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S T A T E  
**Budget**  
**Highlights**  
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Gray Davis, Governor  
State of California

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## OVERVIEW

Reflecting the current economic situation, the enacted 2003-04 Budget (as modified by subsequent major changes) includes General Fund expenditures that are at the lowest level since 1999-00. These expenditures also represent a \$6.7 billion reduction from the revised fiscal year 2002-03 expenditures, the largest State spending reduction since 1945, in terms of both dollar amount and percentage.

Although the 2003-04 Budget is balanced, it is acknowledged that the enacted Budget did not fully address the underlying Budget structural problem. Additional legislative actions will be required to prevent a re-emergence of a budget gap by June 2005.

The 2003-04 Budget continues the Davis Administration's priorities in the areas of education and public safety while protecting critical health and environmental programs. These priorities have been maintained despite a \$38.2 billion gap between expenditures and resources over the two-year period (2002-03 and 2003-04). The Budget closes this gap with a combination of program reductions and savings, fund shifts, loans and borrowing, and deficit financing. The Budget contains a June 30, 2004, General Fund reserve projected at \$2.2 billion.



**2003-04 Budget**  
**Addressing the \$38.2 Billion Gap**  
**(Dollars in Millions)**

	Amount	Percent of Solution
Cuts/Savings	\$17,589.6	44.6%
Fund Shifts	4,357.0	11.1%
Other Revenues	4,466.3	11.3%
Loans/Borrowing	2,326.2	5.9%
Deficit Financing	10,675.4	27.1%
<b>Totals</b>	<b>\$39,414.5*</b>	<b>100.0%</b>

Note: Numbers may not add due to rounding.

\* General Fund reserve increased since May Revision.



# THE ECONOMY

## Key Economic Indicators

(Annual Percent Change, except for New Housing)

	2002	Forecast	
		2003	2004
U.S. Real Gross Domestic Product	2.4	2.4	3.5
California Nonfarm Employment	-0.7	0.6	2.1
California Personal Income	0.9	3.1	4.9
California Consumer Price Index	2.4	2.9	2.4
California New Housing Units (Thousands of Total Units)	166	179	174

California's economy has begun to recover from the 2001 recession, but employment gains are as yet modest. The state's recession was centered in its high technology sectors and, as a result, Southern California has fared better than the San Francisco Bay Area in the last year and a half. Strong economic growth awaits a turnaround in the state's high-tech sector.



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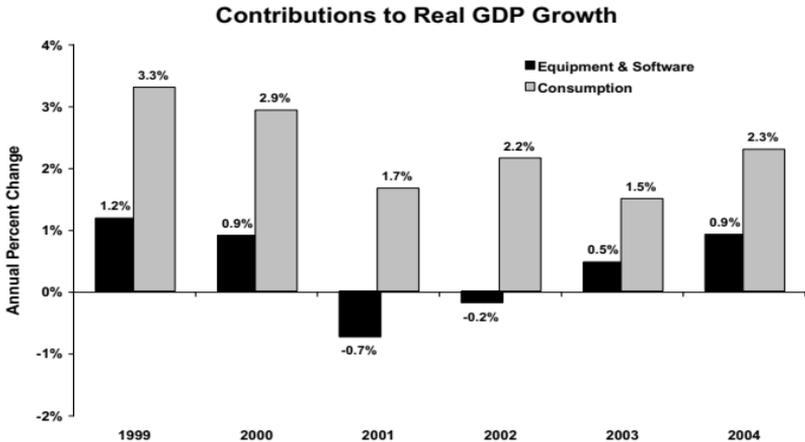
## The Nation

- ◆ The national recession ended in November 2001. The fourth quarter of 2001 marked the first quarter of growth in real gross domestic product (GDP) following three consecutive quarters of decline. During the first quarter of 2002, the economy expanded at a brisk 5 percent annual rate as businesses stopped slashing inventory investment. Growth in the last three quarters of 2002 was more moderate, but a summer surge in car sales produced above trend growth in the third quarter. For the year, real GDP increased by 2.4 percent. With war clouds hanging over the economy, 2003 started out sluggishly. However, the combination of tax cuts, low interest rates, and a reduction in war risk should lead to accelerating economic growth in the second half of the year. Full year growth in 2003 will be about the same as in 2002.
- ◆ Consumer spending continues to buoy the economy, and home sales remain very strong with mortgage rates at low levels. Consumer sentiment has improved since the end of major hostilities in Iraq but remains lower than during the latest recession. The recent rally in equity markets, rising home values, and higher disposable income are fortifying household balance sheets, but weak labor markets are having a sobering effect on consumers.
- ◆ Business investment remained subdued through the first quarter of 2003, but numbers from the second quarter of 2003 indicate a transition to improving investment. The turnaround in the second quarter was broad-based with spending on equipment and software and commercial structures both showing gains. However, inventories were a drag on investment, and spending on residential structures fell although remaining at a very high level. Inventory investment should add to GDP



growth for the rest of 2003, and better business confidence should result in a moderate up-tick in spending for equipment and software.

- ◆ After a modest 0.4 percent increase in government spending in the first quarter of 2003, government spending soared 7.5 percent in the second quarter. Much of the volatility resulted from sharp swings in defense spending which was down 3.3 percent in the first quarter but up 44.1 percent in the second. With the big increase in second quarter spending, federal spending will only contribute modestly to growth for the remainder of the year. Spending by state and local governments will be flat.



## California

- ◆ The California economy has closely tracked a sluggish national economy over the last year. From June 2002 to June 2003, nonfarm payroll employment fell by 0.3 percent in both the state and the nation. For the state, that was a decline of 49,800 jobs. Employment rose by 29,100 in Education and



Health, 22,000 in Financial Activities, 13,500 in Construction, 13,000 in Leisure and Hospitality, and 8,300 in Trade, Transportation, and Utilities. Employment fell by 77,100 in manufacturing, 28,600 in Information, 13,300 in Professional and Business Services, 8,200 in Other Services, 7,600 in Government, and 900 in Natural Resources and Mining. During that time, state unemployment varied narrowly between 6.6 percent and 6.9 percent.

The hemorrhage of jobs in the San Jose and San Francisco metropolitan areas has slowed considerably. Nonfarm payroll employment was down 5.0 percent in June 2003 from a year earlier in the San Jose metropolitan area and 2.3 percent in the San Francisco metropolitan area. A year earlier, employment was down 10.2 percent and 6.8 percent, respectively, in the two metropolitan areas. By the same measure, however, job growth has slowed over the last year in the Riverside-San Bernardino, San Diego, and Sacramento metropolitan areas.

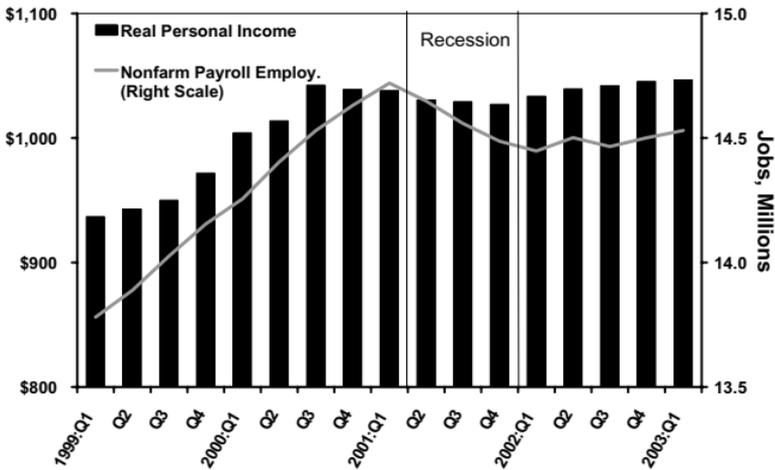
- ◆ Despite the weak employment picture, economic output appears to be growing in California. California personal income, a proxy for Gross State Product, grew for the fifth consecutive month in the first quarter of 2003, according to the U.S. Commerce Department. In addition, State personal income tax withholding was up 4.9 percent in the first seven months of 2003 from a year earlier.
- ◆ Real estate markets remain a source of strength for the state. Permits for almost 99,000 new housing units were issued in the first six months of 2003, up 25 percent from the year-earlier level. For the year as a whole, residential construction is likely to be at its highest level since 1989. Private nonresidential building construction continues to slow, though, primarily because of lagging office and industrial construction in the San



Francisco Bay Area. The median price of existing, single-family homes sold in California in June was a record-high \$376,260, up 15.9 percent from a year ago. Sales were up 7.2 percent from a year earlier.

- ◆ California will continue to track the national economy. Some industries still have too much capacity, notably manufacturing, telecommunications, and information, which is dampening prospects for a strong recovery in the near-term. Moreover, if productivity continues to grow as quickly as in the last year, improvement in the labor markets will likely come first in the form of fewer layoffs and longer workweeks for employed workers. Actual employment gains will trail behind, and declines in the unemployment rate will come even later.

### Jobless Recovery California



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## REVENUES

General Fund revenues are estimated to be \$70.9 billion for 2002-03 and \$73.6 billion for 2003-04. The 2003-04 May Revision, which included the following proposals, was the starting point for these estimates:

- ◆ Extending the Manufacturer's Investment Credit (MIC) until 2009 and clarifying that the MIC only applies to manufacturing firms.
- ◆ Preventing banks from using Regulated Investment Companies to avoid paying California tax.
- ◆ Crediting excess sales tax revenues from the sale of gasoline to the General Fund.
- ◆ Modifying the real estate withholding requirements to allow the option of withholding either 3.33 percent of the sales price or 9.3 percent of the gain.
- ◆ Suspending for one more year the Natural Heritage Preservation Tax Credit and the Teacher Retention Tax Credit.
- ◆ Authorizing the Employment Development Department to participate in the Treasury Offset Program.



The Budget Act revenue estimate (as modified by subsequent legislation) utilized the Legislative Analyst's Office revenue forecast, which was \$500 million higher than the May Revision, as well as including the following provisions which were enacted:

- ◆ Preventing banks from using Regulated Investment Companies to avoid paying California tax (\$10 million).
- ◆ Crediting excess sales tax revenues from the sale of gasoline to the General Fund (\$87 million).
- ◆ Authorizing the Employment Development Department to participate in the Treasury Offset Program (\$6 million).
- ◆ Improving collection of the use tax (\$10.2 million) and tax collections from non-filers (\$4.4 million).
- ◆ Reinstating the sales tax exemption for bunker fuel (\$8.8 million loss).
- ◆ Selling the second tobacco securitization bond, for a gain of approximately \$2.3 billion in 2003-04.
- ◆ Increasing existing penalties and creating new penalties for the purpose of curtailing the use of abusive tax shelter transactions (\$90 million).

Note that the revenue estimates do not include the fiscal recovery bonds that total approximately \$10.7 billion in 2002-03.



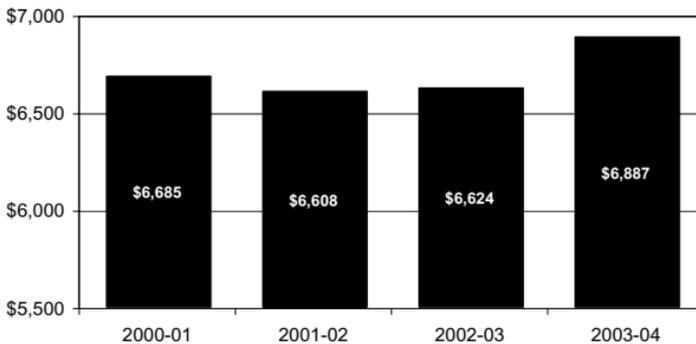
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# EDUCATION

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## K-12 Education

K12 Education Funding Per Pupil  
Proposition 98



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### Overview

- ◆ Total K-12 funding from all sources is now \$55.7 billion, an increase of \$1.3 billion over 2002-03.
- ◆ Total 2003-04 per-pupil expenditures from all sources are \$9,302.



