



Highlights of Governor's Proposed May Revision for the 2004-2005 State Budget

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Chair, Assembly Budget Committee

OVERVIEW

General Fund Summary

- **Revenues.** The Governor's May Revision projects General Fund revenues for 2004-05 to be \$76.4 billion, an increase of \$300 million above the projection contained in the January 9th proposed budget.
- **Prior-Year Adjustments.** The Governor's May Revision includes \$1.9 billion of additional General Fund revenues attributed to prior years. The largest component of this amount is \$1.2 billion of recoveries from taxpayers that have used abusive tax shelters. These payments have been received in the current year under the Voluntary Compliance Initiative (VCI), which waived penalties for taxpayers who filed and repaid past taxes due prior to April 15, 2004.
- **Expenditures.** The Governor's May Revision contains \$77.6 billion in expenditures, an increase of \$500 million above the January 9th proposal. General Fund expenditures would be higher, except the May Revision proposed \$2 billion of Deficit Recovery Bond Funds to offset General Fund expenditures.
- **Reserve.** The Governor's May Revision contains a final reserve of \$998 million, an increase of \$258 million above the January 9th proposal.
- **Structural Imbalance.** The Governor's May Revision proposes expenditures that exceed revenues for the 2004-05 year by \$890 million. If General Fund expenditures were not offset by \$2 billion in Deficit Recovery Bond Funds, then the structural imbalance would be \$2.9 billion.

**2004-05 Governor's May Revision
General Fund Budget Summary
(in millions)**

	2003-04	2004-05
Prior Year Balance	\$3,837	\$2,816
Revenues and Transfers	\$74,591	\$76,688
Bond Proceeds	2,012	--
Total Resources Available	\$80,440	\$79,590
Expenditures	\$75,612	\$79,590
Transfer of Bond Revenues from 2003-04 to 2004-05	\$2,012	-\$2,012
Total Expenditures	\$77,624	\$77,578
Fund Balance	\$2,816	\$1,927
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$929	\$929
Special Fund for Economic Uncertainties	\$1,887	\$998

Changes to the General Fund Reserve	
(dollars in millions)	
Proposed Reserve in Governor's Jan 9th Budget	\$635
Revenue Increases	1,211
Revenue Increase – Prior Year, inc. successful Tax Amnesty	1,945
Reduction in use of Deficit Reduction Bonds	-1,000
Medi-Cal Rate Increase – lost court case	-947
Increased Proposition 98 Expenditures	-581
Major Restorations	-945
Erosions on non-enacted Mid-Year proposals	-419
Savings from Renegotiated Collective Bargaining Agreements	464
Collection of Punitive Damages	450
Alternative Savings in Health and Human Services	292
Redirection of Education Fund Surplus	134
School District Loan Refinancing	111
Strategic Sourcing and Procurement Reform	96
Asset Management and Surplus Property Reform Revenues	50
Other Changes	193
May Revise Final Reserve	\$998

DEFICIT FINANCING

Deficit Bonds

- The May Revision reduces by \$1 billion the amount of Proposition 57 Economic Recovery Bond funds that are used to help finance the 2004-05 budget. In January, the Governor's Budget proposed using \$12.2 billion of the \$15 billion bond authorization in Proposition 57 (\$9.2 billion to finance the 2002-03 budget deficit, \$3 billion to finance the 2004-05 budget deficit). The May Revision reduces the amount of bond proceeds used in 2004-05 to \$2 billion. In addition, the January Budget reserved \$1 billion of bond authorization for issuance and insurance costs. Because of the strong market reception of the initial Proposition 57 bonds, the May Revision now assumes that issuance costs will be minimal and that all of the remaining \$3.8 billion of bond proceeds will remain available for use after 2004-05.

