

**Committee on Budget & Fiscal Review
Room 5019, State Capitol
Sacramento, CA 95814**

SENATOR WESLEY CHESBRO, CHAIR

Quick Summary The Governor's Budget Proposal

January 9, 2004

Earlier today, the Governor proposed his 2004-05 budget. Spending from all funds (General Fund, special fund and bond funds) total \$99.1 billion. General Fund spending is \$76.1 billion, an amount that is approximately \$2 billion, or 2.5 percent, less than current-year spending.

Staff of the Senate Budget and Fiscal Review Committee prepared the attached briefing, which includes a summary of the Governor's budget proposal.

Staff is preparing a more detailed review of the budget, to be released in early February. If you have questions, please contact the committee at (916)445-5202.

- [Overview](#)
- [Subcommittee No. 1](#)
- [Subcommittee No. 2](#)
- [Subcommittee No. 3](#)
- [Subcommittee No. 4](#)

Status of Current Year (2003-04) Budget

In July of 2003, the Legislature enacted AB 1765 (Chapter 157, Statutes of 2003) – the Budget Act of 2003.

As part of the negotiated budget compromise the Legislature granted the Department of Finance (DOF) authority under Control Section 4.10 of the Budget Act to: (1) require savings, either through budget reductions or compensation concessions totaling approximately \$1.1 billion; (2) require reductions to appropriations totaling at least \$306 million of which at least \$181 million would be from the General Fund; and (3) require that at least 16,000 positions be abolished. In early November 2003, the DOF exercised this authority and reduced the current year budget accordingly.

In mid-November, newly elected Governor Schwarzenegger rolled back the vehicle license fee (VLF) rate immediately upon assuming office. According to the Legislative Analyst Office, this action created a current year deficit of approximately \$2.652 billion.

Concurrently, the Governor called the Legislature into Special Session to, among other things, appropriate General Fund monies to backfill the lost VLF revenue to local governments. In order to pay for the backfill, the Governor proposed mid-year reductions and other budget-related changes of approximately \$2.3 billion across all of state government.

In the absence of legislative action to ratify the proposed mid-year reductions and appropriate funding to backfill the lost VLF revenue to local government, the Governor, in mid-December took unilateral action under the auspices of Control Section 27.00 (deficiency authority) to appropriate the backfill funds to local governments. As part of the Governor's unilateral action, he reduced, via executive order, approximately \$150 million of the originally proposed \$2.3 billion in mid-year reductions. The Governor chose to make these reductions because they did not require the Legislature to approve any statutory changes. The remainder of the proposed reductions are pending legislative action.

Proposed Governor's 2004-05 Budget

Definition of the Problem. The Governor's proposed budget identifies that the state has an accumulative \$26.3 billion difference between revenues and expenditures for the three-year period ending on June 30, 2005.

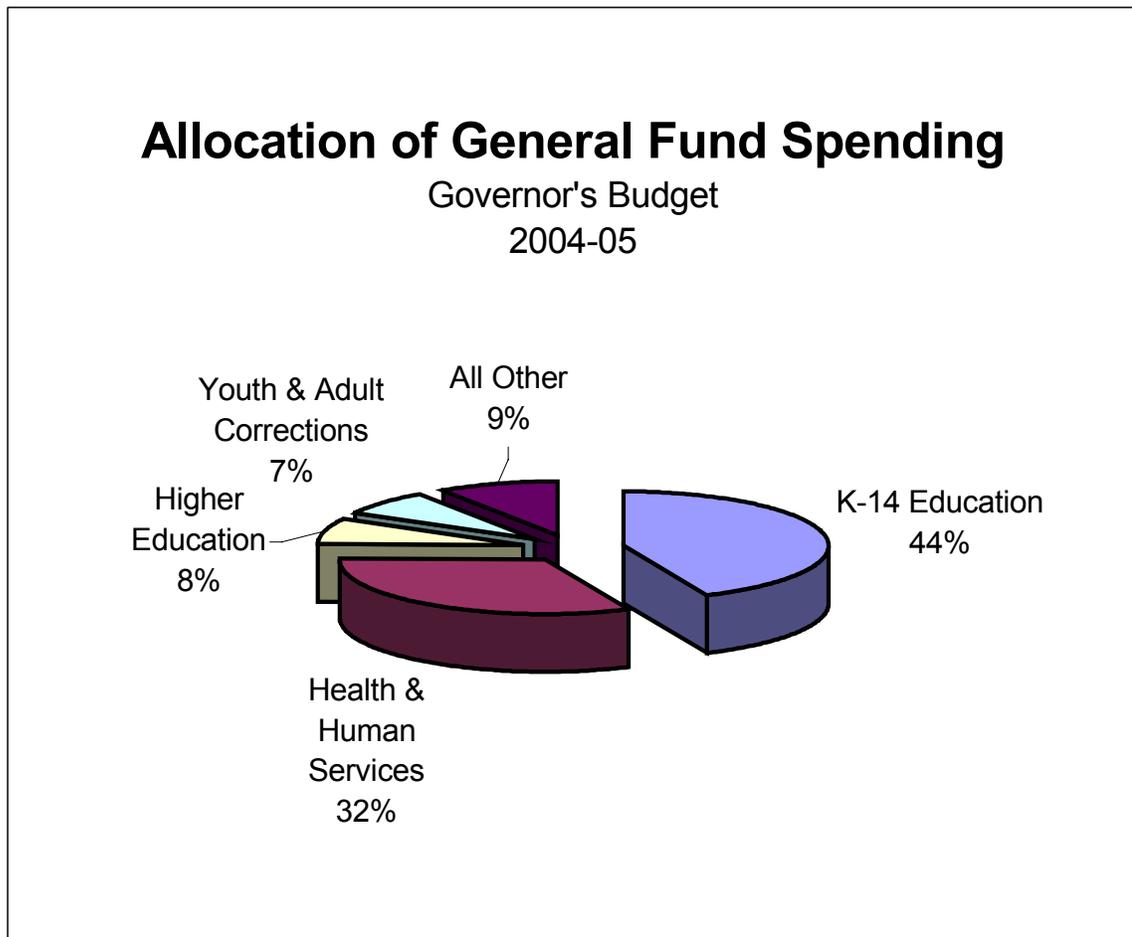
How Does the Governor Close the Deficit? In eliminating the deficit, the Governor relies on the following primary strategies:

