



CALIFORNIA

# State Budget

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In January, the Governor produced a plan to address the structural deficit in one year. This plan required timely action.

The Governor's May Revision recognized the Legislature's preference for solving the structural deficit over multiple years and laid out a plan to accomplish that goal.

This Budget reflects many months of negotiation between the Governor and the Legislature. While it relies on larger borrowing and other one-time solutions, this budget is built on the May Revision. It is balanced, including a \$2 billion reserve in the current year, and it protects the Governor's K-12 education priorities.

## Spending By Fiscal Year Dollars in Billions

2000-01	2001-02	2002-03	2003-04
\$78.1	\$76.8	\$78.1	\$71.1

The Legislature also took additional actions to maintain the May Revision target for the out year deficit and gave the Director of Finance limited mid-year authority to address unanticipated expenses by reducing expenditures in other areas.

The Department of Finance and the Legislative Analyst both predict that additional legislative action will be required in next year's budget to prevent a re-emergence of a structural deficit by June of 2005.

The Legislature may, as it did this year, wait to determine the accuracy of these forecasts or it may act in anticipation of the relative accuracy of these forecasts.

The Governor has directed the Department of Finance to work with the Legislature and all other parties to identify ways to address the structural deficit, including potential legislative actions before the end of the session. These discussions will also be valuable for possible consideration in the fall development of the Governor's Budget plan for 2004-05.



## 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 by \$1.7 billion since May Revision.

## Budget Highlights

### Education

#### K-12

**Proposition 98 Guarantee**—Total K-12 Proposition 98 spending is \$45.7 billion, an increase of \$1.8 billion, or 4.2 percent over 2002-03. This is \$215 million above the minimum guarantee. Proposition 98 K-12 appropriations increase almost \$2.1 billion, or 5.3 percent over the revised 2002-03 spending level. Total K-12 spending per pupil increases from \$6,624 in 2002-03 to \$6,887 in 2003-04, a 4.0 percent increase.

**K-12 Budget Approach**—The enacted Budget follows the direction set in the May Revision. The Legislature retained the funding level proposed in May except for some shifts from property tax funding to General Fund. Specific categorical programs were reduced or eliminated along with a modest reduction to basic revenue limit funding to achieve approximately \$1.8 billion in reductions compared to the 2002-03 budget level for these programs. Consistent with the policy applied



to other areas of the Budget, funding for most state mandates was deferred and no cost of living adjustments were funded. Growth was not funded for categorical programs.

**Growth**—The Budget includes \$576.7 million for increases in student population in both apportionments and special education. Average daily attendance increases to 5,990,495, an increase of 1.34 percent.

**Revenue Limits**—Revenue limit funding constitutes the basic funding source for classroom instruction. The Budget provides a net increase of over \$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. However, district and county office revenue limit funding was increased by a total of \$493.8 million to mitigate the Public Employees' Retirement System costs and unemployment rate increases. 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.

**Class Size Reduction**—The Budget includes \$1.66 billion, which fully funds the program's base funding level for 2003-04.

**Special Education**—The Budget provides \$69 million in federal funds to provide mental health services for children with exceptional needs, as required by the Federal Individuals with Disabilities Education Act. 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). Special education is the only categorical program funded for attendance growth, as noted above.

**Accountability**—The Budget provides \$407.1 million (\$320.5 million Proposition 98 General Fund) for programs to assist and promote academic performance. Of these funds, \$233.8 million (\$218.4 million Proposition 98 General Fund) is provided to assist low performing schools through the High Priority Schools Grant Program and \$123.4 million (\$99.1 million Proposition 98 General Fund) is provided to continue funding schools in the Second and Third Cohorts of the Immediate Intervention/Underperforming Schools Program and the Comprehensive School Reform Program. The balance of the funding is comprised of \$3.0 million Proposition 98 General Fund and up to \$46.9 million federal Title I funds to assist schools subject to sanctions pursuant to State and federal accountability programs. A portion of these funds will also support a statewide system of school support to provide assistance to districts, county offices of education, and schools in need of improvement.

**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 2003-04.



**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 assistance to low income students and their schools.
- ◆ \$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.
- ◆ \$14.0 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.



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## Child Care

**Subsidized Child Care**—The Budget provides over \$2.2 billion for subsidized child care programs in the Department of Education providing services to approximately 378,300 children, including those of CalWorks families and other low income families in a variety of high quality center based and parental choice voucher programs.

Services are also provided through the Department of Social Services (DSS) to CalWorks families whose employment training or work participation has not yet stabilized. The DSS budget includes \$479.6 million to serve an additional 72,000 children in Stage 1 plus a reserve of \$61.6 million, within the overall TANF reserve, sufficient to serve 10,000 additional children in Stage 1 or 2 should estimated caseloads fully materialize.

**Before and After School Programs**—The Budget provides over \$197 million in State and federal funds to provide before and after school enrichment programs for 208,500 kids, including an increase of \$34 million in new federal funds.

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## Higher Education

**Total Funding**—The Budget provides for total Higher Education funding of over \$15 billion from all revenue sources. University of California (UC) funding totals almost \$4.5 billion, including \$2.9 billion from General Fund. California State University (CSU) funding totals approximately \$3.5 billion, including almost \$2.5 billion General Fund. Community Colleges funding totals almost \$6.6 billion, including \$4.7 billion from Proposition 98 and other General Fund resources, of which \$2.7 billion is from the General Fund. The California Student Aid Commission includes \$672 million for various financial aid programs, including the Cal Grants entitlement and other programs.