Pension Bonds

- The May Revision continues to propose 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

- The May Revision postpones the submittal of the Administration's Medi-Cal Redesign until August 2.
- The May Revision proposes a withdrawal of the provider rate reduction.
- The May Revision proposes a withdrawal of the enrollment caps and co-payments for various Health and Human Services Programs.
- The May Revision propose the establishment of a Quarterly Medi-Cal Eligibility reconciliation between the state's Medi-Cal Eligibility Data System and the county records to identify any data discrepancies, \$ 9 million.
- The May Revision proposes a reconciliation of state and Los Angeles County eligibility records, \$33.3 million.
- The May Revision also proposes a third-party county eligibility validation, \$2.6 million.
- The May Revision proposes a realignment of pharmacy reimbursement to a lower drug-cost reimbursement to average wholesale price minus 20 percent.
- The May Revision proposes to fully fund the ADAP Program, \$234.2 million.
- The May Revision proposes a \$983,000 loan from the Health Statistics Special Fund and 8.0 positions to establish and implement the Medi-Cal Marijuana Identification Card.
- The May Revision proposes to restore funding to the Community Challenge Grants, \$20 million.
- 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.

- Maintains the revision of 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.
- Maintains the recoupment from the Federal Government for Federally Qualified Health Centers overpayments, \$47.1 million in 2003-2004.
- Maintains the 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.
- Continues the billing audits for Medi-Cal non-contracting hospitals, \$1.4 million in 2004-2005 and \$15.3 million in 2005-2006.
- The May Revision maintains the proposed reform of Medi-Cal Adult Day Health Care, as proposed for the 2003-2004 fiscal year by the prior Administration, \$12.687 million in 2004-2005.
- Maintains the reduction of Medi-Cal interim rates by 10 percent for non-contracting cost reimbursed acute care hospitals, \$31 million in 2004-2005.
- Maintains the Imposition of a quality improvement assessment fee on Medi-Cal Managed Care Plans, \$75 million in 2004-2005.
- Updates the statewide maximum allowances for Mental Health Medi-Cal services, \$40 million in 2004-2005.
- Continue with the rescission of the wage adjustment program for long-term care facilities, \$46 million in 2003-2004 and \$2.544 million in 2004-2005.

Department of Developmental Services

- The May Revision proposes to delay contracting out for food services at Developmental Centers.
- Maintains Regional Center savings of \$100 million 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.
- Maintain the shift of Title XX funds to Regional Centers for a savings of \$48 million in General Fund in 2004-2005.
- Maintains the proposal for an unallocated reduction of \$6.5 million in Regional Center Administration in 2004-2005.

Department of Social Service

- Increases the county share for a portion of the Child Welfare Services funding provided by the State for savings of \$17.1 million.
- Includes a Quality Assurance (QA) Initiative for a net savings of \$14 million. The QA initiative would concentrate on program oversight and fraud investigation activities and would establish statewide training standards for IHSS eligibility.
- Modifies January budget proposal to reform the Foster Care program. The new proposal increases assumes \$37.5 million in General Fund savings from a reform effort that includes rate reform, stronger incentives for relative adoptions and guardianship, reduced redetermination requirements, and a series of audit reform designed to increase the accountability of foster family agencies and group homes.
- Modifies January budget proposal to enact child care reform savings for budget year savings in CalWORKs Stage One child care of \$41.8 million. The reform still includes family fee increases, requires CalWORKs families receiving child care to meet the proposed CalWORKs work participation requirements, proposes to reduce reimbursement for most providers, and tiers income-eligibility for the program. The May Revision changes allow families to receive Stage 3 child care for two years total. In addition, the May Revision details a child care anti-fraud proposal that would include \$1.5 million for 5.5 positions in the Department of Education's budget and \$3.1 million for county welfare fraud investigators.
- Modifies January budget proposal to 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. The May Revision assumes that the State will receive a waiver that will allow the residual caseload to draw down federal funds for a total savings of \$208 million General Fund in the budget year.
- Rescinds January budget proposal to cap enrollment in the Cash Assistance Program for Immigrants (CAPI). 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.
- Rescinds January budget proposal to 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.
- Rescinds January budget proposal to 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.

- Rescinds January budget proposal to 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.
- Rescinds January budget proposal to include the California Food Assistance Program (CFAP) and the Cash Assistance Program for Immigrants (CAPI) in the proposed county block grant of immigrant programs.
- Rescinds January budget proposal to 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).
- Retains January budget proposal to 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.
- Retains January budget proposal to 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.
- Retains January budget proposal to reduce grants for child-only safety-net families by 25 percent for budget year savings of \$32.9 million.
- Retains January budget proposal to eliminate TANF funding for County Juvenile Probation for budget year savings of 134.3 million. The program would expire in October 2004.
- Retains January budget proposal to eliminate funding for the Low Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program for budget year savings of \$2 million.
- Retains January budget proposal to eliminate funding for the Youth Development Services Project for budget year savings of \$1.5 million.
- Retains January budget proposal to eliminate funding for the Mental Health/Substance Abuse Services for Indian Health Clinics for budget year savings of \$2.7 million.
- Retains January budget proposal to reduce funding for the Tribal TANF program for budget year savings of \$30.5 million.
- Retains January budget proposal to collect child care overpayments for budget year savings of \$1 million.

