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CALIFORNIA

# Governor's Budget Highlights



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**2002-03**

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GRAY DAVIS, GOVERNOR  
STATE OF CALIFORNIA

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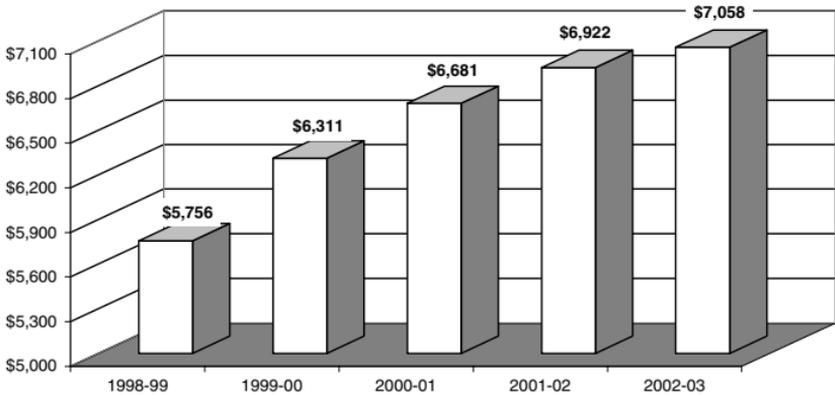
## Continuing Priority Investment in K-12 Education

### Overview

California's K-12 education system is in a state of great change. In 1999, California launched a series of fundamental reforms that are changing the way we teach our children, prepare our teachers, test our progress, and hold schools, administrators, and districts accountable. Through programs including the Public Schools Accountability Act, the Academic Performance Index, the High School Exit Exam, the Professional Development Institutes, and more, California has set higher standards and higher expectations than ever before. The results of these reform efforts are just beginning to emerge:

- ❖ For the second year in a row, a majority of schools have increased their Academic Performance Index (API) scores, with 89 percent improving in 2000 and 74 percent improving in 2001. Schools continue to move towards attaining the statewide target of an API score of 800; the percentage of schools achieving at least the target score has nearly doubled.
- ❖ 134,000 K-12 teachers will have been trained in the Professional Development Institutes developed by the University of California, and an additional 46,000 in the Math and Reading Professional Development Program.
- ❖ The student to computer ratio has improved from approximately 7:1 to 5:1 since 1998. More than 1,800 schools have received 110,000 new computers. The Administration expects California to be at or near the national average when final current year data become available.

**K-12 Education Spending Per Pupil  
Proposition 98**



- ❖ Total 2002-03 K-12 funding from all sources is now \$53.9 billion, a \$1.1 billion increase over 2001-02 and a \$12.9 billion increase over the 1998-99 level.
- ❖ Total 2002-03 per-pupil expenditures from all sources are \$9,236, up \$91 from 2001-02 and \$1,779 from the 1998-99 level.
- ❖ Proposition 98 per-pupil spending for the budget year will increase to \$7,058, which is \$136 over the 2001-02 level and \$1,302 over the 1998-99 level, approximately a 5.2 percent average annual increase over the course of this Administration.
- ❖ Total Proposition 98 support for K-12 education will increase by over \$1.2 billion in 2002-03, to \$41.2 billion. This represents a 30.3 percent increase (\$9.6 billion) from the 1998-99 level.



**2002-03**

Governor's Budget  
Summary Highlights

**Funding Increases**—From 1999-00 through the budget year, this Administration has increased K-12 general purpose funding by nearly \$6.5 billion, of which almost \$2.3 billion represents ongoing funding increases above the statutory growth and COLA adjustments.

- ❖ Attendance growth in public schools continues to be relatively low, primarily due to steady declines in birth rates beginning in the early 1990s. For the budget year, total K-12 Average Daily Attendance (ADA) is estimated to be 5,838,438. This reflects ADA growth of 61,609 or 1.07 percent over the current year.
- ❖ The Budget provides \$344.1 million for enrollment growth for school district and county office of education apportionments (\$304.5 million) and special education (\$39.6 million).
- ❖ The Budget also provides \$687 million for COLA (2.15 percent) for school districts and county office of education apportionments (\$599.1 million), summer school (\$10.4 million), and special education (\$77.5 million).

**Special Education Adjustments**—The special education program continues the fifth year of the per-pupil funding formula enacted by Chapter 854, Statutes of 1997 (AB 602). An increase of \$94.5 million is proposed for statutory adjustments to the special education formula, including growth (\$39.6 million), COLA (\$77.5 million), and a \$22.6 million reduction to reflect an increase in property taxes. The Budget also incorporates \$112.3 million in increased federal funds to assist in meeting statutory requirements.

**Categorical Growth and COLA**—The Budget includes enrollment growth funding of \$92.7 million and 2.15 percent COLA funding of \$146.9 million for summer school and categorical programs.



## 2002-03 Education Reforms

**Instructional Materials Realignment**—The Budget includes \$625 million to provide all pupils with high-quality instructional materials. Over four years, the Governor has committed nearly \$3 billion to ensure that all students have standards-based instructional materials in Mathematics, English Language Arts, Science/Social Science, and History. This initiative more closely aligns the allocation of funding with the adoption cycle. The Administration is proposing legislation to appropriate additional funds for future years (at the end of five years, \$600 million will be provided for the Instructional Materials Program), and provide schools with greater administrative flexibility. The proposal includes:

- ❖ **Instructional Materials Program**—\$250 million for K-12 schools for standards-aligned textbooks in core curriculum areas. Once schools provide standards-aligned textbooks to each pupil, the funds can be used for a variety of school library and K-4 classroom library materials purposes.
- ❖ **Textbook Enhancements**—\$200 million in one-time Proposition 98 Reversion Account for school districts that certify they will provide each pupil with a standards-aligned Reading-Language Arts textbook by the beginning of the 2002 school year.
- ❖ **School Library Improvements**—\$100 million in one-time Proposition 98 Reversion Account for school library materials or K-4 classroom library materials.
- ❖ **Science Laboratory Equipment**—\$75 million in one-time Proposition 98 Reversion Account for science lab equipment and materials to provide standards-based science instruction in grades 7-12.



**Child Care Reform**—The Budget provides a total of \$3.2 billion for child care, sufficient to serve an estimated 736,000 children in various programs administered primarily by the State Department of Education (SDE) and the Department of Social Services (DSS). This funding level reflects an overall increase of \$150 million (4.9 percent) over current year appropriations, and an increase of more than \$1.2 billion (62.7 percent) since the beginning of the Administration. Because of reforms proposed by the Administration, budget year funding will provide services to 122,000 more children. Since 1998-99, the number of children served will have increased by 310,000 (73 percent).

Following almost two years of study of the current California system, the Administration proposes major reforms in order to ensure expanded opportunity and increased equity in serving the State's neediest families—California Work Opportunity and Responsibility for Kids (CalWORKs) and non-CalWORKs working poor families alike. The Administration will propose legislation in January to implement the reforms beginning July 1, 2002. Specific goals for this reform effort include:

- ❖ Increasing access to subsidies for a greater share of the State's low-income working families.
- ❖ Ensuring more equitable access for the neediest of families.
- ❖ Promoting personal responsibility by phasing families off subsidies as income grows and children enter school.
- ❖ Creating greater efficiencies and accountability in the distribution of subsidies so that future costs are minimized.

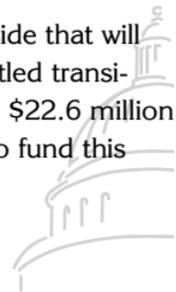
The principal reform measures include:

- ❖ Modifying eligibility requirements by reducing income eligibility in a three-tiered fashion that recognizes higher costs of living in various counties.

- ❖ Eliminating services for 13-year old children and families grandfathered by the implementing CalWORKs statute that exceed current income eligibility levels.
- ❖ Reducing reimbursement limits consistent with federal standards.
- ❖ Implementing a three-step, graduated fee schedule that would be applied to all families and which increases over time to transition families toward the actual cost of care.
- ❖ Modifying the current waiting list priorities in discretionary programs so that the neediest families (those in the lowest tiers of income working full time with children under 5) would have first priority after children at risk of abuse or neglect.

Implementation of the reforms in the budget year are estimated to achieve a \$400 million savings in the five primary child care programs. By reinvesting all of the estimated annual savings, the Administration's proposal would create child care subsidy opportunities for many additional children. The specific estimated savings and reinvestments include:

- ❖ \$50 million savings from CalWORKs Stage 1 that is primarily reinvested in the Alternative Payment Program (APP) to expand slots for families on waiting lists.
- ❖ \$133 million savings from CalWORKs Stage 2 for reinvestment in APP.
- ❖ \$58 million savings from CalWORKs Stage 3 Setaside that will be used for families "timing out" of CalWORKs entitled transitional assistance in the budget year. (An additional \$22.6 million in savings from other programs is also reinvested to fund this caseload through March 2003.)



- ❖ \$124 million savings from the General Child Care Program, which is partially retained by the Program to allow current providers to continue current service levels. The remainder is primarily reinvested in APP.
- ❖ \$36 million savings from APP, which is retained in the program to expand slots.

The Budget includes a \$75 million augmentation for the Before and Afterschool Learning and Safe Neighborhoods Partnership Program to provide services to an additional 79,000 children in kindergarten through 9<sup>th</sup> Grade. This amount includes \$45 million of additional funding plus reinvestment of \$30 million of child care reform savings. The total funding increase for this program since 1998-99 is \$113 million (226 percent) for a total program of \$163 million, sufficient to serve 175,000 children.

The Budget also includes \$9.8 million in one-time federal Child Care and Development Fund for a quality initiative over the next three years to provide outreach to all license-exempt providers for the primary purposes of providing training based on State developed pre-kindergarten guidelines and early childhood development principles, as well as health and safety issues.

In addition, the Budget includes the following changes related to child care programs:

- ❖ \$26.1 million increase for a 2.15 percent COLA for all eligible child care programs.
- ❖ \$100 million reserve—\$10 million higher than the current year—available to the SDE and DSS to ensure sufficient funding for CalWORKs Stage 1 and Stage 2 child care services.
- ❖ \$42 million transferred from the Child Care Facilities Revolving Fund (CCFRF) to the Proposition 98 Reversion Account. This amount is in excess of demand through the budget year.

**Independent Study Reform**—Chapter 892, Statutes of 2001, reduced funding for non-classroom based charter schools by up to 20 percent in the budget year. Recognizing that non-classroom instruction (independent study) is less expensive than instruction provided in a classroom setting, whether provided by a charter or by a traditional public school, the Budget proposes a 10 percent reduction in funding for independent study instruction. This reduction applies to all other K-12 public schools and will save an estimated \$43 million in the 2002-03 fiscal year, which is reinvested in high priority education programs.

**Program Quality Review Reforms**—With the enactment of SB 374, (Chapter 724, Statutes of 2001), the Administration provided some relief to districts by eliminating the Program Quality Review (PQR) process. In exchange, districts must develop and provide a Single Plan for Pupil Achievement (SPPA) that will be reviewed by the SDE. In an effort to increase non-monetary rewards for schools with API scores of 800 or higher, the Administration proposes eliminating the requirement to submit the SPPA to the SDE for review.

## Administration Priorities

### Teacher and Administrator Recruitment and Training

Highly trained and motivated instructional and administrative staff is essential to the ongoing efforts to improve student academic performance. In recognition of this fact, the Governor has established several recruitment and training programs and invested more than \$3.2 billion in K-12 and higher education for teacher recruitment and professional development programs since assuming office.



**Recruitment**—The Governor has led the way in establishing several new programs to recruit qualified individuals into the teaching profession and placing them in the schools that need them the most. These programs include the following:

- ❖ **Teaching As A Priority Block Grant (TAAP)**—Provides low-performing schools with funding to offer recruitment incentives to credentialed teachers. The Budget provides \$118.7 million for TAAP, resulting in total funding of \$336 million since its implementation in 2000-01.
- ❖ **Teacher Recruitment Incentive Program (TRIP)**—Consists of six regional recruitment centers that are operated by consortia of school districts, and which work to place fully credentialed teachers in low-performing schools. The Budget includes \$9.4 million for this program, resulting in a cumulative total in excess of \$28 million since the establishment of this Program in 2000-01.
- ❖ **Governor's Teaching Fellowships Program**—Provides \$20,000 bonuses to new teachers who agree to work in low-performing schools. The Budget provides \$21 million for this program, resulting in total funding of more than \$45 million since its establishment in 2000-01.
- ❖ **California Community College Teacher and Reading Development Partnerships**—Attracts students to careers in teaching by providing support and stipends for Community College students to tutor students in grades K-3. The Budget includes \$5 million for this program, resulting in total funding of \$20 million since its implementation in 1999-00.

The Administration also has continued to support the following two programs, which recruit qualified persons to work in the classroom on a full-time basis while pursuing a teaching credential:

- ❖ **Alternative Certification Program**—Allows college graduates who have proven their subject-matter knowledge to work full-time as teachers while earning their teaching credential. The Budget proposes \$25.6 million for this program, resulting in a four-year funding total in excess of \$100 million.
- ❖ **Paraprofessional Teacher Training Program**—Allows non-college graduates to serve as instructional aides while working to earn a college degree, with the expectation they will then pursue a teaching credential. The Budget includes \$7.5 million for this program. In total, this Administration will have provided \$42 million for this program.

**Training**—To ensure educators are provided with quality professional development programs that will allow them to continually expand their subject-matter and pedagogical skills, the Governor enacted legislation to establish the following comprehensive professional development programs:

- ❖ **Professional Development Institutes (PDI)**—Provides training in topics including reading, the instruction of English language-learners, high school English, elementary mathematics, algebra, and high school mathematics. The Budget provides \$98.9 million for the PDIs, which are operated by the University of California. Since their establishment in 1999-00, the PDIs will have received in excess of \$308 million and will have trained over 134,000 teachers.
- ❖ **Mathematics and Reading Professional Development Program**—Will provide all of the State's teachers with training in in either one or both of these key topics, depending on which subjects and grade levels they teach. The Budget includes \$110 million for this program. Since its establishment in 2001-02, this program will have received \$190 million and will have trained over 46,000 teachers and 9,000 instructional aides.

- ❖ **Principal Training Program**—Will provide 15,000 principals and vice-principals with training in instructional standards and effective school management techniques. The Budget includes \$7.5 million for this Program. Over a three-year period, the State will spend \$45 million to provide \$3,000 per individual, with the school district providing \$1,000 per individual. The Administration has secured a grant from the Gates Foundation that will provide the local match funding for principals, and one-half of the local match for vice-principals.

The Governor also has significantly increased funding for several existing professional development and support programs for teachers, providing almost \$1.8 billion during this Administration. These include:

- ❖ **Instructional Time and Staff Development Reform Program**—Provides funding to schools so they may deliver professional development to teachers outside of regular instructional days. The Budget provides \$230 million for this program, resulting in cumulative funding of \$926 million during this Administration.
- ❖ **Beginning Teacher Support and Assessment Program**—Provides funding for senior teachers to mentor newly credentialed teachers. The Budget includes \$88.3 million for the BTSA program. Including the 2002-03 funding, this Administration has provided in excess of \$333 million for this program.
- ❖ **Peer Assistance and Review Program**—Provides funding for veteran teachers to assist other veteran teachers who are experiencing professional difficulties. The Budget provides \$86.9 million for this program, bringing the four-year cumulative funding level to \$407.9 million.
- ❖ **California Subject Matter Projects**—Provide professional development in a variety of academic subjects, and place a special emphasis on serving experienced teachers and preparing

them to share their knowledge with their colleagues. The Budget provides \$30.8 million for the Subject Matter Projects. Over the past four years, this Administration has provided in excess of \$115 million for this training.

- ❖ **Faculty-to-Faculty Alliances**—Allow California State University professors and high school mathematics and English teachers to work together to develop effective methodologies for instructing 10<sup>th</sup> and 11<sup>th</sup> grade students in these subjects. This Administration will have provided \$5 million for the Alliances over the last four years.
- ❖ **Education Technology Professional Development Program**—Modeled after the Professional Development Institutes, provides instruction for K-12 teachers in the effective use of technology in the classroom. The Budget includes \$6 million for this program. This Administration has provided a total of \$25 million for this program since its establishment in 2000-01.

The Administration has placed strong emphasis on rewarding teachers who devote significant effort to increasing their own subject-matter knowledge and teaching skills, as follows:

- ❖ **The National Board for Professional Teaching Standards Certification Incentive Program**—Provides \$10,000 bonuses to teachers who earn certification by this prestigious, nationally-recognized organization. An additional \$20,000 is available to certified teachers who work in schools ranked in the bottom five deciles of the Academic Performance Index. The Budget includes \$10 million for these bonuses. The Administration has provided \$35 million since 2000-01 to provide awards to 1,300 teachers.



## Rewards and Interventions

This Administration has worked to establish a system that rewards schools that meet high expectations, while providing assistance, along with clear consequences, for those schools that need to improve their performance.

- ❖ **Governor's Performance Awards**—The Budget provides \$157 million for these awards. Over the last four years, this Administration has provided over \$540 million for the Governor's Performance Awards, which provides rewards of approximately \$67 per test-taker to schools that meet their Academic Performance Index growth targets.
- ❖ **School Site Performance Bonus**—In 2000-01, this one-time \$350 million bonus program provided up to \$1,182 per full-time staff to schools that met their API growth targets to be divided equally between the schoolsite and staff members.
- ❖ **Certificated Staff Incentive Awards**—The Budget includes \$50 million for this program, which provides rewards of \$25,000, \$10,000, or \$5,000 to certificated staff at low-performing schools that achieve the greatest improvement in pupil performance over a two-year period. Including the 2002-03 funding, this Administration will have provided \$200 million for these awards since 2000-01.
- ❖ **Immediate Intervention/Underperforming Schools Program (II/USP)**—The Budget includes \$210.8 million, including federal funds, to provide implementation grants of \$200 per pupil to improve academic performance in approximately 1,200 schools. Since this Administration sponsored legislation (Chapter 3, Statutes of 1999) establishing the II/USP, this program has been provided with \$513.2 million, including federal funds.

- ❖ **High Priority Schools Grant Program (HPSGP)**—The Governor signed legislation (Chapter 749, Statutes of 2001) providing \$197.0 million for the HPSGP, which provides grants of up to \$400 per pupil to the State's lowest-performing schools to improve academic performance. Priority for funding will be provided to schools with the lowest API scores. The first grants will be distributed in 2002-03.