**Enrollment Increases**—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. The Community Colleges are provided \$57.9 million to fund an additional 15,500 students, for a total of almost 1,089,000 FTES.

**Student Fees**—For the first time in eight years, increases in systemwide fees have been adopted beginning in mid fiscal year 2002-03 for resident undergraduate or graduate students at the University of California and the California State University. For 2003-04, both UC and the CSU have approved a significant increase in systemwide fees. Fees for UC will increase from \$3,429 in the fall of 2003 to \$4,484 by the fall of 2004. Fees for CSU will increase from \$1,428 in the fall of 2003 to \$2,046 in



the fall of 2004. Both segments will devote one-third of new fee revenues toward additional student financial aid to ensure access for needy students. The UC remains competitive among its peer research universities. The CSU is still among the most affordable university systems of its kind in the nation.

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

**Cal Grants**—To help ensure access to higher education for deserving 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 what was provided for Cal Grants in the revised 2002-03 Budget.

**California Community Colleges Deferral**—In addition to the amount budgeted from Proposition 98, the Budget defers \$200 million in payments to districts for Apportionment and Partnership for Excellence services in 2003-04 to July of 2004-05 in order to preserve access and categorical spending in 2003-04 as much as possible. This enables the State to minimize out-year spending requirements.

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## Health and Human Services

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### Maintaining Health Care Access

The Budget also maintains the Administration's commitment to provide health care coverage to California's low-income children and adults. Specifically, the 2003 Budget provides health coverage to approximately 4.3 million children through Medi-Cal and the Healthy Families Program.

**Healthy Families Program**—The 1999 Budget Act expanded the Healthy Families Program (HFP) coverage to uninsured children in families with income 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.

**Continuous Eligibility for Children**—Chapter 945, Statutes of 2000, provides 12-month continuing Medi-Cal eligibility to children under 19 years of age. This expansion reduces the number of uninsured children in California and ensures continuity of medical care. The Budget includes a total of \$486.6 million (\$243.3 million General Fund) to provide continuous Medi-Cal eligibility for an estimated 471,500 children. Since 2000-01, the Administration has provided a total of \$1.3 billion (\$638.9 million General Fund) to support this expansion.



**Medi-Cal Aged and Disabled Federal Poverty Level Program**—The Budget includes \$127.6 million (\$63.8 million General Fund) to continue no-cost Medi-Cal for low-income seniors and disabled individuals pursuant to Chapter 93, Statutes of 2000.

**1931(b) Medi-Cal Program**—The Budget includes \$236.0 million (\$118.0 million General Fund) to continue the 1931(b) Medi-Cal program eligibility at 100 percent of the FPL, which is the level established in March 2000. Prior to March 2000, the qualifying income limit was approximately 61 percent of the FPL. This expansion allowed 229,700 parents not previously eligible to enroll into the Medi-Cal program. Once enrolled in 1931(b) coverage, families may work and remain on Medi-Cal at higher income levels.

**Accelerated Enrollment: Single Point-of-Entry**—The Accelerated Enrollment Program, implemented July 1, 2002, enables the Department of Health Services to temporarily enroll children under the age of 19 into the Medi-Cal program. Approximately 3,078 children will receive Medi-Cal benefits through the Accelerated Enrollment program in 2003-04. As a result of the presumptive eligibility mechanism, expenditures are projected to reach \$8.3 million (\$4.1 million General Fund) in 2003-04.

**Child Health and Disability Prevention (CHDP) Program Gateway to Medi-Cal**—The Budget includes funding of \$80.2 million (\$38.3 million General Fund) for the CHDP Gateway, which streamlines enrollment into Medi-Cal and the HFP. The Budget also includes \$785,000 (\$196,000 General Fund) to expand the CHDP Gateway to include newborn enrollment.

**Eligibility to Children Receiving Free School Lunches**—Chapter 894, Statutes of 2001, will facilitate enrollment into Medi-Cal for uninsured school children by linking Medi-Cal eligibility with free school lunch eligibility. It is estimated that this program will result in 5,850 additional children receiving Medi-Cal coverage in 2003-04. The Budget includes \$3.5 million (\$1.7 million General Fund) to support this expansion.

**Facilitating Medi-Cal Enrollment and Eligibility for Persons Receiving Food Stamps**—Chapter 897, Statutes of 2001, will facilitate the enrollment of low-income, uninsured families into the Medi-Cal program by linking Medi-Cal eligibility with the Food Stamp Program. It is expected that this linkage of food stamp eligibility with the Medi-Cal program will result in an additional 5,500 parents and 5,550 children receiving Medi-Cal coverage in 2003-04, bringing the number of children under this program to approximately 246,500. The Budget includes \$7.7 million (\$3.9 million General Fund) to support this expansion.



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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.

**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 with interest. Repayment of this loan will provide about \$177 million in funding for transportation projects in 2003-04.

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## Public Safety—Homeland Security

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### California Highway Patrol (CHP)

The 2003-04 Budget provides \$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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### Department of Health Services

The Budget provides \$35.9 million federal funds (\$10.9 million for state operations and \$25.0 million for Local Assistance) and 80.0 positions in fiscal year 2003-04 to support continuation of a 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



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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 this purpose.

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## Local Public Safety

**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 sufficient for each local law enforcement agency to receive at least \$100,000. 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.

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## Resources And Environmental Protection

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### 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 from terrorist attack, reduce water pollution through the capture of additional storm water and agricultural runoff, and acquire environmentally sensitive watersheds, wetlands, and beaches.

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### 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 environmental 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.

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## 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.

