



Major Features of the 2003 California Budget

ELIZABETH G. HILL • LEGISLATIVE ANALYST

On July 29, 2003, the Legislature passed the 2003-04 Budget Bill. In this report we highlight the major features of the budget package, as enacted by the Legislature.

I.	Budget Overview	3
II.	K-12 Proposition 98	6
III.	Higher Education	11
IV.	Health	14
V.	Social Services	17
VI.	Judiciary & Criminal Justice	20
VII.	Transportation	23
VIII.	Other Major Provisions	25
	Appendix 1: Budget-Related Legislation	30

Acknowledgments

The Legislative Analyst’s Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

LAO Publications

To request publications call (916) 445-4656. This report and others, as well as an E-mail subscription service, are available on the LAO’s Internet site at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.

I

BUDGET OVERVIEW

INTRODUCTION

On July 29, 2003, the Legislature passed the *2003-04 Budget Bill* along with implementing measures (trailer bills, see Appendix 1). In addition, the Senate and the Assembly each have passed budget-related measures that are still pending and will be considered when the Legislature reconvenes on August 18, 2003. Action on these measures, as well as gubernatorial vetoes, will affect the final budgetary totals.

The budget package, as passed by the Legislature, authorizes total spending of \$98.9 billion. Of this amount, \$70.8 billion is from the General Fund, \$20.5 billion is from special funds, and \$7.5 billion from bond funds. Figure 1 shows the distribution of General Fund spending by major program area.

BASIC FEATURES

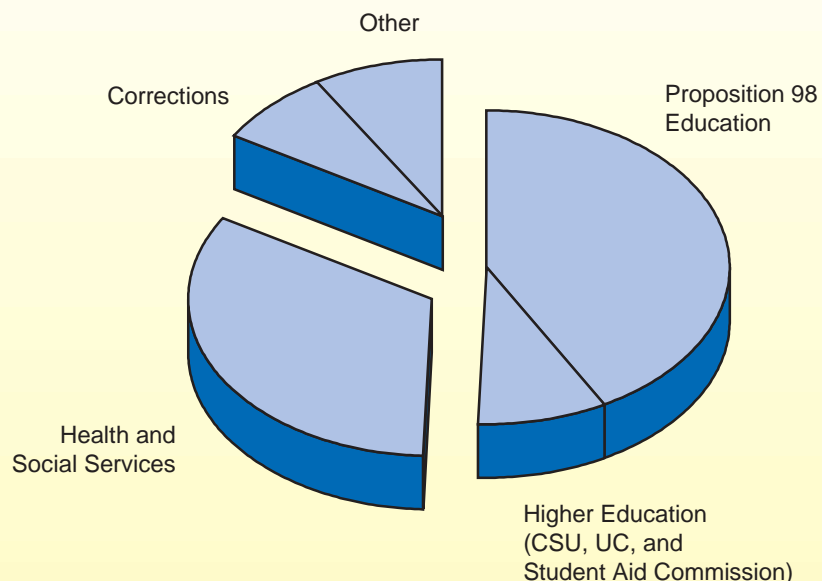
The 2003-04 budget package addresses an enormous General Fund shortfall through a combination of program savings, borrowing, new revenues, funding shifts, and deferrals. These include the following:

- **Program Savings.** The budget's savings are primarily achieved through significant reductions in K-12 and higher education, criminal justice, Medi-Cal provider rates, employee compensation, and through the suspension of cost-of-living adjustments (COLAs) for Supplemental Security Income/State Supplementary Program and California Work Opportunity and Responsibility to Kids grants. Some of the General Fund reductions in higher education, trial courts, and resources would be offset by higher fees.

Figure 1

General Fund Spending by Major Program Area

2003-04



- **Borrowing.** The main borrowing is a \$10.7 billion deficit-financing bond, whose proceeds will be used to eliminate the 2002-03 year-end deficit. The repayment of this bond is to come from within existing resources, and is accomplished through a multistage shift of local sales and property tax revenues. Other budgetary borrowing includes the issuance of pension obligation bonds and the sale of a second tobacco securitization bond.
- **Federal Funds.** The budget relies on \$2.2 billion in new federal funds to cover state costs in 2002-03 and 2003-04 combined. About one-half of the total is used to offset Medi-Cal costs and the remainder covers other state program spending. These new federal funds are not anticipated to be available in 2004-05 and beyond.
- **New Revenues.** The budget incorporates new revenues from the triggered vehicle license fee (VLF) rate increase and renegotiated tribal gaming compacts. It does not, however, include the May Revision revenue proposals relating to

new realignment taxes, the suspension of the teachers' tax credit for an additional year, or the extension of the manufacturers' investment tax credit.

GENERAL FUND CONDITION

Figure 2 shows the General Fund budgetary condition for 2002-03 and 2003-04. Specifically:

2003-04. Under the new package, the budgetary totals for 2003-04 are as follows:

- *Revenues* are projected to increase from \$70.9 billion in 2002-03 (excluding the proceeds of the deficit bond) to \$72.8 billion in 2003-04, a 2.8 percent increase. Revenues from the state's major taxes are projected to grow moderately in 2003-04, reflecting a correspondingly moderate growth in the state's economy.
- *Expenditures* are estimated to drop from \$78.1 billion in 2002-03 to \$70.8 billion

Figure 2
The 2003-04 Budget
General Fund Condition^a

<i>(In Millions)</i>		
	2002-03	2003-04
Prior-year fund balance	-\$1,984	\$1,402
Revenues and transfers	70,852	72,820
Deficit Financing Bond	10,671	—
Total resources available	\$79,539	\$74,222
Expenditures	\$78,137	\$70,825
Ending fund balance	\$1,402	\$3,397
Encumbrances	\$1,402	\$1,402
Reserve	—	\$1,995

^a Based on budget version adopted by the Senate. Version adopted by the Assembly would increase expenditures and reduce reserve by roughly \$200 million in 2003-04.

in 2003-04, a 10 percent decline. Most of this decline can be explained by four factors: the VLF rate increase (which reduces state subventions to backfill local governments), new federal funds, borrowing to cover the state's 2003-04 pension obligations, and the Medi-Cal accounting shift from an accrual to cash basis. Absent these factors, underlying spending would be roughly equal between the two years. The 2003-04 spending level is considerably less than what would be required to maintain baseline spending for the year.

- The *year-end reserve* is projected to be just under \$2 billion in 2003-04. This reflects the elimination of the over-\$10 billion 2002-03 deficit through the issuance of the deficit-financing bond.

2004-05. The impact of the budget plan on 2004-05 will depend on a variety of factors including the course of the economy, legislative resolution of outstanding budget issues, and gubernatorial vetoes. However, assuming that all of the savings in the plan are achieved, we estimate that 2004-05 would conclude with a cumulative year-end budget shortfall of roughly \$8 billion absent further corrective actions. This estimate also incorporates the effects of the budget's intent language limiting employee compensation and COLAs to state operations and certain local assistance programs.

