



Senate Budget and Fiscal Review Committee
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State Capitol, Room 5019
651-4103

**SUMMARY OVERVIEW
PROPOSED 2005-06 BUDGET
(SB 77)**

On June 10, the Budget Conference Committee (using Senate Bill 77) completed its work and is presenting a fair and responsible budget for the 2005-06 fiscal year.

The proposed Budget reflects the decisions of a bi-partisan conference committee, as approved by a majority of the members. The proposal provides for a balanced budget as required by the State Constitution. The proposed Budget does not include any general tax increases, but is premised on a number of fee increases, as proposed by the administration, particularly in the area of higher education.

In total, the budget crafted by the Budget Conference Committee is based on \$91.2 billion in available General Fund resources and contains \$89.2 billion in expenditures, resulting in a fund balance of \$1.9 billion. The final General Fund reserve is approximately \$1.3 billion, which includes a \$400 million set-aside for 2006-07 tax amnesty-related accounting.

Funding for K-14 education is consistent with the Proposition 98 levels estimated at the May Revise. However, the Budget Conference Committee re-prioritized the limited amount of available funding for education in order to: (a) insure full growth and COLA for our schools; (b) set-aside critical funds for instructional materials for English learners; (c) allocate resources to assist students in passing the High School Exit Exam; and (d) provide greater discretionary funding for local schools by targeting resources at paying off mandated costs and reducing the deficit factor.

The Budget Conference Committee maintained the Legislature's commitment to working class Californians by, among other things, proposing the following:

- Preserving the current system of child care services, and rejecting administration proposals that would have required many working, low-income families to join already overcrowded waiting lists for subsidized child care;
- Rejecting a proposal to roll back the state's share of providing In-Home Supportive Services (IHSS) earnings to the minimum wage, thus mitigating the current shortage of IHSS workers. The IHSS program provides invaluable services by allowing aged and disabled individuals to remain at home, rather than be moved to institutions where their care would be more expensive.
- Rejecting the administration's proposal to withhold the federal SSI/SSP COLA; the federal government provides these funds to individuals that rely on SSI/SSP for basic living needs. The administration has proposed to keep these funds in the state treasury, thereby denying disabled citizens desperately needed funds.
- Strengthening an administrative proposal to increase the number of registered nurses and nursing faculty by (1) expanding nursing enrollments at community colleges; (2) funding nursing education "simulators" in rural areas; and (3) implementing a student loan forgiveness programs.
- Insuring adequate Cal Grant funding for students attending private universities and colleges (at the current-year level), and maintaining community college fees at their current level of \$26 per unit.

In addition, the conference committee made numerous on-going reductions or took actions to achieve significant cost-savings, most notably:

- Suspending, for two-years, the CalWORKs cost-of-living-adjustment (COLA) and the state portion of the Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLAs.
- Establishing a limit on dental services for adults in the Medi-Cal Program;
- Shifting the funding source for the Access for Infants and Mothers (AIM) program from the General Fund to Proposition 99 funds; and
- Continuing existing cost containment measures for the purchase of services in developmental services.

In addition, after numerous public hearings at the May Revision, the administration reversed their original position on suspending Proposition 42; backed-out the use of Economic Recovery Bonds in the budget year; and restored the Senior Citizens' Property Tax Assistance and Renters' Tax Assistance Programs thereby eliminating the additional cost burden on senior citizens.

The Budget Conference Committee rejected a number of unachievable savings proposals sponsored by the administration that exaggerated the level of the administration's proposed reserve. For example:

- Savings of \$469 million which was attributed to the state no longer making contributions to the State Teachers' Retirement System (STRS). These savings were unachievable because, under the administration's proposal, if this cost were passed down to local school districts, the Proposition 98 guarantee would need to be "re-benched" or increased to cover the school districts' new costs – meaning there would be no net savings to the state.
- Savings of \$408 million attributable to state employee compensation reductions. Achieving this level of savings would have required collective bargaining agreements from represented employees which would have taken away vested employee rights. Given that these vested benefits would have to be replaced with benefits of a comparable enhancement level, the net cost would be the same thereby making it unachievable to reach \$408 million in savings. Further, information indicates that the new collective bargaining agreements being reached are actually costing the state more, not less.

In addition, the administration failed to fund local mandates (for 2004-05) as required under the provisions of Proposition 1A, thereby under-funding this state obligation.

Furthermore, as late as June 9, the administration requested to spend an additional \$53 million in resources that were not otherwise accounted for in the May Revision. These requests for spending increases did not include either offsetting programmatic reductions or corresponding revenue enhancement – thus further eroding the Governor's proposed reserve.

GENERAL FUND SUMMARY

The following chart – a summary of the General Fund – illustrates how the budget crafted by the Budget Conference Committee compares with the Governor's May Revision for both 2004-05 and 2005-06.

General Fund Summary Current Year and Budget Year (in millions)

	May Revision	Conference Committee	May Revision	Conference Committee
	<u>2004-05</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2005-06</u>
Prior-year balance	\$7,200	\$6,948	\$6,714	\$6,793
Revenues and Transfers	\$79,495	\$79,545	\$83,867	\$84,385
Economic Recovery Bonds	2,012	2,012	--	--
Total Resources Available	\$88,707	\$88,506	\$90,581	\$91,178
Total Expenditures	\$81,993	\$81,712	\$88,525	\$89,243
Fund Balance	\$6,714	\$6,793	\$2,056	\$1,936
Budget Reserves:				
Reserve for Liquidation of Encumbrances	(\$641)	(\$641)	(\$641)	(\$641)
Adjustment to reserve due to unachievable savings	--	--	-\$877	--
Adjustment to reserve due to new administration spending requests			-\$53	--
Adjustment to reserve due to administration underfunding of mandates			-\$93	--
Final Reserve	\$6,073	\$6,152	\$392	\$1,294
Set-Aside for 2006-07 Amnesty Accounting	--	--	(\$900)	(\$400)
Final Reserve after Set-Aside	\$6,073	\$6,152	-\$508	\$894

REVENUE PICTURE

The Budget Conference Committee assumes General Fund revenues and transfers totaling \$84.4 billion. This amount, when added to a \$6.8 billion starting balance, provides a total of \$91.2 billion in available General Fund resources. The revenue assumptions in the Conference Committee's proposal are very similar to the May Revision. The primary difference is that the Conference Committee anticipated an additional \$500 million in revenue derived from the refinancing of the existing tobacco settlement bond. In addition, the proposed budget assumes, based on Legislative Analyst projections, that \$500 million of the new revenues will be ongoing. The following chart identifies the revenue sources composing the General Fund for 2005-06.