- Retains January budget proposal to suspend both the federal and State 2004 SSI/SSP Cost of Living Adjustments for a budget year savings of \$134.6 million.
- Retains January budget proposal to 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)
- Retains January budget proposal to 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).
- Retains January budget proposal to make In Home Supportive Services Advisory Committees a county option for a budget year savings of \$2.2 million (\$1.2 million General Fund).
- Retains January budget proposal to enact Foster Care reform for a 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.
- Retains January budget proposal to 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.
- Retains January budget proposal to charge small licensed child care facilities for FBI fingerprinting fee for budget year savings of \$2.7 million.
- Retains January budget proposal to eliminate the Maternity Care Program for budget year savings of \$200,000.
- Retains January budget proposal to suspend Child Abuse Services Treatment Authorization and Case Management Mandate for one additional year.
- Retains January budget proposal to 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.
- Retains January budget proposal to 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 \$119.5 million in the budget year. A family of three would have their monthly grant reduced from \$705 to \$670.
- Retains January budget proposal to capture unspent funding for the Supportive Transitional Emancipation Program (STEP) for budget year savings of \$338,000 General Fund.

- Retains January budget proposal to 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. \
- Retains January budget proposal to cap enrollment in the California Food Assistance Program (CFAP). CFAP provides food assistance to 8,645 recent immigrants, battered immigrants and persons paroled to the US for humanitarian, health and political reasons.
- Retains January budget proposal to suspend 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

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

- Retains January budget proposal to 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

- Retains January budget proposal to 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.

Child Care

- Modifies January budget proposal to enact child care reform savings for budget year savings in CalWORKs Stage One child care of \$41.8 million. The reform bill includes family fee increases, requires CalWORKs families receiving child care to meet the proposed CalWORKs work participation requirements, proposes to reduce reimbursement for most providers, and tiers income-eligibility for the program.. The May Revision changes allow families to receive Stage 3 child care for two years total. In addition, the May Revision details a child care anti-fraud proposal that would include \$1.5 million for 5.5 positions in the Department of Education's budget and \$3.1 million for county welfare fraud investigators.

Department of Mental Health

- Lowers estimates of savings from audits of Early and Periodic Screening, Diagnosis and Treatment program claims to \$6.8 million all funds.
- Increases county match for EPSDT from 10 to 20 percent for a savings of \$12.6 million.
- Rescinds a proposal to lower the maximum rates for services for EPSDT.
- Modifies Children's System of Care proposal for a savings of \$20 million, by transferring responsibility to the counties, rather than previous proposed elimination.
- Continues reforms of the Sexually Violent Predators (SVPs) program for a \$2 million General Fund savings by creating intermediate commitments; a \$823,000 General Fund savings is anticipated due to the restructuring of the supervision and treatment services provided in state hospitals to SVP patients; and a \$10.7 million savings due to the transfer of pre-commitment SVPs to local county jails.
- Delays activation of Coalinga State Hospital by one month for a savings of \$9.5 million.
- Continues 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.
- Rescinds enrollment cap of various health and human service programs, including state mental health hospitals.

Department of Alcohol and Drug Programs

- There are no major proposed changes in the May Revision.
- 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

- Provides a \$60 million increase in non-Proposition 98 funds for a new emergency bailout loan recently requested by Vallejo Unified School District. The administration also presents a new proposal to refinance all emergency General Fund loans with lease-revenue debt secured by school district property.
- Reduces basic aid categorical funding by \$2.7 million, to treat basic aid districts the same as non-basic aid districts in terms of the total revenue limit cut they are still facing after deficit reduction.
- Pays back some of the programs that were deferred from one year to the next, by using the increase in Proposition 98 funding in the current year. The May Revision summarizes states that this debt is repaid at approximately \$45 per pupil, but does not specify which program deferrals are paid back.
- Retains the proposal to suspend \$1.9 billion from Proposition 98 in 2004-05, leading to a reduction of \$1.9 billion less than otherwise required for 2004-05. 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.