*Prepared by the Economics, Taxation, and
Fiscal Forecasting Section—(916) 319-8305*

II

K-12 PROPOSITION 98

TOTAL PROPOSITION 98 SPENDING

The budget package includes \$45.7 billion in Proposition 98 spending in 2003-04 for K-14 education. This represents an increase of \$1.8 billion, or 4 percent, from the revised 2002-03 spending level. The package reflects a reduction of around \$800 million, or 1.7 percent, from the appropriation level of the *2002-03 Budget Act*. Figure 1 summarizes for the two fiscal years the effect of the budget package on K-12 schools, community colleges, and other affected agencies.

K-12 PROGRAM IMPACTS

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

➤ **2002-03.**

Revised funding of \$6,624 per pupil, which represents a decrease of \$443 per pupil from the *2002-03 Budget Act* amount of \$7,067 per pupil.

➤ **2003-04.**

Funding of \$6,887 per pupil, which represents an increase of

\$262, or 4 percent, above the revised current-year level of per-pupil spending.

2002-03 Baseline Reductions

The Legislature reduced the 2002-03 Proposition 98 funding level for K-12 education three times during 2003. Chapter 4x (SB 18x, Chesbro), Chapter 10x (SB 28x, Committee on Budget and Fiscal Review), and Chapter 26 (SB 1040, Committee on Budget and Fiscal Review) reduced funding for K-12 by a total of \$2.5 billion through a combination of deferrals, use of one-time prior-year Proposition 98 funds, capturing anticipated program savings, and limited program reductions. Of this amount, the actual reductions to education services totaled \$137 million, including a \$115 million reduction

Figure 1
Proposition 98 Budget Summary

*2002-03 and 2003-04
(Dollars in Billions)*

	2002-03		2003-04 ^a
	As Enacted	Revised ^a	
K-12	\$41.6	\$39.2	\$41.3
California Community Colleges	\$4.8	\$4.6	\$4.4
Other	\$0.1	\$0.1	\$0.1
Totals, Proposition 98	\$46.5	\$43.9	\$45.7
K-12			
Average Daily Attendance (ADA)	5,880,576	5,911,519	5,990,495
Amount per ADA	\$7,067	\$6,624	\$6,887

^a Dollar amounts reflect appropriation levels.

for instructional and library materials and \$22 million for a professional development program. While the K-12 budget actions did not substantially affect education programs in place in 2002-03, the actions taken did significantly reduce the minimum guarantee requirement for 2003-04 and beyond.

Significantly, Chapter 10x also eliminated a requirement that the state fully restore the Proposition 98 “maintenance factor” in 2003-04, which would have cost the state an additional \$3.4 billion for K-14 programs in 2003-04. Funding changes for 2003-04 are discussed below.

2003-04 K-12 Funding Changes

The net reduction in K-12 funding in 2003-04 from the *2002-03 Budget Act* is approximately \$300 million. This net change consists of increased funding for deferrals, enrollment growth, and increased retirement costs totaling \$1.65 billion, offset by numerous funding reductions totaling \$1.95 billion (see Figure 2).

Figure 2
Major K-12 Funding Changes
From 2002-03 Budget Act

2003-04
(In Millions)

Purpose	Amount
Net deferrals	\$550
Revenue limit growth	504
Public Employees' Retirement System offset reduction	459
Revenue limit deficit	-350
Instructional materials	-220
Public School Accountability Act	-164
Child care	-130
Deferred maintenance	-129

Major funding changes include:

- ***Growth and Cost-of-Living Adjustment (COLA) (\$504 Million)***. The budget includes \$504 million to accommodate a projected 1.34 percent growth in student attendance. The budget suspends the 1.8 percent COLA for 2003-04 (approximately \$550 million), but creates a “deficit factor,” requiring the state to build the foregone COLAs back into the funding base starting in 2005-06. The budget provides neither growth nor COLA for categorical programs with the exception of providing growth for special education. No deficit factor is created for foregone categorical growth or COLAs.
- ***Public Employees' Retirement System (PERS) Offset Reduction (\$459 Million)***. The state budget increases revenue limit funding by \$459 million to school districts to pay the increase in the cost of PERS for the school district classified employees (nonteaching) staff.
- ***Net Deferral Costs (\$550 Million)***. The budget package provides \$1.9 billion to cover program costs deferred from 2002-03 to 2003-04. This is an increase of \$550 million above funds provided in the 2002-03 budget for programs deferred from 2001-02.
- ***Revenue Limit Deficit (-\$350 Million)***. In addition to the foregone COLA, the package reduces revenue limits by \$350 million or 1.2 percent. The package creates a deficit factor for this \$350 million that must be restored in 2005-06.

➤ ***Instructional Materials (-\$220 Million).***

The budget eliminated \$145 million in one-time funding and \$75 million in ongoing funding for instructional materials aligned to the new state academic content standards. The package also delayed the timeline for school districts to purchase the new materials, and allowed school districts to continue to use textbooks from previous adoptions.

➤ ***Public School Accountability Act (-\$164 Million).***

The budget package reductions include reducing funding for the Immediate Intervention for Underperforming Schools Program by \$85 million because of schools exiting this intervention program, and \$77 million in savings because the state is not providing rewards to schools improving their academic achievement in 2003-04.

➤ ***Child Care (-\$130 Million).*** The budget package approved by the Legislature (1) reforms the state's subsidized child care system by modifying current eligibility rules and reimbursement rate limits and (2) spends additional federal funds on child care. By these actions, the state will achieve \$349 million in General Fund savings compared to current practice—\$130 million less than the level provided in the *2002-03 Budget Act*.

➤ ***Deferred Maintenance (-\$129 Million).*** The budget reduces funding for deferred maintenance by \$129 million. Since this program has a dollar-for-dollar local match, school districts may reduce

local contributions to deferred maintenance by a similar amount.

➤ ***Mandates (-\$125 Million).*** The package provides virtually no funding for state reimbursable education mandates, instead deferring funding for 36 mandates. We estimate the cost to fully reimburse school districts for these 2003-04 mandate costs would be \$300 million.

➤ ***Revenue Limit Equalization.*** Assembly Bill 1754 (Committee on Budget) repeals \$204 million appropriated for equalization originally provided as part of the 2002-03 budget package. The Assembly also took action in SB 1046 (Budget and Fiscal Review) to redirect \$50 million from specific categorical programs to fund school district equalization.

Budget Provides Local Flexibility

Assembly Bill 1754 provides school districts with three budget flexibility tools to help them mitigate the impact of the proposed funding reductions. The three flexibility options may be used to mitigate the \$350 million reduction to revenue limits and the impact of the foregone COLA. Specifically:

➤ ***Reduces Requirements on Local Reserves for Economic Uncertainty.*** School districts were previously required to maintain local reserves for economic uncertainty equal to at least 1 percent to 5 percent of their general purpose funding, depending on the size of the district. Assembly Bill 1754 reduces the reserve requirements by half to between

0.5 percent and 2.5 percent for the 2003-04 and 2004-05 fiscal years. Freed-up reserve funds could be used for any purpose.

