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Addressing the State's Fiscal Problem

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Due to weak economic and revenue performance, California faces a $12.4 billion budget shortfall in 2002-03. This report identifies several key budget-balancing principles to assist the Legislature in addressing the shortfall, including the importance of taking actions in the current year and considering a wide range of budget solutions. It then discusses basic budget-balancing strategies and specific spending and revenue options for implementing them. Finally, the administration's intitial proposals to address the current-year shortfall are reviewed and we offer additional current-year options for the Legislature to consider.

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BACKGROUND ON THE BUDGET PROBLEM

Economic Slowdown Depressing Revenues

Due to rising unemployment, mounting job losses, slowing personal income growth, and a sharp falloff in capital gains and stock options, revenues are falling well short of expectations. Cash collections are currently $1.3 billion below the *2001-02 Budget Act* forecast, and we estimate that combined 2000-01 and 2001-02 revenues will be $7.1 billion below the budget forecast. Our projected 12.1 percent revenue decline for the current year is a postwar record, and revenues are not projected to recover to last year's level until 2003-04.

Projected Shortfall Totals $12.4 Billion

Our November fiscal report indicated that:

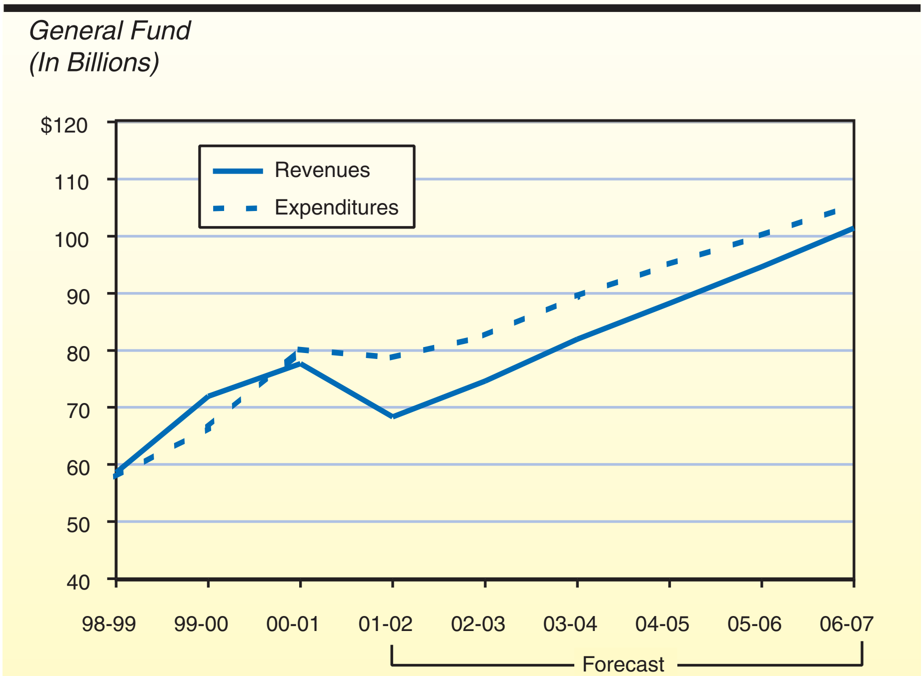
- ➢ The General Fund will conclude the current year with a deficit of $4.5 billion. This compares to the estimated $2.6 billion reserve that was included in the *2001-02 Budget Act*.

- ➢ In the budget year, an operating deficit (expenditures in excess of revenues) of about $8 billion will be incurred. When combined with this year's $4.5 billion deficit, this will leave the state with a cumulative year-end budget shortfall of $12.4 billion.

- ➢ Annual excesses of expenditures over revenues will persist well beyond the budget year, absent corrective actions. As indicted in Figure 1, although these annual operating deficits are projected to shrink over time—from about $7.5 billion in 2003-04 down to about $4 billion in 2006-07—they will remain in the multibillion dollar range throughout the forecast period. The fact that the state's projected annual operating deficit does

Figure 1

Gap Between Revenues and Expenditures to Persist



not disappear over time indicates that the state cannot simply "grow itself" out of its budget problem.

Where Did All the Money From the "Good Times" Go?

The magnitude of the current budget problem and the speed with which it emerged are in striking contrast to the booming economy and good times that the state budget has enjoyed for a number of years. Given this, a natural question is: *Exactly what happened to the billions of dollars of new revenues that the state's economic boom generated*?

