February 2, 2007

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2007-2008 State Budget***.

The ***Preliminary Review*** outlines and provides background for Governor Schwarzenegger's major budget proposals and puts them in some perspective. It is organized by traditional topics of interest to us all, and highlights major provisions.

Crafting the state budget is perhaps the Legislature's greatest responsibility. Writing this year's budget will involve no less than making monumental decisions on the future of state government's role in educating our children, rebuilding our transportation infrastructure, protecting our unique environment and taking care of our aged and disabled residents.

The ***Preliminary Review*** is intended to serve as an effective tool for those interested in participating in this year's budget proceedings.

We hope that you find the ***Preliminary Review*** useful in understanding and discussing the budget. If you have any questions or need additional information, please do not hesitate to contact the Assembly Budget Committee staff.

Sincerely,

JOHN LAIRD, Chair

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THE 2007-2008 STATE BUDGET

Overview

On Wednesday, January 10, 2007, Governor Schwarzenegger unveiled his proposed budget for the 2007-08 budget year.

The Governor's budget is now in the hands of the Legislature to review, analyze, debate, revise, and return to the Governor. Assembly Bill 120 (Laird) and Senate Bill 54 (Ducheny) will serve as the budget bills for the Assembly and the Senate, respectively. Multiple "Trailer Bills" have also been introduced in both houses as vehicles for statutory changes necessary to implement the final budget agreement.

The Governor's proposed budget includes $104.5 billion in available General Fund revenues (including $3.2 billion carry over from 2006-07), $103.1 billion in expenditures, and a regular reserve of $590 million. In addition, the Budget Stabilization Account (BSA) is proposed to receive about $1 billion on top of the $472 million starting balance. By combining the regular reserve with the BSA, the proposed final reserve is $2.1 billion.

The proposed expenditures include about $1.1 billion in new spending, the most significant new expenditure being $595 million for early repayment of the Economic Recovery Bonds (on top of the approximately $2.5 billion that is automatically repaid).

The proposed budget pays for the new spending and closes the General Fund shortfall with $3.4 billion in solutions. This is accomplished with modest tax policy changes, major cuts to assistance for underprivileged children, anticipated revenues from proposed Tribal Gaming Compacts, fund shifts of General Fund obligations to transportation funds and Proposition 98 funds, and other budget reductions throughout the budget.

Major Features of the Governor's Proposed Budget

- **No General Tax Increases.** The Governor's proposed budget does not include any new general tax increases or tax cuts. However, the Governor does propose repealing the Teacher Tax Credit and permanently closing the "Yacht Tax" loophole. Together this generates an additional $200 million in revenues for the General Fund.

- **Proposition 98.** The Governor's proposed budget meets the Proposition 98 minimum funding requirement, and provides sufficient funding for full growth and COLA for local school districts. The Governor's proposed

budget does include funding Stage 2 Child Care within Proposition 98, which saves the General Fund $269 million; these Proposition 98 funds would otherwise be available for more traditional educational purposes. Also, the Governor's proposed budget removes Home-to-School transportation from Proposition 98 and instead funds the program with Public Transportation Account (PTA) funds.

- **CalWORKS Reductions.** The Governor's proposed budget includes $431 million in reductions to CalWORKS, including suspending the 2007 COLA and eliminating all assistance to as many as 190,000 California children.

- **CSU and UC Student Fees.** The Governor's proposed budget does not include funds to "buy out" fee increases at the CSU and UC, as a result, student fees will increase by 10 percent for CSU and seven percent for UC under the Governor's proposed budget.

- **Fully Funds Proposition 42.** The Governor's proposed budget includes $1.6 billion for full funding of Proposition 42, including $83 million for the repayment of past Proposition 42 loans to the General Fund.

- **Public Transportation Account Fund Shifts.** The Governor's proposed budget includes fund shifts of General Fund obligations of $1.1 billion to the Public Transportation Account. The result of this fund shift is less funding for public transit operations and capital investments while reducing General Fund expenditures by $1.1 billion.

- **November 2006 Bond Package.** The Governor's proposed budget reflects a total of $11.5 billion in expenditures from the bonds approved by the voters in November, 2006. This includes $2.8 billion in current year spending and $8.7 billion in 2007-08.

- **Economic Recovery Bonds Repayment.** The Governor's proposed budget includes an early repayment of $595 million of the Economic Recovery Bonds. This amount is in addition to the automatic repayments of about $1.5 billion from dedicated ¼ cent sales tax and of about $1 billion from the Budget Stabilization Account. The $595 million additional repayment is the single largest policy spending increase in the Governor's proposed budget and results in the necessity for significant budget cuts in other areas of the budget in order for the budget to remain balanced.

- **General Fund Reserve.** The Governor's proposed budget includes a total General Fund reserve of $2.1 billion. This includes $590 million in the Special Fund for Economic Uncertainties (the regular reserve) and $1.5 billion in the Budget Stabilization Account.

- **Operating Deficit.** The Governor's proposed budget contains an operating deficit of $1.9 billion. The operating deficit is projected to grow to $5.3 billion in 2008-09 before falling to $3.4 billion in 2009-10, and to $2.7 billion in 2010-11. The operating deficit is defined as the amount that General Fund expenditures exceed General Fund revenues within the fiscal year. The Administration has developed a "net" operation deficit calculation that excludes certain expenditures and certain revenues. Under their calculation, the Governor's proposed budget does not have a "net" operating deficit.

- **General Fund Risks.** The Legislative Analyst has identified significant risks to the Governor's General Fund assumptions that total over $2 billion. This includes higher baseline revenue estimates, lower baseline expenditures, assumptions of the state prevailing in two key lawsuits, and whether proposed solutions can be achieved, such as offsetting Proposition 98 costs with the PTA or receiving revenue from Tribal Gaming Compacts that have not been approved by the Legislature. In addition, personal income tax receipts from December 2006 and January 2007 have been significantly lower than anticipated in the Governor's proposed budget. This is critical, since receipts from these months are a key indicator of whether the April income tax receipts will meet projections.

Summary of Charts

2007-08 General Fund Summary
(in millions)

	2006-07	2007-08
Prior Year Balance	**$10,816**	**$3,198**
Revenues and Transfers	$94,519	$101,278
Total Resources Available	**$105,335**	**$104,476**
Non-Proposition 98 Expenditures	$61,325	$61,951
Proposition 98 Expenditures	$40,812	$41,190
Total Expenditures	**$102,137**	**$103,141**
Fund Balance	**$3,198**	**$1,335**
Reserve for Liquidation of Encumbrances	$745	$745
Regular Reserve (SFEU)	$2,453	$590
Budget Stabilization Account	$472	$1,495
Final Reserve	**$2,925**	**$2,085**

Annual Operating Deficit
(in millions)

2006-07	2007-08	2008-09	2009-10	2010-11
-$7,618	-$1,863	-$5,281	-$3,372	-$2,676

2007-08 General Fund Solutions
(in millions)

Source	Amount
Shift Public Transportation Account Spillover to Backfill General Fund Purposes	$1,111
Anticipated Revenues from Tribal Gaming Compacts	$506
Cuts to assistance for underprivileged children	$324
Suspension of CalWORKS COLA	$140
Shift Stage 2 Child Care to Proposition 98	$269
Eliminate Teacher Tax Credit and "Yacht loophole"	$200
Replace General Fund with bond funds for levies and parks deferred maintenance	$280
Corrections reforms	$100
Eliminate state funding for homeless mentally ill	$55
Other (approx)	$391
Total	**$3.4 billion**

2007-08 General Fund Revenue Sources
(in millions)

Source	Amount
Personal Income Tax	$55,598
Sales Tax	$29,347
Corporation Tax	$10,816
Insurance Tax	$2,354
Tobacco Taxes	$122
Liquor Tax	$325
Other	$2,716
Total	**$101,278**

General Fund Expenditures
(in millions)

Category	2006-07	2007-08	Change	% Change
Education (K-12)	$40,016	$40,512	$496	1.2%
Health and Human Services	$29,820	$29,875	$55	.2%
Higher Education	$11,368	$12,002	$634	5.6%
Business, Transportation and Housing	$3,026	$1,588	-$1,438	-47.5%
Legislative, Judicial, Executive	$3,505	$3,793	$288	8.2%
General Government	$2,206	$3,077	$871	39.5%
Corrections and Rehabilitation	$9,236	$10,043	$807	8.7%
Resources	$2,161	$1,472	-$689	-31.9%
Environmental Protection	$92	$86	-$6	-6.5%
State and Consumer Services	$602	$575	-$27	-4.5%
Labor and Workforce Development	$105	$118	$13	12.4%
Total	**$102,137**	**$103,141**	**$1,004**	**1.0%**

THE 2007-08 STATE BUDGET

K-12 Education

DEPARTMENT OF EDUCATION

General Overview of School Finance in California. The California public school system (kindergarten through 12th grade) is supported predominantly with state funds. The amount of state funds going to the K-12 system is dictated in part by Proposition 98, a voter-approved initiative that requires that the state spend a minimum amount of its funds on K-12 education and community colleges (see below). State funds for the K-12 system are mostly administered by the California Department of Education. Of the state funds that are provided to K-12 schools, there are two major types of funding: a) discretionary funds and b) categorical funds. Discretionary funds comprise approximately two-thirds of the funds the state provides to school districts and categorical funds comprise approximately a third. Over the past 20 years, the proportion made up by categorical funds has increased slightly.

- **Discretionary Funds** are provided to school districts to support the general costs of operating schools. They are provided on a continuous appropriation basis, meaning that the funds are provided on an auto-pilot type basis that is not subject to the annual budget act. Funds are provided to school districts and county offices of education based on a formula that takes their average daily attendance over the course of the year, and multiplies it by their funding rate (revenue limit). The end result is a school district's "apportionment funding." Although this funding does not require an annual appropriation in the budget, the state can still affect the amount of total funding that is provided for this purpose by increasing or decreasing the rates (revenue limits) that are used to calculate apportionments. For example, in 2003-04, the Legislature reduced revenue limits as part of an overall package of budget cuts. Last year, the Legislature provided $309 million to increase revenue limits, to fully restore the cuts to revenue limits that occurred in 2003-04. In addition, the Legislature's ability to approve or deny a cost-of-living adjustments for revenue limits also affects the total amount of funding that is provided in discretionary funds.

- **Categorical Funds** are provided to school districts for specific purposes, such as improving school safety or improving the academic achievement of struggling students. Unlike discretionary funds, categorical funds (also known as "categorical programs") are all funded through the annual budget act. They are usually accompanied by regulations that require that

they be spent in specific ways or for specific purposes. In some cases, funds for categorical programs go to all school districts based on a similar amount per student. In other cases, funds for categorical programs are for specific types of students or purposes and go to districts based on formulas that target funding to those students or purposes. In recent years the Legislature and Governor have targeted more resources to specific purposes, in an attempt to improve student outcomes in those areas. In addition, three years ago, the Legislature passed categorical reform legislation, which consolidated a number of categorical programs in an attempt to provide school districts with more local control and flexibility in addressing student needs.

Major Provisions

Total Funding for K-12 Education

Big Picture. In general, the Governor's proposed budget for K-12 education provides modest increases that mostly cover enrollment growth and COLA, but does not provide increases sufficient to fund major new programs or major expansions of existing programs. This is in contrast to the past two years, which saw significant increases in funding for education. (For example, last year's budget funded a $4.5 billion increase in ongoing Proposition 98 funding for K-12 education.) On the other hand, the Governor's proposed budget does not include significant reductions to K-12 education, which characterized the state budgets over several years ago. During those years, the state suffered dramatic reductions in General Fund revenues, which necessitated significant belt-tightening by state-funded programs, including education. (For example, in 2003-04, the state could not afford to provide a cost-of-living adjustment to K-12 programs, and had to reduce revenue limit funding by 1.2 percent, and in 2004-05, the state had to suspend the constitutional requirement to spend a minimum amount of funding for education, Proposition 98, because it did not have sufficient funding.) Despite the shortage of ongoing funds, the Governor uses $12.5 million in one-time funds to start three new K-12 programs: a new program to recruit retired professionals to the teaching profession, a new college access program and a new Internet-based information management system for low-performing schools.

The Governor's budget cites a total funding increase of a little less than $1.4 billion for K-12 education (a 2.35 percent increase), including all funds (except for bond funds and state contributions to the State Teachers Retirement System). The proposed increase and the corresponding fund resources are summarized below. Increases in Proposition 98 funds (state General Fund and local property taxes) account for all of this increase, since other K-12 funds are experiencing a decrease relative to last year's level.

Figure 1: Governor's Proposed 2007-08 Budget: Total K-12 Funding (dollars in thousands)

Fund Source	2006-07 (revised)	2007-08	Change from 2006-07 revised	
			Amount	Percent
General Fund	$37,163,629	$37,233,401	$69,772	0.19%
Local Property Taxes	12,324,493	13,564,302	1,239,809	10.06
Public Transportation Account, State Transportation Fund	0	626,762	626,762	n/a
Federal Funds	7,049,226	6,503,260	-545,966	-7.75
Lottery Funds	1,012,328	1,012,328	0	0
Other State Funds (1)	152,601	118,820	-33,781	-22.14
Total Funds	$57,702,277	$59,058,873	$1,356,596	2.35%

(1) Does not include state school facility bond funds or the state contributions to the State Teachers' Retirement System.

Overall Proposition 98 Funding: Community Colleges and K-12 Education

Background on the Proposition 98 Formula. In 1988 voters approved an amendment to the state constitution that requires the state to provide a minimum amount of funding for K-12 education and community colleges ("K-14 education"). The amendment included a formula to calculate this minimum amount on an annual basis, based on certain economic factors.

- In general, the formula is intended to ensure that, in the long run, funding for K-14 education grows enough each year to keep pace with a) K-12 enrollment growth and b) the growth in the economy (as measured by per capita personal income) (this is Test 2).

- However, the formula also takes into consideration the state's finances and its ability to pay, and in years when the state's revenues do not grow enough or decline, the state can provide a lower level of funding than the Test 2 funding level (Test 3 years). In Test 3 years, while the state can provide a lower level of funding to education, in accrues a kind of debt called a maintenance factor that measures the difference between what it provided and what it would have provided under a Test 2 year. Once revenues rebound, the state must pay back this debt by getting back to the level of funding that it would have been at if had kept education funding at the Test 2 level and not provided the lower level of funding

when its revenues were down. It is important to note that the Proposition 98 formula does not actually consider the amount of General Fund actually available in any given year, but rather considers the year-to-year growth in General Fund as a proxy of the state's ability to pay.

- Also, the Proposition 98 formula is intended to ensure that education receives a minimum percentage of General Fund revenues. To ensure this, the formula requires that the proportion of General Fund spent on education does not go below about 40 percent (Test 1).

- The Proposition 98 formula allows the state to suspend its obligation to provide education funding at the level dictated by the Proposition 98 formula. The state has only suspended the Proposition 98 minimum requirement once, in 2004-05. During that year, the state passed legislation with intent language that the amount of savings from the suspension not exceed $2 billion. Due to changes in the Proposition 98 minimum funding level that occurred after the Legislature passed the budget, the amount of savings from the suspension increased beyond the $2 billion, leading to a lawsuit by the California Teachers Association and others against the Governor, claiming that the state should be required to immediately pay back the amount of savings that exceeded the $2 billion. CTA settled its lawsuit with the Governor last year when the Legislature approved SB 1133 (Torlakson), which appropriates approximately $3 billion over seven years for a new program targeted at low-performing schools.

Historically, the Proposition 98 formula has required the state to provide education funding at the test 2 level in most years. Test 1 has only been triggered once, in 1988-89, the year after Proposition 98 was passed. Test 3 has been triggered in five years since the passage of Proposition 98, generally in years when the state's revenues were faltering.

Proposition 98 Increases over Last Year's Numbers. The Governor's proposed budget estimates that the state is in a Test 2 year, but assumes that the minimum funding level will be re-benched downwards by $627 million due to the administration's proposal to shift the home-to-school transportation program out of the Proposition 98 guarantee and to a transportation fund (see below). The proposed budget's estimate of the minimum funding level also repays approximately $144 million in maintenance factor that was accrued last year, when the Proposition 98 minimum was in a Test 3 year. Assuming this downward re-benching, the Governor's proposed budget meets the Proposition 98 minimum funding level for K-14 and provides a total increase of $1.8 billion (or 3.3 percent) to K-12 and community colleges over the revised funding level in last year's budget (2006-07). Of this total increase in Proposition 98 funding, $1.4 billion is for K-12 education (a 2.9 percent increase), and $380 million is for community colleges (a 6.4 percent increase). (These figures are summarized in

the table below.) The different levels of increase in the two different systems are partly driven by different rates of growth in the population served by these two systems. Also, the proposed increase in Proposition 98 funding to K-12 education excludes the Public Transportation Account funds, which replace Proposition 98 funds that would otherwise be used to support the Home-to-School Transportation program. If these funds are included, then the year-to-year increase in funding for K-12 education is $2.1 billion, or 4.2 percent, above the revised 2006-07 funding level for K-12 education.

Figure 2: Proposed Proposition 98 Appropriations (dollars in millions)

	2006-07 revised	**2007-08**	**Change from 2006-07 revised (Proposition 98 only)**		**Change from 2006-07 revised (including PTA funds)**	
			Amount	**Percent**	**Amount**	**Percent**
K-12 Proposition 98 (Department of Education)	$49,011	$50,446	$1,435	2.9%	$2,061	4.2%
Community colleges	5,897	6,274	$380	6.4%	n/a	n/a
Other agencies	115	115	$0			
Total Proposition 98 (1)	**$55,022**	**$56,835**	**$1,813**	**3.3%**	**n/a**	**n/a**
General Fund	40,812	41,190	$378	0.9%	n/a	n/a
Property tax revenues	14,210	15,645	$1,435	10.1%	n/a	n/a
K-12 Prop. 98 funding per-pupil[1]	$8,350	$8,525	$275	3.3%	$381	4.6%
Community college funding per full-time equivalent student	$5,114	$5,335	$220	4.3%	n/a	n/a

(1) Figures may not add, due to rounding.

Proposed Transportation Shift and its Effect on Proposition 98. As shown in the above table, the Governor's budget includes a major new funding source for education: Public Transportation Account funds from the State Transportation Fund. These funds are derived from sales tax revenues on gasoline purchased at the pump. The Governor proposes to use $627 million of these funds to pay for the Home-to-School Transportation Program, a program that is usually funded from Proposition 98 funds and that is provided to districts to help support the cost of their transportation programs (i.e., school busing). However, the Governor does not propose any changes to the existing program, only a change in funding source. The purpose for this funding change is to save General Fund revenue, which would otherwise be used to fulfill the minimum Proposition 98 obligation. (This is one of a handful of proposals intended to close a General Fund deficit caused by expenditures that exceed available General Fund revenues.)

As a result of his proposal to change the funding source of this program, the Governor proposes to shift the minimum required level of state funding for education (the Proposition 98 minimum guarantee) downward by the amount of the funding shift: $627 million. According to the Administration, this downward "re-benching" of the Proposition 98 minimum is proposed in response to downward re-benching that was done in previous years when certain programs were shifted out of Proposition 98 funds because they were not administered by school districts. (State funds must go directly to school districts in order to count towards the state's minimum Proposition 98 obligation.) The effect of the Governor's proposed downward shift in the Proposition 98 guarantee will be a lower spending obligation for education by the state in future years.

Changes from Last Year's K-12 Proposition 98 Funding Level (Ongoing Funds). As noted above, the Governor proposes to maintain last year's new programs and funds cost-of-living adjustments, but does not propose any major increases or new programs. Total increases over last year's revised Proposition 98 funding level for K-12 are $1.4 billion, and the table below contains the changes that add up to the $1.4 billion increase. As shown, the cost of funding the cost-of-living adjustment is greater than the $1.4 billion Proposition 98 increase for K-12 education, but is offset by savings from declines in the K-12 population, and the shift of transportation monies out of the Proposition. 98 guarantee.

How the $1.4 billion Prop. 98 increase for K-12 education is allocated (ongoing funds)	
COLA for K-12 programs	$1,899
Increase Prop. 98 funding on CalWORKs Stage 2 childcare	269
Various technical revenue limit adjustments	17
Baseline adjustments	15
Other	39
Shift Home-to-School Transportation out of Prop. 98	-627
Growth for K-12 programs	-112
Ongoing money freed up due to 2006-07 one-time expenditures	-66

Total: Prop. 98 changes over 2006-07 (1)	$1,435
Total: K-12 Proposition 98 increase above revised 2006-07 spending level (1)	**$1,435**

(1) Figures do not add due to rounding.

Increase in Proposition 98 Childcare Expenditures. As shown in the above table, the biggest increase in K-12 Proposition 98 expenditures compared to last year's funding level, apart from cost-of-living adjustments, is the $269 million increase in Proposition 98 childcare expenditures. This increase frees up non-Proposition 98 General Fund revenues as part of the Governor's overall solution to the General Fund deficit in the budget. There are three issues to note when considering this increase:

- First, the Governor's proposed Proposition 98 increase for childcare does not reflect an overall increase in funding for childcare, since the increase is offset by reductions in other non-Proposition 98 funds.

- Second, certain expenditures for childcare have historically been Proposition 98 expenditures (meaning that they count towards the state's minimum funding obligation for K-14 education), so the Governor's proposed shift is different than the proposed home-to-school transportation shift in that it does not constitute a major change in the way the state funds a program.

- Third, the amount of Proposition 98 expenditures going towards childcare has fluctuated over the years. The state's childcare programs include childcare for families on CalWORKs, childcare for working poor families that are not on CalWORKs, after school programs, preschool and other child development programs. These programs are currently funded with a mix of non-Proposition 98 General Fund, federal funds and Proposition 98 funds. The mix changes from year to year, depending on the needs of the

program, the availability of funds, the requirements of federal law (i.e., the maintenance of effort requirement under TANF) and other budget factors within the larger CalWORKs program (of which CalWORKs childcare is a small part.)

One-Time Proposition 98 Funds. The Governor's proposes budget also includes an increase in one-time Proposition 98 funds. These are funds that derive from two sources:

(1) **The Proposition 98 Reversion Account** – This is a fund established to collect all unspent Proposition 98 expenditures from previous years. Since these funds were originally appropriated to meet the constitution's minimum funding level for K-14 education, if they go unspent they must then be re-appropriated for other K-14 purposes. Current law requires that the state set aside half of all funds in this account (or $100 million, whichever is greater) to repair facilities in low-performing schools under the terms of *Elizer Williams v. State of California* lawsuit. There are no other restrictions on the remainder of these funds. The Governor's budget estimates that $186 million will be available in this account, and spends it on several proposals, detailed in the table below.

(2) **One-Time Funds Needed to Meet the Proposition 98 Minimum Funding Requirement for 2006-07.** When the state appropriates funds to meet the Proposition 98 minimum funding requirements, it does so based on estimates of enrollment and the economic factors for the coming year. Sometimes the final figures for those factors change from the initial estimates used when the budget was passed. For the 2006-07 fiscal year, enrollment declined more than anticipated, which lowered total expenditures for K-12. After these enrollment adjustments were considered, the state's expenditures for K-14 education fell short of the Proposition 98 minimum funding level for 2006-07, requiring approximately $72.5 million in expenditures to meet the minimum for that year. Of these funds, the Governor proposes to use $62.5 million for K-12 education for three programs, detailed in the table below.

Governor's Proposed Budget: One-Time Proposition 98 Expenditures
($ in millions)

Proposition 98 Reversion Account Funds	
School Facilities Emergency Repairs in Low-performing schools (Williams Settlement – existing program)	$100
Charter School Facility Grant Program	43.9
Childcare – CalWORKs Stage 2 (existing program)	25.7
Teacher Credentialing Block Grant – 2006-07 costs (existing program)	8.8
Individual intervention materials for students who have failed the California High School Exit Exam	5.0
Compact for Success – (new college access program)	1.5
Internet-based information management system for low-performing schools (new program)	1.0
Sub-total	**$185.9**
One-time funds needs to meet the 2006-07 Prop. 98 minimum (current-year funds)	
Teacher Recruitment and Retention Block Grant for Deciles 1-3 schools (existing program)	$ 50
EnCorps Teacher Recruitment Program for retired professionals (new program to be administered by the Commission on Teacher Credentialing)	10
Chief Business Officer Training	2.5
Sub-total	**$ 62.5**
Total One-time Funds Proposed for K-12 Education	**$248.4**

As shown above, the Governor's proposed budget uses most of the one-time fund to continue existing programs, only $12.5 million of these funds are proposed to create three new programs. All of the above proposals and the proposed funding levels are covered in more detail below.

Growth and COLA

COLA. Each year, the budget provides most Proposition 98 programs with a cost-of-living adjustment, or COLA, to reflect the higher costs that schools experience as a result of inflation. Funding for COLA's provides discretionary funds to school districts. The Governor's budget proposes to fully fund the cost-of-living adjustment for both discretionary funds and categorical programs, at 4.04 percent. The total cost of the COLA for all programs is $1.9 billion: $1.4

billion for discretionary funds (revenue limits), and a little more than $500 million for all remaining categorical programs. The proposed COLA rate of 4.04 percent is the Administration's estimate of what the final COLA adjustment will be. The statistic used for the COLA for K-12 and community college programs is based on the gross domestic product deflator for purchases of good and services by state and local governments, for the last three quarters of 2006 and the first quarter of 2007. This factor will be finalized at the end of April, when the federal government releases the cost data for the first quarter of the year. If the final COLA percentage is higher than the Governor's estimate, it could cost hundreds of millions of dollars more to fully fund a COLA for K-12 programs[1]. On the other hand, if the final COLA amount ends up being lower than the Governor's estimate, this will free up Proposition 98 resources.

Growth. For the third year in a row, the state is experiencing a decline in the K-12 population. The Governor's budget estimates the statewide decline in average daily attendance at - 0.39 percent. Accordingly, for the 2007-08 year his budget reflects a savings of approximately $90 million due to negative growth. This figure represents a savings of $125 million in total discretionary funds as a result of this decline, offset by an increase of $38 million for growth in those categorical programs that have a growth formula different than the statewide population. For categorical programs, the growth factor is sometimes based on overall K-12 population changes and sometimes on other growth factors more closely linked to the population served by the program, depending on the individual program. The Governor's budget reflects these differences as different growth rates, in which some programs receive a decrease to reflect the decline, and some programs receive an increase. However, the Governor also proposes to hold some programs harmless from the decline in enrollment by keeping their funding level the same as last year. It is unclear what criteria the Governor used to determine which programs would be held harmless from the decline and which would receive a reduction.

The overall Proposition 98 minimum guarantee is somewhat affected by the overall reduction in the K-12 population. The terms of the Proposition 98 formula hold total education funding harmless from this decline for the first two years of statewide decline. Since 2007-08 is the third year of statewide decline, it is the first time that the Proposition 98 minimum guarantee reflects a negative growth factor. However, total Proposition 98 funding still increases over last year's minimum funding level due to other factors in the Proposition 98 formula.

For the 2006-07 fiscal year (current year), the Governor assumes approximately $120 million in one-time General Fund savings as a result of average daily attendance being lower than the estimates available at the time the budget was passed. Of these savings, the Governor proposes to redirect approximately $50

[1] For example, in last year's budget, the final COLA percentage went up to 5.92 percent from the Governor's initial estimate of 5.18 percent. This jump ended up costing the state $355 million more to fully fund a COLA for all K-12 programs.

million to non-education programs to help with the overall General Fund shortfall. He uses the remainder of the savings to meet the Proposition 98 minimum funding level for the 2006-07 – these funds are detailed in the table above regarding Proposition 98 one-time expenditures.

Continuation of Last Year's New Programs and Funding Increases

The Governor proposes to continue a number of programs that were initiated or expanded last year. These are as follows:

- **Economic Impact Aid.** Last year's budget contained a $350 million increase to the Economic Impact Aid program, which directs supplemental funds to districts to address the learning needs of economically disadvantaged students and English learners. The Governor proposes to continue this increase, as well funds COLA for the program, for a total proposed funding level of $1.01 billion. The Governor also proposes to hold the program harmless from negative statewide growth, by not adjusting the total funding level downward accordingly. Last year's increase constituted a 50 percent increase to the base funding for this long-standing program – the largest increase for more than a decade. The increase was accompanied by a change in the formula that generally simplified the calculations used to determine districts' grant levels, updated the data used to identified economically disadvantaged students and held districts harmless from any loss in funding as a result of the formula changes.

