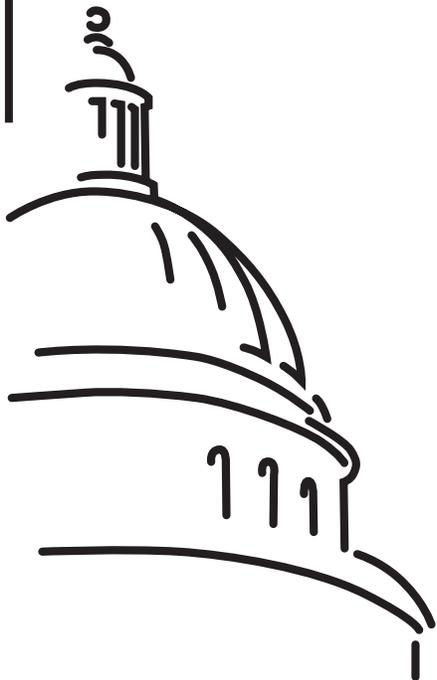


Mid-Year Spending Reduction Proposals



GRAY DAVIS, GOVERNOR
STATE OF CALIFORNIA

—
DECEMBER 2002

This page is intentionally blank.

OVERVIEW

The anticipated recovery of the U.S. and California economies has not yet materialized. The Department of Finance's 2002-03 May Revision economic forecast, on which the current-year budget is based, was more conservative than the consensus of economic forecasts at the time, projecting very slow growth in 2002.

Since the May Revision, the nation has added only 194,000 jobs. Over the last 10 years, the nation would have been expected to add about 200,000 jobs in a single month. Similarly, California has added only 30,000 jobs, about a month and a half's worth of average job growth. The national unemployment rate has hovered between 5.6 percent and 6.0 percent since the May Revision, compared to California's unemployment rate of 6.4 or 6.5 percent every month since the May Revision. Most troubling, the state's important high-tech sector does not appear to have begun to recover. While job losses have slowed considerably in the state's high-tech sector --- from a peak number of 19,200 jobs lost in April 2001 --- they remain a considerable drag on the economy, exceeding 4,000 jobs lost per month, on average, in the most recent four months.

Additionally, the stock market has lost a considerable amount of ground since midyear. When the Department of Finance's May Revision forecast was finalized, the S&P 500 Index closed at 1128.37. By the end of November 2002, the S&P 500 Index had fallen 17 percent to 936.31. The continued slide of the stock market in the summer and early fall and the possibility of military action in Iraq have soured the mood of consumers.

As a consequence of these developments, State General Fund is projected to fall considerably below budgeted levels, necessitating prompt action to curb current-year General Fund spending. On November 26, 2002, the Governor issued Executive Order D-64-02, directing departments to freeze spending where possible and to begin implementing current-year reductions in non-essential functions.

This document proposes a number of current-year General Fund spending reductions and other adjustments totaling \$3.4 billion. These reductions and adjustments would result in additional budget year savings of \$6.8 billion, for a total of \$10.2 billion over the two years. Of this amount, State operations reductions total \$320.8 million for 2002-03 and \$1.6 billion for 2003-04, consistent with the direction pursuant to Control Section 3.90 of the 2002 Budget Act (as added by Chapter 1023, Statutes of 2002) to achieve up to \$750 million in State operations savings in 2002-03.

While the exact magnitude of the budget gap is still unknown, the Administration will present a balanced plan to address the full extent of the shortfall in the Governor's 2003-04 Budget to be released in January. Along with over 40 other states, California faces painful choices in balancing its budget as the national economic and fiscal slump continues, with recent forecasts pushing resumption of normal economic growth well into 2004.

Revenue Update. October General Fund revenue receipts were \$312 million below the 2002 Budget Act forecast. To date, fiscal year 2002-03 General Fund revenues are \$381 million below expectations. Combined with our preliminary estimate of \$1.4 billion in lower-than-projected accrued revenues for the prior fiscal year, the total fiscal year-to-date and prior-year shortfall is about \$1.8 billion.

EXPENDITURE REDUCTIONS

Addressing the Fiscal Challenge

This document proposes reductions and adjustments totaling \$10.2 billion over the two years. The proposed changes are summarized in the following table:

	Amounts (Dollars in Millions)			
	<u>2002-03</u>	<u>2003-04</u>	<u>Total</u>	<u>%</u>
Cuts/Savings	\$2,038.1	\$6,619.9	\$8,658.0	84.9%
Fund Shifts	657.5	158.1	815.6	8.0%
Transfers/Other Revenue	685.6	14.1	699.7	6.9%
Loans/Borrowing	<u>25.4</u>	<u>--</u>	<u>25.4</u>	<u>0.2%</u>
Totals	\$3,406.6	\$6,792.1	\$10,198.7	100.0%

The State operations reductions are summarized in a consolidated statewide issue, and with certain exceptions, are not addressed in the individual departmental expenditure reduction sections.

LEGISLATIVE, JUDICIAL AND EXECUTIVE
--

Judiciary

-\$10 million

Judiciary State Operations: The 2002 Budget Act included \$278.4 million General Fund to support the Judiciary. The Administration proposes to revert \$10 million as an unallocated reduction to the State Judiciary. The Administration intends to propose an additional \$29 million unallocated reduction to the State Judiciary in the budget year.

State Trial Court Funding

-\$50 million

Trial Court Operations: The 2002 Budget Act included \$1.1 billion General Fund local assistance for support of the trial courts. The Administration proposes to revert \$50 million as an unallocated reduction to the trial courts. The Administration intends to propose an additional \$200 million unallocated reduction to the trial courts in the budget year.

Office of Planning and Research

-\$4.75 million

Cesar Chavez Day of Learning Grants: Chapter 213, Statutes of 2000, provides an annual appropriation to the Governor's Office of Service and Volunteerism to administer learning grants for the purpose of honoring the achievements of Cesar Chavez. The Administration proposes to reduce this appropriation by \$4,750,000 in 2002-03, and to suspend this program for three additional years beginning in 2003-04 by amending the statutory authority for this program.

Office of Emergency Services

-\$1.274 million

Disaster Assistance Division: The Administration proposes that \$1,274,000 be reduced preserving \$24,199,000 in General Fund support for the program. This adjustment would reduce the amount of State matching funding available in fiscal year 2002-03 for anticipated disaster assistance claims to be received from local jurisdictions and processed by the Office of Emergency Services.

STATE AND CONSUMER SERVICES

Department of General Services

-\$0.609 million

California Rehabilitation Center Norco-Administration Building 100-Occupant Relocation: The 2001 Budget Act provided \$16.7 million General Fund to construct temporary buildings at California Rehabilitation Center at Norco. The Administration proposes that the project construction bid savings of \$609,000 General Fund be reverted.

State Teachers' Retirement System

-\$500 million

Supplemental Benefit Maintenance Account: Pursuant to Chapter 840, Statutes of 2001, the Supplemental Benefit Maintenance Account (SBMA) in the State Teachers' Retirement Fund provides payments to retired teachers in amounts necessary to ensure that the purchasing power of retired teachers' retirement benefits is at least 80 percent of the purchasing power at the time of retirement. The State is statutorily required to make annual General Fund payments to the SBMA equal to 2.5 percent of teachers' salaries, estimated to be \$555 million in 2003-04. It is proposed that this payment be reduced by \$500 million in 2003-04, coupled with a statutory commitment to restore the funds if purchasing power protection at the 80 percent level cannot be maintained through July 1, 2036. It is our understanding, based on advice from the State Teachers' Retirement System, that this proposal will not affect the ability to provide this benefit for at least 30 years.

BUSINESS, TRANSPORTATION AND HOUSING

Department of Housing and Community Development

-\$38.1 million

Shift of Farmworker Housing Grants to Bond Funds: With the passage of Proposition 46, the Housing and Emergency Shelter Trust Fund Act of 2002, the Administration proposes that General Fund supported projects now be funded from bond funds, resulting in savings to the General Fund of nearly \$11.0 million.

Homeless Shelter Operations Funding: The historic level of State funding for homeless shelter operations has been \$4.0 million. This proposal would reduce the funding by \$1.3 million in 2002-03.

Transfers to the General Fund: The Administration proposes that \$5.5 million in funds previously appropriated for Self-Help housing projects be returned to the General. Also, \$1.9 million will be returned to the General Fund from the Predevelopment Loan Fund.

Loans to the General Fund: The Administration proposes loans to the General Fund of \$18.1 million from the balances of seven special funds where those funds are not currently pledged to projects.

Other State Operations Reductions: The Administration proposes three expenditure reductions that will result in savings to the General Fund of \$288,000.

Passage of Proposition 46 Increases General Fund Transfers: The passage of the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46 on the November 2002 ballot) triggers increased transfers to the General Fund as follows:

- An additional transfer of \$5,599,000 from the Self-Help Housing Fund.
- An additional \$2,999,000 from the Farmworker Housing Grant Fund.