Spending Has Grown Significantly. Most of the added revenues have funded growth in state programs. As shown in Figure 2, General Fund spending flattened during the early 1990s' recession and grew relatively modestly until mid-decade. Then, however, it increasingly accelerated as the decade progressed. Overall, between 1993-94 when the economic recovery began and 2001-02, total spending more than doubled—from $39 billion to $79 billion—with about one-half of this overall increase occurring in 1999-00 and 2000-01.

What Makes Up the Growth in Spending? Our analysis indicates that a number of factors have played a role in the nearly $40 billion of new spending. As shown in Figure 3, the sources of the overall spending growth can be divided into four major categories:

- ***Workload/Inflation***. About $15 billion (39 percent) of the increase is due to workload (such as increased caseloads and school enrollments) and inflation-related costs.

- ***New/Expanded Programs.*** About $17 billion (43 percent) is related to new or expanded programs, mostly in education, but also in resources and health-related areas.

- ***Tax Relief.*** About $2.5 billion (6 percent) is related to the portion of tax relief funded through the budget and showing

Figure 2

General Fund Spending 1991-92 Through 2001-02

(In Billions)

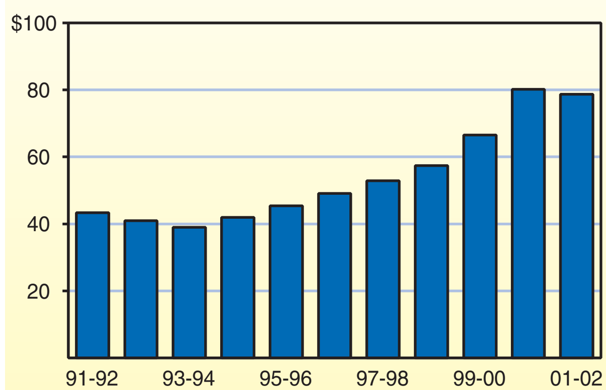
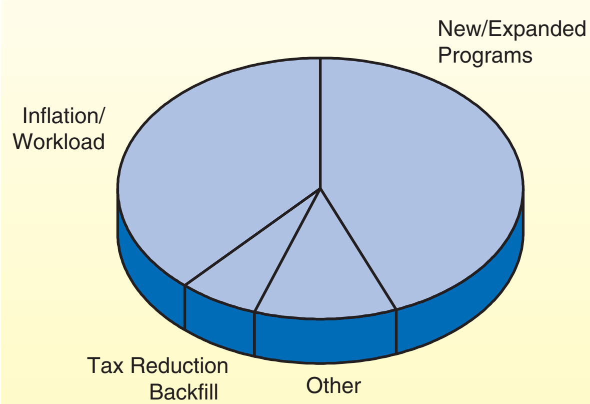


Figure 3

Key Components of General Fund Expenditure Growth

1993-94 Through 2001-02



as an expenditure. This includes the General Fund backfill to local governments for the 67 percent reduction in vehicle license fees ($2.3 billion, with an additional $1.2 billion having been provided through a prior-year appropriation), as well as expanded senior citizens' tax relief and minor additional relief ($0.2 billion).

- ***Local Government and Other Programs.*** Finally, about $4.6 billion (12 percent) is due to other factors. These include expanded trial court funding and other forms of local fiscal relief (about $700 million), as well as spending related to court cases, federal mandates, and additional funding to offset student and park fee reductions.

Additional Tax Relief Also Occurred. During this period, additional tax relief was provided beyond the $2.5 billion in tax relief funded through the budget. The measures involved, which are providing tax relief of about $2.8 billion in 2001-02, include a bank and corporation tax rate reduction, increases in the personal income tax dependent credit, a child care credit, a manufacturers' investment credit, and various targeted credits for teachers and businesses.

Program-by-Program Distribution of Spending Increases. Figure 4 shows how the overall $40 billion increase in state spending was allocated among major programs. It shows that about one-half of the total spending growth was in education—with K-14 Proposition 98 spending increasing by $17 billion and University of California/California State University growing another $2.7 billion. Medi-Cal increased by $4.1 billion, other health and social services increased by $3.1 billion, followed by corrections, and resources/environmental protection.