- **Counseling.** Last year's budget provided $200 million in ongoing funds for a new block grant to support additional counseling services for students in grades 7-12. The Governor proposes to continue this program at last year's funding level, along with an increase for COLA, at a total proposed funding level of $208 million. As with EIA, the Governor proposes to hold the program harmless from negative statewide growth, by not adjusting the total funding level downward.

- **Arts and Music Block Grant.** Last year's budget provided $105 million in ongoing funds for a new block grant to districts to support standards-aligned arts and music instruction in grades K-12. The Governor proposes to continue this program at last year's funding level, along with an increase for COLA, at a total proposed funding level of $109 million. The Governor proposes to hold the program harmless from negative statewide growth, by not adjusting the total funding level downward.

- **Physical Education Teachers for Grades K-8.** Last year's budget provided $40 million in ongoing funds for new incentive grants to support the hiring of credentialed physical education teachers in grades K-8. Funds will be allocated in the amount of $35,000 per schoolsite, and grant

recipients are to be randomly selected. The Governor proposes to continue this program at least year's funding level, along with a COLA increase, for a total proposed funding level of $41.6 million. The Governor proposes to hold this program harmless from negative growth.

- **Professional development for teachers of English learners.** Last year's budget provided an increase of $25 million to expand existing professional development programs to better serve the needs of teachers of English learners. The Governor proposes to continue this augmentation, along with the base funding level for another professional development program, the Math, and Reading Professional Development program, for a total funding level for both programs of $56.7 million. This is the same funding level as last year. (There is no statutory authority for a COLA for this program.)

- **Preschool.** Last year's budget provided an increase of $50 million in ongoing funds to expand the state preschool system, to fund expanded enrollment in preschools located in the attendance areas of the lowest-performing 30 percent of K-12 schools. The Governor proposes to continue this funding level in his proposed budget, along with an adjustment for COLA and growth.

- **Career-Technical Education.** Last year's budget provided an increase of $20 million in ongoing funds for a career-technical education initiative that was begun in 2005-06. The program is administered by the community colleges for partnerships that include high schools and community colleges. The Governor proposes to continue the $20 million for this program. This funding is on top of $32 million that was appropriated for this purpose as part of the CTA et al. v. Schwarzenegger settlement that paid back funds that the education community felt they were owed due to a suspension of the Proposition 98 minimum funding requirement in 2004-05.

- **Mentor Teacher Program.** Last year's budget provided $22.7 million to implement the provisions of SB 1209 (Scott), Chapter 517. That bill created a new mentoring program for novice teachers in decile 1-3 schools, expanded and enhanced the alternative certification program, required an evaluation of the Beginning Teacher Support and Assessment Program and created six regional personnel management assistance teams to provide technical assistance to districts in their personnel management and recruitment and retention practices. The Governor proposes to continue last year's increases.

- **California High School Exit Exam Supplemental Instruction.** Last year's budget provided an increase of $49 million for a supplemental instruction program designed to assist 12th graders who have not yet

passed the California High School Exit Exam (CAHSEE). The Governor proposes to continue this increase, and provides a COLA for the program, for a total proposed funding level of $72.4 million. He also proposes to hold the program harmless from the negative statewide growth.

- **Individual Intervention Materials to Pass the CAHSEE.** Last year's budget provided $5.5 million in one-time funds for districts to purchase state-approved individual intervention materials for students who have failed the CAHSEE. The Governor proposes to continue this program at $5 million, and also with one-time (Proposition 98 reversion account) funds.

- **Early Mental Health Initiative.** Last year's budget provided $5 million in one-time funds to provide new grants through the Early Mental Health Initiative program, which assists school districts in providing early mental health assistance to students who are at high-risk of having more serious problems later on. The Governor proposes to continue this $5 million in ongoing funds for a total funding level of $15 million.

There are a number of new proposals in last year's budget that were funded with one-time funds, such as a $500 million block grant for arts, music and physical education supplies and a $100 million block grant for libraries, education technology and instructional materials. With the exception of the individual intervention materials for the CAHSEE, the Governor does not propose to continue these one-time initiatives, in part due to the lower level of available one-time funds.[2]

Proposed Augmentations of Existing Programs

The Governor proposes new augmentations to several existing programs, as follows:

- **Charter School Categorical Block Grant.** The Governor proposes an increase of $24.5 million for the charter school categorical block grant, for a total proposed funding level of $139.7 million. This program has been in existence for several years and was created to provide charter schools with an amount of categorical funding similar to what non-charter schools receive. This augmentation funds an increase in the funding rate, to $500 per charter-school ADA. The increase is required by Chapter 359, Statutes of 2005 (AB 740 (Huff)), which included reforms to the formula for calculating the categorical block grant. The Governor's proposed increase is on top of $14 million to fund a growth in enrollment in charter schools,

[2] In addition, last year's budget provided $20 million in one-time funds for incentive grants to districts that agree to participate in a multi-year statewide research pilot program to identify best practices to improve the academic skills and English language development of English learners. This funding is available over four years to fulfill the entire cost of the project.

for a total increase to this program of $38.6 million. Last year's budget included an increase of $33 million for this block grant, to fund an increase in the rate to $400 per charter-school ADA.

- **Charter School Facility Grant Program.** The Governor proposes to provide $43.9 million in one-time funds for the Charter School Facility Grant Program, which provides funding to charter schools in low-income areas, to pay for leasing costs when these charter schools are unable to secure non-leased buildings. This is an increase of $34.9 million over last year's funding level of $9 million, which was also funded from one-time funds. The Governor proposes to change the way this program operates, so that eligible schools receive money during the year they incur the costs. Currently, the program reimburses eligible charter schools for prior-year costs. The Governor proposes that $20 million of the proposed amount go toward reimbursement of participants' costs in 2006-07 and $23.9 million for 2007-08 costs. The original program was created in 2001 by SB 740 (O'Connell). That legislation contained intent language to fund the program at $10 million a year for three years beginning in 2001-02.

- **High Speed Network.** The Governor proposes to increase Proposition 98 funds going toward the K-12 High Speed Network, to $10.4 million from last year's funding level of $4 million, which was funded with one-time funds. The High Speed Network is a high-speed internet network that serves K-12 and higher education. As in last year's budget, the Governor proposes to supplement the Proposition 98 funds with other funds, such as California Teleconnect Fund moneys and E-rate funds, for a total spending level of $15.6 million. However, last year's budget presumed the availability of unexpended cash reserves and unused funds for equipment replacement. This year's budget does not presume the availability of those funds, which then requires a higher Proposition 98 funding level to keep spending at the same level as last year. The Governor also proposes to delete a control section that was included in last year's budget to address some problems identified in an earlier state audit of the High Speed Network. The control section required that the non-profit that runs the network a) ensure that any interest earned on state moneys be used for the network and not be redirected to other purposes, b) approve an agreement that specifies specific levels of service, c) establish a fair fee payment schedule, and d) provide financial information to the Legislature and the Governor.

- **Chief Business Officers Training Program**. The Governor proposes to increase funding for this program to $2.5 million in one-time funds. Last year's budget did not contain funds for this program, because the program was new and because the $1.05 million in funds from the prior year were still available. SB 352 (Scott) created this program two years ago as part

of a three-year plan to train all school business officers in the state on good fiscal practices.

Governor's Proposed new programs

The Governor proposes to spend $12.5 million in one-time funds to start three new programs, as follows:

- **EnCorps Teacher Recruitment Program.** The Governor proposes $10 million in one-time funds to create this new program to add 2,000 retired professionals to the teaching corps. The funding would support the participants' enrollment in teacher internship programs, to ensure they have the adequate training to teach in the classroom. The Governor's budget summary also describes a public-private partnership in which the participants would be partially supported by their employer before they retire. According to the Administration, the program is modeled after a similar program in New York.

- **Partnership for Success.** The Governor proposes $1.5 million in one-time funds to create this new program to increase the number of students academically prepared to succeed in college. The program would provide grants totaling $1.5 million to three partnerships between local school districts and a California State University (CSU) campus. The partnerships will develop roadmaps to guide participating students through middle and high school to ensure that they complete the necessary courses to meet CSU entrance requirements. The participating CSU campus would guarantee admission for students who complete the program and would provide necessary financial assistance to ensure graduation in four years.

- **California Program Improvement Management System.** The Governor proposes $1 million in one-time funds for a new program to provide an Internet-based information management system to improve the academic achievement of schools that are or are likely to be subject to state of federal intervention due to low performance. The Governor's budget summary states its intent that the system help these schools' staff: a) better use testing data to design interventions, b) access up-to-date information on federal and state accountability programs, c) use tools and research to respond to these requirements, and d) create sustainable improvement plans. The Administration proposes that a single county office of education be selected to develop, implement, and provide training in the use of the new system.

Special Education

The state's special education program provides supplemental funds to school districts to help pay for the additional costs of serving special education students. It is supported with both state (Proposition 98) funds and federal special education funds, which are distributed to school districts based on their average daily attendance. The Governor's budget proposes a total combined state and federal funding level of $4.3 billion for special education (approximately three-fourths of this funding is state funding). This proposed funding level assumes a slight increase in federal special education funds (less than 1 percent). The proposed funding level also reflects some savings due to declining growth and an increase of $133 million to provide a COLA for the state-funded portion of the program. This is consistent with the COLA formula in current law, which calculates the COLA for special education funding based on the state-funded part of special education funding.[3]

Federal Funds

Overall. The federal government sends the state funds from more than 20 education programs. The largest federal program is Title I, ($1.7 billion to California), which is provided to help improve the academic achievement of economically disadvantaged children. Overall, the Governor's budget assumes level funding from the federal government for most of the education programs (except for child development). Last year, California experienced slight decreases in federal funds for most education programs. This year it is unclear whether federal education funding will increase, stay level or decrease slightly. In recent years, the federal government has failed to pass a budget on time, leading to uncertainty about the final level of funding for many programs. Due to this uncertainty, the Administration is expected to adjust its figures for federal education funds in April or May, when they have more information about federal action.

Reading First. The Governor's budget re-introduces a proposal that was considered by the Legislature last year but amended. California receives approximately $150 million in federal funds to support improved achievement in reading. California uses these funds to provide three-year grants of up to $6,500 per teacher in grades kindergarten through third to eligible districts with large numbers of economically disadvantaged students and reading scores below state performance benchmarks. Funding goes to certain schools within districts

[3] The formula allows but does not require the state to use state funding to pay for a COLA on the federal portion of special education funding. This formula was adopted two years ago, in response to a change in federal law. It is intended to a) ensure that any increase in federal funds gets passed on to districts as an increase for their special education programs, and b) protects the state from having to use its own funds to pay for a COLA on the federally-funded portion of the program, in years when federal special education funds are flat or declining.

that receive the grant. Participating schools must send teachers to state-approved training centers for three years. In past years, the Administration has indicated its intent to provide a total of six years of funding to districts if they demonstrate significant progress in improving reading scores. In past years, the Legislature has expressed concern about giving the original grant recipients three more years of funding, given the fact that almost half of all eligible classrooms don't receive funding from the program. Last year, CDE sponsored AB 2248 (Coto) to define the "significant progress" that school districts would have to demonstrate to receive the additional years of funding. The budget also contained $15 million in unused funds, $3 million of which was set aside for new grants to eligible districts that had not yet received funding under the program (the Legislature's proposal), and $12 million of which was set aside for currently unfunded schools within districts that have been receiving funds (the Administration's proposal). The Governor vetoed AB 2248, as well as the $15 million in funding, because a) he did not want the funding to be used for new districts to participate, and b) he wanted to ensure that the State Board of Education had the ultimate authority to define "significant progress" and not the Legislature.

In his proposed budget, the Governor proposes to re-appropriate the $15 million in one-time carryover he vetoed last year, and use it to expand the program to currently-funded schools within districts that have been receiving funds. This proposal is identical to the Administration's proposal in last year's introduced budget, which the Legislature considered but then amended to ensure that currently-unfunded districts could receive some of the funds.

Community Based English Tutoring Program. The Governor proposes $50 million to continue the Community Based English Tutoring Program, which is an English as a Second Language program for parents of K-12 students and other adults in the community who pledge to tutor English learner students. The program was created in 1997 by Proposition 227, an initiative that mandated that schools offer English immersion programs to English learners. That initiative appropriated $50 million per year for 10 years for this program, ending in 2007. Last year, the Legislature approved SB 368 (Escutia), which authorized the continuation of the program, contingent upon annual budget appropriations. That legislation also required participating school districts to develop plans and objectives for their programs. The Governor proposes to continue the program at its previous funding level, but also adds budget bill language making the $50 million contingent upon legislation that clarifies the use of the funds.

Low-Performing Schools Enrichment / Teacher Recruitment and Retention Block Grant

Governor proposes to continue the School Enrichment Block Grant for the lowest-performing 30 percent of schools. This program was initiated three years ago with $50 million in one-time funds. Last year's budget also contained $50

million in one-time funds for the program. The Governor proposes to continue funding this program with $50 million in one-time funds. School districts with decile 1-3 schools receive $50 per pupil at those schools, and must use the funds to improve the educational culture and environment at those schools, including but not limited to: a) assuring a safe, clean environment, b) providing support services for students and teachers, c) providing activities to improve recruitment and retention of teachers that are highly qualified under the federal No Child Left Behind Act and principals, d) providing small group instruction, and e) providing collaboration time for teachers and students.

Loan to Backfill Federal Cuts to Rural Schools

The Governor proposes to set aside $69 million in non-Proposition 98 General Fund to provide short-term loans to districts that are adversely affected by the elimination of a federal program, the National Forest Area Schools Program. The program provides federal funds to school districts in National Forest Areas, to help offset losses in property tax revenues that result from federally-owned land. According to the Governor's budget summary, last year's federal budget inadvertently excluded the funding, but Congress intends to restore the funding in the next budget. The proposed short-term loans will go to affected school districts to backfill the loss in federal funds, until those school districts receive the funding from the federal government, which they can then use to repay the state.

Mandates

State law requires the state to reimburse school districts and local governments for their costs of implementing state requirements (mandates). School districts and local governments file claims to the state, and the state is required to pay for those claims as long as they fall within certain claiming guidelines that are established by the Commission on State Mandates.

The Governor's budget does not contain funding for the 2007-08 costs of reimbursing districts for their mandated costs, and therefore proposes to defer these costs until future budgets. This is similar to past practice, in which the state deferred payments until it owed almost $1 billion in payments to schools. Last year's budget paid off that debt to schools, with $927 million in one-time funds to pay off prior-year mandate claims. However, last year's budget contained only $30 million in one-time funds for 2006-07 mandate costs, deferring more than $100 million in costs to future years. By proposing no new funding for the 2007-08 costs of mandate claims, the Governor is proposing to defer another $160 million (approximately) in costs to future years. The state is required to eventually pay all claims, once they are reviewed by the Controller's office, with interest on overdue claims.

Also, the Governor's budget summary references a proposal by the Governor to simplify and expedite the process by which the state creates guidelines for

districts and local governments to file their mandate claims. It is intended to reduce the current time gap between the time a state mandate is approved (via legislation) and the time the state issues claiming guidelines, as well as make it simpler for districts and local governments to file claims.

Nutrition Funding

Last year's budget contained an increase of $37.8 million to provide a seven-cent increase to the state supplemental for federal free and reduced-priced meals. The augmentation was initially proposed by the Governor and was intended to address a concern that the value of the state supplement had eroded over time because the state has not increased it to keep up with inflation. The Governor vetoed this funding over concerns that the Legislature did not link the funding to legislation that would require schools to improve the nutritional quality of the meals served. The Legislature later re-appropriated this funding in SB 1674 (Murray), which intended to improve the quality of the meals served. However, the Governor vetoed the bill and the funding, citing insufficient improvements in the quality of the meals.

The Governor's proposed budget does not contain the funding to increase the funding rate for school meals. However, the Governor's budget summary states his support for the increase.

Statewide Information Technology Systems

The Governor proposes to maintain funding for two statewide information technology systems intended to improve the availability of school data:

- **California Longitudinal Pupil Achievement Data System (CALPADS)**. The Governor proposes to continue $2.6 million in state and federal funds to support state-level activities related to the development of this system. This is a slight increase over the $2.4 million that was in last year's budget for state-level activities related to this project.[4] CALPADS is an information technology system to track individual student progress over time, in compliance with the No Child Left Behind Act. It is also intended to facilitate the transfer of student records when students move to new districts, as well as provide more accurate graduation and dropout data. It was created by SB 1453 (Alpert) of 2002. According to CDE, the timeline for the system aims for completion by the end of 2008, and for the system to be available to districts by 2009-10.

- **California Longitudinal Teacher Integrated Data Education System (CalTIDES).** The Governor proposes $1.1 million in federal Title II funds

[4] In addition, last year's budget contained approximately $36.5 million in one-time expenditures to help ensure that school districts are technology-ready to implement CALPADS, once the system is rolled out.

for state operations support to CDE and the Commission on Teacher Credentialing, to continue the development of this system, which was created to provide state-level information on teacher assignment and credentials. According to CDE, the system is expected to be complete by the end of 2009 and rolled out by 2010-11.

State Operations / State Board of Education Funding

The Governor proposes to reinstate funding and positions for the State Board of Education, for a total of $1.5 million (non-Proposition 98 General Fund) and 8.7 positions. Last year's budget did not contain funding for the State Board; the Legislature deleted its funding and staff.

Oversight Issue: Funding the Testing of 2nd Graders

Background on the State's Testing Programs. The state's testing programs include the following statewide tests, which are managed by the Department of Education and administered locally by school districts:

1. **The Standardized Testing and Reporting Program (STAR),** which is designed to measure students' progress towards mastery of state content standards in English/language arts, mathematics, science and history/social science and also look at California students' achievement compared to other states. The program includes the following tests:

    - The **California Standards Tests** which are aligned to the state content standards and cover the following subjects in the following grades:
        i. English/language arts in grades 2-11
        ii. Mathematics in grades 2-9 (Students in grades 10-11 may take tests in Algebra I, geometry, Algebra II, integrated math and summative high school math, upon completing these courses).
        iii. Science in grades 5, 8 and 10 (Students in grades 9-11 may take science tests in biology, chemistry, earth science, physics and integrated/coordinated science, upon completing these courses)
        iv. History/social science in grades 8, 10 (world history) and 11 (U.S. History).

    - The primary language version of the California Standards Tests. Three years ago, the Legislature provided funding for CDE to develop a version of the CST's for students whose primary language was other than English, to help provide better information about the skills of these students. To date, the test is available in

Spanish for grades 2-4. CDE is in the process of developing the test in Spanish for grades 5-7.

- The **California Alternate Performance Assessment (CAPA),** which is administered to students with significant cognitive disabilities in, grades 2-11.

- The **California Achievement Tests (CAT/6**), which is a national-norm-referenced test administered to students in grades 3-7. The test is intended to provide information on California students' achievement compared to students in other states.

- The **Aprenda**, which a national norm-referenced test in Spanish which is administered to Spanish-speaking English learner students who have been in school in the United States less than 12 months or who are in bilingual Spanish/English instructional programs. (These students are also required to take the CST's and the CAT/6 in English.)

2. **The California English Language Development Test (CELDT),** which measures the progress that English learners make towards proficiency in speaking, reading and writing English.

3. **The California High School Exit Exam (CAHSEE)**, which students are now required to pass in order to obtain a high school diploma. This requirement took effect for the first time for the class of 2006. There are two parts of the exam: a math portion and a reading/language arts portion; students must pass both. Students begin taking the exam in 10th grade. The math portion of the exam is designed to measure proficiency on the state's 6th and 7th grade math standards plus Algebra I. The Reading/ Language arts portion of the exam is designed to measure proficiency on the state's 9th and 10th grade English/ Language Arts standards. The requirement was created by Chapter 1, First Extraordinary Session of 1999 (SB 2x1 (O'Connell)). While the original legislation called for the class of 2004 to be subject to the requirement, the State Board of Education later postponed the requirement until the class of 2006.

Governor's Proposed Budget on Testing. The Governor's budget does not reflect any major policy initiatives on testing, with the exception of a proposal to extend testing of 2nd graders. The total proposed funding level and last year's funding level for testing is reflected in the table below. The funds go toward two major purposes: 1) reimbursing school districts for their local costs of administering the tests and 2) paying for the statewide costs of developing and maintaining these tests, including payment to the private companies that develop the test items. According to the Administration, the proposed reduction in overall

funding is due to lower contract costs associated with the private company that develops test items for the California Standards Tests.

Funding for the State's Testing System ($ in millions) (1)

	2006-07	2007-08 (proposed)	Change
Proposition 98 funds	$ 88.9	$ 85.1	- $ 3.8
Federal Funds	32.8	32.8	0
Total	$ 121.7	$117.9	- $ 3.8

(1) Does not include funding for CDE's state operations costs of managing the system.

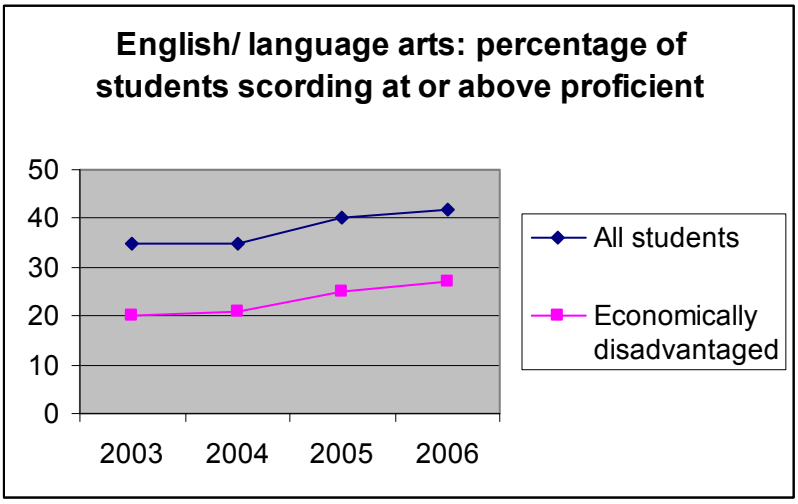
Second-Grade Testing. The current state testing system was created by legislation passed in 1997. The existing program was re-authorized in 2004 by SB 1448 (Alpert), Chapter 233, which re-authorized the state testing system for grades 3-11 until 2011 but only re-authorized the test for 2nd grade until June 30, 2007. Unless this law is changed, there will be no legal authority for the continuation of the state system in 2nd grade beginning July 1 of this year. The Governor proposes trailer bill legislation to extend the authorization for 2nd grade testing until July 1, 2011, when the rest of the program sunsets. Accordingly, he includes funding for 2nd grade testing in his proposed budget for 2007-08, under the presumption that the Legislature will pass the proposed trailer bill language. The Governor's trailer bill and budget proposals, if adopted, would reverse the action previously taken by the Legislature to end 2nd grade testing by June 30, 2007. Given the Legislature's previous review and deliberation on this issue, and its decision to deliberately end 2nd grade testing in 2007, any decision to reverse this action (as proposed in the Governor's trailer bill language) should require careful and deliberate consideration by the Legislature.

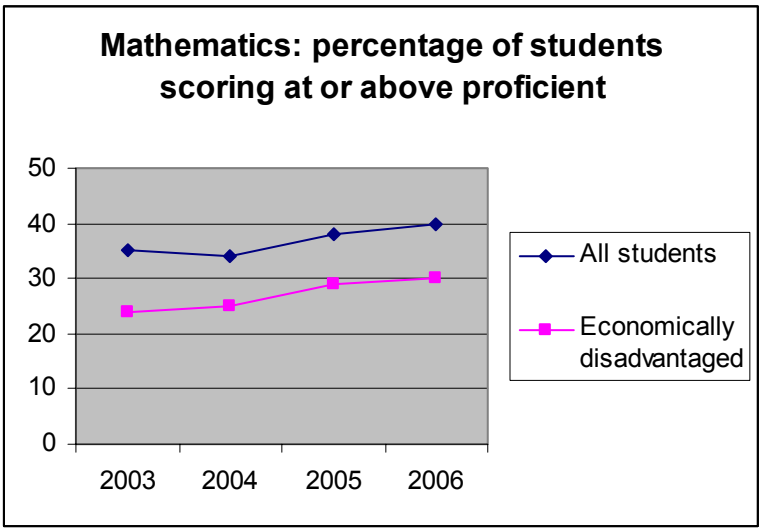
Oversight Issue: the Achievement Gap in California

Recent research has highlighted the persistence of the "achievement gap" in California and other states – that is, the difference in achievement levels between students that are economically disadvantaged and students who are not. The following provides information on that gap, as measured in different ways.

Scores on Statewide Achievement Tests. While research on the strong link between student poverty and low academic achievement is not new, the issue has gained more attention in recent years as states begin to implement the requirements of the federal No Child Left Behind Act (NCLB), which requires states to establish minimum performance targets and then ensure that 100 percent of students in the state meet that target within 10 years of implementation. As the agency responsible for the state plan of compliance with

NCLB, the State Board of Education chose the level of "proficient" as the universal target for all California students to achieve in 10 years. "Proficient" is the second highest achievement level on the state STAR testing system, which has five levels of achievement: far below basic, below basic, basic, proficient and advanced. The graphs below demonstrate the gap in achievement between all students and economically disadvantaged students in meeting this proficient target in two subjects: English/language arts and mathematics. As shown below, the achievement gap has persisted over the past four years, putting economically disadvantaged students at least ten percentage points behind the overall population in terms of those meeting the state achievement target.





California High School Exit Exam Passage Rates. As noted above, the class of 2006 was the first graduating class to be subject to the requirement that students pass the California High School Exit Exam in order to graduate from high school and receive a diploma. According to the most recent data collected

by CDE, nearly 40,000 seniors from the class of 2006 did not pass by the end of the 2005-06. It is unclear whether these students are still working to pass it, or what effect this had on their educational goals. Overall, CDE reported that 91 percent of all students in the class of 2006 passed the CAHSEE. (This does not include students who were scheduled to graduate by 2006 but dropped out before they got to their senior year.) However, this rate varied by school and by sub-group. In particular,

- **Special Education and English Learner Students.** As shown in the charts below, the passage rate for special education students was abysmally low compared to the overall rate, with only 48 percent of special education students in the class of 2006 passing the exam. In recent years, the Legislature has passed legislation exempting special education students from the classes of 2006 and 2007 from the requirement that they pass the CAHSEE to obtain a diploma. However, the status of this requirement for special education students in future classes remains unclear. For English learners, the passage rate was a full 15 percentage points lower than the overall population, at 76 percent.

- **High-Poverty Schools**. According to CDE, passing rates for students in demographic groups with low pass rates were lower in schools with a high proportion of similar students. That is, economically disadvantaged students in high-poverty school are at higher risk of not passing than similar students in better-off schools. Similarly, English learners at schools with high percentage of English learners are at higher risk of not passing than English learners in school that have a lower percentage of English learners.

Percentage of students, by graduating class, that passed the CAHSEE by the end of their senior year, by sub-group

	Class of 2006
All	91%
Economically disadvantaged	86
English learner	76
Special education	48

Source: CDE

Percentage of students, by graduating class, that passed the CAHSEE by the end of 11th grade, by sub-group

	Class of 2006	Class of 2007
All	78%	79%
Economically disadvantaged	66	68
English learner	51	52
Special education	36	34

Source: CDE

Percentage of students, by graduating class, that passed the CAHSEE by the end of 10th grade, by sub-group

	Class of 2006	Class of 2007	Class of 2008
All	73%	75%	73%
Economically disadvantaged	48	50	51
English learner	30	31	27
Special education	19	20	21

Graduation and College-Going Rates. The above scores on the CAHSEE include only those students that persisted in high school until the 10th grade. Many students leave school before 10th grade.[5] According to a 2005 report by the Urban Institute, less than 60 percent of Latinos, African Americans and American Indians graduate from high school. Graduation rates were also very low among certain Asian and Pacific Islander groups: Hmong (35 percent), Laotian (42 percent), and Cambodian (44 percent). This is compared with a statewide overall graduation rate of 72 percent and a graduation rate of 78 percent for white students. The problem is worse in urban districts with high proportions of economically disadvantaged students, with less than 50 percent of Latinos, African Americans, and American Indians graduating from high school in some of these districts. [6]

The achievement gap also exists in college-going rates. Despite the fact that over 80 percent of parents of color expect their children to attain an associate or higher degree, only 15 percent of African-American, Latino and American Indian

[5] While statewide data on dropout rates is available, it is problematic. Districts report their own dropout rates to the state based on available data, but don't always have accurate data regarding students' whereabouts, leading to self-reported data that generally understates the problem of high dropout rates, particularly among certain groups.

