

California Budget Project  
E-mail Update  
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Governor Gray Davis released his proposed 2002-03 Budget on Thursday, January 10. The Governor's Budget attempts to close a \$12.5 billion budget gap. The gap results from an \$8.2 billion (10.5 percent) drop in revenues between 2000-01 and 2001-02, including a \$6.2 billion (13.8 percent) drop in personal income tax revenues. The Governor proposes to bridge the gap with spending reductions (\$5.226 billion); shifting costs from the General Fund to other funds (\$586 million); assumptions of increased federal support for state programs (\$1.066 billion); and loans, revenue accelerations, and transfers (\$5.624 billion). The spending reductions include \$2.449 billion in current (2001-02) and budget (2002-03) year savings announced in November and \$2.677 billion in additional budget year reductions. The Governor has asked the Legislature to make the statutory changes needed to enact the proposed reductions at a special session in January. Proposed 2002-03 General Fund spending is \$42 million (0.1 percent) above the 2001-02 Budget as enacted and \$426 million (0.5 percent) above the revised 2001-02 spending level. The single largest "gap bridging" measure is securitization of tobacco settlement payments (see below) that would accelerate \$2.4 billion of revenues into the budget year. The largest share of proposed spending reductions comes from human services programs (\$742 million).

The following provides a brief summary of the Proposed Budget. Future, more detailed analyses will be available on the California Budget Project (CBP) web site at [www.cbp.org](http://www.cbp.org).

#### GOVERNOR'S BUDGET ASSUMES ECONOMIC UPTURN BY MID 2002

The economic assumptions underlying the Governor's Budget are similar to those in the November forecast prepared by the Legislative Analyst's Office (LAO). Where they differ, the Governor's outlook tends to be more conservative, with smaller near-term employment and personal income gains. Both forecast a relatively mild recession through mid-2002 and then an economic rebound. For calendar year 2002, the Governor's Budget forecasts wage and salary employment growth of 0.3 percent, personal income growth of 2.6 percent, and taxable sales growth of 0.8 percent. For 2003, the Governor's Budget assumes job gains of 2.4 percent and a 7.5 percent increase in both personal income and taxable sales.

The Governor's Budget identifies several potential risks to its forecast, including "a sharp retrenchment by consumers [and] a deepening and extension of the high-tech recession." The LAO's list of risks to its recovery forecast also include potential ongoing economic effects of the September 11 terrorist attacks and a potential "stagnation or further decline" in the stock market.

#### THE ROOTS OF THE PROBLEM

The budget gap results from a shortfall in revenues in the current budget year relative to the amount needed to fund the current level of state services. Most of the revenue shortfall is attributable to an \$8.2 billion drop in taxes paid on capital gains and stock options between 2000-01 and 2001-02. In 2000-01, tax paid on stock options and capital gains accounted for nearly a quarter of state General Fund revenues. The downturn in high technology industries and the dot.com bust severely depressed tax revenues generated by these two sources of income. While

the Budget assumes that revenues will rebound in 2002-03, with growth estimated at 12.0 percent, this growth occurs off a smaller base. Corporate income taxes are anticipated to decline by \$1.6 billion (23.7 percent) between 2000-01 and 2001-02, and sales taxes are expected to decline by \$111.8 million.

The budget gap is not the result of the energy crisis or the state's \$6.2 billion loan to finance the purchase of electricity on behalf of customers of investor owned utilities. The Budget assumes that this loan will be repaid during the current year.

The downturn in the state's economy and revenue situation began long before the September 11 terrorist attacks. California's downturn is largely linked to the cutbacks in technology related industries. These reductions, in turn, have caused unemployment rates to rise significantly in the Bay Area. Santa Clara County's unemployment rate, for example, rose from 1.5 percent in November 2000 to 6.6 percent in November 2001. The California economy, however, continues to outperform that of the nation. Nonfarm employment rose by 1.8 percent in California in 2001, while increasing by just 0.3 percent in the US as a whole.

