



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

SENATOR WESLEY CHESBRO, CHAIR

Quick Summary **The Governor's Budget Proposal**

January 11, 2006

On January 10, the Governor presented his proposed 2006-07 budget. Spending from all funds (General Fund, special funds and bond funds) totals \$125.6 billion. General Fund spending is proposed to be \$97.9 billion, an amount that is approximately \$7.6 billion, or 8.4 percent, greater than revised 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 late January. If you have questions, please contact the committee at (916) 651-4103.

(Reports Available at:

http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/_home/)

General Fund Summary

- ✓ **Revenues:** The Governor's budget estimates General Fund revenues and transfers to be \$91.5 billion, an increase of \$3.8 billion or 4.4 percent, above the revised 2005-06 estimate of \$87.7 billion. Total resources available, in 2006-07, from all sources (including a carry forward balance of \$7 billion from 2005-06) are estimated at \$98.6 billion.
- ✓ **Expenditures:** The budget proposes General Fund expenditures of \$97.9 billion in 2006-07. This is an increase of \$7.6 billion or 8.4 percent, over the revised 2005-06 figure of \$90.3 billion.

General Fund Summary (in millions)

| | Revised <u>2005-06</u> | Proposed <u>2006-07</u> |
|---|-----------------------------------|------------------------------------|
| PRIOR YEAR BALANCE | \$9,634 | \$7,031 |
| Revenues and transfers | 87,691 | 91,545 ^a |
| TOTAL RESOURCES AVAILABLE | \$97,325 | \$98,576 |
| Non-Proposition 98 Expenditures | \$53,983 | \$57,446 ^a |
| Proposition 98 Expenditures | <u>36,311</u> | <u>40,456</u> |
| TOTAL EXPENDITURES | \$90,294 | \$97,902 |
| FUND BALANCE | \$7,031 | \$674 |
| Encumbrances | \$521 | \$521 |
| Special Fund for Economic Uncertainties | \$6,510 | \$153 |
| BUDGET STABILIZATION ACCOUNT (BSA) | -- | \$460 |
| TOTAL AVAILABLE RESERVE | \$6,510 | \$613 |

^a A total of \$920 million will be transferred to the BSA consistent with Proposition 58. Of this amount, one-half (\$460 million) will remain in the BSA for future purposes (shown as a reduction in revenue) and one-half will be transferred to accelerate the retirement of Economic Recovery Bonds (shown as an increase in expenditures).

Proposed 2006-07 Budget -- Major General Fund Changes

- ✓ Provides total Proposition 98 funding of \$54.3 billion (\$40.5 billion GF / \$13.9 billion in property taxes). This is a \$4.3 billion increase over revised 2005-06 expenditures.
 - The administration indicates \$2.2 billion will be used to meet the Proposition 98 minimum funding guarantee.
 - Two-point-one billion dollars is provided above the minimum guarantee, which includes \$1.7 billion for early repayment of the Proposition 98 maintenance factor and \$428 million for after-school programs (Proposition 49).
- ✓ Increases funding for higher education by \$266 million to fund the Administration's compact with UC (\$130 million) and CSU (\$136 million). In addition, the budget includes \$131 million to buy out proposed student fee increases at both UC and CSU.
- ✓ Reduces funding by \$199 million for CalWORKs.
- ✓ Proposes \$48 million in savings by not passing on a federal SSI cost-of-living adjustment (COLA) increase and instead captures the additional federal funds to offset General Fund costs for SSI/SSP.
- ✓ Proposes an increase of \$1.2 billion in various health and human services programs.
- ✓ Increases funding for Corrections and Rehabilitation by \$426 million. Of this amount, \$335 million is primarily for population and workload increases.
- ✓ Provides an increase of \$135 million for Resources and Environmental Protection for various programs.
- ✓ Contains an increase of \$224 million for the Judiciary branch, primarily attributable to a growth factor of \$123 million and restoration of one-time reductions of \$58 million.

- ✓ Provides for the full funding of Proposition 42 at \$1.4 billion. In addition, the budget includes a partial prepayment of \$920 million for a past loan, with the balance (\$430 million) due in 2007-08.
- ✓ Transfers \$920 million to the Budget Stabilization Account (BSA) consistent with Proposition 58.

Total General Fund Spending Concentrated in Four Areas

Four policy areas account for approximately 90 percent of General Fund spending contained in the Governor's Budget. The table below identifies the relative spending in these areas. Specifically, in the 2006-07 budget:

- ✓ K-14 Education (which includes funding for community colleges) receives \$40.5 billion, accounting for 41 percent of the General Fund spending;
- ✓ Health and Human Services receives \$28.5 billion, accounting for 29 percent of the total;
- ✓ Higher Education (UC, CSU and Student Aid Commission) receives \$10.4 billion, accounting for almost 11 percent of the total; and
- ✓ Corrections and Rehabilitation (formerly Youth and Adult Corrections) receives \$8 billion, accounting for 8.2 percent of the total.

**Proposed 2006-07
General Fund Expenditures
(in millions)**

| <u>Major Program Area</u> | <u>Revised 2005-06</u> | <u>Proposed 2006-07</u> | <u>Year-to-Year % Change</u> |
|--|----------------------------|-----------------------------|----------------------------------|
| Education – Proposition 98 (K-12 / Community Colleges) | \$36,311 | \$40,456 | 11.4% |
| Health and Human Services | 27,237 | 28,450 | 4.5% |
| Higher Education (UC/CSU/Other) | 9,517 | 10,413 | 9.4% |
| Corrections and Rehabilitation (formerly Youth and Adult Corrections) | 7,612 | 8,038 | 5.5% |
| All Other | <u>9,617</u> | <u>10,545</u> | <u>9.6%</u> |
| TOTAL | \$90,294 | \$97,902 | 8.4% |

**Proposed 2006-07
General Fund Revenue
By Source
(in millions)**

| <u>Source</u> | <u>Revised 2005-06</u> | <u>Proposed 2006-07</u> | <u>Year-to-Year % Change</u> |
|---------------------|----------------------------|-----------------------------|----------------------------------|
| Personal Income Tax | \$45,493 | \$48,716 | 7.1% |
| Sales Tax | 27,184 | 28,295 | 4.1% |
| Corporation Tax | 9,621 | 10,024 | 4.2% |
| Other | <u>5,393</u> | <u>4,970</u> | <u>-7.8%</u> |
| TOTAL | \$87,691 | \$92,005 | 4.91% |

Infrastructure Bond Proposal

In his State of the State address on January 5, the Governor presented an infrastructure proposal, known as the Strategic Growth Plan. The plan lays out the initial 10 years of a 20-year objective to focus on the state's infrastructure needs in the areas of transportation, K-12 and higher education, flood control and water supply, public safety, the courts, and other miscellaneous program areas.

According to the Administration, phase one (2006-2014) of the plan projects more than \$220 billion in infrastructure expenditures -- of this amount, \$68 billion will be financed with General Obligation (GO) bonds. The governor proposes the Legislature approve the entire 10-year plan as a single package; however, the GO bonds would be put before the voters of California over a series of elections between 2006 and 2014. The table below shows the election cycle for the GO bonds by program area for the first 10 years.

In addition to the bond package, the Administration is seeking two constitutional amendments. The first amendment would eliminate the state's ability to suspend Proposition 42. The second would cap debt service payments to no more than 6 percent of General Fund expenditures in any fiscal year.

General Obligation (GO) Bonds By Election Year (dollars in billions)

| <u>Program Area</u> | <u>2006</u> | <u>2008</u> | <u>2010</u> | <u>2012</u> | <u>2014</u> | <u>10-year Totals</u> |
|--|---------------|---------------|---------------|---------------|---------------|---------------------------|
| Transportation / Air Quality | \$ 6.0 | \$6.0 | \$-- | \$-- | \$-- | \$12.0 |
| K-12 & Higher Education | 12.4 | 4.2 | 7.7 | 8.7 | 5.0 | 38.0 |
| Flood Control and Water Supply | 3.0 | -- | 6.0 | -- | -- | 9.0 |
| Public Safety | 2.6 | -- | 4.2 | -- | -- | 6.8 |
| Courts & Other Public Services Infrastructure | <u>1.2</u> | -- | <u>1.0</u> | -- | -- | <u>2.2</u> |
| TOTALS | \$25.2 | \$10.2 | \$18.9 | \$ 8.7 | \$ 5.0 | \$68.0 |

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K-12 Education

Proposition 98 -- K-14

- Governor proposes Proposition 98 funding of **\$54.3 billion** in 2006-07 for K-14 education. This provides a **\$4.3 billion** increase in Proposition 98 funding for K-12 schools and community colleges in 2006-07, including:
 - **\$2.2 billion** required to meet the Proposition 98 minimum funding guarantee in 2006-07; and
 - **\$2.1 billion above** the minimum guarantee, which includes **\$428 million** for after-school programs required by Proposition 49 and **\$1.67 billion** for early repayment of the Proposition 98 maintenance factor.
- The Governor proposes to spend the **\$1.67 billion** in maintenance factor funds for the following major, **ongoing** purposes for K-14 education in 2006-07:

K-12 Discretionary Funds (\$1.1 billion)

- **\$561 million** for enrollment growth and cost-of-living adjustments (COLA) for programs that traditionally receive them. (This is in addition to the \$1.7 billion the Governor proposes to spend from within the Proposition 98 minimum guarantee, bringing total K-12 growth and COLA to \$2.3 billion in 2006-07. Growth is estimated at 0.21 percent; COLA is estimated at 5.18 percent.)
- **\$205 million** for K-12 revenue limit deficit factor payments to restore losses in 2003-04. (This restores approximately two-thirds of the outstanding deficit factor.)
- **\$200 million** for revenue limit equalization for K-12 schools. (According to the Administration's calculations, this addresses approximately 50 percent of the gap in base general-purpose funding levels.)
- **\$133 million** to defray the annual costs of education mandates claims for K-12 schools (and community colleges) to stop the recent practice of deferring these payments in order to achieve short-term budget savings. (The Governor also provides \$18.7 million in one-time Proposition 98 reversion

funds and \$133 million in one-time Proposition 98 settle-up funds for payment of prior year mandate claims.)