[6] Urban Institute, Education Policy Center Policy Bulletin, Who Graduates in California? Information on graduate rates for economically disadvantaged students was unavailable in this report. March, 2005

9th graders complete high school with the necessary courses required for the CSU and UC systems, according to the University of California/All Campus Consortium for Research Diversity (UC/ACCORD). This is less than half the rate for white students (at 33 percent), and lower than the overall rate of 26 percent. According to UC/ACCORD's, "Removing the Roadblocks: Fair College Opportunities for All California Students," some of this disparity can be explained by the fact that low-income families have fewer educational resources at their disposal, and may not be familiar with college requirements. However, some of the disparity is explained by unequal access to the A-G courses necessary to enter CSU and UC. Shortages of these courses are much more common in schools where African-American and Latino students are in the majority. For example, only 30 percent of schools enrolling 90-100 percent African-American and Latino students had sufficient college preparatory course offerings, compared with 55 percent of schools where African-American and Latino students were in the minority. In addition, even in schools were African-American and Latino students were not in the majority, they had less access to advanced courses.[7]

Given the lack of adequate access to A-G courses in many schools and particularly in low-performing schools, it is important to ensure that the Legislature is continually trying to increase access, particularly when it begins new programs or targets resources to low-performing schools. For example, the recent funding increase for career-technical education could be an opportunity to increase access to A-G courses. Accordingly, the Legislature should consider assurances that these new career-technical education programs also meet college entrance requirements.

Background Information: Instructional Materials

The Governor's budget proposes a total funding level of $418 million for the instructional materials block grant, a slight ($15 million) increase over last year's funding level of $403 million. Under current law, the fund from which these funds are distributed to districts and all of its program requirements become inoperative July 1, 2007. By continuing the funding, the Governor assumes that the authority for this fund will be renewed by legislation this year. In recent years, local school districts, statewide associations and individuals have raised concerns about the value of this program and the quality of the instructional materials that the State Board of Education adopts for possible purchase with these funds. For example, three years ago the Legislature heard complains from local school districts about the need for more and better supplemental materials to help improve the English proficiency of English learners. In response, it provided $30 million for standards-aligned supplemental materials for English learners that are outside of

[7] University of California/All Campus Consortium for Research Diversity (UC/ACCORD) and UCLA Institute for Democracy, Education and Access (UCLA/IDEA), Removing the Roadblocks: Fair College Opportunities for All California Students, November, 2006

the regular adoptions process that the State Board of Education uses to determine which instructional materials districts can buy.

Background on Program. The instructional materials block grant provides funds to districts to purchase standards-aligned materials, which the State Board adopts every six years for use in grades K-8 in the following areas: 1) Reading/ Language Arts, 2) Mathematics, 3) Science, 4) Social Science, and 5) Bilingual or bicultural subjects. School districts that utilize the instructional materials block grant funds are required to purchase these adopted materials (as well as locally adopted materials for grades 9-12) for every student within 24 months after adoption by the State Board. While state law permits districts to use the state funds for uses other than to purchase state-adopted materials (such as purchasing supplemental materials or technology, purchasing tests, providing in-service training on the materials, or purchasing library materials), districts may only do so after they have purchased SBE-adopted materials. Districts argue that this flexibility in the use of the funding is essentially non-existent because the cost of the instructional materials is so high that they use up all their state funding on purchasing the SBE-adopted materials, and then have nothing from the state program to purchase supplemental materials.

The State Board is currently working on an upcoming adoption of new materials for Reading/Language Arts. It has already approved criteria for the new adoption, after which time publishers will either custom-make materials to the criteria or submit already-existing materials for adoption. The State Board states that it will provide publishers 30 months to submit the materials for its consideration, after which time it will approve a new list of materials, which districts will then have two years to purchase.

Questions and Concerns about the State-Board-Adopted Materials. In recent years, the Legislature has heard school districts, individuals and statewide education associations raise questions about the quality of the instructional materials that the State Board adopts and which districts must purchase. Specifically, districts and individuals highlight the fact that the State Board does not provide enough options for districts to choose from, since it routinely adopts fewer than five options for each primary adoption of a subject. For example, in the last primary adoption for English/language arts materials, the State Board adopted materials from just two publishers. Local school districts argue that the lack of selection hinders their ability to choose materials that best meet local priorities and needs. They also argue that the lack of selection is symptomatic of a top-down approach, in which the state not only dictates the level of achievement that districts must aim for, but it also dictates how districts must teach their students to meet these goals. In recent years, the LAO has cautioned the state against this type of micro-managing regarding how districts do their job.

In addition, local school districts and statewide association argue that the State Board-adopted materials do not adequately address the needs of special populations who may be struggling to master materials: English learners, students who are behind grade level and special education students. While the State Board-adopted materials include some supplements that are intended to address the needs of these special populations, local school districts argue that the materials are insufficient, forcing them to purchase off-the-shelf supplemental materials from different publishers. Last year, due to concerns about the need to improve materials for English learners, a number of legislators met with individual members of the State Board of Education, staff from CDE and education advocates to work on modifications to the criteria for the upcoming 2008 English/language arts adoption, including having an accelerated English program as a basic program option. Unfortunately, these meetings did not produce a result.

The state invests approximately $600 million a year for programs whose success is linked to the effectiveness of the State Board-adopted instructional materials. These programs include the state Instructional Materials Block Grant, as well as staff development programs designed to train teachers on the proper use of these materials. These programs are summarized below. In addition, when a school is identified as "program improvement" under the federal No Child Left Behind Act, based on a school's failure to meet progress on state tests, the state encourages more intensive use of the State Board-adopted instructional materials as part of its focus on the "nine essential elements" of school improvement.

Programs related to the State Board-adopted instructional materials

Program	**Proposed funding level for 2007-08**	**Funding source**
Instructional Materials block grant	$418 million	State (Prop. 98)
Reading First	$159 million	Federal
Math and Reading Professional Development Programs (not including funding for teachers of English learners)	$ 32 million	State (Prop. 98)
Total	$609 million	

THE 2007-08 STATE BUDGET

Higher Education

California's higher education system is governed by *the Master Plan of Higher Education* (1960), which promises a high quality, affordable higher education for all California citizens who can benefit from it. The *Master Plan* also delineates different missions for each of the three segments- the University of California (UC), the California State University (CSU) and the California Community Colleges (CCC). The UC provides undergraduate and graduate instruction; it has jurisdiction over professional training including law, medicine, dentistry and veterinary medicine, and it serves as the State's primary agency for research. The CSU provides undergraduate and graduate instruction through the master's degree in the liberal arts and sciences and professional education including teacher education. The system is also authorized to offer selected doctoral programs jointly with UC and private institutions and support research related to its instructional mission. The community colleges provide academic and vocational instruction at the lower division level. Studies in these fields may lead to the Associate in Arts or Associate in Science degree. The colleges also offer adult education programs including basic skills education, citizenship instruction, vocational and recreational programs. The colleges are also engaged in promoting regional economic development and conducting research on student learning and retention. The California Student Aid Commission (CSAC) and the California Postsecondary Education Commission (CPEC) also play an integral role in implementing the goals of the Master Plan, with CSAC providing and overseeing state financial aid programs and CPEC providing policy analysis and recommendations to the Governor and the State Legislature.

THE HIGHER EDUCATION COMPACT AGREEMENT WITH UC AND THE CSU

On May 11, 2004, Governor Arnold Schwarzenegger, UC President Robert Dynes and CSU Chancellor Charles Reed reached an agreement or "compact" outlining their intentions for state funding levels and institutional accountability in the University of California and California State University systems. This new Compact covers a six-year period from fiscal years 2005-06 through 2010-11. It is important to note that neither the Legislature the students are parties to the compact. It is up to the Legislature to determine funding levels for the CSU and UC, regardless of any compact proposals.

Major Provisions

Enrollment Growth

The Governor committed to providing General Fund support for projected enrollment growth increases of 2.5 percent annually to fund an additional 5,000 full-time equivalent students (FTES) at the UC and 8,000 FTES at the CSU. Funding for enrollment will be at the "agreed-upon" marginal cost of instruction as adjusted annually.

Mandatory Systemwide Student Fee Increases

The UC, CSU, and the Governor agreed on a student fee policy, which calls for undergraduate fee increases of eight percent and graduate fee increases of 10 percent in fiscal years 2005-06 and 2006-07. In future budget years, the UC and the CSU will develop their budget plans based on the assumption that fees will be increased consistent with the Governor's proposed long-term student fee policy. That policy states that increases in student fees should be equivalent to the rise in California per capita personal income. However, in years in which the systems determine that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, the systems may decide that fee increases up to 10 percent are necessary. Revenue from student fees will remain with the systems and will not be used to offset reductions in state support.

Institutional Financial Aid

The Governor, the UC and the CSU agreed on new language giving the UC and the CSU the flexibility to provide an amount equivalent to no less than 20 percent and no more than 33 percent of the revenue generated from student fees to be used for financial aid. From 1994-95 through 2003-04, the return-to-aid policy, as approved by the UC Board of Regents and the CSU Board of Trustees, was 33 percent or one-third. In 2004-05, the return-to-aid percentage was limited to 20 percent as proposed by the Governor in his budget. For the 2005-06 fiscal year, the first year of the Compact, the Regents approved a 25 percent return-to-aid or "set-aside" for undergraduates and a 50 percent "set-aside" for graduate students.

Adjustments to the Base Budget

The Governor agreed to provide a General Fund increase of three percent to the prior year's base in fiscal years 2005-06 and 2006-07. Beginning in 2007-08 and through 2010-11, the increase to the base will be four percent. According to the segments, this funding is needed for competitive faculty and staff salaries, health benefits, maintenance, inflation and other cost increases.

Core Academic Support Needs

The Governor committed to funding an additional one percent adjustment to the base beginning fiscal year 2008-09 and continuing through fiscal year 2010-11. This additional funding is intended to address annual budgetary shortfalls in State funding for faculty as well as, instruction and research support funding including instructional equipment, instructional technology, libraries and ongoing building maintenance.

Other Budget Adjustments

In addition to the base support provided each year, the Governor committed to providing annual adjustments for debt service, employer retirement contributions, annuitant health benefits and other basic adjustments.

UC Merced

The Governor also committed to continue providing one-time funds needed for the development of the Merced campus. Such one-time funding will be phased out by 2010-11, when the campus is expected to reach a level of enrollment (5,000 FTES) sufficient to generate an adequate level of workload funding.

Capital Outlay

The Governor will provide for debt service to support general obligation bonds of $345 million per segment per year.

One-Time Funds

As they become available, the Governor may provide one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance.

Initiatives

Initiatives introduced through legislation or the budget process to address the needs of the University and the state may be funded as "mutually agreed by the Governor, the Legislature, the UC and the CSU."

UNIVERSITY OF CALIFORNIA (UC)

The UC system includes nine general campuses at Berkeley, Davis, Riverside, Santa Cruz, Los Angeles, San Diego, Irvine, Merced, Santa Barbara and one health science campus in San Francisco. The University of California, founded in 1868 as a public land-grant institution, is the primary state supported academic agency for research with exclusive jurisdiction in public higher education over instruction in the professions of law, medicine, dentistry, and veterinary medicine. The University of California currently serves an estimated 216,255 full-time equivalent students (FTES) including undergraduate, graduate and professional students.

The Governor's proposed budget for the UC includes $3.3 billion in General Fund, which represents an increase of $192.1 million, or 6.2 percent, above the revised 2006-07 budget. The UC's total annual budget is proposed at $19.7 billion for 2007-08. This total includes funds for the Department of Energy to manage three national laboratories, federal contracts and grants, teaching hospital revenue, self-supporting enterprises, private gifts and grants, student fee revenue and the General Fund.

Major Provisions

Student Fee Increases

The Governor's proposed budget does not 'buy out' scheduled fee increases, resulting in $104.7 million associated with the proposed seven percent student fee increase for undergraduates, graduate students, and most professional school students. Law and business students' fees would increase by 10 percent. The UC Board of Regents will be considering the proposed fee increases at their March meeting.

Last year, the Governor proposed and the Legislature approved $75 million to "buy out" fee increases of eight percent for undergraduate students, 10 percent for graduate students, and five percent for students in most professional degree programs. Consistent with the Compact Agreement, the UC Board of Regents had approved these fee increases at their November 2005 meeting. The state's "buy out" of the fee increases allowed the 2006-07 fees to remain at the 2005-06 levels.

UC's Master's Nursing Program

The Governor's proposed budget includes an increase of $757,000 to restored funding reduced by the Legislature in the *2006-07 Budget Act* in support of the expansion of entry-level master's (ELM) nursing programs. The Legislature funded the number of ELM students that the UC stated would be able to enroll. Total funding for this program in 2007-08 is proposed to total $1.7 million. Of this amount, $1.6 million would fund the full cost of a minimum of 122 FTES in entry-level clinical nursing programs and entry-level master's degree programs in nursing and $103,000 would be used to support an additional 20 master's degree level nursing students.

In 2005, the Legislature appropriated $4 million to begin expanding the master's degree enrollments in nursing at the CSU. The Governor vetoed all but $560,000 of the funding because he felt that the level of funding provided would exceed the programmatic needs of that year. However, he set aside the vetoed amount of $3.4 million pending legislation, which would propose different approaches to addressing the nursing shortage in the state and the possibility of including the UC as well.

Senate Bill 73 (Chapter 592, Statutes of 2005) appropriated $1.7 million to the UC and $1.7 million to the CSU for one-time costs related to expanding nursing programs in 2005-06 and for support of the actual expansion of nursing enrollments in 2006-07. The legislation states that both the UC and CSU will increase nursing enrollments by at least 130 students each over the 2005-06 level in 2006-07. During the subcommittee budget process last year, both the Senate and Assembly adopted budget bill language that reduced the $1.7 million allocation for the UC to $963,000. Of this amount, $860,000 are appropriated to fund the full cost of a minimum of 65 FTES in entry-level clinical nursing programs and ELM degree programs in nursing and $103,000 are appropriated to support an additional 20 master's degree level nursing students. This funding is intended as a supplement to marginal cost support provided to the University within the enrollment growth funding in recognition of the higher costs associated with master's degree level nursing programs. The budget bill language also requires that the UC provide an annual report due by May 1 on the progress towards achieving this enrollment goal.

Program in Medical Education for the Latino Community (PRIME-LC)

The Governor's proposed budget includes $570,000 for the next cohort of 38 students for the PRIME-LC program. The *2006-07 Budget Act* included $480,000 to support 32 FTES enrolled in the program. Total funding for the program in 2007-08 is proposed to be $1,050,000. Budget bill language requires an annual report to the Legislature by March 15 on the progress of implementing

the PRIME programs and the use of both, state and non-state funds, for this program.

The PRIME-LC program is a five-year program at the UC Irvine College of Medicine. It combines the Medical Degree and the Masters Degree programs to provide medical students with the training and experience required to meet the increasing demand of physicians and public health personnel who are sensitive to cultural and language barriers. PRIME-LC students are selected for admission to the program because of their academic achievement and demonstrated commitment to working with underserved Latino communities. The program provides its students with training in Spanish language and Latino culture as well as providing structured clinical experiences and research activities in the classroom, hospital and community. Program applicants come from all different backgrounds and ethnicities.

According to the UC, the PRIME initiatives, of which PRIME-LC is the first one, are intended to expand entering classes at medical schools throughout the system by five to 10 percent. Other PRIME initiatives include PRIME-US (Urban Underserved) at UC San Francisco, PRIME-RC (Rural California) at UC Davis, PRIME HEQ (Health Equity) at UC San Diego and new PRIME program at UCLA, which is being developed at this time.

UC's Student Academic Preparation and Educational Partnerships (SAPEP)

The Governor's proposed budget eliminates $19.3 million for academic preparation programs and educational partnerships. Without General Fund support, funding for these programs in 2007-08 would be $12 million from UC funds as agreed in the Compact with the Governor. The *2006-07 Budget Act* provided $31.3 million in General Fund for academic preparation programs. Of this amount, $19.3 million were General Fund and $12 million were UC funds as agreed by the UC in the Compact Agreement with the Governor. Out of the $19.3 million, $2 million were designated for the UC/Community Colleges Transfer Initiative, which includes a new comprehensive set of goals to increase the number of community colleges students who transfer to the UC. Budget bill language requires that the UC submit a report to the Legislature no later than April 1 on the use of state and university funds provided for these programs.

Funding for SAPEP Programs. Student Academic Preparation programs, formerly known as "Outreach Programs", have experienced severe budget cuts to the point where the support for these programs at the UC has fallen drastically from an all time high of $85.1 million in 2000-01. The Governor proposes only $29.3 million for 2007-2008.

What are SAPEP Programs? These programs have become the gateway to higher education by providing elementary, middle and high school students with instruction in the areas of academic development, academic advising, study skills

training, career exploration, mentorship and test preparation for college admission exams. Most of the students that participate in these programs come from low-income families, are the first generation in their family to attend college, are English-language learners (ELL) and/or are attending a low performing school. For the 2005-06 year, preliminary numbers of student participants indicate that academic preparation programs at the UC served 325,057 students. Among the several SAPEP programs are included the following:

Early Academic Outreach Programs (EAOP)

These programs provide K-12 students with the following services:

- Academic advising to ensure that they successfully complete the required college preparatory courses or A-G course pattern. Required A-G courses include History/Social Science (2 years), English (4 Years), Math (3 years-4 recommended), Laboratory Science (2 years-3 recommended), Language Other than English (2 years required-3 recommended), Visual and Performing Arts (1 year), and College Preparatory Electives (1 year).

- Academic enrichment services to improve basic skills by student participation in Advanced Placement Boot Camps, Algebra Academies, Concurrent Enrollment (in partnership with local community colleges), Saturday College, and Summer Residential Academies.

- Test preparation services for college required entrance examinations, which include Test Preparation Workshops and Classes and Online Test Preparation.

- Education information services such as Financial Aid Workshops, Parent Conferences and Family College Planning Workshops, campus visits and other events where students and families can receive information on college preparation.

Due to the budget reductions experienced by this program, student participation has declined from 80,819 in 2002-03 to 51,136 in 2005-06.

Math, Engineering, and Science Achievement (MESA)

These programs provide students with rigorous academic preparation that includes academic planning, study skills training, peer group learning, math and science enrichment classes, career exploration and parent involvement. This program is supported by businesses and major companies because they recognize the program's success in producing technical professionals needed by industry to stay competitive. According to UC's preliminary numbers, 12,428 K-12 students participated in the MESA Schools Programs (MSP) and 3,556 students participated in the MESA Community College Programs in 2005-06.

Student participation in the MESA programs has declined from 24,862 students served in both programs in 2001-2002.

MSP students receive the following services:

- Individual Academic Plans, which allow counselors to monitor individual student progress.
- MESA Day Academies where students get hands-on experience by participating in math and science competitions at local and regional levels.
- Career and College Exploration, which may include guest speakers and field trips so that students can explore different colleges and career opportunities.
- Parent Leadership Development where parents can learn how to become effective advocates for their children's academic success.
- Teacher Training Opportunities based on annual institutes offered to MESA teachers and advisors to learn hands-on curriculum and new techniques to teach math and science.

Among the services provided by the MESA Community College Programs include:

- Academic Excellence Workshops allow MESA students to be scheduled in the same core math and science classes and are taught how to maintain high academic outcomes through group study.
- Orientation Course where incoming students majoring in math, engineering and science learn college survival skills.
- Career advising so that students are exposed to different math, engineering and science career options through industry mentors, field trips, job shadowing, career fair, and internship opportunities.
- Links with students and professional organizations including mentors, guest speakers, and tours of companies.

Puente Project

The Puente program was founded in 1981 to increase the number of educationally disadvantaged students who enroll in four-year colleges and universities, earn degrees and return to the communities as leaders and mentors for other students. The program integrates accelerated writing instruction, academic counseling, and community mentoring to build a positive environment

in which students draw on their backgrounds and experiences to achieve their academic goals.

Student participants in the Puente high school and community college programs take a rigorous two-year English Class sequence with a curricular focus on Mexican American and Latino literature, work with a Puente counselor, which assists the student in navigating the college preparatory process, meet with a student or adult mentor who has been successful in school and take field trips to colleges and professional workplaces. UC preliminary numbers indicate that 4,096 students participated in the Puente High School program and 9,571 students participated in the Puente Community College program in 2005-06.

Community College Transfer Programs

These programs focus on providing students with information and guidance regarding academic preparation required to transfer to the UC. Services include academic preparation workshops, on-site counseling, campus transfer guarantee programs and development of course articulation agreements. According to the Legislative Analyst Office, about 15,000 community college students transfer to the UC every year.

SAPEP Accountability Framework. Concerned about the continuous elimination of funding for these programs in the Governor's budget, the UC Office of the President convened a bipartisan working group, which included legislative, University, and Administration representatives to address the Administration's concerns regarding these programs. The Accountability, Planning and Oversight Committee met several times during the 2005-06 budget process and adopted a new accountability framework for these programs in April 2005. This accountability framework defines the way that SAPEP programs assess, evaluate and report the effectiveness and efficiency of each program. The framework identifies SAPEP goals and aligns them with accountability mechanisms. Evaluation reports conducted on programs on a rotating basis will assess the extent to which a program has met its goals, describing success to date in meeting outcome measures and addressing issues of cost-effectiveness.

Despite the efforts undertaken by the Legislature and the UC in addressing the Administration's concerns by establishing a new accountability framework to evaluate the effectiveness of these programs, the Governor's budget does not include any indication as to why funding for these programs has been eliminated once again.

Miguel Contreras Labor Program (Labor Research Funding)

On January 18, 2007, the UC Board of Regents approved, at Speaker Núñez's request, that the Labor and Employment Program be named the Miguel Contreras Labor Program.

The Governor's proposed budget eliminates $6 million in General Fund for the Miguel Contreras Labor Program, which funds the Centers for Labor Research and Education at UC Berkeley's and UCLA's Institutes for Industrial Relations. Last year, both the Senate and Assembly restored funding for support of these institutes. Labor research studies funding, previously under the Institute for Labor and Employment (ILE), has been reduced from $6 million in the 2000-01 budget to $3.8 million in the *2004-05.* The Legislature restored the program's initial funding of $6 million in the *2006-07 Budget Act.*

History. The ILE was established in 2000 as a multi-campus research program devoted to studying labor and employment issues in California. It expanded upon the existing Institutes of Industrial Relations (IIRs) at UC Berkeley and UCLA, which were founded in 1945 to encourage interdisciplinary research in the areas of labor and industrial relations, and upon the two Centers for Labor Research and Education housed in the IIRs on those two campuses. In 2004, the ILE was restructured as a result of final budget negotiations. The $3.8 million in funding was divided in three ways. One third was allocated to the Labor and Employment Research Fund administered by the UC Office of the President for systemwide competitive research grants and it is overseen by a faculty Steering Committee drawn from all ten UC campuses. One third was allocated to the UC Berkeley campus and one third to the UCLA campus. The $6 million provided in the current year would be allocated in the same manner.

What do the Labor and Employment Research Programs do? These programs fund research on a wide variety of topics critical to the state's economy and workforce. Recent examples include a statewide employer survey of human resource and training practices, studies of the public cost of low-wage work, changes in job quality and how wages and benefits affect the quality of care in In-Home Supportive Services. The research findings included in the many reports produced by these programs have provided valuable information to policy-makers at the state and local level on issues of importance to California's working families, including paid family leave, health care access, and improving incomes for low-wage workers.

Although labor research and education receives only a small fraction of the UC's $213 million General Fund total research funding, the 2007-08 budget proposal does not include any indication as to why funding for this program has been, once again, selected for elimination.

Governor's Research and Innovation Initiative

On December 27, 2006, the Governor announced that he would be proposing $95 million in the state budget to create the Governor's Research and Innovation Initiative. According to the Administration, funding for the four major projects proposed by the Governor will grow California's economic strength in key

innovation sectors, including clean energy technology, biotechnology and nanotechnology.

California Institutes of Science and Innovations. The Governor's proposed budget $19.8 million in General Fund to support the operating costs of the California Institutes of Science and Innovation. The four institutes are a multidisciplinary research effort by the UC working in partnership with private companies in the areas of information technology, biomedical research and nanotechnology.

Assembly Bill 2883 (Villaraigosa) was signed by Governor Gray Davis on July 5, 2000. The bill authorized the UC Board of Regents to establish three California Institutes for Science and Innovation. Funding for these institutes was provided in the budget bill of 2000-01 (AB 1740, Ducheny), which provided $75 million ($25 million per institute) to establish the centers. Every dollar appropriated by the state would be matched by at least $2 of non-state funds, including but not limited to federal and private funds. The intent was that the State would provide $75 million each year for four years. However, the State's share of operating and facilities costs would be subject to appropriation in the Budget Act.

The *2001-02 Budget Act* provided an additional $20 million to support a fourth institute. According to UC budget staff, funding for the institutes changed from General Fund to lease-revenue bonds in the 2002-03 fiscal year.

The California Institutes of Science and Innovation now include:

- QB3 (UCSG, UCB, UCSC) California Institute for Quantitative Biomedical Research.
- Calit2 (UCSD, UCI) California Institute for Telecommunications and Information Technology.
- CNSI (UCLA, UCSB) California Nanosystems Institute.
- CITRIS (UCB, UCD, UCM, UCSC) Center for Information Technology Research in the Interest of Society.

Helios Project. The Governor's budget proposed $30 million in lease-revenue bonds for the Helios Project, an initiative by the UC's Lawrence-Berkeley National Laboratory to create sustainable, carbon-neutral sources of energy. According to the Administration, the four goals of the Helios Project are: 1) generate clean sustainable alternatives to hydrocarbon fuels; 2) develop new energy sources; 3) improve energy conservation; and 4) reduce greenhouse gas emissions.

Petascale Supercomputer. The Governor's budget proposes $5 million in General Fund as state-matching funds to enhance the UC's bid to build a $200 million Petascale computer. According to the Administration, "the Petascale

computer, named for the speed at which it can process information, will be the most powerful computer in the world." The UC is competing against institutions in other states to become the site for the new computer facility funded by the National Science Foundation. Lawrence-Livermore National Laboratory, Lawrence-Berkeley National Laboratory, and UC San Diego are in the running for the Petascale computer.

Energy Biosciences Institute. The Governor's budget proposes $40 million in lease-revenue bonds to the UC in the event that either UC Berkeley or UC San Diego wins a global competition for the British Petroleum (BP) Energy Biosciences Institute Grant. The $500 million grant would be used to build and operate the Institute, which would focus on long-term research into the production of alternative fuels. The UC's intention is to coordinate the Institute's work with the Helios Project.

Other Key Provisions

- **Support Budget.** The Governor's budget proposes a $116.7 million increase, or 4 percent, for basic support budget.

- **Enrollment Growth.** The Governor's budget proposes a $54.4 million increase for a 2.5 percent enrollment growth to fund an additional 5,340 FTES.

- **Financial Aid.** The Governor's budget continues the 33 percent set-aside from student fee revenue for financial aid for undergraduate and professional students but increases the set-aside for graduate students to 45 percent.

- **UC Merced.** The Governor's budget continues to provide $14 million in one-time funds for costs associated with the UC Merced campus operations for a total funding of $24 million.

- **Math and Science Teacher Initiative.** The Governor's budget proposes $1.1 million to support the six math and science research centers that have been established as math and science teacher recruitment centers to increase the number of math and science teachers.

- **Annuitant Health Benefits.** The Governor's budget increases annuitant health benefits support by $10.5 million.

- **Lease-Purchase Payments.** The Governor's budget increases lease-purchase payments by $15.8 million.

HASTINGS COLLEGE OF LAW

Hastings College of Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and was affiliated with the University of California by the Legislature in the same year. A board of directors, appointed by the Governor for 12-year terms, oversees the college. The Juris Doctor degree is granted by the Dean of Hastings and the Regents of the University of California.

The Governor's proposed budget includes a total funding of $47.8 million for Hastings College of Law, including $10.1 million in General Fund. These amounts reflect an increase of 4.6 percent in total funds and 21.3 percent in General Fund from the 2005-06 budget levels of $35.8 million in total funds and $8.4 million in General Fund.

Key Provisions

- **Support Budget.** The Governor's budget proposes a $406,000 increase, or 4 percent, for basic support.
- **Student Fee Increases.** The Governor's proposed budget includes $21.3 million in revenue associated with an eight percent scheduled fee increase that has already been adopted by the Hastings Board of Directors.