- **Categorical Ending Balances Flexibility.** The bill allows school districts to access up to 100 percent of any categorical fund reserves for 2003-04 (except capital outlay, sinking funds, federal funds, Targeted Instructional Improvement Grants, Economic Impact Aid, special education, instructional materials, and accountability programs). These reserves may only be used to mitigate the impact of the \$350 million reduction to revenue limits and the impact of the foregone COLA.
- **Reduced Maintenance Funding Requirements.** Previously, schools districts which had received state school bond funds from Proposition 1A or Proposition 47 were required to use 3 percent of their local general funds on facility maintenance. Assembly Bill 1754 reduces the requirement to 2 percent for 2003-04.

Out-Year Impacts and the Education "Credit Card"

The budget package expresses legislative intent to guide future Proposition 98 appropri-

ations. First, AB 1756 (Committee on Budget) states legislative intent to not provide Proposition 98 funding in excess of the minimum guarantee in 2003-04 or 2004-05. Second, AB 1754 states that the first priority for increases in Proposition 98 funding is to restore approximately \$900 million in deficit factor related to COLA and revenue limit reductions. Further, AB 1754 states the intent of the Legislature to pay off some of the deferrals (discussed below) when the state provides additional Proposition 98 funds to meet maintenance factor requirements.

Because of the state's recent budget problems, the Legislature has opted to defer significant K-14 program costs to subsequent fiscal years rather than make additional spending cuts. The result has been a steadily growing balance on the state's education credit card. The 2003-04 budget package begins to reduce the balances on the education credit card. Figure 3 shows that the state ended 2002-03 with approximately \$3 billion of outstanding Proposition 98 liabilities. The 2003-04 budget package reduces these liabilities by \$310 million—to

Figure 3
Legislature Reduces Balance on the Education Credit Card

(In Millions)

	2002-03	2003-04
Deferrals		
Principal apportionment—K-12	\$1,089	\$1,089
K-12 categoricals	810	—
Mandate reimbursements	860	1,160
California Community Colleges	—	200
Prior Year Settle-Up Obligations	\$250	\$250
Totals	\$3,009	\$2,699

\$2.7 billion—by the end of 2003-04. The reduction represents the net impact of (1) paying off over \$800 million in K-12 categorical program deferrals, (2) making additional deferrals for the community colleges (\$200 million), and (3) not providing funding for reimbursement of education mandates (\$300 million) in 2003-04. Assembly Bill

1756 states the intent of the Legislature to defer funding for K-12 mandate reimbursements again in 2004-05.

*Prepared by the K-12 Education Section—
(916) 319-8333*



HIGHER EDUCATION

The budget provides a total of \$10.7 billion in General Fund and local property tax support for higher education in 2003-04. (This amount includes a \$200 million “loan” for community colleges, discussed in more detail below.) This is \$443 million, or 4 percent, less than the amount provided in 2002-03. When increased student fee revenue is included, however, total higher education funding *increases* by \$24 million, or 0.2 percent, from the 2002-03 level.

UNIVERSITY OF CALIFORNIA (UC)

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

- \$117 million to serve approximately 13,000 additional full-time equivalent (FTE) students (a 6.9 percent increase).
- \$24.4 million for lease-revenue bond payments.
- \$16.1 million for increased annuitant health and dental benefits.
- \$7.3 million for startup costs at UC’s new campus in Merced. (This is \$4 million less than the amount proposed in the Governor’s budget, and reflects the

Figure 1
Higher Education Budget Summary
General Fund and Local Property Tax Revenue

(Dollars in Millions)

	2003-04 Budget	Change From 2002-03		
		Amount	Percent	Percent Including Fee Revenue
University of California	\$2,902.1	-\$247.9	-7.9%	-1.0%
California State University	\$2,492.0	-\$214.9	-7.9%	-2.0%
California Community Colleges	\$4,576.0	-\$58.8	-1.3%	0.7%
General Fund ^a	(2,454.6)	(-166.7)	(-6.4%)	
Property taxes	(2,121.4)	(107.9)	(5.4)	
Student Aid Commission	\$682.9	\$81.7	13.6%	
California Postsecondary Education Commission	\$2.2	\$0.1	4.6%	
Hastings College of the Law	\$11.4	-\$3.0	-21.1%	4.4%
Totals, Higher Education	\$10,666.7	-\$442.9	-4.0%	0.2%

^a Adjusted to reflect ability to incur costs that are “deferred” to later fiscal years.

Legislature's intent that the opening of the campus be delayed from fall 2004 to fall 2005.)

In order to fund these augmentations, the budget reduces several programs from 2002-03 funding levels. Major reductions include:

- \$293 million in "unallocated" reductions. (As noted earlier, most of this amount would be backfilled with revenue from a student fee increase of about 30 percent.)
- \$37.8 million in funding for several outreach programs.
- \$19 million in funding for student services.
- \$16.5 million in academic and institutional support.
- \$15 million in funding for UC's Subject Matter Projects.
- \$12.5 million in funding for public service.
- \$10.2 million in research funding.

CALIFORNIA STATE UNIVERSITY (CSU)

The budget provides \$2.5 billion in General Fund support for CSU in 2003-04. This is \$215 million, or 7.9 percent, less than was provided in the prior year. However, most of this reduction (\$160 million) is offset by increased student fee revenue, for a net reduction of \$55 million, or 2 percent, from the prior year. Notwithstanding the reduction in total General Fund support, the budget provides CSU with a \$151 million augmentation to serve 22,881

additional FTE students (a 7.1 percent increase).

Major reductions offsetting enrollment funding include:

- \$204 million in unallocated reductions. (As noted earlier, most of this reduction would be backfilled by revenue from a student fee increase of about 30 percent.)
- \$58.1 million in academic and institutional support.
- \$53.5 million from increasing the student-faculty ratio from 18.9:1 to 19.9:1.
- \$53.2 million in funding for student services.
- \$12.6 million in funding for several outreach programs.

California Community Colleges (CCC)

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

Major features of CCC's budget include:

- \$57.9 million for enrollment growth of 1.5 percent, or 16,427 FTE students.
- \$90.7 million in new fee revenue, resulting from an increase in student fees from \$11 per unit to \$18 per unit.

- A shift of \$38 million from the Partnership for Excellence to financial aid programs. This funding is intended to encourage and assist students in applying for and receiving financial aid as a way to mitigate the impact of the fee increase on needy students.
- A reduction of \$25 million from “concurrent enrollment” programs which enroll high school students in CCC courses. Budget bill language would also restrict future funding for this program.
- Allows CCC to “defer” \$200 million in costs incurred in 2003-04 until 2004-05. In this way, CCC is able to increase its programmatic costs by \$200 million without a corresponding increase in its Proposition 98 appropriations in 2003-04. In effect, CCC will receive a \$200 million loan from 2004-05 funds.

Student Aid Commission

The budget provides a total of \$683 million for the Student Aid Commission. This is \$92 million, or 15 percent, more than 2002-03 expenditures. Of the total appropriation, \$652 million is for the Cal Grant programs, \$30 million is for the Assumption Program of Loans for Education, and the remainder is for three very small, specialized financial aid programs. The budget raises Cal Grant awards for UC and CSU students to cover anticipated fee increases and maintains all other award amounts at their current-year levels. In addition, UC and CSU operate their own financial aid programs for their students. Funding for these programs, which comes from student fee revenue, would increase by \$214 million, or 71 percent, in 2003-04.

