \$451 million General Fund contribution for regular teacher retirement benefits. The Governor's budget had proposed bond financing for the state's retirement contributions on behalf of both teachers and state employees. However, the administration later determined that bond financing was not feasible for the state's contribution for teachers' retirement.
- **Suspension of Pension Payment** - Adopted the Governor's mid-year proposal to reduce the state's 2003-04 General Fund contribution to the Supplemental Benefit Maintenance Account (SBMA) by \$500 million (from \$558.9 million to \$58.9 million). The Supplemental Benefit Maintenance Account supplements regular teacher retirement benefits, as necessary, in order to prevent them from falling below 80 percent of their original purchasing power. The Supplemental Benefit Maintenance Account has a large balance in excess of its current annual spending needs. This reduction was enacted in May in SB X1 20 (Committee on Budget and Fiscal Review), which also guarantees through 2035-36 that the General Fund will restore the \$500 million plus earnings if necessary to maintain purchasing power protection for retirees.

## 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

- Approved the Governor's Budget proposal for expenditures of housing bond funds provided by Proposition 46, the Housing and Emergency Shelter Trust Fund Act of 2002, which authorizes a total of \$2.1 billion for various housing programs. The local project bond expenditures will be \$255 million in 2002-03 and \$463 million in 2003-04, as follows:
  - \$59.1 million in 2002-03 and \$107.6 million in 2003-04 for State and local homeownership programs for lower income families (including programs administered by the California Housing Finance Agency).
  - \$24 million in 2002-03 and \$64.7 million in 2003-04 for housing projects that serve farm workers and their families.
  - \$109.7 million in 2002-03 and \$193.5 million in 2003-04 for affordable multifamily rental housing, supportive housing, student housing, and local housing trust funds.
  - \$31 million in both 2002-03 and 2003-04 for capital funds to construct, expand, or rehabilitate homeless shelters and transitional housing.
  - \$25 million for both 2002-03 and 2003-04 to provide financial incentives to communities that increase housing production, especially affordable rental housing production and work to balance jobs and housing.
  - \$24 million in 2003-04 for down payment assistance targeted to communities that reduce barriers to housing.
  - \$4.8 million in 2002-03 and \$17.2 million in 2003-04 for preservation of affordable low-income housing.
- Adopted a budget trailer bill provision in AB 1756 (Budget Committee) to allow up to \$4.1 million of Proposition 46 bond funds to be used for reconstruction of migrant housing centers operated by the department if funds remain after other qualifying migrant housing projects have been approved.



- Approved budget request for staffing and support for implementation of the Housing and Emergency Shelter Trust Fund Act of 2002. Bond Support as follows: \$358,000 and 3.7 positions for the CalHome Program; \$280,000 and 2.8 positions for the BEGIN Program; \$113,000 and 1.0 position for the CalHome Self-Help Program; \$952,000 and 9.5 positions for the Multifamily Housing and Supportive Housing Programs; \$651,000 and 6.5 positions for the Farmworker Housing Program; \$105,000 for the Code Enforcement Program; \$607,000 and 6.0 positions for the Emergency Housing Capital Development Program; \$431,000 and 4.5 positions for the Jobs Housing Balance/Workforce Housing Reward Programs; and, 5.0 positions for Administration workload.
- **Home Investment Partnerships (HOME) Program** - Approved a total of \$139.9 million (federal funds) for awards to assist in the creation and preservation of affordable housing under the Home Investment Partnerships (HOME) Program, and an additional \$7.2 million (federal funds) for program administration.
- **Community Development Block Grant Program** - Approved \$47 million (federal funds) for the Community Development Block Grant Program. Of this amount, \$13 million is reserved for economic development, including \$7.0 million for the California Community Economic Enterprise Fund for small business start-up capital.
- **General Fund Savings Proposals** - Approved the following General Fund savings proposals proposed by the Administration for 2003-04:
  - May Revision proposal to return to the General Fund \$16.7 million of unused prior appropriations for housing projects.
  - May Revision proposal to replace \$39.8 million of General Fund money provided in prior years to the CalHome and Farmworker Housing programs with Proposition 46 bond funds that are available for the same programs. Budget trailer bill language in AB 1756 authorizes this fund shift.
  - May Revision proposal for a loan of \$31.7 million to the General Fund from Housing Rehabilitation Loan Fund. The loan will be repaid with interest on a schedule that will not delay projects.
  - Reduction of 1 position and \$110,000 from the Code Enforcement Outreach Program.
  - Reduction of 1 position and \$107,000 from the Office of Migrant Services.
- **Emergency Housing Assistance Program** - Rejected a proposed \$1.3 million reduction in General Fund support for the Emergency Housing Assistance Program, which provides operating grants for homeless shelters.

