



# Major Features of the 2001 California Budget

*On July 26, 2001, the Governor signed the 2001-02 Budget Act. In this report we highlight the major features of the budget package.*

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# I

## BUDGET OVERVIEW

On July 26, 2001, the Governor signed the *2001-02 Budget Act*. Along with 16 implementing measures (trailer bills, see Appendix 1), the budget authorizes total spending of \$103.3 billion in 2001-02, a \$2.4 billion increase from 2000-01. Of this total, \$78.8 billion is from the General Fund, \$21.3 billion is from special funds, and \$3.2 billion is from bond funds. Before signing the budget, the Governor used his line-item veto authority to delete \$554 million in spending that had been adopted by the Legislature, including \$499 million from the General Fund and \$55 million from special funds. Figure 1 shows the resulting total state spending by major program area.

As a result of a slowdown in California's economy and state revenues, the final budget reflects significant cutbacks from the spending levels proposed by the Governor in January 2001. Nevertheless, the budget significantly increases K-12 spending, and in other areas generally covers caseload and cost-of-living increases. It also includes targeted expansions to health programs, a moderate level of tax relief, and targeted funding for rural law enforcement activities. The spending plan assumes that the General Fund monies spent for electricity purchases in 2000 and 2001 will be fully reimbursed in the coming months from electricity revenue bond proceeds.

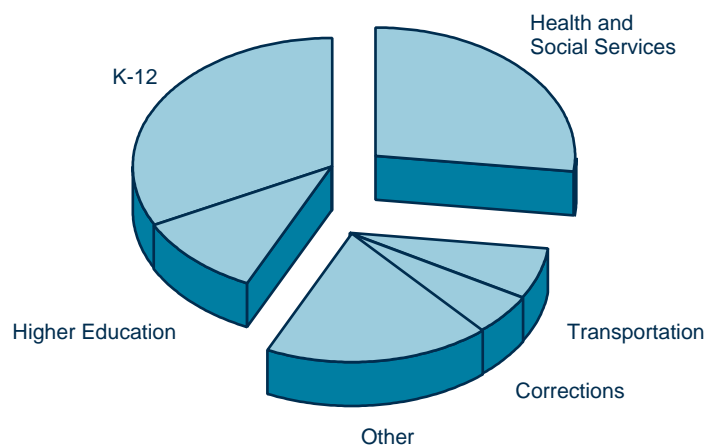
### GENERAL FUND CONDITION

Figure 2 shows the General Fund budgetary condition for 2000-01 and 2001-02. As a result of strong economic growth through 2000, the 2000-01 fiscal year ended with a reserve of \$6.3 billion. In 2001-02:

**Figure 1**

### Total State Spending by Major Program Area<sup>a</sup>

*2001-02 Budget Bill*



<sup>a</sup>Excludes bond funds, federal funds, and Local Public Safety Fund.

- ◆ *Revenues* are projected to fall by 3.7 percent from 2000-01, to \$75.1 billion. The decline is related to the general slowdown in statewide economic activity, as well as a sharp drop in revenues from capital gains and stock options in 2001.
- ◆ *Expenditures* are estimated to be \$78.8 billion, a 1.7 percent decline from the prior year. The drop is partly explained by a sharp drop in one-time expenditures—from \$5.6 billion in 2000-01 to \$1.5 billion in 2001-02.
- ◆ The *year-end reserve* is projected to decline to \$2.6 billion, or slightly below 3.5 percent of total General Fund revenues in the budget year.

**Figure 2**  
**The 2001-02 Budget General Fund Condition**

(In Millions)

	2000-01	2001-02
Starting balance	\$9,139	\$7,055
Revenues and transfers	78,003	75,105
<b>Total resources available</b>	<b>\$87,142</b>	<b>\$82,160</b>
Expenditures	\$80,087	\$78,763
<b>Fund balance</b>	<b>\$7,055</b>	<b>\$3,397</b>
Encumbrances	\$701	\$701
Set aside for litigation	7	100
<b>Reserve</b>	<b>\$6,347</b>	<b>\$2,596</b>

expanded coverage under the Healthy Families Program, as well as enhanced coverage for treatment of breast, cervical, and prostate cancer. It also provides a lump-sum payment of \$191 million to settle litigation (*Orthopaedic Hospital v. Belshé*) relating to payment rates for hospital outpatient services, and funding for rate increases for long-term care nursing facilities. The budget also fully funds projected Medi-Cal caseloads.

### MAJOR FEATURES OF THE BUDGET

**Taxes.** The budget provides approximately \$122 million (\$115 million General Fund) in tax relief in 2001-02. The main provision is a permanent 45 percent increase in the senior citizens' property tax assistance program. The budget also contains an agricultural and rural tax relief package, which includes sales tax exemptions for agricultural and forestry equipment, liquified petroleum gas, and diesel fuel used for agricultural purposes. Finally, the budget lowers—from 4 percent to 3 percent of annual revenues—the reserve threshold needed to trigger on or off one-quarter cent of the state's sales tax that was adopted in 1991.