- Utilizing approximately \$12.3 billion in bond proceeds pursuant to the California Economic Recovery Bond Act (Chapter 2, Statutes of 2003, Fifth Extraordinary Session). This contributes nearly 47 percent of the entire budget solution.
- Scoring \$3.9 billion from the November mid-year reduction proposals.
- Proposed "Re-basing" of Proposition 98 (K-14 education) by \$2.9 billion.
- Reduce local government assistance by \$1.3 billion.
- \$1.3 billion in debt service saving resulting from the longer repayment period of the Economic Recovery Bond.
- \$900 million from the proposed suspension of Proposition 42.
- \$950 million from a "pension reform" package.
- \$2.8 billion in other miscellaneous transfers, fund shifts, and loans.

Overview of the Governor's Budget Proposal

General Fund Spending Concentrated in Four Areas. Four policy areas account for 90 percent of General Fund spending contained in the Governor's Budget. The chart shown below identifies the relative spending in these areas. Specifically, in the 2004-05 budget:

- K-12 Education receives \$33.2 billion, accounting for 44 percent of the General Fund spending,
- Health and Human Services receives \$24.6 billion, accounting for 32 percent of the total,
- Higher Education receives \$6.1 billion, account for 8 percent of the total, and
- Youth and Adult Corrections receives \$5.7 billion, accounting for 7 percent of the total.



State Spending Reduced from Current Year. The Governor proposes to reduce General Fund expenditures in the budget year, reducing expenditures from \$78 billion to \$76.1 billion, which represents a 2.5 percent reduction. The Department of Finance (DOF) estimates that revenues and transfers will increase from \$74.6 billion to about \$76.4 billion (a 2.4 percent increase). The following table shows a comparison of the current- and budget-year spending.

Comparison of General Fund Spending
2003-04 and 2004-05
(Dollars in Millions)

	<u>2003-04</u>	<u>2004-05</u>	<u>Change</u>
K-14 Education	\$ 31,418	\$33,152	5.5%
Higher Education	6,352	6,058	-4.6%
Health & Human Services	22,789	24,600	7.9%
Youth & Adult Corrections	5,326	5,732	7.6%
VLF Backfill	2,703	4,062	50.3%
STRS Contribution	510	1,057	107.3%
General Government	1,212	1,105	-8.8%
Use of Deficit Recovery Fund	3,012	-3,012	-200.0%
All Other	<u>4,706</u>	<u>3,308</u>	-29.7%
Totals	\$ 78,028	\$ 76,062	-2.5%

Education

Proposition 98

Proposition 98-- Funding Increases– The Governor proposes to provide an additional \$1.85 billion in Prop 98 funding for K-14 education (K-12 schools and community colleges) in 2004-05. This increase includes \$752 million in new Proposition 98 funds (\$432 million for K-12 schools; \$320 million for community colleges) and an estimated \$1.1 billion in K-12 Prop 98 funds “freed-up” from one-time expenditures, deferrals and program savings.

Proposition 98 – Rebasing (Suspending) The \$752 million increase in Proposition 98 funds in 2004-05 is estimated by the Governor to be \$2 billion below the level that would otherwise be provided under the minimum guarantee. As a result, the Governor proposes that Proposition 98 be “rebased” at a level approximately \$2 billion below the level required in 2004-05. This action would require suspension of Proposition 98 in 2004-05. Suspension would require the Legislature to pass a bill – separate from the budget bill -- with a 2/3rds-majority vote.

Proposition 98 – Current and Prior Year Settle-Up. The Governor estimates that primarily as a result of higher than estimated state tax revenues that Proposition 98 funding is below the minimum guarantee by \$517.8 million in 2002-03 and \$448.4 in 2003-04. The Governor proposes that funding for “settle-up” of these expenditures, which are needed to meet the Prop 98 constitutional guarantee, be “deferred” until 2006-07.

Revenue Shift/ERAF. The Governor proposes to shift \$1.336 billion in ERAF funding from local governments to K-14 education, which will reduce General Fund obligations to K-14 education by \$1.336 billion in 2004-05.

K-12 Education

Total K-12 Funding Available. The Governor proposes an estimated \$ 1.5 billion in additional funding for K-12 schools in 2004-05. These new funds are the result of \$432 million in new Prop 98 funds proposed by the Governor and \$1.1 billion in existing Proposition 98 funds that have been “freed-up” and will be available to spend for new purposes in 2004-05.

Per Pupil Increases in Prop 98. The Governor proposes K-12 Proposition 98 per-pupil expenditures of \$6,945 in 2004-05, which provides an additional \$5 per-pupil above the 2003-04 budget.

Statutory Growth and COLA's Fully Funded. The Governor proposes to fully fund statutory growth and COLA's (cost-of-living adjustments) for all K-12 revenue limit and categorical programs in 2004-05.

Categorical Reform – Funding Shift. The Governor proposes to eliminate separate funding for 22 categorical education programs and shift \$2 billion in funding for those programs to revenue limits in 2004-05. These programs include home-to-school transportation, school improvement, supplemental grants, non-court desegregation funds, most professional development programs, year round schools, and English Learner Student Assistance. Funds shifted into revenue limits could be used for general purposes, but schools could continue to provide funding for categorical purposes if they desired.