Office of Real Estate Appraisers

-\$1 million

Loan to the General Fund: The Administration proposes a loan to the General Fund of \$1 million from the Real Estate Appraisers Regulation Fund reserve.

Department of Managed Health Care

-\$1 million

Transfer to the General Fund: The Administration proposes to transfer the proceeds of a \$1 million settlement with Kaiser Permanente to the General Fund.

Department of Transportation (Caltrans)

-\$1.8 billion

Transfer of 2001-02 and 2002-03 Statewide Cost Allocation Plan (SWCAP) Recoveries:

During the past several years, Caltrans has recovered significantly less SWCAP amounts than budgeted. The 2002 Budget Act transferred \$14.4 million from the State Highway Account (SHA) to the General Fund for 1998-99, 1999-00, and 2000-01 SWCAP recoveries. The Administration proposes that an additional \$15 million be transferred from the SHA to the General Fund for 2001-02 and 2002-03 SWCAP recoveries.

2000-01 General Fund Appropriations: The Administration proposes that \$5.1 million related to local project savings be reverted to the General Fund.

Additional Transfer from the Aeronautics Account to the General Fund: The Administration proposes that an additional \$5.2 million be transferred from the Aeronautics Account reserve to the General Fund.

Shift responsibility for the Traffic Congestion Relief Program (TCRP) to the California Transportation Commission. This Administration has made historic commitments to transportation, including significant General Fund resources to the TCRP when they were available. In light of the State's current fiscal situation, the Administration proposes to eliminate General Fund support for the TCRP in the budget year and recapture unused General Fund in the current year. The Administration intends to shift responsibility for the program from the Department of Transportation (Caltrans) to the California Transportation Commission (CTC). The 2002 State Transportation Improvement Program Fund Estimate identifies over \$5 billion in funding available for transportation projects. Caltrans has been directed to work closely with the CTC and local transportation agencies to re-evaluate transportation funding resources and project priorities relative to ensuring that high priority traffic congestion relief projects continue. The CTC has responsibility for allocation of transportation funds for projects and is well suited to oversee and coordinate this effort. Consistent with this direction, the Administration proposes the following actions:

- **Reduce funding in the Traffic Congestion Relief Fund (TCRF):** The Administration proposes to reduce the TCRF by returning \$100 million to the General Fund.
- **Suspending 2003-04 General Fund transfer to the Transportation Investment Fund (TIF):** The Administration proposes that the 2003-04 General Fund transfer to the TIF for the Traffic Congestion Relief Program of \$1 billion be suspended pursuant to Article XIXB, Section 1 (d) of the Constitution. Suspension of future transfers will be considered in the Governor's 2003-04 Budget.
- **Forgiveness of Planned 2003-04 General Fund Loan Repayment to TCRF:** Considering the current and projected status of the General Fund, the Administration proposes to forgive the planned 2003-04 loan repayment of \$500 million General Fund to the TCRF. Forgiveness of the remaining outstanding loan to the General Fund will be considered in the Governor's 2003-04 Budget.

- **Deferral of Planned 2003-04 TCRF Loan Repayment to the SHA:** Due to the 2002-03 transfer from the TCRF to the General Fund based on the current and projected status of the General Fund, the Administration proposes to defer the planned 2003-04 loan repayment of \$50 million TCRF to the SHA.
- **Elimination of Remaining 2002-03 SHA Local Street and Road Funding:** Due to the aforementioned deferral of the planned 2003-04 loan repayment of \$50 million TCRF to the SHA, the Administration proposes to eliminate the second, third, and fourth quarter 2002-03 apportionments to local agencies for street and road maintenance. The savings to the SHA as a result of this proposal is estimated to be \$90 million; however, this amount will vary based on actual revenues.

TECHNOLOGY, TRADE AND COMMERCE

Technology, Trade, and Commerce Agency

-\$13.5 million

Reimbursements of Film Production Costs: The Film California First program reimburses state and local agencies for costs they incur for television and film productions in their jurisdictions. Since its inception in 2000-01, this program has provided about \$8 million per year in reimbursements. The Administration proposes a reduction of \$2.1 million, which should still provide sufficient funds to address the annual demand on the program.

Biomass Funding: The Administration proposes eliminating the third year of program funding, resulting in a savings to the General Fund of \$4 million. In its first two years, the program provided over \$20 million in assistance to operators of plants that convert biomass fuels to energy.

Loans to the General Fund: The Administration proposes loans to the General Fund totaling \$6.2 million from the balances of two special funds where those funds are not currently pledged to projects.

Return Funding to the General Fund: The Administration proposes six expenditure reductions that will result in savings to the General Fund of about \$1.2 million.

RESOURCES

California Conservation Corps (CCC)

-\$1.655 million

Corps Member Benefits Savings: The CCC member savings account was designed to provide medical and dental benefits to corps members when the General Fund is not available. The Administration proposes to reduce the amount of funding in the account by \$655,000 to recoup program savings resulting from pre-payment of benefits premiums.

Collins-Dugan California Conservation Corps Reimbursement Account: The Collins-Dugan Account was created to provide resources to hire more corps members, enhance corps member education and educational support services, and purchase equipment. Reimbursements are received from work projects completed by corps members, donations, and transfers from other funds. Projected revenue in the current year is \$25 million. The Administration proposes to shift \$1 million in program activity costs from the General Fund to the Collins-Dugan California Conservation Corps Reimbursement Account.

Energy Resources Conservation and Development Commission

-\$1.733 million

Peak Load Reduction Program: Chapter 329, Statutes of 2000, appropriated \$50 million to develop and implement cost-effective energy conservation and demand-side management programs. The Administration proposes to revert \$1.679 million of currently unencumbered and uncommitted funds from that appropriation.

Electric Metering Program: Chapter 8, Statutes of 2001, First Extraordinary Session, appropriated \$35 million to provide time-of-use or real time electric meters to customers whose usage is greater than 200 kilowatts. The Administration proposes to revert \$54,000 that has not been encumbered to the General Fund.

Department of Forestry and Fire Protection

-\$5.485 million

Federal Emergency Management Agency (FEMA) Reimbursements: The department receives reimbursement from FEMA for specified emergency fire suppression costs. The federal government has broadened the criteria for obtaining these funds, which will result in an additional \$5 million in federal reimbursements in the current year.

Alma Helitack Base-Helipad Relocation Project: The 2002 Budget Act provided \$485,000 General Fund for the Alma Helitack Base helipad relocation project. The relocation of the helipad cannot be completed in 2002-03 and is proposed to be included in the scope of a future capital project. Therefore, the Administration proposes to revert these funds.

Department of Fish and Game

-\$2.242 million

Urban Fishing Program: This program is budgeted at approximately \$2 million and provides education and fishing opportunities in urban areas of Sacramento, Fresno, San Francisco, and Los Angeles. This proposal will reduce program activities and generate \$176,000 in General Fund savings in the current year.

Vacant Enforcement Positions: This proposal will eliminate 31 vacant positions, including Fish and Game Wardens, Patrol Captains, Regional Patrol Chiefs and Patrol Lieutenants. Since the positions to be eliminated are already vacant, this reduction will not reduce the department's current law enforcement capabilities. This proposal will generate \$1.641 million in General Fund savings in the current year.

Timber Harvest Plan Review: The department provides input to the Department of Forestry and Fire Protection on timber harvest plans to protect fish and wildlife resources during timber harvesting operations. This proposal will reduce the department's review of these plans, generating \$425,000 in General Fund savings in the current year.

Wildlife Conservation Board

-\$44.129 million

Cargill Salt Ponds Restoration: Chapter 395, Statutes of 2000, appropriated \$25 million General Fund for the acquisition and restoration of wetlands at the Cargill Salt Ponds in San Francisco Bay. The Administration proposes to shift \$24.965 million for this acquisition to the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50).

Wetlands Acquisition and Restoration: Various prior year General Fund appropriations totaling \$19.164 million are available for wetlands acquisition and restoration. The Administration proposes to shift the fund source for these projects from the General Fund to Proposition 40 bond funds.

Coastal Commission

-\$0.5 million

Local Coastal Program: The 2002 Budget Act includes \$500,000 for grants to local governments to help prepare and develop their local coastal programs. None of the funding has been encumbered. Therefore, the Administration proposes to revert these funds to the General Fund.

Department of Parks and Recreation

-5.165 million

State Parks: The Administration proposes to raise various park fees ranging from \$1.00 to \$12.00, including day use, museum, and camping fees, generating approximately \$4.5 million in the current year. These additional funds can be used to support programs currently funded by the General Fund.