In a report released in November, the Legislative Analyst's Office (LAO) estimated that the state would face deficits through 2006-07, the end of their forecast period, under current spending and revenue policies. A preliminary analysis suggests that the Governor's proposed budget balancing measures will be insufficient to address the longer-term imbalance between state revenues and expenditures.

#### HOW IS THE BUDGET BALANCED?

As noted above, the Proposed Budget reduces spending and uses a wide of array of other strategies to bring spending and revenues into balance and provide for a \$511 million reserve, including:

**ASSUMING THE FEDS PICK UP THE BILL:** The Proposed Budget assumes that the state will receive an additional \$1.066 billion in federal funds including:

- \$400 million in Medi-Cal funds;
- \$181 million in relief for penalties the state now pays for failure to have a statewide child support collection system;
- \$350 million in reimbursement for security costs in the wake of the September 11 terrorist attacks; and
- \$35 million in savings due to a reinstatement of federal food stamp eligibility for legal immigrants.

**BORROWING AND DEFERRALS:** The largest share of the budget balancing solutions comes from loans, revenue accelerations, and transfers from Special Funds to the General Fund including:

- \$2.4 billion from securitizing the state's tobacco settlement. The Budget proposes to sell a \$2.4 billion bond that would be repaid with \$4.2 billion in future tobacco settlement payments over 23 years. This proposal would provide \$2.4 billion to balance the 2002-03 Budget, but reduce future state revenues by \$190 million per year.

- \$672 million loan from the Traffic Congestion Relief Fund (TCRF). These funds are the proceeds of the sales tax imposed on gasoline that were transferred to the TCRF in 2000-01. The 2001-02 budget agreement reversed the transfer of these revenues to a special fund for 2001-02 and 2002-03. However, if Proposition 42 is enacted by the voters, these funds will not be available to help close budget gaps in 2003-04 and beyond. The Governor proposes to repay this loan. The Budget also loans \$474 million from the State Highway Account to the TCRF.
- \$879 million in deferred employer contributions to the Public Employees Retirement System (PERS) and State Teachers Retirement System (STRS). The state would repay this amount in future years, and the retirees would receive additional benefits in exchange for the deferral.
- \$97 million from transferring cash balances in unrestricted special funds to the state's General Fund.
- \$579 million in loans from restricted special funds to the state's General Fund. These loans will be repaid with interest.

TAXES: The Budget assumes that the state will conform state income tax law to a number of the changes made in federal tax law in 2001 and prior years. Tax proposals include adopting federal contribution limits for retirement and educational savings accounts, estimated tax payment amounts (which accelerate, but do not increase, revenue collections), and would require corporations to make the same choices on a number of options ("elections") for state tax purposes as they do for federal purposes. The proposed changes would increase state tax collections by \$178 million in 2002-03, but would reduce revenues in future years. The increased revenue results from taxpayers paying amounts due sooner, rather than paying more. The Governor also proposes to narrow the sales tax exemption granted for farm equipment as part of last year's budget. This will reduce the revenue loss that would otherwise occur due to an interpretation adopted by the Board of Equalization, and would reduce the interest rate the state pays on certain tax overpayments for a savings of \$25.4 million.

The phase out of the federal estate tax included in last year's federal tax package will reduce 2002-03 revenues by \$367 million. The loss stems from the fact that states receive a portion of federal tax collections. This loss will increase to \$1.27 billion in 2005-06, when the state's share of the tax is eliminated.

## CALWORKS

- The Governor's Budget projects an increase in the CalWORKs caseload of 3.9 percent over the estimate used in the 2001 Budget Act. This represents the first increase in the caseload since its peak in 1994-95.
- The CalWORKs budget assumes that families will begin reaching time limits in January 2003, five years after the CalWORKs program began. This will result in reduced expenditures for grants, employment services, and child care. Families who have "timed off" still receive a cash grant for the children in the family and are eligible for child care if the parents are employed. This results in an estimated savings of \$223 million (General Fund and federal funds).
- The Governor's Budget states that total CalWORKs expenditures will be \$7.4 billion (General Fund and federal funds), including \$6.2 billion in the Department of Social Services (DSS), \$607 million in the California Department of Education (CDE) and the California Community

Colleges (CCC) for child care, \$165 million for a child care reserve, and \$208 million in other departments.