New or Expanded K-12 Initiatives (\$413 million)

- **Recruiting and Retaining Qualified Teachers & Principals: \$100 million** for block grants to support recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API); and **\$65 million** to establish a third year of BTSA (Beginning Teacher Support and Assessment) funding for teachers in these schools.
- **Supporting Arts and Music Funding in K-8 Schools: \$100 million** in block grants to fund standards-aligned Fine Arts instruction (art, dance, music, theater/drama) in elementary and middle schools. Funding is proposed at a level of \$20 per pupil.
- **Addressing Childhood Obesity/Improving Physical Education in K-8 Schools: \$60 million** in physical education block grants to elementary and middle schools to hire qualified staff, provide professional development and purchase equipment; and **\$25 million** to provide incentive grants to 1,000 elementary and middle schools to hire more credentialed physical education teachers.
- **Improving Educational Technology: \$25 million** to provide one-time technology block grants to schools at a level of \$3,000 per classroom. Funds can be used for hardware, software, staff development or other technology related expenditures that improve classroom instruction.
- **Helping Students Pass the California High School Exit Exam (CAHSEE): \$20 million** to assist students who must pass the CAHSEE in order to graduate from high school. The Governor proposes to continue an additional \$20 million in funds provided in the current year for this purpose.
- **Providing Fruits and Vegetables to Schools: \$18 million** in funding for the California Fresh Start Pilot Program, which supplies fruits and vegetables to K-12 school meal programs. This permanently continues one-time funding provided in the current year for this purpose.

New Community College Funds and Initiatives (\$160 million):

- **Community College Equalization: \$130 million** to provide full funding for equalization according to DOF calculations.
- **Career-Technical Education: \$30 million** for pathways to the workforce and higher education through a program that links K-12 and community college programs. The Governor proposes to continue an additional \$20 million in funds provided in the current year for this purpose.

➤ **Other K-12 Funding Proposals:**

- **Emergency Repairs for Schools:** Provides **\$107 million** from the Proposition 98 reversion account for school facility emergency repairs pursuant to legislation implementing the *Williams* settlement agreement.
- **School and District Accountability Programs:** Provides **\$82 million** in one-time federal carryover funds from several programs to assist schools identified as needing Program Improvement.
- **Charter Schools Block Grant:** Provides a **\$36 million** increase in funding for the charter school categorical block grant as a baseline adjustment to implement statutory funding reforms enacted last year.

After-School Programs

The Governor's budget fully funds the implementation of Proposition 49, which was approved by the voters in 2002 with the intent of expanding state-funded after-school programs.

In the current-year, the state is providing \$121.6 million General Fund to support Before and After School Programs. Beginning in 2006-07, the provisions of Proposition 49 require an approximate four-fold increase in state funding for these programs. To meet this end, the Governor proposes an increase of \$428 million, for a total After School Program budget of \$549.6 million in 2006-07.

As part of the Proposition 49 implementation, the Governor's Office has established a steering committee to develop a plan to expend this dramatic increase in funds both efficiently and expeditiously.

Included in this \$428 million augmentation, the Governor proposes to provide \$1.3 million and nine positions to the California Department of Education in order to fully staff the expanded program.

Child Care

The Governor's budget does not contain any proposed policy changes to the state's subsidized child care programs. While support for the program appears to remain relatively stable, with funding in 2006-07 proposed at approximately \$3.7 billion (both Department of Social Services and California Department of Education — from all funding sources), the figures are somewhat misleading because of the enormous jump in funding for Proposition 49. The net overall increase to child care and development programs is approximately \$350 million. Included in this sum are decreases totaling approximately \$134 million to all three stages of Child Care and other smaller child development programs; these decreases are then offset by the over \$400 million augmentation for Proposition 49. To reconcile these figures, there are several notable baseline and caseload adjustments contained in the Governor's proposal.

The Governor's budget proposes to implement caseload changes in the CalWORKS program which assumes a decreased need for child care, and subsequently reduces the number of child care slots by approximately 25,000. Of this amount, 16,600 slots are reduced from Stage 1 child care services; 4,800 are reduced from Stage 2 child care services; and 2,300 slots are reduced from Stage 3. At this point in time, it is unclear if the caseload estimates used by the Administration to construct its Child Care budget are accurate.

These caseload-driven reductions are partially offset by the allocation of a 5.18 percent cost-of-living-adjustment (\$70.2 million) and a funded growth rate of 1.12 percent (\$14.8 million) for the California Department of Education (CDE) administered child care and development programs.

Further, the Administration proposes to continue freezing the income level at which families are eligible for subsidized child care services, with the caveat that the Administration convene a working group to address the development of a new family fee schedule.

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 the current-year level of \$14.4 million.

Higher Education

Governor's Compact with UC and CSU. In the Spring of 2004, the Governor reached an agreement with both the University of California (UC) and California State University (CSU) to establish a "compact" which would provide a set level of financial support for those systems beginning in the 2005-06 fiscal year and continuing through the 2010-11 fiscal year.

Under this compact, the Governor agreed to provide (1) funding equivalent to a 3 percent base General Fund increase in both the 2005-06 and 2006-07 fiscal years and (2) General Fund augmentations to support student enrollment growth of 2.5 percent annually.

Further, the Governor, UC, and CSU agreed that undergraduate student fees would increase by 8 percent annually in 2005-06 and 2006-07, and graduate student fees would move toward the goal of 150 percent of undergraduate fee levels. Contrary to this agreement, the Governor proposes to "buy out" the proposed fee increases at UC and CSU in the 2006-07 academic year.

General Fund Support. As part of the Governor's "compact", his proposal includes an additional 3 percent or \$156.2 million in General Fund support for the UC (\$80.5 million) and CSU (\$75.7). This augmentation is proposed to be offset by a \$24.3 million reduction to student academic preparation programs (\$17.3 million UC; \$7 million CSU).

Under the Governor's proposal, the Legislative, Executive and Judicial Fellows programs, which are housed at the CSU, would also receive a 3 percent augmentation equating to \$84,000.

Student Enrollment Growth at UC and CSU. Pursuant to the Governor's "compact", the 2006-07 budget proposes to increase student enrollments by 2.5 percent or 13,639 full-time equivalent students (FTES). While it would normally

cost the state an additional \$90 million to educate these additional students, the Governor is providing UC and CSU with an additional \$109.7 million. The difference (\$19.7 million) is attributable to the Governor's proposal to increase the "marginal cost of instruction" or the per student rate that the state funds UC and CSU students. Specifically, the calculation is proposed to be altered to account for costs such as building maintenance and updated faculty salary costs. This revised methodology results in UC receiving an additional \$2,017 for each new student and CSU receiving an additional \$1,163 per new student. With this change, UC will receive \$52 million to educate an additional 5,149 FTES and CSU will receive an additional \$57.7 million to educate an additional 8,490 FTES.

Total FTES enrollments at UC are expected to reach approximately 211,255 (all campuses) while CSU enrollments will be approximately 348,262 FTES.

Student Fees. Contrary to his compact, the Governor proposes to "buy out" the originally-proposed fee increases for all undergraduate, graduate and professional school students at both the UC and CSU. This proposal will cost the state \$129.4 million (\$75 million for UC; \$54.4 million for CSU).

- With this change, resident Undergraduate fees at UC will be approximately \$6,802 per year, while resident Undergraduate fees at CSU will be approximately \$3,164.

Without this "buy out", student fees under the "compact" (and with the actions of the UC Board of Regents and the CSU Board of Trustees) would have increased by eight percent for undergraduate students, ten percent for graduate students, and five percent for UC professional school students.

No fee increases are proposed at the Community Colleges, where fees will remain at the current level of \$26 per unit.

On a technical note, for the CSU only, the Governor proposes removing CSU Student Fee revenues from the State Treasury (where they are currently housed) and allowing the CSU system to retain those funds in a systemwide trust account. In order to ensure that this proposal is General Fund "neutral", the Governor reduces CSU's budget by \$5 million to account for the loss of interest on these funds which would have accrued to the General Fund, but will now accrue to the CSU directly. UC student fees have never been deposited in the State Treasury.

Student Outreach. The Governor's Budget proposes to eliminate all state General Fund for both UC and CSU Student Academic Preparation programs. This equates to a reduction of \$17.3 million for UC and \$7 million for CSU.

Governor's Math and Science Teacher Initiative. The Governor proposes to augment his Math and Science Teacher initiative by \$1.5 million (\$1.1 million to CSU and \$375,000 to UC) to increase the number of future teachers credentialed in Mathematics and Science. Under his proposal, UC would quadruple (from 250 to 1,000) the number of future teachers trained in math and science by the year 2010; during this same time frame, CSU would double its efforts to produce math and science teacher from the current 748 credentialed teachers to 1,496.

Nursing Education. The Governor proposes to continue support, at a level of \$3.4 million, to expand Entry-Level Master's Degree programs in Nursing at both UC and CSU. Under the Governor's proposal, both UC and CSU would receive \$1.7 million to increase enrollments in these programs.

State-Funded UC Research. The UC General Fund research budget remains unchanged from the current year, and the Governor continues to propose no state funding to support research related to Labor studies.

UC Merced. The Governor continues providing \$14 million, on a one-time basis, to support the start-up costs associated with opening the new UC Merced campus in the current year. Total support for UC Merced is proposed at \$24 million.

Capital Outlay. The Governor proposes capital outlay expenditures for all three segments of higher education totaling \$1.6 billion, the bulk of which would be derived from a new Higher Education General Obligation (GO) Bond Act.

Specifically, the Governor proposes \$458.3 million for 30 new facility projects and the continuation of existing projects at the UC. Of this amount, \$315 million would come from a new GO bond measure, \$116 million would be financed through lease-revenue bonds, \$17.8 million would come from UC, and \$9 million would be appropriated from the General Fund.

At the CSU, the Governor proposes \$370.1 million to start 15 new facility projects and continue existing projects. \$234 million of this amount would come from a new GO bond measure, \$49.4 million is remaining from the 2004 Higher Education GO bond and \$86.7 million would come from the CSU.