2005-06 General Fund Revenue Sources (in millions)

Source	May Revision Amount	May Revision % of Total	Conference Committee Amount	Conference Committee % of Total
Personal Income Tax	\$43,214	51.5%	\$43,233	51.2%
Sales Tax	\$26,951	32.1%	\$26,954	31.9%
Corporation Tax	\$8,817	10.5%	\$8,822	10.5%
Insurance Tax	\$2,300	2.7%	\$2,300	2.7%
Tobacco Taxes	\$116	0.1%	\$116	0.1%
Tobacco Bond Refinance	--	--	\$500	0.6%
Liquor Tax	\$315	0.4%	\$315	0.4%
Other	\$2,154	2.6%	\$2,146	2.6%
Total	\$83,867	100.0%	\$84,385	100.0%

EXPENDITURE PICTURE

The budget crafted by the Conference Committee contains General Fund expenditures of \$89.2 billion. This amount is approximately \$700 million above the level proposed in the May Revision, but is approximately \$200 million below the administration's actual spending level, as adjusted for the unachievable savings previously discussed.

The major differences in expenditures are as follows:

- Increases spending by \$877 million to fund unachievable administrative proposals related to (a) the state contribution to STRS (\$469 million); and (b) employee compensation reductions (\$408 million).
- Provides funding to avoid decreasing In-Home Supportive Service (IHSS) workers hourly to the minimum wage.
- Increases spending to provide the federal COLA for SSI/SSP recipients.
- Increases support for Juvenile Probation by \$201 million using General Fund, rather than supporting the program with TANF/CalWORKS funds.
- Reduces spending by \$568 million by denying the Governor's proposal to "pre-pay" 50 percent of the VLF gap loan to local governments. The budget retains \$25 million for the Department of Finance to provide funds to local governments that are experiencing financial hardships due to either the VLF gap loan or booking fees. The balance of the VLF gap loan will be repaid in 2006-07, as constitutionally required.
- Adds \$93 million, above the amount provided for in the Governor's May Revision, to pay local mandate claims.
- Reduces General Fund spending for Proposition 98 by \$225 million consistent with the LAO's estimates of local property tax revenues. The LAO estimates that property tax revenues will be \$225 million higher than the level contained in the May Revision, thus allowing for a direct General Fund savings of a like-amount. This action has no net impact on Proposition 98.

**2005-06 May Revision General Fund Expenditures
(in millions)**

Category	May Revision Amount	May Revision % of Total	Conference Committee Amount	Conference Committee % of Total
Education (K-12)	\$36,118	40.7%	\$36,347	41.0%
Health and Human Services	\$26,834	30.3%	\$27,187	30.5%
Higher Education	\$10,171	11.5%	\$10,223	11.5%
Business, Transportation and Housing	\$1,702	1.9%	\$1,694	1.9%
Legislative, Judicial, Executive	\$3,120	3.5%	\$3,114	3.5%
General Government	\$1,223	1.3%	\$1,166	1.3%
Youth and Adult Corrections	\$7,259	8.2%	\$7,422	8.3%
Resources	\$1,352	1.5%	\$1,354	1.5%
Environmental Protection	\$78	0.1%	\$79	.01%
State and Consumer Services	\$576	0.7%	\$564	0.6%
Labor and Workforce Development	\$92	0.1%	\$92	.01%
Total	\$88,525	100%	\$89,242	100%

BORROWING

The Budget Conference Committee concluded its work using significantly less borrowing than proposed in the Governor's January budget and with no new borrowing compared to the Governor's May Revision. In addition, the Conference Committee pays down existing state debt more rapidly than proposed by the Governor.

Following are the major borrowing-related issues from the Budget Conference Committee's actions:

- Assumes that no Economic Recovery Bonds (ERBs) will be used, consistent with the May Revision; this action leaves approximately \$3.7 billion of available ERBs to address out-year budget shortfalls.
- Repays approximately \$250 million in past mandate claims that are owed to local school districts. The Governor did not propose this repayment, but the Conference Committee believed it was critical that the state makes progress in decreasing the debts owed to schools.
- Provides a total of \$240 million toward local mandates for both 2004-05 and for 2005-06; this is approximately \$93 million above the amount proposed in the Governor's May Revision, which – in violation of Proposition 1A – did not contain any funds for 2004-05 mandates.
- Provides up to \$25 million to begin repaying the VLF gap loan to those local governments experiencing fiscal hardship. The balance of the VLF gap loan will be repaid in 2006-07, as required by law.
- Provides \$67 million, consistent with the outcome of the "Paterno" lawsuit, to make the first payment owed by the state in the settlement of the suit.
- Continues to assume the issuance of the Pension Obligation Bonds (POBs) that were authorized in the current year (and which result in General Fund savings/deferral of approximately \$524 million). Due to litigation which challenges the authority for the bonds, the budget defers their issuance until 2005-06. Retirement benefits for state employees were significantly altered in order to generate the savings necessary to pay the costs of the POBs.

GENERAL FUND RESERVE

The budget crafted by the Budget Conference Committee contains a total reserve of approximately \$1.3 billion, including a set-aside of \$400 million for tax amnesty accounting in 2006-07. Adjusting for the set-aside, the Budget Conference Committee reserve stands at \$894 million.

The Governor's May Revision contains a total reserve of \$1.4 billion. This includes a set-aside of \$900 million for tax amnesty accounting in 2006-07 but also includes \$877 million in savings derived from unachievable proposals. Adjusting for (1) the Governor's amnesty set-aside; (2) the unachievable savings; (3) the under-funding of local mandate costs; and (4) the costs associated with new Administration spending proposals, the Governor's May Revision reserve is actually in deficit by -\$508 million.