Causes of Spending Increases by Program Area. Figure 4 also shows that the mix of factors responsible for spending growth varied substantially among different state programs. For example, it shows that:

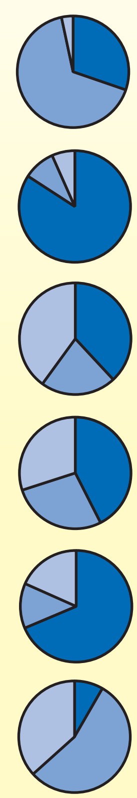
- ***Proposition 98***. About two-thirds of the increase in K-14 Proposition 98 education is related to new or expanded program funding. This is consistent with

Figure 4

General Fund Spending Increases, By Selected Program

1993-94 Through 2001-02

Program	Increase
K-14 Proposition 98	$17.2 Billion
Medi-Cal	$4.1 Billion
Other Health and Social Services	$3.1 Billion
UC & CSU	$2.7 Billion
Youth and Adult Corrections	$2.2 Billion
Resources and Environmental Protection	$1.0 Billion



Workload/Inflation | New/Expanded Programs | Other the substantial increases in inflation-adjusted per-pupil funding that has taken place in recent years. It also reflects new initiatives in a wide variety of areas, including class size reduction, the lengthened school year, teacher recruitment and training, new technologies, and student testing.

- ***Higher Education.*** In this area, added funding was provided for new or expanded programs in the areas of student outreach, year-round operations, and new campuses. Increases were also provided for other factors, such as compensation increases and funding to avoid student fee increases.

- ***Health and Social Services.*** The majority of Medi-Cal spending growth was related to inflation and caseloads, while program expansions played only a modest role. On the other hand, growth in other health and social services programs was due to expanded programs (such as Healthy Families and mental health), increased service levels (for example, child welfare services), and such other factors as pay increases for providers (particularly in the In-Home Supportive Services program) or changes to federal law. Combined funding for the state's two major social services programs—California Work Opportunity and Responsibility to Kids and Supplemental Security Income/State Supplementary Program—declined modestly.

- ***Other Programs.*** Growth in corrections spending was due to inmate population increases, as well as expanded funding for medical services, staff overtime and sick leave, and inmate drug treatment. Finally, the increase in resource and environmental protection spending reflects such factors as funding deferred state park maintenance, the CalFED Bay Delta program, flood control, fire suppression, and offsets for park fee reductions.

ADDRESSING THE BUDGET PROBLEM

Key Principles, Strategies, and Tools

As summarized in Figure 5, effectively addressing the budget problem involves several key budget-balancing principles. In addition, the Legislature will face decisions about broad budget-balancing strategies and specific tools to implement those strategies.

Key Principles

There are four basic budget-balancing principles that can guide the Legislature in approaching its decisions:

Wide Range of Budget Solutions Should Be Considered. Contrary to some popular views, most of the budget is "controllable" in that it can be modified through statutory changes. For example, only debt service, a small portion of total K-12 funding, and retirement contributions are truly uncontrollable in the short run. This principle even applies to Proposition 98, which can be suspended by a two-thirds vote. In addition, there are circumstances where Proposition 98 can be used to help the rest of the budget, by funding school-related programs that currently are funded outside of the Proposition 98 guarantee. Thus, the Legislature should "cast its net wide" when looking for budget solutions.

Out-Year Repercussions Should Be Assessed. Depending on their nature, the solutions used to solve one year's budget problem may help or hinder future budgets. For example, excessive use of temporary one-time solutions can leave underlying structural budget problems unaddressed and thereby set the stage for future deficits.

Budgetary Solutions Should "Make Sense." Budget solutions that eliminate or reduce low-priority, ineffective, or inefficient programs make economic sense and can even strengthen future budgets. To the extent possible, these should be given preference. In contrast, cutting back programs for which disruptions are excessively costly can, despite saving money in the near term, be counterproductive. Likewise, across-the-board spending reductions, while saving money in the

Figure 5

Basic Budget-Balancing Principles, Strategies, and Tools

Key Principles

- ✓ Wide range of budget solutions should be considered.
- ✓ Out-year repercussions should be assessed.
- ✓ Budget solutions should "make sense."
- ✓ Current-year solutions should play a key role.

Basic Strategies

- ✓ Determine the relative roles of spending and revenue options.
- ✓ Identify the appropriate contributions of different program areas.
- ✓ Establish the desired mix of one-time versus ongoing solutions.
- ✓ Assess whether a multiyear solution is appropriate and feasible.