Categorical Reform – Separate Funding Retained. The Governor proposes to retain separate funding for most education categorical programs including such major programs as Class Size Reduction, Economic Impact Aid, Special Education, Child Care, court-based desegregation, Adult Education, and ROC/P's.

Child Care

Child Care Reform. The Governor proposes a variety of reforms aimed at generating approximately \$164.8 million in General Fund savings within the state's subsidized child care programs. Specifically, the Governor proposes to establish a new family fee schedule, limit eligibility for program participation, reduce reimbursement rates, and limit the length of time recipients can receive subsidized care. These reforms follow in the footsteps of prior-year reforms authored by the Administration.

Child Care Fraud. The Governor proposes to implement a fraud, abuse and prevention program using an additional \$2 million in one-time federal funds. This proposal, which the Governor expects will save the state "well over \$100 million", is due out at the May Revision.

Public Libraries

Public Library Foundation. The Governor proposes to hold constant the level of spending on the Public Library Foundation, which provides monies to local libraries based on a statutory formula. Funding provided for this program is proposed at \$15.2 million.

Higher Education

Limits Student Enrollment at UC and CSU. The Governor proposes to reduce the number of new freshman enrolling at the UC and CSU by 10 percent, beginning in the 2004-2005 academic year. This limitation is expected to net \$45.8 million in savings. The Governor assumes that many of the unaccepted students will be redirected to the California Community Colleges (CCC). To assist in their eventual transfer from the CCCs to the UC and CSU, the Governor provides the public four-year institutions with an additional \$3.5 million to provide counseling and other transfer-related services to students.

As an additional note, the Governor's Budget contains no funding for student enrollment growth at either the UC or the CSU; as a result, it is expected that those institutions will further limit the number of students who will be able to enroll in the upcoming Spring term as well as the 2004-05 academic year.

Grows Student Enrollment at the Community Colleges. The Governor proposes to fund enrollment growth at the Community Colleges by three percent to support an additional 33,000 Full-Time Equivalent Students (FTES).

Differential Fee. The Governor proposes to charge students at the Community Colleges who have already earned a Bachelor's Degree a fee of \$50 per unit, rather than the \$26 per unit proposed for non-degree holding students. This fee increase is expected to generate \$91 million in revenue/General Fund savings.

Furthermore, the Governor proposes a similar "differential fee" policy at the UC and CSU, whereby students accruing substantially more units than necessary towards their Bachelor's Degree would pay an additional fee for those "extra" units. Savings associated with this proposal are estimated to total \$33.7 million (\$9.3 million at UC and \$24.4 million at CSU). While the Administration has stated that the new "Excess Unit" fee policy will be phased-in, the specifics of this proposal are not yet clear.

Student Fees The Governor proposes to increase fees at all three segments of higher education. At the Community Colleges, the Governor proposes to increase fees by \$8 per unit (from \$18 per unit to \$26 per unit). At the UC and CSU, fees are proposed to increase by 10 percent for undergraduate students; 40 percent for graduate students; 25 percent for professional students (UC-only); and 20 percent for nonresident students. Staff notes that the Governor reduced the amount of state

General Fund available to the university systems to offset the increased fee revenue.

Furthermore, Governor proposes to establish a long-term student fee policy, which would moderately increase student fees on an annual basis at the University of California and California State University. The increase would be tied to the percent change in California Per Capita Personal Income (CPCI). In any given year, fee increases would be capped at no more than 10 percent. This policy would likely be established in statute and would serve as a much-delayed replacement to the prior long-term student fee policy which expired a decade ago.

Reduction in Instruction and Academic Support. The Governor proposes to reduce funding for classroom instruction (by increasing the student to faculty ratio) by \$35.2 million at UC and \$53.5 million at CSU (totaling \$88.7 million). Further, the Governor's proposal includes a 7.5 percent reduction for Academic and Institutional Support Programs at UC and CSU (totaling \$98 million) which includes such services as libraries and health/dental clinics.

Student Outreach. Consistent with his mid-year reduction proposals, the Governor continues to propose eliminating all state support for UC and CSU Outreach activities, including the elimination of all state support for CSU's EOP program.

Other UC/CSU Reductions. The Governor proposes to further reduce funding for state-supported research at the UC; eliminate state support for the Digital California Project; defer \$6 million in expenditures for CSU's Common Management System; and eliminate all state-support for the Labor Studies Research Institutes at the UC (consistent with his mid-year budget proposals).

Restoration of Funding. The Governor proposes to restore a portion of the prior-year budget cuts to the UC and CSU totaling \$150 million (\$80.5 million UC and \$69.5 million CSU).

UC Merced. The Governor provides an additional \$10 million to support one-time start-up costs associated with opening the new UC Merced campus for the 2005.-06 academic year.

Community College Equalization. The Governor proposes to provide an additional \$80 million to the Community Colleges to equalize funding levels between districts.

Community College Categorical Program Reform. The Governor proposes to consolidate over \$300 million worth of categorical programs and shift those funds for general purpose use. Programs identified for consolidation include: Matriculation; Part-time faculty-focused programs; and Partnership for Excellence.

Cal Grants. The Governor proposes to make substantial limitations to the Cal Grant program, which will impact both student eligibility and the amount of the award.

Grant Amount. Specifically, the Governor proposes to reduce the grant amount for students attending private and independent colleges by \$4,226 annually (from the current maximum level of \$9,708 down to \$5,482). This reduced grant level is equal to the amount received by a UC student. This change is expected to reap an additional \$32.7 million in General Fund savings. In addition, the Administration proposes to dissolve the practice of increasing the Cal Grant award to cover any additional costs associated with fee increases at UC and CSU.

Eligibility. Governor proposes to reduce the maximum family income necessary to be eligible for the Cal Grant program by 10 percent, making the program less accessible to middle-income families. This change will save \$11.2 million in General Fund.

Resources

Reduction to California Conservation Corps. The Governor proposes to reduce \$12.8 million by closing 2 residential centers, 4 non-residential centers and eliminating corpsmember benefits.

