



Highlights of Governor's Proposed 2004-2005 State Budget

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OVERVIEW

General Fund Solutions

- The Governor's proposed budget contains \$16.2 billion in General Fund solutions in the current and budget years. The main elements of the solution are:
 - \$3 billion in Economic Recovery Bond revenue in addition to the Deficit Bonds approved by the Legislature as part of the Budget Act of 2003.
 - \$1.3 billion in debt service savings resulting from the longer repayment period of the Economic Recovery Bond.
 - \$3.9 billion from the November mid-year reduction proposal.
 - \$2.9 billion from the proposed "re-basing" of Proposition 98.
 - \$.9 billion from the proposed suspension of Proposition 42.
 - \$1.3 billion in increased ERAF shift.
 - \$1 billion from the proposed Pension Obligation Bond.

**Governor's Proposed
\$16.2 Billion General Fund Gap Solution
(in millions)**

Solution Type	2002-03	2003-04	2004-05	Total	%
Spending Reductions	\$161.8	\$1,158.0	\$4,618.9	\$5,938.7	36.6%
Fund Shifts	0	41.1	1,043.6	1,084.7	6.7
Cost Avoidance:					
➤ Suspend Prop 42	0	0	947.2	947.2	5.8
➤ Re-base (suspend) Prop 98	517.8	448.4	1,910.3	2,976.5	17.7
➤ Other	0	609	106.5	107.1	0.7
Economic Recovery Bonds	-1,433	0	3,014.0	1,578	9.7
Debt Service Savings	0	0	1,256.0	1,256.0	7.7
Pension Obligation Bonds	0	0	949.7	949.7	5.9
Transfers/Other Revenues	0	771.1	475.6	1,246.6	7.7
Loans / Borrowing	0	203.8	45.0	248.8	1.5
Total	\$753.8	\$2,623.0	\$14,364.7	\$16,233.9	100%

General Fund Summary

- **Revenues.** The Governor's proposed Budget projects General Fund revenues for 2004-05 to be \$76.4 billion, an increase of \$1.8 billion above the 2003-04 year (not including bond proceeds).
- **Expenditures.** The Governor's proposed Budget projects General Fund expenditures for 2004-05 to be \$79.1 billion, an increase of \$4.1 billion above the 2003-04 year. The 2004-05 General Fund expenditures are offset by \$3 billion in bond proceeds.

2004-05 Governor's Budget General Fund Budget Summary (in millions)		
	2003-04	2004-05
Prior Year Balance	\$1,608	\$1,219
Revenues and Transfers	\$74,627	\$76,407
Bond Proceeds	3,012	--
Total Resources Available	\$79,247	\$77,626
Expenditures	\$75,016	\$79,074
Transfer of Bond Revenues from 2003-04 to 2004-05	\$3,012	-\$3,012
Total Expenditures	\$78,028	\$76,062
Fund Balance	\$1,219	\$1,564
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$929	\$929
Special Fund for Economic Uncertainties	\$290	\$635

DEFICIT FINANCING

Deficit Bonds

- The budget is based on voter approval of the \$15 billion deficit bond proposal on the March 2nd ballot. The budget assumes that the state will realize total net proceeds of \$14 billion from the bonds (after allowing for issuance and credit enhancement costs).
- The budget allocates the net proceeds as follows: \$9.2 billion to finance the 2002-03 budget deficit, \$3 billion to finance the 2004-05 budget deficit, and \$1.7 billion is reserved for financing various deferred obligation in 2005-06 or 2006-07.
- The budget also proposes to sell \$929 million of pension obligation bonds to offset PERS employer contribution costs in 2004-05, contingent on legislative approval of reductions in pension benefits for new employees.

HEALTH AND HUMAN SERVICES

Health

January 9 Proposals:

- Increase the Medi-Cal provider rate reduction to 15 percent, \$462 million in 2004-2005. The state has been enjoined by the Federal Courts to not implement the 5 percent rate reduction adopted as part of the 2003-2004 budget.
- Control county Medi-Cal administration costs, \$10 million in 2004-2005. Costs would be controlled through requiring counties to meet productivity and performance standards.
- Revise the Medi-Cal rate methodology for Federally Qualified Health Centers and Rural Health Clinics, \$3.283 million in 2003-2004 and \$32.256 million in 2004-2005.
- The Federal Government will recoup from the state for Federally Qualified Health Centers overpayments, \$47.1 million in 2003-2004.
- Reduce Medi-Cal provider float by delaying the Medi-Cal check write by one week, \$18.1 million in 2003-2004 and \$143 million in 2004-2005.
- Expand billing audits for Medi-Cal non-contracting hospitals, \$1.4 million in 2004-2005 and \$15.3 million in 2005-2006.
- The Administration may expand managed care into additional counties, review and reform managed care reimbursement policy and encourage enrollment of the Aged, Blind and Disabled into managed care.
- The Administration may propose the conformance of Medi-Cal optional benefits with private plans.
- The Administration may propose co-payments for Medi-Cal benefits, the co-payment would be deducted from the provider reimbursement and providers would have to collect from the beneficiaries.
- The state may offer different benefit packages, with different co-payments, for the various mandatory and optional populations within Medi-Cal.
- The state may simplify eligibility by aligning Medi-Cal's eligibility standards and processes with those of CalWORKS and Supplemental Security Income/State Supplementary Payment (SSI/SSP) program.
- Reform Medi-Cal Adult Day Health Care, as proposed for the 2003-2004 fiscal year by the prior Administration, \$12.687 million in 2004-2005.