For Community Colleges, the Governor's Budget includes \$764.4 million in funds to begin 58 new projects and continue existing projects. Of this amount, \$491.7 million would come from a new GO Bond Act, \$172.6 million is remaining from the 2004 Bond measure, \$65.2 million is remaining from the 2002 Bond Measure, \$4.4 million would come from lease-revenue bonds, and \$30.6 million is remaining from the 1998 GO Bond Measure.

Community College Proposition 98 Support. General Fund Proposition 98 support for community colleges is proposed to increase by a total of 11.6 percent over the current year, thereby increasing the community colleges "share" of Proposition 98 from the current-year (Budget Act) level of 10.46 percent to 10.79 percent in 2006-07. In total, community colleges would receive \$4.3 billion in Proposition 98 support, which represents an increase of approximately \$600 million. Total support for the community colleges is proposed to exceed \$6.4 billion (from all funding sources).

Community College COLA. Similar to K-12 education, the Budget proposes to fund a 5.18 percent cost-of-living-adjustment for community colleges general apportionments and select categorical programs, at a cost of \$280 million.

Growth in Student Enrollments at the Community Colleges. The Budget proposes to provide \$148.8 million to fund three percent enrollment growth at the Community Colleges. These funds would be used to support an additional 35,000 Full-Time Equivalent Students (FTES), bringing the total number of Community College students to approximately 1.2 million statewide. Additional funding is provided for limited enrollment growth (at a rate of 1.74 percent) in select categorical programs.

CCC Equalization. The Governor proposes to appropriate \$130 million to remedy ("equalize") disparities in the funding rates of community colleges statewide. This augmentation represents the third and final year of a three-year plan to equalize funding rates to the 90th percentile. Prior year Budget Acts took the initial steps to meet this end by providing \$110 for equalization.

Additional CCC Adjustments.

In addition to the above-noted budget adjustments, the Governor proposes to:

- Appropriate a total of \$50 million in ongoing support to the community colleges to better coordinate technical and vocational education-related

curricula with K-12 schools. The current year Budget Act provided \$20 million (one-time) to initiate these efforts;

- Augment services for Disabled Students by \$9.6 million to support increased costs associated with sign language services and the real-time captioning of instructional materials for deaf and learning-disabled students;
- Provide an additional \$500,000 to support the CalPASS program which eases student's transition between K-12, the community colleges, and the four-year higher education institutions;
- Support two pilot programs (\$100,000) to provide baccalaureate degree courses on community college campuses that are geographically isolated from four-year institutions.

No additional support is provided to support the expansion of noncredit instruction.

Hastings College of Law. Under the Governor's proposal, Hastings College of Law would see a \$253,000 increase in its general support budget (consistent with a three percent General Fund augmentation). Hastings enrollments have remained stable for many years, so enrollment growth funding is unnecessary. In keeping with the Governor's proposal to "buy out" fee increases at UC, he provides \$1.4 million to Hastings to keep student fees at the current-year levels: \$22,297 for California residents and over \$34,000 for nonresidents.

California Institute for Regenerative Medicine (CIRM). Pursuant to Proposition 71, the Governor established the CIRM to oversee and administer \$3 billion in bond proceeds for stem-cell-related research. In 2006-07, the CIRM proposes to expend \$309.3 million of the bond proceeds derived from Proposition 71. Included in this amount is the repayment of a \$3 million General Fund loan provided to CIRM for start-up costs as part of the current-year Budget.

Cal Grant--Ongoing Support. The Governor provides an additional \$39.5 million General Fund to maintain the Cal Grant program. This amount is less than would normally be needed due to the Governor "buying out" the proposed fee increases at UC and CSU and thereby reducing the need for additional Cal Grant dollars. The total number of Cal Grant entitlement awards is expected to exceed 195,850; competitive Cal Grant awards are expected to reach approximately 56,000.

Further, the Governor proposes to continue funding \$146.5 million worth of Cal Grant expenditures using Student Loan Operating Funds (from EdFUND, the state's student loan auxiliary organization). This amount represents a decrease of \$51 million from EdFUND, which is proposed to be backfilled by the General Fund in the budget year.

Cal Grant Award Level. The Governor proposes to augment the Cal Grant program by \$11.9 million in order to increase the grant amount for students attending private and independent colleges. Under the Governor's proposal, the grant would increase by \$1,386 annually (from the current maximum level of \$8,322 up to \$9,708). This change brings the maximum Cal Grant back to its 2003-04 level.

APLE Program. The Governor provides an additional \$6.8 million for increased Assumption Program of Loans for Education (APLE) costs in the 2006-07 fiscal year. In addition, the Governor proposes to retain the number of loan assumption warrants authorized under the APLE program at 8,000 annually, but proposes to "set-aside" 600 of those awards for student participating in the Governor's Mathematics and Science Teacher Initiative.

Further, the Governor additionally proposes to fund 100 new National Guard APLE awards.

Employee Compensation

Pension Obligation Bonds. The 2005 Budget Act assumed the sale of Pension Obligation bonds to generate \$525 million. In November 2005, a court ruling found such bonds are unconstitutional without voter approval. The Administration is appealing this ruling; however, the Governor's Budget assumes no bond revenue through 2006-07.

Public Employee Salaries and Pensions. Unlike last year, the Governor's Budget is *not* proposing any major changes to public employee benefits and retirement. The Budget includes increased funding for costs associated with existing bargaining agreements. Additionally, funding is included for medical staff in the California Department of Corrections and Rehabilitation as a result of a federal court order in the *Plata v. Schwarzenegger* lawsuit. No increased costs, or savings, are budgeted for bargaining units with expired or expiring agreements (the majority of bargaining unit agreements have expired or will expire before July 1, 2006). A comprehensive salary survey will be completed by the Department of Personnel Administration in March 2006, and the Administration indicates this will provide valuable information for contract negotiations.

Statewide Reductions to Salaries and Wages Budgets. The Governor proposes \$58 million in statewide General Fund savings by keeping open a sufficient number of vacant positions. The Administration indicates this is a one-percent funding reduction and should minimally impact departmental operations.

Energy and Telecommunications

Department of Energy. The Governor is sponsoring legislation to reorganize the existing energy departments and create a new Department of Energy. This proposal is similar to the Governor's 2005 executive reorganization proposal. The new department will be responsible for the following activities:

- Transmission line siting.
- Representation before the Federal Energy Regulatory Commission.
- Development of public interest energy research on renewable energy technology.
- Petroleum fuels supply and demand analysis.
- Natural gas supply and electricity demand forecasting.
- Renewable energy portfolio standards program.
- Energy efficiency standards.

Alternative Fuels Development. The Governor proposes \$500,000 special funds for the California Energy Commission to implement recently enacted legislation (AB 1007, Pavley), which requires the development of recommendations to increase the use of alternative fuels.

Telecommunications Consumer Bill of Rights. The Governor proposes \$10 million special funds to support the Telecommunications Consumer Bill of Rights. The funding will be used to resolve consumer complaints, improve enforcement, and conduct a public outreach campaign to teach people about their rights.

Rail Safety. The Governor proposes \$1.4 million special funds to enhance rail safety through additional accident investigations, evaluation of quiet zone notices, railroad inspections, and oversight of transit security programs.

Division of Ratepayer Advocates. The Governor proposes \$154,000 special funds to fund an attorney position within the Division of Ratepayer Advocates, consistent with recently enacted legislation (SB 608, Escutia).

Health & Human Services

Total Proposed Expenditures for Health & Human Services. The Governor proposes expenditures of \$73.1 billion (\$28.4 billion General Fund) for health and human services programs, including state support. This reflects a net increase of \$1.8 billion (\$1.2 billion General Fund) over the revised current-year for an increase of less than 3 percent. Key adjustments include the following:

- Delays the Supplemental Security Income/State Supplementary Payment (SSI/SSP) 2007 federal Cost of Living Adjustment (COLA) an additional fifteen months, from April 2007 to July 2008, for proposed savings of \$48 million (General Fund) in 2006-07 and \$185 million in 2007-08.
- Reduces the rates paid to Medi-Cal providers by five percent effective January 1, 2006 through December 31, 2006 for current year savings of \$50.1 million (\$22.5 million General Fund) and budget year savings of \$90.3 million (\$38.5 million General Fund). The Administration prevailed on litigation which enables them to make this adjustment.
- Decreases by \$14.3 million (\$10.6 million General Fund) the Purchase of Services (POS) funding for Regional Center consumers based upon the Administration's intent to negotiate new contract language with the Regional Centers.
- Proposes an increase of \$34.3 million (General Fund) in the Department of Health Services for preparedness strategies related to a pandemic influenza outbreak.
- Extends Cash Assistance Program for Immigrants (CAPI) deeming period from ten to fifteen years for immigrants who entered the country on or after August 22, 1996, for savings of \$12.5 million (General Fund) in 2006-07 and \$40 million in 2007-08.
- Includes a series of proposals to reduce and restructure the Adult Day Health Care (ADHC) Program for a total funding reduction of \$19.3 million (\$9.8 million General Fund). In addition, the moratorium on the certification of new centers to provide ADHC services is continued by the Administration for savings of \$12.1 million (\$6 million General Fund).

- Includes an increase of \$72.2 million (\$34.2 million General Fund) to implement several strategies to improve the enrollment of uninsured, eligible children into the Medi-Cal and Healthy Families Program.
- Increases funding for Community Care Licensing by \$7.6 million (General Fund) for 75.8 new positions to complete required workload and increase visits to facilities caring for children.

Department of Health Services

The Governor proposes a total of \$38.4 billion (\$14.4 billion General Fund) for the Department of Health Services (DHS). This reflects a net increase of \$1.1 billion (\$533.5 million General Fund) over the revised current-year. The General Fund support reflects a 3.9 percent increase. Of the total amount, \$1.07 billion is for state support and \$37.33 billion is for local assistance.