Timber Harvest Plan review fees at Dept. of Forestry and Fire Protection. The Governor proposes to enact Timber Harvest Plan (THP) review fees in the current year. The Governor's Budget assumes \$5 million in THP fee revenue generated in the current year, and \$10 million in the 2004-05 Budget Year. THP fees were assumed in the 2003-04 Budget to generate \$10 million in revenue for the department, however THP fee legislation was not enacted by the Legislature resulting in a shortfall in the department's budget of \$10 million in the current year.

Increase in earthquake monitoring funding. The Governor proposes to increase funding by \$1.23 million for the Strong Instrumentation and Seismic Hazards Mapping Program for earthquake mapping and monitoring activities at the Department of Conservation.

Increase in Park Fees. The Governor proposes to increase State Park fees in order to generate \$18 million to prevent a reduction in the hours of operation and to maintain adequate public access to State parks. Under the Governor's proposal, camping rates would increase to a range of \$11.00 to \$25.00, and day use rates will increase to a range of \$4.00 to \$14.00 depending on the location and level of demand.

Revert Unencumbered Funds for Prior Year Local Flood Control Projects. The Governor proposes a mid-year reversion of \$105 million in unencumbered funds for prior year local flood control projects to the General Fund. The funds will be used to pay for prior year commitments for the state's share of local flood control subventions. Current law does not establish a time requirement regarding repayment of these state obligations to local governments. Since local agencies usually pay for the projects up-front, the Legislature typically defers these payments when the condition of the General Fund is weak.

Funding for Lining of the All American Canal. The Governor proposes \$16.1 million General Fund for the lining of the All American Canal to meet the state's

commitment to the implementation of the Colorado River Quantification Settlement Agreement.

Reductions at the Department of Food and Agriculture. The Governor proposes \$3.8 million in reductions to various programs at the department including: \$2 million in the Pierce's Disease Program, \$1 million from the Mediterranean Fruit Fly Program, and \$831,000 from the Agriculture Export Program.

Environmental Protection

E-Waste Program Funding. The Governor proposes to augment the Integrated Waste Management Board's budget by \$52.3 million from the Electronic Waste Recovery and Recycling Account for implementation of the Electronic Waste Recycling Program. The Governor also proposes \$557,000 in the Department of Toxic Substance Control for implementation of the Electronic Waste Recycling Program for e-waste containing toxic materials.

Water Quality Program Reductions and fund shifts. The Governor proposes approximately \$10 million in General Fund reductions for various water quality programs at the State Water Resources Control Board, including investigations of contaminated wells and Chromium 6 investigations. However, of the \$10 million in reductions, \$5.1 million is being shifted to fees and special funds, although the fund shifts will not require any increase in fees.

Energy

Elimination of the Power Authority. The Governor proposes to eliminate the California Power Authority by September 2004.

Public Safety & Corrections

Reductions to the Department of Justice The Governor proposes reductions to the Department of Justice totaling \$6.5 million, including an unallocated reduction of \$3 million, a reduction of \$1 million from the California Methamphetamine Strategy (CALMS) Program, and a reduction of \$2.5 million from the Plata v. Davis litigation.

Funding for Southern California wildfires. The Governor proposes \$60 million in 2003-04 and \$40 million in 2004-05 to provide funds for recovery from the wildfires in Southern California.

Federal Homeland Security Grants. The Governor proposes to allocate \$160.3 million in federal funds in the current year through the Office of Emergency Services for training, equipment, and planning grants related to homeland security. The budget proposes \$4.6 million for 2004-05 for these grants and anticipates a spring budget change proposal once the amount of the federal fiscal year 2004 homeland security funds is known.

Elimination of the Office of the Inspector General. The Governor proposes to eliminate the independent Office of the Inspector General (OIG) to generate General Fund savings of \$2.8 million. Under the Governor's proposal, the budget for the Youth and Adult Correctional Agency (YACA) would be augmented by \$630,000 and the functions of the OIG would be transferred to the YACA.

Unspecified \$400 million reduction to the Department of Corrections. The Governor proposes an unspecified reduction of \$400 million, or 7.8 percent, to the budget for the Department of Corrections. The Governor's proposal indicates that the Secretary of YACA is currently developing reform proposals to achieve this amount of savings for submission as part of the May Revision. The reform proposals could include operational efficiencies, improved cost controls, and programmatic changes to the parole program.

Facility Closures at the Youth Authority. The Governor proposes General Fund savings of \$38.4 million from the closure of the Fred C. Nelles Youth Correctional Facility and a youth correction camp.

Youth Authority Program Restructuring. The Governor proposes broad program restructuring at the Youth Authority generating estimated savings of \$600,000 in

the budget year. The Governor's proposal includes, modifying law to reduce the age of the Youth Authority's jurisdiction for wards and parolees from 25 to 22 years of age, making changes to juvenile sentencing, and implementing a casework-staffing model for general population living units.

Shifting Board of Corrections from General Fund to Fees. The Governor proposes a decrease of \$1.7 million General Fund by generally funding the Board of Corrections from fees rather than the General Fund. Under the Governor's proposal, the Board would operate on fees collected from local governments that wish to have the Board continue the services it currently provides, including establishment and evaluation of minimum standards for local juvenile and adult detention facilities, biennial facility inspections, and establishment of recruitment, selection, and training standards for local corrections personnel.

Reduction to federal TANF funding for local juvenile probation. The Governor proposes to reduce federal TANF funding for local juvenile probation by \$134.4 million. Under the Governor's proposal, the program which provides TANF funds for children in county juvenile assessment and residential treatment facilities, would sunset effective October 31, 2004.