- Continues the deferral of \$517.9 million and \$448.4 million for 2002-03 and 2003-04, respectively for payment due to the under-payment of the Proposition 98 guarantee for those years. These funds appropriated for the settle-up will be designated for one-time expenses in future budgets.
- Retains the proposal to shift \$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. As in the January 10 budget, 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.
- Continues to fully fund the statutory Cost of Living Adjustment (COLA) for school district and county office of education revenue limit apportionments and categorical programs. However, the cost of providing full COLA increases, due to the increase of the COLA rate from 1.84% to 2.41%.
- Reduces funding for the deferral maintenance program to \$184 million, relative to the \$250.3 million proposed in January. (The Governor had proposed to reduce the \$250 million January amount down to \$77 million in an April DOF letter; and his May Revise proposal augments this.)
- Reduces funding for instructional materials by \$88 million relative to the amount proposed in January. (The Governor had proposed to reduce the total amount of funding by \$188 million in an April DOF letter, and is now proposing to partially restore this cut.) He proposes to sustain the proposal to shift the existing \$175 million for the existing program into revenue limits as part of his categorical reform proposal.

- Retains the \$110 million for school district revenue limit equalization, as proposed in January. (The Governor had proposed to reduce this funding to \$82 million in an April DOF letter, and is now proposing to restore this cut.)
- Retains the increase of \$106 million to fully fund the California Public Employees Retirement System school employer contribution rate.
- Retains the proposed shift in 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). Retains the increase of \$24.5 million in total funding 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.
- Provides an increase of \$63.7 million in federal special education funds for the following: \$31 million to help counties provide mental health services to special education students and \$38.4 million to help revise the formula to provide funding to special education foster care students who attend non-public schools and reside in licensed children's institutions.
- Retains 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.
- Continues \$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.
- Continues \$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.

California Community Colleges

- An augmentation of \$28.4 million in from Proposition 98 General Fund support for Scheduled Maintenance, Special Repairs, Instructional Equipment and Library Materials Block Grant.
- A reappropriation of \$2.4 million in one-time Proposition 98 Reversion Account funds for the Foster Parent Training Program in the current year, an a reappropriation of \$3 million in the budget year for the same purpose.
- An augmentation of \$492.6 million Proposition 98 funds offset by a local revenue reduction of the same amount.

- An increase of \$23.8 million Proposition 98 funds for apportionments, and \$1.5 million Proposition 98 funds for selected categorical programs.
- Restoration of \$20.2 million Proposition 98 funds for equalization returning the total 2004-05 proposal to \$80 million.
- An increase of \$17.9 million Proposition 98 funds to reflect a reduced estimate of student fee revenues.
- An increase of \$492,000 Proposition 98 funds to reflect an increased estimate of Board of Governors (BOG) fee waiver recipients.
- A decrease of \$442,000 Proposition 98 funds for selected categorical programs to reflect a revised statutory growth rate of 1.66 percent.
- A reversion of \$9.5 million from the last three fiscal years to the Proposition 98 Reversion Account.
- Retains proposal 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.
- Retains proposal to increase general student fees from \$18 per unit to \$26 per unit and reduces General Fund support by \$73.3 million.
- Retains proposal of a differential fee of \$50 per unit for bachelor's degree holders and reduces General Fund support by \$17.7 million.
- Continues to provide \$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.
- Continues proposal to consolidate categorical programs into single larger programs and increases available discretionary funding.
- Continues proposed shift of \$300.8 million from selected categorical program funding into general purpose funding, including funding for matriculation, three part-time faculty programs and district allocations for technology.
- Retains proposed elimination of 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

