



# OVERVIEW OF THE 2006-07 BUDGET BILL

Senate Bill 1129

As Introduced

Senate Committee on Budget and Fiscal Review  
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January 26, 2006

Dear Colleague:

I am pleased to forward a copy of the *Overview of the 2006-07 Budget Bill*, which has been prepared by the staff of the Senate Budget and Fiscal Review Committee.

In the first section, we provide an overview of the state's fiscal condition. The next section, entitled "Budget Highlights," is organized by budget subcommittee, and details the budget proposals for most departments and agencies. If you are looking for a specific department or agency, there is an index at the end of the "budget highlights" section.

In the Appendix, we include a working timeline for completing the budget and a list of budget committee consultants and their respective areas of expertise.

If you have questions, please do not hesitate to contact me.

Sincerely,

**WESLEY CHESBRO**  
Chair

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# *SUMMARY OVERVIEW*

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. The Governor's proposed budget contains a total of \$98.6 billion in available General Fund resources (this is comprised of approximately \$7 billion in prior-year carry forward balances and \$91.5 billion in resources accrued in the budget year). The budget proposes \$97.9 billion in General Fund expenditures, and a \$153 million reserve. The budget also includes a \$460 million reserve in the Budget Stabilization Account pursuant to Proposition 58 (passed in March 2004).

Overall, General Fund revenues are estimated to be \$9.2 billion greater than what was projected when the current-year budget (SB 77 – Chapter 38, Statutes of 2005) was passed in July. This estimate includes increases of \$2.3 billion for the 2004-05 fiscal year, \$3.2 billion for the 2005-06 budget year, and \$3.7 billion for the 2006-07 proposed budget year.

The Governor proposes to increase General Fund expenditures by a total of \$7.6 billion above the revised 2005-06 level. According to the Department of Finance (DOF), \$3.5 billion of the expenditure increases results from new policy decisions -- such as increasing discretionary Proposition 98 funding by \$1.7 billion above the administration's estimated guarantee level and repaying a portion of a Proposition 42 loan (\$920 million) a year earlier than required -- and approximately \$4.1 billion of the total expenditure increase is required under current law for items such as caseload growth and debt service on bonds already sold.

However, there are potential budgetary threats in excess of \$1 billion General Fund, which the proposed budget does not address at the present time; the Legislative Analyst's Office (LAO) has raised at least four. First, the budget does not contain funding for any new employee collective bargaining agreements; 18 bargaining unit contracts expire as of July 1, 2006. Second, there are various court orders and lawsuits that may have a significant but unknown impact on the General Fund -- particularly in the area of Corrections and Rehabilitation, as well as within the CalWORKs program. Third, according to the LAO, the state will likely need to address the issue of additional unfunded local mandate costs. And finally, major funding changes currently pending at the federal level will likely have a significant negative impact on the state General Fund for a number of years.

Last, but not least, the state continues to be faced with a structural deficit between on-going revenues and expenditures, also referred to as an operating deficit. While progress has been made to narrow the gap, cursory analysis of the proposed budget indicates that the state will end 2006-07 with an operating deficit in excess of \$4 billion, with the gap widening to between \$6 billion and \$7 billion by the end of 2007-08. And, DOF assumes, as part of their "Strategic Growth Plan" to eliminate the remainder of the structural deficit within one to two years; the Legislature awaits details on how this will be accomplished.

**General Fund Summary**

**Revenues:** The Governor’s budget estimates General Fund revenues and transfers to be approximately \$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.

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

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

<sup>a</sup> 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 General Fund / \$13.9 billion in property taxes). This is a \$4.3 billion, or 8.7 percent, increase over the revised 2005-06 estimate.
  - ✓ The Administration indicates \$2.2 billion will be used to meet the Proposition 98 minimum funding guarantee.
  - ✓ \$2.1 billion is provided above the proposed minimum guarantee, which includes a discretionary \$1.7 billion for early repayment of the Proposition 98 maintenance factor (which is then expended on various items) and \$428 million for after-school programs (Proposition 49).
- Includes \$131 million to buy out proposed student fee increases at both UC and CSU. However, the budget eliminates all General Fund for both UC (\$17.3 million) and CSU (\$7 million) academic preparation programs.
- Proposes various adjustments to the California Work Opportunity and Responsibility to Kids (CalWORKs) program that result in a net decrease of \$199 million.
- Proposes to delay the 2007 federal SSI/SSP cost-of-living adjustment (COLA) an additional 15 months, from April 2007 to July 2008. This would result in a General Fund savings of \$48 million in the budget year and \$185 million in 2007-08.
- Proposes an increase of \$1.2 billion in various health and human services programs, which includes provider rate increases for certain developmental disability service programs and an expansion of the Healthy Families program.
- Increases funding for Corrections and Rehabilitation by \$423 million. Of this amount, \$335 million is primarily for population and workload increases.
- Provides a net increase of \$135 million for programs within the Resources and Environmental Protection area.
- Contains an increase of \$224 million for the Judicial 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).
- Assumes \$258 million in unspecified savings and unallocated reductions.

## 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.

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

Major Program Area	Revised 2005-06	Proposed 2006-07	Year-to- Year % Change
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>
<b>TOTAL</b>	<b>\$90,294</b>	<b>\$97,902</b>	<b>8.4%</b>

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

Source	Revised 2005-06	Proposed 2006-07	Year-to- Year Percent Change
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>
<b>TOTAL</b>	<b>\$87,691</b>	<b>\$92,005</b>	<b>4.91%</b>

### Infrastructure Bond Proposal

In his State of the State address on January 5 and as part of the proposed budget, 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, \$96 billion would be from existing resources such as state and federal gas taxes and vehicle weight fees, and \$59 billion would be from new resources such as private investment and future federal funds. In addition, as noted previously, the administration assumes that the state will also eliminate the remainder of the structural deficit within the next one to two years.

The Governor proposes that 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.

The Legislature has convened a joint conference committee to address the fiscal/policy implications of the bond proposals currently proposed by both the Governor and the Legislature. Policy issues will be analyzed and addressed through the committee process with reports from each caucus presented to the conference committee for resolution and action. Policy committee hearings are scheduled to begin in late January. According to the Secretary of State, any measure chaptered after March 10 will be on the November 2006 ballot.

<b>General Obligation (GO) Bonds By Election Year (in billions)</b>						
<b>Program Area</b>	<b>2006</b>	<b>2008</b>	<b>2010</b>	<b>2012</b>	<b>2014</b>	<b>10-year Totals</b>
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>--</u>	<u>1.0</u>	<u>--</u>	<u>--</u>	<u>2.2</u>
<b>TOTALS</b>	<b>\$25.2</b>	<b>\$10.2</b>	<b>\$18.9</b>	<b>\$ 8.7</b>	<b>\$ 5.0</b>	<b>\$68.0</b>

**Status of Revised Current-Year (2005-06) Budget**

On July 7, 2005, the Legislature passed SB 77, the 2005 Budget Act (Chapter 38, Statutes of 2005) and companion legislation, SB 80 (Chapter 39, Statutes of 2005), that revised various items to the main budget. In enacting these bills, the Legislature met its Constitutional obligation to pass a balanced budget. The table below broadly summarizes the state General Fund for fiscal years 2004-05 and 2005-06, as revised in the proposed 2006-07 Governor’s Budget.

<b>Revised 2005-06 General Fund Summary (in millions)</b>		
	<b>2004 Budget (Actual)</b>	<b>2005 Budget (Est.)</b>
	<b><u>2004-05</u></b>	<b><u>2005-06</u></b>
<b>Prior-Year Balance</b>	\$ 7,228	\$ 9,634
Revenues and Transfers	82,209	87,691
<b>Total Resources Available</b>	<b>89,438</b>	<b>97,325</b>
<b>Expenditures</b>	<b>79,804</b>	<b>90,294</b>
<b>Fund Balance</b>	<b>9,634</b>	<b>7,031</b>
<b>Reserves:</b>		
Liquidation of Encumbrances	-521	-521
Economic Uncertainties	<b>\$9,112</b>	<b>\$6,510</b>

### Broad Overview of 2005 Budget, as Revised

- The 2005 Budget Act (SB 77) provided a balanced budget as required by the state Constitution.
- Total revised General Fund resources are estimated at \$97.3 billion, while estimated expenditures are approximately \$90.3 billion. (The total budget for all funding sources was projected at \$117.3 billion.)
- Due to stronger-than-anticipated revenue growth over the 2004-05 and 2005-06 fiscal years, the state will end 2005-06 with a General Fund reserve of \$6.5 billion.
- The budget did not include any general tax increases, but is premised on some fee increases particularly in the area of higher education.
- The budget, at the time of passage, did not rely on assumed unachievable savings, solutions, or federal funding.
- Additional details on specific actions taken in the 2005-06 Budget can be found in the Senate Budget Committee's *Final Action Report, a Summary of the 2005 Budget Act*.

# SUBCOMMITTEE No. 1

## EDUCATION

### **K-12**

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# K-12 EDUCATION

## 6110 Department of Education

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, and is responsible for the education of approximately 6.4 million students enrolled in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of 989 school districts, 58 county offices of education, and approximately 9,220 schools. Nearly 306,000 teachers are employed in public schools statewide.

### Total K-12 Funding (All Funds)

The 2006-07 Governor's Budget proposes \$66.2 billion in total funding for K-12 education, which reflects an increase of \$4.1 billion (6.6 percent) above the proposed 2005-06 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals \$10,996 in 2006-07, an increase of \$660 above the \$10,336 per-pupil rate in 2005-06.

	2005-06 Revised	2006-07 Proposed	\$ Change	% Change
General Fund*	\$36,071,900	\$40,014,200	\$3,942,300	10.9
Local Property Taxes	12,092,000	12,223,600	131,600	1.1
Lottery Fund	1,021,800	1,021,800	0	0.0
Other State Funds	125,100	145,800	20,700	16.5
Federal Funds	7,456,000	7,469,200	13,200	0.2
Local Debt Service	1,499,900	1,499,900	0	0.0
Local Miscellaneous	3,855,400	3,855,400	0	0.0
<b>Total Funds</b>	<b>\$62,122,100</b>	<b>\$66,229,900</b>	<b>\$4,107,800</b>	<b>6.6</b>
Per Pupil Funding	\$10,336	\$10,996	\$660	

\* General Fund includes Proposition 98 and Non-98 Funds, including STRS; G.O. Bond Debt Service; State Library; & Scholarshare Investment Board.

As indicated by Table 1, the \$66.2 billion for K-12 education includes \$40.0 billion (60.4 percent) from the state General Fund; \$17.6 billion (26.5 percent) in property taxes and other local revenues; \$7.5 billion (11.3 percent) in federal funds, \$1.0 billion (1.5 percent) in state lottery funds and \$145 million (0.2 percent) in other state funding.

As proposed, the total General Fund (Prop 98 and Non-98) increases by \$3.9 billion (10.9 percent) and local property taxes increase by \$131.6 million (1.1 percent). Other state funds increases by \$20.7 million (16.5 percent). The budget also reflects a small increase of \$13.2 million (0.2 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill (P.L. 109-149) and the government-wide rescissions bill (P.L. 109-148) for federal fiscal year 2006 that were both signed by the President on December 30, 2005.

**Proposition 98**

Total Proposition 98 funding for K-14 education in 2005-06 is proposed at \$50.0 billion, an increase of \$2.9 billion (6.1 percent) over the revised 2004-05 budget. According to the Administration, the \$50.0 billion meets the Proposition 98 minimum funding guarantee in 2005-06. In meeting the minimum guarantee, the Administration uses Test 2 factors applied to the 2004-05 funding base, as currently budgeted.

The \$2.9 billion increase in Proposition 98 funding in 2005-06 is covered primarily by an increase in state General Funds. As indicated in Table 2, Proposition 98 General Fund revenues increase by \$2.4 billion (7.1 percent) and local property taxes grow by \$475.9 million (3.7 percent).

<b>Table 2</b>					
<b>K-14 Proposition 98</b>					
<b>Summary</b> (dollars in thousands)	2004-05	2005-06	2006-07 Proposed	\$ Change	% Change
<i>Distribution of Prop 98 Funds</i>					
K-12 Education	\$42,122,787	\$44,627,177	\$48,356,408	3,729,231	8.4
Community Colleges	4,792,007	5,242,136	5,848,062	605,926	11.6
State Special Schools	41,509	42,567	43,177	610	1.4
Dept. of Youth Authority	35,858	45,780	42,589	-3,191	-7.0
Dept. of Developmental Services	10,672	10,217	9,995	-222	-2.2
Dept. of Mental Health	8,400	13,400	13,400	0	0
Am. Indian Education Centers	4,476	4,698	4,322	-376	-8.0
<b>Total</b>	<b>\$47,015,709</b>	<b>\$49,985,975</b>	<b>\$54,317,953</b>	<b>\$4,331,978</b>	<b>8.7</b>
<i>Prop 98 Fund Source</i>					
State General Fund	\$33,994,860	\$36,310,868	\$40,455,466	\$4,144,598	11.4
Local Property Taxes	13,020,849	13,675,107	13,862,487	187,380	1.4
<b>Total</b>	<b>\$47,015,709</b>	<b>\$49,985,975</b>	<b>\$54,317,953</b>	<b>\$4,331,978</b>	<b>8.7</b>
K-12 Enrollment-ADA*	5,982,000	6,010,000	6,023,000		
K-12 Funding per ADA*	\$7,042	\$7,428	\$8,052	\$660	8.9
* Average Daily Attendance					

As indicated in Table 2, the Governor proposes \$54.3 billion in Proposition 98 spending for K-14 education in 2006-07, which reflects a \$4.3 billion or 8.7 percent increase over the revised 2005-06 budget. Of this total, \$48.4 billion is appropriated for K-12 schools and \$5.8 billion is for Community Colleges. The K-12 share of Proposition 98 funding increases by 3.7 billion (8.4 percent) and the Community Colleges share increases by \$605.9 million (11.6 percent).

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 13,000 in the budget year, an increase of 0.2 percent over the revised current-year level. Average per-pupil Proposition 98 funding is estimated to be \$8,052 in 2006-07, an increase of \$660 (8.9 percent) over the \$7,428 per pupil funding in 2005-06.

**Governor’s Strategic Growth Plan for Education**

The Governor is proposing a comprehensive 20-year plan to rebuild California’s infrastructure system, which includes K-12 and higher education, as well as transportation, air quality, water, public safety, courts and other public service infrastructures. The Governor’s Budget Summary lays out the first 10 years of a 20-year investment plan for the state. Specifically, the Governor proposes \$68.0 billion in infrastructure investments that would be financed through General Obligation (GO) bonds. Of this amount, \$38.0 billion would be dedicated to improving and expanding education facilities -- \$26.3 billion for K-12 education and \$11.7 billion for higher education. The Governor’s 10-year infrastructure plan for education is summarized below.

**Summary of Governor's Education Facility Bond Proposal**  
(in billions)

	2006* (K-16)	Nov. 2008 (K-12)	Nov. 2010 (K-16)	Nov. 2012 (K-16)	Nov. 2014 (K-12)	Total Proposed
<b>K-12 Education</b>						
New Construction*	\$1.7	\$3.0	\$2.0	\$1.7	\$1.0	\$9.4
Modernization*	3.3	1.2	2.2	2.4	3.1	12.1
(Small High Schools) *	(.500)	(.420)	(.500)	(.407)	(.407)	(2.2)
Charter Schools	1.0	0.0	0.5	0.5	0.5	2.4
Career-Technical Education	1.0	0.0	0.5	0.5	0.5	2.4
<b>Total K-12 Education</b>	<b>\$7.0</b>	<b>\$4.2</b>	<b>\$5.1</b>	<b>\$5.0</b>	<b>\$5.0</b>	<b>\$26.3</b>
<b>Higher Education</b>						
UC/Hastings**	\$1.9	\$0.0	\$1.0	\$1.2	\$0.0	\$4.2
CSU	1.7	0.0	0.8	1.2	0.0	3.8
CCC	1.7	0.0	0.8	1.2	0.0	3.8
<b>Total Higher Education</b>	<b>\$5.4</b>	<b>\$0.0</b>	<b>\$2.6</b>	<b>\$3.7</b>	<b>\$0.0</b>	<b>\$11.7</b>
<b>Total Bond Proposal</b>	<b>\$12.4</b>	<b>\$4.2</b>	<b>\$7.7</b>	<b>\$8.7</b>	<b>\$5.0</b>	<b>\$38.0</b>

\* Regularly scheduled election.

\*\* Authorizes up to \$2.2 billion in new construction and modernization funds over the ten year period for Small High Schools.

\*\*\* Requires \$200 million from both 2006 and 2010 bond for UC to be used for capital improvements to expand/enhance medical education programs with an emphasis on telemedicine.

The Governor proposes that the Legislature approve the entire 10-year state infrastructure plan as a single package, although individual bond measures would be scheduled to appear before voters

over a series of elections from 2006 through 2014. The Governor's education bond proposals for the 2006 ballot are currently contained in two bills – SB 1164 (Runner) and AB 1836 (Daucher). The Governor proposes to combine K-12 and higher education bond measures on the same ballot, although the 2008 and 2014 bonds would include K-12 bonds only.

### Budget Year Highlights

**Overall Funding Increase.** The Governor proposes a total of \$48.4 billion in Proposition 98 funding for K-12 schools in 2006-07, an increase of \$3.7 billion (8.4 percent) above the 2005-06 budget. As proposed, the budget provides \$8,052 per-pupil in Proposition 98 funding in 2006-07, an increase of \$660 (8.9 percent) per-pupil above the 2005-06 budget.

**Growth and COLA Fully Funded.** The Governor proposes to spend **\$2.3 billion** to fully fund K-12 enrollment growth and cost-of-living adjustments (COLA) in 2006-07, as follows:

- **Enrollment Growth.** The budget provides **\$156.0 million** to fully fund statutory enrollment growth for apportionments and categorical programs. The budget provides \$67.4 million for revenue limit apportionment growth (includes \$13.2 million increase for declining enrollment districts); \$14.8 million for child care development; \$6.5 million for special education; and \$67.3 million for all other categorical programs. The budget estimates K-12 ADA growth of 0.21 percent.
- **Cost-of-Living Adjustments (COLAs).** The budget provides **\$2.3 billion** to fully fund statutory COLAs for K-12 revenue limit and categorical programs. This provides a 5.18 percent COLA for revenue limits (\$1.66 billion); special education (\$161.6 million); child care and development (\$70.2 million); and various other categorical programs (\$392.0 million) that either require a COLA pursuant to state statute or that traditionally receive a COLA.

**Deficit Factor Payments.** The Governor's Budget proposes an additional **\$205 million** to pay down the revenue limit deficit factor to compensate for revenue limit reductions (overall reduction of 1.2 percent and foregone COLA of 1.8 percent) that originated in the 2003-04 budget. (This restores approximately two-thirds of the outstanding deficit factor.) The 2004-05 budget appropriated \$270 million as partial payment of the deficit factor obligation; the 2005-06 budget appropriated an additional \$406 million. This proposal provides another \$205 million bringing the deficit factor to 0.299 percent for school districts (\$200 million) and 0.106 percent for county offices of education (\$5 million). Under the Governor's proposal, the outstanding deficit factor obligation would total approximately \$100 million.

**Revenue Limit Equalization.** The Governor proposes a **\$200 million** increase in funding to equalize school district revenue limits. Revenue limits are calculations intended to provide the same level of general purpose funding to school districts and county offices of education. However, some differences in revenue limit funding levels exist because of historical factors. The Administration proposes to continue the recent methodology to level up lower revenue limit districts until the state achieves equity for 90 percent of the state's ADA by size (large and small districts) and type (unified, high school, and elementary). (Some extremely high revenue limit districts would continue to receive higher revenue limit.) The Administration estimates that the

additional \$200 million would move the state half way to fully meeting the state's equalization target. The Governor's proposal does not include revenue limit equalization for county offices of education. The 2004-05 budget appropriated \$110 million for revenue limit equalization, using the same calculations now being proposed by the Governor.

**Proposition 98 Reversion Funds.** The Governor proposes appropriating **\$213.6 million** in one-time funds in 2006-07 from the Proposition 98 Reversion Account for a variety of programs. Several of these proposals will be discussed further below and include the following:

- \$106.6 million for the Schools Facilities Emergency Repair program pursuant to the *Williams* settlement agreement as articulated by Chapter 899, Statutes of 2006;
- \$63.7 for CalWorks Stage 3 child care adjustments;
- \$18.7 million for prior-year state obligations for K-12 mandate claims and interest;
- \$9.6 million for the Teacher Credentialing Block Grant to fund an additional 2,600 teachers in the Beginning Teacher Support and Assessment system in the current year;
- \$9 million for the Charter Schools Facility Grant program established by Chapter 892, Statutes of 2001. No charter school would be allowed to receive funds in excess of 75 percent of annual lease costs.
- \$3 million for a county office of education to contract with an outside agency to recruit highly qualified teachers to schools in the lowest three deciles of the 2004 Academic Performance Index. This funding is related to the School Enrichment Block Grant program funded in the 2005-06 budget.
- \$1.1 million for the purpose of funding the Chief Business Officer Training Program established pursuant to Chapter 356, Statutes of 2005.
- \$1 million for Principal Training Program, established by Chapter 697, Statutes of 2001. This program has been renamed the Administrator Training Program.
- \$500,000 for high school coaches training pursuant to Chapter 673, Statutes of 2005. Funding shall be allocated on the basis of 2004-05 high school enrollment data with variable grant levels based upon school size;
- \$39,000 to pay for reimbursable mandate claims costs relating to attendance accounting per Chapter 855, Statutes of 1997.

**Annual Mandate Payments.** The Governor proposes to provide **\$133.6 million** to cover the annual costs of mandated education programs for K-12 school districts and county offices of education and for community colleges in 2006-07. The Governor's proposal reverses the practice in recent years of deferring or suspending annual mandate payments to achieve short term budget savings. Mandated costs for K-12 schools are estimated at approximately \$175 million a year by the Department of Finance; the Legislative Analyst's Office estimates annual costs closer to \$250 to \$300 million a year. Under the Governor's proposal, if \$133.6 million is insufficient to cover all eligible claims for the year, the amount allocated to K-12 schools and community colleges will be prorated by the State Controller.

**Prior-Year Mandate Payments.** The Governor also proposes to provide **\$151.7 million** in one-time funds – \$18.7 million from the Proposition 98 reversion account and \$133 million in Proposition 98 settle-up funds – to pay for prior year education mandate claims. The \$133 million in settle-up funds would be allocated to K-12 school districts and county offices of education on the basis of payment for the oldest claims first. It is not clear how the \$18.7 million would be allocated for prior-year claims. The Legislative Analyst’s Office estimates that the cumulative costs for unpaid, prior-year claims will total \$1.46 billion for K-12 schools and community colleges by the end of 2005-06. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

**New or Expanded Program Initiatives.** The Governor’s *Budget Summary* proposes **\$413 million** for K-12 schools to expand several programs that were funded for the first time in the 2005-06 budget and to provide funding for several additional, new programs in 2006-07. These proposals include:

- **Recruiting and Retaining Qualified Teachers and Principals.**
  - ✓ **School Enrichment Block Grants.** The Governor proposes **\$100 million** for School Enrichment Block Grants for school districts and charter schools to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API). This block grant program was funded with up to \$49.5 million in one-time funds in the 2005-06 budget. The Governor proposes to continue and expand this program in 2006-07. Funding is proposed at the rate of \$50 per pupil with minimum school site grants of \$5,000. Funding can be expended for the general purposes of improving the school environment and culture, and may include: assuring a safe and clean environment; forgiving student loans for teachers and administrators; and providing differential pay, signing bonuses, housing assistance and professional development for teachers and administrators.
  - ✓ **Beginning Teacher Support and Assessment (BTSA).** The Governor proposes **\$65 million** to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the API. As proposed, the additional year of induction support would emphasize diagnostic student assessments, differentiated instruction, classroom management, and parental involvement. First priority for funding would be provided for new teachers in their third year of teaching. New teachers would receive the full rate of funding (\$3,865). Second priority would be for more experienced teachers who are new to decile 1-3 schools and who volunteer to participate in the program. More experienced teachers would receive funding at half the full rate (\$1,933).
- **Arts and Music Block Grant for K-8 Schools:** The Governor proposes **\$100 million** to provide an Arts and Music Block Grant to K-8 schools in school districts, county offices of education and charter schools. The new block grant would provide funding for standards-aligned Fine Arts instruction (art, dance, music, theater/drama) for students in elementary and middle schools. Funding is proposed at a level of \$20 per pupil, with minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with more than 10 students. Funding may be used for a variety of purposes to further standards-aligned arts and

music including hiring additional staff; purchasing of new materials, books, supplies and equipment; and providing staff development.

- **Addressing Childhood Obesity/Improving Physical Education in K-8 Schools:**
  - ✓ **Physical Education Block Grant.** The Governor proposes **\$60 million** in physical education block grants to school districts and charter schools for the purpose of increasing physical activity and implementing standards-based physical education programs in elementary and middle schools. Funding will provide minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with 11 to 420 students. All remaining funds will be allocated, on an equal per pupil basis, to school sites with more than 420 students. Funding may be used for hiring qualified staff, reducing class size, and providing standards-aligned professional development and curricula.
  - ✓ **Physical Education Teacher Incentive.** The Governor proposes **\$25 million** to provide incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$25,000 per school site, which would be selected randomly with considerations for school type, size, and location. Physical education is typically provided by teachers with a Multiple Subjects Credential in elementary school. This incentive program is intended to increase the number of teachers with physical education credentials on elementary school and middle school campuses.
- **Digital Classroom Grant Program.** The Governor proposes **\$25 million** to provide one-time Digital Classroom Block Grants to school districts and charter schools to advance the effective use of educational education technology in order to improve classroom instruction and student achievement. Each school district or charter will receive \$3,000 per eligible classroom. As a condition of funding, school districts and charter schools are required to develop a plan, which must be approved by their governing board, specifying how funds will be used in eligible schools. The Superintendent of Public Instruction will allocate statewide funds to locally prioritized schools in school districts of different sizes and types within each of the state's 11 California Technology Assistance Project regions. Funding is provided on a one-time basis for individual schools; however, the Department of Finance anticipates that annual appropriations for the program will continue until all classrooms in the state have received funding. Funding can be used for one-time expenditures including computer hardware or software, staff development or other technology related expenditures that improve classroom instruction.
- **Student Assistance for Passage of the California High School Exit Exam (CAHSEE):** The Governor proposes to provide an additional **\$20 million** to provide intensive instruction and services to assist eligible 12<sup>th</sup> grade students pass the CAHSEE in 2006-07. This proposal doubles the \$20 million in new funds provided for the program in 2005-06, as established by Chapter 234, Statutes of 2005. Intensive instruction and services may include hiring additional teachers, individualizing instruction, providing teacher training, and offering individual or small group instruction. Eligible pupils are defined as 12<sup>th</sup> graders in the graduating class of 2006 who have not passed one or both sections of the CAHSEE. The

current program allocates \$600 per eligible pupil. Additional funds proposed in the budget provide a higher level of funding - \$631 per student – and allow additional eligible students to be served, including students in the graduating class of 2006 and 2007. The current program gives funding priority to schools with the highest proportion of students who have not passed CAHSEE. The Governor’s budget-year proposal establishes separate rankings for comprehensive high schools and all other high schools in determining funding priority, setting aside \$35 million for students in comprehensive high schools and \$5 million for students in continuation, juvenile court, county community day, adult education and alternative schools.

- **Providing Fruits and Vegetables to Schools:** The Governor proposes **\$18.2 million** in ongoing funding for the California Fresh Start Pilot Program, as established by Chapter 236, Statutes of 2005. This program supplies “nutritious” fruits and vegetables to K-12 schools by providing an additional 10 cents for school meals that include one or two servings of fruits and/or vegetables. Funding is available for schools in school districts and charter schools. Total funding for the program is tied to the number of school breakfast meals served by schools. The 2005-06 budget included \$18.2 million in one-time funds for this pilot program.
- **Career-Technical Education:** The 2005-06 budget provided \$20 million for a new program to improve and expand career-technical education courses at high schools, regional occupational centers and the California Community Colleges. The Governor proposes an additional **\$30 million** for this program – established in Chapter 352, Statutes of 2005 – bringing total funding to \$50 million in 2006-07. This new program links K-12 and community college programs with the goal of improving pathways to the workforce and higher education. Under what is referred to as the “2 plus 2” program, students spend two years in secondary education programs that are articulated with two year programs at the community colleges. *Funding for the Career Technical Education program is included in the Community Colleges budget. (See Community Colleges below.)*

**Federal Carryover Funds for School and District Accountability.** The Governor proposes to appropriate **\$82 million** in federal carryover funds for low performing schools and districts identified as needing “program improvement” under the federal No Child Left Behind (NCLB) Act. The Administration is working with the California Department of Education on the development of a specific proposal that would utilize these one-time funds to increase student achievement in Program Improvement schools and districts. The Legislature appropriated these carryover funds back to their originating programs in the 2005-06 budget when the total carryover amount equaled \$74.5 million. Subsequently, the Governor eliminated funds for these purposes and set the funds aside for a new program to assist low-performing schools and districts, to be determined through future legislation. The amount of federal carryover has now grown to \$82 million from the following programs: \$24.3 million for Title I-Basic Grants; \$22.2 million for Title I-School Improvement; \$19.2 million for Title I–Migrant Education; and \$16.1 million for Title V-Comprehensive School Reform.

**Charter Schools Categorical Block Grant:** The Governor provides a **\$36 million** increase in funding for the charter school categorical block grant as a baseline adjustment to implement statutory funding reforms enacted pursuant to Chapter 359, Statutes of 2005. This augmentation

reflects a \$400 increase in the categorical block grant level – the first of two increases required by the new statute. The rate will increase to \$500 per ADA in 2007-08.

**K-12 High Speed Internet Network.** The Governor does not provide funding for the K-12 High Speed Internet Network in 2006-07, but does maintain the program item in the budget. Provisional budget language for that item states that budget decisions for the program will be made pending the result of the audit currently being conducted by the Joint Legislative Audit Committee (JLAC). The 2005-06 budget eliminated \$21 million in new funding that the Administration proposed for the K-12 High Speed Network and instead authorized 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. Expenditure of these funds was conditioned on commencement of the JLAC audit.

**Special Education Adjustments.** There are no major adjustments to the special education program in 2006-07 other than statutory growth and COLA, which provides an overall increase of **\$168.1 million** – \$6.5 million for growth (0.21 percent) and \$161.6 million for COLA (5.18 percent). The Governor projects a very small increase in federal funds – **\$15.9 million** – based upon early estimates of limited new federal funding to states. This amount may need to be adjusted downward at May Revise to reflect the actual decline in federal special education grants to states contained in the final Labor/HHS/Education appropriations bill for FFY 2006. The Governor continues **\$52.6 million** in funds provided in the 2005-06 budget for any one-time special education purposes, including assistance to students with disabilities to pass the High School Exit Exam and instructional materials.

**Special Education – Mental Health Related Services.** The Governor maintains **\$100 million** in special education funding for mental health related services in 2006-07 budget. 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 proposes to continue allocation of these funds to SELPAs on a per ADA basis.

**State Operations – Special Education Due Process Deficiency.** The Governor proposes **\$4.5 million** in General Fund (Non-Proposition 98) to cover additional contract costs for administration of the statewide special education due process program in the current year. The due process program is required by federal law, and provides mediations and fair hearings to resolve disputes among parties. Special education due process services have been contracted out to a private provider since 1989 in California. The contract is currently being transitioned from this private provider to the Department of General Services, Office of Administrative Hearings. The budget currently provides \$10.1 million in federal special education funds to the Department of Education for the contract. The Governor is seeking an increase of \$4.5 million (45 percent) to cover unanticipated transition costs for the current contract. The Governor is seeking one-time funding through Budget Item 9840-001-0001 of the 2005-06 budget to cover this deficiency.

## Major Issues

**Proposition 98 Funding Level and Priorities.** Some of the most difficult questions the Legislature faces this year is how set the level of funding for Proposition 98 in 2006-07 given the educational needs and priorities for K-12 education and available state revenues.

The Governor proposes a **\$4.3 billion increase** (8.7 percent) in Proposition 98 funds for K-12 school and community colleges in 2006-07. This assumes an overappropriation of **\$2.1 billion** to fund all proposed expenditures.

The Governor proposes an increase of **\$3.7 billion** (8.4 percent) for K-12 schools in 2006-07. Major adjustments and increases proposed by the Governor include:

- **Proposition 49 – After School Care: (\$426.2 million)**
- **Discretionary Funds: (\$2.7 billion)**
  - \$2.3 billion to fully fund K-12 enrollment growth and COLAs.*
  - \$205 million to reduce K-12 revenue limit deficits.*
  - \$200 million to partially equalize K-12 revenue limits.*
- **Funding for Annual Mandate Costs: (\$133 million)**
- **New/Expanded Categorical Programs: (\$413 million)**

In assessing the Governor's education package overall, the Legislature may want to consider the following issues and questions:

1. ***Discretionary v. Targeted Funding.*** The Governor proposes approximately \$2.7 billion in discretionary funding for K-12 education in 2006-07. In addition, the Governor proposes more than \$400 million in new or expanded program initiatives. What is the correct balance of discretionary funding, which provides general purpose funding to schools, versus more targeted funding that provides funds for specific purposes? General purpose funding gives local educational agencies flexibility in spending funds. Categorical funding provides funding for special groups of students, schools, purposes, etc. to reflect specific goals and priorities. In recent years, the Legislature and the Governor have acted to consolidate some categorical programs to simplify funding streams to schools. However, the Governor and Legislature have established new programs to address new issues, such as CAHSEE assistance funds for students and improvement and expansion of career-technical education. How can these interests be balanced in the proposed budget?
2. ***Reducing Existing Obligations v. Expanding/Funding New Programs.*** The Legislative Analyst has identified nearly \$1.8 billion in K-14 education funding obligations it refers to as on the "education credit card." These credit card debts include \$1.46 billion in cumulative mandate claims for K-14 education and \$290 million in revenue limit deficit factor payments. While the Governor proposes to buy down some of this debt in the budget year, the Governor

is also proposing more than \$400 million in ongoing funds for the expansion of several new programs and establishment of several other new programs in 2006-07. Should new programs be established before existing obligations are paid off?

3. ***One-Time v. Ongoing Funding.*** Nearly all of the Governor's proposed K-12 increases provide ongoing funding for ongoing purposes. In appropriating Proposition 98 funding in 2006-07 – especially appropriations above the minimum guarantee – what options exist for providing relief to education in the form of one-time funds? For example, payment of the \$1.46 billion in prior year mandate claims would provide additional funds for schools without creating ongoing budget pressures, eliminate existing debt (that the state pays interest on), and contribute additional funding for Proposition 98 settle-up.
4. ***Funding Allocations – Do They Reach Students, Schools & LEAs Equitably.*** New funds proposed by the Governor are allocated in a variety of different ways. Are these proposals delivering funds so that they actually reach students and schools? What can be done to assure that new funds follow students? Enrollment growth and COLAs are provided to school districts and county offices, as well as revenue limit deficit factor payments. As proposed, revenue limit equalization funds provide additional funding for an estimated 87 percent of school districts, based upon average daily attendance (not student enrollment) to reflect current attendance accounting practices; no funding is proposed for county offices of education. The Governor proposes to pay for prior-year claims based upon oldest claims first, and not some funding for all districts and county offices with claims. Some of the Governor's new initiatives are targeted to different types of schools – Enrichment Grants and BTSA funds are targeted to low-performing schools (API deciles 1-3) in school districts and county offices; arts and music grants are targeted to K-8 schools (not high schools) in school districts and county offices of education, (UC and CSU require, for admission purposes, one year of visual and performing arts); and PE grants are available to K-8 schools in school districts only. Digital classroom grants and Fruits and Vegetable funds are proposed for all K-12 schools – do these include state special schools and alternative schools as well? Charter schools are included in some, but not all proposals.

***Williams Settlement – Emergency School Facilities:*** The Governor proposes \$107 million for emergency repairs of school facilities in school districts pursuant to the *Williams v. California* lawsuit settlement. Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the *Williams* settlement agreement, requires that, commencing with the 2005-06 Budget Act, the state transfer at least \$100 million, or 50 percent of the unappropriated balance of the Proposition 98 Reversion Account – whichever is greater – to the emergency school facility repairs account. This level of funding must continue in the budget every year until the state has provided a total of \$800 million. The 2005-06 budget appropriated \$196.0 million for emergency school facility repairs pursuant to the *Williams* settlement; however, demand from school districts has been extremely low to date. Potential expenditures for this program currently total only \$1.7 million based upon applications received by the State Allocation Board. There is likely to be significant excess funding for this program in the current year, which raises serious questions about the level of funding required for the program, as currently structured, in the budget year.

**Federal Funding Losses to California.** Federal education funds to California are expected to be flat or decline somewhat for most federal education grants programs in 2006-07 and are not yet reflected in the Governor's proposed 2006-07 budget. Without other budget action, these reductions will result in a loss of important resources for state and local educational agencies in 2006-07. The Governor's budget estimates that California will receive nearly \$7.5 billion in federal funds for K-12 education in 2006-07, which reflects an overall increase of \$13.2 million above the 2005-06 level. The Governor will propose updated budget estimates for federal programs at May Revise to reflected new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill (P.L. 109-149) and the one-percent government-wide rescissions bill (P.L. 109-148) for federal fiscal year 2006 that were both signed by the President on December 30, 2005. While official estimates are not yet available for states, federal funds for most all education programs are expected to decline by at least one-percent. This is dramatic for some programs – such as special education and Title I grants for disadvantaged students – where significant annual increases have been the standard and provided valuable new funding to states and local educational agencies. Other programs are being cut more significantly, such as school improvement and innovations funding (NCLB Title I & V); educational technology; and safe and drug-free schools.

**CAHSEE Assistance Funding.** The graduating class of 2006 will be the first group of students in California that must pass the California High School Exit Exam (CAHSEE) in order to graduate from high school. Students begin taking the exam in 10<sup>th</sup> grade. The exam includes two tests – English Language Arts and mathematics. The latest figures from CDE indicate that approximately 20 percent of high school seniors have not passed the English language arts exam and 20 percent have not passed the mathematics exam. It is not known how many students have not passed either or both. While passage rates have been increasing for students planning to graduate in 2006, there are likely to be significant numbers of students who do not pass CAHSEE this spring. The Governor proposes \$40 million to provide intensive intervention to students in the graduating classes of 2006 and 2007 who have not yet passed the CAHSEE. The Governor proposes continuation of another \$52.8 million in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE. It is important to understand how these funds can be coordinated to provide intensive assistance to *all* eligible students. It is also important to know how the \$70 million appropriated in the current year for CAHSEE assistance has been utilized by schools and whether it has been effective in increasing passage rates. Was the level of funding provided appropriate for providing intensive services and how much would it cost to cover all eligible students in the state? For students who continue to fail, what obligations will schools have to continue education for these students? For example, under federal law, schools are obligated to serve special education students – the group with the highest proportion of students who have failed the CAHSEE – until students graduate or through 21 years of age.

## Child Care Programs

**Background.** The state makes subsidized child care services available to (1) families on public assistance and participating in work or other activities conducive to employment; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the family's progress in transitioning from welfare to work.

Child care services under Stage 1 are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two tiers: General Child Care (which is delivered predominately through child care vouchers and child care centers) is available on a limited basis for families with exceptional financial need, while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

**2006-07 Child Care Highlights.** The proposed 2006-07 budget contains a total of \$2.95 billion (both General Fund and federal funds) to provide child care services to CalWORKs recipients, former CalWORKs recipients, and the "working poor." Funding for After School Programs is excluded from this total and will be discussed separately.

### ***Budget Issues***

Unlike prior years, the Governor does not propose any programmatic reforms to the state's subsidized child care programs. The Governor's Budget does, however, call (via Budget Bill Language) for the Legislature, Administration, and State Department of Education to convene a workgroup to develop a new family fee schedule. The Governor's stated intent of convening the workgroup is to develop a new fee schedule that will offset costs derived from increasing the income eligibility threshold for families to participate in child care programs, while maintaining the total number of available child care slots. Specifically, the Budget Bill Language directs the workgroup to consider the use of alternative indexes for future income eligibility adjustments; reallocate funding from within the child care program to increase the Standard Reimbursement Rate; and review (semi-annually) child care contracts in order to maximize the expenditure of funds.

It is important to note that while not a "programmatic reform," the Administration makes a variety of caseload assumptions in the CalWORKs program which ultimately reduce the number of available child care slots by over 36,600. In the coming months, staff will be working closely

with the Administration (including the Department of Social Services) to reconcile these CalWORKS caseload estimates with the larger child care needs of the state.

### **After School Programs**

**Background.** The state makes Before and After School Programs available to children statewide with funding provided by both the federal government (via the 21st Century Community Learning Centers Program) and the state General Fund. In the current year, the state is spending \$121.6 million General Fund to support After School Programs and the federal government is providing the state with \$180.9 million for a similar purpose.

**2006-07 After School Program Highlights.** In 2002, the voters approved Proposition 49 which has the effect of requiring the state to quadruple the amount of funding it expends on state-sponsored After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, the provisions of Proposition 49 will go into effect in the 2006-07 fiscal year. To meet this end, the Administration is proposing a \$426 million General Fund increase for these programs, bringing total state support to approximately \$547 million. Offsetting the increase in state funds, the Administration expects the federal government to decrease (by \$17 million) the amount of support it provides for the 21st Century Program.

In order to ensure that the additional After School funds are not shifted from elsewhere in the K-14 budget, the provisions of Proposition 49 require that the additional appropriation of \$426 million be over and above the minimum funding level guaranteed to K-14 education under Proposition 98; thereby building the Proposition 98 "base" by that amount in future years. It remains unclear if the Administration intends to count this "over-appropriation" toward the amount of Proposition 98 maintenance factor funds it "owes" schools and community colleges.

### **Budget Issues**

It remains unclear what statutory or constitutional changes, if any, will need to be implemented to either the state's After School Program or Proposition 49 itself, in order to ensure that the additional funds are spent expeditiously and to the benefit of students statewide.

## **6120 California State Library**

There are no budget changes proposed for the Public Library Foundation, which, under the Governor's proposal, will remain funded at \$14.4 million. This amount is significantly below the 2000-01 funding level for the program, which exceeded \$56.8 million. Funds from the Public Library Foundation are allocated to local libraries for general support, such as retaining library's hours of operation; book and material purchases; and outreach (bookmobile) services.

**6360 California Commission on Teacher Credentialing**

The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

The CTC currently receives more than 230,000 applications annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

<b>Summary of Expenditures</b>				
(dollars in thousands)				
	2005-06	2006-07	\$ Change	% Change
General Fund	\$2,700	\$0	-2,700	-100.0
General Fund, Proposition 98	\$31,814	\$31,814	0	0.0
Teacher Credentials Fund	12,253	14,754	2,501	20.4
Test Development & Adm. Account	3,751	4,627	876	23.4
Federal Trust Fund	0	0	0	0.0
Reimbursements	76	0	-76	-100.0
<b>Total</b>	<b>\$50,594</b>	<b>\$51,195</b>	<b>\$601</b>	<b>1.2</b>

**Governor’s Budget:** The Governor’s Budget proposes \$51.2 million for the CTC’s budget in 2006-07, providing an overall increase of \$600,000. Of this amount, the Governor proposes to continue \$31.8 million from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program.

The Governor proposes \$19.4 million from the two special funds that support the CTC’s state operations, providing an increase of \$3.4 million. Specifically, the Governor proposes funding of \$14.8 million from the Teacher Credentials Fund and \$4.6 million from the Test Development and Administration Account in 2006-07.

***Budget Year Highlights***

**Eliminate General Fund Backfill and Restore Special Fund Expenditure Authority.** The Governor's Budget eliminates the \$2.7 million General Fund appropriation provided in 2005-06 to address an anticipated shortfall in special funds to support the CTC's state operations budget. The Administration provided these funds on a one-time basis. To offset this General Fund reduction, the Governor proposes to increase expenditures from the Teacher Credentials Fund and the Test Development and Administration Fund by \$2.7 million to reflect an increase in available fund balances.

**Increase Special Fund Authority to Reflect the Proposed Increase in Central Services Costs.** The Governor proposes to increase the expenditure authority of the Teacher Credentials Fund and the Test Development and Administration Fund by \$677,000 to reflect an increase in centralized services costs assessed to special fund agencies. These assessments cover support services provided by other state agencies.

**Reduce Credential Processing Time.** The Governor proposes to convert four high level positions in the Professional Services Division into seven technical positions in the Certification, Assignment and Waivers Division to reduce credential processing time and backlogs. The Governor also proposes that CTC submit quarterly reports to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports should include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

# HIGHER EDUCATION

**Overview of Governor's Compact with Higher Education.** In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) that calls for the Governor to provide the UC and CSU with a specified level of General Fund support, as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. The Governor's 2004-05 Budget provides funding for UC and CSU pursuant to this agreement. Specifically, the *compact* contains the following provisions:

- *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement;
- *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11;
- *General Support.* Beginning in fiscal year 2005-06 and 2006-07, Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11) the Governor will provide increases of 4 percent annually.
- *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,149 full-time equivalent students (FTES) at UC and 8,490 FTES at CSU.
- *Long-Term Funding Needs.* Beginning in 2008-09, through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- *Student Fees.*

**Undergraduate Fees.** In an effort to better stabilize fees after the sharp increases of the past couple of years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU may increase fees up to 10 percent. While UC and CSU did indeed propose to increase fees by this agreed-upon amount, the Governor proposes "buying out" these increases with state General Fund.

**Teacher Credentialing Fees.** Fees will increase by no more than 10 percent annually; an 8 percent increase in fees is proposed by both UC and CSU in 2005-06.

**Academic Graduate Student Fees.** Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter, the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors, including, the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

**UC Professional School Fees.** UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs. For the 2005-06 academic year, fees will be increased approximately 3 percent. (This small increase is intended to provide some respite after last year's hefty professional school fee hikes.)

**Student Fee Revenues.** UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase in fee revenues with a corresponding General Fund reductions, as the state has done in the past).

- *Accountability Measures.* In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

**Student Eligibility.** Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

**Community College Transfer Students.** Both UC and CSU will continue to accept all qualified community college transfer students.

**Community College Course Transfer.** Both UC and CSU will increase the number of course articulation agreements, as they relate to academic "majors," with community colleges. In 2005, UC agreed to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU will establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

**Summer Term/Off-Campus Enrollment Levels.** By 2010-11, both UC and CSU will expand student enrollments in summer session and through off-campus offerings to a level equivalent to 40 percent of regular-term enrollments.

**Academic Outreach Efforts.** UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least \$12 million and CSU agrees to provide at least \$45 million to continue the most effective academic outreach programs.

**A through G Course Offerings.** Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

**Public Service.** UC and CSU agree to strengthen student community service programs.

**Time to Degree.** Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduation rates, and time-to-degree.

**Teacher Candidates.** Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

## **OVERARCHING HIGHER EDUCATION ISSUES**

**Student Enrollment Growth (UC and CSU).** Pursuant to the Governor's compact with UC and CSU, he proposes to fund enrollment growth equivalent to 2.5 percent, which is consistent with the enrollment projections of the UC and CSU. For UC, this equates to an increase of approximately 5,149 FTES and \$52 million; for CSU, enrollments are proposed to increase by approximately 8,490 FTES and \$57.7 million.

Included in the Governor's enrollment growth proposal is an alteration in the methodology used by the state to calculate the per student "marginal cost of instruction," which is the rate of funding provided by the state for each new student. Specifically, the Department of Finance and the Office of the Legislative Analyst were requested by the Legislature, pursuant to the *Supplemental Report of the 2005 Budget Act*, to convene a workgroup to examine possible changes to the marginal cost methodology. This request was spurred by a growing sense, both within the higher education segments and among legislators and staff, that the per-student rate has not kept pace with actual costs incurred by the institutions in educating students. Unfortunately, the workgroup was unable to reach an agreement on the specifics of the methodology. Included in the Governor's Budget is the Department of Finance's proposal of a new marginal cost methodology.

### ***Budget Issues***

While enrollment growth of 2.5 percent appears reasonable at this point in time, the Legislature will want to continue examining enrollment growth trends to ensure that funds allocated for this purpose are needed. Further, it remains unclear if the "marginal cost" methodology employed by the Department of Finance in constructing the Governor's Budget is the methodology that will accomplish the Legislature's funding objectives.

**Student Enrollment Growth (Community Colleges).** While the California Community Colleges do not have a "compact" with the Governor, he does provide \$148.8 million to fund enrollment growth of 3 percent throughout the community college system. These funds will allow colleges statewide to grow by an additional 35,000 FTES.

In recent years, the Legislature has consistently provided funding to support enrollment growth of approximately 3 percent. After several years of providing these augmentations, districts that previously had unfunded enrollments (because the colleges were over their enrollment "caps") are now fully-funded for the students they are educating, and colleges have continued to grow.

### ***Budget Issues:***

While the Legislature remains supportive of expanding access to higher education, it is unclear, at this point in time, if student demand for community college courses will be high enough to fully utilize the \$148.8 million proposed for this purpose in the budget year or the \$141.9 million provided for enrollment growth (3 percent) in the current year. Furthermore, the Legislative Analyst has expressed a similar concern citing that the amount of funding provided for current year growth appears to be far exceeding the amount of student demand at the community colleges.

**General Campus Support.** Consistent with the Governor's compact, his 2006-07 budget provides a General Fund, general support increase of 3 percent for both UC and CSU (including a 3 percent increase for the Legislative, Executive, and Judicial Fellows programs) totaling \$156.2 million (\$80.5 million to UC; \$75.7 million to CSU). These funds will be used to cover cost-of-living-adjustments (COLA), salary, and other mandatory cost increases.