Acquisition Projects: The Administration proposes that \$444,000 be reverted from various acquisition projects and programs funded through the 2000 Budget Act. The funds were appropriated to provide funding for appraisal costs, acquisition of inholdings, and high priority acquisitions within the State park system. The funding available for opportunity purchases is no longer necessary since several bond-funded appropriations have become available to support acquisition programs of this nature and other projects have been completed.

Office of Historic Preservation: The Administration proposes that \$221,000 be reverted from a project to acquire and restore property to house the Office of Historic Preservation. The property has been acquired, and \$221,000 of the appropriation remains. The cost of restoration will be addressed as part of the West-End State Office Building Project funded by Chapter 674, Statutes of 2001.

Department of Water Resources

-\$65.3 million

Drought Panel Recommendations: The 2002 Budget Act provides \$7.75 million for the Drought Panel Recommendations Program, including \$6.4 million for local assistance grants. The program provides technical and financial assistance to rural homeowners and small water agencies to prepare water shortage plans to reduce the effects of a drought on small communities. Proposition 50 provides \$500 million for grants for various water management projects, including projects that protect communities from droughts. The Administration proposes to provide \$6.4 million from Proposition 50, in lieu of the General Fund, for this program.

Local Flood Control Subventions: The Local Flood Control Subventions Program pays 70 percent of the non-federal share of flood control projects, with the remaining 30 percent paid by the local agency sponsors. Over the last three years, \$128.3 million General Fund has been appropriated for flood control subventions. The Administration proposes to revert \$58.1 million to the General Fund.

Tehama Flood Control Project: The 2001 Budget Act provided \$1.698 million General Fund for the Tehama Flood Control Project. The Administration proposes to revert \$830,000 to the General Fund to reflect revised cost estimates by the U.S. Army Corps of Engineers.

CalFed

-\$16.465 million

CalFed Fund Shift to Proposition 50: The 2002 Budget Act provides \$46.1 million for the CalFed Program. Proposition 50 includes \$825 million for CalFed for a wide range of purposes. The Administration proposes to provide \$16 million from Proposition 50, in lieu of the General Fund, for water storage issues, levee restoration and maintenance, ecosystem restoration, watershed improvement, water use efficiency, and improved science.

The Administration also proposes a \$465,000 reduction to the CalFed Program Oversight and Coordination Program, including \$100,000 budgeted for the Department of Fish and Game and \$365,000 budgeted for the State Water Resources Control Board.

ENVIRONMENTAL PROTECTION

California Environmental Protection Agency

-\$0.085 million

Permit Assistance Centers: The 2002 Budget Act included \$479,000 General Fund to operate two permit assistance centers and the CalGOLD online permit assistance service. The Administration proposes to reduce funding for the two permit assistance centers, which will increase reliance on the use of the CalGOLD Internet system.

Air Resources Board

-\$2 million

Zero Emission Vehicle Grants: A total of \$3.5 million General Fund from Chapter 1072, Statutes of 2000, for zero emission incentive grants remains available for encumbrance, but \$2 million of this amount will not be needed to fund grant applications due by the December 31, 2002, eligibility deadline, and is proposed to be reverted.

Department of Pesticide Regulation

-\$0.352 million

Pest Management Grants: The Administration proposes to eliminate funding for pest management grants, which fund research to identify and promote the large-scale adoption of reduced-risk pest management practices.

Water Resources Control Board

-\$2.422 million

Various Water Quality and Water Rights Programs: The Administration proposes to reduce funding for water quality monitoring activities, water rights complaint investigations, review of water rights applications, and technical assistance. However, the Budget still includes \$73.9 million General Fund for other high priority water quality and water rights programs, and \$10.4 million Cleanup and Abatement Account is available for investigations and cleanup efforts.

Department of Toxic Substances Control

-\$4.067 million

Toxics Cleanup and Oversight Programs: The 2002 Budget Act provided over \$29 million General Fund for various hazardous waste management and site mitigation programs. The Administration proposes to reduce funding for the following activities: development of guidelines for illegal drug lab removals, training on illegal drug lab removals, and off-highway emergency response actions. In some cases, special funds may be used to offset the loss of General Fund, as in the case of the border program, an administrative cost shift, and oversight of federal superfund orphan sites and State orphan sites.

HEALTH AND HUMAN SERVICES

Emergency Medical Services Authority

Consolidation of Emergency Medical Services Authority (EMSA) into the Department of Health Services (DHS): The Administration proposes legislation to consolidate the EMSA into the DHS, effective July 1, 2003. This consolidation is expected to produce the following benefits: (1) improved coordination of emergency medical policy with overall State health

policy, (2) improved efficiency through the consolidation of similar functions, and (3) increased administrative efficiency. This consolidation is being proposed at this time to achieve full-year General Fund savings in 2003-04.

Health and Human Services Data Center

-\$0.47 million

Operations Program: The Budget Act of 2002 provided \$133 million Revolving Fund Expenditure Authority for the Health and Human Services Data Center (HHSDC) to provide operations, software, telecommunications, and information systems support for its client departments. Of the amount provided, \$473,000 is for discretionary operations' projects. The Administration proposes to defer the projects until the budget year, which would result in Revolving Fund expenditure authority reductions of \$473,000.

Department of Aging

-\$2.5 million

Nutrition Program: The 2002 Budget Act provided \$72.4 million (\$9.5 million General Fund) to serve meals to seniors in a congregate setting and to deliver meals to homebound seniors. Of the amount provided, \$2.9 million General Fund is a discretionary overmatch to the federal funds that support the program. The Administration proposes elimination of the discretionary overmatch, which would result in General Fund savings of \$614,000 in the current year, assuming an effective date of April 1, 2003. Funding of \$62.9 million of federal funds and \$6.6 million General Fund remains intact.

Respite Registry Program (RRP): The 2002 Budget Act provided \$135,000 General Fund to the RRP to recruit and screen respite providers and match them to senior clients. In order to protect other critical programs, the Administration proposes elimination of this program, which would result in savings of \$28,000 in the current year, assuming an effective date of April 1, 2003.

Foster Grandparent Program (FGP): The 2002 Budget Act provided \$1.1 million General Fund to the FGP for tax-free stipends to participating volunteers. In order to protect other critical programs, the Administration proposes legislation to eliminate the FGP. Assuming an effective date of April 1, 2003, elimination of General Fund support for the program would result in savings of \$219,000 in the current year.

Senior Companion Program (SCP): The 2002 Budget Act provided \$2 million General Fund to the SCP for tax-free stipends to participating volunteers. The Administration proposes legislation to eliminate the SCP, in order to protect other critical programs. Assuming an effective date of April 1, 2003, elimination of General Fund support for the program would result in savings of \$409,000 in the current year.

Brown Bag Program (BBP): The 2002 Budget Act provided \$1.1 million General Fund to the BBP to provide surplus fruits, vegetables, and other unsold food products to low-income elderly persons. The Administration proposes legislation to eliminate support for the BBP, in order to protect other critical programs. Additionally, there is \$11 million in direct funding available to local entities for similar food programs. Assuming an effective date of April 1, 2003, elimination of General Fund support for the program would result in savings of \$180,000 in the current year.

Community-Based Services Program (CBSP): The 2001 Budget Act included \$18.5 million General Fund for the CBSP to provide funding through a variety of programs to support senior participation and avoid institutionalization. Avoiding institutionalization results in direct cost savings to the State. Actual General Fund expenditures for 2001-02 were \$500,000 less than budgeted. Therefore, the Administration proposes that \$500,000 be reverted to the General Fund.

Adult Day Health Care Contract: The 2000 Budget Act appropriated \$500,000 General Fund for construction of an Adult Day Health Care Center in San Francisco. The amount was reappropriated in the 2001 Budget Act. Contracts for the construction have not been processed. Therefore, the Administration proposes that \$500,000 be reverted to the General Fund.

Department of Alcohol and Drug Programs

-\$1.5 million

Alcohol and Other Drug Services: The 2001 Budget Act provided \$40.4 million General Fund for various non-Medi-Cal alcohol and drug services programs. The Administration proposes that \$1 million of this funding be reverted to achieve General Fund savings in 2002-03. These savings are the result of lower than estimated local administrative expenditures, and reversion of these funds will not result in program reductions.

Drug Medi-Cal: The 2002 Budget Act provided \$46.8 million General Fund for Drug Medi-Cal funding. After allocating administration funding by formula to the counties, \$253,000 is projected to remain unspent, which the Administration proposes for reversion to achieve General Fund savings in 2002-03.

Audit Repayment Trust Fund: The Department of Alcohol and Drug Programs collects repayments of state funds resulting from audits of local contracts. It is proposed to transfer \$273,000 from the Audit Repayment Trust Fund to the General Fund. This transfer will not result in programmatic reductions.

Child Development Policy Advisory Committee

Child Development Policy Advisory Committee (CDPAC): The Administration proposes legislation to repeal all statutory provisions related to the CDPAC, effective July 1, 2003. In order to eliminate the CDPAC and to realize full-year General Fund savings of \$367,000 in 2003-04, enactment of legislation is required in 2002-03.

