

California Spending Plan 2001-02



The Budget Act and Related Legislation

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Acknowledgments

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The 2001-02 Budget Act and Related Legislation

INTRODUCTION AND OVERVIEW

The 2001-02 Budget Act was signed into law by Governor Davis on July 26, 2001. Together with its related implementing legislation, the budget authorizes total spending from all funds of \$103.3 billion. As indicated in Figure 1, this total includes \$78.8 billion from the General Fund, \$21.3 billion from special funds, and \$3.2 billion from bond funds. The large special funds' increase reflects the combination of budgetary accounting changes involving various programs and increased vehicle license fee relief.

Figure 1

The 2001-02 Budget Total State Expenditures

(Dollars in Millions)

Fund Type	Actual 1999-00	Estimated 2000-01	Enacted 2001-02	Change from 2000-01	
				Amount	Percent
General Fund	\$66,494	\$80,087	\$78,763	-\$1,324	-1.7%
Special funds	15,787	14,806	21,335	6,529	44.1
Budget totals	\$82,281	\$94,893	\$100,098	\$5,205	5.5%
Selected bond funds	\$2,583	\$5,941	\$3,181	-\$2,760	-46.5%
Totals	\$84,864	\$100,834	\$103,279	\$2,445	2.4%

Detail may not total due to rounding.

The General Fund Condition

Figure 2 summarizes the General Fund's condition for 2000-01 and 2001-02.

Figure 2			
The 2001-02 Budget Estimated General Fund Condition			
<i>(Dollars in Millions)</i>			
	2000-01	2001-02	Percent Change
Prior-year fund balance	\$9,139	\$7,055	
Revenues and transfers	78,003	75,105	-3.7%
Total resources available	\$87,142	\$82,160	
Expenditures \$80,087		\$78,763	-1.7%
Ending fund balance	\$7,055	\$3,397	
Encumbrances	\$701	\$701	
Set-aside for litigation	\$7	\$100	
Reserve	\$6,347	\$2,596	
Detail may not total due to rounding.			

2000-01. In 2000-01, revenues were \$78 billion (an 8 percent increase from 1999-00), while expenditures were \$80.1 billion (a 20 percent increase from the prior year). The rate of spending growth in part reflects one-time expenditures associated with unanticipated revenues received late in 1999-00. After accounting for \$708 million in encumbrances and a set-aside for litigation, 2000-01 is estimated to have ended with a reserve of \$6.3 billion.

2001-02. Revenues in 2001-02 are projected to be \$75.1 billion (a 3.7 percent decrease from 2000-01) while expenditures are estimated to be \$78.8 billion (down 1.7 percent from 2000-01). The budget includes a \$100 million set-aside for litigation and \$701 million for encumbrances. This leaves a 2001-02 year-end reserve of \$2.6 billion, or about 3.3 percent of expenditures for the year.

It should be noted that these figures reflect the budget package signed by the Governor in late July. They do not reflect the fiscal impact of legislation that was pending when this report went to press.

Spending in the Budget Year

General Fund spending in the 2001-02 budget is summarized in Figure 3, by major program area. The budget contains moderate ongoing funding increases in education, health, and social services. The large decline in the

“all other” category is due to several factors, including the two-year deferral (\$1.1 billion in 2001-02 and \$1.2 billion in 2002-03) for the Traffic Congestion Relief Program, nearly \$1 billion in one-time appropriations in 2000-01 for energy conservation and generation programs, as well as fewer one-time expenditures in 2001-02 for various resources and environmental protection programs.

Figure 3

**The 2001-02 Budget
General Fund Spending by Major Program Area**

(Dollars in Millions)

	Actual 1999-00	Estimated 2000-01	Enacted 2001-02	Change From 2000-01	
				Amount	Percent
K-12 Education ^a	\$27,588	\$29,950	\$32,437	\$2,487	8.3%
Higher Education					
CCC ^a	2,552	2,826	2,977	151	5.3
UC	2,716	3,323	3,458	135	4.1
CSU	2,175	2,485	2,607	122	4.9
Other	578	707	860	153	21.6
Health	10,489	12,370	13,582	1,212	9.8
Social Services	7,043	7,756	8,317	561	7.2
Corrections	4,748	5,179	5,242	63	1.2
All other ^b	8,605	15,491	9,283	-6,208	-40.1
Totals	\$66,494	\$80,087	\$78,763	-\$1,324	-1.7%

Detail may not total due to rounding.

^a Includes expenditures from prior-year Proposition 98 appropriations.

^b Includes negative adjustments to offset spending totals shown above for K-12 and community college education programs that are attributable to Proposition 98 funds appropriated, yet not spent, in prior years.

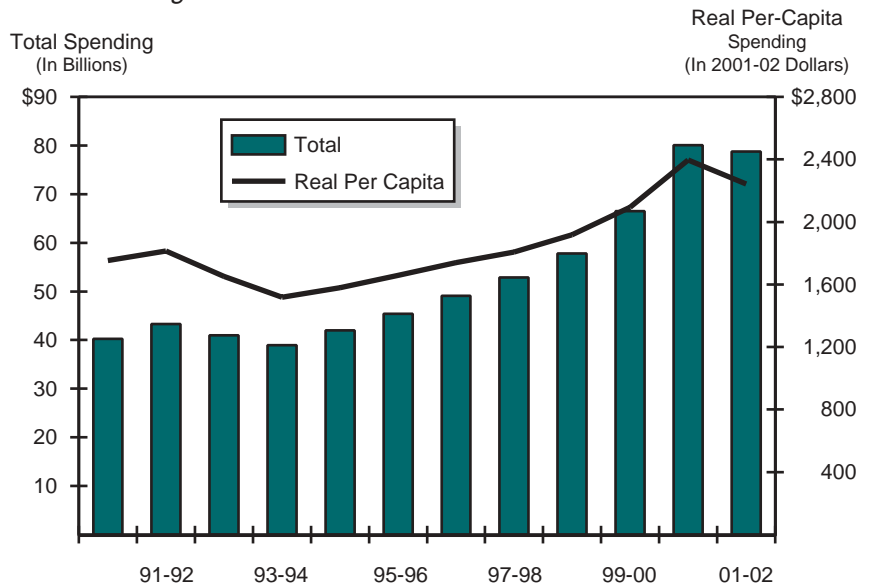
General Fund Spending Over the Past Decade

Figure 4 (see next page) shows General Fund expenditures from 1990-91 through 2001-02, both in current dollars and as adjusted for population and inflation (that is, in real per-capita terms). The figure shows that the 2001-02 budget represents the first decline in spending since the early 1990s’ recessionary period, when policymakers closed large budget shortfalls through spending cuts, funding shifts to local governments, spending deferrals, and tax increases. It also shows the large spending increases that have taken place over the latter part of the 1990s during the state’s strong economic expansion. Total expenditures over the entire period have increased by 96 percent, while real per-capita spending has grown by 28 percent to \$2,243 per person.

Figure 4

General Fund Expenditures Over Time

1990-91 Through 2001-02

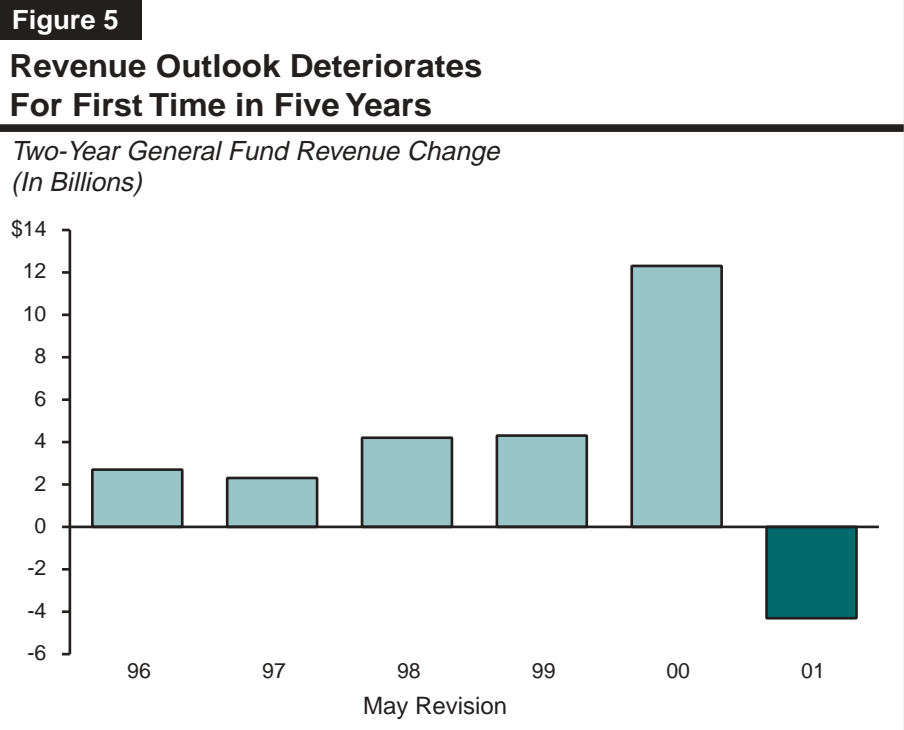


Evolution of the Budget

Challenges Faced in Developing the 2001-02 Budget

Economic and Revenue Slowdown. The Governor and Legislature faced two major challenges in developing the 2001-02 budget. The first was related to the economy and revenues. After several years of extraordinary growth, the state’s economy slowed more abruptly than expected during the first half of 2001 as the budget was being considered by the Legislature. As shown in Figure 5, the deterioration led to a two-year downward revision of \$4.3 billion to the state’s revenue outlook in May 2001, the first downward revision in five years.

Electricity Crisis. The second major challenge related to the state’s electricity crisis. In addition to creating additional uncertainty regarding the state’s economic and revenue outlook, the crisis specifically affected the budget in two ways. First, in response to the crisis, the Legislature passed measures authorizing \$1 billion in General Fund resources for various conservation and rebate programs. Second, following the insolvency of the state’s two largest utilities, the state began purchasing electricity for customers of the major utilities beginning in January 2001. As of June 30, total purchases had reached about \$7 billion.



Estimates of the state’s budgetary condition assume that the General Fund will be fully reimbursed for this \$7 billion with proceeds from the sale of long-term electricity bonds. However, uncertainties over the timing and marketability of the bonds created uncertainty throughout the 2001-02 budget process.

Governor’s January Proposal

In January 2001, the Governor proposed total state spending of \$104.7 billion for 2001-02, of which \$82.8 billion was from the General Fund. The General Fund amount represented a 3.9 percent increase from 2000-01. The initial budget proposal assumed that available resources would exceed current law spending requirements by \$8 billion. While the budget assumed that revenue growth would be modest in 2001-02, it also assumed that the state would have a large carry-in balance from 2000-01 (estimated to be nearly \$6 billion) to finance programs in the budget year.

The January budget proposed that about \$5.5 billion of the \$8 billion in uncommitted resources be allocated to new spending initiatives, \$0.1 billion be used for tax reductions, and \$2.4 billion be put in budgetary reserves. Of the \$5.5 billion in spending, about \$1.2 billion was proposed for ongoing increases, mostly in education, and \$3.3 billion was for one-time expenditures, including a \$1 billion set-aside for electricity-related initiatives.

Education. As in previous years, the budget contained significant new on-going funds for K-12 education for such purposes as teacher and principal training, student achievement at middle schools (including a lengthened school year), and the settlement of a mandated cost claim for special education. The budget also included significant new funds for each of the three higher education segments, as well as monies for increased financial aid, student outreach, and part-time instructor salary increases.

Electricity Set-Aside. The budget also included a \$1 billion set aside for energy-related initiatives related to the electricity crisis. These funds were to be available for programs directed at energy conservation and increased supplies.

Other One-Time Spending. The budget also included about \$2.3 billion in other one-time expenditures for such purposes as capital outlay, local government fiscal relief, new housing initiatives, and various resources projects.

Developments Following the January Proposal

Conditions Worsened. Following the introduction of the January budget proposal, the budget outlook worsened, due to a sharper-than-expected economic slowdown and continued deterioration in the stock market (which affects capital gains and stock options-related revenues). Given these developments, the Legislature took the unusual step of withholding consideration of most of the Governor's major proposals outside of K-12 education until the May Revision.

In a special session, legislation was adopted (AB 29x and SB 5x) which allocated the Governor's \$1 billion energy set-aside for such purposes as appliance rebates, peak demand-reduction programs, low-income energy assistance, and various other grant and loan programs.

By April, it was clear that the state's two-year revenue trend was falling significantly below the January budget projection. Revenues associated with past 2000 economic activity remained strong, with personal income tax final payments in April exceeding their estimate by nearly \$2 billion. However, revenues associated with 2001 economic activity were slowing sharply, with withholding and sales tax payments falling below their year-ago levels.

The May Revision

Large Downward Budget Revision. The May Revision reported a \$5.7 billion deterioration in the state's fiscal condition for the current and budget years combined compared to the January forecast. The primary factor behind the deterioration was a \$4.2 billion downward adjustment to revenues

(reflecting a \$1.2 billion increase in 2000-01 swamped by a \$5.5 billion decrease in 2001-02), as well as about \$1.5 billion in added expenses for a variety of state programs (including prior-year Proposition 98 requirements, retirement costs, and energy-related expenses).