- The Governor proposes a new county program grant structure for employment services, eligibility administration, child care, mental health and substance abuse services, and juvenile probation. Previously, only employment services, administration, and child care funds were consolidated in the "single allocation" fund to counties.
- The Governor's Budget proposes to meet, but not exceed, the required state maintenance of effort (MOE) spending requirement for the Temporary Assistance for Needy Families (TANF) federal block grant, which is 75 percent of historical spending levels (\$2.7 billion).
- The Governor proposes to freeze cash grants at current levels: \$679 in high cost counties and \$647 in low cost counties for a family of three.
- In addition to annual federal TANF funds and state MOE match funds, the CalWORKs budget includes \$600 million (federal funds) in unspent performance incentive funds already paid to counties in previous years. Of the \$600 million, \$169 million will be used for the core CalWORKs program, and the remaining \$431 million will be re-appropriated to counties as performance incentive funds in 2002-03.
- The CalWORKs budget assumes program savings of \$183 million (\$2.5 million General Fund) in Stages 1 and 2 child care due to the Governor's Child Care Reform proposal (see Child Care section).
- The Governor's Budget does not include any funds to fulfill the state's part of the match for previously received federal Welfare-to-Work funds. The state has until July 2004 to fulfill the remainder (approximately \$65 million) of the match requirement.
- The Governor proposes to eliminate funding for CCC employment services and CDE adult education for CalWORKs recipients. The Governor maintains funding of CalWORKs child care through the CCC and CDE.
- The Budget includes \$11.3 million General Fund for fraud detection in the CalWORKs and Food Stamp Program with the State Fingerprint Imaging System, a decrease from the \$11.7 million included in the 2001 Budget Act.
- The Governor's Budget includes \$56.8 million (\$19.1 million General Fund) to implement the Electronic Benefit Transfer (EBT) system to deliver food stamp and CalWORKs benefits. Federal law requires states to implement an EBT system for food stamps.

## OTHER SOCIAL SERVICES

The Budget proposes \$742 million in reductions in human service programs. These reductions are primarily achieved by suspending state Cost of Living Adjustments (COLAs), eliminating funding for the California Food Assistance Program in anticipation of a federal restoration of immigrant eligibility for food stamps, and reductions in the CalWORKs program. Specific proposals include:

- \$3.0 billion General Fund for the Supplemental Security Income/State Supplemental Payment (SSI/SSP) program. This includes a 1.8 percent federal COLA in January 2003, but no state COLA, for a savings of \$132.2 million. The COLA will increase the monthly benefit to \$759 for individuals and \$1,347 for couples.
- \$113.4 million General Fund for the Cash Assistance Program for Immigrants (CAPI). This program provides state-funded assistance to certain elderly, blind, and disabled immigrants not eligible for SSI/SSP. Because CAPI grants are tied to SSI/SSP payment standards, the

grant will be increased by 1.8 percent. The expansion of CAPI to documented immigrants arriving in the US after August 22, 1996 was made permanent in 2001.

- Elimination of funding for the California Food Assistance Program (CFAP), for a savings of approximately \$72.5 million. CFAP provides food stamps for individuals who are not eligible for federal food stamps because of their immigration status. The Budget assumes that federal eligibility will be restored for these individuals in the upcoming federal fiscal year. This would result in a loss of benefits between June 30, 2002 (the end of the state fiscal year) and October 1, 2002 (assuming federal restoration begins in the 2003 federal fiscal year). As of September 2001, 83,066 people received food stamps through CFAP.
- \$2.6 billion (\$1.0 billion General Fund) for In-Home Supportive Services (IHSS), an increase of \$235 million (\$94 million General Fund) over the 2001-02 Budget. IHSS provides supportive services to low income aged, blind, and disabled individuals so that they may remain in their homes. The caseload is projected to increase by 6.5 percent. The Budget does not fund Public Authority county provider wages beyond the level supported in the 2001-02 Budget.
- No COLA for foster care payments.
- \$15.1 million increase for Child Welfare Services Basic Costs to account for a projected caseload growth of 1.2 percent and 2.89 percent cost of doing business increase.
- \$120.8 million (\$74.3 million General Fund) to allow counties to continue to reduce Child Welfare Services (CWS) caseloads.
- \$132.7 million (\$62.3 million General Fund) for the Child Welfare Services (CWS) Base Funding Adjustment, a \$30.4 million (\$13 million General Fund) increase.
- \$4 million for competitive grants to faith-based organizations to provide job-related services to individuals with multiple barriers to employment.