## Accountability and Assessments

Over the past four years, this Administration has sponsored legislation and devoted considerable resources to establish a system of accountability and to bolster and enhance already existing accountability programs, based on the belief that education agencies must be held accountable for the academic achievement of California's pupils.

- ❖ **Standardized Testing and Reporting (STAR) Exam**—Results from this exam are the foundation of the State's accountability system, serving as the primary indicator for the Academic Performance Index, and provide valuable information to schools and parents on the academic performance of pupils. The Budget includes \$67.8 million for this exam.
- ❖ **High School Exit Exam**—Commencing with the 2003-04 school year, every pupil will have to demonstrate proficiency in the State's rigorous academic standards as a condition of receiving a high school diploma. The Budget provides \$18.3 million for this exam.
- ❖ **California English Language Development Test**—This English proficiency exam helps identify English language learners and the areas in which they need further assistance. The Budget includes \$17 million for this exam.

- ❖ **Golden State Exams**—These exams are challenging end-of-year exams, which are offered in 13 different subjects and offer pupils an opportunity to be recognized for their achievements in those subjects. In an effort to minimize testing time, this Administration is attempting to incorporate these exams into the California Standards Tests as part of the STAR exam. The Budget provides \$15.4 million for these exams.

## Other Program Adjustments

**High-Tech High Grant Program**—To foster opportunities for students to meet the rigorous demands of the high-technology field and provide students with the resources necessary to achieve success, the Budget includes \$4 million to continue the High-Tech High School program. The program provides five matching grants totaling \$2 million each over two years, awarded on a competitive basis.

**Advanced Placement/College Preparation**—To help K-12 students prepare for successful transition to higher education, the Budget provides \$36.4 million, an increase of \$35.4 million since 1998-99, for college preparation and advanced placement (AP) programs. These programs include a pilot program to subsidize advanced placement exam fees for low-income students; the International Baccalaureate program, which leads to advanced placement credit at the university level; the College Preparation Partnership Program, which funds preparatory courses for college admissions tests for low-income students; and the Advancement Via Individual Determination (AVID) program, which places low-income, high-potential students on an academic college-preparatory track. This funding also supports teacher training, pupil tutoring, and the purchase of instructional materials necessary to increase high school pupils' access to AP courses.

**Child Nutrition Pilot Program**—Pursuant to Chapter 913, Statutes of 2001, the Budget provides \$4 million from new federal funds awarded to the Department of Food and Agriculture to support a three-year pilot program to assist participant schools in improving the nutritional value of meals served to California school children. The pilot program will increase demand for fresh food grown in California while helping to improve the eating habits of almost six million school children in California when the program is fully implemented.

**Charter School Evaluation**—The budget provides \$333,000 to fund the third year of the Legislative Analyst's Office charter school evaluation pursuant to Chapter 673, Statutes of 1998, as modified by Chapter 892, Statutes of 2001.

**Charter School Categorical Block Grant**—The budget contains \$8.3 million for anticipated growth in the Charter School Categorical Block Grant.

**State Special Schools**—The Budget includes an increase of \$465,000 for the State Special Schools. This increase includes \$338,000 for transportation costs and \$127,000 for utility costs. The State Special Schools have received a \$14.7 million increase, an increase of 29 percent, in General Fund support since 1998-99, increasing program funding from \$50.8 million to a budget year total of \$65.5 million.

## **K-12 School Facilities**

**K-12 General Obligation School Bond**—In November 1998, voters passed Proposition 1A, which provides \$6.7 billion in general obligation bond funds for K-12 school construction over four years. A total of \$5.8 billion has been apportioned to school districts, with the remainder to be allocated by the summer of 2002. The passage of Proposition 39 in November 2000, which reduced the voter approval threshold for local school bonds, has given districts

greater opportunities to raise school facilities funds at the local level. To assist and encourage school districts to plan for the provision of matching funds for facilities in the future, this Administration will support general obligation bond authorizations to place \$10 billion in K-12 and higher education facilities bonds before the voters on each of the 2002, 2004, and 2006 statewide ballots.

**Deferred Maintenance**—The Budget includes \$205.4 million General Fund, an increase of \$29.1 million, for the K-12 Deferred Maintenance Program to fully fund the statutory one-half of one percent state match. Since the beginning of this Administration, the State has fully funded the Deferred Maintenance Program, and has increased the amount of General Fund provided for this program from \$135 million to \$205.4 million, an increase of over 50 percent. Over the last four years, including the proposed 2002-03 Budget, more than \$701.7 million in Proposition 98 funding has been provided for Deferred Maintenance.

## California State Library

The Budget provides the following augmentations for the State Library:

- ❖ \$50,000 to implement Chapter 870, Statutes of 2001, for developing school instructional resources and an information project to educate the general public on California's Native Americans.
- ❖ \$188,000 in reimbursements to continue development and enhancement of the nationally acclaimed California State Portal website (MyCalifornia).

Other adjustments for the State Library include:

- ❖ \$11.2 million reduction for the Public Library Foundation, from the 2001-02 level of \$53.0 million to \$41.8 million. Over four years, the Administration has provided approximately \$200 million for this program.
- ❖ \$598,000 to reduce funding for the Library of California from \$4.0 million to \$3.4 million. Over four years, the Administration has provided approximately \$15.4 million for this program.
- ❖ \$2.6 million General Fund (including \$712,000 shifted to federal funds) and an 18.2 PY reduction, from \$17.9 million to \$14.8 million, for state operations, including the California Research Bureau.



## Higher Education

### Higher Education Funding Total Funds (Dollars in Millions)

	2000-01	2001-02	2002-03	One-Year Change	
				Amount	Percent
University of California <sup>1/</sup>	\$4,228.0	\$4,440.2	\$4,486.2	\$46.0	1.0%
California State University <sup>1/</sup>	3,104.5	3,423.4	3,450.0	\$26.6	0.8%
Community Colleges	5,780.0	6,193.7	6,297.9	\$104.2	1.7%
Student Aid Commission	487.4	571.4	733.7	\$162.3	28.4%
Other Higher Education <sup>2/</sup>	223.9	240.7	274.3	\$33.6	14.0%
<b>Total Funds</b>	<b>\$13,823.8</b>	<b>\$14,869.4</b>	<b>\$15,242.1</b>	<b>\$372.7</b>	<b>2.5%</b>

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

<sup>2/</sup> Other Higher Education amount includes the California Postsecondary Education Commission, Hastings College of the Law, and General Obligation Bond Interest and Redemptions for UC, CSU and Hastings.

- ❖ Total higher education funding, including the Student Aid Commission (SAC), increases by an average of 2.5 percent. General Fund increases average 2.1 percent.
- ❖ The Budget provides UC with \$40.3 million, CSU with \$28.1 million, SAC with \$162.3 million of new General Fund resources, California Community Colleges (CCC) are proposed to increase by \$86.7 million in General Fund and property tax revenues.
- ❖ The Budget funds enrollment increases of 7,100 (3.9 percent) for UC, 12,030 (3.9 percent) for CSU, and 31,864 (3 percent) for CCC.



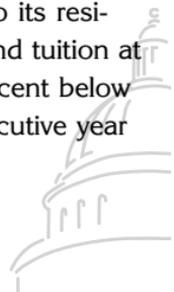
## Overview

The Budget supports California's higher education systems to provide access and high quality learning experiences, while remaining affordable to all qualified students and accountable to the public. The Budget continues the Administration's focus on quality, accessibility, affordability, and accountability.

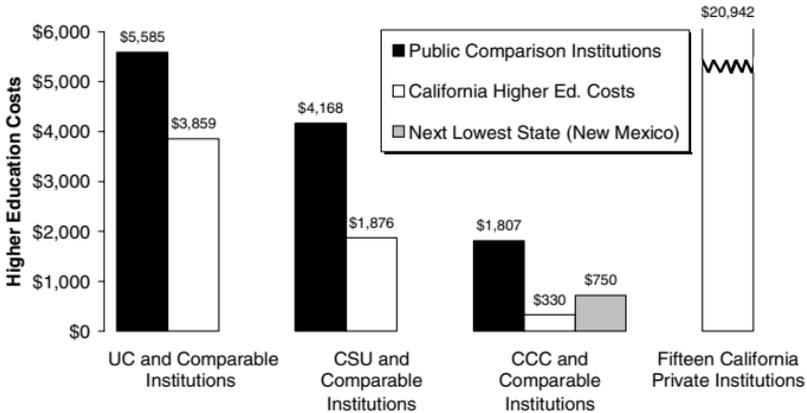
The 2002-03 Budget provides total funding of \$3.4 billion in General Fund resources for the University of California (UC), an increase of 33.7 percent over the last four years. The Budget also includes total General Fund of \$2.7 billion for the California State University (CSU), an increase of 30.3 percent over the last four years. The Budget provides \$2.9 billion General Fund for the California Community Colleges (CCC), an increase of 29.2 percent since 1998-99. Of the increases included in the 2002-03 Budget, \$260.6 million provides full funding for anticipated enrollment increases in all three segments, as discussed earlier, thereby allowing the systems to admit all eligible applicants.

For financial aid, the Budget provides \$694.3 million for Cal Grants, a 28.8 percent increase over 2001-02. Since 1998-99, Cal Grant funding has increased by \$362.7 million, a 109.4 percent increase. The number of Cal Grant awards has increased from 98,456 in 1998-99, to 209,704 in 2002-03.

California continues to provide affordable education to its residents. CCC's tuition remains at \$11 per unit. Fees and tuition at California State University (CSU) and UC remain 5 percent below 1998-99 levels. The Budget reflects the eighth consecutive year with no fee increases.



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



## University of California and California State University

**Partnership Agreement**—The Budget includes an average annual increase of 1.5 percent from the prior year, and full funding for enrollment growth, capital outlay debt service, and annuitant health and dental benefits. Support for UC and CSU during the last four years includes over \$1.4 billion in funding provided through the Partnership Agreement.

**Year-Round Operation**—Because additional UC and CSU campuses are approaching enrollment capacity, the Budget provides \$9.5 million for conversion of those campuses to year-round operation, ensuring additional enrollment space for the growing number of students at the UC Davis and CSU Chico campuses. Overall, UC and CSU have been provided \$76.3 million to implement year-round instruction at four UC campuses and all, except five, CSU campuses.

**Capital Outlay**—In addition to funding for UC Merced and the UC Institutes for Science and Innovation, the Budget proposes \$85.3 million for 14 new and five continuing projects at the nine existing UC campuses; \$238.8 million for the continuation or completion of 20 previously approved projects at 15 CSU campuses and 10 new projects at nine CSU campuses; and \$20 million for minor projects at CSU's 23 campuses.

**Merced**—UC remains on track to open its Merced campus by Fall 2004. The Budget provides \$566,000 for working drawings for phase 3 of the campus infrastructure. A total of \$43.2 million in lease revenue bonds is also proposed in 2001-02 as part of the Governor's Economic Stimulus Package to accelerate design and construction of the second phase of infrastructure and the construction of the Classroom and Office Building, projects that had been previously scheduled for 2002-03 and beyond. In addition, \$4 million in one-time funds is provided for start-up expenses associated with recruiting faculty in time for the accelerated opening date.

**Institutes for Science and Innovation**—The Budget proposes to shift the fund source for the Institutes from the General Fund to State lease revenue bonds. This includes shifting \$90 million of the 2001-02 appropriation and \$218.5 million of the next two years' appropriations from General Fund to state lease-revenue bonds. These resources will be matched by at least \$2 of non-State funding for each \$1 of State funding.

**Budget Adjustments**—For both UC and CSU, the State's budget constraints necessitated suspending normal funding increases and reducing base funding. Every effort was made to protect the core instructional program and mission of our higher education systems, by making reductions in those areas outside the classroom.

## California Community Colleges

The 2002-03 Governor's Budget includes total funding of \$6.3 billion dollars for the California Community Colleges (CCC). This amount is 1.7 percent above the 2001-02 total, and includes the full 2.15 percent statutory COLA and 3 percent growth for apportionments and all major categorical programs. During this Administration, the CCC annual budget has increased by \$1.3 billion, or 25.3 percent. The General Fund share alone has grown by 29.2 percent, representing \$660 million of the total increase.

**Enrollment Growth**—The CCC will be able to accommodate nearly 32,000 additional full-time equivalent students (FTES), bringing the estimated level to 1,094,000 FTES, the highest level yet. The 3 percent funded growth in enrollments exceeds the current statutory adult population change of 1.94 percent in order to meet projected demand and ensure greater access. Over the past four years, CCC enrollment has increased by 130,000, or 13.8 percent, nearly twice the increase over the eight years prior to this Administration.

**Partnership for Excellence**—The 2002-03 Governor's Budget continues to provide \$300 million for the Partnership for Excellence. This amount reflects an increase of \$200 million during this Administration, demonstrating its commitment to increasing student outcomes.

**Other Augmentations**—In addition to increases for growth and COLA, the Budget proposes \$32.0 million for Scheduled Maintenance and Special Repairs and \$34.0 million, for Instructional Equipment and Library Materials, fully restoring both programs to the \$49 million level. These funds ensure that community college students have access to a properly maintained facility with modern equipment to learn the skills that California's industries demand.

**Other Adjustments**—The Budget also reduces funding for several existing programs and eliminates others due to the State’s current fiscal constraints. Care was taken to protect core instructional programs by targeting the reductions in areas outside classroom funding.

## **Financial Aid**

**Cal Grants**—The Budget provides a \$155 million augmentation to ensure full funding for the recent historic expansion of the Cal Grant program, so that every financially needy high school senior with good grades can receive financial assistance for higher education. Over the last four years, Cal Grant funding has increased by over \$362.7 million, or 109.4 percent.

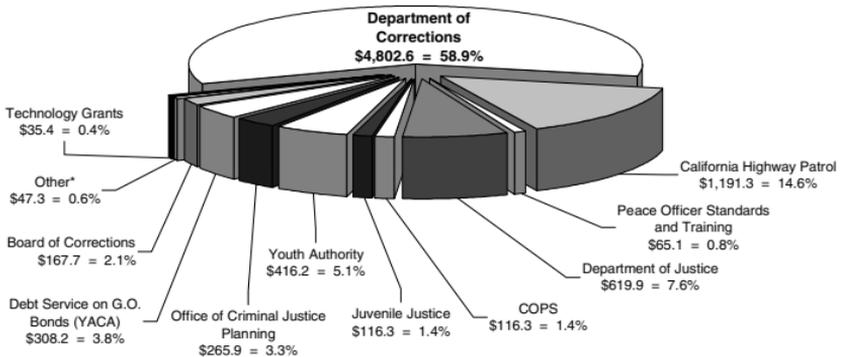
**Assumption Program of Loans for Education**—The Budget provides a \$10.6 million augmentation in loan repayments for additional students that have entered the teaching profession and have met the teaching requirements of this program.



## Public Safety

The 2002-03 Budget proposes total funding of approximately \$8.2 billion for various programs within the Youth and Adult Correctional Agency, Department of Justice, Office of Criminal Justice Planning, Commission on Peace Officer Standards and Training, Office of the Inspector General, and the California Highway Patrol. The amount proposed is a 0.7 percent increase over the revised 2001-02 Budget amount. The more significant funding changes for these programs are noted below.

**Public Safety Proposed Expenditures for 2002-03**  
**All Funds**  
 (Dollars in Millions)



\* Includes the Youth and Adult Correctional Agency, Office of the Inspector General, Youthful Offender Parole Board, Board of Prison Terms, and the Commission on Correctional Peace Officer Standards and Training.



## Department of Justice

The 2002-03 Budget includes total expenditures of \$619.9 million for the Department of Justice. This amount includes a reduction of \$17.6 million General Fund, which is not expected to affect the ability of the Department to fulfill its law enforcement mission. In addition, the Budget proposes the following augmentations for 2002-03:

**Armed Prohibited Persons Database**—\$1 million General Fund to implement Chapter 944, Statutes of 2001, which creates a database containing information on persons identified as prohibited from possessing a firearm.

**Hate Crime Analysis Tracking and Evaluation Database (HATE)**—\$596,000 General Fund to expand the HATE crimes database to provide timely criminal intelligence information via a state-level automated crime database.

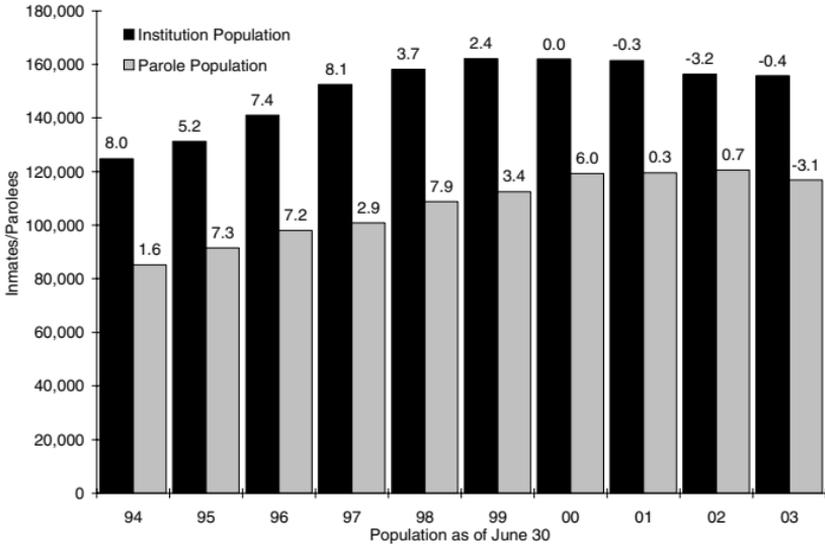
**Anti-Reproductive Rights Crime Reporting**—\$433,000 General Fund to collect and analyze information related to anti-reproductive rights crimes, as well as develop plans to apprehend and prosecute offenders of such crimes pursuant to Chapter 944, Statutes of 2001.

**Recreational Entities Fingerprint Submissions**—\$441,000 General Fund to implement Chapter 777, Statutes of 2001, which requires cities, counties, and special recreational districts to obtain state-level criminal offender record information prior to the employment of persons who will supervise or discipline minors.

**Predatory Lending Fraud**—\$606,000 in reimbursements to prevent predatory lending fraud and ensure California consumers are protected against consumer fraud and deceptive and unfair business practices.