Proposed Solutions. The Governor's proposal to deal with the shortfall included a two-year redirection of monies from transportation funds into the General Fund, saving \$1.3 billion in 2001-02 and \$1.2 billion in 2002-03. The May Revision also proposed a reduction in one-time spending of about \$1.3 billion, a transfer of special funds balances to the General Fund totaling \$500 million, and a \$255 million reduction in ongoing Proposition 98 spending. It also eliminated most of the tax relief measures proposed in January. The revised budget plan also included reserves of \$1.1 billion, down from the \$2.4 billion proposed in the January budget.

Large Out-Year Operating Deficit Still Existed. Despite maintaining a positive projected reserve balance for 2001-02, however, the May Revision proposal was not a comprehensive solution to the budget shortfall that had emerged. Following the May Revision, our office indicated that the year-end reserve of \$1.1 billion was not sufficient to offset a projected operating shortfall of over \$4 billion in 2002-03. The out-year shortfall was deepened as a result of the passage of federal tax reform, which resulted in the phase out of the state's estate tax.

Senate and Assembly Versions of the Budget

The two houses both adopted many of the Governor's May Revision proposals, including the redirection of transportation funds, revised tax relief, and the aggregate level of Proposition 98 funding. However, there were also a variety of differences in the two versions of the budget. For example, while funding Proposition 98 at the same aggregate spending levels as proposed by the administration, the Senate and Assembly differed significantly in many program allocations for K-12 education. Significant differences also existed with regard to funding for senior citizens' tax relief and health-related programs.

Conference Committee Actions

The Assembly and Senate versions of the budget were sent to the legislative Budget Conference Committee for reconciliation in early June. Given the heightened concern about the economy and the longer-term budget imbalance, the committee—in consultation with the Governor's office—adopted cuts that were significantly deeper than those included in the two legislative versions or the May Revision, with the goal of building the 2001-02 reserve to more than \$2 billion. The most significant spending reduction

was a \$689 million cut in proposed K-12 Proposition 98 spending, including funds for the Governor's proposal for an expanded school year for middle schools. The Conference Committee version also reduced spending in higher education, health, and general government, and transferred a greater amount of special fund monies to the General Fund than did the May Revision. The compromise version of the budget was passed by the Budget Conference Committee on June 23, 2001.

Post Conference Committee Negotiations

The Conference Committee version of the budget failed to receive a two-thirds majority in either house. After several weeks of negotiations, provisions were added to the budget involving school district equalization, a package of agricultural and rural tax assistance, and an increase in senior citizens' tax relief. The revised budget was enacted on July 23 and sent to the Governor.

Governor's Vetoes

Before signing the budget, the Governor used his line-item veto authority to eliminate about \$540 million in total spending, including \$499 million from the General Fund. These vetoes were concentrated in community colleges (\$124.6 million), primarily in the areas of maintenance and instructional equipment. Other programs with significant reductions included K-12 education (\$130 million), and health and social services (slightly over \$100 million).

Major Features of the Final Budget

The 2001-02 budget provides spending increases that cover population and inflation increases, as well as some new programs and program expansions. Specifically:

- **Education.** The budget includes full funding for inflation and enrollment growth for K-12 education. Spending in the K-12 area also includes targeted increases for low-performing schools, expanded child care, a settlement of the special education lawsuit, and before/after school programs. In higher education, the budget provides full funding for enrollment growth, avoids any fee increases, and includes funding for increases in Cal Grant awards stemming from legislation enacted in 2000.
- **Health.** The budget fully funds projected Medi-Cal caseloads, as well as increased funding for long-term care rate increases, and a \$191 million litigation settlement (*Orthopaedic Hospital v. Belshé*). In addition,

the budget adopts the Governor's proposal to use tobacco settlement funds to support expanded coverage for adults under the Healthy Families Program.

- **Social Services.** The budget fully funds caseload and cost-of-living adjustments for the California Work Opportunity and Responsibility to Kids program, and the Supplemental Security Income/State Supplementary Program. The budget also includes new initiatives for foster youth, extensions of assistance programs for immigrants, and provider wage increases for In-Home Supportive Services providers.
- **Transportation.** The budget adopts the Governor's May Revision proposal to defer the transfer of gasoline sales tax revenues to the Traffic Congestion Relief Program. This refinancing plan results in a two-year deferral of \$2.3 billion, including \$1.1 billion that was proposed to be spent in 2001-02. In addition, the budget includes a proposed constitutional amendment to permanently dedicate the sales taxes levied on gasoline to transportation-related projects beginning in 2003-04.
- **Other Programs.** The budget also provides full funding for the inmate and ward populations for the Departments of Corrections and Youth Authority, respectively. In the resources area, the budget contains funds for various projects, including the CALFED Bay-Delta Program and various state and local park acquisitions.
- **Tax Reductions.** The 2001-02 budget agreement revised the formula that provides for the triggering on and off of a one-quarter cent General Fund sales tax originally adopted in 1991. Specifically, as discussed in more detail in the following chapter, it lowered—from 4 percent to 3 percent of annual revenues—the reserve threshold for triggering on and off this rate. The budget also includes a permanent 45 percent increase in the senior citizens' property tax assistance program. In addition, the budget contains an agricultural and rural tax relief package which includes sales tax exemptions for agricultural and forestry equipment, liquified petroleum gas, and diesel fuel.

State Appropriations Limit

Background. Article XIII B of the State Constitution places limits on the appropriation of taxes for the state and each of its local entities. Certain appropriations, such as capital outlay and subventions to local governments, are specifically exempted from the state's limit. As modified by Proposi-

tion 111 in 1990, Article XIII B requires that any revenues in excess of the limit that are received over a two-year period be split evenly between taxpayer rebates and increased school spending.

State's Position Relative to Its Limit. After exceeding the limit by \$975 million in 1999-00, state appropriations fell below the limit by an estimated \$2.1 billion 2000-01. This decline in appropriations relative to the limit was largely related to a large amount of exempt appropriations enacted in the 2000-01 budget for such purposes as vehicle license fee reimbursements, school district apportionments, local subventions, and capital outlay. In 2001-02, state appropriations are expected to be nearly \$9.8 billion below the limit. This widening gap between appropriations and the limit is due to a combination of declining General Fund appropriations and a rapid increase in the per-capita personal income factor used to adjust the limit during the year.

Budget-Related Legislation

In addition to the *2001-02 Budget Act*, the budget package includes a number of related measures enacted to implement and carry out the budget's provisions. Figure 6 lists these bills.

Figure 6

2001-02 Budget-Related Legislation

Chaptered			
Bill Number	Chapter Number	Author	Subject
ACA 4	87	Dutra	Transportation financing: dedication of state sales tax on gasoline.
AB 426	156	Cardoza	Tax relief (agriculture, seniors, sales tax trigger).
AB 427	125	Hertzberg	Foster Care.
AB 429	111	Aroner	Social services omnibus bill.
AB 430	171	Cardenas	Health omnibus bill.
AB 434	136	Keeley	Hatton Canyon acquisition; surplus property.
AB 435	112	Budget Committee	Resources: Department of Fish and Game automated licensing.
AB 438	113	Budget Committee	Transportation Congestion Relief Program refinancing: defer sales tax shift.
AB 440	197	Cardoza	Appropriation for minimum high technology equipment grants and seniors' tax relief.
AB 441	155	Simitian	K-12 school district equalization.
AB 443	205	Aanestad	Rural and small county law enforcement grants.
AB 445	114	Cardenas	School facilities fees.
AB 1370	266	Wiggins	Senior Citizens' Property Tax Assistance.
SB 294	138	Scott	Firearms Dealer Inspections and Victims Recovery Resource and Treatment Centers.
SB 742	118	Escutia	General Government omnibus.
SB 982	203	O'Connell	Special education mandates settlement.
Enrolled			
Bill Number	Author	Subject	
AB 144	Cedillo	CalWORKs Auto Resource.	
AB 437	Budget Committee	Rural Transit.	
AB 961	Steinberg	Low-performing Schools.	
AB 1637	Dickerson	Klamath River Water Crisis Economic Assistance and Mitigation Program.	
SB 735	Budget Committee	Education omnibus bill, equalization funding, and community college funding restoration.	
SB 736	Poochigian	Repeal of COPS/Juvenile Justice sunset.	
SB 740	O'Connell	Charter Schools.	




Tax Relief Provisions

As summarized in Figure 1, there are a number of tax relief and tax assistance provisions associated with the *2001-02 Budget Act*. These include an agricultural and rural tax relief package and increased senior citizens' property tax assistance. These tax relief measures will have a total fiscal effect of \$121.9 million in 2001-02 and \$136.1 million in 2002-03. Additional information on the fiscal effects of these measures is shown in Figure 2 (see next page).

The budget also reduces from 4 percent to 3 percent the reserve threshold necessary to trigger on or off a one-quarter cent sales and use tax (SUT) that was adopted in 1991, and makes several other changes to the trigger language. In addition, the Legislature has agreed to place on the ballot a constitutional amendment which would dedicate the SUT levied on gasoline to transportation-related projects (see the "Transportation" section in Chapter 3).

Figure 1

Tax Relief and Other Tax Assistance Provisions Accompanying the *2001-02 Budget Act*

-  **Senior Citizens' Property Tax Relief.** Increases by 45 percent the amount of property tax assistance to low-income home owners and renters who are either senior citizens (age 62 and older), disabled, or blind.
-  **Agricultural and Rural Tax Assistance.** Provides assistance to agriculture industries and rural areas by exempting from the sales and use tax (SUT):
 - Certain purchases of liquified petroleum gas.
 - Farm and forestry equipment.
 - Diesel fuel used in farming and food processing.
 - Thoroughbred racehorses used for breeding purposes.
-  **Sales Tax Trigger.** Restructures the language governing the trigger for the one-quarter cent SUT adopted in 1991 by reducing the reserve requirement and making certain other changes.

The Governor's January budget proposal originally called for several additional tax relief measures including expansion of the manufacturers' investment credit for personal income tax and bank and corporation tax filers, a three-day sales tax holiday for certain education-related purchases, and several other sales tax and income tax incentives. These measures ultimately were dropped as part of the budget package in favor of the adopted provisions.

Figure 2			
2001-02 Budget Tax Package			
<i>(In Millions)</i>			
Provision	Fiscal Effect		
	2001-02	2002-03	2003-04
General Fund			
Senior Citizens' Tax Relief ^a	\$75.0	\$79.0	\$80.0
Agricultural and Rural Tax Relief ^b			
Liquified petroleum gas ^c	\$6.9	\$8.3	\$8.3
Farm machinery and equipment	18.4	22.5	22.5
Forestry machinery and equipment	1.7	2.0	2.0
Diesel fuel ^d	11.4	1.1	1.1
Thoroughbred racing stock	1.3	1.6	1.6
Subtotals	\$114.7	\$114.5	\$115.5
Special Funds			
Diesel fuel ^b	\$7.2	\$21.6	\$21.6
Totals	\$121.9	\$136.1	\$137.1

^a Program treated as a General Fund expenditure.
^b Tax relief is calculated using a base state sales tax rate of 4.75 percent through December 31, 2001, and 5 percent thereafter, and an effective date of September 1, 2001.
^c Excludes effect on Local Revenue Fund, Public Safety Fund, and local sales taxes.
^d First-year estimates consist of effects of (1) the timing of transfer of revenues from the General Fund to the Public Transportation Account and (2) the one-quarter cent difference in tax amount and transfer amount.

Sales Tax Trigger

A budget compromise was reached which revises the process by which the one-quarter cent sales tax will trigger on or off.

Original Trigger Language. Originally approved as a means to address the budget shortfall in 1991, the one-quarter cent sales tax was structured at that time such that it would trigger off in any calendar year that the Director of the Department of Finance (DOF) certified by the preceding November 1 that the Special Fund for Economic Uncertainties (SFEU) (1) exceeded 4 percent of General Fund revenues in the prior fiscal year and (2) was pro-

jected to do so in the current fiscal year. In contrast, the tax would trigger on if the 4 percent threshold was not met in any subsequent year. The one-quarter cent sales tax triggered off for the first time in calendar year 2001.

New Trigger Language. The budget agreement restructured the trigger language for the one-quarter cent sales tax. Under the new provisions, the one-quarter cent sales tax will trigger off on any January 1 (beginning in 2002) if the Director of DOF determines on the preceding November 1 that both of the following have occurred: (1) the SFEU at the end of the fiscal year is at least 3 percent of General Fund revenues (excluding revenues derived from the one-quarter cent sales tax) and (2) actual General Fund revenues for the period May 1 through September 30 equal or exceed the May Revision forecast for that year. The tax would subsequently trigger on if either threshold was not met in any following year.

Tax To Trigger On In 2002. The 2001-02 budget projects that the one-quarter cent sales tax will trigger on again in 2002 (as it would have under the original trigger language as well). Revenues for 2001-02 associated with the one-quarter cent sales tax equal \$550 million (half-year effect).

Senior Citizens' Property Tax Assistance

Two programs currently provide property tax assistance to low-income home owners and renters who are either senior citizens (age 62 and older), disabled, or blind. For home owners, the tax assistance is provided in the form of a partial reimbursement of property taxes paid; for renters, the amount of assistance is based on an estimate of the property tax paid by the renter. For both programs, eligibility is limited to those with incomes of less than \$35,000 and the amount of assistance provided is determined by the claimant's income level. For the 2000 tax year, the benefits paid to each claimant were increased by 150 percent over their 1999 levels on a one-time basis. The budget increases the benefits paid over the 1999 levels by 45 percent on an ongoing basis. It provides a \$75 million augmentation to the \$140.6 million base budget for this purpose.