Department of Health Services

-\$201.8 million (Includes \$25.8 million from prior years.)

Amendments to Medi-Cal Funding

Medi-Cal Provider Rate Reductions	-\$90,387,000
Elimination of Selected Medi-Cal Optional Benefits	-\$63,254,000
Reinstate Medi-Cal Quarterly Status Reports	-\$5,000,000
Rescind Expansion of 1931(b) Medi-Cal Eligibility	-\$6,209,000
Intermediate Care Facilities for the Developmentally Disabled	-\$2,500,000
Medical Care and Services Subtotal	-\$167,350,000

Reduce Outreach for Medi-Cal and Healthy Families	-\$168,000
County Administration Subtotal	-\$168,000

2002 Budget Act Total for Medi-Cal	-\$167,518,000
---	-----------------------

Prior Year Reversion—Disproportionate Share	Hospital	-\$25,800,000
Capital Debt		
2001 Budget Act Total for Medi-Cal		-\$25,800,000

Medi-Cal Provider Rate Reduction: The 2000 Budget Act included Medi-Cal provider rate increases totaling \$799.8 million (\$402.8 million General Fund). The 2002 Budget Act maintained these increases. The Administration proposes to reduce all Medi-Cal provider rates by 10 percent effective April 1, 2003, achieving savings of \$90.4 million General Fund in 2002-03.

Selected Medi-Cal Optional Benefits: The Medi-Cal program currently offers 34 optional Medicaid benefits, the maximum number allowed under federal law. The Administration proposes legislation to eliminate the following optional benefits from the Medi-Cal program for adults above age 21 and not in long-term care: dental services, medical supplies, podiatry, acupuncture, chiropractic services, psychology, independent rehabilitation centers, and occupational therapy. The elimination of these benefits, effective April 1, 2003, will achieve savings of \$63.3 million General Fund in 2002-03.

Reinstatement of Medi-Cal Quarterly Status Reports: The 2000 Budget Act and Chapter 93, Statutes of 2000, eliminated the requirement that families receiving Medi-Cal submit quarterly eligibility status reports. The Administration proposes legislation to reinstate Medi-Cal quarterly status reporting, effective April 1, 2003, which would result in current year savings of \$10 million (\$5 million General Fund) and budget year savings of \$170.1 million (\$85 million General Fund). In January 2001, the Administration established continuous eligibility for children. This proposal will not affect the eligibility of children in Medi-Cal.

Rescission of 1931(b) Medi-Cal Eligibility Expansion: Effective March 2000, eligibility for the 1931(b) Medi-Cal program was expanded to families with income up to 100 percent of the Federal Poverty Level (FPL). The Administration proposes legislation to rescind this expansion and limit eligibility to families with income up to approximately 61 percent of the FPL, consistent with the income limits for the California Work Opportunity and Responsibility to Kids (CalWORKs) program. This proposal would affect mostly two-parent income households. Effective April 1, 2003, this proposal would result in savings of \$12.4 million (\$6.2 million General Fund) in 2002-03, \$235.9 million (\$118 million General Fund) in 2003-04, and annual savings of \$985.1 million (\$492.6 million General Fund) after full implementation.

Intermediate Care Facilities for the Developmentally Disabled: The Administration proposes legislation to levy an assessment of 6.5 percent on intermediate care facilities for the developmentally disabled. This assessment will be matched with federal funds. This action will result in revenues of \$5 million in the current year and \$20 million annually. A total of 75 percent of these funds would be provided to these facilities as a provider rate increase. The remaining 25 percent of these funds

would be used to offset General Fund resources for these facilities. This proposal would result in \$2.5 million General Fund savings in the current year, and \$10 million General Fund savings in the budget year.

Cancer Research: The 2002 Budget Act provided \$12.5 million General Fund for the Cancer Research program. The Administration proposes that expenditures be reduced to \$6.2 million, resulting in General Fund savings of \$6.3 million. This reduction represents a very small proportion of the over \$4.2 billion in national funding provided by the federal government and private institutions.

Prostate Cancer Treatment: The 2002 Budget Act provided \$20 million from the Tobacco Settlement Fund for Prostate Cancer Treatment. Due to lower than anticipated participation in the treatment program, the Administration proposes that expenditures be reduced to \$10 million, resulting in Tobacco Settlement Fund savings of \$10 million to be transferred to the General Fund. This proposal reduces the program to its original level. Approximately 1,200 men will continue to receive treatment at the reduced funding level.

Eliminate Valley Fever Vaccine Research: The 2002 Budget Act provided \$700,000 General Fund for the Valley Fever Vaccine Research program. The Administration proposes that the program be eliminated effective January 1, 2003, resulting in General Fund savings of \$350,000 in 2002-03 and \$700,000 in 2003-04. The research program is a consortium of several public and private entities and the State funding represents but a portion of the funding available.

Eliminate the Gynecologic Cancer Information Program: The 2002 Budget Act provides \$150,000 General Fund for the development and distribution of health education materials for gynecologic cancer. The Administration proposes to eliminate this information program, resulting in General Fund savings of \$150,000 in 2002-03, since there are alternative sources for this information.

Outreach and Media Campaigns: The 2002 Budget Act provided approximately \$26.1 million General Fund for various outreach activities and media campaigns. The Administration proposes that contracts that have not been signed and funds that have not been invoiced or obligated be reduced, resulting in General Fund savings of \$1.7 million. Additionally, the 2002 Budget Act included \$10.3 million (\$3.9 million General Fund) for application assistance and a toll-free telephone line to increase the enrollment of children in Medi-Cal and Healthy Families. The Administration proposes to eliminate training for certified application assistants, which would result in current year savings of \$168,000 General Fund.

Prior Year Reversion—Disproportionate Share Hospital Capital Debt: The Administration proposes to revert \$25.8 million General Fund that was included in the 2001 Budget Act but remains unexpended due to lower than anticipated debt service payments. This funding was intended for debt service payments on construction and renovation projects for disproportionate share hospitals.

Department of Developmental Services

-\$143.7 million

Increased Federal Financial Participation Savings: Past year General Fund savings are available as a result of the Administration's effort to maximize claims for federal financial participation allowed for eligible beneficiaries under the Home and Community-Based Waiver.

Updated projections indicate that increased federal financial participation for the 2001-02 budget year totals \$156.7 million. Therefore, the Administration proposes that another \$142.7 million be reverted in addition to the \$14 million reverted in the 2002 Budget Act.

Statewide Standards: The Administration proposes to reduce Regional Center Purchase of Services by \$100 million through implementation of statewide standards, effective July 1, 2003. The Department will seek to identify opportunities to maximize the \$2.2 billion provided for the Community Services program, increase administrative efficiency, and improve consistency of the service provided to consumers throughout the state, while maintaining the entitlement guaranteed under the Lanterman Act. While there are no current year savings associated with this proposal, the necessary statutory changes are proposed to achieve the full-year budget savings in 2003-04.

Porterville Air Condition Main Kitchen: The 1999 Budget Act provided \$1 million General Fund for the construction phase of the Air Condition Main Kitchen project at the Porterville Developmental Center. This funding remains unexpended. Therefore, the Administration proposes to revert these funds to the General Fund.

Department of Mental Health

-\$4.8 million

Early Mental Health Services: The Administration proposes to eliminate Early Mental Health Services that were counted toward the Proposition 98 guarantee and funded through the Department of Mental Health, in order to protect other critical programs from reduction or elimination. This proposal will achieve General Fund savings of \$549,000 in 2002-03 and \$15 million in 2003-04. More than \$1.1 billion is available in Realignment funds for local mental health services, and an additional \$3.4 billion in special education funding is available for the children that received Early Mental Health Services.

Mental Health Managed Care: The Department of Mental Health (DMH) provides mental health services to Medi-Cal eligible clients through a system of contracts between the DMH and county mental health departments. The Administration proposes statutory changes to implement a 10-percent provider rate reduction effective April 1, 2003. This change will achieve General Fund savings of \$4 million in 2002-03 and \$16 million in 2003-04.

Preadmission Screening and Resident Review (PASRR): The 2002 Budget Act included \$3.2 million (\$789,000 General Fund) to expand the current mental health evaluation process to include individuals that are not eligible for Medi-Cal who are residents of or being admitted to nursing facilities statewide. Due to late implementation of the contract to provide PASRR services, there will be General Fund savings in 2002-03. The Administration proposes that \$232,000 be reverted to achieve General Fund savings.

Second Level Treatment Authorization Request (TAR) Appeals: The 2002 Budget Act included \$64,000 General Fund for the Department of Mental Health to process Second Level TAR appeals. California is the only state that currently allows second-level TAR appeals, if mental health providers are not satisfied with the results of the first appeal to their county Mental Health Plans. Therefore, the Administration proposes to eliminate this process and that \$64,000 be reverted to the General Fund.