## Department of Corrections

Department of Corrections  
Institution and Parole Population Growth



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

**Prison Population**—Prison inmate population is projected to decrease from 156,409 on June 30, 2002, to 155,721 by June 30, 2003, a decrease of 688 inmates, or 0.4 percent. In 2002-03, incarceration and parole services will be provided through 33 institutions, 11 reception centers, 38 camps, and 11 community correctional facilities.

**Parole Population**—The State parole population is projected to reach 120,523 by June 30, 2002. This population is projected to decrease to 116,811 by June 30, 2003, a decrease of 3,712 parolees, or 3.1 percent.

2002-03

Governor's Budget  
Summary Highlights

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**Preventing Parolee Crime Program Funding Shift**—The Budget includes a funding shift related to the Preventing Parolee Crime Program. General Fund savings will be realized by using \$10.6 million in federal Workforce Investment Act funds for the portion of the Preventing Parolee Crime Program that relates to employment training, including the Jobs Plus Program, the Offender Employment Continuum, a contract with the Employment Development Department, and the Computerized Literacy Learning Centers.

**Female Offender Treatment and Employment Program (FOTEP) Funding Shift**—The Budget contains a funding shift related to FOTEP that will result in \$2 million in General Fund savings by using federal Workforce Investment Act funds for the portion of FOTEP that relates to employment training.

**Additional Security at Patton State Hospital**—The Budget provides \$427,000 to increase perimeter security at Patton State Hospital. This increase in security is for two years, until completion of a new secure perimeter fence.

**Medical Evaluations Related to Respiratory Protection Program**—The Budget includes \$620,000 for medical evaluations of those employees who may be required to wear respirators in the course of employment.

**Workers' Compensation Continuing Funding and Fee Increases**—The Budget continues \$21.3 million in one-time funding from the 2001-02 Budget for increased workers' compensation expenditures, and includes \$1.1 million in new funding for increased service fees.

**Legal Affairs Division Restructuring**—The Budget contains \$1.8 million in redirected funding to establish the Major Litigation Unit and the Liability Response Unit within the Legal Affairs



Division. These units are designed to assist the Department in addressing major lawsuits as well as identifying potential solutions to problems before they become lawsuits.

**Elimination of Five Expiring Community Correctional Facility (CCF) Contracts**—The Budget reflects a reduction of \$5.1 million related to the elimination of five expiring private CCF contracts. Due to the decline in inmate population and the effects of Proposition 36, these facilities are no longer required. Under the terms of Proposition 36, it is anticipated that parolees who would have returned to incarceration on specified substance abuse parole violations will receive treatment within the local community.

**Cancellation of Additional 425 Community Correctional Re-entry Center (CCRC) Beds**—Due to the declining inmate population and the effects of Proposition 36, the Budget proposes cancellation of 425 additional CCRC beds for a savings of \$3.4 million. It is anticipated that under the terms of Proposition 36, there will be fewer lower classification level inmates (i.e., inmates with short terms of incarceration and those with little history of institutional violence or escapes) entering the prison system, due to the elimination of prosecutions by district attorneys for substance abuse possession. This, in turn, will reduce the number of lower level inmates for programs such as the CCRCs.

## **Incarceration of Undocumented Persons**

The State of California currently spends approximately \$585.4 million in the Departments of Corrections and Youth Authority related to the incarceration of undocumented persons. The Budget anticipates that the State will receive approximately \$158.3 million in 2001-02 and \$208.3 million in 2002-03 from the federal government under the State Criminal Alien Assistance Program as a partial reimbursement of these costs. This reflects anticipation of an additional \$50 million in federal funds in 2002-03.

## Department of the Youth Authority

**Institution and Parole Population**—The Youth Authority projects an institution population of 6,100 on June 30, 2003, which is a decrease of 260 wards from the anticipated population of 6,360 on June 30, 2002. The parole caseload is projected to be 4,155 by June 30, 2003, which is a decrease of 75 cases from an estimated caseload of 4,230 on June 30, 2002.

**Program Compliance Unit**—The Budget includes \$725,000 to establish a Program Compliance Unit to enhance management oversight and monitor staff compliance of policies and procedures within the Youth Authority.

**Other Adjustments**—The Budget includes a reduction of \$3.1 million for the Youth Authority, primarily for operating equipment and expenses, which is spread across the Department's institution, parole, education, and administration programs. This reduction will not affect the Department's ability to provide training and treatment services for youthful offenders committed to its custody.

## Board of Corrections

**Community Law Enforcement And Recovery (CLEAR) Program**—The Budget includes \$3 million for the CLEAR program, which provides funding to various agencies in Los Angeles for a multi-agency gang intervention program.

**Crime Prevention Act Administration**—The Budget includes \$275,000 for the Board to administer an additional \$116.3 million proposed for local juvenile crime prevention programs for at-risk youth and juvenile offenders, pursuant to the Crime Prevention Act of 2000. The Board is responsible for approving the local juvenile justice action plans required by this Act.

## Office of Criminal Justice Planning

The 2002-03 Budget includes total expenditures of \$265.9 million for the Office of Criminal Justice Planning (OCJP). The Budget reflects a reduction of \$719,000 General Fund and five personnel years for OCJP's state operations. In addition, the Budget includes the following:

**War on Methamphetamine**—The Budget continues \$15 million General Fund to combat methamphetamine manufacturing and distribution, with a focus on the Central Valley. This local assistance funding will continue to provide resources for the purchase of specialized equipment and the support of investigators, agents, and prosecutors specializing in methamphetamine offenses.

**High Technology Theft Apprehension and Prosecution Program and Identity Theft Funding**—The Budget continues \$913,000 state operations and \$13.5 million local assistance (\$14.2 million General Fund) to combat high technology crimes and identity theft. This funding will continue the ability of the task forces to employ local law enforcement officers and agents, provide high technology investigative and forensic training, purchase forensic equipment, and coordinate public awareness efforts with the high technology industry. This program includes \$3.3 million for the training of law enforcement officers on identity theft, the development of protocols for addressing these crimes, and increased interagency coordination efforts in this area.



## California Highway Patrol

**F**or 2002-03, the Budget proposes \$1.2 billion and 10,435 personnel years for support of the CHP. Since 1998-99, the number of CHP uniformed personnel has increased by 7.2 percent, or 484 officers.

The Budget includes \$39.5 million in 2001-02 and \$89.6 million in 2002-03 from federal funds for terrorism-related safety and security, including:

- ❖ \$34.9 million in overtime for 2001-02 and \$32.5 million in 2002-03, for twelve-hour shifts during periods when placed on alert for response to possible terrorist activities.
- ❖ \$4.6 million in 2001-02 and \$26.3 million and 24 officers in 2002-03 for increased air patrol of state infrastructure and event surveillance, including five additional aircraft in 2002-03.
- ❖ \$16.6 million and 166 officers and staff at key truck inspection stations for 24-hour, seven-day-a-week operation, in order to increase surveillance for trucks carrying explosives and other potential weapons.
- ❖ \$4.3 million for 53 officers to protect State facilities, and another \$5.5 million for 49 officers to protect bridges, nuclear power plants, and other landmarks and public facilities.
- ❖ \$1.9 million for 24 officers to staff emergency information and command operations and participate in multi-agency task forces.



The Budget also includes:

- ❖ \$11.9 million for additional worker's compensation costs.
- ❖ \$87.5 million to fund retirement costs previously funded through Public Employee Retirement System (PERS) investment earnings, and \$18.1 million for retirement cost increases.





# Health and Human Services

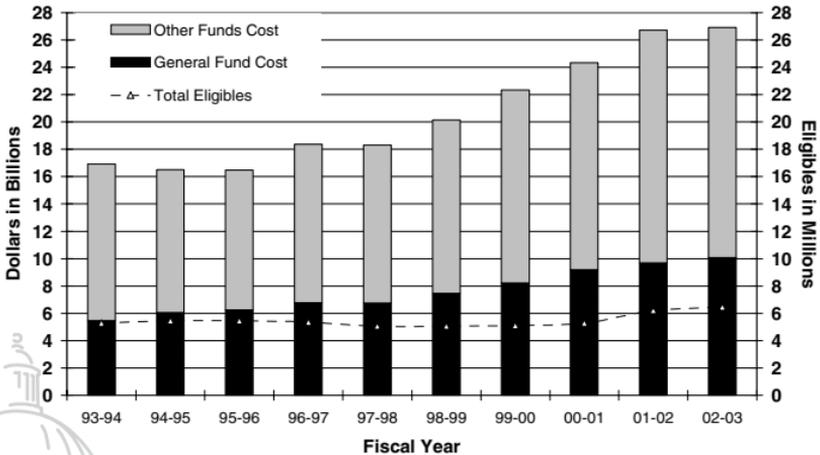
## Department of Health Services

### Medi-Cal

The Medi-Cal budget proposes \$26.9 billion (\$10.1 billion General Fund) for 2002-03, for the Medi-Cal Program, a General Fund increase of 4.6 percent over the current year Budget Act.

Since 1998-99, Medi-Cal beneficiaries have increased from 5 million eligibles to 6.5 million eligibles projected for 2002-03, an increase of 1.5 million Medi-Cal beneficiaries.

**Medi-Cal Caseload and Costs, 1993-94 through 2002-03**  
(Eligibles in Millions, Dollars in Billions)



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

- ❖ Medi-Cal caseload is expected to increase to 6.5 million eligibles, or by 6.8 percent in 2002-03. Nearly one in five Californians are enrolled in Medi-Cal in an average month.
- ❖ The 2002-03 Budget includes \$183.1 million (\$91.5 million General Fund) to increase hospital outpatient reimbursement rates by 3.33 percent above the 30 percent increase assumed in the Budget Act of 2001. The rates will increase by an additional 3.33 percent in both 2003-04 and 2004-05.

### **2002-03 Eligibility Expansions**

The Administration continues to demonstrate its commitment to maximizing health care coverage for uninsured Californians through Express Lane Eligibility. This process further streamlines enrollment by linking Medi-Cal eligibility with that of other public programs serving low-income individuals. These eligibility expansions include:

- ❖ **Medi-Cal Eligibility for Children Receiving Free School Lunches**—Chapter 894, Statutes of 2001 (AB 59), will facilitate enrollment into Medi-Cal for uninsured school children by linking Medi-Cal eligibility with free school lunch eligibility. The 2002-03 Budget includes \$23.3 million (\$11.7 million General Fund) for this expansion, which will automatically enroll children under age six who are receiving free school lunches into the Medi-Cal program. This expansion will also require counties to determine Medi-Cal eligibility for children older than six receiving free school lunches and enroll them pending completion of a Medi-Cal application. This expansion will result in 21,200 additional children receiving Medi-Cal coverage in 2002-03.
- ❖ **Medi-Cal Enrollment and Eligibility for Persons Receiving Food Stamps**—This expansion will facilitate the enrollment of low-income, uninsured families in the Medi-Cal program by

linking Medi-Cal eligibility with the Food Stamp Program, pursuant to Chapter 897, Statutes of 2001 (SB 493). This bill expands the ability of families receiving food stamps to enroll in Medi-Cal. The 2002-03 Budget includes \$18.8 million (\$9.4 million General Fund) for this expansion, which reflects the enrollment of an estimated 14,900 low-income, uninsured families in the Medi-Cal program in 2002-03. To further enhance enrollment efforts, counties will be required to send Medi-Cal and Healthy Families Program (HFP) enrollment information to families receiving food stamps.

### **Continuing Eligibility**

Along with the eligibility expansions discussed above, the Administration has maintained funding in 2002-03 for simplification of the complex eligibility process. As the result of simplifying this process, 679,300 individuals will continue to receive benefits as follows:

- ❖ **Eliminating Quarterly Eligibility Status Reports**—As a result of eliminating this requirement, an estimated 218,000 adults will retain Medi-Cal coverage.
- ❖ **Providing Continuous Eligibility to Children**—An estimated 445,540 children will receive 12-month continuous Medi-Cal coverage.
- ❖ **Continuing Eligibility to Persons Leaving CalWORKs**—This simplification of the eligibility process allows an estimated 15,750 adults, previously discontinued from Medi-Cal for failure to provide eligibility information, to continue receiving benefits.



## **Proposed General Fund Savings**

- ❖ **Federal Stimulus**—The Budget assumes that federal legislation will provide an additional \$400 million in federal funds to offset the cost of Medi-Cal services.
- ❖ **Enhanced Administrative Claiming**—The Budget anticipates \$50 million in General Fund savings by improving administrative cost claiming mechanisms to maximize the receipt of federal funds for various programs in the Departments of Health Services, Social Services, Mental Health, Developmental Services, Corrections, and the Youth Authority.
- ❖ **Pharmaceutical Savings**—The Budget includes several proposals to achieve additional cost-control savings in the Medi-Cal drug program. Savings of \$201 million (\$100 million General Fund) are estimated to result from these activities.
- ❖ **Provider Rates**—The Budget proposes a temporary reduction of \$155.1 million (\$77.6 million General Fund) to partially rescind the \$800 million (\$403 million General Fund) augmentation in the 2000 Budget Act for provider rate increases. These reductions will be allocated in a manner that limits the impact on access to services provided to children and the elderly enrolled in the Medi-Cal Program. The Department of Health Services (DHS) will convene a work group to determine the appropriate mechanism to achieve these savings while assuring that provider rates are no lower than the 1999-00 reimbursement levels.
- ❖ **Beneficiary Co-Payments**—The Budget proposes a reduction of \$61.2 million (\$30.6 million General Fund) by requiring co-payments from Medi-Cal recipients to the extent permitted by federal law. These payments, ranging from \$1 to \$3 (or up to \$5 for emergency room services), will be deducted from provider

reimbursements. With this change, California's co-payment requirements are now closely comparable with those of the most populous states.

## **Strengthening Long-Term Care**

Despite the recent economic downturn, the Administration is maintaining its effort to protect California's elderly population. The Budget continues to pursue the goals of helping California's seniors remain at home and improving the quality of care in nursing facilities.

The Budget proposes an increase of \$5.3 million (\$2.7 million General Fund) and 55.5 positions for the DHS to begin implementing Chapter 684, Statutes of 2001 (AB 1075). This legislation requires a revised nursing home reimbursement methodology by August 1, 2004, as well as regulations, effective August 1, 2003, establishing revised staffing standards for nursing homes. These activities are aimed at increasing the quality of nursing home care, as well as ensuring beneficiaries receive the appropriate level of care.

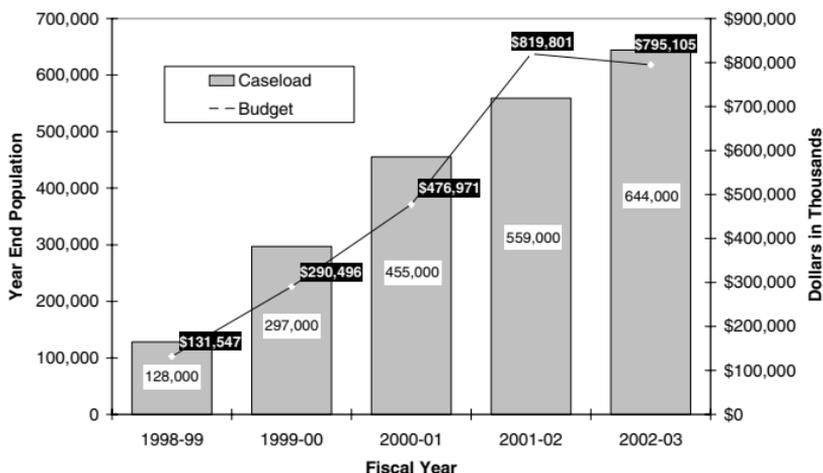
## **Managed Risk Medical Insurance Board**

### **Healthy Families Program**

**Healthy Families Program (HFP)**—The 1999 Budget Act expanded HFP coverage to uninsured children in families with income between 200 and 250 percent of the federal poverty level (FPL). Since 1998-99, children's caseload has grown from about 132,000 to an expected 644,000 in 2002-03 for a total increase of 512,000 children, or 288 percent. Due to expanded eligibility, increased outreach efforts, and application simplification, enrollment is estimated to reach 559,000 children by June 2002, and about 644,000 children by June 2003. The 2002-03 Budget proposes a total of \$795.1 million (\$289.1 million State funding) to support HFP activities within various departments.

Overall, HFP expenditures grew from \$131.5 million (\$44.3 million State funding) in 1998-99 to \$795.1 million (\$289.1 million State funding) in 2002-03, an increase of \$244.8 million State funding, or 552 percent. Since the beginning of this Administration, about \$2.4 billion (\$839.8 million State funding) has been provided for this program.

### Healthy Families Program Expenditures



The budget for the Managed Risk Medical Insurance Board reflects the following significant changes:

- ❖ **HFP Parent Expansion**—Due to the budget constraints, the Administration proposes to postpone the Parent Expansion until July 2003.
- ❖ **Access for Infants and Mothers (AIM) Program**—This program provides health care to uninsured pregnant women and their infants with family incomes between 200 and 300 percent of the FPL. The 2002-03 Budget proposes a total of \$79.6 million (\$74.8 million Perinatal Insurance Fund) for this program, an increase of \$11.4 million (\$10.1 million Perinatal Insurance

Fund) over the 2001 Budget Act. This funding increase will be used to provide coverage to an additional 1,100 women and 8,900 children compared to the 2001 Budget Act.

The Budget for this program has increased from \$41.7 million (\$37.5 million Perinatal Insurance Fund) in 1998-99 to \$79.6 million (\$74.8 million Perinatal Insurance Fund) in 2002-03 for a total increase of \$37.9 million (\$37.3 million Perinatal Insurance Fund), or 91 percent. Since 1998-99, caseload has grown from 4,460 women and 74,100 infants to a total of 7,400 women and 115,300 infants in 2002-03, or an increase of 66 percent in women's enrollment and 56 percent in infant's enrollment.

## Targeting Tobacco Settlement Funds for Health Care Expansion

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. In 2002-03, the State expects to receive approximately \$474 million. In addition, \$64 million of unspent funds appropriated in 2001-02 are available in 2002-03. Tobacco Settlement Funds will be used for the following health care programs:

- ❖ **Healthy Families Program**—Health care to uninsured children with family incomes between 100 and 250 percent of the FPL (\$247.1 million).
- ❖ **AIM Program**—Funding for infants between the ages of two months and one year with family income between 200 and 250 percent of the FPL (\$1.6 million).