Individual Tools

- ✓ Spending-related options.
  - Eliminate or modify programs.
  - Suspend/reduce COLAs.
  - Defer spending.
  - Shift funding from the General Fund.
  - Implement improvements and efficiencies.
  - Revert or disencumber funds.
- ✓ Revenue-related options.
  - Eliminate or modify tax expenditures.
  - Broaden basic tax bases.
  - Raise tax rates.
  - Transfer special fund balances.
  - Improve tax compliance and collections.
  - Revise accrual procedures and sell assets.

near term, will not necessarily weed out those ineffective and inefficient programs that should be cut in lieu of higher priority programs. As another example, blanket hiring freezes preclude the opportunities that economic downturns offer for the state to acquire certain types of employees (such as information technology specialists) that are harder to compete for in good economic times.

Current-Year Solutions Should Play a Key Role. Quickly implementing budget-balancing options tends to increase their potential overall impact, by lengthening the period over which they generate savings. Conversely, delays in acting compress the time frame available to realize savings, and can thereby necessitate deeper programmatic reductions than would otherwise be needed. For these reasons, as many current-year solutions should be adopted as possible.

Broad Budget-Balancing Strategies

These strategies include the desired split between spending reductions and revenue augmentations, the relative roles that different program areas should play in the overall budget solution, and the mix of one-time solutions versus those with out-year or ongoing effects that extend for more than just one year.

Relative Roles of Spending and Revenue Options. This involves the question of how the overall budget solution should be split between spending-related reductions and revenue-related augmentations, as well as the way that spending reductions should be distributed across program areas. The first issue involves weighing the underlying need for state programs and negative effects of reducing or eliminating them, compared to the adverse impacts on individuals and businesses of paying higher taxes. Regarding the second issue, some programs are likely to provide more of the dollar solution than others, given their disproportionately large share of the General Fund budget. These include education (which represents roughly half of the budget) and health and social services programs (representing about one-quarter of the budget).

One-Time Solutions Versus Those With Out-Year or Ongoing Effects—A Critical Decision. The appropriate mix of one-time budget solutions versus those with out-year or ongoing effects depends partly on how much of the budget problem itself is one-time versus ongoing in nature. There are many different mixes of one-time, limited-term, and ongoing solutions which might be appropriate. For example:

- ***Comprehensive Solution.*** One alternative might be to adopt a comprehensive budget solution involving ongoing actions that fully address both the estimated near-term shortfall and projected future operating deficits.

  As noted previously, the state faces projected operating deficits—which average about $6 billion annually over the forecast period. Thus, for example, both the $12.4 billion year-end deficit and the underlying structural deficit could be eliminated in 2002-03 by combining $6 billion in *ongoing* solutions (whether permanently adopted or annually extended) with $6.4 billion in *one-time* solutions.

- ***Partial Solution.*** Another choice might be to "hold back" on permanent actions for addressing projected future operating deficits until the strength of next year's economy can be observed, and the long-term need for such permanent actions is more firmly established. Under this approach, greater emphasis might be given to limited-term solutions, which could be accompanied by various triggers to automatically either continue or eliminate them depending on the budget's condition.

For example, the 2002-03 budget could be balanced with only $4 billion in ongoing solutions combined with $8.4 billion in one-time actions. Here, however, an additional $2 billion in solutions would be needed each subsequent year to avoid the reoccurrence of deficits. In this case, provisions could be made for some of the one-time solutions to be repeated as needed, or entirely new solutions could be adopted.

What About a Multiyear Solution? During the first half of the 1990s, there were two occasions when California adopted budget plans involving financing deficits over a two-year period. In both cases, the amount of the budget deficit carried over was relatively limited. Previous court cases have established the state's ability to borrow cash from investors in order to finance its operations during deficit periods. However, the exact bounds on such borrowing are not entirely clear. It would thus be important for the Legislature to obtain the necessary legal clarification should it wish to explore this option.

If it does consider a multiyear approach, it will be critical for the Legislature to weigh the inherent risks associated with delaying addressing the budget problem. For example, should the state's economy and revenue collections prove to be weaker than forecast, the deficit will continue to grow and necessitate even larger spending cuts and revenue actions. Another key consideration concerning multiyear financing involves the unresolved issues relating to the electricity revenue bonds that have been proposed to repay the General Fund's $6-plus billion loan for electricity purchases. The failure to reimburse the General Fund could seriously compromise any multiyear deficit financing.