- ◆ Proposition 98 spending for K–12 education is \$41.3 billion, an increase of \$2.1 billion, or 6.7 percent over the previous year.
- ◆ The Budget provides an additional \$215 million in funding in 2003-04 above the Proposition 98 minimum guarantee as currently estimated.
- ◆ Proposition 98 per-pupil spending has increased by \$263, or 4.0 percent, to \$6,887. This per pupil spending level is \$1,131 more than the 1998-99 level, about a 3.7 percent average annual increase over the four-year period.
- ◆ The Budget preserves key education priorities including classroom instruction, class size reduction, special education, the State’s accountability system, and resources to increase achievement in under-performing schools.

**Revenue Limits**—Revenue limit funding constitutes the basic funding source for classroom instruction. The Budget provides a net increase of nearly \$1.2 billion to district and county office revenue limits. The Budget reduces basic revenue limit funding by \$350 million, or 1.2 percent to \$28.9 billion. Legislation accompanying the Budget provides substantial flexibility in use of reserves and unspent balances to offset this reduction and other school budget reductions. Legislation also pledges that any growth in Proposition 98 funding shall first be applied to restoring this reduction. Cost of living adjustments are not funded for 2003-04.

- ◆ **Enrollment Growth**—The Budget includes \$576.7 million to provide enrollment growth increases for apportionments (\$526.7 million) and Special Education (\$50 million). This reflects the Administration’s goal of preserving core K–12 services even during difficult fiscal times.
- ◆ **California Public Employee Retirement System**—The Budget provides \$433.4 million to fully fund the increase in the California Public Employees’ Retirement System (CalPERS) school



employer contribution rate. Failure to fund this increase would effectively reduce existing budgets for local education agencies. The Budget provides an additional \$35 million to local education agencies to reduce the CalPERS offset to revenue limits, providing general-purpose revenue.

- ◆ **Unemployment Insurance**—The Budget provides an additional \$60.4 million to fully fund the increase in local education agency Unemployment Insurance (UI) reimbursements. This increase is attributable to an increase in the UI rate from .12 percent of projected salaries to .30 percent.

**Child Care and Development Programs**—The Budget includes over \$3 billion to serve an estimated 673,000 children through a variety of child care services and related activities. Of this amount:

- ◆ \$2.3 billion in State and federal funds are provided to the State Department of Education for a variety of high quality center-based programs, parental choice voucher programs, and various quality related projects and services to serve both CalWORKs working parents (Stage 2), those who have transitioned off of cash aid (Stage 3), and other low income working parents.
- ◆ \$197.1 million in State and federal funds are provided for before and after school programs, including a \$34 million increase for the federal 21st Century program, which, like its State funded counterpart, provides safe, academic and enrichment programs and fulfills a child care need for working parents.
- ◆ \$15 million Proposition 98 General Fund is provided for California Community Colleges to serve CalWORKs Stage 2 families attending college.
- ◆ \$541 million in State and federal funds are provided to the Department of Social Services to address the child care needs



of those families in CalWORKs Stage 1 whose child care needs and work activities have not yet stabilized (\$479.6 million) and \$61.6 million is available in the Temporary Assistance for Needy Families (TANF) Reserve for CalWORKs Stage 1 and CalWORKs Stage 2 child care.

In order to help address the \$38 billion Budget shortfall, various reductions, policy changes, and funding shifts were considered. The Budget reflects Prop 98 General Fund savings of \$341.8 million compared to January estimates resulting from selected structural reforms, program savings, and one-time funding shifts. Despite the cost reductions enacted in this Budget, funding for child care over the last five years has increased by over \$1 billion. Savings were achieved through the following means:

- ◆ \$116.8 million in structural reforms including: (1) limiting child care services to children 12 years of age and younger; (2) eliminating services to “grandfathered” families who earn above the current income limits for subsidized child care; (3) reducing the reimbursement rate ceiling for providers to the 85<sup>th</sup> percentile of the regional market rate (RMR); (4) implementing RMR regulations to clarify split-day rates and use of adjustment factors; and (5) reducing the Alternative Payment Provider administrative rate by 1 percent.
- ◆ \$5 million in unallocated, ongoing reductions to quality improvement activities.
- ◆ \$163 million in one-time savings, including: participation savings in State Preschool; reappropriation of 2002-03 Stage 3 savings; one-time increases in federal TANF and Child Care and Development Fund (CCDF) funds; and reappropriation of one-time federal carry-over funds from fiscal year 2000-01.



- ◆ \$57 million reduction in the estimated Stage 3 caseload cost compared to the January projection.

While this Budget begins to address the high cost and complexities of the State's subsidized child care system, concerns remain with the continued reliance on one-time funding, the inequitable distribution of available resources between former CalWORKs families and other low-income populations, and the overall complexity, seams, and inefficiency of a State-managed system delivered at the local level. Even with the modest structural reforms adopted in this Budget, California continues to have the most generous child care subsidy policies of any large state. This fact, coupled with an increasing caseload in Stage 3 each year, requires additional solutions in 2004-05 in order to address the remaining structural deficit in 2004-05 and beyond.

**Class Size Reduction**—The Budget includes \$1.66 billion, which fully funds the program's base funding level for 2003-04. This assumes participation rates of 98 percent for first grade, 97 percent for second grade, 92 percent for third grade, and 96 percent for kindergarten.

**Special Education**—In addition to the \$50 million to fund enrollment growth, the Budget provides \$69 million in federal funds to provide mental health services for children with exceptional needs. These funds will offset reimbursable mandate activities for services provided to children with exceptional needs as part of the pupil's individualized education plan (IEP). The Budget further provides \$4.9 million from the Proposition 98 Reversion Account to fund prior year growth-related increases. In total, the Budget provides nearly \$2.7 billion in General Fund and an additional \$950.7 million in federal funds for Special Education services.



**Accountability**—The Budget provides \$407.1 million (\$320.5 million Proposition 98 General Fund) for programs to assist and promote academic performance including:

- ◆ \$123.4 million (\$99.1 million Proposition 98 General Fund) to continue funding schools in the Second and Third Cohorts of the Immediate Intervention/Underperforming Schools Program and the Comprehensive School Reform Program. Both programs provide grants of \$200 per pupil.
- ◆ \$233.8 million (\$218.4 million Proposition 98 General Fund) to assist low performing schools through the High Priority Schools Grant Program, which provides grants of \$400 per pupil. This program was expanded in 2002-03 to include 86 schools that were not part of the initial group of participating schools.
- ◆ \$49.9 million (\$3 million Proposition 98 General Fund) to assist schools subject to sanctions pursuant to State and federal accountability programs. A portion of these funds also will support a statewide system of school support to provide assistance to districts, county offices of education, and schools in need of improvement.

**Pupil Testing**—The Budget provides \$108.4 million (\$91.9 million Proposition 98 General Fund) for various statewide exams. These assessments provide valuable information to parents, teachers, schools, and the State regarding pupil performance and are the foundation of the State's accountability system.

- ◆ **Standardized Testing and Reporting (STAR) Exam**—Serves as the primary indicator for the Academic Performance Index and measures pupil performance on various State-adopted content standards, coupled with a national norm-referenced exam. The Budget includes \$67.4 million (\$62.2 million Proposition 98 General Fund) for this exam.



- ◆ **High School Exit Exam (HSEE)**—Commencing with the 2005-06 school year, pupils must pass the HSEE in order to receive a diploma. The Budget includes \$21.1 million (\$18.3 million Proposition 98 General Fund) for this exam.
- ◆ **California English Language Development (ELD) Exam**—This exam is required to be administered to pupils whose primary language is not English within 30 days of enrollment and annually thereafter to pupils identified as English language learners. This assessment allows schools to ensure that pupils are making progress towards English proficiency. The Budget includes \$19.9 million (\$11.4 million Proposition 98 General Fund) for this exam, including \$1.4 million for the development of an exam for grades K-1, pursuant to legislation.

**Education Mandates**—The Budget provides \$1,000 for each of 36 K–12 local education mandates and defers the remainder of payments for an additional year. The School Crimes Reporting II and School Bus Safety II mandates are suspended in the budget year.

**No Child Left Behind (NCLB)**—In accordance with the State’s master plan for implementing the federal No Child Left Behind Act, the Budget fully funds assistance to and accountability for low-performing schools and students. It also provides new resources for various teacher-training activities to work towards meeting federal requirements for having highly qualified teachers. The Budget includes over \$2.8 billion in federal NCLB funds for local use, reflecting a total increase of \$333 million, or 13 percent, compared to 2002-03. Significant increases include:

- ◆ \$211 million, a 15 percent increase, is available for basic Title I grants to schools in lower-income areas of the state, with \$3.7 million, a 14 percent increase, for support to schools facing federal sanctions and interventions. With these increases, a total of \$1.7 billion is available for Title I basic assistance and school support.



- ◆ \$13.6 million, a 10 percent increase, is available for the Title I Reading First program, which provides teacher training, instructional materials, and other assistance to help ensure K-3 pupils develop reading proficiency. This increase brings total program funding to over \$145.2 million.
- ◆ \$14 million is included for the new Title II Mathematics and Science Partnership Program, which will provide competitive grants for institutes of higher education and low-performing schools to partner in staff development and curriculum support for mathematics and science teachers.
- ◆ \$20.5 million, a 6 percent increase, is included under Title II for teacher training, recruitment and retention activities, and class size reduction. As a result, \$341.4 million will be available for these activities.
- ◆ \$4.2 million, a 5 percent increase, is provided for Title II grants for education technology, bringing total funding for these grants to \$87.2 million.
- ◆ \$21.4 million, a 19 percent increase, is provided under Title III for English language instruction and supportive services to limited English proficient pupils. With this increase, \$132.8 million is available for this program.
- ◆ \$8.4 million, a 37 percent increase, is appropriated under Title V for charter schools, resulting in total funding of \$31.2 million for charters.
- ◆ \$1.2 million, a 4 percent increase, is included under Title VI to refine the State's system of assessments and continue development of data collection to meet NCLB reporting requirements. The increase brings total funding for assessment-related activities to \$30.6 million.



**Proposition 98 Totals (K-14)****Proposition 98 Appropriations**

(Dollars in Thousands)

<b>Funding/Recipient</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
State General Fund	\$29,563,838	\$29,257,719	\$29,983,138
K-12	(26,542,087)	(26,521,116)	(27,645,810)
Other State Agencies	(94,982)	(94,500)	(93,234)
California Community Colleges	(2,576,769)	(2,642,103)	(2,244,094)
Loan Repayment	(350,000)	—	—
Local Revenue	\$13,702,332	\$14,612,403	\$15,730,527
K-12	(11,848,238)	(12,639,692)	(13,609,129)
California Community Colleges	(1,854,094)	(1,972,711)	(2,121,398)
<b>Total</b>	<b>\$43,266,170</b>	<b>\$43,870,122</b>	<b>\$45,713,665</b>

- ◆ Due to the decline in General Fund revenues, the 2002-03 Proposition 98 minimum guarantee fell by \$2.6 billion since enactment of the 2002 Budget Act. The current appropriation level is \$94.9 million below the estimated minimum.



- ◆ The 2003-04 Proposition 98 minimum guarantee is calculated based on the revised 2002-03 funding level. The minimum guarantee increases by \$1.6 billion in 2003-04. The 2003-04 proposed funding level exceeds the estimated minimum guarantee by \$215.2 million.

### Significant Proposition 98 Reductions

As with other areas of the Budget, significant reductions were necessary to some education programs to bring costs close to the funding made available by the Proposition 98 guarantee and help solve the overall Budget problem. These reductions were chosen with substantial participation by the education community and are designed to minimize the impact on core classroom instruction.

Program	Reduction (in millions)
<b>Apportionments</b> —1.2 percent reduction to district revenue limits and county office of education apportionments.	\$350
<b>Equalization of Revenue Limit Funding</b> —Eliminates appropriations proposed as part of the 2002-03 Budget.	406
<b>Deferred Maintenance</b> —Reduces funding by 62 percent.	129
<b>Supplemental Instruction</b> —Cap enrollment at 5 percent of students and adjust budget to current utilization level.	85
<b>Mandates</b> —Defer or suspend all mandates.	125
<b>Teaching as a Priority</b> —Suspend program.	89



<b>Instructional Materials</b> —Reduce by 56 percent.	225
<b>Elementary Intensive Reading</b> —Suspend program.	31
<b>Peer Assistance and Review</b> —Reduce by 71 percent.	25
<b>Miller-Unruh Reading</b> —Suspend program.	29
<b>School Improvement</b> —Reduce by 10 percent.	42
<b>Supplemental Grants</b> —Reduce by 33 percent.	80
<b>Child Care</b> —Implement reforms, shift funding and capture caseload savings.	342
<b>Community Colleges</b> – Increase fees from \$11 to \$18 per unit and reduce various categorical programs (Deferral amounts not included).	293

## Higher Education

### Overview

Although the State faces substantial fiscal challenges, the Budget continues the Administration's focus on quality, accessibility and accountability in higher education and all segments remain among the most affordable in the nation.