- ❖ **Medi-Cal Expansion**—Section 1931 (b) eligibility that benefits two-parent working families with net family incomes up to 100 percent of the FPL (\$127.1 million).
- ❖ **Youth Anti-Tobacco**—An augmentation of \$15 million to the \$20 million Tobacco Settlement Fund provided in the 2001 Budget Act to reduce the incidence of smoking among youth. Over two years, this Administration has provided \$55 million for this important public health effort (\$35 million).
- ❖ **Breast and Cervical Cancer Treatment**—Treatment to individuals with incomes up to 200 percent of the FPL (\$27.9 million). Since 2000-01, this Administration has provided \$67.9 million for breast and cervical cancer treatment.
- ❖ **Prostate Cancer Treatment**—Treatment for men with incomes up to 200 percent of the FPL (\$20 million). With this funding, since 2000-01, this Administration has provided \$50 million for prostate cancer treatment.
- ❖ **Expanded Access to Primary Care**—Grants to local community health clinics to provide care to children with incomes up to 200 percent of the FPL who are ineligible for either Medi-Cal or the HFP (\$17.5 million). With this funding, \$120.8 million has been provided over the course of this Administration.

To prevent further reductions to important health care programs serving needy California residents, the Budget proposes to issue \$2.4 billion in bonds backed by a portion of Tobacco Settlement Fund revenues.



## Significant Program Restructuring

**Child Health and Disability Prevention Program**—To provide more comprehensive, full-scope health care to children and maximize the use of available federal funds, the Budget proposes to shift the Child Health and Disability Prevention (CHDP) program caseload to Medi-Cal and the Healthy Families Program (HFP). Most children who receive CHDP benefits are now eligible to receive comprehensive health care coverage from one of these two programs.

The CHDP is currently funded with 90 percent State funding, while the Medi-Cal program receives a 50 percent federal match and the HFP receives a 65 percent federal match. Shifting CHDP-eligible children into either Medi-Cal or the HFP will allow the State to maximize the receipt of federal funds, producing savings of \$69.5 million (\$6.2 million General Fund and \$63.3 million Tobacco Settlement Fund).

The Budget also restores \$10 million General Fund to the Expanded Access to Primary Care (EAPC) program in both 2001-02 and 2002-03 originally proposed for reduction in the November 2001 *Proposed Reduction in 2001-02 Spending* plan. Further, the Budget proposes a \$17.5 million Tobacco Settlement Fund augmentation to the EAPC program to ensure continued health assessments for children with family incomes up to 200 percent of the FPL who are ineligible for either the Medi-Cal or HFP programs.

**Childhood Lead Poisoning Prevention Program**—To better protect California's children from the adverse effects of lead exposure and to help improve educational outcomes among these children, the Budget provides an increase of \$7.2 million and 8 positions (7.6 personnel years), to implement a comprehensive programmatic restructuring plan and continue existing workload formerly performed by limited-term positions. The benefits to children of this restructuring plan are numerous, as follows:

- ❖ More lead-exposed children will be identified, treated, and the source of their lead poisoning eliminated.
- ❖ Sources of lead in the environment will be properly identified and managed, thus preventing future lead exposure and poisoning.
- ❖ The program will improve compliance with the Childhood Lead Poisoning Prevention Act of 1991 and other State and federal mandates.

This will be accomplished through:

- ❖ Universal reporting of blood lead testing results.
- ❖ Improved accountability measures.
- ❖ Increased enforcement provisions.
- ❖ Improved case management services performed by local health jurisdictions.
- ❖ Increased childhood lead poisoning prevention fees paid by gasoline and paint manufacturers.

## Public Health

The Budget proposes the following major funding adjustments:

- ❖ **Current Year Restoration of the EAPC Program**—Restoration of \$10 million General Fund in both 2001-02 and 2002-03, originally proposed for reduction in the November 2001 *Proposed Reduction in 2001-02 Spending* plan. The EAPC program provides primary care to medically uninsured and underserved persons at or below 200 percent of the FPL.

- ❖ **HIV/AIDS Program**—\$283.4 million (\$143.8 million General Fund) for HIV/AIDS prevention, education, care, and treatment programs, including an increase of \$22.4 million (\$20.4 million General Fund) for higher AIDS Drug Assistance Program demand and increased drug costs.
- ❖ **Richmond Public Health Laboratory**—An increase of \$5.5 million (\$4 million General Fund) for the State's newly-completed state-of-the-art \$400 million Richmond Public Health Laboratory in order to continue to safeguard the health of California's citizens and protect them from the threat of harmful biological agents.
- ❖ **Community Challenge Grant Program**— \$20 million in federal funds to continue this program, which provides community-based grants to reduce the number of teenage and out-of-wedlock pregnancies.
- ❖ **Cancer Research**—A reduction of \$25 million General Fund to reflect the elimination of this program as the grant cycles for funded projects will end in 2001-02. While this program has provided valuable research, it provides funding for less than 15 percent of the total state cancer and tobacco disease-related research. The University of California receives over \$159 million from the National Cancer Institute for cancer research.

**Proposition 99 Expenditure Plan**—Continuation of Proposition 99-funded programs at 2001 Budget Act levels. In addition, the Budget provides minor increases to the Breast Cancer Early Detection and AIM programs.

The Budget proposes 2001-02 expenditures of \$450.6 million to continue the base level of services for all programs, funded from Proposition 99, except for an increase of \$2.2 million for the Breast Cancer Early Detection Program that will mitigate a funding shortfall in the Breast Cancer Control Account.

The Budget proposes 2002-03 expenditures of \$410.4 million to continue the base level of services for all programs, except for increases of \$1.5 million for the Breast Cancer Early Detection Program to mitigate a funding shortfall in the Breast Cancer Control Account, and \$8.4 million for increased caseload in the AIM program. The Budget also proposes the continuation of certain previous augmentations:

- ❖ \$45.2 million for an anti-tobacco media campaign as part of the total \$114.7 million effort to reduce tobacco use.
- ❖ \$24.8 million provided on a one-time basis in the 2001 Budget Act to enhance access to critical emergency room care in all California counties.

## Department of Social Services

### California Work Opportunity and Responsibility to Kids

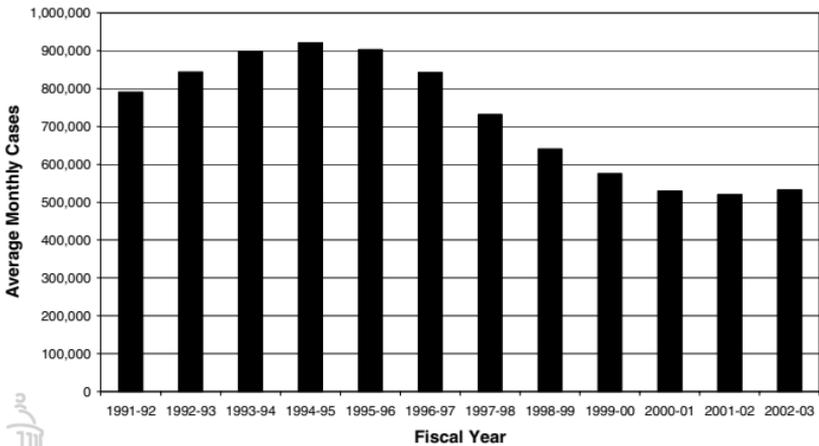
The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$7.4 billion, which includes \$6.2 billion budgeted within the Department of Social Services (DSS), \$970 million budgeted within other State programs and county budgets, and \$205 million for CalWORKs program reserves. The \$205 million in reserves includes \$165 million for a child care reserve and \$40 million set aside as a general Temporary Assistance for Needy Families (TANF) reserve for unanticipated program needs. A program reserve allows the State to deal with unforeseen pressures that otherwise could drive program costs above the federally-required General Fund match level.

- ❖ **Program Successes**—California has experienced significant success with its CalWORKs program. The number of aid recipients who are employed has increased from 19 percent in 1996, to 50 percent in 2000. The average monthly wage for

aided families has grown from \$592 prior to CalWORKs to \$735. Caseload reductions have occurred in every county. To date, the State has received over \$100 million in federal bonuses for its successful operation of the CalWORKs program as compared to other states.

- ❖ **Caseload Trends**—After seven consecutive years of decline, caseload is projected to increase by 3.9 percent above the 2001 Budget Act. In 2002-03, caseload is projected to be 532,000 cases. However, this represents a major improvement from the rapid growth of the early 1990s, when caseload peaked in 1994-95 at 921,000 cases. Policy reforms that promote self sufficiency and encourage job skills training, in addition to increased child care services, financial incentives encouraging work, and until recently, an improved private sector economy, have assisted recipients and potential recipients in finding employment.

**CalWORKs Caseload Trend**  
1991-92 Through 2002-03



- ❖ **CalWORKs Expenditures**—The Budget maintains CalWORKs program expenditures within available resources while protecting the critical welfare-to-work emphasis of the program.

However, several reductions totaling \$107.6 million are included in the Budget in order to achieve this level of funding. Counties will be provided sufficient flexibility to meet CalWORKs program needs. These reductions include:

- ❖ \$36 million General Fund in the California Department of Education (CDE) for adult education and Regional Occupational Collaborative programs services.
- ❖ \$58.4 million General Fund in the California Community Colleges (CCC) for job placement services, work-study, and other educational-related work experience.
- ❖ \$2.5 million General Fund in the California Department of Corrections to reflect a funding shift related to the Female Offender Treatment and Employment Program.
- ❖ \$3.6 million Contingent Fund in the Employment Development Department to reflect a reduction in the Intensive Services program in 2002-03.
- ❖ \$5.1 million General Fund in the DSS budget from eliminating the General Fund portion of CalWORKs Fraud Incentive payments made to counties.
- ❖ \$2 million federal funds in the DSS to reflect a reduction in the State operations funding for the program.
- ❖ **County Program Grant**—In an effort to allow more flexibility in providing employment services, administration, child care, and juvenile probation in accordance with local needs and priorities, the Budget proposes a combined CalWORKs program grant to counties. While the amount budgeted for this county program grant is \$1.9 billion in 2002-03, the amount may fluctuate each year as the State makes necessary adjustments to balance CalWORKs program needs within available resources.

- ❖ **Grant Levels**—Cash assistance grants will remain at the same level as the 2001 Budget Act. However, funding for employment services will be provided through the county program grant so that recipients can continue to move toward employment. The monthly cash grant level for a family of three is \$679 in Region I and \$647 in Region II. This grant level will allow a family of three living in Region I to earn up to \$1,583 per month before its grant would be reduced to zero. In addition to the grant amount, the family typically would be eligible for employment services, child care, food stamps, and Medi-Cal.
- ❖ **CalWORKs Child Care**—The Budget funds the projected child care need for CalWORKs recipients and reflects savings attributable to the Administration's Child Care Reform proposal. This proposal suggests eligibility changes for CalWORKs child care along with the remainder of the State's subsidized child care system. The budgets for the CDE and the CCC include \$592.1 million and \$15 million, respectively, to provide CalWORKs child care services. In addition, funding is included as part of the county program grant for Stage I Child Care, in which counties initially place CalWORKs families and continue to provide services until their financial condition stabilizes. The Budget also includes a \$165 million reserve to be used for either DSS or CDE child care providers, as needed.
- ❖ **Performance Incentives**—Recently, the federal government notified the DSS that the State is in violation of the federal Cash Management Act in drawing down federal TANF dollars for fiscal incentive purposes that are not going to be immediately expended by the counties. Under the Cash Management Act, those funds are to remain at the federal level until such time as a state is going to actually expend those funds. The DSS proposes to recover the \$600 million that is expected to remain unexpended by the counties and appropriate \$430.8 million to

counties to be available in 2002-03. The remainder, \$169.2 million, will be used as a funding source in 2002-03 to maintain State CalWORKs funding within available resources.

## **California Food Assistance Program**

The California Food Assistance Program (CFAP) provides food stamp coupons to documented persons who are not eligible for federal food stamps solely because of their immigration status. Many of these persons were formerly eligible for federal food stamps prior to the enactment of the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 which excluded them. The Administration proposes that federal food stamp eligibility for CFAP recipients be restored when Congress reauthorizes the TANF program later this year. Restoring federal eligibility for these persons will result in a General Fund savings of \$35.1 million, which is reflected in the proposed budget for 2002-03.

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

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are projected to be over \$3 billion, an increase of \$207 million, or 7.3 percent, over the 2001 Budget Act level. The increase is the result of caseload growth and cost-of-living adjustments (COLAs).

Program caseload is estimated to increase to 1.1 million recipients in 2002-03, a 1.9 percent increase over the 2001 Budget Act level. The Budget also reflects the full-year effect of a January 1, 2002, COLA.



In January 2003, a 1.8 percent federal COLA will be added to the SSI payment standards based on changes in the Consumer Price Index. This will increase monthly grants for aged/disabled recipients by \$9 to \$759 for an individual and by \$15 to \$1,347 for a couple. The monthly grants for blind recipients will increase by \$9 to \$821 for an individual and by \$15 to \$1,559 for a couple. Given the State's current fiscal constraints, it is proposed that the COLA for the State SSP payment be suspended for an estimated General Fund savings of \$132.2 million.

## **In-Home Supportive Services**

For 2002-03, average monthly caseload is projected to reach 283,600 cases, an increase of 6.5 percent over the 2001 Budget Act. Total In-Home Supportive Services (IHSS) expenditures are projected to be approximately \$2.6 billion (\$1 billion General Fund), an increase of 9.8 percent above the 2001 Budget Act level. This includes an increase of \$77 million (\$31 million General Fund) to fund the full-year cost of the January 2002 minimum wage increase of \$0.50 per hour.

In 2000-01, Administration-sponsored legislation was enacted to provide for state participation in further hourly compensation increases of \$1 over each of the ensuing four years in Public Authority (PA) and non-profit consortium counties. This increase was to be triggered when General Fund revenues increased by at least 5 percent each year since the last rate increase. For 2001-02 the Administration provided a discretionary augmentation for provider rate increases, even though the trigger was not activated. Given the State's current fiscal situation and the fact funding for an increase was provided for 2001-02, no provider rate increase is proposed for 2002-03.



The 2002-03 Budget, includes an increase of \$11.9 million General Fund in 2002-03 to address growth in the estimated number of cases to be served through the PA mode of service delivery and further phase-in by counties of the PA provider rate increases.

The 2002-03 Budget includes a reduction of \$7.8 million General Fund for the non-PA individual provider rate, and assumes that 95 percent of IHSS individual provider caseload would move to the PA mode in 2002-03.

Overall, during its tenure, this Administration has augmented the IHSS program by over \$169 million General Fund, or 32 percent, to provide the State share-of-cost for IHSS provider wage and health benefit increases.

## Children's Services Programs

The child welfare system in California provides assistance payments and services to children who are abused and neglected. The Budget proposes \$3.1 billion (\$1.3 billion General Fund) for these payments and services.

Spending on these programs has grown from \$2.5 billion (\$1.2 billion General Fund) to a proposed level of \$3.1 billion (\$1.3 billion General Fund) for 2002-03, an increase of approximately 24 percent, since 1998-99.

❖ **Child Welfare Services Augmentation**—Consistent with the Administration's goal of better protecting California's vulnerable children, the Budget continues to provide \$120.8 million (\$74.3 million General Fund) for additional county Child Welfare Services (CWS) workers, expressly targeted for emergency response, family reunification, family maintenance, and permanent placement. Since 1998-99, this source of funding

has increased from \$68.4 million (\$40 million General Fund) to a proposed level of \$120.8 million (\$74.3 General Fund) for 2002-03, an increase of approximately 77 percent.

- ❖ **CWS Base Funding Adjustment**—The Budget also provides \$132.7 million (\$62.3 million General Fund) above the level of funding supported by current caseload and caseload standards, to allow counties to maintain higher social worker staffing levels. This represents a \$30.4 million (\$13 million General Fund) increase over the 2001 Budget Act level. This Administration has provided total funding of \$330.2 million (\$145.9 million General Fund) for this purpose since 2000-01.

## Department of Developmental Services

The Budget includes \$2.9 billion (\$2 billion General Fund), an increase of \$159.4 million (\$142.9 million General Fund) above the 2001 Budget Act for programs for the developmentally disabled. This increase reflects an additional 9,675 consumers, for a total estimated caseload of 185,890 consumers. The Developmental Center population is projected to decrease by 50 consumers from 3,710 to 3,660, while the Regional Center population is projected to increase by 9,725 consumers, from 172,505 to 182,230. Under this Administration, the Department's budget increased from \$1.9 billion in 1998-99 to \$2.9 billion in 2002-03 for a total increase of \$959.9 million, or 50 percent, primarily due to caseload and service utilization increases.

## Regional Centers

The 2002-03 Budget includes a net increase of \$148.3 million (\$134.9 million General Fund) for caseload increases and higher service utilization. This includes \$52 million General Fund savings to be achieved through the implementation of statewide standards across the 21 Regional Centers. In a collaborative effort, the

Department, Regional Centers, and stakeholders will seek to maximize the use of the \$2.2 billion provided for the Community Services program, by increasing administrative efficiency and improving the consistency of services provided to consumers throughout the state while maintaining the entitlement guaranteed under the Lanterman Act.

## Department of Mental Health

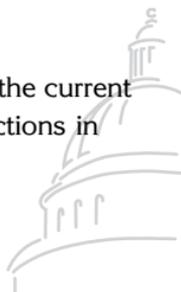
The Budget includes \$2.2 billion (\$943.4 million General Fund), a net increase of \$111.5 million (a reduction of \$28.8 million General Fund) above the 2001 Budget Act, for state mental health hospitals and community mental health programs. The increase reflects higher caseload for the state hospitals and community mental health programs. The Budget also includes reductions of \$42.5 million General Fund in State operations and categorical community mental health programs in response to the current fiscal situation.

The Department's budget for community mental health programs increased from \$938.4 million in 1998-99 to \$1.5 billion proposed for 2002-03, a 60 percent increase, and reflects expanded services for children, new programs for homeless adults, and increased caseloads.

**State Hospitals**—The Budget includes \$607.2 million (\$462.6 million General Fund), a net increase of \$22.6 million (\$32.3 million General Fund) over the 2001 Budget Act, to support a total caseload of 4,900 State hospital commitments, including the Vacaville Psychiatric Program.