CALIFORNIA STATE UNIVERSITY (CSU)

The California State University (CSU) system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. While each campus in the system has its own unique geographic and curricular character, all campuses offer undergraduate and graduate instruction for professional and occupational goals, as well as broad liberal education programs. In addition to providing baccalaureate and master level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and a limited number of doctoral degrees are offered jointly by the CSU with the University of California and with select private universities. The California State University currently serves approximately 334,198 FTE undergraduate and graduate students.

The Governor's proposed budget for the CSU includes $2.9 billion in General Fund, which represents an increase of $165 million, or 5.9 percent, above the revised 2006-07 budget. The CSU's annual budget, including all funds, is proposed to total $4.4 billion in 2007-08.

Major Provisions

Student Fee Increases

The Governor's proposed budget includes $97.8 million associated with the proposed 10 percent student fee increase for undergraduate, graduate and teacher credential students. The CSU Board of Trustees will be considering the proposed fee increase at their March meeting.

Last year, the Governor proposed and the Legislature approved $54.4 million to "buy out" fee increases of eight percent for all students. Consistent with the Compact Agreement, the CSU Board of Trustees had approved these fee increases at their November 2005 meeting. The State's "buy out" of the fee increases allowed the 2006-07 fees to remain at the 2005-06 levels.

CSU's Master's Nursing Program

The Governor's proposed budget includes $2.6 million to continue to support nursing enrollment expansions at the CSU. Of this amount, $560,000 are provided to support 280 FTES in ELM degree programs in nursing, $1.7 million to support the full cost of a minimum of 163 FTES in ELM degree programs in nursing, and $371,000 to support 35 FTES in baccalaureate degree nursing programs. Of the amount provided for enrollment growth, the CSU is provided funding to increase baccalaureate degree nursing programs by 340 FTES.

In 2005, the Legislature appropriated $4 million to begin expanding the master's degree enrollments in nursing at the CSU. The Governor vetoed all but $560,000 of the funding because he felt that the level of funding provided would exceed the programmatic needs of that year. However, he set aside the vetoed amount of $3.4 million pending legislation, which would propose different approaches to addressing the nursing shortage in the State and the possibility of including the UC as well.

Senate Bill 73 (Chapter 592, Statutes of 2005) appropriated $1.7 million to the UC and $1.7 million to the CSU for one-time costs related to expanding nursing programs in 2005-06 and for support of the actual expansion of nursing enrollments in 2006-07. The legislation states that both the UC and CSU will increase nursing enrollments by at least 130 students each over the 2005-06 level in 2006-07. While the $1.7 million allocation to support nursing enrollments at the UC was reduced to $963,000, the Legislature approved the $1.7 million allocation for the CSU. The *2006-07 Budget Act* included $560,000 to support 280 FTES in ELM degree programs in nursing and $1.7 million to fund the full cost of a minimum of 130 FTES in ELM degree programs in nursing. This funding is intended as a supplement to marginal cost support provided to the CSU within the enrollment growth funding in recognition of the higher costs associated with master's degree level nursing programs. The budget bill

language also requires that the UC provide a report due by May 1, 2007 on the progress towards achieving this enrollment goal.

CSU's Academic Preparation and Student Support Services Programs

The Governor's budget proposes to eliminate $7 million for academic preparation and student services programs. Without General Fund support, funding for these programs in 2007-08 would be $45 million from CSU funds as agreed in the Compact with the Governor. The *2006-07 Budget Act* provided $52 million for these programs. Of this amount, $7 million were General Fund and $45 million were CSU funds. In the Compact, the CSU agreed to provide no less than $45 million to support the continuation of the "most effective" programs. The Compact also states that "additional funding provided by the State would be subject to the annual budget act."

Funding for Academic Preparation and Student Support Services Programs. Academic Preparation programs have experienced severe budget cuts in the last three years to the point where the State General Fund support for these programs at the CSU has fallen by more than 50 percent from an all time high of $58.1 million in 2000-01 to $7 million in 2004-05.

What are Academic Preparation and Student Support Services Programs? These programs have become the gateway to higher education by providing elementary, middle and high school students with instruction in the areas of academic development, academic advising, study skills training, career exploration, mentorship and test preparation for college admission exams. Most of the students that participate in these programs come from low-income families, are the first generation in their family to attend college, are English language learners and/or are attending a low performing school. For the 2005-06 year, the CSU served 5,621 schools and 496,412 K-12 students.

Academic Preparation Programs at the CSU include:

Early Assessment Program (EAP)

The program was established to provide opportunities for students to measure their readiness for college-level English and mathematics in their junior year of high school, and to facilitate opportunities for them to improve their skills during their senior year. In 2005-06, the EAP English program served 210,000 students and the EAP Math program served 134,000 students.

Educational Opportunity Programs (EOP)

EOP is an education access and retention program that provides the following support services;

- *Academic Advising.* Students are teamed with a counselor who helps them develop an academic roadmap. The counselor meets with students on a regular basis to review short- and long-term goals to ensure a timely graduation.

- *Tutoring.* Qualified CSU students tutor EOP students in subject areas to help improve students' academic performance. Trained peer tutors provide support on an individual basis or in groups.

- *Workshops and Study Skills Courses.* EOP sponsors seminars and workshops to help students develop learning skills. Sessions cover topics such as test taking, note taking, time management, computer and software skills, career planning, campus policies and numerous other helpful topics.

- *Counseling.* Professional counselors and graduate student advisers are available to assess and evaluate students' academic and personal needs. Taking physical, economic, social and cultural environments into consideration, counseling staff members work to involve students in academic and extracurricular activities that integrate them into the campus community and promote personal well being and success.

- *Summer Bridge.* The Summer Bridge Program is a comprehensive support program that assists incoming freshmen to prepare for the rigors of university work. It typically consists of a five-week residential program that assists EOP incoming freshman in making the transition from high school to the university. Summer Bridge offers courses in math, writing and ethnic studies and academic advising, tutorials, workshops.

Student Services Programs.

These programs support students with academic advising, new student orientation, staffing for learning centers, tutoring centers and study skills help centers and services for disabled students.

Other Key Provisions

- **Support Budget.** The Governor's budget proposes $108.9 million, or four percent, for basic budget support.

- **Enrollment Growth.** The Governor's budget proposes $65.5 million for a 2.5 percent enrollment growth to fund an additional 8,355 FTES.

- **Institutional Financial Aid.** The Governor's budget continues the 33 percent set-aside from student fee revenue for institutional financial aid.

- **Math and Science Teacher Initiative.** The Governor's budget proposes an increase of $2 million for a total of $2.7 million to support the third year of the Math and Science Teacher Initiative. The increase in funding would be used to support the establishment of three regional math and science teacher recruitment centers and continue to expand the campus programs to increase the number of math and science teachers.

- **Capitol Fellows Program.** The Governor's budget provides an increase of $120,000, or 4 percent, consistent with the Compact augmentations to the base budget.

- **Retirement Costs.** The Governor's budget provides a $23.3 million increase for retirement costs.

- **Lease-Purchase Payments.** The Governor's budget includes a $2.7 million reduction for lease purchase payments.

CALIFORNIA COMMUNITY COLLEGES (CCC)

The California Community Colleges (CCC) provides a general education and vocational certificate programs at 109 Community Colleges through 72 local districts, which serve approximately 2.5 million students annually. By law, California Community Colleges admit any Californian seeking admission who has graduated from high school and may admit anyone who is 18 years of age or older and who is capable of profiting from the instruction offered. The Colleges may also admit any nonresident, possessing a high school diploma or the equivalent thereof, provided the student pays a nonresident fee that fully covers the cost of instruction. This policy of “open access” fulfills the Community College mission to provide all Californians with the opportunity for advanced education and training.

Community College Funding

Proposition 98, approved by the voters in 1988, amended the State constitution to specify procedures for determining annual K-14 funding. Proposition 98 accounts for over 90 percent of the funds provided annually to the community colleges. Fiscal year 1989-90 established the base year for calculating the percentage split at 89.07 percent for K-12 and other agencies and 10.93 percent for the community colleges. This split has been the basis for calculating the allocation of Proposition 98 funds in all subsequent fiscal years. However, statutory requirements to divide funding between K-12 and community colleges

in a specified proportion have historically been made non-operative through the annual Budget Act.

The Governor's budget proposes a total of $8.6 billion for the CCC from all fund sources, which include student fee revenue and federal and local funds. This amount reflects an increase of $322.3 million, or a 3.9 percent increase from current year funding. Of the $8.6 billion amount, $6.6 billion are General Fund and Proposition 98 sources.

Major Provisions

Career Technical Education (CTE) Initiative

The Governor's budget proposes $52 million to expand career technical education course offerings and programs. Of this amount, $20 million are Proposition 98 ongoing funds appropriated to the CCC's base budget last year and $32 million is new funding provided in SB 1133, Chapter 751, Statutes of 2006. The $32 million in one-time funds would increase to $38 million annually in 2008-09 through 2013-14 for a total annual fund of $58 million, including the $20 million ongoing funds already in the base.

The Governor launched the CTE in 2005. That year, the Governor proposed and the Legislature approved $20 million in one-time Proposition 98 Reversion Account funds to encourage high schools to work with community colleges to expand and improve vocational courses offered to high school students. According to the Administration, this funding, which became available on January 1, 2006 through SB 70 (Scott), has been allocated through grants for the CCC to support several types of projects including "Quick Start" Partnerships, which enhance linkages and pathways between secondary schools and selected economic and workforce development initiatives, programs that can grow program capacity and infrastructure and projects that strengthen career technical education sectors at secondary schools. Last year, the Governor proposed $50 million in Proposition 98 ongoing funds to support his CTE Initiative. The Legislature reduced the funding to $20 million since the CCC Chancellor's Office had only been able to allocate $10.8 million from the previous $20 million one-time allocation.

The *2006-07 Budget Act* requires the Chancellor's Office to submit a proposed expenditure plan for the $20 million in Proposition 98 ongoing funds to the Department of Finance (DOF) for review and approval by August 1, 2006. The 2006-07 CTE expenditure plan includes the following:

Health Workforce Innovation Partnerships ($2.5 million). Competitive Request for Applications (RFA) for comprehensive programs for the enhancement and development of health-related career pathway programs in

grades 7-12 and the articulation and alignment of health-related curriculum between K-12 and the colleges. In addition to student enrollment and piloting coursework, activities include outreach, curriculum modification and articulation.

Faculty and Counselor In-service ($1.4 million). The program includes funding for pairs or teams of college faculty and counselors to work in industry or with industry associations and professional organizations to bring back high growth, high demand industry sector knowledge regarding education and program needs.

Career Advancement Academies ($5 million). These projects target 18-30 year-olds who have dropped out or lack basic skills by offering preparation for career technical training in various high demand industry sectors while continuing to provide academic preparation in a real world, experiential learning context. This program requires industry match.

Curriculum Planning for Emerging Industries ($4.5). These projects would focus on locating new emerging industries and developing model curricula for instruction in those industries. The program requires significant industry or research lab partners.

Skills for the 21st Century Economy ($600,000). These projects would provide students with instruction in new competencies needed for emerging industries. It includes two projects through the Economic Workforce Development (EWD) Program.

Teacher Preparation Pipeline ($5.2 million). This project proposes to support K-16 projects to meet anticipated CTE teacher shortages. Curriculum will require components to strengthen Math and Science disciplines within the CTE competencies.

Expanded Leadership, Support and Participation of Economic and Workforce Development (EWD) Centers ($500,000). It requires participation on an on-going basis to improve linkages and career technical education. These funds would create a northern and southern hub through the EWD program.

Evaluation ($300,000). The funding would be allocation for program evaluation purposes.

Basic Skills Program Funding Redirection. The Governor's budget proposes a $33.1 million redirection of surplus Basic Skills over-cap incentive funding to support additional matriculation and support services. According to the Administration, these funds are currently dedicated for student instruction that exceeds district funding limits and are not projected to be needed in the foreseeable future. Instead, the Administration is proposing to use this amount to help the most at-risk first-time students that are in transition from high school to

define and complete specific academic goals. Of the $33.1 million, the Administration is proposing to use $14 million for additional matriculation services, which include orientation, counseling and academic assessment, and referrals to specialized services, and $19.1 million to be used for targeted counseling services to help students asses career options, evaluate aptitudes and form an academic plan of study.

In the *2006-07 Budget Act,* the Legislature authorized the redirection of unused basic skills funds to be used for enhancements of these same programs as well as immigrant education programs including, but not limited to, curriculum development, course articulation, research, professional development, instructional equipment, counseling and tutoring.

Basic skills consist of a course, a course of study, or a sequence of courses to provide instruction for individuals in elementary and secondary-level reading, writing, computation and problem-solving skills. Courses include English-language arts, math, arts, science, social sciences, technology/computer literacy, workforce preparation, and problem solving and life skills. Students' goals may include basic skills certificate of competency, high school diploma, workforce readiness, effective parenting and general education development (GED) exam preparation.

Immigrant Education programs consist of a course, a course of study, or a sequence of courses specifically designed to provide immigrants and their families with the opportunity to become active and participating members of economic and civic society, and may include preparation for citizenship. Courses include basic skills, English-as-a-Second Language (ESL), Workforce preparation, citizenship and civic education including such subject areas as U.S. History, State and Community Civics and the U.S. Constitution, other classes required for participation in job-specific technical training such as workforce literacy, occupational safety and career planning.

Nursing Program Student Enrollment. The Governor's budget proposes $9 million in one-time current year funding and $9 million in ongoing funding to support additional nursing program enrollment. Funding for CCC nursing programs in 2007-08 would total $25.8 million. Of this amount, $14 million will be used to provide support for nursing enrollment programs and equipment, $8.1 million for attrition services and $3.7 million for the support of additional nursing pre-requisite courses in the areas of Anatomy, Physiology and Microbiology. The *2006-07 Budget Act* included $16.8 million in funding for the expansion of nursing programs and enrollment at the CCC.

Other Key Provisions

- **Enrollment Growth.** The Governor's budget provides $109.1 million in Proposition 98 General Fund for enrollment growth. This represents a two percent enrollment growth to fund an additional 23,000 FTES.

- **General Purpose Cost-of-Living-Adjustment (COLA).** The Governor's budget proposes $224.9 million in Proposition 98 General Fund for a 4.04 percent COLA for general purpose apportionments for all districts.

- **Growth and COLA for Categorical Programs.** The Governor's budget proposes a $19.6 million increase for a 2 percent Categorical Program enrollment growth and 4.04 percent COLA for Basic Skills, Matriculation, Disabled Students Programs and Services, Campus Childcare Tax Bailout, and Extended Opportunity Programs.

- **Student Fee Reduction Backfill.** The Governor's budget provides an increase of $33.2 million to offset the remaining student fee revenue reduction incurred by lowering student fees from $26 to $20 per unit last year. The *2006-07 Budget Act* included $40 million in Proposition 98 ongoing funds to backfill the student fee revenue loss for the spring semester since the fee reduction became effective on January 1, 2007. The increase is needed to cover the full year cost of the reduction in 2007-08.

- **Local Property Tax Revenues.** The Governor's budget proposes a $197.2 million reduction to CCC Apportionments to reflect the estimated growth in local property taxes of an identical amount.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

The California Student Aid Commission (CSAC) is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant program, which is the primary state source of financial aid. In addition, the Commission administers the federal guaranteed Student Loan Operating Fund (SLOF) program.

The Governor's proposed budget includes a total of $1.7 billion in state and federal funds for CSAC. Of these total funds, $891.6 million are General Fund support, an increase of 7.8 percent from the fiscal year 2006-07 level.

Key Provisions

- **Cal Grant Increase.** The Governor's budget proposes a $61.3 million increase over the revised 2006-07 level for anticipated growth in costs for the program, reflecting increased participation and the anticipated undergraduate fee increases of 7 percent at the UC and 10 percent at the CSU.

- **Assumption Program of Loans for Education (APLE).** The Governor's budget proposes an increase of $2.9 million in General Fund to the APLE program for the anticipated growth in costs of funding new and continuing recipients.

    - **Math and Science Teacher Initiative APLE Awards.** The Governor's budget proposes the authorization of 600 new warrants for this program for students participating in the Governor's Math and Science Teacher Initiative. The Governor's January budget last year contained language that would have allocated 600 out of 8,000 APLE warrants for students participating in his Math and Science Teacher Initiative. The Legislature rejected this proposal since this would have created a new program within the existing APLE system and would have required the authorization of these warrants in statute. In addition, the LAO indicated during budget subcommittee hearings that not all APLE warrants are issued every year and that the existing APLE program already creates strong incentives to serve as math and science teachers; therefore, there is not a need to create a new program.

- **How does the APLE program work?** The state issues agreements for loan assumptions annually to students, district interns, and out-of-state teachers pursuing careers in teaching. Through APLE, individuals who teach full-time for at least four consecutive years in a high-need subject area, as determined by the Superintendent of Public Instruction, or teach at low-performing schools receive up to $11,000 in loan forgiveness. Having already targeted these high need areas, the program then provides up to an additional $4,000 in loan forgiveness if the individual teaches science, math, or special education and up to another $4,000 in loan forgiveness if the individual teaches in one of these high-need areas and serves in a school ranked in the bottom two-deciles of the Academic Performance Index (API).

COMMISSION ON TEACHER CREDENTIALING (CTC)

The Commission on Teacher Credentialing (Commission) was established to strengthen the effectiveness of teachers and other certificated public school employees and to ensure schools have fully prepared and effective educators that all students deserve and our communities require. The Commission serves as the licensing body for public school educators in California. In order to serve in a California public school, educators must be licensed by the Commission.

The Governor's Budget proposes $58.9 million for the CTC's budget in 2007-08, a decrease of $12.2 million from the 2006-07 budget. Most of this decrease is associated with the Governor's proposal to add $10 million in one-time General Funds (Proposition 98) for a new teacher recruitment program – EnCorps – in 2007-08. Funding for the EnCorps program would be available on a one-time basis beginning in 2007-08. However, because funds are appropriated from 2006-07 Proposition 98 settle-up funds, expenditures for this new, limited-term program are budgeted in 2006-07 and appear as a funding loss in 2007-08.

In addition, the budget proposes a net reduction of $1.4 million in expenditures from the two special funds that support the CTC's state operations -- the Teacher Credentials Fund and million from the Test Development and Administration Account. This reduction reflects a $1.5 million decrease in pro-rata charges assessed to the CTC and a $100,000 increase for other baseline budget adjustments. In total, the Governor's Budget proposes to expend $18.8 million from CTC's two special funds in 2007-08.

The Governor's budget provides $39.9 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. This amount continues the $6.8 million increase provided in the 2006-07 budget to improve and expand intern grants to school districts and county offices of education, pursuant to Chapter 517 (SB 1209/Scott).

The 2005-06 budget provided a $2.7 million General Fund (Non-Proposition 98) appropriation to address a shortfall in special funds to support the CTC's state operations budget. These funds were provided on a one-time basis. Healthy fund balances were restored in 2006-07 and expenditures from the Teacher Credentials Fund and the Test Development and Administration Account were increased by $2.7 million to offset the elimination of one-time General Funds.

Key Provisions

What does the CTC do? 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 approximately 250,000 annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

- **Healthy Fund Balances Estimated.** The Governor's proposed budget projects positive, healthy fund balances for CTC's two special funds in 2007-08. The budget estimates that the fund balance for the Teacher Credentials Fund will total nearly $4 million in 2007-08, assuming two percent growth from 2006-07. Growth rate estimates will be updated at May Revise. Based upon the latest estimates from CTC, it is likely that the estimated growth rate and projected fund balances for the Teacher Credentials Fund will increase at that time. The budget also estimates that the fund balance for the Test Development and Administration Account will total $1 million in 2007-08.

- **Reduction in Pro-Rata Charges to CTC.** The Governor's proposed budget reflects changes in CTC's portion of the state Administration, General Fund recovery adjustment, known as state agency pro-rata charges. This change, which is being applied to agencies statewide, reduces expenses for CTC by $1.5 million in 2007-08.

- **Create One-Time Teacher Recruitment Program.** The Governor proposes to provide $10 million in one-time Proposition 98 funds to create the EnCorps Teacher program in 2007-08. This program is intended to add 2,000 experienced retirees to the teaching corps, particularly retirees with subject matter knowledge in several shortage fields -- math, science and career-technical education. The program is proposed as a public-private partnership between local education agencies and private business and industry. Once recruited by the EnCorps program, retirees would be prepared for teaching through existing internship programs with unspecified support from their current employers. Funding for this program would be available for a two-year period commencing in 2007-08.

- **Continue Efforts/Progress in Reducing Credential Processing Time.** The Governor proposes to continue position authority provided in the 2006-07 budget to reduce credential processing time and backlogs. Specifically, the 2006-07 budget converted four high level positions in the Professional Services Division into seven technical positions in the Certification, Assignment, and Waivers Division for this purpose. The Governor proposes to continue this authority for one additional year – until June 30, 2008. The Governor notes that while "significant" progress has been made in 2006-07, it is "critical" that efforts continue until the backlog is eliminated and processing time is below the 75-day standard.[8] The Governor also proposes to continue language requiring the CTC to 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 include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

- **Career-Technical Education Credentialing Reforms.** The Governor proposes to introduce legislation directing the CTC to streamline the credentialing process for career-technical education teachers. These efforts are intended to address 175 different credentials for career technical education teachers reflecting industries and trades in California. The Governor proposes that by September 30, 2007, the CTC establish a more streamlined list of credentials utilizing the 15 industry sectors included in California's new curriculum standards for career-technical education.

- **Continue Support for Teacher Data System Development.** The Governor's budget provides $1.4 million in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CalTIDES) in 2007-08. Of this total, the Governor provides $248,000 for 2.5 limited-term positions and other expenses to CTC and $1.2 million for one limited-term position and other expenses to the California Department of Education (CDE) for development of CalTIDES. The 2006-07 budget provided a total of $938,000 in one-time federal Title II funds for this purpose -- $252,000 for CTC and $686,000 for CDE.

- **Continue Support for the Teacher Performance Assessment.** The Governor's Budget provides $237,000 for 2.0 positions and other expenses to support Administration of the Teacher Performance Assessment pursuant to Chapter 517, Statutes of 2006 (SB 1209/Scott).

[8] The Governor's Budget summary indicates that during 2006-07 the "credentialing backlog" has been reduced from 77,000 to 44,000 applications and reduced average processing time below the regulatory time limit of 75 days for both credential renewals and university recommended credentials for new teachers. According to CTC, the credentialing backlog has been further reduced to 31,000 applications.

THE 2007-08 STATE BUDGET

Health Services

DEPARTMENT OF HEALTH CARE SERVICES

The Department of Health Care Services (DHCS), as renamed from the Department of Health Services effective July 1, 2007, finances and administers several individual health care service delivery programs, including Medi-Cal, Children's Medical Services, Office of Long Term Care, Primary Care Clinic Program, and Rural Health Programs.

The Governor's proposed budget includes $38.1 billion, including $14.9 billion from the General Fund.

Key Provisions

- The Governor's budget proposes to achieve savings of $88 million in pharmacy by changing from Average Wholesale Price to Average Manufacturer's Price for drug ingredients.

- The Governor's budget proposes savings of $28.8 million through limiting the growth capitation for Freestanding Nursing Homes and Subacute Facilities to 4.5 percent, down from 5.5 percent.

- The Governor's budget proposes $119.9 million for a rate increase for Level A Nursing Facilities and other Long-Term Facilities not governed by the rate methodology in AB 1629.

- The Governor's budget proposes to restore the five percent provider rates for Medi-Cal Managed Care Plans, $133 million.

- The Governor's budget proposes a $4.4 million rate increase for PACE (Program of All-Inclusive Care for the Elderly) Plans.

- The Governor's budget provides $20.7 million to fund caseload increases that will result from the implementation of two county pilot projects for the self-certification of Medi-Cal enrollees.

- The Governor's budget proposes $81 million for outreach and caseload costs for children in the Medi-Cal program.

- The Governor's budget proposes $2.5 million to backfill for lost federal funds for certain Family PACT services, mammography, Hepatitis B vaccines, five medical procedures related to certain types of contraceptive methods and diagnostic testing regarding cancer.

- The Governor's budget provides a decrease of $5 million in reimbursement for Adult Day Health Care as a result of tightening medical necessity criteria.

- The Governor's budget provides an increase of $36.9 million to county social services departments to conduct Medi-Cal eligibility determinations.

- The Governor's budget provides an increase of $2.5 million to fund 22 positions to begin the work necessary to procure a new Medi-Cal management information system and Fiscal Intermediary contract.

- The Governor's budget provides an increase of $4.8 million for Disease Management Pilot Projects.

- The Governor's budget provides an increase of $2.7 million so the Department may enter into one or more contracts to implement coordinated care management demonstrations projects.

- The Governor's budget provides an increase of $1.1 million to provide 11 positions for increased management of the Hospital Waiver.

- The Governor's budget provides $2.3 million for 19 positions to continue the implementation of the federal Health Insurance Portability and Accountability Act.

- The Governor's budget provides an increase $571 thousand for five positions for the implementation of the federal Deficit Reduction Act.

- The Governor's budget provides an increase of $195 thousand for two positions to conduct monitoring activities associated with county administration of Medi-Cal eligibility processing and county performance standards.

- The Governor's budget provides $220,000 to initiate development of Medi-Cal provider enrollment and document tracking system.

- The Governor's budget provides an increase of $408,000 and three positions to begin implementation of Hospice and Palliative Care for children.

DEPARTMENT PUBLIC HEALTH

The Department of Public Health was established pursuant to SB 162 (Chapter 241, Statutes of 2006) and contains public health programs formerly with the Department of Health services.

The Governor's proposed budget includes $3 billion, including $394 million from the General Fund, for the Department of Public Health.

Key Provisions

- The Governor's budget proposes a $7.2 million reduction in General Fund and an increase of $7.2 million license fees in the Licensing Certification Program. In the 2006 budget, the transition to wholly fee supported activities was to take three years. The proposal would not continue the 2006 agreement.

- The Governor's budget proposes a $2.5 million increase and 16 positions to implement legislation that requires surveys and inspections for compliance with state standards to the extent the standards exceed federal law.

- The Governor's budget proposes an increase of $7.2 million and 43 positions to implement legislation relating to the reporting of and follow-up on adverse events in hospitals.

- The Governor's budget proposes an increase of $711,000 and six and one-half positions to handle increase workload associated with enforcement and disciplinary actions for those in violation of Licensing and Certification standards.

- The Governor's budget provides an increase of $2 million and 14 positions to establish the Healthcare Associated Infection Program.

- The Governor's budget provides an increase of $2 million to accelerate HIV names based reporting in 62 local health jurisdictions.

- The Governor's budget provides an increase of $2.1 million for nine positions and two contracts to investigate food borne illnesses and outbreaks and enhance the state's capability to test food and environmental samples for investigation purposes.

- The Governor's budget provides an increase of $4.6 million for six positions to implement improved prenatal screening and additional activities regarding the causes of birth defects.

- The Governor's budget provides an additional $15.8 million in the Prenatal Screening Program for the expanded screening panel provided under the program.

- The Governor's budget provides an additional $1 million for screening for Cystic Fibrosis and Biotinidase Deficiency.

- The Governor's budget provides $3.5 million for the treatment of Prostate Cancer.

- The Governor's budget proposes to add five positions to conduct compliance checks of tobacco retailers to reduce illegal tobacco product sales to minors in the City of Los Angeles.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services is responsible under the Lanterman Developmental Disabilities Services Act for ensuring that persons with developmental disabilities receive the services and supports they need to lead more independent and productive lives and to make choices and decisions about their lives. The Department ensures coordination of services to persons with developmental disabilities; ensures that such services are planned, provided, and sufficiently complete to meet the needs and choices of these individuals at each stage of their lives, regardless of age or the degree of their disability; and, to the extent possible, accomplishes these goals in the individual's home community.

The Department sets broad policy and provides leadership for developmental services statewide; establishes priorities, standards, and procedures within which the developmental services program operates; monitors, reviews, and evaluates service delivery; and ensures remediation of problems that arise. Services are delivered directly through Developmental Centers and state-operated community facilities, and under contract with a statewide network of 21 private, nonprofit, locally-based community agencies known as regional centers.

The Governor's proposed budget includes $4.3 billion, including $2.6 billion from the General Fund, for the Department of Developmental Services.