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## Regulatory Fees for Enforcement

Consistent with the "polluter pays" principle:

**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, and \$7 million in Proposition 50 funds will be used for the California Ocean Data Observing System to improve the monitoring of coastal waters.

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## Capital Outlay

The Budget includes \$2.0 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; \$1.1 billion from the 2002 Kindergarten–University Public Education Facilities Bond Act funds and other General Obligation bonds, and \$109.5 million from special funds. The Budget includes:

- ◆ \$1.0 billion from Proposition 47 funds, passed in November 2002 for numerous construction projects within the UC, the 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.



- ◆ \$33.2 million lease-revenue bonds to replace and renovate various facilities for the Department of Forestry and Fire Protection (CDF).
- ◆ \$3.1 million Motor Vehicle Account to replace a California Highway Patrol office in Williams.
- ◆ \$19.6 million 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.
  - ◇ \$50.3 million in lease-revenue bonds to construct a 96-bed expansion and a recreation complex in the forensic area at the Porterville Developmental Center.
  - ◇ \$16.9 million in lease-revenue bonds to provide equipment for the Sexually Violent Predator facility for the Department of Mental Health.
  - ◇ \$29.9 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.
  - ◇ \$136.4 million for the Department of Parks and Recreation to fund 43 major projects, minor projects, and budget planning funding to allow for the planning and execution of various acquisitions, historical restorations, and development and restoration projects.
  - ◇ \$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.
  - ◇ \$11.0 million in lease-revenue bonds for the Hawaii Medfly Rearing Facility for the Department of Food and Agriculture (CDFA).
  - ◇ \$14.7 million in General Fund to complete the Lancaster Armory and the Los Alamitos Airfield Electrical Distribution System.

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## Retirement

**State Teachers' Retirement System (STRS)**—The Budget reduces the General Fund payment to STRS that provides for retired teachers purchasing power maintenance by \$500 million in 2003-04. In exchange, pursuant to Chapter 6,



Statutes of 2003, First Extraordinary Session (SB 20X), the State will restore the funds if purchasing power protection at the 80 percent level cannot be maintained through July 1, 2036.

**Rural Health Care Equity Program**—The Budget 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, beginning January 1, 2004.

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## Financial Instruments

**Deficit Financing Bond**—AB 7X of the 2003-2004 First Extraordinary Session authorizes the issuance of approximately \$10.7 billion of deficit financing bonds to address the accumulated budget deficit as of June 30, 2003. The bonds will be financed by a temporary, one-half cent sales tax beginning July 1, 2004 and dedicated for the purpose of the repayment of the bonds. The revenues from the one-half cent sales tax will be deposited in the newly created *Fiscal Recovery Fund*. These revenues are not required to be included in the Proposition 98 calculation, as new revenues that are dedicated to a special fund are excluded from General Fund revenues for purposes of that calculation. The debt service for these bonds would be subject to annual appropriation by the Legislature. The Attorney General's Office has concluded that bonds validly issued pursuant to this legislation would not be "debt" prohibited by the constitutional debt limit.

**NOTE: Revenue Exchange**—Beginning in 2004-05, local sales tax authorization is reduced by one-half cent and local government's share of local property tax revenues are increased by a like amount. This reduces the amount of property tax going to schools. The Proposition 98 formula requires that the State hold schools harmless from any such reduction.

### Securitized Tobacco Settlement Funds

- ◆ The 1998 Master Tobacco Settlement 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 for the State's most vulnerable residents, the State issued bonds in 2002-03 backed by Tobacco Settlement Fund revenues, which generated \$2.5 billion for the General Fund. For 2003-04, the State plans to issue bonds backed by the remaining Tobacco Settlement Fund revenues to generate another \$2.0 billion for the General Fund.



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**Pension Obligation Bonds**—The Budget reflects the State's issuance of pension obligation bonds to fund approximately \$1.9 billion of the State's 2003-04 retirement obligations to the California Public Employees' Retirement System. This will free up an equal amount of General Fund money and the General Fund will be responsible for all future bond redemption costs. The State will make an interest-only payment of approximately \$28 million in the spring of 2004 and principal and interest payments of \$419 million in each fiscal year from 2004-05 through 2008-09.

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## 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 Budget 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 Budget 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.

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## Significant Reductions by Program Area

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### Employee Compensation

- ◆ **Employee Compensation Reduction**—The Budget reflects a \$1.1 billion (\$585 million General Fund) reduction in 2003-04 employee compensation costs and the abolishment of 16,000 permanent positions. This reduction must be implemented through collective bargaining concessions, layoffs, or budget reductions.



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## Health and Human Services

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### Department of Health Services

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#### Medi-Cal

- ◆ \$930 million one-time General Fund decrease to reflect an accounting change from accrual to cash.
- ◆ \$194 million General Fund savings to reflect a change in Medi-Cal county accountability performance standards.
- ◆ \$115.1 million General Fund savings to reflect a 5 percent rate reduction for Medi-Cal providers, except long-term care facilities.
- ◆ \$21.5 million General Fund savings to reflect implementation of Medi-Cal semi-annual reporting requirements.
- ◆ \$20.1 million General Fund savings as a result of increased Medi-Cal fraud activities.
- ◆ \$7.4 million General Fund savings for various proposals including a reimbursement methodology change for anti-hemophilic blood factors and durable medical equipment, imposing a cap on Medi-Cal laboratory services, and pharmacy cost savings through provider education.

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### Department of Alcohol and Drug Programs

- ◆ \$11.5 million General Fund reduction for local treatment and prevention programs, in order to fund the Department of Alcohol and Drug Programs at the federal maintenance-of-effort level.