**Reductions in Categorical Programs**—In response to the current fiscal situation, the Budget reflects the following reductions in categorical mental health programs:

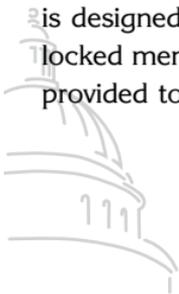
- ❖ \$17.5 million for the Supportive Housing Program.



- ❖ \$12.3 million to eliminate advance payments to counties for mental health services to special education pupils.
- ❖ \$4.2 million to reduce the Children's Systems of Care (CSOC) program, and eliminate the independent evaluation of the program that has continued since the CSOC began as a pilot. The CSOC program is no longer a pilot and has been expanded statewide.
- ❖ \$2.7 million for the East Valley Pavilion Institute for Mental Disease that is no longer in operation.
- ❖ \$1.9 million to eliminate the third and final year of a dual diagnosis pilot project.

**Community Mental Health Services**—The Budget includes \$1.5 billion (\$426.5 million General Fund), a net increase of \$87.8 million (a reduction of \$60.7 million General Fund) over the 2001 Budget Act. The following significant adjustments are included in the 2002-03 Budget:

- ❖ \$133.7 million increase in reimbursements for Early and Periodic Screening, Diagnosis, and Treatment services. This reflects an increase of 31.6 percent in program costs (all fund sources) over the prior year.
- ❖ \$16.7 million increase in reimbursements for Therapeutic Behavioral Services (TBS). This Medi-Cal benefit is an intensive one-on-one, short-term outpatient treatment intervention for children and youth, who are seriously emotionally disturbed. It is designed to prevent placement in group-home settings or locked mental health treatment facilities. The TBS may also be provided to enable children to transition to lower levels-of-care.



- ❖ \$14.1 million General Fund increase for inpatient and outpatient psychiatric services to be provided through the Medi-Cal Managed Care Program to counties for expected higher caseload.
- ❖ \$1.2 million General Fund for the second year of a two-year program to provide a supplemental rate for Community Treatment Facilities.

## **Department of Alcohol and Drug Programs**

The Budget includes \$544.2 million (\$223.2 million General Fund), a decrease of \$99 million (\$20.1 million General Fund) below the 2001 Budget Act, for substance abuse treatment programs. This decrease is primarily the result of the conclusion of one-time programs, reductions due to the decline in the State's economy, and changes in the types of treatment services utilized.

The 2002-03 Budget includes a \$14.8 million General Fund reduction in local programs as part of the statewide effort to address the State's current fiscal situation. The substance abuse programs proposed for reduction include non-Drug Medi-Cal Services, technical assistance contracts, and ending the second-round grants under the Drug Court Partnership program one year early.

## **Employment Development Department**

**Employment Assistance by Faith-Based Organizations**—The Budget continues, for an additional year, an initiative began during this Administration to engage faith-based organizations more directly in the State's effort to deliver employment services. The Budget includes \$4 million for competitive grants to faith-based

organizations that are uniquely suited to provide services to individuals facing multiple barriers inhibiting their assimilation into the workforce.

**Unemployment and Disability Insurance Programs**—In response to the State's current economic slowdown, the Budget provides an augmentation of \$2 billion from the Unemployment Insurance (UI) Fund for additional UI benefits. This additional funding will help job seekers obtain basic necessities while seeking employment. Federally-funded UI administration has also been increased by \$49.5 million for 805 staff to handle the forecasted 16 percent increase in claims. The Budget includes funding for the completion of a new call center to provide better service to claimants needing assistance with the application process. The Budget also augments the State's Disability Insurance (DI) program by \$183.2 million and 52 positions for additional benefits and administrative costs associated with an anticipated 3 percent increase in DI claims.

## Emergency Medical Services Authority

**Trauma Support**—The 2001 Budget Act included a one-time augmentation of \$30 million for the Emergency Medical Services Authority (EMSA) to enhance California's trauma care system. In the November 2001 *Proposed Reduction in 2001-02 Spending* plan, the Administration proposed to revert the entire amount due to the dramatic decline in General Fund revenues. However, the Administration recognizes that trauma centers around the state are experiencing continued financial difficulties. As a result, the Administration proposes the restoration of \$25 million in 2001-02 to partially reimburse trauma centers for the costs associated with uninsured patients. The Administration continues to propose to revert the remaining \$5 million for local trauma system planning, as Local Emergency Medical Service Agencies may apply to EMSA for federally-funded grants for trauma planning.

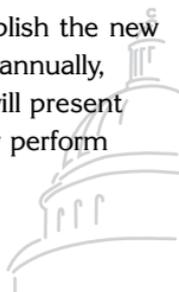
## Department of Rehabilitation

**Vocational Rehabilitation Program**—The Administration continues to place priority on serving persons with disabilities by including in the 2002-03 Budget an increase of \$3.3 million (\$367,000 General Fund) to serve an additional 2,242 clients. Additionally, the Budget proposes to restructure various service delivery business processes to improve operational efficiency. This restructuring will result in savings of \$10.4 million (\$2.5 million General Fund).

**Habilitation Services Work Activity and Supported Employment Programs**—The Budget includes a net increase of \$3.5 million (\$4.6 million General Fund and a reduction of \$1.1 million reimbursements from the Home and Community-Based Services Waiver) for 2002-03 due to caseload increases in these programs. The 2002-03 Budget assumes that the Department will implement a variety of cost containment measures to achieve savings of \$7.3 million (\$5.9 million General Fund). The Budget also contains an additional \$15 million (\$12.8 million General Fund) for 2001-02 to address current year entitlement caseload increases.

## Office of Statewide Health Planning and Development

**Coronary Artery Bypass Graft Outcome Reporting**—The Budget includes an increase of \$1 million California Health Data and Planning Fund, offset by \$138,000 in savings to the Hospital Building Fund, to implement the provisions of Chapter 898, Statutes of 2001. Chapter 898 requires the Office of Statewide Health Planning and Development to develop and publish the new Coronary Artery Bypass Graft (CABG) outcome report annually, beginning July 1, 2002. The CABG outcome report will present risk-adjusted mortality rates for hospitals that regularly perform coronary artery bypass graft surgery.



## Department of Child Support Services

Chapters 478 and 480, Statutes of 1999, established the Department of Child Support Services (DCSS) and authorized implementation of a single statewide child support system comprised of local child support agencies under the direction of the new Department. This reform legislation mandated the transfer of the local child support agencies from County District Attorneys to new local child support agency. To date, 27 counties have transitioned and the remaining 31 counties are scheduled to do so during 2002. The legislation also required that 50 percent of the statewide caseload transfer to DCSS by December 31, 2001. To date, over 62 percent of the statewide caseload has been transferred to the Department.

The 2002-03 Budget proposes total expenditures approximating \$995 million (\$288.5 million General Fund) and 215.3 personnel years.

❖ **County Administration**—Under the new statewide system, the counties will receive federal financial participation and capped federal incentives for administrative expenses, with the remaining share-of-cost funded by State incentive funds up to the amount appropriated in the annual Budget Act. The Budget continues to reflect the Administration's commitment to adequately fund local child support agencies. The Budget proposes expenditures of \$252.2 million General Fund for county administration in 2002-03. The Budget includes a reduction of \$35.3 million General Fund to reflect a realistic estimate of local administrative expenditures for 2002-03; the proposed level of funding reflects a 38 percent increase over actual 2000-01 expenditures.

❖ **Child Support Collections**—In 2002-03, the Department estimates total collections of over \$2.4 billion, including payments to families and collections made in California on

behalf of other states. The General Fund share of assistance collections, which is included in statewide revenue projections, is estimated at \$353.7 million in 2002-03.

- ❖ **Federal Alternative Penalty**—The Federal Family Support Act of 1988 required all states to implement a statewide, automated child support system. To date, California has not instituted a statewide system, and has therefore been subject to significant federal fiscal penalties beginning in 1998-99. The Child Performance and Incentive Act of 1998 allows the Secretary of the Department of Health and Human Services to waive the current penalties and impose an alternative federal penalty if states have made good faith efforts to meet the federal automation requirements. In 2001-02, California will pay an estimated \$157.5 million in alternative federal penalties. The Administration anticipates that federal legislation will be enacted to provide relief from the penalty in 2002-03, for an estimated \$181.3 million in General Fund savings.

## **Mentoring At-Risk Youth**

The Budget continues \$23.4 million (\$22.3 million General Fund, including \$10 million Proposition 98) for various state agencies involved in the mentoring effort. These programs are designed to assist at-risk youth to become productive members of society while reducing juvenile crime, teenage pregnancy, gang association, and the school dropout rate.



## Protecting the Environment

### Resources Agency and California Environmental Protection Agency

The 2002-03 Budget proposes approximately \$5.2 billion for natural resources and environmental protection.

#### Energy

This Administration has provided significant funding to both increase and conserve energy supplies. Over the past three years, funding for siting energy facilities has nearly tripled, and \$770.8 million has been provided to promote energy conservation, including programs to:

- ❖ Improve building and appliance energy efficiency standards.
- ❖ Assist government and businesses to install energy efficient lighting, insulation, and machinery.
- ❖ Provide rebates to energy customers who install energy efficient appliances and renewable energy systems such as windmills and solar panels.

In addition, \$62.5 million is provided annually to public and private entities for research, development, and demonstration activities that promote energy-related technologies, and \$135 million Renewable Resource Trust Fund is made available each year to continue operation and construction of new renewable energy power plants and assist energy customers in purchasing renewable energy.

## **CALFED**

The Budget proposes \$519.3 million for the State's share of CALFED-Bay Delta Program (\$58.9 million General Fund, \$417.0 million bond funds, and \$43.4 million other funds). With this funding, over \$1.5 billion (all funds) has been provided for CALFED over the course of this Administration.

## **Coastal Protection**

The Budget proposes \$32.1 million for the State Coastal Conservancy to continue efforts to protect the California shoreline. The Conservancy preserves, protects, and restores significant coastal resources and related watersheds, and provides public access along California's 1,100-mile shoreline. With this funding, the Administration, since its inception, has provided the Conservancy with nearly half a billion dollars, including \$145.1 million General Fund, \$271.8 million bond funds, and \$76 million other funds. To date, this funding has enabled the Conservancy to acquire 20,000 acres through various State and local agencies to further protect the coastal environment.

## **Lake Tahoe**

The Budget proposes \$25.6 million to continue acquisition, construction, and restoration projects that will further protect air and water quality, preserve and restore wetlands, enhance public access and recreation, preserve fisheries and protect wildlife habitat, and protect scenic resources at Lake Tahoe. With this funding, \$158 million has been provided towards California's total ten-year commitment of \$275.1 million for the Lake Tahoe Environmental Improvement Program.



## River Parkways

The Budget proposes \$10 million from the proposed California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Bond Act, which will be placed before the voters in March 2002 as Proposition 40.

## Clean Air

During this Administration, over \$98 million has been expended for programs to reduce diesel emissions, \$50 million for the replacement and retrofit of diesel school buses, and \$41 million for zero-emission and low-emission vehicles.

## Clean Water

Over four years, including the proposed 2002-03 Budget, the Administration has provided:

- ❖ \$38 million for Total Maximum Daily Load (TMDL) development, which is critical to determining the extent of pollution in water bodies and identifying measures to ensure that standards are not exceeded.
- ❖ \$34 million for the Clean Beaches Initiative to reduce the number of beach closure days.
- ❖ \$3 million to investigate and clean up water supplies contaminated by Methyl Tertiary Butyl Ether (MTBE) and Chromium 6.
- ❖ \$32 million to control contaminants in storm water runoff.
- ❖ \$4.7 million to establish Public Health Goals for the safe level of chemicals in drinking water.

## **Hazardous Waste**

Over the same four-year period, the Administration has provided \$10 million for oversight and remediation actions at potential school sites contaminated with hazardous waste, and \$8 million for the Cleanup Loans and Environmental Assistance to Neighborhoods program to encourage cleanup and development of urban brownfield properties. In addition, \$114.5 million was provided in 2001-02 for a settlement with the federal government for the Stringfellow and Casmalia hazardous waste sites.

## **Reductions**

In light of current General Fund constraints, the Budget reflects a total General Fund reduction of \$111.5 million for the Resources (\$99.7 million) and Cal-EPA (\$11.8 million) Agencies. Significant reductions include:

- ❖ \$21.1 million for various CALFED activities.
- ❖ \$3.1 million by eliminating oil royalty grants to coastal counties.
- ❖ \$4.4 million for stationary source programs in the Air Resources Board.

In addition, a total of \$66.8 million General Fund was saved by using other fund sources for various programs (\$43.3 million in Resources Agency and \$23.5 million in Cal-EPA).



## Consumer Protection

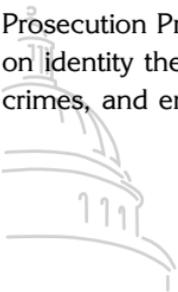
### Stopping Predatory Financial Practices

**Regulation and Enforcement**—The Budget provides funding to the Department of Financial Institutions and the Department of Real Estate to implement the provisions of Chapter 731, Statutes of 2001. Chapter 731 prohibits predatory lending practices and gives the departments that regulate lending activities effective enforcement powers. In addition, the Budget includes \$606,000 for the Department of Justice to investigate and prosecute lenders in the sub-prime lending market that use abusive and unlawful tactics to induce high-risk borrowers or low-income consumers to take out high cost loans on their homes.

**Outreach and Education**—The Budget provides \$10 million for the Department of Corporations to conduct a statewide outreach and education campaign to help vulnerable populations protect themselves from predatory financing, lending, and investments, and to increase related investigation and enforcement activities.

### Consumer Privacy and Identity Protection

**Identity Theft**—The Budget continues to provide \$3.3 million to the five state task forces funded through the Office of Criminal Justice Planning's High Technology Theft Apprehension and Prosecution Program to train law enforcement officers and agents on identity theft, develop protocols for handling identity theft crimes, and enhance interagency coordination efforts.



**Privacy Protection**—The Budget includes \$1.1 million for the Department of Consumer Affairs Office of Privacy Protection to coordinate with local, state, and federal law enforcement efforts related to identity theft and privacy-related criminal investigations, and to operate telephone and website resource and referral services.

**Telemarketers' 'Do Not Call' List**— Pursuant to the enactment of Chapter 695, Statutes of 2001, the Department of Justice will begin to create and maintain a "Do Not Call" list of telephone subscribers who do not wish to receive unsolicited and unwanted calls from telephone solicitors. This program will allow California consumers to remove their phone numbers from call lists, and provide protection to those consumers who may be vulnerable to unscrupulous sales calls and ensure privacy for California's citizens.

## **Managed Health Care Reform**

The Department of Managed Health Care was created as one of the major health care reforms of 2000. Since its formation in 2000-01, the Department has increased spending for consumer protection by 111 percent over the former level of spending. Major additions include: the Office of Patient Advocate and the health maintenance organization (HMO) report card (\$2 million), creation of the independent medical review process (\$3.7 million), expanded enforcement staffing (\$1.1 million), and expansion of financial monitoring of HMOs (\$834,000).

**HMO Report Card**—The Budget includes an augmentation of \$500,000 for the annual HMO Report Card published by the Office of Patient Advocate. The Office will expand reporting to medical group performance, add cultural/linguistic indicators and more language interaction, and analyze HMO complaint data.

**Preventing Plan Financial Failures**—The Budget also adds \$234,000 to increase the frequency of routine exams for specialized health care plans from five to three years, in order to identify financially troubled firms more quickly and take corrective action.

**Major Reforms**—This Administration enacted major managed care reforms, including the following:

- ❖ Review of coverage decisions by an independent group of medical experts.
- ❖ Limited right to sue for damages in court.
- ❖ Second opinions upon request by the patient.
- ❖ Cancer screening tests covered.
- ❖ Treatment of severe mental health illnesses given parity to physical health coverage.
- ❖ Allowing patients to continue mental health treatment with an existing doctor during transitions to new plans.
- ❖ Hospice care covered.
- ❖ Allowing off-label use of drugs for a chronic and seriously debilitating condition.





## Business, Transportation, & Housing

### Transportation Programs

The 2002-03 Budget provides over \$11.2 billion for transportation programs, including \$2.6 billion for programs that assist local governments in constructing and operating highway, road, and transit systems, and \$3.5 billion for capital projects for state highways and intercity rail.

### Traffic Congestion Relief Program

Legislation enacted in 2000 and modified in 2001 created an eight-year funding plan that dedicates a total of \$8.1 billion from the General Fund to support transportation programs. The Budget preserves this substantial new commitment, as follows:

- ❖ \$4.9 billion for 142 designated transportation projects that will relieve traffic congestion and improve goods movement. The Budget reflects spending of \$1.4 billion on these projects in 2001-02 and 2002-03.
- ❖ \$1.3 billion over six years to cities and counties to repair local streets and roads. The Budget includes \$306 million for this purpose in 2001-02 and 2002-03.
- ❖ \$1.3 billion over five years for State Transportation Improvement Program (STIP) projects to be selected in the next two STIP planning cycles.
- ❖ \$556 million over five years for local transit and intercity rail operations and mass transportation capital projects.



In addition, the Budget includes the following significant increases for Caltrans:

- ❖ \$77 million for Caltrans to plan and deliver a series of major information technology projects supporting integrated systems of financial management, local project management, land management, and construction contract payments.
- ❖ \$23.4 million and 167.5 personnel years to implement new activities required by the Storm Water Management Plan and to comply with the requirements of the federal Clean Water Act. With this increase, the Budget includes a total of \$84.9 million in support costs for storm water clean-up.
- ❖ \$10 million to continue Caltrans' program of retrofitting diesel vehicles to use cleaner-burning fuels and increasing the number of vehicles using propane.

## **Motor Vehicle Account**

The Motor Vehicle Account (MVA) is the major funding source for the California Highway Patrol (CHP) and the Department of Motor Vehicles (DMV). In recent years, the State's retirement system was able to fund the cost of the California Highway Patrol's retirement plan entirely from its investment earnings. With the stock market decline, CHP retirement rates have been increased and, as a result, costs to the MVA have increased. In addition, other employee costs are scheduled to increase over the next few years.