Key Provisions

- The Governor's proposed budget provides an increase $223.9 million to support population and utilization increases.

- The Governor's proposed budget provides $71.4 million for minimum wage adjustments in the budget year.

- The Governor's proposed budget provides $144 million in a one-time shift of Public Transportation Account funding to replace General Fund for transportation services.

- The Governor's proposed budget assumes a $44 million increase in Federal Reimbursements for Intermediate Care Facilities-Developmentally Disabled (ICF-DD) Facilities for Day Programs and non-medical transportation services for Regional Center clients residing the facilities.

- The Governor's proposed budget includes a $40.3 million increase for the both Regional Centers and Agnews Developmental enter for the closure of the Developmental Center in June 2008.

- The Governor's proposed budget provides an increase of $1.7 million for the Autistic Spectrum Disorders Initiative.

- The Governor's proposed budget includes reductions to Developmental Centers funding by $30.5 million to reflect a projected decline of 245 residents.

DEPARTMENT OF MENTAL HEALTH

The California Department of Mental Health leads the state's mental health system, ensuring the availability and accessibility of effective, efficient, and culturally competent services. Advocacy, education, innovation, outreach, understanding, oversight, monitoring, quality improvement, and the provision of direct services accomplish this mission.

The Governor's proposed budget includes $4.7 billion, including $1.9 billion from the General Fund, for the Department of Mental Health.

Key Provisions

- The Governor's budget reflects $1.5 billion in expenditures from the Mental Health Services Account (Proposition 63), the Account is continuously appropriated and not subject to Budget Act appropriation.

- The Governor's budget proposes an increase of $302.7 million for past year deficiencies and an increase of $92.7 million for the 2007-08 fiscal year in the Early and Periodic Screening and Treatment Program.

- The Governor's budget proposes to eliminate the Integrated Series for Homeless Adults with Serious Mental Illness for savings of $54.9 million.

- The Governor's budget proposes and in increase of $8.3 million in the Mental Health Managed Care Program. The proposal does not contain a medical-cost-of-living adjustment and one has not been provided since the 2000-01 budget year.

- The Governor's budget proposes an increase of $5 million to expand the Early Mental Health Initiative.

- The Governor's budget proposes $52 million for mental health services provided to children enrolled in special education under the auspices of AB 3632.

- The Governor's budget proposes an additional $24.1 million and 286 staff for the state hospitals for the projected increase in the commitments of Sexually Violent Predators as the result of Proposition 83 – Jessica's Law.

- The Governor's budget proposes and additional $44.4 million for the current year and budget year for 496 positions. The administration contends a mistake was made in the May Revision of the 2006 budget and the staffing is

needed to comply with the requirements of the Civil Rights for Institutionalized Persons Act.

- The Governor's budget proposes current year and budget year increases totaling $40 million for the increased volume of Sexually Violent Predators evaluations conducted by private, specialized contractors.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (MRMIB) provides health coverage through commercial health plans, local initiatives, and county organized health systems to certain persons having no health insurance. MRMIB also develops policy and recommendations on providing health insurance to over six million uninsured Californians.

The Governor's proposed budget includes $1.3 billion, including $395 million from the General Fund, for MRMIB.

Key Provisions

- The Governor's budget provides $9.1 million in funding for the continuation of Certified Application Assisters to increase enrollment in the Healthy Families and Medi-Cal Program.

THE 2007-08 STATE BUDGET

Human Services

DEPARTMENT OF SOCIAL SERVICES

The mission of the California Department of Social Services (DSS) is to serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Governor's budget proposes $18.7 billion ($8.9 billion General Fund) for the DSS, an increase of $378.2 million or 2.1 percent for all funding sources. Although the overall proposed budget for the department increased, the Department's General Fund is reduced by $329.9 million, a 3.6 percent reduction. The proposed budget includes a total of 4,436.1 DSS positions, a net increase of 7.8 positions over the current year.

Major Provisions

CalWORKs

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, and replaced the Aid to Families with Dependent Children (AFDC) program on January 1, 1998. The CalWORKs program is California's largest cash-aid program for children and families, and is designed to provide temporary assistance to meet basic needs in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work requirements and encouraging personal accountability. The program recognizes the difference among counties and affords them maximum program design and funding flexibility to better ensure successful implementation at the local level.

California is required to spend $2.7 billion in state or county funding as its maintenance-of-effort (MOE) to draw down the federal TANF block grant of $3.7 billion per year. The state cannot fund below the MOE level without losing significant amounts of federal funding in subsequent fiscal years, thus the MOE has essentially served as the minimum funding floor for the CalWORKs program.

About 1.2 million individuals (3.4 percent of California's population) are currently connected to a CalWORKs case.

The Governor's Budget Proposal: CalWORKs Reform or CalWORKs Budget Cut?

The Governor's CalWORKs proposal appears to both improve the State's federal performance and also save the state $431 million in General Fund in a difficult budget year. However, this improved performance is only "on paper" and it is achieved by amputating the segments of the CalWORKs program that go beyond the federal government's limited view of TANF. The proposed changes to the program could eliminate all financial assistance to over 190,000 children in the budget year.

Unlike previous reform proposals, the current Governor's proposal would re-prioritize the overall goals and guiding principles of CalWORKs. The Governor's proposed budget suggests that avoiding a possible federal penalty should be the principle goal of California and the state should sacrifice existing goals of the program to achieve only one goal. The following code section is from the original CalWORKs bill:

> *Welfare and Institutions Code Section 10540.*
> (a) It is the intent of the Legislature to implement Public Law 104-193 *(the federal law that enacts TANF)* in such a manner as to do all of the following:
> (1) Reduce child poverty in the state.
> (2) Achieve the goals of Public Law 104-193, which include reducing dependence of needy parents on government benefits by promoting job preparation, work, and marriage; reducing out-of-wedlock births; and encouraging the formation and maintenance of two-parent families.
> (3) Meet the requirements of federal law.
> (b) It is further the intent of the Legislature to ensure that the implementation of Public Law 104-193 does not result in unanticipated outcomes that negatively affect child well-being, the demand for county general assistance, or the number of families affected by domestic violence.

The Governor's proposed budget suggests that meeting the requirements of federal law supersedes the other goals, such as child poverty, child well-being, promoting job preparation, and reducing domestic violence. The proposed cuts target segments of the CalWORKs caseload that receive assistance because of deliberate policy choices regarding income stability and self-sufficiency made as part of the original CalWORKs bipartisan agreement. As a result the pursuit of one goal is at the expense of all of the others.

The CalWORKs proposal has several parts:

- **Impose Full-Family Sanctions.** The budget proposes to impose a "full-family" sanction whereby a family's entire grant is eliminated for those

families with an adult who does not comply with CalWORKs requirements for more than 90 days. This proposal would result in a General Fund cost of $11.4 million because it assumes 70 percent of sanctioned cases would begin working (or participate in an allowable non-work activity) and need child care, as a result of the change. A statutory change would also be needed to implement this proposal.

Under current law, when an adult fails to meet CalWORKs requirements, the family's grant is reduced by the amount attributable to the adult, but cash aid continues for the children in the family. This "partial-family" sanction is intended to provide a subsistence allowance to preserve the well-being of the children even if their parents have been sanctioned. Research by the Welfare Policy Research Project at the University of California, shows that sanctioned adults face greater barriers to work, such as substance abuse, mental health issues, and education needs. Also existing research does not support the conclusion that more punitive sanctions will result in increased work participation.

As part of this proposal, the budget will also propose trailer bill language to count the time the adult is sanctioned toward the 60-month lifetime CalWORKs limit. This would be a significant policy change. Under current law, the time while the adult is sanctioned does not count toward the 60-month limit because he or she is not receiving cash aid for himself or herself during the time under sanction.

- **Restrict Safety Net Grants.** The Governor's proposed budget proposes to eliminate safety net grants for those children whose parents do not work sufficient hours to meet federal work participation requirements after "timing-out." This proposal would be implemented in November 2007 and would result in General Fund savings of $175.8 million. A statutory change would also be needed to implement this proposal. CalWORKs adult recipients are limited to 60 cumulative months of cash assistance. Under current law, children continue to receive cash aid until they are 18 years of age, as long as the family meets CalWORKs eligibility guidelines, regardless of how many hours their parents work after timing-out. Although information is still being gathered on the specific characteristics of the safety net caseload, there are an estimated 100,000 children in over 45,000 families receiving safety net cash assistance in 2006-07. This proposal assumes that only 26 percent of the safety net caseload will meet the work participation requirements and remain eligible for safety net grants. There appears to be no research linking the elimination of safety net grants with increased work participation.

- **Eliminate Grants for Children of CalWORKs Ineligible Parents.** The Governor's proposed budget proposes to eliminate after 60 months grants

to children whose parents are not eligible for CalWORKs. These parents are ineligible because they are undocumented non-citizens, drug felons, or fleeing felons. The children include US citizen children of undocumented non-citizens. Under current law, the CalWORKs grants provided to children of ineligible parents are not subject to a time limit. This proposal would be implemented in November 2007 and result in General Fund savings of $160 million. There would be no impact to the state's work participation rate because these adults are already excluded from the work participation calculations.

- **Excess General TANF/Maintenance of Effort (MOE).** The federal government has recently granted Delaware a caseload reduction credit because that state was able to demonstrate an overmatch of their federally required MOE for TANF. The budget proposes that California attempt to pursue a similar credit and thus accounts for State expenditures that are $203 million in excess of the required level. These excess TANF/MOE expenditures represent funding for California Department of Education child care and after school programs and are expected to increase California's caseload reduction credit up to five percent.
  If the federal government approves California's "excess MOE" proposal, the State will have an additional mechanism to meet federal work participation requirements.
  If any of the Governor's proposed reductions are restored by the Legislature, the State should be able to increase the excess MOE amount for purposes of our federal performance reporting.

- **Reverse AB 1808 Caseload Transfer.** The Governor's proposed budget assumes that the transfer of exempt and KinGAP cases out of CalWORKs proposed in AB 1808 is not implemented. DSS encountered problems complying with child support and health coverage rules when it attempted to transfer these cases. These challenges could take several years to surmount. However, if they were addressed, the State could achieve a similar performance boost from the transfer of caseload that should not be subject to work activities out of services into a non-TANF support program that it expects to achieve from eliminating grants to families.

- **Suspend July 1, 2007 CalWORKs Cost-of-Living Adjustment (COLA).** The Governor's proposed budget proposes to freeze the amount of CalWORKs grants at their current levels resulting in General Fund savings of $140.3 million. The current maximum grant for a family of three is $723 per month. The 4.2 percent COLA that otherwise would have gone into effect on July 1, 2007, would have increased the grant for a family of three by $30 to $753 per month.

Work Participation Requirements of the Deficit Reduction Act (DRA).

The provisions of the Temporary Assistance for Needy Families (TANF) program require at least 50 percent of all CalWORKs families participate in a "work" activity for at least 30 hours per week. This requirement has been translated into a rate that the state must meet to avoid possible federal fiscal sanctions. The state is subject to two "work participation rates", 50 percent for all CalWORKs cases, and 90 percent for two-parent cases. But, the federal TANF program also gave states a credit for any caseload decline that occurred since 1995. The 46 percent decline in caseload since 1995 resulted in the state being only required to meet an effective work participation rate of 3.9 percent. In addition, federal rules allowed the state to structure a separate state funded CalWORKs two-parent program for two-parents families that would not need to comply with the federal measurement. As a result of these two factors, the state has been able to meet the federal work participation requirements.

The Deficit Reduction Act of 2005 made three major changes that will undermine California's ability to meet the TANF work participation requirements:

1) Beginning in FFY 2007, the act resets the base period for the caseload reduction credit to 2005. In the short run, this change essentially eliminates the value of the credit (because California's caseload has not declined since 2005) thereby creating work participation requirements of 50 percent for all families and 90 percent for two-parent families.

2) The act also applies work participation requirements to cases in separate state funded programs. Accordingly, California will no longer be able to avoid the 90 percent rate for two-parent families by using a state-only funded program. Failure to meet the two-parent rate results in a penalty. However, if the state meets the all-families rate, a penalty for failing the two-parent rate would be reduced by about 85 percent because the amount of the penalty is tied to the relative size of the two-parent caseload in comparison to the overall caseload.

3) The act gives the Secretary of the U.S. Department of Health and Human Services new authority to promulgate regulations concerning "verification of work and work eligible individuals." These new regulations have recently been issued and all CalWORKs cases with children and an unaided adult are known as child-only cases are now subject to the work participation calculation as are safety net cases that have been on aid for longer than 60-months.

The chart below illustrates the effect of these three changes on the work participation rate for California.

Rate Changes	FFY 05-06	FFY 06-07
Required Work Rate	50%	50%
Caseload Credit	-46.1%	0%
Adjusted Rate	3.9%	50%
Estimated Rate in CA	24.9%	23%

The state's work participation rates are currently 23 percent for all cases and 32 percent for two-parent cases. California will face significant costs to increase participation in work activities to meet the new requirements, and will still be at great risk of being penalized.
If the state fails to meet the work participation rate requirements, it is subject to a penalty equal to a five 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 (Maintenance of Effort) MOE spending by five percent, or $180 million.

Why Is The Work Participation Rate So Low?

For the last 18-months DSS, counties, the LAO, advocates, legislative staff, and other stakeholders have been part of an exhaustive data gathering effort to answer this question. Current CalWORKs data does not provide sufficient information to fully explain the reason for the current work participation rate. The data that is available is several years old and most predates the two most recent legislative efforts to improve the work participation rate. The Assembly should receive better data during the subcommittee process, which should help the answer this question.

There are several factors that may explain the state's low participation rate:

- **Only four States had a Baseline Work Participation Rate over 50 percent in 2004.** If the DRA requirements had been applied in 2004, 46 States and the District of Columbia would have failed the TANF work participation requirement. California's rate was lower than other large states, but some states had baseline work participation rates as low as 8.6 percent that year. In addition, the federal government has narrowed its definition for work participation activities. This change is expected to have little effect on California, but will likely reduce the work participation rate of several large states. This change could result in every state failing to meet both requirements in FFY 2006.

- **The Work Participation Rate May Be Flawed Measure of Success.** The Work Participation Rate is a snap shot of the program at one particular point

in the year. An analysis by Riverside County of September 2003 caseload that was tracked over ten months found that there was a substantial difference between the use of snapshot data and longitudinal data. The county started with a snapshot from September 2003 that found 55 percent of the county caseload was participating in the CalWORKs program. However, when that month's caseload was tracked over time to July 2004, 87 percent of that caseload either participated, became exempt, or left aid.

- **Snapshot Data.** While CalWORKs "participation" is not the same as "participation" as defined by federal TANF rules, the study helps identify the shortcomings of snapshot data at judging the effectiveness of the program overall. For Riverside County, 32 percent of the caseload that was not participating in a case snapshot would either transition out of CalWORKs or participate in the coming months. This study suggests that a substantial number of families are transitioning within categories in CalWORKs and a snapshot caseload analysis captures many of them in a categorical limbo that understates the State's work participation rate.

- **Lack of Education and Training Usage.** An analysis by the Center for Budget and Policy Priorities found that California was below the national average in the number of TANF participants utilizing education and training activities to meet work participation rates. The same analysis also found that California was ahead of the national average in the number of participants meeting federal requirements through unsubsidized work. This finding would suggest that the state could improve its performance by broadening the scope of education and training activities available for CalWORKs participants.

- **County-level roadblocks.** Counties have identified local issues that have hindered work participation. These issues include fixing automation problems, improving county staff training, developing administrative process to better engage families in work activities, and outreaching to sanctioned families and safety-net families.

Past Reform Efforts Just Starting To Bear Results.

Both the 2006 (AB 1808) and 2004 (SB 1104) Budget Trailer Bills included reforms designed to improve work participation. Due to long implementation requirements, the results of these efforts will likely result in observable performance in the current year.

Unlike the Governor's Budget proposal, the two reform efforts were designed to achieve federal compliance without sacrificing other goals, such as child poverty, child well being, and reducing dependence of needy parents on government benefits by promoting job preparation, work, and marriage.

AB 1808 implemented major changes to CalWORKs to improve the state work participation rate to comply with the requirements of the federal Deficit Reduction Act of 2005. These changes:

- Require counties to develop and submit an update to their CalWORKs plan that details county strategies for increasing work participation while also promoting the goals of the CalWORKs program.
- Strengthen provisions to require counties to backfill half of any penalties assessed for failing to meet federal work participation requirements.
- Transfer CalWORKs cases that are exempt from work requirements into a state program that is not subject to federal work participation provisions.
- Provide flexibility in determining the duration of sanctions for engaged CalWORKs participants.
- Adjust the Pay for Performance so that it takes effect when appropriated in the budget.
- Create a master plan for CalWORKs data and a statutory framework for county peer review.

The proposed budget includes $73.2 million ($1.3 million General Fund) for implementation of the TANF reauthorization provisions in AB 1808, and projects an increase in the work participation rate of about four percent in 2007-08 and six percent in 2008-09. The budget also proposes $40 million from the 2006-07 TANF reserve to pay counties that meet performance goals for work participation and client income measures in 2007-08. The 2006-07 Budget Act delayed implementation of the Pay for Performance program.

The 2004-05 Human Services Budget trailer bill (SB 1104) included enhanced state work participation requirements by mandating CalWORKs families, who are required to participate in work or education activities, to sign a welfare-to-work plan within 90 days of their determination of eligibility for aid, with certain exceptions. Under the new law, these participants are required to participate in at least 20 hours per week of “core work activities” and the balance of their 32/35 hour per week participation requirement can be spent in other non-core activities that will aid participants in obtaining employment. A list of some of these activities includes unsubsidized employment, community service, on-the-job training, vocational education and training, domestic violence services, and substance abuse and mental health treatment. The following chart indicates the activities authorized under SB 1104.

Core Activities-- At Least 20 Hours Per Week Must Be the Core Activities Below:	"Blendable"-- Can be counted as Core in Certain Cases:	Non-Core-- Can Count for the Balance of the 32 Hours Required Under CalWORKS
Unsubsidized employment	Adult Basic Education	Job search and job readiness assistance
Subsidized private sector employment	Job skills training directly related to employment	Satisfactory progress in a secondary school
Subsidized public sector employment	Mental health, substance abuse, domestic violence services	Vocational education and training (*post 12-months*)
Work experience	Education directly related to employment	Other activities necessary to assist an individual in obtaining employment
On-the-job training (OJT)		Participation required by the school to ensure the child's attendance
Grant-based OJT		Non-credited study time
Supported work or transitional employment		
Work study		
Self-employment		
Community service		
Vocational education and training *(up to 12 months)*		
Job search and job readiness activities		

Other CalWORKs Provisions:

- **CalWORKs Caseload Trends.** From 1994-95 through 2002-03, the CalWORKs caseload declined by 48 percent. This decline in caseload is attributable to a number of factors including the strong economy of the late 1990s, annual reductions in the teen birth rate, and CalWORKs program changes which emphasized welfare-to-work services. However, since October 2002, the caseload has remained essentially flat at about 475,000 cases. The Governor's budget estimates that CalWORKs caseload will increase during the current fiscal year from 467,667 to 467,959, an increase of 0.1 percent.

- **Budgeting Methodology for County Operations Funding.** Prior to 2001-02, the state used the Proposed County Administrative Budget (PCAB) process to develop the annual budget for program operations in CalWORKs and other health and human service programs. The PCAB process required counties to project their needs for the coming year and scrutinized counties' assumptions in order to build the statewide CalWORKs budget. Funding increases to reflect the increased cost of doing business have been suspended since 2000-01. As a result of the lack of updated budget methodology, state budget staff have no basis for checking assumptions about the cost to implement program enhancements or the savings associated with program changes. In the budget hearing process last spring, the California Welfare Directors Association (CWDA), the California State Association of Counties, and the Urban County Caucus indicated that the budget for county operations no longer represents actual program funding needs and spending abilities across counties. Counties have absorbed more than $568 million (all funds) in increases in utilities, transportation, health care, retirement, and salary increases. To begin to address this problem, the Legislature adopted language in the human services trailer bill to the 2006 Budget Act, AB 1808 (Chapter 75, Statutes of 2006), that requires DSS to estimate the costs for county administration of human services programs using county-specific cost factors in the programs' budgeting methodology. The DSS is required to consult with CWDA to develop the survey instrument to incorporate county cost factors in the estimate. Beginning with the 2007-08 May Revision, DSS must identify in its budget documents the estimates developed of the counties' cost of doing business and the difference between that estimate and the amount actually included in the budget.

- **October 2003 COLA (Guillen V. Schwarzenegger).** 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 superior court has ruled in the Guillen court case that the October 2003 COLA is required by current law. In December 2006, an appellate court heard the state's appeal and a decision is anticipated in February 2007. Unless the appellate court overturns the prior decision, the state faces one-time CalWORKs grant costs of about $435 million, plus ongoing costs of about $115 million, neither of which are included in the Governor's budget.

- **Semi-Annual Reporting.** The Governor's budget proposes statutory modifications to the process for redetermining benefit levels for CalWORKs and Food Stamp recipients and a change to the reporting frequency for recipients from quarterly to semi-annually. The change in reporting frequency is expected to simplify the process for recipients and counties. When the

trailer bill language is available, a specific assessment of the modifications to the redetermination process can be made. These changes would take effect in 2008-09.

- **DSS Support for TANF Reauthorization.** The Governor's proposed budget requests $2.2 million in federal fund authority and 20 positions for DSS to support data collection for federal work participation in each county, including verification of data and reporting procedures, and to perform oversight and field monitoring of county procedures and case documentation for verification of recipient participation hours at the county level. These positions are intended to improve monitoring and measurement of the performance of counties to meet new federal data quality assurance mandates.

- **DSS Support for AB 1808 Activities.** The Governor's proposed budget requests $832,000 in federal fund authority and seven limited-term positions for DSS to hold regular performance outcome measurement meetings with the counties to highlight best practices and identify obstacles to performance, and conduct county peer/state reviews to assist counties in improving work participation rates and implementation of the CalWORKs program. The DSS request also includes $250,000 to fund a contract with a consultant to design, develop, and implement a statewide performance indicator system for the CalWORKs program in the counties. In addition, the budget proposes to use $244,000 in TANF funds to support county welfare departments' participation in the county/state peer reviews. These funds would be used for travel, per diem, and backfilling staff costs.

- **Reduce CalWORKs Single Allocation.** The Governor's proposed budget reduces $16 million in funding to counties for CalWORKs employment and other services, eligibility determination, and child care in 2007-08. DSS has identified $16 million in prior-year unspent county fraud incentive funding and assumes counties will backfill this reduction with these unspent funds.

- **Support to Implement Chapter 672, Statutes of 2006 (SB 1569).** The Governor's proposed budget requests $93,000 General Fund and one position to implement SB 1569. SB 1569 extended eligibility for certain public social services to non-citizen victims of human trafficking, domestic violence, and other serious crimes. DSS staff would develop implementing regulations and administer the program.

Income Programs for Seniors

The Supplemental Security Income/State Supplementary Payment Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The federal government funds SSI cash benefits for eligible persons. The state contributes the SSP portion of the grant as a supplement to the SSI grant.

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 Cash Assistance Program for Immigrants (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.

- **SSI/SSP Caseload Continues to Increase.** The SSI/SSP caseload is projected to be approximately 1.26 million (3.4 percent of California's total population), which is a 2.1 percent increase over the current year estimated caseload. Disabled and blind persons make up 70.6 percent of the caseload, and elderly persons over 65 years of age make up 29.4 percent of the caseload. Approximately eight percent of recipients are under age 18, 49 percent are age 18 to 64, and 43 percent are age 65 and older.

- **2008 State and Federal SSI COLA.** The Governor's proposed budget provides both a 4.21 percent 2008 federal and state Cost of Living Adjustment (COLA) for SSI/SSP. The COLA will increase the typical grant for an adult from $856 to $892 on January 1, 2008.

In Home Supportive Services (IHSS)

The In-Home Supportive Services (IHSS) program provides services to eligible low-income aged, blind, and disabled persons to enable them to remain independent and continue to live safely in their homes. Services include meal preparation, laundry, and other personal care assistance.

The proposed budget estimates that IHSS caseload will increase to 395,100 in 2007-08, an increase of 4.4 percent over 2006-07 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.

The budget proposes $4.4 billion ($1.4 billion General Fund) for the IHSS program in 2006-07. This represents an increase of $400.2 million ($105.9 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 in 2004. 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.

- **Freezing of State Share of IHSS Wages.** The Governor's proposed budget assumes that state participation for IHSS wages will be frozen at the January 10, 2007 levels. The Administration has altered this proposal since it was first released in with the budget. Initially, the Administration believed that current law allows state discretion in participating in county IHSS wages above the amount appropriated in the budget. However, the Administration now believes that statutory change would be necessary to freeze state participation.

  The Governor's proposed budget assumed that the state would continue participating in all current wage rates as well as increases that were granted prior to January 10, 2007. Under the new policy, all additional wage increases would not receive additional State participation. However, the Administration now believes that it cannot enact such a freeze without statutory change and thus current practice would continue.

  Currently the federal government pays roughly 50 percent of all IHSS Wage expenses, the state pays about 32.5 percent, and counties pay the remaining 17.5 percent of expenditures. In the current year, the state participates in wages and benefits up to $11.10 per hour ($10.50 per hour for wages and $.60 per hour for benefits), although actual wage rates vary by county. The board of supervisors and public authority that negotiates a contract with providers determine most wage rates.

  In the budget year, the 2007-08 revenue estimate would also trigger a statutory increase in the maximum wage reimbursement to $12.10 per hour

($11.50 per hour wages, plus $.60 per hour for benefits). This trigger is expected to result in $14.1 million in additional IHSS costs in the budget year.

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 1999-00.

- **Decrease of Quality Assurance Savings.** The 2004-05 Budget Human Services Trailer Bill 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 $282.4 million ($91.8 million General Fund) savings in 2007-08 due to reduced provider payments under this initiative. This savings is half of the amount initially projected from the Quality Assurance Initiative and reflects an undated estimate of the overall savings based upon recent data.

Child Care

California spends nearly $3 billion for various child care and development programs administered by the California Department of Education, Department of Social Services, and the California Community Colleges. Child care is provided through center-based contracts and child care vouchers. Child care is provided to low income families and families that are currently or formerly participants in the CalWORKs program. The program is funded with a mix of federal TANF funding, federal Child Care and Development funding and the General Fund under Proposition 98.

- **No Child Care Reform Results.** The Governor's proposed budget contains no proposed changes to the eligibility, reimbursement, or fee levels of subsidized child care vouchers programs.

- **Stage 2 Prop. 98 Child Care Shift.** The Governor’s budget exploits the TANF-CalWORKs crossover between Proposition 98 and the General Fund to generate savings in the non-98 General Fund by appropriating Proposition 98 funding for CalWORKs Stage 2 Child Care. The funding shift does not change the scope of the child care program. In previous years, the State has appropriated General Fund to free up federal TANF funding in lieu of Proposition 98 expenditures because of constraints with the Proposition 98 guarantee. No savings are estimated from this proposal.

- **State Median Income Freeze.** The 2006-07 budget re-indexed State Median Income (SMI) guidelines for child care and preschool eligibility for the first time in six years. Families earning less than 75 percent of State Median Income are eligible for child care and preschool programs. The old guidelines artificially held the income levels the 1999 level, which was equivalent to about 56 percent of the current SMI. The budget proposes to freeze SMI indexing at the 2006 level, which would undermine the progress made in last year's budget.

- **General Child Care Program Receives Growth and COLA Adjustments.** The Governor's proposed budget includes Proposition 98 Growth and COLA adjustments that will increase the Standard Reimbursement Rate for General Child Care Contractors from $32.89 to $34.22 per child per day.

Adult Protective Services

The budget includes $123.6 million (61.3 million General Fund) for Adult Protective Services (APS) an increase of five percent. The increase reflects a higher level of Title XIX reimbursements. Each county has an APS agency to help elder adults (65 years and older) and dependent adults (18-64 who are disabled), when these elders and dependent adults are unable to meet their own needs, or are victims of abuse, neglect or exploitation.

County APS agencies investigate reports of abuse of elders and dependent adults who live in private homes and hotels or hospitals and health clinics when the abuser is not a staff member. (The Licensing & Certification program of the California Department of Health Services handles cases of abuse by a member of a hospital or health clinic.) County APS staff evaluates abuse cases and arranges for services such as advocacy, counseling, money management, out-of-home placement, or conservatorship.