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### Department of Developmental Services

- ◆ \$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 Mental Health

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

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## Department of Social Services

- ◆ \$104 million General Fund cost avoidance resulting from the suspension of the January 2004 State cost-of-living adjustment for the Supplemental Security Income/State Supplementary Payment Program.
- ◆ \$91.4 million cost avoidance resulting from the suspension of the October 2003 CalWORKs grant cost-of-living adjustment for federal Temporary Assistance for Needy Families.

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## Department of Rehabilitation

- ◆ \$13.4 million (\$9.7 million General Fund) cost avoidance resulting from the suspension of the Work Activity Program provider rate adjustment.

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## Business, Transportation, and Housing

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### Department of Transportation

- ◆ **Partial suspension of the 2003-04 General Fund transfer to the Transportation Investment Fund**—Legislation accompanying the Budget provides for a \$289 million transfer and a \$856 million suspension of the 2003-04 General Fund to Transportation Investment Fund (TIF) transfer. The partial suspension saves the General Fund \$856 million in 2003-04.
- ◆ **Redirection of the “spillover” sales tax revenue to the General Fund**—The January 10, 2003, Governor’s Budget forecast indicated there would be no Public Transportation Account (PTA) spillover revenue in 2003-04. Due to higher actual gasoline prices and the anticipation of higher gasoline prices in the future, the May Revision forecast included PTA spillover revenue of \$87.5 million. The Budget increases General Fund revenue by \$87.5 million by transferring the 2003-04 spillover revenue to the General Fund instead of the PTA.



## Technology, Trade, and Commerce Agency

This agency is being eliminated effective January 1, 2004, with the exception of a few programs. 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:

### 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)

### Department of Housing and Community Development

- ◇ Military Base Reuse and Retention Program

### State Water Resources Control Board

- ◇ Replacement of Underground Storage Tanks Program

## Local Government

- ◆ **Vehicle License Fee (VLF) Backfill “Gap” Loss**—The VLF offsets were suspended on June 20, 2003, due to insufficient General Fund revenues. However, the restored VLF rates will not be fully effective until October 1, 2003. Under the VLF statute, the Department of Motor Vehicles has three months to restore the VLF rates to the full 2 percent rate. The three-month administrative delay creates an initial “gap” in full payment to the local entities of an estimated \$825 million. Trailer bill legislation requires the State Controller to pay the amount of the “gap” offsets not paid during the 2003-04 fiscal year by August 15, 2006. The State Controller is permitted to advance “gap” payments not exceeding \$40 million to local entities that can demonstrate hardship.



- ◆ **Community Redevelopment Agency transfer to the Educational Revenue Augmentation Fund**—The Budget requires community redevelopment agencies to transfer \$135 million to county auditors for deposit into the Educational Revenue Augmentation Fund by May 10, 2004. This transfer will reduce State General Fund education obligations.
- ◆ **Reduce General Fund subventions for commercial trailers**—The Budget reduces by \$36.9 million the amount provided to local entities to compensate for its revenue losses from no longer collecting VLF on most commercial trailers, leaving \$11.9 million for this program.

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## Corrections and Law Enforcement

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### Department of Corrections

- ◆ **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 Beds**—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 beds 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 net savings of \$27.5 million due to increased sentence reduction credits earned as a result of the restructuring of the Education and Vocational Training Programs within the Department of Corrections.



- ◆ **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 resulting 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 net 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.
- ◆ **Drug Treatment Furlough**—The Budget includes a net reduction of \$20.1 million to reflect the placement of non-serious, non-violent inmates into residential aftercare treatment 120 days prior to release from prison, rather than upon parole.

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## Department of the Youth Authority

- ◆ **Consolidation Plan**—The Budget reflects a \$3.6 million General Fund reduction associated with the closure of the Karl Holton Youth Correctional Facility and the male portion of the Ventura Youth Correctional Facility.
- ◆ **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.

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## 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 based on a plan to be submitted to the Legislature. The plan is required to include the elimination of 50 positions, and savings from the elimination of positions and transfer of the functions and programs.



- ◆ In addition to the abolishment of OCJP, the Legislature reduced funding for vertical prosecution programs by 50 percent for a General Fund savings of \$8.2 million, and converted the remaining \$8.2 million to a Vertical Prosecution Block Grant. The Legislature also reduced funding for the War on Methamphetamine Program from \$15 million to \$9.5 million resulting in a General Fund savings of \$5.5 million.

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## Local Public Safety

- ◆ **Eliminate High Technology Grant Funds for Local Law Enforcement**—The Budget eliminates these grants to local law enforcement agencies for General Fund savings of \$18.5 million.
- ◆ **Reduce Citizen's Option for Public Safety Grants**—The Budget reduces the funding for the Citizen's Option for Public Safety program by \$16.3 million, leaving \$100 million total funding for the program. Each individual law enforcement agency will continue to receive a minimum grant of \$100,000.
- ◆ **Reduce Juvenile Justice Crime Prevention Grants**—The Budget reduces the funding for the Juvenile Justice Crime Prevention program by \$16.3 million, leaving \$100 million total funding for the program.

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## General Government

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### California Arts Council

- ◆ The Budget Act reduces the California Arts Council to a funding level of \$1 million General Fund (and \$2 million in total funds) in 2003-04. This represents a total reduction of \$18.6 million in General Fund for the Arts Council. The lower level of funding consolidates the administration and grant ability of the Arts Council, and the remaining local art agency distributions for 2003-04 will be determined by the Council.