The following table and chart shows the differences between the Budget Conference Committee's reserve and the Governor's May Revision reserve.

2005-06 General Fund Reserve (in millions)

	May Revision	Conference Committee
Starting Reserve	\$1,415	\$1,294
Set-aside for amnesty accounting in 2006-07	(\$900)	(\$400)
Reduction to reserve due to unachievable savings	-\$877	--
Reduction to reserve due to Governor's new spending requests	-\$53	--
Reduction to reserve due to May Revision underfunding of local mandates	-\$93	--
Final Reserve	-\$508	\$894

General Fund Reserve Comparison (in millions)

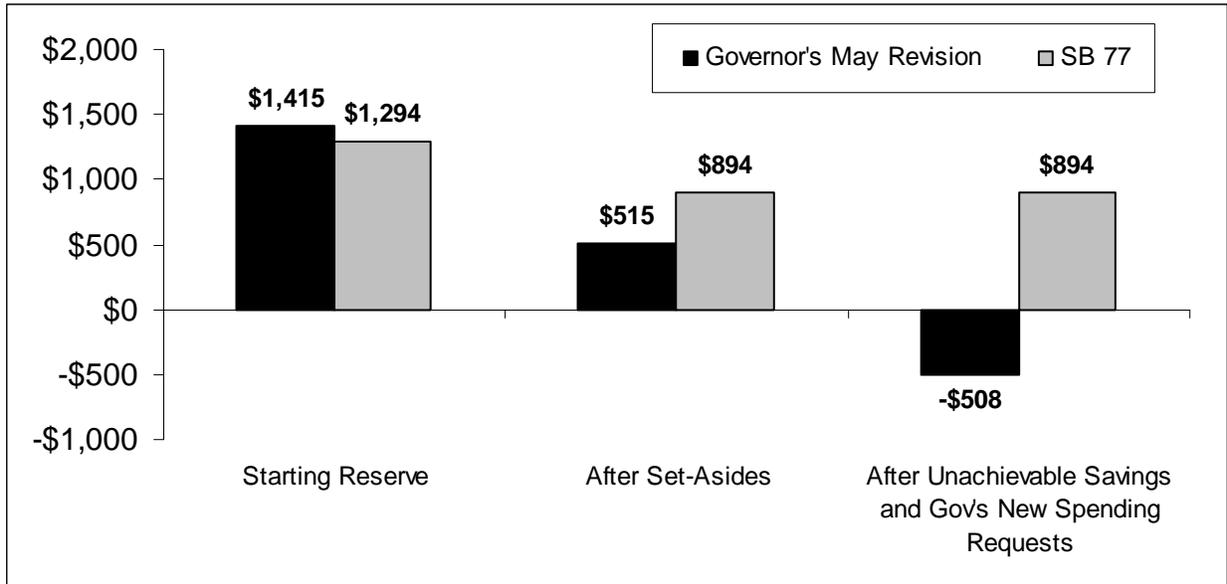


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TRANSPORTATION

- Fully funds Proposition 42, with a \$1.3 billion General Fund transfer to support transportation projects.
- Amends language to specify that the outstanding \$1.2 billion Traffic Congestion Relief Fund loan to the General Fund be repaid by tribal gaming revenues, or by the General Fund if tribal gaming revenues are insufficient. Updates the estimated interest obligation associated with this loan.
- Augments state operations funding by \$163 million to support additional staff and contract work associated with Proposition 42 and tribal gaming.
- Suspends the 2005-06 transfer of sales tax “spillover” revenue to the Public Transportation Account, which provides General Fund savings of approximately \$380 million.
- Makes permanent last year’s \$46 million highway-maintenance augmentation and augments funding by an additional \$10 million.

RESOURCES / ENVIRONMENTAL PROTECTION

Department of Fish and Game

- Provides \$8 million in (General Fund) to augment the Department of Fish and Game to hire 40 new game wardens, restore the state's native fish program to 1980 levels, and to restore the department's review of timber harvest plans statewide.
- Provides \$11 million in tidelands oil revenues to the Department of Fish and Game for salmon and steelhead trout restoration activities and continue operations of state fish hatcheries.

Department of Parks and Recreation

- Provides \$11 million in tidelands oil revenue to augment the Department of Parks and Recreation to hire additional park rangers and fund deferred maintenance projects.
- Provides \$13 million from the General Fund to augment the Department of Parks and Recreation to staff the new Hearst Ranch parks acquisition and to make park facilities more accessible to visitors with disabilities.

CALFED Program

- Provides \$146 million from various state funding sources for the CALFED Program. This includes funding for the following activities: \$32 million for conveyance projects; \$29 million for water use efficiency; \$19 million for levees; \$18 million for ecosystem restoration projects; \$9 million for water purchases to support the Environmental Water Account; and \$9 million for water storage studies. (The total provided for CALFED is approximately \$125 million less than proposed by the Governor.)

Department of Water Resources

- Provides \$103 million from the General Fund to cover settlements related to the Paterno lawsuit. Approximately \$67.1 million is for the first payment of a 10-year financing arrangement with Merrill-Lynch to pay

payment of a 10-year financing arrangement with Merrill-Lynch to pay off the \$428 million settlement reached with over 3,000 plaintiffs in this lawsuit.

- Provides \$32.3 million (\$26.4 million General Fund) to augment the department's flood management activities, including maintenance of the Central Valley flood project, floodplain management, emergency response, a multi-year levee system reevaluation and rehabilitation project, and various capital outlay projects in the Central Valley.

Department of Forestry and Fire Protection

- Provides \$32 million from the General Fund to augment the Department of Forestry and Fire Protection, including additional funding for fire engine and equipment replacement and to augment off-season fire protection staffing in Southern California.