Department of Community Services and Development

-\$1.5 million

Department of Community Services and Development (DCSD) Consolidation: To improve the efficiency and effectiveness of State government, the Administration proposes, that effective July 1, 2003, the DCSD be consolidated with the Department of Social Services (DSS). The Community Services Block Grant program and the Low-Income Home Energy Assistance Program (LIHEAP) would be administered by the DSS. The proposed consolidation would result in an elimination of nine DCSD positions and a redirection of approximately \$922,000 federal funds from State operations to local assistance.

In addition, the Administration proposes elimination of the General Fund support for the Naturalization Services and Mentoring Programs, effective July 1, 2003, as programs operated by other State departments provide citizenship instruction and mentoring services. Over \$30 million is available for the AmeriCorps program, some of which has been used for tutoring and mentoring; approximately \$22 million in federal funds is available for English language and citizenship instruction.

California LIHEAP: Chapter 7, Statutes of 2001, First Extraordinary Session, appropriated \$120 million General Fund for the DCSD to provide energy bill assistance and weatherization services to certain needy households. Of this amount, \$95.9 million has been expended and \$23.8 million reverted through December 2002, leaving \$285,000 unspent. Therefore, the Administration proposes that \$285,000 be reverted to the General Fund in 2002-03.

Naturalization Services Program: The 2002 Budget Act provided \$7.9 million (\$2.9 million General Fund) for this program. Of this amount, \$1.3 million General Fund will not be granted to community-based organizations by January 1, 2003, and as outlined above General Fund support for this program is proposed for elimination beginning July 2003. The Administration proposes that \$1.3 million be reverted in 2002-03, along with State operations savings of \$14,000 General Fund.

Department of Rehabilitation

-\$21.8 million

Home and Community-Based Waiver Funding for the Habilitation Services Program (HSP): The cap on the Home and Community-Based Waiver (Medicaid reimbursements) has been increased, and it is anticipated that the Department of Rehabilitation will receive an additional \$4.8 million for 2001-02 and \$5.8 million for 2002-03, which would offset a corresponding level of General Fund. Therefore, the Administration proposes to increase reimbursement expenditure authority and revert \$10.6 million to the General Fund.

Habilitation Services Program: The 2001 Budget Act included \$120 million General Fund for the HSP to provide employment skills training to persons with developmental disabilities. In 2001-02, \$7.6 million General Fund was not utilized and is available for reversion. Therefore, the Administration proposes that \$7.6 million be reverted to the General Fund.

HSP Consolidation within the Regional Centers: The Administration proposes legislation to consolidate the HSP within the Regional Centers to produce a more efficient program and capture the resultant General Fund savings of \$2.2 million in 2003-04. In order to achieve full-year savings in 2003-04, it is proposed that the consolidation, which would be effective July 1, 2003, be authorized to begin in 2002-03.

Rate Reductions for Work Activity Program (WAP) and Supported Employment Program (SEP): The WAP and SEP provide employment skills training to persons with developmental disabilities through non-profit organizations. The Administration proposes legislation to reduce the rates paid for services by \$1.4 million (with a related \$103,000 in State operations), or 5 percent, and to revert the savings to the General Fund.

WAP Rate Suspension: The WAP provides employment skills training in sheltered work settings to persons with developmental disabilities through non-profit organizations. Provider rates are statutorily required to be adjusted biennially, and 2003-04 is a rate-setting year. The Administration proposes legislation to suspend the statutory rate adjustment for three years.

Department of Child Support Services

-\$9.7 million

Local Child Support Administration Incentives: The Department of Child Support Services (DCSS) received an additional \$9 million in federal Child Support Incentives for local administration in 2002-03, which can be used to offset administrative costs currently funded by the General Fund, with no effect on the child support enforcement program. Therefore, the Administration proposes that \$9 million be reverted to the General Fund to achieve savings in 2002-03.

Local Child Support Contracts: Two local child support contracts entered into in 2000-01 and 2001-02 were completed at a cost lower than budgeted. Therefore, the unexpended balance of these contracts, \$366,000 in 2000-01 and \$290,000 in 2001-02, is available to be reverted to the General Fund. Therefore, the Administration proposes that \$656,000 be reverted to the General Fund.

Foster Parent Training Fund: The Administration proposes legislation to eliminate funding from child support collections for foster parent training programs within the California Community Colleges, effective July 1, 2003. This action would result in additional General Fund revenues in 2003-04. This action is proposed in the current year to realize full-year General Fund savings in 2003-04.

Department of Social Services

-\$24.8 million

Residential Care Facility Evaluations: Current State law requires an annual review of adoption agencies, community treatment facilities, foster family and small family homes, group homes, foster family agencies, transitional housing placement programs, adult residential facilities, and residential care facilities for the chronically ill and elderly. The Department of Social Services licenses these facilities and performs an annual inspection. The Administration proposes that the evaluation process be streamlined to save administrative costs and to

prioritize inspections of high-risk facilities. Therefore, it is requested that \$650,000 be reverted to the General Fund. This proposal would also result in an associated State operations reduction of \$655,000 General Fund.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Cost-of-Living Adjustment (COLA): The 2002 Budget Act provided \$22.3 million General Fund for the June 2003 COLA for the SSI/SSP program based on the California Necessities Index. The Administration proposes to suspend the June 2003 and January 2004 COLAs. Therefore, it is requested that \$22.3 million be reverted to the General Fund. In addition, based on updated caseload projections, the cost to provide the June 2003 COLA is now estimated to be \$24.1 million General Fund. This proposal will also result in a General Fund cost avoidance of \$1.8 million for the June 2003 COLA and \$328 million for the January 2004 COLA in 2003-04.

CalWORKs COLA: Consistent with the suspension of the SSI/SSP COLAs, the Administration proposes that the June and October 2003 CalWORKs COLAs be suspended. This would not result in General Fund savings, since the State must meet the federally-required Temporary Assistance for Needy Families (TANF) maintenance-of-effort requirement. Therefore, the Administration proposes that \$12.2 million TANF be reverted to the Federal Trust Fund to be available for CalWORKs costs in the Budget Year.

YOUTH AND ADULT CORRECTIONAL

Department of Corrections

-\$13.566

Modify the Basic Correctional Officer Academy: The 2002 Budget Act includes funding to provide 16 weeks of training to 1,930 cadets annually. However, it has been determined that some training is duplicated at the Academy and the institutions. In order to avoid duplication of effort, the Academy training will be reduced from 16 weeks to 12 weeks, and four weeks of training will be provided on-the-job at the cadet's assigned institution resulting in a savings of \$1,305,000.

California Correctional Institution-Tehachapi: Wastewater Treatment Plant Renovation: The 1999 Budget Act provided \$10.261 million General Fund for the renovation of the wastewater treatment plant at the California Correctional Institution, Tehachapi. Construction bids exceeded the allowable augmentation authority; therefore, the funding cannot be utilized. The Administration proposes to revert these funds to the General Fund.

Administration Segregation Housing Unit Project: The 1998 Budget Act provided \$9.1 million for the preliminary plans and working drawings for a Statewide Administrative Segregation Unit project. The department has realized \$2.0 million in General Fund savings, which the Administration proposes be reverted.

Board of Corrections

-\$0.1 million

Local Juvenile Detention Facility Inspection Program: The Board currently inspects and reports on the management, operation, and physical plant condition of all county juvenile halls and camps. These facilities are inspected for compliance with standards established by the Board. The Administration proposes to revert \$44,000 from the funds provided to the Board for these activities due to the proposed elimination of this program.

Challenge Grant II: The 2000 Budget Act included \$13,300,000 as supplemental funding for the existing Juvenile Crime Enforcement and Accountability Challenge grants. The Administration proposes to revert \$43,000 in unspent funds from the funds appropriated to the General Fund.

Department of Youth Authority

-\$0.4 million

Proposition 98 Funding for Education Services. A reduction of \$376,000 is proposed in Proposition 98 General Fund allocated for education services for wards at the Youth Authority.

EDUCATION

Proposition 98

Across-the-Board Reductions: The Administration proposes that K-14 local assistance programs items be reduced across the board by 3.66 percent for a total of \$1.078 billion. The across-the-board reduction, combined with the specific reductions proposed below, reduces total Proposition 98 appropriations to the current estimate of the required minimum Proposition 98 spending level. The Administration proposes separate legislation to help districts manage these reductions by easing the three percent reserve requirement through June 2004 and expanding the number of categorical programs among which funds can be shifted.