**Education.** In the K-12 area, the budget includes full funding for inflation and enrollment growth, as well as targeted increases for low-performing schools, expanded child care, a settlement of the special education lawsuit, revenue limit equalization, and before/after school programs. In higher education, the budget provides full funding for enrollment growth, avoids any fee increases, and generally increases base funding for various programs.

**Health.** The budget adopts the Governor's proposal to use tobacco settlement funds to support

**Social Services.** The budget fully funds caseload and cost-of-living adjustments for the California Work Opportunity and Responsibility to Kids (CalWORKs), Supplemental Security Income/State Supplementary Program, and Foster Care programs. It also includes funds to (1) expand services for foster youth, (2) continue cash and food benefits for recent immigrants, and (3) raise the hourly wage for specified In-Home Supportive Services workers. Finally, the budget saves \$230 million in federal Temporary Assistance for Needy Families expenditures by reducing CalWORKs county performance incentives.

**Judiciary and Criminal Justice.** The budget fully funds inmate and ward populations for the Departments of Corrections and Youth Authority, respectively. Additionally, the budget includes funding in the Department of Corrections for increased health care services and the replacement of electromechanical doors. It also contains funding in the Department of Youth Authority for new initiatives related to mental health, substance abuse, and sex-offender treatment. The budget also includes monies for new or expanded initiatives in the areas of antimethamphetamine activities, forensic labs, high-technology crime programs, and rural law enforcement assistance programs.



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**Transportation.** Last year's budget included a five-year transfer (from 2001-02 through 2005-06) of General Fund sales taxes on gasoline to support traffic congestion relief efforts. This year's budget adopts the Governor's May Revision proposal to postpone the transfer for two years so that the transfers are now scheduled to take place from 2003-04 through 2007-08. To provide cash resources for transportation projects during the next two years, the budget authorizes \$560 million in loans from the Motor Vehicle Account, Public Transportation Account, and State Highway Account, which will be repaid beginning in 2006-07. In addition, the budget package includes a proposed constitutional amendment to *permanently* dedicate the sales taxes on gasoline to transportation-related projects beginning in 2003-04.

## GOVERNOR'S VETOES

As indicated previously, the Governor vetoed \$554 million of total spending (\$499 million General Fund) out of the budget approved by the Legislature. These vetoes were concentrated in higher education (\$178 million), K-12 education (\$130 million), and health and human services (slightly over \$100 million), and are discussed in greater detail throughout the remainder of this brief.

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## TAX PROVISIONS

As summarized in Figure 1, the budget agreement calls for a number of tax relief and assistance provisions. 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. The budget 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). 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 Transportation discussion).

### SALES TAX TRIGGER

The budget revises the process by which the one-quarter cent sales tax will trigger on or off. Originally approved as a means to address the budget shortfall in 1991, the one-quarter cent sales tax was structured 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) is projected to do so in the current fiscal year. Alternatively, the tax triggers on if the 4 percent threshold is not met in any subsequent year. The one-quarter cent sales tax triggered off for the first time in calendar year 2001.

Under the budget agreement, the trigger language for the one-quarter cent sales tax has been restructured. 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. Revenues for 2001-02 associated

<b>Figure 1</b>			
<b>2001-02 Budget Tax Package</b>			
<i>(In Millions)</i>			
<b>Provision</b>	<b>Fiscal Effect</b>		
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
<b>General Fund</b>			
Senior Citizens' Tax Relief <sup>a</sup>	\$75.0	\$79.0	\$80.0
Agricultural and Rural Tax Relief <sup>b</sup>			
Liquified Petroleum Gas <sup>c</sup>	\$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 <sup>d</sup>	11.4	1.1	1.1
Thoroughbred Racing Stock	1.3	1.6	1.6
Subtotals	\$114.7	\$114.5	\$115.5
<b>Special Funds</b>			
Diesel Fuel <sup>d</sup>	\$7.2	\$21.6	\$21.6
<b>Totals</b>	<b>\$121.9</b>	<b>\$136.1</b>	<b>\$137.1</b>

<sup>a</sup> Program treated as a General Fund expenditure.  
<sup>b</sup> 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  
<sup>c</sup> Excludes effect on Local Revenue Fund, Public Safety Fund, and local sales taxes.  
<sup>d</sup> 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.



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 Figure 1). All of 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:

- ◆ **Liquified Petroleum Gas.** Under the budget agreement, liquified 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.
- ◆ **Diesel Fuel.** Diesel fuel purchased for use in farming activities and food processing will be exempted from the General Fund portion of the SUT (the associated revenues currently are dedicated to the 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.

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## K-12 PROPOSITION 98

### TOTAL PROPOSITION 98 SPENDING

The budget package includes \$45.5 billion in Proposition 98 spending in 2001-02 for K-14 education. This represents an increase of \$2.6 billion, or 6.1 percent, from current-year spending. Figure 1 summarizes for the two fiscal 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 \$7,009 per pupil, which represents an increase of \$331, or 5 percent, above the revised current-year level of per-pupil spending. These numbers do not include \$250 million—

provided to defray energy-related costs at schools—that counts toward prior-year Proposition 98 obligations.