The Budget provides for total Higher Education funding of over \$15.2 billion from all revenue sources. University of California (UC) funding totals almost \$4.5 billion, including \$2.9 billion from General Fund. The amount budgeted from the General Fund reflects a 10 percent decline from the 2002 Budget Act, and 7.9 percent



below the revised 2002-03 Budget. California State University (CSU) funding totals approximately \$3.5 billion, including almost \$2.5 billion General Fund. The amount budgeted from General Fund for CSU is 7 percent below the 2002 Budget Act amount, and 7.9 percent below the revised 2002-03 Budget. California Community Colleges (CCC) funding totals almost \$6.4 billion, including \$4.5 billion from Proposition 98 and General Fund resources. The amount budgeted from Proposition 98 and other General Fund sources for CCC is 10.2 percent below the 2002 Budget Act level and 7.3 percent below the revised 2002 Budget Act level. Student Aid Commission includes \$683 million for various financial aid programs, including Cal Grant entitlements and other programs. The amount budgeted for the Student Aid Commission from the General Fund has increased 3.2 percent above the 2002 Budget Act level.

**Accessibility**—The Budget provides the UC \$117.2 million to fund 8,000 additional enrollments, bringing total enrollment to 202,000 full-time equivalent students (FTES). The CSU is provided \$150.9 million to fund 16,056 additional enrollments, bringing total enrollment to 338,000 FTES.

**UC and CSU Student Fees**—During the 2002-03 fiscal year, systemwide student fees for resident undergraduate and graduate students were increased by the UC and the CSU for the first time in eight years. For 2003-04, both the UC and the CSU have approved significant increases in systemwide fees. Fees for UC increased from \$3,429 in the fall of 2002 to \$4,984 in the fall of 2003. Fees for CSU increased from \$1,428 in the fall of 2002 to \$2,040 in the fall of 2003. Both segments will devote one-third of new fee revenues toward additional student financial aid to ensure access to needy students. The UC fee levels remain competitive among its peer research universities. The CSU is still among the most affordable university systems of its kind in the nation.



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**Cal Grants**—To help ensure access to higher education for deserving low-income students, the Budget provides a total of \$657 million for the four types of Cal Grant awards. This represents an increase of \$87 million above the amount appropriated for Cal Grants in the revised 2002-03 Budget. Of this amount, \$48.3 million is to increase the value of the Cal Grants awards issued to UC and CSU students, in order to account for the fee increases implemented by the governing boards of these segments.

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## Major Budget Reductions

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### University of California

To address the \$38 billion Budget shortfall, significant General Fund reductions were necessary. The 2003-04 Budget reflects base reductions of \$484 million General Fund compared to the 2002 Budget Act, as follows:

- ◆ \$312.4 million unallocated
- ◆ \$77 million for academic and institutional support, student services, and public services
- ◆ \$33 million Outreach
- ◆ \$29 million Research
- ◆ \$15 million Subject Matter Projects
- ◆ \$7.7 million for K–12 Internet Initiative
- ◆ \$4 million for UC Merced
- ◆ \$4.4 million for AP Online



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## California State University

As previously indicated, significant General Fund reductions were necessary in the CSU budget to address the State's Budget short-fall. The 2003-04 Budget reflects base reductions of \$409 million General Fund compared to the 2002 Budget Act, including the following:

- ◆ \$227.3 million unallocated
- ◆ \$111 million for academic and institutional support, student services and public services
- ◆ \$54 million to reflect increase in student/faculty ratio
- ◆ \$12.6 million for outreach



## Higher Education Funding Total Funds and General Fund

(Dollars in Millions)

	2001-02	2002-03	2003-04	One-Year Change	
				Amount	Percent
State General Fund	\$3,322.7	\$3,150.0	\$2,902.1	-\$247.9	-7.9%
California State University (total) <sup>1/</sup>	3,433.2	3,494.4	3,501.7	\$7.3	0.2%
State General Fund	2,680.7	2,705.9	2,492.0	-\$213.9	-7.9%
Community Colleges (total)	6,457.8	6,645.8	6,381.0	-\$264.8	-4.0%
General Fund and P-98 <sup>2/</sup>	4,701.1	4,864.9	4,507.6	-\$357.3	-7.3%
Total Student Aid Commission (State General Fund Only)	544.0	601.3	682.9	\$81.6	13.6%
Other Higher Education (total) <sup>3/</sup>	207.5	171.7	195.8	\$24.1	14.0%
State General Fund	192.3	155.3	176.0	\$20.7	13.3%
Total Funds	\$15,125.1	\$15,324.5	\$15,247.9	-\$76.6	-0.5%
State General Fund/P-98	\$11,440.8	\$11,477.4	\$10,760.6	-\$716.8	-6.2%

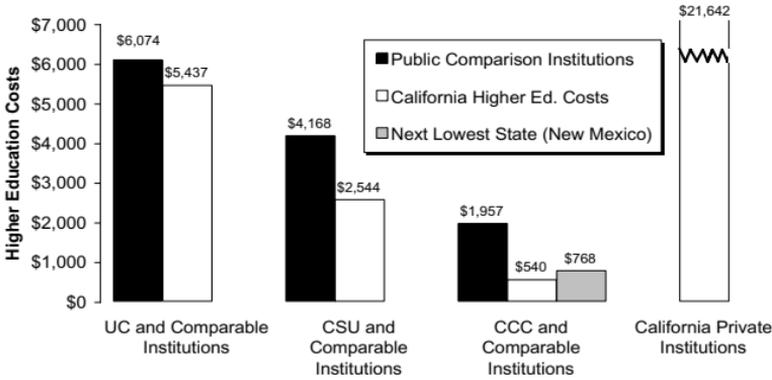
1/ For purposes of this table, expenditures for the University of California and California State University have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

2/ Property taxes, as part of the state Proposition 98 guarantee, are included for community colleges for comparison with UC and CSU. Included also are General Fund expenditures for the CCC program for STRS, G.O. debt service and Chancellor's Office. Figures do not reflect \$200 million of deferred Proposition 98 General Fund appropriations to July 2004-05 for services provided in 2003-04.

3/ Other Higher Education amount includes the California Postsecondary Education Commission, Hastings College of the Law, and General Obligation Bond Interest and Redemptions for UC, CSU, and Hastings.



**Fee Levels Remain Low at California's Public Higher Education Institutions Compared to Tuition Levels in Other States and California's Private Institutions**



**California Community Colleges**

The Budget provides \$6.4 billion from all sources for the California Community Colleges (CCC), including \$4.4 billion from Proposition 98 General Fund sources, of which \$2.4 billion is from the General Fund. The Proposition 98 General Fund amount does not reflect \$200 million of deferred expenditures that will be counted against the 2004-05 Proposition 98 guarantee.

**Enrollment Growth**—The Budget includes \$57.9 million to fund an additional 15,500 additional full-time students, for a total of 1,104,000 FTEs.

**Financial Aid Administration and Outreach**—The Budget includes an augmentation of \$38 million to increase awareness of the availability of financial aid for needy students and to ensure campuses have adequate staff to administer financial aid programs and assist students during the application process.



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**Other Increases**—The Budget includes an \$18 million increase for Lease Purchase Payments.

**Student Fees**—The student fees at California Community Colleges will increase from \$11 to \$18 per credit unit, the first increase in ten years. Even with this increase, California Community Colleges remains the most affordable higher education system in the nation.

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### Major Budget Reductions

Similar to UC and CSU, reductions and fee increases were enacted for the CCC to help address the State's Budget shortfall. Excluding the effect of deferred appropriations, which provide for delayed payments for services delivered in the budget year, the 2003-04 Budget reflects approximately \$293 million in base Proposition 98 General Fund program savings compared to the 2002 Budget Act levels. The reductions below, in conjunction with the estimated \$96 million savings from the fee increase, achieve this level of General Fund savings:

- ◆ \$75 million in Partnership for Excellence
- ◆ \$73 million in Deferred Maintenance and Instructional Equipment/Library Materials
- ◆ \$25 million reduction for concurrent enrollment classes in Physical Education and low priority subjects
- ◆ \$24 million reduction in other categorical programs and mandates

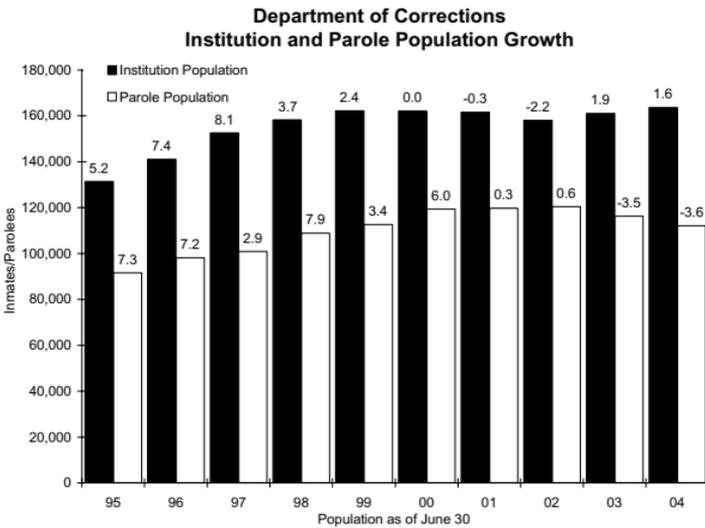
**Deferrals**—As mentioned above, the Budget defers \$200 million in payments to districts from June to July 2004 for Apportionments (\$150 million) and Partnership for Excellence (\$50 million). This action was taken in order to preserve access and categorical spending in 2003-04.



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# PUBLIC SAFETY

## Department of Corrections



Figures above the bars represent the percentage change from the prior year

**Prison Population**—Prison inmate population is projected to increase from 160,931 on June 30, 2003, to 163,536 by June 30, 2004, an increase of 2,605 inmates, or 1.6 percent. This projection does not reflect the population decrease anticipated



in various savings proposals that are currently being implemented. In 2003-04, incarceration and parole services will be provided through 32 institutions, 11 reception centers, 38 camps, and 16 community correctional facilities.

**Parole Population**—The State parolee population is projected to decline from 116,173 on June 30, 2003, to 112,019 by June 30, 2004, a decrease of 4,154 parolees, or 3.6 percent. This projection does not reflect the increase in parole population that will occur when various savings proposals intended to reduce prison population are implemented.

**Closure of the Northern California Women's Facility**—The Budget includes a reduction of \$10.2 million due to the closure of the Northern California Women's Facility.

**Delay of Delano II and 500 Substance Abuse Treatment Slots**—The Budget contains a decrease of \$8.8 million due to the delay of activation of the Delano II prison until 2005. As a result of this delay, expansion of the Office of Substance Abuse Programs to attain the 9,000 activated slots needed before activation of Delano II has also been delayed.

**Reduction of Management Positions**—The Budget includes a reduction of \$4.8 million to reflect the reduction of management positions at institutions statewide.

**Various Health Care Reductions**—The Budget contains a reduction of \$13 million to reflect improved pharmacy prescription protocols, reduced referrals to outside emergency/urgent care facilities, and reduced disease category requests for service.

**Restructure Education and Vocational Training Program**—The Budget reflects a savings of \$27.5 million due to increased sentence reduction credits earned as a result of restructuring the exist-



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ing education programs within the Department of Corrections and creating a new education program in reception centers.

**Mentally Ill Parolees**—The Budget contains a reduction of \$10.3 million to reflect a reduction in recidivism to result from additional treatment of mentally ill parolees.

**Reduce Recidivism through Pre-Release and Re-entry Programs**—The Budget includes a decrease of \$7.9 million to reflect a reduction in parolee revocation to result from an increased use of pre-release planning and risk assessment tools to better focus parole resources.