- An increase of \$623,000 associated with a recalculation of the revenues associated with undergraduate fee increase.
- Retains 7.5 percent reduction proposal for academic and institutional support reducing General Fund support by \$52.6 million.
- Retains the proposed 5 percent increase for student/faculty ratio reducing general fund support by \$53.5 million.
- Retains proposed 10 percent enrollment reduction of new freshman reducing \$21 million in General Fund support cutting access to approximately more than 3,800 fewer students.
- Retains proposed \$24.4 million reduction 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.
- Retains proposal to defer 10 percent of General Fund support for the Common Management System by reducing expenditures by \$6 million.
- Modifies the proposed 10 percent undergraduate fee increase reducing \$47.4 million in General Fund support, instead it proposes a 14 percent fee increase.
- Modifies the proposed 40 percent graduate fee increase reducing \$37.9 million in General Fund support, instead it proposes a fee increase of 20 percent for teacher preparation graduate students and 20 percent for other graduate students.
- Retains proposed 20 percent fee increase for non-resident fees reducing \$16.2 million in General Fund support.
- Retains \$1.9 million proposed augmentation to provide counseling to the 10 percent of freshman that will be redirected to community colleges. This augmentation equates to \$500 per student estimated to be denied access into a CSU campus under the Governor's proposal.
- Retains proposed augmentation of \$69.5 million for restoration of unallocated reductions implemented in 2003-04 that was intended to be one-time in nature.
- Continues to provide \$155 million in additional funding for increased Public Employees' Retirement System retirement contribution costs beginning in the current year.

- Retains proposed elimination of academic outreach programs by zeroing out the remaining CSU outreach program budget of \$52 million. Instead, the CSU will reduce enrollment funding by 5 percent generating \$45 million to continue to fund these programs.

University of California

- An augmentation of \$20.2 million associated with the recalculation of undergraduate and graduate fee increases, the excess unit fee and monies available for outreach programs.
- Retains proposed elimination of the Institute for Labor and reducing the General Fund support by \$4 million.
- Retains proposed 7.5 percent reduction for academic and institutional support reducing the General Fund support by \$45.4 million
- Retains proposed 5 percent increases student/faculty ratio reducing general fund support by \$35.3 million.
- Retains 10 percent enrollment reduction 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.
- Retains proposed elimination of \$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.
- Retains proposed 5 percent reduction of state-supported research funding reducing General Fund support by \$11.6 million.
- Retains proposed \$9.3 million reduction 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.
- Modifies the proposed 10 percent undergraduate fee increase reducing \$62.9 million in General Fund support, instead it proposes a 14 percent fee increase.
- Modifies the proposed 40 percent graduate fee increase reducing \$57.7 million in General Fund support, instead it proposes a 20 percent fee increase.
- Retains proposed 25 percent reduction General Fund professional school "subsidy" reducing \$42.6 million in General Fund support.
- Retains proposed 20 percent fee increase for non-resident students reducing \$32.6 million in General Fund support.
- Continues to provide \$1.6 million for UC to provide counseling to the 10 percent of freshman that will be redirected to community colleges. This augmentation equates

to \$500 per student estimated to be denied access into a UC campus under the Governor's proposal.

- Retains proposed augmentation of \$80.5 million for restoration of unallocated reductions implemented in 2003-04 that was intended to be one-time in nature.
- Continues to provide \$10 million in additional one-time funding for costs associated with making the UC Merced campus operational in 2005-06.3
- Continues to provide \$34.4 million in additional funding for increases in annuitant health and dental benefit costs.
- Retains proposed elimination of academic outreach programs by zeroing out the \$33.3 million state supported budget for all UC academic outreach programs. Instead the Governor is asking the UC to provide \$12 million per year from existing resources to fund these programs. In addition, the UC has been requested to seek matching private sector funds.

Hastings College of Law

- Retains proposed 25 percent General Fund "subsidy" reduction for the law school reducing General Fund support by \$2.8 million.
- Retains proposed 7.5 percent reduction for academic and institutional support reducing General Fund support by \$402,000.
- Retains proposed 20 percent fee increase for non-resident fees reducing \$188,000 in General Fund support.

California Student Aid Commission

- An augmentation of \$42.6 million associated with revised estimates of the number of Cal Grant Entitlement awards that will be issued in 2003-04.
- An augmentation of \$34.2 million associated with the elimination of the proposal to decouple Cal Grant award amount from fee increases at UC and CSU.
- Continues reduction of 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.
- Retains proposed decrease of maximum income level for Cal Grant awards by 10 percent, reducing support for the Cal Grant program an additional \$11.168 million.