Health & Human Services

Restructure and Reform. The Governor proposes to restructure and reform a number of Health and Human Services Programs, including Medi-Cal, Healthy Families, CalWORKS, Foster Care, and services provided to individuals with developmental disabilities (i.e., Regional Center services). No specifics have been provided on these proposals other than an outline of key principles. They do note that they will be seeking constructive input from consumers, providers, the Legislature and others. The key principles are:

- (1) Maintain essential services to those most in need;
- (2) Recognize children as a priority investment;
- (3) Promote personal responsibility;
- (4) Promote work participation; and
- (5) Enhance program effectiveness and accountability.

Total Proposed Expenditures. The Governor proposes expenditures of \$64.8 billion (\$24.6 billion General Fund and \$40.2 federal funds) for health and human services programs, including expenditures for about 31,384 state employees. The Governor proposes to make \$2.7 billion (General Fund), or 19 percent, in adjustments or “budget solutions” in the health and human services area. These adjustments—program cuts, reforms, fund shifts, and related items—represent the most significant area of adjustment in his entire budget package.

Continues Mid-Year Reduction Proposals. The Governor proposes to annualize all of the reductions included in his Mid-Year Reduction Package, except for the Regional Center program adjustments which he rescinded. As such, the enrollment caps he proposed for Healthy Families, California Childrens Services, legal immigrant health programs (Medi-Cal Program, Prenatal Care and Long-Term Care, Breast and Cervical Cancer, AIDS Drug Assistance Program (ADAP), Genetically Handicapped Persons Program (GHPP), California Food Assistance Program, Cash Assistance Program for Immigrants, CalWORKS for legal immigrants, Vocational Rehabilitation, Habilitation Services, and certain State Hospital services for the mentally ill, would continue into 2004-05.

Medi-Cal Program Proposals

Total Proposed Expenditures. The Governor proposes total expenditures of \$31.2 billion (\$11.6 billion General Fund) which reflects a General Fund increase of \$1.6 billion, or 16.2 percent above the Budget Act of 2003. The General Fund increase primarily reflects the costs of using one-time savings in 2003-04 from the accrual-to-cash accounting change, and the discontinuation of the enhanced federal financial participation provided in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. Caseload is anticipated to increase by about 220,000 for a total of about 6.8 million eligibles.

Loss of Enhanced Federal Funds. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of \$655.4 million (General Fund).

Restructuring and Reform. The Governor proposes to seek a federal Waiver that *may* include all or any of the following components:

- (1) Simplification by aligning Medi-Cal's eligibility standards and processes with CalWORKS and the SSI/SSP program;
- (2) Development of a multi-tiered benefit/premium structure that provides comprehensive benefits to federally mandated populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums;
- (3) Requiring co-payments for various services;
- (4) Conform the basic Medi-Cal benefits package to that of private health plans, including making changes to mental health benefits provided under the EPSDT Program for children; and
- (5) Expand Medi-Cal Managed Care to additional counties, review and reform managed care reimbursement policies and encourage the enrollment of the aged, blind and disabled into managed care.

No savings for 2004-05 are identified since only a framework of ideas is proposed at this time. In addition time would be needed to define and obtain a Medicaid

Waiver and then proceed with implementation. However, the Governor is seeking an increase of almost \$6 million (\$2.2 million General Fund) for new state positions and system changes for this effort.

Medi-Cal Provider Rate Reduction. The Governor proposes to reduce Medi-Cal rates by an additional 10 percent in addition to the five percent reduction (effective January 1, 2004 to January 1, 2007) made in the Budget Act of 2003 for savings of \$947.3 million (\$462.2 million General Fund). This proposal is also part of his Mid-Year reduction package. It should be noted that the United States District Court recently issued a preliminary injunction stopping the implementation of the five percent reduction for the fee-for-service reimbursement rates. The state has submitted a Motion for Reconsideration. As such, further court action is pending.

Reduce Medi-Cal Provider Float. The Governor proposes to delay Medi-Cal check-writes by one week, thereby reducing the number of total check-writes in the year, for proposed savings of \$287 million (\$143.5 million General Fund). The delay in the check-writes will allow for a more thorough review of claims for anti-fraud purposes as well.

Reduce Interim Rates by 10 Percent for Cost Reimbursed Acute Care Hospitals. The Governor proposes to reduce by 10 percent the interim rates paid to cost reimbursed acute care hospitals (those not contracting with the state--usually smaller, rural hospitals) for savings of \$62 million (\$31 million General Fund). According to the Administration, they still intend to do the normal cost-settlement process at the end of the year.

Revise Rate Methodology for Federally Qualified Health Centers (FQHC) and Rural Health Clinics. The Governor proposes to significantly alter the existing prospective rate methodology for certain community-based clinics for proposed savings of \$64.5 million (\$32.3 million General Fund). Specifically, the alternative rate methodology provided for under the prospective rate process would be eliminated as of April 1, 2004.

Quality Improvement Assessment Fee for Medi-Cal Managed Care Plans. The Governor proposes to modify the quality improvement assessment fee adopted in the Budget Act of 2003 in order to obtain federal approval. Through this mechanism, managed care plans will pay a quality improvement assessment fee to the state. The state will then obtain a federal match of the fee assessment. These funds would then be used to improve the quality of care in managed care plans through a rate enhancement, and the state would utilize the remaining amount as a

General Fund offset. It is anticipated that a savings of \$75 million (General Fund) will be obtained.

Adjust County Administration Costs. The Governor proposes to reduce by \$20 million (\$10 million General Fund) the allocation provided to counties for Medi-Cal administration. According to the Administration, this savings will be achieved by not granting any cost-of-living-adjustments (COLA) to county workers that exceed the average COLA granted to state workers.

Reform of Adult Day Health Care. The Governor proposes to implement a twelve-month moratorium on the certification of new Adult Day Health Care Centers (ADHCs) and to change the way they are reimbursed for services (i.e., unbundling the rate and billing separately for therapies and transportation services) for proposed savings of \$25.4 million (\$12.7 million General Fund).