To help balance the Account, the CHP, Department of Motor Vehicles, and Air Resources Board have reduced their MVA-funded programs in this Budget for a total savings of \$32.1 million. The CHP's share of this total is \$8.5 million, including savings in vehicle purchase and fuel costs, reductions in operating expenses, and temporary deferrals of equipment and facility repairs. The Air Resources Board reduced \$10.5 million of spending on various air

testing and equipment emissions testing projects and reduced assistance to local air districts. DMV's reductions are summarized below.

Additionally, the Budget also proposes changes to penalties and fees to help resolve the Motor Vehicle Account balance problem as follows:

- ❖ \$25 million from increasing penalties by an average of 90 percent for late payments of the vehicle registration fee.
- ❖ \$2 million from increasing filing fees to the \$120 cost of the hearing for driving-under-the-influence (DUI) offenders who appeal their suspensions.
- ❖ \$40 million from increasing fees to \$4 per record for information provided to insurers and others who request driver record information.

## **Department of Motor Vehicles**

The 2002-03 Governor's Budget proposes \$666.7 million and 8,602 personnel years for support of the DMV, including the following significant augmentations:

- ❖ \$15.5 million for retirement and workers' compensation cost increases.
- ❖ \$2.5 million to continue the replacement of obsolete terminals in field offices.
- ❖ \$2 million to finish a two-year project by installing queuing systems in 33 additional field offices for improved management of customer lines.

To minimize the financial pressure on the Motor Vehicle Account, the Department's budget has been reduced by a total of \$17.7 million including the following:

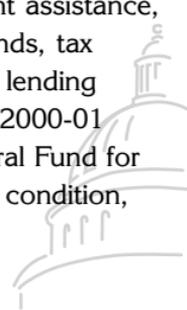
- ❖ \$7.1 million by reducing operating expenses including costs of printing and facility repairs.
- ❖ \$3.2 million in savings due to increasing the automated processing of registration transactions.
- ❖ \$2.5 million by eliminating certain specialized support units and staff for special projects.
- ❖ \$5 million by eliminating the use of certified mail for notices of suspension or revocation.

### **Housing and Community Development Programs**

The Budget proposes \$210.1 million for the Department of Housing and Community Development's activities including:

- ❖ \$14 million for the Farmworker Housing grant and loan program, 223 percent more than the program's 1999-00 funding level.
- ❖ \$11.3 million for Emergency Shelter grants, 211 percent more than the program's 1998-99 funding level.

In past years, funding for housing programs, such as multi-family housing loans, downtown housing, and down payment assistance, was primarily provided through general obligation bonds, tax credits, and the California Housing Finance Agency's lending programs. The increase in General Fund revenues in 2000-01 allowed over \$370 million of spending from the General Fund for housing programs. Due to the current General Fund condition,



the Budget includes reductions from this historically high funding level for such programs in anticipation of the passage of a housing bond in 2002.

Reductions include:

- ❖ \$29.5 million for the Multifamily Housing program (cumulatively \$177 million has been provided for this program over the course of this Administration).
- ❖ \$3.6 million for Farmworker Housing grants (cumulatively \$83.4 million) has been provided.
- ❖ \$3 million for Downtown Rebound Project loans and grants. This program received \$25 million in 2000-01.
- ❖ \$2.1 million for the Self-Help Housing program (cumulatively \$6.2 million) has been provided.
- ❖ \$2 million for Emergency Housing Assistance grants (cumulatively \$67.6 million) has been provided.

In addition, the following transfers to the General Fund are proposed:

- ❖ \$59.6 million from Jobs-Housing Balance Improvement incentive grants in 2001-02.
- ❖ \$1.4 million from childcare facilities loan guarantees.





## Technology, Trade, and Commerce

The Budget proposes \$254.9 million and 320.8 personnel years for the Agency, with services to the business community provided through the Divisions of Economic Development; International Trade and Investment; Science, Technology and Innovation; Tourism; Marketing and Communications; and the California Infrastructure and Economic Development Bank.

In 2002-03, the California Infrastructure and Economic Development Bank expects to authorize \$150 million in economic development loans. Although the Bank will use nearly all of its original capital in 2001-02, lending capacity will be restored by issuing a revenue bond backed by the existing loan portfolio.

Due to General Fund constraints, the Budget includes the following reductions:

- ❖ \$29.9 million reversion of the balance of the Renewable Energy Loan Guarantee Fund to the General Fund
- ❖ \$2 million from the Biomass Grants Program, maintaining \$6 million to support this program.
- ❖ \$600,000 from the Manufacturing Technology Program, preserving \$5.4 million or 90 percent of the funding for activities that assist manufacturers to adopt new production technology.
- ❖ \$1 million each from the Next Generation Internet Program and the Rural E-commerce Grant Program, maintaining half of the third-year funding for each program.

- ❖ \$10 million from the Small Business Loan Guarantee Program, leaving \$29.5 million to guarantee about \$131 million in loans, an increase of \$35 million over the current lending level.
- ❖ \$8.4 million from the Export Finance Loan Guarantee Program.

The Budget includes \$1 million to support the commercial uses of space flight and retains full funding of \$6.1 million for the California Technology Improvement Program (CaTIP) and \$10 million for the Film California First Program. To better support the film industry, the Administration is proposing to restructure the program to improve performance.



## General Government

### Department of General Services

The 2002-03 Budget includes total expenditures of \$853.5 million (\$23 million General Fund) for the Department of General Services. This amount includes a \$2.5 million General Fund reduction for the eBusiness Center and the Asbestos Abatement Program. In addition, the Budget proposes the following augmentations for 2002-03:

**Enhanced Emergency Telephone Services**—\$10.4 million from the State Emergency Telephone Number Account (SETNA) to reimburse local service providers for equipment, network, and database costs associated with providing enhanced emergency telephone services to landline telephone users in California. The Budget also includes \$40 million SETNA to reimburse service providers for costs associated with implementing the enhanced wireless 911 Program.

**California Portal**—\$5.8 million General Fund to support increased functionality and enhanced operation of the California Portal ([www.my.ca.gov](http://www.my.ca.gov)). The Portal now serves an average of 2.6 million people daily, in comparison to 300,000 in January 2001. Individuals can interact with State government to reserve a State park campsite, register an automobile, apply for a professional license, check road conditions, find a job, and more.

**Asset Planning and Enhancement**—\$2 million in 2001-02 and \$1.4 million in 2002-03 (Property Acquisition Law Money Account) for consultant services to assist in the accelerated sale of surplus State property, which is estimated to generate at least \$85 million in additional General Fund revenue in the budget year.

## Office of Emergency Services

**State Strategic Committee on Terrorism**—The Budget includes \$562,000 and three personnel years in 2002-03 for support and coordination of the State Strategic Committee on Terrorism (SSCOT), which was established to address and carry out emergency preparedness and response and recovery activities related to acts of terrorism. This augmentation will provide OES with the necessary resources to coordinate federal, state, and local anti-terrorism programs; conduct assessments of the risks associated with terrorist threats; and provide support to the existing statewide regional mutual aid anti-terrorism working groups.

## Military Department

The 2002-03 Budget proposes a total of \$95.9 million for the Military Department, which includes the following:

- ❖ \$3.9 million federal funds in 2001-02 and \$6 million federal funds in 2002-03 to support the cost of providing military security support at the Golden Gate, San Francisco-Oakland Bay, Vincent Thomas, and Coronado Bridges in response to the terrorist acts of September 11, 2001.
- ❖ \$3 million General Fund to continue the operation of the Turning Point Academy, which is a reduction of \$4.4 million from the baseline funding level for this program. This reduced expenditure level for the budget year is based on lower projected cadet enrollment.



The Budget also includes the following reductions:

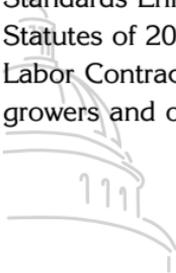
- ❖ \$1 million for the Army Division Armory Maintenance program.
- ❖ \$155,000 for the Youth Programs Division.
- ❖ \$247,000 for the California Cadet Corps program.

## Department of Industrial Relations

The 2002-03 Budget includes total expenditures of \$258.7 million (\$155.5 million General Fund) for the Department of Industrial Relations (DIR). In light of General Fund constraints, the Budget also proposes the following augmentations for:

**Workers' Compensation Studies**—\$1.2 million for the Commission on Health and Safety and Workers' Compensation to conduct three new research projects related to the improvement of the workers' compensation permanent disability system and benefits. These proposed projects will analyze the use of social welfare programs by injured workers, determine the adequacy of future medical payments, and measure the full employer cost associated with injuries.

**Farm Labor Contractor License Verification and Enforcement**—\$354,000 and four personnel years for the Division of Labor Standards Enforcement to implement Chapters 147 and 157, Statutes of 2001. Chapter 157 required the establishment of Farm Labor Contractor Verification and Enforcement Units to assist growers and other contractors with license verifications, and to



enforce farm labor licensing requirements. Chapter 147 expanded the types of payments that can be made from the Farmworkers' Remedial Account.

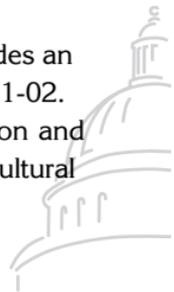
**Occupational Safety and Health Appeals Board**—\$331,000 and four personnel years for the Occupational Safety and Health Appeals Board to address increases in employer appeals of citations. This proposal will ensure that adjudication of citations is maintained at a level that will provide health and safety protection for workers and an efficient and fair process for employers.

In light of the General Fund constraints, the Budget also includes a reduction of \$17.4 million General Fund, primarily in the Division of Workers' Compensation and departmental administration. General Fund savings is also achieved by using special funds where possible in the Division of Occupational Safety and Health and for the payment of wage claims. The DIR's worker safety, labor standards, and job training programs are not affected by the proposed reductions, and existing services to the public are not expected to be affected significantly.

## Department of Food and Agriculture

The 2002-03 Budget includes \$259 million for the Department of Food and Agriculture, including \$103 million General Fund.

**Specialty Crop Support Program**—The Budget includes an augmentation of \$63.8 million in federal funds in 2001-02. Proposed uses include the support of market promotion and development programs such as "Buy California," agricultural



research and pest management, and competitive grants in areas such as food safety, consumer education, and nutrition (including school nutrition).

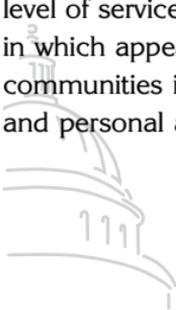
**Plant Pest Prevention Comprehensive Strategy**—The Budget continues \$11 million General Fund for the Plant Pest Prevention Comprehensive Strategy to reduce the growing threat to California from invasive pests.

**Microbiological Data Program**—The Budget includes \$700,000 in federal funds for California to participate in a new federal program testing fresh fruits and vegetables for contaminants at the retail sale level.

## California Victims Compensation and Government Claims Board

The 2002-03 Budget includes total expenditures of \$155.4 million for the California Victims Compensation and Government Claims Board and proposes the following augmentations:

**Hearing Officers**—A redirection of \$468,000 (Restitution Fund) and five personnel years to implement the use of hearing officers in its victims of crime program. The hearing officers will improve the level of services provided to victims by accelerating the timeframes in which appeals can be heard and resolved, traveling to the communities in which victims reside, and offering additional privacy and personal attention to victims during the appeals process.



**Claims Review Units**—\$966,000 (Restitution Fund) to establish Claims Review Units within the Joint Powers Authority (JPA) counties that administer the victims of crime program locally. This augmentation will ensure the continued allocation of federal funding by providing for the implementation of audit findings resulting from a federal review of the JPAs' claims process.

The Budget also reflects a reduction of \$94,000 General Fund and one personnel year for the Government Claims Program.

## **Local Mandate Funding**

**A**rticle XIII B, Section 6 of the California Constitution requires the State to reimburse local governments for their costs whenever the Legislature or any State agency mandates a new program or higher level of service on any local government entity. The 2001 Budget Act includes \$18 million to fund deficient appropriations for reimbursable state-mandated local programs that are anticipated to be funded in the 2002 Mandates Claims Bill. An additional \$30 million is provided for 2002-03.



## Judicial Branch

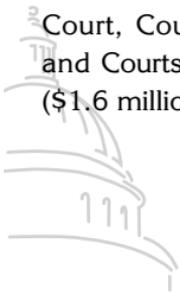
The 2002-03 Budget includes a total of \$2.8 billion (\$1.6 billion General Fund) for the Judicial Branch:

(Dollars in Millions)

	Total	General Fund
State Judiciary	\$350	\$295
State Trial Court Funding	2,211	1,207
Commission on Judicial Performance	4	4
Judges' Retirement Costs	231	117

For the Judiciary, the 2002-03 Budget reflects total expenditures of \$350 million. Specifically the Judiciary's Budget includes the following adjustments:

- ❖ \$211,000 for two human resource positions to provide expertise in labor relations at the Administrative Office of the Courts (AOC).
- ❖ \$286,000 for two attorney positions at the AOC Regional Offices.
- ❖ \$122,000 for additional security for the Courts of Appeal.
- ❖ General Fund savings of \$7.7 million in fiscal year 2001-02 associated with current vacancies (\$4.6 million), Supreme Court, Court Appointed Counsel workload (\$1.5 million), and Courts of Appeal, Court Appointed Counsel workload (\$1.6 million).



- ❖ General Fund reduction of \$3.9 million in fiscal year 2002-03 associated with anticipated vacancies (\$2.9 million) and Supreme Court, Court Appointed Counsel workload (\$1 million).

Over the course of this Administration, expenditures for the State Judiciary have increased by approximately \$96 million.

For State Trial Court Funding, the 2002-03 budget reflects total expenditures of \$2.2 billion. For the trial courts, the Budget includes the following adjustments:

- ❖ \$23.2 million in fiscal year 2001-02 and \$51.7 million in fiscal year 2002-03 to meet various needs of the trial courts, including salary increases resulting from local memoranda of understanding with recognized bargaining agents.
- ❖ \$14.4 million for increased costs associated with county-provided services and benefits, such as janitorial services, mail services, workers' compensation benefits, and employer retirement contribution rates.
- ❖ \$13.4 million for increased costs associated with providing security at trial court facilities.
- ❖ \$2.3 million for increased costs associated with providing court interpreters to assist non-English speaking defendants in trial court proceedings.
- ❖ \$802,000 for Family and Children services, including case processing and mediators, investigators, and evaluators in a variety of courts.
- ❖ General Fund savings of \$28.3 million in fiscal year 2001-02 associated with delayed implementation of new jury reform programs (\$7.3 million), judicial vacancies at the trial courts

(\$8.5 million), and funding costs for technology asset management and security from the Trial Court Improvement Fund (\$12.5 million).

- ❖ General Fund reduction of \$37.8 million in fiscal year 2002-03 associated with delaying implementation of new jury reform programs (\$7.2 million), reducing the operating budget for each trial court by varying amounts (\$23.2 million), and funding one-time costs for technology asset management from the Trial Court Improvement Fund (\$7.4 million).
- ❖ A transfer of \$28.1 million from the Trial Court Improvement Fund to the General Fund on a one-time basis.

Over the course of this Administration, expenditures for State Trial Court Funding have increased by approximately \$554 million.

## **Criminal Fines and Civil Filing Fees**

The Administration proposes to add surcharges of 20 percent on all criminal fines and 10 percent on civil filing fees, with the proceeds going to the General Fund. These surcharges will increase General Fund revenue by \$45.8 million and \$15 million, respectively.





## State-Local Assistance

In spite of the current fiscal environment, the 2002-03 Governor's Budget continues the Administration's efforts to support high priority programs of mutual concern to the State and local governments in the areas of public safety, health and human services, housing, transportation, and resources, as described below. The Budget includes full reimbursement to local governments for the vehicle license fee offset program, totaling \$3.7 billion.

Since 1999-00, this Administration has made a substantial fiscal commitment to local governments. The general order of magnitude of this assistance is discussed below. Cumulative data include proposed 2002-03 funding.

### Public Safety

- ❖ **Citizens' Option for Public Safety (COPS) and Juvenile Crime Prevention Programs**—\$232.6 million in 2002-03 to fund the COPS program (\$116.3 million) and county juvenile crime prevention programs (\$116.3 million). Cumulatively, \$807.8 million has been provided for the COPS and Juvenile Crime Prevention programs over the course of this Administration.
- ❖ **Technology Grants for Local Law Enforcement**—\$35.4 million in 2002-03 for local law enforcement agencies to purchase high-technology equipment for crime prevention and suppression (\$145.8 million cumulatively).



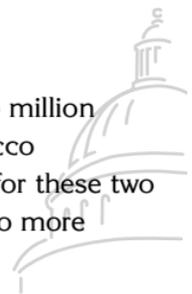
- ❖ **Fighting High Technology Crime and Identity Theft—** \$13.5 million in 2002-03 for these programs (\$33.6 million cumulatively). These programs consist of five task forces that use specialized techniques to apprehend and prosecute offenders of high technology crimes and identity theft.
- ❖ **War on Methamphetamine.** \$15 million for disbursement to High Intensity Drug Trafficking Areas (HIDTAs) throughout the State (\$45 million cumulatively).
- ❖ **Booking Fees.** \$38 million to reimburse cities for the booking fees they pay to counties (\$151 million cumulatively).
- ❖ **Rural and Small County Law Enforcement.** \$18.5 million in 2002-03 for \$500,000 grants to county sheriffs of 37 small and rural counties (\$37 million cumulatively).
- ❖ **Other programs.** \$100.3 million for other public safety programs that benefit local governments (\$349.6 million cumulatively), including peace officer training, gang violence suppression, and rural crime prevention programs, and other programs.

## **Trial Court Funding**

- ❖ In 2002-03, the State is responsible for approximately 79 percent of trial court funding costs, freeing up over \$400 million in general purpose revenue to counties (\$4.5 billion cumulatively).

## **Health Services Programs**

- ❖ **Healthy Families and Medi-Cal Programs.** \$801.6 million (\$285.8 million General Fund, \$97.6 million Tobacco Settlement Fund) to fund the expansions enacted for these two programs. These enhancements provide services to more

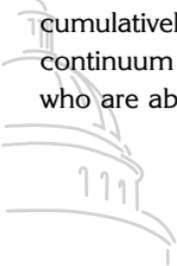


medically needy individuals, and provide significant fiscal relief to counties. With this funding, over \$1.2 billion has been provided for these purposes over the last two years by this Administration. Additionally, over the course of this Administration, approximately \$2.4 billion in total funds has been provided to expand the Healthy Families Program.