Under the Governor's proposal, the community colleges also receive a statutory COLA of 5.18 percent which equates to \$280 million.

**Student Fees.** In 2004-05, the Governor proposed to establish a long-term student fee policy aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal, the Governor instead chose to integrate these student fee principles into his "compact" with UC and CSU. However, contrary to his compact, the Governor proposes "buying out" the previously agreed-upon 2006-07 fee increases for all UC and CSU students by providing the both segments with state General Fund dollars (totaling \$129.4 million) to replace the amount of student fee revenue that will be lost due to retaining fees at their current-year levels.

In explaining its proposal, the Administration sites the enormous fee increases for UC and CSU students beginning in 2003 and continuing through 2005. Intent on providing students and families with much-needed respite from these fee hikes, the Governor proposes his fee "buy out."

Specifically, the UC Board of Regents and the CSU Board of Trustees each approved student fee increases during their November 2005 governance board meetings, in accordance with the Governor's compact. Under the compact, and the actions of the governing boards, fees for undergraduates would have increased by 8 percent, while academic graduate students would have seen fee increases of 10 percent; UC professional school students were facing a 5 percent increase. (Actual fee levels will be illustrated in table form later in this chapter.)

### ***Budget Issues***

While the Administration's justification for "buying out" the proposed fee increases at UC and CSU is compelling, the Legislature must determine if the use of approximately \$130 million for this purpose is indeed its highest priority. In an environment where the Legislature consistently struggles to maintain health and human services programs for low-income, elderly, and disabled persons, there may be populations - other than college students - who could benefit from these funds instead. Furthermore, the Legislature may want to consider "buying down" a portion of the proposed fee increases rather than the full amount. For example, the Legislature could allow fees to increase 4 or 5 percent rather than the full 8 percent and then redirect the remaining funds for another purpose.

The Governor is not proposing a fee increase at the community colleges. Staff notes that like the UC and CSU, community college fees were increased dramatically in recent budgets: from \$11 to \$18 per unit in 2003-04 and then from \$18 to \$26 per unit in 2004-05. Fees in the current year remain constant at \$26 per unit – the same level as proposed for 2006-07.

**Student Academic Preparation Programs.** The Governor's Budget fails to provide any state support (General Fund) for either UC or CSU's Student Academic Preparation or Early Assessment Programs. This equates to a loss of \$24.3 million for these programs (\$17.3 million for UC and \$7 million for CSU). As part of last year's budget process, the UC convened a bipartisan working group of university, legislative, and Administration representatives to address the Administration's concerns with the various Academic Preparation programs. In light of the efforts undertaken by the Legislature and the higher education segments to resolve any outstanding issues, it is unclear why the Administration is proposing to eliminate state funding for these programs.

## **6440 University of California**

The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry, and veterinary medicine. The UC consists of ten campuses -- Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz -- which offer undergraduate, graduate, and professional education. UC Merced, which is located in the Central Valley, is the newest of the UC campuses and recently opened to students in the Fall of 2005. The University of California, San Francisco, is solely dedicated to the health sciences. In addition to its instructional facilities, the university operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses, as well as operating the Sacramento, San Diego and Orange county medical facilities.

**UC Merced.** The new UC Merced campus opened to 875 FTES in the Fall of 2005 (with the goal of reaching 1,000 FTES by the end of the academic year) and expects to grow by 800 students annually through the 2010-11 academic year, for a total enrollment of 5,000 FTES. With these new students, the campus is now receiving enrollment funding totaling \$8.8 million; however, given that the Merced campus has not yet been able to achieve any "economies of scale" the campus still requires an additional appropriation from the state. For 2006-07, the Governor proposes to continue providing a total of \$24 million for the start-up costs associated with the Merced campus. These funds are used primarily to hire a core staff of administrators and faculty, continue developing curriculum, and recruit faculty. At present, the campus has 50 tenure-track faculty and 15 lecturers providing instruction in the current year.

**Other 2006-07 Budget Changes.** In addition to the budget changes discussed earlier in this document, the Governor continues (1) to deny state funding for research activities related to Labor Studies; (2) to provide funding for his new Math and Science Teacher Initiative in order to encourage UC to quadruple the number of teachers it trains in these particular disciplines; and (3) to provide \$1.7 million for a second year expansion of UC's Entry-Level Masters Degree Programs in Nursing.

**Capital Outlay.** The capital outlay portion of UC's budget includes \$458.3 million for 30 new projects, as well as the continuation of existing projects. Of this amount, \$315 million would be derived from the Governor's newly proposed Education GO Bond; \$116 million would be financed through lease-revenue bonds; \$17.8 million would come from UC funds; and \$9 million would be funded by the General Fund.

**Student Fees.** As discussed earlier, the Governor proposes to hold student fees constant at the current year level of \$6,802 for Undergraduate students and \$8,708 for Graduate students. Additional fees, which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV), are also proposed to be held constant.

Fees for undergraduate students at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) averaged \$7,821 in 2005-06, which is \$1,019 higher than the 2006-07 proposed fee levels for UC resident undergraduates. Fees for graduate students at UC fell by approximately \$1,886, which was also significantly below those charged at its comparison institutions.

<b>University of California Student Fees</b>				
	<b><u>Undergraduate</u></b>		<b><u>Graduate</u></b>	
	<b>Resident</b>	<b>Nonresident</b>	<b>Resident</b>	<b>Nonresident</b>
1994-95	\$4,111	\$11,810	\$4,585	\$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03	4,017	16,396	5,017	16,393
<i>(fees increased mid-year)</i>				
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	6,802	24,622	8,708	23,669
2006-07	6,802	25,486	8,708	23,669

**Note:** Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an *average* of the campus-based fees for the nine campuses.

Students in professional degree programs (i.e., medicine, dentistry, law, veterinary medicine, business) pay a supplemental fee, in addition to the fees noted above, that ranges from \$4,000 for

students in public health, public policy, or international relations to \$15,000 for students in business/management and law.

## **6600 Hastings College of the Law**

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of the Law.

**2006-07 Budget Changes.** While not explicitly included in the Governor's compact with higher education, the Administration opted to afford the provisions of the compact to Hastings College of the Law. Specifically, the budget provides Hastings with a 3 percent General Fund increase (\$253,000) for basic budget support. The effect of this increase will help mitigate some of the reductions faced by the college in recent years. While the compact also includes budget adjustments at UC and CSU to accommodate enrollment growth, Hastings enrollment levels are, and have remained, stable for a number of years thereby negating the need to fund growth.

**Student Fees.** After large fee increases of approximately 34 percent in the 2004-05 year, fee levels at Hastings remained relatively constant in 2005-06 with an increase of approximately \$2,000 for residents (\$22,297 total in the current year). Like UC and CSU, the Governor proposes to "buy out" the proposed fee increase of 8 percent that was previously approved by the Hastings Board of Directors at a cost of \$1.4 million. Instead of seeing their fees increase to slightly above \$24,000 a year, student fees will be held constant at the current-year level. Fees for nonresident students however, are proposed to increase from the current-year level of \$33,522 to \$34,497, representing a 2.9 percent increase.

## **6610 California State University**

The California State University (CSU) system is composed of 23 campuses, including 22 university campuses and the California Maritime Academy. Administered and managed by an independent governing Board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate- and graduate-level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic "general education" breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate- and masters-level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral-level education with the University of California and private and independent institutions.

**Other 2006-07 Budget Changes.** In addition to the budget changes discussed earlier in this document, the Governor proposes (1) to provide funding (\$1.1 million) for his new Math and Science Teacher Initiative in order to encourage CSU to double the number of teachers it trains in

these particular disciplines; and (2) to continue providing \$1.7 million for a second year expansion of CSU's Entry-Level Masters Degree Programs in Nursing.

**Student Fees.** As discussed earlier, the Governor proposes to hold student fees constant at the current year level of \$3,164 for Undergraduate students and \$3,746 for Graduate students. Furthermore, nonresident tuition for out-of-state students is also proposed to remain constant at \$10,170 (above the amount paid by resident students).

Fees for undergraduate students at the CSU comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged \$6,132 in 2005-06, which was \$2,968 more than the amount proposed for CSU resident undergraduates in 2006-07. Graduate student fee levels at CSU's comparison institutions were significantly higher, by over \$4,500 annually, than the amount charged by CSU for a graduate-level education.

<b>California State University Student Fees</b>				
	<b><u>Undergraduate</u></b>		<b><u>Graduate</u></b>	
	<b>Resident</b>	<b>Nonresident</b>	<b>Resident</b>	<b>Nonresident</b>
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
<i>(fees increased mid-year)</i>				
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	3,164	13,334	3,746	13,916
2006-07	3,164	13,334	3,746	13,916

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

**Capital Outlay.** The capital outlay portion of CSU's budget includes \$370.1 million in funding (from all sources) to start 15 new projects and continue existing projects. Of this amount, \$234

million would be derived from the Governor's newly proposed GO Bond Measure; \$49.4 million comes from funds remaining from the 2004 Higher Education GO Bond; and \$86.7 million are university funds.

## 6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. The CCC offers academic programs that (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California's work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state's economic development programs.

### 2006-07 Proposed Adjustments

**Enrollment Growth.** The Governor's 2006-07 budget proposes to provide \$148.8 million to fund a 3 percent (or 35,000 FTE) increase in student enrollment. While statute only calls for enrollment growth funding of 1.74 percent, this statutory index (which is tied to the change in the adult population) has traditionally failed to keep pace with actual student enrollment. Unlike prior years, when campuses were serving large numbers of unfunded students, it appears that funding provided for enrollment growth in the current year budget has not only accommodated those previously-unfunded students, but is perhaps exceeding the actual enrollment needs of the colleges. The total number of students enrolled in community colleges statewide is expected to exceed 1.2 million FTES.

**Cost-of-Living-Adjustment.** In addition to providing enrollment growth, the Administration proposes an additional \$280.4 million for a 5.18 percent COLA for both general campus apportionments (\$264.6 million) and specified categorical programs (\$15.8 million).

**Technical and Vocational Education.** The Administration proposes to augment the community colleges by a total of \$50 million to increase coordination between the colleges and their K-12 colleagues on industry-driven vocational and technical-career curriculum. In the current year, the Budget provides \$20 million on a one-time basis to begin this work. The Governor's proposal makes this \$20 million permanent and augments that amount by an additional \$30 million.

**Equalization.** The Governor proposes to appropriate \$130 million to remedy (or "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 initial steps to meet this end by providing \$110 for equalization.

**Student Fees.** No changes are proposed. Fee levels remain at \$26 per unit. At present, approximately 42 percent of community college students are eligible for Board of Governor (BOG) Student Fee Waivers; this represents a slight increase of 5 percent over the number of BOG waivers granted in 2002-03. The Administration believes that this percentage increase will likely remain constant in 2006-07.

**Additional Augmentations.**

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

No additional dollars are proposed to augment funding for Non-Credit Instruction.

**Proposition 98 "Split."** 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 \$5.8 billion in Proposition 98 support under the Governor's proposal, which represents an increase of approximately \$606 million. Total support for the community colleges is proposed to exceed \$6.4 billion (from all funding sources).

**Capital Outlay.** The capital outlay portion of the Community Colleges budget includes \$764.4 million in funding (from all sources) to start 58 new projects and continue existing projects. Of this amount, \$491.7 million would be derived from the Governor's newly proposed GO Bond Measure; \$172.6 million is remaining from the 2004 Higher Education GO Bond; \$65.2 million is remaining from the 2002 Higher Education GO Bond; \$4.4 million would come from lease-revenue bonds; and \$30.6 million are left from the 1998 Higher Education GO Bond.

**7980 Student Aid Commission**

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants and work study for postsecondary students attending California educational institutions. EdFUND, a nonprofit auxiliary of the SAC, administers a variety of federally-backed student loan programs for both California and out-of-state students. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state's student population, and provides financial aid information to students, parents, and California's education community.

**Background.** In 2000, the Legislature passed and the Governor signed into law, SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program

and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program, all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth between \$5,250 and \$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 (“B” average) and must not exceed the family income limit, which in the budget year, will be approximately \$72,300 for a family of four or \$83,600 for a family of six or more. Students with GPAs under 3.0, but higher than a 2.0 (“C” average), are eligible for a Cal Grant “B” award provided their annual family income does not exceed \$38,000 for a family of four. In addition, community college students who meet specified GPA and income requirements and transfer to a four-year college or university prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a “second chance” to receive a Cal Grant and are eligible to compete for a block of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

The Student Aid Commission estimates that the total number of Cal Grants awards will reach approximately 195,850 in the 2006-07 fiscal year.

**2006-07 Budget Changes.** As part of his 2006-07 budget, the Governor proposes to maintain eligibility for, and award levels within, the Cal Grant program, with the following exception:

**Private College Student Grant Amount.** 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 highest level (which occurred in the 2003-04 fiscal year).

### **Other Budget Adjustments.**

The Governor proposes several budgetary changes in the Assumption Program of Loans for Education (APLE) including (1) an additional \$6.8 million to fund the increase in loan assumptions coming due; (2) the authorization of 8,000 APLE warrants annually with an earmark of 600 awards to be set-aside for students participating in the Governor’s Math and Science Teacher Initiative at UC and CSU; and (3) the authorization of 100 new National Guard APLE awards in order to provide new recruits with an incentive to participate in the National Guard.

Using dollars from EdFUND’s Student Loan Operating Fund (SLOF), the Governor proposes to continue shifting \$146.5 million worth of Cal Grant expenditures from the General Fund to the SLOF in order to continue saving a like-amount of General Fund. This \$146.5 million amount

represents a decrease of \$51 million from EdFUND, which is proposed to be backfilled by the General Fund in the budget year. The state began using EdFUND resources to help finance the Cal Grant program several years ago when General Fund revenues failed to meet expectations and the SLOF contained a surplus. The impact of this shift on EdFUND's operations in the coming years is unclear.

### **6445 California Institute for Regenerative Medicine (CIRM)**

Established pursuant to Proposition 71 as passed by the voters in 2004, the California Institute for Regenerative Medicine (CIRM) will administer the issuance of \$3 billion in bond proceeds authorized for stem-cell research and assure that the bond funds are used pursuant to the intent of the voters. Proposition 71 created an Independent Citizen's Oversight Committee as CIRM's governing body. The Citizen's Oversight Committee is responsible for the daily operations of the CIRM and appoints members to the advisory groups charged with developing and maintaining accountability standards, reviewing grant bids, and constructing bond-funded research facilities.

For 2006-07, the CIRM proposes to expend \$309.3 million of continuously-appropriated bond proceeds (*Health and Safety Code*, Section 125291.20) 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 (*Health and Safety Code*, Section 125290.70).

# SUBCOMMITTEE No. 2

## NATURAL RESOURCES, ENVIRONMENTAL PROTECTION, and ENERGY

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# NATURAL RESOURCES

## Overview

**Background.** The Resources Agency is responsible for the state's policies, programs, and activities relating to the conservation, management, and enhancement of California's natural and cultural resources. The Resources Agency is led by the Secretary for Resources and the agency oversees the following departments, commissions, conservancies, and other boards and authorities.

### Departments:

- California Conservation Corps
- Department of Conservation
- Department of Forestry and Fire Protection
- Department of Fish and Game
- Department of Boating and Waterways
- Department of Parks and Recreation
- Department of Water Resources

### Commissions:

- State Lands Commission
- California Coastal Commission
- San Francisco Bay Conservation and Development Commission
- Delta Protection Commission
- Energy Resources Conservation and Development Commission
- Native American Heritage Commission

### Conservancies:

- California Tahoe Conservancy
- State Coastal Conservancy
- Santa Monica Mountains Conservancy
- San Joaquin River Conservancy
- Coachella Valley Mountains Conservancy
- San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy
- Baldwin Hills Conservancy
- San Diego River Conservancy
- Sierra Nevada Conservancy

### Other Boards and Authorities:

- Special Resources Programs (Tahoe Regional Planning Agency, Yosemite Foundation Program, and Sea Grant Program)
- Colorado River Board
- Wildlife Conservation Board
- California Bay-Delta Authority

**Governor's Budget.** The Governor's Budget proposes \$3.5 billion to support the Resources Agency in 2006-07. This is \$1.4 billion less than estimated expenditures in the current year due to a reduction in resources bond funds available for appropriation. The General Fund support for

the Resources Agency is expected to increase by over \$140 million in the budget year due to increased funding for lining the All-American Canal, employee compensation costs associated with fire protection, and flood management activities.

<b>Total State Fund Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
State Operations	\$3,247,922	\$3,099,064	-\$148,858	-4.6
Local Assistance	544,338	220,439	-323,899	-59.5
Capital Outlay	1,096,448	202,051	-894,397	-81.6
<b>Total</b>	<b>\$4,888,708</b>	<b>\$3,521,554</b>	<b>-\$1,367,154</b>	<b>-28.0</b>
<b>Funding Source</b>				
General Fund	\$1,388,103	\$1,529,782	\$141,679	10.2
Special Funds	1,770,438	1,596,263	-174,175	-9.8
Bond Funds	1,730,167	395,509	-1,334,658	-77.1
<b>Total</b>	<b>\$4,888,708</b>	<b>\$3,521,554</b>	<b>-\$1,367,154</b>	<b>-28.0</b>

**Highlights**

**Infrastructure Bond.** The Governor has proposed a Strategic Growth Plan for the state that includes \$223 billion in infrastructure investments over the next 10 years. Approximately \$68 billion of this proposal is to be funded by new general obligation bonds. The plan includes \$35 billion for flood control and water supply improvements, including \$9 billion in new general obligation bonds, \$5 billion from a new water fee, and \$21 billion in matching funds from the federal government and local governments. This proposal is included in the flood protection and water bond (SB 1166, Aanestad).

The Governor has also proposed a \$6.8 billion public safety bond that includes \$216 million for upgrades to the California Department of Forestry and Fire Protection fire facilities and air attack bases. This proposal is included in the public safety bond (AB 1833, Arambula). Furthermore, the Governor has also proposed a \$2.2 billion bond that contains funding for critical infrastructure needs in various departments across state government. This proposal includes \$215 million for maintenance upgrades at state park facilities. This proposal is contained in the critical infrastructure facilities bond (SB 1163, Ackerman).

The 2006-07 budget does not contain expenditures from these bond proposals.

**Issues**

**Infrastructure Bond.** The Legislature may wish to review how the infrastructure investments proposed in the Governor’s Strategic Growth Plan will protect and restore the state’s natural resources. Specifically, the Legislature may wish to review actual capital improvement needs versus those proposed for funding in the Governor’s plan. The Legislature may also wish to

evaluate infrastructure investments that may be added to the bond to enhance protection of the state’s natural resources, including investments in habitat conservation planning and conservation easements to protect public trust resources. The 2003 Five-Year Infrastructure Plan identified over \$7 billion in infrastructure needs across the entire Resources Agency. The Legislature may want to consider some of these needs in evaluating the Governor’s plan.

**Enforcement.** The California Environmental Protection Agency (Cal-EPA) recently conducted an agencywide review of its enforcement programs. The review revealed inconsistencies and problems with how different departments approached enforcement. Cal-EPA is currently implementing 11 different strategies to improve its enforcement activities. The Legislature may wish to pursue a similar type effort at the Resources Agency. The Resources Agency has several departments that have vast enforcement responsibilities, including the Department of Fish and Game, Department of Water Resources, and the Department of Forestry and Fire Protection. Effective enforcement of the state’s environmental protection laws is critical to protecting the state’s public trust resources.

**0540 Secretary for Resources**

**Background.** The Secretary for Resources heads the Resources Agency. The Secretary is responsible for overseeing and coordinating the activities of the departments, commissions, conservancies, and other boards and authorities that make up the Resources Agency.

**Governor’s Budget.** The Governor’s Budget proposes \$50 million to support the Secretary for Resources in 2006-07. This is nearly 40 percent less than estimated expenditures in the current year due to a reduction in the resources bond funds available for appropriation and one-time money in the current year for ocean projects. The Secretary for Resources does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Administration	\$82,298	\$50,819	-\$31,479	-38.3
<b>Total</b>	<b>\$82,298</b>	<b>\$50,819</b>	<b>-\$31,479</b>	<b>-38.3</b>
<b>Funding Source</b>				
General Fund	\$0	\$0	\$0	0.0
Special Funds	3,057	3,072	15	0.5
Bond Funds	78,536	46,983	-31,553	-40.2
<i>Budget Act Total</i>	<i>81,593</i>	<i>50,055</i>	<i>-31,538</i>	<i>-38.7</i>
Federal Trust Fund	184	236	52	28.3
Reimbursements	521	528	7	1.3
<b>Total</b>	<b>\$82,298</b>	<b>\$50,819</b>	<b>-\$31,479</b>	<b>-38.3</b>

### **Highlights**

**Bond Funds for River Parkways Program.** The Governor's Budget proposes to allocate \$30.9 million in the budget year from Propositions 40 and 50 resources bonds to fund the River Parkways Program.

**Bond Funds for Sierra Nevada Cascade Program.** The Governor proposes to allocate \$11.7 million in the budget year from Proposition 50 resources bonds to fund the Sierra Nevada Cascade Conservation Grant Program.

### **Issues**

**Funding Resource Management Activities.** Over the past several years, five resources bonds approved by the voters have provided funding for land acquisitions. Despite the increase in habitat, parkland, and open space acquired, there have been significant reductions in the funding available to manage these properties. The lack of basic maintenance funding can result in threats to human health if contamination issues are not addressed on state properties. Furthermore, lack of routine maintenance can result in the deterioration of habitat due to the spread of invasive species and fuels that cause a catastrophic fire threat. In order to start thinking about solutions to this growing problem, the Legislature requested that the Secretary for Resources prepare an options report for funding resource management activities over the long term. Upon receiving this report, the Legislature may wish to review and evaluate the options presented to address this growing need.

**Department of Fish and Game Report.** The Legislature did an extensive review of the Department of Fish and Game's budget over the past year. This process culminated with the request of an extensive report on the department's activities, funding sources, and measured outcomes for each of its programs. The department was to prepare this report in conjunction with the Secretary for Resources. The Legislature may wish to review this report to determine the next steps for addressing the long-standing problems identified at the Department of Fish and Game.

## **3340 California Conservation Corps**

**Background.** The California Conservation Corps (Corps) assists federal, state and local agencies and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women. The Corps provides on-the-job training and educational opportunities to California residents aged 18 through 23, with projects that conserve and enhance the state's natural resources and environment. In addition to activities traditionally associated with the Corps, like tree planting, stream clearance, and trail building, the Corps responds to emergencies caused by fires, floods, earthquakes, and other natural disasters. The Corps also develops and provides funding for 11 community conservation corps.

**Governor's Budget.** The Governor's Budget proposes \$59.8 million to support the California Conservation Corps in 2006-07. This is a 4 percent decline from estimated expenditure levels in the current year due to a reduction in bond funds available for appropriation. General Fund support for the Corps is proposed to increase by about 40 percent in the budget year due to a

proposal to increase the department’s General Fund support and reduce the department’s reliance on reimbursements.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Training and Work Program	\$62,320	\$58,865	-\$3,455	-5.5
Capital Outlay	43,655	13,845	-29,810	-68.3
Administration	7,178	7,178	0	0.0
<i>less distributed administration</i>	<i>-7,178</i>	<i>-7,178</i>	<i>0</i>	<i>0.0</i>
<b>Total</b>	<b>\$105,975</b>	<b>\$72,710</b>	<b>-\$33,265</b>	<b>-31.4</b>

<b>Funding Source</b>				
General Fund	\$24,073	\$33,813	\$9,740	40.5
Collins-Dugan California Conservation Corps Reimbursement Account	31,662	23,462	-8,200	-25.9
Other Special Funds	597	621	24	4.0
Bond Funds	5,988	1,896	-4,092	-68.3
<i>Budget Act Total</i>	<i>62,320</i>	<i>59,792</i>	<i>-2,528</i>	<i>-4.1</i>
Public Buildings Construction Fund	43,655	12,918	-30,737	-70.4
<b>Total</b>	<b>\$105,975</b>	<b>\$72,710</b>	<b>-\$33,265</b>	<b>-31.4</b>

**Highlights**

**Increased General Fund Support.** The Governor’s Budget proposes \$8.4 million General Fund to maintain the Corps operations. Over the past several years, the General Fund portion of their budget has been reduced resulting in a large reliance on reimbursements for work performed. The budget proposal indicates that this level of funding is needed to maintain current operations given the instability of reimbursements.

**Issues**

**Fuel Reduction and Fire Training Reimbursement Project.** The 2004-05 budget included \$1.5 million to the Corps to fund a fuel reduction and fire training program. This project would provide fire suppression training for about 75 corpsmembers. This program had not been implemented at the time of budget discussions in 2005. The Legislature may wish to follow up on the implementation of this project.

**3480 Department of Conservation**

**Background.** The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

**Governor's Budget.** The Governor's Budget proposes \$874 million to support DOC in the budget year. This is the same level of funding as is estimated for expenditure in the current year. General Fund support for the department is proposed to be 16 percent less in the budget year due to a one-time transfer from the General Fund to the department's Oil, Gas and Geothermal Administrative Fund due to a recent statute change.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Geologic Hazards and Mineral Resources Conservation	\$27,474	\$22,695	-\$4,779	-17.4
Oil, Gas, and Geothermal Resources	16,951	16,984	33	0.2
Land Resource Protection	44,819	12,839	-31,980	-71.4
Beverage Container Recycling and Litter Reduction	797,670	827,302	29,632	3.7
Office of Mine Reclamation Administration	-	5,363	-	-
<i>less distributed administration</i>	<i>-11,301</i>	<i>-11,438</i>	<i>-137</i>	<i>0.0</i>
<b>Total</b>	<b>\$886,914</b>	<b>\$885,183</b>	<b>-\$1,731</b>	<b>-0.2</b>
<b>Funding Source</b>				
General Fund	\$4,938	\$4,165	-\$773	-15.7
Special Funds	828,050	859,477	31,427	3.8
Bond Funds	42,545	9,964	-32,581	-76.6
<i>Budget Act Total</i>	<i>875,533</i>	<i>873,606</i>	<i>-1,927</i>	<i>-0.2</i>
Federal Trust Fund	1,745	1,779	34	1.9
Bosco-Keene Renewable Resources Investment Fund	872	901	29	3.3
Reimbursements	8,765	8,897	132	1.5
<b>Total</b>	<b>\$886,915</b>	<b>\$885,183</b>	<b>-\$1,732</b>	<b>-0.2</b>

### **Highlights**

**Williamson Act Enforcement.** The Governor's Budget proposes \$463,000 to fund five two-year limited-term positions to ensure accurate and timely payment of Williamson Act contract cancellation fees and ensure that state subventions to local governments are based on qualifying contracted lands. The department will reassess its enforcement efforts after the two-year period to determine whether the increased enforcement efforts are justified. The Legislature provided \$350,000 for this purpose in the 2005 budget, but these funds were vetoed by the Governor.

**California Farmland Conservancy Program Grants.** The Governor's Budget proposes \$8.9 million from Proposition 40 for grants to conserve agricultural lands. These funds are available for the planning and voluntary acquisition of agricultural conservation easements.

**Fraud Prevention in the Beverage Container Recycling Program.** The Governor's Budget proposes \$904,000 to fund eight two-year limited-term positions to combat fraud in the Beverage Container Recycling Program. Recent audits by the department found that as many as 90 percent of all claims were fraudulent from some recycling centers and that an estimated \$11 million in fraudulent payments are made annually.

## **3540 Department of Forestry and Fire Protection**

**Background.** The California Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. In addition, CDF (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

**Governor's Budget.** The Governor's Budget provides \$610 million to support CDF in 2006-07. This is approximately 7 percent more than the level of expenditures estimated for the current year. The increase is due to employee compensation costs increases associated with fire protection. General Fund support for the department is also proposed to increase by about 7 percent for the same reason.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Office of the State Fire Marshal	\$14,984	\$14,725	-\$259	-1.7
Fire Protection	745,697	792,864	47,167	6.3
Resource Management	50,001	46,401	-3,600	-7.2
Capital Outlay	85,298	206,577	121,279	142.2
Administration	56,945	57,793	848	1.5
<i>less distributed administration</i>	<i>-56,515</i>	<i>-57,363</i>	<i>-848</i>	<i>0.0</i>
<b>Total</b>	<b>\$896,410</b>	<b>\$1,060,997</b>	<b>\$164,587</b>	<b>18.4</b>
<b>Funding Source</b>				
General Fund	\$550,036	\$591,257	\$41,221	7.5
Special Funds	8,674	9,196	522	6.0
Bond Funds	9,771	9,498	-273	-2.8
<i>Budget Act Total</i>	<i>568,481</i>	<i>609,951</i>	<i>41,470</i>	<i>7.3</i>
Federal Trust Fund	31,302	29,230	-2,072	-6.6
Forest Resources Improvement Fund	3,619	4,718	1,099	30.4
Bosco-Keene Renewable Resources Investment Fund	1,000	-	-	-
Timber Tax Fund	30	31	1	3.3
Public Building Construction Fund	67,205	188,185	120,980	180.0
Reimbursements	224,773	228,882	4,109	1.8
<b>Total</b>	<b>\$896,410</b>	<b>\$1,060,997</b>	<b>\$164,587</b>	<b>18.4</b>

### Highlights

**Employee Compensation.** The Governor's Budget includes \$37 million General Fund to fund increased employee compensation costs associated with funding year-round fire protection statewide.

**Forest Resources Improvement Fund Assumes Revenues from State Forests.** The Governor's Budget estimates that \$15 million in revenue will be generated from the sale of forest products harvested on state forest land in the current and budget years combined. The budget proposes to expend \$4.7 million of these revenues to support forestry programs in 2006-07. The state has received only a minimal amount of revenues from timber harvesting on state forests over the past several years because of the continued lawsuit restricting timber harvesting in

Jackson State Forest. This proposal assumes some resolution of the current moratorium on harvesting in this forest.

**Capital Outlay Upgrades.** The Governor's Budget includes \$138 million for capital outlay projects to upgrade the state's fire protection infrastructure, including \$18.4 million from the General Fund and \$119 million from lease revenue bonds.

**Infrastructure Bond.** 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. These funds are included in the Governor's bond on public safety-related infrastructure (AB 1833, Arambula). The budget does not assume expenditure of these bond funds in 2006-07.

### **Issues**

**Local Versus State Fire Protection Activities.** The state is responsible for fire protection of approximately one-third (31 million acres) of state lands, which are areas deemed state responsibility areas (SRAs). The SRA the department protects is mainly privately owned forestlands, watersheds, and rangelands. The state does not have primary responsibility for fire protection of structures or general emergency response, as this responsibility belongs to local fire protection and emergency response entities. However, during fire events and other emergency response events, the state typically works collectively with the locals to defend life and property and respond to emergencies. Defending life and property and responding to general emergencies increases state fire protection costs significantly. In some cases, the state does have contracts with local government to provide general emergency response functions. However, CDF's relationship and the allocation of responsibilities with locals has been further blurred now that CDF is providing year-round staffing of fire engines statewide. The Legislature may wish to evaluate the relationship between state fire protection and local services and determine an appropriate funding structure for the evolving services provided by CDF.

**Jackson State Forest Issues Still Unresolved.** The Governor vetoed legislation (SB 902, Chesbro) in 2004 that would have provided temporary relief to the moratorium on timber harvesting at Jackson State Forest. However, since the Governor vetoed this legislation, timber cannot be harvested on Jackson State Forest until the department provides an EIR that satisfies the Court. The department has released a draft EIR, but it is not certain whether the revised plan will satisfy the court or the plaintiff. This results in uncertainty regarding the ability of the department to harvest at Jackson State Forest and collect sufficient revenues to support important state forestry programs. Revenues generated from timber harvesting on state forests is the primary funding source for the department's forestry programs. The Legislature may wish to consider diversifying the funding sources for the state's forestry programs.

**Fuels Management and Fire Prevention Activities.** The 2005-06 budget included \$9 million in additional funding to augment off-season fire protection staffing in Southern California. The department indicated that the increased level of staffing during the off-season would be used to increase fire prevention work. As part of the 2005-06 budget, the Legislature requested a report that detailed the department's plans for increasing fire prevention work, including establishing metrics for measuring performance. The Legislature may wish to review this report and evaluate the extent that fire prevention activities have increased.

**Disabled Veteran Business Contracts.** As part of the 2005-06 budget, the Legislature requested a report from the department on its efforts to contract with certified disabled veteran businesses, as directed by current law. Inconsistent policies were identified, at the department, related to contracting with veteran-owned businesses. The Legislature may wish to review this report and evaluate the department's process for contracting with veteran-owned businesses.

**Equipment Purchases.** The 2005-06 budget included \$10.8 million for ongoing fire-equipment replacement. This was a 150 percent increase to the department's equipment budget. As part of the 2005-06 budget, the Legislature requested a report on the department's actual equipment expenditures. The Legislature may wish to review this report and determine whether the increase in the department's equipment budget is appropriate.

**Infrastructure Bond.** The Legislature may wish to evaluate the actual infrastructure needs identified by the department in the updated Five Year Infrastructure Plan that is forthcoming from the administration. The 2003 Infrastructure Plan identified over \$1 billion in infrastructure needs for the department through 2007-08.

## 3560 State Lands Commission

**Background.** The State Lands Commission (SLC) is responsible for the management of lands that the state has received from the federal government. These lands total more than four million acres and include tide and submerged lands, swamp and overflow lands, the beds of navigable waterways, and vacant state school lands.

**Governor's Budget.** The Governor's Budget proposes \$21 million in special funds for SLC. This is an increase of \$1.5 million over the estimated expenditures in the current year. This increase is due to a one-time expenditure, in the budget year, to fund remediation of a toxic site owned by the state. General Fund support for the department is also proposed to increase due to this budget proposal.

### *Highlights*

**Liquefied Natural Gas Staffing.** The Governor's Budget proposes \$414,000 in special funds to augment resources to conduct environmental reviews of LNG applications and develop engineering and maintenance standards for liquefied natural gas (LNG) marine terminals. The commission indicates that LNG engineering and maintenance standards comparable to those that exist for ordinary petroleum marine oil terminals do not exist.

**Remediation of Toxic State Lands at Selby.** The Governor's Budget proposes \$1.3 million General Fund to fund the state's portion of remediation work at state-owned land in Selby. These funds will be used to fund shoreline stabilization and water quality monitoring, which are remedies that have been proposed by the Department of Toxic Substances Control.

**Marine Invasive Species Program.** The Governor's Budget proposes \$151,000 to support two new positions to address workload associated with the Marine Invasive Species Program. This program was put in place to regulate ballast water discharges in state waters. The department has received more reporting forms than previously anticipated and the backlog in processing these forms has reduced the department's ability to identify potential violations in a timely manner.

**Issues**

**Tidelands Oil Revenues.** Current law allocates a portion of the state's tidelands oil revenues to various resources programs. These allocations have been suspended by the administration for the past several years and revenues have been transferred directly to the General Fund. There is a long standing disagreement about whether these revenues, which are received from resource extraction activities, should be dedicated to resources-related programs. Current law that allocates tidelands oil revenues to various resource programs is set to sunset in the upcoming budget year. Therefore, the Legislature may wish to evaluate the use of tidelands oil revenues in the future.

**City of Long Beach.** Legislation (Chapters 81 and 521, Statutes of 2005) was enacted as part of the 2005-06 budget that created a new Oil Trust Fund to fund environmental cleanup of the tidelands oil fields in the City of Long Beach. The legislation transferred tidelands oil funds held by the city to the new fund and provides that \$2 million from monthly tidelands oil revenues also be deposited in the fund. The Legislature may wish to review the time frame for abandonment of the oil fields and the actual amount of money needed by the city for cleanup.

**3600 Department of Fish and Game**

**Background.** The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish, wildlife, and natural resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates fishing and hunting. The DFG currently manages about 850,000 acres including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

**Governor's Budget.** The Governor's Budget proposes \$200 million to support DFG in the budget year. This is about 25 percent less than estimated expenditures in the current year due to a reduction in bond funds available for appropriation. General Fund support for the department is proposed to increase by 26 percent to mitigate the impacts of recent legislation that requires funding to be diverted for the hatchery program.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Biodiversity Conservation Program	\$206,640	\$128,837	-\$77,803	-37.7
Hunting, Fishing, and Public Use	44,013	46,375	2,362	5.4
Management of Lands and Facilities	43,047	44,876	1,829	4.2
Conservation Education and Enforcement	49,059	58,515	9,456	19.3
Spill Prevention and Response	30,600	31,544	944	3.1
Capital Outlay	2,250	1,299	-951	-42.3
Administration	33,756	35,236	1,480	4.4
<i>less distributed administration</i>	<i>-33,756</i>	<i>-35,236</i>	<i>-1,480</i>	<i>0.0</i>
<b>Total</b>	<b>\$375,609</b>	<b>\$311,446</b>	<b>-\$64,163</b>	<b>-17.1</b>
<b>Funding Source</b>				
General Fund	\$42,499	\$53,560	\$11,061	26.0
Special Funds	144,442	140,504	-3,938	-2.7
Bond Funds	78,906	6,140	-72,766	-92.2
<i>Budget Act Total</i>	<i>265,847</i>	<i>200,204</i>	<i>-65,643</i>	<i>-24.7</i>
Federal Trust Fund	68,442	68,343	-99	-0.1
Reimbursements	38,928	39,671	743	1.9
Salton Sea Restoration Fund	2,387	2,615	228	9.6
Harbors and Watercraft Revolving Fund	5	5	0	0.0
Special Deposit Fund	-	608	-	-
<b>Total</b>	<b>\$375,609</b>	<b>\$311,446</b>	<b>-\$64,163</b>	<b>-17.1</b>

### Highlights

**Balances Fish and Game Preservation Fund.** The Governor's Budget proposes \$10 million General Fund to balance the Fish and Game Preservation Fund. The Fish and Game Preservation had an existing structural deficit and recent legislation (AB 7, Cogdill) worsened the deficit by requiring one-third of all sport-fishing license fees to be dedicated to achieving fish hatchery production goals and supporting trout restoration programs. The Governor's Budget proposal for balancing the Fish and Game Preservation Fund requires modifications to AB 7.

**Increases in Fish Hatchery Program.** The Governor's Budget proposes expansions to the department's fish hatchery program resulting from the implementation of AB 7 (Cogdill). AB 7

results in approximately \$6 million in additional funding for trout production at fish hatcheries. The budget also includes \$681,000 in additional federal funds and reimbursements for expansions to mitigation hatcheries in the Central Valley to enhance salmon and steelhead hatchery programs.

**Funding for Fisheries Restoration Grant Program.** The Governor's Budget proposes \$4 million General Fund for the Fisheries Restoration Grant program to restore habitat for coho salmon and steelhead trout. These funds will be used to leverage federal funding.

**San Joaquin River Restoration.** The Governor's Budget proposes \$750,000 in special funds to support the first year in a three-year program to support development of a plan to restore anadromous fish on the San Joaquin River below Friant Dam. This program will be coordinated with the Department of Water Resources.

**Enhancing Land Management.** The Governor's Budget provides \$886,000 in Proposition 12 bond funds for various projects to manage and enhance lands owned by the department, including maintaining California Waterfowl Program contracts and controlling noxious weeds in San Diego County. The budget also provides \$1.3 million in special funds for various capital outlay improvements on state lands.

**Enhancement of Bay-Delta Sport Fishing.** The Governor's Budget provides \$1.5 million from special funds to support a program for the long-term sustainable benefit of sport fishing in the San Francisco Bay-Delta. This program is supported by the Bay-Delta Sport Fishing Enhancement Stamp and an advisory committee has recommended several projects to be pursued with this funding, including habitat restoration and public outreach.

**Improving Department Operations.** The Governor's Budget provides \$637,000 to support positions to ensure federal guidelines are followed in expending federal grant funds and to develop and implement a data management system to replace the current paper based licensing system.

### ***Issues***

**Improving Information Management.** Historically, DFG has had a difficult time providing sufficiently detailed information to the Legislature on what activities are being supported by its dozens of funding sources. The 2005-06 budget provided DFG with \$200,000 to hire a contractor to assist in re-engineering the department's accounting system and preparing a detailed report to the Legislature on the department's activities, funding sources, and outcomes to determine the level in which DFG is fulfilling its statutory mandates. The Legislature may wish to review the findings of the contractor hired by DFG to determine if improvements can be made in the way the department manages information.

**Fish and Game Preservation Fund.** The department's primary funding source is the Fish and Game Preservation Fund. This fund has dozens of subaccounts, many of which are dedicated to specific purposes. The LAO found that many of these subaccounts were not balanced and funds from dedicated subaccounts were being used to fund other activities at the department. The Legislature requested, as part of the 2005-06 budget, a report on a plan to balance the subaccounts within the Fish and Game Preservation Fund. The Legislature may wish to review this report to determine if the administration has taken sufficient action to balance each subaccount within the Fish and Game Preservation Fund.

**Comprehensive Review of DFG's Activities.** Significant evidence has been gathered over the past 10 years regarding the lack of adequate funding for many of DFG's key programs that protect public trust resources. The department recently released a report entitled *California Wildlife: Conservation Challenges* that highlights the insufficiency of the department's resource assessment and habitat planning resources. In order to get a better handle on the department's current activities, the Legislature requested, as part of the 2005-06 budget, a comprehensive review of the department's activities, funding sources, and measured outcomes for each of its programs. The Legislature may wish to review this report to evaluate the funding needed by the department to meet statutory mandates.

**Marine Life Protection Act Implementation.** The administration has formed a Blue Ribbon Task Force to prepare statewide guidelines for developing a marine protected area master plan; create a pilot project along the Central Coast; develop a funding strategy for long-term implementation of the MLPA; and make recommendations for improving the coordination of marine protected areas. A draft report on the options for funding the MLPA initiative was recently released. The Legislature may wish to follow-up on the options presented in this plan, and on the department's implementation of the MLPA, including a specific timeline for completing the plan.

### **3640 Wildlife Conservation Board**

**Background.** The Wildlife Conservation Board (WCB) acquires property in order to protect and preserve wildlife and provide fishing, hunting, and recreational access facilities. The WCB is an independent board in the Department of Fish and Game and is composed of the Director of the Department of Fish and Game, the Director of the Department of Finance, and the Chairman of the Fish and Game Commission. In addition, three members of the Senate and three members of the Assembly serve in an advisory capacity to the board.

**Governor's Budget.** The Governor's Budget proposes \$40 million to support the WCB in the budget year. This is over a 90 percent reduction from estimated expenditures in the current year due to a reduction in the resources bond funds available for appropriation. General Fund support for the board remains unchanged in the budget year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
State Operations	\$6,102	\$3,655	-\$2,447	-40.1
Capital Outlay	543,804	36,423	-507,381	-93.3
<b>Total</b>	<b>\$549,906</b>	<b>\$40,078</b>	<b>-\$509,828</b>	<b>-92.7</b>
<b>Funding Source</b>				
General Fund	\$195	\$195	\$0	0.0
Special Funds	20,814	5,122	-15,692	-75.4
Bond Funds	512,342	34,761	-477,581	-93.2
<i>Budget Act Total</i>	<i>533,351</i>	<i>40,078</i>	<i>-493,273</i>	<i>-92.5</i>
Reimbursements	11,555	-	-	-
Oak Woodlands Conservation Fund	5,000	-	-	-
<b>Total</b>	<b>\$549,906</b>	<b>\$40,078</b>	<b>-\$509,828</b>	<b>-92.7</b>

### Highlights

**Habitat Conservation Fund Acquisitions.** The Governor proposes \$21 million for acquisition, restoration, and enhancement of habitat from the Habitat Conservation Fund. This funding is required by Proposition 117, the California Wildlife Protection Act of 1990 that, among other things, requires an annual General Fund transfer to the Habitat Conservation Fund unless other funding sources are available. The administration proposes to use a combination of Proposition 50 bond funds (\$17.7 million) and Unallocated Cigarette and Tobacco Product Surtax (\$3.3 million) to satisfy this obligation in the budget year.

### 3680 Department of Boating and Waterways

**Background.** The Department of Boating and Waterways (DBW) is responsible for planning and developing boating facilities on waterways throughout California. It is also responsible for protecting the public's right to safe boating by providing subventions to local law enforcement agencies. The department is also responsible for boating safety and education, licensing yachts, aquatic weed control in the Sacramento-San Joaquin Delta, and beach erosion control along California's coast.

**Governor's Budget.** The Governor's Budget proposes \$1.3 million to support DBW, which is approximately the same level of funding estimated for expenditure in the current year. (The

majority of DBW’s budget is not subject to appropriation in the budget act.) The department is not supported by the General Fund.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Boating Facilities	\$51,160	\$51,970	\$810	1.6
Boating Operations	16,047	18,806	2,759	17.2
Beach Erosion Control	1,423	1,625	202	14.2
Capital Outlay			0	0.0
Administration	2,350	2,350	0	0.0
<i>less distributed administration</i>	<i>-2,350</i>	<i>-2,350</i>	<i>0</i>	<i>0.0</i>
<b>Total</b>	<b>\$68,630</b>	<b>\$72,401</b>	<b>\$3,771</b>	<b>5.5</b>
<b>Funding Source</b>				
General Fund	\$0	\$0	\$0	0.0
Special Funds	500	1,250	750	150.0
<i>Budget Act Total</i>	<i>500</i>	<i>1,250</i>	<i>750</i>	<i>150.0</i>
Federal Trust Fund	8,111	8,111	0	0.0
Reimbursements	1,015	8,111	0	0.0
Harbors & Watercraft Revolving Fund	59,004	62,025	3,021	5.1
<b>Total</b>	<b>\$68,630</b>	<b>\$72,401</b>	<b>\$3,771</b>	<b>5.5</b>

**Highlights**

**Funding for Public Small Craft Harbor Loans.** The Governor proposes \$21 million in special funds for loans to develop new marinas and expand and rehabilitate existing marinas.

**Funding for Launching Facility Grants.** The Governor proposes \$9.6 million in special funds for grants for the construction of launching ramps and other facilities used when launching boats.

**Funding for Private Recreational Marina Loans.** The Governor proposes \$3.5 million in special funds for loans to fund private recreational marinas.

**Funding for Beach Erosion Studies.** The Governor proposes \$1.4 million in special funds for statewide beach erosion studies and funding for beach erosion control projects.

**Funding for Marine Law Enforcement Grants.** The Governor proposes \$2.5 million in special funds for grants to local law enforcement for enhanced marine law enforcement activities.

### 3720 California Coastal Commission

**Background.** The California Coastal Commission, following its initial creation in 1972 by a voter initiative, was permanently established by the State Coastal Act of 1976. In general, the act seeks to protect the state's natural and scenic resources along California's coast. It also delineates a "coastal zone" running the length of California's coast, extending seaward to the state's territorial limit of three miles, and extending inland a varying width from 1,000 yards to several miles. The commission's primary responsibility is to implement the act's provisions. It is also the state's planning and management agency for the coastal zone. The commission's jurisdiction does not include the San Francisco Bay Area, where development is regulated by the San Francisco Bay Conservation and Development Commission.

**Governor's Budget.** The Governor's Budget proposes \$11.2 million for support of the Coastal Commission in 2006-07. This is approximately the same as estimated expenditures in the current year. General Fund support for the department is also proposed to stay at the same level.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Coastal Management Program	\$14,795	\$14,687	-\$108	-0.7
Coastal Energy Program	716	719	3	0.4
Administration	1,613	1,624	11	0.7
<i>less distributed administration</i>	<i>-1,532</i>	<i>-1,543</i>	<i>-11</i>	<i>0.0</i>
<b>Total</b>	<b>\$15,592</b>	<b>\$15,487</b>	<b>-\$105</b>	<b>-0.7</b>
<b>Funding Source</b>				
General Fund	\$9,935	\$9,845	-\$90	-0.9
Special Funds	1,358	1,314	-44	-3.2
<i>Budget Act Total</i>	<i>11,293</i>	<i>11,159</i>	<i>-134</i>	<i>-1.2</i>
Federal Trust Fund	3,021	3,040	19	0.6
Reimbursements	1,279	1,288	9	0.7
<b>Total</b>	<b>\$15,593</b>	<b>\$15,487</b>	<b>-\$106</b>	<b>-0.7</b>

#### Issues

**Improving Coastal Access and Development Mitigation.** The LAO has found the commission's tracking and reporting of "offers to dedicate" (OTD) could be improved. The Legislature provided additional funding to track and accept these offers in the 2005-06 budget, but these funds were vetoed by the Governor. Nevertheless, the Legislature requested that the commission prepare a report on the universe of OTDs that have not yet been accepted by a third

party. An OTD is typically available to develop for a period of 21 years and many OTDs are set to expire in the next few years. The Legislature may wish to review this report and determine the level of staffing needed to ensure OTDs do not expire.

**Coastal Energy-Related Activities.** The commission's workload related to energy-related projects has increased significantly over the past few years. The commission is responsible for reviewing the dozens of marine oil terminal leases and several proposals to site a new liquefied natural gas facility off the coast of southern California. However, the commission's resources have not been augmented to address this increased workload. The Legislature provided additional funding to address this need in the 2005-06 budget, but it was vetoed by the Governor. The Legislature may wish to evaluate the commission's workload and determine whether additional funding is warranted.