The spending required by Proposition 98 has been reduced due to the significant decline in 2002-03 estimated General Fund revenues and has also been adjusted to reflect revised population figures and daily attendance. The total 2002-03 Proposition 98 funding requirement is currently estimated to be \$44.645 billion. Proposition 98 appropriations are proposed to be reduced by a total of \$1.734 billion, which is 3.7 percent of total Proposition 98 revenues including property taxes. K-12 appropriations are reduced by \$1.51 billion, a 3.6 percent reduction of total K-12 revenues, and California Community College programs are reduced by \$135 million, a 2.8 percent reduction of total revenues. Additionally, \$143 million set-aside for Proposition 98 cost increases at the time of Budget enactment is no longer proposed to be appropriated.

Other Proposition 98 reductions in specific programs are summarized below.

Department of Education

Fund Shift: Current Proposition 98 Funding With Prior Year Savings for Regional Occupational Centers and Programs (ROC/Ps): Of appropriations made in 2001-02 and prior years, \$356.8 million of savings has been identified, which can be or has been reverted to the Proposition 98 Reversion Account. The Administration proposes that these funds be shifted to replace an equal amount of current year appropriations from 2002-03 Proposition 98 funding dedicated for the Regional Occupational Centers and Programs (ROC/Ps).

Principal Training Program: The Administration proposes to reduce \$5 million in Proposition 98 General Fund for the Principal Training Program, which provides incentive funding to local education agencies for professional development for principals and vice principals. The remaining \$2.5 million in 2002-03 funding coupled with the \$15 million provided in 2001-02 is sufficient to meet the projected utilization and honors the State's match commitment.

California School Information Services: The Administration proposes to reduce \$1.6 million in Proposition 98 General Fund for the expansion of the California School Information Services Program (CSIS) to a new cohort of districts. Delaying the start up of a new cohort will allow CSIS to focus on implementing the statewide student identifier required by Chapter 1002, Statutes of 2002, and to meet requirements of the federal No Child Left Behind Act. In addition, CSIS is working with the Los Angeles Unified School District to implement a CSIS compatible student information system, and is ensuring that the existing consortia of districts are fully implemented.

Grants for Supplemental Support for Workforce Investment Act (WIA) Youth Services: The Administration proposes to eliminate \$7.0 million in current year non-Proposition 98 General Fund for WIA youth services coordination and outreach. At this time, the grants have not yet been awarded by the State Department of Education.

Property Tax Offset for ROC/Ps: The Administration proposes to reduce \$11.4 million in current year Proposition 98 General Fund for ROC/Ps to capture the estimated current year Proposition 98 savings made available for one-time expenditure purposes through property tax offsets to ROC/Ps pursuant to Education Code Section 52335.2. The Administration proposes separate legislation to accomplish this reduction.

Adult Education and Community College Concurrent Enrollment Audits: The Administration proposes to recapture \$13.5 million in current year Proposition 98 General Fund for Adult Education to reflect the Department of Education's 6,100 ADA reduction to specific programs to implement audit findings related to Adult Education concurrent enrollment during the early 1990s. Additionally, the Administration proposes to recapture \$80 million in Proposition 98 General Fund community college apportionments to reflect estimated non-compliant credit instruction claimed in 2001-02 by community college districts for concurrently enrolled K-12 students. These practices conflict with the restrictions specified in current law for K-12 special admit students in community colleges. The Administration intends to conduct an audit to identify the scope and breadth of these practices in colleges and K-12 districts.

Anticipated Savings in the Adult Education in Correctional Facilities Program: The Administration proposes to revert \$3.0 million of the \$19.1 million Proposition 98 General Fund for the Adult Education in Correctional Facilities program to reflect the amount that is not expected to be claimed based on prior-year reported instruction.

Elimination of CalWORKs Stage 3: The Administration proposes to reduce \$98,806,000 from the Proposition 98 General Fund appropriated for CalWORKs Stage 3 child care to eliminate Stage 3 child care services, effective April 1, 2003. Over \$2.37 billion in child care local assistance funding is still available. All eligible CalWORKs recipients will continue to receive subsidies during the entire period while on cash aid and for two years subsequent to leaving cash aid, for a maximum period of seven years. Additionally, savings in this program of \$10 million resulted from revised estimates, bringing the total reduction in this area to \$108.8 million.

Community Day Schools: The Administration proposes to revert \$10 million of the \$42.2 million in Proposition 98 General Fund to reflect anticipated savings in funds appropriated for the 5th through 8th hours of additional class time for community day school students who are not mandatorily expelled.

Healthy Start Grants: The Administration proposes to reduce \$2 million in Proposition 98 General Fund appropriated for a new cohort of Healthy Start sites, which will not affect existing operational programs. A related \$667,000 reduction in Department of Education State operations is associated with this reduction.

High Risk Youth Education and Public Safety Program: The Administration proposes to revert \$7 million of the \$18 million in Proposition 98 General Fund appropriated for the High-Risk Youth and Public Safety Program to reflect anticipated savings.

College Preparation Partnership Program: The Administration proposes to revert \$5 million in Proposition 98 General Fund appropriated for allocation to public high schools to operate preparation courses for college admissions tests. This action will create one-time savings by aligning the year of appropriation with the year of expenditure.

Academic Improvement and Achievement Act: The Administration proposes to revert \$5 million in Proposition 98 General Fund appropriated to increase the percentage of pupils at qualifying high schools that meet the requirements for admission to the California State University or the University of California. This action will create one-time savings by aligning the year of appropriation with the year of expenditure.

Base Adjustments in Proposition 98: Proposition 98 totals reflect net reductions of \$7.9 million for the allocation of employee compensation funding appropriated in statewide items in the Budget Act of 2002 and elimination of deficiency funding that had been requested.

Mandates: The Administration proposes to defer payment of \$870 million of claims for state mandates for K-14 education agencies in 2003-04. The Controller has identified \$614 million in prior year deficiencies for mandates. This includes \$259.9 million for the School Bus Safety II mandate that was recently shown by a Bureau of State Audits review to reflect large amounts of non-reimbursable costs. Additionally, the Commission on State Mandates has identified new mandates totaling over \$256 million, including both current and prior year costs. Most of these claims have not been audited and in many cases, claim documentation does not provide adequate information to determine if the costs claimed are actually reimbursable. The Administration proposes to review the Commission's processes for determining reimbursable activities, defining what can be claimed and how claims are to be documented with the intent to reform these processes. Additionally the Administration proposes to substantially increase auditing of these claims using the funding authorized in Chapter 1128, Statutes of 2002.

Reversion of Prior-Years Savings: The Administration proposes additional reversions of Proposition 98 savings from prior years into the Proposition 98 Reversion Account to capture a variety of existing savings, which would not otherwise revert until a future date. The reversions total \$241.4 million from Department of Education K-12 programs. When combined with the Controller's balance and savings in the Teacher Credentialing Commission and Community Colleges, \$356.8 million of available funding is provided in the current year. These funds provide the resources to shift funding from Proposition 98 in the current year to the Reversion Account for ROC/Ps in an identical amount. Programs with savings include:

Community Day Schools: \$14 million in 2001-02 program savings.

Tenth Grade Counseling: \$97,000 in 2001-02 program savings.

Pupil Dropout Prevention Program: \$210,000 in 2001-02 program savings.

Academic Improvement and Achievement Act: \$603,000 in 2001-02 program savings.

High Risk Youth Education and Public Safety Program: \$10.1 million in 2000-01 program savings and \$6.4 million in 2001-02 program savings.

College Preparation Partnership Program: \$4.1 million in 2000-01 program savings, \$6.2 million in 2001-02 program savings, and \$6.2 million in savings from Chapter 795, Statutes of 1998.

Opportunity Programs: \$1.2 million in 2001-02 program savings.

Classroom Library Materials/K-4 Classroom Libraries: \$6,000 in 2001-02 program savings.

Education Technology: \$3.8 million in 2000-01 program savings and \$23,000 in 2001-02 program savings.

Digital High School: \$392,000 in 2001-02 program savings.

Mandates: \$20 million in 2001-02 program savings for mandates where claims were less than budgeted.

Mathematics and Reading Professional Development Program: \$31.7 million in 2001-02 program savings. These funds were proposed for reversion during the 2002-03 budget process but were inadvertently deleted from Chapter 99, Statutes of 2002. The 2002 Budget Act will continue to provide \$62.2 million for this program.

Child Care Education Code Section 8278 Carryover: \$79 million of the remaining 2001-02 unliquidated contract savings from Child Care and Development Programs with the exception of CalWORKs child care programs.

CalWORKs Child Care Carryover: \$17.7 million of the remaining 2001-02 unliquidated balances of the General Fund appropriated for CalWORKs Stage 2 and Stage 3.

Child Care Facilities Revolving Fund: \$22 million from the balance established pursuant to Education Code Section 8278.3 which are not anticipated to be committed in the current year.

Child Care Savings: \$6.8 million in 2001-02 program savings.

Charter School Facilities Block Grant: \$5 million in 2001-02 program savings, which are available as a result of a delay in program implementation.