Agricultural and Rural Tax Assistance

The Legislature also approved a tax relief package for agricultural businesses and rural residents consisting of certain exemptions from the SUT (see Figures 1 and 2). The following measures are scheduled to take effect beginning September 1, 2001, unless the State Board of Equalization determines that this date is infeasible, in which case the exemption will begin on October 1, 2001. Specifically, the budget includes the following tax relief measures designed to assist the agriculture industry and provide rural tax relief.

- **Liquefied Petroleum Gas.** Under the budget agreement, liquefied petroleum gas purchased for rural household use (for example, heating and cooking) or by certain agricultural businesses, is exempted from the state and local SUTs. The exemption for rural residential use equalizes tax treatment with other energy sources used for similar purposes, such as electricity and natural gas. The General Fund revenue reduction from this exemption is estimated to be \$6.9 million in 2001-02 and \$8.3 million in 2002-03.
- **Farm and Forestry Machinery.** The budget exempts from the General Fund portion of the SUT (1) farm equipment and machinery for use in agricultural activities and (2) off-road equipment and machinery used in timber harvesting operations. The revenue reduction from this exemption is estimated to be \$20.1 million in 2001-02 and \$24.5 million in 2002-03. The measure is partially intended to extend to agriculture and forestry activities preferential SUT treatment provided to manufacturing activities.
- **Diesel Fuel.** Diesel fuel purchased for use in farming activities and food processing will be exempted from the portion of the SUT that currently results in revenues to the General Fund and Public Transportation Account. Farming activities include not only those related to activities at the production site, but also the transportation and delivery of farm products to the marketplace. The combined General Fund and special funds revenue reduction from this exemption is estimated to be \$18.6 million in 2001-02 and \$22.7 million in 2002-03.
- **Racehorse Breeding Stock.** The budget establishes an exemption from the General Fund portion of the SUT for purchases of thoroughbred racehorses used for breeding purposes. For purposes of the exemption, the purchaser must state that the purchaser's sole intent is to use the horse for breeding purposes. The revenue reduction from this exemption is estimated to be \$1.3 million in 2001-02 and \$1.6 million in 2002-03.

Chapter 3

Expenditure Highlights

K-12 EDUCATION

Total Proposition 98 Spending

The budget package includes \$45.4 billion in Proposition 98 spending in 2001-02 for K-14 education. This represents an increase of \$2.5 billion, or 5.9 percent, from past-year spending. Figure 1 summarizes for the two fis-

Figure 1

Proposition 98 Budget Summary

*2000-01 and 2001-02
(Dollars in Billions)*

	2000-01 Budget Package		
	As Enacted	Revised	2001-02
K-12 Proposition 98			
General Fund	\$27.3	\$27.3	\$28.8
Local property taxes	10.7	10.8	11.7
Subtotals, K-12	(\$38.0)	(\$38.1)	(\$40.5)
<i>Average Daily Attendance (ADA)</i>	5,682,112	5,700,987	5,780,737
<i>Amount per ADA</i>	\$6,696	\$6,678 ^a	\$7,002
California Community Colleges			
General Fund	\$2.7	\$2.7	\$2.7
Local property taxes	1.7	1.7	1.8
Subtotals, Community Colleges	(\$4.4)	(\$4.4)	(\$4.5)
Other			
Other agencies	\$0.1	\$0.1	\$0.1
Loan repayment	0.4	0.4	0.4
Totals, Proposition 98	\$42.8	\$42.9	\$45.4
<i>General Fund</i>	\$30.4	\$30.4	\$31.9
<i>Local property taxes</i>	12.4	12.5	13.5

^a Amount declines because of increased ADA over the period.
Totals may not add due to rounding.

cal years the effect of the budget package on K-12 schools, community colleges, and other affected agencies.

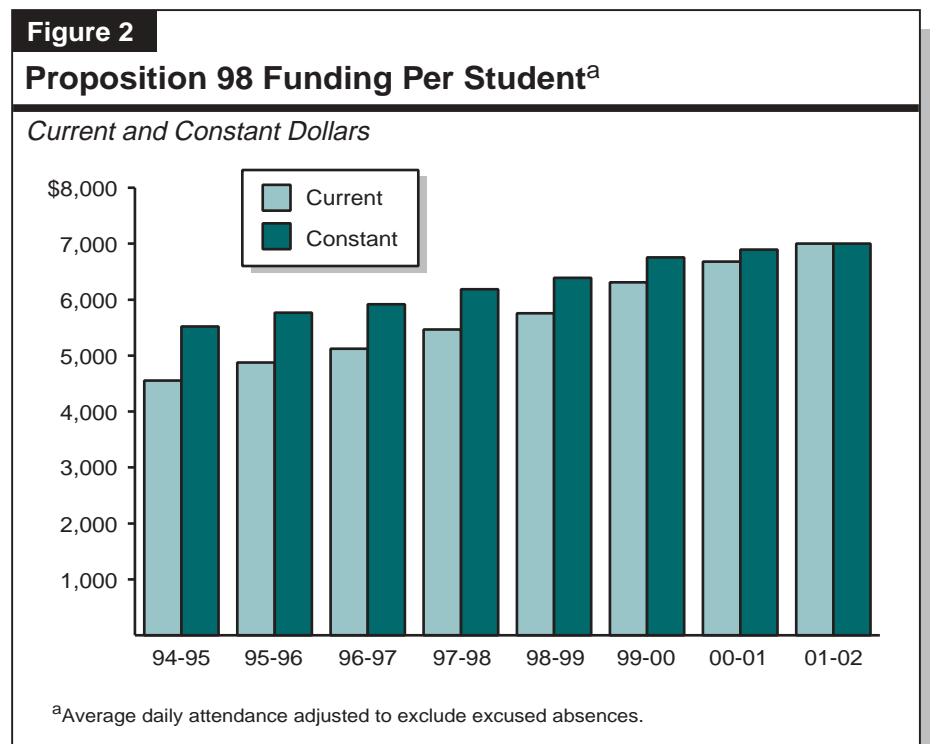
The Proposition 98 totals (including the revised total for 2000-01) reflect the Legislature's actions to appropriate more General Fund monies than required to meet the constitutional minimum. Specifically, the Legislature appropriated \$415 million more than the 2000-01 minimum funding level and about \$4 billion more than the guarantee in 2001-02.

K-12 Program Impacts

The K-12 portion of the Proposition 98 budget package includes:

- **2000-01.** Revised funding of \$6,678 per pupil.
- **2001-02.** Funding of \$7,002 per pupil, which represents an increase of \$324, or 4.9 percent, above the revised current-year level. These numbers do not include \$250 million—provided to defray energy-related costs at schools—that counts toward prior-year Proposition 98 obligations.

Figure 2 displays K-12 per-pupil funding amounts from 1994-95 through 2001-02. After adjusting for the effects of inflation and changes in atten-



dance accounting, per-pupil funding has increased \$1,481, or 27 percent, over the period.

2001-02 Baseline Increases

Compared to current-year spending, K-12 Proposition 98 funding increased by \$2.4 billion. The budget allocates almost \$2 billion to provide for inflation and growth adjustments. Specifically, the budget includes about \$565 million to accommodate a projected 1.4 percent increase in the student population, and \$1.4 billion for a 3.87 percent cost-of-living adjustment (COLA) which applies to most program funding.

The budget directs the remaining funds for other purposes, including new and existing programs (see Figure 3). The major increases are described below.

Figure 3	
Major K-12 Increases	
2001-02 (In Millions)	
Purpose	Amount
Cost-of-living adjustments	\$1,406
Enrollment growth	565
Low-performing schools	200
Special education settlement	125
Child care	99
Before/after school programs	30

Low-Performing Schools Initiative (\$200 Million). The Legislature approved \$200 million for a new program focusing resources on schools in the lowest deciles of the academic performance index (API). In AB 961 (Steinberg) the Legislature expanded eligibility for schools to participate in the

Immediate Intervention/Underperforming Schools Program (II/USP), with priority given to schools in the lowest deciles. The \$200 million is estimated to provide augmented funding to most schools in the lowest decile of the API. These schools would receive \$400 per pupil, twice the current funding level of the II/USP.

Special Education Settlement (\$125 Million). The budget package includes \$125 million in 2001-02 as part of a settlement of school district claims for the cost of certain special education programs. This amount includes the first of a series of ten annual payments of \$25 million for general educational purposes. The remaining \$100 million will be provided on an ongoing basis to special education local plan areas. The settlement, contained in SB 982 (O’Connell), also provides a \$270 million one-time payment to school districts, primarily in compensation for prior-year costs. This amount is attributed to the 1999-00 fiscal year for Proposition 98 purposes.

Child Care Increases (\$99 Million). The budget includes an increase of \$99 million in ongoing funds for child care and development programs. The Legislature approved a \$109 million augmentation proposed by the Governor to (1) cover the expansion of child care and state preschool programs begun in January 2001 (\$67 million) and (2) provide continuous child care under the California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 3 “set-aside” for former families who reach the end of their two-year Stage 2 time limit by the end of July 2001 (\$42 million). The Governor, however, vetoed \$10.5 million of these funds based on a revised caseload estimate for the Stage 3 set-aside.

The Legislature also added \$66 million in one-time Proposition 98 funds to fully fund the estimated need under the Stage 3 set-aside during 2001-02. However, the Governor reduced the Legislature’s augmentation by \$33.5 million to leave only enough to fund the estimated number of former CalWORKs recipients expected to “time out” of Stage 2 before February 1, 2002. This represents a potential shortfall of about \$24 million for the child care needs of families expected to time-out during the last five months of 2001-02. The Governor stated that he would approve a restoration of \$24 million in one-time funds if legislation is enacted by January 31, 2002, that reforms the state’s subsidized child care programs. At the time this report was prepared, the administration had not specified the desired reforms. The budget, however, includes \$300,000 for the State and Consumer Services Agency to continue its review of child care policies and resources for the administration that began two years ago.

Before/After School Programs (\$30 Million). The Legislature added \$30 million for the existing After School Learning and Safe Neighborhoods Part-

Additional Special Education Augmentations

The state received an increase of federal funds for special education. The Legislature allocated most of these funds in the following two ways:

- **Special Education Equalization (\$52 Million).** The Legislature allocated part of the additional federal funds—about \$52 million—to further equalize special education funding levels.
- **Special Education Per-Average Daily Attendance (ADA) Increase (\$45 Million).** The budget provides approximately \$45 million of additional federal funds for special education to be distributed on an equal per-ADA basis.

nership Program to provide homework assistance and recreational activities to an additional 41,000 pupils in kindergarten and grades 1 through 9. This increase consists of \$15 million for the establishment of before-school programs as proposed in AB 6 (Cardenas) and \$15 million for the expansion of after-school programs. The combined augmentation brings annual state funding for this grant program to almost \$118 million. If the State Department of Education (SDE) is unable to encumber the entire augmentation in 2001-02, the budget includes language redirecting \$2 million on a one-time basis for regional resource centers to increase technical assistance and training for schools operating before/after school programs.

One-Time Funds

As mentioned above, the budget package includes \$270 million of one-time General Fund support for school districts as part of a settlement of special education claims. In addition, the budget includes \$250 million of one-time General Fund monies for “school energy” and \$702 million from the Proposition 98 reversion account for various purposes (both discussed further below). Figure 4 summarizes the major K-12 expenditures authorized from these one-time funds.

Figure 4	
Major K-12 Expenditures One-Time Funds	
<i>(In Millions)</i>	
Program	Amount
Special education settlement	\$270
School energy	250
Prior-year mandate claims	91
Math and reading professional development	80 ^a
Mandate claims	75 ^a
K-12 per-pupil block grant	68 ^a
PERS reduction (general purpose)	35 ^a
Child care (Stage 3 set-aside)	33
^a Program has ongoing funding implications.	

School Energy Funds.

The Governor’s May Revision proposed a one-time General Fund payment of \$541 million to help school districts defray increased energy costs and to fund energy conservation measures. This amount was intended to satisfy a prior-year Proposition 98 obligation. This obligation came about because the Department of Fi-

nance (DOF) and the SDE have not agreed on final Proposition 98 numbers for the prior years (under a certification process required by state law), leaving the guarantee requirements for those years open to change due to revised population estimates in the 2000 census.

After the May Revision, the DOF corrected its estimate of the prior-year obligation to \$352 million. The Legislature, however, eventually reduced

the school energy proposal to \$250 million. As a consequence, the state has an unfulfilled obligation to provide the remaining \$102 million. The Legislature could solve this problem by enacting legislation re-designating \$102 million of Proposition 98 funds already provided in the *2001-02 Budget Act* as counting toward the prior-year “settle-up” obligation. This action would meet the obligation without affecting current education programs or funding levels.

Reversion Account Funds. The Legislature also approved \$702 million from the Proposition 98 reversion account for various purposes. The Governor, however, reduced this amount by \$100 million. Funds in this account are unspent balances from prior Proposition 98 appropriations that ultimately must be spent on some K-14 education purpose. As Figure 4 indicates, some of the programs funded from this account have spending implications beyond 2001-02, and probably will require General Fund augmentations in 2002-03 and beyond.