### **3790 Department of Parks and Recreation**

**Background.** The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

**Governor's Budget.** The Governor's Budget proposes \$344 million to support DPR in 2006-07. This is about a 50 percent reduction from estimated expenditures in the current year due to a reduction in the bond funds available for appropriation. General Fund support for the department is proposed to increase by about 12 percent reflecting a budget proposal to fund remediation activities at the Empire Mine State Historic Park.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Support of the Department of Parks and Recreation	\$338,672	\$336,203	-\$2,469	-0.7
Local Assistance Grants	223,719	45,369	-178,350	-79.7
Capital Outlay	274,412	29,405	-245,007	-89.3
<b>Total</b>	<b>\$836,803</b>	<b>\$410,977</b>	<b>-\$425,826</b>	<b>-50.9</b>
<b>Funding Source</b>				
General Fund	\$101,140	\$112,784	\$11,644	11.5
Special Funds	270,610	200,625	-69,985	-25.9
Bond Funds	327,494	30,864	-296,630	-90.6
<i>Budget Act Total</i>	<i>699,244</i>	<i>344,273</i>	<i>-354,971</i>	<i>-50.8</i>
Federal Trust Fund	79,666	31,672	-47,994	-60.2
Reimbursements	56,944	34,060	-22,884	-40.2
Harbors and Watercraft Revolving Fund	689	712	23	3.3
California Missions Foundation Fund	260	260	0	0.0
<b>Total</b>	<b>\$836,803</b>	<b>\$410,977</b>	<b>-\$425,826</b>	<b>-50.9</b>

**Highlights**

**Infrastructure Bond.** The Governor’s Strategic Growth Plan includes \$215 million from new general obligation bonds for health and safety infrastructure upgrades to existing park facilities. These funds are included in the Governor’s critical infrastructure facilities bond (SB 1163, Ackerman). The budget does not assume expenditure of these bond funds in 2006-07.

**American’s with Disabilities Act Implementation.** The Governor’s Budget proposes \$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 (ADA). This is year five of the multi-year effort to modify park properties to comply with ADA.

**Remediation Measures at Empire Mine.** The Governor’s Budget proposes \$5 million General Fund for contamination remediation measures at the Empire Mine State Historic Park.

**Funding for Critical Water Infrastructure Upgrades.** The Governor’s Budget proposes \$1.4 million General Fund to augment the department’s ongoing efforts to ensure safe drinking water

and wastewater systems at park facilities. These upgrades are required to comply with state water quality and drinking water requirements.

**Various Park Grants.** The Governor's Budget proposes \$45 million in local park grants. The funding is proposed for allocation to the following activities:

- \$2.7 million for recreational grants from the Habitat Conservation Fund.
- \$1.5 million for the Monterey Peninsula Regional Park District from the Habitat Conservation Fund.
- \$18 million for Off-Highway Vehicle grants from the Off-Highway Vehicle Trust Fund.
- \$1.7 million for Off-Highway Vehicle grants from the Recreational Trails Fund.
- \$7 million for recreational grants from the Recreational Trails Fund.
- \$13 million for recreational grants from federal funds.
- \$1.2 million for historic preservation grants from federal funds.
- \$260,000 for historic preservation grants from the California Missions Foundation Fund.

### ***Issues***

**Infrastructure Bond.** The department estimates that its backlog of deferred maintenance for the state park system is around \$900 million. Furthermore, the acquisition of new park properties in the past few years has resulted in additional resource needs, to open and develop facilities for the public to enjoy. The Legislature may wish to evaluate the Governor's bond proposal to determine whether additional funding beyond the \$215 million proposed is needed to address state infrastructure needs in the park system.

## **3860 Department of Water Resources**

**Background.** The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department maintains the State Water Resources Development System, including the State Water Project. The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and water projects. The department is also a major implementing agency for the CALFED Bay-Delta Program, which is putting in place a long-term solution to water supply reliability, water quality, flood control, and fish and wildlife problems in the San Francisco Bay Delta.

Additionally, the department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage receipt and delivery of the energy

procured by the contracts. (More on the CERS division of DWR is included in the Energy and Utilities section of this report.)

**Governor’s Budget.** The Governor’s Budget proposes \$445 million to support DWR in the budget year. This is 14 percent less than estimated expenditures in the current year due to a reduction in the amount of resources bond funds available for appropriation. General Fund support for the department is proposed to increase by \$17 million to fund increases to the department’s flood management activities and the lining of the All-American and Coachella canals.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
California Water Plan	\$283,401	\$251,575	-\$31,826	-11.2
State Water Project Infrastructure	808,972	800,060	-8,912	-1.1
Public Safety and Prevention of Damage	216,458	152,348	-64,110	-29.6
Services	7,301	8,729	1,428	19.6
California Energy Resources Scheduling	5,275,449	5,036,366	-239,083	-4.5
Capital Outlay	205,508	207,995	2,487	1.2
Administration	63,700	63,700	0	0.0
<i>less distributed administration</i>	<i>-63,700</i>	<i>-63,700</i>	<i>0</i>	<i>0.0</i>
Loan Repayment Program	-4,013	-4,013	0	0.0
<b>Total</b>	<b>\$6,793,076</b>	<b>\$6,453,060</b>	<b>-\$340,016</b>	<b>-5.0</b>
<b>Funding Source</b>				
General Fund	\$230,233	\$247,252	\$17,019	7.4
Special Funds	10,313	12,068	1,755	17.0
Bond Funds	274,810	185,528	-89,282	-32.5
<i>Budget Act Total</i>	<i>515,356</i>	<i>444,848</i>	<i>-70,508</i>	<i>-13.7</i>
Federal Trust Fund	12,842	12,546	-296	-2.3
State Water Project Funds	948,614	923,155	-25,459	-2.7
DWR Electric Power Fund	5,275,449	5,036,366	-239,083	-4.5
Bosco-Keene Renewable Resources Investment Fund	20	-	-	-
Reimbursements	40,795	36,145	-4,650	-11.4
<b>Total</b>	<b>\$6,793,076</b>	<b>\$6,453,060</b>	<b>-\$340,016</b>	<b>-5.0</b>

**Highlights**

**Infrastructure Bond.** The Governor's Strategic Growth Plan includes \$35 billion for flood control and water supply investments. The bond funds are allocated as follows:

- \$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 retail water agencies.

These bonds are included in the Governor's flood protection and water bond (SB 1166, Aanestad). The Governor's infrastructure bond proposal also includes a proposal for a new Water Resources Investment Fund supported by a monthly fee on retail water agencies. This fee is based on the number of household water connections in each retail water agency and is estimated to raise \$5 billion over the next 10 years. The fee would be used to fund water infrastructure improvements similar to those being proposed for funding from bond funds. The budget does not assume expenditure of bond funds or fee revenues from the Water Resources Investment Fund in 2006-07.

**Expands Flood Management Activities.** The Governor's Budget 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.

Of the total provided for flood management, \$15 million is for CALFED-related levee upgrades funded through the Delta Levee Subvention program and to fund a one-time Delta Risk Management Study.

**Funding for Central Valley Flood Projects.** The Governor's Budget proposes \$41 million (\$31.4 million General Fund) for various capital outlay flood control projects in the Central Valley. Funding is allocated for the following projects:

- Folsom Dam Modifications (\$19.5 million).
- American River Common Features Project (\$9.2 million).
- Folsom Dam – Bridge Element (\$6.8 million).
- Sacramento River Bank Protection Project (\$4.9 million).
- American River Natomas Features Project (\$496,000).
- Upper Sacramento River Levee Restoration Project (\$484,000).

**All-American Canal Lining.** The Governor's Budget 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 Water Use Efficiency Program.** The Governor's Budget includes \$32 million in Proposition 50 bond funds to provide grants and technical assistance to local water districts for water use efficiency projects.

**CALFED Ecosystem Restoration Program.** The Governor's Budget includes \$15.7 million in Proposition 13 bond funds to implement various ecosystem restoration program projects, including the San Joaquin River deep water ship channel demonstration aeration project.

**CALFED Surface Storage Program.** The Governor's Budget includes \$8.4 million in various bond funds to fund the CALFED Surface Storage Program. Funding is allocated to the following projects:

- Common Assumptions (\$1.3 million).
- North of Delta Storage – Sites Reservoir (\$3.1 million).
- Los Vaqueros Reservoir Enlargement (\$1 million).
- Upper San Joaquin River Storage (\$1 million).
- San Luis Low Point Bypass Feasibility Study (\$2 million).

**CALFED Water Quality Program.** The Governor's Budget includes \$6.5 million in various bond funds to support development of the Franks Tract Pilot Project.

**CALFED Conveyance Program.** The Governor's Budget includes \$5.5 million in Proposition 13 bond funds to continue evaluation and implementation of fish facility improvements at State Water Project and Central Valley Project fish collection facilities located in the South Delta. Funding will also be used to study the need for a Through-Delta facility on the Sacramento River to improve water quality in the Delta at the export facilities.

**CALFED Watershed Program.** The Governor's Budget includes \$667,000 in Proposition 50 bond funds to provide technical assistance to local watershed stewardship efforts.

**Agricultural Water Conservation Loan Program.** The Governor's Budget includes \$15 million in Proposition 13 bond funds to continue the Agricultural Water Conservation Loan Program.

**Fully Funded Watermaster Program.** The Governor's Budget includes \$1.4 million in reimbursement authority to support 7.5 positions to fully fund the department's watermaster service program from fees paid by water right holders. This program regulates streams and groundwater basins that have court adjudications or agreements.

**San Joaquin River Restoration.** The Governor's Budget includes \$1 million in Proposition 13 bond funds to conduct a state lead program to investigate non-flow related restoration actions for the San Joaquin River, including developing water supply alternatives, water quality, hydrology, water temperature, and fish habitat restoration. The amount of water required to restore the San Joaquin River is currently the subject of litigation involving the Bureau of Reclamation, the Friant Water User Authority, and the Natural Resources Defense Council.

### Issues

**Infrastructure Bond.** The Governor's Strategic Growth Plan for water contains a significant amount of new policy regarding funding flood management and water supply projects. The Legislature may wish to review these policies and determine whether they are consistent with the Legislature's policy goals. Specifically, the Legislature may wish to evaluate specific matching rates proposed in the bond to cost share projects and the incentives that result from the proposed funding structures. The Legislature may also wish to review the benefits of the projects proposed for funding, including potential benefits to the environment and water supply. This review will help to determine what activities and projects are most appropriate for state general obligation bond funding versus other funding sources. Furthermore, the Legislature may wish to evaluate the role it will play in determining what projects are ultimately built by the bond. In the water bond proposal, the Department of Water Resources would have the ultimate authority to determine what projects get funded with large amounts of the bonding authority.

**Funding Flood Management Activities.** In 2005, the administration put forward several recommendations for improving the state's ability to fund flood control in the Central Valley, including legislation to create a new assessment district and require mandatory notification for those households living behind levees. These recommendations and others are not proposed for implementation in the budget year. Adequate funding for flood control upgrades and maintenance in the Central Valley is important not only to protect life and property, but also to protect the state from the costs associated with a major levee failure. *Paterno v. State of California* has made the state potentially liable for damages resulting from any levee failure within the Sacramento River flood control area. This is a huge financial liability and the state has limited control over some factors that are driving the size of the liability. For example, the state has limited authority over land use behind levees. Many of the levees in the Central Valley were originally built to protect agricultural land and are not adequate to protect population centers. The Legislature may wish to evaluate the best mix of statutory changes and funding augmentations needed to protect the public and limit the state's financial liability.

## 3870 California Bay-Delta Authority

**Background.** Pursuant to a federal-state accord signed in 1994, CALFED was administratively created as a consortium of state and federal agencies that have regulatory authority over water and resource management responsibilities in the Bay-Delta region. The CALFED program now encompasses 12 state and 13 federal agencies. The objectives of the program are to: (1) provide good water quality for all uses; (2) improve fish and wildlife habitat; (3) reduce the gap between water supplies and projected demand; and (4) reduce the risks from deteriorating levees.

After five years of planning, CALFED began to implement programs and construct projects in 2000. The program's implementation—which is anticipated to last 30 years—is guided by the "Record of Decision" (ROD). The ROD represents the approval of the lead CALFED agencies of the final environmental review documents for the CALFED "plan." Among other things, the ROD lays out the roles and responsibilities of each participating agency, sets goals for the program and types of projects to be pursued, and includes an estimate of the program's costs for its first seven years. In the ROD, these costs are projected to total \$8.5 billion for the program's

first seven years (2000-01 through 2006-07). This amount has recently been revised upward to \$9.2 billion.

The California Bay-Delta Authority (BDA) oversees the CALFED program. Among the duties of BDA are the annual review and approval of long-term expenditure plans of the implementing agencies and the preparation of a comprehensive program budget proposal.

**Governor’s Budget.** The Governor’s Budget proposes \$14 million to support BDA in 2006-07, which is \$112 million less than estimated expenditure levels in the current year. This decrease is primarily due to the reduction in bond funds available for appropriation and the transfer of the Ecosystem Restoration Program to the Department of Fish and Game.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
CALFED Program	\$143,372	\$31,232	-\$112,140	-78.2
<b>Total</b>	<b>\$143,372</b>	<b>\$31,232</b>	<b>-\$112,140</b>	<b>-78.2</b>
<b>Funding Source</b>				
General Fund	\$8,518	\$8,517	-\$1	0.0
Bond Funds	117,969	5,830	-112,139	-95.1
<i>Budget Act Total</i>	<i>126,487</i>	<i>14,347</i>	<i>-112,140</i>	<i>-88.7</i>
Federal Trust Fund	-	-	-	-
Reimbursements	16,885	16,885	0	0.0
<b>Total</b>	<b>\$143,372</b>	<b>\$31,232</b>	<b>-\$112,140</b>	<b>-78.2</b>

**Highlights**

**CALFED Bay-Delta Program.** The Governor’s Budget proposes \$250 million (\$26 million General Fund) for the state share of the CALFED Program. This is about \$75 million less than estimated expenditures in the current year due to a reduction in resources bond funds available for appropriation. General Fund support for the program is estimated to increase by nearly \$15 million in the budget year due to increases in funding for delta levees.

A new 10-year Action Plan Framework for the CALFED Bay-Delta Program was released in December 2005. 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 panel of scientists to evaluate the latest 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 San Francisco Bay 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.

Details on how the proposed changes will be implemented have not been submitted to the Legislature. Some of the actions will require legislation. The table below provides a summary of the entire CALFED program, including funding by program element, state department, and fund source.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Expenditures by Program Elements</b>				
Ecosystem Restoration	\$162,155	\$32,349	-\$129,806	-80.1
Environmental Water Account	9,052	8,970	-82	-0.9
Water Use Efficiency	28,567	62,115	33,548	117.4
Water Transfers	-	-	-	-
Watershed	11,791	8,658	-3,133	-26.6
Water Quality	1,043	19,387	18,344	1758.8
Levees	19,164	18,513	-651	-3.4
Storage	8,778	8,612	-166	-1.9
Conveyance	34,398	66,629	32,231	93.7
Science	34,724	10,524	-24,200	-69.7
Water Supply Reliability	6,868	6,806	-62	-0.9
Oversight and Coordination	7,499	7,375	-124	-1.7
<b>Total</b>	<b>\$324,039</b>	<b>\$249,938</b>	<b>-\$74,101</b>	<b>-22.9</b>
<b>Expenditures by Department</b>				
Department of Water Resources	\$125,000	\$210,258	\$85,258	68.2
California Bay-Delta Authority	126,487	14,347	-112,140	-88.7
State Water Resources Control Board	1,634	19,189	17,555	1074.4
Department of Fish and Game	67,222	5,448	-61,774	-91.9
Department of Forestry and Fire Protection	154	159	5	3.2
Department of Conservation	3,330	324	-3,006	-90.3
Department of Health Services	125	125	0	0.0
San Francisco Bay Conservation Development Commission	88	88	0	0.0
<b>Total</b>	<b>\$324,040</b>	<b>\$249,938</b>	<b>-\$74,102</b>	<b>-22.9</b>
<b>Expenditures by Fund Source</b>				
General Fund	\$11,477	\$26,449	\$14,972	130.5
Proposition 204	29,025	1,575	-27,450	-94.6
Proposition 13	18,921	73,782	54,861	289.9
Proposition 50	232,689	105,847	-126,842	-54.5
State Water Project	29,705	39,015	9,310	31.3
Other State Funds	2,223	3,270	1,047	47.1
<b>Total</b>	<b>\$324,040</b>	<b>\$249,938</b>	<b>-\$74,102</b>	<b>-22.9</b>

**Issues**

**Financing the CALFED Program.** Concerns remain regarding how the CALFED program will be financed over the long-term. The CALFED 10-year action plan proposes funding the program primarily from existing resources bond funds over the next several years. Proceeds from the proposed infrastructure bond proposal would play a role in financing the CALFED program, if approved, as would the proceeds from a new Water Resource Investment Fund fee. However, the administration's proposal is not specific about how these funding sources would be used and whether they will be sufficient for funding a balanced CALFED program. The Legislature may wish to continue its review and evaluation of a sustainable funding structure for the CALFED Program, including the application of the beneficiary-pays principle included in the CALFED Record of Decision.

**Regional Conservancies**

**Background.** In order to promote the conservation of its land resources, the state has created eight regional conservancies that acquire and protect undeveloped lands in specific regions of the state. The conservancies are departments, located within the Resources Agency, which are charged with, among other things, acquiring land in specified geographical areas in order to advance specified goals. While the particular statutory goals of each conservancy differ, in general, the conservancies were created to protect certain vital land resources that were endangered by development or other threats.

**Governor's Budget.** The Governor's Budget proposes \$76 million for the state's nine regional conservancies. This is nearly 75 percent less than estimated expenditures in the current year due to a reduction in the amount of resources bond funds available for appropriation.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
3125 - California Tahoe Conservancy	\$47,128	\$25,271	-\$21,857	-46.4
3760 - State Coastal Conservancy	184,887	33,599	-151,288	-81.8
3810 - Santa Monica Mountains Conservancy	22,613	9,241	-13,372	-59.1
3825 - San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy	10,831	3,339	-7,492	-69.2
3830 - San Joaquin River Conservancy	372	434	62	16.7
3835 - Baldwin Hills Conservancy	23,213	415	-22,798	-98.2
3845 - San Diego River Conservancy	272	292	20	7.4
3850 - Coachella Valley Mountains Conservancy	5,163	272	-4,891	-94.7
3855 - Sierra Nevada Conservancy	3,381	3,462	81	2.4
<b>Total</b>	<b>\$297,860</b>	<b>\$76,325</b>	<b>-\$221,535</b>	<b>-74.4</b>

### **Highlights**

**Tahoe Environmental Improvement Program Implementation.** The Governor's Budget provides \$21 million to the California Tahoe Conservancy to implement the Environmental Improvement Program (EIP) for the Tahoe Basin in the budget year. This is the same level of funding as was provided in the current year. This level of funding satisfies the state's commitment to this program.

### **Issues**

**Sierra Nevada Conservancy Start Up.** The 2005-06 budget year was the first full year of funding for the new Sierra Nevada Conservancy. The Legislature requested, as part of the 2005-06 budget, that the Sierra Nevada Conservancy prepare a report on the total funding needed to support its programs after one-time costs associated with the start up of the conservancy were completed. The Legislature may wish to review this report to determine whether adjustments should be made to the conservancy's budget for 2006-07.

# ENVIRONMENTAL PROTECTION

## Overview

**Background.** The California Environmental Protection Agency (Cal-EPA) is charged with implementing federal and state environmental quality standards. This is done through regulatory programs and incentive programs that seek to improve the quality of the environment for all Californians. The Cal-EPA is led by the Secretary for Environmental Protection and the agency oversees the following boards, departments, and office.

### Boards:

- Air Resources Board
- Integrated Waste Management Board
- State Water Resources Control Board (including the nine Regional Water Quality Control Boards)

### Departments:

- Department of Pesticide Regulation
- Department of Toxic Substances Control

### Office:

- Office of Environmental Health Hazard Assessment

**Governor's Budget.** The Governor's Budget proposes \$1.1 billion to support Cal-EPA in 2006-07. This is 28 percent less than the level of expenditures estimated in the current year primarily due to a reduction in resources bond funds available for appropriation. The General Fund support for the agency has been reduced by \$6.7 million primarily due to one-time costs in the current year associated with the state's takeover of a toxic landfill in Southern California.

<b>Total State Fund Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
State Operations	\$1,020,908	\$1,008,055	-\$12,853	-1.3
Local Assistance	530,982	112,006	-418,976	-78.9
Capital Outlay	4,066	1,120	-2,946	-72.5
<b>Total</b>	<b>\$1,555,956</b>	<b>\$1,121,181</b>	<b>-\$434,775</b>	<b>-27.9</b>
<b>Funding Source</b>				
General Fund	\$78,100	\$71,424	-\$6,676	-8.5
Special Funds	993,495	980,557	-12,938	-1.3
Bond Funds	484,361	69,200	-415,161	-85.7
<b>Total</b>	<b>\$1,555,956</b>	<b>\$1,121,181</b>	<b>-\$434,775</b>	<b>-27.9</b>

### **Highlights**

**Infrastructure Bond.** The Governor has proposed a Strategic Growth Plan for the state that includes \$223 billion in infrastructure investments over the next 10 years. Approximately \$68 billion of this proposal is funded by new general obligation bonds. The 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. This proposal is included in the transportation bond (SB 1165, Dutton). The 2006-07 budget does not contain expenditures from this bond.

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

**Climate Change Initiative.** In June 2005, the Governor signed Executive Order S-3-05 which sets greenhouse gas emission reduction targets for California, including reducing greenhouse gas emissions to 2000 levels by 2010. The Governor directed the Secretary of Cal-EPA to coordinate oversight of the efforts to meet these targets and requires a report to the Governor and the Legislature on the progress in meeting these targets starting in January 2006. The Governor's Budget includes \$7.2 million (\$135,000 General Fund) to implement this initiative. The majority of the funding is for the Air Resources Board and Secretary for Environmental Protection, but activities are also funded at the California Energy Commission, California Public Utilities Commission, and the Integrated Waste Management Board.

### **Issues**

**Infrastructure Bond.** The Legislature may wish to review how the infrastructure investments proposed in the Governor's Strategic Growth Plan will protect and restore the state's environment. Specifically, the Legislature may wish to review the adequacy of the \$1 billion proposed for air quality related to the state's goods movement corridors. The Legislature may also wish to evaluate infrastructure investments that may be added to the bond to protect the State's environment, including funding for improved land use planning and the clean up of contaminated brownfield properties.

**Oversight of Enforcement.** During 2005 the Office of the Secretary for Environmental Protection prepared a review of environmental enforcement across Cal-EPA boards and departments. This study highlighted areas for improvement in existing enforcement programs and indicated that 11 separate enforcement related projects were being implemented with existing staff resources. As part of the 2005-06 budget process, the Legislature requested a report on the status of implementing the administration's enforcement initiative, including how the 2006-07 budget facilitates implementation of the initiative and what metrics are being used to track improvement in the performance of enforcement programs agency wide.

**Climate Change Initiative.** The Governor has identified several actions in the budget to help in meeting the greenhouse gas emission reduction targets set in the June 2005 Executive Order. However, it is not clear that these actions are sufficient to meet these targets. The Legislature will need to review the Climate Action Team Report released by Cal-EPA and determine whether the recommended budget actions are sufficient in making progress to reduce greenhouse gas emissions according to the schedule set by the Governor.

## 0555 Secretary for Environmental Protection

**Background.** The Secretary for Environmental Protection heads the California Environmental Protection Agency (Cal-EPA). The Secretary is responsible for overseeing and coordinating the activities of the boards, departments, and office under the jurisdiction of Cal-EPA.

**Governor's Budget.** The Governor's Budget proposes \$9.2 million to support the Secretary for Environmental Protection. This is a 60 percent increase over estimated expenditures in the current year due to budget proposals that transfer resources from boards and departments within Cal-EPA to the Secretary's office. General Fund support for the Secretary is proposed to increase by about \$650,000 due to these budget proposals.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Administration	\$10,196	\$13,363	\$3,167	31.1
<b>Total</b>	<b>\$10,196</b>	<b>\$13,363</b>	<b>\$3,167</b>	<b>31.1</b>
<b>Funding Source</b>				
General Fund	\$1,321	\$1,968	\$647	49.0
Special Funds	4,467	7,202	2,735	61.2
<i>Budget Act Total</i>	<i>5,788</i>	<i>9,170</i>	<i>3,382</i>	<i>58.4</i>
Reimbursements	2,017	1,805	-212	-10.5
State Water Quality Control Fund	117	167	50	42.7
Environmental Enforcement and Training Account	2,124	2,066	-58	-2.7
Environmental Education Account	150	155	5	3.3
<b>Total</b>	<b>\$10,196</b>	<b>\$13,363</b>	<b>\$3,167</b>	<b>31.1</b>

### Highlights

**Consolidation of Administrative Functions.** The Governor's Budget includes the redirection of 22 positions and \$2.1 million from Cal-EPA boards, departments, and office to the Secretary to centralize administrative functions such as mail and facilities management. This proposal implements legislation that was enacted as part of the budget process in 2004-05.

**Coordination of California-Mexico Border Environmental Efforts.** The Governor's Budget includes the redirection of 5 positions and \$619,000 from Cal-EPA boards to the Secretary to support agency-wide policy and program coordination of California-Mexico border environmental efforts.

**Climate Change Initiative.** The Governor's Budget includes \$900,000 (\$135,000 General Fund) to lead a coordinated statewide effort to meet the greenhouse gas emission reduction targets set by the Governor, including economic analysis and inventory improvements.

**Issues**

**Funding Environmental Education.** The Education and Environment Initiative is an initiative implemented by the Integrated Waste Management Board that requires school boards to include environmental principles in their instructional materials. In the current year, this program is being funded entirely from tipping fees on the disposal of waste at landfills. This funding source does not reflect the broad scope of the initiative. The Legislature requested that the Secretary prepare a report on a balanced funding mix for implementing this initiative. The Legislature may want to review this report and consider adopting a more balanced funding mix for the program.

**3900 Air Resources Board**

**Background.** The Air Resources Board (ARB), along with 35 local air pollution control and air quality management districts, protects the state's air quality. The local air districts regulate *stationary sources* of pollution and prepare local implementation plans to achieve compliance with federal and state standards. The ARB is responsible primarily for the regulation of *mobile sources* of pollution and for the review of local district programs and plans. The ARB also establishes air quality standards for certain pollutants, administers air pollution research studies, and identifies and controls toxic air pollutants.

**Governor's Budget.** The Governor's Budget proposes \$248 million to support the ARB in 2006-07. This is a 2 percent reduction from estimated expenditures in the current year due to one-time expenditures in the 2005-06 budget to retrofit old school buses and purchase air pollution control and monitoring equipment. General Fund support for ARB remains relatively unchanged in the budget year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Mobile Source	\$216,948	\$210,045	-\$6,903	-3.2
Stationary Source	43,382	43,985	603	1.4
Subvention	10,111	10,111	0	0.0
Capital Outlay	103	1,120	1,017	987.4
Administration	11,619	11,074	-545	-4.7
<i>less distributed administration</i>	<i>-11,619</i>	<i>-11,074</i>	<i>545</i>	<i>0.0</i>
<b>Total</b>	<b>\$270,544</b>	<b>\$265,261</b>	<b>-\$5,283</b>	<b>-2.0</b>
<b>Funding Source</b>				
General Fund	\$2,211	\$2,280	\$69	3.1
Special Funds	251,363	245,399	-5,964	-2.4
<i>Budget Act Total</i>	<i>253,574</i>	<i>247,679</i>	<i>-5,895</i>	<i>-2.3</i>
Federal Trust Fund	12,389	12,892	503	4.1
Reimbursements	4,581	4,690	109	2.4
<b>Total</b>	<b>\$270,544</b>	<b>\$265,261</b>	<b>-\$5,283</b>	<b>-2.0</b>

### **Highlights**

**Infrastructure Bond.** The Governor's Strategic Growth Plan includes \$2 billion for air quality improvements for the ports, including \$1 billion in new general obligation bonds that is projected to leverage \$1 billion in matching funds from the private sector. These bonds are included in the Governor's transportation-related bond (SB 1165, Dutton) and do not have an impact on the 2006-07 budget.

**Implements Hydrogen Highway Blueprint.** The Governor's Budget includes \$6.5 million in special funds for the second year of implementation of the Governor's Hydrogen Highway Blueprint. This funding will leverage private matching funds to construct 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.

**Climate Change Initiative.** The Governor's Budget includes \$5.2 million in special funds to fund new greenhouse gas emission reduction strategies identified by the Climate Action Team. The funding will support 15.5 new positions (\$1.9 million) and \$3.3 million in one-time contracts to develop new strategies for reducing greenhouse gas emissions. These strategies include: increasing the use of bio-diesel fuel; electrification of port facilities; reducing hydro-fluorocarbon emissions from refrigerators and air conditioning units; and various other strategies.

**Environmental Enforcement.** The Governor's Budget includes \$4 million in special funds to increase the ARB's enforcement presence and improve the effectiveness of the board's existing enforcement programs. The funding will support 20 new positions (\$2.8 million) and \$1.3 million for one-time equipment purchases to meet field enforcement and laboratory needs.

**Development of Mitigation for Goods Movement Activities.** The Governor's Budget includes \$1.7 million in special funds to demonstrate new technologies and develop mitigation measures to address the pollution created by goods movement activities. The funding will support eight new positions (\$1 million) and \$700,000 in contracts to evaluate, develop, and implement both regulatory and non-regulatory strategies to reduce air pollution from ports, rail yards, and inter-modal facilities.

**Expand Innovative Clean Air Technologies Grant Program.** The Governor's Budget includes \$2 million in special funds for a one-time expansion of the Innovative Clean Air Technology Grant Program. The expansion would be used to accelerate the commercialization of new and innovative technologies for reducing greenhouse gas emissions.

**Equipment for Heavy-Duty Emission Testing.** The Governor's Budget includes \$1 million in one-time special funds for contracts and to purchase additional equipment to accurately measure particulate matter emissions from heavy-duty diesel vehicles.

### **Issues**

**Hydrogen Highway Implementation.** The administration is currently implementing the first year of the Hydrogen Highway Blueprint. Legislation was adopted as part of the 2005-06 budget process to guide this implementation of the Blueprint. The legislation required the administration to utilize at least 33 percent of new or renewable energy resources in the production of the hydrogen and to evaluate the impacts of the Blueprint on low-income communities. The Legislature may wish to review the administration's implementation of the

Hydrogen Highway Blueprint to determine whether its activities are consistent with this legislation.

**NAFTA-Related Air Emissions.** In June of 2004, the U.S. Supreme Court ruled that a full environmental assessment was not needed to implement the transportation provisions of NAFTA. Consequently, free commercial travel has been expanded and an additional 35,000 heavy-duty commercial vehicles are expected to cross into the U.S. from Mexico daily. The additional air pollution created by Mexico’s truck fleet was not accounted for when the state developed its State Implementation Plan for meeting federal clean air requirements. The Legislature has requested a report from ARB on the increases in emissions related to free commercial travel between the U.S. and Mexico. The Legislature may wish to review this report and determine whether the administration has adequately addressed NAFTA-related air emissions.

### 3910 Integrated Waste Management Board

**Background.** The California Integrated Waste Management Board (CIWMB), in conjunction with local agencies, is responsible for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. The CIWMB administers various programs that promote waste reduction and recycling, with particular programs for waste tire and used oil recycling. The board also regulates landfills through a permitting, inspection, and enforcement program that is mainly carried out by local enforcement agencies that are certified by the board. In addition, CIWMB oversees the cleanup of abandoned solid waste sites.

**Governor’s Budget.** The Governor’s Budget proposes \$190 million to support CIWMB in the budget year. This is approximately 5 percent less than in the current year due to revised expenditure projects for the Electronic Waste and Used Oil Recycling programs. The board does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Waste Reduction and Management	\$201,679	\$191,906	-\$9,773	-4.8
Administration	8,874	8,874	0	0.0
<i>less distributed administration</i>	-8,874	-8,874	0	0.0
<i>less loan repayments</i>	-1,363	-1,694	-331	0.0
<b>Total</b>	<b>\$200,316</b>	<b>\$190,212</b>	<b>-\$10,104</b>	<b>-5.0</b>
<b>Funding Source</b>				
Special Funds	\$199,532	\$189,422	-\$10,110	-5.1
Bond Funds	141	141	0	0.0
<i>Budget Act Total</i>	<i>199,673</i>	<i>189,563</i>	<i>-10,110</i>	<i>-5.1</i>
Federal Trust Fund	91	91	0	0.0
Special Deposits Fund	345	351	6	1.7
Reimbursements	207	207	0	0.0
<b>Total</b>	<b>\$200,316</b>	<b>\$190,212</b>	<b>-\$10,104</b>	<b>-5.0</b>

### **Highlights**

**Augments Tire Recycling Programs.** The Governor's Budget includes \$5.2 million in special funds to expand enforcement efforts and increase the board's tire recycling efforts. The funds will support three new positions (\$230,000) to enhance enforcement and \$5 million in additional Rubberized Asphalt Concrete grants.

**Augments Electronic Waste Recycling Program.** The Governor's Budget includes \$1 million in special funds to fund 12 new positions to handle the workload associated with the Electronic Waste Recycling Program. A higher volume of claims are being received by the board than can be handled under current staffing levels.

**Environmental Enforcement.** The Governor's Budget includes \$223,000 in special funds to fund three new positions to investigate fraud in the Electronic Waste Recycling Program.

**Climate Change Initiative.** The Governor's Budget includes \$466,000 in special funds to fund three new positions to expand existing efforts to capture methane from landfills and enhance recycling efforts to meet the Governor's greenhouse gas emission reduction targets.

### **Issues**

**Financial Assurances for Landfills.** The state recently took over operations of the BKK Class I landfill in West Covina, California, after the BKK Corporation informed the state that it was on the verge of bankruptcy and would no longer be able to fund post closure operations. Taking over management of the BKK landfill has cost the state well over \$15 million General Fund and has also raised concerns about the financial assurances in place to maintain landfills after they close. Currently, the state requires landfill operators to maintain landfills 30 years after they are closed. However, many landfills do not have adequate financial assurances for the 30 years and virtually no landfills have plans for maintenance past 30 years. This is a growing problem in California since half of the state's landfills will be closed by 2009. The Legislature may wish to evaluate alternatives to addressing this forthcoming problem.

**Reforming the Waste Board.** The Waste Board has been recommended for elimination many times over the past several years. Most recently, the LAO and the Governor's California Performance Review recommended that the board be eliminated. Furthermore, the board currently has an even number of members, which has made it difficult to resolve split decisions. The Legislature may wish to consider reforming the board's structure to improve the effectiveness and efficiency of the state's recycling programs and waste regulation.

**Consolidating State Recycling Programs.** The LAO has recently recommended consolidating the state's recycling programs under a new Department of Recycling and Waste Prevention at Cal-EPA. Currently, recycling programs are divided between the Department of Conservation and the Waste Board. The LAO finds that the current structure misses opportunities to develop more comprehensive strategies for reducing waste from multiple sources. The Legislature may wish to consider reorganizing the state's recycling programs to consolidate and improve the effectiveness of these programs.

### 3930 Department of Pesticide Regulation

**Background.** The Department of Pesticide Regulation (DPR) administers programs to protect the public health and the environment from unsafe exposures to pesticides. The department (1) evaluates the public health and environmental impact of pesticides use; (2) regulates, monitors, and controls the sale and use of pesticides in the state; and (3) develops and promotes the use of reduced-risk practices for pest management. The department is funded primarily by an assessment on the sale of pesticides in the state.

**Governor's Budget.** The Governor's Budget proposes \$59 million to support DPR in 2006-07, which is approximately the same level of expenditures as in the current year. The department does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Registration and Health Evaluation	\$18,446	\$-	\$-	-
Pest Management and Environmental Activities	42,262	-	-	-
Pesticide Programs	-	62,115	-	-
Administration	8,822	8,941	119	1.3
<i>less distributed administration</i>	<i>-8,822</i>	<i>-8,941</i>	<i>-119</i>	<i>0.0</i>
<b>Total</b>	<b>\$60,708</b>	<b>\$62,115</b>	<b>\$1,407</b>	<b>2.3</b>
<b>Funding Source</b>				
Special Funds	\$58,035	\$59,434	\$1,399	2.4
<i>Budget Act Total</i>	<i>58,035</i>	<i>59,434</i>	<i>1,399</i>	<i>2.4</i>
Federal Trust Fund	2,194	2,202	8	0.4
Reimbursements	479	479	0	0.0
<b>Total</b>	<b>\$60,708</b>	<b>\$62,115</b>	<b>\$1,407</b>	<b>2.3</b>

#### Highlights

**Environmental Enforcement.** The Governor's Budget includes \$425,000 in special funds to support four new positions to ensure that all sellers of pesticides are in compliance with licensing and pesticide product registration requirements.

**Department Reorganization.** The Governor's Budget proposes to reorganize the department to consolidate the Registration and Health Evaluation branch with the Pest Management, Environmental Monitoring, Enforcement, and Licensing branch.

**Issues**

**Mill Assessment Collections.** An audit by the department of Long's Drug Stores found that nonpayment of the mill assessment on pesticide products legally registered in California was common. In addition, illegal sales of nonregistered pesticide products was also common statewide. In response to this finding, the department sponsored legislation (AB 1011, Matthews) that was signed into law to require the universe of retail pesticide handlers and sellers to acquire a broker's license to sell pesticides. The department asserts that this will enable the collection of mill assessment on all pesticide products sold in California. The Legislature may wish to follow up on the implementation of this law, including estimates for increased collections.

**Department Reorganization.** The Governor's Budget proposes to consolidate the department's two branches into one single branch. The Legislature may wish to evaluate the impact of this proposed reorganization on program delivery and program accountability. There have been ongoing concerns regarding the independence of the department's risk assessment activities from its risk management functions. The Legislature may also wish to evaluate the impact of the reorganization on the separation of these functions.

**Risk Assessment Activities.** There has been significant criticism of the length of time it takes the department to complete its human health risk assessments. There has also been concern about the department's process in determining final human health risk assessments especially when scientific findings are disputed. The Legislature has requested a report from the department on the number of risk assessments the department has completed and a documentation of the process the department uses to make its final human health risk assessments. The Legislature may wish to review this report to determine if changes are needed to the current system.

**3940 State Water Resources Control Board**

**Background.** The State Water Resources Control Board (SWRCB), in conjunction with nine semi-autonomous regional boards, regulates water quality in the state. The regional boards—which are funded by the state board and are under the state board's oversight—implement water quality programs in accordance with policies, plans, and standards developed by the state board.

The board carries out its water quality responsibilities by (1) establishing wastewater discharge policies and standards; (2) implementing programs to ensure that the waters of the state are not contaminated by underground or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment, water reclamation, and storm drainage facilities. Waste discharge permits are issued and enforced mainly by the regional boards, although the state board issues some permits and initiates enforcement actions when deemed necessary.

The state board also administers water rights in the state. It does this by issuing and reviewing permits and licenses to applicants who wish to take water from the state's streams, rivers, and lakes.

**Governor's Budget.** The Governor's Budget proposes \$462 million to support SWRCB in the budget year. This proposal is approximately \$400 million less than current year expenditure levels, mainly due to a reduction in bond funding available for appropriation. The budget proposes a slight reduction in General Fund support for the board due to a redirection of positions to the Secretary for Environmental Protection to coordinate environmental issues related to the California/Mexico border region.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Water Quality	\$1,027,553	\$618,834	-\$408,719	-39.8
Water Rights	12,717	13,428	711	5.6
Administration	17,706	17,222	-484	-2.7
<i>less distributed administration</i>	<i>-17,706</i>	<i>-17,222</i>	<i>484</i>	<i>0.0</i>
<b>Total</b>	<b>\$1,040,270</b>	<b>\$632,262</b>	<b>-\$408,008</b>	<b>-39.2</b>
<b>Funding Source</b>				
General Fund	\$29,694	\$28,760	-\$934	-3.1
Special Funds	355,730	363,634	7,904	2.2
Bond Funds	484,220	69,059	-415,161	-85.7
<i>Budget Act Total</i>	<i>869,644</i>	<i>461,453</i>	<i>-408,191</i>	<i>-46.9</i>
Federal Trust Fund	128,835	128,898	63	0.0
Reimbursements	9,913	9,999	86	0.9
State Water Quality Control Fund	22,441	22,197	-244	-1.1
State Water Pollution Control Revolving Fund	-2,682	-2,682	0	0.0
Petroleum Underground Storage Tank Financing Account	12,118	12,397	279	2.3
<b>Total</b>	<b>\$1,040,269</b>	<b>\$632,262</b>	<b>-\$408,007</b>	<b>-39.2</b>

### Highlights

**Water Quality Monitoring.** The Governor's Budget includes \$8.5 million in special and federal funds to improve the existing Surface Water Ambient Monitoring Program. About \$4 million of this increase is proposed as a one-time augmentation to expand water monitoring infrastructure. The board has broad deficiencies in its current ambient water monitoring program and lacks critical information needed to support management decisions. Specifically, the Total Maximum Daily Loads (TMDL) program, agriculture waiver program, and basin planning activities are in critical need of better water quality monitoring data. Funding this program will result in a \$4 million increase to National Pollutant Discharge Elimination System (NPDES) permit fees.

**Water Rights Program.** The Governor's Budget includes \$3.6 million in special funds to improve the efficiency of the water rights program in processing water rights applications. The funds will support six new positions (\$669,000) to aid in reducing the current backlog of water right applications and change petitions. The remaining funding will be used to fund a one-time investment in information technology upgrades to the board's water rights database management and tracking system.

**Basin Planning Updates.** The Governor's Budget includes \$1 million in special funds to provide scientific data needed to update water quality standards contained in existing basin plans. Water quality standards are the basis for the board's entire regulatory program. However, due to a lack of basic monitoring data for updating these standards, the board's permitting programs have become more complex and less scientifically based. These additional contract funds will help to address this deficiency.

**Water Quality Grant Funds.** The Governor's Budget includes \$57 million in local assistance grant funding from Proposition 13 and 50 resources bonds. The bond funds are allocated to the following programs consistent with the bond acts.

- Integrated Regional Water Management Grants (\$20 million -- Prop 50).
- Water Recycling Grants (\$7 million Prop 13 and \$950,000 -- Prop 50).
- Groundwater Monitoring Program (\$10 million -- Prop 50).
- Drinking Water Quality Grants (\$3.4 million -- Prop 50).
- Non-Point Source Pollution Control Program Grants (\$4.8 million -- Prop 13).
- Coastal Non-Point Source Pollution Control Program Grants (\$1.5 million -- Prop 13).
- Watershed Protection Grants (\$3 million -- Prop 13 and \$6 million Prop -- 50).

### ***Issues***

**Oceangoing Ship Discharges.** Legislation has been enacted over the last several years to regulate the discharges from cruise ships. Legislation (SB 771, Simitian) to extend these regulations to other oceangoing ships was enacted last year. However, the administration indicated that it needed to receive authorization from the federal government before it could implement these regulations. The Legislature may wish to follow up on the status of the board's application to the federal government to initiate this new program.

## **3960 Department of Toxic Substances Control**

**Background.** The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up or oversees the cleanup of contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; the General Fund; and federal funds.

**Governor's Budget.** The Governor's Budget proposes \$132 million to support DTSC in 2006-07. This is approximately \$13 million less than estimated expenditures in the current year. This

reduction is due to one-time expenditures in the current year related to the state’s takeover of the BKK Class I landfill and reductions to the Toxic Substances Control Account to balance the fund. The department’s General Fund expenditures are also proposed to decline in the budget year due to one-time expenditures related to the BKK Class I landfill in the current year.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Site Mitigation and Brownfields				
Reuse	\$103,905	\$93,261	-\$10,644	-10.2
Hazardous Waste Management	65,478	64,181	-1,297	-2.0
Science, Pollution Prevention, and Technology	10,834	10,148	-686	-6.3
State as Certified Unified Program Agency	-	1,156	-	-
Capital Outlay	3,963	-	-	-
Administration	34,483	30,464	-4,019	-11.7
<i>less distributed administration</i>	<i>-34,483</i>	<i>-30,464</i>	<i>4,019</i>	<i>0.0</i>
<b>Total</b>	<b>\$184,180</b>	<b>\$168,746</b>	<b>-\$15,434</b>	<b>-8.4</b>
<b>Funding Source</b>				
General Fund	\$26,474	\$22,689	-\$3,785	-14.3
Special Funds	119,087	109,663	-9,424	-7.9
<i>Budget Act Total</i>	<i>145,561</i>	<i>132,352</i>	<i>-13,209</i>	<i>-9.1</i>
			0	0.0
Federal Funds	25,536	26,258	722	2.8
Reimbursements	13,083	10,136	-2,947	-22.5
<b>Total</b>	<b>\$184,180</b>	<b>\$168,746</b>	<b>-\$15,434</b>	<b>-8.4</b>

**Highlights**

**Environmental Enforcement.** The Governor’s Budget proposes \$1.5 million in special funds to enhance existing enforcement efforts related to the Electronic Waste Recycling program. These funds will support 14.5 additional positions to identify and regulate electronic hazardous waste and ensure that electronic waste recyclers and processors are complying with the law.

**Balancing the Toxic Substances Control Account.** The Governor proposes to address the \$12 million operating deficit in the Toxic Substances Control Account over a two-year period. This fund is the primary funding source for the department’s Site Mitigation and Brownfields Reuse and Pollution Prevention programs. The budget proposal includes expanding the environmental fee to cover all businesses with 50 employees or more and reducing DTSC programs by \$5.5 million over a two-year period.

**Restoring Closed Military Bases.** The Governor’s Budget includes \$209,000 in federal funds to support two positions to provide oversight for the investigation and clean up of McClellan Air Force Base and Fort Ord Army Base.

**Regulating Chrome Plating Facilities.** The Governor’s Budget includes \$85,000 to fund one position to develop a program to assist in the upgrade or purchase of environmental control technologies for chrome plating facilities. This position will be used to develop a loan guarantee program and establish a model shop program.

**3980 Office of Environmental Health Hazard Assessment**

**Background.** The Office of Environmental Health Hazard Assessment (OEHHA) identifies and quantifies the health risks of chemicals in the environment. It provides these assessments, along with its recommendations for pollutant standards and health and safety regulations, to the boards and departments in the California Environmental Protection Agency and to other state and local agencies. The OEHHA also provides scientific support to environmental regulatory agencies.

**Governor’s Budget.** The Governor’s Budget proposes \$14 million to support OEHHA in the budget year. This is a slight increase in funding from the estimated expenditures in the current year due to new budget proposals. General Fund support for OEHHA remains relatively unchanged in the budget year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Health Risk Assessment	\$15,726	\$16,385	\$659	4.2
Administration	2,985	3,011	26	0.9
<i>less distributed administration</i>	<i>-2,985</i>	<i>-3,011</i>	<i>-26</i>	<i>0.0</i>
<b>Total</b>	<b>\$15,726</b>	<b>\$16,385</b>	<b>\$659</b>	<b>4.2</b>
<b>Funding Source</b>				
General Fund	\$8,303	\$8,377	\$74	0.9
Special Funds	5,281	5,803	522	9.9
<i>Budget Act Total</i>	<i>13,584</i>	<i>14,180</i>	<i>596</i>	<i>4.4</i>
Federal Trust Fund	500	500	0	0.0
Reimbursements	1,642	1,705	63	3.8
<b>Total</b>	<b>\$15,726</b>	<b>\$16,385</b>	<b>\$659</b>	<b>4.2</b>

**Highlights**

**Additional Proposition 65 Funding.** The Governor’s Budget includes \$266,000 in special funds to augment the department’s Proposition 65 program. These funds will be used to support

2 new positions to identify “safe” levels (levels that do not pose a significant health risk) for substances listed under Proposition 65 as causing cancer or reproductive toxicity.

**Lead in Candy.** The Governor’s Budget includes \$125,000 in special funds to support one two-year limited-term position to implement recent legislation (AB 121, Vargas) that requires OEHHA to set a maximum lead standard for certain candies.

**Risks of Alternative Dry Cleaning Methods.** The Governor’s Budget includes \$50,000 to support 0.5 positions to implement legislation enacted in 2003 (AB 998, Lowenthal) that requires OEHHA to evaluate health risks of alternative dry cleaning methods to perchloroethylene, which is a toxic air contaminant.

### ***Issues***

**Adequacy of Funding.** The Office of Environmental Health Hazard Assessment has suffered significant General Fund reductions. However, efforts have been made to find other appropriate funding sources for the office over the past few years. Nevertheless, OEHHA has identified a \$6 million funding shortfall to meet its statutory mandates. The Legislature may wish to evaluate additional funding for OEHHA’s activities.

# ENERGY AND UTILITIES

## Overview

**Background.** Several agencies play a role in developing, implementing, and managing the state's energy-related policies. These include:

- **California Energy Commission.** This is the state's primary policy and planning agency in the energy area.
- **California Public Utilities Commission.** The commission is involved with various energy-related regulatory activities.
- **Electricity Oversight Board.** Its responsibilities include monitoring the state's electricity market.
- **California Power Authority.** This entity was created during the state's 2001 electricity crisis to finance new electricity generation and assure an adequate electricity supply for the state. This agency is currently defunct.
- **California Energy Resources Scheduling Division within the Department of Water Resources.** This is the entity that currently purchases electricity for the state on behalf of the state's three largest investor owned utilities (IOUs).
- **California Independent System Operator (ISO).** The ISO is a not-for-profit corporation that was created by the state when it deregulated its wholesale electricity industry in 1996. The ISO is not considered a state agency, but was created by the Legislature and is governed by a board of gubernatorial appointees. However, its activities are regulated by the federal government. The ISO is charged with managing the majority of the state's electricity transmission system, in order to ensure competitive access to the grid by all electricity sellers. It also seeks to ensure that the power grid is safe and reliable.

## Highlights

**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.

**Issues**

**Department of Energy.** The Governor is proposing legislation to reorganize the state's energy agencies. The Legislature may wish to evaluate this proposal to determine whether the proposed structure provides enhanced efficiencies in implementing state energy policies and enhanced protections for California energy consumers.

