



GENERAL GOVERNMENT

Secretary of State



MAJOR ACTIONS

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

Department of General Services



MAJOR ACTIONS

- ◆ **Statewide Rental Rates.** Approves Control Section 4.60 which requires a review of the methodology used to set State Rental Rates.
- ◆ **Strategic Sourcing.** Approves savings of \$96 million resulting from Strategic Sourcing procurement reform. Strategic Sourcing is a procurement strategy of leveraging the State's purchasing power to procure goods and services on a statewide basis.

Office of the Inspector General For Veterans Affairs



MAJOR ACTIONS

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

Employment Development Department

■ MAJOR ACTIONS

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

Department of Industrial Relations

■ MAJOR ACTIONS

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

Military Department

■ MAJOR ACTIONS

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

Department of Veterans Affairs

■ MAJOR ACTIONS

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

Arts Council

■ MAJOR ACTIONS

- ◆ **Local Assistance Augmentation.** Augments by \$10.0 million for the Arts Council local assistance budget.

Local Government

■ MAJOR ACTIONS

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

These actions recognize the \$1.3 billion in state savings that the Governor has proposed. Furthermore, they are consistent, in very general terms, with the Governor's May Revision "agreement" with local government in terms of its 2004-05 fiscal effect.

The agreement would eliminate the VLF backfill to cities and counties and replace the funds with property tax shifted from K-14 education (increased state General Fund apportionments would hold education harmless). For 2004-05 and 2005-06, the agreement calls for a \$700-million shortfall in the VLF backfill replacement, which would be shared equally by cities and counties. The agreement also calls for a two-year shift of \$600 million of property tax revenues to K-14 education from special districts (\$350 million) and redevelopment agencies (\$250 million). Finally, the agreement also proposes constitutional protections for local government revenues, guarantees for repayment of state obligations for the 2003-04 VLF "gap" loan and mandate reimbursement deferrals, and reforms of the mandate process.

The subcommittee actions, however, did not encompass most aspects of the agreement. The actions do not address the allocation of the impact of the 2004-05 \$1.3 billion state savings among the local government entities, or the mechanism of

THE 2004-2005 STATE BUDGET
Subcommittee Report

allocation. The subcommittee actions also are silent as to impacts after 2004-05 and as to the proposed constitutional protections.

- ◆ **VLF "Poison Pill."** Approves trailer bill language to repeal the "poison pill" provision that eliminates VLF funding for Realignment programs if county responsibility for the care of medically indigent adults is found to be a reimbursable state-mandated local program. The poison pill has been activated by a final court decision in a case brought by San Diego County. AB 1457 temporarily continues Realignment VLF funding through 2003-04.
- ◆ **Booking Fee Subventions.** Restores up to \$20 million (of the \$38.2 million proposed for elimination by the Governor) to provide subventions for booking costs related to county bookings of persons arrested by cities or special districts. The subcommittee action contemplates reform of booking fees, rather than elimination of county authority to impose booking fees on cities, as the Governor proposes.
- ◆ **International Registration Plan (IRP) Trailer VLF Backfill.** Maintains \$11.9 million General fund subvention to continue to fund counties for the remaining Realignment portion of the VLF backfill for IRP Trailers, which are now exempt.
- ◆ **Continued Deferral of Mandate Reimbursements.** Approves continued deferral of reimbursements to local governments for the cost of carrying out most state-mandated programs or activities. This action is consistent with legislative intent expressed in the 2003-04 Budget Package and with the Governor's Budget. Also suspended several mandates and adopted Trailer Bill language to repeal eight mandates as requested by the administration and to direct the Commission on State Mandates to revisit the parameters and guidelines for four mandates, consistent with the actions of the Special Committee on State Mandates.
- ◆ **Santa Barbara County Formation Commission Loan.** Approves May Revision request to provide \$400,000 to the Santa Barbara County Formation Commission to meet its statutory requirements related to the pending election on the formation of Mission County.