## HEALTH PROGRAMS

- The Governor's Budget includes \$407 million in spending reductions in health care programs.
- The Budget increases funding for the Medi-Cal program by 4.6 percent, to \$26.9 billion (\$10.1 billion General Fund). The Budget assumes that caseloads will increase by 6.8 percent.
- The Budget provides \$42.1 million (\$21.1 million General Fund) to implement "express lane" eligibility, which would link eligibility for the Medi-Cal and Healthy Families programs to the Food Stamp Program and the National School Lunch Program.
- The Budget provides funding for a one-time payment of \$350 million (\$175 million General Fund) to address prior years' reimbursement rates for hospital outpatient services. The federal government has yet to approve federal financial participation for this payment, which resulted from a recent court settlement.
- The Proposed Budget also includes \$183 million (\$91.5 million General Fund) to continue the higher hospital outpatient services reimbursement rates that were included in the 2001-02 Budget.
- Medi-Cal recipients will be required to make copayments of \$1 to \$3, or up to \$5 for emergency room services, under the Governor's Budget plan. These copayments will be deducted from provider reimbursements and are estimated to result in net savings of \$61.2 million (\$30.6 million General Fund).
- The Budget partially rescinds the recent provider rate increases of approximately \$800 million by \$155.1 million (\$77.6 million General Fund), for a savings of approximately 19 percent. The

Budget states that reductions will be structured to minimize the impact on children and seniors.

- Additional cost-control programs in the Medi-Cal drug program are estimated to save \$201 million (\$100 million General Fund).
- The Budget proposes to capture an additional \$50 million in federal funds for individuals eligible for various health and social services programs, resulting in a General Fund savings of the same amount.
- The Budget assumes an additional \$400 million in federal Medi-Cal funding will offset the cost of Medi-Cal services in the current year (\$400 million in General Fund savings).
- The Budget includes \$193.8 million to absorb the loss in federal funds for the decreased federal Medi-Cal match rate, which is effective October 2002.
- The Budget increases the fee the state charges public and University of California hospitals for the Disproportionate Share Hospital (DSH) program to \$85 million, resulting in \$55.2 million in General Fund savings.
- The Budget restores \$19 million General Fund that the Governor proposed to cut in November to fund compliance with the Health Insurance Portability and Accountability Act (HIPAA) in 2002-03.
- The Budget augments funding for licensing and certification of nursing homes and outpatient care by \$5.3 million (\$2.7 million General Fund).
- The Budget restores \$25 million of the \$30 million in cuts the Governor proposed in November to the trauma care system for 2001-02.
- The Budget postpones the expansion of the Healthy Families Program to cover parents until July 2003.
- The Budget reduces funding for outreach activities for Medi-Cal and the Healthy Families Program by a total of \$20.7 million, related to the delay of including parents in the Healthy Families Program.
- The Budget eliminates the Child Health and Disability Prevention Program (CHDP) for savings of \$69.5 million (\$6.2 million General Fund and \$63.3 million Tobacco Settlement Fund (TSF) and shifts the CHDP caseload to the Medi-Cal program and the Healthy Families Program (HFP). The Budget increases the Medi-Cal budget by \$29.6 million to account for the shift, and HFP receives \$15.4 million (\$5.9 million TSF) to account for the increased caseload. The Budget also augments the Expanded Access to Primary Care (EAPC) program by \$17.5 million in Tobacco Settlement Fund dollars to reflect services provided to children formerly covered by CHDP.
- The Budget augments the AIDS Drug Assistance Program by \$22.4 million (\$20.4 million General Fund) to reflect both increased demand and rising drug costs.
- The Budget provides an increase of \$7.2 million for the Childhood Lead Poisoning Prevention Program.
- The Budget continues the base level of services for most programs funded by Proposition 99. The Budget includes small increases for the Breast Cancer Early Detection Program and for caseload growth in the Access for Infants and Mothers (AIM) program.
- The Budget eliminates \$25 million in Proposition 99 funding for the Cancer Research program.