Specific Budget-Balancing Tools

As Figure 5 indicates, there are a number of different categories of specific spending and revenue-related options that can be employed individually or collectively to address budget problems:

Spending-Related Options. These include the elimination or scaling-back of programs, suspension or reduction of cost-of-living adjustment (COLA) increases, spending deferrals, shifting the funding of programs from the General Fund to other sources, and implementation of program improvements and efficiencies that save money. As illustrations:

➢ ***Program Eliminations and Modifications.*** The focus here should be on identifying programs that no longer serve a clear public purpose, do not achieve their objectives, are not cost-effective, provide services that are duplicated or could be provided elsewhere, and/or are not of high priority.

➢ ***Suspension/Reduction of COLAs.*** The combined savings from a full-year's suspension of statutory COLAs in the health, social services, and education areas, for example, could amount to over $1 billion.

- ➢ ***Spending Deferrals.*** This is most feasible in the case when the long-term effectiveness of a program will not be materially impaired by a temporary delay in its timing. An example would be postponement of certain capital projects.

- ➢ ***Funding Shifts.*** This involves shifting funding from the General Fund to other sources, such as to fees, the federal government, local governments, and the private sector. Examples would include fee increases for higher education attendance and reduced state contributions for employee health benefits.

How Were the 1990s' Budget Shortfalls Dealt With?

In the early 1990s, the state's deep and prolonged recession coupled with rapid increases in program caseloads resulted in substantial budgetary shortfalls. These peaked at over $14 billion (nearly one-third of current-law General Fund expenditures), then drifted down to $10 billion in 1992-93 (excluding a reserve), $8 billion in 1993-94, and $4 billion in 1994-95.

Given the magnitude of these shortfalls, the state adopted a wide range of strategies to close these budget gaps. These included tax increases, program spending reductions and deferrals, and shifts of responsibilities from the state to federal and local governments. Other measures included transfers of monies to the General Fund from state special funds and various accounting changes. The state's relative reliance on these strategies is summarized by year in Figure 6.

1991-92 Solutions. In addressing the $14 billion shortfall in 1991-92, the state adopted $7.7 billion in tax increases. These included a five-year imposition of 10 percent and 11 percent marginal personal income tax brackets for high-income taxpayers, a one and one-quarter cent sales tax increase, an increase in vehicle license fees (VLF), and an expansion of the sales tax base to include snack foods, candy, bottled water, and newspapers. (The increase in the VLF and a portion of the sales tax increase were associated with a state/county realignment of health and social services programs.) The state also adopted $3.4 billion in expenditure reductions, including $1.9 billion from Proposition 98. In addition, it incorporated about $1.6 billion in cost shifts (mostly associated with retirement contribution savings), and $1.4 billion from special fund transfers and accrual accounting changes.

1992-93 Through 1994-95 Solutions. In the subsequent three years, the state's solutions to still-major budget shortfalls shifted somewhat, relying increasingly on spending cuts, cost shifts, and other factors. Notable actions included large shifts of property taxes from local governments to schools, grant reductions in social services programs, reductions to Proposition 98, various fee increases, deferrals of retirement contributions, and special fund transfers. The budgets adopted also included assumptions about major increases in federal funds related to

continued

- ***Program Improvements and Efficiencies.*** This involves providing the same services for less cost, such as by consolidating programs, restructuring programs, or improving their management. The underlying rationale is to benefit from scale economies, reduced duplication, and improved coordination. Possibilities include the reorganization of the state's various energy-related agencies, and consolidation of the state's many economic development activities.

Revenue-Related Options. These include the modification or elimination of ineffective or inefficient tax expenditure programs (TEPs), the broadening of tax bases, increased tax rates, the transfer of special fund balances to the General

How Were the 1990s' Budget Shortfalls Dealt With? *(continued)*

immigration (only a small portion of which actually materialized), as well as off-book loans to K-12 education. Finally, the 1993-94 and 1994-95 budgets relied on two-year budget plans to bring the General Fund back into balance. Both of these multiyear plans included substantial amounts of external cash borrowing from the private credit markets.