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## Judicial Branch

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### Trial Court Funding

- ◆ The Budget includes an \$85 million General Fund reduction to trial court funding and implements savings in various programs including administration



and court security, but authorizes new and increased fees to generate revenue for support of the courts to offset these reductions.

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## Resources and Environmental Protection

The Budget includes \$268.4 million in General Fund reductions to Resources Agency programs. Of that amount, \$81.7 million will be backfilled from additional fees, such as parks fees, and an additional \$66.7 million of funding was backfilled from other funds, primarily bond funds. Net reductions to the natural resources programs total \$92.5 million in total General Fund. Significant cuts include:

- ◆ \$9 million reduction to the Department of Parks and Recreation.
- ◆ \$8.5 million cut to the California Conservation Corps, which will result in an 18 percent reduction to the Corps, resulting in annualized Corps member population being reduced from 1,725 to about 1,600.
- ◆ \$6.4 million cut to the Department of Fish and Game that will reduce 50 enforcement positions, and close fish hatcheries.

The boards, departments, and offices of the California Environmental Protection Agency (CalEPA) have reduced their total expenditures by 16.8 percent. Included in this was a reduction of nearly 45 percent in General Fund spending, or \$68.3 million. Of this amount, \$52.5 million will be replaced by fees collected from users of CalEPA services, such as waste water discharge permits, air quality programs, the registration and use of pesticides, and water rights permits and licenses. Additionally, a reduction of \$124,000 in the State Water Resources Control Board will be backfilled by bond monies from the Water Security, Clean Drinking Water, Coastal, and Beach Protection Fund of 2002. Significant General Fund cuts include:

- ◇ \$7.9 million from the State Water Resources Control Board, investigations of instances of illegal water diversions and enforce compliance with existing permits and licenses for water rights. Investigations of contaminated water wells and underground storage tanks and the parties responsible for the contamination will be reduced.
- ◇ \$3.4 million from the Department of Toxic Substances Control.



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## Education

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### K-12 Education

- ◆ \$350 million (1.2 percent) reduction to district revenue limits and county office of education apportionments.
- ◆ \$85 million savings by capping summer school enrollment at 5 percent of students, and adjusting the budget to the current utilization level.
- ◆ \$225 million to reduce the Instructional Materials by 56 percent.
- ◆ \$31 million to suspend the Elementary Intensive Reading program.
- ◆ \$25 million to reduce the Peer Assistance and Review program by 71 percent.
- ◆ \$29 million to suspend the Miller-Unruh Reading program.
- ◆ \$42 million to reduce the School Improvement program by 10 percent.
- ◆ \$80 million to reduce the Supplemental Grants program by 33 percent.
- ◆ \$342 million caseload reductions to implement reforms in Child Care.

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### Higher Education

- ◆ **University of California**—The Budget reflects base reductions of \$484 million General Fund. The programs that were reduced include academic and institutional support, outreach, research, subject matter projects, funding for the opening of the UC Merced campus, in addition to a significant unallocated base reduction.
- ◆ **California State University**—The Budget reflects base reductions of \$409 million General Fund. The programs that were reduced include academic and institutional support, increase to faculty/staff ratio, and outreach in addition to a significant unallocated reduction.
- ◆ **California Community Colleges**—The budget reflects reductions of approximately \$293 million in Proposition 98 programs, including significant reductions to scheduled maintenance/special repair and instructional equipment, Partnership for Excellence, concurrent enrollment courses, and other categorical programs and mandates.



**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	\$70,852	\$73,353
Deficit Financing Bond	<u>\$10,675</u>	<u>-</u>
<b>Total Resources Available</b>	<b>\$79,544</b>	<b>\$74,755</b>
Expenditures	<u>\$78,142</u>	<u>\$71,137</u>
<b>Fund Balance</b>	<b>\$1,402</b>	<b>\$3,618</b>
<b>Budget Reserves:</b>		
Reserve for Liquidation of Encumbrances	\$1,402	\$1,402
Special Fund for Economic Uncertainties	\$0	\$2,216