RESOURCES AND ENVIRONMENTAL PROTECTION

Resources

- Increases to \$20.6 million, 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 and various fund shifts.
- Retains a \$27.2 million General Fund reversion of unencumbered funds in the 2003-04 Budget Act at the Energy Commission.
- Increases the amount of Proposition 50 funding by approximately \$400 million to The Department of Water Resources, CALFED, The State Water Resources Control Board, and the Department of Health Services.
- Increases the amount of Proposition 40 funding by approximately \$219 million for the Secretary for Resources, the Department of Parks and Recreation, and various Conservancies.
- Increases revenues to the Department of Conservation by \$2.0 million for Williamson Act.
- Retains \$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.
- Defers a January proposal to provide \$16.1 million General Fund for transfer to the Colorado River Management Account for lining of the All-American Canal.
- Increases the transfer by the State Lands Commission of \$45.4 million of Tideland Oil Revenues to the General Fund.

Environmental Protection

May Revise 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.
- Retains a January proposal to provide \$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

Energy

- The May Revision budget continues to propose elimination of 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.

Department of Housing and Community Development

- The May Revision includes additional transfers to the General Fund of unused past appropriations for housing programs totaling \$8 million,
- \$1.3 million General Fund reduction to Emergency Housing Assistance Grants to homeless shelters.

Franchise Tax Board

- The May Revision includes \$185 million of one-time revenue in 2004-05 from a tax amnesty program to forgive penalties on taxes owed for years prior to 2003. The Franchise Tax Board (FTB) staff would be augmented by \$10.2 million to implement the program on a limited-term basis.
- The May Revision includes \$28 million of additional General Fund revenue in 2004-05 from recoveries from taxpayers who used abusive tax shelters as a result of an augmentation of \$4.3 million to finance a taskforce on abusive tax shelters. This effort is expected to yield an additional \$390 million through 2008-09.
- The May Revision increases funding by \$17.5 million (\$6 million General Fund) for the implementation of the California Child Support Automation System because the project is moving forward faster than expected.
- \$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.

Punitive Damage Awards

- The May Revision proposes changing state law to enable the state to receive 75 percent of punitive damage awards. For 2004-05, the May Revision proposes to transfer the state's share of these awards to offset General Fund costs for a savings of \$450 million. The May Revision also proposes a law change to provide that only one punitive damage award may be recovered from a defendant.

Augmentation for Employee Compensation

- \$857.8 million reduction (\$65.4 million General Fund) to support increases in employee salary and benefit increases.

Judges' Retirement System

- \$7.9 million in the current year to support the Judges' Retirement System obligations.

Health and Dental Benefits for Annuitants

- \$1.6 million reduction to reflect lower than anticipated premium increases.

Business Transportation and Housing

- \$600,000 Augmentations for the California Film Commission to develop an online film permit issuance system.
- Retains proposal to transfer \$1.1 million from the Film California First Fund to the General Fund.

Department of Corporations

- Retains proposal for a \$1.9 million special fund augmentation and 20.9 personnel years to implement SB 1 (Speier), Chapter 241, Statutes of 2003 associated with the protection of personal financial data.
- Retains proposal for a \$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.

Office of the Inspector General for Veterans Affairs

- Retains proposal for a \$324,00 General Fund savings from the elimination of the office of Inspector General for Veterans Affairs. The May revise captures an additional \$160,000 in the current year from this proposal.

Secretary of State

- Deletes Governor's Budget proposal to eliminate the International Business Relations program and fully restores the program resulting in an augmentation of \$214,000 General Fund.

Department of Insurance

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

Department of General Services

- Creates Control Section 4.60 that orders a review of the methodology used to set State Rental Rates.
- Delays various property sales from 2003-04 to 2004-05 for a General Fund savings in 2004-05 of \$139 million General Fund.
- Modifies savings estimates contained within Control Section 5.50 in the 2003-04 State Budget for budget year 2004-05 from \$100 million to \$50 million General Fund.
- Retains proposal for \$18.5 million General Fund revenue in 2003-04 from Chino property sales.

Strategic Sourcing

- Proposes Control Section 33.50 to implement Strategic Sourcing procurement reform. Strategic Sourcing is a cost saving procurement strategy of leveraging the State's purchasing power to procure goods and services on a statewide basis. The proposal assumes a \$96 million General Fund savings resulting from Strategic Sourcing and gives the Director of Finance authority to make appropriate reductions in appropriation resulting from the reform efforts.