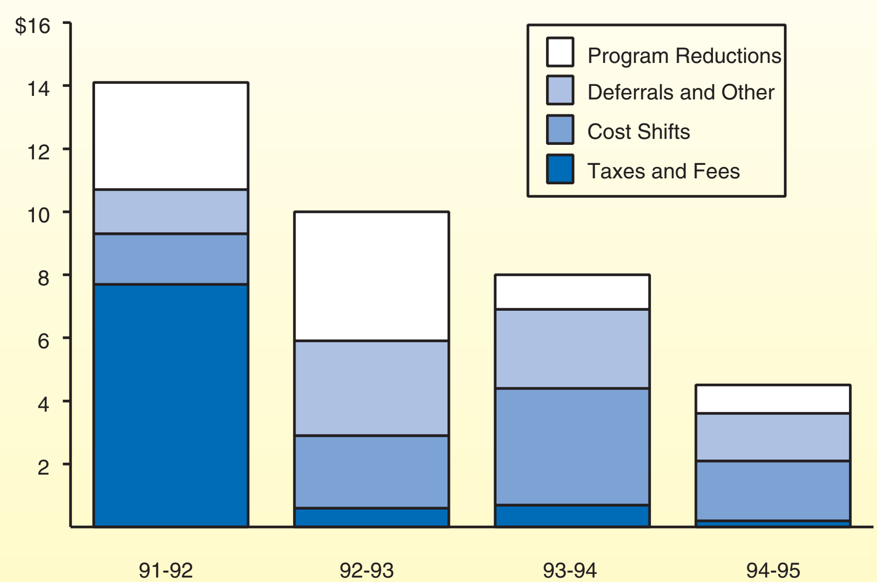
Many Solutions Were Eventually Reversed

A significant number of the solutions to the early-1990s' budget shortfalls were reversed by subsequent court decisions. This resulted in added General Fund costs in the latter half of the decade. These included the invalidation of the off-book school loans, smog impact fees (that were assessed in 1992), deferred state contributions to retirement funds, and various special fund transfers.

Figure 6

1990s' Budget Solutions Varied

Budget Problems and Solutions (In Billions)



Fund, improved tax compliance and tax collections, sales of state assets, and revised accrual adjustments. As illustrations:

- ***Tax Expenditures.*** There currently are over 300 TEPs, and their annual revenue cost to the General Fund is nearly $30 billion. Many of these TEPs are not fully effective or efficient in achieving their objectives, including the broad mortgage interest deduction and certain tax credits. In addition to eliminating or modifying certain TEPs, others could be suspended. For example, in the 1990s, net operating loss (NOL) deductions were suspended for two years to help deal with the budget problem. Today, such a suspension would increase revenues by a total of about $1 billion.

- ***Broadening Tax Bases and Raising Tax Rates.*** A sales tax rate increase and two temporary high-income personal income tax (PIT) brackets both were used to help solve the 1990s' budget shortfalls. Today, the full-year revenue gain from a one-half cent sales tax increase and high-income tax brackets would be roughly $2 billion and $3.9 billion, respectively.

- ***Special Fund Balances.*** This involves "sweeping" into the General Fund the idle cash balances currently residing in special funds, subject to various legal restrictions.

- ***Improved Tax Compliance and Collections.*** This involves such steps as increasing audit activity on noncompliant taxpayers, and accelerating the collection of taxes owed to the state but not yet paid.

- ***Accrual Revisions and Asset Sales.*** Regarding accruals, this involves such actions as attributing more tax collections to the year in which the liabilities are assessed, which can benefit the budget balance by counting certain revenues sooner instead of later. Regarding asset sales, this involves "monetizing" the state's physical and financial assets that are not needed in their current form so that they can be used immediately to support state programs. Examples include the sale of land and the sale to investors of the state's rights to future revenue streams (such as the state's tobacco settlement monies).

INITIAL PROPOSALS TO ADDRESS THE CURRENT SHORTFALL

The main effort to address the budget shortfall will begin in January when the Governor introduces his proposed 2002-03 budget. As a first step in the process, however, the Governor proposed in November a variety of current-year spending reductions. This section summarizes this proposal and provides some additional current-year options for the Legislature to consider.

The Governor's November Proposal

The Governor proposes to reduce General Fund expenditures by a total of $3 billion—$2.2 billion in the current year and $800 million in the budget year. These spending reductions include:

- The October 23, 2001 Executive Orders that established (1) a hiring freeze to be in effect until June 30, 2003 and (2) the reduction of at least $150 million in operating expenses and equipment expenditures in the current year.

- Reductions in most program areas, including $850 million in K-12 education, $240 million in health and social services programs, and around $220 million in resources and environmental programs.

- Around $600 million for various general government programs, including housing and statewide utility costs.