Reports of abuse that occur in a nursing home, a board and care home, a residential facility for the elderly, or at a long term care facility are the responsibility of the Ombudsman's office which is administered by the California Department of Aging.

APS staff also provide information and referral to other agencies and educates the public about reporting requirements and responsibilities under the Elder and Dependent Adult Abuse Reporting laws.

In 1998, SB 2199 (Lockyer) established a statewide mandated APS program. Prior to this bill, the state was using County Services Block Grant funding for APS, but there was no mandate for counties to respond to adult abuse on a 24 hour emergency hotline. The passage of this bill required the state to begin funding an APS augmentation, which started as a $1 million additional General Fund for 1998-99 and grew to an additional $56.2 million for the program by 2001-02. The original concept for the program envisioned further expansion to a

total of $80 million General Fund for APS as counties ramped up their programs. However, the State's poor fiscal condition beginning in 2001-02 prevented this expansion from occurring.

In 2002-03, as part of an overall ten percent reduction to county administered programs human services, APS was cut by $6 million General Fund. Since 2002-03, the state funding level has been essentially frozen for APS, although there has been a slight increase in federal County Services Block Grant funding devoted to the program.

Over the last five years, the number of mandate reporters has grown, resulting in more APS cases. The inclusion of banks as mandate reporters next year (due to SB 1018 Simitian) will continue to increase the number of cases sent to APS. In addition, APS casework often involves complicated legal and financial elements that require more work than was anticipated when the program was established in 1998. However, counties have been provided essentially flat funding to meet an increasing workload. As a result the array of services provided has been reduced and counties are pressured to close cases early to keep up with the mandated workload.

In the near future, the state will need to either need to revisit the scope of the APS mandate or invest more resources into the program. If the state fails to invest additional resources into the program, it will need to give counties the ability to "triage" cases and not investigate all APS abuse reports. However, the alternative path is for California to invest in resources to fully fund the existing mandated workload and then expand the scope of services to better tackle complex elder abuse issues, like abusive conservatorships.

Community Care Licensing

The Community Care Licensing Division (CCLD) within the Department of Social Services develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. Licensed facilities include day care, foster family homes and group homes, adult residential facilities, and residential facilities for the elderly.

- **Increased Inspection.** The Governor's proposed budget requests $4.9 million ($4.6 million General Fund) and 61.7 new positions to complete required licensing workload and increase visits to facilities. Additional staffing is requested primarily to increase the number of random sample licensing visits from 20 percent to 30 percent annually. The 2003 Human Services Trailer Bill 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.

- **Licensing Reform Automation Project.** The Governor's proposed budget requests $1.7 million ($1.5 million General Fund) and 9.4 new positions to develop a Licensing Reform Automation Project. The automation system is designed to address concerns raised in the May 25, 2006 Bureau of State Audits report. The report identified programmatic problems, such as missed visits and lack of follow up, that were partially attributed to the limitations of the current information technology system. The project is expected to last two years.

Child Protection and Foster Care

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 Governor's proposed budget provides $5.3 billion ($1.6 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. Total funding for CWS increased by 0.4 percent, to $2.3 billion ($712.4 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 4.6 percent, to 69,115 children. Total funding for Foster Care decreased by 32.6 percent, to $1.1 billion ($281.6 million General Fund). The reduction reflects the shift of funding out of Foster Care for the IV-E Waiver program (see below).

- **Kin-GAP Program.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The projected average monthly caseload is 20,789 children, reflecting an increase of 21.7 percent. The Kin-GAP program is funded with TANF and General Fund MOE funding. Total

funding for Kin-GAP increased by 70.2 percent, to $191.8 million TANF/MOE. This increase reflects both the impact of the caseload increases and also the effect of the implementation of the Kin-Gap Plus program improvements in the budget year.

- **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 77,602, an increase of 6.6 percent over current year. Total funding for AAP and other adoptions programs increased by 8.2 percent, to $739.2 million ($320.4 million General Fund).

- **IV-E Waiver.** The Governor's proposed budget includes a $988.1 million ($305.6 million General Fund) for the implementation of the Title IV-E Child Welfare Waiver Demonstration "Capped Allocation" Project (CAP). The IV-E Waiver allows participating counties to use federal foster care funding flexibly 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. The department expects Los Angeles and Alameda Counties will participate in the waiver, which is expected to begin in April, 2007.

- **State Improving Federal Performance.** In the mid-1990's, a package of new federal legislation made sweeping changes to state child welfare services and foster care programs. The principles of these reforms were to achieve child safety, permanency, and well-being. One significant requirement was that the federal Department of Health and Human Services develop a set of outcome measures and overhaul the state performance review processes in the child welfare services and foster care programs. Toward that end, the federal government developed the Child and Family Service Reviews, which has been conducted for the last two years. The reviews include seven measures for safety, well-being, and permanency. They also cover seven systemic measures that examine training for foster parents and caseworkers, the status of the statewide data system, the quality assurance process, and the state's case review system.

  Of the 28 states reviewed in 2001 and 2002, none have "passed" all components evaluated during the reviews. California, along with nine other states, failed all seven safety, well-being, and permanency outcomes. Of the seven systemic measures, California is the only state that has failed more than four. The state's poor performance also results in higher costs for the state. For example, the review cited the state's longer length of time to achieve reunification or an adoption than the federal standard. Not only do these longer time frames hinder the success of California's Foster Children, the state must also pay for additional months of foster care that would not be

necessary if the state could place children within the federal standard timeframe.

If the state does not improve its performance in federal child welfare outcomes, then it may receive federal penalties from the federal government. These penalties could initially be as high as $18 million in the first year but could dramatically increase if the state's performance does not improve in subsequent years.

Recent policy changes have resulted in improved performance on federal measurements. DSS recently submitted data to the federal government demonstrating sufficient progress on safety, repeat maltreatment, and in-home cases measures, to achieve the targeted improvement goal identified by federal government to pass this measure. As of January 2007, the State is passing 11 out of 14 improvement measures. Final data is due April 2007 to the federal government for the remaining three measures.

- **Child and Family Services Review Unit.** The Governor's proposed budget establishes a Child and Family Services Review Unit to oversee data quality and integrity, monitor program performance, and ensure compliance with federal requirements. The proposal is expected to cost $1 million ($500,000 General Fund).

- **Foster Care Youth Mental Health and Development Services.** The Governor's budget includes a proposal to provide $1 million ($300,000 General Fund) to improve the identification of mental health and developmental needs of children and youth in the foster care system.

- **Transitional Housing for Foster Youth.** Last year's budget included an expansion to the Transitional Housing Program. The program provides transitional housing to former foster youth. The Governor's proposed budget includes $12 million in the current fiscal year to reflect expected utilization of this program.

- **California Child Welfare Council.** The Governor's proposed budget provides $200,000 ($100,000 General Fund) to establish and support the California Child Welfare Council, which as created last year by AB 2216 (Bass and Maze).

DEPARTMENT OF CHILD SUPPORT SERVICES

The Department of Child Support Services (DCSS) is designated as the single state agency to administer the statewide program to secure child, spousal, and medical support, and determine paternity. The primary purpose is the collection of child support payments for custodial parents and their children. DCSS

promotes the well-being of children and the self-sufficiency of families by delivering child support establishment and collection services that assist parents in meeting the financial, medical, and emotional needs of their children. The Governor's budget proposes to reduce the DCSS budget by $444.8 million, or 28.7 percent, to $1.1 billion. Most of the decrease is associated with the ramping down of Child Support Automation costs and the elimination of the federal automation penalty. The budget includes 518.8 positions for DCSS, a net increase of 12.3 positions.

Major Provisions

Child Support Collection Trends

The Governor's budget projects a steady growth in non-assisted child support collections during the budget year and a small decline in the assistance collections payments.

Child Support Collections

Collections ($ millions)	2005-2006 Actual	2006-2007 Estimated	2007-2008 Projected
Non-Assistance Collections (Payments to Families)	$1,696	$1,770	$1,882
Assistance Collections (Payment to Government)	$613	$587	$540
Total Collections	**$2,309**	**$ 2,358**	**$2,422**

Although the budget anticipates that total collections will increase by 2.7 percent, assistance collections are expected to decline by eight 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.

Federal Penalty for Child Support Automation

The Budget reflects a savings of $220 million General Fund due to the state's request for federal certification of its statewide, automated child support system. During the federal certification process, the federal government will hold future penalties in abeyance pending final review of the state's child support automation system. Once the federal government certifies the system, it will reimburse the state $198 million, or 90 percent of the state's final penalty payment. Given the current project schedule, the state system should be certified in 2008-09, and the Governor's proposed budget assumes accrual of the penalty reimbursement to 2007-08.

Child Support Statewide Automation Project

Federal law mandates that each state create a single statewide child support automation system that meets federal certification. The Department of Child Support Services, in collaboration with the Franchise Tax Board and a private vendor, is in the process of developing a single statewide automation system, termed the California Child Support Automation System (CCSAS). The department anticipates full completion of the new system by September 2008. There are two components of the single statewide system (CCSAS), the first is the Child Support Enforcement (CSE) system and the second is the State Disbursement Unit (SDU). The CSE component will contain tools to manage the accounts of child support recipients and to locate and intercept assets from non-custodial parents who are delinquent in their child support payments. The SDU will be a system managed by a private vendor and will collect child support payments from non-custodial parents and disburse these payments to custodial parents.

The Governor's proposed budget reflects the continued implementation of the CCSAS and SDU projects. The department assumes that the existing older child support systems will begin to migrate to the new CSE automation platform in September of 2008. The budget includes $247.9 million ($84.4 million General Fund) and 272.9 positions in 2007-08 to continue the implementation of the Child Support automation effort.

New Federal Options for Child Support Disregard

California families that receive public assistance must agree to assign any child support collections to the state to offset their public assistance costs. The state allows the first $50 of a child support payment to a family that is receiving public assistance to be passed on to the custodial family. The Federal Deficit Reduction Act of 2005 provides federal financial participation in the $50 income disregard for CalWORKs cases receiving child support. Due to automation challenges, the Governor's proposed budget assumes that this provision will be implemented in 2008-09. 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 will result in annual General Fund savings of $15 million.

The state will have the option to expand the current disregard. The federal government will forgo its share of the disregard, up to $100. An expansion would allow families to keep more child support payments and would likely result in higher collections by the department. The state could double the disregard to $100 for a cost $19 million General Fund.

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.

Other Key Provisions

- **Backfill of Federal Incentive Matching Funds.** The Governor's proposed budget includes $23 million additional General Fund to backfill lost federal matching funds and maintain the current funding level for local child support agencies. Effective October 1, 2007, the Federal Deficit Reduction Act of 2005 will eliminate California's ability to claim federal matching funds for earned federal incentive payments. These incentive payments are awarded to all states based on program performance in a number of areas, such as paternity establishment.

- **Employer Data File.** The Governor's budget proposes 6.5 positions and $249,000 ($93,000 General Fund) to support the centralization of Employer Data File (EDF) information. The EDF will generate wage assignments, employer verifications, and medical support orders.

- **Department of Justice Transfer.** The Governor's budget proposes a transfer of $348,000 General Fund from Department of Justice to the Department of Child Support Services in order to draw down federal funding for the revised billable hours and program costs for the Child Support Enforcement activities.

- **Office of Audits and Compliance.** The Governor's budget proposes $154,000 ($64,000 General Fund) for two new positions to establish an Office of Audits and Compliance to provide independent and internal audit control to departmental activities.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

The Department of Alcohol and Drug Programs (DADP) administers state and federal statutes pertaining to alcohol and drug treatment programs, and promotes access to appropriate statewide information, prevention, and treatment services. As the state's alcohol and drug authority, DADP is responsible for inviting the collaboration of other departments, local public and private agencies, providers, advocacy groups, and individuals in establishing standards for the statewide service delivery system. DADP is also the lead agency in the implementation of

the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36-SACPA).

The DADP funds prevention, treatment and recovery programs for approximately 500,000 Californians with some form of alcohol and or other drug abuse problem. The Governor's budget proposes $662.8 million ($285.2 million General Fund) for 2007-08, a reduction of 1.7 percent over the current year.

Major Provisions

Reduced Funding for Proposition 36 (SACPA) and the Substance Offender Treatment Program.

The Governor's budget proposes to eliminate $60 million of the funding dedicated to Proposition 36 and instead increase the Substance Abuse Offender Treatment program by $35 million to $60 million total. This proposal would dramatically undermine the availability and adequacy of treatments options available to Proposition 36 participants, which would reduce the effectiveness of the program.

The Substance Abuse and Crime Prevention Act of 1998 (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 expired at the end of 2005-06, the sentencing provisions did not expire.

In the current year, the funding for Proposition 36 is subject to appropriation in the budget and has been continued at the $120 million level. In addition to this funding, the current year budget includes $25 million for a new Substance Abuse Offender Treatment program that provided counties additional funding to match 90 percent of expenditures on treatment, probation, testing, and other costs associated with Proposition 36 participants. Both programs provide roughly $157.5 million total funding for Proposition 36 offenders. The 2006-07 budget package also included SB 1137 (Ducheny) which strengthened Proposition 36 requirements.

Treatment for Proposition 36 offenders has been more expensive than initially projected because the program serves more offenders than initially anticipated and the average offender has a more severe drug history than was anticipated when the program was designed. For several years, counties used 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, an estimated $146 million in 2005-06, and all $160 million budgeted for both Proposition 36 and the Substance Abuse Offender Treatment program. Counties have commented that the current level of funding

is inadequate to fully fund the needs of the program. The counties believe that full-funding of the program would cost $210 million total.

Other Key Provisions

- **Department of Alcohol and Drug Programs Licensing Reform.** The Governor's budget includes $1.3 million and eight positions to implement the second phase of a DADP licensing reform effort. The 2006-07 Human Services Trailer Bill included language to improve DADP's efforts to enforce alcohol and drug treatment quality standards and for detecting and deterring Drug Medi-Cal fraud. The proposal also includes possible trailer bill language to begin charging licensing fees to all providers which will be deposited in a proposed Residential and Outpatient Program Licensing Fund. The new fees would offset some General Fund expenditures for DAPD licensing activities.
- **California Methamphetamine Initiative.** The Governor's budget proposes to redirect $197,000 General Fund from the $10 million annually provided to fund a comprehensive methamphetamine initiative. The redirected funding will pay for two departmental staff. The 2006-07 budget included $10 million for the Department to create a comprehensive media and outreach strategy to directed at reducing the use of methamphetamine in California.
- **Prison Inmate Aftercare Treatment Program.** The Governor's budget includes $519,000 General Fund and five positions to implement SB 1453 (Speier) requires mandatory aftercare treatment for prison inmates who have participated in in-prison drug treatment programs.
- **Comprehensive Drug Court and Dependency Drug Court State Operations.** The Governor's budget transfers $341,000 General Fund from Local Assistance to support State Operations associated with both the Comprehensive Drug Court and the Dependency Drug Court programs. The funding will establish 4 positions to oversee the program. The 2006-07 budget increased funding for the Comprehensive Drug Court program by $4 million General Fund and the Dependency Drug Court program by $1.8 million. This amount annualizes to $8.4 million for the Comprehensive Drug Court program and $4.8 million for the Dependency Drug Court program in FY 07-08. The proposed shift reflects DADP's expected State Operations increases associated with the additional funding.
- **Integrated Services for Persons with Co-Occurring Disorders.** The Governor's proposed budget proposes $479,000 and converts two limited term positions into permanents positions to implement provisions of the Mental Health Services Act that address co-occurring mental health and alcohol and drug disorders.
- **Expiration of Federal funding for the California Access to Recovery Effort (CARE).** The Governor's budget assumes the California Access to

Recover Effort pilot program is not continued in the budget year. The CARE Program provides $7.6 million to increase access to alcohol and other drug services for youth by providing treatment and recovery support services through a voucher program. CARE focuses on youth 12 through 20 years of age residing in Sacramento and Los Angeles Counties.

- **Increase Drug Medi-Cal Funding and Caseload.** The Governor's budget proposes $149 million ($79.7 million General Fund) for the Drug Medi-Cal program. This represents a 10.2 percent increase over revised current year funding, due to increased program caseload.

DEPARTMENT OF AGING

The Department of Aging is responsible for developing systems of home and community-based services that maintain individuals in home-like environments; developing, coordinating, and using resources to meet the long-term care needs of older individuals; and working with the Area Agencies on Aging to manage federally and state-funded services at the community level. The Governor's budget proposes $222 million for 2007-08 ($62.5 million General Fund), a 0.4 percent increase over the current year.

Key Provisions

- **Adult Day Health Care Center Reform.** The Governor's budget proposes $194,000 and one position to perform legal analysis and consultation on Adult Day Health Care reform issues.

- **Long Term Care Ombudsman Criminal Background Check.** The Governor's budget includes $293,000 to provide criminal background checks to all existing Long-Term Care Ombudsman staff and volunteers required by SB 1759 (Ashburn). The department believes that implementing this bill will result in ongoing costs of $94,000 in 2008-09 and subsequent years.

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

The Department of Community Services and Development (DCSD) administers the Low-Income Energy Assistance Program (LIHEAP) and the Community Services Block Grant (CSBG). In addition, the DCSD plans, coordinates, and evaluates programs that provide services to the poor and advises the Governor on the needs of the poor. The Department of Community Services and Development has also administered the Naturalization Services Program (NSP),

which was re-established in the current year. The NSP program provides citizenship training to immigrants using a network of community based organizations.

The LIHEAP provides cash grants and weatherization services, which assist low-income persons in meeting their energy needs. The CSBG provides funds to community action agencies for programs intended to assist low-income households. The Governor's budget proposes $169.8 million (3 million General Fund) for 2007-08, a 0.1 percent increase compared to current year funding.

Key Provisions

- **Naturalization Services Program.** The Governor's budget proposes to continue the Naturalization Services program for $3 million in General Fund.

THE 2006-07 STATE BUDGET

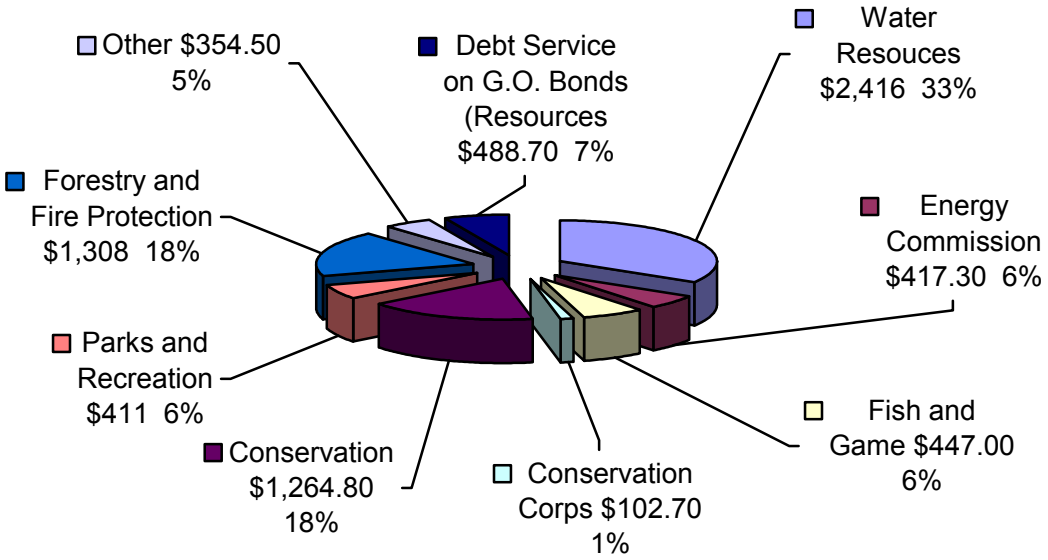
Natural Resources and Environmental Protection

RESOURCES AGENCY

The mission of the Resources Agency is to restore, protect and manage the state's natural, historical and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration and respect for all involved communities. The Secretary for Resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 25 various departments, boards, commissions, and conservancies.

The Governor's budget proposes $6.4 billion and 16,002 positions in total spending for the various entities within the Resources Agency. Figure 1 illustrates the distribution of total expenditures among departments, boards and commissions within the Agency

Figure 1
Proposed Resouces Expenditures 2007/08
(Dollars in Millions)



General Obligation Bonds. In November of 2006, the voters passed $10.7 billion in bond authority through Proposition's 1B, 1E and 84 for Resources and Environmental Protection related programs. Aside from the authorization of new bond funding, roughly $1.4 billion is still available from existing Propositions 12, 13, 40, 50, and 204 bond funds.

Considering each bond individually, funding is being authorized for the following statewide purposes: Water Quality, Air Quality, Flood Protection and Resource Restoration and Conservation. Proposition 1B is predominantly dedicated to transportation spending but allocates roughly $1.2 billion in air quality related funding. Proposition 1E authorizes $4.5 billion dedicated for flood management. Proposition 84 authorizes $5.4 billion for a myriad of resources and environmental protection purposes outlined in Figure 3.

The Governor's proposed budget, requests that the Legislature approve a bond spending plan of for Resources $2.4 billion for 200-08 which includes $1.1 billion from Proposition 84, $624 million from Proposition 1E, $98 million from Proposition 1B and roughly $600 million from Propositions 204, 12, 13, 40, and 50. In the Governor's spending plans, many budget change proposals request the approval of multi year expenditures that roll out most bond funds over the next six years.

Figure 2

Proposition 1E

Program	**Amount (millions)**	**Governor's Budget (millions)**
Flood Control – Protect levees, local delta levee subventions, special delta flood protection projects	$3,000	$520
Local Flood Control Subvention – State's Share of nonfederal cost of legislatively –authorized projects	$500	-
Flood Protection Corridors, Bypasses, Mapping	$300	$102
Stormwater Flood Management	$300	$102
Total	**$4,090**	**$624**

Figure 3		
Proposition 84		
Program	**Amount (millions)**	**Governor's Budget (millions)**
Water Quality		
Integrated Regional Water Management	$1,000	$156
Safe Drinking Water	80	76
Delta and Agriculture Water Quality	145	31
Protection of Rivers, Lakes, and Streams		
Regional conservancies	$279	$105
Other Projects	403	9
Delta and Coastal Fisheries Restoration	20	60
San Joaquin River	100	14
Colorado River	36	41
Stormwater Pollution Prevention	90	15
Flood Control		
State Flood Control Projects	$315	$93
Delta Flood Control Projects	275	58
Local Flood Control Subventions	180	100
Floodplain mapping	30	25
Sustainable Communities and Climate Change		
Local and Regional Parks	$400	$1
Urban Greening	90	11
Incentives for Conservation Planning	90	18
Protection of Beaches, Bays, and Coastal Waters		
Coastal Areas and Watersheds	$378	$93
Clean Beaches Program	72	9
Ocean Protection Trust Fund	90	29
Parks and Natural Education Facilities		
State Park System	$400	$25
Nature Education and Research Facilities	100	-
Forest and Wildlife Conservation		
Wildlife Habitat Protection	$135	$50
Forest Conservation	180	35
Protection of Ranches, Farms, and Oak Woodlands	135	33
Statewide Water Planning		
Future Planning	$65	$15
Total	**$5,388**	**$1,102**

Key Provisions

- **California River Parkways Program.** The Governor's proposed budget expends the final year of Proposition 50 River Parkways Program Grants in the amount of $21.0 million. As directed by Proposition 50, this appropriation will continue the funding of competitive local assistance grants for River Parkways by the Resource Agency.

- **CALFED Science Program Research Grants.** The Governor's proposed budget expands CALFED Science Grants by $8 million (Prop 84). Grants awarded by this augmentation will help implement, monitor and evaluate the effectiveness of the CALFED program's achievement of record of decision goals to improve the Sacramento-San Joaquin Delta.

- **CALFED Science Program Augmentation.** The Governor's budget proposes an increase of four limited term staffing, and $5 million (Proposition 84) to provide supplementary analysis of new hydrology considerations in the delta.

- **Proposition 84 Administration.** The Governor's proposed budget includes an augmentation of $1.1 million (Proposition 84) and 8.4 positions for administration of Proposition 84. This proposal includes out-year appropriations that peak at $3.4 million in subsequent years.

TAHOE CONSERVANCY

The California Tahoe Conservancy's mission is to protect and sustain the unique natural resources and recreational opportunities in the Lake Tahoe Basin by developing and implementing programs that acquire environmentally sensitive land, provide grants or directly fund soil erosion prevention and watershed restoration, improve stream environments and wildlife habitats, and improve water quality.

The Conservancy is also a key component of the Environmental Improvement Program (EIP) which is a 1997 agreement between California, Nevada, the Tahoe Regional Planning Agency, the federal government, local governments, and various private entities to commit $908 million over 10 years to a list of acquisition and capital improvement projects needed to achieve environmental goals in the Basin.

Key Provisions

- **Environmental Improvement Program.** The Governor's budget proposes $39.6 million (Prop 84 and other funds) for the implementation of the EIP in the Lake Tahoe Basin.

- **Fuels Reduction and Biomass.** The Governor's budget proposes $5.1 million and two positions to fund Executive Order S-06-06 related to increased wildfire fuel reduction in the Tahoe Basin and Biomass energy production statewide.

CONSERVATION CORPS

The California Conservation Corps (CCC) is a workforce development program that offers young men and women the chance to serve their state and become employable citizens through life skills training and hard work in environmental conservation, fire protection, and emergency services.

The Governor's budget proposes $102.7 million total budget for the CCC which represents an increase of $15 million over expected current year funding. Changes in the CCC's budget can be attributed primarily to Proposition 84 from which the CCC will be allocated $43.4 million over a multi-year period.

Key Provision

- **Proposition 84.** The Governor's budget proposes $1.52 million (Prop 84) and 3 positions to oversee $32.5 million in Proposition 84 grants to local nonprofit conservation corps for watershed/river restoration projects and facility acquisition and development.

DEPARTMENT OF CONSERVATION

The Department of Conservation administers programs to preserve agricultural and open space lands, promote beverage container recycling, evaluate geology and seismology, and regulate mineral, oil, and gas development activities.

The Governor's budget proposes $1.3 billion for the Department which represents an overall increase in funding of $215.8 million. The majority of the growth in the department's budget can be attributed to the implementation of AB 3056 that makes various changes to the distribution of California Redemption Value (CRV) funds to increase statewide recycling levels.

Key Provisions

- **Implementation of AB 3056.** The Governor's budget proposes $3.3 million and 23 permanent and temporary positions to implement AB 3056 (Committee on Natural Resources) that makes various changes to the distribution of CRV funds to increase statewide recycling levels.

- **Proposition 84 - Agriculture Land Conservation.** The Governor's budget proposes $10 million (Proposition 84) for local grants to develop agricultural conservation easements that provide wildlife habitat benefits and planning grants for local governments to develop mitigation programs to address the ongoing loss of farmland within their jurisdiction.

- **Proposition 84 - Sustainable Communities.** The Governor's budget requests an augmentation of $400,000 and three positions to administer $10.4 million in local grants from Proposition 84 for green and sustainable community planning.

- **Watershed Coordinator Grants.** The Governor's budget requests $10.5 million (Proposition 50) for a four year appropriation to continue funding of the watershed coordinator grant program for local Resource Conservation Districts, local government and non profit organizations.

- **Recycling Community Project.** The Governor's budget proposes $2.0 million from the California Beverage Container Recycling Fund (CBRF) for the Comprehensive Community Recycling Project to focus staff on selected communities to increase rates of recycling.

- **Container Payment and Reporting.** The Governor's budget proposes $1.2 million (CBRF) and five positions to increase registration from non registered beverage manufacturers and distributors. This proposal aims to also improve collection and resolution from those registered.

DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The California Department of Forestry and Fire Protection (CDFF) mission is to protect the people of California from fires, respond to emergencies as part of the California Emergency Plan, and protect and enhance forest, range, and watershed values. The department provides fire protection services for some local governments on a cost reimbursement basis and protects lives and property

through the development and application of fire prevention engineering, enforcement and education.

The Governor's budget proposes $1.3 billion in total spending for CDFF which is roughly identical to the 2006-07 budget. In their programmatic budget, CDFF is experiencing a $12 million increase in expenditures which can be attributed primarily to increases in bond funded urban forestry grant programs.

Key Provisions

- **Urban Forestry Grants.** The Governor's budget proposes a total of $9.3 million for urban forestry and greening grant programs. Funding will be allocated from Propositions 40 ($2.9 million), 12 ($1.8 million) and 84 ($4.5 million) and will follow adopted Best Management Practices for urban forestry.