Adults in Correctional Facilities: \$2.8 million in 2001-02 savings.

California Information Technology Academies: \$3.1 million in 2001-02 savings from prior reappropriations for the program.

California Community Colleges

2002-03 Property Tax Decline: The Administration does not propose to backfill the \$37.5 million loss in property taxes estimated for the current year in apportionments.

Reversion of Prior-Years Savings: The Administration proposes \$7.6 million of prior year savings be reverted to the Proposition 98 Reversion Account related to the shift of funding for ROC/Ps in the current year, as addressed in the Department of Education section. Specific program savings include:

Special Services for CalWORKs Program: \$4.6 million in 2000-01 savings.

Increased Property Taxes for Apportionments: \$3 million in 2001-02 apportionments savings from an increase in reported property taxes compared to the 2002 Budget Act estimate.

California Community Colleges Chancellor's Office: The Administration proposes to reduce the budget for the California Community College Chancellor's Office's current-year non-Proposition 98 General Fund appropriation by \$396,000. This action reflects various reductions in operating expenses and services to the State operations budget of the Community College Chancellor's Office.

Other K-12 Education

State Special Schools, Student Assessment and Counseling Center Capital Project: The 2001 Budget Act includes \$2.1 million General Fund for construction of a student assessment and counseling center at the School for the Deaf in Fremont. This project can be funded using lease revenue bonds. The Administration proposes that the \$2.1 million for this project be shifted from the General Fund to lease-revenue bonds to complete this project.

California State Library

California Civil Liberties Public Education Grants: The Administration proposes to reduce \$500,000 non-Proposition 98 General Fund for California Civil Liberties Public Education Grants. Many valuable educational materials have been developed or provided since the inception of this program, which has received the intended three years of funding. The State

Library has indicated that all meritorious grant applications have been funded. These materials can now be considered for inclusion in the educational curriculum through the instructional materials adoption process.

Public Library Foundation: The Administration proposes to reduce \$15.8 million non-Proposition 98 General Fund from the Public Library Foundation per capita formula grants to local libraries. The 2002 Budget Act contains \$31.5 million for the program. Local libraries use the funds for acquiring library materials, staff, operating expenses and equipment. Funds are not allocated for this program until February of 2003.

Commission on Teacher Credentialing

California Mathematics Initiative for Teaching: The Administration proposes to eliminate \$500,000 remaining Proposition 98 General Fund for the California Mathematics Initiative for Teaching, which provides incentives for individuals to meet State preparation standards and credentials to teach mathematics in elementary and secondary schools.

Support for Paraprofessional Program: The Administration proposes to revert \$51,000 General Fund that is used to fund a position to support the Paraprofessional Program. This position will be funded with available funds from the Teacher Credentials Fund. With this reversion, the Commission on Teacher Credentialing has no non-Proposition 98 General Fund remaining.

Reversion of Prior-Years Savings: The Administration proposes that \$16.4 million be reverted to the Proposition 98 Reversion Account. Specific program savings included:

California Pre-Internship Teaching Program: \$13.5 million in 2000-01 program savings and \$2.9 million in 2001-02 program savings which otherwise would not revert until June 30, 2004.

HIGHER EDUCATION

California Postsecondary Education Commission

State Operations: The Administration proposes to reduce the California Postsecondary Education Commission's General Fund State operations budget by \$108,000 for various operating costs as determined by the Commission.

University of California

Reductions and Savings: The Administration proposes to reduce the University of California's current-year General Fund appropriation by \$74.3 million. Reductions include: \$20 million to Academic and Institutional Support, \$6.3 million to Student Services, \$3.3 million to Outreach, \$2.5 million to Public Services programs, \$1.1 million to the K-12 Internet Initiative program, and \$19 million in unallocated reductions. The proposed reduction also includes the reversion of \$18 million in estimated savings for Substance Abuse research, the Multi-Campus Unit for Labor Studies research, and the Institute for Mexico and the United States research activities, and \$4 million in estimated savings for the AP Online project.

Hastings College of the Law

Unallocated Reduction: The Administration proposes to reduce the Hastings College of the Law's current-year General Fund appropriation by \$1 million. These reductions are unallocated to allow Hastings the flexibility to determine reductions from any program area with the intent to minimize affects on direct instruction and access.

California State University

Unallocated Reduction: The Administration proposes to reduce the California State University's current-year General Fund appropriation by \$59.6 million. This reduction is unallocated to allow the CSU the flexibility to determine reductions from any program area with the intent of minimizing effects on direct instruction and access.

GENERAL GOVERNMENT

Office of Criminal Justice Planning

-\$13.0 million

Victims Services Local Assistance Programs: The 2002 Budget Act included \$1.9 million General Fund for local assistance grants for various Victims Services programs. The Administration proposes to revert \$214,000 from the funds appropriated for these programs.

Public Safety Local Assistance Programs: The 2002 Budget Act included \$57 million General Fund for local assistance grants for various Public Safety programs. The Administration proposes to revert \$3.4 million from the funds appropriated for these programs.

Los Angeles Crime Laboratory: The 2000 Budget Act included \$96 million General Fund for constructing the Los Angeles Regional Crime Laboratory. In November 2001, \$82 million in construction-related funds for this project was reverted to the General Fund to reflect a shift to lease revenue bond funding. The Administration proposes to revert an additional \$9.4 million related to shifting for the planning and working drawings to lease revenue bonds as well. The project remains fully funded as previously committed by the State.

California Arts Council (CAC)

-\$1.2 million

CAC Grant Funds: The Administration proposes to revert \$1 million from the California Arts Council for local grants to assist art programs, artists, and local arts councils, and \$112,000 for related State operations.

Department of Industrial Relations

-\$27.1 million

User Funding of Workers' Compensation Programs: Existing law provides for an assessment on insured and self-insured employers to support costs associated with the workers' compensation programs in the Department of Industrial Relations. This assessment supports approximately 20 percent of program costs, with the remaining 80 percent provided from the General Fund. Consistent with the vast majority of other states, the Administration proposes to replace General Fund support of these programs with 100 percent user funding, resulting in 2002-03 General Fund savings totaling \$24.6 million.

Transfer to the General Fund: The 2002 Budget Act includes a \$4 million transfer to the General Fund from the Workplace Health and Safety Revolving Fund. The Administration proposes to increase this transfer by \$650,000. Since AB 749 (Chapter 6, Statutes of 2002) revised the funding source for the Commission on Health and Safety and Workers' Compensation, this fund will not be used after December 31, 2002. This increased transfer represents the remaining balance in the fund.

Transfer from the Unpaid Wage Fund: Labor Code Section 96.7 requires the Labor Commissioner to transfer any balance in excess of \$200,000 from the Unpaid Wage Fund to the General Fund. The Administration is proposing a transfer of \$1,800,000 for 2002-03.

Department of Personnel Administration

-\$100,000

Administrative Costs Associated With Pre-tax Parking: The Administration proposes to reduce the Pre-tax Parking program administration by \$100,000 due to program savings.

Workers Compensation Benefits

-\$219,000

Disaster Service Workers: The 2002 Budget Act includes \$663,000 to pay workers compensation claims for Disaster Service Workers. The Administration proposes to revert \$219,000 of this amount.

Department of Food & Agriculture

-\$980,000

Plant and Pest Programs: The 2002 Budget Act includes \$3.5 million for activities associated with the Weed and Vertebræ Program, Biocontrol Program, and Exotic Pest Research. Of this amount, the Administration proposes to reduce \$980,000, which includes \$750,000 from the Weed and Vertebræ Program and Biocontrol Program. It also includes a reduction of \$230,000 for the Exotic Pest Control Program.

California Victim Compensation and Government Claims Board

Reimbursement to Counties for the Cost of Special Elections: The 2002 Budget Act includes \$1 million to reimburse counties for the cost of special elections. The Administration proposes to revert \$333,000 of this amount, which reflects the unencumbered balance remaining after all pending special elections claims are paid by the Board.

Commission on State Mandates

Non-Proposition 98 Mandate Funding: Consistent with the action taken in the 2002 Budget Act, it is proposed to continue the suspension of payment for various budget year and prior year reimbursable non-Proposition 98 mandates, resulting in savings of \$769.4 million in 2003-04.

Department of Veterans Affairs

Local Assistance Funding: The 2002 Budget Act provided \$2,350,000 General Fund to provide support to county veterans services offices. The Administration proposes to revert \$118,000 from the funds appropriated for these programs due to the State's current fiscal constraints.