One of these programs is the Mathematics and Reading Professional Development program—a four-year effort to provide intensive, standards-based, 120-hour training sessions to all 221,000 core subject-matter teachers, all 28,000 special-education teachers, and 22,000 instructional aides. The program is estimated to cost a total of \$588 million over the four years. The 2001-02 budget includes \$80 million in first-year funds to train slightly more than 13,000 teachers and 2,500 aides. The program provides \$2,500 per teacher and \$1,000 per aide. Additionally, the first-year funds: (1) provide school districts with \$500 per teacher for all teachers they send to a University of California Professional Development Institute and (2) reimburse districts for almost 8,000 teachers previously trained. Based on current plans for ramping up program participation, the program likely would require an augmentation from the General Fund of \$160 million in 2002-03.

Revenue Limit Equalization (\$40 Million—Governor’s Veto). The Legislature added \$40 million from the General Fund as a partial payment toward equalizing school districts’ revenue limit funding. The appropriation was included in AB 441 (Simitian), which also states legislative intent that by 2006-07 no school district’s base revenue limit be below the 90th percentile amount (as calculated for 2001-02) for the appropriate school district size and type. Once this goal is reached, at least 90 percent of the average daily attendance (ADA) in the state would receive specified minimum revenue limit amounts, with the remaining ADA receiving higher amounts based on historical factors. Since the \$40 million appropriation is not sufficient to fully fund the estimated \$400 million cost to reach this goal, the appropriation would be allocated to districts on a pro rata basis in 2001-02. The Governor

vetoed the appropriation, stating that he would sign legislation providing the \$40 million from the Reversion Account instead of the General Fund. The Legislature subsequently provided these funds from the Reversion Account in SB 735 (Senate Budget and Fiscal Review Committee).

HIGHER EDUCATION

In general, the enacted budget provides full funding for enrollment growth, avoids any fee increases, and increases base funding for various programs. (However, vetoes resulted in base funding for two California Community College [CCC] programs being reduced by a total of \$98 million as discussed below.) Figure 5 shows the change in funding for each major segment of higher education for 2001-02 from the General Fund and local property tax revenue.

Figure 5

**Higher Education Budget Summary
General Fund and Local Property Tax Revenue**

(Dollars in Millions)

	2001-02 Budget ^a	Change From 2000-01	
		Amount	Percent
University of California	\$3,357.7	\$152.2	4.7%
California State University	2,607.4	142.6	5.8
California Community Colleges	4,516.5	129.3	3.0
General Fund	(2,686.0)	(-6.7)	(-0.2)
Property taxes	(1,830.5)	(136.0)	(8.0)
Student Aid Commission	634.6	137.9	27.8
Hastings College of the Law	15.1	0.8	5.4
California Postsecondary Education Commission	3.9	0.1	-1.3
Totals, Higher Education	\$11,136.2	\$562.9	5.3%

^a Does not include reappropriations of prior-year funds.

Governor's Vetoes. The Governor deleted a total of \$171.8 million from the higher education budgets passed by the Legislature. The University of California (UC) budget was cut by \$26.3 million through a variety of reductions. The California State University (CSU) budget was reduced by \$20.9 million, which was primarily due to a \$12.5 million reduction in the Education Technology Professional Development Program and a \$5 million reduction in funding for high-cost programs. The CCC budget was reduced by \$124.6 million. This reflects: (1) the elimination of baseline funding (\$98 million) for scheduled maintenance and replacement of equipment and library materials, (2) the elimination of an \$11 million augmentation for Cal Grant outreach, and (3) a variety of smaller reductions. The Legislature

passed legislation (SB 735) restoring the \$98 million cut in CCC's budget, as well as \$14.9 million (bond funds) of capital outlay projects. As this report was going to press, the Governor had not yet acted on this bill. Enactment of this bill would add to the spending totals reflected throughout this report.

University of California

The budget provides \$3.4 billion in General Fund support for UC in 2001-02. This is a \$152.2 million, or 4.7 percent, more in General Fund support than in 2000-01. The increase includes:

- \$75.6 million (\$19.7 million ongoing) for increased natural gas costs.
- \$65 million for a 4.1 percent growth in enrollment (7,100 full time equivalent [FTE] students).
- \$59.8 million for a 2 percent increase in base support.
- \$21.5 million in lieu of raising student fees.
- \$20.7 million for additional support for the summer term at three UC campuses (Berkeley, Los Angeles, and Santa Barbara).
- \$2 million for start-up costs associated with recruiting faculty at UC Merced. (The budget also provides \$1.9 million from the General Fund and \$158.5 million from general obligation bonds for four capital outlay projects at the Merced campus.)

California State University

The budget provides \$2.6 billion in General Fund support for CSU in 2001-02. This is a \$142.6 million, or 5.8 percent, increase over the 2000-01 budget. The increase includes:

- \$55.7 million for a 3 percent increase in enrollment (8,760 FTE students).
- \$46.8 million for a 2 percent increase in base support.
- \$34.1 million (\$15.5 million ongoing) for increased natural gas costs.
- \$16.6 million in lieu of raising student fees.
- \$12.4 million for additional support of the summer term at four CSU campuses (Fullerton, Long Beach, San Diego, and San Francisco).
- Second-year funding for two initiatives—\$17.5 million more for the Governor's Teaching Fellowships (for a total appropriation of \$21 million) and \$6 million more for the Education Technology Professional Development Program (for a total appropriation of \$12.5 million).

California Community Colleges

The budget provides \$129.3 million, or 3 percent, more in General Fund support and property taxes in 2001-02 than in the prior year. In addition, the budget includes another \$126.3 million in reappropriations from prior year funds. Major augmentations include:

- \$114.5 million to accommodate a 3 percent increase in enrollment growth.
- \$150.4 million for a 3.87 percent cost-of-living adjustment in apportionment and categorical funding.
- \$57 million to increase part-time faculty salaries.

Student Aid Commission

The budget provides \$634.6 million in General Fund support for the Student Aid Commission in 2001-02. This is a \$137.9 million, or 27.8 percent, increase over 2000-01. Almost the entire augmentation—\$127.9 million—results from the first-year implementation of the new Cal Grant entitlement program and the competitive grant program. Chapter 403, Statutes of 2000 (SB 1644, Ortiz), established the entitlement program, which provides financial assistance for higher education to every qualified graduating high school senior. It also provides 22,500 competitive awards to financially and academically eligible students. The augmentation also includes a \$9.1 million increase in the Assumption Program of Loans for Education. The remainder of the augmentation is due to slight adjustments in various other financial aid programs.

HEALTH

General Fund support for health programs in 2001-02 totals \$13.6 billion, an increase of 9.8 percent over the prior year. This growth in expenditures is the result of caseload increases, settlement of a lawsuit, continuing implementation of a ballot measure approved by the voters, and various program augmentations. These changes and several other significant aspects of the budget plan are discussed below.

Figure 6 (see next page) summarizes the changes in expenditures in the major health programs.

Tobacco Settlement Fund

New Special Fund Established. Budget legislation enacts, with some modifications, the Governor's proposal to establish a new special fund, the Tobacco Settlement Fund, made up of revenues received by the state from the settlement of tobacco-related litigation. About \$402 million is deposited into

Figure 6

**Major Health Programs
General Fund
2000-01 and 2001-02**

(Dollars in Millions)

Program/Department	2000-01	2001-02	Change	
			Amount	Percent
Medi-Cal ^a	\$8,929.7	\$9,546.0	\$616.3	6.9%
Public Health ^a	452.0	410.9	-41.1	-9.1
Developmental Services ^b	1,183.8	1,869.8	686.0	57.9
Mental Health	884.7	975.3	90.6	10.2
Alcohol and Drug Programs	193.6	243.3	49.7	25.7

^a Local assistance.

^b 2001-02 amount includes a technical shift of \$607 million from Medi-Cal to the Department of Developmental Services.

Figure 7

**Tobacco Settlement Fund
2001-02 Expenditures**

(In Millions)

Total projected tobacco settlement funds the state will receive in 2001-02	\$475.0
Funds appropriated from new Tobacco Settlement Fund:	
Healthy Families expansion:	
Children's program	\$52.4
Parents program (up to 200 percent of FPL ^a)	52.9
Parents program (from 201 percent to 250 percent of FPL)	8.9
Medi-Cal eligibility and benefit expansions:	
Benefits to aged, blind, and disabled with incomes below 133 percent of FPL	47.0
Section 1931(b) expansion for families and children	123.0
Breast and cervical cancer treatment:	
Enhanced Medi-Cal coverage (up to 200 percent of FPL)	5.3
State-only treatment program	9.1
Prostate Cancer Treatment Program	20.0
Youth antitobacco program	20.0
Child Health and Disability Prevention program	63.3
Total expenditures	\$401.9
Remaining tobacco settlement funds going to General Fund	\$73.1

^a Federal poverty level.

the fund in the budget year and appropriated for recent and newly enacted expansions of health care programs summarized in Figure 7. No reserve was established for the Tobacco Settlement Fund. The remaining payments anticipated in the budget year—about \$73 million—would be deposited in the General Fund. Budget legislation specifies that all settlement payments received by the state in 2002-03 and subsequent years shall be deposited in the Tobacco Settlement Fund.

Medi-Cal Program

The budget provides about \$9.5 billion from the General Fund (\$26.4 billion all funds) for local assistance provided under the Medi-Cal Program. This General Fund total reflects a technical shift for budget display purposes (with no implication for the level of program activity) of \$607 million from the General Fund from the Medi-Cal budget to the budget of the Department of Developmental Services.

Caseload Adjustments. The budget plan adopts the administration's Medi-Cal estimates reflecting an increase of about \$500 million from the General Fund (\$2.2 billion all funds) over the prior fiscal year. The increase in spending will accommodate an estimated additional 800,000 Medi-Cal eligibles, about a 15 percent increase in program caseload over the level anticipated for the current year.

The major factors driving up the Medi-Cal caseload in the budget year are policy decisions to expand program eligibility made in previous years. This includes decisions to provide continuous eligibility for medical benefits to children 19 years of age and younger and persons leaving the California Work Opportunity and Responsibility to Kids (CalWORKs) program, as well as the elimination of quarterly status reporting for parents.

Caseloads are also growing because of the prior decision to expand eligibility for families with children in the so-called 1931(b) category with income at or below 100 percent of the federal poverty level (FPL), as well as the decision to provide Medi-Cal benefits without a share of cost to aged, blind, and disabled persons with current income equivalent up to 133 percent of FPL. The budget pays for these latter two program expansions from the Tobacco Settlement Fund.

Settlement of Hospital Litigation. The 2001-02 spending plan provided for a lump-sum payment of about \$191 million from the General Fund to settle longstanding litigation in the case of *Orthopaedic Hospital v. Belshe* relating to Medi-Cal payment rates for hospital outpatient services. In order to comply with the proposed settlement terms, the budget also provides about

\$80 million from the General Fund to provide an ongoing 30 percent increase in hospital outpatient rates. (Under the agreement, rates are to be increased 3.3 percent annually in the following three years.)

Los Angeles Medicaid Demonstration Project. The budget adopted the Governor's proposal to contribute \$30 million annually from the General Fund over a five-year period (beginning in 2000-01) as part of a larger financial package of federal, state, and county support for the reform of Los Angeles County's medical "safety net" programs. In addition to providing state funding for cost-based reimbursement for services provided at eligible county-affiliated clinics, the budget provided \$7 million in federal Workforce Investment Act funds for retraining of local health workers displaced by the reform effort. Budget legislation also requires that reports monitoring the county's progress in carrying out health care system reforms be provided to the Legislature.

Long-Term Care Programs. The budget includes the Governor's proposal for about a 2 percent increase in rates for nursing facilities at a General Fund cost of about \$46 million. The spending plan provides an additional \$7 million from the General Fund for a supplemental reimbursement for freestanding long-term care facilities that guarantee wage increases for their workers. Budget legislation also authorizes nursing facilities that are a part of publicly operated hospitals to receive, at no state cost, supplemental reimbursements of about \$20 million in federal funds.

General Fund Reductions. Because of the state's fiscal constraints, the Legislature eliminated a proposed 2 percent cost-of-living increase for Medi-Cal managed care rates at an estimated General Fund savings of \$25 million. The budget assumes that the state will achieve about \$25 million in additional savings from stepped-up antifraud activities than was reflected in the Governor's budget plan, and further assumes that the state will save almost \$24 million more by recovering drug rebates owed the state than the administration had estimated.

Healthy Families

The budget provides about \$128 million from the General Fund (\$656 million all funds) for the operation of the Healthy Families Program during 2001-02. This reflects an overall increase of about \$260 million (all funds) in annual spending for the program. General Fund support for Healthy Families would decrease by \$13 million in the budget year because a share of base program costs would be shifted to the Tobacco Settlement Fund. The overall increase in program expenditures is driven primarily by projected caseload growth of about 250,000 eligibles—almost a 60 percent increase over the anticipated 2000-01 level of participation in the program.

Program Expansion to Parents. The budget includes \$62 million from the Tobacco Settlement Fund to implement legislation enacted last year directing the Managed Risk Medical Insurance Board to seek a federal waiver to expand the Healthy Families Program to uninsured parents of children eligible for the program. The Governor proposed to cover parents of children eligible for the program with incomes up to 200 percent of FPL, but the final version of the budget provides coverage to parents with incomes up to 250 percent of FPL beginning October 1, 2001. Of the total projected caseload growth in the program, about 150,000 newly eligible parents are expected to enroll during 2001-02. The new program is subject to federal approval which remained pending at the time this publication was prepared.