Changes to Rates Paid for Mental Health. The Governor proposes to reduce by \$95 million (\$40 million General Fund) the rates paid for mental health services through the rebasing of the statewide maximum allowances.

Increase Oversight of Early Periodic Screening, Diagnosis and Treatment (EPSDT) Program. The Governor proposes savings of \$13 million (\$6 million General Fund) by providing more oversight of the program through audits and related measures.

Assumes Elimination of Supplemental Wage Rate Adjustment for Nursing Homes. The Governor assumes approval of his Mid-Year Reduction proposal to eliminate \$46 million (General Fund) in 2003-04 for the supplemental wage rate adjustment to be paid to nursing homes who have collective bargaining agreements or contracts that increase wages for their staff.

Increase for Medicare Part A and Part B Premiums. The Governor proposes to provide an increase of \$109.3 million (General Fund) for the state to pay the premium of dually eligible Medi-Cal/Medicare enrollees. This growth is due to expected federal premium rate increases to be effective January 2005, and the continued growth in the number of aged and disabled persons eligible for Medi-Cal and Medicare.

Orthopaedic Hospital Settlement—Hospital Rates. The settlement in *Orthopaedic Hospital v Belshe* requires hospital outpatient rates to be increased each year from 2001-02 through 2004-05. The cost of the settlement will increase

by \$51.2 million (General Fund) for 2004-05 due to the application of the final rate increase and the updating of the costs for managed care eligibles.

Public Health Proposals

Total Proposed Expenditures. The Governor proposes expenditures of \$3 billion (\$631.6 million General Fund) for 2004-05. This represents a decrease of \$55.6 million, or 8.1 percent, below General Fund expenditures compared to the Budget Act of 2003.

AIDS Drug Assistance Program (ADAP). The Governor proposes to continue his Mid-Year Reduction of capping enrollment in ADAP at 26, 479 individuals and to increase by \$8.3 million in Reimbursements from drug rebate funds, and to decrease by \$550,000 General Fund. The total appropriation for 2004-05 would be \$207.3 million (\$63.8 million General Fund, \$97.7 million federal funds and \$45.8 million in drug rebates).

Federal Bioterrorism Funding. The Governor proposes to increase by \$76.5 million (federal funds) and 19 positions to continue the Bioterrorism Prevention and Preparedness Program. Of the increased amount, \$47.2 million will be allocated to local health jurisdictions for their efforts.

California Nutrition Network for Healthy, Active Families. The Governor proposes to increase by \$39.7 million (Reimbursements and local assistance expenditures authority) for the social marketing campaign of the California Nutrition Network for Healthy, Active Families (Network). The Network is primarily funded through federal funds.

Healthy Families Program

Total Proposed Expenditures. The Governor proposes to provide a total of \$839.1 million (\$305.5 million General Fund, \$4.2 million Proposition 99 funds, \$523.6 million federal funds and \$5.8 million in Reimbursements) for the Healthy Families Program for 2004-05. It is anticipated that 737,304 children will be enrolled as of June 30, 2004. This enrollment level assumes that the Governor's

proposed cap on enrollment as contained in his Mid-Year Reduction proposal is enacted.

Developmental Disability Services

Total Proposed Expenditures. The Governor proposes expenditures of \$2.7 billion (total funds) in 2004-05, an increase of 6 percent over the Budget Act of 2003, for the funding of the Regional Centers. An increase of \$134 million (\$101.7 million General Fund) is provided to reflect updated caseload estimates and related factors.

Total expenditures for the state Developmental Centers is proposed at \$690.1 million (total funds), a decrease of \$24.7 million or 3.5 percent.

Significant Purchase of Services Cost Reduction at Regional Centers. The Governor proposes to reduce by \$100 million in General Fund support for the purchase of services for individuals with developmental disabilities receiving services through the Regional Center system. No details as to how this reduction will be achieved have as yet been provided. The Administration states that the reduction will be achieved through a number of proposals to be implemented in 2004-05 and 2005-06. The proposals will recommend establishing a Purchase of Services Standards, share of cost liability, a standardized rate structure and an alternative service delivery method.

Continues Cost Containment Actions Taken in the Budget Act of 2003. The Governor proposes to continue several cost containment actions enacted as part of the Budget Act of 2003. These include (1) \$10 million (General Fund) in unallocated reductions at the Regional Centers for the purchase of services, (2) continuation of the Day Program rate freeze, (3) continuation of the contract services rate freeze, (4) continuation of the Community Care Facility rate freeze, (5) continuation of the elimination of the SSI/SSP pass-through, (6) continuation of the delay in intake and assessment (60 days to 120 days), and (7) continuation of the non-community placement plan start-up suspension.

Co-Payment Assessment Program. The Governor proposes to implement a plan to be submitted to the Legislature by April 1, 2004 that will propose a system of enrollment fees/copayments to be assessed on parents of minor children between

the ages of 3 and 17 years who live at home and receive services through the Regional Centers.

Regional Center Cost Containment. The Governor proposes to reduce by \$6.5 million (General Fund) the Operations portion of the Regional Centers budget to reflect reduced funding for various administrative activities.

Title XX Social Services Block Grant Fund Shift. The Governor proposes to shift \$48 million in federal Title XX Social Services Block Grant funds and delete a commiserate amount in General Fund support for Regional Center services.

Mental Health Programs

Total Proposed Expenditures. The Governor proposes expenditures of \$2.5 billion (\$910.7 million General Fund) for an overall increase of seven percent and a General Fund increase of 3.6 percent. It should be noted that the increases are for the State Hospitals to account for employee compensation adjustments and the continuing activation of Coalinga State Hospital. Significant reductions are proposed for community mental health services, including childrens programs.

Elimination of the Children's System of Care Program. The Governor proposes to eliminate the highly efficacious Children's System of Care Program which provides medically needed mental health services to children with severe emotional disturbances. Elimination of the program would save \$20 million General Fund.