- Reduce Medi-Cal interim rates by 10 percent for non-contracting cost reimbursed acute care hospitals, \$31 million in 2004-2005.
- Impose a quality improvement assessment fee on Medi-Cal Managed Care Plans, \$75 million in 2004-2005.
- Update the statewide maximum allowances for Mental Health Medi-Cal services, \$40 million in 2004-2005.
- Reduce provider rates by 10 percent in public health caseload programs, \$3.803 million in 2003-2004 and \$6.534 million in 2004-2005.
- The budget proposes a two-tier benefit package for children in families with incomes between 200 percent and 250 percent of the Federal Poverty Level, no savings would accrue until the 2005-2006 fiscal year and administrative costs would increase by \$263,000 in 2004-2005 for implementation. The lesser benefit package would provide the current benefit package without the dental and vision coverage for the same co-insurance that is now paid. The better benefit package would include dental and vision coverage and a higher, unspecified co-insurance payment.

November Proposals:

- Increase the Medi-Cal provider rate reduction to 15 percent, \$160.9 million in 2003-2004 and \$462 million in 2004-2005.
- Rescission of the wage adjustment program for long-term care facilities, \$46 million in 2003-2004 and \$2.544 million in 2004-2005.
- Cap enrollment in Medi-Cal for documented immigrants, \$5.299 million in 2004-2005.
- Cap enrollment in Medi-Cal for undocumented immigrants (including Breast Cancer Treatment Program), \$11.551 million in 2004-2005.
- Cap enrollment in Healthy Families Program for documented immigrants, \$2.419 million in 2004-2005.
- Cap enrollment in Healthy Families, \$31.5 million in 2004-2005.
- Cap enrollment in California Children's Services program, \$121 thousand in 2003-2004 and \$29.104 million in 2004-2005.
- Cap enrollment in the AIDS Drug Assistance Program, \$275 thousand in 2003-2004 and \$550 thousand in 2004-2005.
- Cap enrollment in the Genetically Handicapped Persons Program, \$245 thousand in 2003-2004 and \$194 thousand.

Department of Developmental Services

January 9 Proposals:

- Re-establish non-core Regional Center services that were proposed to be eliminated in the November Mid-Year package, increase expenditures by \$69 million in 2003-2004 and \$181 million in 2004-2005.
- Contract out for food services at Developmental Centers, \$910,000 in 2004-2005.
- Regional Center savings of \$100 million would be achieved in 2004-2005 through the implementation of a co-payment for services, a requirement that services be provided in the least costly manner, implementation of statewide purchase of services standards and establishing uniform provider rates.
- Title XX funds will be shifted to Regional Centers for a savings of \$48 million in General Fund in 2004-2005.
- An unallocated reduction of \$6.5 million in Regional Center Administration in 2004-2005.
- The Administration proposes to develop a long-term strategy for Developmental Centers.

November Proposals:

- Eliminate non-core Regional Center services, \$69 million in 2003-2004 and \$181 million in 2004-2005.
- Cap enrollment in Habilitation Services Program, \$149 thousand in 2003-2004 and \$771 thousand in 2004-2005.

Department of Rehabilitation

November Proposals:

- Cap enrollment in Vocational Rehabilitation, \$1.817 million in 2003-2004 and \$8.592 million in 2004-2005.

Department of Social Service

January 9 Proposals:

- Increase CalWORKs work participation requirements for budget year savings of \$99.8 million. This would require families to participate in at least 20 hours per week in core work activities within 60 days of receiving aid.
- Reduce grants for CalWORKs sanctioned families by 25 percent for budget savings \$30.2 million. The reduction would occur after one month on non-compliance.
- Reduce grants for child-only safety-net families by 25 percent for budget year savings of \$32.9 million.
- Eliminate CalWORKs funding for County Juvenile Probation for budget year savings of 134.3 million. The program would expire in October 2004.
- Eliminate funding for the Low Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program for budget year savings of \$2 million.
- Eliminate funding for the Youth Development Services Project for budget year savings of \$1.5 million.
- Eliminate funding for the Mental Health/Substance Abuse Services for Indian Health Clinics for budget year savings of \$2.7 million.
- Reduce funding for the Tribal TANF program for budget year savings of \$30.5 million.
- Collect child care overpayments for budget year savings of \$1 million.
- Enact child care reform savings for budget year savings in CalWORKs Stage One child care of \$41.8 million. The reform includes fee increases, requires CalWORKs families receiving child care to meet the proposed CalWORKs work participation requirements, proposes to reimburse providers based upon child development education principles, tiers income-eligibility for the program, and includes a fraud prevention initiative. The proposal also includes a three-year time limit for CalWORKs Stage 3 child care.
- Suspend both the federal and State 2004 SSI/SSP Cost of Living Adjustments for a budget year savings of \$134.6.
- Reduce State funding for wages and benefits for In Home Supportive Services workers for budget year savings of \$301.6 million (\$98 million General Fund)
- Eliminate the In Home Supportive Services Employer-of-Record Requirement and State funding for Public Authorities for budget year savings of \$9.7 million (\$987,000 General Fund).

- Make In Home Supportive Services Advisory Committees a county option for budget year savings of \$2.2 million (\$1.2 million General Fund).
- Eliminate domestic and related In Home Supportive Services in shared living situation with family members for budget year savings of \$80.9 million (\$26.3 million General Fund).
- Enact Foster Care reform for budget year savings of \$41.5 million (\$20 million General Fund). The proposal includes enacting performance-based contracts, restructuring foster care rates, and pursuing a waiver to allow flexible funding of foster care.
- Provide \$136.5 million in additional funding for automation and reprogramming costs necessary to implement proposed child care reform and CalWORKs Sanction and Work Participation requirements.
- Charge small licensed child care facilities for FBI fingerprinting fee for budget year savings of \$2.7 million.
- Eliminate the Maternity Care Program for budget year savings of \$200,000.
- Suspend Child Abuse Services Treatment Authorization and Case Management Mandate for one additional year.
- Include the California Food Assistance Program (CFAP) and the Cash Assistance Program for Immigrants (CAPI) in the proposed county block grant of immigrant programs.