Resources Bond Funds

- Provides \$30.5 million from Proposition 50 bond funds to the Secretary for Resources for grants to acquire and develop River Parkway projects and \$12 million in bond funds for grants to acquire property in the Sierra Nevada Cascade region of the state.
- Provides over \$100 million in Proposition 50 bond funds for Integrated Regional Water Management grants.
- Provides \$67 million in Proposition 50 bond funds to the State Water Resources Control Board to fund projects that restore and protect coastal water quality.
- Provides over \$40 million in resources bond funds to the State Coastal Conservancy to fund projects to restore and protect coastal watersheds, wetlands and wildlife habitat.
- Provides over \$44 million in resources bond funds and other funds for grants to fund various local park projects and \$36 million in resources bond funds for capital outlay projects to develop and improve existing park facilities.

Air Resources Board

- Provides \$25 million from special funds to retrofit and replace old school buses.
- Provides \$8.6 million from special funds to augment the board's development of the State Implementation Plan and state regulations for reducing particulate matter (PM2.5).
- Provides \$3.5 million from special funds to augment the board's mobile source review program and \$3.7 million from special funds to augment enforcement of air quality rules on heavy-duty vehicles at the California-Mexico border and the Port of Long Beach.

State Water Resources Control Board

- Provides \$1.5 million from special funds to start environmental work required to determine in-stream flows required for maintaining fisheries downstream of diversions on the Napa River and other rivers on the North Coast.
- Provides \$1.6 million in special funds to oversee cleanup of Brownfield properties, including closed military bases.

Department of Toxic Substances Control

- Provides \$8.5 million General Fund to fund the state takeover of the BKK landfill, pending resolution of a long-term financing plan with potential responsible parties.
- Provides \$1.7 million in special funds to oversee cleanup of Brownfield properties, including closed military bases.

Office of Environmental Health Hazard Assessment

- Provides \$1.5 million to fund children's health program activities and other statutory mandates.

HEALTH, DEVELOPMENTAL SERVICES, & MENTAL HEALTH

Emergency Medical Services

- Provides \$10 million to Trauma Care Centers for uncompensated medical care.
- Increases by \$6.2 million (federal bioterrorism funds) to (1) provide \$3.3 million in local assistance to emergency medical services agencies, (2) conduct a variety of special statewide projects, and (3) fund six limited-term positions.

Medi-Cal Program

- Reflects a savings of \$150.3 million (General Fund) due to a lower than anticipated caseload estimate and slower growth in the utilization of services.
- Saves \$191.7 million (General Fund) by authorizing the DHS and Managed Risk Medical Insurance Board to submit a State Plan Amendment to the federal CMS in order to draw down a 65 percent federal match for the state's Prenatal Care Program for Undocumented Women and the Access for Infants and Mothers Program.

Modifies the Administration's proposal to expand Medi-Cal Managed Care and require the mandatory enrollment of the aged, blind, and disabled.

Specifically, the following actions were taken:

1. Rejects the proposed mandatory enrollment of aged, blind and disabled.
2. Provides for expansion into 13 new counties using the existing program enrollment method of the mandatory enrollment of children and families, and the voluntary enrollment of the aged, blind and disabled.
3. Provides for existing County Organized Healthcare Systems (COHS)—all five of them—to expand into additional counties. By the nature of this model, COHS' require the mandatory enrollment of aged, blind, and disabled individuals. Therefore, counties that choose to become part of an existing COHS would have mandatory enrollment.

4. Codifies key components of the Administration's "plan readiness" requirements.
- Implements an expenditure cap for Adult Dental services provided to Medi-Cal enrollees. This cap has a set limit of \$1,800 over a calendar year, and commences as of January 1, 2006. The cap excludes emergency services, dentures, dental services provided in a long-term care nursing home, and complex oral and maxillofacial surgeries.
 - Reflects net savings of \$257 million (General Fund) through the implementation of AB 1629, Statutes of 2004, which (1) requires the DHS to provide a cost-of-living-adjustment to certain nursing homes, effective August 1, 2004, (2) provides for the establishment of a facility specific rate methodology by August 1, 2005, and (3) institutes a quality improvement fee to be effective August 1, 2004.
 - Increases by \$59.8 million (\$29.9 million General Fund) to provide rate increases to various long-term care facilities not covered by AB 1629, Statutes of 2004, as provided for under existing state statute.
 - Saves \$28.9 million (General Fund) by using Proposition 99 Funds to backfill for General Fund support in the Orthopaedic Hospital Settlement Agreement.
 - Saves \$6.2 million (General Fund) by rejecting the Administration's proposal to require certain Medi-Cal enrollees to pay premiums, effective as of January 1, 2007. The savings is due to the elimination of administrative expenditures which were intended to begin the development of a system to identify charges and collect the proposed premium.
 - Provides a three percent rate increase to CalOPTIMA, the County Organized Healthcare System of Orange County, for increased expenditures of \$18.4 million (\$9.2 million General Fund).
 - Reduces by \$759.6 million (General Fund) as proposed by the DHS to capture the anticipated savings from shifting drug expenditures for the dual eligibles (Medicare and Medi-Cal) from Medi-Cal to the new federal Part D Drug Program.

- Increases by \$511 million (General Fund) due the federal “clawback” in which the federal government requires states to make a “state contribution” payment to help finance the federal Part D Drug Program for dual eligible enrollees.
- Concurs with the Administration to increase by \$93.6 million (\$46.8 million General Fund) to provide coverage under the Medi-Cal Program for dual eligibles (Medicare and Medi-Cal) for those specific categories of drugs excluded from the federal Part D Drug Program.
- Contains no changes associated with the Administration’s proposed Hospital Financing Waiver since this proposal is still in flux even though California’s existing Waiver expires as of June 30, 2005.

Public Health Programs

- Increases by \$12 million (General Fund) to assist in mitigating the spread of the West Nile Virus. Of this amount, \$10 million will be allocated to local vector control districts and high priority areas.
- Eliminates \$11.7 million (General Fund) associated with the implementation of the proposed California Rx Program. Policy legislation to implement this proposal stalled in the Senate.
- Deletes the Governor’s obesity initiative for savings of \$6 million (General Fund).
- Saves \$22 million (General Fund) by shifting the Genetically Handicapped Persons Program from an accrual accounting system to a cash accounting system as proposed by the Administration.
- Continues to defer the state’s \$20.2 million in General Fund support for the County Medical Services Program (CMSP).
- Transfers \$3 million (Proposition 99 Funds) to the Steven M. Thompson Physician Loan Program operated by the California Medical Board.
- Provides an appropriation of \$3 million (General Fund) for Prostate Cancer treatment.