**Substance Abuse Treatment & Control Units & Community Detention**—The Budget reflects a savings of \$50.4 million resulting from increased use of short term jail commitments and community punishment options to decrease the number of parolees returned to prison for technical parole violations.

**Felony Drug Courts Expansion**—The Budget includes a reduction to the Department of Corrections of \$9.6 million to reflect the expansion of the Felony Drug Court Program within the Department of Alcohol and Drug Programs.

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### **Incarceration of Undocumented Felons**

The State of California currently spends approximately \$580.3 million in the Departments of Corrections and Youth Authority related to the incarceration and parole supervision of undocumented persons. The Budget anticipates that the State will receive approximately \$134 million in 2003-04 from the federal government under the State Criminal Alien Assistance Program as a partial reimbursement of these costs.



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## Department of the Youth Authority

**Institution and Parole Population**—The Youth Authority projects an institution population of 4,055 on June 30, 2004, which is a decrease of 824 wards from the population of 4,879 on June 30, 2003. The parole caseload is projected to be 4,025 by June 30, 2004, which is a decrease of 64 cases from the caseload of 4,089 on June 30, 2003.

**Correctional Treatment Centers**—The Budget includes \$1.5 million for staff and resources to facilitate the implementation of Correctional Treatment Centers at the Youth Authority.

**Mental Health Intermediate Care Facility**—The Budget provides \$3.4 million to reimburse the California Department of Mental Health to staff and equip a 20-bed inpatient Intermediate Care Facility at the Southern Youth Correctional Reception Center and Clinic.

**English Language Learners**—The Budget includes \$1 million to provide training and certification for teachers of students with limited English proficiency, or non-English speakers, in order to meet the federal Office of Civil Rights standards for teaching English Language Learner students.

**Infrastructure Migration Project**—The Budget includes \$1.3 million to continue the Infrastructure Migration Project, which will enable the Department to continue its transition to the industry standard operating system.

**Consolidation and Restructure of the Youthful Offender Parole Board**—The Budget provides \$1.3 million to carry out the mandates contained in Chapter 4, Statutes of 2003 (SB 459), which consolidates the functions of the Youthful Offender Parole Board into the Youth Authority, effective January 1, 2004.



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**Sliding Scale Fee Adjustment**—The Budget includes a reduction of \$6.3 million General Fund and an increase of \$6.3 million in reimbursements due to an inflation adjustment to the sliding scale fees charged to counties for youthful offenders committed to the Youth Authority.

**Closure of Youth Correctional Facilities**—The Budget includes reductions totaling \$4.4 million, savings associated with the closure of the Karl Holton Youth Correctional Facility, effective October 31, 2003, and the male portion of the Ventura Youth Correctional Facility, effective March 1, 2004, as part of the Department's consolidation plan to accommodate a declining ward population.

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## Office of the Inspector General

**Budget Reductions**—The Budget reflects reductions totaling \$6.8 million, which includes \$1.8 million in anticipation that the Office will conduct fewer management review audits and investigations of complaints of retaliation, and a \$5 million unallocated reduction to the Office's budget.

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## Department of Justice

The Budget includes total expenditures of \$615.3 million for the Department of Justice. This amount includes a reduction of approximately \$16 million General Fund, which is not expected to affect the ability of the Department to fulfill its law enforcement mission. In addition, the Budget proposes the following augmentations for 2003-04:

**Medi-Cal Fraud Workload**—\$500,000 General Fund, \$1.5 million federal funds, and 12.3 personnel years to provide additional resources for the investigation, arrest, and prosecution of Medi-Cal fraud.



**Energy Litigation**—A reduction of \$9.5 million General Fund, and an augmentation of \$14.4 million Rate Payer Relief Fund and 44.9 personnel years, on a two-year limited term basis, to continue and augment resources dedicated to the investigation and litigation of illegal activity that has been determined to be responsible for California's energy crisis.

**Spousal Abuse Prosecution Program**—The continuation of \$3 million General Fund for the Spousal Abuse Prosecution Program, which assists district attorneys and city attorneys in the vertical prosecution of spousal abuse.

**California Witness Protection Program**—An augmentation of \$3 million General Fund to provide funding to continue the California Witness Protection Program. This program was funded in prior years with special funds that are no longer sufficient to support the program.

**Forensic Crime Lab Fees**—\$3.5 million General Fund to continue funding for the costs associated with the processing and analyzing of physical crime evidence for local law enforcement agencies.

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## Board of Corrections

**Elimination of Local Assistance**—The Budget includes a reduction of \$16.3 million Corrections Training Fund (CTF) associated with the partial reimbursement of tuition, travel, per diem, and staff replacement costs for training local correctional officers. This program has historically been funded through penalty assessment revenue as well as revenue transfers authorized through Budget Act Control Section 24.10. In addition to the elimination of the local assistance portion of this program, the Budget includes a transfer of \$9.6 million CTF to the General Fund, and deletion of the Control Section 24.10 transfer of \$6.5 million. The portion of local correctional officer training costs currently paid for by the State will become the responsibility of local correctional agencies.



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## Office of Criminal Justice Planning

**Elimination of the Office of Criminal Justice Planning**—The Budget reflects the abolishment of the Office of Criminal Justice Planning (OCJP) effective January 1, 2004 and transfers the functions and programs of the OCJP to other agencies.

**Grant Funding Reductions**—The Budget reflects a 50 percent reduction of \$8.2 million for vertical prosecution programs, and the conversion of the remaining \$8.2 million to a Vertical Prosecution Block Grant. The Budget also reduces funding for the War on Methamphetamine Program from \$15 million to \$9.5 million.



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# HEALTH AND HUMAN SERVICES

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## Department of Health Services

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### Public Health

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#### AIDS Drug Assistance Program

- ◆ The Budget provides total funding of approximately \$205.4 million (\$59.5 million General Fund) to fully fund the AIDS Drug Assistance Program (ADAP). Since 1987, the ADAP has provided drugs to HIV/AIDS infected individuals who lack medical insurance, but who have: (1) adjusted gross incomes that do not exceed \$50,000 per year, or (2) incomes higher than \$50,000 per year if the estimated cost of those drugs in one year is expected to exceed 20 percent of the person's adjusted gross income. The ADAP provides financial assistance to these individuals to purchase the often extraordinarily expensive, but life sustaining, drugs necessary to manage their disease. Based on an average cost per case for the year 2002 of \$7,485, a total of 27,436 cases will be served in 2003.



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### **Bioterrorism Prevention**

- ◆ The 2003 Budget Act includes total funding of approximately \$35.9 million federal funds (\$10.9 million for State operations and \$25 million for local assistance) and 76.0 positions in fiscal year 2003-04 to fund a continued comprehensive bioterrorism prevention and control program and continue botulism immune globulin production. Among other things, the Department of Health Services (DHS) is required to establish a process for strategic leadership, direction, coordination, education, training, and assessment of activities to ensure state and local readiness, interagency communication and collaboration, and preparedness for potential bioterrorism events. The DHS is also required to develop the ability to rapidly detect a terrorist event through a highly functioning, mandatory reportable disease surveillance system. In fiscal year 2002-03, the DHS expended approximately \$50.8 million federal funds for bioterrorism prevention activities.

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### **Medi-Cal**

The Budget includes \$28.7 billion (\$10.5 billion General Fund), a decrease of \$42.3 million below the revised 2002-03 Budget level for the Medi-Cal program. Overall, the Budget reflects decreasing Medi-Cal costs in 2003-04 primarily due to a one-time accounting shift in the Medi-Cal program. However, increases in the frequency of services and higher costs per unit of service continue to be the driving forces behind increased expenditures.

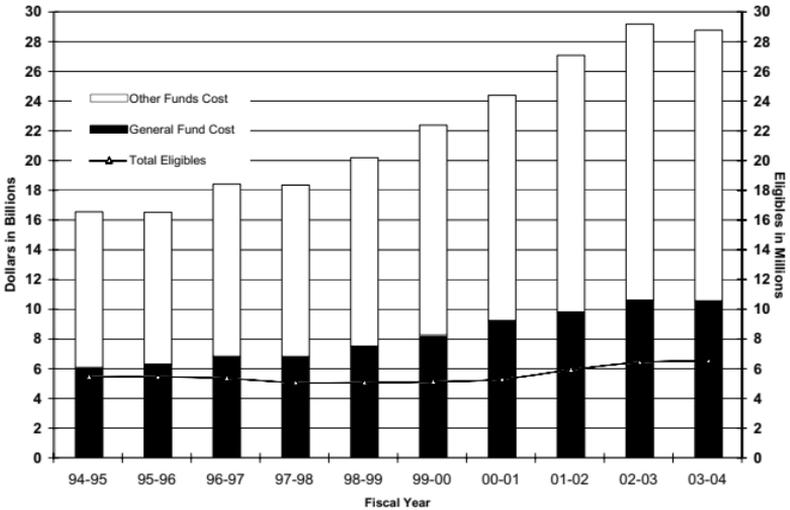
Medi-Cal average monthly caseload is expected to increase by 1.5 percent above 2002-03. The average monthly number of persons enrolled in Medi-Cal is approximately 6.5 million.



Following are charts presenting historical Medi-Cal caseload and costs and average monthly Medi-Cal eligibles as a percentage of California population:

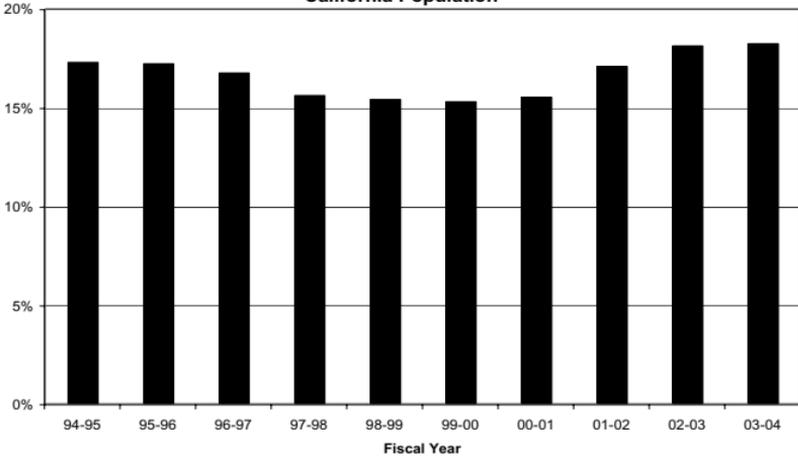
**FIGURE HHS1**

**Medi-Cal Caseload and Costs, 1994-95 through 2003-04**  
(Eligibles in Millions, Dollars in Billions)



Note: The large non-General Fund portion of total expenditures reflects disproportionate share and voluntary governmental transfers for hospitals, as well as federal Medicaid funds which flow through the DHS budget to other departments.



**FIGURE HHS-2****Average Monthly Medi-Cal Eligibles as a Percentage of California Population**

Significant increases include the following:

- ◆ \$306.7 million General Fund to reflect increased fee-for-service prescription drug costs. The cost per Medi-Cal prescription is projected to increase by 6.8 percent.
- ◆ \$112.5 million for a rate increase of approximately 3 percent for Medi-Cal Managed Care Plans. This increase is generated from a 6 percent quality improvement assessment fee, which is projected to increase General Fund revenues by \$150 million in 2003-04 for a net General Fund savings of \$37.5 million.
- ◆ \$59.8 million General Fund to provide a long-term care rate increase of approximately 3.8 percent.
- ◆ \$46 million General Fund to provide a supplemental payment to applicant long-term care facilities with a collectively bargained agreement to increase wages of direct care staff.



- ◆ \$37.7 million General Fund to maintain the Medi-Cal nursing facility nurse-to-patient staffing ratios, which were revised beginning January 1, 2000.

The Budget maintains funding for the following critical programs:

- ◆ \$363.3 million General Fund to continue the expansion of the 1931(b) program to 100 percent of the federal poverty level.
- ◆ \$320.6 million General Fund to continue no-cost Medi-Cal for low-income seniors and disabled individuals. This expansion, effective January 1, 2001, was part of the Governor's Aging with Dignity Initiative.
- ◆ \$80.2 million (\$38.3 million General Fund) to facilitate enrollment in both Medi-Cal and the Healthy Families Program by using the Child Health and Disability Prevention Program as an enrollment gateway. The Budget also includes \$785,000 (\$196,000 General Fund) to enhance the gateway to include newborn enrollment.