November Proposals:

- Eliminate the California Cash Benefit Program for current year savings of \$1.4 million General Fund and budget year savings of \$5.5 million General Funds. This program provides a cash grant at the same level as the state SSP grant (about \$414 per month) to approximately 1,700 veterans of World War II that returned to the Republic of the Philippines. This program was established by AB 1978 (Cedillo) in 2000.
- Reduce the CalWORKs grant level by 5 percent and transfer the resulting TANF funds to pay for In Home Supportive Services program costs for current year savings of \$41.1 million General Fund in the current year and \$119.5 million in the budget year. A family of three would have their monthly grant reduced from \$705 to \$670. In the December 18th Section 27 letter, the Governor enacted this transfer.
- Eliminate the In Home Supportive Services Residual program for savings of \$69.2 million General Fund in the current year and \$322.2 million General Fund in the budget year. About 74,200 current IHSS recipients would no longer receive home care. Most of the residual caseload receives services from relative caregivers.

- Eliminates Transitional Food Stamp Benefits for current year savings of \$1.9 million (\$1.4 million General Fund) and budget year savings of \$3.9 million (\$2.1 million General Fund). This proposal would result in the loss of \$165.5 million in federal Food Stamps benefits for 66,000 low-income households in the budget year.
- Eliminate eligibility for Food Stamps benefits for individuals that own a motor vehicle worth more than \$4,650 for current year savings of \$404,000 (\$186,000 General Fund) and budget year savings of \$682,000 (444,000 General Fund). This proposal would result in the loss of \$37 million in federal Food Stamps benefits for 15,000 low-income households in the budget year.
- Eliminate the Supportive Transitional Emancipation Program (STEP) for current year savings of \$38,000 General Fund and budget year savings of \$338,000 General Fund. Part of the Assembly's 2001 "Foster Care package," this program provides support to emancipated foster youth up to age 21 that are participating in education and training.
- Increase Community Care Licensing Fees to fully cover the program's costs. This would increase the fees over three years. By 2005-2006 the fees are intended to fully support the costs of the Community Care Licensing Division at DSS. The 2003 Budget Act included a fee increase that ranged from 50-100 percent on different types of facilities. This proposal would further increase fees by approximately 38% a year, for the next three years.
- Cap enrollment in the Cash Assistance Program for Immigrants (CAPI) for General Fund saving of \$71,000 in the current year and \$4.3 million in the budget year. CAPI provides cash benefits to 10,230 aged, blind and disabled legal immigrants who became ineligible for SSI/SSP as a result of federal welfare reform. The November proposal assumes that 1,316 individuals in the budget year that would have otherwise qualified for CAPI would not receive benefits.
- Cap enrollment in the California Food Assistance Program (CFAP) for General Fund saving of \$100,000 in the budget year. CFAP provides food assistance to 8,645 recent immigrants, battered immigrants and persons paroled to the US for humanitarian, health and political reasons. The November proposal assumes that 60 individuals in the current year and 927 individuals in the budget year that would have otherwise qualified for CFAP would not receive food assistance.
- Cap enrollment of legal immigrants in the CalWORKs program. This program provides cash assistance and employment services to 5,200 legal immigrants who have been in the country for less than five years. The November proposal assumes no savings from this cap.
- Suspend a the 2003-2004 CalWORKs cost of living increase. This increase was triggered automatically when the Vehicle License Fee was reduced by the Governor's Executive Order.

Department of Child Support Services

January 9 Proposals:

- Continue a 25 percent county share of the federal Child Support Automation Penalty for budget year savings \$55 million.
- Redirect county share of child support collections to State for budget year savings of \$39.4 million.

November Proposals:

- Eliminate the Medical Support Order Enhancement Initiative for a current year savings of \$1.9 million (\$700,000 General Fund). The program was supposed to save the State money by getting non-custodial parents to provide health care to children receiving Medi-Cal. The Administration believes the program costs more to run in Child Support than it saves in Medi-Cal. They want to end the program in the current year.
- Capture \$3.7 million (1.2 million General Fund) current year savings due to implementation delays of the Child Support Collections Initiative.

Department of Aging

January 9 Proposal:

- Convert State support of Aging program to a block grant and reduce that amount by 5 percent for budget year savings of \$1.7 million.

Department of Community Services and Development

November Proposal:

- Liquidate the remaining California Low-Income Home Energy Assistance Program (LIHEAP) contracts for current year savings of \$571,000. Cal LIHEAP helps low-income Californians reduce energy consumption and pay their energy bills by providing weatherization services and financial assistance to eligible households. Current law authorizes the state to spend the Cal LIHEAP funds until January 2005.