## CHILD SUPPORT

The Budget assumes that the federal government will waive penalties for the delayed implementation of the statewide automated child support system. This will result in savings of approximately \$181.3 million.

## HOUSING

- The proposed 2002-03 Budget reduces General Fund housing spending by \$107.8 million in the current year and \$37.9 million in the budget year. The bulk of the cuts (\$134.3 million) come from the Jobs-Housing Balance Improvement Program (\$59.7 million in the 2001-02 Budget) and the Multifamily Housing Program (\$45.1 million in the 2001-02 Budget and \$29.5 million in the 2002-03 Budget).
- Other budget year cuts include \$3.6 million from the Farmworker Housing Program, \$2.0 million from the Emergency Housing Assistance Program, and \$2.1 million from the Self-Help Housing Program.
- Although housing programs under the Department of Housing and Community Development (HCD) received an unprecedented General Fund allocation of \$559.0 million in the 2000-01 Budget, the 2002-03 Budget proposes only \$37.6 million for HCD, a 93.3 percent reduction. The Administration justifies the modest budget proposed for HCD by anticipating passage of a housing bond in 2002. SB 1227 (Burton), currently in the Assembly Housing and Community Development Committee, authorizes a \$2.0 billion general obligation bond to be submitted to voters in November 2002. This bond would finance existing housing and code enforcement programs.

## K-12 EDUCATION

- The Budget proposes a total 2002-03 Proposition 98 funding level of \$46.0 billion for K-14 programs, which represents a 1.1 percent increase over the 2001 Budget Act level of \$45.5 billion. The state General Fund share of 2002-03 Proposition 98 funding is \$31.4 billion, which is a 1.9 percent decrease from the 2001 Budget Act share of \$32.0 billion. The decrease in the state's share of funding is due to an anticipated 7.8 percent growth in local property tax revenues.
- The Governor's Budget assumes that the \$843.5 million in cuts to education programs proposed in November will be adopted by the Legislature. If any of the reductions are not enacted, the 2002-03 Proposition 98 guarantee would increase, which would require additional funds to be dedicated to education programs in order to fully fund the guarantee. The remainder of this discussion is based on the Governor's assumption that the proposed cuts will be enacted.
- The Budget fully funds Proposition 98 statutory growth and cost of living (COLA) adjustments for K-12 programs at the Test 2 level, resulting in \$7,058 per pupil, an increase of \$136 or 2.0 percent over the amended 2001 Budget Act level.
- In order to provide the full COLA (\$599.1 million) and growth (\$304.5 million) adjustments to local education agencies for general purpose spending, the Governor proposes an additional \$487.0 million in spending reductions for K-12 programs, and uses a \$112.3 million increase in the Federal Special Education Grant to replace, rather than fully augment, General Fund spending for special education.