The following significant reductions are also included:

- ◆ \$930 million one-time General Fund decrease to reflect an accounting change from accrual to cash.
- ◆ \$194 million General Fund decrease to reflect a change in Medi-Cal county accountability performance standards.
- ◆ \$115.1 million General Fund decrease to reflect a 5 percent rate reduction for Medi-Cal providers, except long-term care facilities.
- ◆ \$21.5 million General Fund decrease to reflect implementation of Medi-Cal semi-annual reporting requirements.



- ◆ \$20.1 million General Fund decrease as a result of increased Medi-Cal anti-fraud activities.
- ◆ \$7.4 million General Fund decrease for various proposals including a reimbursement methodology change for anti-hemophilic blood factors and durable medical equipment, imposition of a cap on Medi-Cal laboratory services, and pharmacy cost savings through provider education.

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## Managed Risk Medical Insurance Board

The Budget includes \$1.1 billion (\$303.8 million General Fund), an increase of \$277 million above the revised 2002-03 Budget level, for the Managed Risk Medical Insurance Board (MRMIB).

Significant adjustments include the following:

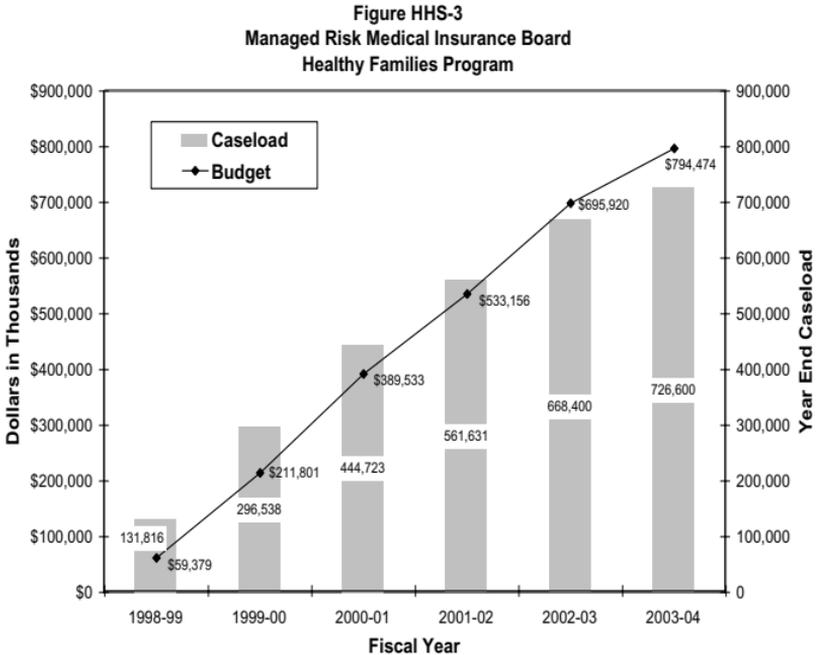
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### Healthy Families Program

The 1999 Budget Act expanded Healthy Families Program (HFP) coverage to uninsured children in families with incomes between 200 and 250 percent of the federal poverty level (FPL). The 2003 Budget includes a total of \$794.5 million (\$294.3 million General Fund) for the HFP. Due to expanded eligibility and application simplification, enrollment is expected to reach 727,000 children by June 30, 2004. Following is a chart presenting historical HFP costs and caseload:



FIGURE HHS-3



The Budget includes the following for the HFP:

- ◆ \$2.9 million (\$1.1 million Proposition 99, \$1.8 million federal funds) augmentation for the Rural Health Demonstration Project, which expands benefits and access for children already enrolled in the HFP.
- ◆ \$1.6 million General Fund to continue to provide two months of HFP coverage for children who are transitioning into the Medi-Cal Program.
- ◆ \$1.3 million General Fund to continue implementation of HFP enrollment through the Child Health and Disability Prevention Gateway program.



**Access for Infants and Mothers**—This program provides comprehensive care to pregnant women up to 60 days postpartum and their infants up to two years of age with family incomes up to 300 percent of the FPL. The Budget includes a total of \$119 million (\$97 million Perinatal Insurance Fund) for this program. Average monthly enrollment is expected to reach 13,119 women and infants in 2003-04.

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## Department of Social Services

The Budget provides \$16.7 billion (\$8.7 billion General Fund) for 2003-04, an increase of \$337.3 million above the revised 2002-03 Budget level.

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### California Work Opportunity and Responsibility to Kids

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#### Temporary Assistance to Needy Families Block Grant and Maintenance-of-Effort

The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$6.8 billion; \$5.6 billion budgeted within the Department of Social Services (DSS), and the remaining \$1.2 billion budgeted in other State programs and county budgets.

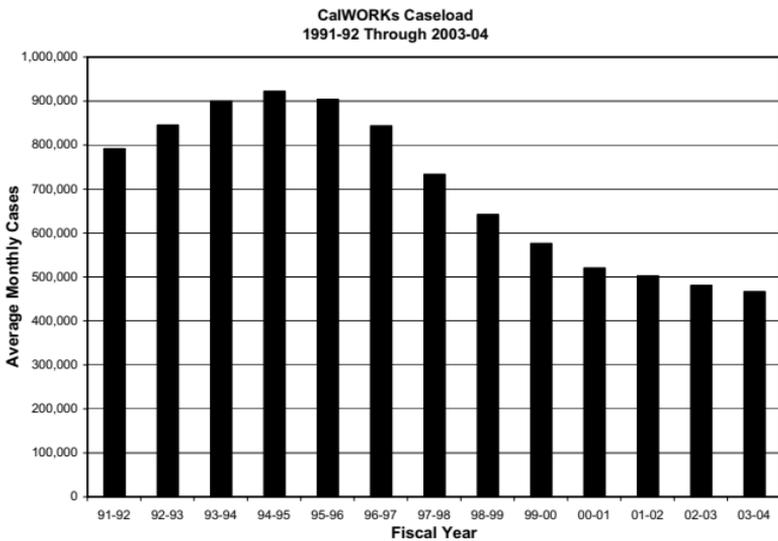
In addition, \$175.3 million is set aside as a total Temporary Assistance to Needy Families (TANF) reserve for unanticipated program needs. This funding is available for unanticipated needs in any program for which TANF funds are appropriated, including CalWORKs benefits, employment services, county administration, and child care, as well as litigation and changes in federal laws and regulations.



### Caseload Trends

Caseload is projected to decrease for the ninth consecutive year in 2003-04, a significant turnaround from the rapid growth of the early 1990s, when caseload peaked in 1994-95 at 921,000 cases. The revised caseload projections are 480,000 cases in 2002-03 and 466,000 cases in 2003-04 (see Figure HHS-4). Policy reforms that promote self sufficiency and encourage job skills training coupled with increased child care services and financial incentives encouraging work have assisted recipients and potential recipients in finding employment.

FIGURE HHS-4



### Maintenance-of-Effort Reduction

The 2003-04 CalWORKs budget reflects California's success in having recipients meet the federally-mandated work participation requirements. With that goal being met, the federally-required spending level for California has been reduced from \$2.9 billion to \$2.7 billion.



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### **Grant Levels**

Current law authorizes a CalWORKs grant cost-of-living adjustment (COLA) when there is a reduction in the Vehicle License Fee (VLF). Because the VLF has been increased for 2003-04, the October 2003 CalWORKs COLA will not be provided. Therefore, the monthly cash grants will remain unchanged for 2003-04.

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### **CalWORKs Child Care**

The Budget funds the projected child care need for CalWORKs recipients. A total of \$1.1 billion will be available to provide CalWORKs child care services in 2003-04. Of that amount, \$487 million is to be allocated by the DSS to counties for CalWORKs child care. In addition, the budgets for the State Department of Education (SDE) and the Community Colleges include \$597 million and \$15 million, respectively, to provide CalWORKs child care services.

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### **Community Care Licensing**

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#### **Targeted Visits**

Periodic site visits to licensed residential and child care facilities are statutorily required to ensure compliance with health and safety requirements. Given the State's current fiscal constraints, the Budget modifies the frequency of site visits to target annual visits on facilities in which health and safety may be at greatest risk. All other facilities not included in this high-risk category are subject to an annual inspection based on a 10 percent random sampling methodology. Targeted visits will result in savings of \$5.3 million General Fund in 2003-04.

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#### **Community Care Licensing Fees**

The Budget includes increased fees for licensed community care facilities which will generate additional General Fund revenues of \$7.4 million. This fee increase is designed to more closely align



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revenues with the cost of licensing functions. Fees for community care facilities have not changed since 1992 and have not kept pace to fund the increasing costs of this vital regulatory program. Specifically, these fee increases would: (1) double the fees for licensed child care facilities, (2) assess an \$80 annual fee on Foster Family Agencies for each certified family home they oversee, and (3) increase fees by 25 percent for all other licensed child, residential, adult care, and senior facilities. Total community care licensing fees are estimated at \$16.9 million for 2003-04.

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## **Food Stamp Program**

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### **Transitional Food Stamp Benefits Program**

The Budget includes \$1.2 million General Fund to implement the Transitional Food Stamp Benefits Program, which provides food stamp benefits for up to five months to households no longer eligible for CalWORKs cash assistance. This program will serve as a safety net for independence and subsequently an incentive to keep families from returning to welfare.

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## **Supplemental Security Income/State Supplementary Payment Program**

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### **Caseload**

Caseload is projected to increase to 1,151,000 recipients in 2003-04, a 2 percent increase over 2002-03. Total Supplemental Security Income/State Supplementary Payment (SSI/SSP) General Fund expenditures are projected to be \$3.4 billion, compared to \$3 billion in 2002-03.



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### Grants

In January 2004, SSI/SSP recipients will receive a COLA, based on an increase in the federal Consumer Price Index of 2.1 percent. Monthly grants for aged/disabled recipients will increase by \$12 to \$790 for an individual and by \$17 to \$1,399 for a couple. Monthly grants for blind recipients will increase by \$12 to \$854 for an individual and by \$17 to \$1,619 for a couple. However, the state COLA will not be provided in January 2004.

California's SSI/SSP payment standards continue to be the highest among the ten most populous states.

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## Department of Developmental Services

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### Developmental Centers

The Budget provides \$680.1 million (\$364.3 million General Fund) for the developmental centers, a net increase of \$39.2 million above the revised 2002-03 Budget level, primarily due to an aging developmental center population with increasing level-of-care needs. The Budget supports a population of 3,526, a decrease of 63 consumers below 2002-03.

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### Regional Centers

The Budget includes \$2.6 billion (\$1.7 billion General Fund) for Regional Centers, an increase of \$292 million (\$211 million General Fund) above the revised 2002-03 level. The Budget supports a Regional Center population of 193,100, an increase of 10,925 above 2002-03.



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### **Maximizing Federal Funds**

The Budget includes a reduction \$91.5 million General Fund and a commensurate increase in federal funds as a result of the Administration's continued efforts to enhance federal financial participation.

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### **Bay Area Project, Agnews Assessment**

The Budget allows the Department to develop a plan to transition consumers living at Agnews Developmental Center into community-based placements as appropriate and close the facility by July 2005. These efforts will result in services being provided in less restrictive settings as well as future savings of \$25 million (\$14 million General Fund) due to the lower cost of care resulting from the elimination of significant fixed costs for the operation of the aging Agnews facility.

The following significant reductions are also included:

- ◆ \$25.9 million General Fund savings as a result of regional center provider rate limits.
- ◆ \$13.9 million General Fund savings resulting from revised service coordinator caseload ratios for regional centers.
- ◆ \$10 million General Fund savings to reflect an unallocated reduction in the regional center purchase of services budget.

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## **Department of Child Support Services**

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### **Child Support Collection Enhancements**

The Budget includes \$7.3 million (\$2.5 million General Fund) to implement a series of program reforms that are expected to increase child support collections. These reforms include: (1) allowing the Department of Child Support Services to implement a program to negotiate with child support obligors for prompt and ongoing payment of arrears owed to government entities based on an obligor's



ability to pay, (2) repealing the current exemption that applies to many noncustodial parents for payment of delinquent child support to secure a portion of their assets that are held at financial institutions, and (3) changing the amount of income that is presumed in default cases from the Minimum Basic Standard of Adequate Care to full-time minimum wage.