*Prepared by the Higher Education Section—
(916) 319-8331*

IV

HEALTH

The 2003-04 budget sent by the Legislature to the Governor for final action would provide about \$14 billion from the General Fund for health, about a \$240 million or 1.7 percent decrease compared to the revised prior-year level of spending. Several significant aspects of the budget package sent to the Governor are discussed below.

MEDI-CAL PROGRAM

As passed by the Legislature, the budget provides about \$10.5 billion from the General Fund (\$28.7 billion all funds) for local assistance provided under the Medi-Cal Program. This amounts to about a \$40 million or less than 1 percent decrease in General Fund support for Medi-Cal local assistance.

Governor's Major Budget Reductions Rejected or Modified. The budget plan adopted by the Legislature rejected or significantly modified a number of the Governor's proposals for major reductions in Medi-Cal eligibility, provider rates, and optional services for beneficiaries. For example, proposals to scale back the past expansion of coverage for adults in working poor families and for the aged and disabled were not included in the final spending plan. A proposal to drop selected optional services for beneficiaries, such as acupuncture, was rejected, although dental and hearing aid benefits were reduced but not eliminated through various cost-containment actions.

The budget imposes a 5 percent rate reduction primarily for physicians, pharmacies, and managed care plans effective January 1, 2004 that would achieve General Fund savings of about \$115 million in 2003-04 and \$245 million in 2004-05. In effect, the measure modifies and narrows an administration proposal that originally called for a 15 percent reduction in rates that would also have affected nursing homes. Under the final budget plan, nursing homes will receive some modest rate increases in 2003-04 rather than rate reductions.

Tighter Eligibility Procedures. The spending plan also assumes \$194 million in General Fund savings on caseload from ensuring that county workers complete redeterminations of Medi-Cal eligibility in a more timely manner. The budget plan also assumes that about \$21 million in savings would be achieved in 2003-04 due to the enactment of a semiannual reporting process to verify Medi-Cal eligibility of adult beneficiaries in lieu of an administration proposal to reestablish quarterly status reporting for these beneficiaries.

Increased Antifraud Efforts and Cost Containment. The budget plan scaled back an administration proposal to add 315 positions to increase departmental staffing for various expanded antifraud efforts. The revised approach approved 161.5 positions and focused generally on activities with the highest initial savings to the General Fund. The Legislature also agreed to a number of other specific

proposals proposed by the administration to slow the growth in the cost of Medi-Cal benefits through changes in the way it purchases drugs and medical supplies.

Accounting Shift. The budget plan achieves one-time savings of \$930 million in 2003-04 by shifting the budgeting for Medi-Cal benefits from an accrual to a cash basis of accounting. This means that funding would no longer be appropriated to pay for services based upon the date when a medical service was rendered, but according to when the bill for a medical service was paid. The state would in effect shift expenditures for some services that would otherwise have been paid for out of the 2003-04 budget appropriation into the budget for the following fiscal year.

Change in Federal Share of Costs. The Department of Health Services portion of the Medi-Cal budget reflects the receipt by the state of about \$900 million in additional federal funds over the 2002-03 and 2003-04 state fiscal years from an anticipated temporary increase in the federal share of support for the program. This increase in federal funds allowed an offsetting reduction in the General Fund budget for Medi-Cal.

Further Reductions in 2004-05. The budget plan includes several measures intended to slow the growth of Medi-Cal next year. Cost-of-living increases for nursing homes would be suspended in order to save an estimated \$64 million and rates paid for inpatient hospital care would be limited to save an additional \$70 million during 2004-05.

HEALTHY FAMILIES

The budget plan provides about \$294 million from the General Fund (\$954 million all funds) for local assistance under the Healthy

Families Program during 2003-04. This reflects an overall increase of about \$258 million (all funds) or 37 percent in annual spending for the program. General Fund spending for Healthy Families local assistance would increase by about \$268 million. This reflects an assumption in the budget plan that all remaining tobacco settlement revenues received by the state would be securitized during 2003-04 and thus would no longer be available specifically for the support of the program.

In addition to caseload growth, the budget plan provides an additional \$154 million in county and federal funds to implement a new program to support local health insurance initiatives for children.

Finally, the budget plan assumes that the rates paid to health plans would be limited to achieve about \$9.6 million in savings in 2004-05.

DEPARTMENT OF DEVELOPMENTAL SERVICES (DDS)

The budget provides nearly \$2.1 billion from the General Fund (\$3.4 billion all funds) for services to individuals with developmental disabilities in developmental centers and regional centers. This amounts to an increase of about \$230 million and 12.3 percent in General Fund support over the revised prior-year level of spending.

Community Programs. The 2003-04 budget includes a total of \$1.7 billion from the General Fund (\$2.6 billion all funds) for community services for the developmentally disabled, an increase in General Fund resources of about \$210 million over the prior fiscal year. In enacting this budget plan, the Legislature rejected an administration proposal to save about \$50 million in 2003-04 by establishing statewide stan-

dards for the purchase of services, but did adopt various substitute cost-containment actions. The Legislature also agreed to the development of a financing system requiring copayments by some families of children with developmental disabilities that would be implemented in 2004-05. An administration proposal to shift habilitation services from the Department of Rehabilitation to DDS' Regional Centers was adopted but modified to delay the change until 2004-05.

Developmental Centers. The budget provides a total of \$377 million from the General Fund for operations of the developmental centers (almost \$700 million all funds), about a 3.5 percent increase in spending above the level of the prior fiscal year. The Legislature also accepted an administration proposal to initiate the closure of the Agnews Developmental Center.

DEPARTMENT OF MENTAL HEALTH

The budget provides about \$872 million from the General Fund (\$2.3 billion all funds) for mental health services provided in state hospitals and in various community programs. This amounts to about a \$26 million or 3.1 percent increase in General Fund support overall over the revised prior-year level of spending for mental health programs.

Community Programs. The 2003-04 budget includes about \$320 million from the General Fund (\$1.5 billion all funds) for local assistance for the mentally ill, about a 1.7 percent decrease in General Fund support compared to the revised prior-year level of spending.

The budget provides a \$60 million increase in expenditures for mental health services for children under the Early and Periodic Screening, Diagnosis and Treatment program. The Legislature approved about a \$12 million reduction in funding for mental health managed care plans and reduced the Early Mental Health Initiative by \$5 million—in both cases approving lesser cuts than those initially proposed by the administration. The Legislature also shifted \$69 million in costs for a state-mandated program for local mental health services for special education students to federal special education funding.

State Hospitals. The budget provides a total of about \$500 million from the General Fund for state hospital operations (about \$640 million all funds). The \$28 million or 6 percent increase in General Fund resources was due primarily to adjustments for growth in caseload and operating expenses.