- Increases by \$5.6 million (General Fund) the amount of funding for HIV/AIDS education and prevention efforts.

Managed Risk Medical Insurance Board

- Provides a total of \$957.6 million (\$346.8 million General Fund) for the Healthy Families Program, to provide health, dental and vision coverage to 867,418 children (estimated enrollment as of June 30, 2006).
- Deletes \$1.8 million (\$624,000 General Fund) from the Administration's proposal for Healthy Families which is attributable to the passage of AB 1396 (Garcia) which is pending in the Assembly.
- Shifts the funding of the Access for Infants and Mothers Program from General Fund support to the use of Proposition 99 Funds as proposed by the Administration. The action assumes receipt of federal funds as a match to the Proposition 99 Funds.

Department of Developmental Services—Community-Based Services

- Concurs with the Administration to save over \$110 million (General Fund) by continuing existing cost containment measures on the "purchase of services" expenditure component of the Regional Center's appropriation.
- Provides an increase of \$9.2 million (\$4.1 million General Fund) for the Regional Centers to hire 103 case managers, nine physicians, and 13 psychologists to help Regional Centers maintain compliance with the federal CMS regarding the Home and Community-Based Waiver. This amount is in lieu of the \$20.2 million (\$10.1 million General Fund) as requested by the Administration.
- Rejects the Governor's additional cost containment measures on the purchase of services expenditures. An increase of \$13.7 million (\$10.3 million General Fund) was needed to backfill for this elimination of proposed savings.
- Eliminates the \$6 million (General Fund) augmentation to the Regional Center's Operations item intended to implement the proposed additional cost containment measures.

- Approves an increase of \$9.3 million (General Fund) to implement the federal Part D Drug Program. This includes \$4.4 million to fund those medications no longer covered by Medi-Cal or Medicare, and \$4.9 million for the Regional Centers to contract with enrollment brokers for assistance to consumers in enrollment and appeals, and to provide for enhanced medical review and consultation.
- Reappropriates \$11.1 million (one-time only General Fund) to facilitate the initial development of community-based living options for the current residents of Agnews Developmental Center. The DDS approved the plan on May 11, 2005, after consultation with the California Housing and Finance Agency and the Department of Housing and Community Development.

Department of Developmental Services—Developmental Centers

- Provides total funding of \$708 million (\$379.2 million General Fund) for the Developmental Centers as proposed by the Administration. This level of funding assumes a resident population of 3,016 people.
- Adopts all fiscal adjustments related to the closure of Agnews Developmental Center by June 30, 2007.

Department of Mental Health—Community Services

- Provides a total of \$120 million (General Fund)--\$60 million for the current year, and \$60 million for the budget year—to assist in funding the state's mandate obligation related to AB 3632, Statutes of 1984, which provides mental health services for adolescents enrolled in special education.
- Provides an increase of \$13.4 million (Mental Health Services Fund) to fund 90 positions, in lieu of the 109 positions requested by the Administration, to administer Proposition 63—the Mental Health Services Act.
- Provides \$3.1 million (Mental Health Services Fund) for the Governor's initiative on Chronic Homelessness.

- Reduces by a total of \$12.8 million (General Fund), the Early Periodic Screening and Treatment Program due to (1) new auditing activities initiated in the current-year, and (2) the addition of six new audit positions associated with the Proposition 63 implementation.

Department of Mental Health—State Hospitals

- Concurr with the Administration to provide a total of \$888.6 million (\$802.1 million General Fund) for the support of the State Hospitals. The population of the State Hospitals is now 87 percent penal code-related.
- Concurr with the Administration to save \$6 million (General Fund) by restructuring the Sexually Violent Predator (SVP) Treatment Program as provided in the State Hospital system

HUMAN SERVICES

In-Home Supportive Services (IHSS)

- Maintains state participation in IHSS provider wages and benefits above the minimum wage.
- Ensures that IHSS consumers are held harmless for any additional consumer share of cost required by the federal IHSS Plus waiver.

Supplemental Security Income/State Supplementary Program (SSI/SSP)

- Retains pass-through of the federal January 2006 cost-of-living adjustment (COLA).
- Suspends state COLAs for two years, resulting in General Fund savings of \$132 million in 2005-06, and \$396 million in 2006-07.

CalWORKs and Food Stamps

- Maintains CalWORKs grants at their current level.
- Establishes performance measures for county welfare agencies.
- Suspends CalWORKs COLAs for two years, for savings of \$135 million in 2005-06, and \$270 million in 2006-07.
- Implements several federal options to simplify Food Stamp administration and increase Food Stamp eligibility and benefit amounts.

Child Care

- Maintains the current eligibility criteria for subsidized child care services by denying both the Administration's proposal to use the Federal Poverty Level (FPL) as the economic index to determine eligibility and the Administration's proposal to limit child care services for Stage 3 recipients.

- Denied the administration's proposal to implement a tiered reimbursement rate structure for either licensed or licensed-exempt providers and instead retains the current reimbursement rate structure.
- Continues to make after-school programs the preferred placement for 11- and 12-year olds; maintains eligibility for subsidized childcare when after-school programs do not meet the family's childcare needs; and reinvests any savings derived from shifting children to after-school programs back into the childcare program to retain slots for needy children.

Foster Care and Child Welfare Services (CWS)

- Provides \$19.9 million (\$7.9 million GF) for the CWS Outcome Improvement Project. This funding would improve child welfare outcomes and accountability, and expand child abuse prevention efforts.
- Provides \$900,000 in federal funds to support dependency drug courts. These programs have reduced children's length of time in foster care and increased permanency through improved access to substance abuse treatment for parents.

Community Care Licensing

- Provides full funding for Community Care Licensing, to ensure that all available state positions are filled and that required licensing visit and background check workload is completed.

Health Insurance Counseling for Medicare Part D Benefits

- Provides an additional \$3.8 million for the Health Insurance Counseling and Advocacy Program (HICAP), to help consumers fill out enrollment forms for Medicare Part D Prescription Drug benefits. The need for information and assistance is significant – over 4 million Medicare beneficiaries in California will need to make Part D enrollment decisions in 2006.