**3360 California Energy Commission**

**Background.** The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

**Governor's Budget.** The Governor's Budget proposes \$310 million to support CEC in 2006-07. The proposed budget is approximately 26 percent less than estimated expenditures in the current year due to accumulated renewable energy funding expended in the current year to help implement the renewable portfolio standard. The department does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Regulatory and Planning	\$25,775	\$26,179	\$404	1.6
Energy Resources Conservation	26,504	22,880	-3,624	-13.7
Research and Development	383,203	279,758	-103,445	-27.0
Administration	11,551	13,082	1,531	13.3
<i>less distributed administration</i>	<i>-11,551</i>	<i>-13,082</i>	<i>-1,531</i>	<i>0.0</i>
<i>less loan repayments</i>	<i>-1,883</i>	<i>-1,133</i>	<i>750</i>	<i>0.0</i>
<b>Total</b>	<b>\$433,599</b>	<b>\$327,684</b>	<b>-105,915</b>	<b>-24.4</b>
<b>Funding Source</b>				
General Fund	\$0	\$0	0	0.0
Special Funds	417,635	309,961	-107,674	-25.8
<i>Budget Act Total</i>	<i>417,635</i>	<i>309,961</i>	<i>-107,674</i>	<i>-25.8</i>
Federal Funds	10,211	11,978	1,767	17.3
Reimbursements	5,753	5,745	-8	-0.1
<b>Total</b>	<b>\$433,599</b>	<b>\$327,684</b>	<b>-105,915</b>	<b>-24.4</b>

### **Highlights**

**Alternative Fuels Development.** The Governor's Budget proposes \$500,000 special funds for the CEC to implement recently enacted legislation (AB 1007, Pavley), which requires the development of recommendations to increase the use of alternative fuels in the transportation sector.

**Climate Change Initiative.** The Governor's Budget proposes \$612,000 to support four positions and \$200,000 in contracts to implement the Governor's greenhouse gas emission reduction targets. These funds will be used to establish an energy policy, develop a statewide greenhouse gas inventory, and implement a comprehensive climate change science program to support greenhouse gas emission reductions.

**Public Purpose Natural Gas Research.** The Governor's Budget proposes \$504,000 to support five new positions to identify, develop and manage energy-related research projects that benefit natural gas ratepayers. These funds will also be used to implement recent legislation (SB 76, Ch. 91/2005) to fund transportation-related research that provides a benefit to natural gas ratepayers.

**Verification of Energy Efficiency Savings.** The Governor's Budget proposes \$209,000 to fund two new positions to produce independent and verifiable estimates of the net energy and peak savings from investor-owned utility energy efficiency programs. The California Public Utilities Commission (CPUC) recently issued a decision that directs the CPUC, in conjunction with the CEC, to assume responsibility for the evaluation, monitoring and verification of energy savings associated with over \$600 million in annual spending for energy efficiency programs.

### **Issues**

**Public Interest Energy Research (PIER) Funds for Transportation Research.** Legislation (Ch. 91/2005) was enacted to allow Public Interest Energy Research funds to be expended for transportation-related research. This research is critical to developing new technologies that will reduce the air emissions from the transportation sector. The Legislature may wish to evaluate the steps CEC has taken to implement this new legislation.

**Natural Gas PIER Program.** SB 76 of 2005 requires that one-half of the new public interest natural gas research funds be expended pursuant to a research program jointly approved by the Air Resources Board and the Commission. Furthermore, the legislation allowed for up to one-third of the funds allocated annually to be expended on transportation-related research. The Legislature may wish to follow up on the implementation of this legislation.

**Workload Plan for PIER Program.** Legislation (SB 71, Ch. 81/2005) was enacted in 2005 to require that CEC develop a long-term staffing plan for the PIER program. The Legislature may wish to evaluate the plan when it is submitted to determine if staffing changes to the current PIER program are warranted.

## **3860 Department of Water Resources (California Energy Resources Scheduling Division)**

**Background.** The Department of Water Resources' California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS

division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

**Governor’s Budget.** The Governor’s Budget proposes \$5 billion to fund the CERS division of the Department of Water Resources (DWR). This is \$239 million, or 4.5 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Energy Purchases	\$4,307,880	\$4,072,784	-\$235,096	-5.5
Interest Expense - Revenue Bonds	525,672	525,672	0	0.0
Payment of Principal - Revenue Bonds	409,395	409,990	595	0.1
Administration	32,502	28,202	-4,300	-13.2
<b>Total</b>	<b>\$5,275,449</b>	<b>\$5,036,648</b>	<b>-238,801</b>	<b>-4.5</b>

### 8660 Public Utilities Commission

**Background.** The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

**Governor’s Budget.** The Governor’s Budget proposes \$1.2 billion to support CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Regulation of Utilities	\$350,685	\$364,956	\$14,271	4.1
Universal Service Telephone Programs	858,035	861,420	3,385	0.4
Regulation of Transportation	16,498	17,509	1,011	6.1
Administration	16,435	20,925	4,490	27.3
<i>less distributed administration</i>	<i>-16,435</i>	<i>-20,925</i>	<i>-4,490</i>	<i>0.0</i>
<b>Total</b>	<b>\$1,225,218</b>	<b>\$1,243,885</b>	<b>18,667</b>	<b>1.5</b>
<b>Funding Source</b>				
General Fund	\$0	\$0	0	0.0
Special Funds	1,211,407	1,229,960	18,553	1.5
<i>Budget Act Total</i>	<i>1,211,407</i>	<i>1,229,960</i>	<i>18,553</i>	<i>1.5</i>
Federal Funds	1,119	1,139	20	1.8
Reimbursements	12,692	12,786	94	0.7
<b>Total</b>	<b>\$1,225,218</b>	<b>\$1,243,885</b>	<b>18,667</b>	<b>1.5</b>

### Highlights

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

# AGRICULTURE

## 8570 Department of Food and Agriculture

**Background.** The California Department of Food and Agriculture (CDFA) provides services to both producers and consumers of California's agricultural products in the areas of agricultural protection, agricultural marketing, and support to local fairs. The purpose of the agricultural protection program is to prevent the introduction and establishment of serious plant and animal pests and diseases. The agricultural marketing program promotes California's agricultural products and protects consumers and producers through the enforcement of measurements, standards, and fair pricing practices. Finally, the department provides financial and administrative assistance to county and district fairs.

**Governor's Budget.** The Governor's Budget proposes \$240 million to support CDFA in 2006-07. This is approximately \$14 million more than the level of expenditures estimated in the current year. This increase is primarily due to a new budget proposal to address emerging diseases.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Type of Expenditure</b>				
Agricultural Plant and Animal Health, Pest Prevention, and Food Safety Services	\$148,312	\$160,083	\$11,771	7.9
Marketing and Commodity and Agricultural Services	62,375	63,773	1,398	2.2
Assistance to Fair and County Agricultural Activities	60,918	60,333	-585	-1.0
Capital Outlay	376	26,419	26,043	6926.3
Administration	14,280	14,392	112	0.8
<i>less distributed administration</i>	<i>-13,178</i>	<i>-13,292</i>	<i>-114</i>	<i>0.0</i>
<b>Total</b>	<b>\$273,083</b>	<b>\$311,708</b>	<b>\$38,625</b>	<b>14.1</b>
<b>Funding Source</b>				
General Fund	\$83,336	\$91,588	\$8,252	9.9
Special Funds	140,747	146,763	6,016	4.3
Bond Funds	1,178	1,178	0	0.0
<i>Budget Act Total</i>	<i>225,261</i>	<i>239,529</i>	<i>14,268</i>	<i>6.3</i>
Federal Trust Fund	37,012	42,480	5,468	14.8
Public Building Construction Fund		17,556	17,556	0.0
Harbors and Watercraft Revolving Fund	1,239	1,273	34	2.7
Reimbursements	9,571	10,870	1,299	13.6
<b>Total</b>	<b>\$273,083</b>	<b>\$311,708</b>	<b>\$38,625</b>	<b>14.1</b>

**Highlights**

**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.

**Private Vehicle Inspection Program.** The Governor's Budget proposes \$380,000 General Fund to support five 2-year limited-term positions to conduct a pilot project to determine the pest introduction risk presented by private vehicles entering the state.

**Tax Enforcement Pilot Program.** The Governor's Budget proposes \$250,000 in reimbursements to support three 2-year limited-term positions to conduct a pilot project to evaluate tax collection potential from property purchased outside California and transported into the state without payment of appropriate taxes. The project is being conducted in conjunction with the Board of Equalization and will entail CDFAs personnel inspecting cargo and copying all pertinent information from commercial shipments entering the state through the Needles Agricultural Inspection Station.

**Hydrogen Highway.** The Governor's Budget proposes \$174,000 in General Fund to support one 1-year limited-term position to develop standards related to hydrogen fuel quality. This proposal supports the Governor's Hydrogen Highway Blueprint Plan.

# SUBCOMMITTEE No. 3

## HEALTH, HUMAN SERVICES, LABOR and VETERANS AFFAIRS

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# HEALTH & HUMAN SERVICES OVERVIEW

## Summary of Governor's Proposed 2006-07 Budget

Services provided through Medi-Cal; Healthy Families; CalWORKS; In-Home Supportive Services; Regional Centers; and other programs touch the lives of millions of Californians. Health and Human Services programs provide access to short- and longer-term services and supports that promote the health, well-being, and independent living of our state's most vulnerable children, adults, seniors, and families.

The budget for Health and Human Services proposes a total of \$73.1 billion (\$28.5 billion General Fund) in combined state and federal funds, including expenditures for about 33,674 state employees. This reflects a net increase of \$1.8 million (\$1.2 billion General Fund) over the revised current year which is an increase of about 3 percent.

Key proposals include the following:

- **Looming Federal Budget Cuts.** On or around February 1, 2006, the federal government is expected to enact the federal fiscal year 2006 budget. This budget, called the Deficit Reduction Act of 2005, would result in federal funding reductions for many programs, including CalWORKs, Child Support, Foster Care, Child Welfare, and SSI/SSP. The total annual General Fund impact could approach \$470 million, although the full impact would not be felt until 2008 or 2009.
- **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 \$54 million in 2006-07 and \$215 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 non-citizen 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.
- **Reduce Funding to Counties for CalWORKs Services and Child Care.** The Governor proposes to reduce funding for local CalWORKs programs by a total of \$292 million in current and budget year. Although the budget does not propose any changes to eligibility, work requirements, or grants for CalWORKs clients, the reductions to county programs for CalWORKs employment services, eligibility determination, and child care may affect the state's work participation rate.

- **Reduction to County Eligibility Processing for the Medi-Cal Program.** Counties are responsible for processing all Medi-Cal Program enrollment applications, including those for children as well as seniors and the disabled. The Governor eliminates \$42.4 million (\$21.2 million General Fund) in 2006-07 for County Eligibility Administration which has been historically provided to counties to fully fund the salaries and overhead costs of the Medi-Cal Program eligibility workers.
- **Maintain \$120 million for Proposition 36.** 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.
- **Increase Child Welfare Services and Foster Care Funding.** The Governor proposes an additional \$18.3 million General Fund for various child welfare, foster care, and adoptions programs, including \$7.7 million to improve Foster Care Child Relationships (AB 408/AB 1412), \$2.5 million for Kinship Support Services, \$1.0 million for Transitional Housing for Foster Youth (AB 1119), and \$7.1 million for Improving Adoptions Outcomes.
- **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 \$19.8 million (\$9.9 million General Fund) in 2006-07 and up to \$128.4 million (total funds) annually. 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).
- **State Hospitals and the Federal Civil Rights of Institutionalized Persons Act (CRIPA).** Due to significant concerns expressed by the federal government with the operation of the State Hospitals, substantial changes are being proposed by the Administration. 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.
- **Simplification of the Medi-Cal Redetermination Form.** 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. An increase of \$3.3 million (\$1.7 million General Fund) has also been provided for County Medi-Cal Administration processing for these applications.
- **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 Medi-Cal Program includes expenditures of \$27.4 million (\$10.5 million General Fund) for this purpose.

- **Expands the Use of Certified Application Assistance Fees to Increase HFP Enrollment.** Historically, the HFP utilized a comprehensive outreach and enrollment process, which included the use of Certified Application Assistants (CAA), public relations, and a media campaign. The budget provides the following adjustments for the CCA outreach approach:
  - Provides \$11.8 million (total funds) to continue the CAA fees which represents an increase of \$5.4 million over the revised current-year.
  - Proposes \$2.5 million (\$2 million General Fund) to create a new incentive program for CAA's.
  - Provides \$26.7 million (total funds) to support anticipated new HFP caseload which is attributed to the CAA efforts. This additional funding would provide enrollment to 33,496 new children.
- **Implementation of Hospital Financing Waiver and SB 1100 (Perata and Ducheny), 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. Due to implementation of the Waiver, state General Fund savings of at least \$149 million are expected for 2006-07 as well.

However, it should be noted that the federal government has not yet approved California's methodology for determining how a "certified public expenditure" (CPE) is calculated. Until this approval is obtained, Public Hospitals, including University of California hospitals, cannot receive supplemental federal fund payments for Disproportionate Share Hospital (DSH) expenditures or Safety Net Care Pool funds.

- **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. Trailer bill language to restructure certain licensing and certification requirements, as well as to increase fees paid by healthcare facilities, will be forthcoming from the Administration.
- **Agnews Developmental Center Closure Continuation.** The Administration has provided the Legislature with an update on their plan for the closure of Agnews Developmental Center. This document states that achieving the closure date of June 30, 2007 is contingent upon the Administration's ability to implement three key components—increased community housing, new service models, and the use of state employees in the community. The budget proposes a net increase of \$23.5 million (total funds) over the revised current year for the closure of Agnews.
- **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 at this time.

- **Increase Funding for Community Care Licensing.** The Governor proposes \$6.7 million (\$6 million General Fund) and 80 new positions to complete required licensing workload and increase visits to facilities. Additional staffing is requested primarily to address a backlog of required visits, as well as to increase the number of random sample licensing visits from 10 percent to 20 percent annually. Other administrative and statutory reforms are proposed to improve the efficiency of the licensing program and increase client protections.

Each of these proposals is discussed in more detail below.

# HEALTH

## 0530 California Health and Human Services Agency

**Background.** The California Health and Human Services Agency (CHHS Agency) administers the state's health, social services, rehabilitative and child support programs. The purview of the CHHS Agency includes: (1) the departments of Aging, Alcohol and Drugs, Child Support Services, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services; (2) the Office of Health Insurance Portability & Accountability Act; (3) the Office of System Integration; (4) the Office of Statewide Health Planning and Development; (5) the Managed Risk Medical Insurance Board; (6) the Emergency Medical Services Authority; (7) Long Term Care Council; and (8) Health Care Quality Improvement and Cost Containment Commission.

The Office of Health Insurance Portability & Accountability Act (HIPAA) was created in 2001 and has statewide responsibility for implementation of the federal HIPAA. The office was established within the CHHS Agency to direct and monitor this process.

The Office of Systems Integration (OSI) within the CHHS Agency manages five major projects for the Department of Social Services (DSS) and one project for the Employment Development Department (EDD). Funding for OSI is supported entirely by reimbursements from the DSS and EDD budgets. Effective July 1, 2005, the HHSDC Systems Management component was shifted to the Health and Human Services Agency, Office of System Integration.

**Summary of Funding.** The budget proposes total expenditures of \$229.1 million (\$5 million General Fund). Of this total amount, (1) \$3.1 million and 25 positions are proposed for the Secretary's Office, (2) \$3.7 million and eleven positions are for the Office of HIPAA Implementation, and (3) \$222.3 million and 165 positions are for the Office of System Integration. Through the Budget Act of 2004, the Secretary for the CHHS Agency received 14 new positions and an augmentation of \$1.8 million (General Fund), or an increase of over 100 percent over the Budget Act of 2003. This adjustment is reflected in the current-year base.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Secretary for Health & Human Services	\$3,486	\$3,133	-\$353	-10.1
Office of HIPAA	\$3,600	\$3,680	\$80	2.2
Office of System Integration	\$212,443	\$222,274	\$9,831	4.6
<b>Funding Source</b>				
General Fund	\$4,913	\$4,986	\$73	1.5
Managed Care Fund	\$364	--	-\$364	-
Reimbursements	\$1,809	\$1,827	\$18	0.1
Office of Systems Integration Fund	\$212,443	\$222,274	\$9,831	4.6
Total, Health & Human Services Agency	\$219,529	\$229,087	\$9,558	4.4

**Highlights of the Office of Systems Integration within the CHHS Agency**

- **Child Welfare Services/Case Management System (CWS/CMS) Go Forward Plan.** CWS/CMS provides database, case management, and reporting functions for the Child Welfare System. The budget provides \$110.4 million (\$55 million General Fund) for maintenance of the existing system and other required activities needed to maintain federal matching funds for this system. These activities, known as the “Go Forward” plan, include a technical architectural alternative analysis, migration of the application hosting to the Department of Technology Services (DTS) from a private vendor location, and other activities to determine if or how CWS/CMS should be changed to meet federal standards. Budget year funding represents a decrease of \$9.4 million (\$4.8 million General Fund), primarily to reflect reduced application hosting costs. The budget also requests the establishment of 1.0 additional position in OSI for CWS/CMS. OSI currently has 66.5 positions for CWS/CMS.
- **Case Management, Information and Payrolling System (CMIPS) II Contract Procurement.** The existing CMIPS provides client case management and provider payrolling functions for the In-Home Supportive Services (IHSS) program. The budget includes \$25.6 million (\$12.8 million General Fund) for contract planning, procurement, and implementation activities. Although the 2005-06 Budget Act included \$13.2 million (\$6.6 million General Fund) in anticipation of a contract award and implementation in 2005-06, the OSI now indicates that the contract is not anticipated to be awarded until November 2006. This results in a current year reduction of \$10 million (\$5 million General Fund).
- **Statewide Automated Welfare System (SAWS) Maintenance and Implementation Activities.** SAWS consists of five automation systems and a project management office that support eligibility determination and caseload tracking functions for Medi-Cal, California Work Opportunity and Responsibility to Kids (CalWORKs), Food Stamps, Foster Care, Refugee Resettlement, County Medical Services, and county General Assistance programs. The budget provides \$228.6 million (\$82.9 million General Fund) for SAWS, a reduction of \$28.5 million (\$9.4 million General Fund) compared to the current year, primarily due to completion of CalWIN conversion activities in 2006-07. The budget year funding would maintain the four fully implemented SAWS systems, complete county conversion activities for CalWIN, begin migration planning activities to move counties from ISAWS to C-IV, and begin development of a LEADER replacement system request for proposal. The budget also proposes to permanently establish 1.0 expiring limited-term OSI position for SAWS.
- **Electronic Benefit Transfer (EBT) System.** The EBT system provides cash and food benefits to CalWORKs and Food Stamp clients via debit card technology and retailer point-of-sale terminals. The budget requests \$50.8 million (\$10.2 million General Fund) for ongoing system maintenance and contract procurement activities.
- **Statewide Fingerprint Imaging System (SFIS).** SFIS records fingerprints and photo images of CalWORKs and Food Stamp applicants to prevent duplicate aid payments. The budget requests \$7.8 million General Fund to continue to maintain SFIS.

### 4120 Emergency Medical Services Authority

**Background.** The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the “911” emergency telephone system.

**Summary of Funding.** The budget proposes total expenditures of \$26 million (\$12.2 million General Fund) for the EMS Authority. This reflects a net decrease of \$10.5 million (\$10.1 million General Fund) primarily due to (1) the elimination of one-time only funds of \$10 million (General Fund) provided to certain Trauma Care Centers, and (2) an augmentation of \$2.3 million (\$1.6 million General Fund) to provide personal protective equipment for private ambulance providers.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Program Source</b>				
Emergency Medical Services	\$36,525	\$26,041	-\$10,484	-28.7
<b>Funding Source</b>				
General Fund	\$22,393	\$12,245	-\$10,148	-45.3
Federal Funds	\$3,038	\$2,688	-\$350	-11.5
Reimbursements	\$9,506	\$9,300	-\$206	-2.2
Other Funds	\$1,588	\$1,808	\$220	13.8
<b>Total Expenditures</b>	<b>\$36,525</b>	<b>\$26,041</b>	<b>-\$10,484</b>	<b>-28.7</b>

#### **Summary of Governor’s Proposed Reductions and Augmentations**

- **Eliminates Supplemental Funding for Trauma Care Centers.** The budget reflects a reduction of the \$10.5 million General Fund appropriation to supplement certain Trauma Care Centers as provided by the Legislature in the Budget Act of 2005. The Governor viewed this legislative augmentation as a one-time only adjustment and therefore deleted it for 2006-07.
- **Personal Protective Equipment for Private Ambulance Personnel.** The budget proposes an increase of \$2.3 million (\$1.6 million General Fund) for distribution to local Emergency Medical Services Agencies for the purpose of purchasing personal protective equipment for 1,500 ambulance units (primarily private ambulance providers).

The EMS Authority states that about 3,585 ambulances are available in California of which 74 percent, or 2,664, are private ambulance providers. They estimate that only 28 percent of

the ambulances in the state have sufficient personal protective equipment (mainly head, body and respiratory protection) to respond to terrorism events and disasters.

The EMS Authority contends that generally, public providers have adequate equipment but that private providers generally do not. The Administration is proposing to solely provide grants for private providers unless small public providers can demonstrate a need for funding to purchase the specified equipment. As a condition of receiving grant funds, the EMS Authority will require providers to participate in California's disaster response system, as well as provide necessary training on the use of the equipment distributed.

- **Changes Proposed for Emergency Medical Services Personnel Preparedness.** The EMSA is seeking considerable changes to the (1) Paramedic Licensing and Enforcement program, (2) Day Care Provider Training Program, and (3) licensure and discipline process for Emergency Medical Technician-I (EMT I) and EMT II personnel. Specifically, the budget proposes an increase of \$1.6 million (\$1.5 million General Fund) to fund 30 new positions (to be phased-in over a three-year period) and to support consultant contracts. Under the Administration's proposal, a General Fund loan of \$1.5 million would be provided up-front and licensing fees would be increased over a three-year period to pay back the loan. Trailer bill legislation regarding the proposed program changes and fee increases is still being developed by the Administration.
- **California Medical Assistance Teams (CalMAT).** An increase of \$1.8 million (Reimbursements) is proposed to implement and administer three medical disaster response teams for California. Specifically the funds would be used to support two new positions at the EMSA Authority and to purchase medical supplies, pharmaceuticals and equipment. The CalMAT's would be used to respond to catastrophic disasters within the state.

## 4250 California Children and Families Commission

**Background.** The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members. Three of the members are appointed by the Governor, two by the Senate Rules Committee, and two by the Speaker of the Assembly.

The commission is responsible for the implementation of comprehensive and integrated solutions in order to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by law, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

**Summary of Funding.** The budget proposes total expenditures of \$706.6 million (Special Trust funds) for an increase of \$14.4 million over the revised current year.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code and are not subject to an annual appropriation through the Budget Act.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children’s health care, child care and development, and family literacy.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Administrative Functions	\$16,599	\$16,889	\$290	1.7
Local Assistance—Counties	\$692,166	\$706,568	\$14,402	2.0
<b>Funding Source</b>				
Counties Children & Families Account	\$459,446	\$472,794	\$13,348	2.9
Mass Media Communications Account	\$50,510	\$50,602	\$92	0.2
Education Account	\$67,894	\$68,973	\$1,079	1.6
Child Care Account	\$36,059	\$36,077	\$18	0.04
Research & Development Account	\$41,736	\$41,752	\$16	0.03
Administration Account	\$16,601	\$16,901	\$300	1.8
Unallocated Account	\$19,922	\$19,932	\$10	0.05
<b>Total Expenditures</b>	<b>\$692,166</b>	<b>\$706,568</b>	<b>\$14,402</b>	<b>2.1</b>

## 4260 Department of Health Services

**Background.** The goals of the Department of Health Services (DHS) are to: (1) promote an environment that contributes to human health and well-being; (2) ensure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness; and (5) ensure economic expenditure of public funds to serve those persons with the greatest health care needs. These goals are carried out through three key programmatic areas, including the Medi-Cal Program, Childrens Medical Services, and Public and Environmental Health.

**Summary of Funding.** The budget proposes expenditures of \$38.4 billion (\$14.4 billion General Fund), or a *net* increase of \$1.1 billion (\$533.5 million General Fund) over the revised 2005-06 budget. Of the total amount, \$37.3 billion (\$14.1 billion General Fund) is for local assistance. This represents an increase of \$1.025 billion (\$553.4 million General Fund), or 2.9 percent, over the revised current year.

The Governor proposes state support expenditures of \$1.1 billion (\$253.8 million General Fund) which represents an increase of \$70.6 million (reduction of \$20 million General Fund) over the revised current year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Program Source</b>				
Health Information & Strategic Planning	\$23,129	\$33,931	\$10,802	46.7
Environmental Controls	\$412,158	\$444,124	\$31,966	7.8
Public Health Services	\$797,720	\$821,827	\$24,107	3
Medical Care Services	\$34,123,936	\$35,116,450	\$992,514	2.9
Licensing & Certification	\$133,008	\$145,056	\$12,048	9.1
County Health Services	\$84,007	\$67,135	\$-16,872	-20.1
Primary Care & Family Health	\$1,729,644	\$1,770,185	\$40,541	2.3
State Administration & Operations	\$53,499	\$54,372	\$873	1.6
Distributed Administration (adjustment)	-\$51,076	-\$51,890	-\$814	-1.6
<b>Totals, by Program Source</b>	<b>\$37,306,025</b>	<b>\$38,401,190</b>	<b>\$1,095,165</b>	<b>2.9</b>
<b>Funding Source</b>				
General Fund	\$13,851,286	\$14,384,799	\$533,513	3.9
Federal Funds	\$20,263,648	\$20,491,678	\$228,030	1.1
Special Funds & Reimbursements	\$3,191,091	\$3,524,713	\$333,622	10.5
<b>Totals, by Fund</b>	<b>\$37,306,025</b>	<b>\$38,401,190</b>	<b>\$1,095,165</b>	<b>2.9</b>

The Governor’s budget proposes state support expenditures of \$1.1 billion (\$253.8 million General Fund) which would fund 6,028 authorized positions, an increase of 322 personnel-years over the revised current-year. This increase of 322 personnel-years (adjusted for salary savings) equates to a total of 533 new positions.

The following chart outlines the increase in state positions, as adjusted for salary savings, by program area. It should also be noted that the DHS obtained a significant increase in staff through the Budget Act of 2005 as shown below.

<b>Department of Health Services Authorized and Proposed Positions (as adjusted)</b>					
<b>DHS Program Areas</b>	<b>2004-05 Authorized Positions</b>	<b>2005-06 Authorized Positions</b>	<b>Increased Positions In Current Year</b>	<b>Total Proposed Positions for 2006-07</b>	<b>Proposed Increased Positions</b>
Health Information & Strategic Planning	143.4	142.6	0.8	159.2	16.6
Environmental Controls	611.3	678.3	67.0	733.9	55.6
Public Health Services	449.2	423.5	-25.7	460.6	37.1
<b>Subtotal: Public &amp; Environmental Health</b>	<b>1,203.9</b>	<b>1,244.4</b>	<b>40.5</b>	<b>1,353.7</b>	<b>109.3</b>
Medi-Cal Services	2,250.9	2,447.8	196.9	2,576.8	129
Licensing & Certification	778.9	878.6	99.7	966.4	87.8
County Health Services	105.1	108.1	3.0	105.2	-2.9
Primary Care & Family	590.3	624.0	33.7	622.2	-1.8
<b>Subtotal: Health Care</b>	<b>3,725.2</b>	<b>4,058.5</b>	<b>333.3</b>	<b>4,270.6</b>	<b>212.1</b>
<b>Administration</b>	<b>387.4</b>	<b>403.7</b>	<b>16.3</b>	<b>404.5</b>	<b>0.8</b>
<b>TOTAL POSITIONS</b>	<b>5,316.5</b>	<b>5,706.6</b>	<b>390.1</b>	<b>6,028.8</b>	<b>322.2**</b>

\*\* The 322.2 personnel-years equates to a total of 533 proposed new positions.

**Highlights for the Medi-Cal Program**

**Summary of Funding and Enrollment.** The Governor’s budget proposes total expenditures of \$34.7 billion (\$13.7 billion General Fund) which reflects a General Fund increase of \$974.7 million (\$542.3 million General Fund) above the revised current-year budget. The net General Fund increase primarily reflects (1) increases in caseload and utilization for aged, blind and disabled individuals; (2) adjustments to the federal Medicare Part D Drug Program; and (3) increases in federal Medicare premiums.

It should be noted that General Fund support for mental health programs has been transferred from the Department of Health Services budget to the Department of Mental Health’s budget. This change results in the 2006-07 Medi-Cal expenditures appearing \$339.9 million less than it otherwise would have been.

California continues to have one of the lowest average cost-per-enrollee rates in the nation at \$5,509 per enrollee, versus a national average of about \$6,895 per enrollee.

Medi-Cal provides health insurance coverage to about 18 percent of Californians. Average monthly caseload is anticipated to increase in 2006-07 by about 126,600 people, or 1.9 percent, for a total of 6.8 million eligibles. Of the total Medi-Cal eligibles about 38.8 percent, or 2.6 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs).

Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship, and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

**Summary of Governor’s Reductions and Augmentations for the Medi-Cal Program**

- **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.

The table below shows the estimated reductions by category of service. It should be noted that services provided under the California Children Services (CCS) Program, the Child Health Disability Prevention (CHDP) Program and the Genetically Handicapped Persons Program (GHPP) are exempt from this reduction, as well as 24-hour facilities including hospitals.

**Governor’s 5 Percent Rate Reduction for Medi-Cal Fee-For-Service**

Category of Medi-Cal Service	5 Percent Cut 2005-06 (January - June) (Total Funds)	5 Percent Cut 2006-07 (June to December) (Total Funds)	Total Amount (January – December)
Physicians	\$14.6 million	\$32.6 million	\$47.2 million
Other Medical	\$11.9 million	\$22 million	\$33.9 million
Medical Transportation	\$2.0 million	\$3.9 million	\$5.9 million
Other Services	\$1.4 million	\$2.7 million	\$4.1 million
Home Health	\$2.3 million	\$4.9 million	\$7.3 million
Dental	\$15.9 million	\$15.9 million	\$31.8 million
<b>TOTALS</b>	<b>\$48.2 million</b>	<b>\$82 million</b>	<b>\$130.2 million</b>
<b>Funding Source</b>			
General Fund	\$22.4 million	\$38.5 million	\$60.9 million
Federal Funds	\$25.8 million	\$82 million	\$69.3 million

- **Reduction to County Eligibility Processing for the Medi-Cal Program.** Counties are responsible for processing all Medi-Cal Program enrollment applications, including those for children, seniors and the disabled. Generally, federal law requires a governmental entity to conduct this processing. The budget eliminates \$42.4 million (\$21.2 million General Fund) in 2006-07 for County Eligibility Administration which historically has been provided to counties to fully fund the salaries and overhead costs of Medi-Cal Program eligibility workers. With less county workers it will take longer to process Medi-Cal applications, including those applications received through increased outreach activities.

- 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 \$19.8 million (\$9.9 million General Fund) in 2006-07, and as much as \$128.4 million (total funds) annually. The table below displays these reductions. 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).

The DHS states that the federal Centers for Medicare and Medicaid (CMS) are requiring California to make adjustments to the program in order to maintain federal financial participation. However, at this time it is unclear whether the Administration’s proposed adjustments will meet the requirements of the federal CMS. In addition, more information is needed in order to ascertain the affect of the proposals on the individuals who need these services to maintain their health and safety. The proposed reductions will require statutory change.

The budget also contains an increase of \$873,000 (\$140,000 General Fund) to support 8 new positions (four at the DHS and four at the Department of Aging) to implement the proposed changes.

**Administration’s Adult Day Health Care Reductions**

<b>Proposed Action</b>	<b>Proposed Implementation Date</b>	<b>2006-07 Total Savings (Total Funds)</b>	<b>Annual Savings (Total Funds)</b>
Unbundle the Rates	March 2007	\$16.9 million	\$82.6 million
Require onsite Treatment Authorizations (TARS)	March 2007	\$740,000	\$11.7 million
Apply more restrictive medial criteria for enrollment	March 2007	\$2.2 million	\$34.1 million
Conduct Post Audit Recoveries	March 2007	Unknown	unknown
<b>Subtotal</b>		<b>\$19.8 million</b>	
<b>Continue Moratorium</b>	ongoing	<b>\$12.1 million</b>	<b>\$12.1 million</b>
<b>TOTALS</b>		<b>\$31.9 million</b>	<b>\$140.5 million</b>

- 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, with the exception of coverage provided under AB 132, Statutes of 2006.
  - ✓ The budget includes \$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. Drug rebates were previously used to off set General Fund expenditures by \$544 million.
- ✓ Federal law requires states to contribute part of the savings obtained from pharmaceutical coverage changes 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.
- **Simplification of the Medi-Cal Redetermination Form.** The Administration is in the process of changing the Medi-Cal redetermination form to make it easier for Medi-Cal enrollees to complete and 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. An increase of \$3.3 million (\$1.7 million General Fund) has also been provided for County Medi-Cal Administration processing for these applications.
- **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 for total expenditures of \$27.4 million (\$10.5 million General Fund):
  - ✓ An increase of \$19.7 million (\$8.5 million General Fund) 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. Trailer bill legislation is also forthcoming on this item.
  - ✓ An increase of \$3.4 million (\$1.4 million General Fund) for a media campaign that would work in conjunction with the county-based outreach proposal referenced above.
  - ✓ An increase of \$3.1 million (federal funds) to reimburse the Healthy Families Program administered by the Managed Risk Medical Insurance Board for enrollment assistance provided by Certified Application Assistants. (See further discussion of this issue under Item 4280 below.)
  - ✓ An increase of \$932,000 (\$466,000 General Fund) for 10 new positions at the DHS to implement and administer the allocations to counties and the media campaign.
  - ✓ An increase of \$250,000 (\$125,000 General Fund) to increase the level of support for toll-free telephone lines from \$1.3 million to \$1.6 million.
- **Implementation of Hospital Financing Waiver and SB 1100 (Perata), 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. Due to implementation of the Waiver, state General Fund savings of at least \$149 million are expected for 2006-07 as well.

However, it should be noted the federal government has not yet approved California's methodology for determining how a "certified public expenditure" (CPE) is calculated. Until this approval is obtained, Public Hospitals, including University of California hospitals, cannot receive supplemental federal fund payments for Disproportionate Share Hospital (DSH) expenditures or Safety Net Care Pool funds. At this time Public Hospitals are only receiving Medi-Cal per diem payments as provided under contract with the California Medical Assistance Commission. Cash-flow for these hospitals is becoming problematic.

The DHS states that approval by the federal government should be forthcoming. However, even after approval is received, significant technical work, including development of detailed cost accounting documents, still needs to be completed by the DHS and Public Hospitals.

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. These positions are in addition to those already provided in SB 1100, Statutes of 2005.

- **Implementation of Managed Care Expansion.** The Budget Act of 2005 provided for the expansion of Medi-Cal Managed Care to 13 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. These positions are in addition to those provided through the Budget Act of 2005.

- **Outreach to Increase Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care.** A total of \$2 million is proposed to increase enrollment of seniors and persons with disabilities into Medi-Cal Managed Care on a voluntary basis. First, an increase of \$1.1 million (\$550,000 General Fund) is provided to conduct focused education and outreach activities. Second, an increase of \$916,000 (\$386,000 General Fund) is provided to support 9 new state positions. The DHS states that some of these positions will be used to develop performance measures relating to special need populations. However, it is unclear at this time what specific measures are to be developed or whether statutory change will be required.
- **New Medi-Cal Managed Care Plan for Dual Eligibles (Medicare and Medi-Cal/SSI Only).** The Administration is proposing to develop two new pilot project models regarding Medi-Cal Managed Care. One of the proposed pilot models—"Access Plus Community Choices"—would be implemented in two counties (one County Organized Healthcare county and one Two-Plan Model county). This pilot model would require the mandatory enrollment of seniors and disabled individuals living in the county. Implementing trailer bill language is being drafted by the Administration.

The other proposed pilot model—"Access Plus"—would operate within the existing Geographic Managed Care counties (San Diego and Sacramento) and would involve

voluntary enrollment. Trailer bill language is forthcoming from the Administration on this proposal as well.

An increase of \$1.2 million (\$525,000 General Fund) is requested to hire 11 new positions to design and implement these two pilot project models.

- **New Coordinated Care Management Pilot Project.** An increase of \$473,000 (\$208,000 General Fund) to fund 5 new positions is contained in the budget to develop and implement a new pilot project—"Coordinated Care Management"—to improve health outcomes for certain Medi-Cal Fee-for-Service enrollees. Specifically, Medi-Cal enrollees who are seniors or disabled and have chronic health conditions would be targeted for enrollment in this project. Trailer bill language is forthcoming from the Administration on this proposal.
- **Licensing and Certification Division Staff Increase.** The budget includes an increase of \$17.6 million (total funds) 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. Trailer bill language to restructure certain licensing and certification requirements, as well as to increase fees paid by healthcare facilities will be forthcoming from the Administration.
- **Additional Staff for Fingerprint Investigation.** An augmentation of \$1.3 million (Licensing and Certification Fund) is proposed to add 14.5 positions to the existing fingerprint investigation unit at the DHS. In addition, trailer bill language is forthcoming that would modify the existing criminal background check process. This proposal is part of the Administration's restructuring of licensing and certification functions.
- **Development of a Long-Term Care Community Options and Assessment Protocol.** The budget contains \$595,000 (\$297,000 General Fund) to fund one new position and to provide contract funds of \$500,000 to develop and test the Community Options & Assessment Protocol (COAP). The purpose of COAP will be to use common assessment information across multiple state departments for programs designed to assist individuals to remain in their homes instead of transitioning to nursing homes.
- **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.

- **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.
- **Expansion of Nursing Facility Waiver.** The budget contains \$1.1 million (\$355,000 General Fund) to support 14 new positions to expand the existing Nursing Facility Waiver and to implement SB 643, Statutes of 2005. The waiver expansion would add 500 persons to the waiver.
- **State Staff for Self-Directed Waiver and Assisted Living Waiver.** An increase of \$1.4 million (\$563,000 General Fund) is proposed to hire 8 new positions to conduct work associated with these waiver expansions.
- **Increased Staff for Treatment Authorization Processing (TAR).** The budget augments by \$713,000 (\$285,000 General Fund) to fund 6 new positions to create a new “Quality Assurance and Program Integrity” unit to collect, manage and monitor Medi-Cal utilization review and to expand the current “e-TAR” and auto-adjudication processes.
- **State Staff for Aged Drug Rebates.** The budget proposes to extend 11 positions for one-year in order to resolve the aged drug rebate backlog. An increase of \$988,000 (\$494,000 General Fund) is provided for this purpose.
- **State Staff to Audit County Administration Cost Claims.** An increase of \$506,000 (\$253,000 General Fund) is requested to hire 5 new positions to conduct oversight and data analyses of county administration expenditures related to the Medi-Cal Program.

### ***Highlights for Primary Care & Family Health, Public Health & Environmental Health and County Health Services***

**Summary of Funding.** 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 revised 2005-06 General Fund expenditures. There are several public health-related initiatives being proposed. These are discussed below.

### **Summary of Governor’s Reductions and Augmentations for Public Health**

- **AIDS Drug Assistance Program (ADAP).** Total expenditures of \$296.4 million (\$107.7 million General Fund, \$100.9 million federal funds, and \$87.8 million in drug rebates) are proposed which reflects an increase of \$28.1 million (\$16.5 million General Fund) over the revised current-year. The proposed increase is based on actual ADAP expenditures through June 2005 and reflects ongoing cost trends for the program.

The principle cost factors for ADAP are steadily increasing drug prices and an increasing client caseload. Individuals enrolled in the ADAP often continue in the program for long periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. It is estimated that ADAP will serve over 28,000 clients in 2006-07.

- **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 at this time. 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 personnel to more effectively respond to any infectious disease event, including bioterrorism and pandemic influenza.
  - **Prostate Cancer.** The budget includes \$3.5 million (General Fund), on a one-time basis, for the treatment of Prostate Cancer (through the Improving Access, Counseling and Treatment

for Californians with Prostate Cancer—IMPACT) pursuant to Chapter 442 (Ortiz), Statutes of 2005.

- **Battered Women Shelter Program—Underserved Services.** The budget contains an increase of \$350,000 (General Fund) to continue full funding of the \$1.1 million (total funds) provided in the Budget Act of 2005 to assist shelters to serve communities that traditionally do not seek shelter services. The budget proposes to use General Fund backfill to replace funds previously obtained through a legal settlement (i.e., the Nine West Settlement Agreement) which has now been fully expended.
- **Implementation of the California Safe Cosmetics Act-- SB 484, Statutes of 2005 (Migden).** The budget provides \$495,000 (General Fund) and 4 new positions to implement this act regarding the composition and safety of cosmetics sold in California.
- **Implementation of AB 121, Statutes of 2005 (Vargas)—Lead in Candy.** An increase of \$1 million (General Fund) is provided to support 8 new positions to initiate the required activities of this legislation regarding the regulation of lead content in candy.
- **Continues Deferral of State Support for County Medical Services Program.** The Governor proposes to suspend for another year the \$20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP). This \$20.2 million has been suspended for the past several years since the CMSP has had reserve funds available.

## 4270 California Medical Assistance Commission

**Background.** The California Medical Assistance Commission (CMAC) was established in 1983 to negotiate contracts for specific services under the Medi-Cal Program on behalf of the Department of Health Services. State law and regulations govern the Commission's activities. The Commission is composed of seven voting members appointed to four-year terms.

Major Commission activities include the following:

- Negotiating contracts for Medi-Cal fee-for-service hospital inpatient services statewide;
- Negotiating contracts with hospitals for supplemental payments under special programs available to contract hospitals, such as hospitals with a disproportionate share of Medi-Cal patients; and
- Developing and negotiating per capita, at-risk managed care contracts for health care services to Medi-Cal enrollees with County Organized Health Care Systems and participating Geographic Managed Care Plans.

**Summary of Funding.** The budget proposes total expenditures of \$2.8 million (total funds) to support 24 positions. This reflects a total net increase of \$145,000 (increase of \$320,000 General Fund and decrease of \$165,000 in other funds) and one position over the revised current year. This new position is to be used to assist the Department of Health Services in negotiating rates for Medi-Cal Managed Care Plans.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>CA Medical Assistance Commission</b>	<b>\$2,682</b>	<b>\$2,827</b>	<b>\$145</b>	<b>5.4</b>
<b>Funding Source</b>				
General Fund	\$1,118	\$1,428	\$320	27.7
Emergency Services & Supplemental Payments Fund	108	0		-100.0
Reimbursements	\$1,456	\$1,399	-\$57	-3.9
<b>Total Expenditures</b>	<b>\$2,682</b>	<b>\$2,827</b>	<b>\$145</b>	<b>5.4</b>

## 4280 Managed Risk Medical Insurance Board

**Background.** The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers the (1) Healthy Families Program; (2) Access for Infants and Mothers (AIM); and (3) Major Risk Medical Insurance Program.

**Governor's Budget.** The budget proposes total expenditures of \$1.2 billion (\$379.7 million General Fund, \$732 million Federal Trust Fund and \$105.6 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. This funding level represents a net increase of \$126.9 million (\$49.7 million General Fund) over the revised current-year. The net increase is due to changes in the Healthy Families Program as discussed below.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Program Source</b>				
Major Risk Medical Insurance Program (including state support)	\$45,973	\$42,003	-\$3,970	-8.6
Access for Infants & Mother (including state support)	\$118,237	\$115,409	-\$2,828	-2.4
Healthy Families Program (including state support)	\$915,717	\$1,055,638	\$139,921	15.3
County Health Initiative Program	\$10,436	\$4,204	-\$6,232	59.7
<b>Totals Expenditures</b>	<b>\$1,090,363</b>	<b>\$1,217,254</b>	<b>\$126,891</b>	<b>11.6</b>
<b>Fund Sources</b>				
General Fund	\$329,972	\$379,662	\$49,690	15.0
Federal Funds	\$643,628	\$731,959	\$88,331	13.7
Other Funds	\$116,763	\$105,633	-\$11,130	9.5
<b>Total Funds</b>	<b>\$1,090,363</b>	<b>\$1,217,254</b>	<b>\$126,891</b>	<b>11.6</b>

**Highlights for the Healthy Families Program**

**Background.** The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

**Summary of Funding and Enrollment.** A total of \$1.047 billion (\$377.2 million General Fund, \$659.6 million Federal Title XXI Funds, \$2.2 million Proposition 99 Funds, and \$8.1 million in reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of \$138.7 million (\$50.5 million General Fund), or 15.3 percent over the revised current-year.

The budget assumes a total enrollment of 933,111 children as of June 30, 2007, an increase of 105,813 children over the revised current year enrollment level or a growth rate of 12.8 percent.

This projected enrollment level reflects a higher growth trend primarily attributable to (1) proposed modifications to the enrollment process; (2) increased funding for outreach; and (3) a proposed incentive plan for the Certified Application Assistance Program.

Total enrollment is summarized by population segments below:

- Children in families up to 200 percent of poverty: 643,746 children
- Children in families between 201 to 250 percent of poverty: 211,631 children
- Children in families who are legal immigrants: 17,689 children
- Access for Infants and Mothers (AIM)-Linked Infants 14,149 children
- New children due to restoration of Certified Application Assistance 33,496 children
- New children due to modifications in the enrollment process 12,400 children

**Summary of Governor’s Reductions and Augmentations**

- **Expands the Use of Certified Application Assistance Fees to Increase HFP Enrollment.** Historically, the HFP utilized a comprehensive outreach and enrollment process, which included the use of Certified Application Assistants (CAA), public relations, and a media campaign. Under the CAA approach, a \$50 fee would be paid for each person successfully enrolled in the HFP or Medi-Cal, and a \$25 fee would be paid for each annual eligibility re-determination enrollment. The CAA approach ended in 2001 due to fiscal constraints.

The Budget Act of 2005 restored funding for CAA’s and the budget builds upon this restoration. Specifically, the budget provides the following adjustments for the CCA outreach approach:

- Provides \$11.8 million (total funds) to continue the CAA fees which represents an increase of \$5.4 million over the revised current-year.

- Proposes \$2.5 million (\$2 million General Fund) to create a new incentive program for CAA's. To be eligible to receive an incentive payment, the CAA would need to increase the number of their assisted applications by 20 percent over their prior quarter applications. The incentive payment would be 40 percent of the total payments made in the qualifying quarter.
- Provides \$26.7 million (total funds) to support anticipated new HFP caseload which is attributed to the CAA efforts. This additional funding would provide enrollment to 33,496 new children.

It should be noted that the budget also includes \$3.4 million (\$1.4 million General Fund) within the Medi-Cal Program, under the Department of Health Services, for a media campaign to encourage enrollment of all eligible children into a state health program (i.e., Medi-Cal or the HFP).

- **Streamline HFP Enrollment Process and Anticipated Enrollment.** Trailer bill legislation is proposed that would modify the HFP enrollment process to discontinue requiring applicants to (1) submit a premium at the time of HFP application, and (2) make a plan selection at the time of initial HFP application. Instead, HFP applicants would pay their premium upon actual enrollment into the program, and would have up to three months to choose a health care provider. Under this enrollment process if no immediate health plan choice is made, the default would be to place the child into the community-based plan with the option to change to another plan within three months.

This statutory change, coupled with expanding the availability of a web-based application process (called Health-e-app), is intended to increase HFP enrollment by an additional 12,400 children.

The budget proposes an increase of \$9.5 million (total funds) to support the increased caseload of 12,400 children, and the associated costs for children who are anticipated to enroll earlier in the program due to the processing changes. In addition, the MRMIB is seeking an increase of \$91,000 (total funds) to support a new position for this purpose.

- **Modify HFP and Access for Infants and Mothers (AIM) Statute to Eliminate Potential for Duplicative Health Insurance Coverage.** Trailer bill legislation is proposed to amend the HFP and AIM statutes to eliminate duplicative HFP enrollment of AIM-linked infants who already have no-cost Medi-Cal eligibility or private insurance. The budget includes one-time funding of \$300,000 (\$195,000 General Fund) for information technology changes and to develop a new AIM Program application and handbook. The trailer bill legislation assumes a July 1, 2007 effective date.
- **Request for More State Staff.** The budget proposes an augmentation of \$983,000 (total funds) to support 10 new positions. It should be noted that the MRMIB was provided a total of 14 new positions in 2005-06, including three for HFP outreach functions.
- **Increased Oversight of Mental Health Services for HFP Enrollees.** An increase of \$432,000 (\$151,000 Mental Health Services Fund) is provided to support two new positions and to provide \$266,000 in contract funds to increase oversight in the delivery of mental health services for HFP enrollees with serious emotional disturbances.

- **Continues County Health Initiative Matching (CHIM) Fund Program.** The budget proposes a total of \$3.8 million (\$1.3 million County Health Initiative Matching Fund and \$2.4 million federal funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001. This funding level supports a total of 2,967 children in the pilot counties of Alameda, Santa Clara, San Mateo and San Francisco.

Through this program, counties, local initiatives and County Organized Health Care Systems can submit proposals to receive federal matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These matching funds are unexpended federal Title XXI State Children's Health Insurance Program (S-CHIP) funds which the state presently does not need to support the existing HFP.

- **Continues Funding for Rural Demonstration Projects.** The budget continues funding for the Rural Demonstration Projects at \$5.8 million (\$2 million Proposition 99 Funds) which is the same amount as provided in the current year.

### ***Highlights for the Access for Infants and Mothers Program***

**Summary of Funding and Enrollment.** The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus \$100 for the infant's second year of coverage.

As of July 1, 2004, infants born to AIM women are automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1, 2005 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the AIM mother was enrolled prior to that date. Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.

A total of \$114.5 million (\$50.5 million Perinatal Insurance Fund and \$63.9 million federal funds) is proposed for AIM in 2006-07. A total of 12,137 women and 8,304 second-year infants are expected to utilize AIM. This funding level reflects a reduction of \$2.9 million (total funds) over the revised current-year. This reduction is due to the transition of the program as referenced.