These reforms are expected to result in increased General Fund revenue of \$39.2 million in 2003-04, and \$32.8 million annually thereafter, until the arrearage program sunsets on January 1, 2007. In addition, the reforms are expected to result in increased federal incentive funding of \$5.6 million as a result of improved program performance. The Budget assumes these federal incentives would be used to offset other Child Support Program General Fund costs.

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## Department of Mental Health

The 2003-04 Budget includes \$2.2 billion (\$871.7 million General Fund) for the Department of Mental Health. The Budget for State mental health hospitals includes the following:

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### State Hospital Population

\$637.8 million (\$499.9 million General Fund), a net increase of \$18.1 million (an increase of \$29 million General Fund), or 5.8 percent above revised 2002-03 expenditures for State hospitals. This funding will support a total caseload of 4,657 commitments, a decrease of 2 patients, from the 2002-03 population level.

The following significant reduction is also included:

- ◆ \$11.5 million General Fund savings to reflect a 5 percent across-the-board reduction to Mental Health Managed Care.



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## JUDICIAL BRANCH

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### State Judiciary

**Court Facility Transfer**—The Budget contains \$10.8 million from the State Court Facility Construction Fund for the Administrative Office of the Courts to begin implementation of the transfer of trial court facilities from the counties to the State pursuant to Chapter 1082, Statutes of 2002.

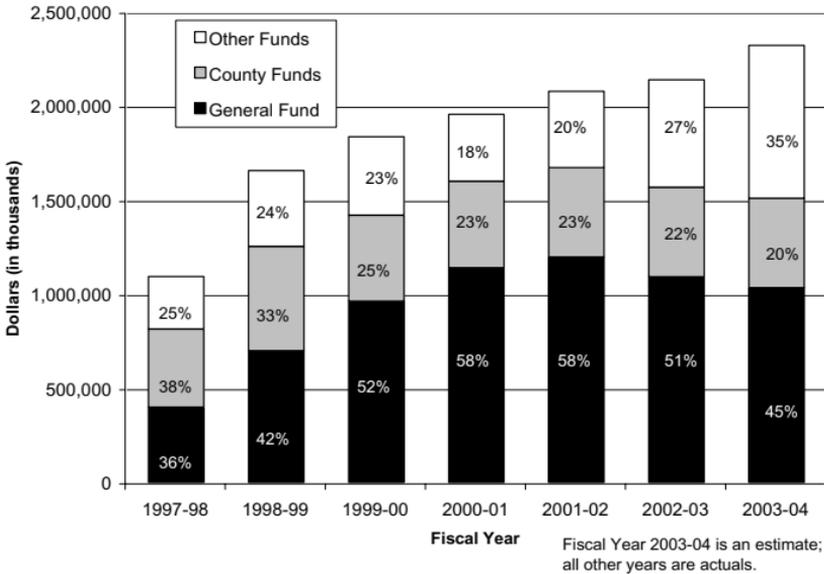
**Appellate Court Trust Fund and Increased Fees**—The Budget includes \$3.5 million in funding from the newly established Appellate Court Trust Fund. Filing fees for the Courts of Appeal were increased from \$265 to \$390 and filing fees for the Supreme Court were increased from \$200 to \$390 for total increased revenue of \$2 million. This new revenue, as well as existing revenue of \$1.5 million previously deposited in the General Fund, is now deposited in the Appellate Court Trust Fund. An associated reduction in General Fund support to the Judiciary is also included in the Budget.

**Unallocated Reduction**—A one-time unallocated reduction of \$8.5 million is included in the Budget for the Judiciary.



**State Trial Court Funding**

**Trial Court Expenditures**



Trial court expenditures for 2003-04 total approximately \$2.3 billion, with 45 percent comprised of State General Fund dollars, 20 percent from county funds, and 35 percent from other funds including fines, penalties, and fees remitted to the Trial Court Trust Fund and Trial Court Improvement Fund.

**Court Security**—The Budget includes \$36.2 million General Fund to support the increased costs of contractual security costs at the trial courts.

**Court Staff Retirement**—The Budget contains \$25.5 million General Fund to support the increased costs of court employee retirement benefits.



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**Court Employee Health Benefits**—An augmentation of \$14.3 million General Fund is included in the Budget to fund increased employer costs of health benefits for court employees.

**Court Interpreters**—The Budget contains \$8.4 million General Fund to support increased costs of court interpreter workload (\$4.5 million) and the costs of providing required benefits to court interpreters who are becoming employees as a result of Chapter 1047, Statutes of 2002 (\$3.9 million).

**Court Employee Workers' Compensation**—The Budget includes \$5.5 million for the increased costs of workers' compensation for court employees.

**Unallocated Reduction**—A one-time unallocated reduction totaling \$85 million General Fund is included in the Budget for State Trial Court Funding.

**Court Security Savings**—The Budget includes an \$11 million General Fund reduction costs in fiscal year 2003-04 and \$22 million in fiscal year 2004-05 associated with implementation of policies to achieve efficiencies in court security costs.

**Reduction Associated with a Loan from the State Court Facilities Construction Fund**—The Budget includes a reduction of \$80 million in General Fund support which will be offset by a loan from the State Court Facilities Construction Fund to the Trial Court Trust Fund. This loan is scheduled to be repaid by the General Fund no later than January 1, 2006.

**Reductions Associated with Various Revenue Increases**—The Budget contains a reduction of \$149.1 million in General Fund support which will be offset by new and increased revenue from various court fees (see detail below).



**Trial Court Trust Fund Revenue Increases**—The Budget includes increased revenues to the Trial Court Trust Fund totaling \$149.1 million from the following new and increased fees:

- ◆ **Court Security Fee**—\$40.2 million in revenue resulting from a new \$20 security fee to be charged for every civil case filing and criminal case disposition.
- ◆ **Limited Jurisdiction Fee**—\$11.7 million in revenue from increasing the fee for filing a limited civil case over \$10,000 from \$90 to \$185.
- ◆ **Continuance Fee**—\$26.3 million in revenue as a result of a new \$100 fee for requesting a continuance of a trial in civil and family law cases.
- ◆ **Verbatim Records Fee**—\$16.3 million in revenue as a result of a new \$25 fee for court reporter services to be paid by both parties in specified civil actions, as well as changes to previous law in order to improve collection of the existing and proposed court reporter fees.
- ◆ **Complex Litigation Fee**—\$6.2 million in revenue as a result of a new \$500 fee for each party in a complex case when a party requests to have the case declared complex. This fee is capped at \$10,000 per case.
- ◆ **Probate Fees**—\$7.3 million in revenue as a result of establishing a graduated fee schedule for probate cases depending on the size of the estate. Under prior law, probate fees were \$185 regardless of the size of the estate.
- ◆ **Small Claims Frequent Filers Fee**—\$2.4 million in revenue as a result of increasing the fee for each small claims filing in excess of 12 claims in 12 months from \$35 to \$60.



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- ◆ **Trial Motion Fee**—\$1.2 million in revenue as a result of increasing the trial motion fee from \$23 to \$33.
  - ◆ **Summary Judgment Fee**—\$760,000 in revenue as a result of increasing the fee for filing a motion for summary judgment or summary adjudication of issues from \$100 to \$150.
  - ◆ **Transfer of Undesignated Fees**—\$31 million in revenue to the TCTF as a result of transferring revenue from existing court-related fees currently collected and kept by the counties to the State.



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## BUSINESS, TRANSPORTATION, AND HOUSING

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### Department of Transportation

The Budget includes nearly \$6.6 billion in expenditures by the Department of Transportation (Caltrans) and 22,156 personnel years, including nearly \$2.1 billion for programs that assist local governments in constructing and operating highway, road, and transit systems, and nearly \$1.6 billion in capital outlay expenditures for state highway construction projects.

**Transportation Investment Fund Transfer**—Legislation accompanying the Budget provides a \$289 million transfer of Proposition 42 gasoline sales tax money from the General Fund to the Transportation Investment Fund (TIF) and a suspension of the remaining \$856 million Proposition 42 transfer. The \$289 million transfer will provide \$189 million for Traffic Congestion Relief Program (TCRP) projects and \$100 million to repay a portion of the State Highway Account loan to the Traffic Congestion Relief Fund. The partial suspension of TIF funding was made pursuant to Article XIX B of the California Constitution which allows for a full or partial suspension of the Proposition 42 TIF transfer upon a proclamation of the Governor that the transfer of the revenues would result in a signifi-



cant negative fiscal impact on the range of functions of government funded by the General Fund, and enactment by the Legislature by a two-thirds vote of statute that authorizes the suspension. Associated legislation requires that the General Fund pay the TIF by June 30, 2009, the amount suspended in 2003-04 plus interest.

**Full Repayment of the Proposition 2 Loan**—The 2002-03 Budget included a \$173 million loan from the State Highway Account to the General Fund, to be repaid with interest no later than June 30, 2005. This Budget repays that loan in full and with interest. Repayment of this loan will provide about \$177 million in funding for transportation projects in 2003-04.

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### **Motor Vehicle Account (MVA)**

The MVA is the major fund source for the California Highway Patrol and an important source of funding for the Department of Motor Vehicles, the Air Resources Board, the Department of Justice and, to a lesser degree, several other departments. SB 1055 (Chapter 719, Statutes of 2003) enacts fee increases that would create approximately \$200 million in additional revenue for the MVA in 2003-04 and \$400 million ongoing including the following:

- ◆ \$41 million from a \$3 increase to the base vehicle registration fee.
- ◆ \$95 million from a \$7 increase to the vehicle registration surcharges tied to the responsibilities of the California Highway Patrol.
- ◆ \$30 million from a \$9 increase to the non-commercial driver's license fee.
- ◆ \$9 million from a \$14 increase to the identification card fee.



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**California Highway Patrol (CHP)**

**Homeland Security**—The 2003-04 Budget continues to provide \$32.5 million for the CHP to respond to alerts of potential terrorist attacks. These funds address overtime costs incurred by the CHP during times of heightened security alerts, during which the CHP is placed on 12-hour shifts to provide increased disaster response capacity and to protect sensitive public facilities.

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**Technology, Trade, and Commerce Agency (TTCA)**

Despite operating under severe fiscal constraints, the Budget maintains full funding for the California Infrastructure and Economic Development Bank and, through \$2 million in local assistance reimbursements from the Employment Development Department, continues the Manufacturing Technology Program. The Budget and related trailer bill legislation shift these and several other important programs to different State entities as of January 1, 2004. The following agencies or departments will administer the following programs:

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**Business, Transportation, and Housing Agency**

- ◆ California Infrastructure and Economic Development Bank
- ◆ Small Business Loan Guarantee Program
- ◆ Manufacturing Technology Program
- ◆ Tourism Program (industry assessment collection staff only)
- ◆ Film Commission (permit function only)

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**Department of Housing and Community Development**

- ◆ Military Base Reuse and Retention program



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**State Water Resources Control Board**

- ◆ Replacement of Underground Storage Tanks program

**Local Public Safety**—The Budget provides significant funding for local public safety purposes as follows:

- ◆ **Citizens' Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Programs**—\$200 million for the COPS program (\$100 million) and county juvenile justice crime prevention programs (\$100 million). The COPS program supports local front-line law enforcement, sheriffs' departments for jail construction and operations, and district attorneys for prosecution. The Budget continues a level of funding so that all local law enforcement agencies can receive at least \$100,000, which will encourage the hiring of additional sworn peace officers. County juvenile justice crime prevention programs will provide for a continuum of response to juvenile crime and delinquency to provide a swift, certain, and graduated response for at-risk youth and juvenile offenders.
- ◆ **Booking Fees**—The Budget provides \$38.2 million to cities and special districts for reimbursement of jail booking fees paid to counties and other cities in 1997-98.



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## GENERAL GOVERNMENT

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### Employment Development Department

**Trade Adjustment Assistance**—The Budget includes \$17 million (Unemployment Insurance Fund) to provide training and other types of assistance to workers who have become unemployed due to the relocation of production to other countries. This increased funding level reflects the consolidation of grants formerly provided pursuant to the North American Free Trade Agreement with those provided under the newly reauthorized federal Trade Adjustment Assistance Program.