DEPARTMENT OF FISH AND GAME

The Department of Fish and Game (DFG) maintains native fish, wildlife, plant species and natural communities for their intrinsic and ecological value and their benefits to people. Activities include habitat protection and maintenance in a sufficient amount and quality to ensure the survival of all species and natural communities.

The Governor's budget is proposing $447.0 million for the department which represents an overall decrease of $64 million and an increase in 21.9 personnel years. Decreases in funding are largely the result of the discontinuance of General Fund augmentations provided in 2006-07 while increases in staffing have resulted primarily from new regulatory review personnel.

Key Provisions

- **CEQA Staffing.** The Governor’s budget proposes an augmentation of $4.5 million (Fish and Game Preservation) and 34 permanent positions to support the California Environmental Quality Act (CEQA) program. This augmentation will increase staff for the program by 44 percent.

- **Administration Augmentation.** The Governor’s budget proposes to add 12.0 new administrative positions to the department. These positions will replace positions eliminated in prior year budget reductions and provide staffing for newly created or augmented programs.

- **San Joaquin River Restoration.** The Governor's budget proposes to expend $40 million (Proposition 84) for restoration efforts on the lower San Joaquin River between the Friant Dam and the Merced River. This

proposal is in conjunction with proposals from the department of Water Resources and the Resources Secretary.

- **Yuba Feather River Flood Control.** The Governor's budget proposes $7.4 million (Proposition 40) for environmental mitigation for the Three River Levee Improvement Authority's flood control project.

- **Anadromous Fish Management.** The Governor's budget proposes 9 permanent positions and $11.5 million (Proposition 84/ FGPF) over 4 years for the implementation of the following programs: Coastal Salmonid Monitoring Plan; Coho Recovery Plan; Steelhead Report Card; Coastal Steelhead and Chinook Recovery.

- **CALFED Ecosystem Restoration Program.** The Governor's budget requests to shift funding for 40.5 existing Ecosystem Restoration Program (ERP) positions from expiring Proposition 50 funds to Proposition 84 funds. In total, the Governor is asking for an allocation of $115 million (Proposition 84) over a six year period to fund the CALFED ERP program.

- **CALFED Natural Community Conservation Planning Development.** The Governor's budget proposes $20 million (Proposition 84) over a six year period and 16 existing positions to continue the development of conservation planning documents for the Sacramento, San Joaquin and the Delta regions.

- **Lower Colorado River Habitat Conservation Plan.** The Governor's budget proposes $5.9 million (Proposition 84) to fund land acquisition for the Lower Colorado River multi-species Habitat Conservation Plan.

- **Automated License Data System.** The Governor's budget proposes $2.7 million (Fish and Game Preservation Fund) for the second year of funding for the development of the Automated License Data System to replace the current paper based process.

WILDLIFE CONSERVATION BOARD

The Wildlife Conservation Board administers a statewide capital outlay program for the acquisition, restoration and enhancement of wildlife habitat, and development of wildlife-oriented public access and recreational facilities areas.

Key Provisions

- **NCCP Implementation.** The Governor's budget requests $25 million from Proposition 84 for grants to implement or assist in the establishment of the Natural Community Conservation Planning Development (NCCP). Proposition 84 allocates a total of $90 million for NCCP assistance and development.

- **Grazing Land and Grass Land Protection.** The Governor's budget requests $14.3 million (Proposition 84) to preserve grazing lands, including oak woodlands and grasslands.

- **Oak Woodland Preservation.** The Governor's budget proposes $14.3 million (Proposition 84) to preserve lands that qualify under the Oak Woodlands Act.

- **Agricultural Integration.** The Governor's budget proposes $4.8 million (Proposition 84) for grants to assist farmers with integrating agricultural activities with ecosystem restoration and wildlife protection.

DEPARTMENT OF BOATING AND WATERWAYS

The Department of Boating and Waterways plans and develops boating facilities on waterways throughout California and ensures safe boating for the public by providing financial aid to local law enforcement agencies. In addition, the Department has responsibility for boating safety and education, licensing of yacht and ship brokers, aquatic weed control in the Sacramento-San Joaquin Delta, and beach erosion control along California's coast.

Key Provisions

- **Public Small Craft Harbor Loans.** The Governor's budget proposes $12.08 million (Harbors and Watercraft Revolving Fund) for public loans for expansions and rehabilitation of existing marinas.

- **Launching Facility Grants.** The Governor's budget proposes $12.9 million (Harbors and Watercraft Revolving Fund) for local assistance grants for launching facility capital outlay grants.

- **Law Enforcement Grants.** The Governor's budget proposes $2.5 million (Harbor and Watercraft Revolving Fund) for Marine Law Enforcement Grants to local law enforcement agencies.

COASTAL CONSERVANCY

The State Coastal Conservancy develops and implements programs to protect restore and enhance natural, recreational, and economic resources along California's coast, coastal watersheds, the ocean, and within the San Francisco Bay Area.

Key Provisions

- **Public Access Programs.** The Governor's budget proposes $900,000 (Special Funds) to continue implementation of the Conservancy's public access program.

- **Proposition 84.** The Governor's budget proposes to appropriate $84.4 million (Proposition 84) to provide funding for the Conservancy's statewide programs. In total, Proposition 84 allocates $360 million for the Conservancy.
- **Capital and Science Applications.** The Governor's budget proposes $28 million (Proposition 84) for the Ocean Protection Council to fund avarious capital and science programs outlined in their strategic plan.

REGIONAL CONSERVANCIES

California's Regional Conservancies work through acquisition, restoration and management to protect California's valuable open space and preserve it for park, recreation and conservation purposes.

The following is a consolidated look at bond allocations provided to the Conservancies in the 2007-08 budget.

Key Provisions

- **Santa Monica Mountains Conservancy.** The Governor's budget proposes $17 million (Proposition 84) for the preservation of land with watershed values in the Santa Monica Mountains.

- **Rivers and Mountains Conservancy.** The Governor's budget proposes $523,000 (Proposition 84) and five new positions to administer $51 million in bond allocation to the conservancy.

- **Rivers and Mountains Conservancy.** The Governor's budget proposes $25 million (Proposition 84) Capital Outlay projects in the Conservancy.

- **San Joaquin River Conservancy.** The Governor's budget proposes $10 million (Proposition 84) for land acquisition to develop the San Joaquin River Parkways.

- **Baldwin Hills Conservancy.** The Governor's budget proposes $3.1 million (Proposition 84) for open space preservation in the Conservancy.

- **Coachella Valley Mountains Conservancy.** The Governor's budget proposes $11.5 million (Proposition 84) for open space preservation on lands within the Conservancy.

- **San Diego River Conservancy.** The Governor's budget proposes $2.9 million (Proposition 84) for open space preservation in the Conservancy.

- **Sierra Nevada Conservancy.** The Governor's budget proposes $17.5 million (Proposition 84) for open space preservation on lands within the Conservancy and $500,000 for five new positions for the administration of Proposition 84 funding.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources protects, conserves, develops, and manages California's water. The department evaluates existing water resources, forecasts future water needs and explores future potential solutions to meet ever-growing needs for personal use, irrigation, industry, recreation, power generation, and fish and wildlife. The department also works to prevent and minimize flood damage, ensure the safety of dams, and educate the public about the importance of water and its proper use.

The Governor budget proposes a total budget for the Department of Water Resources of $7.9 billion which represents an increase of $103 million over the 2006-07 Budget 205.9 new personnel years. A majority of the augmentations in both staffing and funding can a result of increased General Obligation Bond funds and General Funds for flood planning and protection.

Key Provisions

- **Flood Management Comprehensive Strategic Plan.** The Governor's budget proposes $12 million ($7.9 million General Fund) and 35 new positions for the Department's ongoing flood management programs including: Flood Project Maintenance; System Reevaluation; Emergency Response; Floodplain Management; CALFED Levees; Flood Protection

Programs; Flood Response and Preparation; Climate Analysis; Flood Emergency Training.

- **State Flood Control System.** The Governor's budget proposes $369 million in State Operations and Local Assistance funding (Propositions 1E and 84) to support eight programs for evaluating and improving the state's existing flood control system: Delta Levees System Integrity; sediment Removal Program; Flood Control Project Subventions; Floodway/Flood Protection Corridor Programs; State-Federal Flood Control System Modification; Floodplain Evaluation and Delineation; California Flood Plan; and new Feasibility Studies and Levee Evaluations.

- **All American and Coachella Canal.** The Governor's budget proposes $82 million ($47 million General Fund; $35 million Proposition 84) for local assistance funding for the lining of the All American and Coachella canal.

- **Surface Storage.** The Governor's budget proposes $3.76 million in Proposition 50 funds to continue feasibility studies and environmental documentation for three potential surface storage projects (North of Delta, Los Vaqueros and Upper San Joaquin).

- **Multi Benefit Planning and Feasibility Studies.** The Governor's budget requests $62 million (Proposition 84) - $15.1 million in 2007/08 - over 5 years and 63.7 positions to develop and support integrated multi-benefit studies related to California's future water needs. Issues to be addressed by this proposal are: Climate Change; Water Conservation; Surface Storage Studies; Integration of Flood Management and Water Supply Systems; CA Water Plan Recommendations and the Development of the Delta Vision.

- **CALFED Bay Delta Program.** The Governor's budget proposes to increase funding for the Bay Delta Program by: $5.8 million (Proposition 13 and 50) for 3 new positions for hydrology and declining fish species in the Delta related studies.

- **Sacramento Valley Water Management Program.** The Governor's budget proposes $8.5 million (Proposition 204) for the Sacramento Valley Water Management and Habitat Protection Measures.

- **Integrated Regional Water Management.** The Governor's budget proposes to appropriate $99 million (Propositions 50) over a 2 year period and $965 million (proposition 84) over an 11 year period for local Integrated Regional Water Management (IWRM) grants.

- **Local Groundwater Assistance Grants.** The Governor's budget proposes to provide $12.5 million (Proposition 50) to reinstate Local Groundwater Assistance grants.

- **Management of IWRM and Local Groundwater Assistance Grants.** The Governor's budget requests $700,000 (Proposition 50) for four existing positions to administer the integrated Regional Water Management and Local Groundwater Assistance Grants.

- **San Joaquin River Restoration.** The Governor's budget proposes a five year appropriation of $60.1 million (Proposition 84 reimbursements/Prop 13) for restoration activities on the San Joaquin River pursuant to the Natural Resources Defense Council/Friant Water Users' Association Settlement Agreement.

- **Contra Costa Canal Lining.** The Governor's budget proposes $2.82 million (Proposition 13) to replace existing uncovered and unlined canals with buried pipelines to protect drinking water from groundwater intrusion and runoff contamination.

- **Fish Passage.** The Governor's budget proposes $1.2 million (Proposition 50) and 7.6 positions over three years to support fish passage improvements in the Delta.
- **Delta Water Quality.** The Governor's budget requests $125.5 million (Proposition 84) over a five year period and 6.8 positions to fund projects that improve water quality in the San Joaquin and Sacramento River Delta by reducing salinity, pesticides and other pollutants.

- **Urban Streams.** The Governor's budget proposes $16.4 million (Proposition 84) over a period of five years to provide local assistance grants through the existing Urban Streams Restoration Program.

- **Capital Outlay.** The following projects are being proposed in the department's capital outlay budget: South Delta Improvement Program/ $31.3 million (Prop 13 and 50); Mid-Valley Levee Reconstruction/ $874 million (Prop 1E and Reimbursements); South Sacramento County Streams/ $8 million (Prop 1E); American River Watershed, Folsom Dam Raise/$29 million (Proposition 1E and Reimbursements); Folsom Dam Bridge/$4.4 million (Proposition 1E); and Natomas Features/$3.7 million (Proposition 1E).

DEPARTMENT OF PARKS AND RECREATION

The mission of the California Department of Parks and Recreation is to provide for the health, inspiration, and education of the people of California by helping to

preserve the State's extraordinary biological diversity, protecting its most valued natural, cultural and historical resources, and creating opportunities for high-quality outdoor recreation for current and future generations to enjoy.

The Governor's budget is proposing $493 million for the department of Parks and Recreation which represents a $235 million reduction in overall spending. This reduction in expenditures can be largely attributed to the reversion of $160 million in General Fund appropriated for Deferred maintenance in the 2006-07 budget and a general decline in available Proposition 40 bond funds.

Key Provisions

- **General Fund Reversion.** The Governor's budget proposes to revert $160 million (General Fund) from Parks Deferred Maintenance to the General Fund.

- **Deferred Maintenance Program.** The Governor's budget proposes to increase staffing by 41.0 positions to administer a multi-year expenditure of deferred maintenance funding ($90 million) provided in 2006-07.

- **Proposition 84.** The Governor's budget proposes an augmentation of $5.2 million and 61 positions to provide central administration of $400 million authorized for State Parks in Proposition 84.

- **Proposition 84 Local Assistance.** The Governor's budget requests an augmentation of $18.8 million (Proposition 84) and 10.2 million to administer $525 million in new local grants for park projects.

- **Empire Mine.** The Governor's budget proposes $5 million (General Fund) to fund remediation and treatment for Empire Mine.

- **Wastewater Systems.** The Governor's budget proposes $4 million (General Fund) multi year funding - $1.4 million (General Fund) budget year - for wastewater and sewer systems.

- **OHV Program.** The Governor's budget proposes $1.7 million (Off Highway Vehicle Fund) to restore areas affected by non-authorized Off-highway Vehicle activities in state Park Units.

ENVIRONMENTAL PROTECTION

The California Environmental Protection Agency (CalEPA) coordinates and supervises the State's environmental protection programs, which focus on

restoring, preserving, and enhancing California's environmental quality. Agency funding provides ongoing support of efforts to reduce greenhouse gas emissions, enforce existing environmental laws, promote a hydrogen-based transportation system, and improve water quality.

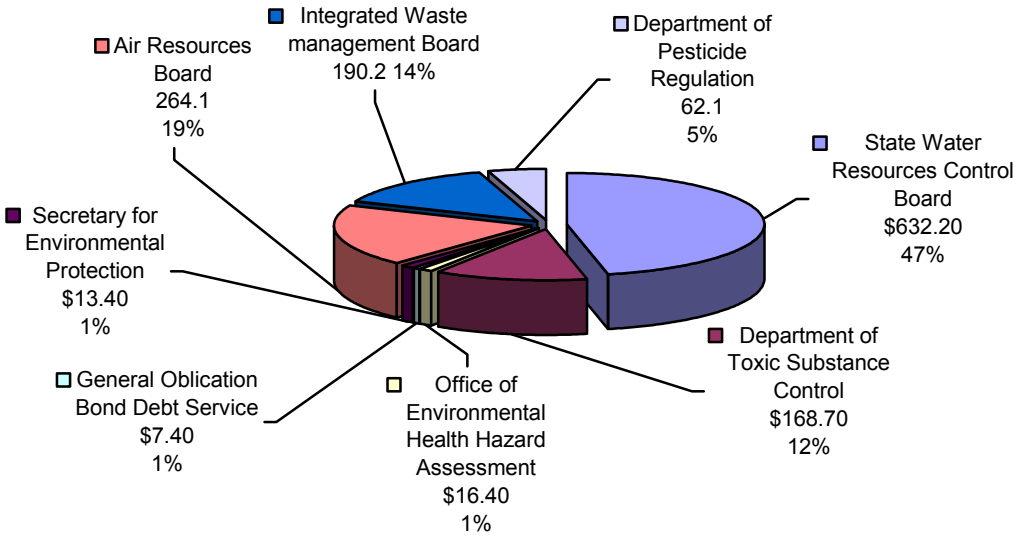
The Governor's Budget includes a total of $1.7 billion to support Cal-EPA in 2007-08. This represents roughly the same level of expenditures as the current year.

Figure 4

Proposed Envionmental Protection Expenditures

2007/08

(Dollars in Millions)



Major Provisions

Climate Change Proposals

In 2006, The Governor signed the California Global Warming Solutions Act that requires mandatory reporting of greenhouse gas emissions and that greenhouse gas (GHG) emissions be reduced in California to 1990 levels by the year 2020. The Governor's budget is proposing cross-agency funding totaling $35.7 million and 126.1 positions (Figure 4) to implement the requirements of the act and Governor's Executive order to reduce Greenhouse Gas Emissions (GHG).

The proposals set forth in the Governor's budget initiate a multi-year plan of regulatory, market based and technological advances to achieve emission reduction targets required by the Act. While the Governor's budget spreads an array of Climate Change related proposals throughout the state government, proposed spending on GHG emission reductions is being centered at the Air

Resources Board who will take a lead role in the development and implementation of mandatory reporting, early regulatory actions and alternative market based mechanisms to reduce GHG emissions.

Figure 5
California Global Warming Solutions Act of 2006
2007-08 Cross-Cut Budget

Program Element/Department	$(in thousands)	Positions
Emissions Inventory/Mandatory Reporting	**$3,444**	**17.2**
Air Resources Board	3,444	17.2
Emission Reduction Scoping Plan	**$1,812**	**10.8**
Air Resources Board	1,812	10.8
Alternative Market-Based Compliance Measures	**$12,034**	**35.8**
Department of General Services	3,398	4.7
Energy Commission	305	2.4
Department of Food and Agriculture	(331)	1.9
Department of Forestry and Fire Protection	1,500	-
Air Resources Board	6,636	25.0
Integrated Waste Management Board	59	0.4
Public Utilities Commission	136	1.4
Regulatory Emission Reduction Measures	**$7,136**	**29.4**
Energy Commission	305	2.4
Air Resources Board	6,636	25.0
Integrated Waste Management Board	59	.04
Public Utilities Commission	136	1.5
Scientific and Economic Analysis	**$7,395**	**9.0**
Secretary for Environmental Protection	500	-
Energy Commission	500	-
Department of Water Resources	2,000	4.7
Air Resources Board	2,780	3.4
Integrated Waste Management Board	500	-
Department of Toxic Substances Control	115	0.9
Public Utilities Commission	1,000	-
Program Oversight and Coordination	**$3,940**	**23.9**
Secretary for Environmental Protection	890	4.7
Air Resources Board	3,050	19.2
Total	**$35,761**	**126.1**

AIR RESOURCES BOARD

The Air Resources Board (Air Board) is responsible for protecting and improving California's air quality. The Air Board adopts and enforces regulations for motor vehicles, fuels, and consumer products, and oversees the activities of 35 local air pollution control and air quality management districts (local districts). These local districts have primary responsibility for regulating emissions from stationary sources.

The Governor's budget proposes $394.6 million in support of the Air Resources Board's activities which represents a $69.7 million increase in total funding caused primarily by increases related new Climate Change Related spending and bond funded programs to replace high emitting school buses.

Key Provisions

- **Implementation of AB 32 (Nunez and Pavley).** The Governor's budget proposes an augmentation of $24.4 million and 123 positions to enact a broad range of measures to reduce California's greenhouse gas (GHG) production by 25 percent by 2020. The ARB will specifically be involved in: the development of a GHG inventory and mandatory reporting process; a statewide emission reduction plan; development and implementation of early action source specific, and market based measures to reduce GHGs; applied studies and scientific analysis; and program outreach, oversight and support.

- **Low Emission School Bus Program.** The Governor's budget proposes $193 million (Proposition 1B) to either retrofit or replace high emitting pre-1987 model year school buses. Under this proposal it is expected that 1070 pre-1987 buses will be replaced, including 210 buses that predate 1977

- **Diesel Health Risk Management.** The Governor's budget proposes $342,000 one-time and $917,000 ongoing (Motor Vehicle Account) to reduce toxic emissions from diesel engines by verifying new technologies, provide incentive funding, and enforcing regulations for emission reductions in fleets.

- **Mobile Source.** The Governor's budget proposes $1.2 million and 9.0 positions ensure compliance with mobile sources regulations to reduce criteria pollutants that go into effect in 2007.

- **Hydrogen Highway.** The Governor's budget proposes $6.0 million (Motor Vehicle Account) to increase existing staffing by two positions and provide 50 percent matching funds for eight public hydrogen fueling stations.

THE INTEGRATED WASTE MANAGEMENT BOARD

The California Integrated Waste Management Board (Waste Board) promotes the following waste management practices: (1) source reduction, (2) recycling and composting, (3) reuse, and (4) environmentally safe transformation and land disposal.

The Governor's budget proposes a total of $199.1 million in total funds for the waste board which are nearly equal to 2006-07 levels.

Key Provisions

- **Global Warming Act.** The Governor's budget requests $618,000 and 1.0 positions to study landfill gas recovery technologies and efficiencies to maximize methane capture.

- **Electronic Waste Recycling.** The Governor's budget proposes $435,000 (Electronic Waste Recovery and Recycle Account) and 5 new positions to increase fraud prevention in the Electronic Waste Recycling program.

- **Universal Waste.** The Governor's budget requests $716,000 (Integrated Waste Management Account) to work with and provide grants to local governments to develop universal waste collection infrastructure.

THE DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation protects public health and the environment by regulating all aspects of the sale and use of pesticides and by promoting reduced-risk pest management strategies. The Department ensures compliance with pesticide laws and regulations through its oversight of County Agricultural Commissioners, who enforce pesticide laws at the local level.

The Governor's budget proposes total spending $68.9 million for the department. This represents an increase of $3 million over last year's budget and is largely the result of increased pesticide pollution prevention and regulation activities.

Key Provisions

- **Pesticide Mitigation Measures.** The Governor's budget proposes to augment the department's budget by $634,000 and 5.0 positions to identify and mitigate risks associated with long term exposure to pesticides.

- **Pesticide Enforcement and Compliance.** The Governor's budget proposes $667,000 and 6 positions to work with county agriculture commissioners to

provide consistent statewide enforcement of California Pesticide laws and regulations.

- **Pollution Prevention Grants.** The Governor's budget proposes $780,000 and 2.0 positions to provide Integrated Pest Management Grants to reduce pesticide use in urban and rural environments.

THE STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board and the nine Regional Boards preserve and enhance the quality of California's water resources and ensure proper allocation and effective use. These objectives are achieved through the Water Quality and Water Rights programs.

The Governor's budget proposes $834.5 million in support of the State Water Resources Control Board's activities which represents a cumulative decline of $106.8 million (all funds) that is primarily a result of declining Proposition 50 bond funds.

Key Provisions

- **Brownfields.** The Governor's budget proposes a permanent augmentation of $3.1 million (State Water Quality Control Fund) and 25 positions to increase oversight of Spills, Leaks, Investigation, and Cleanup program sites including Brownfields.

- **Animal Facility Regulation.** The Governor's budget proposes $1.1 million (Waste Permit Discharge Permit Funds) and a redirection of seven positions to regulate Confined Animal Facilities, such as dairies, in the San Joaquin Central Valley Region.

- **Prop 13 and 50 Water Conservation and Quality Grants.** The Governor's budget proposes to allocate $125.7 million (Propositions 13 and 50) for water conservation and water quality activities outlined in the bond acts.

- **Underground Storage Tanks Cleanup.** The Governor's budget requests a one-time increase of $12.9 million (Underground Storage Tank Clean-up Fund) to accelerate underground storage tank clean up.

- **Wastewater.** The Governor's budget requests $1.3 million in General Funds and $2.7 million (Waste Discharge Permit Fund) to maintain existing staffing levels in the Wastewater Regulatory and Surface Water Ambient Monitoring Programs.

- **Ag waiver Program.** The Governor's budget proposes an augmentation of $1.6 million (General Fund) to support 22.3 existing positions for the irrigated agricultural lands waiver program.

- **Proposition 84.** The Governor's budget proposes $101.2 million in budget authority and 18 positions to provide local assistance resources for Water Board programs.

- **Watershed Protection and Basin Planning.** The Governor's budget proposes $6.1 million (Proposition 84) and 11.9 positions to implement a pilot program grant program for local agencies to update their general plans to incorporate watershed protection efforts into land use policy. Additionally, this proposal will augment basin planning staff by 10.9 positions to incorporate the State Water Board's water quality basin plans into the next update of the California Water Plan.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control (DTSC) protects public health and the environment by: (a) regulating hazardous waste management activities, (b) overseeing and performing cleanup activities at sites contaminated with hazardous substances, (c) encouraging pollution prevention and the development of environmentally protective technologies, and (d) providing regulatory assistance and public education.

Key Provisions

- **Biomonitoring.** The Governor's budget proposes an augmentation for DTSC of $120,000 ongoing (General Fund) and 1.0 positions to begin the development of the California Environmental Contaminant Biomonitoring Program established by SB 1379 (Perata). This is one part of a larger proposal that totals $1.5 million (General Fund) and includes participation by the Department of Public Health and the Office of Environmental Health Hazard Assessment.

- **Stringfellow.** The Governor's budget proposes $2.2 million (General Fund) to continue Operation and maintenance activities at the Stringfellow Hazardous Waste Site.

THE 2007-08 STATE BUDGET

General Government

DEPARTMENT OF FINANCE

The Director of Finance serves as the Governor's chief fiscal policy advisor with emphasis on the financial integrity of the state and maintenance of a fiscally sound and responsible Administration.

The Governor's budget proposes $84.4 million for the Department of Finance, an increase of $33 million above revised current year funding.

Key Provisions

- **Statewide Integrated Financial Information System for California (FI$Cal).** The Governor's proposed budget includes an increase of $35.7 million and 225.8 positions the FI$Cal Project. The FI$Cal Project is proposed to replace the aging varying business systems with a single system that encompasses the management of resources in the areas of budgeting, accounting, procurement, cash accounting, grant management, and human resources. In addition to the $35.7 million in the 2007-08 budget, the project is expected to require $221 million in 2008-09, $210 million in 2009-10, and $212 million in 2010-11.

- **Office of Technology Review, Oversight and Security (OTROS).** The Governor's proposed budget transfers OTROS ($3.3 million and 29 positions) from the Department of Finance and to the Office of the Chief Information Officer (OCIO) and to the Consumer Services Agency.

TAX RELIEF

The Governor's Budget includes a total of $689 million for the Tax Relief item in 2007-08. This is a slight increase from estimated spending in the current year of $682 million (all General Fund). The largest component of tax relief spending is for constitutionally-mandated subventions to local government to replace property tax revenue lost due to the homeowners' exemption.

- **Senior Citizens' Tax Relief Programs.** The budget provides a total of $203.5 million to fund Senior Citizens' Property Tax Assistance and Deferral Programs and Senior Citizens' Renters' Assistance in 2007-08. This is the same amount as estimated current-year spending on these programs. However, provisional language included each year allows for augmentation by the Director of Finance, if necessary, subject to legislative notification.

- **Williamson Act.** The Governor's budget fully funds Williamson Act subventions for open space preservation at $39.1 million.

BUDGET STABILIZATION ACCOUNT AND DEBT SERVICE

Budget Stabilization Account

The Governor's Budget includes a transfer of about $2 billion to the Budget Stabilization Account (BSA)--the special state budget reserve established by Proposition 58. This amount is consistent with the Proposition 58 target for transferring 2 percent of General Fund revenues to the BSA in 2007-08. The BSA transfer is required by Proposition 58 unless the Governor acts to suspend the transfer by June 1st. Also pursuant to Proposition 58, half of the transfer amount is used to accelerate payment of the Economic Recovery Bonds (see below).

Debt Service

Economic Recovery Bonds. The primary source of debt repayment for the state's Economic Recovery Bonds (ERBs) is the revenue from a dedicated quarter-cent portion of the state Sales and Use Tax (about $1.5 billion in 2007-08). In addition to this revenue, the Governor's Budget proposes to accelerate payoff of the ERBs through the following two actions:

- Provide an additional $1 billion (50 percent of the amount transferred from the General Fund to the Budget Stabilization Account) consistent with Proposition 58.

- Augment ERB repayment by a further $595 million from the General Fund. The budget indicates that the Administration plans to fully repay the ERBs by August of 2009.

Use of Spillover Funds for Transportation Debt Service. The Governor's budget proposes to redirect $340 million of Public Transportation Account sales tax "spillover" funds to offset General Fund debt service payments on transportation bonds in 2007-08.

UNALLOCATED REDUCTIONS

The Governor's budget for 2007-08 includes $100 million of General Fund savings that will be identified by the Administration during 2007-08. The budget indicates that the Department of Finance will work with agency secretaries and others to determine specific reductions. Budget Bill language provides for the Director of Finance to report to the Legislature on specific reductions by February 15, 2008. No state support appropriation could be reduced by more than 20 percent and no local assistance appropriation by more than 5 percent. There would not be any authorization for the Administration to change existing law to carry out any reduction.