Department of Mental Health

January 9 Proposals:

The Governor's Budget includes \$2.5 billion (\$910.7 million General Fund) a net increase of \$373.4 million (\$39 million General Fund) above the 2003 Budget Act for mental health programs. The Department of Mental Health ensures care throughout the state by providing oversight of community mental health programs and direct services through the State hospitals. Proposals related to mental health include:

- A reduction of \$17.2 million General Fund in 2004-05 and a reduction of \$25.6 million in 2005-06 in the state mental hospitals through cost avoidance from proposed operating reforms. Proposed cost containment measures include programmatic reforms to utilize staff more effectively and a process to prioritize which individuals will receive treatment within state hospitals.
- Elimination of the Children's System of Care for a savings of \$20 million, which provides a continuum of care to children with serious emotional disturbances.
- A reduction of \$2 million General Fund to the Intermediate Commitment of Sexually Violent Predators (SVPs) due to proposed reforms in the requirements of District Attorneys to extend SVP commitments beyond two years.
- A reduction of \$823,000 General Fund is anticipated due to the restructuring of the supervision and treatment services provided in state hospitals to SVP patients. Reductions in treatment staff are recommended by the Administration to achieve a savings of \$9.2 million General Fund in 2005-06.
- A savings of \$2.8 million (\$3.7 million General Fund) in the state hospital population by prioritizing judicially committed offenders and limiting intake of those most in need of services.
- A savings of \$40 million General Fund by adjusting maximum rates for services. The DMH is proposed to use a survey to review and reform the rate structure.
- A savings of \$5.7 million General Fund from audits of Early and Periodic Screening, Diagnosis and Treatment program claims.
- An increase of \$10 million (\$5.1 million General Fund) for the Mental Health Managed Care program for counties to provide mental health in the community. The purpose of the managed care is to provide mental health services to Medi-Cal eligible clients through a system of contracts between the DMH and county mental health departments.
- A continuation of \$54.9 million General Fund for the Integrated Services for the Homeless program which leads to significant savings at the local level in treating and providing services to the mentally ill.

November Proposals:

- The Governor proposed to cap enrollments of various health and human service programs, including state mental health hospitals. This includes a \$361,000 General Fund current year reduction and a \$3.7 million General Fund budget year reduction. The affected caseload includes 14 patients in the current year and 42 patients in the budget year. These savings assume legislation effective January 1, 2004 would cap new Incompetent to Stand Trial (IST) and Not Guilty by Reason of Insanity (NGI) patients.

Department of Alcohol and Drug Programs

January 9 Proposals:

The Department of Alcohol and Drug Programs oversees a variety of substance abuse treatment and prevention programs, including Drug Courts, Drug Medi-Cal, and the Substance Abuse and Crime Prevention Act. The Governor's Budget includes \$597.8 million (\$237.8 million General Fund), a net increase of \$5.1 million (\$2.4 million General Fund) above the 2003 Budget Act. Major proposals include:

- An increase of \$3.1 million General Fund for the Drug Medi-Cal program. An estimated 67,000 individuals will receive substance abuse treatment services in 2004-05. These services include: perinatal treatment, narcotic treatment, and outpatient drug-free therapy.
- An increase of \$3.5 million in federal grants for the new Screening, Brief Intervention, Referral, and Treatment (SBIRT) Program. These strategies are used to prevent casual drug users from future substance abuse.
- An increase of \$260,000 federal funds for the Performance Partnership Grants to collect outcome data as part of the federal government's funding process. This funding will allow the department to assess the State's performance against objectives developed by the federal government.

EDUCATION

K-12 Education

January 9 Proposals:

The Governor's proposed 2004-05 State Budget includes a total of \$46.7 billion in Proposition 98 funds, an increase of \$769 million over the proposed revised current year budget. This level is \$2 billion less than the current estimate of the Proposition 98 guarantee for 2004-05. The Governor's Budget includes a proposal to set a lower level of funding pursuant to a change in legislation, which would add this amount to the

maintenance factor that is owed to schools in future years. Per-pupil funding increases by \$5, to a total funding level of \$6,945 per pupil. The proposed budget funds growth and COLA for revenue limit apportionments and categorical programs. The COLA is 1.84%. The Governor's major proposals for K-12 education include:

- A reduction of \$1.9 billion to Proposition 98 guarantee less than otherwise required for 2004-05 and reduce General Fund appropriations for K-12. This requires a suspension of Proposition 98, as defined by the California Constitution, by a two-thirds vote of the Legislature in a bill separate from the Budget Bill. This action will create an additional \$2 billion maintenance factor that is required to be restored to the Proposition 98 budget in future years. The Administration projects that the re-basing (suspension) of the guarantee will impact school funding for four years.
- A deferral of \$517.9 million and \$448.4 million for 2002-03 and 2003-04, respectively for payment to retire the outstanding debts to the schools. These funds appropriated for the settle-up will be designated for one-time expenses in future budgets.
- A shift of \$2 billion to revenue limits to block grant 22 categorical programs in the areas of school support, materials, staff development, pupil retention, and smaller targeted programs. These specific programs include:
 - School Support: Home to School Transportation, School Improvement, Targeted Instructional Improvement Grant—Non Court, Supplemental Grants;
 - Materials: Instructional Materials Block Grant Program/ Incentive Grants, School Library Materials;
 - Staff Development: Staff Development Day Buyout, Beginning Teacher Support and Assessment (BTSA), Intersegmental Staff Development, Bilingual Teacher Training, Mathematics and Reading Professional Development, Peer Assistance Review;
 - Pupil Retention: Dropout Prevention, At-Risk Youth (LAUSD), Tenth Grade Counseling;
 - Smaller Targeted Programs: English Leaders Student Assistance, Year Round Schools, Specialized Secondary Program Grants, International Baccalaureate, Center for Civic Education, Pupil Residency Verification, Teacher Dismissal Apportionment.
- An increase of \$554.8 million to fully fund statutory Cost of Living Adjustment (COLA) at 1.84% for school district and county office of education revenue limit apportionments. The Governor's Budget also provides \$89 million for statutory growth adjustments and \$115 million for COLA for categorical programs, including Regional Occupational Centers and Programs, and Adult Education.