Significant Elements. Given the substantial magnitude of the projected budget shortfall to be addressed, the Legislature should adopt as many current-year reductions as possible in addition to focusing on the budget year. Several characteristics of the Governor's proposals deserve special mention:

- ***Most Proposed Spending Reductions Are One Time.*** The Governor's proposal for current-year expenditure reductions includes a mix of one-time and ongoing reductions. However, the one-time proposals dominate, accounting for around $1.5 billion (70 percent) of the total proposed $2.2 billion in current-year expenditure reductions. The remaining $750 million (30 percent) of the reductions will produce ongoing savings of roughly this magnitude.

- ***Proposition 98 Accounts for the Largest Share.*** The $1.5 billion in one-time reductions includes significant reductions proposed in education programs funded by Proposition 98. These account for the largest programmatic share—almost 40 percent—of the Governor's total proposed reductions. These reductions are possible because the amount appropriated for Proposition 98 in the *2001-02 Budget Act* exceeded the constitutionally required minimum funding guarantee by nearly $4 billion. Our analysis indicates that these savings should be viewed as one time in nature. Achieving savings in the budget year would require additional actions, such as suspension of the minimum guarantee.

Regarding Proposition 98, it also should be noted that some of the Governor's proposed reductions involve amounts currently appropriated from the Proposition 98 reversion account. Therefore, in order to realize General Fund savings from these options, the Legislature would need to switch an equivalent amount of funding for other Proposition 98-eligible programs from the General Fund to the Proposition 98 reversion account. This is a technical adjustment which can be done by amending the *2001-02 Budget Act* without affecting the educational programs or services supported by the funds being shifted.

Additional Current-Year Options Exist

Spending-Related Options. In addition to those current-year reductions proposed by the Governor, various additional options exist that the Legislature may wish to consider—either as additions to or in lieu of the Governor's. Although we have not developed a comprehensive list of such options, Figure 7 identifies some individual spending options that fall into this category. The selected options shown total $1.5 billion and include program eliminations, program reductions, spending deferrals, and reversions of unspent appropriations to the General Fund.

Revenue-Related Options. To the extent that revenue-related options are of interest in dealing with the budget problem, these would primarily generate budget-year effects given the various time lags involved. However, there could be some current-year effects associated with them, depending on such factors as their implementation dates and the timing of taxpayer prepayments. For example, as discussed earlier, three budget-balancing options used in the 1990s were a two-year suspension of NOL deductions, two temporary high-income PIT tax brackets, and a sales tax increase. The 2001-02 partial-year revenue gain from adopting similar provisions early in 2002 could be in the $1.5 billion range.

Figure 7

Selected LAO Current-Year Budget Options

(In Millions)

Department/Program	Description of Option	General Fund Savings
Education		
K-12/Proposition 98	Temporarily suspend Governor's Performance Awards.	$157.0
K-12/Proposition 98	Delay implementation of the Teaching as a Priority Block Grant.	98.5
K-12/Proposition 98	Delay implementation of the Mathematics and Reading Professional Development Program.	80.0
K-12/Proposition 98	Temporarily suspend School Bus Safety II Mandate.	30.0
K-12/Proposition 98	Revert unexpended funds from 9th Grade Class Size Reduction Program.	60.0
K-12/Proposition 98	Temporarily suspend Certificated Staff Performance Awards program.	50.0
K-12/Proposition 98	Revert unexpended funds from Cal-Safe Program.	20.0
K-12/Proposition 98	Delay implementation of Principal Training Program.	15.0
K-12/Proposition 98	Revert unexpended funds for beginning teacher salaries.	12.0
K-12/Proposition 98	Delay implementation of Support for Secondary Schools Reading Program.	8.0
K-12/Proposition 98	Delay implementation of High-Tech High program.	6.0
K-12/Proposition 98	Delay implementation of Industry-Based Certificate Grants.	5.5
K-12/Proposition 98	Delay implementation of Charter School Facility Grants.	5.0
K-12/Proposition 98	Delay implementation of Information Technology Career Academy Initiative.	5.0
K-12/Proposition 98	Reduce funding for Reading Award Program.	4.0
K-12/Proposition 98	Reduce funding for Advanced Placement Challenge Grants.	4.0
Community College/Proposition 98	Revert prior-year funds for Teacher and Reading Development Partnership.	10.0