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### Department of Industrial Relations

**Workers' Compensation User Funding**—The Budget includes a reduction of \$55 million General Fund resulting from the shift to 100 percent User Funding of the Division of Workers' Compensation, the Workers' Compensation Appeals Board, the Commission on Health and Safety and Workers' Compensation, and the Industrial Medical Council. This shift represents only eight months of savings, and as a result the annualized General Fund savings will grow to approximately \$82 million in 2004-05. AB 227 (Chapter 635, Statutes of 2003) provided the statutory authority to implement this fund shift.



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## Department of General Services

**Contract Renegotiation Savings**—The Budget includes Control Section 5.50, which authorizes the Administration to develop and implement a plan to generate and capture savings of up to \$100 million (\$50 million General Fund) or more through operational efficiencies in areas such as contracting, leasing, and procuring goods and services. This control section authorizes the Department of General Services to conduct the renegotiations necessary to achieve the savings, and the Department of Finance to approve and allocate the reductions.



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# RESOURCES AND ENVIRONMENTAL PROTECTION

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## Protecting the Environment

The Budget includes substantial funding to improve the management of California's diverse fish, wildlife, and plant resources, and to enhance parks, beaches, trails, and wildlife areas. Significant progress has been made in advancing California's internationally recognized environmental standards. The Budget makes the following commitments to protect our natural resources and the environment:

**Proposition 50**—The Budget includes \$1.1 billion from Proposition 50 for protection of the state's water resources. These funds will be used to provide grants and loans to local water agencies to meet safe drinking water standards, protect the state's water supplies, reduce water pollution through the capture of additional storm water and agricultural runoff, and acquire environmentally sensitive watersheds, wetlands, and beaches.

**Proposition 40**—The Budget includes \$823.3 million from Proposition 40 to continue efforts to protect the state's parks and wildlife habitats. These funds will be used for a number of environmen-



tal improvement projects, including park acquisitions, wetlands conservation projects, coastal protection acquisitions, public access development, salmon habitat preservation, and projects that improve Lake Tahoe. These funds also include \$128.4 million for the California Cultural and Historical Endowment within the California State Library to issue grants, conduct comprehensive surveys of existing resources, and identify underrepresented aspects of the state's cultural and historical heritage.

**CALFED**—The Budget includes \$501.2 million for the State's share of the CALFED Bay-Delta Program (\$18.2 million General Fund, \$446.7 million bond funds, and \$36.3 million other funds). These funds will be used to address environmental concerns in the Delta while ensuring adequate water supplies for agricultural and urban users.

**Regulatory Fees for Enforcement**—Consistent with the “polluter pays” principle, the Budget includes augmentations to ensure the continued enforcement of environmental protection laws:

- ◆ **Clean Air**—The Budget will increase fees on stationary sources of air pollution, thereby generating \$14.4 million in new revenues. These funds will enable the Air Resources Board to continue its implementation of programs to protect and improve air quality throughout California.
- ◆ **Clean Water**—The Budget includes a \$13.6 million funding shift for the State Water Resources Control Board Core Regulatory Program from the General Fund to waste discharge fees. These fees are used to permit and monitor discharges, and take enforcement action where dischargers are out of compliance with their permits. An additional \$6.8 million in fee funding will be used for surface water and groundwater monitoring activities to maintain the current program.



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## CAPITAL OUTLAY

The Budget includes \$2 billion for the capital outlay program, not including funding for transportation, K–12 schools, and State conservancies. The General Fund contributes \$23.7 million of the total; \$726.7 million is proposed from lease-revenue bonds; and \$1 billion is from various General Obligation bonds.

The Budget includes:

- ◆ \$1 billion from Proposition 47 funds, passed in November 2002 for numerous construction projects within the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) that help meet the needs of increasing enrollment, replacement of aging facilities, and renovation of existing buildings to address fire, life, and safety, as well as seismic concerns.
- ◆ \$220 million in lease-revenue bonds for the construction of a new facility at California State Prison, San Quentin to house the condemned inmate population.
- ◆ \$159.7 million in lease-revenue bonds to fund the Sacramento Central Plant project.
- ◆ \$141.5 million from Proposition 12, Proposition 40, and the Off-Highway Vehicle Fund for the Department of Parks and Recreation to fund 42 major projects and acquisitions, minor



projects, and budget planning funding to allow for the planning and executing of various historical restorations, development, restoration projects, and additions to State Parks.

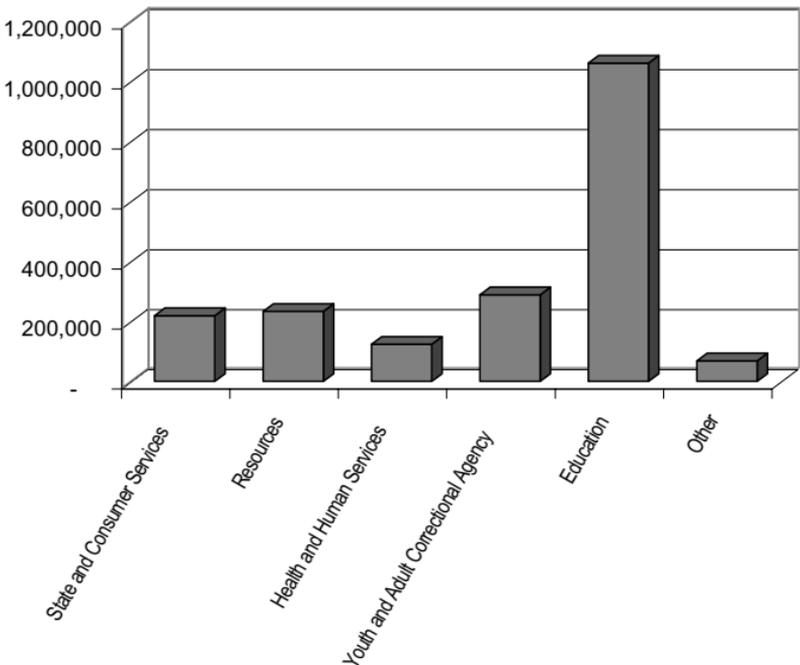
- ◆ \$63.3 million in lease-revenue bonds to construct a 96-bed expansion and a recreation complex in the forensic area at the Porterville Developmental Center.
- ◆ \$56.6 million in lease-revenue bonds to fund the replacement of the Caltrans Marysville District Office building.
- ◆ \$43.4 million in lease-revenue bonds for three safety and renovation projects at various state hospitals for the Department of Mental Health.
- ◆ \$36.2 million in lease-revenue bonds for the California Conservation Corps to relocate two residential facilities.
- ◆ \$33.2 million lease-revenue bonds to replace and renovate various facilities for the Department of Forestry and Fire Protection (CDF).
- ◆ \$19.6 million in Motor Vehicle Account, State Highway Account, and the Vehicle License Fee Account to complete three projects for the Department of Motor Vehicles and fund two continuing projects.
- ◆ \$16.9 million in lease-revenue bonds to provide equipment for the Sexually Violent Predator facility for the Department of Mental Health.
- ◆ \$14.7 million in General Fund to complete the Lancaster Armory and the Los Alamitos Airfield Electrical Distribution System.
- ◆ \$11 million in lease-revenue bonds for the Hawaii Medfly Rearing Facility for the Department of Food and Agriculture (CDFA).



- ◆ \$5.3 million in General Fund for various projects, such as \$2.5 million for minor capital outlay projects for the Department of the Youth Authority and \$1 million for budget packages and studies.
- ◆ \$3.6 million in General Fund to complete three flood control projects.
- ◆ \$3.1 million Motor Vehicle Account to replace a California Highway Patrol office in Williams and study the feasibility of future projects.

### Total Capital Outlay Funding for 2003-04 by Agency

(Dollars in thousands)



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## STATEWIDE ISSUES

**Fiscal Recovery Bonds**—Pursuant to Chapter 13, Statutes of 2003 (AB 7 of the First Extraordinary Session), the California Fiscal Recovery Financing Authority (Authority) will be created for the purpose of the issuance and sale of Fiscal Recovery Bonds and ancillary obligations in an amount sufficient to provide funding for the accumulated budget deficit as of June 30, 2003. Based on a projection made at the time of the enactment of the 2003-04 Budget, on September 2, 2003, the Director of Finance certified to the State Treasurer that the accumulated budget deficit as of June 30, 2003, was \$10,675,400,000.

This Chapter will impose a new, dedicated, temporary one-half cent State sales tax to retire the Fiscal Recovery Bonds. The annual revenue will be approximately \$2.4 billion and will be deposited in a newly created Fiscal Recovery Fund. The locals' sales and use tax will be decreased by a commensurate amount starting July 1, 2004. Beginning in 2004-05, local governments' share of local property tax revenues will be increased by an amount equal to the one-half cent reduction in the locals' sales and use tax.

On September 24, 2003, the Pacific Legal Foundation filed a lawsuit in the Sacramento Superior Court challenging the constitutionality of the Fiscal Recovery Bonds. Because the enabling legislation included provisions for an expedited appeal to the Supreme Court, it is anticipated that legal action will be concluded during the current fiscal year.



**Pension Obligation Bonds**—The 2003 Budget Act anticipated the issuance of Pension Obligation Bonds to pay \$1.9 billion of the State's 2003-04 retirement contribution. The Howard Jarvis Taxpayers Association has challenged a lawsuit for validation of the State issuing Pension Obligation Bonds. On September 23, 2003, a Superior Court Judge issued a ruling that the issuance of Pension Obligation Bonds would create debt in violation of the State's debt limit. The Attorney General has filed a petition for Writ of Mandate with the Supreme Court. The court case prevented the State from selling the bonds before the October 1 payment was due to the California Public Employees' Retirement System; consequently, proceeds of \$553 million were not realized. The remaining pension payments for 2003-04 total \$1.355 billion, with the next payment due January 2, 2004. Depending on when and how the Supreme Court rules on the Writ of Mandate, some or all of the remaining \$1.355 billion may be in jeopardy.

**Securitized Tobacco Settlement Funds**—The 1998 Master Settlement Agreement (MSA) requires tobacco companies to make payments to the states totaling an estimated \$206 billion nationally through 2025. California is projected to receive an estimated \$25 billion over 25 years.

**Tobacco Settlement Securitization Payment**—To prevent further reductions to important health care programs, the State issued bonds in 2002-03, backed by MSA revenues, which generated \$2.5 billion for the General Fund. For 2003-04, the State issued bonds backed by the remaining MSA revenues to generate another \$2.3 billion for the General Fund.

**Federal Fiscal Relief**—The federal Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted on May 29, 2003, provides \$2.4 billion in one-time federal funds to California across fiscal years 2002-03 and 2003-04. The State received \$455 million for 2002-03, and \$1.96 billion for 2003-04.



- ◆ The 2003 Budget Act includes \$1.15 billion in one-time federal funds that must be used to provide essential government services or cover the costs to the state of complying with federal intergovernmental mandates.
- ◆ The 2003 Budget Act also includes \$812 million in federal funds for the Medi-Cal program, due to a temporary increase in the Federal Medical Assistance Percentage. Of this amount, \$117.6 million must be allocated to local agencies that receive federal matching funds under the Medi-Cal program. The remaining federal funds will be used for Medi-Cal services provided by the Departments of Health Services, Mental Health, Developmental Services, Social Services, and Alcohol and Drug Programs.

**State Teachers' Retirement System (STRS)**—The 2003 Budget Act reduces the General Fund payment to STRS that provides for teacher purchasing power maintenance by \$500 million in 2003-04. In exchange, pursuant to Chapter 6, Statutes of 2003, First Extraordinary Session (SB 20, First Extraordinary Session), the state will restore the funds if purchasing power protection at the 80 percent level cannot be maintained through July 1, 2036. On October 14, 2003, the State Teachers' Retirement System Board filed a suit in Superior Court challenging the validity of Chapter 6.

**Employee Compensation Reduction**—The 2003 Budget Act reflects a \$1.1 billion reduction in 2003-04 employee compensation costs and the abolishment of the equivalent of 16,000 permanent positions. This reduction will be implemented through collective bargaining concessions, personal services reductions, and some related operating expense reductions.