- ❖ **Community Health Programs.** \$2.5 billion (all funds) in ongoing local assistance in 2002-03 for various community health programs, including the following:
  - ❖ \$1.5 billion for community mental health services. With this funding, \$5.1 billion has been provided for community-based inpatient and outpatient mental health services over the course of this Administration.
  - ❖ \$506.3 million for local substance abuse prevention and treatment services. Including the proposed 2002-03 Budget, \$2 billion has been provided for community- and school-based substance abuse prevention and treatment programs over the course of this Administration.
  - ❖ \$112 million for other programs including Integrated Services for Homeless Adults, the Children's and Adult Systems of Care, programs and supportive housing (\$466.3 million cumulatively).

## Human Services Programs

- ❖ \$462.2 million for Child Welfare Services (\$1.6 billion cumulatively). The child welfare system in California provides a continuum of services through various programs to children who are abused or neglected.



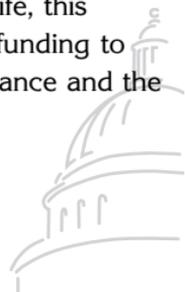
- ❖ \$65.8 million for Adult Protective Services (\$255 million cumulatively), which investigates abuse, neglect, or exploitation of elderly or dependent adults. Services include a 24-hour emergency response system, emergency shelter, food, transportation, and in-home protective care.
- ❖ \$60.4 million General Fund for the Statewide Automated Welfare System (\$175.1 million cumulatively), which automates welfare eligibility processes and administrative functions performed by counties for the CalWORKs, Medi-Cal, Foster Care, Refugee, and County Medical Services programs.

## Transportation

- ❖ \$607.7 million in 2002-03 for traditional transportation programs funded primarily from fuel taxes (\$2.9 billion cumulatively).
- ❖ \$286 million in 2002-03 for capital outlay projects selected by local agencies. These funds will result in a federal match estimated at \$637 million in 2002-03, for a total of \$923 million for high priority local projects (\$3.6 billion cumulatively).

Since 1999-00, the Administration has provided over \$5.2 billion in State funding and over \$4.4 billion in federal funds to support local transportation needs.

The Administration also sponsored an eight-year commitment for increased funding for transportation that began in 2000-01 with \$2 billion from the General Fund. Over its eight-year life, this transportation initiative will provide over \$8 billion in funding to benefit communities for local street and road maintenance and the Traffic Congestion Relief Program.



## Resources and Environmental Protection

- ❖ \$134.1 million for resource and environmental programs, including wastewater treatment facility loans, recycling programs and reduction of waste tire stockpiles, and assistance to local air pollution control boards (\$783 million cumulatively)

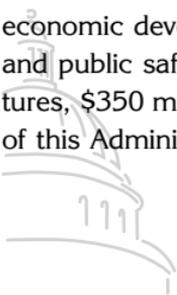
Other Resources funding provided to local government since 1999-00 includes:

- ❖ \$2.1 billion for the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000.
- ❖ \$1.9 billion for the Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Act of 2000.
- ❖ \$215.1 million for flood control project subventions.

Additionally, the Administration is supporting the California Clean Water, Clean Air, Safe Neighborhood, Parks, and Coastal Protection Bond Act on the March 2002 ballot, which will provide assistance to local entities.

## Community Development

**Infrastructure Bank**—The Budget provides ongoing assistance in 2002-03 of \$150 million for loans to local government agencies from the California Infrastructure and Economic Development Bank within the Technology, Trade, and Commerce Agency for a variety of economic development projects, such as water treatment facilities and public safety facilities. With the planned 2002-03 expenditures, \$350 million in loans will have been provided over the course of this Administration.



**Housing and Community Development**—Since 1999-00, the Administration has supported over \$500 million in housing program expenditures from the General Fund that benefited communities throughout the state, including, but not limited to, the following:

- ❖ \$177 million for multifamily housing loans, and \$82 million for homeownership assistance.
- ❖ \$25 million for creation of housing in downtowns, and \$83 million for farmworker housing.
- ❖ \$27 million for Central Valley Infrastructure grants and other grants.

## **Public Libraries**

- ❖ \$66.3 million to provide library services, including the Public Library Foundation Program and other programs that provide literacy and pre-literacy services for adults and children and that recruit and train tutors (\$298 million cumulatively).
- ❖ \$350 million from the California Library Construction Bond Act.

## **Other Funding**

- ❖ The State provided local governments with one-time discretionary funding of \$150 million in 1999-00 and \$212 million in 2000-01.



## Capital Outlay

The Budget includes \$1.235 billion for the capital outlay program, not including funding for transportation, K-12 schools, and State conservancies. The General Fund contributes \$43.9 million of the total; \$455.6 million is proposed from lease-revenue bonds; and \$495.4 million is from a proposed education bond for higher education facilities.

In addition, the Administration is sponsoring an Economic Stimulus Package that will propose \$678.3 million from lease-revenue bonds to accelerate capital outlay projects to stimulate the creation of additional jobs.

The Budget includes:

- ❖ \$514.5 million in 1998 Higher Education Capital Outlay Bond Fund; and proposed general obligation bonds for numerous construction projects for the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC).
- ❖ \$96.9 million (\$19.1 million lease revenue-bonds and \$77.8 million from non-state sources) for Phase II of the California Science Center. The project is a four-story addition to the existing Science Center, which combines science exhibits with live animal exhibits, including a two-story reef tank.
- ❖ \$72.6 million in lease revenue-bonds to replace the Caltrans San Diego District Office Building.



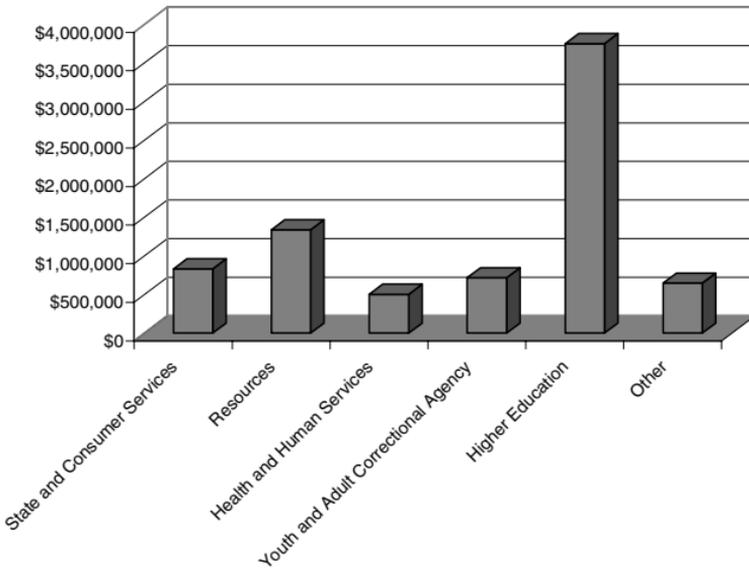
- ❖ \$52.4 million in lease revenue bonds to replace and renovate various facilities for the Department of Forestry and Fire Protection (CDF).
- ❖ \$12.1 million Motor Vehicle Account to replace California Highway Patrol offices in Williams, Monterey and South Lake Tahoe.
- ❖ \$9.5 million General Fund for the Military Department for two new armories as well as various security projects.

The Economic Stimulus Package includes:

- ❖ \$279.0 million for several UC projects including Veterinary Medicine 3A at the Davis campus, Natural Science Unit 2 at the Irvine campus, and Infrastructure Phase 2 at the proposed Merced site.
- ❖ \$191.3 million for three CSU projects, including replacement of Physical Sciences classrooms and laboratories at the Los Angeles campus.
- ❖ \$170.5 million for several CCC projects, including academic buildings at the Los Rios Folsom Lake Center, Math and Science replacement classrooms at Citrus College, and Science classrooms and laboratories at Mendocino College.
- ❖ \$7.0 million to replace aging fire stations for the CDF.



**Total Capital Outlay Funding For 1999-2002 By Agency**  
 (\$ in thousands)



- ❖ Over the course of this Administration \$7.3 billion has been appropriated for capital outlay projects.





## Statewide Issues

### Controlling the Growth of State Government

The Administration remains committed to controlling the growth of State government and maximizing the use of existing personnel to meet the service demands of the citizens of the state. It has made a concerted effort to contain the growth of State government and to reduce the number of excess vacant positions in State service. For the 2000-01 and 2001-02 Budgets, the Administration eliminated 6,600 vacancies.

The next phase of the Administration's effort to reduce excess vacancies will consist of the following four actions:

- ❖ Review 11 of the original 29 large departments earlier reviewed that still experienced problems with excess vacancies in 2000-01.
- ❖ Examine vacant positions in 25 departments that have from 75 to 300 personnel years and have not yet been reviewed.
- ❖ Determine the feasibility of a law change that would eliminate positions continuously vacant for six months, regardless of fiscal year.
- ❖ Review departments that have problems with excess vacancies in 2001-02.



## Employee Compensation

The Administration successfully negotiated Memoranda of Understanding (MOUs) with 15 of the 21 Collective Bargaining Units (Units). The Administration is continuing negotiations with the remaining 6 Units without MOUs. Generally, for excluded employees, the Administration authorized salary and benefit adjustments similar to those provided to corresponding represented employees. The Budget includes \$64.3 million (\$41.8 million General Fund) in 2001-02 and \$209.7 million (\$130 million General Fund) in 2002-03 for employee compensation adjustments. Approximately one-half of the ongoing cost for employee compensation is attributable to increases in the employer's maximum monthly contribution for health benefits.

## Hiring Freeze

In response to the State's continuing fiscal difficulties, the Governor issued Executive Order D-48-01 in October 2001, requiring State agencies and departments to implement a hiring freeze through June 2003. The hiring freeze prohibits the use of new hires to fill State positions, excluding specified positions. The hiring freeze is estimated to result in General Fund savings of up to \$13 million in 2001-02 and \$20 million in 2002-03.



## State Teachers' Retirement System

The Budget proposes to defer General Fund contributions to the State Teachers Retirement System (STRS), resulting in reduced General Fund expenditures of approximately \$96.2 million in 2001-02, \$411.7 million in 2002-03, and \$440.5 million in 2003-04. In exchange, contributions to STRS' Defined Benefit Supplement accounts (separate tax-deferred accounts) would be increased.

## California Public Employees' Retirement System

The Budget reflects a proposal to defer most of the State's and school's 2002-03 contributions to the California Public Employees' Retirement System (CalPERS) in exchange for providing a higher level of purchasing power protection for State and school retirees. The agreement will result in a net General Fund reduction of \$371.4 million in 2002-03 and \$123.8 million in 2003-04.

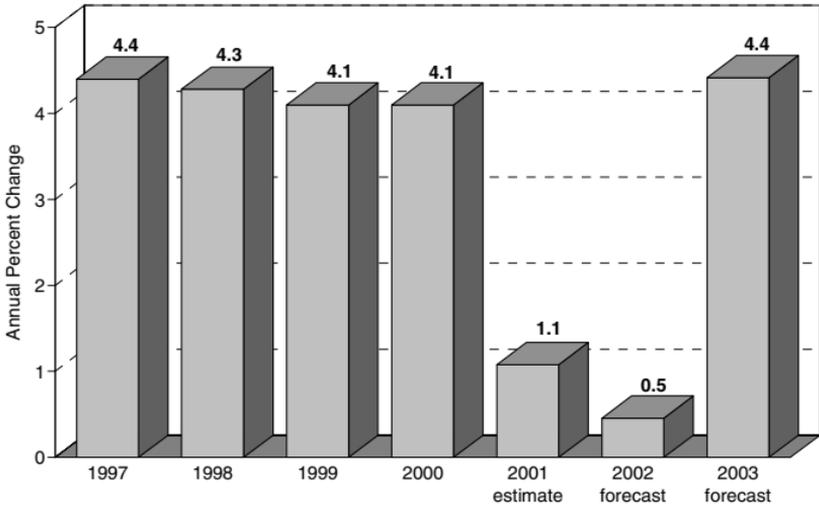
The Administration has proposed the STRS and CalPERS actions because of the difficult economic conditions of the state. However, should the May Revision to the Budget show an improvement in the state's economic conditions, or if less-costly alternatives can be developed, the Administration will reconsider these proposals.





## Economic Outlook

Growth in Real Gross Domestic Product



The national and California economies slowed in 2001, with the national economy slipping into recession in March. Tax cuts, increased federal government spending, and easier monetary policy buffered the slowdowns and will help bring about a rebound in the growth of both economies by midyear 2002.

### The Nation

- ❖ U.S. real gross domestic product (GDP) is expected to begin growing again by the second quarter of 2002. Full-year growth should be close to 0.5 percent. This is far below the over 4 percent annual growth rates achieved from 1997 through 2000, and even below the approximately 1 percent rate for 2001. National unemployment, which reached 5.7 percent in November 2001, should peak in the third quarter of 2002 at 6.3 percent. Moderate energy prices and the slack economy should push consumer price inflation below 2 percent in 2002.

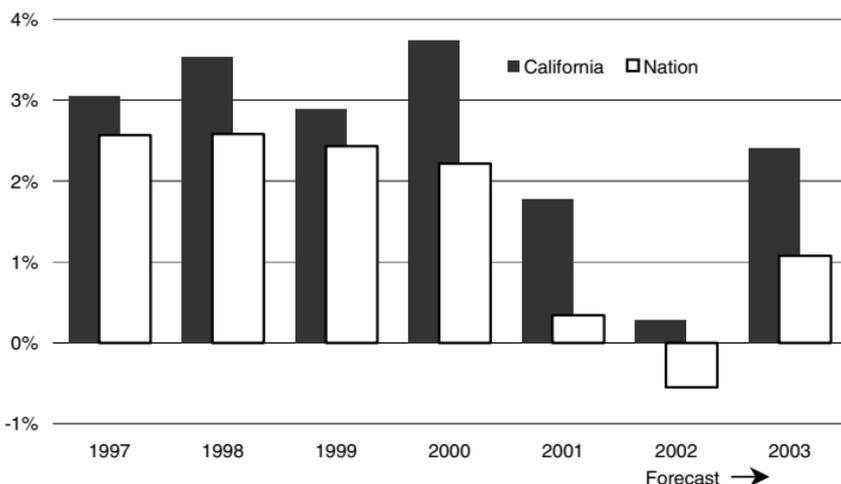
2002-03

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- ❖ Low interest rates, moderate energy prices, and expansive fiscal policy will boost the economy in 2002. A delayed recovery in capital spending and cutbacks in state and local government spending will temper the recovery.
- ❖ The major risks to the outlook are consumers losing confidence before the economy begins to turn around and a protraction of the high-tech recession.

**Nonfarm Payroll Employment  
Annual Average Percent Growth**



## California

- ❖ Although it held up better than the national economy, California's economy also slowed in 2001. Job growth fell to 1.8 percent from 3.7 percent in 2000. The state's job losses were concentrated in the San Francisco Bay Area, home to most of the state's dot-coms and high-tech companies. Statewide unemployment rose throughout most of the year, reaching 6.0 percent in November. Exports of California-made

2002-03

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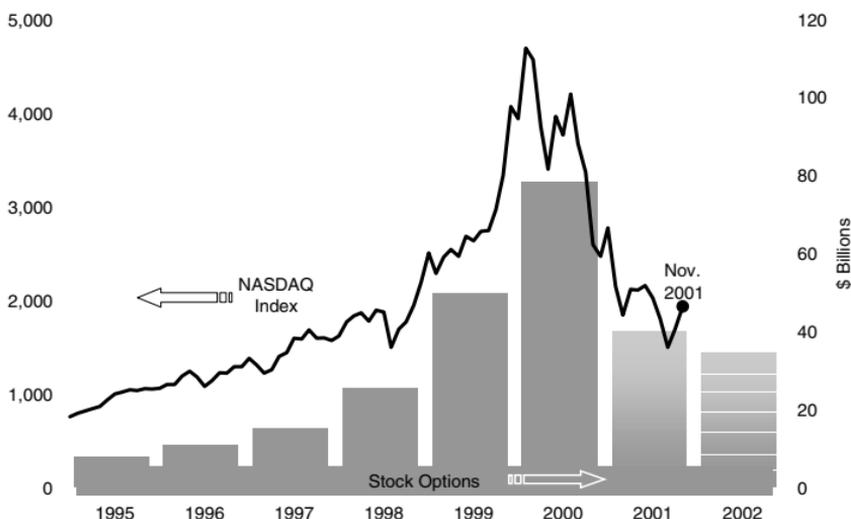
merchandise fell sharply in 2001 as the economies of major trading partners weakened. Construction also slowed, particularly nonresidential building. The September 11 terrorist attacks accelerated the slowdown in the State economy. Tourism and related industries were particularly hard hit. Personal income grew only 1.4 percent in 2001 as employee stock option income fell sharply.

- ❖ The California economy should begin to grow by midyear 2002. On an annual average basis, however, job growth will be only 0.3 percent. While few jobs will be created in the first half of the year, hiring will pick up in the second half. Unemployment will continue to rise even after the economy begins to grow, however, as employers wait to make certain a recovery is underway. Unemployment will average 6.2 percent in 2002. As with the nation, expansive fiscal policy, moderate energy prices, and low interest rates will boost the economy.
- ❖ As with the national forecast, the major risks to the California outlook are consumers losing confidence before the economy begins to turn around and a protraction of the high-tech recession. With its large high-tech sector, California is more at risk to the latter than is the rest of the nation.



## California Personal Income and the Stock Market

The NASDAQ and California Stock Option Income



After growing almost 10 percent in 2000, California personal income advanced only 1.4 percent in 2001. Slumping stock prices were primarily responsible for the sharp drop. Companies, particularly high-tech firms and dot-coms, rapidly adopted stock options as part of employee compensation in the 1990s. When stock prices soared between 1995 and 2000, stock option income gave a huge boost to California personal income.