*Prepared by the Health Section—
(916) 319-8350*

V

SOCIAL SERVICES

General Fund support for social services programs in 2003-04 totals \$9.3 billion, an increase of 5.4 percent over the prior year. The budget provides full-year funding for the June

2003 California Work Opportunity and Responsibility to Kids (CalWORKs) and Supplementary Security Income/State Supplementary Program (SSI/SSP) cost-of-living adjustments (COLAs), but provides no funding for new COLAs during 2003-04. Figure 1 presents the major General Fund changes in the *2003-04 Budget Bill* and related legislation.

SSI/SSP

The budget provides funding for the June 2003 COLA, resulting in General Fund costs of \$281 million in 2003-04. The budget suspends the January 2004 state COLA for a savings of \$104 million in 2003-04 and full-year savings of

\$213 million in 2004-05. The budget does pass along the federal COLA which is applied only to the federal SSI portion of the grant.

Figure 1

Major Changes—Social Services Programs 2003-04 General Fund

(In Millions)

Department/Program	Change From Prior Law
Department of Social Services (DSS)—SSI/SSP	
Suspends January 2004 COLA	-\$104.0
DSS—CalWORKs	
Replaces General Fund with Employment Training Funds	-\$26.0
No COLA due to elimination of tax relief	—
Redirects TANF funds to Child Welfare Services	-11.0
DSS—Licensing	
Reduces licensing inspection visits	-\$5.3
Increases licensing fees (revenues)	-10.2
DSS—Food Stamps	
Provides transitional Food Stamps benefits	\$1.6
Department of Child Support Services	
Allocates 25 percent of automation penalty to counties	-\$52.1
Adopts various reforms to increase collections and incentives	-42.0
Increases funding to establish medical support orders (net savings)	-5.2
Department of Rehabilitation	
Reduces provider rates in Work Activity and Supported Employment Programs	-\$4.2
Deletes statutory provider rate adjustment	-9.7
Department of Community Services and Development	
Eliminates Naturalization Services Program	-\$2.9
Eliminates Mentoring Program	-1.0
Department of Aging	
Reduces funding for Senior Companion Program	-\$1.5
Eliminates funding for Foster Grandparent Program	-1.1
Total	-\$274.6

CALWORKS

June and October 2003 COLAs. The budget provides funding for the June 2003 COLA, resulting in combined General Fund/Temporary Assistance for Needy Families (TANF) costs of \$126 million in 2003-04. Pursuant to current law, the October 2003 COLA is contingent upon continuation of vehicle license fee relief. Because this fee relief has been eliminated, there is no October COLA (which would have cost \$91 million in TANF funds in 2003-04 and resulted in General Fund costs of \$121 million in 2004-05).

Other Changes. Budget legislation increases the appropriation from the Employment Training Fund for support of the CalWORKs program from \$30 million in 2002-03 to \$56.4 million in 2003-04. This transfer results in General Fund savings of \$26.4 million in CalWORKs compared to the prior year, with a corresponding reduction in funds available for Employment Training Panel programs. Finally, the budget shifts \$11 million in TANF funds to offset General Fund costs in Child Welfare Services.

COMMUNITY CARE LICENSING

Reduction in Licensing Inspection Visits. With the exception of certain facilities, budget legislation (1) eliminates the requirement that licensed facilities be visited annually or triennially and (2) generally limits “regular” follow-up visits to a random sample of 10 percent of all licensed facilities. The reduction in annual visits results in savings of \$5.3 million General Fund.

Fee Increases for Licensing. Budget legislation (1) increases licensing fees for adult and residential facilities by 25 percent, (2) doubles the fees for child care facilities, and

(3) establishes a new “per home” fee to be paid by foster family agencies. In addition, the budget suspends the current fingerprint fee exemption for new caregivers working in facilities serving six or less individuals. Together, these fee changes result in additional revenues of \$10.2 million.

FOOD STAMPS

Temporary Food Stamps. Budget legislation provides five months of transitional Food Stamp benefits to eligible families who are leaving CalWORKs cash assistance. This change results in General Fund costs of \$1.6 million (for administration and state-funded food coupons for federally ineligible legal immigrants) and an inflow of approximately \$44 million in federally funded Food Stamps coupons for California families.

DEPARTMENT OF CHILD SUPPORT SERVICES

Collections Reform Package. The budget includes a series of reforms that result in net savings of \$42 million. These reforms include reducing the amount of default support orders; establishing a compromise payment program for parents owing back child support; and requiring local child support agencies to verify income and, when necessary, seek appropriate support order modifications. Implementation costs of \$2.5 million are more than offset by (1) estimated \$39.2 million in increased revenues from higher collections and (2) \$5.6 million in estimated increased federal performance incentives.

County Share of Federal Automation Penalty. The budget establishes a 25 percent county share for the child support federal automation penalty. Although prior law

apportioned automation penalties to counties, the state had absorbed such penalty costs through discretionary annual budget act appropriations through the end of 2002-03. For 2003-04, counties will pay \$52.1 million of projected penalty costs resulting in an identical increase in General Fund revenues.

Increased Medical Support Order

Enforcements. The budget provides \$1 million from the General Fund for the Department of Child Support Services to increase its efforts to establish medical support orders. The projected increase in medical support orders results in estimated Medi-Cal savings of \$6.2 million (for a net savings of \$5.2 million).

DEPARTMENT OF REHABILITATION

The budget reduces Supported Employment Program provider rates by 2.5 percent and Work Activity Program provider rates by 5 percent. In addition, the budget suspends the provider rate adjustment for 2003-04. These changes result in General Fund savings of \$14 million compared to prior law.

OTHER REDUCTIONS

The budget eliminates the Naturalization Services Program and the Mentoring Program, both operated by the Department of Community Services and Development, for a combined savings of \$3.9 million. Finally, the budget reduces programs in the Department of Aging by \$2.6 million.

*Prepared by the Social Services Section—
(916) 319-8353*

VI

JUDICIARY & CRIMINAL JUSTICE

The budget bill passed by the Legislature contains \$8.9 billion for judicial and criminal justice programs, including \$7.5 billion from the General Fund. The total amount is a decrease of \$326 million, or 3.5 percent, from 2002-03 expenditures. The General Fund total represents a decrease of \$340 million, or 4.3 percent, relative to 2002-03 expenditures. Below, we highlight the major changes in the judiciary and criminal justice budgets, as passed by the Legislature.

COURT RELATED FUNDING

The budget includes \$2.2 billion for support of trial courts. This amount includes \$1 billion from the General Fund; \$475 million transferred from counties to the state; and \$678 million in fine, penalty, and court fee revenues. The General Fund amount is \$59 million, or 5.4 percent, lower than the 2002-03 amount. The overall decrease reflects reduced spending for court operations and increased fees to cover costs that would otherwise accrue to the General Fund. These are discussed below in more detail.

Court Operations Reductions. The budget bill passed by the Legislature includes a reduction of approximately \$95 million to the court operations budget. Based on discussions with court budget staff, these reductions will be achieved through a variety of approaches, including hiring freezes, voluntary furloughs, and reduced expenditures for some aspects of court security. In lieu of the governor's proposal to

allow the courts to competitively contract for court security, the Legislature adopted legislation establishing a court security workgroup to develop and implement policies to reduce and contain growth in court security costs. This is projected to result in \$11 million savings in 2003-04.