Reduces Early Mental Health Initiative for Children. The Governor proposes to reduce by \$5 million (Proposition 98/General Fund) the Early Mental Health Initiative Program which provides mental health assistance to young children enrolled in school.

Various Adjustments to the Early Periodic Screening Diagnosis and Treatment Program (EPSDT). The Governor proposes a *net* increase of \$244.6 million (total funds) for the Early Periodic Screening Diagnosis and Treatment Program (EPSDT). This adjustment includes a reduction of \$60 million from the rebasing of the statewide maximum allowances for mental health services to be completed by the Department of Health Services, and a reduction of \$13 million from additional oversight and auditing of the services.

Continued Activation of Coalinga State Hospital. The Governor proposes an increase of \$24.9 million (General Fund) for the continuing activation of Coalinga State Hospital.

California Work Opportunity and Responsibility to Kids

Reduction of CalWORKs grants. The Governor proposes to reduce CalWORKs grant levels by 5 percent to generate **\$225 million** in TANF fund savings which he proposes to transfer to offset General Fund costs in other programs. Under the Governor's proposal, the maximum monthly cash grant for a family of three would be reduced by \$59 to \$669, a level below the grants in effect in 1989. The reduction will be offset by a \$27 increase in monthly food stamps benefits.

Further, the Governor proposes to suspend the July 2004 CalWORKs cost of living adjustment for \$98 million in General Fund savings. He maintains his Mid-Year proposal to delink the CalWORKs cost of living adjustment from the Vehicle License Fee effectively suspending the October 2003 adjustment.

Change Work Participation requirements. The Governor proposes to require most adults receiving CalWORKs to work or participate in work related activities for at least 20 hours per week within 60 days of receipt of aid to realize \$99.8 million in General Fund savings. Currently, recipients can satisfy CalWORKs work participation requirements by participating in activities that will lead to employment, including education and training programs, within the first 18 to 24 months they are on aid. The Governor proposes to eliminate the 18 to 24 month time limit, to require applicant job search as a condition of eligibility and to require most adults to participate in work related activities within 60 days of receiving aid.

Reduction of Safety Net grants. The Governor proposes to reduce Safety Net grant received by families with non-working adults by 25 percent for General Fund savings of \$32.9 million in 2004-05. Safety Net grants are child-only grants provide cash assistance to children whose parents or caretaker relatives have exceeded their 60-month lifetime limit for receipt of cash aid. Under the Governor's proposal the maximum safety net grant for a family of 3 with non-working adults would be reduced from by \$163 to \$405 per month.

Reduction of Grants for Sanctioned families. The Governor proposes to reduce by 25 percent the grant received by families with an adult that is not complying with CalWORKs requirements after one month of non-compliance for General Fund savings of \$30.2 million. Currently, parents or caretaker relatives on CalWORKs that do not comply with program requirements are sanctioned and grants are reduced by the adult component of the grant. The Governor proposes a further reduction in the grant of families in sanction status for two months or longer.

In-Home Supportive Services Program

Elimination of Residual Program. The Governor proposes to eliminate the In-Home Supportive Services Residual Program for General Fund savings of \$88.8 million in the current year and \$365.8 million in the budget year. The proposed elimination will terminate services received by 75,000 low-income aged, blind or disabled Californians. Beneficiaries affected by the proposed elimination are consumers whose service provider is a parent or a spouse, consumers in need of protective supervision, and persons with severe disabilities who receive payment prior to service delivery. Seventy-six percent of IHSS Residual consumers will become ineligible for services or will lose a significant number of the hours of service they receive. The remaining consumers will remain eligible for IHSS and will need to alter their existing provider arrangement to receive services.

Reduction of state funding for Worker wages and benefits. The Governor proposes to reduce the level up to which the state participates in IHSS provider wages and benefits from \$10.10 to the State minimum wage (\$6.75) for General Fund savings of \$98 million in 2004-05 and \$130.7 million in 2005-06. The Governor proposes to repeal current law, which provides for state participation in wages and benefits resulting from collective bargaining agreements up to a maximum of \$12.10 per hour. The effect of the Governor's proposals is that upon expiration of current collective bargaining contracts, counties will have to reduce IHSS provider wages or fund the difference between minimum wage and the negotiated wage with county funds. In addition to reducing state participation in IHSS provider wages, the Governor proposes to repeal the existing requirement that counties establish an employer of record for IHSS providers and eliminates state funding for the county employers of record.

Elimination of Domestic Services. The Governor proposes to eliminate coverage for domestic services when consumers reside with other family members to realize General Fund savings of \$26.3 in 2004-05 and \$54.6 in 2005-06. The services to be eliminated include house cleaning, meal preparation, laundry and errands. Consumers would continue to receive personal care services. This proposal will reduce the authorized IHSS service hours of 139,000 persons.

Other Human Services Programs

Suspension of SSI/SSP cost of living adjustments. The Governor proposes to suspend the January 2005 state SSI/SSP cost of living adjustment and to withhold

the federal cost of living adjustment for General Fund savings of \$134.7 million in 2004-05 and \$269.4 million in 2005-06. The maximum SSI/SSP grant would remain at the current level, which is \$790 for individuals and \$1,399 for a couple.

Reform of Programs serving immigrants The Governor proposes to eliminate various human services programs that serve immigrants and proposes a single county block grant to fund safety net services for immigrants. The programs subject to elimination include CalWORKs benefits for recent legal immigrants, the California Food Assistance Program, the Cash Assistance Program for Immigrants and Healthy Families Program for Immigrants. The Governor reduces funding available for these immigrant safety net services by \$6.6 million General Fund.

Foster Care Program Reforms. The Governor's Budget assumes \$20 million General Fund in savings resulting from development and implementation of programmatic reforms that shorten the period of time children spend in foster care. The reforms may include use of performance-based contracts in foster care, restructuring of foster care rates and receipt of a federal waiver that permits use of federal foster care funds for child welfare purposes, including intensive services to keep children with their birth parents and reduce out-of-home placements.