Energy

■ MAJOR ACTIONS

- ◆ **Transfer Account Surplus.** Transfers \$12 million of surplus funds in the Energy Resources Programs Account to the General Fund.
- ◆ **Power Plant Siting.** Approves request for \$18.9 million for the Power Plant Siting Program in 2004-05.

**THE 2004-2005 STATE BUDGET
Subcommittee Report**

- ◆ **Hydrogen Fueling Station.** Approves Governor's proposal to reappropriate \$925,000 as a state contribution to a project with the Alameda-Contra Costa Transit District to construct and operate a hydrogen fueling station to demonstrate the use of hydrogen in fuel-cell-powered buses.
- ◆ **Climate Action Registry.** Designates \$200,000 of existing energy research funding for support of the Climate Action Registry.
- ◆ **Electricity Oversight Board.** Approves the Governor's proposal for \$3.6 million (special funds) and 21.9 personnel-years of staff.
- ◆ **California Consumer Power and Energy Conservation Financing Authority.** Approves Governor's proposal that provides funding to continue the authority only until October 1, 2004. Did not adopt the administration's proposed Trailer Bill language to repeal the statutory authorization for the Power Authority.
- ◆ **Public Utilities Commission's Teleconnect Program.** Adopts trailer bill language, effective starting in 2005-06, requiring the PUC to take into account the federal E-Rate subsidy program before providing Teleconnect subsidies for telephone and high-speed telecommunications services to schools and libraries. Also adopted trailer bill language, effective starting in 2005-06, linking the Teleconnect subsidy percentage to the percentage of students in the School Lunch Program, as the federal E-Rate Program does.

Tax Administration

■ MAJOR ACTIONS

Franchise Tax Board (FTB)

- ◆ **Child Support Enforcement Project.** Approves total increase of \$46.5 million (\$17 million General Fund and \$29.5 million federal reimbursements) requested for the continued development of the Child Support Enforcement Project. Additional vendor payments will be due because the project is proceeding ahead of schedule. Successful completion of the project is crucial to meeting federal requirements and eliminating federal penalties that currently total \$220 million annually.
- ◆ **Taskforce on Abusive Tax Shelters.** Approves an increase of \$4.7 million requested by the administration for contracts for tax shelter experts and to backfill 42 audit positions to work on abusive tax shelter cases. These increased resources will result in an estimated \$28 million of General Fund revenue in 2004-05 and \$390 million through 2008-09. Also augmented by an additional \$2.8 million that the FTB indicated it could use to further augment expert contract resources and backfill an additional 25 auditors who were redirected to abusive tax shelter cases. FTB

**THE 2004-2005 STATE BUDGET
Subcommittee Report**

estimates that this additional augmentation will result in \$6.5 million of General Fund revenue in 2004-05 (\$13 million in 2005-06).

- ◆ **Amnesty Program.** Approves May Revision request for \$10.2 million (General Fund) and 72 temporary positions to administer an amnesty program under the Personal Income Tax and the Corporation Tax. This action includes legislation, such as AB 2203 (Chu) to authorize the amnesty. The FTB estimates that the program will result in a net increase of \$185 million of General Fund revenues.
- ◆ **Political Reform Audit Program.** Rejects Governor's proposal to shift costs for audits to of campaign financial statements from the General Fund to fees for a savings of \$1.4 million. The FTB conducts random field audits on behalf of the Fair Political Practices Commission.
- ◆ **Litigation Cost.** Approves May Revision request for \$1.3 million in additional litigation costs to defend the state in a Nevada lawsuit against the FTB.
- ◆ **Fees for Special Services.** Shifts \$3.1 million of General Fund costs to fee revenues due to charging fees for special services to taxpayers (other than the practitioner hotline).
- ◆ **Phase III Building Occupancy.** Augments by \$6.5 million as requested by the administration for costs associated with the completion and occupancy of one million square feet of new space at the FTB's Butterfield campus.