### 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

**Figure 1**

### Proposition 98 Budget Summary

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

	2000-01 Budget Package		2001-02
	As Enacted	Revised	
<b>K-12 Proposition 98</b>			
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 <sup>a</sup>	\$7,009
<b>California Community Colleges</b>			
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)
<b>Other</b>			
Other agencies	\$0.1	\$0.1	\$0.1
Loan repayment	0.4	0.4	0.4
<b>Totals, Proposition 98</b>	<b>\$42.8</b>	<b>\$42.9</b>	<b>\$45.5</b>
<i>General Fund</i>	\$30.4	\$30.4	\$32.0
<i>Local property taxes</i>	12.4	12.5	13.5

<sup>a</sup> Amount declines because of increased ADA over the period. Totals may not add due to rounding.



\$1.4 billion for a 3.87 percent cost-of-living adjustment which applies to most program funding.

The budget directs the remaining funds for other purposes, including new and existing programs (see Figure 2). The major increases are as follows:

- ◆ **Low-Performing Schools Initiative (\$200 Million).** The Legislature approved \$200 million for a new program focusing resources on schools in the lowest 20 percent of the academic performance index, with program details to be finalized in pending legislation.
- ◆ **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 (\$109 Million—Ongoing).** The budget, as approved by the Legislature, funded the Governor’s proposal for an ongoing increase of \$109 million for child care and development programs. This increase consisted of (1) \$67 million to cover the expansion of child care and state pre-school programs begun in January 2001 and (2) \$42 million for the California Work Opportunity and Responsibility to Kids Stage 3 “set-aside.” 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 resulting from additional families moving off Stage 2 eligibility during 2001-02. The Governor, however, vetoed \$33.5 million of these one-time monies. He stated that he would approve a restoration of \$24 million if legislation is enacted by January 31, 2002, that reforms the state’s subsidized child care programs.

- ◆ **Revenue Limit Equalization (\$40 Million).** The Legislature added \$40 million as a partial payment toward equalizing school districts’ revenue limit funding. The appropriation is included in AB 441 (Simitian), which also states legislative intent that by 2006-07 no school district’s base revenue limit be below the 90<sup>th</sup> 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

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
Equalization	40
Before/after school programs	30



reach this goal, the appropriation would be allocated to districts on a pro rata basis in 2001-02.

- ◆ **Before/After School Programs (\$30 Million).** The Legislature added \$30 million for the existing After School Learning and Safe Neighborhoods Partnership Program to provide grant funding for establishing before-school programs and expanding after-school programs, bringing annual state funding for this grant program to almost \$118 million.

**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 3 summarizes the major K-12 expenditures authorized from these one-time funds.

- ◆ **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 Finance (DOF) and the Department of Education 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 popula-

tion 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.

- ◆ **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 3 indicates, some of the programs funded from this account have spending implications beyond the 2001-02 fiscal year, and probably will require General Fund augmentations in 2002-03 and beyond.

**Figure 3**

**Major K-12 Expenditures One-Time Funds**

(In Millions)

Program	Amount
Special education settlement	\$270
School energy	250
Prior-year mandate claims	91
Math and reading professional development	80 <sup>a</sup>
Mandate claims	75 <sup>a</sup>
K-12 per-pupil block grant	68 <sup>a</sup>
PERS reduction (general purpose)	35 <sup>a</sup>
Child care (Stage 3 set-aside)	33

<sup>a</sup> Program has ongoing funding implications.

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# IV

## HIGHER EDUCATION

The enacted budget includes an increase of \$589 million in General Fund and local property tax support for higher education for 2001-02 compared to 2000-01. In general, the budget provides full funding for enrollment growth, avoids any fee increases, and increases base funding for various programs.

**Governor's Vetoes.** The Governor vetoed a total of \$160.5 million from the higher education budgets passed by the Legislature. The University of California (UC) budget was reduced by \$25.5 million through a variety of reductions. The California State University (CSU) budget was reduced by \$5.9 million, which was primarily due to the elimination of a \$5 million legislative augmentation for high cost programs. The California Community Colleges budget was reduced by \$126.6 million. This reflects a \$98 million baseline reduction in scheduled maintenance and equipment replacement, as well as the elimination of an \$11 million augmentation for Cal Grant outreach and a variety of smaller reductions. Figure 1 shows the changes in each higher education budget after the Governor's vetoes.

### UNIVERSITY OF CALIFORNIA

The final budget provides \$153 million, or 4.8 percent, more in General Fund support for UC in 2001-02 than in the prior year. The major augmentations include:

- ◆ \$75.6 million (\$19.7 million ongoing) for increased natural gas costs.