New and Increased Court Fees. The budget offsets General Fund spending for the courts by approximately \$150 million by enacting a variety of new and increased court fees. (This amount also includes existing fees which will be transferred from the counties to the courts.) Figure 1 shows the prior and new/increased court fees and the projected increased revenues associated with them.

CORRECTIONS

The budget contains \$5.1 billion from the General Fund for support of the California Department of Corrections, a decrease of \$57 million, or 1 percent, below the revised 2002-03 level. This overall reduction reflects spending increases (for inmate population growth, for example) as well as spending decreases.

The Legislature made reductions totaling more than \$160 million. The Legislature assumed that most of this amount—approximately \$125 million—would be achieved through administrative policy changes aimed at reducing the inmate population and parolee recidivism.

Examples of such policy changes include restructuring the delivery of education programs to maximize the credits that eligible inmates could earn, expanding prerelease planning services for parolees, and implementing community-based sanctions for nonserious and nonviolent parole violators.

Other reductions include \$13 million from more efficient delivery of inmate health care services, \$10 million from closure of the Northern California Women's Facility, \$9 million from delaying the opening of the Delano II prison, and \$5 million from delaying the implementation of 500 substance abuse treatment beds.

DEPARTMENT OF THE YOUTH AUTHORITY

The budget provides \$344 million from the General Fund for support of the Youth Authority, a 6 percent reduction in comparison to 2002-03. The decrease primarily results from a projected decline in the ward population. As a result of the shrinking ward population, the Legislature closed the Karl Holton Youth Correctional Center in Stockton, as well as the male portion of the Ventura facility for 2003-04 savings of approximately \$4.5 million. The budget also adjusts for inflation the fees that counties pay to send juveniles to the Youth Authority, which is

projected to result in General Fund savings of \$6 million.

ASSISTANCE TO LOCAL LAW ENFORCEMENT

Citizens' Option for Public Safety (COPS) Program. The budget includes \$100 million to continue the COPS program, a decrease of \$16.3 million from the amount provided in 2002-03. The program provides discretionary funding on a per capita basis, for local police departments and sheriffs for front line law enforcement (with a

Figure 1

New and Increased Court Fees

	Fees		Increased Revenue (In Millions)
	Prior 2002-03	New/Increased 2003-04	
Trial Court			
New Court Security Fee	—	\$20	\$34.0
Undesignated Fees ^a	—	—	31.0
New Continuance Fee	—	100	26.3
New Complex Case Fee	—	500	18.1
New Court Reporter Fee ^b	—	25	16.3
Limited Jurisdiction Filing Fee	\$90	185	11.7
Graduated Probate Fee ^c	185	185-3,500	7.3
Small Claims Fee	35	60	2.4
Trial Motion Fee	23	33	1.2
Summary Judgment Motion Fee	100	150	0.8
Judicial			
Appellate Filing Fee	\$265	\$420	\$1.5
Transcript Fee	100	270	0.4
Supreme Court Filing Fee	265	420	0.3
Total	—	—	\$151.3

^a These are existing fees that will be transferred from the counties to the courts.

^b This is a new \$25 fee for hearings that are less than one hour. Currently, courts have a half- and full-day rate.

^c Fee varies depending on the value of the estate.

minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

High Technology Crime Programs. The budget eliminates \$18.5 million for grants to local law enforcement agencies for technology equipment purchases. However, it continues to provide \$10.2 million for the High Technology Theft, Apprehension, and Prosecution program, and \$3.3 million for the High Technology Identity Theft program.

War on Methamphetamine. The budget includes \$9.5 million for local law enforcement in the Central Valley for antimethamphetamine activities. This is a reduction of \$5.5 million from the 2002-03 funding level.

Law Enforcement Training/Rural and Small County Program. The Assembly passed SB 1044 (Committee on Budget and Fiscal Review), which appropriates a total of \$34.6 million to restore two local law enforcement programs: the Rural and Small County Law Enforcement program (\$18.5 million), and the Standards and Training for Corrections program (\$16.1 million). The Rural and Small County Law Enforcement program provides discretionary funds to supplement local law

enforcement resources. The Standards and Training for Corrections program reimburses for training of law enforcement personnel. The Assembly also passed SB 1042 (Committee on Budget and Fiscal Review), which authorizes the transfer of the \$16.1 million authorized in SB 1044 from the General fund to the Corrections Training Fund. These bills are awaiting Senate action.

ASSISTANCE FOR LOCAL JUVENILE JUSTICE PROGRAMS

Juvenile Justice Grants. The budget provides \$100 million, a reduction of \$16.3 million compared to the prior-year level. These funds go to county level juvenile justice coordinating councils to support locally identified needs related to juvenile crime.

Office of Criminal Justice Planning (OCJP). Phases-out OCJP by providing half-year funding and assigning programs to other state departments.

*Prepared by the Criminal Justice Section
(916) 319-8340*

VII

TRANSPORTATION

DEPARTMENT OF TRANSPORTATION

The 2003 budget, as adopted by the Legislature, provides total expenditures of \$6.5 billion from state special funds and federal funds for the Department of Transportation (Caltrans). This is a 4.6 percent reduction in comparison to the 2002-03 expenditure level. The budget provides approximately \$5.6 billion for highway transportation expenditures, including \$1.6 billion for capital outlay, \$1.2 billion for capital outlay support, \$1.9 billion for local assistance, and \$784 million for highway maintenance. The budget also provides \$267 million for Caltrans' mass transportation program, and \$476 million for the transportation planning program and departmental administration.

TRANSPORTATION LOANS AND TRANSFERS

In addition to funding the state's transportation programs, the 2003 budget provides for the use of transportation funds to aid the General Fund condition in a number of ways.

Proposition 42 Partially Suspended; Bulk of Revenue to Be Transferred Later. Under Proposition 42, approved by voters in March 2002, revenue from the sales tax on gasoline that previously went to the General Fund is to be transferred into the Transportation Investment Fund (TIF) for transportation purposes, beginning in 2003-04. Instead, the 2003 budget transfers to TIF only a portion of

the Proposition 42 revenue—\$289 million—and retains the remaining \$856 million in the General Fund. This amount will be transferred with interest for transportation purposes by June 30, 2009. Of the \$289 million transfer to TIF:

- \$189 million will be available for projects in the Traffic Congestion Relief Program.
- \$100 million is partial repayment to the State Highway Account (SHA) for loans it made in prior years to the Traffic Congestion Relief Fund (TCRF).

Repayment of Transportation Loans. The 2003 budget also provides for the repayment from the General Fund to the SHA of a \$173 million loan made in 2001-02. However, the budget defers \$500 million in loan repayment from the General Fund to the TCRF that was scheduled for 2003-04. Under current law, this loan will be repaid by June 30, 2006.

Figure 1 (see next page) summarizes the transportation loans, transfers, and repayments between the General Fund and various transportation funds, including the actions taken in the 2003 budget.

PTA "Spillover" Kept in General Fund. The budget retains in the General Fund up to \$87 million in spillover revenue that otherwise would accrue to the Public Transportation Account (PTA). Any excess spillover revenue will accrue to the PTA.