- An increase of \$173.3 million to fully fund the State Deferred Maintenance Program at \$250.3 million.
- An increase of \$185 million to fund the Instructional Materials Block Grant to provide for the purchase of 2002 English Language Arts and History and Social Science materials. The Governor's Budget intends these fund to remain as a separate categorical program to provide incentives for early purchase of newly adopted standards-aligned materials. The existing funding of \$175 million will be shifted to revenue limits.
- An amount of \$110 million for school district revenue limit equalization to address the general-purpose funding levels. This equalization adjustment is proposed to apply to the revenue limits in place prior to the proposed shift of categorical funding.
- An increase of \$106 million to fully fund the California Public Employees Retirement System school employer contribution rate.
- Shifts charter school categorical block grant funds to charter school general purpose entitlements (\$21.9 million) and the Economic Impact Aid (EIA) program (\$14.5 million). An increase of \$24.5 million in total funding is also proposed to mirror the per-student funding for the programs in the Charter Categorical Block Grant. The Economic Impact Aid portion of the former block grant is added to the EIA with a distinct allocation for charter schools.
- An increase of \$9.3 million General Fund to provide adjustments under the special education formula, which includes increases of \$70 million for a 1.84% COLA, and \$37.4 million for growth. The Governor's Budget also reflects a local property tax increase of \$23.6 million and the use of an additional \$74.5 million in increased federal funds anticipated in the budget year as part of the statutory offset to the General Fund authorized by AB 602.
- An amount of \$77.4 million, including federal funds, for the Immediate Intervention/ Underperforming Schools Program (II/USP) for the third year of implementation funding for schools that made significant progress but did not reach their growth targets.
- An amount of \$208.6 million, including federal funds, for High Priority Schools Grants Program for the third year of funding to provide up to \$400 per pupil to the lowest-performing schools in the state to improve academic performance.
- An amount of \$105.6 million, including federal funds, for various statewide pupil testing. The assessments funded include:
 - Standardized Testing and Reporting (STAR) Exam-- \$65.5 million;
 - High School Exit Exam (HSEE)-- \$21.2 million;
 - California English Language Development Test (CELDT)-- \$18.8 million.

Child Care

January 9 Proposals:

- Reforms child care for a budget year savings of \$164.8 million. The reform includes fee increases, requires CalWORKs families receiving child care to meet the proposed CalWORKs work participation requirements, proposes to reimburse providers based upon child development education principles, tiers income eligibility for the program, and includes a fraud prevention initiative. The proposal also includes a three-year time limit for CalWORKs Stage 3 child care.

California Community Colleges

January 9 Proposals:

- Proposes to provide \$6.9 billion for the California Community Colleges through a combination of state revenue, local property taxes, federal funds, student fees, lottery proceeds and other miscellaneous revenues. Of this amount, \$4.7 billion, including \$2.4 billion in General Fund support, counts toward the Proposition 98 guarantee.
- Increases general student fees from \$18 per unit to \$26 per unit and reduces General Fund support by \$73.3 million.
- Institutes a differential fee of \$50 per unit for bachelor's degree holders and reduces General Fund support by \$17.7 million.
- Provides \$125.1 million in additional funding for enrollment growth funding. This equates to a 3 percent growth in apportionments that the Governor believes will provide access to an additional 33,000 full-time equivalent students for a total of 1,137,150 full-time equivalent students in 2004-05.
- Provides \$80 million in additional funding for equalization, with allocations proposed to be made to districts currently funded below the 90th percentile of full-time equivalent funding system-wide.
- Consolidates several significant categorical programs into single larger programs and increases available discretionary funding.
- Shifts \$300.8 million in selected categorical program funding into general purpose funding, including funding for matriculation, three part-time faculty programs and district allocations for technology.
- Discontinues the Teacher Reading Development Partnerships program and the Fund for Instructional Improvement, making funding previously allocated to these programs available for growth in non-credit full-time equivalent students.

California State University

January 9 Proposals:

- Proposes a total of \$311 million in General Fund reductions (including mid-year adjustments), of which approximately \$101.5 million will be offset by proposed student fee increases.
- Continues his November proposal to eliminate academic outreach programs by zeroing out the remaining CSU outreach program budget of \$52 million (includes approximately \$37 million for Educational Opportunity Program services and grants to financially needy students currently enrolled at a CSU campus). These programs were reduced by over 50% in the 2003-04 state budget.
- Reduces academic and institutional support by \$52.6 million or 7.5 percent.
- Increases student/faculty ratio by 5 percent, reducing general fund support by \$53.5 million.
- Reduces the number of new freshman enrollment by 10 percent by reducing \$21 million in General Fund support, cutting access to approximately more than 3,800 fewer students.
- Reduces \$24.4 million for what the Governor calls the first phase elimination of the General Fund "subsidy" for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- Defer 10 percent of General Fund support for the Common Management System by reducing expenditures by \$6 million.
- Increase undergraduate fees by 10 percent by reducing \$47.4 million (includes continuing of mid-year unallocated reduction) in General Fund support.
- Increase graduate fees by 40 percent (net of special session unallocated reductions) by reducing \$37.9 million (includes continuing of mid-year unallocated reduction) in General Fund support.
- Increase non-resident fees by 20 percent by reducing \$16.2 million in General Fund support.
- Provides \$1.9 million for CSU to provide counseling to the 10 percent of freshman who will be denied access as freshman due to the lack of enrollment growth funding provided by the Governor. This augmentation equates to \$500 per student estimated to be denied access into a CSU campus under the Governor's proposal.
- Restores \$69.5 million of unallocated reductions implemented in 2003-04 that was intended to be one-time in nature.