- ◆ \$59.8 million for a 2 percent increase in base support.
- ◆ \$65 million to accommodate a 4.1 percent growth in enrollment.
- ◆ \$21.5 million in lieu of raising student fees.
- ◆ \$20.7 million for additional support for the summer term.

### CALIFORNIA STATE UNIVERSITY

The budget provides \$157.6 million, or 6.4 percent, more in General Fund support for CSU in 2001-02 than in the prior year. Major augmentations include:

**Figure 1**

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

(Dollars in Millions)

	2001-02 Budget	Change From 2000-01	
		Amount	Percent
<b>University of California</b>	\$3,358.0	\$153.0	4.8%
<b>California State University</b>	\$2,622.4	\$157.6	6.4%
<b>California Community Colleges</b>			
General Fund	\$2,670.1	\$3.8	0.1%
Property taxes	1,830.5	136.0	8.0
<b>Totals, Community Colleges</b>	<b>\$4326.3</b>	<b>\$139.8</b>	<b>3.2%</b>
<b>Student Aid Commission</b>	\$634.6	\$137.9	27.5%
<b>Hastings College of the Law</b>	\$15.1	\$0.8	5.4%
<b>California Postsecondary Education Commission</b>	\$43.9	-\$ 0.1	- 2.6%
<b>Totals, Higher Education</b>	<b>\$10,960.3</b>	<b>\$589.0</b>	<b>5.5%</b>

- ◆ \$46.7 million for a 2 percent increase in base support.
- ◆ \$55.7 million to accommodate a 3 percent increase in enrollment.
- ◆ \$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 for the summer term.
- ◆ \$113.6 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.

### CALIFORNIA COMMUNITY COLLEGES

The final budget provides \$139.8 million, or 3.2 percent, more in General Fund support and property taxes in 2001-02 than in the prior year. Major augmentations include:

### STUDENT AID COMMISSION

The final budget appropriates \$634.6 million from the General Fund for the Student Aid Commission in 2001-02. This is \$137.9, or 27.5 percent, above expenditures in the prior year. The increase is for expanding the number of Cal Grant awards.

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# V

## TRANSPORTATION

The 2001 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 (see below). The budget includes approximately \$2.9 billion for capital outlay, \$1.1 billion for highway capital outlay support, \$1.5 billion for local assistance in the highway, aeronautics, and planning programs, \$794 million for highway maintenance, \$461 million for Caltrans' mass transportation program, and \$742 million for the administration, traffic operations, and legal programs.

### REFINANCING PLAN

**Funding for Traffic Congestion Relief Program to Be Deferred.** The significant reduction in Caltrans' funding relative to the current year is due primarily to the refinancing of the Traffic Congestion Relief Program (TCRP), as proposed by the administration as part of the May Revision. The refinancing proposal defers for two years the transfer of gasoline sales tax revenues from the General Fund to transportation purposes. The two-year deferral totals \$2.3 billion, \$1.1 billion in 2001-02 and \$1.2 billion in 2002-03.

The TCRP, enacted in 2000, 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 gasoline sales tax revenues is to be deposited in the Transportation Investment Fund (TIF) and 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. 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. Based on our review of the department's cash flow needs for TCRP projects, the funding deferral 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 (\$77 million and \$100 million, respectively).
- ◆ 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 1 shows how the refinancing plan affects each TCRP program element.

**Cash Flow Needs Will Be Met by Loans From Transportation Funds.** In order to ensure that the cash flow needs of projects in the TCRP and the STIP

**Figure 1**

**Traffic Congestion Relief Program (TCRP) Refinancing Proposal: Impact on TCRP 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 <sup>a</sup>	154	(\$77)	(\$154)	(678)
2002-03 <sup>a</sup>	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
<b>Totals</b>	<b>\$1,468</b>	<b>\$652</b>	<b>\$1,894</b>	<b>\$4,914</b>
Net Change <sup>b</sup>	—	118	473	-76

<sup>a</sup> Amounts in parentheses indicate amounts that refinancing plan would defer to future years.  
<sup>b</sup> 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 Transportation Investment Fund 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.

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) between 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.

**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. It would be capped at \$81 million in 2001-02 and \$37 million in 2002-03. Specifically, the Legislature required that any revenues generated above these caps be split evenly between the PTA and the General Fund.

**CONSTITUTIONAL AMENDMENT**

**Permanent Dedication of 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, 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.

**GOVERNOR'S VETO**

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 State Highway Account 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 depart-

ment to use unexpended personal services funds to contract out for engineering services.

With regard to the California Highway Patrol (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 \$1,750,000 legislative augmentation for ten additional CHP officers for farm labor vehicle inspections.

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## 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 includes the impact of the Governor's vetoes that totaled about \$77 million. Several significant aspects of the budget assigned by the Governor are discussed below.

### 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 the fund in the budget year and appropriated for recent and newly enacted expansions of health care programs summarized in Figure 1. 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

As passed by the Legislature, the budget provides about \$9.6 billion from the General Fund (\$26.4 billion all funds) for local assistance provided under the Medi-Cal Program.