Medi-Cal Program Proposals

Total Proposed Expenditures for the Medi-Cal Program. The Governor proposes total expenditures of \$34.7 billion (\$13.7 billion General Fund) for Medi-Cal which reflects an increase of \$974.7 million (\$542.3 million General Fund) above the revised current-year. The net General Fund increase primarily reflects increases in caseload and cost per eligible person, adjustments to the federal Medicare Part D Drug Program, increased federal Medicare premiums, and the growth in the number of aged, blind and disabled persons eligible for Medi-Cal. Total caseload is anticipated to be 6.8 million eligible people.

Five Percent Rate Decrease. The Governor reduces the rates paid to Medi-Cal providers by five percent effective January 1, 2006 through December 31, 2006 for current year savings of \$50.1 million (\$22.5 million General Fund) and budget year savings of \$90.3 million (\$38.5 million General Fund). The Administration prevailed on litigation which enables them to make this adjustment.

Freezes County Administration of the Medi-Cal Program. The Governor eliminates \$42.4 million (\$21.2 million General Fund) in 2006-07 which has been historically provided to counties to fully fund the salaries and overhead costs of Medi-Cal Program eligibility workers.

Reductions to Adult Day Health Care Program. A series of proposals are included to reduce and restructure the Adult Day Health Care (ADHC) Program for a total funding reduction of \$19.3 million (\$9.8 million General Fund). In addition, the moratorium on the certification of new centers to provide ADHC services is continued by the Administration for savings of \$12.1 million (\$6 million General Fund).

Implementation of Medicare Part D Drug Program. The federal Medicare Part D Drug Program is effective as of January 1, 2006 and is presently being implemented. The budget reflects a series of adjustments across the health and human services budget including the following key items:

- Medi-Cal has discontinued full drug coverage for all dual eligibles (Medi-Cal and Medicare enrollees) since they are covered under the Part D Program. The budget does include \$206 million (\$103 million General Fund) for selected drugs not covered by the Part D Program, including barbiturates, benzodiazepines and various medical supplies. This is consistent with the Budget Act of 2004.
- Medi-Cal will no longer receive certain drug rebates due to the Part D Drug Program implementation which were previously used to off set General Fund expenditures by \$544 million.
- Federal law requires states to contribute part of the savings obtained from no longer covering most drugs for dual eligibles (Medicare and Medi-Cal) back to the federal government (i.e., clawback payments). The budget assumes that \$768.1 million General Fund will be provided to the federal government for this purpose.
- Medi-Cal's budget reflects a net increase of \$211.8 million (General Fund) due to overall implementation costs associated with the Medicare Part D Drug Program.

Medi-Cal Redetermination Form Simplification. The Administration is in the process of changing the Medi-Cal redetermination form to make it easier for Medi-Cal enrollees to complete and therefore maintain their enrollment. An increase of \$42.1 million (\$21.1 million General Fund) is provided to reflect an increased caseload of 27,672 enrollees, or an additional 2 percent per month retention rate, due to these form changes.

Increasing Medi-Cal and Healthy Families Program Enrollment for Children via Outreach Activities. The budget includes several strategies to improve the enrollment of uninsured, eligible children into the Medi-Cal and Healthy Families Program. The following strategies are funded under the Medi-Cal Program:

- An increase of \$19.7 million (total funds) for the DHS to allocate to 20 counties with the greatest number of uninsured children to partner with public and private community organizations for outreach, streamlined enrollment and related measures.
- An increase of \$3.4 million (total funds) for a media campaign that is to work in conjunction with the county-based outreach proposal referenced above.
- An increase of \$932,000 (\$466,000 General Fund) to hire 10 new positions at the DHS to implement and administer the allocations to counties and the media campaign.

Licensing and Certification Division Staff Increase. The budget includes an increase of \$17.6 million (total funds) to provide for 141 new state positions to complete required state licensing and federal certification functions, including complaint investigations of nursing homes. These activities would be funded with a newly proposed Licensing and Certification Fund.

Long-Term Care Rate Adjustments per AB 1629, Statutes of 2004 and Quality Assurance Fee. The budget includes funding of \$787 million (\$393.5 million General Fund) in 2006-07 to reflect the requirements of the legislation, including various rate adjustments for freestanding nursing facility level B and certain adult subacute facilities.

In addition, the Department of Health Services is seeking an augmentation of \$6.8 million (\$3.4 million General Fund) to hire 41 new positions to fully implement AB 1629, Statutes of 2004.

Long-Term Care Rate Adjustment for Other Facilities. The budget provides an increase of \$172 million (\$86 million General Fund) for various rate increases for freestanding level A nursing homes, Distinct-Part level B nursing homes, and adult sub-acute facilities that provide long-term care, including Intermediate Care Facilities for the Developmentally Disabled (ICF-DD). These facilities are not included under the AB 1629, Statutes of 2004 designation.

Implementation of Hospital Financing Waiver and SB 1100, Statutes of 2005. The budget includes an additional \$246 million (federal funds) in 2005-06 and \$570.7 million (federal funds) in 2006-07 to reflect implementation of the Hospital Financing Waiver.

In addition, the department is seeking an increase of \$1.5 million (\$748,000 General Fund) to fund 13 new state positions to administer the Hospital Financing Waiver.

Legal Settlement Results in General Fund Savings. As part of a federal settlement, California will be receiving a repayment of \$42.2 million from Serono S.A., the manufacturer of Serostim, an anti-wasting drug mainly used for patients with AIDS. This settlement will be used to offset General Fund support on a one-time basis.

Implementation of Managed Care Expansion. The Budget Act of 2005 provided for the expansion of Medi-Cal Managed Care to additional counties (i.e., geographic expansion of the existing program). The Administration states that the cost in 2006-07 for three counties—El Dorado, Imperial and Placer—to implement Medi-Cal Managed Care is \$4.6 million (General Fund). All of these costs are associated with providing Medi-Cal services and the payment time lag for claiming reimbursement.

In addition, the Department of Health Services is requesting an augmentation of \$1.6 million (\$718,000 General Fund) to hire 17 new positions to proceed with implementation of the geographic expansion.

Outreach to Increase Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care. The budget provides increased funds of \$916,000 (\$386,000 General Fund) for 9 new state positions to increase the enrollment of seniors and persons with disabilities into Medi-Cal Managed Care on a voluntary basis.

New Medi-Cal Managed Care Plan for Dual Eligibles (Medicare and Medi-Cal/SSI Only). The Administration is proposing a new pilot project to coordinate Medicare and Medi-Cal Program benefits. An increase of \$1.2 million (\$525,000 General Fund) is requested to hire 11 new positions to design and implement this proposal.

Public Health Proposals

Total Proposed Expenditures for Public Health Programs. The Governor proposes total expenditures of \$3.7 billion (\$645.9 million General Fund) for 2006-07. This represents an increase of \$120.5 million, or 3.4 percent, above General Fund expenditures in the revised 2005-06 budget.

Pandemic Influenza Initiative. The budget proposes a total increase of \$34.3 million (General Fund) for preparedness strategies related to a pandemic influenza outbreak. No federal funds for this purpose are included in the budget. Specifically, the augmentation includes the following items:

- An increase of \$17.9 million (General Fund) related to local health department preparedness. This includes \$16 million for allocation to the local health departments and \$1.9 million for state support, including 5 new state positions.
- An increase of \$14.3 million (General Fund) for a public education and information campaign, including an emergency response hotline that will provide general information on public health emergency preparedness with specific information on pandemic influenza. The funding would also support 5 new state positions.
- An increase of \$673,000 (General Fund) is requested to fund 5 new state positions to strengthen the DHS' pandemic influenza planning efforts and to conduct epidemiologic investigations of influenza and respiratory outbreaks.
- An increase of \$1.5 million (General Fund) is proposed for managing antivirals and vaccines for pandemic influenza. Specifically, \$1.3 million would be used for local assistance and \$203,000 would be used for state operations.

Healthcare and Community Infection Control Program. The budget proposes an increase of almost \$1.4 million (General Fund) to develop and maintain a program for the surveillance, laboratory testing, prevention and control of healthcare-associated and community-acquired infections. A total of 10 new state positions are requested for this purpose.

Expansion of Local and Statewide Communicable Disease Surveillance Infrastructure. An increase of \$1.3 million (General Fund) and 4 new state

positions is proposed to expand and maintain state and local capacity to conduct communicable disease surveillance.

Public Health Preparedness for Chemical and Radiological Disasters and Terrorist Attacks. The budget proposes an augmentation of almost \$4.2 million (General Fund) and 15 new state positions to assist local agencies in planning, training, responding, and recovering from natural and intentional disasters that could result in chemical and radiological contamination of food, water, and the environment. No federal funds for this purpose are included in the budget.

Infectious Disease Laboratory Infrastructure—Surge Capacity for Bioterrorism and Emerging Diseases. The budget provides an increase of \$4.2 million (General Fund) to strengthen the state’s laboratory infrastructure. Of this amount, \$2.5 million would be provided for local assistance and \$1.7 million would be used for state support, including 13 new state positions.

Workforce Training on Capacity for Outbreak Response. An increase of \$350,000 (General Fund) is provided to train existing frontline public health field investigation staff to more effectively respond to any infectious disease event, including bioterrorism and pandemic influenza.

AIDS Drug Assistance Program (ADAP). The Governor proposes total expenditures of \$296.4 million (\$107.7 million General Fund) for ADAP. This reflects an increase of \$28.1 million (\$16.5 million General Fund) over the revised current-year budget. It is estimated that ADAP will serve over 28,000 clients in 2006-07.

Prostate Cancer. The budget includes \$3.5 million (General Fund) for the treatment of Prostate Cancer (through the Improving Access, Counseling and Treatment for Californians with Prostate Cancer—IMPACT) on a one-time basis pursuant to Chapter 442 (Ortiz), Statutes of 2005.

Healthy Families Program

Total Proposed Expenditures for Healthy Families Program. The Governor proposes a total of \$1 billion (\$377 million General Fund) for the Healthy Families Program (HFP) in 2006-07, an increase of \$50 million (General Fund), or 15.3

percent over the revised current-year. It is anticipated that 933,100 children will be enrolled as of June 30, 2006 for an increase of 105,800 children, or 12.8 percent.