- The largest share of the proposed cuts (43.8 percent) are in instructional support programs, including \$158.5 million for School Library Materials, \$25.0 million for K-4 Classroom Library Materials, \$21.6 million for School Development Plans and Resource Consortia, and \$5.9 million for College Preparation Partnership Programs. Proposed cuts in instructional programs include \$43.0 million for a 10.0 percent reduction in independent study apportionments.
- Proposed reductions for categorical programs include \$15.0 million for the Digital High Schools program, \$10.2 million for alternative teacher credential programs, and \$5.0 million for Advanced Placement programs.
- Several programs have proposed funding levels that do not appear to be reductions because of the assumption of the adoption of the proposed November cuts, but are actually below the 2001 Budget Act level. For instance, the Budget proposes \$87.0 million for the Peer Assistance and Review program, which is \$47 million below the 2001 Budget Act level, and \$88.3 million for the Beginning Teacher Support and Assessment program, which is \$16.3 million below the 2001 Budget Act level. However, the Budget provides \$197 million for the High Priority Schools Block Grant program, implementation of which was delayed in the proposed November reductions.
- The Governor maintains the 2001-02 funding level for the Governor's Performance Awards at \$157.0 million, the Teaching as a Priority Block Grant at \$118.7 million, and the Teacher Recruitment Initiative Program at \$9.4 million. The Budget also proposes one-time spending, to be funded from the Proposition 98 Reversion Account, of \$200.0 million for a Text Book Block Grant, \$100.0 million for school and classroom library materials, and \$75.0 million for science lab equipment.
- Proposed increases include \$30 million for a total funding level of \$110.0 million for the Mathematics and Reading Professional Development program, and \$29.1 million for a total funding level of \$205.4 million for Deferred Maintenance.

## CHILD CARE

The Governor's Budget proposes far reaching changes to the state's child care and development programs that serve at-risk and low income children. In total, according to the Governor's Budget Summary, child care spending will increase by \$150 million (4.9 percent) over current year levels.

**SAVINGS AND REINVESTMENTS:** The proposal anticipates \$400 million in program savings from several sources. These include increased family fees, a reduction in the market rate cap for provider payments, and a phase-out of the Extended Day (Latchkey) child care program in favor of an expansion of the After-School program. These savings would be reinvested in child care to serve an additional 102,000 children, of whom 79,000 will be served in the After-School program, with the balance served in the Alternative Payment (voucher) child care program. Family fees would begin "with small amounts at the lowest incomes," a change from the current exemption from fees for families with incomes below 50 percent of the state median. In addition, fee levels would be based not only on family income, as under current law, but also on the length of time a family receives subsidized care. The responsibility to collect parent fees would shift from the administering child care agency to the child care provider. The Governor's Budget also proposes to reduce the reimbursement limit for provider payments to the 75<sup>th</sup> percentile of the regional market from the current market rate ceiling of approximately the 93<sup>rd</sup> percentile. Parents who

select or retain care from providers with higher rates would be required to make additional copayments to their provider.

**OTHER PROGRAM CHANGES:** The Governor's Budget proposes to lower the income eligibility ceiling for families to qualify for subsidized child care. The current ceiling is 75 percent of state median income (SMI), or \$35,100 for a family of three. The Budget reduces the income eligibility limit to 66 percent of the SMI in four Bay Area counties, to 63 percent of SMI in other high cost counties, and to 60 percent of SMI for remaining counties. In addition, the Governor's Budget proposes a change to the current priority for services. Currently, children at risk of abuse or neglect receive priority and child care subsidy programs enroll families based on income up to the number of slots available. The Governor's Budget now proposes, within the income eligible population, to first enroll families who work full-time and have children under age five who are in need of care.

**STAGE 3 CHILD CARE:** Former recipients of CalWORKs who have exhausted their two-year post-CalWORKs child care entitlement currently are able to continue service in the so-called Stage 3 child care program. The Governor's Budget eliminates Stage 3 as of April 1, 2003. Families in Stage 3 as of that date and the funding attributable to them (\$218.1 million) would be transferred to the Alternative Payment program that serves other low income families, and families would continue to receive care as long as they remain eligible. Families that exhaust their eligibility for Stage 1 and Stage 2 child care after March 31, 2003 would compete with other low income working families for subsidized slots based on family income and space availability.

**COST OF LIVING ADJUSTMENT:** The Governor's Budget provides a \$26.1 million (\$20.8 million General Fund) to support a 2.15 percent COLA for "all eligible child care programs."