- Provides \$155 million in additional funding for increased Public Employees' Retirement System retirement contribution costs beginning in the current year.

November Proposals:

- The Governor proposed a \$11.28 million current year and a \$22.6 million budget year unallocated reduction. The Governor executed this reduction through the Section 27 process.
- The Governor proposed a \$12.45 million current year reduction and a \$52 million budget year reduction to academic outreach programs, eliminating programs designed to academically prepare disadvantaged students for college. These programs were reduced by over 50% in the 2003-04 state budget. The Governor executed his proposed current year reduction through the Section 27 process.

University of California

January 9 Proposals:

- Proposes a total of \$372 million in General Fund reductions (including mid-year adjustments), of which approximately \$196 million will be offset by proposed student fee increases.
- Continues his November proposal to eliminate academic outreach programs by zeroing out the \$33.3 million state supported budget for all UC academic outreach programs. These programs were reduced by over 50% in the 2003-04 state budget.
- Continues his November proposal to eliminate the Multi-campus Research Centers for Labor & Employment and reducing their budget by \$4 million in the budget year. These are the only research centers of this kind in the state.
- Reduces academic and institutional support by \$45.4 million or 7.5 percent.
- Increases student/faculty ratio by 5 percent, reducing general fund support by \$35.3 million.
- Reduces the number of new freshman enrollment by 10 percent by reducing \$24.8 million in General Fund support, cutting access to approximately more than 3,200 fewer students.
- Eliminates \$14.3 million in General Fund support for the Digital California Project and suggests K-12 schools contribute voluntarily to continue portions of the program.
- Reduces state-supported research funding by \$11.6 million or 5 percent.

- Reduces \$9.3 million for what the Governor calls the first phase elimination of the General Fund "subsidy" for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- Increases undergraduate fees by 10 percent by reducing \$62.9 million (includes continuing of mid-year unallocated reduction) in General Fund support.
- Increases graduate fees by 40 percent by reducing \$57.7 million (includes continuing of mid-year unallocated reduction) in General Fund support.
- Reduces General Fund professional school "subsidy" by 25 percent (includes continuing of mid-year unallocated reduction) by reducing \$42.6 million in General Fund support.
- Increases non-resident fees by 20 percent by reducing \$32.6 million in General Fund support.
- Provides \$1.6 million for UC to provide counseling to the 10 percent of freshman who will be denied access as freshman due to the lack of enrollment growth funding provided by the Governor. This augmentation equates to \$500 per student estimated to be denied access into a UC campus under the Governor's proposal.
- Restores \$80.5 million of unallocated reductions implemented in 2003-04 that was intended to be one-time in nature.
- Provides \$10 million in additional one-time funding for costs associated with making the UC Merced campus operational in 2005-06.
- Provides \$34.4 million in additional funding for increases in annuitant health and dental benefit costs.

November Proposals:

- The Governor proposed a \$15.719 million current year and \$55.1 million budget year unallocated reduction. The Governor executed his proposed current year reduction through the Section 27 process.
- The Governor proposed a \$12.21 million current year reduction and a \$33.3 million budget year reduction to academic outreach programs, eliminating programs designed to academically prepare disadvantaged students for college. These programs were reduced by over 50% in the 2003-04 state budget. The Governor executed his proposed current year reduction through the Section 27 process.
- The Governor proposed eliminating and reducing by \$2 million in the current year and \$4 million in the budget year the Multi-campus Research Centers for Labor & Employment. These are the only research centers of this kind in the state. The

Governor executed his proposed current year reduction through the Section 27 process.

- UC has agreed to sell land at UC Riverside for \$55.1 million, transfer this amount to the state and issue lease-revenue bonds in a like amount to fund construction of an Agricultural Genomics research facility. In return, the Governor proposed to commit the state to future lease payments of approximately \$4.3 million a year for 25 years, commencing as early as 2008-09.

Hastings College of Law

January 9 Proposals:

- Proposes a total of \$3.4 million in General Fund reductions (including mid-year adjustments), of which approximately \$3 million will be offset by proposed student fee increases.
- Reduces the General Fund "subsidy" for the law school by \$2.8 million or 25 percent.
- Reduces academic and institutional support by \$402,000 or 7.5 percent
- Increases non-resident fees by 20 percent by reducing \$188,000 in General Fund support.

November Proposals:

- The Governor proposed a \$302,000 current year and \$603,000 budget year unallocated reduction. The Governor executed his proposed current year reduction through the Section 27 process.

California Student Aid Commission

January 9 Proposals:

- Reduces new Cal Grant A and B award levels for private schools from \$9,708 per year to \$5,482 per year (equivalent to undergraduate fee level at UC), reducing support for the Cal Grant program an additional \$32.7 million.
- Decreases maximum income level for Cal Grant awards by 10 percent, reducing support for the Cal Grant program an additional \$11.168 million.
- Proposes to no longer provide funding to augment the Cal Grant award level when student fees are raised at UC and CSU. This change will reduce expected funding for the Cal Grant program (including entitlements) by \$23.6 million.

- Increases his November proposal to reduce funding for the Cal Grant Program by \$35 million to \$50 million instead based on "CSAC over estimates."
- Provides an additional \$43.7 million for growth in the Cal Grant program. This reflects a net \$93.7 million year-to-year increase from the revised 2003-04 level projected by the CSAC.
- Provides an additional 2.1 million for growth in the Assumption Program on Loans for Education Program and Law Enforcement Personnel Dependents Program.