Increasing Healthy Families Program Enrollment. In addition to the budget augmentations identified above under the Medi-Cal Program regarding outreach for children, the HFP budget includes the following items:

- An increase of \$2.5 million (\$1 million General Fund) to provide incentive payments for Certified Application Assistants to encourage more enrollments.
- An increase of \$9.5 million (\$3.5 million General Fund) to reflect an estimated caseload increase attributable to application form changes.

Request for Additional Staff. An increase of \$983,000 (\$248,000 General Fund) is requested to fund 10 new positions to address anticipated workload needs.

Developmental Disability Services

Total Proposed Expenditures. The Governor proposes expenditures of \$3.8 billion (\$2.4 billion General Fund) in 2006-07, an increase of \$208.7 million (\$155.6 million General Fund) over the revised current-year, for the developmental services system.

Of this total amount, \$3.1 billion is proposed to provide services in the community through the Regional Centers for a net increase of \$215.7 million (\$159.8 million General Fund) over the revised current-year. Total expenditures for the state Developmental Centers is proposed at \$706.6 million (\$383.4 million General Fund), for a net decrease of \$6.7 million (decrease of \$3.6 million General Fund).

Regional Center Population and Service Utilization Update. Of the \$215.7 million (total funds) proposed net increase in the Regional Center budget, \$115.8 million is needed to support population increases and service utilization needs. A total of 216,565 consumers is estimated for 2006-07 for an increase of 8,365 consumers over the current-year.

Rate Adjustment for Certain Providers. A total of \$67.8 million (\$46.1 million General Fund) is proposed to provide a 3 percent rate increase for certain programs, including Community Care Facilities, Day Programs, habilitation

services programs, respite agencies, voucher respite programs, supported-living, transportation and look-alike Day Programs. These programs have been subject to provider rate freezes for several years.

Administration Intends to Negotiate New Regional Center Contract Language to Control the Purchase of Services for Consumers. A decrease of \$14.3 million (\$10.6 million General Fund) is proposed in the Purchase of Services (POS) area based upon the Administration's intent to negotiate new contract language with the Regional Centers. Specifically, this language would address the following key items:

- Requiring the use of the least costly vendor who will meet the consumer's needs;
- Clarifying parents' responsibility for purchasing services;
- Specifying the use of group services deemed to be less costly, as opposed to individual services, if the consumer's needs can otherwise be met;
- Establishing a maximum expenditure level for Supported Living services for an individual consumer; and
- Requiring Regional Centers to annually inform consumers and families of the services purchased on their behalf.

The budget includes a corresponding increase of \$7.6 million General Fund to expand Regional Centers' Operations related to controlling the POS expenditures. Specifically, \$6 million of this augmentation would be used to hire 65 positions and the remaining amount would be used for related administrative purposes, including office rent and mediation services for dispute resolution.

Autistic Spectrum Disorder Initiative. An increase of \$2.6 million (General Fund) is proposed to fund resources in the Regional Centers to better meet the needs of consumers with Autistic Spectrum Disorders (ASD). Specifically, these funds are to be used to: (1) hire an ASD program coordinator and a clinical specialist within each Regional Center; (2) develop best practice guidelines for treatment and intervention; (3) establish state and regional ASD resource centers; and (4) provide training to clinicians and other professionals to implement best practices. An increase of \$87,000 (General Fund) is also proposed to fund a position at the Department of Developmental Services.

Agnews Developmental Center Closure Continuation. The budget proposes a net increase of \$19.6 million (\$14.9 million General Fund) over 2005-06 for both the Regional Center and Developmental Center systems to effect the planned closure

of Agnews Developmental Center by June 2007. This consists of a decrease of \$5.6 million (\$3.4 million General Fund) in the Developmental Centers and an increase of \$25.2 million (\$18.4 million General Fund) for the Regional Centers. This increase is to provide for the placement and transition of 177 Agnew's residents into the community and the use of state employees from Agnews to provide services in the community.

Delays in Department of Health Services Certification of Intermediate Care Facilities. Due to delays by the Department of Health Services (DHS) in licensing and certifying Intermediate Care Facilities for the Developmentally Disabled (ICF-DD), the DDS must utilize General Fund resources to fully support these services which are otherwise funded using 50 percent federal funds from the Medi-Cal Program. As such, an increase of \$4 million (General Fund) is proposed to fund the gap in timing until the DHS conducts the necessary surveys.

California Developmental Disabilities Information System (CADDIS). The Administration notes that this \$20 million (General Fund) to-date information project is currently under review and its completion status is unknown. It is contended that any necessary adjustments will be provided at the Governor's May Revision.

Developmental Center Population. A reduction of \$17.3 million (\$9.6 million General Fund) and 242 positions is proposed to reflect a projected decline of 229 residents in the Developmental Center system (from 3,016 residents in 2005-06 to 2,797 residents in 2006-07).

Porterville Developmental Center Intensive Behavioral Treatment Residence. An increase of \$1.2 million (General Fund) is proposed to fund 14 new positions to establish an intensive behavioral treatment residence at Porterville. This residence would be used to secure up to 30 consumers deemed to be dangerous from the rest of the secured treatment program population.

Mental Health Programs

Total Proposed Expenditures for Mental Health Programs. The Governor proposes expenditures of \$3.4 billion (\$1.6 billion General Fund and \$690 million Mental Health Services Act Funds) for an overall General Fund increase of \$316.4 million over the revised current-year budget. This General Fund increase is

primarily due to: (1) a transfer of General Fund support from the Department of Health Services for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program; (2) implementation of a new recovery treatment model in the State Hospital system; and (3) proposed changes in how the AB 3632 state mandate program is funded.

Mental Health Services to Special Education Pupils (AB 3632). The budget continues to provide \$100 million in special education funding within the Department of Education for mental health services to special education pupils as required by the federal Individuals with Disabilities Education Act (IDEA). In addition, the budget includes \$50 million (General Fund) as a set-aside in the Commission on State Mandates budget for categorical program funds for mental health services provided to these students that are beyond those required under the IDEA. Discussions with constituency groups regarding how this proposed new categorical program will be constructed need to occur.

Proposition 63, the Mental Health Services Act. In November 2004, voters approved this proposition that provides a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds \$1 million annually. For the current-year, the projected revenue to be deposited into the Mental Health Services Account is \$683 million, and for 2006-07 estimated revenue is \$690 million. The Administration notes that the Mental Health Services Act Projected Expenditure Report which reflects past and proposed expenditures through June 2007 will be provided to the Legislature shortly. The Mental Health Services Account is a special fund which provides for a continuous appropriation and is therefore not contingent upon an annual Budget Act appropriation.

State Hospitals and the Civil Rights of Institutionalized Persons Act (CRIPA). The budget proposes total expenditures of \$958.4 million (\$876.4 million General Fund) for the State Hospital system. Due to significant concerns with the operation of the State Hospitals, the federal government, through the application of CRIPA, is requiring substantial changes. The budget proposes an increase of \$43.5 million (\$37.8 million General Fund) and 432 additional positions to address the requirements of CRIPA and to implement a recovery-oriented treatment system.

Human Services

Delay Supplemental Security Income/State Supplementary Payment (SSI/SSP) Federal Cost of Living Adjustment (COLA). The Governor proposes to delay the 2007 federal SSI/SSP COLA an additional fifteen months, from April 2007 to July 2008. This would result in General Fund savings of \$48 million in 2006-07 and \$185 million in 2007-08. The 2005-06 Budget suspended the state SSI/SSP COLA for 2006 and 2007, and delayed the federal COLA for three months in each of those years. The maximum SSI/SSP grant in 2007 would remain at the April 2006 level, which is \$836 for individuals and \$1,472 for a couple.

Extend Deeming Period for Cash Assistance Program for Immigrants (CAPI). The CAPI program provides income assistance to low-income aged, blind, and disabled legal immigrants who do not qualify for SSI/SSP. The Governor proposes to extend the deeming period from ten to fifteen years for immigrants who entered the country on or after August 22, 1996. During the deeming period, the income and resources of the person sponsoring the noncitizen will be taken into account when determining benefit eligibility. This five year extension results in General Fund savings of \$12.5 million in 2006-07 and \$40 million in 2007-08.

Adjust California Work Opportunity and Responsibility to Kids (CalWORKs) Funding. The Governor proposes various adjustments to CalWORKs funding that result in a net decrease of \$199 million. Significant adjustments include:

- ***Reduce CalWORKs Child Care Funding by \$115 million.*** This current year reduction is based on lower CalWORKs work participation estimates.
- ***Reduce CalWORKs County Single Allocation by \$40 million.*** The single allocation supports CalWORKs employment services, child care services, and county administration expenditures, including eligibility determination.
- ***Rescind \$30 million for CalWORKs County Pay for Performance.*** The Governor proposes to delay implementation of the Pay for Performance program, and defer payments of \$30 million in incentive funds to counties.

Increase Child Welfare Services and Foster Care Funding. The Governor proposes to increase funding for various child welfare and foster care initiatives:

- ***Foster Care Child Relationships (AB 408/AB 1412).*** The Governor proposes \$8.1 million in additional General Fund resources for county social worker costs to help ensure that older foster youth establish significant and supportive relationships prior to their transition to independent adulthood.
- ***Kinship Support Services.*** The Governor proposes an additional \$2.5 million General Fund to expand current county programs and allow all counties to apply for Kinship Support Services funds. This will allow more relative caregivers and the children placed with them to be served.
- ***Transitional Housing for Foster Youth (AB 1119).*** The Governor proposes an additional \$1.4 million General Fund to augment the Transitional Housing Placement Program (THPP) so that housing assistance can be provided to more youth by allowing more counties to participate in this program.
- ***Improving Adoptions Outcomes.*** The Governor proposes \$6.3 million General Fund to increase adoptions by 1,000 cases by providing funds to counties to hire additional adoptions caseworkers.

Increase Funding for Community Care Licensing. The Governor proposes \$7.6 million General Fund and 75.8 new positions for Community Care Licensing to complete required workload and increase visits to facilities caring for children. The Governor proposes to increase the number of random sample licensing visits from 10 percent to 20 percent annually. Other administrative reforms are also proposed to improve the efficiency of the licensing program and increase client protections.