## HIGHER EDUCATION

- The proposed 2002-03 Budget provides a net General Fund augmentation of \$40.3 million to the University of California (UC) and \$28.1 million to the California State University (CSU) systems. The only funding increases provided are under the Partnership Agreement, which provides funds for enrollment growth and other programs if the UC and CSU meet specified accountability goals.
- The Budget does not increase student fees for any of the three higher education institutions.
- The UC budget includes \$72.5 million in reductions related to one-time funding provided in 2001-02 for energy, outreach, and other programs. It includes further cuts of \$30 million "to address the current economic situation." The Budget increases the Partnership Agreement by \$142.8 million, including funding for 3.9 percent enrollment growth (\$63.8 million) and a 1.5 percent increase to the General Fund base (\$47.5 million).
- The CSU budget includes \$26.0 million in cuts to address the current economic situation, \$18.9 million in reductions related to one-time funding provided in 2001-02, and a \$9.1 million reduction in the cost of lease purchase bonds, as well as providing for \$35.8 million in carryover funds from 2000-01. The Budget increases the Partnership Agreement by \$117.9 million, including funding for 4.0 percent enrollment growth (\$78.1 million) and a 1.5 percent increase to the General Fund base (\$37.7 million).
- The 2002-03 Budget reduces General Fund spending for the California Community Colleges (CCC) by \$59.9 million, primarily attributable to reductions in services to CalWORKs-eligible

students. The proposed \$104.2 million increase in total CCC spending assumes a 7.8 percent increase in local property tax revenues.

- The 2002-03 Budget proposes a \$155 million increase to the Cal Grant Program, for a total of \$694.3 million, which provides financial aid to UC and CSU students.

## LOCAL GOVERNMENT

- While the Governor's Budget Summary notes that local governments are incurring significant costs related to anti-terrorism security efforts, it anticipates that federal funding will provide some relief.
- The 2002-03 Budget provides the same level of funding as the prior year for the Citizens' Option for Public Safety (COPS) Program (\$116.3 million), local juvenile crime prevention programs (\$116.3 million), the High Technology Theft Apprehension and Prosecution Program (\$13.5 million), and for local law enforcement purchases of high technology equipment (\$35.4 million). Spending for the war on methamphetamine, however, is reduced from \$30 million to \$15 million.
- As required by legislation passed in 1999 and 2000, the 2002-03 Budget provides \$38 million in reimbursements to cities and special districts for booking fees and \$18.5 million in grants for sheriffs in small and rural counties.
- The 2002-03 Budget provides full backfill funding to local governments (\$3.7 billion) to make up for recent reductions in the state's Vehicle License Fee (VLF).

## LABOR AGENCY

The Governor's Budget reorganizes existing departments to form a new Labor Agency, to be comprised of the Employment Development Department (EDD), the Department of Industrial Relations (DIR), the Workforce Investment Board (WIB), and the Agricultural Labor Relations Board. The stated intent is to improve coordination and consolidate state workforce development activities. Existing apprenticeship programs, now administered by the DIR, California Department of Education (CDE), and California Community Colleges (CCC), would be consolidated under the DIR. Existing vocational and adult education programs, now administered by the CCC, CDE, and the Governor's Secretary of Education, would be administered by the CCC. In addition, to the extent permitted under federal law, existing job training funds in various programs would be combined into two block grants. Funding totaling \$2.9 billion (\$458.7 million General Fund) for programs in employment services, economic development, and job training would be combined in a workforce development block grant. An additional \$1.7 billion (\$1.6 billion General Fund) in existing program funds would be combined into a vocational and adult education block grant. The Governor's Budget also proposes to strengthen the existing job training performance accountability system by redirecting an unspecified amount of funds from existing workforce development programs.

## CAPITAL OUTLAY

The Budget proposes an "Economic Stimulus" package of accelerated capital outlay projects totaling \$678.3 million, which will be funded with lease-revenue bonds. The stimulus package includes \$279 million for University of California projects, \$191 million for California State University projects, and \$170 million for California Community Colleges projects.