Nursing Initiative – Song Brown Program Expansion to RNs

- Expands the number of slots in registered nurse training programs, to help address the statewide nursing shortage.

Naturalization Services

- Maintains \$2.5 million GF for the Naturalization Services Program.

K-12 EDUCATION

- Provides \$44.6 billion in Proposition 98 funding for K-12 schools in 2005-06. This provides the same level of Proposition 98 funding for K-12 education programs as proposed by the Governor in the May Revision.
- Denies the Governor's proposal to eliminate state general fund support -- estimated at \$469 million in 2005-06 -- for the CalSTRS Defined Benefit Program. By eliminating state support, the administration proposed shifting responsibility for the CalSTRS program to school districts and teachers.
- Provides \$1.8 billion in revenue limit and categorical program enrollment growth and COLA adjustments in 2005-06. This reflects a 0.69 percent ADA growth rate and a 4.23 percent COLA.
- Provides \$400.0 million in funding to reduce the revenue limit deficit factor for school districts and county offices of education. This provides an additional \$72.0 million for deficit factor reduction above the level proposed by the Governor. Deficit factor funding provides ongoing, discretionary funding for schools.
- Approves \$241.8 million in one-time Proposition 98 settle-up funding for K-12 education. These one-time dollars fully fund Proposition 98 settle-up payments estimated for the 1995-96 and 1996-97 years and provide partial payment for estimated settle-up in 2003-04.
- Appropriates \$241.8 million in Proposition 98 settle-up funding to pay for unpaid mandate claims owed to K-12 education. Claims will be paid out to districts on the basis of oldest claims first. The state currently owes \$1.4 billion in unpaid mandate claims to schools.
- Adopts the Governor's Budget proposal to defer payment of all ongoing education mandate payments in 2005-06 for a savings of approximately \$300 million.
- Continues \$100 million in funding for mental health related services proposed by the Governor. This continues \$69 million for AB 3632 services provided by county mental health agencies and \$31 million for pre-referral services for children and youth with exceptional needs. The

Governor's proposal to permanently shift the state AB 3632 mandate back to schools was rejected.

- Maintains the same level of funding for special education services as proposed by the Governor, but reallocates funds as follows:
 - Passes through \$58 million in additional federal IDEA funds to SELPAs on a per ADA basis as discretionary funds to be used for any special education purpose.
 - Provides General Fund growth and COLA on the state special education program only -- not on the federal program base -- for a savings of \$47.0 million. These savings are redirected to SELPAs on a per ADA basis for any one-time special education purposes, including assistance to students with disabilities to pass the High School Exit Exam and instructional materials.
 - Provides an additional \$18.2 million in new program funding for the out-of-home care formula for students with disabilities needs who reside in licensed children's institutions and other out-of-home placements. This program increase moves the formula closer to full funding and provides \$3.2 million to cover group homes inadvertently left out of the formula.
 - Reappropriates approximately \$22 million in one-time special education savings as per ADA grants to SELPAs for special education discretionary purposes.
 - Increases federal funding for Family Empowerment Centers by \$420,000 to fund additional centers serving students with disabilities and their families in new regions of the state.
- Provides \$100 million in Proposition 98 Reversion Account funding for emergency facility repairs in low-performing schools pursuant to the Williams lawsuit settlement in 2004.
- Provides \$60 million to fund a new cohort of low-performing schools eligible for the High Priority Schools program, pursuant to the Williams lawsuit settlement agreement.
- Increases funding for the Pupil Retention Block Grant by \$20 million to assist students with passing the California High School Exit Exam in 2006. Funding will be allocated to schools with the highest percentage of students who have failed the exam and be used for purposes of the block

grant or for providing intensive instruction and services including hiring additional teachers, individualizing instruction, teacher training, individual or small group in instruction.

- Eliminates \$21 million in new funding for the K-12 High Speed Network and authorizes funding at the same level from unused funds previously appropriated for Internet connectivity and network infrastructure for grades K-12 schools and county offices of education. Prior to expenditure of these funds, the Joint Legislative Audit Committee (JLAC) shall conduct an audit of the K-12 network.
- Sets-aside \$20 million from the Instructional Materials Block Grant to provide ongoing funding for supplemental materials for English learners. Funding can be used to purchase English language development materials or to supplement core instructional materials used by districts. Budget control section language ties the level of funding provided for this program to the level of funding provided for the community colleges career-technical education program.
- Provides approximately \$115 million in federal Reading First funds to provide a fourth year of funding to school districts in the first cohort of the program. An additional \$6.5 million in carryover funding is provided for new grants to unfunded districts. Budget bill language requires legislative approval for a fifth year of funding and specifies the creation of an advisory committee to assist the Department of Education in supporting classrooms that provide bilingual education.
- Approves \$68 million for the Charter School Categorical Block grant, as proposed by the Governor, and specifies that changes to the formula be made pursuant to legislation that specifies the categorical programs that are in and out of the block grant.
- Adopts the May Revision to restore \$9 million in one-time funds for Charter Schools Facilities Grant program for charter schools serving low-income students or located in low-income areas. The Governor's January budget proposed to eliminate funding for the program.
- Restores funding for two small categorical programs the Governor proposes to eliminate: the Early Mental Health Initiative (\$5.0 million) and the Healthy Start program (\$2 million).
- Approves \$1.0 million to provide training for school district financial officers, as proposed by the Governor. Funding will be allocated pursuant to legislation.

- Provides \$500,000 in federal funds for a study of the Economic Impact Aid formula that provides funding to school districts for meeting the needs of economically disadvantaged students and English learners. The Legislative Analyst's Office will contract for the study that is intended to strengthen the formula so that it provides more equitable, predictable and reliable funding to school districts.
- Approves \$450,000 in one-time federal funds for the Department of Education to contract for the translation of required school related documents for non-English speaking parents and families. Translated documents will be added to a statewide clearinghouse so that they can be shared by other school districts.
- Adopts the May Revision proposal to restore \$840,000 for the Advancement Via Individual Determination (AVID) program, which the Governor originally proposed to reduce in January.
- Continues to defer payments of approximately \$1.3 billion in Proposition 98 apportionment programs from one fiscal year to the next. This practice commenced with the 2002-03 budget as a method of meeting the state's budget shortfall without reducing schools programs and services.
- Authorizes the Department of Education to enter into a contract with a state agency, as well as a single, non-profit entity, in providing special education due process and mediation services. Budget trailer bill specifies the requirements for contractors in statute.