### ***Highlights for the Major Risk Medical Insurance Program***

**Summary of Funding and Enrollment.** The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of \$42 million (Major Risk Medical Insurance Fund) to serve over 7,000 individuals. The budget proposes no substantial changes to the program.

## 4300 Department of Developmental Services

**Background.** The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers (RC) and in state Developmental Centers (DC) for persons with developmental disabilities as defined by the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18<sup>th</sup> birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to: (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services and supports are cost-effective for the state.

**Summary of Funding.** The budget proposes total expenditures of \$3.8 billion (\$2.4 billion General Fund), for a *net* increase of \$208.7 million (\$155.6 million General Fund) over the revised current year. The proposed augmentation represents an increase of 5.7 percent over the revised current year.

Of the total amount, \$3.1 billion (\$2 billion General Fund) is for services provided in the community, \$706.6 million (\$383.4 million General Fund) is for support of the state Developmental Centers, and \$37.3 million (\$24.7 million General Fund) is for state headquarters administration.

The budget reflects a net increase of \$19.6 million (\$14.9 million General Fund) over the current year for the planned July 2007 closure of Agnews Developmental Center, located in San Jose. This funding includes adjustments to investment in housing options, community-based services and supports, and related resource development. An outline of the Agnews closure proposal is contained under the Issues Section for the Developmental Centers, below.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Program Source</b>				
Community Services Program	\$2,882,730	\$3,098,476	\$215,746	7.5
Developmental Centers	\$713,295	\$706,611	-\$6,684	-0.9
State Administration	\$37,659	\$37,324	-\$335	-0.9
<b>Total, Program Source</b>	<b>\$3,633,684</b>	<b>\$3,842,411</b>	<b>\$208,727</b>	<b>5.7</b>
<b>Funding Source</b>				
General Fund	\$2,250,684	\$2,406,249	\$155,565	6.9
Federal Funds	\$56,377	\$54,943	-\$1,434	-2.5
Program Development Fund	\$2,000	\$2,003	\$3	0.2
Lottery Education Fund	\$489	\$489	0	0
Developmental Disabilities Services	\$232	\$40	-\$192	-82.8
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	\$1,323,902	\$1,378,687	\$54,785	4.1
<b>Total Expenditures</b>	<b>\$3,633,684</b>	<b>\$3,842,411</b>	<b>\$208,727</b>	<b>5.7</b>

### ***Highlights for Community-Based Services Provided Through Regional Centers***

**Background.** The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

**Summary of Funding and Consumer Population.** The budget proposes expenditures of \$3.1 billion (\$2 billion General Fund) for community-based services, provided via the RCs, to serve a total of 216,565,000 consumers living in the community. This funding level includes \$485.9 million for RC operations and \$2.6 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of \$215.7 million (\$159.8 million General Fund), or 7.5 percent, over the revised current year. The General Fund adjustment represents an increase of 8.7 percent. Most of the increase is attributable to (1) an increase in the utilization of services by consumers, (2) a three percent rate increase for certain programs, (3) an increase of 8,345 consumers for 2006-07, and (4) an increase for RC operations.

The DDS notes certain demographics and key factors are appearing in the population, including the following:

- Significant increase in the diagnosed cases of autism, the causes of which are not fully understood.

- Over 57 percent of the RC population is under 22 years of age. It is likely that medical professionals are identifying more developmentally disabled individuals at an earlier age.
- Over 70 percent of consumers now reside in the home of a parent or guardian, as compared to only 64 percent in 1994.
- Decreases continued in the proportion of consumers living in community care settings (i.e., out-of-home placement) and State Developmental Centers. Specifically, about 13 percent of consumers now live in a community care setting compared to 18 percent in 1994.
- Hispanics remain the fastest growing segment of the population increasing from about 24 percent in 1994 to about 32 percent in 2005. Over this same period, the white segment of the population decreased from 49 percent to about 42 percent.
- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities.

**Summary of Governor’s Key Reductions and Augmentations for Regional Centers**

- **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 are estimated for 2006-07, an increase of 8,365 consumers over the current-year.
- **Administration Intends to Negotiate New Regional Center Contract Language to Reduce 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.

It is assumed that RCs would apply these new requirements at the time of an individual’s program plan (IPP) development or scheduled review. Since an individual’s IPP is to be reviewed no less than once every three years, the budget assumes a phased-in implementation (i.e., one-third of the population each year). As noted in the table below, full implementation would be achieved in 2008-09.

**Summary of Governor’s Reductions from RC Contract Language**

<b>Fiscal Year and Cumulative Effect</b>	<b>Total Proposed POS Reductions Due to New Requirements</b>	<b>Proposed Savings in General Fund</b>
<b>2006-07</b> One-third of population is reviewed.	\$14.3 million	\$10.6 million
<b>2007-08</b> Continue 2006-07 savings and review next one-third of population.	\$28.6 million	\$21.1 million
<b>2008-09</b> Continue 2006-07 and 2007-08 savings and review next one-third of population.	\$42.9 million	\$31.7 million

It is unclear at this time whether the DDS has existing legal authority to administratively enact all of their proposed changes through contract language, or if statutory changes are needed for some portion of them. It should be noted that the Legislature has rejected similar Administrative proposals for the past four years.

The DDS states that their proposed contract changes would address the following:

- 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.

- **Three Percent 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.

The table below displays each of the categories of service that would receive the three percent rate increase. Further, the DDS is proposing trailer bill language which would limit any rate increase in 2006-07 to only three percent, including those services under direct contract with RCs, unless it is necessary to protect a consumers’ health or safety.

<b>Purchase of Services Provider Category</b>	<b>Total Cost of 3 Percent Rate Increase (2006-07)</b>	<b>General Fund Amount (2006-07)</b>
Community Care Facilities	\$23.8 million	\$14.1 million
Day Programs	\$23.6 million	\$14.3 million
Habilitation Services	\$3.7 million	\$2.9 million
Transportation	\$5.4 million	\$4.2 million
Supported Living	\$7 million	\$4.2 million
Look-Alike Day Programs	\$4.8 million	\$3.5 million
In-Home Respite	\$3.6 million	\$2.9 million
<b>Total</b>	<b>\$67.8 million</b>	<b>\$46.1 million</b>

- **Agnews Developmental Center Closure Continuation.** As required by statute, the Administration has provided the Legislature with an update on their plan for the closure of Agnews Developmental Center. In the plan, the Administration states that achieving the closure date of June 30, 2007 is contingent upon the Administration's ability to implement three key components—increased community housing, new service models, and the use of state employees in the community. Many of these components, such as those contained in AB 2100 and SB 962 are in transition since many implementation steps are in process. Therefore, adjustments to the closure plan are expected at the Governor's May Revision.

The budget reflects adjustments that are consistent with the updated plan (dated January 10, 2006). It is assumed that an average of 126 consumers will be residing at Agnews as of July 1, 2006 and that all of these consumers will be transitioned to either the community or to another Developmental Center (DC) by June 30, 2007. For purposes of developing the budget, the Administration assumes that 50 of the remaining 126 consumers transfer to another DC.

The budget proposes a net increase of \$23.5 million (total funds) over the revised current year for the closure of Agnews. This consists of a decrease of \$6 million (total funds) in the Developmental Centers to reflect the decline in the resident population, and an increase of \$29.5 million (total funds) for the Regional Centers. The adjustment in the Regional Centers is to provide for the placement and transition of Agnews residents into the community and the use of state employees from Agnews to provide services in the community.

The net increase of \$23.5 million (\$15.9 million General Fund) for 2006-07 includes the following key adjustments:

- Reduces the Agnews Developmental Center baseline budget by \$12.6 million (total funds) for total expenditures of \$79.8 million in 2006-07.
- Provides \$9.2 million (total funds) to fund 100 state employees from Agnews to work with consumers in community-settings. This reflects an increase of \$6.9 million (total funds) over the revised current year.
- Provides a total of \$42.1 million (total funds) for the RCs, including expenditures for the Purchase of Services and Operations, for community placement purposes, including program start-up, and consumer assessment and placement. This reflects an increase of \$17.9 million (total funds) over the revised current year.
- Provides a total of \$6.6 million (total funds) for other DC staff expenditures related to staff transition and training, consumer escort and assistance, and other related closure activities.
- Reduces by \$13.2 million (total funds) to account for placements into the community. Most of these savings are attributable to reduced state staffing costs due to the closure.
- Reduces by \$2.2 million (total funds) to capture the difference in costs of consumers living at Agnews and being transferred to another Developmental Center. This reflects the fact that Agnew's residential costs are higher than any other Developmental Center.

- Provides an increase of \$365,000 for the preparation of Sonoma Developmental Center to receive up to 50 consumers from Agnews.
- Provides an increase of \$525,000 for costs associated with relocating up to 50 consumers to other DCs (i.e., not Sonoma).

As required by statute, the DDS will be providing the Legislature with another Agnews plan update on May 15, 2006. This plan should correspond to any Governor's May Revision adjustments.

- **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.
- **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 in order for the state to then draw federal Medicaid funds.
- **California Developmental Disabilities Information System (CADDIS).** The CADDIS is an integrated case management and fiscal accounting system that is being implemented by the RCs at the direction of the DDS. This new system is needed in order to enhance the receipt of federal funds, as well as to obtain more accurate and necessary consumer data regarding needs and services.

The target date for implementation had been June 2004. However, this date has been pushed back by the Administration on several occasions, costing the state over \$30 million in lost federal fund support and General Fund savings. 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.

- **Self Directed Services Model.** As established in statute, the Self Directed Services Model enables consumers to be in control of their services and to manage a finite amount of funds allocated to an individual budget in order to pay for services specified in the consumer's Individual Program Plan (IPP). Under the model, enrollment of up to 9,380 consumers will be phased-in over five years. The budget assumes enrollment of participants beginning November 1, 2006 and that 800 consumers will be enrolled by the end of the first year. It is assumed that savings of \$205,000 (total funds) will be obtained in 2006-07 through implementation of this model.

### Highlights for the State Developmental Centers

**Background.** The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

**Summary of Funding and Enrollment.** The revised current-year budget reflects total expenditures of \$713.3 million (\$387 million General Fund) for the DCs or a decrease of \$5 million (General Fund) over the Budget Act of 2005. Most of this decrease is due to a reduction in resident population and related costs.

The budget proposes expenditures of \$706.6 million (\$383.7 million General Fund), excluding state support, to serve 2,797 residents who reside in the state DC system. This reflects a caseload decrease of 229 residents or 7.6 percent, and a net reduction of \$6.7 million (\$3.6 million General Fund) as compared to the revised current year.

The net reduction of \$6.7 million is primarily the result of a reduction in state staff due to the continuing decline in resident population and the pending closure of Agnews Developmental Center and an increase to establish an intensive behavioral treatment residence pilot project at Porterville Developmental Center.

According to recent DDS data, the average cost per person residing at a DC is about \$228,000 annually. This figure varies across the DCs due to differences associated with resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors. In addition, due to the level of fixed costs at the DCs and the need to maintain minimum staffing levels, the cost per resident will continue to increase as the total resident population decreases. The table below displays the continued transition from the DC model of providing services to a community-based model for providing services.

Developmental Center Residents ( <i>Observed</i> )			
Fiscal Year	DC Residents	Yearly Difference in Residents	Percent Decrease
2000-01	3,723		
2001-02	3,628	-95	-2.6%
2002-03	3,537	-91	-2.5%
2003-04	3,296	-241	-6.8%
2004-05	3,096	-200	-6.1%
2005-06 (Est)	3,026	-70	-2.3%
(Proposed) 2006-07	2,671	-355	-11.7%

### Summary of Governor's Key Reductions and Augmentations for Developmental Centers

- **Developmental Center Resident Population.** A reduction of \$17.3 million (\$9.6 million General Fund) and 242 state 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).

**Agnews Developmental Center Closure Continuation.** See discussion under Regional Centers.

- **Proposed Changes to the Office of Protective Services.** The DDS proposes to restructure the Office of Protective Services which provides law enforcement services in the DCs and community facilities, including police, security, fire protection and investigations that protect consumers, employees and the public from harm. The DDS states that their proposed changes are intended to address concerns raised by the Department of Justice, as well as needs they have internally identified.

The budget proposes (1) an increase of \$660,000 (\$380,000 General Fund) to support 81 new positions at the DCs; (2) an increase of \$752,000 (\$452,000 General Fund) to support 6 new positions at DDS headquarters to develop and implement policies, training and management functions; and (3) trailer bill legislation to authorize two positions at DDS headquarters as peace officers.

- **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.
- **Worker's Compensation Savings.** A reduction of \$4.9 million (\$2.8 million General Fund) is reflected due to significant decreases in worker's compensation claims.

## 4440 Department of Mental Health

**Background.** The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of five State Hospitals—Atascadero, Coalinga, Metropolitan, Napa and Patton, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available; (2) implementation of the Mental Health Services Act of 2004; (3) the Medi-Cal Mental Health Managed Care Program; (4) the Early Periodic Screening Diagnosis and Testing

(EPSDT) Program for adolescents; and (5) necessary mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

**Governor's Budget.** The budget proposes expenditures of \$3.4 billion (\$1.6 billion General Fund) for mental health services, an increase of \$316.4 million General Fund and 475.8 positions from the revised current-year budget. This General Fund increase is the net result of significant adjustments in the State Hospital budget, the transfer of General Fund support from the Department of Health Services to the Department of Mental Health for the Early and Periodic Screening, Diagnosis and Treatment Program, and the removal of funds used to support AB 3632 special education students who need mental health services.

In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of \$42.6 million (\$41.6 million Public Building Construction Fund and \$947,000 General Fund).

Further, it is estimated that almost \$1.2 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals. The total amount reflects an increase of \$23.6 million (County Realignment Funds), or about two percent over the anticipated current-year level.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Program Source</b>				
Community Services Program	\$2,576,579	\$2,450,152	-\$126,427	-4.9
Long Term Care Services	\$920,084	\$993,799	\$73,715	8.0
State Mandated Local Programs	\$120,000	\$0	-\$120,000	-100.0
<b>Total, Program Source</b>	<b>\$3,616,663</b>	<b>\$3,443,951</b>	<b>\$172,712</b>	<b>-4.8</b>
<b>Funding Source</b>				
General Fund	\$1,272,519	\$1,588,959	\$316,440	25.0
General Fund, Proposition 98	\$13,400	\$13,400	0	0
Mental Health Services Fund (Prop 63)	\$665,663	\$663,913	-\$1,750	-0.2
Federal Funds	\$63,141	\$63,199	\$58	-0.09
Reimbursements	\$1,600,694	\$1,112,776	-\$487,918	-30.5
Traumatic Brain Injury Fund	\$1,150	\$1,207	\$57	5.0
CA State Lottery Education Fund	\$96	\$96	0	0
Licensing & Certification Fund	--	\$401	\$401	100
<b>Total Department</b>	<b>\$3,616,663</b>	<b>\$3,443,951</b>	<b>-\$172,712</b>	<b>-4.8</b>

**Highlights for Community-Based Mental Health Services**

**Summary of Funding for Community-Based Mental Health Services.** The budget proposes expenditures of \$2.4 billion (total funds) for community-based local assistance, including the Mental Health Services Act funding, Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, applicable state support, the Conditional Release Program and related community-based programs.

This reflects a *net* decrease of \$126.4 million (total funds) compared to the revised current-year. This net decrease is primarily due to (1) a net decrease of \$100.6 million in the EPSDT Program as discussed below, (2) elimination of AB 3632 special education mental health funding from the DMH budget, and (3) technical adjustments to the Mental Health Services Act funding.

**County Realignment Revenues.** It is estimated that almost \$1.2 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. The total amount reflects an increase of \$23.6 million (County Realignment Funds), or about two percent over the anticipated current-year level.

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year’s total. Any realignment revenues above that amount are placed into a growth account. The first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., “general” growth) in revenues are then distributed according to a formula in statute.

## Summary of Governor's Reductions and Augmentations for Community Mental Health

- **Mental Health Services Act (Proposition 63).** In November 2004, voters approved this proposition 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.

The total resources available in the Mental Health Services Account are \$920.1 million for 2005-06 and \$942.7 million for 2006-07. Of this amount, the budget proposes appropriations for local assistance of \$648.8 million for 2005-06 and \$655.5 million for 2006-07. A report from the DMH regarding the current implementation of the Act will be forthcoming shortly. The Mental Health Services Account is a special fund which is continuously appropriated and therefore is not contingent upon an annual Budget Act appropriation.

- **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.
- **Early and Periodic Screening and Treatment (EPSDT) Program.** The budget proposes a series of adjustments resulting in total expenditures of \$714.4 million (\$363.5 million General Fund). Specifically, the key adjustments are as follows:
  - Transfers the General Fund portion of the base program from the Department of Health Services to the DMH. This action will align expenditures within one department;
  - Eliminates one-time only funding provided in 2005-06 for the final cost settlement amount of \$139.4 million (total funds) provided for 2002-03;
  - Increases by \$38.8 million (total funds) due to more participants and service utilization; and
  - Increases by \$19.1 million (\$8.4 million General Fund) to correct for audit adjustments and recoupments.
- **Mental Health Managed Care Program.** A total of \$453.8 million (\$231.5 million General Fund) is proposed for 2006-07 which reflects an increase of \$8.6 million (\$4.3 million General Fund) over the current year. Most of this increase is attributable to additional caseload. It should be noted that the Governor did not provide a medical cost-of-living-adjustment as permitted in statute. The last time this adjustment was provided was in the Budget Act of 2000.
- **Licensing and Certification Changes.** As part of the Health and Human Services Agency initiative, the DMH is requesting an increase of \$420,000 to support five new positions to expand their licensing and certification functions related to mental health facilities. To support these functions, the Governor is proposing trailer bill legislation to begin collecting

fees from Psychiatric Health Facilities and Mental Health Rehabilitation Centers. Additional trailer bill language is being proposed to (1) require a probationary period for new licensees, (2) charge increased fees for follow-up licensing visits related to facility corrective action plans, and (3) modify statute to incorporate concerns regarding criminal background checks and other law enforcement issues.

### ***Highlights for the State Hospitals***

**Summary of Funding for the State Hospitals.** Total expenditures of \$958.4 million (\$876.4 million General Fund) and 9,714 positions are proposed to operate the five State Hospitals that serve a total population of 5,830 patients.

Over 91 percent of the patients are admitted under a penal code-related commitment, such as Mentally Disordered Offender, Not Guilty by Reason of Insanity, Incompetent to Stand Trial, and Sexually Violent Predator. All penal code-related patients are funded exclusively with General Fund support.

### **Summary of Governor's Reductions and Augmentations for the State Hospitals**

- **State Hospitals and the Federal Civil Rights of Institutionalized Persons Act (CRIPA).** Due to significant concerns expressed by the federal government with the operation of the State Hospitals, substantial changes are being proposed by the Administration. 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.

Under the proposed recovery-oriented treatment system, State Hospitals would focus on the functional skills desired and necessary to live successfully after discharge, provide treatment, rehabilitation and supports to develop these skills and address the patient's psychiatric and psychological concerns.

- **Salinas Valley Psychiatric Program Expansion of Level IV Licensed Beds.** An increase of \$7 million (General Fund) is requested to fund 66 positions to support the expansion of 36 Level IV beds within the Salinas Valley Psychiatric Program in Soledad. This increase is consistent with the plan submitted to the federal court by the Department of Corrections and Rehabilitation regarding the Coleman lawsuit. This would bring the total number of Level IV beds at Salinas to 100. The additional 36 beds are to be operational by May 2006. A current-year deficiency for this activation was approved by the Joint Legislative Budget Committee in November 2005.

# HUMAN SERVICES

## 4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies, and programs to assist health care delivery systems. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; and (4) health care information. Total funding for OSHPD increases by \$5.2 million (8 percent).

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$5,105	\$5,088	-\$17	-0.3
Federal Trust Fund	1,239	1,235	-4	-0.3
Special Funds	57,028	62,704	5,676	10.0
Reimbursements	1,986	1,549	-437	-22.0
<b>Total</b>	<b>\$65,358</b>	<b>\$70,576</b>	<b>\$5,218</b>	<b>8.0</b>

### Highlights

- **Continue Logbook Redesign Project.** The budget requests \$2.8 million Hospital Building Fund and one new position to procure a replacement automation system for its Logbook Database System. This system is used by OSHPD's Facilities Development Division (FDD) to track health facility construction projects through plan review and construction. Logbook also contains modules to track health facility compliance with SB 1953 and facilitate emergency operations in the event of a natural disaster.
- **Transfer Steven M. Thompson Physician Corps Loan Repayment Program.** The budget requests \$2 million and the establishment of 1.5 position to transfer the Steven M. Thompson Physician Corps Loan Repayment Program (formerly known as the California Physician Corps Program) from the California Medical Board to the Health Professions Education Foundation (HPEF), pursuant to AB 920 (Aghazarian), Ch. 317/2005. Funding for this program is provided through the Contingent Fund of the Medical Board of California.
- **Expand Registered Nurse Education Program.** The budget requests \$117,000 for the Registered Nurse Education Fund and the redirection of 0.6 position to administer nurse educator scholarships and loan repayment, pursuant to AB 702 (Koretz), Ch. 611/2005. The legislation authorized the expansion of the existing Registered Nurse Education Program (RNEP) to provide financial assistance to students who are seeking a master's or doctoral degree in nursing. The RNEP currently provides financial assistance for education costs of

registered nurses or graduates of associate degree nursing programs who agree to serve in underrepresented areas.

**4170 California Department of Aging**

The California Department of Aging (CDA) is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve elderly and functionally impaired Californians. The department provides services under: (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The budget proposes \$194.7 million for 2006-07, a 0.4 percent increase over the current year.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$35,350	\$35,560	\$210	0.6
State HICAP Fund	2,447	2,454	7	0.3
Federal Trust Fund	146,531	146,617	86	0.1
Special Deposit Account	1,572	1,572	0	0.0
Reimbursements	7,995	8,493	498	6.2
<b>Total</b>	<b>\$193,895</b>	<b>\$194,696</b>	<b>\$801</b>	<b>0.4</b>

**Highlights**

- **Reform Adult Day Health Care.** The budget requests \$566,000 (\$174,000 General Fund) and 4 positions to establish post-payment reviews for Adult Day Health Care (ADHC) centers. These reviews would ensure that billed services were actually provided and were medically necessary. This request is part of an ADHC reform proposal that also includes 4 additional positions in the Department of Health Services.

**4200 Department of Alcohol and Drug Programs**

The Department of Alcohol and Drug Programs (DADP) provides statewide leadership and oversight for local alcohol and drug intervention, prevention, detoxification, treatment, and recovery services, including Drug Medi-Cal, Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000, or SACPA), Drug Courts, and the Office of Problem Gambling. The budget proposes \$614.6 million (\$243.2 million General Fund) for 2006-07, an increase of 0.8 percent over the current year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Programs</b>				
Prevention	\$71,520	\$70,889	-\$631	-0.9
Treatment and Recovery	490,750	496,430	5,680	1.2
Perinatal	\$47,305	\$47,321	\$16	0.0
<b>Fund Source</b>				
General Fund	\$239,471	\$243,187	\$3,716	1.6
Federal Trust Fund	290,532	290,291	-241	-0.1
Special Funds	4,100	4,130	30	0.7
Reimbursements	75,472	77,032	1,560	2.1
<b>Total</b>	<b>\$609,575</b>	<b>\$614,640</b>	<b>\$5,065</b>	<b>0.8</b>

### Highlights

- **Establish Drug Medi-Cal Fraud Deterrence Program.** The budget requests \$286,000 (\$143,000 General Fund) and 3 positions to establish a Drug Medi-Cal Fraud Deterrence Program. These resources would be used to provide more consistent oversight and monitoring of Drug Medi-Cal Narcotic Treatment Program (NTP) providers that contract directly with the DADP. These positions are projected to increase Drug Medi-Cal recoupments by \$3.7 million in 2006-07.
- **Increase Drug Medi-Cal Funding and Caseload.** The budget requests \$121.1 million (\$63.2 million General Fund) for the Drug Medi-Cal program. This represents a 6 percent increase over revised current year funding, due to increased program caseload. Methadone treatment represents over 60 percent of Drug Medi-Cal expenditures.
- **Continue Funding Proposition 36 (SACPA).** The budget requests \$120 million General Fund and the one-year extension of 29.7 existing positions to continue the activities of Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000, or SACPA). Of this amount, \$116.5 million would be allocated to the counties, and \$3.5 million would be used to maintain the existing state positions. The budget also calls for statutory changes to SACPA to incorporate components of the drug court model (for further details see *Issues* below).

### Issues

1. **Continue Funding Proposition 36 (SACPA).** SACPA, approved by the voters on November 7, 2000, sentences non-violent drug defendants to drug treatment rather than jail or prison. SACPA continuously appropriated \$120 million General Fund annually from 2001-02 through 2005-06 to fund county drug treatment services and criminal justice supervision. Although the statutory funding requirement expires at the end of 2005-06, the sentencing provisions do not expire.

The budget proposes to maintain \$120 million General Fund for SACPA in 2006-07. If the state reduces funding for SACPA or other alcohol and drug treatment programs in 2006-07, it

will fail to meet its maintenance-of-effort (MOE) requirement for the federal Substance Abuse Prevention and Treatment (SAPT) Block Grant. Failure to meet the SAPT MOE would result in a significant reduction in federal funding for alcohol and drug treatment.

However, note that maintaining the current funding level may result in funding reductions for counties, as they have been using unspent carryover funds from their initial SACPA allocations to supplement the \$120 million annual appropriation. Actual expenditures were \$134 million in 2003-04, \$143 million in 2004-05, and an estimated \$146 million in 2005-06. Counties are expected to have little or no carryover funds after 2005-06.

The budget also requests statutory changes to align SACPA sentencing guidelines with the drug court model, including drug testing, flash incarceration, and judicial monitoring. The budget also recommends programmatic changes to ensure that offenders are matched with appropriate treatment services, such as narcotic replacement therapy and culturally competent services. Researchers at the University of California at Los Angeles (UCLA) are currently evaluating the results of SACPA, and will release a special supplemental report in April 2006 to help inform policy and funding decisions this spring.

#### 4700 Department of Community Services and Development

The Department of Community Services and Development (DCSD) distributes federal and state funding to local entities that provide energy and weatherization assistance and a variety of other community services for low-income households. The budget proposes \$167.7 million for 2006-07, a 2.8 percent decrease compared to current year funding. The decrease is due to the expiration of one-time federal funding in 2005-06 for weatherization and energy assistance for low-income households.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Programs</b>				
Energy Programs	\$105,848	\$100,974	-\$4,874	-4.6
Community Services	65,283	65,243	-40	-0.1
Naturalization Services	\$1,500	\$1,500	\$0	0.0
<b>Fund Source</b>				
General Fund	\$1,500	\$1,500	\$0	0.0
Petroleum Violation Escrow Account	4,049	0	-4,049	-100.0
Federal Trust Fund	164,975	164,110	-865	-0.5
Reimbursements	2,107	2,107	0	0.0
<b>Total</b>	<b>\$172,631</b>	<b>\$167,717</b>	<b>-\$4,914</b>	<b>-2.8</b>

**Issues**

- 1. Pending Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. While this package, called the Deficit Reduction Act of 2005, would reduce federal funding for many human services programs, it does contain a one-time augmentation for the Low-Income Home Energy Assistance Program (LIHEAP). The Legislative Analyst's Office estimates that California's share of this augmentation will be \$45 million. LIHEAP provides weatherization and energy assistance for low-income households.

**5160 Department of Rehabilitation**

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation (VR) program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies (education, mental health, welfare). The department also provides support services for Community Rehabilitation Programs, including independent living centers. The budget proposes total funding of \$360.1 million, a 3.3 percent increase over the current year.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Programs</b>				
Vocational Rehabilitation Services	\$328,951	\$340,237	\$11,286	3.4
Support of Community Facilities	19,741	19,814	73	0.4
<b>Fund Source</b>				
General Fund	\$44,899	\$46,991	\$2,092	4.7
Vending Stand Account	3,447	3,478	31	0.9
Mental Health Services Fund	195	195	0	0.0
Federal Funds	292,251	301,487	9,236	3.2
Reimbursements	7,900	7,900	0	0.0
<b>Total</b>	<b>\$348,692</b>	<b>\$360,051</b>	<b>\$11,359</b>	<b>3.3</b>

**Highlights**

- Increase Vocational Rehabilitation (VR) Funding.** Budget year VR caseload is estimated to rise to 122,275 total cases, an increase of 1 percent over revised current year caseload. The budget includes a 3.4 percent increase in total VR costs, due to (1) the caseload increase; (2) cost increases for transportation, consumer goods, and personal services; and (3) a

3 percent increase for In-Plan expenditures to conform to the Department of Developmental Services job coaching rate increase.

**5175 Department of Child Support Services**

The Department of Child Support Services (DCSS) administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support funds are collected and distributed to families, including securing child and spousal support, medical support, and determining paternity. The Department has responsibility for addressing federal fiscal sanctions related to California’s failure to develop adequate automation systems for child support services. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and monitors state results on federal performance standards.

The budget anticipates total collections of \$2.4 billion in the budget year, an increase of 2.4 percent above the current year. The department’s overall budget expenditures are proposed to increase by \$9 million, or 0.6 percent, to \$1.4 billion. The budget includes 534.2 positions for DCSS, a net increase of 19.1 positions.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Funds	\$513,238	\$517,254	\$4,016	0.8
Federal Funds	606,904	615,231	8,327	1.4
Reimbursements	123	123	0	0.0
Child Support Collection				
Recovery Fund	273,032	269,722	-3,310	-1.2
<b>Total</b>	<b>\$1,393,297</b>	<b>\$1,402,330</b>	<b>\$9,033</b>	<b>0.6</b>

**Highlights**

- Fund Federal Penalty for Child Support Automation.** The budget includes \$220 million General Fund for the anticipated September 2006 payment of the federal child support automation penalty for federal fiscal year 2006. The state has been required to pay an increasing penalty each year since 1997 due to the state's failure to implement a single statewide child support automation system. The DCSS is currently developing the California Child Support Automation System (CCSAS), which, when certified by the federal government, would allow the state to avoid future penalties. The September 2006 payment is anticipated to be the last payment the state will make. The DCSS will then request certification that the automation system is sufficiently operational to qualify for penalty relief in future federal fiscal years.
- Continue Development of CCSAS Child Support Enforcement (CSE) Component.** The CSE component of CCSAS will provide a statewide central database for case management, financial management, and interstate communication. Total funding for the CSE component is estimated to be \$141.5 million in 2006-07. The budget requests 3 new positions, and the

redirection of 10 existing DCSS positions to continue development of this system. This component is scheduled to be completed by September 2008.

- **Continue Development of CCSAS State Disbursement Unit (SDU) Component.** The SDU component of CCSAS will provide statewide collections and electronic disbursement of child support payments. In 2005-06 the SDU is being implemented in stages; several new counties are converting to the SDU each month. Total funding for the SDU component is estimated to be \$37.7 million in 2006-07. All employers and non-custodial parents are scheduled to begin sending child support payments through the centralized SDU in May or June 2006.
- **Establish Customer Support Service Center.** The budget requests \$824,000 (\$280,000 General Fund) for 13.1 new positions, and 3.5 redirected positions, to establish a statewide Customer Service Support Center. This Center would respond to telephone inquiries regarding child support cases that will be added to the SDU as it becomes operational.
- **Establish Centralized Financial Management Team.** The budget requests \$530,000 (\$180,000 General Fund) for 5.5 new positions, and 4.5 redirected positions, to establish a Centralized Financial Management Team to resolve exceptions for non-assistance child support cases that will be added to the SDU as it becomes operational. These exceptions include multiple county collection adjustments and holds, and other issues that would not be resolved by local child support agencies.
- **Extend the Compromise of Arrears Program (COAP).** The budget proposes \$520,000 (\$177,000 General Fund) to maintain 6.5 of 9 expiring limited-term positions for the COAP. This program accepts reduced lump sum settlements from non-custodial parents with arrearages in exchange for their commitment to make ongoing payments.
- **Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs.** The budget proposes trailer bill language to continue the suspension of two programs, the Health Insurance Incentives and the Improved Performance Incentives programs, through 2006-07. The Health Insurance and the Program Improvement Incentive programs were part of the Child Support reform legislation passed in 1999. The Health Insurance Incentives program paid local child support agencies (LCSAs) \$50 for each case for which they obtained third-party health insurance coverage or insurance for child support applicants or recipients. The Improved Performance Incentives program provided the ten best performing LCSAs with 5 percent of the amount they collected on behalf of the state for public assistance payment recoupments. The funding received by the LCSAs from the Improved Performance Incentives program was required to be reinvested back into the Child Support Program. These programs were suspended for four years beginning 2002-03. The Department of Finance notes that LCSAs are required by DCSS regulations to seek third-party health insurance coverage as part of their normal business processes.

## ***Issues***

1. **Assistance Child Support Collections and Cost-Effectiveness Declining.** Although the budget anticipates that total collections will increase by 2.4 percent, assistance collections are expected to decline by 6.7 percent. Assistance collections, which have been declining since

2000-01, reflect payments from non-custodial parents that are redirected to the state and federal government to repay past welfare costs. Non-assistance collections are fully directed to custodial parents and children. In addition, as a result of flat or declining collections and increasing costs, the state's child support system continues to rank well below the national average for cost-effectiveness.

- 2. Child Support Arrears Remain High.** Approximately \$19 billion in child support arrears is currently owed to families in California. An analysis conducted by the Urban Institute found that approximately \$4.8 billion of the state's arrears is collectable, including \$2.3 billion that is owed to the state for CalWORKs reimbursements. In September 2005, the DCSS sponsored an Arrears Management Roundtable, which looked at the performance of California compared to other States and examined options to reduce arrearages and increase child support collections. The Legislature may wish to review these options to reduce arrearages.
- 3. Looming Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, cuts federal funding for many programs affecting children, families, and youth, including state child support collection programs.

More specifically, this Act would prohibit state child support programs from using federal performance incentive payments to draw down matching federal funds. In 2006-07 the budget anticipates \$47 million in performance incentive payments from the federal government, plus \$94 million in matching federal funds. Should this Act be approved, \$47 million in additional General Fund spending would be required to avoid a funding reduction for the state's child support collection program.

If the state does not backfill the lost funding, the Center for Law and Social Policy (CLASP) estimates that California would lose an estimated \$827.1 million in federal funds over the next ten years, and approximately \$1.7 billion in child support payments would go uncollected during the same period. Further, CLASP estimates the state could lose as much as \$500 million in assistance collections over the next ten years (assistance collections are payments from non-custodial parents that are redirected to the state and federal government to repay past welfare costs).

In addition, this Act would assess an annual fee on the state equal to \$25 for most non-assistance child support cases. This fee would be deducted from the federal funds the state receives for program administration. The Legislative Analyst's Office (LAO) estimates that this fee would result in \$5 million in lost federal funds annually. Finally, this Act would provide federal financial participation in the \$50 income disregard for CalWORKs cases receiving child support. The state must currently reimburse the federal government for its 50 percent share of the amount passed through to the family. The LAO estimates that this would result in annual General Fund savings of \$15 million.

## 5180 Department of Social Services

The Department of Social Services (DSS) administers a variety of programs with four major goals: (1) provide temporary cash assistance and services to encourage low-income families with children to attain self-sufficiency by moving from welfare to permanent employment; (2) provide social services to elderly, blind, disabled and other adults and children, protecting them from abuse, neglect and exploitation, and helping families stay together and in the community; (3) regulate group homes, preschools, foster care homes, day care and residential care facilities to ensure they meet established health and safety standards; and (4) conduct disability evaluations and provide benefit payments for federal and state programs serving the aged, blind and disabled.

The budget proposes \$17.7 billion (\$8.8 billion General Fund) for the DSS, an increase of \$218 million (\$147 million General Fund). These amounts do not reflect the county share of cost for programs administered by DSS, as county funding is not included in the state Budget Act. However, the table below includes county funding to better reflect total program expenditures. The budget includes a total of 4,424 DSS positions, a net increase of 110 positions over the current year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Programs</b>				
CalWORKs	\$5,020,266	\$4,906,668	-\$113,598	-2.3
Food Stamps	754,377	795,619	41,242	5.5
IHSS	3,792,572	3,959,618	167,046	4.4
SSI/SSP	3,505,627	3,563,847	58,220	1.7
Foster Care	1,714,045	1,711,315	-2,730	-0.2
Child Welfare Services	2,198,131	2,230,691	32,560	1.5
Adoption Assistance	712,437	775,116	62,679	8.8
Kin-GAP	98,098	100,046	1,948	2.0
Other County Services	488,577	456,285	-32,292	-6.6
Community Care Licensing	100,631	107,341	6,710	6.7
Other State Operations	\$383,192	\$392,636	\$9,444	2.5
<b>Fund Source</b>				
General Fund	\$8,664,204	\$8,810,809	\$146,605	1.7
Technical Assistance Fund	23,955	22,200	-1,755	-7.3
Employment Training Fund	37,930	32,930	-5,000	-13.2
Child Support Collections				
Recovery Fund	14,974	14,777	-197	-1.3
Other Special Funds	11,140	8,702	-2,438	-21.9
Federal Funds	6,038,561	6,003,002	-35,559	-0.6
Reimbursements	2,663,761	2,779,816	116,055	4.4
County Funds (Non-add)	1,313,428	1,326,946	13,518	1.0
<b>Total</b>	<b>\$18,767,953</b>	<b>\$18,999,182</b>	<b>\$231,229</b>	<b>1.2</b>

**California Work Opportunity and Responsibility to Kids (CalWORKs) Program**

- **Program Description.** CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs minimum basic standard of adequate care, having less than \$2,000 in resources, and having a car valued at \$4,650 or less. The average family of three must have an annual net income below \$12,389, or 77 percent of the federal poverty level, to be eligible for CalWORKs. Program recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work or work-related activities per week to remain eligible for benefits. Adults have a lifetime limit of five years (60 months) in CalWORKs.

The DSS provides statewide oversight for the program, and counties provide or contract for enrollment, case management, employment training, substance abuse, mental health, and child care functions.

- **Enrollment Summary.** After peaking in March of 1995, CalWORKs enrollment has dropped by 48 percent through 2004. Enrollment has decreased by 33 percent since CalWORKs replaced the former Aid to Families with Dependent Children (AFDC) program in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, enrollment flattened in 2003-04, and has remained relatively stable since then. Caseload is projected to decrease by 1.4 percent in 2005-06, and increase by 0.9 percent in 2006-07. Average monthly enrollment is estimated to be 488,000 cases in 2006-07.
- **Funding Summary.** CalWORKs is funded through an annual federal Temporary Assistance for Needy Families (TANF) block grant of \$3.7 billion, plus \$2.7 billion in state and county funds to meet a federal Maintenance of Effort (MOE) requirement. The state's MOE is based on welfare spending in 1994, adjusted downward for achievement of certain work participation goals. Federal law requires states to spend TANF funds on current and former welfare recipients, with limited exceptions. Accordingly, California spends most federal TANF funds on CalWORKs, and directs some TANF and state MOE funding to activities in other programs and departments.

The budget proposes total TANF/MOE funding of \$6.4 billion (\$4.9 billion of which will be spent on the CalWORKs program and \$1.5 billion to support non-CalWORKs federally allowable activities). This constitutes a \$111 million, or 2.2 percent, decrease in CalWORKs expenditures from the current year. Note also that the Administration is proposing a \$32 million decrease in CalWORKs funding in the current year.

**CalWORKs Highlights**

The budget does not propose any changes to eligibility, work requirements, or grants for CalWORKs clients. However, the budget does propose significant reductions to funding for counties and tribal entities for CalWORKs employment services, eligibility determination, and child care. These reductions would occur in both the current year and the budget year.

- **Scale Back Welfare Reform Results.** The 2004-05 Budget Act strengthened client work participation requirements, in order to increase the state's work participation rate. However, in recent years, the CalWORKs work participation rate has been gradually declining. The budget assumes that the program reforms established in the 2004-05 Budget Act will have a minimal effect in 2005-06, and that \$147 million in anticipated grant savings due to increased work hours will not materialize. The Administration also indicates that it will reduce the current year allocation to counties for child care funding by \$113 million, as it anticipates this funding will be unspent due to lower than anticipated work hours. The budget anticipates that welfare reforms will have a moderate impact in 2006-07. Counties have expressed concern that scaling back fiscal estimates for the Welfare Reform and Pay for Performance initiatives is premature. Counties also suggest that making a significant current year reduction in funding for CalWORKs child care prevents effective program management, and destabilizes local CalWORKs programs.
- **Delay Pay for Performance.** The 2005-06 Budget Act established performance measures for the CalWORKs program, and provided a \$30 million TANF set-aside for 2006-07 to provide payments to counties that meet performance goals for work participation and client income measures. Although the 2005-06 Budget Act included \$22 million in CalWORKs grant savings as a result of this program, the Administration now proposes to reduce that savings and delay implementation of Pay for Performance due to the delay in welfare reform described above. The budget eliminates the \$30 million set-aside in TANF reserve for county performance payments in 2006-07.
- **Prospective Budgeting/Quarterly Reporting (CalWORKs and Food Stamps).** The 2002-03 Budget Act shifted the routine eligibility review period for CalWORKs and Food Stamp clients from monthly to quarterly reporting. This change was intended to reduce the Food Stamp error rate. Counties transitioned to prospective budgeting between November 2003 and June 2004. This change was expected to result in grant increases and eligibility determination savings due to fewer reported income changes. However, counties have indicated that eligibility savings are less than previously estimated, primarily due to the time needed to process mid-quarter change reports.

The 2005-06 Budget Bill approved by the Legislature reduced the Food Stamp eligibility determination savings for quarterly reporting by \$23.7 million (\$10 million General Fund), and applied \$50 million in unspent 2004-05 CalWORKs funding to offset CalWORKs eligibility savings. However, the Governor vetoed the Food Stamp eligibility funding increase, and vetoed \$25 million of the \$50 million CalWORKs eligibility funding increase, indicating DSS would work with counties to determine the true impact of quarterly reporting requirements.

The 2006-07 budget reflects only natural caseload adjustments for Food Stamp eligibility costs, and, despite the Governor's veto message, does not modify the previous assumptions for quarterly reporting. For CalWORKs eligibility, the budget maintains the \$25 million eligibility funding increase through 2006-07, and indicates the DSS will complete an eight county time study to validate the actual time required to complete quarterly reporting and prospective budgeting activities. The budget also reduces CalWORKs grant costs by

\$42 million in the current and budget years, based on updated caseload data for quarterly reporting.

- **Reduce CalWORKs Single Allocation.** The budget reduces \$40 million in funding to counties for CalWORKs employment and other services, eligibility determination, and child care in 2006-07.
- **Reduce Tribal TANF Current Year Funding.** The budget reduces current year funding for Tribal TANF programs by \$13 million (23 percent) to reflect revised implementation dates and caseload.
- **Support Tribal TANF, Tribal Child Welfare, and Indian Child Welfare Act (ICWA).** The budget requests \$223,000 (\$51,000 General Fund) to establish 2 positions to support Tribal TANF and child welfare programs, as well as ICWA. An increasing number of Native American Tribes or Tribal consortia have established Tribal TANF programs in recent years, and some Tribes have also expressed interest in establishing their own Tribal Child Welfare programs. In addition, due to the complexity of ICWA, additional information and support for local entities may be needed to ensure consistent ICWA compliance. Note that the Legislature approved the establishment of 1.0 DSS position for ICWA compliance in the 2005-06 budget bill, but the Governor vetoed that position.
- **Use TANF to Backfill Federal Disallowance for Child Welfare Services (CWS).** The budget proposes to shift a combined total of \$58 million in current and budget year TANF funding from CalWORKs to CWS - Emergency Assistance Program, to backfill a federal funding disallowance in CWS. For further information, please see Children and Family Services Highlights below.
- **Hurricane Katrina Costs.** The budget requests \$8.5 million (\$7.3 million TANF/MOE/General Fund) in the current year and \$4.9 million (\$3.4 million TANF/MOE/General Fund) in the budget year for services and grants provided in California to evacuees from Hurricane Katrina under the CalWORKs, Food Stamps, IHSS, and SSI/SSP programs. The budget does not anticipate that the federal government will reimburse the state for these costs.

### **CalWORKs Issues**

1. **Looming Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, would effectively increase the state's work participation rate to 50 percent for all CalWORKs cases, and 90 percent for two-parent cases. The state's work participation rates are currently 23 percent for all cases and 32 percent for two-parent cases. The new work participation rate requirements would be effective October 1, 2006.

California will face large costs to increase participation in work activities to meet the new requirements, and will still be at great risk of being penalized. The Center for Law and Social Policy estimates that the cost of increasing participation in work activities to meet the

new requirements in California could exceed \$400 million in 2007, and be in the range of \$2 billion for the state for the next five years if the state's caseload does not fall. If the state fails to meet the work participation rate requirements, it is subject to a penalty equal to a 5 percent reduction in the federal TANF grant, or \$185 million. This penalty increases each year, to a maximum of 21 percent. In addition, the state would be required to backfill the federal penalty with General Fund resources, and increase MOE spending by 5 percent, or \$180 million. The Act also increases funding for child care, and California's share is estimated to be approximately \$25 million per year.

- 2. October 2003 COLA.** From 2000-01 through 2003-04, statute authorized an additional CalWORKs COLA in October of each year so long as Vehicle License Fee (VLF) tax relief was also implemented. Governor Davis suspended the VLF tax relief in June 2003, which triggered the suspension of the October 2003 CalWORKs COLA. However, Governor Schwarzenegger rolled back the VLF tax increase and did not restore funding for the October 2003 COLA. A court ruling in 2004 found that the October 2003 COLA was required, but the Administration is appealing the ruling, and funding for the COLA was not included in the budget. Funding this COLA would result in cumulative costs of \$335.6 million through June 2006 for retroactive payments, and \$122 million in ongoing annual costs.

### Food Stamps Program

- **Program Description.** The Food Stamps program provides food benefits via Electronic Benefit Transfer (EBT) cards to eligible low-income families and individuals. The DSS provides statewide oversight, and counties perform eligibility determination and employment services functions. Families eligible for CalWORKs are automatically eligible for Food Stamp benefits. Low-income working families and individuals are also eligible for Food Stamp benefits, even if they have not enrolled in the CalWORKs program.
- **Enrollment Summary.** The department estimates that average monthly Food Stamp caseload in 2006-07 will be 2.2 million persons, a 5.5 percent increase over 2005-06. Approximately 62 percent of these beneficiaries are not receiving cash assistance. The proportion of "non-assistance" Food Stamp caseload in the program has grown significantly in recent years, and increased enrollment among non-assistance households has been the driving factor in overall program growth since 2000-01.
- **Funding Summary.** Food Stamp benefits are funded entirely by federal funds. These funds are not included in the state budget, as the U.S. Department of Agriculture provides funding for food directly to beneficiaries via EBT cards. Californians are estimated to receive approximately \$2.3 billion in federal Food Stamp benefits in 2006-07. The federal government also funds 50 percent of the program's eligibility determination and administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent, respectively. The budget anticipates that funding for county activities will be \$773.5 million (\$287 million General Fund), an increase of \$39.9 million (\$15.9 million General Fund) compared to the current year, due to increasing caseload.

The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Total funding for benefits and eligibility costs is

estimated to be \$22.1 million General Fund in 2006-07, to provide benefits to 21,600 beneficiaries.

### ***Food Stamp Budget Highlights***

- **Food Stamp Simplification Options Delayed.** The 2005-06 Budget Act included funding to implement optional federal provisions to simplify the Food Stamp eligibility determination process, effective January 1, 2006. The budget indicates that implementation of these options has been delayed by nine months, to October 2006. Certain eligibility requirements will be aligned with CalWORKs, and a mandatory Standard Utility Allowance (SUA) will be implemented.
- **Prospective Budgeting/Quarterly Reporting for Food Stamps.** Please see discussion of this issue in CalWORKs section above.

### **Supplemental Security Income/State Supplementary Program (SSI/SSP) and Cash Assistance Program for Immigrants (CAPI)**

- **Program Description.** The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Beneficiary grants generally reflect the maximum grant less any offsetting personal income. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of cost, for the In-Home Supportive Services Program, and may be eligible for other programs designed to support individuals living in the community.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients.

SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. There are over twenty different SSI/SSP payment standards. Both the federal and state grant payments for SSI/SSP recipients are adjusted for inflation each January through Cost-of-Living-Adjustments (COLAs). Federal law provides an annual SSI COLA based on the Consumer Price Index, and state law provides an annual SSP COLA based on the California Necessities Index. As of April 2006, the maximum grant will be \$836 per month for an aged or disabled individual living independently and \$1,472 per month for an aged or disabled couple living independently.

The CAPI program was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the DSS and administered locally by counties. CAPI grants are \$10 less than SSI/SSP grants for individuals and \$20 less than SSI/SSP grants for couples.

- **Enrollment Summary.** The budget projects SSI/SSP average monthly enrollment will grow by 2.4 percent, from 1,212,000 in 2005-06 to 1,241,000 in 2006-07. Approximately

8 percent of recipients are under age 18, 49 percent are age 18 to 64, and 43 percent are age 65 and older. CAPI caseload is projected to decrease by 2.8 percent in 2006-07, to 7,817 average monthly recipients.

- **Funding Summary.** SSI/SSP grants have two components: the SSI component, which is federally funded, and the SSP component, which is state funded. Total funding for SSI/SSP is estimated to be \$8.5 billion (\$3.4 billion General Fund) in 2005-06, and \$8.9 billion (\$3.5 billion General Fund) in 2006-07. General Fund expenditures are projected to increase by 1.8 percent, to reflect an increase in caseload, offset by savings from extending the delay of the 2007 federal COLA. The federal funds in the SSI portion of the grant are not included in the state budget, as they are federally administered. Total funding for the CAPI program is estimated to be \$77.3 million General Fund in 2005-06 and \$75.5 million General Fund in 2006-07.