Maintain Proposition 36 Baseline Funding. Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA) established sentencing guidelines that allow first or second time nonviolent adult drug offenders to receive drug treatment rather than prison time. To fund these treatment services, SACPA also appropriated \$120 million annually from 2001-02 through 2005-06. The Governor proposes to maintain \$120 million General Fund in 2006-07 for SACPA, but also proposes programmatic changes similar to the drug court model, including jail sanctions, drug testing, and judicial monitoring.

Judiciary and Trial Court Funding

Proposed Expenditures. The Governor proposes a total of \$3.7 billion (\$2.1 billion General Fund and \$1.6 billion from other funds) for the Judicial Branch. This represents an increase of \$139.7 million (\$224.1 million General Fund) above the revised 2004-05 budget. The budget proposes \$371 million for the State Judiciary, \$4.1 million for the Commission on Judicial Performance, \$3 billion for Trial Court Funding, and \$299.6 million for judges' retirement costs. For Trial Court Funding, the \$3 billion budget proposal represents an increase of \$143 million (\$214.8 million General Fund) above the revised current year expenditures.

Trial Court Funding Growth Factor. The budget proposes an increase of \$105.2 million General Fund as a growth factor for the trial courts. This amount is based on an estimated increase of 4.7 percent in the State Appropriations Limit. In addition, the proposed budget includes an additional \$16.7 million for the inclusion of judicial compensation, the assigned judges program, the Judicial Administration Efficiency and Modernization Fund, the Equal Access Fund, and the operational costs included in the Trial Court Improvement Fund to the base upon which the growth factor adjustment is calculated.

New Judgeships and Conversion of Subordinate Judgeships. The proposed budget includes \$5.5 million to support facilities, staff, salaries, and benefits for up to 150 new judgeships phased in over a three-year period beginning in April 2007. This level of funding assumes one month of expenditures in the budget year. The ongoing cost of 50 judges is \$35.8 million and the ongoing cost of 150 judges is \$107.3 million. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted. This proposal also supports the conversion of up to 161 judicial officers to judgeships, as the positions become vacant, funded from within existing resources.

Trial Court Funding Baseline Augmentations. The proposed budget includes \$31 million in baseline augmentations related to court security (\$18.7 million), and information technology (\$12.3 million).

Growth Factor Increase for the State Judiciary. For the State Judiciary, the budget proposes \$1.2 million General Fund for a growth factor increase beginning June 1, 2007. The 2005 Budget Act included a growth factor increase for the State Trial Court Funding budget equal to the State Appropriations Limit (SAL). This proposal would apply the SAL calculation to the Judiciary budget.

Habeas Corpus Resource Center. The State Judiciary budget proposes an increase of \$1.3 million General Fund and 13 positions to provide additional staff and resources at the Habeas Corpus Resource Center to accept additional capital habeas corpus appointments from the California Supreme Court.

Judiciary Information Technology Increase. The State Judiciary budget proposes an increase of \$3.3 million General Fund and 9 positions to upgrade current systems and equipment and provide additional information technology support services for the Administrative Office of the Courts, the Supreme Court, and the Courts of Appeal.

Labor

Employment Development Department (EDD). The Governor's Budget reflects reduced benefit expenditures in the current year and budget year. Special Fund expenditures in 2005-06 are reduced by \$307 million and reduced by \$580 million in 2006-07 (relative to the 2005 Budget Act base). These adjustments are a result of recent benefit claims, and the October 2005 forecast of future claims. The Department will submit a revised forecast for benefit expenditures with the May Revision of the Governor's Budget.

Department of Industrial Relations (DIR). The Governor proposes \$600,000 and 4.8 positions to establish a collections unit within the Division of Labor Standards Enforcement. This unit would pursue the collection of fines and penalties against employers found to be in violation of California's labor laws.

Veterans' Affairs

Funding for Veterans' Homes. The Governor proposes a 19 percent funding for the three Veterans' Homes, from \$58.5 million in the current year to \$69.6 million in the budget year.

| Home | 2005-06 Funding* | Proposed 2006-07 Funding* |
|---------------|------------------|---------------------------|
| Yountville | \$38,926 | \$44,740 |
| Barstow | 8,401 | 11,125 |
| Chula Vista | 11,164 | 13,745 |
| TOTALS | \$58,491 | \$69,610 |

(*dollars in thousands)

Yountville Alzheimer's/Dementia Unit. The Governor's Budget proposes \$3.8 million and 73.9 positions to operate the new Yountville Alzheimer's/Dementia Unit. This special facility will ultimately serve 75 patients and was designed to address the unique needs of Alzheimer's and dementia patients. A corresponding augmentation of \$1.3 million and 33.5 positions is included to staff and backfill with other patients the existing Alzheimer's/Dementia Unit to be vacated.

Consolidation of Budget Appropriations. The Governor proposes to consolidate the support appropriations for the three existing Veterans' Homes (Yountville, Barstow, and Chula Vista) and the headquarters operation into a single

departmental organizational code. The Administration maintains that this arrangement will provide more flexibility to reallocate resources to meet emergent needs. The Legislature considered this proposal last year and rejected it, based primarily on past problems with unchecked funding and position shifts between homes and headquarters.

Combat-Related Treatment Programs. The proposed budget includes \$1 million General Fund and 10.4 positions for a program to treat veterans having combat-related mental and behavioral problems, such as post traumatic stress disorder. Treatment strategies include psychiatry, psychology, and substance abuse treatment. This program will be implemented at all three Veterans' Homes.

Salary Savings Exemption. The Governor's Budget includes \$1.7 million General Fund and 27.8 positions for the costs of exempting nurses and other 24-hour care staff at the Veterans' Homes from the salary savings requirement. The Administration asserts that such exemptions would be consistent with the existing practice for other 24-hour care state facilities.

Local Government

Booking Fees. The Governor's Budget proposes \$40 million in 2006-07 to offset a portion of the fees that cities and special districts must pay when they book suspects into county jails. Legislation is proposed to reform booking fee assessments and address city and special district concerns over cost calculations.

Restoration of Local Government Funds. The local government agreement enacted by the electorate in the November 2004 ballot provided \$1.3 billion of annual General Fund savings in 2004-05 and 2005-06 by reducing payments to, or shifting funds from, local governments. The expiration of these transfers will restore \$250 million to redevelopment agencies, and \$350 million each to special districts, counties, and cities.

Property Tax Administration Program. The Governor's Budget does not include funding for the Property Tax Administration Program (PTAP), a program last funded in 2004-05 at \$60 million. The Governor's Budget Summary includes a statement that the Administration will work with the Legislature and local governments on alternatives to creating a new PTAP program in the 2007-08 budget.

Rural and Small County Law Enforcement Grants. The Governor's Budget fully funds the Rural and Small County Law Enforcement Grants subvention at \$18.5 million. This program provides \$500,000 grants to 37 rural counties.

State Mandates. The Governor's Budget includes \$98.1 million to local governments for the first year of a 15-year repayment cycle for past due state mandate claims. The budget further sets aside \$46.7 million to pay for mandates expected to be identified in the budget year.

Juvenile Justice Crime Prevention Act (JJCPA). JJCPA program funding is \$100 million, the programmatic equivalent of last year's appropriation, but a \$74 million funding increase. Current year funding of \$26 million reflects a one-time adjustment to the annual allocation of JJCPA funds based on actual cash needs during the April 1, 2006 to March 30, 2007 grant cycle. This one-time adjustment saved \$74 million in the current year.

Williamson Act. The Governor's Budget fully funds the Williamson Act subventions for open space preservation at \$39.6 million.

Disaster Subventions. The proposed budget includes disaster relief funding of \$1.6 million for subventions to communities affected by mudslides and severe storms in 2005. This funding is pursuant to legislation enacted in the 2005 session.

Citizen's Option for Public Safety (COPS). Funding for the COPS program is maintained at \$100 million. This program provides discretionary funding on a per capita basis for local police departments and sheriffs for front line law enforcement (with a minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

Public Safety & Corrections

Department of Corrections & Rehabilitation (CDCR)

Total Proposed Expenditures. The Governor proposes total expenditures of \$8.1 billion (\$7.8 billion General Fund and \$241 million other funds) and 60,966 positions for the CDCR. This represents an increase of \$364 million (\$383 million General Fund), or about 4.7 percent and 2,357 positions above the revised 2005-06 budget.

Adult Population Increases. The budget increases the estimates for the adult prison and parolee populations. For the current year, the proposed budget increases the average daily inmate population from 165,249 in the 2005 Budget Act to 167,630 and the average daily parole population from 110,335 in the 2005 Budget Act to 115,524. For 2006-07, the budget assumes that the average daily inmate population increases to 171,497 and the average daily parole population increases to 116,220. The fiscal impact of these population increases is \$48.4 million General Fund in 2005-06 and \$123.2 million General Fund in 2006-07.

Adult Local Assistance Funding Increases. The proposed budget includes an augmentation of \$85.1 million General Fund in 2005-06 and \$11.9 million General Fund in 2006-07 to reimburse local entities for the housing and non-routine medical costs of parolees who are detained for parole violations. This funding includes a one-time, lump-sum payment to local entities of \$55.4 million General Fund for outstanding claims from prior years and \$29.7 million General Fund for a projected shortfall in the local assistance budget in 2005-06. The need in the budget year is projected to decrease to \$11.9 million as a result of adding staff to audit the claims received from local entities and expanding reception center capacity. The increased local assistance costs have resulted primarily from offenders staying at local facilities for longer periods. Despite a decrease in the time parolees are held prior to their revocation hearings, the time that parolees are housed in local facilities has increased due to an inability of reception centers to process inmates as quickly as needed.

Basic Correctional Officer Academy (BCOA) Expansion. The CDCR estimates 2,000 correctional officer vacancies in 2005-06 and 4,000 vacancies in 2006-07. The budget proposes \$25.4 million General Fund in 2005-06 and \$54.5 million General Fund in 2006-07 to expand the number of cadets being trained and for the establishment of a temporary offsite academy at the former Northern California Women's Facility (NCWF). Under this proposal, the CDCR would adjust the size

of the BCOA on an annual basis, as necessary, and explore options to establish a permanent academy in Southern California to replace the temporary academy at NCWF.