Reform of Real Property Asset Management

- Assumes \$50 million in savings in 2004-05 resulting from various reforms of the State's management of real property.
- Establishes a policy and process to consolidate the management of the State's real property assets, with the primary authority for asset management activities vested in a single entity.
- On an interim basis, directs departments to immediately begin operating in a more centralized fashion.
- Grants the Director of General Services the authority to declare property surplus and provide notice to the Legislature of this determination prior to disposing of the property.

- Eliminates existing requirements to offer surplus property to local governments prior to public sale.
- Eliminates existing requirement that the State sell surplus property to local government entities for less than market value under certain circumstances.

Department of Alcohol and Beverage Control

- Retains proposal for a \$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

Department of Department of Financial Institutions

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

- Retains proposal for a \$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

- Retains proposal for \$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.
- Retains proposal for \$1.1 million General Fund savings resulting from various youth program reductions.

Employment Development Department

- Eliminates the interagency agreement between the Employment Training Panel and The Secretary of Business Transportation and Housing to provide \$2.2 million in Employment Training Fund for the Manufacturer's Technology Program.
- Retains proposal for a \$395 million Special Fund to fund the Paid Family Leave Program authorized by Chapter 901, Statutes of 2002 and Chapter 797, Statutes of 2003.

- Retains proposal for a \$40.0 million reimbursements increase from expected workers' compensation savings for the Employment Training Panel.

Department of Veterans Affairs

- Reduce reimbursements at the Yountville Veterans Home by \$2 million, with a corresponding increase in General Fund. This proposal is the result of the home's inability to collect the full amount of budgeted reimbursements resulting from such factors as declining Medi-cal reimbursement rates.
- Modifies proposal for \$1.2 million General Fund savings through programmatic flexibility and reductions. This proposal no longer proposes to contract out for Food and Security Services at the Yountville Veterans Home. Revised savings for the proposal are \$631,000.
- Retains proposal for a \$1.7 million General Fund savings from an increase in Federal Funds and levels of reimbursements.

Department of Food and Agriculture

April 1 Proposals:

- Adds \$8.0 million (General Fund) in support of the Mediterranean Fruit Fly Pest Exclusion Program.

PUBLIC SAFETY

Judiciary/ Trial Courts

- Reduced from \$10 million to \$8.5 million, the unallocated reduction to the Judiciary. Of this amount \$5.5 million would be a one-time reduction and \$3 million would be on an ongoing basis.
- Increase of \$2 million to pay for salary and benefit increases for judges and employees of the Administrative Office of the Courts.
- Offset the \$59 million unallocated reduction to the Trial Courts in the Governor's Budget with an \$99.4 million increase for retirement, salary, benefit, and security purposes.
- \$6.4 million reductions associated with the increased use of electronic reporting in the courtroom.
- \$173,000 decrease associated with the use of smaller juries for civil cases
- Trailer bill that would require the Judicial Council to establish a working group to amend current law to ensure state participation in the collective bargaining process for court employees.
- \$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

- \$1.5 million to support additional legal workload associated with litigation from the floods of 1986 -87.
- \$11.3 million in to support increased litigation workload at the department. The Department is expected to capture \$4 million of this amount through billings of clients.
- \$2.7 reappropriation for work on the Armed Prohibited Persons Database System.
- \$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

- \$1.7 million increase for enhanced agency oversight. This increase is funded through a reduction of \$1.5 million to the Department of Corrections and \$200,000 reduction to the Department of Youth Authority.
- Rescind the transfer of the Office of the Inspector (OIG) to the Youth and Adult Correctional Agency and \$630,000. This action would restore the OIG and provide \$4.9 million to support this office.

Department of Corrections

- Increase of 8,387 inmates in 2004-05 from the amount projected in the Governor's Budget.
- Budgeted savings of \$476.7 million through operational efficiencies, reductions in medical costs, parole reforms, and employee contract renegotiations.
- \$22.2 million increase to implement the Valdivia settlement related to parolees scheduled to return to prison.
- \$16.8 million to address increased population in administrative segregation housing units.
- \$18.2 million to provide staffing to meet the department's medical guarding needs.
- \$4.6 million to begin procurement for the Business Information System intended to integrate financial, human resources, procurement and litigation data.
- \$1.9 million increase to support the vertical prosecution of employee misconduct.