HIGHER EDUCATION

University of California (UC) / California State University (CSU)

- Provides funding (\$17.3 million at UC and \$7 million at CSU) to backfill reductions proposed in the Governor's January Budget. The \$17.3 million to UC will be used to restore academic preparation services to students; \$7 million to CSU will be used to restore unallocated reductions.
- Fully funds 2.5 percent in projected enrollment growth at UC and CSU (above current-year levels).
- Provides \$4 million to increase student enrollment in CSU nursing programs at the Masters degree level.
- Increases fees for undergraduate students at UC and CSU by 8 percent, pursuant to actions taken by the UC Board of Regents and the CSU Board of Trustees.
- Consistent with actions taken by the UC Regents and CSU Trustees, increases fees by 10 percent for academic graduate students and 3 percent for professional school students.
- Provides a 3.0% General Fund COLA for UC and CSU, totaling \$138.8 million.
- Provides a total of \$24 million for first-year operational costs at UC Merced.

California Community Colleges

- Provides \$20 million for Community College equalization.
- Appropriates \$20 million (one-time) for the alignment of career-technical education between K-12 and community colleges; links those dollars (via a Budget Act Control Section) to the amount provided for instructional materials for English language learners.

- Allocates \$10 million (in ongoing Proposition 98 funds) to increase nursing enrollments and support nursing-related infrastructure improvements at the community colleges.
- Provides \$10 million to pay prior-year mandate costs.
- Appropriates \$10 million for noncredit education in order to increase the rate at which non-credit instruction is provided.
- Appropriates \$33 million in one-time funds to “backfill” the loss of current-year property tax revenues; specifies that any funds not expended for this purpose be allocated for community college district equalization.
- Provides \$136.7 million for 3 percent enrollment growth and \$210.4 million to support a 4.23 percent statutory COLA.
- Allocates a total of \$1 million for the CalPASS data sharing project.
- Restores \$31.4 million in funds vetoed from the current-year Budget Act pursuant to the development of a new accountability framework at the community colleges; establishes the accountability framework in statute.
- Continues deferring \$200 million in ongoing general apportionment expenditures from June 2006 to July 2006.

Student Financial Aid

- Retains both the current number of competitive Cal Grant awards and the current Cal Grant eligibility index for financially-needy students.
- Restores the maximum Cal Grant award amount for students attending private colleges to the current-year level.
- Establishes a new loan assumption program - the State Nursing Assumption Program of Loans for Education (SNAPLE) – to encourage individuals to earn Masters in Nursing degrees and teach nursing in public colleges and universities.

JUDICIARY, CRIMINAL JUSTICE, AND PUBLIC SAFETY,

- Provides an augmentation of \$130.7 million GF to the trial courts to provide funding for the State Appropriations Limit (SAL) adjustment. This total represents an increase of 6.64 percent – the final SAL May Revise calculation. Supplemental Report Language describes the methodology for distributing the funds to the local courts.
- Provides \$92.6 million GF for the trial courts to address increases in costs facing the trial courts related to retirement costs, salary and benefit increases, increased security costs, and increased county charges.
- Phases out the county obligation to trial courts for undesignated fees over five years, increases the maximum civil assessment, and holds the General Fund harmless from any resulting revenue shortfall to the courts.
- Provides that up to \$5 million from the Trial Court Improvement Fund shall be expended for self-help centers and other programs to assist unrepresented litigants.
- Reduces spending for the Judiciary (Supreme Court, Courts of Appeal, and Administrative Office of the Courts) by \$7.7 million, or 2.2 percent. This continues a one-time reduction of \$5.5 million from the current year and provides an additional reduction of \$2.2 million.
- Provides \$13.1 million and 91 positions for the Administrative Office of Courts for the continuation and expansion of various administrative and information technology services to support the trial courts.
- Reappropriates \$2.3 million GF for the acquisition phase of the new courthouse for the Fourth Appellate District.
- Provides \$11.2 million (\$7 million from a General Fund loan) for workload at the Department of Justice associated with the passage of Proposition 69, the DNA Fingerprint, Unsolved Crime, and Innocence Protection Act.
- Provides funding for the Custody of Minors/Child Abduction and Recovery mandate.

- Retains current-year funding for the Gambling Control Commission. Does not include any new funds for new workload and does not include any new funds for a state gaming laboratory.
- Provides an augmentation of \$20 million on a one-time basis from the Special Distribution Fund for a total of \$50 million in 2005-06 to mitigate the impact of gaming operations on local governments.
- Provides an augmentation of \$5.2 million (\$3 million General Fund and \$2.2 million Armory Fund) to the Military Department for repair projects at various armories to reduce the backlog of deferred maintenance and repairs.
- Provides an augmentation of \$6.5 million GF and 42 positions at the Office of the Inspector General based on new workload adjustments for the Office, and to provide staff and resources to support additional workload resulting from the YACA reorganization.
- Provides an augmentation of \$35 million GF to the Office of Emergency Services (OES) to provide funding for the estimated costs of response and recovery from recent federally declared disasters.
- Provides an augmentation of \$5 million GF to the OES to purchase new fire engines for mutual aid response.
- Reduces \$4 million to various OES local assistance grant programs, including the Administration's proposed reduction of \$1.9 million to the Rural Crime Prevention Program. The budget retains \$1.4 million to fund rural crime efforts in eight central valley counties.
- Provides \$7.4 million in federal funds and 21 positions for additional support of the Office of Homeland Security, and \$139 million in federal funds for additional homeland security grants to local entities and state agencies.
- Creates the new Department of Corrections and Rehabilitation by combining the programs of the Youth and Adult Correctional Agency, the Department of Corrections, the Board of Corrections, the Board of

Prison Terms, the Youth Authority, and the Commission on Correctional Peace Officer Standards and Training.