November Proposals:

- The Governor proposed to reduce funding for the Cal Grant Program by \$35 million in the current year based on "CSAC over estimates." The Governor executed his proposed current year reduction through the Section 27 process.
- The Governor proposed reducing the number of new APLE warrants issued in 2003-04 by 4,200 fewer warrants than authorized in the 2003 Budget Act, saving the state approximately \$46.6 million over time. The savings generated by this proposal would not be realized in either the current-year or budget-year, since the APLE warrants are generally not redeemed for at least four years. Recipients (who must teach for one full year before receiving their first loan assumption payment) are generally still in college when they receive their warrant.

RESOURCES AND ENVIRONMENTAL PROTECTION

Resources

January 9 Proposals:

- \$17.9 million in General Fund reductions to various Resources Agency departments, including \$12.8 million (36% cut) to the Conservation Corps' health benefits for corps members and emergency response activities, as well as \$2.4 million in General Fund reductions to the CALFED Bay-Delta Authority's oversight activities.
- \$27.2 million General Fund reversion of unencumbered funds in the 2003-04 Budget Act at the Energy Commission.
- Deferral of approximately \$760 million in Proposition 50 expenditures and as much as \$466 million in Proposition 40 bond funds until the Administration completes an evaluation of statewide conservation efforts. Proposals for the expenditure of these bond funds are expected in the May Revision of the Governor's Budget.

- \$19.8 million in shifts from General Fund to other fund sources, including \$18.0 million in additional park fees (\$15.0 million GF savings) at the Department of Parks and Recreation.
- \$16.1 million General Fund for transfer to the Colorado River Management Account for lining of the All-American Canal.

November Proposals:

- Suspend the Natural Heritage Preservation Tax Credit Program at the Wildlife Conservation Board, achieving a \$8.7 million savings in fiscal year 03-04 and \$10.3 million in fiscal year 04-05.
- Reversion of \$105 million in subvention funding from the Department of Water Resources for the State's costs of previously authorized local flood control projects.

Environmental Protection

January 9 Proposals:

- \$2.4 million in General Fund reductions to various CalEPA departments and programs, including the Water Board's Chromium 6, septic tank standards, and MTBE activities.
- \$7.0 million in fund shifts, including \$2.6 million in increased Air Board fees and \$1.4 million in various Water Board fees.

GENERAL GOVERNMENT

Employee Compensation

January 9 Proposals:

- \$950 million savings from a Pension Obligation Bond which is proposed to be packaged with pension reforms for long term savings.

Energy

January 9 Proposals:

- The budget proposes creation of a uniform state strategy to stimulate private investment and realign the state's energy agencies to conform with that strategy. This will include creation of a revised wholesale electric power market; assurance of

diverse and adequate fuel supplies for power generation; cost-effective conservation and demand-response components, and enactment of electricity generation reserve requirements.

- The budget proposes to eliminate the California Consumer Power and Energy Conservation Financing Authority as of September 30, 2004. The budget continues the Energy Commission, the Public Utilities Commission and the Electricity Oversight Board.

November Proposals:

- \$27 million savings reversion of unspent General Fund resources at the Energy Commission—this was included in the Governor's in the Mid-Year Proposals.

Department of Housing and Community Development

January 9 Proposals:

- \$1.3 million General Fund reduction to Emergency Housing Assistance Grants to homeless shelters.

Franchise Tax Board

January 9 Proposals:

- \$12.3 million increased General Fund personal income tax revenue from improved collection and enforcement related to non-filers.
- \$1.4 million General Fund savings from shifting support of Political Reform campaign audits to fees.

November Proposals:

- Insert highlight

Department of Corporations

January 9 Proposals:

- \$1.9 million special fund augmentation and 20.9 personnel years to implement Chapter 241, Statutes of 2003 associated with the protection of personal financial data.

December Proposals:

- \$500,000 Transfer (2003-04) and \$1 million (2004-05) resulting from increased revenues from fines and penalties from the Corporations Fund to the General Fund.

Technology Trade and Commerce Agency

December Proposals:

- Capture \$6.6 million in balances of abolished funds resulting from the elimination of the Trade and Commerce Agency in the 2003-2004 Budget.

Office of the Inspector General for Veterans Affairs

January 9 Proposals:

- \$324,00 General Fund savings from the elimination of the office of Inspector General for Veterans Affairs.

Secretary of State

January 9 Proposals:

- \$284,000 General Fund savings from the elimination of the International Business Relations program.

Department of Veterans Affairs

January 9 Proposals:

- \$1.2 million General Fund savings through programmatic flexibility and reductions.
- \$1.7 million General Fund savings from an increase in Federal Funds and levels of reimbursements.

Department of Insurance

January 9 Proposals:

- \$2.9 million General Fund savings from the elimination of the Earthquake Grants and Loans program.

Department of General Services

January 9 Proposals:

- \$18.5 million General Fund revenue in 2003-04 from Chino property sales.
- The Budget proposes that the Department review its statewide rental rates and determine whether rates can be set in a more equitable and efficient manner. Savings associated with this review will be set aside for the Department's use.

Department of Alcohol and Beverage Control

January 9 Proposals:

- \$1.3 million General Fund savings through permitting ABC licensees to pay fines in lieu of serving suspensions. The Governor's Budget proposes total expenditure of \$42.8 million and 429.6 personnel years to support the department
- The Governor's Budget proposes the funding of \$1.1 million to begin the first year of a three-year project to modernize the California Alcoholic Beverage Information Network licensing system.

Department of Department of Financial Institutions

January 9 Proposals:

- \$1.9 million augmentation in special funds to implement Chapter 241, Statutes of 2003 dealing with the protection of personal financial data.