Child Support Services

County Share of the Penalty for Delayed Implementation of the Child Support Automated System. The Governor proposes a permanent 25 percent county share of the alternative federal penalty, a penalty resulting from the state's failure to implement a statewide automated child support system. California has been subject to the alternative federal penalty since 1997. The 2003 Budget Act included a one-time county share of the penalty. The Governor proposes to continue the county share of the penalty for General Fund revenues of \$55 million in 2004-05.

County share of Child Support collections. The Governor proposes to eliminate the county share of child support collections for an increase in General Fund revenues of \$39.4 million. The county-share of child support collections results from the distribution of collections from families receiving cash assistance and is consistent with the county-share of funding for CalWORKs aid payments.

Labor

Unemployment Insurance and Workers Compensation. The Governor states that he will seek additional changes and reform to the State's Unemployment Insurance and Workers Compensation programs. However no specific proposals have been proposed by the Administration. The Governor states that any budgetary changes needed to implement these reforms will be included in the May Revision.

Paid Family Leave. The Governor proposes \$395 million for the first full year operation of the Paid Family Leave Program.

Employment Training Panel. The Governor proposes \$53 million for the Employment Training Panel.

Veterans' Affairs

Elimination of the Office of Inspector General. The Administration is proposing to eliminate the Office of the Inspector General for Veterans Affairs.

Local Government

Vehicle License Fee. The Governor proposes to fully fund the VLF offset backfill to cities and counties at a General Fund cost of \$4.1 billion.

Additional ERAF Shift. The Governor proposes \$1.3 billion in General Fund savings in 2004-05 from a proposed ongoing annual increase in the property tax shift from local governments to schools and community colleges. This shift takes place through the Educational Revenue Augmentation Fund (ERAF) in each county and reduces on a dollar-for-dollar basis the state's GF obligation to K-14 education under Proposition 98. The administration indicates that this proposal is intended as a permanent ongoing equivalent to the \$1.3 billion of VLF gap funding shortfall to local government in the current year. However, this additional ERAF shift will not be repaid to local governments, and the impact will fall heavily on counties, special districts, and redevelopment agencies.

Other proposals. The Governor proposes to reduce General Fund as follows: (1) \$38.2 million from eliminating Booking Fee subventions, (2) \$179 million associated with the suspension of Proposition 42 local transportation funding allocations, and (3) \$11.9 million from eliminating the remaining Realignment portion of the VLF backfill for International Registration Plan Trailers (\$5.9 million 2003-04 was included in the mid-year reductions).

Transportation

Suspension of Proposition 42 Transfer to the Transportation Investment Fund (TIF). The Governor proposes to fully suspend the Proposition 42 transfer to the TIF for the 2004-2005 budget-year. The Administration estimates General Fund savings of \$1.12 billion as a result of this proposal. A full suspension of Proposition 42 will have a crippling effect on the Traffic Congestion Relief Program (TCRP), the State Transportation Improvement Program (STIP), and funding for local street and road maintenance. Please see the following issue for a more detailed discussion regarding the TCRP and STIP.

Repeal the statutory authority for projects in the Traffic Congestion Relief Program (TCRP). The Governor proposes to transfer \$189 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund, and eliminate the authority for all 159 projects in the TCRP. The Administration argues that the TCR project sponsors can secure funding through the STIP, or local funding mechanisms.

The TCRP authorized \$4.9 billion for 159 specific projects over a 5-year period. The recent cash flow estimate for currently allocated TCR projects estimates that only \$74 million will be unexpended at the end of the year. This raises the question of how the Administration intends to capture \$189 million if the majority of these funds are expended? Another issue to consider is what effect this proposal will have on existing contracts. Taking the \$189 million from the TCRF will likely cause a number of contracts to be cancelled. In the likelihood that contracts are terminated, the Administration should identify all costs associated with the contract terminations. Who is going to pay these costs and what fund source(s) will be used?

Another problem with this proposal is incorporating the TCR projects in the STIP. The draft 2004 STIP Fund Estimate results in taking \$5.5 billion in projects and rescheduling them over the 5 years of the 2004 STIP. This assumes the Transportation Investment Fund (TIF) transfers to the STIP and PTA. If the Administration proposes to suspend the TIF transfers in the 2004-05 budget-year, the Transportation Commission (CTC) will likely have to deprogram projects.

Repeal the High Speed Rail Bond Initiative. The Governor proposes to repeal the High Speed Rail General Obligation Bond from the ballot in 2004. Senate Bill 1856 (Chapter 697, Statutes of 2002), authorizes a \$9.95 billion bond measure to

help fund the planning and construction of the high speed rail passenger system. The Administration is proposing to fund the High Speed Rail Authority in the budget-year.

Federal Grant Anticipation Revenue Vehicles (GARVEE Bonds). The Governor proposes \$800 million from GARVEE Bond proceeds to offset the loss of transportation revenues. The issuance of GARVEE bonds allows the state to borrow against future-year federal funds, for purposes of spending the funds now. The resources generated from the bonds would be used for projects in the STIP.

Public Employee Retirement Contributions. As public employee contracts are re-opened, bargained, and renewed in the coming years, the Governor proposes to increase the individual employee's contribution towards their retirement by one percentage point. (For example, state employees currently contributing five percent of their income would contribute six percent.) Implementation of this proposal is contingent upon the collective bargaining process.

Two-Tiered Pension System. The Governor proposes to revert back to a two-tiered retirement system, whereby newly hired state employees contribute less of their salary to the Public Employee Retirement System in exchange for reduced benefits under the State's defined-benefit retirement system. Combined with the above-noted increase in employee contributions, these two reforms are expected to result in \$950 million in General Fund savings in 2004-05.