**Rural Health Care Equity Program**—The 2003 Budget Act reflects a savings of \$3.9 million General Fund in 2003-04 by amending Government Code Section 22825.01 to limit annuitant participation



in the Rural Health Care Equity Program to annuitants that reside in California.

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### **Consolidation of Data Centers**

Chapter 225, Statutes of 2003, requires the Department of Finance to prepare a plan for the consolidation of the Stephen P. Teale and Health and Human Services Agency Data Centers effective July 1, 2004. Chapter 225 requires the Department of Finance to convene a specified working group to prepare, by December 1, 2003, a consolidation plan that will save \$3.5 million in General Fund in 2004-05. The plan must also identify data center activities that will produce savings in future fiscal years and consider consolidating data servers, if feasible.

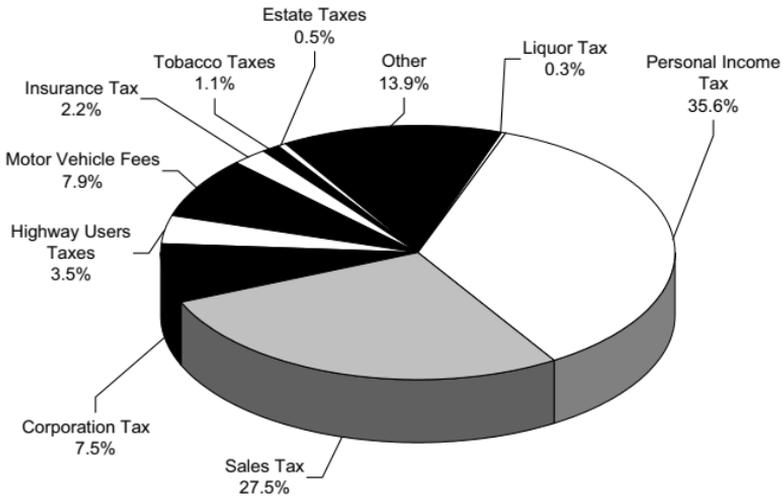


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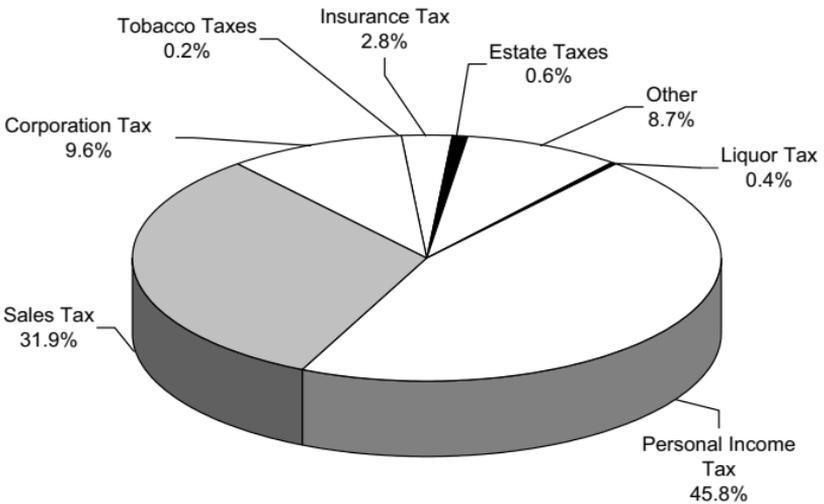
## SUMMARY CHARTS



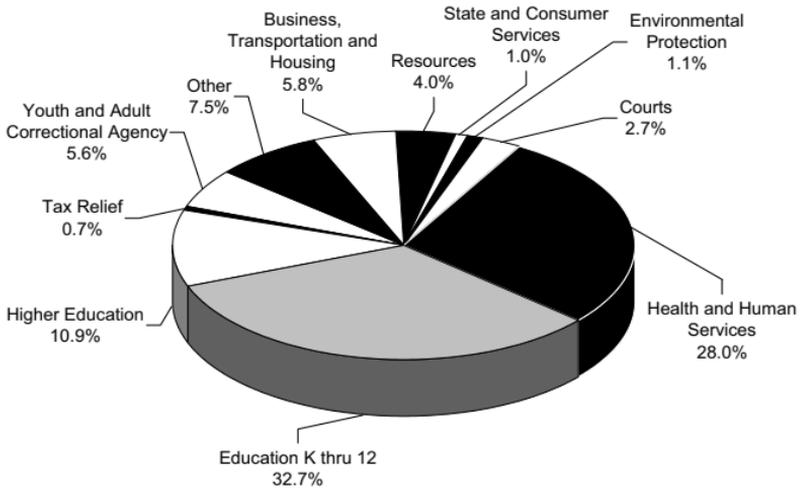
**2003-04  
Total Revenues and Transfers**



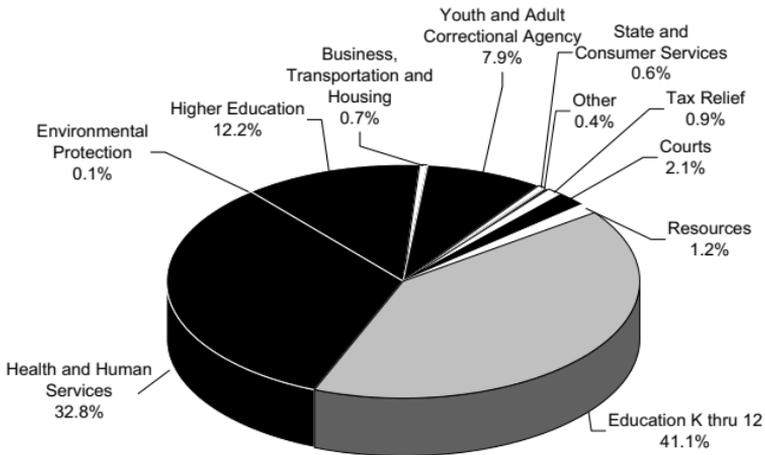
**2003-04  
General Fund Revenues and Transfers**



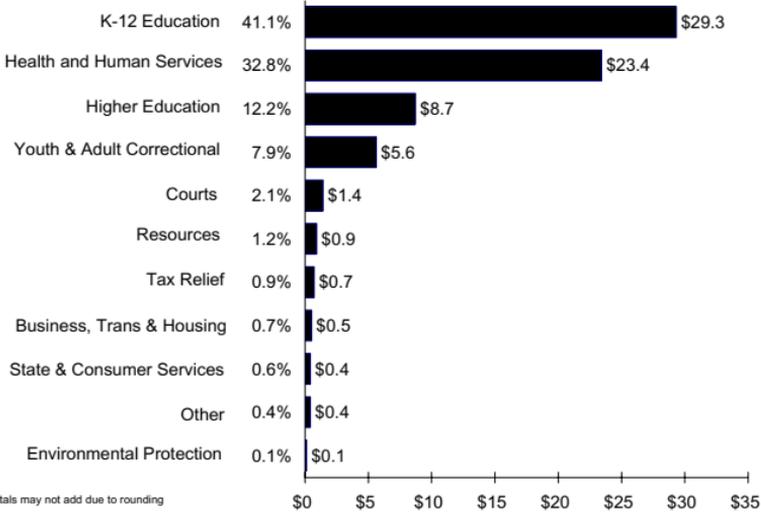
**2003-04  
Total Expenditures  
(Including Selected Bond Funds)**



**2003-04  
General Fund Expenditures**



### 2003-04 General Fund Expenditures (Dollars in Billions)



- ◆ **K-12 Education continues to be the State's top funding priority**—over 41 cents of every General Fund dollar is spent on K-12 education.
- ◆ Combined with higher education funding, the State will spend over 53 cents of every General Fund dollar on education.
- ◆ Education, health and human services, and public safety expenditures constitute over 94 percent of all State General Fund expenditures.



**2003-04 Expenditures By Fund**  
(Dollars in Millions)

Function	General Fund	Special Funds	Bond Funds	Total
Education (K-12)	\$29,318	\$59	\$3,668	\$33,045
Health and Human Services	23,358	4,892	117	28,367
Higher Education	8,679	1,025	1,353	11,057
Business, Transportation and Housing	512	5,220	148	5,880
Courts	1,454	1,294	--	2,748
Tax Relief	667	--	--	667
Local Government Subventions	314	4,716	--	5,030
Youth and Adult Correctional Resources	5,644	2	11	5,657
Environmental Protection	865	1,357	1,784	4,006
State and Consumer Services	97	707	326	1,130
Other	444	551	25	1,020
	49	2,481	37	2,567
<b>Total</b>	<b>\$71,401</b>	<b>\$22,304</b>	<b>\$7,469</b>	<b>\$101,174</b>



**2003-04 Revenue Sources**  
(Dollars in millions)

	<b>General <u>Fund</u></b>	<b>Special <u>Funds</u></b>
Personal Income Tax	\$33,659	--
Sales Tax	23,511	\$2,546
Corporation Tax	7,072	--
Highway Users Taxes	--	3,313
Motor Vehicle Fees	18	7,424
Insurance Tax	2,068	--
Estate Taxes	437	--
Liquor Tax	288	--
Tobacco Taxes	117	932
Other	<u>6,421</u>	<u>6,844</u>
<b>Total</b>	<b>\$73,591</b>	<b>\$21,059</b>



**General Fund Expenditures  
by Agency**  
(Dollars in Millions)

	<u>2002-03</u>	<u>2003-04</u>
Legislative, Judicial, Executive	\$2,486	\$2,406
State and Consumer Services	480	444
Business, Transportation & Housing	211	512
Technology, Trade, and Commerce	46	8
Resources	1,243	865
Environmental Protection	174	97
Health and Human Services	23,150	23,358
Youth and Adult Correctional	5,833	5,644
K-12 Education	29,469	29,318
Higher Education	9,543	8,679
Labor and Workforce Development	177	116
General Government	<u>5,330</u>	<u>-46</u>
<b>Total</b>	<b>\$78,142</b>	<b>\$71,401</b>



**BUDGET ACT + MAJOR CHANGES**  
**2003-04 GENERAL FUND**  
**BUDGET SUMMARY**  
(Dollars in millions)

	<u>2002-03</u>	<u>2003-04</u>
Prior Year Balance	-\$1,983	\$1,402
Revenues and Transfers		
Budget Act	\$70,852	\$73,353
Major Changes since Budget Act	--	238
Revised Revenues and Transfers	<u>70,852</u>	<u>73,591</u>
Fiscal Recovery Bonds	<u>10,675</u>	<u>--</u>
Total Resources Available	\$79,544	\$74,993
Expenditures		
Budget Act	\$78,142	\$71,137
Major Changes since Budget Act	--	264
Revised Expenditures	<u>\$78,142</u>	<u>\$71,401</u>
<b>Fund Balance</b>	<b>\$1,402</b>	<b>\$3,592</b>
<b>Budget Reserves:</b>		
Reserve for Liquidation of Encumberances	\$1,402	\$1,402
Special Fund for Economic Uncertainties	\$0	\$2,190



**MAJOR CHANGES TO BUDGET ACT  
GENERAL FUND  
(Dollars in millions)**

**Budget Act**

Projected June 30, 2004, Reserve at Budget Act	\$2,216
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**Major Revenues and Transfers (includes legislation)**

Unclaimed Property--Sale of Securities	130
Increase in Tobacco Securitization Bond Proceeds	264
Pension Obligation Bond October payment (other funds contribution)	-249
Ch. 712/03 (SB 808): Bunker fuel, sales tax & Ch. 697/03 (AB 1741): Use tax	-7
Ch. 655/03 (SB 103): Regulated Investment Companies	10
Ch. 654/03 (AB 1601) & Ch. 656/03 (SB 614): Tax shelters	90

Total Available, Revenues and Reserve	\$2,454
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**Major Expenditures (includes legislation)**

Pension Obligation Bond October payment (General Fund contribution)	-304
Vehicle License Fee gap hardship funds not authorized	40

Total, Major Expenditures	-\$264
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<b>Revised Reserve</b>	<b>\$2,190</b>
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### California's Budget on the Internet

*This document is also available on the Internet at the California Department of Finance website—[www.dof.ca.gov](http://www.dof.ca.gov)*



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