Breast and Cervical Cancer Treatment Programs

About 1,000 newly eligible women are expected to participate in new state breast and cervical cancer treatment programs that will be established during the budget year.

Enhanced Medi-Cal Coverage. The 2001-02 budget includes \$9.5 million (\$5.3 million Tobacco Settlement Fund and \$4.2 million federal funds) to phase in a new federal option to provide breast and cervical cancer treatment services for women with incomes up to 200 percent of the FPL who were previously ineligible for the Medicaid program (known as Medi-Cal in California). Under the new federal program, the state will receive enhanced federal matching funds equal to about 66 percent of the projected cost of these services.

State-Only Treatment Program. In addition, the budget provides \$9 million from the Tobacco Settlement Fund to provide treatment for uninsured and underinsured women who do not qualify for the new Medi-Cal benefit. Finally, in an effort to make Medi-Cal and the Breast Cancer Treatment Program (BCTP) more comparable, the Legislature expanded the existing BCTP to add cervical cancer treatment to the breast cancer services already provided under the program.

Public Health Programs

New Public Health Programs. The budget approves without change two public health program initiatives proposed by the Governor. The measure appropriates \$20 million from the Tobacco Settlement Fund for youth smoking prevention programs. This money would be spent on grants for youth coalitions and local agencies to engage in antitobacco education efforts, local enforcement of the law prohibiting tobacco sales to minors, and studies of youth tobacco use trends. Another \$20 million was allocated from the Tobacco Settlement Fund to provide treatment for prostate cancer for low-

income uninsured men. This funding level doubles the amount of funding provided for this purpose in 2000-01.

Community Health Clinics. As passed by the Legislature, the budget included a total of \$16 million in augmentations from the General Fund for grants to health clinics providing indigent health care. This sum included an additional \$10 million for the Expanded Access to Primary Care (EAPC), \$2 million for Rural Health Services Development grants, \$2 million for the Seasonal Agricultural and Migrant Workers program, and \$2 million for the Indian Health Clinics program. The Governor signed into law the increase in funding for EAPC but vetoed the other augmentations.

The AIDS Programs. The Legislature augmented the AIDS Drugs Assistance Program (ADAP) by \$15.3 million from the General Fund to address a projected deficiency in the amount of funding available for the program to provide drugs to eligible HIV-infected persons (primarily individuals with incomes up to 400 percent of the FPL). A deficiency otherwise was likely to result from caseload changes, increases in drug costs, and a shortfall in federal funding for the program. While the Governor accepted this funding increase as part of the budget he signed, he vetoed from the budget \$4 million from the General Fund for AIDS-related education and prevention programs.

The CHDP. The state Child Health and Disability Prevention (CHDP) program pays health care providers for completing health screens and immunizations of low-income children who are uninsured. The budget shifts about \$63 million of the cost for support of the program to the new Tobacco Settlement Fund. This funding takes the place of General Fund revenues allocated to the program in the prior year.

As passed by the Legislature, the budget included \$6.7 million from the General Fund and \$1.9 million in federal funds to raise the standard of preventive care for children in CHDP to the level currently available in Medi-Cal. However, this funding was vetoed by the Governor.

Other Vetoes of Public Health Program Funding. The Governor used his veto authority to reduce by \$5 million (General Fund) the budget for media campaigns to prevent teen pregnancy. He also vetoed \$2 million from the General Fund for subventions for local public health programs, \$2.6 million from the General Fund for maternal and child health services, and a \$2 million legislative augmentation from special funds to strengthen local enforcement of laws to prevent lead poisoning of children, among other actions.

Department of Developmental Services

The budget provides nearly \$1.9 billion from the General Fund (\$2.7 billion all funds) for services provided to individuals with developmental disabilities residing in developmental centers and in the community. As noted earlier, the General Fund appropriation reflects a technical shift for budget display purposes of \$607 million from Medi-Cal to the Department of Developmental Services.

Community Programs. The 2001-02 budget includes a total of \$1.5 billion from the General Fund (\$2.1 billion all funds) for community services for the developmentally disabled, an increase of \$189 million over the prior fiscal year after taking into account the technical funding shift discussed above. Of this increase, \$175 million from the General Fund is allocated to Regional Centers to provide services for an additional 9,535 persons with developmental disabilities (a 5.9 percent increase in caseload) and to offset cost increases for these community-based services.

More than \$7 million from the General Fund was allocated in the budget passed by the Legislature for an enhanced system for reporting abuse, neglect, and exploitation of persons with developmental disabilities; the Governor used his veto authority to reduce that amount by \$1.7 million. The Governor also vetoed a \$2.6 million legislative augmentation that had been provided for rate increases for in-home and out-of-home respite workers and certain day program providers, as well as \$2.6 million initially proposed in the Governor's budget to increase clinical staffing in Regional Centers for the Early Start Program.

Developmental Centers. The budget provides a total of \$322 million from the General Fund for operations of the developmental centers (\$600 million all funds). The General Fund amount reflects a reduction of \$105 million from the prior fiscal year after adjusting for the technical funding shift from Medi-Cal. The General Fund amount is lower than last year because of a projected decline in the population of developmental centers (a decrease of 160 residents or a 4.1 percent drop in caseload); increased federal support for the Agnews and Sonoma developmental centers, and two new facilities—Canyon Springs and Sierra Vista; and the inclusion in last year's budget of significant onetime funding for special repairs and other projects.

Department of Mental Health

The budget provides about \$1 billion from the General Fund (\$2.1 billion all funds) for mental health services provided in state hospitals and in various community programs.

Community Programs. The 2001-02 budget includes a total of \$487 million from the General Fund (\$1.5 billion all funds) for local assistance for the mentally ill, an increase of \$65 million in General Fund monies over projected prior-year expenditures. The budget provides for a \$134 million increase (all funds) in expenditures for mental health services for children provided under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program, not counting a further \$18 million increase (all funds) for therapeutic behavioral services for EPSDT clients. The budget also includes an additional \$10 million from the General Fund to further expand services for homeless mentally ill adults.

Among the actions affecting General Fund expenditures, the Governor vetoed a \$2 million legislative augmentation to provide respite care for mentally ill, \$5 million for supportive housing programs, \$5 million to provide a 3 percent cost-of-living increase for managed care programs, \$6 million for crisis intervention and stabilization assistance teams, \$2 million for the children's system of care, and a \$350,000 legislative augmentation for a new state commission to advocate for improved mental health care.

State Hospitals. The budget provides a total of \$435 million from the General Fund for state hospital operations (\$586 million all funds). The state hospital budget was reduced by \$10.5 million from the General Fund by the Legislature to adjust for actual patient population trends, but does provide funding for a projected increase of 166 patients during the budget year. The Governor vetoed \$2.6 million from the General Fund for security improvements at several state hospitals, leaving \$5 million in the budget for this purpose, but proposed to restore the funding in the 2002-03 fiscal year.

Department of Alcohol and Drug Programs

The budget provides \$243 million from the General Fund (\$635 million all funds) for drug and alcohol treatment programs, an increase of about \$50 million from the General Fund over the prior fiscal year.

Proposition 36 Funding. The increase in the General Fund budget for the department is primarily the result of the \$120 million appropriation mandated by voter approval last November of Proposition 36, which mandated substance abuse treatment for certain offenders convicted of nonviolent drug possession offenses. The budget does not include a proposal by the Governor to provide \$8.4 million in federal funds for drug testing of Proposition 36 offenders because the Legislature decided to provide that funding in separate legislation addressing the drug-testing issue.

Veto to Reduce Treatment Services. The budget passed by the Legislature included \$5.7 million for drug and alcohol treatment services for youth which the Governor had proposed to delete in the May Revision. Subsequently, the Governor vetoed this funding as he signed the budget. The Governor had also proposed an \$8.5 million reduction in Drug Court programs. That reduction was rejected by the Legislature. The Governor later used his veto authority to reduce Drug Court funding by a lesser amount of \$3 million.

Health Insurance Portability and Accountability Act Some Funding in Separate Bill. The Health Insurance Portability and Accountability Act (HIPAA) is a federal law that, among other provisions, establishes national standards and requirements for the transmission, storage, and handling of certain electronic health care data. The budget provides about \$24 million from the General Fund (\$92 million all funds) to support state efforts to comply with HIPAA. Roughly half of the funding is appropriated in the *2001-02 Budget Act*, with the remainder to be appropriated in SB 456 (Speier), pending policy legislation that will establish a statutory framework for the state’s HIPAA compliance activities. The allocations of HIPAA funds are summarized in Figure 8.

Figure 8			
Health Insurance Portability and Accountability Act 2001-02 Budgeted Expenditures			
<i>(In Thousands)</i>			
Department	General Fund	Other Funds	Total Funds
Department of Health Services	\$16,751	\$61,871	\$78,622
Department of Mental Health	1,211	1,211	2,422
Office of Statewide Health Planning and Development	—	99	99
Department of Developmental Services	1,257	1,257	2,514
Department of Alcohol and Drug Programs	3,021	3,021	6,042
Health and Human Services Agency	2,045	578	2,623
Total budget	\$24,285	\$68,037	\$92,322

SOCIAL SERVICES

In this section, we describe the major features of the social services funding in the state spending plan. General Fund support for social services programs in 2001-02 totals \$8.3 billion, an increase of 7.2 percent over the prior year. This growth in expenditures is primarily due to funding caseload growth, cost-of-living adjustments (COLAs), and In-Home Supportive Ser-

vices (IHSS) wage and benefit increases. Figure 9 shows the changes in expenditures in the major social services programs.

Figure 9				
Major Social Services Programs General Fund				
<i>(Dollars in Millions)</i>				
Program/Department	2000-01	2001-02	Change	
			Amount	Percent
Supplemental Security Income/ State Supplementary Program	\$2,575.2	\$2,841.9	\$266.7	10.4%
California Work Opportunity and Responsibility to Kids	1,903.0	2,029.3	126.3	6.6
In-Home Supportive Services	724.4	914.8	190.4	26.3
Child Welfare Services	613.7	642.7	29.0	4.7
Foster Care	386.4	412.1	25.7	6.7
Department of Child Support Services	393.6	466.8	73.2	18.6
Rehabilitation	153.1	154.1	1.0	0.7

CalWORKs

The budget includes \$2 billion from the General Fund in the Department of Social Services (DSS) budget for the California Work Opportunity and Responsibility to Kids (CalWORKs) program in 2001-02, which is an increase of 6.6 percent over 2000-01.

The CalWORKs Grants. The budget includes \$138 million (combined General Fund and federal Temporary Assistance for Needy Families [TANF] block grant funds) to provide a 5.31 percent COLA pursuant to current law. Effective October 1, 2001, the maximum monthly grant for a family of three in high-cost counties will increase by \$34 to a total of \$679, and grants in low-cost counties will increase by \$33 to a total of \$647 (See Figure 10).

County Performance Incentives. As an additional incentive for counties to move CalWORKs recipients into employment, the CalWORKs legislation provided that savings resulting from increased earnings and employment may be paid to the counties as performance incentives. Through 1999-00, counties had earned approximately \$1.2 billion in performance incentives. Beginning in 2000-01, payments for incentives are now subject to annual budget appropriations and counties are prohibited from earning new incentives until the obligation owed for previously-earned incentives (\$97 million) is paid. The budget reduces county performance incentives by a net

Figure 10
CalWORKs and SSI/SSP Maximum Monthly Grants

Program	2000-01	2001-02	Change	
			Amount	Percent
CalWORKs^a				
Low-cost counties	\$614	\$647 ^b	\$33	5.4%
High-cost counties	645	679 ^b	34	5.3
SSI/SSP				
Individuals	\$712	\$750 ^c	\$38	5.3%
Couples	1,265	1,332 ^c	67	5.3

^a Family of three.
^b Effective October 1, 2001.
^c Effective January 1, 2002.

amount of \$230 million (in federal TANF funds) by (1) eliminating the \$250 million 2000-01 appropriation and (2) including \$20 million in 2001-02 towards payment of the \$97 million arrearage. No funding is included for new incentives earnings.

Welfare-to-Work Matching Funds. Under the Welfare-to-Work block grant program,

the federal government provides funds to serve low-income persons with specific barriers to employment. For every \$2 in block grant funds, states must spend \$1 in matching funds. California’s matching funds are appropriated to county welfare departments as part of the CalWORKs program. Because recent federal legislation extended California’s deadline for expending its federal funds, the budget reduces the appropriation of state matching funds by \$59.6 million, to \$29 million. The remaining obligation (\$59.6 million) must be paid by July 2004.

Child Care. Under Proposition 10, revenues generated from tobacco-product taxes are deposited into the California Children and Families Trust Fund, which supports early childhood development programs. The budget assumes \$25 million in Proposition 10 funds will be dedicated for CalWORKs Stage 1 child care. However, Proposition 10 funds are controlled by the California Children and Families Commission, and may not be appropriated by the Legislature. If approved by the commission, the \$25 million in Proposition 10 funds would be countable towards the state’s maintenance-of-effort (MOE) requirement. The budget, therefore, reduced General Fund spending in CalWORKs by the same amount. We note, however, that the commission voted to reject the child care funding proposal. Given the state’s MOE requirement, this development may result in a General Fund shortfall of \$25 million.