Aeronautics Account. The Assembly passed SB 1048 (Committee on Budget and

Fiscal Review) which repealed the transfer of \$4.8 million from the Aeronautics Account to the General Fund. This bill is awaiting Senate action.

CALIFORNIA HIGHWAY PATROL AND DEPARTMENT OF MOTOR VEHICLES

The 2003 budget provides about \$1.1 billion to fund the California Highway Patrol (CHP), a reduction of about \$100 million compared to the 2002-03 level. This reduction reflects rejection of the public safety surcharge on intrastate telephone calls. Of the total funding amount, the Motor Vehicle Account (MVA) support totals about \$1 billion.

With regard to the Department of Motor Vehicles (DMV), the budget provides \$683 million in departmental support, about the same level as in 2002-03.

Budget Assumes MVA Fee Increases. The CHP and DMV expenditure levels provided in the budget assume increases in a number of MVA fees to take effect in 2004 in order to address a significant shortfall in the account. Fees to be increased include fees for driver licenses, identification cards, and vehicle registration. The fee increases are projected to generate about \$163 million in additional revenue in 2003-04 and about \$330 million annually thereafter. The enabling legislation necessary to achieve these savings is yet to be acted upon by the Legislature.

*Prepared by the Transportation Section—
(916) 319-8320*

Figure 1
Transportation Loans/Transfers and Repayments^a

Year	To General Fund ^b			To Traffic Congestion Relief Fund ^c	
	From State Highway Account	From Traffic Congestion Relief Fund (TCRF)	From Transportation Investment Fund	From State Highway Account	From Public Transportation Account
2000-01	—	—	—	\$2	—
2001-02	\$173	\$238	—	41	\$180
2002-03	-173	1,145	—	534	95
2003-04	—	—	\$856	-100	—
2004-05	—	—	—	—	—
2005-06	—	-1,383	—	—	—
2006-07	—	—	—	-477	—
2007-08	—	—	—	—	—
2008-09	—	—	-856 ^d	—	—

^a Amounts do not include interest.

^b Positive numbers are amounts payable to the General Fund, negative numbers are payable from the General Fund.

^c Positive numbers are amounts payable to TCRF, negative numbers are payable from TCRF.

^d Repayment will be made to the Transportation Deferred Investment Fund.

VIII

OTHER MAJOR PROVISIONS

LOCAL GOVERNMENT

Vehicle License Fee (VLF). The budget assumes that the VLF will increase from the current effective rate of .65 percent to 2 percent beginning October 1, 2003. As a component of the VLF reductions that were enacted in 1998, current law provides that the state “backfill” (and thus make local governments whole) the difference between the lower VLF rate and the 2 percent rate, unless the state has “insufficient moneys” with which to make such payments. In June 2003, the Department of Finance made a determination that the state had insufficient moneys to provide any backfill to local government, and as a result of this determination, the backfill ended and the VLF will return to the 2 percent level in October 2003.

During the roughly 90-day period between when the General Fund backfill ended and the VLF rate will increase, local governments will only receive revenues based on the 0.65 percent VLF rate (with no General Fund backfill). The loss in local government revenue due to the lag time between the elimination of the backfill and the increase in the VLF is approximately \$825 million. The budget calls for these revenues to be repaid by the state by August 2006.

Currently, approximately one-quarter of VLF revenue is restricted to funding of “realignment” programs and three-quarters is sent to local governments as general purpose moneys. Under the budget plan, the percentage of these revenues restricted to realignment programs will

increase during 2003-04 such that the realignment programs will be held harmless. As a result of this shift, city and county general purpose revenues will bear the entire \$825 million loss.

Sales and Property Tax Swap—the “Triple Flip.” Beginning in 2004-05, the budget package temporarily redirects a share of the local sales tax (equal to one-half of 1 percent of taxable sales) to the state to use to repay the deficit reduction bonds. The budget package offsets local sales tax losses (almost \$2.5 billion in 2004-05) by redirecting to cities and counties a commensurate amount of property taxes from the Educational Revenue Augmentation Fund (ERAF). Increased state education apportionments, in turn, will mitigate K-14 district revenue losses associated with the redirection of ERAF monies. This swap of sales for property taxes ends after the deficit reduction bonds are repaid.

Redevelopment Agencies. The Senate budget package requires redevelopment agencies to shift \$250 million of redevelopment agency funds to the ERAF in 2003-04. The Assembly version of the budget also requires such a one-time shift to ERAF, but sets the amount at \$135 million.

Local Government Mandates (Noneducation). The budget package repeals six mandates and suspends local government requirements to implement 37 other mandates in 2003-04. The budget package defers (to an unspecified date) state funding to reimburse

local agencies for: (1) implementing 40 active mandates in 2003-04 (about \$200 million) and (2) unpaid prior-year mandate claims (about \$700 million).

Local Subventions. The budget package reduces funding for the Citizens' Option for Public Safety/Juvenile Crime Prevention Grants program by \$32.6 million (leaving \$200 million to be divided equally between the two programs).

Booking Fees. The Senate budget package eliminates the \$38 million continuous appropriation for local government booking fees as well as county authority to charge local agencies fees for booking people into county jail. The Assembly budget package, in contrast, maintains the continuous appropriation and county fee authority.

RESOURCES AND ENVIRONMENTAL PROTECTION

The 2003 budget, as adopted by the Legislature, provides about \$4.2 billion for resources programs and \$1.3 billion for environmental protection programs for 2003-04.

Of the \$4.2 billion for resources programs, \$1.8 billion is from bond funds and \$1.4 billion is from special funds. The remaining \$1 billion are General Fund and federal funds. This total amount is a decrease of about \$1.2 billion from estimated 2002-03 expenditures. This decrease largely results from the large one-time expenditures in 2002-03 from park and water bond funds.

Of the \$1.3 billion for environmental protection programs, \$715 million is from special funds and \$326 million is from bond funds. The remaining \$259 million are General Fund and federal funds. This total amount is a decrease of

\$273 million from estimated 2002-03 expenditures. This decrease largely results from large one-time bond-funded expenditures in 2002-03 in the State Water Resources Control Board.