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

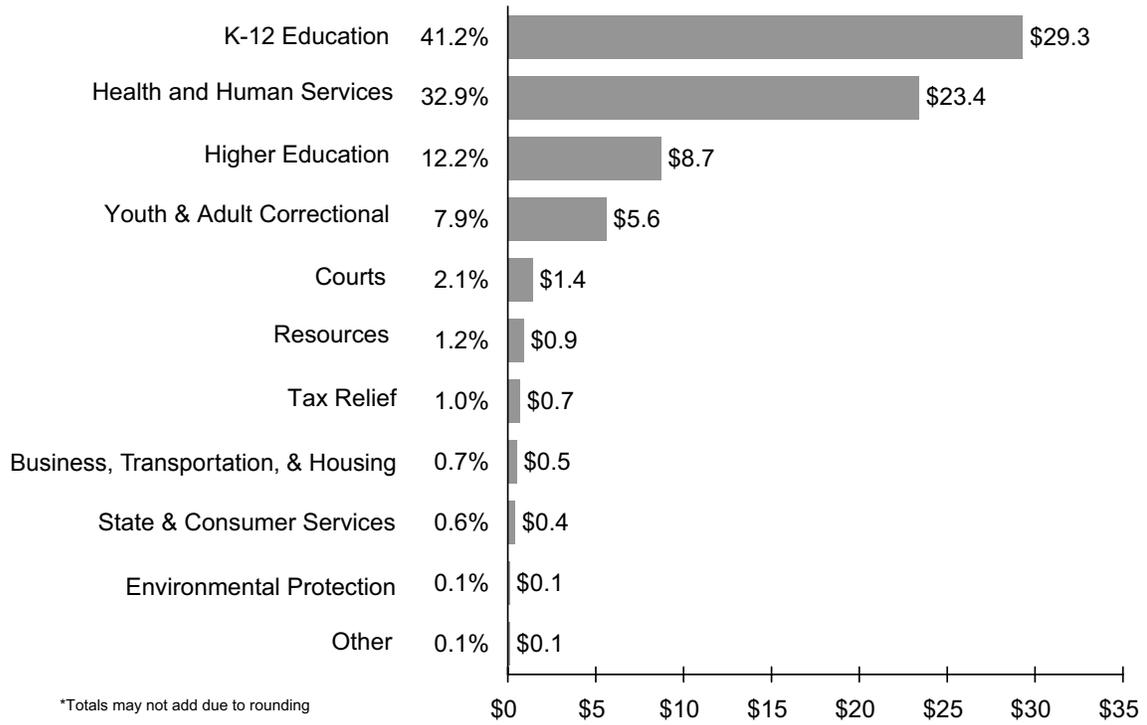
	<b>General Fund</b>	<b>Special Funds</b>
Personal Income Tax	\$33,596	--
Sales Tax	23,518	\$2,546
Corporation Tax	7,035	--
Highway Users Taxes	--	3,313
Motor Vehicle Fees	18	7,424
Insurance Tax	2,068	--
Estate Taxes	437	--
Liquor Tax	288	--
Tobacco Taxes	117	932
Other	<u>6,276</u>	<u>6,678</u>
<b>Total</b>	<b>\$73,353</b>	<b>\$20,893</b>

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

	<b>2002-03</b>	<b>2003-04</b>
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>-310</u>
<b>Total</b>	<b>\$78,142</b>	<b>\$71,137</b>



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



### 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	707	--	--	707
Local Government Subventions	314	2,950	--	3,264
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
	-255	2,481	37	2,263
<b>Total</b>	<b>\$71,137</b>	<b>\$20,538</b>	<b>\$7,469</b>	<b>\$99,144</b>

### General, Special, and Bond Funds (Dollars in Millions)

Agency	Legislative Spending Plan	Governor's Vetoes <sup>1/</sup>	Enacted Budget
Legislative/Executive	\$1,365	\$0	\$1,365
Courts	2,748	0	2,748
State and Consumer Services	1,020	0	1,020
Business, Transportation, & Housing	5,880	0	5,880
Resources	4,052	-46	4,006
Environmental Protection	1,130	0	1,130
Health and Human Services	28,368	0	28,368
Youth and Adult Correctional	5,657	0	5,657
Education (K-12)	33,045	0	33,045
Higher Education	11,056	0	11,056
Other	4,869	-1	4,868
<b>Total</b>	<b>\$99,190</b>	<b>-\$47</b>	<b>\$99,143</b>

<sup>1/</sup> Veto amounts include \$1 million General Fund and \$46 million Bond funds.

\* Numbers may not add due to rounding.



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**State of California**  
Governor's Office

I object to the following appropriations contained in Assembly Bill 1765.

Item 0250-490—Reappropriation, Judicial Council. I delete Provision 3.

I am deleting Provision 3 of this item as it is unnecessary and infringes on a process that is already well underway. The search process should be left up to the Judicial Council, in conjunction with the Department of General Services as the real estate experts, to determine the best site that meets the programmatic needs of the court who will ultimately reside on the property.

Item 3600-001-0001—For support of Department of Fish and Game. I revise this item by deleting Provision 2.

Provision 2 requires the Department of Fish and Game to develop a long-term sport fishing hatchery program and prohibits the Department from closing any fish hatcheries until January 1, 2004. This language inappropriately restricts administrative flexibility in addressing funding priorities with limited resources.

Item 3760-301-0005—For capital outlay, State Coastal Conservancy. I delete this item and Provisions 1, 2, and 3.

This language would exclude priority projects within San Luis Obispo and Santa Barbara counties from competing for these excess funds. I believe that any unencumbered balance from this Proposition 12 appropriation should revert to the Coastal Conservancy to be allocated to priority projects using established guidelines and criteria.

I am deleting Provisions 1, 2, and 3 to conform with this action.

Item 3860-496—Reversion, Department of Water Resources. I delete Provision 1 of this item.

I am deleting this language that would prohibit the transfer of funds from the General Fund to the Colorado River Management Account. A negotiated settlement of the Colorado River Quantification Settlement Agreement (QSA) is critical to ensure that the State's water needs are met. This language would weaken the Executive Branch's flexibility in negotiating with local water agencies that rely on water from the Colorado River, and reaching an ultimate agreement on the QSA.

Item 4120-001-0001—For support of Emergency Medical Services Authority. I delete Provision 1.

I am deleting Provision 1 because this language is not necessary. Provision 1 specifies that a reduction of \$138,000 be made to State operations only, and not to local assistance. The Emergency Medical Services Authority has already identified State operations reductions of \$68,000 General Fund in personal services and \$70,000 in operating expenses and equipment from the Disaster Medical Services Division.

Item 4130-001-0632—For support of California Health and Human Services Agency Data Center. I delete Provision 6.