### **SSI/SSP Highlights**

- **Delay 2007 Federal SSI COLA.** The budget proposes to delay the 2007 federal SSI COLA an additional fifteen months, from April 2007 to July 2008. This would result in new General Fund savings of \$54 million in 2006-07 and \$215 million in 2007-08.

The 2005 Budget Act suspended the state SSP COLA for 2006 and 2007, and delayed the federal SSI COLA for three months in each of those years. The three month delay of the 2007 SSI COLA in current statute results in savings of \$54 million General Fund in 2006-07. The additional delay proposed in the Governor's Budget would result in additional General Fund savings of \$54 million in 2006-07. Under the Governor's Budget proposal, 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.

The 2007 federal COLA proposed for delay would have increased the maximum grant for an individual by approximately \$16 to \$852 per month, and would have increased the maximum grant for a couple by approximately \$24 to \$1,496 per month. Even if that scheduled increase were provided, grant levels will not keep pace with inflation due to the suspension of the 2004, 2006, and 2007 SSP COLAs and the three month delay of the 2006 and 2007 SSI COLAs. An additional fifteen month delay of the 2007 SSI COLA would further erode the ability of grant payments to keep pace with cost of living increases, such as rising food, housing, and transportation costs.

California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing, and other necessities. They spend most of their grants on rent and utilities. According to the U.S Department of Housing and Urban Development, fair market rents for a studio apartment in California average \$805 per month and range from \$389 in Siskiyou County to \$1,042 in Ventura County. The fair market rent for a studio apartment exceeds the SSI/SSP grant in 9 counties, and exceeds 50 percent of the grant in all but two counties. Since 1990, rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 17 percent. Without the COLA, beneficiaries will face additional pressure to reduce spending on food or utilities as housing costs increase.

- **Extend Deeming Period for CAPI.** The budget proposes to extend the deeming period for CAPI 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 are taken into account when determining benefit eligibility. This five year extension results in General Fund savings (cost avoidance) of \$12.5 million in 2006-07 and \$40 million in 2007-08.

Federal law limits SSI/SSP benefits for legal immigrants to aged and/or disabled persons who were on aid before August 22, 1996, or who were in the country prior to August 22, 1996 and subsequently become disabled. In response, California created the CAPI program in 1998, to provide state-only SSI/SSP benefits to elderly legal immigrants who lived in the U.S. prior to August 1996, and some immigrants who entered after August 1996 and whose sponsors are dead, disabled or abusive. These individuals are eligible for the “base” CAPI program.

The “extended” CAPI program was established in 1999 to include all immigrants arriving after August 1996 with no sponsor or with a low-income sponsor. Extended CAPI applicants are currently subject to a ten year deeming period, which means for ten years after entering the country, both the applicant and sponsor’s income and resources are counted when determining CAPI eligibility (unless the sponsor is dead, disabled or abusive).

The ten year deeming period will begin to expire for some extended CAPI beneficiaries and applicants as soon as August 22, 2006. Under current law, the DSS estimates that an additional 250 individuals would become eligible for CAPI each month beginning in September 2006. The Governor’s Budget proposal would require a sponsor’s income and resources to continue to be considered for another five years, preventing 2,500 applicants from qualifying for CAPI in 2006-07, and 3,000 applicants from qualifying in 2007-08.

- **Pending Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, would limit retroactive lump-sum SSI/SSP payments to three months’ worth of benefits, and payments for any additional retroactive benefits would be spread out over a year. This Act would also require more frequent redeterminations for SSI/SSP eligibility, which could potentially result in SSI/SSP program savings.

### **In-Home Supportive Services (IHSS) Program**

- **Program Description.** The In-Home Supportive Services (IHSS) program funds personal care services for low-income aged, blind or disabled individuals that are at risk for institutionalization. IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the consumer, county contracts with service providers, or through welfare staff. County welfare departments visit consumers in their homes to determine authorized hours of service.

- **Enrollment Summary.** The budget estimates that IHSS caseload will increase to 396,000 in 2006-07, an increase of 6.4 percent over 2005-06 caseload. Approximately half of IHSS consumers are age 65 and older. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload. Caseload, hours of service by case, and program costs have grown significantly faster than population growth since the mid-1990s.
- **Funding Summary.** The budget proposes \$4 billion (\$1.3 billion General Fund) for the IHSS program in 2006-07. This represents an increase of \$167 million (\$51.9 million General Fund) above the current year funding level, primarily due to caseload growth.

IHSS costs have steadily increased in recent years, despite \$230 million in General Fund savings from the IHSS federal Independence Plus waiver. Nonetheless, the average annual cost per individual, approximately \$9,999 (\$3,309 General Fund), is still less than one-fifth the cost of nursing home placement. The program's growth has been fueled by multiple factors, including the establishment of a state entitlement for personal care services, population increases, and an increase in the proportion of IHSS consumers who are severely disabled, greater utilization of service hours by case, and higher provider rates. In addition, demographic trends and a programmatic shift to support the elderly and persons with disabilities in community settings have increased the number of beneficiaries.

Wage increases have reportedly contributed to enrollment growth and increases in the numbers of hours used, as higher wages have made it easier for beneficiaries to hire providers and fully utilize authorized hours of care. This is in addition to the direct impact of provider wage increases on IHSS costs. The state has participated in IHSS provider wages above the minimum wage since 1999-2000. In the current year, the state participates in wages and benefits up to \$11.10 per hour, although actual wage rates vary by county. Most wage rates are determined by the board of supervisors and public authority that negotiates a contract with providers.

### ***IHSS Highlights***

- **Continue Share of Cost Buyout.** The budget includes \$24 million General Fund in 2006-07 to apply Medi-Cal share of cost rules to IHSS consumers. Under the federal IHSS Plus waiver adopted in 2004-05, IHSS consumers must have a Medi-Cal eligibility determination, which in some case results in a higher share of cost to be funded by the state. The budget reflects \$31 million General Fund for current year costs associated with the share of cost buyout as well as funding to cover the Medi-Cal spenddown for IHSS consumers. DSS is funding IHSS consumers' SSI/SSP share of cost (spenddown) to ensure consumers will remain Medi-Cal eligible until automation system changes are completed in May 2006.
- **Increase Quality Assurance Savings.** The 2004-05 Budget Act established an IHSS Quality Assurance program to make county determinations of service hours consistent throughout the state. Quality Assurance includes: 1) quality assurance functions in each county, 2) state resources for monitoring and supporting county activities, 3) standardized assessment training for county IHSS workers, and 4) periodic written notices to providers that remind them of their legal obligations to submit accurate timesheets. The budget reflects

\$431 million (\$140.1 million General Fund) savings in 2006-07 due to reduced provider payments under this initiative. This savings estimate reflects phased-in implementation as county workers who have completed the training assess new cases or complete reassessments. When fully implemented, the DSS estimates that Quality Assurance will ultimately result in program savings of 13 percent. The Governor's Budget reflects savings of 11 percent due to ramp up time needed for quality assurance. The budget also includes \$32.6 million (\$11.7 million General Fund) for county staffing costs associated with the Quality Assurance Initiative.

- **Continue Quality Assurance State Staffing.** The budget requests \$1.6 million (\$788,000 General Fund) for a two-year extension of 16 expiring limited-term positions for the IHSS Quality Assurance Initiative. The DSS received 18 two-year limited-term positions for Quality Assurance implementation in 2004-05, and now indicates that continuation of 16 positions is necessary to continue implementation and provide ongoing county support and monitoring.
- **Continue Independence Plus Waiver Staffing.** The budget requests \$422,000 (\$211,000 General Fund) for a two-year extension of 5 expiring limited-term positions to support the IHSS federal Independence Plus Medicaid Waiver. As noted above, this waiver results in an estimated \$230 million General Fund savings in 2006-07. The DSS received 6 two-year limited-term positions for the waiver in 2004-05, and now indicates that continuation of 5 positions is necessary for ongoing development and support of the waiver.

### Children and Family Services Programs

- **Program Descriptions, Caseload, and Funding.** The state administers a continuum of programs and services designed to protect children from abuse, neglect, and exploitation, strengthen families, deliver services to children in out-of-home care, and support the adoption of children. These programs are operated by county welfare departments.

The budget provides \$4.8 billion (\$1.5 billion General Fund) to support children and family services programs. Federal funding for these programs is provided by Social Security Act Titles IV-B, IV-E, XIX, and XX funding, as well as Temporary Assistance for Needy Families (TANF) funds. Title IV-E, the largest funding stream, provides an open-ended entitlement for many children in foster care, adoption, and child welfare programs. Title IV-E funding is limited to children whose families meet the 1996 Aid to Families with Dependent Children (AFDC) income limits. Only a portion of California's foster care, adoptions, and child welfare cases meet these income limits and qualify for matching federal IV-E funding. Counties must determine which cases qualify for IV-E funding under various circumstances, and submit their claims for state and federal review.

- ✓ **Child Welfare Services (CWS).** This program encompasses a variety of services designed to protect children from abuse, neglect and exploitation. Services include Emergency Assistance, Family Maintenance, Family Reunification, and Permanent Placement. Combined average monthly caseload for these programs is estimated to decline by 1.5 percent in the budget year, primarily due to a decline in Permanent

Placement caseload. Total funding for CWS increased by 1.8 percent, to \$2.2 billion (\$631 million General Fund).

- ✓ **Foster Care Program.** The state's Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. Average monthly Foster Care caseload is estimated to decrease by 0.2 percent, to 74,900 children. Continuing the historical trends, the number of children in group homes and foster family agencies is increasing, while the number of children in foster family homes is decreasing. Total funding for Foster Care decreased by 0.2 percent, to \$1.7 billion (\$427 million General Fund).
- ✓ **Kin-GAP Program.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The projected average monthly caseload is 15,500 children, reflecting an increase of 2.7 percent. The Kin-GAP program is funded with TANF and General Fund MOE funding. Total funding for Kin-GAP increased by 2 percent, to \$100 million TANF/MOE.
- ✓ **Adoptions Program.** The state's adoptions programs include the Adoptions Assistance Program (AAP) as well as other state and county efforts to improve permanency outcomes for foster children. The AAP provides subsidies to promote permanent placement of children that are older, members of sibling groups, have disabilities, or are otherwise difficult to place. Budget year AAP caseload is expected to be 75,000, an increase of 7.9 percent over current year. Total funding for AAP and other adoptions programs increased by 8.8 percent, to \$775 million (\$348 million General Fund).

### ***Children and Family Services Highlights***

- **Increase Monitoring and Fiscal Review for Title IV-E.** The budget requests \$793,000 (\$397,000 General Fund) for 9 positions to ensure that federal IV-E funding for Foster Care relative placements is being accurately claimed. As noted above, Title IV-E funding is limited to children whose families meet the 1996 ADFC income limits. Since only a portion of California's foster care, adoptions, and child welfare caseload qualifies for IV-E funding, counties must determine which cases qualify, and submit their claims for state and federal review. Inaccurate claiming has resulted in the disallowance of \$45 million in IV-E funds for 2002, \$34 million for 2003, and the potential for up to \$100 million in 2000-01.

The 9 DSS positions would also be used for compliance with the *Higgins v. Saenz* stipulated agreement and a corrective action agreement with the federal Administration for Children and Families, which require the department to demonstrate that children are placed in relative homes that meet the safety standards for approval and that these homes are properly entitled to receipt of federal funds. In spring 2006 the department will begin reviewing calendar year 2004 foster care claims for compliance with *Higgins* and the corrective action agreement.

- **Backfill Title IV-E Foster Care Disallowance with \$33.8 million General Fund.** The budget requests \$25.3 million General Fund in the current year and \$8.4 million General Fund in the budget year to backfill a \$33.8 million Title VI-E federal funding disallowance for Foster Care for calendar year 2003.

- **Backfill Title IV-E CWS Disallowance with \$58 million TANF.** The budget proposes to shift a combined total of \$58 million in current and budget year TANF funding from CalWORKs to the CWS-Emergency Assistance Program, to backfill a Title IV-E federal funding disallowance. The Emergency Assistance Program provides emergency shelter care, crisis resolution, emergency response, and case management for children at risk due to abuse, neglect, abandonment, or exploitation.
- **Continue Staffing for Title IV-E Child Welfare Waiver.** The budget requests \$805,000 (\$403,000 General Fund) to extend 4 limited-term positions for development and implementation of the Title IV-E Child Welfare Waiver Demonstration “Capped Allocation” Project (CAP). The department has been negotiating with the federal government for a number of years to develop this waiver. If approved, this waiver would allow the use of Title IV-E funds for preventive child welfare services, such as improved hotline response, more parenting education and counseling, multi-disciplinary teams, and services to more families on a voluntary basis.
- **Establish Foster Care Infant Rate.** The budget requests \$611,000 (\$156,000 General Fund) in the current year and \$1.2 million (\$313,000 General Fund) in the budget year to fund a special Foster Care rate for teen mothers who are in foster care placement with their children. This rate, established by SB 500 (Kuehl), Ch. 630/2005, provides a \$200 monthly payment above the current infant supplement for the added care and supervision provided by the foster caregiver to the teen parent and child. An estimated 408 teen mothers are in foster care placement with their children.
- **Restore Foster Care Audits Staff.** The budget requests \$577,000 (\$357,000 General Fund) and the restoration of 6 three-year limited-term positions to perform fiscal audits of non-profit corporations that operate Foster Family Agencies or group home programs. Positions to perform this audits function were eliminated in 2003-04 position reduction drills.
- **Augment Foster Care Child Relationships Program.** The budget includes a total of \$23 million (\$10 million General Fund) for the Foster Care Child Relationships Program. This program was established by AB 408 (Steinberg), Ch. 813/2003 to help ensure that older foster youth develop significant and supportive relationships prior to their emancipation. The current year funding level for this program is \$5.2 million (\$2.3 million General Fund). The additional funding included in the budget would be used to fund AB 1412 (Leno), Ch. 640/2005, which expands the number of children covered by this program, and ensures that developmentally appropriate children are involved in the development of their case plan, help plan for permanent placement, and that children 12 and older review their case plan and receive a copy. Note that the budget proposes to delay implementation of AB 1412 from January 1, 2006 to July 1, 2006.
- **Augment Transitional Housing for Foster Youth.** The budget requests an additional \$1 million General Fund to augment the Transitional Housing Placement Program (THPP), established under AB 1119 (Migden), Ch. 639/2002. This funding will allow more counties to participate in THPP, which provides housing assistance to emancipating foster youth.

- **Discontinue Dependency Drug Court Funding.** The budget does not maintain the \$2 million federal PSSF funding included in the 2005-06 Budget Act for Dependency Drug Courts. The Administration indicates that it will consider restoration of this funding upon review of an evaluation report for Dependency Drug Courts that is due to the Legislature during 2006 budget hearings.
- **Expand Kinship Support Services.** The budget requests an additional \$2.5 million General Fund to expand current county programs and allow all counties to apply for Kinship Support Services funds. This program, which was funded at \$1.5 million General Fund for eleven counties in 2005-06, provides community-based family support services to kinship (relative) caregivers and the children who are placed in their homes by the juvenile court or who are at risk of dependency or delinquency.
- **Improve Adoptions Outcomes.** The budget requests a total of \$12.2 million (\$7.1 million General Fund) to hire additional state and county adoptions caseworkers. The additional staff are expected to increase adoptions by 560 in 2006-07. The funding includes \$1.4 million (\$698,000 General Fund) for 16.5 DSS positions in the Adoptions Services Bureau, which serves a 28-county service area. The funding also includes \$10.8 million (\$6.4 million General Fund) for local assistance to reflect a 15.6 percent increase in county adoptions caseworkers, offset by minor adjustments in Foster Care and AAP costs. Note that the Governor vetoed \$229,000 (\$100,000 General Fund) for Adoptions Assistance training in 2005-06, noting that DSS intends to increase efforts in 2005-06 to provide adoptions training and technical assistance to county social workers within existing resources.
- **Maintain Funding for Previous CWS Reforms.** The budget maintains a total of \$26.6 million (\$15.5 million General Fund) to support child welfare system reforms that were established in previous years. The budget includes \$12.9 million (\$7.6 million General Fund) for the Child Welfare Outcomes and Accountability System, established by AB 636 (Steinberg), Ch. 678/2001. The budget also includes \$13.7 million (\$7.8 million General Fund) to support 11 counties using Differential Response, the California Standardized Safety Assessment System, and enhanced permanency and youth transition standards. Note that the Governor vetoed \$5.6 million (\$3.5 million General Fund) in additional funding for CWS reforms in 2005-06, noting that the “legislative augmentation exceeds the level of funding that is necessary to implement approved CWS program improvement initiatives and strategies, achieve compliance with federal performance requirements, and avoid federal penalties.”
- **Reduce Caseload Impact under *Rosales v. Thompson*.** Based on actual claims, the number of cases transferring from CalWORKs to Title IV-E Foster Care under the *Rosales v. Thompson* decision is fewer than expected. The *Rosales* decision broadened eligibility and extended federal Title IV-E Foster Care benefits to relatives caring for foster children who were previously eligible only for CalWORKs benefits at significantly lower rates. The 2005-06 Budget Act anticipated \$7 million General Fund savings as a result of cases shifting from CalWORKs to Foster Care. However, based on actual claims data, the Governor’s Budget estimates significantly fewer CalWORKs cases will shift to Foster Care, and as a result reflects no net General Fund savings. Despite the reduction in current year savings, the

reduced *Rosales* caseload lessens the impact from the federal budget proposal to reverse the *Rosales* decision (see *Issues* below).

### ***Issues for Children and Family Services***

**Pending Federal Budget Changes.** Shortly after it returns on January 31, 2006, the U.S. House of Representatives will vote on a budget package already approved by the Senate. This package, called the Deficit Reduction Act of 2005, contains numerous reductions to human services, including foster care and child welfare.

First, this Act would explicitly place limits on the claiming of federal administrative funds for children placed in ineligible facilities, such as those residing in unlicensed relative homes, detention centers, or hospitals. Currently, the state may receive federal reimbursement for certain administrative costs while children are in these settings. The LAO estimates that this would result in \$15-\$20 million in lost federal funds annually. Second, this Act would increase funding for child abuse prevention (Safe and Stable Families Funds) and juvenile court improvements. The LAO estimates that this would result in \$10 million in additional federal funds annually. Finally, this Act would effectively reverse the *Rosales* decision, but as noted above there may be a relatively minor negative fiscal impact to the state for this component.

### **Community Care Licensing**

The Community Care Licensing (CCL) Division of DSS licenses over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified foster family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing, and adult day care. Licensing activities are primarily carried out by state staff, although some counties are responsible for licensing child care and foster family homes. CCL staff currently visit a randomly selected 10 percent of facilities annually, and visit all facilities no less than once every five years. At-risk facilities are visited at least annually.

The budget includes \$107.3 million (\$25.2 million General Fund) and 1,111.9 positions for CCL in 2006-07. This represents a significant increase over the current year funding of \$100.6 million (\$18 million General Fund) and 1,033.9 positions. Approximately 15 percent of funding is for county licensing activities, and the remaining funding is for state licensing activities.

### ***Community Care Licensing Highlights***

- **Licensing Reform Proposal.** The budget requests \$6.7 million (\$6 million General Fund) and 80 new positions to complete required licensing workload and increase visits to facilities. Additional staffing is requested primarily to address a backlog of required visits, as well as to increase the number of random sample licensing visits from 10 percent to 20 percent annually. Other administrative and statutory reforms are proposed to improve the efficiency of the licensing program and increase client protections.

The 2003 Budget Act reduced the frequency of licensing visits to more effectively target CCL resources. However, that legislation also provided that if the number of citations increased by more than 10 percent in any year, the number of unannounced visits would also increase by 10 percentage points. In 2005, the department indicated that the number of citations was projected to increase by 33 percent between 2004-05 and 2005-06.

The most significant components of the CCL reform proposal include the following:

- ✓ \$250,000 to contract for an integrated licensing/certification fee collection process.
  - ✓ Require individuals who have been denied licensure/employment due to failed criminal background clearance to wait a minimum of two years before reapplying.
  - ✓ \$115,000 to contract out administrator certification testing and grading functions. The budget also requests statutory changes to allow administrator certification fees to be adjusted.
  - ✓ 38 permanent positions to increase the number of random visits from 10 percent of facilities to 20 percent each year.
  - ✓ 29 two and a half-year limited-term positions and \$110,000 for overtime to eliminate the significant backlog in licensing visits.
  - ✓ 1 one-year limited-term personnel position to assist with hiring the requested licensing positions.
  - ✓ 5 permanent positions to operate a training academy for new licensing staff.
  - ✓ 2.5 permanent positions to share the DSS database of excluded or abusive employees with other HHS departments.
  - ✓ 4.5 permanent positions to handle information regarding convictions after arrest provided by the Department of Justice.
- **Establish New Licensing Category for Agnews Closure.** The budget requests \$90,000 General Fund and 1 position to establish a new licensing category known as “Adult Residential Facility for Persons with Special Health-Care Needs.” In accordance with SB 962 (Chesbro), Ch. 558/2005, these facilities will be established to serve former residents of the Agnews Developmental Center. Intended residents include medically stable adults who are technology dependent due to reliance on medical procedures such as parenteral nutrition, dialysis, tracheostomy care, and oxygen therapy. Providing these services in a licensed community care facility versus a licensed health facility would allow for a more homelike environment.

# LABOR

## **Crosscutting Labor Issues**

**Increase in the Minimum Wage.** The Governor has indicated his support for legislation to increase the state's minimum wage from \$6.75 per hour to \$7.25 per hour, effective September 1, 2006, and to \$7.75 per hour effective July 1, 2007. No funding augmentations are built into 2006-07 department budgets related to this proposal; however, the Administration indicates that enactment of the legislation would increase General Fund costs by a total of \$10.3 million for the following departments:

- Department of Forestry / Department of Parks and Recreation (\$200,000)
- California Conservation Corps (\$1 million)
- Department of Aging (\$500,000)
- Department of Social Services (\$3 million)
- Department of Developmental Services (\$5.5 million)

The Administration proposes Control Section 3.65 that would allow the Director of Finance to augment the above budgets by a total of up to \$10.3 million if minimum wage legislation is enacted.

## **0559 Secretary for Labor and Workforce Development Agency**

The Labor and Workforce Development Agency brings together the departments, boards, and commissions that train, protect, and provide benefits, such as unemployment insurance and workers' compensation, to employees and employers of California. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (the Agriculture Labor Relations Board is heard by Budget Subcommittee #2), and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor proposes \$2.2 million (reimbursements and special funds) and 14.2 positions for the Office of the Secretary, a decrease of \$16,000 over the revised current year budget. The Administration proposes to eliminate two part-time management positions and redirect the savings to establish a Staff Services Analyst and an Office Technician to support the work of the Deputy Secretary for Enforcement.

## 7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Family Leave Program, and assists job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

The Governor proposes \$10.8 billion (\$24.7 million General Fund), a decrease of \$307 million (2.8 percent) from the revised current-year budget. The change is primarily driven by a projected decrease in benefit claims due to improved economic conditions.

<b>Fund Source</b>				
<b>Expenditure by Program</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Employment & Employment Services	\$206,209	\$210,397	\$4,188	2.0
Tax Collections & Benefit Payment	10,302,676	10,011,740	-290,936	-2.8
Unemployment Insurance Appeals Board Administration	75,478	74,683	-795	-1.1
Distributed Administration	52,892	54,747	1,855	3.5
Employment Training Panel	(51,194)	(51,194)	0	0.0
Workforce Investment Act	37,810	40,345	2,535	6.7
National Emergency Grant Program	463,541	440,412	-23,129	-5.0
Nurse Education Initiative	45,000	45,000	0	0.0
	750	0	-750	-100.0
<b>Total</b>	<b>\$11,133,162</b>	<b>\$10,826,130</b>	<b>-\$307,032</b>	<b>-2.8</b>

### Major Budget Proposals

**Program Benefit Adjustments.** The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2005 forecast of future claims. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

- **Unemployment Insurance (UI):** Benefits are proposed to decrease by \$458.4 million in 2005-06 and decrease by \$507.7 million in 2006-07 (both relative to the 2005 Budget Act base). Additionally, operations expenditures are proposed to decrease by 142.6 personnel years and \$10.2 million in 2005-06 and decrease 122.3 personnel years and \$9.3 million in 2006-07.
- **Disability Insurance (DI) Program:** Benefits are proposed to increase by \$185.6 million in 2005-06 and decrease by \$79.7 million in 2006-07. Additionally, operations expenditures are proposed to decrease by 66.7 personnel years and \$4.3 million in 2005-06 and decrease 23.9 personnel years and \$1.5 million in 2006-07.
- **School Employees Fund Program:** Benefits are proposed to decrease by \$35 million in 2005-06 and decrease by \$41.4 million in 2006-07. No staffing changes are requested in either year.

- **Workforce Investment Act (WIA) Program:** WIA expenditures are proposed to increase by \$17.8 million in 2005-06 and remain unchanged in 2006-07.

In April, of both 2004 and 2005, the Unemployment Insurance (UI) Fund exhausted its fund balance and a short-term federal loan was obtained. The loans were repaid within a few months and no interest was charged. The current benefit forecast suggests no loans will be required in 2005-06 or 2006-07. In the *Analysis of the 2004-05 Budget Bill*, the Legislative Analyst's Office suggested there is a long-term solvency problem for the UI Fund absent corrective action. The Administration has not submitted a proposal to deal with long-term UI Fund solvency. While improved economic conditions have resulted in sufficient fund balances for the short run, the fund will likely become insolvent when unemployment rises during the next recession.

**Automated Collection Enhancement System Implementation.** The Governor proposes an augmentation of \$3.1 million (\$2.7 million General Fund) and 15 positions to fund the second year of an eight-year information technology project that is estimated to cost a total of \$93.4 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide an integrated and automated solution that will use state-of-the-art employer tax collection, storage, account management, and data retrieval technologies to maximize the efficiency and effectiveness of the Department's tax collection operations. The new system is estimated to generate a total of \$583.4 million in additional revenue over a ten-year period by better detecting non-filers and non-compliant employers.

**Disability Insurance Automation Project.** The Governor proposes an augmentation of \$1.8 million (special funds) and 6.7 positions to fund the first year of a four-year information technology project that is estimated to cost a total of \$28.9 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide greater access to services for claimants, medical providers, and employers.

**Augmentation of State Funds to Replace Federal Funds.** The Governor proposes to augment the Employment Development Department with state funds to replace expiring federal funds:

- An augmentation of \$2.8 million (EDD Contingent Fund) is requested to maintain existing staffing in the One-Stop Career Centers. These funds would replace a federal Wagner-Peyser Reemployment Services Grant that expires in June 2006.
- An augmentation of \$1.5 million (EDD Contingent Fund) is requested to maintain existing staff for the Veterans Employment and Training Services program. These funds would backfill for reduced federal grants.
- An augmentation of \$2.6 million (EDD Contingent Fund) is requested to maintain existing staffing for identity verification activities in the Unemployment Insurance Program. The federal Department of Labor is no longer providing supplemental funds for this activity.

**Employment Training Panel.** The proposed budget continues the practice of transferring Employment Training Panel (ETP) funds to the Department of Social Services for CalWORKs employment training programs to backfill for General Fund reductions; however, the transferred amount is proposed to be reduced by \$5 million. The additional \$5 million available to ETP

would enable the Panel to approve approximately 23 additional contracts to serve 300 employers, training 5,000 workers.

**7120 California Workforce Investment Board**

The federal Workforce Investment Act of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers, and resulted in the creation of the state Workforce Investment Board. The Board is tasked with developing workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

The Governor proposes \$4.8 million (federal funds and reimbursements) and 20.9 positions for the Board’s budget – a decrease of \$392,000. The reduction is due to baseline reductions - the Administration did not submit Budget Change Proposals for this item.

**7350 Department of Industrial Relations**

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The department enforces workers’ compensation insurance laws and adjudicates workers’ compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor proposes \$346.8 million (\$62.6 million General Fund), an increase of \$2.7 million (0.8 percent) from the current-year budget.

<b>Expenditures by Program</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Self-Insurance Plans	\$3,578	\$3,591	\$13	0.4
Mediation/Conciliation	2,214	2,237	23	1.0
Workers' Compensation	154,398	157,726	3,328	2.2
Commission on Health and Safety and Workers' Compensation	3,133	3,068	-65	-2.1
Division of Occupational Safety and Health	85,423	87,466	2,043	2.4
Division of Labor Standards Enforcement	46,322	44,854	-1,468	-3.2
Division of Apprenticeship Standards	9,973	10,156	183	1.8
Division of Labor Statistics and Research	3,853	3,884	31	0.8
Claims, Wages, and Contingencies	35,158	33,832	-1,326	-3.8
Administration	26,729	26,993	264	1.0
Distributed Administration	(26,729)	(26,993)	-264	0.0
<b>Total</b>	<b>\$344,052</b>	<b>\$346,814</b>	<b>\$2,762</b>	<b>0.8</b>

### **Major Budget Proposals**

**Establish Collections Unit within the Division of Labor Standards Enforcement.** The Governor proposes to augment the Department's budget by \$561,000 (special fund) and five positions to establish a collections unit within the Division of Labor Standards Enforcement to actively pursue the wages and penalties it determines are due as a result of judgments against employers who have violated labor laws. The Administration indicates this new unit would generate enough funding to be self-sufficient.

**Workers' Compensation Reform.** The Governor proposes four budget changes that relate to recently-enacted workers' compensation legislation.

- **Return-to-Work Program Staffing and Funding.** The Governor requests \$577,000 and one position to fund payments to small employers who comply with the requirements of the Return-to-Work Program. The program was placed in statute by AB 749 (Chapter 6, Statutes of 2002) and modified by SB 899 (Chapter 34, Statutes of 2004).
- **Extension of Limited-term Legal Positions.** The Governor requests a two-year extension of \$297,000 and four legal positions to support ongoing regulatory activities related to workers' compensation reform. The Administration indicates this workload is associated with SB 899 (Chapter 34, Statutes of 2004).
- **Repeal of \$100 Initial Lien Filing Fee.** The Governor requests the repeal of Labor Code Section 4903.05 (added by SB 228, Chapter 639, Statutes of 2003) that requires medical-legal providers to pay a \$100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices."
- **Position Upgrade.** The Governor request \$971,000 to fund upgrades for positions in the Workers' Compensation Unit. The Department indicates the complexity of the workload has increased with recent legislation and this merits the upgrade. Proposed provisional language would tie expenditure of these funds to approval of the upgrade by the Department of Personnel Administration and/or the State Personnel Board.

**District Offices.** The Governor proposes two budget changes that relate to district offices.

- **Increased Facilities Costs.** The Governor requests an augmentation of two positions and \$2.2 million for unfunded facilities cost increases due to increased baseline staffing. The Department indicates it maintains 24 district offices throughout the state and 8 satellite offices.
- **Security.** The Governor requests \$280,000 to install security barriers at the Van Nuys and Los Angeles district offices and to provide California Highway Patrol security coverage at these two offices.

**Pressure Vessel Safety Program.** The Governor requests an augmentation of \$1 million and eight positions to address on-going workload in the Pressure Vessels Unit. These positions would address workload associated with Labor Code Section 7680 that requires that tanks and boilers have permits to operate. Revenue generated from inspection fees would fund these positions.

# VETERANS AFFAIRS

## 8950 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With \$50 million in general obligation bonds available through Proposition 16 (2000), \$162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004], and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor's budget funds 1,608.6 positions (including 139.1 new positions) and budget expenditures as follows:

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$68,767	\$78,942	\$10,175	14.8
Veterans' Farm and Homebuilding Fund of 1943	183,966	184,031	65	0.0
Federal Trust Fund	21,874	22,567	693	3.2
Reimbursements	28,342	28,152	-190	-0.7
Other Funds	897	976	79	8.8
<b>Total, Fund Source</b>	<b>\$303,846</b>	<b>\$314,668</b>	<b>\$10,822</b>	<b>3.6</b>

## Highlights

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

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

(\*dollars in thousands)

## Major Budget Proposals

**Veterans Home Fund Construction Team.** The budget proposes to renew two positions for three additional years, at a cost of \$211,000 General Fund per year. These positions were established for the purpose of supporting the Veterans Home Development Program through grants management, design development, construction management, and community relations.

**Yountville Infrastructure Planning Study.** The Governor's budget proposes a \$500,000 General Fund appropriation to fund an infrastructure study for the Yountville Veterans Home. This study would assess and prioritize material deficiencies in the 105 year-old home.

**Yountville Recreation Building Renovation.** The budget proposes \$8.3 million General Fund to renovate the recreation building at the Yountville Veterans Home. This project will include measures to improve functionality of the existing facilities, abate hazardous materials, and conform to seismic and fire codes. Based on the schedule provided, it is unclear that the full \$8.3 million will be needed in the budget year.

**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 existing practice for other 24-hour care state facilities. This proposal would not result in actual nurses being hired, but rather a reduction to the current salary savings rate used for the Yountville Home. This BCP seeks a lower rate in order to recognize overtime commitments that reduce available funding. The Legislature will carefully consider this request for exemption from statewide salary savings practice and the differential cost between funding overtime hours and hiring additional staff.

**Yountville Alzheimer's/Dementia Unit and Nursing Ward Backfill.** The Governor's budget proposes \$3.8 million (\$3.4 million General Fund) and 75.7 positions to operate the new Yountville Alzheimer's/Dementia Unit. This newly constructed facility will ultimately serve 75 patients and was specifically designed to address the unique needs of Alzheimer's and dementia

patients. The Yountville Veterans Home plans to open this facility to serve 40 patients on July 1, and the remaining patients on January 1, 2007. A corresponding augmentation of \$1.3 million (\$371,000 General Fund) and 33.5 positions will staff and backfill two nursing wards with other patients after the existing Alzheimer's/Dementia Unit is vacated. Given this delicate sequencing of opening facilities, moving staff, and filling positions, the Legislature will want to closely examine the proposed schedule and associated funding.

**Barstow Immediate Care Facility – Restoration of 20 Beds.** The Governor's budget proposes \$1.3 million (including \$906,000 General Fund) and 10.6 positions to restore 20 beds that were voluntarily shutdown in 2003 after a series of incidents involving mistreatment of residents at the Barstow facility. The Department of Health services restored the Barstow Veterans Home authority to begin reopening a skilled nursing facility in April 2005. Given recent history and the sensitivity of care for veterans, the Legislature will closely examine the Barstow Veterans Homes' readiness for restoring beds.

**Combat-Related Treatment Programs.** The budget includes \$1 million General Fund and 11 positions for a new program to establish a baseline behavior wellness program at each Veterans Home. This program will treat veterans with post traumatic stress disorder, among other psychiatric problems. Treatment strategies will include psychiatry, psychology, and substance abuse treatment.

# SUBCOMMITTEE No. 4

## LEGISLATIVE, EXECUTIVE, JUDICIAL BRANCH, TRANSPORTATION, PUBLIC SAFETY, and GENERAL GOVERNMENT

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# SUBCOMMITTEE No. 4

LEGISLATIVE, EXECUTIVE, JUDICIAL BRANCH, TRANSPORTATION,  
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# TRANSPORTATION

## Overview of the Transportation Budget

The Governor proposes total transportation expenditures of \$14 billion (\$2.3 billion General Fund) in 2006-07. This expenditure figure includes the following departments (\$ in millions):

Department	General Fund	Other Funds	Total
Department of Transportation (Caltrans)	\$2,326,287	\$9,215,567	\$11,541,854
California Highway Patrol (CHP)		1,574,849	1,574,849
Department of Motor Vehicles (DMV)		817,873	817,873
Special Transportation Programs (STP)		235,044	235,044
Office of Traffic Safety (OTS)		85,162	85,162
CA Transportation Commission (CTC)		2,075	2,075
High Speed Rail Authority (HSRA)		1,298	1,298

Proposed expenditures in 2006-07 are \$770 million less than revised 2005-06 expenditures – primarily due to fluctuations in expenditures for the San Francisco-Oakland Bay Bridge project.

## 2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs.

The Governor proposes total expenditures of \$2.1 million for the CTC. The only budget change proposal is the addition of one position to perform workload associated with the Toll Bridge Program Oversight Committee. This workload was added by AB 144 (Chapter 71, Statutes of 2005), which provided funding to finish the San Francisco-Oakland Bay Bridge seismic retrofit project and added additional oversight and reporting activities. The budget also reflects the full expenditure of Proposition 116 (Clean Air and Transportation Improvement Fund) bond funds - \$5.4 million was expended in 2004-05; \$2.0 million was expended in 2005-06; and no funds remain for expenditure in 2006-07.

## 2640 Special Transportation Programs

The Special Transportation Program (STP) provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation projects. Revenue comes from the sales tax on diesel fuel and a small portion of the sales tax on gasoline.

The Governor proposes funding of \$235 million for Special Transportation Programs – an increase of \$34 million (17 percent) over current-year funding. The increase is due to a higher revenue forecast for related fuel sales tax revenue (including a portion of Proposition 42 revenue). No Public Transportation Account “spillover” revenue is included in this funding, as current law retains the first \$200 million in the General Fund and transfers the next \$125 million for the San Francisco-Oakland Bay Bridge Project. More detail on the spillover revenue is included in the Department of Transportation section.

## 2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans’ budget is divided into six primary programs: Aeronautics; Highway Transportation; Mass Transportation; Transportation Planning; Administration; and the Equipment Service Center.

The Governor proposes total expenditures of \$11.5 billion (\$2.3 billion General Fund), a decrease of \$900 million (7.2 percent) from the revised current-year budget. The reduction is primarily due to a fall in reimbursed workload tied to fluctuations in expenditures for the San Francisco-Oakland Bay Bridge project.

The proposed Caltrans budget reflects significant expenditure increases in both 2005-06 and 2006-07 relative to the enacted 2005 Budget Act. Federal funding has increased by \$975 million in both years due to enactment in August 2005 of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which is the federal six-year transportation funding plan. Like the 2005-06 budget, the Governor proposes full Proposition 42 funding, which is estimated to be \$1.4 billion. Additionally, the Governor proposes early repayment of \$920 million (out of \$1.35 billion due in 2007-08) of the Proposition 42 funds borrowed by the General Fund in 2004-05. Lastly, the budget reflects changes related to the San Francisco-Oakland Bay Bridge refinancing plan (AB 144, Chapter 71, Statutes of 2005), which shifts project oversight responsibility from Caltrans to the Bay Area Toll Authority. For this budget, AB 144 results in shifting Bay Bridge expenditures to reimbursed workload. The following three tables summarize the Caltrans budget.

<b>Expenditure by Program</b> (dollars in thousands)	<b>2005-06</b>	<b>2006-07</b>	<b>\$ Change</b>	<b>% Change</b>
Aeronautics	\$8,406	\$8,506	\$100	1.2
Highway Transportation	10,937,373	\$9,868,377	-1,068,996	-9.8
Mass Transportation	818,794	1,138,391	319,597	39.0
Transportation Planning	154,622	190,941	36,319	23.5
Administration	341,670	335,639	-6,031	-1.8
Equipment Program*	179,764	(179,148)*	na	na
<b>Total</b>	<b>\$12,440,629</b>	<b>\$11,541,854</b>	<b>-\$898,775</b>	<b>-7.2</b>

\* The Administration proposes to change the Equipment Program to a distributed cost system in 2006-07

<b>Expenditure by Category</b> (dollars in thousands)	<b>2005-06</b>	<b>2006-07</b>	<b>\$ Change</b>	<b>% Change</b>
Personal Services	\$1,871,905	\$1,832,683	-\$39,222	-2.1
Operating Expenses and Equipment	1,682,718	\$1,414,038	-268,680	-16.0
Tort Payments	41,356	41,356	0	0.0
Debt Service (GARVEE bonds)	72,899	72,899	0	0.0
Local Assistance	2,536,515	3,311,234	774,719	30.5
Capital Outlay - Office Buildings	2,510	44,435	41,925	1670.3
Capital Outlay - Transportation Projects	6,190,387	4,794,209	-1,396,178	-22.6
Unclassified	42,339	31,000	-11,339	-26.8
<b>Total</b>	<b>\$12,440,629</b>	<b>\$11,541,854</b>	<b>-\$898,775</b>	<b>-7.2</b>

<b>Expenditure by Fund Type</b> (dollars in thousands)	<b>2005-06</b>	<b>2006-07</b>	<b>\$ Change</b>	<b>% Change</b>
General Fund	\$1,345,148	\$2,326,287	\$981,139	72.9
Federal Trust Fund	3,362,881	\$3,547,920	185,039	5.5
Special Funds and Bond Funds	4,884,934	3,913,729	-971,205	-19.9
Reimbursements	2,847,666	1,753,918	-1,093,748	-38.4
<b>Total</b>	<b>\$12,440,629</b>	<b>\$11,541,854</b>	<b>-\$898,775</b>	<b>-7.2</b>

### Proposition 42 Proposal

The major transportation budget issue annually since 2000-01, has been the transfer of gasoline sales tax revenue from the General Fund to transportation – this funding is also known as the Proposition 42 (Prop 42) transfer. A complete funding history of the program, with transfers and loans, is contained in the following section. For 2006-07, the Governor proposes full Prop 42 funding for transportation, which the Department of Finance estimates will be \$1.4 billion. As required by the Constitution, the funding would be allocated as follows:

- \$678 million for the Traffic Congestion Relief Program (TCRP) projects.
- \$582 million for the State Transportation Improvement Program (STIP)
- \$73 million for the Public Transportation Account (PTA)
- \$73 million for State Transit Assistance to local agencies

As part of his Strategic Growth Plan, the Governor is proposing to amend the Constitution to prohibit any future suspensions of Prop 42 revenues. This means that Prop 42 revenue would always go to transportation, and never be available for transfer or loan for other General Fund expenditures – even in times of economic emergency or hardship. Additionally, the Governor proposes early repayment of \$920 million of the Prop 42 funds borrowed by the General Fund in 2004-05. The allocation of this repayment is statutorily defined; however, the Administration proposes to amend statute to shift more of this early repayment from TCRP and the Public Transportation Account to the STIP and local streets and roads (after full repayment in 2007-08, the allocation would be consistent with current law). The proposed 2006-07 allocation is a follows:

- \$410 million for the Traffic Congestion Relief Program (TCRP) projects.
- \$255 million for the State Transportation Improvement Program (STIP)
- \$255 million for the local streets and roads

### Background on Proposition 42 and Past Transportation Loans

- **Origin of the Traffic Congestion Relief Program and Proposition 42.**

- The Traffic Congestion Relief Program (TCRP) was established with the 2000-01 budget (AB 2928, Torlakson) as a *six-year* funding program – with \$2 billion transferred from the General Fund to the Traffic Congestion Relief Fund in 2000-01 and gasoline sales tax revenue of approximately \$1.1 billion to be transferred annually in 2001-02 through 2005-06 from the General Fund. The program did not increase taxes, but rather used existing General Fund revenue. Program revenue is statutorily distributed as follows:
  - \$4.9 billion for 141 specified transportation projects.
  - \$400 million to cities and counties for local streets and roads.
  - \$5 million to the High Speed Rail Authority.
  - The remainder (about \$2 billion) is proportionally allocated, with 40 percent for State Transportation Improvement Program projects, 40 percent for local streets and roads, and 20 percent for public transportation.
- General Fund revenues for the 2001-02 budget were below the level anticipated at the time of AB 2928, and as part of the enacted 2001-02 budget, implementation of the annual gasoline sales tax transfers to the TCRP was delayed two years – to 2003-04. Cities and counties agreed to forgo their share of gasoline sales tax revenue in 2006-07 and 2007-08 in exchange for receiving what would otherwise be their share of 2001-02 and 2002-03 revenue – this was paid by the State Highway Account. To compensate the

State Highway Account programs, the cities and counties share in 2006-07 and 2007-08 is required to shift to the State Transportation Improvement Program (STIP). As part of the budget agreement, a proposition was submitted to voters which placed the program in the Constitution and made permanent the use of gasoline sales tax revenue for transportation. Voters approved Proposition 42, which also contained a provision that allows the suspension of the transfer when the Governor issues a proclamation of General Fund need and the Legislature approves implementing legislation with a two-thirds vote.

- **Traffic Congestion Relief Fund loans to the General Fund and Proposition 42 suspensions.**
  - The 2001 Budget Act, the 2002 Budget Act, and legislation enacting the 2002-03 mid-year budget revision, loaned a total of \$1.38 billion from the Traffic Congestion Relief Fund to the General Fund with repayment due in 2005-06 (this was funding originally transferred from the General Fund to the TCRF in 2000-01).
  - The 2003 Budget Act partially suspended the 2003-04 Proposition 42 transfer with \$289 million transferred and \$868 million suspended. Repayment of the suspended amount is statutorily required in 2008-09. This funding level allowed projects with current allocations to continue, but was not sufficient to allow new project allocations.
  - The 2004 Budget Act fully suspended the 2004-05 Proposition 42 transfer of \$1.258 billion with repayment statutorily required in 2007-08. However, the budget included several mechanisms for early repayment of the \$1.383 billion loan due in 2005-06: a \$43 million General Fund transfer; a \$140 million transfer of “spillover” gasoline sales tax money that would otherwise go to the Public Transportation Account; and \$1.2 billion from tribal gaming bonds (see also the “Tribal Gaming Bonds” section below)
  - The 2005 Budget Act fully funded Prop 42 with \$1.345 billion transferred from the General Fund to the Transportation Investment Fund.
- **Intra-transportation loans.** Several loans have been made from the State Highway Account and the Public Transportation Account to backfill other transportation funds for the delayed implementation of the TCRP and the loans from the Traffic Congestion Relief Fund to the General Fund. These funds have stayed within transportation; however, they have shifted funds that would otherwise be available for highway capacity projects to TCRP projects (highway expenditures comprise 35 percent of expenditures for TCRP projects) and to local streets and roads projects.
  - As part of the 2001-02 refinancing of the TCRP, the State Highway Account transferred \$143 million in 2001-02 and \$150 million in 2002-03 to cities and counties, which represented the same amount expected if the sales tax on gasoline was transferred in those years. To repay the State for this loan, cities and counties forgo their 2006-07 and 2007-08 gasoline sales tax money (Prop 42 transfer) and this funding goes instead to the State Transportation Improvement Program.
  - Also as part of the 2001-02 refinancing of the TCRP, the State Highway Account financed capital outlay support for TCRP projects totaling \$89 million over 2000-01 through 2002-03, with repayment due in 2006-07. The tribal gaming bonds that were part of the 2004 budget, if successfully sold, will repay this loan.

- The 2002 Budget Act included a \$474 million loan from the State Highway Account to the Traffic Congestion Relief Fund. The 2003 Budget Act repaid \$100 million, the 2004 Budget Act repaid \$20 million, and the tribal gaming bonds, if successfully sold, will repay the remainder.
- The 2001 Budget Act and 2002 Budget Act included loans totaling \$275 million from the Public Transportation Account to the Traffic Congestion Relief Fund, with repayment due in 2007-08. Repayment is planned from the tribal gaming bonds or annual tribal gaming revenue.
- **Tribal Gaming Bonds.** The 2005 Budget Act assumed \$1 billion in tribal gaming bonds would successfully be sold in 2005-06 – originally it was assumed the bonds would sell in 2004-05 and generate \$1.2 billion. Lawsuits have delayed the issuance of the bonds. While legal issues are still outstanding, the Governor’s 2006-07 budget assumes the bonds will be successfully sold in the spring of 2006. If successfully sold, the bonds would partially repay \$1.2 billion in loans made from the Traffic Congestion Relief Fund to the General Fund, and associated loans from the State Highway Account and the Public Transportation Account to the Traffic Congestion Relief Fund. To the degree the bonds do not fully repay the loans, the outstanding amounts would be repaid from annual tribal gaming revenue. Statute no longer contains a full repayment due date for the TCRF loans.

**Summary of Transportation Loans to the General Fund**

Transportation Loans to the General Fund (in thousands) *	Loan Amount	Amount repaid to date	Repayment in Proposed Budget (through 2006-07)	Outstanding amount (after 2006-07) *	Current-law due date
▶ Traffic Congestion Relief Fund loans (from 2001-02 & 2002-03)	\$1,383,000	\$183,000	\$1,000,000	\$200,000	none
▶ 2003-04 Propositions 42 loan	868,000		0	868,000	June 30, 2009
▶ 2004-05 Proposition 42 loan	1,258,000		920,000	338,000	June 30, 2008
<b>Total</b>	<b>\$3,509,000</b>	<b>\$183,000</b>	<b>\$1,920,000</b>	<b>\$1,406,000</b>	

\* Interest is required, but not included in these calculations

**Public Transportation Account “Spillover” Revenue**

For 2006-07, the Governor projects spillover revenue of \$317 million, and consistent with current law, retains \$200 million in the General Fund and transfers \$117 million to support the San Francisco–Oakland Bay Bridge project. Under current law, any spillover revenue in 2006-07 that exceeds \$325 million would be transferred to the Public Transportation Account with half of that amount transferred to local transit agencies through the Special Transportation Programs budget item.

**Background.** The spillover transfer dates back to legislation enacted in the early 1970’s. Chapter 1400, Statutes of 1971, relinquished 0.25 percentage points of the state’s 4.00 percent sales tax to local governments to fund transportation development (primarily mass transit). To

hold the General Fund harmless, the tax base was broadened to include gasoline. The legislation further provided a mechanism to assure that the General Fund would not benefit as a result of the broadened tax base – this “spillover” formula transfers any net General Fund revenue gain to the Public Transportation Account (PTA). Half of this PTA transfer is then transferred to local transit agencies through the Special Transportation Program budget. The spillover only occurs in years when gasoline prices are high relative to the prices of other goods.