Employment Training Fund (ETF). The Employment Training Panel supports employment training programs with revenues from an employer tax. The budget includes \$61.7 million in ETF funds for CalWORKs employ-

ment services, an increase of \$31.7 million compared to the prior year. General Fund spending is reduced by the same amount, since ETF funds are countable towards the state's MOE requirement.

Parental Eligibility. The budget permits counties to continue to provide employment services for up to 180 days to parents whose children have been removed from the home if (1) the children are likely to reunify with the parents and (2) services are determined necessary for reunification. Under prior law, CalWORKs eligibility continued for only one month after a child's absence, regardless of the likelihood of reunification. The budget includes no appropriation for these changes and we estimate the net fiscal cost to be approximately \$2 million annually.

Tracking Time Limits. Generally, adult CalWORKs recipients are limited to 60 months of grant payments and up to 24 months of employment services. The Welfare Data Tracking Implementation Project (WDTIP) was implemented in 1999 in order to track recipients' time on aid. Although most counties have completed WDTIP implementation, some have not. Budget legislation specifies that counties are (1) required to provide specified information in order to track time on aid and (2) subject to financial penalties if failure to provide information results in incorrect grant payments.

Budgeting Methodology. The budget legislation makes two changes to the CalWORKs budgeting methodology. Specifically, the budget requires DSS to (1) establish a process whereby underfunded counties may seek additional county block grant funds for employment services in 2001-02 and (2) work with stakeholders to develop a new overall budgeting methodology for CalWORKs beginning in 2002-03.

Food Stamps Program

Permanent Expansion of State-Only Program for Legal Noncitizens. With respect to noncitizens, current federal law generally limits food stamp benefits to legal noncitizens who immigrated to the U.S. prior to August 1996 and are under the age of 18 or were at least 65 years old as of August 1996. In response to these federal restrictions, the California Food Assistance Program (CFAP) was created in 1997 to provide state-only funded food stamp benefits to pre-August 1996 legal immigrants who are ineligible for federal benefits. In 1999 and again in 2000, CFAP eligibility was temporarily expanded to also include post-August 1996 legal immigrants. The budget legislation eliminates the sunset of benefits for post-August 1996 immigrants (scheduled for October 1, 2001), and includes \$5 million associated with this expansion.

Vehicle Resource Rules. Recent federal changes exempt certain low-value vehicles from the asset test for the purpose of determining food stamp eligibility, thereby making more persons eligible for food stamp benefits. Because state law links the CalWORKs and CFAP asset tests to food stamp rules, these federal changes result in higher food stamp, CalWORKs, and CFAP caseloads. The budget includes \$35.8 million (combined TANF and General Fund) for costs associated with these changes.

Supplemental Security Income/ State Supplementary Program

The budget includes \$2.8 billion from the General Fund for the program in 2001-02, which is an increase of 10.4 percent over 2000-01.

Grant Payments. Pursuant to current law, the budget provides for the statutory COLA (5.31 percent) for Supplemental Security Income/State Supplementary Program (SSI/SSP) grants, at a General Fund cost of \$143 million in 2001-02. Effective January 1, 2002, the maximum grant for aged and disabled individuals will increase by \$38 to a total of \$750 per month and the grant for couples will increase by \$67 to \$1,332 per month (see Figure 10, page 35).

Cash Assistance Program for Immigrants (CAPI). With respect to noncitizens, current federal law generally limits SSI/SSP benefits to noncitizens who were (1) on aid prior to August 1996 or (2) in the U.S. prior to August 1996 and subsequently became disabled. Created in 1998, CAPI provides state-only funded SSI/SSP benefits to aged immigrants who lived in the U.S. prior to August 1996. In 1999 and again in 2000, CAPI eligibility was temporarily expanded to also include post-August 1996 immigrants. Such immigrants are subject to a deeming provision, under which a sponsor's income is counted for the purposes of determining eligibility. The budget legislation (1) eliminates the sunset of benefits for post-August 1996 immigrants (scheduled for October 1, 2001) and (2) increases the deeming period from five years to ten years. The net effect of these changes is a General Fund cost of \$17 million in 2001-02.

In-Home Supportive Services

The budget includes \$915 million from the General Fund for the IHSS program in 2001-02, which is an increase of 26.3 percent over 2000-01.

Provider Wage Increases. Under prior law, state participation in a \$1 per-hour wage increase for workers in public authorities was contingent upon state revenue growth being at least 5 percent. Budget legislation suspends

this revenue “trigger” requirement during 2001-02, resulting in an estimated General Fund cost of \$23.7 million (associated with a \$1 increase in hourly wages). In addition, the budget provides \$6.4 million for a 2.3 percent COLA adjustment for IHSS providers who do not work in public authorities.

Child Welfare Services and Foster Care

The budget for Child Welfare Services includes \$642 million from the General Fund for local assistance, which represents a 5 percent increase over the prior year. The budget for foster care includes \$412 million from the General Fund for local assistance, representing a 7 percent increase over 2000-01 expenditures.

New Emancipation Program for Foster Youth. The 2001-02 budget provides \$6.5 million from the General Fund to create the Supportive Transitional Emancipation Program which extends foster care grants to certain emancipated foster youth participating in an education or training program up to age 21.

Foster Care Health and Education Data Pilot. The budget provides \$1.5 million from the General Fund to pilot test a project in Los Angeles County designed to improve the collection of health and education data about foster youth.

Transitional Housing Program Expansion for Former Foster Youth. The 2001-02 budget provides \$10 million from the General Fund to create the Transitional Housing for Foster Youth Fund to expand the number of youth served by the Transitional Housing Placement Program (THPP) and to increase the rate paid to THPP providers.

Juvenile Crime Prevention Program Eliminated. The 2001-02 budget eliminates \$9.7 million from the General Fund for the Juvenile Crime Prevention Program. This ends the program that was created in 1995 to fund 12 pilot sites throughout California to provide crime prevention services to at-risk youth and their families.

Child Support

The budget includes \$435 million from the General Fund for local assistance, a 20 percent increase over 2000-01. Total child support collections for 2001-02 are projected to be \$2.3 billion, or an 11 percent increase over 2000-01.

Delayed County Performance Incentives. The 2001-02 budget delays implementation of a \$6.1 million General Fund county child support incentive program created by Chapter 478, Statutes of 1999 (Kuehl).

Child Support Recovery Fund Created. The 2001-02 budget creates the Child Support Recovery Fund in order to meet federal requirements to report interest earned on child support collections prior to distribution.

Employment Development Department

The budget includes \$30 million from the General Fund for the Employment Development Department in 2001-02, which is a decrease of 14 percent from 2000-01.

Governor’s Faith-Based Initiative. The budget includes \$4 million from the General Fund to support a second round of competitive grants to faith-based organizations to provide social services.

JUDICIARY AND CRIMINAL JUSTICE

The 2001 budget signed by the Governor for judicial and criminal justice programs totals about \$8.3 billion, including \$7.6 billion from the General Fund and \$764 million from federal and special funds. The total amount is a decrease of \$26 million, or less than a 1 percent decrease from 2000-01 expenditures. However, the General Fund total represents a decrease of \$34 million, or 0.4 percent, relative to 2000-01 expenditures. The slight decrease in the General Fund amount is the result of (1) one-time expenditures for local law enforcement included in the 2000-01 budget that were not included in the 2001-02 budget, and (2) small increases in overall expenditures in Youth and Adult Correctional Agency budgets related to medical and mental health services and other operational costs. Figure 11 shows the changes in expenditures in some of the major judicial and criminal justice budgets.

Figure 11				
Judicial and Criminal Justice Budget Summary				
General Fund				
<i>(Dollars in Millions)</i>				
Program/Department	2000-01	2001-02	Change	
			Amount	Percent
Trial Court Funding	\$1,140.5	\$1,169.5	\$29.0	2.5%
Department of Corrections	4,464.3	\$4,586.6	122.3	2.7
Department of Youth Authority	339.1	348.3	9.2	2.7
Local Law Enforcement	220.7	217.7	-3.0	-1.4
Local Juvenile Justice Programs	121.3	116.3	-5.0	-4.1

Governor's Vetoes. The Governor vetoed \$34 million in criminal justice related expenditures. The deleted funding was for a number of specific programs and projects sought by the Legislature.

Court Related Funding

The budget includes \$2.1 billion for support of trial courts. This amount includes \$1.2 billion from the General Fund, \$475 million transferred from counties to the state, and \$463 million in fine, penalty, and court fee revenues. The General Fund amount is \$29 million, or 2.5 percent, greater than the current-year amount. The increase includes a number of new expenditures, such as \$22.5 million for cost increases and additional levels of service for security, and \$8 million for increased charges for county-provided services.

The budget also includes \$9.5 million for the Equal Access Fund which provides funding to local nonprofit agencies for legal aid to indigent populations.

Corrections

The budget contains a total of \$4.6 billion from the General Fund for support of the California Department of Corrections (CDC). This represents an increase of \$122.3 million, or 2.7 percent, above the 2000-01 level. The primary reasons for this growth are funding increases for health care services and the replacement of electromechanical prison doors.

The budget provides full funding for the projected inmate and parole caseloads in the budget year. The caseload funding level is actually \$81 million less than estimated current-year expenditures due to projected declines in the number of inmates and increases in the parole population. Specifically, the budget assumes that the inmate population will be about 157,660 at the end of the budget year, a decrease of 4,137 inmates from the end of 2000-01. The projected budget-year population is about 5,665 inmates fewer than was initially assumed in the Governor's January budget. This decline in inmate population is due primarily to the implementation of Proposition 36, which diverts certain drug offenders who would otherwise be sent to prison, into drug treatment programs. The parole population is projected to reach about 126,149 parolees at the end of the budget year, an increase of 3,900 parolees from the end of 2000-01.

Federal Funds for Incarceration and Supervision of Undocumented Felons.

The budget also assumes that the state will receive a total of \$189.2 million in federal funds to offset the state's costs of supervising undocumented felons in CDC and the Department of the Youth Authority. This is about \$10 million more than assumed in 2000-01. These federal funds are counted as off-

sets to state expenditures and are not shown in the budgets of the CDC and the Youth Authority or in the budget bill.

Department of the Youth Authority

The budget provides \$348 million from the General Fund for support of the Youth Authority. The department's budget reflects an increase of 2.7 percent over the 2000-01 level, despite a small projected decline in the number of wards and parolees in the budget year. The increase primarily results from new initiatives proposed by the Governor related to mental health, substance abuse, and sex offender treatment for wards and parolees. These initiatives reflect priorities set forth in legislative augmentations in the 2000-01 budget which the Governor vetoed.

Assistance to Local Law Enforcement

The budget includes approximately \$216.9 million in funding to assist local law enforcement agencies.

Citizens' Option for Public Safety (COPS) Program. The budget includes \$116.3 million to continue the COPS program, a decrease of \$5 million from the amount provided in 2000-01. The program provides discretionary funding on a per capita basis, for local police departments and sheriffs for front line law enforcement (with a minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

High Technology Crime Programs. The budget includes \$41 million for three high technology related law enforcement programs:

- ***\$35.4 million*** for grants to local law enforcement agencies for high technology equipment purchases.
- ***\$7.7 million*** to expand the existing High Technology Theft, Apprehension, and Prosecution (HTTAP) program overseen by the Office of Criminal Justice Planning.
- ***\$3.3 million*** to create a High Technology Identity Theft program within each of the existing HTTAP task forces.

War on Methamphetamine. The budget includes \$30 million for local law enforcement in the Central Valley for antimethamphetamine activities. Of this amount, \$15 million is one-time, and \$15 million would be ongoing. (In addition, the budget provides \$10.5 million from the General Fund for the California Methamphetamine Strategy program to backfill for the loss of federal funds for the program.)

Local Forensic Labs. The budget includes \$25 million for grants to local forensic labs for equipment and capital related expenditures. The 2000-01 budget included \$96 million for a joint lab for the Los Angeles Police and Sheriff's Departments.

Rural and Small County Law Enforcement Assistance Program. The Governor stated his intention to sign a trailer bill which appropriates \$18.5 million to sheriff departments in 37 rural and small counties. Each county will receive \$500,000.

Assistance for Local Juvenile Justice Programs

Discretionary Juvenile Justice Funding. The budget also includes \$116.3 million—the same amount as the COPS program discussed above—to fund the juvenile justice provisions of the Crime Prevention Act of 2000 (AB 1913, Cardenas), a \$5 million decrease from 2000-01. These funds go to county level juvenile justice coordinating councils to support locally identified needs related to juvenile crime.

Local Detention Facilities. The budget also includes \$40 million (federal funds) for competitive grants to counties for construction and renovation of local juvenile detention facilities. Of that amount, \$6 million could be made available for adult jail construction.

TRANSPORTATION

California Department of Transportation

The 2001-02 budget, as adopted by the Legislature, provides a total of \$7.5 billion from state special funds and federal funds for the Department of Transportation (Caltrans), a 22 percent reduction in comparison to 2000-01. This reduction is primarily the result of deferring expenditures for the Traffic Congestion Relief Program (TCRP), as discussed later in this section.

Of the total Caltrans budget, approximately \$2.9 billion is for capital outlay, \$1.1 billion goes for highway capital outlay support, \$1.5 billion is earmarked for local assistance in the highway, aeronautics, and planning programs, \$794 million is for highway maintenance, \$461 million is for Caltrans' mass transportation program, and \$742 million is for administration, traffic operations, and legal programs.