State Board of Equalization (BOE)

- ◆ **Restoration of Revenue Staff.** Approves an augmentation of \$7.3 million (\$4.7 million General Fund) to restore 140 revenue-related positions that were eliminated as a result of current-year position reductions. This action represents a reduction of 20 positions and \$1 million (\$675,000 General Fund) from the amount requested in the May Revision. The 20 positions are to be provided through redirection of non-revenue-related positions instead. The BOE estimates that the position restorations and redirections will increase General Fund revenues from the sales and use tax by \$24.8 million in 2004-05 and \$31.6 million in 2005-06 plus additional local sales and use tax revenue.
- ◆ **Alternative Cigarette Tax Stamp.** Approves \$4.9 million requested in the May Revision to contract for a new counterfeit-proof cigarette tax stamp to meet the requirements of SB 1701 (Peace) of 2002. Also adopted Supplemental Report Language to have BOE report on the feasibility of obtaining financial participation from cigarette manufacturers in the future.
- ◆ **Curtainwall Repairs.** Reduces by half May Revision request for \$1.2 million (\$718,000 General Fund) to perform studies and prepare preliminary plans for

THE 2004-2005 STATE BUDGET
Subcommittee Report

repairing leaking window seals on the BOE's headquarters building in order to place the issue in conference and examine alternatives.

- ◆ **Cap on Cost Recovery from Special Taxing Districts.** Adopts trailer bill language to remove a cap on the board's ability to allocate its costs for administration and enforcement of sales and use taxes to special local taxing jurisdictions. This results in General Fund savings of \$1.5 million (from shifting that cost to the special taxing jurisdictions).

**Department of Housing and Community
Development**

■ MAJOR ACTIONS

- ◆ **Emergency Housing Program.** Restores \$1.3 million (General Fund) to maintain operating grants for homeless shelters at the same level as in the current year. The Governor's Budget proposed reducing funding from \$5.3 million to \$4 million.
- ◆ **Sweep Surplus/Dormant Funds.** Transfers to the General Fund a total of \$8 million in surplus/unnecessary non-bond funds remaining in the Child Care and Development Facilities Direct Loan and Loan Guaranty Funds and the School Facilities Fee Assistance Fund. The administration included this action in the May Revision.
- ◆ **Regional Housing Needs Assessment.** Augments by \$750,000 for grants to regional Councils of Governments (COGs) to prepare estimates of housing needs for local governments. This new grant program replaces previous funding for this task provided to COGs as reimbursement for a state-mandated local program. Also adopted trailer bill language to require the Commission on State Mandates to review the regional housing needs assessment mandate and delete unnecessary components of the mandate for cities and counties.
- ◆ **Enterprise Zone Program.** Approves \$668,000 and six positions requested by the administration to carry out required monitoring and enforcement duties for enterprise zones and to establish up to three new zones as authorized by existing law. Funding will be provided by new fee revenue.

Employee Compensation

■ MAJOR ACTIONS

- ◆ **Pension Obligation Bonds.** Defers consideration of pension obligation bonds until 2005-06. The Governor's Budget proposed the issuance of pension obligation bonds that will provide an additional \$949 million to the State to offset the employer retirement contribution in 2004-05. The Administration proposed to meet its debt service obligations through the "savings" from the combination of the transfer of a portion of the retirement costs from the state to its employees and by the reduction in retirement benefits through the creation of the "tier 2" retirement plan. Given the legal uncertainties raised by the court challenge to the 2003-04 Pension Obligation Bonds and the need to collectively bargain changes in retirement benefits or contributions, this proposal was deferred. The budget savings was replaced by maintaining the use of proceeds from Proposition 57 Economic Recovery Bonds rather than deferring \$1 billion of the Proposition 57 bonds to a future year, as proposed by the May Revision.

Deficiency Process

■ MAJOR ACTIONS

Control Section 27.00. Deletes Budget Control Section 27.00, which provides for deficiency spending—the ability of the administration to authorize additional spending after the budget is enacted that will require subsequent deficiency appropriations by the Legislature. Also acted to place the annual budget placeholder appropriation for emergencies and contingencies into Conference, where final actions will be taken to reform the deficiency process in order to require legislative appropriation rather than just administrative approval prior to major unbudgeted spending increases, especially while the Legislature is in session.