No spillover occurred during the period of 1994-95 through 2000-01, or in 2002-03; however, a spillover of \$11.3 million occurred in 2001-02. In recent years, spillover revenue has been triggered, but the revenue has been retained in the General Fund or transferred to the Traffic Congestion Relief Fund as part of General Fund loan repayment.

- The 2003 Budget Act projected a spillover of \$87 million and associated trailer-bill legislation retained that amount in the General Fund (with any amount above \$87 million to be transferred to the Public Transportation Account). Actual spillover revenue turned out to be \$88.7 million.
- The 2004 Budget Act projected a spillover of \$140 million and trailer-bill legislation directed that amount to the Traffic Congestion Relief Fund as partial repayment of past loans to the General Fund (any excess spillover was retained by the General Fund). Actual spillover revenue turned out to be \$225.8 million.
- The 2005 Budget Act projected a spillover of \$380 million and trailer-bill legislation retains the full spillover in the General Fund. In part, this General Fund relief allowed for the first full Proposition 42 transfer in 2005-06. The revised estimate for spillover revenue is \$398.0 million.
- The 2006-07 spillover is affected by legislation enacted in during the 2005 session. The budget trailer bill SB 62 (Chapter 62, Statutes of 2005) retains the first \$200 million of spillover revenue in the General Fund. Assembly Bill 144 (Chapter 71, Statutes of 2005), dedicates up to \$125 million in spillover revenue to the Bay Bridge project (revenue exceeding \$200 million, up to \$325 million). If revenue ultimately ends up exceeding \$325 million in 2006-07, that amount would be transferred to the Public Transportation Account.

**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):

<b>Category of Investment</b>	<b>GO Bond</b>	<b>Other Funding</b>	<b>Total</b>
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
<b>TOTAL</b>	<b>\$12.0</b>	<b>\$95.0</b>	<b>\$107.0</b>

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. The 2006-07 Governor’s Budget does not include any Caltrans augmentations related to the Strategic Growth Plan; however, the Administration will submit a Finance Letter in May that zero-bases Capital Outlay Support staffing, and that could include augmentations related to this proposal.

### **Major Budget Proposals**

**Highway Maintenance Funding.** The Administration requests a permanent increase of \$105.3 million for highway infrastructure preservation. The department’s 2005 Five-Year Maintenance Plan described the existing maintenance backlog and proposed to augment the State Highway Operation and Protection Program (SHOPP) by \$105.3 million. This augmentation is not mentioned in the budget documents; however, Caltrans indicates the increase was built into the SHOPP appropriation. Historically, this preservation work would be budgeted and staffed in the Maintenance Program. Under the Administration proposal, the work would be budgeted and staffed in the Capital Outlay Support program. As such, no new positions are budgeted for this workload – instead staffing changes would be included in the May Revision Finance Letter for the zero-based Capital Outlay Support staffing.

**Information Technology (IT) Projects.** The Department requests approval for two large IT projects, which would have total costs of \$41.8 million through completion. The Integrated Financial Management Systems (IFMS) would cost \$21.8 million (\$3.1 million in 2006-07) and would improve financial reporting. The Construction Management System (CMS) would cost \$21 million (\$950,000 in 2006-07) and improve the quality of project-management record keeping. IFMS would use commercial-off-the-shelf software, while CMS would employ custom software. Funding for these projects, and two other IT projects, was originally requested by the Administration in 2002-03 (at a total cost of \$75 million); however, funding was denied until Caltrans completed its Information Technology Systems Enterprise Integration Strategy. The final Integration Study was issued June 30, 2004.

**Owner Controlled Insurance Program.** The Department requests funding of \$1.4 million and one position on a three-year limited term basis to implement the Owner Controlled Insurance Program (OCIP). The concept of OCIP is that the Department, as the owner, purchases major insurance coverage for its construction projects. Under current projects, the Department pays insurance costs indirectly through inclusion of the cost in the contractors’ bids. Caltrans estimates a potential savings ranging from \$42 million to \$64 million over the duration of the three-year program.

**Equipment Program Changes.** The Department requests to dismantle the Internal Service Fund known as the Equipment Service Fund and instead operate the Equipment Program as a distributed-cost program. The Equipment Service Fund was established in 1997-98 with the stated goal of better-managing the fleet across Caltrans programs and renting idle equipment to

local governments. Annual savings/cost recoveries of up to \$5.7 million, as originally envisioned, never materialized.

**Oakland District Office Building Seismic Retrofit.** The Administration requests \$44.3 million to fund the construction-phase of the Oakland district office building seismic retrofit. The 2005 Budget Act included \$2.2 million to fund the working drawings for this project.

## 2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The total cost to build the entire system was most-recently estimated at \$37 billion.

The Governor proposes \$1.3 million in total expenditures for the HSRA, a decrease of \$3.9 million (75 percent) from the current-year budget. The large budget decrease is due to the expiration of one-time funding for environmental studies and a financing plan. Current law provides for a proposition on the November 2006 ballot to provide \$9.95 billion in general obligation bonds for the high-speed rail and related rail projects; however, the Governor proposes to delay this bond vote indefinitely.

## 2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property.

The Governor proposes \$1.6 billion in total expenditures (no General Fund) for the CHP, an increase of \$124 million (9 percent) from the current-year budget.

### *Major Budget Proposals*

**Enhanced Radio System.** The Administration requests approval for a five-year funding plan totaling \$494 million to enhance the Departments' existing public safety radio system. Improvements would enable radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. The 2006-07 augmentation would be 10 positions and \$57 million.

**Officer Staffing Augmentation.** The Administration requests a permanent increase of \$41.9 million to augment staffing 310 positions (240 Officers and 70 supervisory and non-uniformed support staff). The increase would be phased in over two years, with 2006-07 funding at \$33.7 million and staffing at 235 positions (165 Officers and 70 supervisory and non-uniformed support staff). The CHP indicates this increase would help address the continual increase in workload associated with population growth throughout the state.

**Wireless 9-1-1 Dispatcher Staffing Augmentation.** The Administration requests a permanent increase of \$7.2 million to augment staffing 173 positions (156 Dispatchers and 17 supervisory positions). The increase would be phased in over two years, with 2006-07 funding at \$6.3 million and staffing at 93.5 positions (85 Dispatchers and 8.5 supervisory positions). The CHP indicates this increase would help address the continual increase in workload associated wireless 9-1-1 calls.

**Capital Outlay.** The Administration requests an augmentation of \$5.7 million for six major capital outlay facilities projects – most of the funding is for working drawings and land acquisition. The majority of these projects involve the replacement of existing CHP area offices. Construction costs would be requested in future budgets. When future estimated construction costs are included, the total cost for these projects is \$39.3 million.

## 2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of \$818 million (no General Fund), an increase of \$47 million (6 percent) from the current-year budget.

### *Major Budget Proposals*

**Electronic Insurance Verification.** The Administration requests an augmentation of \$9.3 million to implement SB 1500 (Chapter 920, Statutes of 2004). This legislation requires each insurer that issues private passenger automobile liability policies, to electronically report to the DMV all issued policies, changes, and terminations; and requires DMV to suspend vehicle registrations if insurance is not in force. Ongoing costs in 2007-08 and thereafter are identified at \$13.5 million.

**Remittance System Replacement.** The Administration requests one-time funding of \$5.4 million and ongoing funding of \$523,000 to replace the remittance system used for mail extraction and payment processing.

### *Major Issue*

**Federal REAL ID Act.** On May 11, 2005, President Bush signed H.R. 1268, which includes the REAL ID Act of 2005. Regulations from the federal government on the implementation of this law are expected later this year; however, the Act is expected to present major challenges and costs for the DMV and the people of California. The Act will require Californians to have a compliant driver's license or identification card by May of 2008 in order to enter a federal building or cross an airport checkpoint. No federal funds are provided for implementation and the cost to DMV may be in the hundreds of millions of dollars to one billion dollars. The Administration indicates no budget augmentation is requested for REAL ID Act implementation because the regulations have not been promulgated.

# STATE ADMINISTRATION

## LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries.

### 0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with legislative analysis and planning, research, and liaison with local governments. The OPR also oversees programs for small business advocacy, rural policy, and environmental justice. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and overseeing the California Service Corps.

The Governor's budget funds 72.3 positions and expenditures as follows:

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$3,843	\$8,887	\$5,044	131.3
Federal Trust Fund	38,748	37,802	-946	-2.4
Reimbursements	1,472	403	-1,069	-72.6
<b>Total, Fund Source</b>	<b>\$44,063</b>	<b>\$47,092</b>	<b>\$3,029</b>	<b>6.9</b>
<b>Programs</b>				
State Planning and Policy Development	\$4,842	\$8,909	\$4,067	84.0
California Service Corps	39,221	38,183	-1,038	-2.6
<b>Total, Programs</b>	<b>\$44,063</b>	<b>\$47,092</b>	<b>\$3,029</b>	<b>6.9</b>

### **Key Budget Adjustment**

**Americorps and Conservation Corps Grants.** The Governor's budget includes \$5 million General Fund to reinstate an appropriation to the California Service Corps for the purpose of funding grants to local and state operated Americorps and Conservation Corps programs. Legislation enacted in 2003 had suspended this appropriation for three years.

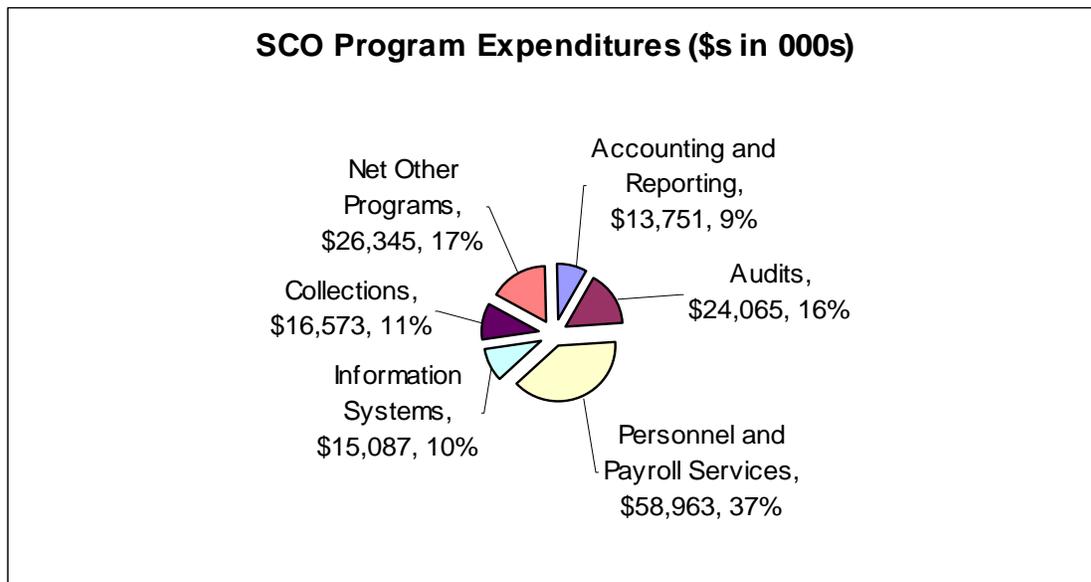
**0840 State Controller**

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs.

The Governor’s budget funds 1,142.3 positions (including 54.7 new positions) and expenditures as follows:

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$74,734	\$95,863	\$21,129	28.3
Federal Trust Fund	1,252	1,281	29	2.3
Reimbursements	33,918	35,762	1,844	5.4
Other Funds	17,044	21,878	4,834	28.4
<b>Total, Fund Source</b>	<b>\$126,948</b>	<b>\$154,784</b>	<b>\$27,836</b>	<b>21.9</b>

The chart below shows SCO expenditures by function:



### **Key Budget Adjustments**

**Human Resource Management System—21<sup>st</sup> Century Project (HRMS).** The Governor's budget includes an augmentation of \$37.5 million (\$20.1 million General Fund) and 46.5 one year limited-term positions to implement the design, development, and initial rollout phases of the HRMS. This workload is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems. The HRMS will also include a statewide time and attendance capability, greatly enhancing the Controller, Administration, and Legislature's fiscal oversight abilities. For example, it is expected that the system will capture actual salary savings at each department, replacing the arbitrary five percent standard used statewide today. This project was first funded in the 2004-05 budget year.

**Apportionments Payment System.** The budget includes \$776,000 (special funds) for a third year of funding to overhaul the state's Apportionment Payment System. The existing system has become dangerously overburdened and prone to breakdown, endangering a timely distribution of apportionments to local agencies. After this final year of system replacement, ongoing costs to maintain the system are expected to be \$62,000. Significant workload savings are expected from replacing the existing system, a savings the Legislature will seek to quantify.

**Unclaimed Property Program Staffing.** The budget includes \$554,000 General Fund and 7.2 positions to handle increased workload associated with notifying owners of unclaimed property, facilitating auctions of safe deposit boxes, and providing operational support to Unclaimed Property Program management. Based on the significant General Fund revenues identified by this program in recent years, the Legislature may wish to clarify how these positions will affect revenues, as well as service to citizens due unclaimed property.

**Bank Reconciliation System Project.** The budget includes \$710,000 (\$308,000 General Fund) to replace the State Controller's existing bank reconciliation system. This system tracks and issues bank warrants for the state. The Administration asserts that the technology of the current system is obsolete and technicians to operate the system increasingly scarce.

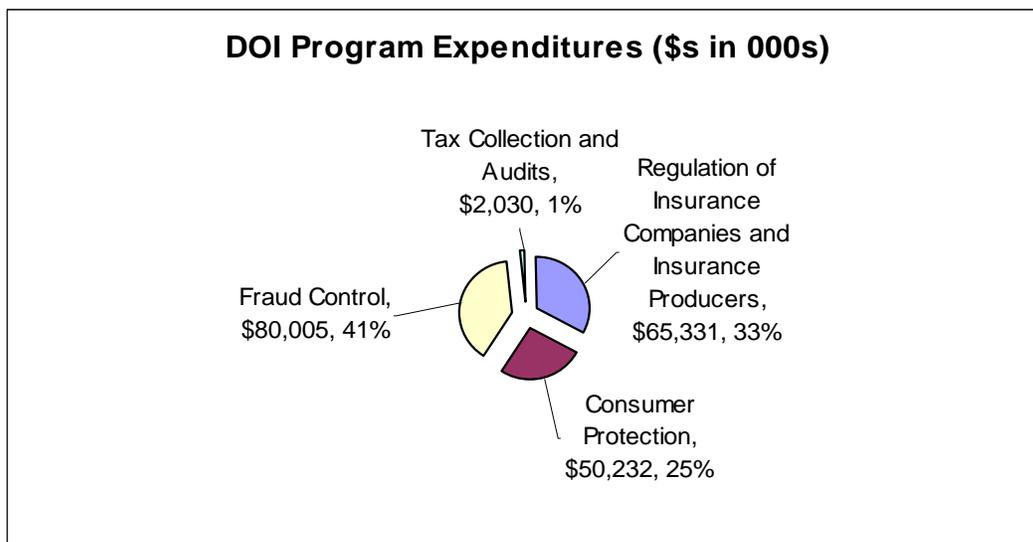
## **0845 Department of Insurance**

Under the leadership of the state's Insurance Commissioner, the Department of Insurance regulates the largest insurance market in the United States with over \$115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and those insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and combats insurance fraud.

The Governor's budget funds 1272.9 positions (including 13 new positions) and expenditures as follows:

**Summary of Expenditures**

(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
Insurance Fund	\$202,028	\$197,348	-\$4,680	-2.3
Reimbursements	250	250	0	0.0
<b>Total, Fund Source</b>	<b>\$202,278</b>	<b>\$197,598</b>	<b>-\$4,680</b>	<b>-2.3</b>



**Key Budget Adjustments**

**Office of Administrative Hearings.** The budget includes \$837,728 (Insurance Fund) for increased costs associated with a higher administrative hearing workload conducted by the Department’s legal office. The cost of administrative hearings has grown by 63 percent since 2003-04. The number of hearings has also increased; from 338 in 2004-05 to an estimated 730 in 2006-07.

**Workers’ Compensation Research Funding.** The budget includes \$1 million (Insurance Fund) for a study to measure the extent of workers’ compensation insurance fraud and to identify emerging fraud trends. The information gleaned from this research would be used to focus investigative and prosecution efforts, as well as identify areas where more resources may be needed. Funding for this study will come from a one-time fee on employers.

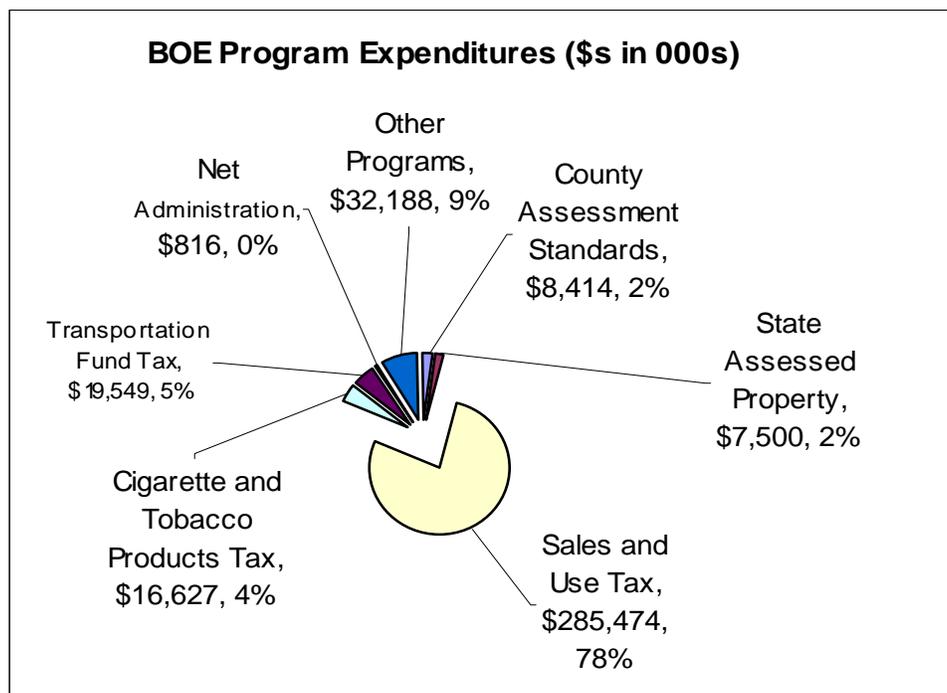
**0860 State Board of Equalization**

The State Board of Equalization (BOE), the Franchise Tax Board, and the Employment Development Department are the state’s major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of local

property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws.

The Governor’s budget funds 3,802.9 positions (including 64.5 new positions) and budget expenditures as follows:

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$222,822	\$212,815	-\$10,007	-4.5
Motor Vehicle Fuel Account	20,159	19,549	-610	-3.0
Federal Trust Fund	700	1167	467	66.7
Reimbursements	103,870	104,716	846	0.8
Other Funds	31,055	32,321	1,266	4.1
<b>Total, Fund Source</b>	<b>\$378,606</b>	<b>\$370,568</b>	<b>-\$8,038</b>	<b>-2.1</b>



**Key Budget Adjustments**

**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. Given the considerable fiscal benefits of this enforcement

measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

**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. Given the considerable fiscal benefits of this enforcement measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

**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. Given the considerable fiscal benefits of this enforcement measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

**Vehicle, Vessel, and Aircraft Use Tax Payments.** The Administration proposes to extend, for one year only, the requirement that use tax be paid if a vehicle, vessel, or aircraft is brought into the state within 12 months of purchase. Approximately \$35 million in General Fund revenues are attributed to this extension of law which is set to expire in 2006-07. If statute is not extended, purchasers of vehicles, vessels, or aircraft outside the state and brought into the state within only 90 days after purchase are required to pay the use tax. The Legislature will want to carefully evaluate the effect of the 12 month law change, relative to 2003-04 compliance when the 90-day rule was last in effect.

### ***Issue***

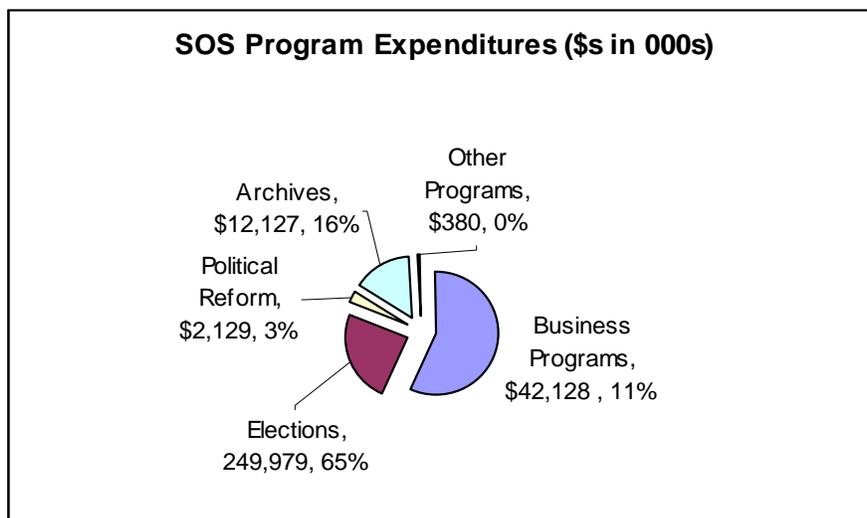
**Tax Agency Consolidation.** The California Performance Review and Legislative Analyst's Office (among others) have in recent years proposed that the two main tax agencies (BOE and FTB) consolidate some functions. One common proposal would involve "virtual" consolidation of some of the online features of both agencies and computer systems common to both departments. For example, a simple web portal could be created for taxpayers attempting to figure out where to pay a tax or seek a license (California's tax collectors and licensing agencies include not only FTB and DMV, but also the Employment Development Department, Department of Motor Vehicles, Department of Alcoholic Beverage Control, among others). The Legislature may wish to explore that option and other measures to demystify taxpayers' encounter with a tax agency, as well as reduce departmental redundancies.

**0890 Secretary of State**

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary law and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State’s executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Divisions.

The Governor’s budget funds 484.5 positions (including 31 new positions) and budget expenditures as follows:

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$86,117	\$32,040	-\$54,077	-62.8
Secretary of State's Business Fees	33,785	34,446	661	2.0
Federal Trust Fund	254,708	1,745	-252,963	-99.3
Reimbursements	7,347	7,339	-8	-0.1
Victims of Corporate Fraud Compensation	1,600	1,624	24	1.5
<b>Total, Fund Source</b>	<b>\$383,557</b>	<b>\$77,194</b>	<b>-\$306,363</b>	<b>-79.9</b>



### **Key Budget Adjustments**

**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 were to be used for voter outreach, a statewide voter database, voting machine replacement, among other voter-related activities. The expenditure plan was jointly developed by the Secretary of State's office, Administration, and Legislature. Particularly in light of past delays by the Secretary of State in expending HAVA funds (and the illegal expenditure of some), the Legislature will want to ascertain the reason for the delay and scrutinize the expenditure plan.

**November 2005 Special Election Costs.** The proposed budget includes \$54 million General Fund for the Governor's special election: \$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.

**Notary Public Application.** The budget includes \$3.1 million (Business Fees Fund) and 30 positions to augment the Secretary of State's capacity to process notary applications and conduct background checks. The Legislature last funded an augmentation for notary activities in 2004-05 and will want to explore how that augmentation affected the workload defined at that time.

**Forensic Leak Assessment and Security System Replacement.** The budget includes \$625,000 (Business Fees Fund) to conduct a forensic leak assessment and replace the security monitoring system at the Secretary of State and Archives Building complex. Similar to the Board of Equalization Building on N Street in Sacramento, the Secretary of State has encountered water intrusion problems during heavy weather, resulting in concerns about mold-related illnesses.

### **0950 State Treasurer's Office**

The State Treasurer, a constitutionally established office, provides banking services for State government with the goals of minimizing interest and service costs, and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the State; investment of temporarily idle State monies; administration of the sale of State bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other State agencies.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

The Governor's budget funds 222.8 positions (with no new positions) and expenditures as follows:

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$6,068	\$6,132	\$64	1.1
Reimbursements	16,533	16,637	104	0.6
<b>Total, Fund Source</b>	<b>\$22,601</b>	<b>\$22,769</b>	<b>\$168</b>	<b>0.7</b>

**Key Budget Adjustment**

The Governor’s budget includes no adjustments to the State Treasurer's Office.

**STATE AND CONSUMER SERVICES AGENCY**

This section includes the budgets of the Science Center; the Department of Consumer Affairs (including all bureaus, boards programs and divisions); the Department of Fair Employment and Housing; the Franchise Tax Board; the Department of General Services; the State Personnel Board; the Public Employees’ Retirement System; the State Teachers’ Retirement System; and the Department of Technology Services. Departments with major budget change proposals are highlighted.

**1110 & 1111 Department of Consumer Affairs**

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 27 semi-autonomous boards and 11 bureaus and programs that regulate over 230 professions. The 2006-07 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals \$398.5 million (\$785,000 General Fund), which is an increase of \$13.4 million from the current year.

**Major Budget Proposals – Boards (1110)**

**Medical Board.** The Governor proposes the following three augmentations for the Medical Board.

- Implementation of Independent Monitor’s Recommendations. The Administration requests \$3.8 million and 10 positions to implement most of the key recommendations made by the Board’s Enforcement Monitor. This request is associated with the fee increase and policy changes enacted with SB 231 (Chapter 674, Statutes of 2005).
- Diversion Program. The Administration requests \$181,000 and two positions to address workload in the Diversion Program, which identifies and rehabilitates physicians impaired due to the abuse of drugs or by a mental or physical illness.
- Enforcement Program. The Administration requests \$169,000 to fund cost increases for expert witnesses, which are used to prosecute violations of the Medical Practice Act.

**Various Boards – Augmentations for Cost/Workload Growth.** Various Boards request the augmentation of special fund support to cover cost increases and/or growth in workload. In some cases, the augmentations restore positions lost from vacant position eliminations.

- Board of Vocational Nursing and Psychiatric Technicians (\$168,000 and 4.0 positions)
- Architects Board (\$27,000 and 0.5 position)
- Athletic Commission (\$290,000 and 4.5 positions)
- Board of Barbering and Cosmetology (\$608,000 and 4.0 positions – two requests)
- Board of Geologists and Geophysicists (\$185,000 and 1.0 positions – two requests)
- Physician Assistant Committee (\$38,000 and no positions)
- Osteopathic Medical Board (\$28,400 and 0.5 position – two requests)
- State Board of Pharmacy (\$208,000 and 2.5 positions)
- Board for Professional Engineers and Land Surveyors (\$46,000 plus redirection and 4.0 positions – two requests)
- Structural Pest Control Board (\$126,000 and 1.0 positions – two requests)
- Speech-Language Pathology & Audiology Board (\$18,000 and 0.3 positions)

**Moving Costs.** The Administration requests an augmentation of \$1.7 million for moving costs for various Boards located on Howe Avenue in Sacramento; and an augmentation of \$25,000 for the Occupational Therapy Board to move to a larger space on North Third Street in Sacramento.

### ***Major Budget Proposals – Bureaus (1111)***

**Bureau for Private Postsecondary & Vocational Education – Expenditure Cut.** The Governor proposes a \$194,000 expenditure cut for the Bureau, which is charged with regulating private degree, non-degree, and registered postsecondary and vocational institutions. This reduction is proposed to reduce expenditures to expected revenue – no detail concerning the affect of the reduction on the functions of the Bureau is provided with the request.

**Bureau of Home Furnishing & Thermal Insulation – Outsourcing.** The Governor proposes an augmentation of \$213,000 to support external contracts for laboratory workload. Lab work is not currently outsourced; however, the Bureau indicated it does not have the equipment and staff to perform all the necessary tests. The Administration indicates it would cost \$664,000 to perform this same workload in-house.

**Various Bureaus – Rent Reduction.** The Governor proposes a reduction of \$1.3 million due to ongoing savings from the relocation of the Department’s headquarters facility.

**Various Bureaus – Augmentations Related to Enacted Legislation.** The Governor proposes augmentations associated with recently enacted legislation for the following bureaus:

- Dental Board of California. The Administration requests a \$76,000 augmentation for ongoing workload created by AB 1386 (Chapter 539, Statutes of 2005), which involves the administration of the Oral Conscious Sedation Program.
- Bureau of Automotive Repair. The Administration requests a \$3.8 million augmentation to implement the provisions of AB 383 (Chapter 565, Statutes of 2005), which expands consumer eligibility to receive financial assistance from the State to repair a high polluting vehicle that fails its biennial Smog Check inspection.

- Bureau of Security and Investigative Services. The Administration requests a \$1.4 million and 20 position augmentation to implement the provisions of SB 194 (Chapter 655, Statutes of 2005), which mandates the regulation and licensure of specified private unarmed security officers.

**iLicensing System.** The Governor requests an augmentation of \$3.7 million and 8.9 positions for the purposes of replacing its existing on-line professional licensing system with a new “iLicensing” system. The Administration proposes Control Section 4.55 to allow the Director of Finance to increase appropriations for DCA’s boards and bureaus to fund this system (up to a total of \$3.7 million).

## **1700 Department of Fair Employment and Housing**

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes total expenditures of \$20.7 million (\$15.2 million General Fund), a \$1.6 million increase from the current year.

### ***Major Budget Proposals***

**Staffing Augmentation.** The Governor proposes a \$1.0 million (General Fund) and 12 position augmentation for employment discrimination enforcement to investigate more complaints.

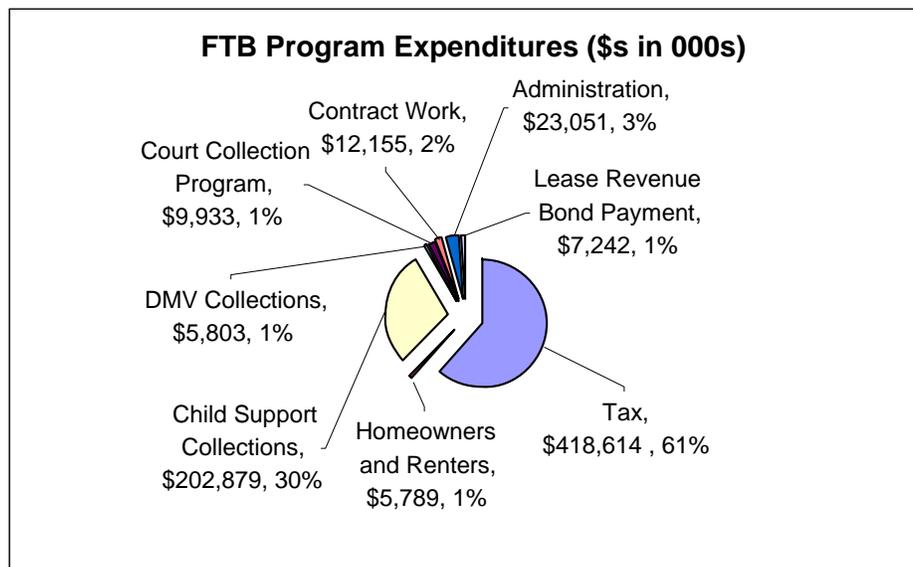
**Web-Based Appointment Scheduling.** The Governor proposes a \$464,000 (General Fund) and 1.9 position augmentation to automate its appointment intake scheduling and “Right to Sue” applications.

### 1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

The Governor’s budget funds 5,160.4 positions (including 32.5 new positions) and expenditures as follows:

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$514,417	\$499,271	-\$15,146	-2.9
Motor Vehicle Account	1,983	2,012	29	1.5
Motor Vehicle License Fee Account	3,739	3,791	52	1.4
Court Collection Account	6,045	9,933	3,888	64.3
Reimbursements	170,891	147,307	-23,584	-13.8
Other Funds	-176	101	277	0.0
<b>Total, Fund Source</b>	<b>\$696,899</b>	<b>\$662,415</b>	<b>-\$34,484</b>	<b>-4.9</b>



### **Key Budget Adjustments**

**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.

**Court Ordered Debt Program Expansion.** The budget proposes \$3.84 million (Court Collections Fund) and 31 positions to augment for one year funding for the Court Ordered Debt (COD) Expansion Project, pursuant to Chapter 380, Statutes of 2004 (Escutia). That bill requires the FTB to expand collection activities on delinquent court-imposed debts referred by state and local agencies. Anticipated collections from this project in the budget year are \$17.6 million to counties and state special funds.

**California Child Support Automation System (CCSAS) Reduction.** The budget includes a reduction of \$33.8 million (\$10.2 million General Fund) to reflect a revised implementation and management plan for the CCSAS. Savings are attributable to revised printing, training, and consultant service needs. The project is on schedule and full implementation expected in September 2008.

### **Issues**

**Current Year Unallocated Reduction.** The 2005-06 Budget Act included an unallocated reduction of \$7.84 million to the FTB's baseline budget. During budget hearings, the FTB was unable to say with certainty how those reductions would occur. Considering the significance of FTB activities as the primary revenue collection agency, the Legislature may wish to ascertain where those reductions occurred, how the decision to cut was made, and the indirect or direct impact on revenue collection activities.

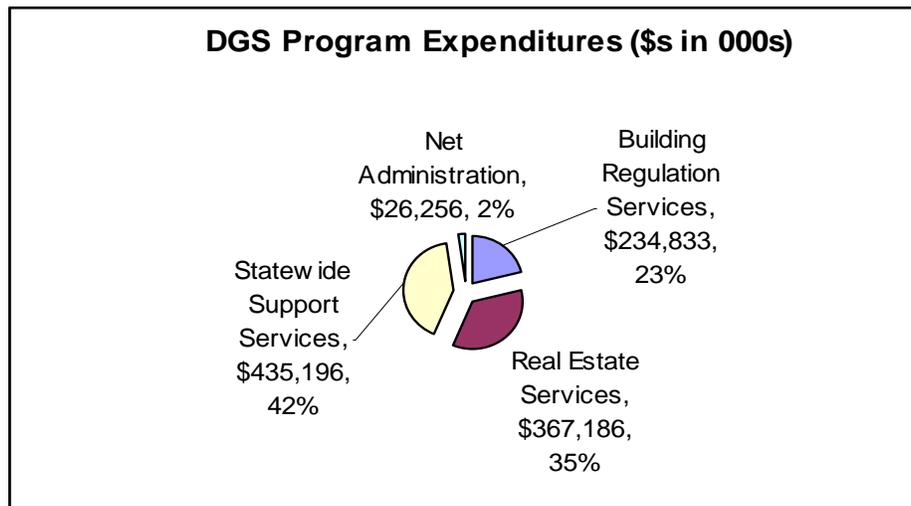
**Staffing Augmentation for Revenue Collections.** The Legislature added more than \$3 million in current year funding for collections, processing, and auditing activities. Anticipated revenues are approximately \$20 million. Based on this considerable return, the Legislature may wish to confirm that this considerable benefit-cost return was borne out and, if so, what additional resources may be added to enhance FTB tax administration activities.

## **1760 Department of General Services**

The Department of General Services (DGS) provides management review and centralized support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the state departments' procurement of materials, communications, transportation, printing, and security.

The Governor's budget funds 3638.8 positions (including 12 new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$15,146	\$331	-\$14,815	-97.8
State Emergency Telephone Number Account	144,893	177,145	32,252	22.3
State Motor Vehicle Insurance Account	29,241	29,892	651	2.2
Public School Planning, Design, & Construction Review Revolving Fund Architecture Revolving Fund	31,837	32,027	190	0.6
Service Revolving Fund	39,011	38,818		
Other Funds	712,181	747,846	35,665	5.0
	30,716	28,933	-1,783	-5.8
<b>Total, Fund Source</b>	<b>\$1,003,025</b>	<b>\$1,054,992</b>	<b>\$51,967</b>	<b>5.2</b>



**Key Budget Adjustments**

**Williams Settlement.** The budget includes \$14.1 million General Fund to pay for the settlement of the case *Williams et al. v. State of California, et al.* (County of San Francisco Superior Court, Case Number 312236). Pursuant to Chapter 124, Statutes of 2005 (AB 351, Chu), the state must abide by the judgment in that case by providing public school students with equal access to instructional materials, safe and decent school facilities, and qualified teachers.

**Transfer from Property Acquisition Law (PAL) Account.** The Administration proposes to shift \$12 million from the PAL Account to the General Fund. The Legislature will want to

carefully consider the programmatic impact of sweeping these special funds to the General Fund.

**Capital Outlay Projects – Structural Retrofit.** The budget proposes \$3.7 million General Fund for preliminary plans and working drawings necessary to implement the structural retrofit of nine state facilities. The affected state facilities are: Department of Veterans Affairs Yountville East Ward; Department of Corrections Tehachapi Chapels Facility; Department of Mental Health State Hospital (Norwalk) Wards 206 and 208; National Guard Armory in Stockton; California Correctional Center Vocational Building in Susanville; Vacaville Correctional Medical Facility Wings U, T, and V; California Correctional Institute for Women Infirmary in Frontera; California Correctional Institute for Women Clinic in Frontera; and Department of Corrections Jamestown Buildings E and F. Considering that these expenditures are for plans only, the eventual construction costs are expected to be in the tens to hundreds of millions of dollars.

**Procurement Division/Interagency Support Division Realignment.** The budget includes the programmatic transfer of \$6.9 million (Service Revolving Fund) and 54.6 positions from the Procurement Division to the Interagency Support Division. The affected positions work with property reutilization, surplus property sales, transportation management, transit storage, and federal surplus property programs.

**Excess Expenditure Authority Adjustment.** The budget includes a reduction of \$7.8 million (special funds) to recognize operating expense savings resulting from recent personnel reduction measures, including Control Section 31.60 of the Budget Act of 2002 and Control Section 4.10 of the Budget Act of 2003.

**Building and Property Management Special Repairs.** The budget includes \$2.5 million (Service Revolving Fund) to create a permanent funding source to complete special repairs and deferred maintenance in Building Rental Account buildings.

**Emergency Telephone—Enhanced Wireless Service.** The budget includes \$32 million in expenditure authority for a local assistance appropriation to provide enhanced wireless services for 911 calls. This service will mean better identification of callers and improved cooperation between the CHP (who currently receives the most 911 calls) and the local Public Safety Answering Points. The rollout of enhanced 911 services has been delayed for years due to evolving technology, regulatory issues, and scheduling problems. Given the history of delay and extended spending timelines, the Legislature will want to carefully consider the reliability of the schedule and ways to facilitate implementation of this valuable service.

### **Issue**

**Reducing State Travel Costs by Booking Online.** Based on a CPR recommendation and research by the department, the Legislature augmented DGS to allow establishment of a statewide travel portal. This action was meant to centralize in-state airline ticket bookings to save costs and encourage those ticket bookings at least two weeks in advance. The Legislature directed the Director of DGS to evaluate this portal after one year and recommend ways to save costs on all travel bookings. While the Director of DGS is not required to report before June 30, 2006, the Legislature may wish to be briefed earlier on the travel portal and other measures that they may take to economize travel by state employees.

## 1880 State Personnel Board

The State Personnel Board (SPB) is responsible for California's civil service system. SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor proposes expenditures of \$19.2 million (\$4.0 million General Fund) and 132.8 positions for the SPB – an increase of \$728,000.

### *Major Budget Proposals*

**Augmentation of Reimbursement Authority.** The Governor proposes a reimbursement authority augmentation for the following purposes:

- State Employee Mediation Program. The SPB requests \$102,000 and one position to address an increase in mediation referrals workload.
- On-line Support. The SPB requests \$191,000 and 2 positions to provide additional assistance to departments with the on-line system.
- Administrative Support. The SPB requests \$102,000 and 1 position for additional administrative support.

## 1900 Public Employees' Retirement System

The Public Employees' Retirement System (PERS) provides benefits to 1,016,982 active and inactive members and 431,901 retirees. PERS membership is divided approximately in thirds among current and retired employees of the State, schools, and participating public agencies. This budget item shows PERS benefit expenditures and revenues, with State support included as a "nonadd," because that cost is also included in department budgets. General Fund support for PERS is budgeted at \$1.365 billion in 2006-07 – an increase of \$30 million. PERS contribution rates are set by Control Section 3.60 of the Budget Bill, and PERS generally updates these rates at the time of the May Revision.

## 1920 State Teachers' Retirement System

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college system. This budget item shows STRS benefit expenditures and revenues, with General Fund support included as a "nonadd." General Fund support for STRS is budgeted in item 6300 – in the Education section of the budget. This year the Governor is not proposing any cuts to the State's STRS funds – with funding set at 2.5 percent of payroll for purchasing power benefits (\$597 million in 2006-07) and 2.017 percent of payroll for regular retirement benefits (\$482 million in 2006-07)

**1955 Department of Technology Services**

The Department of Technology Services (DTS) is the result of reorganization and consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The Department of Technology Services (DTS) serves the common technology needs of Executive Branch agencies and other public entities with accountability to customers for providing secure services that are responsive to their needs and represent best value to the state. A Technology Services Board provides governance and guidance to the DTS.

The Governor’s budget funds 775.2 positions (no new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
Department of Technology Services Revolving Fund	\$239,420	\$238,161	-\$1,259	-0.5
<b>Total, Fund Source</b>	<b>\$239,420</b>	<b>\$238,161</b>	<b>-\$1,259</b>	<b>-0.5</b>

**Key Budget Adjustments**

**Child Welfare System/Case Management System Application Hosting Move.** The budget proposes \$4.0 million (DTS Revolving Fund) to enable the department to move this system from an IBM data center in Colorado to a state data center. The Administration asserts that this move is necessary to comply with a federal directive and protect the system in state.

**Mainframe CPU Processing Capacity.** The Governor’s budget proposes \$5.7 million (DTS Revolving Fund) to purchase mainframe processing capacity in order to meet projected workload increases and upgrade software. DTS asserts that this capacity growth need is primarily driven by population growth and the corresponding impact on departments’ IT needs.

**Server Upgrades.** The budget includes \$4.1 million (DTS Revolving Fund) to allow for the replacement of 45 UNIX and 70 Windows servers with 120 new Windows servers and 10 UNIX servers.

## ***BUSINESS, TRANSPORTATION, & HOUSING AGENCY***

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, and Managed Health Care. Transportation-related departments are included in the Transportation section of this overview. Departments with major budget changes are highlighted below.

### **0520 Secretary for Business, Transportation and Housing**

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees departments within the Agency. In addition, the Secretary's Office oversees smaller programs, such as the Small Business Loan Guarantee Program and the Film Commission, which are budgeted directly in the Secretary's Office.

The Governor proposes total expenditures of \$29 million (\$15.6 million General Fund) for the Office of the Secretary – an increase of \$3.3 million.

#### ***Major Budget Proposals***

**Small Business Loan Guarantee Program.** The Governor proposes the following adjustments to the Small Business Loan Guarantee Program:

- **Loan Repayment.** The Administration proposes to repay the \$10.7 million loan (including interest) for the loan made from the Program to the General Fund in 2002-03.
- **Chrome Plating Program.** The Administration proposes to place the Chrome Plating Program, established by AB 721 (Chapter 695, Statutes of 2005), within the Small Business Loan Guarantee Program.

**California Travel and Tourism Commission.** The Governor proposes a General Fund augmentation of \$2.7 million to increase the state's contribution to the Commission to \$10 million. The Administration indicates this augmentation would leverage an additional \$4 million in private sector funds, bringing the total marketing budget up to \$25 million, of which \$10 million would go directly to advertising. In addition, as part of the justification for a General Fund augmentation in the current-year, the Administration indicated increased revenues at a 12-to-1 benefit-cost ratio.

**Film Commission.** The Governor proposes the following adjustments to the Film Commission budget:

- **Information Technology and Outreach.** The Administration requests an on-going General Fund augmentation of \$80,000 to support the existing on-line permitting system and to increase outreach efforts.
- **Film Promotion and Marketing Fund.** The Administration requests an on-going appropriation of \$10,000 (Film Promotion and Marketing Fund) in accordance with AB 1437 (Chapter 168, Statutes of 2005), which created the fund. Fund revenues will be derived from the sales of location library documents, photocopying, and other film-related informational

documents in addition to moneys from any and all public or private sources that support the purposes of the legislation.

## **2100 Department of Alcoholic Beverage Control**

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor proposes total expenditures of \$51.8 million (no General Fund) - an increase of \$6.4 million from the current year.

### ***Major Budget Proposals***

**Grant Assistance Program (GAP).** The Governor proposes an augmentation of \$1.7 million and 3 positions to increase the Department's grants to local law enforcement agencies to \$3 million. Assembly Bill 428 (Chapter 120, Statutes of 2005), found that the GAP program was a successful law enforcement program and that annual funding should be no less than \$1.5 million and no more than \$3 million.

**Overtime Augmentation.** The Governor proposes an augmentation of \$1.7 million to fund overtime costs associated with additional enforcement and licensing efforts.

## **2150 Department of Financial Institutions**

The Department of Financial Institutions (DFI) regulates depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad, and business and industrial development corporations.

The Governor proposes total expenditures of \$24.7 million (no General Fund) - an increase of \$1.2 million from the current year.

### ***Major Budget Proposals***

**Additional Examiners.** The Governor proposes to augment the budget by \$416,000 to add 4 Examiner positions. The Department indicates this additional staff is needed to address homeland security, terrorism financing, and money laundering.

## **2180 Department of Corporations**

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries.

The budget is proposed at \$31.7 million (no General Fund), an increase of \$996,000. No budget change proposals were submitted by the Administration.

### **Major Issue**

**Investigator Positions.** The *Governor's Budget Summary* alludes to the 2006 audit of the Department's activities by the Bureau of State Audits. The Department eliminated all its Investigator positions in 2003-04 as part of its plan to reduce positions to comply with Control Section 4.10 of the 2003 Budget Act. Concerns have been raised over the reduction in consumer protection associated with the elimination of the investigation function. The audit should provide guidance concerning whether the Investigator positions should be reestablished in the Department's budget.

## **2240 Department of Housing and Community Development**

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$477.5 million (\$16.8 million General Fund) in total expenditures for the department – a decrease of \$176.4 million. The large reduction is due to the dwindling amount of unexpended bond funds from the Emergency Shelter Trust Fund Act of 2002 (Proposition 46).

### **Major Budget Proposals**

**Office of Migrant Services.** The Governor proposes to augment General Fund support by \$3.4 million (\$1 million ongoing) for reconstruction at two migrant center child care buildings and ongoing operational subsidies and routine repair costs.

**Emergency Housing Assistance Program (EHAP) Cut.** The Governor proposes an \$864,000 General Fund reduction for EHAP funding that reduces state support for the program to \$3.1 million. The EHAP provides funds for basic homeless shelter operating costs such as rent, utilities, and salaries of core administrative staff through minimum county allocations of \$30,000.

## 2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$43.3 million (no General Fund) in total expenditures for the Department – an increase of \$8.8 million.

### *Major Budget Proposals*

**Enforcement Program.** The Governor proposes to augment funding by \$2.7 million and 33 positions in the Enforcement Program. The Department indicates this funding would address the significant and sustained growth in the licensee population since 1997-98.

**Baseline Workload Adjustments.** The Governor proposes to augment funding by \$2.3 million to fund cost increases due to increased volume of examinees, licensees, and related enforcement complaints. Funding would cover off-site examinations (\$647,000), credit card processing fees (\$36,000), postage (\$193,000), and Office of Administrative Hearing costs (\$1.5 million).

**Information Technology.** The Governor proposes four information technology (IT) augmentations:

- **Electronic Examinations.** The Department requests \$1.3 million and one position for year-one costs for a four-year IT project with a total cost of \$4.7 million.
- **Interactive Voice Response (IVR).** The Department requests \$133,000 and one position for year-one costs for a three-year IT project with a total cost of \$2.5 million.
- **IT Replacement.** The Department requests \$1.4 million for year-one costs for a four-year IT project with a total cost of \$2.7 million.
- **eLicensing Support Position.** The Department requests \$124,000 and one position to be dedicated to eLicensing development, and Web system enhancement and maintenance.

## 2400 Department of Managed Health Care

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system.

The Governor proposes \$41.5 million (no General Fund) in total expenditures for the department – an increase of \$5.5 million.

### *Major Budget Proposals*

**Enforcement Program.** The Governor proposes to augment funding by \$3.8 million and 17 positions to conduct financial solvency oversight of risk bearing organizations and ensure prompt payment of health care provider claims.

## **GENERAL GOVERNMENT**

### **8260 California Arts Council**

The Arts Council serves the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community.

The Governor proposes expenditures of \$5.1 million (\$1.1 million General Fund) and 19.3 positions for the Arts Council – an increase of \$1.8 million. The requested increase in expenditures is supported by higher revenue from Art License Plate sales and renewals. The Art License Plates (art-themed car license plates) have been around since 1993; however, SB 1213 (Chapter 393, Statutes of 2004) increased the cost of the plates – leading to an annual revenue increase of about \$2.8 million. The Council proposes to spend this additional revenue on the resumption of local-assistance grants to support the arts. General Fund support for local-assistance grants existed up through 2002-03, but was subsequently eliminated by budget cuts.

### **8380 Department of Personnel Administration**

The Department of Personnel Administration (DPA) represents the Governor as the “employer” in all matters concerning the State employer-employee relations. The Department is responsible for all issues related to salaries, benefits, position classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Governor proposes expenditures of \$91.2 million (\$34.2 million General Fund) and 218 positions for DPA – an increase of \$5.5 million and 11 positions.

#### ***Major Budget Proposals***

**State Civil Service Classification and Selection Systems.** The Governor proposes to augment funding by \$1 million (General Fund) to hire consultants to assess the current State Civil Service Classification and Selection System and develop a comprehensive strategy and business plan for implementation of reform. The Administration indicates the objective is “to improve the current systems so that they are flexible, dynamic, readily maintained, easily understood, meets legal requirements and provides the State with optimal return on human resources investment.”