Budget Increased Funding for State Staff and Contracting Out. As mentioned, the budget includes \$1.1 billion for highway capital outlay support. This includes a \$100 million augmentation for state staff and contracting out. Specifically, the final budget for capital outlay support increased the

share of state staff by 315 personnel-years for a total of 11,154 personnel-years and provided a total of 1,646 personnel-year-equivalents for contracting out. While the budget is based on these staffing levels for state staff and contracting out, the department has the authority to move funds between support (used to fund state staff expenditures) and operating expenses (used to fund contracting out expenditures). Thus, to the extent that the department leaves positions vacant, they can use funds that were originally appropriated for state staff for contracting out.

Funding for Traffic Congestion Relief Program to Be Deferred. The significant reduction in Caltrans' funding level for 2001-02 is due primarily to the refinancing of the TCRP, as proposed by the administration as part of the May Revision. As originally enacted in 2000, the TCRP provided \$2 billion in General Fund monies to the Traffic Congestion Relief Fund (TCRF) in 2000-01. Additionally, the program transfers gasoline sales tax revenues that previously were deposited in the General Fund to transportation purposes for 2001-02 through 2005-06. Of the amount transferred annually, \$678 million is to be deposited in the TCRF to fund 141 designated transportation projects, while the remainder of the gasoline sales tax revenues (about \$400 million) is to be deposited in the Transportation Investment Fund (TIF). The funds in the TIF are distributed 40 percent to the State Transportation Improvement Program (STIP), 40 percent to local street and road repairs (including 20 percent to cities and 20 percent to counties), and 20 percent to the Public Transportation Account (PTA).

The Legislature approved the refinancing plan which defers the transfer of gasoline sales tax revenues from the General Fund to the TIF until 2003-04, instead of beginning in 2001-02. The two-year deferral totals \$2.3 billion, \$1.1 billion in 2001-02 and \$1.2 billion in 2002-03. This loss of \$2.3 billion in the short term is made up by extending the program for an additional two years, through 2007-08. The refinancing plan also includes a \$238 million loan from the TCRF to the General Fund in 2001-02 to be repaid by June 30, 2006. Based on our review of the department's cash flow needs for TCRP projects, the refinancing plan will likely not have an adverse impact on the delivery of the projects.

Local Streets and Roads Held Harmless; PTA and STIP Take Short-Term Hit. For the first two years, the refinancing plan has the following impact on the various elements of the TCRP:

- Maintains local street and road funding at amounts specified in current law, but uses funds from the State Highway Account (SHA) instead of TIF for 2001-02 and 2002-03.

- Eliminates the TIF transfer to PTA in 2001-02 and 2002-03 (a cumulative total of \$177 million).
- Eliminates the TIF transfer to the STIP for 2001-02 and 2002-03 (a cumulative total of \$354 million).
- Eliminates the TIF transfer to the TCRF for 2001-02 and 2002-03 (a cumulative total of \$1.4 billion).

Overall, however, the refinancing plan results in an additional \$515 million to be transferred from the General Fund to the TIF, relative to current law. This is due to projected increases in the price of gasoline and the amount consumed in 2006-07 and 2007-08 relative to 2001-02 and 2002-03. Figure 12 shows how the refinancing plan affects each TCRP program element.

Figure 12

**Traffic Congestion Relief Program
Refinancing Proposal:
Impact on Program Elements**

(In Millions)

Year	Use of Funds			
	Local Streets	Public Transportation Account	State Transportation Improvement Program	TCRP Projects
2000-01	\$400	—	—	\$1,600
2001-02 ^a	154	(\$77)	(\$154)	(678)
2002-03 ^a	200	(100)	(200)	(678)
2003-04	222	111	222	678
2004-05	238	119	238	678
2005-06	254	127	254	678
2006-07	—	135	542	678
2007-08	—	160	638	602
Totals	\$1,468	\$652	\$1,894	\$4,914
Net Change ^b	—	118	473	-76

^a Amounts in parentheses indicate amounts that refinancing plan would defer to future years.

^b Net change is relative to current law. The net increase is due to projected growth in gasoline sales tax revenues over the 2006-07 and 2007-08 period relative to 2001-02 and 2002-03.

The STIP receives the greatest increase due to the fact that it would be repaid for SHA funding of local streets and roads in 2001-02 and 2002-03 and would thus receive 80 percent (up from 40 percent) of TIF funding in 2006-07 and 2007-08.

The \$76 million reduction in the TCRP transfer is the amount by which the total transfers proposed in current law exceed the total funds allocated to the TCRP projects.

Cash Flow Needs Will Be Met by Loans From Transportation Funds. In order to ensure that the cash flow needs of projects in the TCRF and the STIP are met, AB 438 (Committee on Budget), the trailer legislation to implement the refinancing proposal, authorizes the Department of Finance (DOF) to make short-term loans (to be repaid within the fiscal year) among various transportation funds. The legislation also authorizes DOF to make an interest-free loan of up to \$100 million from the Motor Vehicle Account to the TCRF no sooner than July 1, 2004 to be repaid no later than July 1, 2007. Additionally, AB 438 authorizes long-term loans to the TCRF of up to \$280 million and \$180 million from the PTA and the SHA, respectively. The bill also specifies that the PTA and SHA loans will be repaid no later than June 30, 2008 and June 30, 2007, respectively. Figure 13 shows the specific time frames for when the loans are to be made and repaid.

Figure 13

**Traffic Congestion Relief Program
Proposed Loans to TCRF^a**

(In Millions)

Year	General Fund	Motor Vehicle Account	Public Transportation Account	State Highway Account
2000-01	—	—	—	\$60
2001-02	-\$238 ^b	—	\$180	60
2002-03	—	—	100	60
2003-04	—	—	—	—
2004-05	220	\$100	—	—
2005-06	30	—	—	—
2006-07	-12	-100	—	-180
2007-08	—	—	-280	—

^a Traffic Congestion Relief Fund.

^b Positive numbers indicate funds payable to the TCRF; negative numbers indicate funds payable from the TCRF.

Legislature Modifies Spillover Cap; Reduces Potential Loss of Transit Funding. The Legislature modified the administration’s proposal to cap the amount of gasoline sales tax revenues that would be transferred to the PTA under the “spillover” formula. The administration proposed capping the spillover amount at \$81 million in 2001-02 and \$37 million in 2002-03. The Legislature instead approved these caps but required that any revenues generated above the caps be split evenly between the PTA and the General Fund.

Constitutional Amendment to Permanently Dedicate Sales Tax on Gasoline to Transportation. In addition to approving AB 438, the Legislature also approved a constitutional amendment, ACA 4 (Dutra) to be voted on by the electorate in March 2002, to permanently dedicate the sales tax on gasoline to transportation beginning in 2003-04. The measure does not alter any provisions in the TCRP, which remains in effect for 2003-04 through 2007-08. Beginning in 2008-09, the sales tax on gasoline would be transferred from the General Fund to the TIF and distributed according to the 40:40:20 formula described above.

Budget Funds New Capital and Service Expansion for Intercity Rail. The budget provides \$73.1 million for operating costs for intercity rail. This includes \$9.4 million to support two extra daily round-trips on the Capitol Corridor line between San Jose, Oakland, Sacramento, and Roseville and one additional daily round-trip on the San Joaquin line between Bakersfield and Sacramento. In addition, the budget funds \$91 million in capital outlay projects for the state's three intercity rail lines, \$41 million is provided for double- and triple-tracking of the Pacific Surfliner route, \$29.4 million for double-tracking of the San Joaquin route, and \$20.6 million for double-tracking of the Capitol Corridor. The Legislature reduced by \$7 million the Governor's request for improvements to the Pacific Surfliner route.

High-Speed Rail Authority

The budget includes \$1 million for support of the High-Speed Rail Authority. This amount covers the salaries and overhead of the authority's staff, but funds only minimal environmental impact reviews of the proposed rail system alignments. The environmental assessment process began in 2000-01 with \$5 million provided by the TCRP and is expected to cost a total of \$25 million.

California Highway Patrol

The budget provides \$1.04 billion for support of CHP activities, an increase of 2 percent over the 2000-01 level. In addition to funding ongoing patrol services, the budget includes:

- \$1 million in grants to local law enforcement agencies for collection of racial profiling data. Chapter 684, Statutes of 2000 (SB 1102, Murray), requires the Legislative Analyst to conduct a study of data collected by both the Highway Patrol and local agencies to determine, among other things, the incidence of racial profiling and whether data collection serves to reduce and prevent such practices.

- \$1.7 million to fund ten additional CHP officers for farm labor vehicle inspections. The Legislature augmented this by \$1.7 million.

Department of Motor Vehicles

The budget provides \$674 million for support of the Department of Motor Vehicles, virtually unchanged from 2000-01. This total includes:

- More than \$4.4 million for new programs to combat fraud in the issuance of driver licenses. The Legislature rejected the Governor's request for \$7.7 million for biometric verification systems that would have electronically verified thumb prints and facial features for license applicants. Also rejected was a \$1.2 million request that would have funded 12 investigators assigned to cases of fraud by license applicants and employees.
- \$5.7 million for electronic systems designed to decrease waiting times in DMV field offices and boost citizen access to DMV services via telephone and the Internet. This includes \$2.5 million for queuing systems in field offices, \$2.3 million for automated E-mail management and speech processing software, and \$932,000 for creation of a Spanish-language Web site and software to enable citizens to purchase personalized license plates through the Internet.

Governor's Vetoes

With regard to Caltrans, the Governor vetoed \$53 million worth of legislative augmentations. Among the major vetoes, the Governor:

- Reduced from \$18 million to \$1.3 million, an augmentation to expand freeway service patrol, the roving tow truck service designed to reduce congestion by clearing accidents faster. The remaining \$1.3 million augmentation would be available to meet unavoidable cost increases.
- Deleted \$20 million from the SHA augmented by the Legislature for the San Francisco Transbay Terminal, a project whose total cost is estimated to be \$888 million over a multiyear period. Additionally, the Governor deleted \$1 million worth of General Fund expenditures for various projects added by the Legislature.
- Deleted \$7.2 million augmented by the Legislature for equipment to support additional capital outlay support staff. The Governor also sustained budget language that allows the department to use unexpended personal services funds to contract out for engineering services.

With regard to the CHP, the Governor:

- Reduced by \$1,000 (from \$1 million to \$999,000) grants to local law enforcement agencies for collection of racial profiling data and deleted provisions that would have expanded the categories of information to be collected on racial profiling.
- Deleted a \$1.7 million legislative augmentation for ten additional CHP officers for farm labor vehicle inspections.

RESOURCES

The budget provides a total of about \$3.4 billion for resources programs, of which about \$1.3 billion is from the General Fund, about \$1.1 billion are special funds and federal funds, and about \$1 billion is from bond funds. Of the bond funds, \$523 million is from Proposition 12 (parks bond) and \$206 million is from Proposition 13 (water bond). This total amount is a decrease of about \$2.3 billion below estimated 2000-01 expenditures. This decrease largely results from large one-time expenditures in the prior year, including Propositions 12 and 13 bond expenditures, energy-related initiatives, and General Fund appropriations for habitat and park projects. Significant features of the Resources budgets are discussed below.

CALFED Bay-Delta Program

The CALFED Bay-Delta Program is a consortium of 18 state and federal agencies created to address a number of interrelated water problems in the state's Bay-Delta region. These problems include inadequate water quality, declining fish and wildlife populations, deteriorating levees, and uncertain water supplies.

Figure 14

**CALFED Bay-Delta Program
2001-02 Expenditures^a
By Program Element**

(In Millions)

Program Element	Budgeted Expenditures
Ecosystem restoration	\$161.1
Water storage	121.7
Water use efficiency	111.1
Water conveyance	41.9
Science	36.6
Environmental Water Account	35.5
Levees	21.8
Drinking water quality	21.5
Watershed management	20.0
CALFED program management	12.4
Water transfers	0.9
Total	\$584.5

^a Includes state funds and federal reimbursements.

The budget provides a total of about \$584 million from various state and federal funds, including \$81 million from the General Fund, for the CALFED Bay-Delta Program. Proposition 13 bond funds are the largest source of funding for the program, providing about \$217 million of the program's funding in 2001-02. The CALFED expenditures are under nine state departments, including seven departments in the Resources Agency. Figure 14 shows the allocation of the \$584 million for the program among the program's 11 components.

Park Acquisition and Land Conservation

- **State and Local Parks.** The budget provides \$426 million from Proposition 12 bond funds to the Department of Parks and Recreation for state and local park acquisitions and projects, including \$37.5 million for the Cornfields property acquisition in Los Angeles. The budget also includes a legislative augmentation of \$26.6 million from the General Fund for local park projects.
- **Urban Parks.** The budget includes \$15 million from tidelands revenues for an urban parks program. Expenditure of the funds is dependent upon enactment of separate legislation to establish guidelines for the program. In addition, of the \$426 million Proposition 12 bond funds discussed above, \$47.2 million is for local assistance in the Murray-Hayden Urban Parks and Youth Services program.
- **Habitat Acquisition and Restoration.** The budget provides a total of about \$106 million to the State Coastal, Tahoe, and Santa Monica Mountains Conservancies (\$72 million, \$20 million, and \$14 million, respectively) for state and local habitat acquisition, restoration, and enhancement, as well as public recreation improvement projects. Funding for these projects is provided primarily through Proposition 12 bond funds, as well as from the General Fund, and special and federal fund sources. The budget also includes \$21 million for habitat acquisition by the Wildlife Conservation Board.
- **River Parkway Projects.** The budget provides \$18 million from the General Fund for eight river parkway projects.
- **Agricultural Land Conservation.** The budget includes \$6.5 million—\$5 million from Proposition 12 and \$1.5 million from the General Fund—for a farmland conservancy program. The program provides grants to purchase the development rights on agricultural lands through voluntary conservation easements.