**Caseload Adjustments.**

The budget plan passed by the Legislature reflects 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.

**Settlement of Hospital Litigation.** The 2001-02 spending plan provides 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. The budget also

**Figure 1**

### Tobacco Settlement Fund 2001-02 Expenditures

(In Millions)

<b>Total projected tobacco settlement funds the state will receive in 2001-02</b>	\$475.0
<b>Funds appropriated from new Tobacco Settlement Fund:</b>	
Healthy Families expansion:	
Children's program	\$52.4
Parents program (up to 200 percent of FPL <sup>a</sup> )	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 anti-tobacco program	20.0
Child Health and Disability Prevention program	63.3
<b>Total Expenditures</b>	<b>\$401.9</b>
<b>Remaining tobacco settlement funds going to General Fund</b>	<b>\$73.1</b>

<sup>a</sup> Federal Poverty Level.



provides about \$80 million from the General Fund to provide an ongoing 30 percent increase in hospital outpatient rates.

**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.

## HEALTHY FAMILIES

The budget provides about \$126 million from the General Fund (\$651 million all funds) for the operation of the Healthy Families Program during 2001-02. This reflects an overall increase of \$263 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—the majority of whom are newly eligible uninsured parents of children eligible for the program.

## BREAST AND CERVICAL CANCER TREATMENT PROGRAMS

**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 federal poverty level who were previously ineligible for the Medi-Cal Program. 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 \$9.1 million from the Tobacco Settlement Fund to provide treatment for uninsured and underinsured women who do not qualify for the

new Medi-Cal benefit. The Legislature also expanded the existing Breast Cancer Treatment Program to add cervical cancer treatment to the breast cancer services already provided under the program.

About 1,000 women will participate under the new federal option and the revised state treatment programs.

## PUBLIC HEALTH PROGRAMS

**New Public Health Programs.** The budget contains two public health program initiatives proposed by the Governor. Specifically, it appropriates from the Tobacco Settlement Fund \$20 million for youth smoking prevention programs, and \$20 million to provide treatment for prostate cancer for low-income uninsured men—double the funding provided in 2000-01.

**The AIDS Drugs Assistance Program.** The Legislature augmented the AIDS Drugs Assistance Program 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.

## DEPARTMENT OF DEVELOPMENTAL SERVICES

The budget provides nearly \$1.9 billion from the General Fund (\$2.7 billion all funds) for services to individuals with developmental disabilities. 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.

**Developmental Centers.** The budget provides a total of \$322 million from the General Fund for



operations of the developmental centers (\$600 million all funds), a reduction of \$105 million in General Fund monies 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 developmental centers, and the inclusion in last year's budget of significant one-time funding.

### 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 \$87 million in General Fund monies over projected prior-year expenditures. The budget provides a \$134 million increase in expenditures for mental health services for children under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program. The budget also includes an additional \$10 million from the General Fund to further expand services for homeless mentally ill adults.

**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 to adjust for actual patient population trends.

### 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 required by voter approval last November of Proposition 36, which mandates substance abuse treatment for certain offenders convicted of nonviolent drug possession offenses.

### 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 plan 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 would establish a statutory framework for the state's HIPAA compliance activities. The allocations of HIPAA funds are summarized in Figure 2.

**Figure 2**

**Health Insurance Portability and Accountability Act 2001-02 Budgeted Expenditures**

(In Thousands)

	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
<b>Total Budget</b>	<b>\$24,285</b>	<b>\$68,037</b>	<b>\$92,322</b>

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# VII

## SOCIAL SERVICES

General Fund support for social services programs in 2001-02 totals \$8.3 billion, an increase of 7.2 percent over the prior year. The budget funds cost-of-living adjustments (COLAs) for Supplemental Security Income/State Supplementary Services, California Work Opportunity and Responsibility to Kids (CalWORKs), and Foster Care. Figure 1 describes the major General Fund changes in the 2001-02 Budget Act and related legislation.

### FOSTER CARE

**Initiatives for Foster Youth.** The budget creates new programs and expands existing programs for current and former foster youth. Specifically, the budget provides a total of \$18 million from the General Fund to (1) create the Supportive Transitional Emancipation Program which extends foster care grants to certain emancipated foster youth up to age 21, (2) pilot test a foster youth health and education data portability project, (3) expand the number of youth served by the Transitional Housing Placement Program (THPP), and (4) increase the rate paid to THPP providers.