- **Employee Housing Program** - Rejected reduction of \$721,000 (General Fund) for the Employee Housing Program to be offset by a like increase in regulatory fees.
- **Office of Migrant Services Program** - Rejected reduction of \$625,000 (General Fund) in local assistance funding for the Office of Migrant Services Program in order to prevent a rent increase for migrant farm workers and included a provision in AB 1756 to prohibit any rent increase in 2003-04.
- **Office of Military Base Reuse and Retention** - Added \$180,000 (General Fund) and 1.0 position to continue the Office of Military Base Reuse and Retention, which is shifted from the Technology, Trade and Commerce Agency.

## 2920 TECHNOLOGY, TRADE AND COMMERCE

- Eliminated the agency and moved the following programs to Business Transportation and Housing Agency:
  - The Film Commission.
  - The Small Loan Guarantee Program.
  - Manufacturing Technology Program.
  - Tourism.
  - Infrastructure Bank.
- The Military Base Reuse and Retention Program was transferred to the Department of Housing and Community Development.
- The Underground Storage Tanks Program was transferred to the State Water Resources Control Board.

## 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

- Reduced funding for the Employment Training Panel by \$35 million.

## 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

- Denied Governor's Proposal for 100 percent user funding for Workers' Compensation Administration.

8260

## CALIFORNIA ARTS COUNCIL

- Reduced General Fund support for the Council to \$1.0 million.

8660

## PUBLIC UTILITIES COMMISSION

The Public Utilities Commission is supported by special funds that receive revenue from a variety of ratepayer surcharges added to utility bills.

- **California High-Cost Fund A Fund** - Approved budget request for \$10.1 million from the California High-Cost Fund A Fund and one position to implement a grant program to establish telecommunications services in unserved low-income rural areas pursuant to Chapter 903, Statutes of 2001.
- **Trailer Bill Language** - Adopted budget trailer bill language (in AB 1756) to prohibit the Public Utilities Commission from establishing an Office of Economic Development and expressing legislative intent for the Public Utilities Commission to incorporate economic considerations in the course of its normal decision making.
- **Repairs to Headquarters Building** - Reduced budget request for special repairs to San Francisco headquarters building by \$105,000, and approved \$421,000 of the request, primarily to replace the roof.
- **Implementation of AB 2838** - Approved request for \$223,000 and three positions to implement AB 2838 (Canciamilla, Chapter 1147, Statutes of 2002), which requires the Public Utilities Commission to review rates charged by water corporations every three years.
- **Office of Ratepayer Advocates Telecommunications Branch** - Restored permanent status to 18 limited-term positions.
- **Legal Counsel** - Approved an April Finance Letter request for \$8.0 million for outside legal counsel and expert witnesses to continue the commission's participation in the PG&E bankruptcy proceedings.
- **Support Positions** - Rejected an April Finance Letter request for \$197,000 to reestablish four support positions for the commission's administrative law judges.
- **Payment of Claims** - Provided additional appropriation authority to pay remaining claims from telecommunications carriers for 2001-02 from the High-Cost A Fund (\$2.5 million), the High-Cost B Fund (\$39 million), and the Universal Lifeline Service Fund (\$6.0 million).

- **PG&E's procurement cost lawsuit** - Augmented by \$960,000 for expert witnesses in PG&E's procurement cost lawsuit against the Public Utilities Commission (the May Revision request was \$1.9 million).
- **Consumer Affairs Branch** - Approved a May Revision request for \$389,000 to add eight positions to provide bilingual services in the Consumer Affairs Branch and adopted Budget Bill Language directing the Public Utilities Commission to seek bilingual persons to fill vacancies in the branch as they arise.
- **Loan to the General Fund** - Approved a \$150 million loan from the California Teleconnect Program Fund to the General fund. (The May Revision had requested a \$136 million loan.) The Fund provides subsidized rates to schools, hospitals and nonprofit organizations for internet and related telecommunications services.