- Provides \$1.2 million to develop a plan for reforming the juvenile justice system, and requires quarterly reports to the Legislature on the progress being made in developing the plan.
- Augments funding by \$34.8 million GF for a price increase for the Department of Corrections (CDC). This amount is \$7.3 million less than was originally requested.
- Provides \$338.6 million GF to reflect revisions in the projected growth in the CDC inmate and parole populations above the amount funded in the 2004 Budget Act. A significant portion of the increase is due to implementation delays of parole reforms from the past two years.
- Provides \$7.5 million to reimburse local entities for the prosecution of crimes committed by inmates while incarcerated in the correctional system.
- Provides an augmentation of \$35 million GF for salary savings adjustments at CDC.
- Provides an augmentation of \$29.1 million GF to increase the number of Basic Correctional Officer Academy cadets from 640 to 1,920 annually.
- Restores \$51.2 million GF of a \$95 million proposed reduction to inmate and parolee programs. The revised reduction is allocated by eliminating and reducing a number of intermediate sanction and parole programs. Requires quarterly reporting by the CDC on its progress in implementing programs and on the estimated impacts of the programs.
- Provides an augmentation of \$7.5 million GF for partial year funding to expand and improve inmate and parolee programs that are evidence based. Requires CDC to submit a detailed plan to the Legislature prior to the expenditure of these funds.
- Provides \$13.3 million and 88.5 positions to implement improvements in the dental program at CDC.

- Provides \$5.8 million GF and 46 positions to improve staff and inmate safety and to address critical physical plant deficiencies at the California Institute for Men, Chino.
- Requires the CDC to report to the Legislature on “high risk” information technology projects, requires the Department of Finance to perform an assessment of CDC’s information technology activities, and requires CDC to prepare a corrective action plan based on the findings of the assessment.
- Provides an augmentation of \$201.4 million GF to the Board of Corrections to provide funding to county probation departments that was previously provided through federal Temporary Assistance for Needy Families (TANF) funds.
- Provides \$9.1 million GF and 81 positions to the Board of Prison Terms to meet increased workload projections for parole revocation hearings consistent with the *Valdivia* Remedial Plan.
- Provides \$23.9 million GF (\$14.8 million Proposition 98) to fund four Youth Authority (CYA) remedial plans related to the *Farrell* settlement. The funding includes \$17.1 million GF (\$14.8 million Proposition 98) and 208 positions for the Education Remedial plan; \$1.2 million and 14 positions for the Interim Mental Health Remedial Plan; \$2.5 million and 19 positions for the Sex Offender Treatment Remedial Plan; and \$3.1 million and 12 positions for the Disability Remedial Plan.
- Provides \$4.3 million GF to reimburse counties for the costs of homicide trials consistent with the funding formulas set forth in Government Code Sections 15201 through 15203.

GENERAL GOVERNMENT

- Augments the Governor’s \$8.6 million “tax gap” budget proposal (with expected revenues of \$33.7 million) by \$4.2 million, for an additional \$20.9 million in new revenues.
- Augments the State Controller’s Office budget by 10 auditor positions to audit state mandate claims. Significant savings are expected: the average share of mandate claims that are disallowed is approximately 30 percent and the benefit-to-cost ratio for the auditor positions is estimated to be as high as 45 to 1.
- Approves \$1.2 million for the creation of an online mandate claim filing system and database. This system is expected to facilitate filings for local agencies and schools and generate \$14 million in annual savings beginning in 2006-07.
- Augments the Department of General Services’ budget by \$306,000 and three pharmacist positions to strengthen the state’s ability to find and negotiate lower prescription drug prices.
- Authorizes the Department of General Services to establish an online airline ticket booking mechanism for state departments. The estimated savings for shifting a larger share of the state’s airline ticket bookings and require bookings at least two weeks before the flight (with exceptions) is \$7 million.
- Restores \$140 million in funding for the Senior Citizens’ Renters Assistance (\$100 million) and Senior Citizens’ Property Tax Assistance (\$40 million) programs.
- Approves a \$224,000 General Fund augmentation for the Office of Administrative Law to review “underground regulations” and enforce provisions of Government Code precluding the use of underground regulations.
- Establishes a new Chronic Homeless Initiative, which will utilize bond funds to spur the development of 1,600 units of new supportive housing.

- Approves California Public Employee Retirement System (CalPERS) retirement contribution rates that coincide with a new CalPERS policy to smooth employer contributions by spreading market value asset gains and losses over 15 years as opposed to the current three years. This change reduces the 2005-06 General Fund contribution by approximately \$150 million.
- Funds the state's two-percent, \$469 million, contribution for teachers' retirement. Eliminating this funding would require a recalculation of the minimum Proposition 98 guarantee, thereby providing no net savings to the state.
- Amends budget Item 9840 for mid-year budget augmentations for contingencies or emergencies to require that supplemental appropriation bills conform to the same Item 9840 requirements regarding appropriate expenditures.
- Authorizes the Administration to make \$150 million in unallocated General Fund reductions during the fiscal year.

LOCAL GOVERNMENT

- Establishes an appropriation of \$25 million for the Administration to respond to local governments' financial hardship when that hardship can be eased by early repayment of the Vehicle License Fee "gap" loan or a subvention for law enforcement booking fees. During 2003-04, a Vehicle License Fee loan of approximately \$1.3 million was made from local governments to the state, to be repaid by August of 2006.
- Restores \$18.5 million for the Rural and Small County Law Enforcement Grants subvention, providing \$500,000 grants to 37 rural counties.
- Restores \$5.7 million to counties for tax assessor collection activities.
- Reconfigures the Open Meetings Act mandate to clarify that the mandate conforms with recent statutory changes stating that voter-approved ballot initiatives are not mandates.
- Directs the Commission on State Mandates to reconsider the Mandate Reimbursement Process and, if an obligation is found to exist, develop parameters and guidelines based on unit costs.
- Restores full funding to the Juvenile Justice Crime Prevention Act grant program (\$100 million), a rejection of the \$25 million reduction proposed by the Governor.