Natural Resources Management

- **Local Flood Control.** The budget includes \$44 million from the General Fund to pay the state's share of costs of local flood control projects that have been authorized by the state. At this level of funding, it is estimated that about \$74 million would still be owed to local agencies at the end of 2001-02.
- **Fire Suppression.** The budget provides \$55 million to the Department of Forestry and Fire Protection for emergency fire suppression. The budget also provides \$10.2 million for a computer-aided dispatching system to be used by the department to respond to emergency incidents and \$9.9 million to enhance the department's fire-fighting capabilities during the 2001 fire season.
- **Department of Fish and Game Information Technology.** The budget provides \$14.2 million for information technology projects in the Department of Fish and Game, including a project to automate the issuance of fishing and hunting licenses and the associated record keeping.
- **California Conservation Corps.** The budget includes \$8.2 million for the California Conservation Corps to improve corps member training and replace equipment.
- **Sudden Oak Death.** The budget provides \$3.7 million for research and tree removal related to Sudden Oak Death.
- **Natural Resource Maintenance at State Parks.** The budget provides \$2 million from the General Fund and \$1.3 million from Proposition 12 for ongoing natural resource maintenance and stewardship projects at state parks.
- **Water Hazards Remediation.** The budget includes \$1.6 million for the State Lands Commission to remediate and remove physical hazards along the Sacramento River and the Santa Barbara/Ventura Counties' coastline. The hazards pose a risk to public safety and include old pier pilings and derelict oil wellheads on beaches.

California Energy Resources Scheduling

- **New Energy Division in Department of Water Resources.** The budget includes \$22.2 million (Electric Power Fund) for the Department of Water Resources to administer its new division that purchases energy for statewide use.

ENVIRONMENTAL PROTECTION

The budget provides about \$1.6 billion for environmental protection programs, including about \$1.1 billion for the support of various environmental protection agencies and \$467 million for local assistance. This total amount is an increase of about \$64 million, or 4 percent, over estimated 2000-01 expenditures. Significant features include:

Water Quality

- **Bond-funded Water Projects.** The budget includes about \$237 million from Proposition 13 bond funds for local water quality, water recycling, and watershed protection projects funded by the State Water Resources Control Board. Of these bond funds, (1) \$32.3 million has been allocated to specific projects that would improve beach water quality as part of a \$33.8 million Clean Beaches Initiative and (2) \$45 million is for CALFED-related projects.
- **Water Quality Regulation.** The budget includes an increase of \$9.6 million from the General Fund to reduce permit backlogs and increase inspections in the board's core regulatory program. The budget also includes \$8.1 million (General Fund) to reduce the impact of stormwater runoff in coastal Southern California and \$3.2 million (General Fund) to improve water quality data management.

Toxics

- **Settlement of Hazardous Waste Litigation.** The budget includes \$114.5 million from the General Fund to settle litigation with the federal government for the state's liability at the Stringfellow and Casmalia hazardous waste sites.
- **Urban Cleanup.** The budget includes \$12.5 million (special funds) to assess and clean up urban contaminated sites ("brownfields") for redevelopment. The budget also includes up to \$17 million (special funds) for low-cost environmental insurance for brownfield development, contingent on the enactment of legislation establishing this program.

Air Quality

- **Diesel Emission Reduction.** The budget includes a total of \$48 million (\$23 million from the General Fund and \$25 million from tidelands oil revenues) for a new program to reduce air emissions from diesel school buses, standby diesel generators, and other diesel sources.

- **Zero-Emission Vehicle Incentives.** The budget also includes \$20 million (Motor Vehicle Account) to subsidize the purchase or lease of zero-emission vehicles.

Solid Waste

- **Waste Tire Recycling Program.** The budget includes \$31.2 million (special funds) to clean up illegal waste tire piles and for research and market development to reduce landfill disposal of waste tires. This represents an increase of \$26 million over estimated current-year expenditures to implement the requirements of Chapter 838, Statutes of 2000 (SB 876, Escutia).

CAPITAL OUTLAY

The budget package includes \$1.9 billion for capital outlay (excluding highways and transit), as shown in Figure 15. About 75 percent of total funding is from bonds—primarily for resources, higher education, and the Department of Mental Health (for a new 1,500-bed sexually violent predator facility). The majority of General Fund spending is in three areas—resources, corrections, and higher education.

Figure 15

2001-02 Capital Outlay Programs Budget Act

(In Thousands)

Department	Bonds	General	Special	Federal	Total
Legislative, Executive and Judicial					
Judicial Council	—	\$772	—	—	\$772
Office of Emergency Services	—	—	—	—	—
Justice	—	2,616	\$317	—	2,933
State and Consumer Affairs					
California Science Center	—	\$5,263	—	—	\$5,263
Franchise Tax Board	—	447	—	—	447
General Services (seismic retrofit)	\$16,338	1,836	—	—	18,174
General Services (other)	2,891	—	—	—	2,891
Business, Transportation and Housing					
Transportation	—	—	\$188,558	—	\$188,558
Highway Patrol	—	—	2,789	—	2,789
Motor Vehicles	—	—	5,554	—	5,554

Continued

Department	Bonds	General	Special	Federal	Total
Resources					
Conservation Corps	\$10,865	\$2,530	—	—	\$13,395
Tahoe Conservancy	5,157	8,243	\$1,196	—	14,596
Forestry and Fire Protection	22,516	13,701	—	—	36,217
Fish and Game	451	1,665	2,126	—	4,242
Wildlife Conservation Board	—	—	20,391	—	20,391
Boating and Waterways	—	—	12,100	—	12,100
Coastal Conservancy	60,814	—	4,900	\$2,000	67,714
Parks and Recreation	127,900	245	7,348	1,500	136,993
Santa Monica Mountains Conservancy	14,250	—	—	—	14,250
Water Resources	1,000	25,602	—	—	26,602
Environmental Protection					
Air Resources Board	—	—	\$2,199	—	\$2,199
Toxic Substances Control	—	—	—	—	—
Health and Human Services					
Health Services	\$2,183	—	—	—	\$2,183
Developmental Services	—	\$5,367	—	—	5,367
Mental Health	349,287	3,102	—	—	352,389
Employment Development Rehabilitation	—	—	—	—	—
Youth and Adult Corrections					
Corrections	\$25,627	\$29,418	—	—	\$55,045
Youth Authority	—	7,907	—	—	7,907
Education					
K-12 Education	—	\$2,568	—	—	\$2,568
State Library	—	—	—	—	—
University of California	\$373,112	112,851	—	—	485,963
California State University	225,000	—	—	—	225,000
Community Colleges	141,033	—	—	—	141,033
General Government					
Food and Agriculture	\$19,992	\$1,633	\$672	—	\$22,297
Military	—	728	600	\$36	1,364
Veterans Home of California	—	2,339	—	—	2,339
Unallocated	—	—	—	—	—
Totals	\$1,398,416	\$228,833	\$248,750	\$3,536	\$1,879,535

State Capital Outlay. Some of the major state capital outlay projects and programs funded in the budget package include:

- **Department of General Services**—\$16 million from bond funds and \$1.8 million from the General Fund to seismically retrofit existing state buildings.
- **Department of Parks and Recreation**—\$128 million from the Proposition 12 (March 2000) bond measure and \$7 million from special funds for 12 capital outlay programs.
- **Coastal Conservancy**—\$61 million from the Proposition 12 bond measure for coastal conservation, restoration, and park enhancement projects.
- **Department of Health Services**—\$2.2 million from bond funds for a new 200,000 square foot lab in Richmond.
- **Department of Mental Health**—\$349 million from bond funds for construction of a new 1,500-bed sexually violent predator facility located adjacent to Pleasant Valley State Prison in Coalinga.
- **Department of Corrections**—\$25.6 million from bond funds for a wastewater collection and treatment project at the California Men's Colony at San Luis Obispo, and \$29.4 million from the General Fund (including \$19.8 million for construction of 16 major projects at 12 institutions across the state).
- **California Community Colleges**—\$141 million from bond funds for 76 projects at 50 campuses and six off-campus centers.
- **California State University**—\$225 million from bond funds for 28 projects at 20 campuses.
- **University of California**—\$113 million General Fund and \$373 million from bond funds for 36 projects at ten campuses and the Desert Research and Extension Center Laboratory.
- **Department of Veterans Affairs**—\$2.5 million General Fund for projects at the Yountville veterans home.

Governor's Vetoes. The Governor vetoed a total of \$100 million from the state's capital outlay program passed by the Legislature. The vetoes con-

sisted primarily of general obligation bond proposals under Resources (\$73 million), Community Colleges (\$15 million), and the proposed new veterans home in Lancaster (\$12 million).

OTHER MAJOR PROVISIONS

Consumer Power and Conservation Financing Authority

The budget includes a \$10 million General Fund loan for the California Consumer Power and Conservation Financing Authority created by Chapter 10x, Statutes of 2001 (SB 6x, Burton). Chapter 10x authorizes the authority to issue up to \$5 billion in revenue bonds to finance the construction of power plants and conservation-related activities such as energy efficiency and demand reduction programs. Budget language makes expenditure of these funds contingent upon Department of Finance approval of an operating and staffing plan for the authority with 30-day notification to the Legislature.

Related items in the budget include: \$7.7 million from the General Fund for Energy Commission power plant siting workload; \$3.7 million (\$2.7 million General Fund) for Public Utilities Commission work regarding power plant siting and operation, generation, transmission, and conservation issues; and \$1.8 million for the Electricity Oversight Board for issues related to market monitoring and power plant outage and maintenance standards.

Infrastructure Bank

The budget transfers \$277 million in uncommitted funds from the Infrastructure Bank to the General Fund. This leaves approximately \$130 million for additional loans to support infrastructure projects. (The bank has already committed approximately \$90 million to approved projects.) After committing the \$220 million, the bank will issue revenue bonds to continue loaning funds, pledging loan repayments on the initial \$220 million as security for the bonds.

Employee Compensation and Retirement

Employee Compensation. The budget does not allocate any funds to increase state employee salaries or benefits. The administration is in negotiations with employee bargaining units for new agreements to replace the memoranda of understanding (MOUs) that expired June 30, 2001.

The administration has offered a compensation package that would (1) increase take-home pay by reducing employee retirement contributions and (2) pay for a portion of health insurance premium increases. At the time of

this publication, 4 of the 21 bargaining units had agreed to this package. However, the Legislature had not yet ratified these MOUs, as required for the fiscal provisions to take effect.

The take-home pay provision would reduce employee retirement contributions from the 5 percent paid by most employees to 2.5 percent effective the first full pay period after legislative approval. Effective July 1, 2002, employee retirement contributions would be further reduced to zero. On July 1, 2003, the current employee retirement contribution would be reinstated and employees would receive a 5 percent increase built into their base salary. Because of the way the Public Employees' Retirement System sets state retirement contribution rates, this provision would not impact the state budget until 2003-04.

Under the health insurance premium provision, the state would continue to pay half of the premium increases that went into effect January 2001 and pay two-thirds of premium increases effective January 2002 and January 2003. If all bargaining units agree to this provision and the Legislature approves the MOUs, the 2001-02 cost of this provision would be about \$50 million from all fund sources.

Employee Retirement. The budget also includes a \$455 million (\$195 million General Fund) increase in the state's contributions toward state employees' retirement. This higher cost is the result of the increased retirement benefits that became effective January 1, 2000.

The budget includes \$486 million for the state share of retirees' health and dental insurance premiums. This is a \$55 million increase over the Governor's January budget because of premium increases for health insurance and continued high enrollment growth. The contribution for health insurance is determined by the premium cost of the four state plans with the greatest enrollment of state employees and retirees.

Local Government and Housing

The Governor's budget in January included \$250 million in general purpose fiscal relief for cities, counties, and special districts, and \$200 million to expand a program which provides payments to local governments to reward them for the construction of new housing units. The enacted budget accepts the May Revision proposal to eliminate these one-time spending programs. The enacted budget also reverts to the General Fund an additional \$40 million from the past-year housing payment program—leaving \$60 million for allocation to local governments.

The enacted budget transfers back to the General Fund unused funds from a number of housing programs—providing one-time benefits to the General Fund. The budget accelerates by 12 months the scheduled sunset of four programs which reimburse home buyers and developers for school facility fees paid. This action provides savings of an estimated \$128 million in 2001-02 and 2002-03. The budget also reverts funds from a downpayment assistance program (\$18 million), a child care facilities financing program (\$11 million), and the Housing Trust Fund (\$4 million).

The budget provides \$15 million in one-time spending for a new program to provide Central Valley governments with grants for infrastructure spending. In addition, the Governor vetoed \$15 million in proposed spending for farmworker and multifamily housing and homeless services—leaving a \$35 million increase in base spending from the past year.