Rehabilitation Programs. The 2005 Budget Act included \$7.5 million General Fund, growing to \$30 million General Fund in 2006-07 for evidence-based inmate and parolee programming enhancements. The proposed budget includes a plan to spend the \$7.5 million in 2005-06, and for an increase in spending to \$52.8 million in 2006-07, growing to approximately \$95.3 million by 2008-09. For 2006-07, the plan proposes the following:

- \$21.1 million for enhancements to inmate education and vocational education programs.
- \$7.7 million for community partnerships.
- \$7.8 million for parole services expansions including expansion of the Residential Multi-Service Centers.
- \$9.9 million for institution based rehabilitative and treatment programs including increasing visitation days, and opening a substance abuse treatment program at Kern Valley State Prison.
- \$6.2 million for research to assess the effectiveness of correctional programs.

Adult Healthcare Services Increase. The budget proposes \$68.1 million to provide funding for healthcare services to continue compliance with the *Plata v. Schwarzenegger* court order.

Parole Hearing Workload. The budget proposes \$9.6 million in the current year and \$12.7 million in the budget year for costs related to the Valdivia Remedial Plan. In addition, the budget proposes \$1.3 million in the budget year to reduce the backlog in lifer hearings.

Global Positioning System Expansion. The budget proposes \$5.1 million General Fund to add 500 Global Positioning System (GPS) devices to track and monitor high risk parolees. This is part of a four-year plan to add 2,000 GPS devices, bringing the total number of GPS units available for parolee monitoring up to 2,500 by 2009-10.

Electronic In-Home Detention. The budget proposes \$1.2 million to add 500 electronic monitoring devices.

Farrell Remedial Plans. The budget proposes \$5.1 million in the current year and \$47.5 million in 2006-07 to fund the Ward Safety and Welfare Remedial Plan submitted to the court in November 2005. The budget also proposes \$7.5 million to implement the Healthcare Remedial Plan submitted to the court in September 2005.

Incarceration of Undocumented Felons. The budget assumes \$107.1 million in federal State Criminal Alien Assistance Program (SCAAP) funding for 2005-06, which is \$28.6 million more than was previously assumed. For 2006-07, the budget assumes that California will receive \$114.1 million in federal SCAAP funding.

Office of Emergency Services

Sexual Assault Felony Enforcement. The budget proposes \$6 million General Fund for a grant program to fund Sexual Assault Felony Enforcement (SAFE) teams.

Office of Homeland Security (OHS)

New Budget Display for the OHS. For the current year, the costs of the OHS are funded through the Office of Emergency Services. The budget reflects technical adjustments necessary for the OHS to be budgeted as an independent entity, effective January 1, 2007, if legislation is passed that establishes the OHS in statute.

Mass Transit Security Grant Program. The budget includes \$2.5 million from the Antiterrorism Fund to establish a grant program to enhance the security of the state's mass transit infrastructure.

Department of Justice

Gang Suppression Enforcement Teams. The budget proposes \$6.5 million General Fund and 32 positions to develop four new Gang Suppression Enforcement Teams in the budget year. The proposal would increase the number of teams to six in 2007-08.

California Methamphetamine Strategy (CALMS) Program. The budget proposes an augmentation of \$6 million General Fund and 30 positions for the CALMS program.

Special Crime Unit. The budget proposes \$1.3 million General Fund and 13 positions to augment the Special Crimes Unit, which handles the investigation and prosecution of complex financial and identity theft crimes.

Gambling Control Commission

Licensing, Audit, and Field Inspection Workload. The budget proposes \$1.7 million (\$359,000 General Fund, \$911,000 Special Distribution Fund, and \$396,000 Gambling Control Fund) and 14 positions for licensing, audits, and field inspections. This increase includes 5.7 positions for ongoing audit workload related to all Tribal-State Gaming Compacts, and 2.9 positions to develop a new field testing and inspection program related to Tribal-State Gaming Compacts of 2004.

Natural Resources

Total Proposed Expenditures for Resources. The Governor's budget proposes \$3.5 billion (\$1.5 billion General Fund) for all departments, boards, and commissions under the Resources Agency. This is \$1.4 billion less than the estimated expenditures for 2005-06 primarily due to the reduction in bond funding available for appropriation in 2006-07.

Infrastructure Bond - Flood Control and Water Supply. The Governor's Strategic Growth Plan (described in the Overview of this summary) includes \$35 billion for flood control and water supply investments.

- \$6 billion is proposed for flood control, including \$2.5 billion from new general obligation bonds.
- \$29 billion is proposed for integrated regional water management projects, including \$6.5 billion from new general obligation bonds and \$5 billion from a new monthly fee on household water connections.

Flood Control. The Governor proposes \$35 million General Fund to implement the second year of a three-year plan to prevent flooding in the Central Valley. This funding is for maintenance, evaluation, and rehabilitation of the Central Valley levee system. Funds are also provided for improved emergency response and updating floodplain maps.

All-American Canal Lining. The Governor proposes \$84 million General Fund for the lining of the All-American and Coachella Canals. This funding is consistent with the Quantification Settlement Agreement to reduce California's use of Colorado River water.

CALFED Bay-Delta Program. The Governor's budget proposes \$250 million (\$26 million General Fund) for the state share of the CALFED Program. A new 10-year Action Plan Framework for the CALFED Bay-Delta Program was released this past December. The proposed plan recommends changes in the following categories:

- **Governance.** The Governor proposes to eliminate the Bay-Delta Authority and reestablish a policy group chaired by the Secretary for Resources and the federal lead appointed by the Secretary of the Interior. The plan also calls for establishing independent oversight of the CALFED program and a state/federal advisory committee to inform the new policy group. Bay-Delta Authority staff are proposed to be transferred to the Resources Agency.

- **Program and Fiscal Management.** The Governor proposes to reorganize the Bay-Delta Authority staff to focus on strategic planning and implement new performance-based program management of the CALFED program. The plan also calls for standardizing fiscal management and tracking systems, developing a communications plan, and establishing science based performance measures to allow for adaptive management of the program.
- **Refocused Program Priorities.** The Governor proposes to organize the activities under the CALFED program into two categories: (1) CALFED-Delta actions and (2) Integrated Regional Water Management actions. CALFED-Delta actions generally have a direct effect on the Delta, while the other actions have a broader statewide focus. The plan calls for greater focus on CALFED-Delta actions.
- **Updated Implementation Schedules.** The Governor proposes an updated implementation schedule for major actions called for in the 2000 Record of Decision that are remaining through 2010.
- **Create 100-Year Delta Vision.** The Governor proposes to convene a science panel to evaluate the latest scientific information relative to the Delta. This information will be used to inform a larger public process to determine the 100-year vision for the Delta, including land use and transportation.
- **Develop New Conservation Plans.** The Governor proposes to develop Habitat Conservation Plans and Natural Communities Conservation Plans to address endangered species issues in the Sacramento River, San Joaquin River, and Delta.
- **Develop Near-Term Funding Plan.** The Governor proposes to develop a funding plan for the next three years of the CALFED program. The administration indicates that of the \$1 billion required over the next three years, roughly 75 percent of the funding is in place. Actions will need to be taken to obtain the remaining 25 percent, including additional water user contributions.

Fish and Game Preservation Fund. The Governor proposes \$10 million General Fund to balance the Fish and Game Preservation Fund. The Fish and Game Preservation Fund would not balance without this augmentation due to a structural deficit in the fund and recent legislation (AB 7) that requires one-third of all sport-fishing license fees to be dedicated to achieving fish hatchery production goals and supporting trout restoration programs.

Fisheries Restoration Program. The Governor proposes \$4 million General Fund for the Fisheries Restoration Grant program to restore habitat for coho salmon and steelhead trout.

Infrastructure Bond – State Parks. The Governor’s Strategic Growth Plan includes \$215 million from new general obligation bonds for health and safety infrastructure upgrades to existing park facilities.

State Parks Budget. The Governor proposes \$5 million General Fund for contamination remediation measures at the Empire Mine State Historic Park. The budget also includes \$11.8 million (\$11.2 million General Fund) to fund the multi-year effort to make existing state park facilities compliant with the American’s with Disabilities Act. The budget also provides \$1.4 million General Fund to augment the department’s ongoing efforts to ensure safe drinking water and wastewater systems at park facilities.

Infrastructure Bond – Fire Protection. The Governor’s Strategic Growth Plan includes \$216 million from new general obligation bonds for upgrades to state fire protection facilities and air attack bases.

Fire Protection Budget. The Governor’s budget includes \$37 million General Fund to fund increased employee compensation costs associated with transitioning to year-round fire protection statewide.

Environmental Protection

Total Proposed Expenditures. The Governor’s budget proposes \$1.1 billion (\$69 million General Fund) for all boards, departments, and offices under the Environmental Protection Agency. This is \$435 million less than the expenditures estimated for 2005-06 primarily due to a reduction in bond funding available for appropriation in 2006-07.

Infrastructure Bond – Air Quality. The Governor’s Strategic Growth Plan includes \$2 billion for air quality improvements for the ports, including \$1 billion in new general obligation bonds and \$1 billion in matching funds from the private sector.

Port Air Quality. The Governor’s budget includes \$1.7 million in special funds to demonstrate new technologies and develop mitigation measures for pollution created by ships, locomotives, trucks, and heavy-duty equipment. These funds would be used to implement regulatory and non-regulatory strategies to reduce air pollution from these sources.

Other Air Quality. The Governor’s budget includes \$2 million in special funds for Innovative Clean Air Technology grants for the development of technologies to reduce air emissions. The budget also includes \$1 million in special funds for additional equipment for emissions testing.