**Savings Plus Program.** The Governor proposes to augment funding by \$1.7 million (special fund), increasing to \$3.2 million by 2010-11, to fund increased costs to pay the Third Party Administrator for the Savings Plus Program and the Alternative Retirement Program. The Third Party Administrator provides recordkeeping and trustee services to the State's 457, 401(k) and Part-time Seasonal and Temporary (PST) defined contribution retirement plans.

**8620 Fair Political Practices Commission**

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974. The objectives of the Political Reform Act are to ensure that election campaign expenditure data is fully and accurately disclosed so that the voters may be fully informed and to inhibit improper financial practices, and regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.

The Governor’s budget funds 73.4 positions (including 14 new positions) and expenditures as follows:

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$6,111	\$7,002	\$891	14.6
Reimbursements	7	0	-7	-100.0
<b>Total, Fund Source</b>	<b>\$6,118</b>	<b>\$7,002</b>	<b>\$884</b>	<b>14.4</b>

**Key Budget Adjustment**

**Staffing Augmentation.** The Governor’s budget includes \$700,000 General Fund and 12.2 positions to meet workload requirements stemming from new Legislative mandates and the Political Reform Act. Caseloads have increased considerably in recent years: in the enforcement division, new cases nearly doubled from 892 in 2003 to 1751 in 2004. Additional revenue in the \$90,000 to \$120,000 range is expected from enforcement actions. The requested positions will be assigned to enforcement, investigations, legal counsel, legal support, and administrative support.

**8885 Commission on State Mandates**

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state.

The Governor’s budget funds 14 positions (with no new positions) and expenditures as follows:

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$120,982	\$241,637	\$120,655	99.7
Motor Vehicle Account	1506	1551	45	3.0
Dept of Pesticide Regulation Fund	157	162	5	3.2
<b>Total, Fund Source</b>	<b>\$122,645</b>	<b>\$243,350</b>	<b>\$120,705</b>	<b>98.4</b>

**Key Budget Adjustments**

The Governor’s budget includes no adjustments to the Commission on State Mandates program budget.

**State Mandates Payments.** The budget includes \$243 million (\$240 million General Fund) to local governments for mandate costs. That sum contains the following four distinct components.

- Payment of \$48.0 million for 35 known mandates.
- Payment of \$45.7 million for mandates still to be identified for payment in the budget year.
- An appropriation of \$50 million for mental health services to special education students (the AB 3632 mandate).
- An appropriation of \$98.1 million for the first year of a 15-year repayment cycle for past due state mandate claims.

The Legislature will carefully consider the cost estimates and policy implications of funding each mandate and closely scrutinize the repayment schedule to ensure it is accurate and complete.

**State Mandate Suspensions.** Twenty eight mandates are recommended for suspension in the budget year. The Legislature will carefully evaluate the cost savings and policy implications of suspending each of these mandates.

## 8940 Department of the Military

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to provide: (1) mission ready forces to the federal government as directed by the President, (2) emergency public safety support to civil authorities as directed by the Governor, and (3) support to the community as approved by proper authority. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense.

The Governor's budget funds 685.9 positions (including 17 new positions) and expenditures as follows:

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$33,931	\$38,139	\$4,208	12.4
Armory Discretionary Improvement Account	150	146	-4	-2.7
Armory Fund	2,200	0	-2200	-100.0
Federal Trust Fund	60,304	62,024	1720	2.9
Reimbursements	15,754	10,979	-4775	-30.3
California Military Family Relief Fund	250	250	0	0.0
<b>Total, Fund Source</b>	<b>\$112,589</b>	<b>\$111,538</b>	<b>-\$1,051</b>	<b>-0.9</b>

### **Key Budget Adjustments**

**Armory Maintenance and Repair.** The 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. The Legislature may wish to have a detailed plan to address that entire workload prior to approving this request.

**Establishment of an Internal Control Office (ICO).** The budget includes \$182,000 General Fund and two auditor positions to allow the Military Department to establish an ICO. These positions would be used to provide an ongoing audit of the Military Department's fiscal systems and practices. The Legislature may wish to consider the results of a Bureau of State Audits report on Military Department fiscal practices and oversight (due out in the spring) before acting on this proposal.

**Headquarters Complex Land Acquisition.** The budget includes \$1 million General Fund to acquire a two-year purchase option on 30 acres of land at the former Mather Air Base to build a new headquarters complex. Expected costs for the whole project (design through construction) are \$98.5 million.

**Homeland Security Augmentation.** The budget includes \$1.7 million (reimbursements) and 7 three-year limited term positions for training and exercise contracts proposed by the Office of Homeland Security.

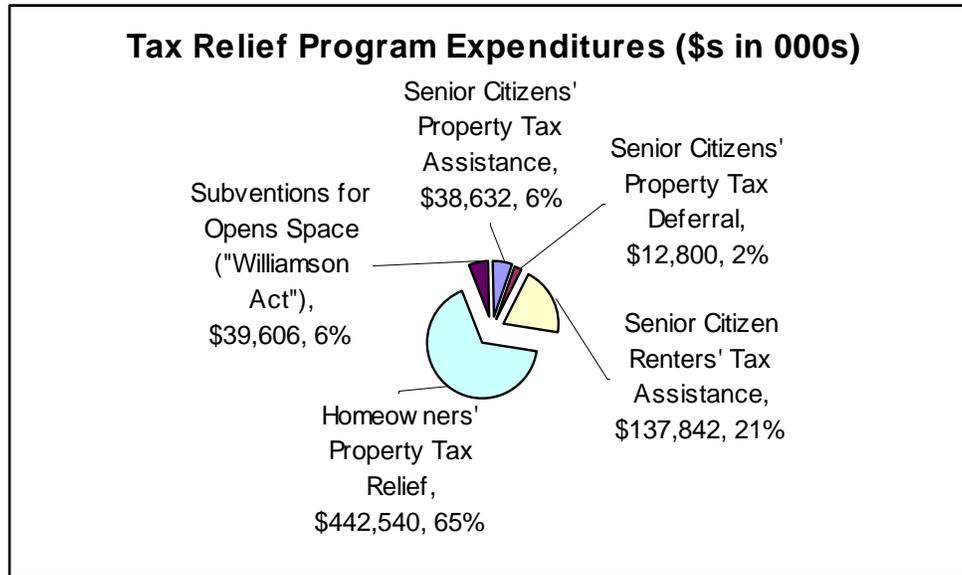
**Issue**

**Position Control and Funding.** Oversight hearings held by Budget Subcommittee #4 last year and subsequent media coverage has scrutinized departmental hiring practices and incoherent position establishment and funding. The Legislature may wish to explore those issues further to verify the best use of state funds and adherence to state personnel practices.

**9100 Tax Relief**

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief is provided to individuals who agree to hold their land as open space under the Williamson Act of 1965 and through payments to cities and counties to help defray revenues lost as a result of tax relief programs.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$664,144	\$671,420	\$7,276	1.1
<b>Total, Fund Source</b>	<b>\$664,144</b>	<b>\$671,420</b>	<b>\$7,276</b>	<b>1.1</b>



**Key Budget Adjustments**

**Program Expenditure Adjustments.** The Governor’s budget includes a net reduction of \$3.9 million General Fund in the budget year for adjustments to reflect estimated participation in the Senior Citizens' Property Tax and Renters' Tax Assistance Programs, the Senior Citizens' Property Tax Deferral Program, and the Homeowners' Property Tax Relief.

**Williamson Act.** The Governor’s budget fully funds the Williamson Act subventions for open space preservation at \$39.6 million.

**9210 Local Government Financing**

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

Local Government Financing expenditures are as follows:

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$1,333,865	\$262,857	-\$1,071,008	-80.3
<b>Total, Fund Source</b>	<b>\$1,333,865</b>	<b>\$262,857</b>	<b>-\$1,071,008</b>	<b>-80.3</b>

<b>Programs</b>				
Aid to Local Governments	\$1,205,331	\$60,148	-\$1,145,183	-95.0
Citizens' Option for Public Safety (COPS)	125,825	200,000	74,175	59.0
Special Supplemental Subventions	2,709	2,709	0	0.0
<b>Total, Programs</b>	<b>\$1,333,865</b>	<b>\$262,857</b>	<b>-\$1,071,008</b>	<b>-80.3</b>

**Key Budget Adjustments**

**Booking Fees.** The 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.

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

**Juvenile Justice Crime Prevention Act (JJCPA).** The budget includes JJCPA program funding of \$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.

**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).** The proposed budget maintains COPS program funding 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.

**Issue**

**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. Considering the significant fiscal benefits to both local government and schools, the Legislature and counties will want to ensure that the level of service provided by local tax collectors is appropriate.

**9800 Employee Compensation**

The budget proposes \$382.5 million (\$203.2 million General Fund) to fund compensation and benefit adjustments for existing contract obligations for state employees. Also included in this augmentation is funding 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).

**9840 Augmentation for Contingencies and Emergencies**

Each year, the Budget Act includes appropriation items in Item 9840 to be used to supplement departments' appropriations that are insufficient due to unanticipated expenses or emergency situations. There are three separate appropriations, one for each fund type - General, special, and non-governmental cost funds. These appropriations are allocated to other departments by the Department of Finance (with Legislative review) based upon the determination of need.

Funding for this item is as follows:

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<b>Fund Source</b>				
General Fund	\$19,009	\$49,000	\$29,991	157.8
Other Unallocated Special Funds	10,974	15,000	4,026	36.7
Various Other Unallocated Non-Governmental Cost Funds	14,874	15,000	126	0.8
<b>Total, Fund Source</b>	<b>\$44,857</b>	<b>\$79,000</b>	<b>\$34,143</b>	<b>76.1</b>

**Issue**

The Governor's budget includes no adjustments to this item. Because this item is only in its second year as a replacement mechanism to the former Control Section 27.00 deficiency process, the Legislature will want to carefully consider whether the Item 9840 budget bill language should be amended to ensure that only true emergencies are funded through this item.

## Budget Control Sections

**Control Section 3.45 and Control Section 4.05: Unallocated Reductions.** The Governor's Budget includes \$308 million in unallocated reductions to departments' state operations budgets: \$58 million through a one percent cut to salaries and wages budgets (and associated expenditures) via budget Control Section 3.45, and \$250 million in unspecified reductions through budget Control Section 4.05. These reductions can be separated into four major components.

- In the current year, \$50 million would be realized by working with Agency Secretaries to identify reductions. The Administration asserts that authority for this reduction is based on end of year savings which are normally not recognized until the subsequent year. This proposal would advance the recognition of those savings into the current budget year.
- In the budget year, \$100 million will be achieved through departmental savings to be identified. Authority is provided through Control Section 4.05.
- An additional \$100 million in the budget year, this time citing intent language included in Control Section 4.05 of the 2005 Budget Act. That language asserted that the intended use of those savings would be to increase the General Fund reserve by the end of 2006-07. As written in Control Section 4.05 of the proposed budget, savings will evidently not result in an increase to the General Fund reserve.
- A total of \$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.

These proposed reductions follow unallocated reductions made in Control Section 4.10 of the 2004-05 Budget Act and Control Section 4.05 of the 2005-06 Budget Act. Departments have been directed to reduce budgets by using layoffs, hiring freezes, procurement reductions, or other administrative means. Similar to last year, when more than \$75 million of unallocated reductions were rejected by the Legislature, the Budget Subcommittees may wish to carefully consider the impacts of these reductions *on a department by department basis* to ensure that legislative priorities are unaffected.

As shown below, unallocated reductions as a budget balancing mechanism have become an increasingly popular budget balancing mechanism with this Administration. However, as opposed to the information provided to the Legislature in budget change proposals, relatively little information is provided to the Legislature detailing the programmatic impact of unallocated reductions.

Year	Proposed Unallocated Adjustment	Comments
2004-05	\$58,000,000	From Control Section 4.10 of the 2004-05 Budget Act. One-hundred-and-fifty million was originally proposed.
2005-06	\$225,000,000	Includes: <ul style="list-style-type: none"> <li>• <b>Estimated</b> \$75 million <i>ongoing</i> savings from department specific reductions (decreased from \$150 million originally proposed). The actual figure is expected from Finance in early February.</li> <li>• \$100 Million from Control Section 4.05 of the 2005-06 Budget Act</li> <li>• \$50 million included in Governor’s 2006-07 proposed budget</li> </ul>
2006-07	\$258,000,000	Includes: <ul style="list-style-type: none"> <li>• \$200 million from proposed Control Section 4.05</li> <li>• \$58 from proposed Control Section 3.45</li> </ul>
<b>Estimated Three-Year Total:</b>	<b>\$541,000,000</b>	Total unallocated reductions proposed since 2004-05. Ongoing savings are estimated to be \$133 million of the total.

**Control Section 3.65: Minimum Wage Adjustment**

The budget proposes \$10.3 million General Fund and authority to augment six departments’ budgets through a control section. This augmentation reflects a proposed statewide minimum wage increase and its impact on six departments who have a significant number of minimum wage-paid employees. The Governor has proposed legislation to make a 50-cent increase to the minimum wage (to \$7.25), effective September 1, 2006.

**Control Section 4.06: Mid-Year Budget Correction Authority**

The proposed budget bill includes a Control Section 4.06 which, if enacted, would enable the Governor to make mid-year reductions 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. The Administration asserts this authority was entrusted with the Governor prior to 1984.

**Control Section 35.60: Budget Stabilization Account (BSA) Transfer to the General Fund.**

The Administration proposes to allow the Director of DOF to make transfers from BSA to the General Fund reserve whenever s/he determines that a shortfall will occur in the General Fund reserve (with Legislative notification afterwards). Based on the poor condition of the General Fund reserve (\$153 million of a \$98 billion General Fund budget), if this Control Section is enacted, the Director has stated that he would immediately transfer \$460 million from the BSA to the reserve. This action would achieve a budget year reserve of \$613 million.

# JUDICIAL BRANCH

## 0250 Judicial Branch

The Governor's budget proposes a total of \$3.4 billion (\$2 billion General Fund and \$1.4 billion other funds) for the Judicial Branch, an increase of \$139.7 million (\$224.1 million General Fund) or 4.3 percent above anticipated current-year expenditures.

Of the total amount, the budget proposes expenditures of \$371 million (\$317.7 million General Fund) for items related to the state judiciary. The state judiciary items include the Supreme Court (\$41.6 million), the Courts of Appeal (\$182.1 million), the Judicial Council – which includes the Administrative Office of the Courts (AOC) (\$101.9 million), the Judicial Branch Facility Program (\$32.6 million), and the California Habeas Corpus Resource Center (\$12.9 million). The proposed amount for the state judiciary is a decrease of \$3.4 million below estimated expenditures in the current year. The reduction is due primarily to a change in the way that reimbursements from the trial courts are reflected. Previously the budget had shown about \$14 million in reimbursements in the AOC budget from trial courts for services provided statewide for the trial courts. Now that the entire Judicial Branch is in one budget item, the Administration has eliminated the reimbursements and proposed budget bill language that would allow for the transfer of funds from the trial courts to the AOC, upon the approval of the director of the AOC, for recovery of the costs of administrative services provided to the courts.

The proposed total budget for the Trial Court Funding item is \$3 billion (\$1.7 billion General Fund and \$1.4 billion other funds). This amount is an increase of \$143 million, or 4.9 percent, from anticipated expenditures in the current year.

<b>Summary of Program Requirements</b>				
(dollars in thousands)	2002-03	2003-04	\$ Change	% Change
Supreme Court	\$40,837	\$41,571	\$734	1.8
Courts of Appeal	178,072	182,117	4,045	2.3
Judicial Council	110,914	101,902	-9,012	-8.1
Judicial Branch Facility Program	33,189	32,552	-637	-1.9
State Trial Court Funding	2,889,837	3,032,868	143,031	4.9
Habeas Corpus Resource Center	11,380	12,872	1,492	13.1
<b>Total</b>	<b>\$3,264,229</b>	<b>\$3,403,882</b>	<b>\$139,653</b>	<b>4.3</b>

### **Highlights**

- An increase of \$57.5 million General Fund for the trial courts to restore a one-time reduction in the current year.
- An increase of \$31 million General Fund in baseline augmentations for the trial courts related to court security (\$18.7 million) and information technology (\$13.3 million).
- An increase of \$5.5 million General Fund to support facilities, staff, salaries, and benefits for up to 150 new judges phased in over a three-year period. This level of funding assumes one month of expenditures in the budget year.
- An increase of \$105.2 million General Fund for the trial courts based on a growth factor (4.7 percent) tied to the State Appropriations Limit (SAL).
- An increase of \$16 million General Fund for the trial courts by increasing the base upon which the SAL growth factor is calculated. This proposal adds judicial compensation, the assigned judges program, the Judicial Administration Efficiency and Modernization Fund, the Equal Access Fund, and a portion of the Trial Court Improvement Fund to the base upon which the growth factor adjustment is calculated.
- An increase of \$1.2 million General Fund for a growth factor increase equal to the SAL for the state judiciary beginning June 1, 2007. This represents one month funding in the budget year. This moves the entire Judicial Branch budget to the SAL growth factor methodology.
- An increase of \$1.3 million General Fund and 13 positions for the Habeas Corpus Resource Center to provide additional staff and resources to accept additional capital habeas corpus appointments from the California Supreme Court.
- An increase of \$3.3 million General Fund and 9 positions to upgrade current systems and equipment and to provide additional information technology support services for the Supreme Court, the Courts of Appeal, and the AOC.

### **Selected Issues**

**Trial Court Budget Tied to the State Appropriations Limit.** As part of the 2004 Budget Act, the Legislature approved statutory changes which annually grow the budget for the state's trial courts by the same percentage as the State Appropriations Limit (SAL). The 2005 Budget Act was the first year that the trial court budget was increased by the growth factor as opposed to submission of individual Budget Change Proposals. The Governor's budget proposes an increase of \$105.2 million General Fund as a growth factor for the trial courts, based on an estimated increase of 4.7 percent in the State Appropriations Limit. In addition, the budget proposes \$16 million and trailer bill language to increase the base upon which the SAL for the trial courts is calculated, adding judicial compensation, the assigned judges program, the Judicial Administration Efficiency and Modernization Fund, the Equal Access Fund, and a portion of the Trial Court Improvement Fund to the base upon which the growth factor adjustment is calculated. The budget also proposes funding and trailer bill language to apply the SAL growth factor methodology starting June 1, 2007 for the Supreme Court, the Courts of Appeal, and the Administrative Office of the Courts. The Legislature may wish to consider the policy implications of the proposed expansions of the SAL and the appropriate level of oversight under the SAL process.

**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 for 50 judgeships. 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.

**Transfer of Trial Court Facilities to the State.** Pursuant to the Trial Court Facilities Act of 2002, the process for the transition of court facilities from the county to the state was started in 2004-05. The transfer process has been slower than previously anticipated – originally, the AOC estimated that by the current year, between 100 and 140 facilities would be transferred to the state, to date only five buildings have transferred. The main reasons for the delays are due to seismic safety issues that must be dealt with prior to the transfer.

The AOC estimates that 90 percent of all courthouses require significant maintenance, repair, renovation, or replacement. Transfer of responsibility from counties to the state brings with it the responsibility to fund improvements to address years of neglect by the counties. Based on the current condition of buildings, the Judicial Council has identified a total need for 183 projects at a total estimated cost of \$9.8 billion over the next 10 years. Of the projects identified by the Judicial Council, 50 percent are new construction, 30 percent are renovations, and 20 percent are expansions. Some of the funding for the transition will come from fees that are deposited into the State Court Facilities Construction Fund -- approximately \$90 million has been transferred annually for the last few years into State Court Facilities Construction Fund. The Governor's ten-year Strategic Growth Plan proposes to provide General Obligation Bonds to fund some of the costs related to the transfer of court facilities. Specifically, the proposal includes General Obligation bonds for \$800 million in 2006 for the acquisition, design, construction, or renovation of trial court facilities, and another \$1 billion for the same purposes in 2010. Under this funding scenario, the Judicial Council would need to re-examine the projects to determine the appropriate priority based on the available funds.

The budget proposes \$38.6 million in expenditures from the State Court Facilities Construction Fund, which is less than the anticipated expenditures of \$47.1 million in the current-year. Additional funds for maintenance, renovation, expansion, and replacement of facilities will need to be appropriated once additional buildings are transferred from the counties. The budget estimates that the reserve for the State Court Facilities Construction Fund will be \$250 million at the end of the budget year, with an additional \$72.7 million that was loaned to the General Fund in the current year.

# *PUBLIC SAFETY*

## **0685 Office of Homeland Security**

The Office of Homeland Security (OHS) develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate the recovery effort. The OHS also serves as the state administering agency for federal homeland security grants and the state's primary liaison with the U.S. Department of Homeland Security.

Currently, the OHS is funded as part of the Office of Emergency Services (OES). The Governor's 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 Office in statute. However, the Administration has not proposed legislation to create OHS as an independent entity.

Total funding for the OHS in the budget year is \$365 million (\$359.7 million federal funds and \$5.2 million Antiterrorism funds). Of the total proposed funding, \$328 million is for homeland security grants to local jurisdictions, \$22 million is for homeland security grants to other state agencies, and \$12.4 million for support of the OHS. In the budget display, half of the funding appears in the OES budget item and half in the newly created OHS budget item.

Historically, total funding for Homeland Security grants to California for federal fiscal year 2003 was \$339.9 million, \$364.7 million for federal fiscal year 2004, and \$314.7 million in federal fiscal year 2005. The U.S. Department of Homeland Security (DHS) indicates that approximately \$1.8 billion will be available nationally for homeland security grants in federal fiscal year 2006. Because the state is currently in the process of applying for these grants, which are available for expenditure over three years, the funding is not included in the January budget. In previous years, the Department of Finance has submitted a Finance Letter in the spring once the grant awards have been made by the DHS.

### ***Highlights***

**Antiterrorism Funds.** The budget proposes \$5 million from the Antiterrorism Fund to fund a new program to assist local mass transit entities in improving the security infrastructure. The Antiterrorism Fund was created by Chapter 38, Statutes of 2002 (AB 1759, Wesson) following the terrorist attacks on September 11, 2001. The fund receives revenues from the California memorial license plates, which are estimated at \$1.2 million annually. Money from the Antiterrorism Fund has not been appropriated in past years, and the estimated available balance is \$5.4 million. The ongoing grant program would be \$1 million annually. The proposal requires trailer bill language to authorize OHS to use the entire Antiterrorism Fund solely for antiterrorism purposes. Under current statute, the fund is allocated (upon appropriation by the Legislature) one half to the Office of Criminal Justice Planning (OCJP), solely for antiterrorism activities, and one half to other agencies for antiterrorism activities.

**Homeland Security Expenditures.** Since 2000, the state has received over \$1 billion in federal homeland security funds that are administered by the OHS and by the Department of Health Services. The Table below highlights the funds administered by OHS since 2000.

<b>OHS Federal Homeland Security Grants</b>			
<i>Federal Fiscal Years 2000-2005</i>			
<b>Federal Fiscal Year</b>	<b>Local Governments</b>	<b>State Agencies</b>	<b>Total</b>
2000 & 2001	\$12,224,750	\$2,608,250	\$14,833,000
2002	19,965,000	4,866,000	24,831,000
2003	186,960,190	39,521,300	226,481,490
2004	282,038,527	35,091,400	317,129,927
2005	263,508,216	30,661,056	294,169,272
<b>Totals</b>	<b>\$764,696,683</b>	<b>\$112,748,006</b>	<b>\$877,444,689</b>

Last year the LAO noted that the state lacked a comprehensive plan on homeland security, there was no statewide reporting on homeland security grants, and that there had been some delays in expending the funds. The Legislature provided additional accounting and fiscal tracking positions at the Office of Emergency Services (OES) and at OHS, and required OHS to work with the Department of Health Services to develop a statewide strategic plan by February 1.

## **0690 Office of Emergency Services**

The primary purpose of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters.

The budget proposes total expenditures of \$1.1 billion, a reduction of \$247.1 million or 19 percent from estimated current year expenditures. The major reasons for the reduction include creation of a separate budget item for the Office of Homeland Security, effective January 1, 2007 (\$180.8 million), an adjustment to reflect updated disaster assistance payments (\$17.4 million), and a reduction in federal criminal justice grants (\$16.9 million).

<b>Summary of Programs</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Support of Office of Homeland Security	\$0	\$170,217	\$ 170,217	100.0
Mutual Aid Response	20,557	16,522	(4,035)	-19.6
Plans and Preparedness	363,548	35,693	-327,855	-90.2
Disaster Assistance	635,609	616,463	-19,146	-3.0
Criminal Justice Projects	242,421	198,329	-44,092	-18.2
California Anti-Terrorism Info Center	6,700	6,811	111	1.7
Executive and Administration	7,140	7,259	119	1.7
Distributed Administration	(6,234)	(6,338)	-104	0.0
Support of Other State Agencies	-	11,000	11,000	0.0
Office of Homeland Security	33,327	-	-33,327	-100.0
<b>Total</b>	<b>\$1,303,068</b>	<b>\$1,055,956</b>	<b>-\$247,112</b>	<b>-19.0</b>

<b>Summary of Expenditures</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
<i>State Operations</i>				
General Fund	\$46,200	\$40,771	-\$5,429	-11.8
Federal Funds	63,280	47,774	-15,506	-24.5
Reimbursements	2,671	2,671	0	0.0
Other Funds	3,240	3,302	62	1.9
Subtotal, State Operations	\$115,391	\$94,518	-20,873	-18.1
<i>Local Assistance</i>				
General Fund	\$95,493	\$83,804	-11,689	-12.2
Federal Funds	1,066,961	849,961	-217,000	-20.3
Reimbursements	6,576	5,571	-1,005	-15.3
Other Funds	18,647	22,102	3,455	18.5
Subtotal, Local Assistance	\$1,187,677	\$961,438	-226,239	-19.0
<b>Total</b>	<b>\$1,303,068</b>	<b>\$1,055,956</b>	<b>-\$247,112</b>	<b>-19.0</b>

**Highlights**

**Sexual Assault Felony Enforcement Teams.** The budget proposes \$6 million General Fund for Sexual Assault Felony Enforcement Teams throughout the state. This program will provide grant funds to local jurisdictions to support efforts to investigate, monitor, and prosecute habitual sexual offenders. The proposal would increase the program by an additional \$2 million in 2007-08 for an ongoing cost of \$8 million.

**Assistance for Victims of Crimes Committed by Parolees.** The budget includes \$1.1 million from the Victim-Witness Assistance Fund for grants to victim-witness service centers to assist

victim-witnesses during parole revocation hearings. The assistance would include coordination of victim witness attendance, counseling and referral services, and assistance in obtaining benefits. The purpose of the fund is to provide local assistance grants for victim counseling centers and prevention programs. The request indicates that the benefit from this program will include ensuring that more victim-witnesses are willing to participate in parole revocation proceedings, improving the ability of the Board of Parole Hearings to receive testimony and consider that testimony in its decision whether to revoke the parole status of a parolee, and improving public safety and decreasing victimization by sending more parolees back to state prison.

**0820 Department of Justice**

It is the responsibility of the Attorney General to uniformly and adequately enforce the laws of the State of California. Under the direction of the Attorney General, the Department of Justice (DOJ) enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies.

The budget proposes a total of \$745 million for the DOJ, an increase of \$51.6 million, or 7.4 percent from the revised current year budget.

<b>Summary of Program Requirements</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Directorate and Admin	\$28,434	\$29,185	\$751	2.6
Distributed Directorate and Admin	(28,434)	(29,185)	-751	0.0
Legal Support and Tech	48,804	48,442	-362	-0.7
Distributed Legal Support and Tech	(48,804)	(48,442)	362	0.0
Executive Programs	15,287	15,495	208	1.4
Civil Law	124,471	122,060	-2,411	-1.9
Criminal Law	100,140	103,624	3,484	3.5
Public Rights	80,399	78,612	-1,787	-2.2
Law Enforcement	183,579	213,316	29,737	16.2
Criminal Justice Info Services	161,727	175,629	13,902	8.6
Gambling	15,503	18,997	3,494	22.5
Firearms	12,246	17,261	5,015	41.0
<b>Total</b>	<b>\$693,352</b>	<b>\$744,994</b>	<b>\$51,642</b>	<b>7.4</b>

**Highlights**

**Gang Suppression Enforcement Teams.** The budget proposes \$6.5 million General Fund and 33 positions to develop four new Gang Suppression Enforcement Teams (GSETs). In 2007-08, an additional two teams would be established bringing the total ongoing program cost to \$9.8 million and 50 positions. Teams would be located statewide to provide leadership to local law enforcement in suppressing multi-jurisdictional gang-related crimes.

**California Methamphetamine Strategy (CALMS) Program.** The budget proposes an augmentation of \$6 million General Fund and 29.6 positions for the CALMS Program. This

funding would provide resources for three new teams in regional offices to conduct investigations involved in dismantling clandestine methamphetamine labs.

**Special Crimes Unit.** The budget proposes \$1.3 million General Fund and 12.6 positions to increase investigation activities within the Special Crimes Unit, which handles the investigation and prosecution of individuals and businesses that participate in complex financial and identity theft crimes.

**Tribal Gaming Compliance and Enforcement.** The budget proposes an augmentation of \$3.3 million, comprised of \$367,000 General Fund and \$3 million Indian Gaming Special Distribution Fund, and 18 positions to address increased inspection and investigative workload related to existing and newly negotiated/amended Tribal Gaming Compacts. This proposal includes an increase of \$1.9 million in 2007-08 for a total ongoing cost of \$5.2 million. The budget also proposes an increase of \$1.7 million for the Gambling Control Commission related to licensing and audit workload, and field inspections.

**Firearms Database Workload.** The budget proposes an augmentation of \$5 million General Fund and 32.3 positions for handling workload associated with DOJ Armed Prohibited Persons System (APPS) database, which was developed pursuant to Chapter 944, Statutes of 2001. The APPS database cross-references persons who possess or own a firearm and have been subsequently prohibited from owning or possessing a firearm, including persons convicted of a felony or violent misdemeanor, persons who have been committed to a mental health treatment facility, and persons with active restraining orders. This augmentation will allow the DOJ to review and analyze records in the APPS database to identify persons prohibited from possessing a firearm or dangerous weapon, and organize and lead state and local task forces to investigate, arrest, and prosecute armed prohibited criminals.

**California Law Enforcement Telecommunications System (CLETS) Network Encryption.** The budget includes \$2 million (\$903,000 General Fund and \$1.1 million Motor Vehicle Account) and 2.8 positions to develop and implement network encryption of CLETS, which is a statewide telecommunications network available to all California law enforcement and criminal justice agencies. CLETS routes all criminal justice information between federal, state, and local law enforcement agencies, and provides instant access to information such as wanted persons, missing and unidentified persons, criminal offenders, parolees, stolen vehicles, stolen firearms, vehicle registration, driver records, and registered sex offenders. This augmentation will help ensure that data is protected as it transmits through public telecommunications lines and that the state is in compliance with network encryption as required by federal security policy.

## **0855 Gambling Control Commission**

The California Gambling Control Commission (GCC) was established by Chapter 867, Statutes of 1997 (SB 8, Lockyer). The five-member commission is appointed by the Governor subject to Senate confirmation. The GCC is responsible for setting policy, issuing licenses, administering, adjudicating, and regulating all matters related to controlled gambling in California.

In addition, pursuant to the Tribal Gaming Compacts and Executive Order D-31-02, the GCC is responsible for (1) administering the gaming license process, (2) controlling, collecting and accounting for all gaming device license fees, (3) making findings of suitability regarding key

employees of tribal gaming operations, and (4) ensuring the allocation of gaming devices among California’s tribes does not exceed the allowable number in the compacts. Included with this responsibility is serving as Trustee for the Revenue Sharing Trust Fund and Administrator of the Special Distribution Fund.

The budget proposes \$137.4 million (\$725,000 General Fund) for the GCC which is \$49.2 million less than anticipated expenditures in the current year. The primary reason for the reduction is that pursuant to Chapter 720, Statutes of 2005, the Legislature transferred \$50 million in the current year from the reserve of the Indian Gaming Special Distribution Fund to the Indian Gaming Revenue Sharing Trust Fund (IGRSTF) in order to change the timing of the payments to nongaming tribes from the IGRSTF. The change ensures that each eligible nongaming tribe receives a quarterly payment of \$275,000, rather than the bulk of the funding coming at the end of the year.

Of the total funding, \$10.9 million is proposed for state operations, an increase of \$2.6 million above estimated current-year expenditures. The primary reason for the increase is related to a proposal to add new funding based on compact workload (highlighted below). The budget also proposes \$126.5 million for local assistance – primarily for making payments to non-gaming tribes from the IGRSTF and for local mitigation efforts.

<b>Summary of Expenditures</b> (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$ 0	\$ 725	\$ 725	0.0
Indian Gaming Revenue Sharing Trust	97,445	96,500	-945	-1.0
Indian Gaming Special Distribution Fund	86,332	37,357	-48,975	-56.7
Gambling Control Fund	2,180	2,854	674	30.9
<b>Total</b>	<b>\$185,957</b>	<b>\$136,711</b>	<b>-\$49,246</b>	<b>-26.5</b>

**Highlight**

**Licensing, Audit and Field Inspection Workload.** The budget proposes \$1.7 million (\$359,000 General Fund, \$911,000 Indian Gaming Special Distribution Fund, and \$396,000 Gambling Control Fund) and 14.5 positions to augment licensing and audit workload, and to establish a field inspection program. Specifically, the budget proposes 5.5 positions to meet the commission’s licensing workload under the gaming compacts and the Gambling Control Act; 6 positions related to audit functions; and 3 positions to establish a field inspection program pursuant to the new and amended gaming compacts.

In addition, the budget proposes \$732,000 (\$366,000 General Fund and \$366,000 Indian Gaming Special Distribution Fund) to establish 5 positions on a two-year limited term basis to develop a Technical Services Program, Research and Testing Unit. The commission indicates that the primary purpose for the unit is to provide technical support, guidance, and direction to the gaming device field inspection program. Under the proposal, the Technical Services Program will test and inspect new game platforms, new gaming devices, gaming device modifications, and associated gaming equipment; develop and review technical standards; and provide technical support to the new field inspection program, the audit and compliance activities of the California Gambling Control Commission, and the investigation activities of the Division of Gambling Control within the Department of Justice.

### **1870 California Victim Compensation and Government Claims Board**

The California Victim Compensation and Government Claims Board, formerly known as the Board of Control, consists of three members, the Director of General Services who serves as the chair, the State Controller, and a public member appointed by the Governor. The primary functions of the Board of Control are to: (1) compensate victims of violent crime and eligible family members for certain crime-related financial losses; (2) consider and settle all civil claims against the state; (3) provide equitable travel allowances to certain government officials; (4) respond to bid protests against the state alleging improper or unfair acts in the procurement of supplies and equipment; and (5) provide reimbursement of counties' expenditures for special elections.

The budget proposes \$136.2 million, which is a decrease of \$1.6 million, or 1.1 percent, from anticipated current-year expenditures. Of the total proposed expenditures, \$126 million is proposed for the Citizens Indemnification Program, which indemnifies those citizens who are injured and suffer financial hardship as a direct result of a violent crime.

The Claims Board is primarily funded from the Restitution Fund, with total expenditures of \$102.7 million proposed from the Restitution Fund, and \$32.2 million from federal funds.

### **5225 Department of Corrections and Rehabilitation**

Effective July 1, 2005, all the agencies that previously reported to the Youth and Adult Correctional Agency were consolidated in to the Department of Corrections and Rehabilitation (CDCR) pursuant to the Governor's Reorganization Plan 1 of 2005 and Chapter 10, Statutes of 2005 (SB 737, Romero).

The mission of the California Department of Corrections and Rehabilitation (CDCR) is to improve public safety through evidence-based crime prevention and recidivism reduction strategies. The CDCR is organized into twelve programs: Corrections and Rehabilitation Administration; Corrections Standards Authority; Juvenile Operations; Juvenile Education, Vocations, and Offender Programs; Juvenile Parole Operations; Juvenile Health Care Services; Adult Operations; Adult Parole Operations; Board of Parole Hearings; Community Partnerships; Adult Education, Vocations, and Offender Programs; and Correctional Healthcare Services.

The budget 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.

<b>Summary of Program Requirements</b>				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Administration	\$208,681	\$243,649	\$34,968	16.8
Corrections Standard Authority	263,196	244,514	-18,682	-7.1
Juvenile Operations	178,589	176,337	-2,252	-1.3
Juvenile Education and Programs	138,523	179,404	40,881	29.5
Juvenile Parole	40,468	38,734	-1,734	-4.3
Juvenile Healthcare	56,135	62,119	5,984	10.7
Adult Operations	4,713,759	4,868,653	154,894	3.3
Adult Parole	717,983	693,504	-24,479	-3.4
Board of Parole Hearings	85,416	89,493	4,077	4.8
Community Partnerships	1,858	7,727	5,869	315.9
Adult Education and Programs	236,608	271,376	34,768	14.7
Adult Healthcare	1,052,898	1,182,755	129,857	12.3
<b>Total</b>	<b>\$7,694,114</b>	<b>\$8,058,265</b>	<b>\$364,151</b>	<b>4.7</b>

### **Highlights & Selected Issues**

**Adult Population Increases.** The budget increases the estimates for the adult prison and parolee populations for both the current year and the budget year. 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.

**Capacity Building Proposals.** CDCR's current inmate population of approximately 168,000 is an all-time high and the population is projected to increase further in the budget year. The budget makes no population or savings adjustments for implementation of inmate and parole programs as it has in last few years. The CDCR indicates that the continuing growth of the inmate population is having significant impacts on its ability to safely house the inmate population. The CDCR indicates that it is currently managing the population increase through the activation of the new Kern Valley State Prison, as well as implementing measures such as the "Right Prison, Right Mission" initiative to make better use of space, in addition to using gyms, day rooms, and other program space to house inmates. However, due to population pressures, the Administration has proposed several capacity building proposals in the budget and the Governor's Strategic Growth Plan, as follows.

- The budget includes a proposal to contract with providers to build contract bed capacity of up to 8,500 beds, including 4,000 male beds and 4,500 female beds for the 2007-08 fiscal year. The proposal for female beds is part of a Gender Responsive Strategy which would provide alternative placement strategies for certain female offenders. The state currently contracts for approximately 5,300 community correctional facilities (CCFs) and about 1,200 other alternative beds such as community corrections reentry centers.
- The Governor's Strategic Growth Plan proposes \$12 billion in local jail construction over 10 years. The plan envisions \$4 billion in state General Obligation Bonds for local jails, \$4 billion in local matching funds, and \$4 billion in local lease revenue bonds secured by revenues from the state for housing certain inmates, including parole violators and inmates within 90 days of release from CDCR.
- The Strategic Growth Plan also proposes \$1.1 billion in General Obligation Bonds to build new state prison or juvenile facilities. This funding would be part of the 2010 public safety bond.
- The Governor's Budget Summary indicates that, during the spring budget process, the Administration expects to request authorization for projects that will address housing for inmates in mental health programs, consistent with the *Coleman v. Schwarzenegger* litigation. Last year, the Legislature rejected a proposal to build 3 mental health facilities to house 6,000 inmates at a cost of \$1.4 billion to construct.

**Budget for the CDCR Continues to Grow.** Over the last several years, the budgets for the departments that now make up the CDCR have grown significantly. Major factors that have been driving the increase in expenditures include: court cases in areas such as inmate healthcare, mental health treatment, and the parole revocation process; increased pay for correctional staff; and increases in the inmate and parolee populations. Projected expenditures of \$7.7 billion in the current-year represent an increase of over 44 percent compared to expenditures of \$5.3 billion for the departments in 2000-01. If expenditures continue to increase at the same pace, the budget for CDCR will increase to nearly \$11.1 billion over the next five years. To the extent that the inmate population continues to increase, the costs for operating the system will continue to increase.

**Average Costs for Inmates and Wards Increases.** For adults, the average cost per inmate has increased 35 percent, from \$25,307 in 2000-01 to an estimated \$34,150 in the current year. During this time, the adult inmate population has grown by about 4 percent, from 161,497 to an estimated 168,583 by the end of the current year. Over the next five years, the CDCR is projecting that the population growth rate will nearly double, resulting in 181,474 adult inmates by June 30, 2011.

For the juvenile population, expenditures have increased while the population has decreased. The juvenile population has decreased from over 10,000 in 1996 to an estimated 2,680 by the end of the budget year. In recent years, the average cost per ward has increased significantly. In 2000-01 the estimated average cost per ward was \$51,000, while in the budget year that average cost per ward is estimated to increase to approximately \$150,000. The cost per ward will continue to increase as the population declines and the costs of the *Farrell* Remedial Plans roll out over the next several years.

**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.

**Inmate Dental Services Program.** The budget proposes \$21.5 million and 326 positions to implement the first phase of major changes in the Inmate Dental Services Plan in order to meet the stipulated agreement from the *Perez v. Hickman* class action lawsuit. The implementation of the agreement will take place over six years. This request will provide funding for the first three years of implementation, requesting \$8.2 million and 84 position in 2007-08 and \$8.8 million and 187 positions in 2008-09. The total ongoing costs after the first three years will be \$33.6 million and 597 positions. Of the 326 requested positions in the budget year, 61 are dentist positions, 163 are dental assistant positions, 28 are dental and management positions for quality management teams, and 37 positions are for clerical support.

**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. The funding includes augmenting the baseline budget for contract medical by \$42.7 million, pharmaceuticals by \$16.4 million, and medical guarding by \$9.1 million. The Administration indicates that this is the amount necessary to mend the ongoing budgetary shortfall in the CDCR budget. There is no current-year component for this request.

**Electromechanical Doors.** The budget proposes \$3 million in 2006-07 and \$7.3 million in 2007-08 to continue the electromechanical security door operating and locking system repair project which was initially approved in 2001-02.

**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.

**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.

**Farrell Ward Safety Remedial Plan.** 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 ongoing resources associated with implementing this plan is expected to be \$93.8 million by 2009-10. In the budget year, the funding will be used to target 20 living units, or 25 percent, of the Division of Juvenile Justice's ward population to receive the enhanced staffing and training to meet the requirements of the Remedial Plan filed with the court. The budget does not contain any proposals for broader juvenile justice reform issues that are not a part of the *Farrell* lawsuit.

**Farrell Juvenile Healthcare Remedial Plan.** The budget proposes \$7.5 million to implement the Healthcare Remedial Plan submitted to the court in September 2005. The proposal assumes a two-year roll out for the reforms with an additional \$1.5 million in 2007-08, with ongoing costs of \$9.1 million.

**Implementation of the Department of Corrections Reorganization.** The Corrections Reorganization was proposed as a way to make the agency more streamlined, efficient, and accountable without increasing the department's budget. The name of the department was also changed to the Department of Corrections and Rehabilitation to emphasize the goal of increasing public safety through rehabilitation. A central piece of the reorganization was the development of a new Strategic Plan for the agency in January 2005 that sets forth a timeline for a series of actions designed to ensure that the agency meets identified objectives consistent with the new Vision, Mission, and Values of the agency. The Legislature may wish to review the status of the implementation of the reorganization, including its impact on the agency budget, the implementation of evidence-based rehabilitation programs, and implementation of the objectives set forth in the department's strategic plan.

**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.

**8120 Commission on Peace Officer Standards and Training**

The Commission on Peace Officer Standards and Training (POST) is responsible for raising the competence level of law enforcement officers in California by establishing minimum selection and training standards, and improving management practices. The proposed budget for POST is \$57.5 million from special funds and reimbursements, an increase of \$1.3 million, or 2.3 percent from estimated current year expenditures. The budget proposes transfer of \$14 million from the Driver Training Penalty Assessment Fund to the Peace Officers’ Training Fund, pursuant to Control Section 24.10. The increase in the budget from the current-year is primarily due to a price increase for the department (\$746,000), and for a proposal to provide a one-time augmentation of \$350,000 to develop Web-based training, performance and performance support tools to replace CD-ROM training courses that are becoming obsolete.

<b>Summary of Program Requirements</b>				
(dollars in thousands)	2001-02	2002-03	\$ Change	% Change
Standards	\$5,082	\$5,203	\$121	2.4
Training	29,180	30,333	1,153	4.0
Peace Officer Training	21,944	21,944	0	0.0
Administration	5,618	5,772	154	2.7
Distributed Administration	(5,618)	(5,772)	-154	0.0
<b>Total</b>	<b>\$56,206</b>	<b>\$57,480</b>	<b>\$1,274</b>	<b>2.3</b>

# APPENDIX

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## TIMELINE FOR THE 2006-07 BUDGET BILL

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Tuesday	January 10	Governor submits State Budget to the Legislature
Wednesday	January 11	Committee releases <i>Quick Summary of Governor's Proposed Budget</i>
Monday	January 16	Martin Luther King, Jr. Holiday
Thursday	January 26	Committee conducts overview hearing of the budget. Department of Finance presents budget and the Legislative Analyst provides initial review. Committee releases <i>Overview of the 2006-07 Budget Bill</i>
Wednesday	February 1	Subcommittee may begin oversight hearing
Monday	February 13	Lincoln's Birthday Holiday
Monday	February 20	Washington's Birthday Holiday
Wednesday	February 23	Legislative Analyst submits <i>Analysis of the 2006-07 Budget</i> to the Legislature
Monday	February 27	Subcommittees may begin budget hearings
Friday	March 31	Cesar Chaves Birthday Holiday
Thursday	April 6	Spring Recess begins
Monday	April 17	Legislature reconvenes
Monday	May 1	Department of Finance submits final capital outlay revisions
Friday	May 12	Governor delivers May Revision to the Legislature
Friday	May 19	Subcommittees complete hearings
Tuesday	May 23	Committee may meet to adopt subcommittee reports. Committee releases <i>Major Action Report</i>
Thursday	May 25	Senate may vote on Senate budget bill
Monday	May 29	Memorial Day Holiday
Thursday	May 25	Senate may vote on Senate budget bill
Monday	May 29	Memorial Day Holiday
Thursday	June 1	Budget Conference Committee may begin. Conference Agenda available from committee
Friday	June 9	Conference Committee completes work
Tuesday	June 15	Legislature must pass budget to meet constitutional deadline for passage of the budget

## STAFF ASSIGNMENTS

CORRECTIONS/PUBLIC SAFETY	Alex MacBain
EDUCATION	
K-12	Kim Connor
Higher Education	Amy Supinger
ENERGY	Keely Martin Bosler
ENVIRONMENTAL PROTECTION	Keely Martin Bosler
LABOR	Brian Annis
LOCAL GOVERNMENT	Dave O'Toole
HEALTH	Diane Van Maren
RESOURCES	Keely Martin Bosler
REVENUES	Dave O'Toole
SOCIAL SERVICES	Anastasia Dodson
STATE ADMINISTRATION	Dave O'Toole Brian Annis
TRANSPORTATION	Brian Annis
VETERANS AFFAIRS	Dave O'Toole
COMMITTEE ASSISTANTS	Glenda Higgins Rose Morris
RECEPTIONIST	Mary Teabo

## CALIFORNIA STATE BUDGET HISTORY

Fiscal Year	Bill and Chapter No.	Date Passed and Chaptered		Total Budget (\$ Billions)
1965-66	AB 500/757	6-18	6-30	4.0
1966-67 <sup>a</sup>	SB 1XX/2	6-30	6-30	4.7
1967-68	AB 303/500	6-29	6-30	5.0
1968-69	SB 240/430	6-28	6-29	5.7
1969-70	SB 255/355	7-3	7-3	6.3
1970-71	AB 525/303	7-4	7-4	6.6
1971-72 <sup>b</sup>	SB 207/266	7-2	7-3	6.7
1972-73 <sup>c</sup>	SB 50/156	6-15	6-22	7.4
1973-74	AB 110/129	6-28	6-30	9.3
1974-75	SB 1525/375	6-28	6-30	10.3
1975-76	SB 199/62	6-26	7-1	11.5
1976-77	SB 1410/320	7-1	7-2	12.6
1977-78	AB 184/219	6-24	6-30	14.0
1978-79	AB 2190/359	7-5	7-6	18.8
1979-80	SB 190/259	7-12	7-13	21.5
1980-81	AB 2020/510	7-16	7-16	24.5
1981-82	SB 110/99	6-15	6-28	25.0
1982-83	AB 21/326	6-30	6-30	25.3
1983-84	SB 123/324	7-19	7-21	26.8
1984-85	AB 2313/258	6-15	6-27	31.0
1985-86	SB 150/111	6-13	6-28	35.0
1986-87	AB 3217/186	6-12	6-25	38.1
1987-88	SB 152/135	7-1	7-7	40.5
1988-89	AB 224/33	6-30	7-8	44.6
1989-90	SB 165/93	6-29	7-7	48.6
1990-91	SB 899/467	7-28	7-31	51.4
1991-92	AB 222/118	6-20/7-4	7-16	55.7
1992-93	AB 979/587	8-29	9-2	57.0
1993-94	SB 80/55	6-22	6-30	52.1
1994-95	SB 2120/139	7-4	7-8	57.5
1995-96	AB 903/303	8-2	8-3	56.8
1996-97	SB 1393/162	7-8	7-15	61.5
1997-98	AB 107/282	8-11	8/18	67.2
1998-99	AB 1656/324	8-11	8-21	71.9
1999-00	SB 160/50	6/16	6/29	81.3
2000-01	AB 1740/52	6/22	6/30	99.4
2001-02	SB 739/106	7/21	7/26	103.3
2002-03	AB 425/379	9/1	9/5	98.9
2003-04	AB 1765/157	7/29	8/2	98.9
2004-05	SB 1113/208	7/29	7/31	105.3
2005-06	SB 77/38	7/7	7/11	117.3

<sup>a</sup> 1966 Second Extraordinary Session.

<sup>b</sup> First year budget was to be enacted by June 15.

<sup>c</sup> June 15 constitutional deadline met (5).

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