<b>8665 CALIFORNIA CONSUMER POWER &amp; CONSERVATION FINANCING AUTHORITY</b>
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- **Loan to the Power Authority** - Approved Budget request for \$6.2 million loan to the Power Authority from the Energy Resources Programs Account (the electricity surcharge that supports the Energy Commission). Adopted a requirement that the Power Authority repay \$1.0 million of the loan from its financing or other program revenues by the end of 2003-04 for transfer to the General Fund.
- **Ratepayer Relief Fund** - Specified that funds transferred to the authority by the Attorney General from the proceeds of litigation settlement agreements with electricity generators (\$16.2 million through 2003-04) will be transferred to a new Ratepayer Relief Fund established by budget trailer legislation (AB 1756). Also see 0820, Department of Justice).

<b>8690 SEISMIC SAFETY COMMISSION</b>
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- Approved half-year funding (\$440,000) as a loan from the Insurance Fund. Repayment of the loan and ongoing funding for the commission is to be provided by a new fee on property insurance policies in pending budget trailer legislation. The budget had requested full-year fee funding for the commission.

<b>8770</b>	<b>ELECTRICITY OVERSIGHT BOARD</b>
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- Approved Budget request for \$3.7 million (ratepayer funds). Also adopted budget language directing the board to report on the activities of state agencies participating in proceedings before the Federal Energy Regulatory Commission.

<b>8885</b>	<b>COMMISSION ON STATE MANDATES</b>
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- Approved budgeted reductions of \$412,000 for staff, overtime and by reducing the frequency of commission meetings.

<b>9100</b>	<b>TAX RELIEF</b>
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- Augmented by \$40.2 million to restore funding for Williamson Act Open Space Subventions (also a May Revision request).
- **Vehicle License Fee "Gap" Savings** - The budget eliminated Vehicle License Fee (VLF) backfill payments to cities and counties, as requested in the May Revision. The Department of Finance estimates that this action will reduce state General Fund costs for backfill payments by \$825 million. This is the amount of backfill payments that local governments would have received in 2003-04 to make up for the reduction in the VLF rate until the restoration of the full VLF rate occurs in October 2003 as a result of the activation of the VLF "trigger." A provision in AB 1752 (the Human Services budget trailer bill) will increase the percentage allocation of VLF revenue to the Local Revenue Fund (dedicated to local health and human services Realignment programs) for 2003-04. This adjustment is intended to maintain full Realignment funding in 2003-04. Consequently, the gap in VLF funding will impact only the component of VLF revenues available for general purposes. Pending budget trailer bill legislation (AB 1768) converts this shortfall in local funding into a loan, with the state restoring the missed backfill payments (plus interest) in three years

<b>9210</b>	<b>LOCAL GOVERNMENT FINANCE</b>
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- Adopted a \$135 million property tax shift from redevelopment agencies to schools (via the Educational Revenue Augmentation Fund—ERAF—in each county). This shift reduces the state's Proposition 98 school funding requirement by an equal amount. The \$135 million ERAF shift is contained in SB 1045, pending approval by the Senate and the Governor.
- Rejected elimination of Booking Fee Subventions and restored \$38.2 million for that purpose.

- Augmented by \$500,000 (General Fund) to restore Special Supplemental Subventions to certain redevelopment agencies (the Governor vetoed this amount).
- Reduced spending by a total of \$769 million, as requested by the Governor, for reimbursement of state-mandated local costs (excluding education mandates). The bulk of this spending reduction represents a deferral of payments owed to local governments. However, the Budget also suspends the legal requirements for 37 mandates, thereby relieving local governments from complying with those requirements and eliminating any additional state cost liability in those cases.

### The "Triple Flip"

Budget trailer bill legislation (SB X1 7 (Oropeza)) authorizes the sale of bonds to finance the state's 2002-03 budget ending deficit, and provides for an "exchange" of ½-cent of local sales tax for a new dedicated state ½-cent sales tax dedicated to paying off the deficit bonds. This exchange will begin on July 1, 2004. The revenue loss to cities and counties will be replaced with property tax revenues diverted from schools. The state, in turn, will make schools whole with increased General Fund support under the Proposition 98 funding requirements. (Also, see discussion of Budget Bond financing below.)