Bond Financing

■ MAJOR ACTIONS

- ◆ **Economic Recovery Bonds Replace Pension Obligation Bonds.** Defers Pension Obligation Bond (POB) proposal until 2005-06. Approved the Governor's January Budget proposal to use \$12.2 billion of Proposition 57 Economic Recovery Bonds--\$9.2 billion to pay past deficits and \$3 billion to finance spending in 2004-05. The May Revision proposed to reduce from \$3 billion to \$2 billion the amount of Proposition 57 bond proceeds used to finance 2004-05 spending. The May Revision continued to include \$950 million of General Fund savings from issuing POBs to offset state PERS employer contribution costs in 2004-05, contingent on legislative approval of reductions in pension benefits for new employees and increased employee retirement contributions. Due to legal uncertainties concerning POBs and because the pension reforms proposed by the administration will require difficult and complex negotiations, the subcommittee deferred the POB proposal rather than reducing the amount of Proposition 57 bond funding. Approximately \$2.8 billion of Proposition 57 bond authority will remain available for use after 2004-05.

Department of Food and Agriculture

■ MAJOR ACTIONS

- ◆ **County Agricultural Commissioners.** Provides \$4.0 million in support to Agricultural Commissioners that the Administration had reduced to fund other departmental activities.
- ◆ **Medfly Program.** Approves \$8.0 million in support for the program, but reduced overall funding to CDFA's Agricultural Plant Health and Pest Prevention Programs.



PUBLIC SAFETY

Secretary for Youth and Adult Correctional Agency (YACA)



MAJOR ACTIONS

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

Office of the Inspector General (OIG)



MAJOR ACTIONS

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

Office of Emergency Services (OES)

■ MAJOR ACTIONS

- ◆ **Homeland Security Grants.** Provides additional federal fund expenditures of \$156 million for the State Homeland Security Grant Program, Law Enforcement Terrorism Prevention Program, Citizen Corps Program and Urban Area Security Initiative. In addition, OES will be increased by \$519,000 to administer these grants.
- ◆ **Office of Homeland Security.** Approves additional federal funds expenditures of \$1 million to expand the Office of Homeland Security.

Department of Justice

■ MAJOR ACTIONS

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

THE 2004-2005 STATE BUDGET
Subcommittee Report

- ◆ **Methamphetamine Grants.** Provides ongoing support of \$2.4 million for the California Methamphetamine Strategy from federal funds. These funds will enhance the department's electronic surveillance capabilities.
- ◆ **National Criminal History Improvement.** Implements a thumbprint identification system for the disposition of criminal arrest with \$3 million of federal funds.

Department of Corrections

■ MAJOR ACTIONS

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

THE 2004-2005 STATE BUDGET
Subcommittee Report

- ◆ **Valdivia Facilities.** Approves \$5.4 million to fund the construction and modification of facilities in order to hold additional parole hearings pursuant to the Valdivia Remedial Plan.
- ◆ **Unallocated Reduction.** Approves an unallocated reduction of \$223 million to the department. This amount is consistent with the Governor's proposal.

Board of Corrections (BOC)

■ MAJOR ACTIONS

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

Board of Prison Terms (BPT)

■ MAJOR ACTIONS

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

Department of Youth Authority

■ MAJOR ACTIONS

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

Judiciary

■ MAJOR ACTIONS

- ◆ **Salary and Benefits.** Approves proposal to provide \$4.3 million for increases for Judges salaries and benefits, employee salaries and the increased costs of security contract services provided by the California Highway Patrol.
- ◆ **Trial Court Facilities.** Adopts proposal to appropriate \$23.3 million to staff the workload of courthouse facilities acquisition, construction and maintenance.

State Trial Court Funding (Courts)

■ MAJOR ACTIONS

- ◆ **Unallocated Reduction.** Adopts proposal for a \$59 million unallocated reduction to the state trial courts.
- ◆ **May Revision.** Rejects the Governor's proposal to augment the Courts by \$99 million for specific salary, benefit and contract increases. The Administration also proposed savings through various activities, including an additional unallocated reduction of \$11 million.