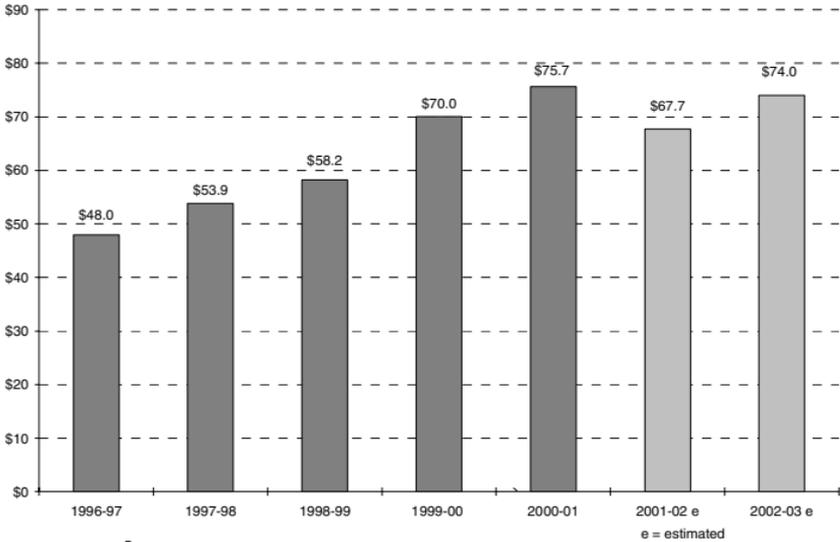
However, the deep descent in stock prices beginning in March 2000 cut stock option income almost in half in 2001. While California personal income and, thus, state tax revenues have become much more dependent on the fortunes of the stock market, growth of personal income is not expected to be so volatile in the years ahead. Much of the recent volatility was attributable to the bubble in tech-stock prices—something that is not expected to be repeated soon. A moderate rebound in the stock market should help California personal income grow by 2.6 percent in 2002.

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## Revenue Estimates

Major General Fund Taxes and Licenses  
(Dollars in Billions)



As the economy slowed over the last year, the decline in the State's revenues was even more pronounced than what was expected at the time the 2001 May Revision was prepared. Since enactment of the 2001 Budget Act (Chapter 106, Statutes 2001), the General Fund revenue forecast for major revenues and licenses has decreased by \$5.4 billion for the past and current year combined. Revenue growth should resume in 2002-03 and be up \$6.3 billion, or 9.3 percent, from 2001-02, reaching \$74 billion. However, this is still \$1.6 billion below the 2000-01 level.

Just as the State's remarkable revenue growth in recent years was driven by stock-market related gains, the current fall-off largely reflects the market's decline. Revenues began to weaken beginning early in 2001, and year-over-year losses in personal income tax withholding are believed to be attributable primarily to the loss of stock option income, which plunged with the slowing economy

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and the market's retreat. Taxpayers are also anticipating less non-wage income—primarily capital gains—which has eroded estimated payment receipts. Similarly, consumers have cut back, resulting in a deterioration in purchases of taxable goods. This softness in revenues is expected to be short-lived, and growth is expected to resume by mid-2002.

## Major Revenue Sources

Personal income tax revenues are projected to be \$38.5 billion in 2001-02 and \$42.6 billion in 2002-03. Preliminary data indicate that capital gains in 2000 were again strong, increasing 30 percent from the 1999 tax year. Given the weakness in the market since it peaked in the spring of 2000, however, this forecast assumes capital gains will decline by 45 percent in 2001 from the 2000 level, before returning to positive growth of 12.5 percent in 2002.

Sales and use tax revenue is forecast at \$21.2 billion in 2001-02 and \$22.9 billion in 2002-03. Taxable sales for 2001 are expected to be down by 2.0 percent compared to 2000. Revenue growth is expected to resume during 2002, but at a slow pace—up only 0.8 percent—due to a continued sluggish economy during the first half of the year. In 2003, the rate of increase is expected to accelerate to 7.5 percent.

Corporation tax revenues are expected to total \$5.3 billion in 2001-02 and \$5.9 billion in 2002-03. Taxable profits are estimated to decline 1 percent in 2002 before rebounding 10.1 percent in 2003. Revenue growth will be held down somewhat by credit usage and S-corporation activity.



## Federal Tax Conformity

The Budget proposes to move the State's tax law into closer conformity with federal law by adopting a number of critical pension and individual retirement account changes made in the federal Economic Growth and Tax Relief Reconciliation Act of 2001, as well as provisions dealing with the treatment of qualified tuition plans and increases in the dependent care credit. Other changes will conform California's rules for estimated payments to federal rules, and provide that any federal election for corporations applies for State tax purposes. These conformity proposals would increase revenues by \$178 million in 2002-03 and reduce revenues by \$59 million in 2003-04 and \$75 million in 2004-05.



2002-03



## Demographics

It is with considerable reluctance that this Administration has been forced to set aside the population series used for the 2001 Budget Act that for the first time incorporated an “undercount factor” for hard-to-count population groups.

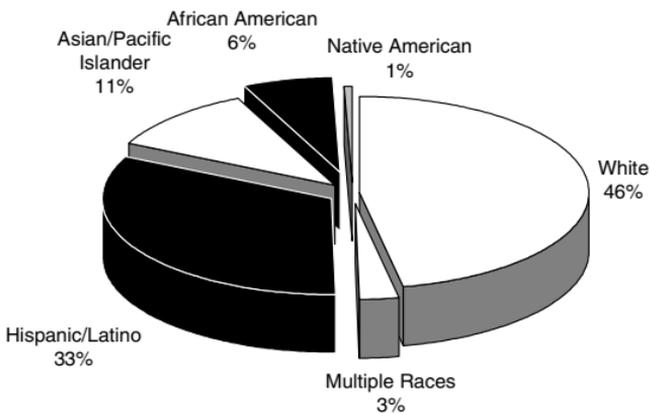
**Population overview.** At nearly 35 million people as of mid-2001, California’s population is the largest and most diverse in the nation. However, this estimate is lower than the previous 2001 estimate, because it does not include an adjustment for the 2000 census undercount.

**The undercount.** A census undercount results when the census enumerators cannot locate residents or people do not want to be counted.

- ❖ The Census Bureau itself estimated that the 1990 Census did not count 838,000, or 2.7 percent of California residents. Over the decade, this undercount cost California one seat in the House of Representatives as well as over \$2 billion in federal funds.
- ❖ For the 2000 Census, the Census Bureau concluded that the national undercount rate was 0.06 percent—virtually no undercount. The Census Bureau did acknowledge that differential undercounts do exist for population subgroups.
- ❖ Compared with the nation, California has a significantly higher proportion of the population subgroups that historically are undercounted. However, the United States Census Bureau has refused to release the information that the State needs to assess the level of undercount in California.

**California pursues full disclosure of data.** The limited information released to date by the Census Bureau makes previous State estimates of the undercount invalid. Yet, the Bureau has not provided sufficient information to recalculate the undercount estimate. The Department of Finance has therefore made a Freedom of Information Act request of the Census Bureau to provide the information necessary to include an undercount in California's population base. When the undercount information is made available, the State's historical estimates and future projections will be revised to reflect the census data that includes estimated undercounts.

### California's Population in Census 2000

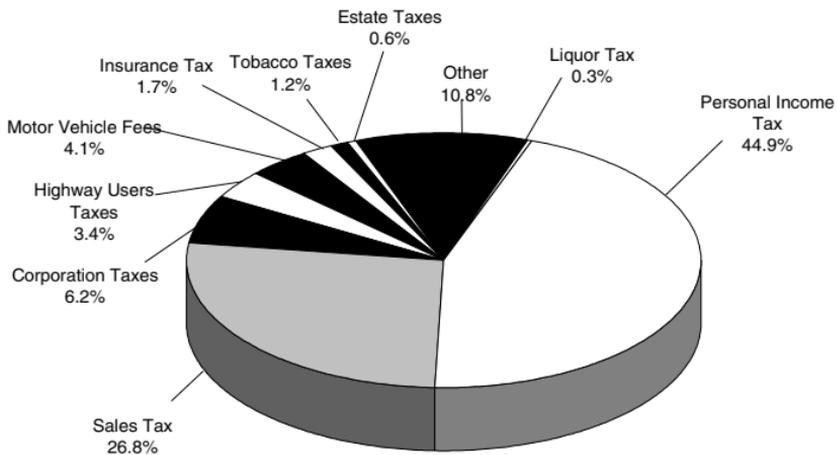


# *Summary Charts*

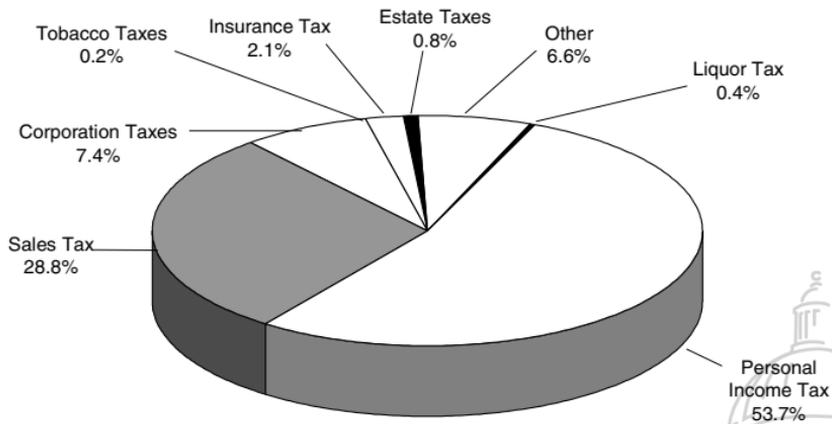


## Revenues 2002-03 Fiscal Year

**Total Revenues and Transfers**



**General Fund Revenues and Transfers**

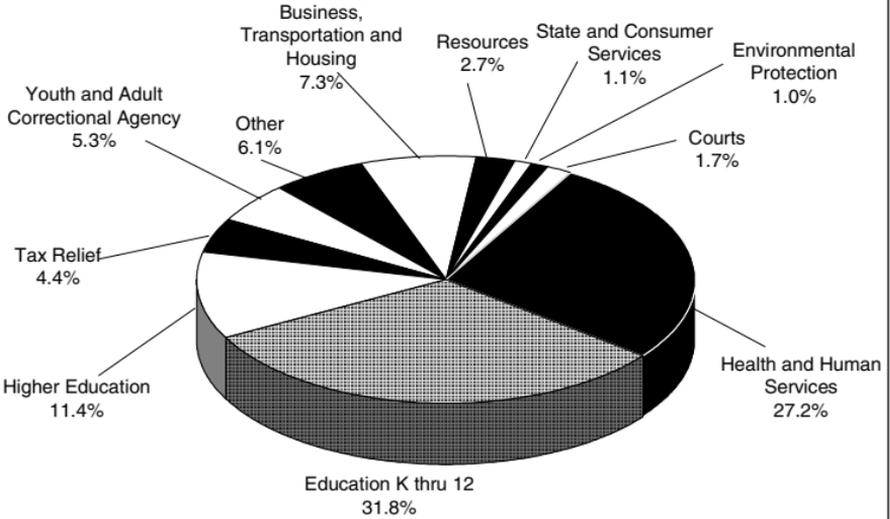


2002-03

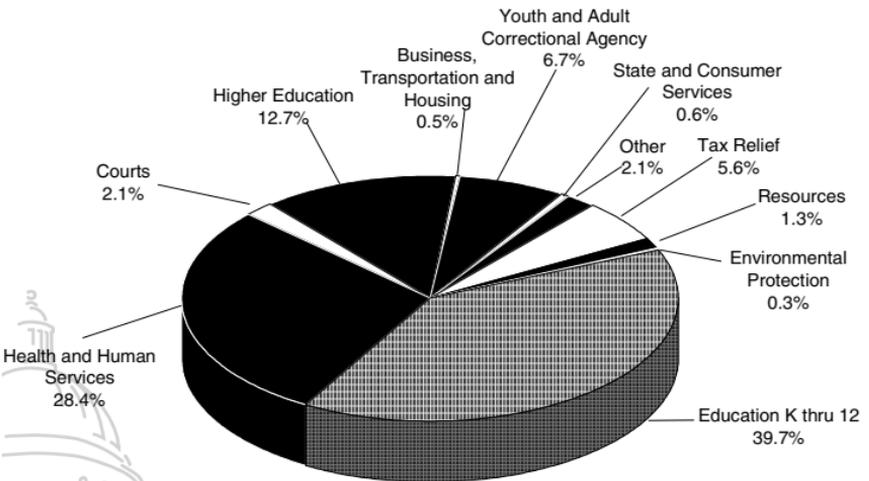
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## Expenditures 2002-03 Fiscal Year

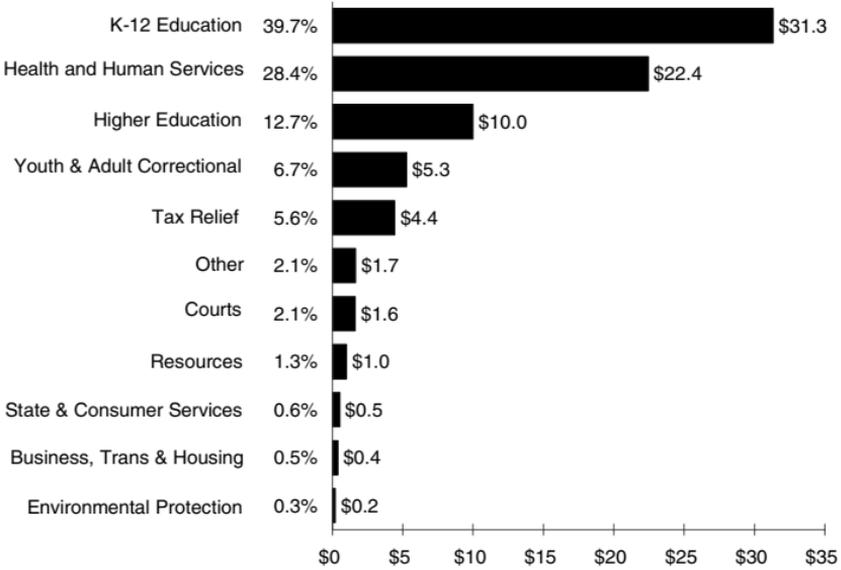
### Total Expenditures (Including Selected Bond Funds)



### General Fund Expenditures



**2002-03 General Fund Expenditures  
(Dollars in Billions)**



- ❖ K-12 Education continues to be the State's top funding priority—almost 40 cents of every General Fund dollar is spent on K-12 education.
- ❖ Combined with higher education funding, the State will spend over 52 cents of every General Fund dollar on education.
- ❖ Education, health and human services, and public safety expenditures constitute 87.5 percent of all State General Fund expenditures.

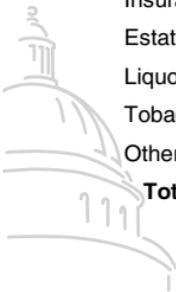


**2002-03 Expenditures By Fund**  
(Dollars in Millions)

<b>Function</b>	<b>General Fund</b>	<b>Special Funds</b>	<b>Bond Funds</b>	<b>Total</b>
Education (K-12)	\$31,316	\$63	\$472	\$31,851
Health and Human Services	22,441	4,787	--	27,228
Higher Education	9,985	745	648	11,378
Business, Transportation and Housing	378	6,781	189	7,348
Technology, Trade, and Commerce	72	9	--	81
Courts	1,622	79	--	1,701
Tax Relief	4,423	--	--	4,423
Local Government Subventions	461	2,353	--	2,814
Youth and Adult Corrections	5,274	20	--	5,294
Resources	993	1,106	628	2,727
Environmental Protection	203	636	141	980
State and Consumer Services	513	539	33	1,085
Other	1,125	1,995	2	3,122
<b>Total</b>	<b>\$78,806</b>	<b>\$19,113</b>	<b>\$2,113</b>	<b>\$100,032</b>

**2002-03 Revenue Sources**  
(Dollars in millions)

	<b>General Fund</b>	<b>Special Fund</b>
Personal Income Tax	\$42,605	--
Sales Tax	22,850	\$2,531
Corporation Tax	5,869	--
Highway Users Taxes	--	3,244
Motor Vehicle Fees	16	3,915
Insurance Tax	1,656	--
Estate Taxes	615	--
Liquor Tax	282	--
Tobacco Taxes	122	997
Other	5,290	4,841
<b>Total</b>	<b>\$79,305</b>	<b>\$15,528</b>



**2002-03**  
**General Fund Expenditures**  
**by Agency**  
(Dollars in Millions)

	<u>2001-02</u>	<u>2002-03</u>
Legislative, Judicial, Executive	\$2,659	\$2,627
State and Consumer Services	715	513
Business, Transportation & Housing	678	378
Technology, Trade, and Commerce	69	72
Resources	1,558	993
Environmental Protection	423	203
Health and Human Services	21,722	22,441
Youth and Adult Correctional	5,372	5,274
K-12 Education	31,046	31,316
Higher Education	9,934	9,985
General Government	1,125	580
Tax Relief	<u>3,079</u>	<u>4,424</u>
<b>Total</b>	<b>\$78,380</b>	<b>\$78,806</b>



**2002-03 Governor's Budget  
General Fund  
Budget Summary  
(Dollars in Millions)**

	<u>2001-02</u>	<u>2002-03</u>
Prior Year Balance	\$2,782	\$1,485
Revenues and Transfers	<u>\$77,083</u>	<u>\$79,305</u>
<b>Total Resources Available</b>	<b>\$79,865</b>	<b>\$80,790</b>
Expenditures	<u>\$78,380</u>	<u>\$78,806</u>
<b>Fund Balance</b>	<b>\$1,485</b>	<b>\$1,984</b>
<b>Budget Reserves:</b>		
Reserve for Liquidation of Encumbrances	\$1,473	\$1,473
Special Fund for Economic Uncertainties	\$12	\$511





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324-4856

## BUDGET PROGRAM AREAS

Revenue Forecasting, Economic Projections, Demographic Research, Local Government, Business, Transportation and Housing, and Trade and Commerce .....	Shelley Mateo .....	322-2263
Education .....	Randy Baker .....	445-0328
Health and Human Services .....	Terrie Tatosian .....	445-6423
Youth and Adult Correctional, Justice, Judiciary, General Government, and State and Consumer Services .....	Calvin Smith .....	445-8913
Resources, Environment, and Capital Outlay .....	Fred Klass .....	324-0043
Employee Relations, Retirement Systems .....	Carl Rogers .....	445-3274
Budget Planning and Preparation, Cash Management, Statewide Issues .....	Yoshie Fujiwara .....	445-5332

### California's Budget on the Internet

This document is also available on the Internet at the California Department of Finance website—<http://www.dof.ca.gov>

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