## 9430 SHARED REVENUES

- Adopted Governor's Budget proposal for General Fund savings of \$36.9 million by eliminating special VLF backfill payments to local governments. These payments replace revenue lost due to the elimination of VLF for big-rig trailers under the International Registration Program. Funding of \$11.9 million for backfill of the VLF Realignment component is maintained.

## BUDGET FINANCING BONDS

**Deficit Financing Bond.** - AB X1 7 (Oropeza) of 2003-2004 authorizes the issuance of approximately \$10.7 billion of deficit financing bonds to address the accumulated budget deficit as of June 30, 2003. The bonds will be financed by a temporary, ½ cent sales tax beginning July 1, 2004 and dedicated for the purpose of the repayment of the bonds. The revenues from the ½ cent sales tax will be deposited in the newly created Fiscal Recovery Fund and will not be included in the Proposition 98 calculation because they are new revenues that are dedicated to a special fund for a specific purpose. The debt service for these bonds will be subject to annual appropriation by the Legislature. The Attorney General's Office has concluded that bonds validly issued pursuant to this legislation would not be "debt" prohibited by the constitutional debt limit.

**Revenue Exchange** - Beginning in 2004-05, local sales tax authorization is reduced by ½ cent and local government's share of local property tax revenues are increased by a like amount. This reduces the amount of property tax going to schools. The Proposition 98 formula requires that the state increase its General Fund allocations to schools to hold them harmless from the shift of property tax revenue.

**Securitized Tobacco Settlement Funds.** The 1998 Master Tobacco Settlement requires tobacco companies to make payments to the states totaling an estimated \$206 billion nationally through 2025. California is projected to receive an estimated \$25 billion over 25 years. To prevent further reductions to important health care programs for the State's most vulnerable residents, the State issued bonds in 2002-03 backed by Tobacco Settlement Fund revenues, which generated \$2.5 billion for the General Fund. For 2003-04, the State plans to issue bonds backed by the remaining Tobacco Settlement Fund revenues to generate another \$2.0 billion for the General Fund. These bonds also will be backed by a promise to seek General Fund spending authority in the annual Budget Act to cover any shortfall in Settlement proceeds needed to pay off the bonds. The Budget Act includes a contingent appropriation of up to \$200 million for this purpose.

**Pension Obligation Bonds** - The budget includes \$1.9 billion of General Fund revenue from the issuance of pension obligation bonds to fund approximately \$1.9 billion of the State's 2003-04 retirement obligations to the California Public Employees' Retirement System on behalf of state employees supported by both the General Fund and special funds. The General Fund will be responsible for all future bond redemption costs. The state will make an interest-only payment of approximately \$28 million in the spring of 2004 and principal and interest payments of \$419 million in each fiscal year from 2004-05 through 2008-09.

## CONTROL SECTION 4.10 EMPLOYEE COMPENSATION REDUCTION

**Employee Compensation Reduction** - This Control Section requires the savings of \$1.0 billion from personal service costs from state departments and agencies. It would also require the layoff of at least 16,000 state employees needed to achieve these savings. Vacant positions that were abolished pursuant to the provisions of Government Code Section 12439 and Executive Order D-71-03 may be counted against the 16,000 positions to be reduced. In addition, it would allow the Administration to adjust a department's budget through a reduction of up to 15 percent or an augmentation of up to 10 percent as needed to meet a department's personal services needs. The Administration is required to provide a 30-day notice to the Joint Legislative Budget Committee of any proposed augmentations, reductions or position reductions under this control section.

<b>CONTROL SECTION 27.00 DEFICIENCY SPENDING</b>
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This "control section" in the annual budget act establishes' criteria and legislative notification requirements for the Director of Finance to authorize deficiency spending by state agencies (spending at a rate that will require a supplemental appropriation).