Climate Change Initiative. The Governor proposes \$7.2 million (\$135,000 General Fund) to implement an initiative to reduce greenhouse gas emissions and work towards meeting the Governor’s greenhouse gas reduction targets. Activities funded include the following:

- \$5 million for the Air Resources Board to develop measures that require the use of biodiesel fuel, reduce hydrofluorocarbon emissions, and reduce emissions from heavy-duty vehicles.
- \$900,000 for the Secretary of Environmental Protection to lead a coordinated statewide effort to meet the emission reduction targets, including economic analysis and inventory improvements.
- \$612,000 for the California Energy Commission to update the statewide greenhouse gas emissions inventory and accelerate the Renewable Portfolio Standard.
- 12 redirected positions at the California Public Utilities Commission to promote solar energy, expand energy efficiency programs, and examine options for implementing new electric sector carbon policies.
- \$466,000 for the Integrated Waste Management Board to expand existing efforts to capture methane from landfills and enhance recycling efforts.

Environmental Enforcement. The Governor proposes \$6.1 million in special funds to strengthen environmental enforcement efforts throughout the Cal-EPA Agency. Increased enforcement activities include:

- \$4 million for the Air Resources Board to enforce heavy-duty diesel regulations, evaluate on-board diagnostic systems in vehicles, and replace older testing and diagnostic equipment.
- \$1.5 million for the Department of Toxic Substances Control to enhance existing enforcement efforts related to the electronic waste recycling program.

- \$425,000 for the Department of Pesticide Regulation to conduct additional pesticide mill assessment audits.
- \$223,000 for the Integrated Waste Management Board to investigate fraud in the electronic waste program.

Hydrogen Highway. The Governor proposes \$6.5 million in special funds to continue development of the Hydrogen Highway. This funding will provide matching funds for three publicly accessible hydrogen fueling stations and will enable the state to leverage federal matching funds for five fuel cell buses to be used in public transit fleets.

Tire Recycling Programs. The Governor proposes \$5.2 million in special funds for grants to increase the diversion of waste tires from landfills and enhance enforcement of waste tire regulations.

Electronic Waste Recycling Program. The Governor proposes \$1 million in special funds to fund additional positions to administer the Electronic Waste Recycling program, including processing payments to recyclers.

Water Quality Monitoring. The Governor proposes \$8.5 million in special and federal funds to enhance existing water monitoring efforts. These funds will be used to expand monitoring activities at the State Water Resources Control Board, including integrating existing monitoring data collected by various state and local entities into the Surface Water Ambient Monitoring Program.

Water Quality Grant Funds. The Governor proposes \$57 million in local assistance grant funding from various bond funds for: CALFED drinking water and watershed protection programs, non-point source pollution control, clean beaches, water recycling, and groundwater monitoring.

Water Rights Program. The Governor proposes \$3.6 million in special funds to develop a new Water Rights Information Management System to improve the water rights permitting process.

Basin Planning Updates. The Governor proposes \$1 million in special funds to provide scientific data needed to update water quality standards contained in existing basin plans.

Agriculture

Total Proposed Expenditures. The Governor's budget proposes \$240 million (\$92 million General Fund) to support the California Department of Food and Agriculture for 2006-07. This is a \$15 million increase over estimated expenditures in 2005-06 due to increased funding for a new effort to address emerging threats to the state's food production.

Emerging Threats to Food Production. The Governor's budget proposes \$7.2 million General Fund to establish an ongoing program to address emerging threats to California's food supply, including Avian Influenza and bioterrorism.

State Administration and General Government

Board of Equalization Tax Gap Measures

- **Retail Licensing Enforcement.** The Administration proposes \$1.1 million General Fund, \$571,000 special fund, and 15 positions for the Board to identify and register businesses that operate without paying applicable sales and use taxes. Revenues of \$12.6 million are projected, a nine-to-one benefit-cost ratio.
- **Agricultural Inspection Station Leads.** The Governor proposes \$811,000 General Fund, \$632,000 special fund, and 16 positions for the Board to identify property that is brought into the state without the payment of sales and use taxes. The program will run from California Department of Food and Agriculture-operated agricultural inspection stations. Revenues of \$7.4 million are projected, a six-to-one benefit-cost ratio.
- **Enforcement of Consumer Purchases of Tobacco Products from Out-of-State Sellers.** The Administration proposes \$1.8 million and 20 positions to establish a program to recoup state tax revenues on cigarette and tobacco sales on the Internet and through mail orders. Revenues of \$33.8 million are projected in the budget year, an 18-to-1 benefit-cost ratio.

Teacher Retention Tax Credit. The Governor's Budget extends the suspension of the Teacher Retention Tax Credit for one year, generating a savings of \$200 million General Fund. The tax credit provides up to \$1,500 to credentialed teachers, depending on their years of service. This credit was suspended in 2002 and again in 2004 and 2005.

Vehicle, Vessel, and Aircraft Use Tax Payments. The Administration proposes to extend, for one year, the requirement that use tax be paid if a vehicle, vessel or aircraft is brought into the state within 12 months of purchase. Currently, use tax (state and local) is imposed on property purchased outside of California at the same rate and with the same method, as the sales tax, but brought into and used in California. If not implemented, a purchaser of a vehicle, vessel or aircraft outside the state and brought into the state within only 90 days after purchase is required to pay the use tax.

Unallocated Reductions

The Governor's Budget includes reductions of \$208 million through unallocated reductions in departments' budgets: \$50 million in the current year and \$158 million in the budget year. These reductions are distributed as follows:

- In the current year, \$50 million would be realized by working with Agency Secretaries to identify reductions. Authority for this current year reduction is not clear at this time.
- In the budget year, \$100 million will be achieved through departmental savings to be identified later.
- Also in the budget year, \$58 million in savings are anticipated by providing agency secretaries with target reduction goals of approximately one percent of departmental salaries and wages costs. Savings will be achieved primarily through eliminating vacancies, but also through nonsalary reductions to staff benefits and operating expenses.

Mid-Year Budget Correction Authority

The proposed budget will include trailer bill legislation to enable the Governor to make mid-year adjustments to General Fund appropriations. Reductions would be limited to 25 percent of a total appropriation and require notification to the Legislature within 30 days of the reduction occurring.

Minimum Wage Adjustment

The Administration proposes a 50-cent increase to the minimum wage (to \$7.25), effective September 1, 2006. This increase will require augmentations to several departments who pay minimum wage, primarily the Department of Social Services' In-Home Supportive Services Program (\$3 million General Fund) and the Department of Developmental Services (\$5.5 million General Fund). The total departmental augmentation of approximately \$10 million General Fund will be made through a budget control section item.

Help America Vote Act (HAVA) Expenditures

The Governor's Budget does not incorporate the approved spending plan for over \$200 million in federal HAVA funds. These funds are to be used voter outreach, a statewide voter database, voting machine replacement, among other voter-related activities. It is unclear at this time when and how that information will be provided.

November 2005 Special Election Costs

The Governor's Budget includes \$54 million for special election costs: \$45 million to reimburse counties and \$9 million to reimburse the Secretary of State.

As a current year funding proposal, separate statutory authority will be necessary before these expenditures can be paid back. The Administration asserts that these funds must be repaid expeditiously to enable implementation of the June 2006 primary election.

Armory Maintenance and Repair

The Governor's Budget includes \$3.5 million to allow the Department of the Military to address their armory infrastructure needs by making repairs, modernizing facilities, and ensuring compliance with environmental laws and building codes. The Administration estimates a total deferred maintenance backlog of \$35 million in the state's armories.

Transportation

Governor’s Strategic Growth Plan. The Governor includes \$107 billion for transportation in his \$222 billion Strategic Growth Plan. The following table identifies the Administration’s categories of transportation expenditures (in billions):

| Category of Investment | GO Bond | Other Funding | Total |
|-------------------------|---------------|---------------|----------------|
| Port Mitigation | \$ 1.0 | \$ 1.0 | \$ 2.0 |
| Highways | 5.6 | 47.7 | 53.3 |
| Transit/Rail | 0.7 | 3.8 | 4.5 |
| Technology – ITS | 0.2 | 3.1 | 3.3 |
| Safety and Preservation | 1.5 | 27.4 | 28.9 |
| Trade Infrastructure | 3.0 | 12.0 | 15.0 |
| TOTAL | \$12.0 | \$95.0 | \$107.0 |

The *Other Funding* category, noted above, includes \$47 billion in revenue from existing sources such as gasoline excise taxes and vehicle weight fees. Additionally, \$48 billion is identified from “new” funding sources such as reauthorized local sales tax measures, tolls/container fees, and bonding against existing transportation revenues. As part of the plan, the \$10 billion high-speed rail bond would be removed from the November 2006 ballot; however, the High Speed Rail Authority is not proposed for elimination.

Proposition 42/Gasoline Sales Tax Revenue. The Governor is *not* proposing a Proposition 42 suspension for 2006-07 and revenue is estimated to be \$1.4 billion. As part of the Strategic Growth Plan, the Governor proposes a constitutional amendment to prohibit future Proposition 42 suspensions.

Repayment of Prior Transportation Borrowing. The Governor’s Budget includes early repayment of \$920 million of past Proposition 42 borrowing. Of this repayment, \$255 million is budgeted for local streets and roads. This proposal would leave \$430 million due in 2007-08 and approximately \$900 million due in 2008-09. The 2005 Budget Act assumed the sale of \$1.0 billion in tribal gaming bonds would occur in 2005-06. While litigation has delayed this bond sale, the Governor’s budget still assumes a bond sale in 2005-06. The tribal gaming bonds would repay a portion of loans (approximately \$1.2 billion is outstanding) made from the Traffic Congestion Relief Fund to the General Fund.

Department of Transportation (Caltrans) Budget. The Caltrans budget reflects a \$975 million increase in federal funding in both 2005-06 and 2006-07 associated with the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) enacted August 10, 2005.

California Highway Patrol (CHP) Budget. The Governor's Budget includes the following significant augmentations for the CHP (all special fund):

- \$36.7 million for 240 additional CHP officers.
- \$56.2 million as part of a five-year plan to upgrade and replace the CHP's radio system.
- \$6.5 million for additional CHP staff to handle cellular 9-1-1 calls.

Department of Motor Vehicles (DMV) Budget. The Governor's Budget includes the following significant augmentations for the DMV (all special fund):

- \$9.3 million for the Electronic Insurance Verification System related to Chapter 920, Statutes of 2004.
- \$5.4 million to replace the DMV's existing remittance system.