I am deleting Provision 6, which would require the California Health and Human Services Agency Data Center to reduce its rates by at least 8 percent to achieve total savings of approximately \$20,000,000 in client departments' budgets. While I support the need for the Data Center to set rates that provide cost effective information technology services, this language would hamper the Data Center's ability to do so. Rates set by the Data Center are predicated on both costs and projected utilization. To the extent that client departments' funding for information technology is reduced, those departments would not have appropriate resources to pay for increased utilization. Any decrease in utilization from that projected in setting the rates would preclude the ability to actually lower the rates. This action conforms to my action on SEC. 9.70.

Item 4140-111-0236—For local assistance, Office of Statewide Health Planning and Development. I revise this item by deleting Provision 1.

In order to correct a technical error in the Budget Bill, I am deleting Provision 1, which would eliminate funding for the Rural Health Small Grants Program if legislation is enacted to amend the provisions of the Tobacco Tax and Health Protection Act (Proposition 99) to authorize Proposition 99 funds to be used to draw down federal funds for the Rural Health Demonstration Program within the Managed Risk Medical Insurance Board. Although legislation has been enacted to authorize the use of Proposition 99 funds for this purpose, there are sufficient Proposition 99 funds to provide funding for both programs in 2003-04. Therefore, I am sustaining the funding for the Rural Health Small Grants Program, which provides health care services to approximately 18,500 uninsured persons in rural areas of the State.

Item 4170-001-0001—For support of Department of Aging. I delete Provision 1.

I am deleting Provision 1 because it specifies that a reduction made to State operations cannot be allocated in a manner that affects State positions that provide direct services for the Department of Aging to the public or that administer the federal Older Americans Act programs. This language would restrict the Administration's ability to prioritize resources and deal with the legislative reduction based on programmatic needs of the Department of Aging.

Item 4220-001-0001—For support of Child Development Policy Advisory Committee. I delete this item.

I am deleting the legislative augmentation of \$668,000 (\$367,000 General Fund and \$301,000 Reimbursements), 5.4 positions for administrative support, and funding for the Child Development Policy Advisory Committee. The Committee is no longer functioning as all positions are currently vacant. Further, other State entities can be consulted for policy information and recommendations regarding child development and child care issues, at no additional cost to the State.

Item 4260-101-0890—For local assistance, Department of Health Services. I reduce this item from \$16,566,448,000 to \$16,409,608,000.

I am reducing this item by \$156,840,000 to correct a technical error in the Budget Bill. This technical veto is consistent with the Legislature's intent and legislative actions taken in this item.

Item 4440-101-0001—For local assistance, Department of Mental Health. I revise this item by reducing:

(1) 10.25-Community Services--Other Treatment \$1,139,412,000 to \$1,127,228,000

I am reducing Program 10.25 by \$12,184,000 as a technical adjustment in order to conform to the legislative action to implement a 5-percent reduction to Mental Health Managed Care.

Item 5240-001-0001—For support of Department of Corrections. I reduce this item from \$4,739,474,000 to \$4,739,327,000 by reducing:

(3) 31-Community Correctional Program from \$512,902,000 to \$512,755,000.

I am sustaining the \$2,600,000 legislative augmentation to implement a program to place inmates in residential aftercare treatment 120 days prior to release from prison, rather than upon parole. However, due to my strong concerns regarding public safety, I am directing the Department to develop regulations that clearly specify that inmates will not be eligible for this program who have been previously convicted of a serious or violent offense, or who are presently serving a sentence for a serious or violent offense.

I am sustaining the \$45,000,000 legislative augmentation to implement a Substance Abuse Treatment Control Unit program for non-violent parole violators who are not eligible for Proposition 36 and to implement a community detention program utilizing structured sanctions for other low-level parole violators. However, to ensure the safety of the citizens of California, I am directing the Department to develop regulations specifying that no individuals with an underlying serious or violent offense, or who have previously been convicted of a serious or violent offense will be eligible for these programs. In addition, these regulations are to specify that the community detention programs are only available if the parole violation is of a minor, technical nature.

I am deleting the \$147,000 legislative augmentation for the Sexually Violent Predators (SVPs) Conditional Release program, which the Legislature requested be transferred from the Department of Mental Health to the Department of Corrections (CDC). SVPs are repeat sex offenders who are diagnosed with mental illnesses and ordered into inpatient treatment upon completion of their criminal sentences. The Conditional Release program is necessary to monitor offenders and protect the public when courts order SVPs released into the community. The supervision, monitoring, and clinical treatment provided to SVPs under conditional release are essential to ensuring public safety. It is unclear at this time whether the CDC is appropriately equipped to provide all of the supervision and treatment services for this population. However, I will instruct the departments to explore the most effective and least costly way to provide supervision for these SVPs.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$129,929,000 to \$129,304,000 and revise Provisions 9 and 24.

I am reducing the legislative augmentation for support of special education dispute resolution services amount by \$123,000. This technical reduction eliminates funding for salary increases negotiated by the contractor. As the Budget provides for no augmentations for state employees, I believe it would be inequitable to fund salary increases for contracted employees. With this reduction, \$10,140,000 remains available for dispute resolution services. I am revising Provision 9 to conform to this action.

- “9. Of the funds appropriated in this item, ~~\$10,263,000~~ \$10,140,000 is for dispute resolution services, including mediation and fair hearing services, provided through contract for the Special Education Program.”

I am reducing the \$1,700,000 legislative augmentation for support of the Ravenswood City School Improvement Program by \$502,000. This technical reduction reflects the payment recently made for this purpose through the legal claim process. With this reduction, \$1,198,000 remains available to fully comply with the court-ordered payment for the State’s share of monitoring this district’s special education program. I am revising Provision 24 to conform to this action.