**5-percent Reduction Authority** - The 2003 Budget Act includes a new provision within Control Section 27.00 that authorizes the Director of Finance to transfer up to 5 percent of any appropriations in the budget as necessary in order to fund deficiencies in other departments or appropriations



## THE 2003-2004 STATE BUDGET

## TRANSPORTATION

**2660 DEPARTMENT OF TRANSPORTATION**

- The Budget includes a total of \$6.5 billion in special funds and federal funds, including:
  - \$4.7 billion for state and local highway transportation costs;
  - \$784 million for highway maintenance;
  - \$476 million for transportation planning and administration; and
  - \$267 million for mass transportation.
- The Budget includes over \$1.5 billion in General Fund solutions from Caltrans' budget, including mid-year actions totaling \$600 million and a \$943 million pursuant to final passage of the budget.
- The Budget partially suspends Proposition 42. This action provides \$289 million for the Transportation Investment Fund (TIF) in 2003-04 and \$856 million in General Fund relief – these funds must be transferred to the TIF by June 30, 2009.
- The Budget retains in the General Fund up to \$87 million in spillover revenue that otherwise would accrue to the Public Transportation Account.
- The Budget repays the \$173 million loan made from the State Highway Account to the General Fund in 2001-02. The repayment is scored to the 2002-03 budget year.

**2720 CALIFORNIA HIGHWAY PATROL**

- The Budget provides a total of \$1.1 billion for the California Highway Patrol. As passed by the Legislature, the budget includes a \$100 million shortfall in the California Highway Patrols budget due to the rejection of the proposed Public Safety Surcharge tax increase.
- The Budget assumes the passage of Motor Vehicle Account fees that will generate \$163 million for the California Highway Patrol and the Department of Motor Vehicles.

<b>2740 DEPARTMENT OF MOTOR VEHICLES</b>
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- The Budget provides \$683 million for the Department of Motor Vehicles.
- The Budget assumes the passage of Motor Vehicle Account fees that will generate \$163 million for the California Highway Patrol and the Department of Motor Vehicles.

## TRAILER BILLS 2003-2004

Bill	Chapter Date	S T A T U S	Chapter #	Author	Subject
AB 1747	8/14/03	Chaptered	240	Budget Comm	Public Resources
AB 1748		Enrolled	N/A	Budget Comm	Public Resources
AB 1749		ASM	N/A	Budget Comm	Booking Fees
AB 1750	8/11/03	Chaptered	223	Budget Comm	Sales Tax on Motor Vehicle fuels: Partial suspension of transfer.
AB 1751	8/11/03	Chaptered	224	Budget Comm	Transportation Finance
AB 1752	8/11/03	Chaptered	225	Budget Comm	Human Services
AB 1753	8/11/03	Chaptered	226	Budget Comm	Habilitation Services
AB 1754	8/11/03	Chaptered	227	Budget Comm	Education Finance
AB 1755		ASM		Budget Comm	Redevelopment
AB 1756	8/11/03	Chaptered	228	Budget Comm	State Government
AB 1757	8/11/03	Chaptered	229	Budget Comm	State Agencies
AB 1758	8/02/03	Chaptered	158	Budget Comm	Corrections
AB 1759	8/02/03	Chaptered	159	Budget Comm	Court Fees
AB 1761	8/02/03	Chaptered	160	Budget Comm	Budget Act of 2002: Contingencies and Emergencies
AB 1762	8/11/03	Chaptered	230	Budget Comm	Health
AB 1763	8/02/03	Chaptered	161	Budget Comm	Healthy Families Program: Rural Demonstration Project Funding.
AB 1766	8/02/03	Chaptered	162	Budget Comm	Local Government Finance
AB 1768	8/11/03	Chaptered	231	Budget Comm	Local Government: Vehicle License Fees
AB X1 7	8/02/03	Chaptered	13	Oropeza	California Fiscal Recovery Financing Act
SB 9		ASM		McClintock	Government Reorganization: realignment or closure.
SB 1042		SEN		Comm On Budget & Fiscal Review	Corrections
SB 1044		SEN		Comm On Budget & Fiscal Review	Corrections
SB 1045		SEN		Comm On Budget & Fiscal Review	Redevelopment Agencies
SB 1046		SEN		Comm On Budget & Fiscal Review	Education Finance: Revenue Limit Equalization
SB 1048		SEN		Comm On Budget & Fiscal Review	Transportation
SB 1082		ASM		Burton	State Finance: Performance Budgeting

Bill text and analyses are available online at: [www.assembly.ca.gov](http://www.assembly.ca.gov)