### CALWORKS

**County Performance Incentives.** The budget reduces county performance

incentives by a net amount of \$230 million (in federal Temporary Assistance for Needy Families [TANF] funds) by (1) eliminating the \$250 million appropriation in 2000-01 and (2) providing \$20 million in 2001-02 towards payment of the \$97 million arrearage in

**Figure 1**

### Major Changes—Social Services Programs General Fund and Federal TANF Block Grant Funds

(In Millions)

Department/Program	Change from Prior Law
<b>Department of Social Services (DSS)—Children's Programs</b>	
Expands transitional housing for foster youth	\$10.0
Provides funds for emancipated foster youth and data portability pilot	8.0
Eliminates funding for juvenile crime prevention program	-9.7
<b>DSS—CalWORKs</b>	
Reduces funds for previously earned county performance incentives	-\$230.0 <sup>a</sup>
Provides funds for federal vehicle asset test changes	35.8 <sup>b</sup>
Replaces General Fund with Employment Training Funds	-31.7
Delays expenditure of Welfare-to-Work matching funds	-59.6
Replaces General Fund with Children and Families First Commission funds	-25.0
<b>DSS—In-Home Supportive Services</b>	
Provides \$1 per hour wage increase for workers in "public authorities"	\$23.7
Provides 2.3 percent cost-of-living adjustment for nonpublic authority workers	6.4
<b>DSS—SSI/SSP</b>	
Eliminates sunset of benefits for post-August 1996 immigrants	\$17.0
<b>DSS—Food Assistance Program</b>	
Eliminates sunset of benefits for post-August 1996 immigrants	\$5.0
<b>Employment Development Department</b>	
Provides funding for competitive grants for faith-based organizations	\$4.0
<b>Department of Child Support Services</b>	
Delays county child support incentive payment program	-\$6.1
<b>Total</b>	<b>-\$252.2<sup>b</sup></b>

<sup>a</sup> Federal Temporary Assistance for Needy Families (TANF) funds.

<sup>b</sup> Combined TANF and General Fund.

previously earned incentives. No funding is included for new incentives earnings.

**Vehicle Asset Test.** Recent federal changes exempt certain low-value vehicles from the asset test for the purposes of determining food stamp eligibility. Because state law links the CalWORKs asset test to food stamp rules, these federal changes result in higher food stamp and CalWORKs caseloads. The budget includes \$35.8 million (combined TANF and General Fund) for costs associated with these changes.

**Policy Changes.** The budget makes policy changes to the CalWORKs program and budgeting methodology. Specifically, the budget (1) provides parental eligibility for CalWORKs services when a child is removed from the home but is likely to reunify, (2) establishes a process whereby underfunded counties may seek additional county block grant funds for employment services, and (3) requires the Department of Social Services, in consultation with stakeholders, to develop a new budgeting methodology for CalWORKs beginning in 2002-03. The budget includes no appropriation for these changes, and we estimate the net fiscal impact to be approximately \$2 million annually.

## IN-HOME SUPPORTIVE SERVICES

**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 trailer bill legislation suspends this revenue "trigger" requirement during 2001-02, resulting in an estimated General Fund cost of \$23.7 million. In addition, the budget provides \$6.4 million for a 2.3 percent COLA adjustment for In-Home Supportive Services providers who do not work in public authorities.

## SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PROGRAM

**Cash Assistance Program for Immigrants.** Budget legislation (1) eliminates the sunset of benefits for post-August 1996 immigrants (scheduled for October 1, 2001) and (2) increases (from five years to ten years)

the time period under which a sponsor's income is deemed to an immigrant. The net effect of these changes results in General Fund costs of \$17 million in 2001-02.

## FOOD STAMPS

**California Food Assistance Program (CFAP).** The CFAP provides state-only funded food stamp benefits to legal immigrants who are ineligible for federal benefits. The budget includes \$5 million to fund benefits for post-August 1996 immigrants whose eligibility was scheduled to sunset on October 1, 2001.

## EMPLOYMENT DEVELOPMENT DEPARTMENT

**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.

## VARIOUS GENERAL FUND SAVINGS

In addition to the changes described above, the budget, prior to the Governor's vetoes (discussed below), achieves General Fund savings of \$127 million through program reductions and fund transfers. Specifically, the budget (1) replaces \$25 million in General Fund monies for CalWORKs child care with an identical amount from the California Children and Families First Commission Child Care Account, (2) replaces an additional \$31.7 million in General Fund monies with an identical amount from the employment training fund for CalWORKs employment services, (3) defers \$59.6 million in Welfare-to-Work matching fund expenditures, (4) reduces the Juvenile Crime Prevention component of Child Welfare Services by \$4.7 million, and (5) delays implementation of a \$6.1 million county child support incentive payment program.

## GOVERNOR'S VETOES

The Governor vetoed \$23.6 million from the General Fund for various social services programs. In the Department of Social Services, the most significant vetoes include (1) \$7.6 million in various children's



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services programs, (2) \$4 million in emergency funds for the elderly and disabled, (3) \$4.2 million in various automation projects, and (4) \$2 million in food bank infrastructure improvements. In addition, \$1 million was

vetoed from the Employment Development Department's Faith-Based Initiative and \$2.7 million from the Department of Aging in support to local agencies.

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## JUDICIARY & 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. 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 \$20 million, or 2 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

\$71.2 million, or 1.6 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.

### 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 2.9 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 \$236.2 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 \$46.4 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.