Significant features include:

- The assumption of a number of resources-related fee increases and new fees, creating General Fund savings of about \$120 million. These include fee increases for the regulation of water quality, dam safety, pesticides, and air quality; fishing and hunting licenses; and the use of state parks. The budget assumes *new* fees for state fire protection, timber harvest plan review and enforcement, water rights regulation, and air quality regulation. The enabling legislation necessary to achieve the full savings is yet to be acted upon by the Legislature.
- About \$1.2 billion from Proposition 50 bond funds for various resources and environmental protection programs. This amount includes about \$57 million that is shifted from the General Fund to Proposition 50 bond funds in the CALFED Bay-Delta program and to support the Habitat Conservation Fund. Other Proposition 50 expenditures include \$352 million for land acquisitions by the Wildlife Conservation Board, \$90.6 million for integrated regional water management grants, \$32.5 million for Colorado River/Salton Sea restoration, and \$25.2 million for desalination grants.
- \$831 million from Proposition 40 bond funds for various resources and environ-

- mental protection programs. This amount includes \$128.4 million (for expenditure by the California State Library) for historical and cultural endowment grants, \$35 million for state park acquisitions, \$23 million for clean school bus and diesel reduction (Carl Moyer) programs, and \$10 million for the California Farmland Conservancy Program.
- \$518 million from various state funds, including \$18 million from the General Fund, for the CALFED Bay-Delta Program, now overseen by the recently created California Bay-Delta Authority. (These CALFED expenditures are under seven resources and environmental protection departments.) Proposition 50 bond funds are the largest source of funding for the program, providing about \$349 million of the program's funding in 2003-04.
 - \$430 million in loans and transfers to the General Fund from various resources special funds. Major loans include \$182 million from beverage recycling funds, \$150 million from the Teleconnect Fund, \$23.7 million from various integrated waste management accounts, and \$20 million from the Public Interest (Energy) Research, Development and Demonstration Fund. Major transfers include \$38.8 million from the Colorado River Management Account.
 - \$116 million (General Fund) to pay the state's share of costs of local flood control projects.
 - \$70 million (General Fund) for the California Department of Forestry and Fire Protection for emergency fire suppression.
 - \$52.6 million from the Off-Highway Vehicle (OHV) Trust Fund for OHV capital outlay projects.
 - \$9 million (General Fund) reduction in the Department of Parks and Recreation due to savings from an administrative reorganization.
 - \$6 million augmentation from the Air Pollution Control Fund for equipment to evaluate fine particulate matter pollution.
 - Various General Fund program reductions. These include:
 - \$8.4 million reduction in the California Conservation Corps.
 - \$4.4 million reduction in the Department of Water Resources for state-wide planning and flood management.
 - \$1.3 million reduction in the Secretary for Resources.
 - \$879,000 reduction in the Secretary for Environmental Protection.

GENERAL GOVERNMENT

Employee Compensation And Retirement

The budget assumes \$1.1 billion (\$585 million General Fund) in reduced state employee compensation costs. This is equivalent to about a 10 percent decrease in employee salaries.

These savings would come from a combination of renegotiated contracts with employee unions and the elimination of up to 16,000 positions.

The budget does not provide funding for departments to pay annual retirement costs to the Public Employees' Retirement System. Instead, the budget package authorizes the issuance of \$1.9 billion in pension obligation bonds to pay for the state's contributions in 2003-04. These bonds would be paid back over five years.

In addition, the budget reduces a payment to the State Teachers' Retirement System supplemental benefit program (which protects retirees' benefits from the effects of inflation) by \$500 million on a one-time basis.

Statewide Issues

Workers' Compensation. The budget assumes the shift of costs for administering the workers' compensation system to an assessment on workers' compensation insurance policies (or claims paid by self-insured employers). Historically, the assessment has provided 20 percent of the funding for the system, with the General Fund providing the remaining funding. This change, scheduled to be effective November 1, 2003, results in General Fund savings of \$55 million in 2003-04 and more than \$80 million in subsequent years. The budget also saves \$23 million by shifting General Fund costs for the uninsured employers and subsequent injury programs to assessments. In addition, the budget assumes \$50 million (\$30 million General Fund) in savings from reduced state employees' workers' compensation claims due to the future enactment of workers' compensation reform legislation.

Enhanced Budget Powers for Administration. The budget and related legislation give new powers to the administration to reduce and alter appropriations during the 2003-04 year. A revised deficiency (Control Section 27.00) process allows the administration to transfer monies between funds to avoid budget deficiencies. In those cases where deficiencies remain, the process establishes new procedures for legislative approval. In addition, budget legislation gives the administration broad authority to make changes to a department's budget in order to ensure funding for critical programs.

State Contracting. The budget assumes \$100 million (\$50 million General Fund) in savings from reduced state contract costs. The budget and related legislation give the Department of General Services new powers to achieve these savings.

Indian Gaming Revenues. The state has signed compacts with 61 Indian tribes related to gaming on tribal lands. Currently, pursuant to these compacts, tribes contribute over \$100 million annually to state accounts for specified uses. The budget assumes that, as a result of the renegotiation of these compacts, Indian gaming tribes will contribute \$680 million in annual revenues to the General Fund.

Department Issues

Technology, Trade, and Commerce Agency. The budget eliminates the Technology, Trade, and Commerce Agency effective January 1, 2004. The elimination of the agency and many of its programs will save \$38 million in General Fund spending in comparison to 2002-03 funding. Among those programs eliminated are Film California First, which subsidizes film production costs, and the state's 12

foreign trade offices. Several programs will be retained and transferred to other offices in state government, including the small business loan guarantee program, the Film Commission, and the Infrastructure Bank.

Housing. The budget retains most funding for the state's housing programs. The plan provides \$40 million in savings by switching the funding source for housing projects from the General Fund to Proposition 46 housing bond funds. This action would not affect scheduled bond allocations until at least 2006-07.

Data Centers. The budget requires the Health and Human Services Data Center (HHSDC) to reduce the rates it charges state departments for services, generating \$20 million

in savings. In addition, budget legislation requires the development of a plan to consolidate HHSDC with the Stephen P. Teale Data Center by July 1, 2004.

Agency Secretaries. The budget reduces General Fund support for a number of agency secretaries by more than \$3 million.

Arts Council. The budget reduces General Fund spending for the Arts Council to \$1 million. The department received \$20 million in 2002-03.

Prepared by the following sections:

Local Government—319-8315

*Resources and Environmental Protection—
319-8323*

General Government—319-8310

APPENDIX 1

2003-04 Budget-Related Legislation

Bill Number	Author	Subject
AB 7x	Oropeza	Deficit bond
AB 1747	Budget Committee	Omnibus resources bill
AB 1748	Budget Committee	Resources: Proposition 40 and Proposition 50
AB 1749	Budget Committee	Booking fees
AB 1750	Budget Committee	Transportation: Proposition 42 suspension
AB 1751	Budget Committee	Transportation: Proposition 42 payback
AB 1752	Budget Committee	Omnibus social services bill
AB 1753	Budget Committee	Habilitation services
AB 1754	Budget Committee	Omnibus education bill
AB 1755	Budget Committee	Redevelopment funds
AB 1756	Budget Committee	Omnibus general government bill
AB 1757	Budget Committee	Technology, Trade, and Commerce Agency; OCJP
AB 1758	Budget Committee	Corrections
AB 1759	Budget Committee	Courts
AB 1762	Budget Committee	Omnibus health bill
AB 1763	Budget Committee	Proposition 99—Rural Health Project
AB 1766	Budget Committee	Property tax swap
AB 1767	Budget Committee	Motor Vehicle Account fees
AB 1768	Budget Committee	Vehicle license fees—Backfill repayment
SB 9	McClintock/Perata	Bureaucracy realignment and closure
SB 1042	Budget Committee	Local public safety
SB 1044	Budget Committee	Local public safety
SB 1045	Budget Committee	Redevelopment funds
SB 1046	Budget Committee	School equalization
SB 1048	Budget Committee	Aeronautics account
SB 1082	Burton/Brulte	Performance budgeting