December Proposals:

- \$1.8 million loan from the Credit Union Fund to the General Fund. The fund would maintain a statutorily required three month reserve in the Credit Union Fund.

Office of Real Estate Appraisers

December Proposals:

- \$2 million loan from the Real Estate Appraiser Fund to the General Fund. Revenues for the fund are expected to remain strong throughout 2003-04, allowing a loan of \$2 million until 2006-07.

Military Department

January 9 Proposals:

- \$8.8 million federal funds (2003-04) and \$2.1 million federal funds (2004-05) to provide a homeland security augmentation for equipment, training, exercises and infrastructure.
- \$5.5 million General Fund (2003-04) augmentation for the California National Guard to provide 24 hour, seven day a week protection of the Golden Gate Bridge.

Employment Development Department

January 9 Proposals:

- \$395 million to fund the Paid Family Leave Program authorized by Chapter 901, Statutes of 2002 and Chapter 797, Statutes of 2003.
- \$40.0 million reimbursements increase for the Employment Training Panel. Total funding for 2004-05 will be \$53.6 million.

California Victim Compensation and Government Claims Board

January 9 Proposals:

- \$1 million General Fund savings by charging fees for filing of claims.

PUBLIC SAFETY

Judiciary/ Trial Courts

January 9 Proposals:

- \$10 million unallocated reduction to the Judiciary.
- \$59 million unallocated reduction to the Trial Courts.
- \$3 million General Fund savings from the use of Restitution funds to support the Witness Protection Program.
- \$30 million loan to General Fund from the State Court Facilities Construction Fund.

Department of Justice

January 9 Proposals:

- \$1 million reduction in California Methamphetamine Strategy Program.
- \$3 million unallocated reduction.
- \$2.5 million return of funding related to Plata litigation.

Youth and Adult Correctional Agency

January 9 Proposals:

- Transfer of the Office of the Inspector to the Youth and Adult Correctional Agency and \$630,000. This will result in a General Fund savings of \$2 million.

Department of Youth Authority

January 9 Proposals:

- \$38 million savings due to accelerated institutional closures (includes \$2.7 million in Prop 98 savings) This includes the closure of the Fred C. Nelles Youth Correctional Facility.

Board of Corrections

January 9 Proposals:

- \$2 million savings for making services to local governments' participation fee based.

LOCAL GOVERNMENT

Vehicle License Fee

January 9 Proposals:

- \$4.1 billion General fund cost to fully fund the Vehicle License Fee (VLF) offset backfill to cities and counties in 2004-05.

November Proposals:

- \$2.7 billion General Fund cost for 2003-04 to partially fund the VLF offset backfill to cities and counties and taxpayer refunds that as a result of the Governor's decision to rescind the VLF rate increase that was effective on October 1, 2003 under the prior administration's VLF "trigger" determination. This level of funding leaves \$1.3 billion of backfill for the period prior to October 1 outstanding as a loan to be repaid to local governments in 2006-07.

Additional ERAF Shift.

January 9 Proposals:

- \$1.3 billion General Fund savings in 2004-05 from a proposed ongoing annual increase in the property tax shift from local governments to schools and community colleges. This shift takes place via the Educational Revenue Augmentation Fund in each county and reduces on a dollar-for-dollar basis the state's General Fund obligation to K-14 education under Proposition 98. The administration indicates that this proposal is intended as a permanent ongoing equivalent to the \$1.3 billion of VLF gap funding shortfall to local government in the current year. However, this additional ERAF shift will not be repaid to local governments, and the impact will fall more heavily on counties, special districts, and redevelopment agencies, and less heavily on cities, compared with the VLF gap impacts.

Other Proposals

January 9 Proposals:

- \$38.2 million General Fund savings from eliminating Booking Fee subventions.
- \$179 million General Fund savings from suspension of Proposition 42 local transportation funding allocations.
- \$11.9 million General fund savings from eliminating the remaining Realignment portion of the VLF backfill for International Registration Plan Trailers (\$5.9 million 2003-04 savings was included in the Mid-Year reductions).

TRANSPORTATION

Caltrans

January 9 Proposals:

- **Proposition 42.** The Governor's proposed budget suspends Proposition 42, which saves the General Fund \$947 million and \$180 million for local governments. Proposition 42 was enacted by the voters of California to require that all state sales tax revenue collected on the sale of gasoline is used for transportation projects.
- **Capital Outlay.** The Governor's proposed budget includes a 2004-05 authorization level of \$3.4 billion for capital outlay programs.
- **Local Assistance.** The Governor's proposed budget includes \$1.1 billion in local assistance funding for transportation, including \$168 million from the State Highway Account, \$862 million from federal funds, and \$24 million from other special funds.
- **State Operations.** The Governor's proposed budget includes \$2.9 billion in state operations funding, an increase of \$44 million due primarily to increased debt service. In addition, the budget funds a reduction of 338 personnel years.

November Proposals:

- **Proposition 42.** The Governor's proposed mid-year reduction package includes cutting the \$189 million of Proposition 42 revenues approved by the legislature to fund currently allocation projects. In addition, the Governor proposes to repeal the designation of specific projects to be funded with Proposition 42 revenues.
- **Additional Federal Funds.** The Governor's proposed mid-year reduction package includes drawing down \$800 million in additional federal funds to be used for various benefits to the General Fund, including the repayment of General Obligation (GO) Bond debt service (\$406 million) and for a loan to the General Fund (\$200 million).
- **PTA Spillover.** The Governor's proposed mid-year reduction package includes retaining \$30 million of gasoline tax revenues to the General Fund that would otherwise go to the Public Transportation Account.