**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.

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## OTHER MAJOR PROVISIONS

### CAPITAL OUTLAY

The Legislature approved nearly \$2 billion for state capital outlay (excluding highways and transit) as shown in Figure 1. Of this amount, nearly \$1.5 billion is financed with bonds (\$890 million general obligation bonds and \$632 million lease-payment bonds). The bonds primarily are used to finance projects for resources, higher education, and the Department of Mental Health. The Legislature also provided \$221 mil-

lion from the General Fund for a variety of projects in several state departments—including \$110 million for seven projects at the University of California.

Some of the major capital outlay projects and programs funded by the Legislature include:

- ◆ **Department of General Services**—\$15.2 million from general obligation bonds and

**Figure 1**

### 2001-02 Capital Outlay Programs As Approved by the Legislature

(In Thousands)

Department	Bonds <sup>a</sup>	General	Special	Federal	Total
<b>Legislative, Executive, and Judicial</b>	—	\$3,388	\$317	—	\$3,705
<b>State and Consumer Affairs</b>	\$18,148	7,545	—	—	25,693
<b>Business, Transportation, and Housing</b>					
Transportation	—	—	188,558	—	188,558
Other	—	—	8,343	—	8,343
<b>Resources</b>					
Coastal Conservancy	60,814	—	4,900	\$2,000	67,714
Parks and Recreation	191,450	—	7,348	1,500	200,298
Other	56,239	51,741	24,043	—	132,023
<b>Environmental Protection</b>	—	900	2,199	—	3,099
<b>Health and Human Services</b>					
Mental Health	349,287	3,102	—	—	352,389
Other	2,183	5,367	—	—	7,550
<b>Youth and Adult Corrections</b>	—	16,726	—	—	16,726
<b>Education</b>	—	2,568	—	—	2,568
<b>Higher Education</b>					
University of California	431,429	99,851	—	—	531,280
California State University	225,000	—	—	—	225,000
Community Colleges	156,097	—	—	—	156,097
<b>General Government</b>	31,992	6,118	672	36	38,818
<b>Totals</b>	<b>\$1,522,639</b>	<b>\$197,306</b>	<b>\$236,380</b>	<b>\$3,536</b>	<b>\$1,959,861</b>

<sup>a</sup> Includes \$890 million in general obligation bonds and \$632 million in lease-payment bonds.



\$1.8 million from the General Fund to seismically retrofit existing state buildings.

- ◆ **Department of Parks and Recreation**—\$191 million from general obligation bonds and \$9 million from special funds and federal funds for 51 specific projects and 12 capital outlay programs (such as property acquisition for wildlife habitat and parks).
- ◆ **Coastal Conservancy**—\$61 million from general obligation bonds for coastal conservation, restoration, and park enhancement projects.
- ◆ **Department of Health Services**—\$2.2 million from lease-payment bonds to develop construction documents for a 200,000 square foot phase III office building at the Richmond laboratory complex.
- ◆ **Department of Mental Health**—\$349 million from lease-payment bonds for construction of a 1,500-bed sexually violent predator facility adjacent to Pleasant Valley State Prison in Coalinga.
- ◆ **University of California**—\$100 million from the General Fund, \$207 million from general obligation bonds, and \$225 million from lease-payment bonds for 43 projects at 10 campuses and the Desert Research and Extension Center Laboratory.
- ◆ **California State University**—\$225 million from general obligation bonds for 28 projects at 20 campuses.
- ◆ **California Community Colleges**—\$156 million from general obligation bonds for 111 projects at 68 campuses and 9 off-campus centers.
- ◆ **Department of Veterans Affairs**—\$12 million from general obligation bonds for a new veterans' home in Lancaster and \$2.3 million

from the General Fund for projects at the Veterans' Home in Yountville.

**Governor's Vetoes.** The Governor vetoed a total of \$100 million from the state's capital outlay program summarized in Figure 1. The vetoes consist primarily of general obligation bond proposals under resources (\$73 million), Community Colleges (\$15 million), and the proposed new veterans' home in Lancaster (\$12 million).

## 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.

## RESOURCES

The 2001 budget, as adopted by the Legislature, provides a total of \$3.6 billion for resources programs,



of which \$1.3 billion is from the General Fund and \$1 billion is from bond funds. The remaining \$1.3 billion are special funds, federal funds, and reimbursements. This total amount is a decrease of about \$2.1 billion from estimated current-year expenditures. This decrease largely results from the one-time nature of large expenditures in the prior year from Propositions 12 and 13 (park and water) bond funds. Significant features include:

- ◆ \$585 million of Proposition 12 (parks bond) funds for various state and local park acquisitions and projects, including \$37.5 million for the acquisition of the Cornfields property in Los Angeles. In addition, the budget includes \$41 million in General Fund support for various park and habitat projects.
- ◆ \$554 million from various state funds, including \$81 million from the General Fund, for the CALFED Bay-Delta Program. (These CALFED expenditures are under nine departments including seven departments in the Resources Agency.) 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.
- ◆ \$46 million from Proposition 13 (water bond) funds for various non-CALFED-related water projects, including water supply, flood prevention, river protection, habitat restoration, and water conservation.
- ◆ \$55 million for the California Department of Forestry and Fire Protection for emergency fire suppression and \$9.9 million to enhance the department's fire-fighting capabilities for the budget year.
- ◆ \$44 million 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 the budget year.
- ◆ \$22.2 million (from the Electric Power Fund) for the Department of Water Resources to administer its new division that purchases energy for statewide use.
- ◆ \$21 million from the General Fund for River Parkway projects.
- ◆ \$15 million from tidelands revenues for an urban parks program.
- ◆ \$14.2 million for information technology projects in the Department of Fish and Game.
- ◆ \$12.4 million from the General Fund for soil erosion control, habitat acquisition and restoration, and public recreation projects in the Lake Tahoe basin.
- ◆ \$10.2 million for a computer-aided dispatching system for the Department of Forestry and Fire Protection.
- ◆ \$8.2 million for the California Conservation Corps to restore and enhance program quality and to replace equipment.
- ◆ \$4.7 million for Sudden Oak Death remediation.
- ◆ \$2 million for ongoing natural resource maintenance at state parks.
- ◆ \$1.4 million for additional staff for the California Coastal Commission to expedite review of local coastal plans and regulatory permits.

**Governor's Vetoes.** The Governor made the following major changes to the budget as approved by the Legislature:

- ◆ Reduced expenditures from various legislatively added park and habitat projects funded from Proposition 12 (parks bond) funds by \$62.5 million.



- ◆ Reduced General Fund support for various park and habitat projects by \$19.5 million.
- ◆ Reduced expenditures from Proposition 13 (water bond) funds by \$11.8 million for various non-CALFED-related water projects.
- ◆ Reduced General Fund support for River Parkway projects by \$3 million.
- ◆ Eliminated \$1.4 million from the General Fund for the California Coastal Commission to expedite the review of local coastal plans and regulatory permits.
- ◆ Reduced General Fund funding for Sudden Oak Death remediation by \$1 million.

## ENVIRONMENTAL PROTECTION

The 2001 budget, as adopted by the Legislature, provides about \$1.6 billion for environmental protection programs, including about \$1.1 billion for the support of various environmental protection agencies and \$473 million for local assistance. This total amount is an increase of about \$71 million, or 5 percent, over estimated 2000-01 expenditures. Significant features include:

- ◆ **Proposition 13 Water Bond.** The budget includes about \$275 million from Proposition 13 bond funds for local water quality, water recycling, and watershed protection projects. Of these bond funds, \$35.8 million has been allocated to specific projects that would improve beach water quality as part of a \$38.8 million Clean Beaches Initiative.
- ◆ **Settlement of 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 to assess and clean up urban contaminated sites ("brownfields") for redevelopment. The

budget also includes up to \$17 million for low-cost environmental insurance for brownfield development.

- ◆ **Air Quality Initiatives.** The budget includes a total of \$48 million (\$23 million from the General Fund and \$25 million from tidelands revenues) for a new program to reduce air emissions from diesel school buses, standby diesel generators, and other diesel sources. The budget also includes \$20 million (Motor Vehicle Account) to subsidize the purchase or lease of zero-emission vehicles. 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).

**Governor's Vetoes.** The Governor reduced funding for the Clean Beaches Initiative by a total of \$5 million (\$3.5 million Proposition 13 bond funds, \$1.5 million General Fund).

## OTHER

### 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**

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 that expired June 30, 2001. Presumably,

the results of these negotiations will be submitted to the Legislature for consideration prior to the 2001 legislative recess. We would note that a 1 percent salary increase for state employees would result in a cost of about \$110 million (\$55 million General Fund and \$55 million other funds). The budget does include 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 also 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 10 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.

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**2001-02 Budget-Related Legislation**

Bill	Author	Subject
ACA 4	Dutra	Transportation financing: dedication of state sales tax on gasoline.
AB 426	Cardoza	Tax relief (agriculture, seniors, sales tax trigger).
AB 427	Hertzberg	Foster Care.
AB 429	Aroner	Social services omnibus bill.
AB 430	Cardenas	Health omnibus bill.
AB 434	Keeley	Hatton Canyon acquisition; surplus property.
AB 435	Budget Committee	Resources: Department of Fish and Game automated licensing.
AB 438	Budget Committee	Transportation Congestion Relief Program refinancing: defer sales tax shift.
AB 440	Cardoza	Appropriation for minimum high technology equipment grants and seniors' tax relief.
AB 441	Simitian	K-12 school district equalization.
AB 443	Aanestad	Rural and small county law enforcement grants.
AB 445	Cardenas	School facilities fees.
SB 294	Scott	Firearms Dealer Inspections and Victims Recovery Resource and Treatment Centers.
SB 347	O'Connell	Education omnibus bill.
SB 742	Escutia	General Government omnibus.
SB 982	O'Connell	Special education mandates settlement.

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