Local Government Financing

Transfer of Unencumbered Low and Moderate Income Housing Funds to the State: Community Redevelopment Agencies are required to transfer at least 20 percent of their annual property tax increment into the Low and Moderate Income Housing Fund for the purposes of increasing, improving, and preserving low- and moderate-income housing. An estimated \$500 million of property tax revenue that would otherwise be available for schools and other governmental functions, if not for the establishment of the Community Redevelopment Agencies, remains unutilized. The Administration proposes that Community Redevelopment Agencies be required to immediately transfer any balances in their Low and Moderate Income Housing Funds that were unencumbered on December 1, 2002, to the State Controller for deposit into the General Fund. This action is expected to generate approximately \$500 million in the current year. The Administration intends to address the overall policy of redevelopment agency funding as part of the Governor's 2003-04 Budget.

Shared Revenues

Abolition of Special Reserve Fund for Vehicle License Fee Tax Relief: As part of the implementation of the vehicle license fee rebate program, a Special Reserve Fund for Vehicle License Fee Tax Relief was created. This rebate program was replaced with a General Fund offset beginning in 2001-02. Only a modest portion of the \$33 million balance in this Special Fund is estimated to be needed for rebates attributable to late filers in future years. Therefore, the Administration proposes legislation to eliminate this Special Reserve Fund and transfer its balance to the General Fund. This shift of resources will have no impact on the vehicle license fee tax relief program or local governments, and rebates that may result from late filers in the future will be funded from the General Fund instead.

Capital Outlay Planning and Studies Funding

Capital Outlay Planning and Studies Funding: The 2002 Budget Act provides \$1.5 million General Fund to be allocated by the Department of Finance to State agencies for project planning and studies. Because of fiscal constraints and a reduction in projects, fewer projects require planning and studies funding. Accordingly, the Administration proposes funding in the amount of \$500,000 be reverted to realize General Fund savings in the current year.

Health Insurance Portability and Accountability Act

-\$0.2 million

Reversion of Funding for California Youth Authority (HIPAA): The 2002 Budget Act includes \$497,100 General Fund for Youth Authority HIPAA activities. This funding is currently in Item 9909 and was to be allocated via an Executive Order. Because the Youth Authority will be unable to hire staff as early as expected, the Administration proposes that \$250,000 be reverted from Item 9909 to the General Fund.

STATEWIDE

Additional Architecture Revolving Fund Savings: The Department of Finance has identified \$1 million in the Architectural Revolving Fund (ARF) that can be transferred back to the General Fund. Therefore, the Administration proposes to transfer these funds from ARF to the General Fund.

Architecture Revolving Fund Transfer: The Department of Finance has identified a number of projects that may be delayed, stopped, or shifted to an alternative funding source. It is requested that the Department of Finance have the authority to transfer funds in the Architecture Revolving Fund to the General Fund.

Inmate Construction Revolving Account Transfer: The Department of Finance has identified a number of projects that may be delayed, stopped, or shifted to an alternative funding source. It is requested that the Department of Finance have the authority to transfer funds in the Inmate Construction Revolving Account to the General Fund.

Employee Compensation

-\$470.0 million

Reduction of Employee Compensation Costs: The Department of Personnel Administration is directed to negotiate through the collective bargaining process, where applicable, a \$470 million reduction in 2003-04 employee compensation costs. In order to accomplish this reduction, the State is prepared to pursue deferring scheduled salary increases, lowering or freezing future salary or benefit expenditures, layoffs, furloughs, and other similar personnel actions in order to produce the needed savings.

Elimination of Annuitants from the Rural Health Care Equity Program: The Rural Health Care Equity Program assists with the out-of-pocket health care expenses for employees and annuitants who live in rural areas that are not covered by the State's contracts with HMOs. The Administration proposes this program no longer include annuitants as of January 1, 2003.

Statewide—Reduction in State Operations

-\$320.8 million

Chapter 1023, Statutes of 2002, added Control Section 3.90 to the 2002 Budget Act, authorizing up to a five-percent reduction of State operations appropriations to reflect a total reduction of up to \$750 million. Given the magnitude of the anticipated two-year budget shortfall, the Governor issued Executive Order D-64-02 to identify General Fund savings and reduce expenditures.

Only a portion of the \$750 million target can be achieved without statutory changes to programs that would allow reductions in State operations costs. The Administration has expanded the focus of reductions beyond just State operations reductions. In this mid-year reduction package, the Administration is proposing \$3.4 billion in current year General Fund reductions, of which \$320.8 million encompasses State operations. To address, in part, the requirements of Control Section 3.90 of the 2002 Budget Act, the Administration is proposing reversion items to capture the savings.

Budgets for State operations will be reduced, and General Fund savings achieved through various actions including, but not limited to, the following:

- Reductions in specific program areas
- Shifts in program funding
- Reductions and eliminations in operating expenses for non-essential activities (e.g., out-of-state travel, training, equipment purchases, etc.)
- Increases in federal funds
- Eliminations of departments/programs
- Prior years savings

Attachment A contains a list of the State operations reductions by department. Some of the aforementioned savings are contingent upon reductions in local assistance programs. Since the Attachment contains a summary of the information relating to State operations reductions by department, individual departmental sections of this document may not address the detail of the State operations reductions.

2002-03 GF State Operations Reductions
(Dollars in Thousands)

Department	2002-03 Reductions	
	Personnel Years	Dollars
Judiciary	--	-\$10,000
Secretary of Health & Human Services	--	-831
Secretary of Resources	--	-65
Secretary of Youth & Adult Corrections	--	-7
Inspector General	-7.2	-695
Inspector General Veteran's Affairs	--	-25
Secretary for Environmental Protection	--	-88
Secretary of Education	-0.3	-61
Secretary of Labor & Workforce Development	--	-244
Office of Planning & Research	--	-4,820
Office of Emergency Services	-39.9	-1,591
Controller	--	-72
Board of Equalization	--	-51
Treasurer	--	-171
Scholarshare	--	-171
Science Center	-1.9	-114
Consumer Affairs	--	-565
Athletic Commission	--	-1
Fair Employment & Housing	-11.0	-912
Franchise Tax Board	--	-9,122
General Services	--	-5,257
Personnel Board	--	-411
Housing & Community Development	-2.0	-288
Technology, Trade & Commerce	--	-354
Conservation Corps	--	-1,669
Energy Commission	--	-1,679
Colorado River Board	--	-23

2002-03 GF State Operations Reductions
(Dollars in Thousands)

Department	2002-03 Reductions	
	Personnel Years	Dollars
Conservation	--	-497
Forestry & Fire Protection	-6.0	-5,398
State Lands Commission	--	-1,726
Fish & Game	-36.2	-2,587
Wildlife Conservation Board	--	-86
Parks & Recreation	--	-4,510
SF Bay Conservation & Development Commission	-0.9	-411
Water Resources	--	-16,152
Air Resources	--	-2,006
Waste Management	--	-70
Pesticide Regulation	-1.8	-561
Water Resources Control Board	-4.8	-2,787
Toxic Substances Control	--	-4,067
Office of Environmental Health Hazard Assessment	-2.2	-292
Emergency Medical Services	--	-77
Office of Statewide Health Planning & Development	--	-36
Aging	-2.4	-466
Alcohol & Drug Programs	--	-403
Child Development	--	-18
Health Services	-1.8	-17,224
Managed Risk Medical Insurance Board	--	-66
Developmental Services	-85.0	-1,436
Mental Health	-1.9	-1,233
Community Services	--	-14
Rehabilitation	--	-3,652
Child Support	--	-856
Social Services	-15.9	-1,065

2002-03 GF State Operations Reductions
(Dollars in Thousands)

Department	2002-03 Reductions	
	Personnel Years	Dollars
Corrections	3.1	-9,080
Board of Corrections	-0.5	-44
Prison Terms	-1.9	-753
Youth Offender Parole Board	-0.9	-39
Youth Authority	-8.4	-3,784
Correctional Peace Officers Standards & Training	--	-140
Education	-14.7	-2,376
CA State Library	--	-1,059
Summer School for the Arts	-0.8	-30
Teacher Credentialing	--	-51
Postsecondary Education	--	-108
University of California	--	-74,268
Hastings	--	-1,000
California State University	--	-59,634
Community Colleges	-1.0	-396
Agricultural Labor Relations	--	-12
Industrial Relations	--	-29,833
Student Aid	--	-682
Office of Criminal Justice Planning	-1.0	-229
Public Defender	-1.5	-182
Arts Council	--	-109
Public Employment Relations Board	--	-240
Personnel Administration	--	-11,602
Worker's Comp Subsequent Injuries	--	-1,000
Food & Agriculture	-7.4	-1,095
Fair Political Practices	-1.0	-60
State Mandates	--	-98

2002-03 GF State Operations Reductions
(Dollars in Thousands)

Department	2002-03 Reductions	
	Personnel Years	Dollars
Administrative Law	--	-2
Veteran's Affairs	-0.5	-258
Veteran's Home Yountville	--	-203
Veteran's Home Chula Vista	--	-157
Health Insurance Portability	--	-250
Debt Service	--	-15,000
Grand Total	-257.7	-\$320,757