- “24. Of the funds appropriated in this item ~~\$1,700,000~~ \$1,198,000 shall be allocated to the Ravenswood City School District to support the costs of the court-ordered Ravenswood School Improvement Program.”

Item 6870-101-0001—For local assistance, Board of Governors of the California Community Colleges (Proposition 98). I revise this Item by revising Provision 2.

I am revising Provision 2 to delete language that would limit any apportionment reduction for a given community college district related to concurrent enrollment to no more than ten percent of the statewide amount in order to ensure an equitable allocation of the reductions. The ten percent limitation would result in potentially disproportionate reductions to other districts. The provision would still provide sufficient authority for the Chancellor to mitigate reductions in the event such reductions would threaten fiscal solvency, which I believe to be sufficient.

- “2. Of the funds appropriated in Schedule (1), Apportionments:
- (a) Up to \$100,000 is for a maintenance allowance, pursuant to regulations adopted by the board of governors.
  - (b) Up to \$500,000 is to reimburse colleges for the costs of federal aid repayments related to assessed fees for fee waiver recipients. This reimbursement only applies to students who completely withdraw from college before the census date.
  - (c) The amount appropriated in this item reflects a reduction of \$25 million and approximately 6,500 full-time-equivalent students (FTES) based on a policy that revises allowable parameters for the claiming of state funding for concurrent enrollment. The chancellor shall allocate this reduction on a basis proportionate to the level of FTES reported by districts for concurrent enrollment in physical education, recreation, study skills, and personal development courses. However, nothing in this provision shall prohibit those districts from receiving growth allocations, as warranted, to the extent that designated funds are available. ~~No district shall receive a funding reduction that exceeds 10 percent of the statewide total reduction made pursuant to this subdivision.~~ Further, the chancellor may limit the amount of reduction for a district if, in the judgment of the chancellor, the district's financial integrity otherwise would be jeopardized. The chancellor shall report to the Legislature and the Governor by January 1, 2004, on how the reduction was allocated.
  - (d) Notwithstanding any other provision of law or regulation, the chancellor shall not reduce district workload obligations for a lack of a funded cost-of-living adjustment.”

Item 7350-001-0001—For support of Department of Industrial Relations. I delete Provision 1.

I am deleting Provision 1 because it conflicts with Labor Code provisions, which direct the Industrial Welfare Commission to conduct public hearings in at least three California cities, as specified. This language would prevent the Commission to choosing the most cost effective venue for meetings.

I am sustaining the \$27,095,000 augmentation which would provide partial year funding for the 80 percent General Fund share of workers' compensation program costs. This budget assumes that the 100 Percent User Funding proposal that I proposed in December will be enacted as a part of a larger workers' compensation reform package. I have already stated my support and intent to enact reforms in the workers' compensation system. I view this budget augmentation as a signal that the Legislature intends to include 100 Percent User Funding in the workers' compensation reform package. If user funding is not included in those reforms and enacted in a timely fashion, the Department will incur a significant General Fund deficiency.

Item 8100-101-0001—For local assistance, Office of Criminal Justice Planning. I delete Provision 3.

I am deleting Provision 3, as a technical correction, which would require the Office of Criminal Justice Planning to maintain all matching federal discretionary funds for the Homeless Youth Project and the Youth Telephone Emergency Referral Program for at least this fiscal year. This language is unnecessary since Schedules (4) and (5) of this item provide appropriations specifically intended to support the Homeless Youth Project and Youth Telephone Emergency Referral Program, including the use of these funds to match any available federal funds.

Item 8180-101-0001—For local assistance, payment to counties for costs of homicide trials. I delete Provision 3.

I am deleting Provision 3, which allows Stanislaus County to be reimbursed for 100 percent of its costs associated with the homicide trial of the People v. Scott Peterson. There is an existing procedure by which counties can procure reimbursements for costly homicide trials. Stanislaus County can apply for funds for this trial through that procedure; therefore this language is unnecessary.

Item 9210-103-0001—For local assistance, Local Government Financing. I delete this item and Provisions 1, 2, 3, and 4.

I am deleting this legislative augmentation, which restored \$500,000 of my proposed elimination of the special supplemental subventions for redevelopment agencies. These resources were provided to ensure that debt obligations supported by the special supplemental subventions would not be harmed. If redevelopment agencies have debt secured by that funding, there is an established process to ensure that they are not harmed.

I am deleting Provisions 1, 2, 3, and 4 to conform to this action.

SEC. 9.70—Information Technology Savings from Reduced Rates at the Health and Human Services Agency Data Center. I delete this Control Section.

I am deleting this control section because it would require that (1) the Health and Human Services Agency Data Center reduce its rates by 8 percent, (2) the approximate \$20 million in resultant savings be reduced from client department budgets for information technology, (3) the Department of Finance (Finance) capture the resultant savings and revert the funding to the

appropriate fund, and (4) Finance report to the Legislature on adjustments be made by November 1, 2004. While I support the need for the Data Center to set rates that provide cost effective information technology services, I believe this control section would hamper the Data Center's ability to do so. Rates set by the Data Center are predicated on both costs and projected utilization. To the extent that client department's funding for information technology is reduced, those departments would not have appropriate resources to pay for increased utilization. Any decrease in utilization from the projected levels would preclude the ability to actually lower the rates. Additionally, the requirement for the Data Center to reduce its rates is unnecessary, because the Data Center plans to reduce rates by an average of 8 percent for 2003-04.

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 1765.

A handwritten signature in black ink that reads "Gray Davis". The signature is written in a cursive, slightly slanted style.

GRAY DAVIS