Department of Youth Authority

- \$3.5 million to provide funding for post relief coverage for existing positions. \$2.5 million of this amount is to provide relief for additional training of employees pursuant to a collective bargaining agreement between the state and the employees representative.
- The Department is developing proposals to respond to the deficiencies found in a report related to on-going litigation related to the conditions at CYA facilities. When these plans have been developed, additional funding for the budget year is expected.
- \$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

- \$500,000 increase to support Juvenile Justice Reform Task Force.

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

Board of Prison Terms

- \$35.4 million increase to implement the provisions of the Valdivia settlement related to the rights of parole violators scheduled to return to prison.

LOCAL GOVERNMENT

Local Government Financing

- Add trailer bill language that would require the Citizens' Option for Public Safety Funds (COPS) to first be used to pay mandated costs associated with the Peace Officers Procedural Bill of Rights pursuant to Chapter 675, Statutes of 1990. The remaining funds would be allocated according to current law.

Office of Emergency Services

- \$28.1 million current year reduction in the estimated costs of claims related to the Southern California wildfires. The Administration also estimates that the claims in 2004-05 would be \$4.1 million less than that expected in the Governor's Budget.

California Law Revision Commission

- The Administration proposed the elimination of the California Law Revision Commission and would transfer the duties to the Legislature to be funded under its existing funding limit pursuant to Proposition 140.

Vehicle License Fee

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

Proposed State-Local Government Agreement

The May Revision substantially revises the Governor's January proposal for a \$1.3 billion local government contribution to the state's budget solutions. The \$1.3 billion General Fund savings in 2004-05 remains unchanged.

- The January Budget proposed an 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 (ERAF) in each county and reduces on a dollar-for-dollar basis the state's General Fund obligation to K-14 education under Proposition 98. About \$900 million of this additional ERAF shift would have been from counties, with the remainder from cities, special districts, and redevelopment agencies.
- The May Revision proposal includes the following elements.
 - \$1.3 billion savings in 2004-05 and 2005-06 only.
 - Makes the Vehicle License Fee (VLF) reduction permanent and eliminates the state General Fund backfill payments with a "reverse" ERAF shift of property taxes back to cities and counties. However, in 2004-05 and 2005-06, the state will provide a reverse shift will have a shortfall of \$700 million—resulting in equivalent state savings. Schools will be made whole by the state for their net loss of property tax revenue.
 - For 2004-05 and 2005-06, redevelopment agencies and special districts will shift \$250 million and \$350 million, respectively to the schools, resulting in an equivalent state savings

- The May Revision proposes a constitutional amendment to protect local property, sales, and VLF revenues in the future.
- The May Revision proposes to reform the mandate process by automatically repealing unfunded mandates.
- The May Revision states intent for another state-local program realignment in 2006-07.
- \$38.2 million General Fund savings from eliminating Booking Fee subventions.
- \$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

- **Proposition 42.** The Governor retains his January proposal to suspend Proposition 42, which saves the General Fund \$1.2 billion. However, the May Revision adds a new proposal to repay the \$1.2 billion to transportation by 2007-08. 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.
- **Traffic Congestion Relief Program.** The May Revision rescinds the earlier proposal to eliminate the Traffic Congestion Relief Program (TCRP), and provides \$163 million for currently allocated TCRP projects.
- **Repayment of Transportation Loans.** The Governor's May Revision proposes early repayment of transportation loans due in 2005-06 in accordance with the following:
 - \$242 million repayment from the General Fund to the Traffic Congestion Relief Fund (TCRF).
 - \$140 million repayment from estimated "spillover revenues" from the Public Transportation Account (PTA), on behalf of the General Fund, to the TCRF.
 - Any revenues resulting from the renegotiation of tribal gaming compacts above \$500 million.
 - \$184 million repayment from the TCRF to the State Highway Account.
 - \$36 million from the TCRF to the PTA.

- **Mid-Year Accrual to Cash Proposal.** The May Revision modifies the mid-year proposal to shift from accrual to cash to generate \$800 million in additional federal funds in the current year and instead proposes to generate \$200 million in the budget year.