Continued

Department/Program	Description of Option	General Fund Savings
Community College/Proposition 98	Reduce funding for part-time faculty office hours.	10.4
Community College/Proposition 98	Reduce additional funding for energy costs.	26.0
Community College/Proposition 98	Reduce funding for part-time faculty salaries.	57.0
Community College/Proposition 98	Revert appropriation for Canada College for joint baccalaureate program.	1.0
University of California	Revert appropriation for the Internet2 project.	14.0
University of California	Reduce year-round funding reflecting one-year implementation delay.	13.8
California State University	Reduce funding for Educational Technology Institutes.	6.6
California State University	Reduce year-round funding reflecting one-year implementation delay.	19.9
Health and Social Services		
Medi-Cal	Reduce LA Waiver monitoring funds to reflect contract delays.	$3.4
Medi-Cal	Reduce May Revision funding increase for county administrative costs.	43.5
Medi-Cal	Reduce funding for Orthopedic Outpatient Hospital Settlement.	255.1
Medi-Cal	Eliminate supplemental long-term care rate increase.	7.0
Medi-Cal	Reduce funding for Adult Day Health Care centers for projected lower caseload.	5.6
Developmental Services	Suspend requirement to spend special funds on affordable housing projects.	2.9
Health Services	Increase fees paid by lead-product manufacturers.	6.1
Mental Health	Reduce support for various categorical community mental health programs.	10.0
Mental Health	Adjust state hospital budget for projected lower caseload.	5.5
Foster Care	Defer implementation of financial assistance for emancipating foster youth.	1.5
Child Welfare Services	Defer transitional housing assistance program for foster youth.	5.2
Faith Based Initiative	Eliminate this competitive grant program.	3.7
General Government		
Housing/ Community Development	Transfer unencumbered housing funds to the General Fund.	$17.2
Housing/ Community Development	Eliminate one-time funding for the Central Valley Infrastructure Program.	12.0
Military Department	Reduce Turning Point Academy budget to reflect lower enrollment.	3.5
Transportation	Transfer interest from State Highway and Public Transportation Accounts.	42.0
Transportation	Transfer State Highway Account income on rental property.	35.0
State Employees	Furlough one day.	23.0
State Employees	Eliminate state pick-up of health insurance premium increases.	4.2
Technology, Trade, and Commerce	Eliminate film subsidy program.	10.0
Technology, Trade, and Commerce	Revert uncommitted Infrastructure Bank funds.	50.0
Industrial Relations	Eliminate Divisions of Labor Standards Enforcement and Apprenticeship Standards labor law positions.	2.0

Continued

Department/Program	Description of Option	General Fund Savings
Food and Agriculture	Delete funding for the "Buy California" program.	5.0
Food and Agriculture	Delete funding for the Red Imported Fire Ant program.	3.2
Public Utilities Commission	Redirect funding for certain programs to Utilities Reimbursement Account.	1.4
State Controller	Reduce budget to reflect discontinuance of school attendance audits.	1.5
Criminal Justice		
Restitution Fund	Transfer portion of Restitution Fund monies.	$19.5
Judicial	Reduce Court Appointed Counsel budget to reflect lower claims.	3.1
Corrections	Delay implementation of additional 300 substance abuse beds.	2.3
Corrections	Delay implementation of Sex Offender Containment Program.	5.6
Corrections	Delay implementation of the Financial Management Process Redesign.	1.2
Corrections	Delay implementation of the Mental Health Staff Contracting Pilot program.	10.0
Corrections	Phase-in installation of electromechanical doors.	15.0
Youth Authority	Delay Sex Offender Specialized Counseling Program expansion.	0.9
Youth Authority	Delay Mental Health Resources Program expansion.	2.2
Criminal Justice Planning	Reduce funding for War on Methamphetamine.	15.0
State Public Defender	Salary savings for 14 recently approved vacant positions.	1.6
Resources		
State Lands Commission	Eliminate appropriation for a water hazards removal and remediation program.	$1.6
Wildlife Conservation Board	Revert appropriations for UC Merced environmental remediation.	18.7
Wildlife Conservation Board	Suspend the Natural Heritage Preservation Tax Credit Program.	36.0
Parks and Recreation	Reduce funding for local park projects.	19.3
State Coastal Conservancy	Reduce funding for local projects.	1.4
Forestry and Fire Protection	Reduce funding for computer-aided dispatch.	10.0
CALFED	Reduce funding for CALFED's watershed management program.	3.0
CALFED	Reduce funding for CALFED's water use efficiency program.	1.5
Water Resources	Reduce funding to implement Drought Advisory Panel recommendations.	4.0
Water Resources	Reduce funding for new water and energy use efficiency program.	3.0
Air Resources Board	Eliminate General Fund transfer for rice straw demonstration grant program.	1.0
Total		**$1,454.1**