After the budget was released, the Department of Finance indicated that it also would reduce budgeted "price increase" allocations to departments in 2007-08 by $46 million to partially offset the cost of a recent arbitration decision concerning correctional officers. This, in effect, would be another unallocated reduction.

STATE TREASURER

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.

As shown in the table below, the Governor's budget proposes total spending of $24.4 million for the Treasurer's Office in 2007-08, an increase of 2.3 percent compared with the current year. General Fund support stays essentially flat at $6.6 million. Proposed staffing is 226.6 personnel-years (PYs)—an increase of 3.8 from the current year.

State Treasurer
Spending by Program
(thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
Investment Services	$2,531	$2,822	$2,829	0.2%
Cash Management	7,056	7,950	7,973	0.3%
Public Finance	5,676	6,317	6,338	0.3%
Securities Management	3,733	4,439	4,453	0.3%
Administration and Information Services	9,818	10,426	10,920	4.7%
Distributed Administration	-7,783	-8,077	-8,090	0.2%
Total Expenditures (All Programs)	**$21,031**	**$23,877**	**$24,423**	2.3%
General Fund	$2,660	$6,542	$6,555	0.2%
Personnel-years	**208.2**	**222.8**	**226.6**	1.7%

Key Provisions

- **FI$Cal Support.** The budget requests four positions and $481,000 to support the Department of Finance's Financial Information System for California (FI$Cal) information technology project. The FI$Cal project is a long-term IT project to procure a comprehensive statewide financial management system, incorporating budgeting, accounting, procurement, cash management, and related components. The primary budget proposal for this major project is in the Department of Finance.

STATE CONTROLLER

The State Controller is the Chief Financial Officer of the State, elected by the people. The Controller's primary objectives are to: (1) provide sound fiscal control over both receipts and disbursements of public funds; (2) report periodically on the financial operations and conditions of both state and local governments; (3) make certain that money due to the State is collected through fair, equitable, and effective tax administration; (4) provide fiscal guidance to local governments; (5) administer the Unclaimed Property and Property Tax Postponement Programs; and (6) participate in tax policy and administration as an *ex-officio* member of the State Board of Equalization and the Franchise Tax Board.

As shown below, the Governor's budget proposes total expenditures of $172.1 million ($103.4 million General Fund) for the State Controller's Office (SCO) in 2007-08, an increase of $9.6 million (5.9 percent) over the current year. General Fund spending increases more slowly (by 1.8 percent). Proposed staffing is 1,235 personnel-years (PYs), an increase of 40.2 PYs (3.4 percent).

State Controller
Budgeted Expenditures by Program
(thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
Accounting and Reporting	$14,719	$14,482	$18,025	1.24%
Audits	22,582	26,873	26,895	1.49%
Personnel/Payroll Services	31,981	57,923	60,899	5.1%
Information Systems	14,566	16,757	16,222	-3.2%
Collections	16,672	19,722	19,596	-0.6%
Disbursements and Support	34,143	37,399	41,100	9.9%
Distributed to Other Programs	-9,827	-10,061	-10,061	0.0%
Loan Repayment Programs	-1,922	-595	-604	1.5%
Total Expenditures (All Programs)	**$122,914**	**$162,500**	**$172,072**	5.9%
General Fund	$74,116	$101,559	$103,430	1.8%
Personnel-Years	**1,035.6**	**1,194.3**	**1,234.5**	3.4%

Key Provisions

- **21st Century Project.** This ongoing project will result in a new integrated human resource management system that will replace the state's existing payroll, employment history, position management, and leave accounting systems. The new system will incorporate database capabilities for ad-hoc reporting as well as self-service capability for state employees that will reduce workload in human resources offices at state agencies. The Governor's Budget proposes a total of $38.3 million ($19.7 million General Fund) and 80.6 PYs for continuation of this project in 2007-08. The requested funding and staff represent an increase of $2.9 million ($1.6 million General Fund) and 3 PYs compared with estimated project spending and staffing in the current year. Project spending began in 2003-04, and completion of the operational system is scheduled for 2009-10. The SCO projects that project spending will continue at about the same level in 2008-09 and then decrease to $10.1 million in 2009-10. Total estimated project cost is $142.2 million. Implementation will occur in 4 waves—the first beginning in January 2008 with the conversion of 55,000 state employees to the new system. The fourth and final wave is scheduled for June through November 2009 and will include conversion of California State University employees, bringing the total number of employees on the new system to almost 300,000.

- **Cannery Business Park Lease Renewal, Expansion, and Upgrade.** The budget requests a total of $2,178,000 ($1,329,000 General Fund) in 2007-08 associated with the renewal of its lease for office and storage

space at the Cannery Business Park (CBP) in East Sacramento, which currently houses 528 PYs of staff. The SCO also has about 600 PYs of staff at its other major Sacramento location at 300 Capitol Mall. The current CBP lease expires in June 2007, and the Department of General Services (DGS) is negotiating a renewal. This proposal would fund increased costs in 2007-08 for the new lease ($1.1 million), replacement and upgrade of the modular office systems and furniture ($1 million), and one limited-term position ($79,000). The additional lease cost is primarily related to a 40-percent increase in the amount of leased space, which is requested to resolve current cramped conditions and to accommodate projected staffing growth of about 17 percent by 2010-11. The budget notes that the amount requested for the lease is based on DGS assumptions and could change in the May Revision, based on the outcome of negotiations. The price of the modular office systems is $4.6 million, but the budget propose to finance this with seven annual payments of $996,000 at commercial financing rates, which implies an interest cost of around 11 percent. It would appear to make more sense to simply purchase the modular systems outright since the state's own cost of funds is much less.

- **Cleanup of Contaminated Stockton Property.** The budget requests $1,014,000 in 2007-08 from the Leaking Underground Storage Tank Cost Recovery Fund to complete remediation of petroleum contamination at a former carwash site in downtown Stockton. The property escheated to the state in the 1990s when the heirs to the property refused to accept it due to the contamination. The budget appropriation would fund activities through completion of remediation in 2009-10. After cleanup, the property would be sold and the proceeds (estimated at $500,000) would partially reimburse the fund.

- **Mandate Auditors.** The budget requests conversion of 11 limited-term positions (10 auditors and one analyst) to permanent status at an ongoing General Fund cost of $999,000. These positions were added by the Legislature on a two-year limited-term basis in 2005-06. The SCO notes that its audits of mandate reimbursement claims by local governments and school and community college districts has identified $108 million in unallowable costs over the past two years.

- **Apportionments Payment System.** The Governor's budget proposes an increase of $799,000 (special funds) for the first year of operation and maintenance of this new system that distributes apportionments of various revenues to local entities. Ongoing annual maintenance costs were projected at only $62,000 last year. The SCO has now identified a need for five additional staff and significant ongoing costs that had not been identified in the feasibility study report for the project. These costs will be

deducted from revenues apportioned to local governments, such as Vehicle License Fee and Realignment funds.

- **Statewide Implementation of CalATERS.** The budget requests an augmentation of $517,000 (from state agency reimbursements) and five positions to implement CalATERS for all state agencies by July 2009. CalATERS is a web-based system for travel advances and reimbursements that the SCO has been available to state agencies on a voluntary basis for several years. Budget trailer legislation last year (AB 1806) requires all state agencies to participate unless they can demonstrate a business case for exemption to the SCO and Department of Finance. The system is expected to reduce administrative costs for participating agencies, and the SCO is conducting a survey to estimate those savings.

- **Salary Range Adjustment for Staff Management Auditors.** The budget requests $224,000 ($106,000 General Fund) for the ongoing cost of a five-percent salary range adjustment for the Staff Management Auditor (Specialist) classification. The range adjustment was implemented in the current year with Department of Personnel Administration approval. The SCO has experienced significant recruitment and retention problems because of unfavorable Staff Management Auditor salary comparisons between the SCO and other state and local agencies.

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

The mission of the Secretary for Business, Transportation and Housing (BTH) is to oversee and coordinate the activities of fourteen departments, offices and various economic development programs, which comprise the BTH Agency, with responsibility for maintaining the strength of California's infrastructure and the efficiencies of its financial markets. The Office of Military and Aerospace Support, the California Film Commission, the California Infrastructure and Economic Development Bank, and the California Tourism Commission are part of the Office of the Secretary. The BTH Agency departments provide financial and programmatic regulation important to an efficient marketplace, resources to foster neighborhood development, assistance in protecting patient rights, and transportation infrastructure and management for the safe, efficient flow of people and commerce.

Key Provisions

- **Small Business Loan Guarantee Program.** The Governor's budget proposes an augmentation of $5.3 million (General Funds/Federal Funds) to provide additional loan guarantees to the San Joaquin Valley. Additionally, an augmentation of $25,000 (General Funds) is being proposed to contract with the Department of Finance to audit the 11 Financial Development Centers that administer the Small Business Loan Guarantee Program.

- **Tourism.** The Governor's budget proposes to replace $6.3 million (General Fund) with industry assessments pursuant to AB 2592 (Leno) to fund Tourism and Marketing Promotion programs.

- **International Trade and Investment.** The Governor's budget proposes $591,000 and 3 positions to carry out international trade and investment strategies, conduct market analysis and asses the statewide need for International Trade Offices.

OFFICE OF THE CHIEF INFORMATION OFFICER

The Office of the Chief Information Officer was created by Chapter 533, Statutes of 2006 (SB 834, Figueroa) with prescribed duties, including: 1) advising the Governor on IT issues; 2) minimizing overlap and redundancy of state IT operations; 3) coordinating the activities of agency information officers; 4) advancing organizational maturity and capacity in IT management; and 5) establishing performance measures for IT systems and services.

The Governor's budget proposes $7.9 million for the OCIO for 2007-08.

DEPARTMENT OF INSURANCE

The Department of Insurance regulates the largest insurance market in the United States with over $118 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 that 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 is a major contributor in combating insurance fraud.

Key Provisions

- **Urban Grant Program**. The Governor's budget proposes $1.4 million Insurance Fund for the Urban Grant program to combat organized automobile insurance fraud.

- **Automobile Insurance Fraud.** The Governor's budget proposes $1.6 million Insurance Fund to increase grants to local District Attorneys to combat automobile insurance fraud that is not a result of organized crime.

- **Workers' Compensation Fraud.** The Governor's budget proposes $1.3 million to continue grants for local government to combat workers' compensation fraud by employers and medical providers.

- **Consumer Education.** The Governor's budget proposes $750,000 Insurance Fund for grants to enhance prosecution of financial abuse crimes and to provide consumer education regarding abuse related to life insurance and annuity products.

- **Intervenors.** The Governor's budget proposes $780,000 Insurance Fund for intervenors that act on behalf of consumers to resolve conflicts with insurers.

DEPARTMENT OF CONSUMER AFFAIRS (DCA)

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by serving as a guardian and advocate for their health, safety, privacy, and economic well-being and by promoting legal and ethical standards of professional conduct. The department helps to promote good business practices and to ensure that California's consumers receive quality services by establishing minimal competency standards for more than 230 professions involving approximately 2.3 million professionals. The department is also an advocate on consumer and business issues.

Key Provisions

- **Professional Fiduciaries Bureau.** The Governor's budget proposes $1.1 million and 4.8 positions to create the Professional Fiduciaries Bureau pursuant to Chapter 491, Statutes of 2006 effective January 1, 2007.

- **Visible Smoke Test.** The Governor's budget proposes $12.3 million and 8.6 positions to incorporate a visible smoke test into the Smog Check Program by

January 1, 2008 and to increase the vehicle retirement payment to specified consumers.

- **Bureau of Private Postsecondary Education.** The Governor's budget proposes $11.4 million in federal and special funds and 74.7 positions to continue funding for the Bureau of Private Postsecondary and Vocational Education. Although the Bureau is scheduled to sunset effective July 1, 2007, the Administration will be sponsoring legislation to reform the Bureau's operations, and establish the Private Postsecondary Education and Student Protection Act.

DEPARTMENT OF GENERAL SERVICES (DGS)

The Department of General Services (DGS) is responsible for the management, review control and support of state agencies as assigned by the Governor and specified by statute. The department consists of 6 divisions, 23 operational offices, 4,000 employees and a budget of over of half a billion dollars. Its diverse functions include e-commerce and telecommunications; acquisition, development, leasing, disposal and management of state properties; architectural approval of local schools and other state buildings; printing services provided by the second largest government printing plant in the U.S.; procurement of supplies needed by other state agencies; and maintenance of the vast fleet of state vehicles.

STATE BOARD OF EQUALIZATION

The State Board of Equalization (BOE) is comprised of four members elected specifically to the board from districts and the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes). The BOE establishes the values of state-assessed property: inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of FTB decisions.

The Governor's budget proposes $390.2 million ($218.1 million General Fund), and 3,800.5 personnel-years (PYs) of staff for the BOE in fiscal year 2007-08, as shown in the following table. Total funding increases by $5.9 million (1.5 percent), and General Fund support increases by $2.2 million (1.0 percent), compared with spending estimates for the current year. Proposed staffing increases by 34 PYs (0.9 percent) from the current-year estimate.

State Board of Equalization
Proposed Spending by Program
(thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
County Assessment Standards Program	$8,424	$9,303	$9,087	-2.3%
State-Assessed Property Program	7,052	7,687	7,674	-0.2%
Timber Tax Program	1,787	2,238	2,240	0.1%
Sales and Use Tax Program	281,856	297,199	299,389	0.7%
Hazardous Substances Tax Program	3,368	4,065	4,405	8.4%
Alcoholic Beverage Tax Program	1,562	1,486	1,723	15.9%
Tire Recycling Fee Program	972	1,077	1,348	25.2%
Cigarette and Tobacco Products Tax Program	14,922	17,133	16,651	-2.8%
Cigarette and Tobacco Products Licensing Program	8,511	9,615	10,070	4.7%
Transportation Fund Tax Program	18,901	20,144	21,865	8.5%
NAFTA Program	422	1,202	1,251	4.1%
Occupational Lead Poisoning Prevention Fee Program	602	667	667	0.0%
Integrated Waste Management Program	325	427	425	-0.5%
Underground Storage Tank Fee Program	2,149	2,180	2,906	33.3%
Oil Spill Prevention Program	225	245	246	0.4%
Energy Resources Surcharge Program	222	241	242	0.4%
Annual Water Rights Fee Program	400	428	419	-2.1%
Childhood Lead Poisoning Prevention Fee Program	467	486	487	0.2%
Marine Invasive Species Program	369	422	418	-0.9%
Emergency Telephone Users Surcharge Program	569	601	606	0.8%
E-Waste Recycling Fee Program	3,817	3,840	4,487	16.8%
Insurance Tax Program	218	202	201	-0.5%
Natural Gas Surcharge Program	361	416	416	0.0%
Appeals from Other Governmental Programs	2,193	2,200	2,196	-0.2%
Administration	34,135	36,904	36,904	0.0%
Less Administration Costs Distributed to Other Programs	-33,495	-36,088	-36,088	0.0%
Total Expenditures (All Programs)	**$360,334**	**$384,320**	**$390,235**	**1.5%**
General Fund	$209,928	$215,984	$218,135	1.0%
Personnel-Years	**3,533.8**	**3,766.5**	**3,800.5**	**0.9%**

Key Provisions

- **U.S Customs Program.** The Governor's budget proposes $1.1 million ($696,000 General Fund) to expand the U.S. Customs Program from five positions to 16.5 positions. This Program collects California import data from the Department of U.S. Customs and Border Protection and matches it against sales and use tax records that California-based purchasers provide to the BOE. When the records comparison indicates a purchaser failed to pay use taxes on an imported product, collection activities are initiated. The BOE estimates the additional positions will generate $15.2

million in revenues in 2007-08, of which $9.4 million will accrue to the General Fund and $5.8 million to local governments.

- **E-Filing Infrastructure Project.** The budget requests $1.5 million ($949,000 General Fund) and two positions for the third year of a five-year program to implement e-filing across all of the BOE's tax and fee collection programs. Most of the funds would be used for contract programmers to develop the expanded e-filing system. The primary objective for 2007-08 will be to expand e-filing to the sales and use tax returns of retailers with multiple locations, who account for more than half of the revenue. Currently, the board's e-filing system accommodates only single-location retailers. The system enhancements also will accommodate partial payments and collection of delinquencies. Over the subsequent two years the BOE plans to extend e-filing to all of the taxes and fees that it administers. Presumably, e-filing will reduce BOE future tax return processing costs, as it has at the Franchise Tax Board. However, the budget does not cite any estimate of this savings.

- **Tobacco Products Manufacturer and Importing Licensing.** The budget requests $1.15 million ($181,000 General Fund) and 7.7 PYs (2-year limited-term) in 2007-08 to implement AB 1749 (Jerome Horton) enacted in 2006. AB 1749 eliminated the 2010 sunset date for provisions of the California Cigarette and Tobacco Products Licensing Act of 2003 (AB 71, Jerome Horton), which required BOE to license manufacturers, distributors, wholesalers, importers, and retailers of cigarette and tobacco products in the state. AB 1749 also requires manufacturers to file detailed monthly transaction reports with BOE and provides distributors some additional payment flexibility for cigarette and tobacco products taxes. The board estimates that ongoing costs will decrease to $683,000 starting in 2008-09. Most of the cost of this proposal will be borne by Proposition 10 and Proposition 99 funds, which receive most of the revenue from the cigarette and tobacco products taxes. However, BOE estimates that this cost will be more than offset by increased revenue ($3.4 million annually from excise taxes and $800,000 in state and local sales tax). The budget also includes a substantial shift of funding for the existing Cigarette and Tobacco Products Tax Program. One-time manufacturer payments required by AB 71 will be depleted during the current year, resulting in a shift of about $6.8 million of ongoing program costs to the funds that receive cigarette and tobacco products tax revenue—primarily the Prop. 10 and Prop 99 funds and the General Fund.

- **Motor Fuels Tax Proposals.** The BOE budget request includes the following proposals related to its administration and collection of motor vehicle fuel taxes:

- **NAFTA/IFTA Hosting of Mexican Truckers.** The Governor's budget proposes $842,000 in federal funds and 8.4 PYs to implement an interim program under which BOE temporarily maintains International Fuel Tax Agreement (IFTA) accounts for Mexican motor carriers who will begin operating in the state pursuant to the North American Free Trade Agreement (NAFTA). IFTA is an agreement among the contiguous 48 states and several Canadian provinces that simplifies the payment of taxes on fuel that is used in more than one state or province. Under this program, BOE uses federal funds to maintain IFTA records for Mexican carriers until Mexico has qualified to perform this service itself. This program was proposed in last year's budget, but implementation has been delayed. The program and federal funding are expected to continue for several years.

- **Fuel Tax Compliance Projects.** The budget requests $974,000 in federal transportation funds and 2 positions in order to (1) participate as a member of the Joint Operations Center for National Fuel Tax Compliance, (2) fund contract programming staff in a two-year project to enhance the Automated Schedule Processing System used for fuel tax reporting, which will enhance revenues by $3 million annually when completed, and (3) to participate in additional federal/state task forces and committees.

- **Motor Vehicle Fuel Tax Audits.** The Governor's budget requests an augmentation of $715,000 (Transportation Tax Fund) and 5 positions to perform additional audits of fuel suppliers. The board estimates an increase of $14 million annually in fuel tax revenues from the audits (although it is not clear whether the full amount will be realized in 2007-08).

- **Expanded Environmental Fee Program.** The budget requests $483,000 (fee reimbursements) and five positions to implement expansions to the Environmental Fee Program. Budget trailer legislation in 2006 (AB 1803, Committee on Budget) expanded the types of businesses subject to the state's environmental fee, which supports the Department of Toxic Substances Control, to include limited liability companies, limited partnerships, limited liability partnerships, general partnerships, and sole proprietorships.

FRANCHISE TAX BOARD

The Franchise Tax Board (FTB) consists of the State Controller, the Chair of the State Board of Equalization (BOE), and the Director of Finance. The FTB administers the Personal Income Tax and the Corporation Tax. FTB also assists

other departments and programs in the collection of delinquent debts, including delinquent child support payments (in cooperation with the Department of Child Support Services). As shown in the table below, the budget proposes total spending of $623.4 million ($518 million General Fund) and 5,175 personnel-years (PYs) of staff for support of the FTB in fiscal year 2007-08. Total proposed spending declines by $139.9 million (18.3 percent) from the current year, including a General Fund spending reduction of $44.2 million (7.9 percent). Staffing grows slightly—by 17.9 PYs, or 0.3 percent. The overall spending decrease primarily reflects a $145.8 million ($48 million General Fund) decline in funding for development and initial implementation of the California Child Support Automation System (CCSAS), as the development work winds down and ongoing operations are the responsibility of the Department of Child Support Services (DCSS). The budget anticipates federal certification of the system in 2008-09, which will end the assessment of $220 million of annual federal penalties against the state. The budget includes a $198 million savings in 2007-08 due to accrual of the reimbursement of 90 percent of the state's prior-year penalty upon federal certification.

Franchise Tax Board
Proposed Spending by Program
(thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
Tax Programs	$423,391	$463,451	$473,025	2.1%
Homeowners and Renters Assistance	5,786	6,317	6,321	0.1%
Political Reform Audit	1,474	1,695	-	-100.0%
Child Support Automation	199,333	253,898	108,138	-57.4%
Department of Motor Vehicles Collections Program	5,704	6,286	6,339	0.8%
Court Collection Program	6,037	10,572	12,603	19.2%
Contract Work	8,170	13,779	13,816	0.3%
Administration (costs distributed to other programs)	(23,006)	(25,134)	(24,993)	-0.6%
Lease Revenue Bond Payments	6,898	7,281	3,114	-57.2%
Total Expenditures (All Programs)	**$656,793**	**$763,279**	**$623,356**	**-18.3%**
General Fund	$503,223	$562,159	$517,959	-7.9%
Personnel-Years	**5,281.4**	**5,156.6**	**5,174.5**	**0.3%**

Key Provisions

- **Reducing the Tax Gap.** The Governor's budget proposes $19.6 million (General Fund) and 230 positions for various efforts to close the state's estimated $6.5 billion tax gap--the difference between the amount of tax owed and the amount paid. Of the proposed resources, $13.6 million and 180.5 positions continue six existing pilot programs proposed for permanent establishment. The existing programs concentrate on detecting non-filers and filers of fraudulent returns and on audit and collections

activities. The FTB estimates that these programs will generate $64.7 million in revenues in 2007-08, and $68.5 million in revenues in 2008-09. The remaining $6 million and 49.5 positions are for new initiatives to educate independent contractors about filing requirements, expand the corporate non-filer program, address out-of-state tax avoidance, and increase investigations of persons who fail to file a return, or who file fraudulent returns. The budget estimates that these new initiatives will generate additional revenues of $12.8 million in 2007-08, and $29.8 million in 2008-09.

- **Legal Support for Abusive Tax Shelter Enforcement.** The budget requests $1.3 million (General Fund) for 10 additional positions to address Abusive Tax Shelter legal workloads. In particular, FTB indicates that the legal workload is greater than originally anticipated for the most complex cases and for those that involve potential criminal penalties. Although no revenue impact is scored, FTB notes that there would be an undetermined revenue loss if this legal workload were not addressed.

- **E-Commerce Portal Infrastructure.** The budget requests $1.5 million (General Fund) and one position to replace the current Internet infrastructure at the Butterfield Way campus in Sacramento and provide redundancy to accommodate growth and provide enhanced dependability and security in the FTB's e-commerce programs. These programs facilitate taxpaying by providing 24/7 online filing services both to tax professionals and individuals, as well as other capabilities previously done by mail or phone. This request represents year one of a three-year project with total costs are expected to be $4.5 million. The budget also includes a separate request for $298,000 to provide a single point of control over the FTB's internet servers.

- **Customer Service Enhancements.** The budget includes a General Fund augmentation of $1.3 million to restore 27 customer service positions that were eliminated several years ago due to budgetary constraints. The proposed positions will add staff to the Taxpayer and Tax Practitioner Contact Center, which handles calls in response to FTB notices demanding immediate payment of tax and filing of a tax return. The augmentation will allow FTB to answer 83 percent of calls to the center. FTB estimates that the improved performance will result in a one-time revenue gain of $18 million from acceleration of collections.

- **Public Disclosure of Delinquent Taxpayers.** The budget requests one limited-term position and $144,000 (General Fund) to implement AB 1418 (Horton) of 2006. This legislation requires the FTB to compile a list of 250 taxpayers with the largest delinquencies over $100,000 and to make the list public on a quarterly basis (the same requirement also applies to BOE). The FTB estimates that this action will result in collection of $30

million of additional General Fund revenue in 2007-08 and $5 million annually thereafter.

- **Elimination of Tax Clearance Certificate Requirement.** The budget recognizes a General Fund savings of $1.3 million and a reduction of 18 positions due to the enactment of AB 2341 (Villines), which eliminated a requirement for businesses to obtain a tax clearance when they closed down and in some cases suspends liability for the annual or minimum franchise tax.

STATE TEACHERS' RETIREMENT SYSTEM

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to approximately 795,000 active and retired educators from public schools from kindergarten through the community college system. This budget item shows STRS benefit and administrative expenditures. General Fund support for STRS is reflected as a "non-add" in the STRS budget, and is formally budgeted in Item 6300 – in the education section of the budget.

The STRS Board adopted a 2007-08 budget that anticipates benefit and administrative expenditures of $8.5 billion (from STRS retirement funds) and a staffing level of 777.2 positions – an increase of $774 million (and 60.5 positions) from 2006-07. Administration, including services to members and employers, increases by about $12 million and benefit costs increase by $761 million.

In total, the Governor's budget proposes a total state General Fund contribution of $1.048 billion for STRS: $547 million for purchasing power protection (also called "Supplemental Benefit Maintenance"); and $501 million for the base 2.017 percent contribution. The proposed funding of $1.048 billion in 2007-08 would be an increase of $89 million (8.5 percent) compared within 2006-07. The 2006-07 budget, however, benefited from a one-time reduction of $120 million that related to a past accounting adjustment. Excluding this one-time adjustment, the 2007-08 budget would result in a decrease in ongoing General Fund contributions of $31 million.

Key Provisions

- **Reduction in Purchasing-Power-Protection Contribution.** The proposed budget includes $546.9 million for the state's General Fund contribution in 2007-08. The budget proposes legislation to reduce the state's annual General Fund contribution for purchasing-power-protection from 2.5 percent of salary to 2.2 percent – for an annual savings of about $75 million. The Administration indicates this contribution level is sufficient to maintain the existing benefit based on a 2005 actuarial analysis performed for the

Department of Finance. Under state law, retired teachers have a vested right to the state's current contribution level. In exchange for reducing the annual contributions, the Administration proposes to grant retired teachers a vested right to the current target of 80-percent purchasing-power protection. Under existing law, if the statutory contributions for purchasing power protection are not sufficient to meet the 80 percent target, then retirees could receive a lesser amount of protection or STRS could increase employer contributions to achieve the 80 percent target (if authorized by the legislature in the budget). No change is proposed for the current-law state base contribution of 2.017 percent of teacher salary, which is separate from the purchasing-power-protection amount.

- **Lawsuit Poses Risk to State.** A superior court decision found that the state's suspension of the 2003-04 purchasing power contribution was unconstitutional. The decision currently is on appeal. Should the state lose, it could have to repay STRS the $500 million suspended amount plus interest.

HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

This program, administered by the California Public Employees Retirement System (CalPERS), funds health and dental benefits for retired state employees and their dependents. The program began in 1962, with an employer contribution of $5.00 per month toward the cost of a basic health plan. Since then, major medical plans, Medicare, and plans supplementing Medicare have been developed. Dental care was added in 1982. The 2006-07 employer contribution for health premiums maintains the average 100/90 percent contribution formula established in Government Code Section 22871. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward the retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The 2006-07 monthly contribution maximums are $439 for a single enrollee, $823 for an enrollee and one dependent, and $1,042 for an enrollee and two or more dependents. Dental care premiums vary by plan and number of dependents.

Health and Dental Benefits for Annuitants
Budgeted Expenditures
(in thousands)

Program	Actual 2005-06	Estimated 2006-07*	Proposed 2007-08	Percentage Change
Health and Dental Benefits for Annuitants	$887,247	$1,019,368	$1,057,368	3.7%

The budget estimates that spending for Health and Dental Benefits for Annuitants will total $1.1 billion in 2007-08—an increase of 3.7 percent from the current-year amount. This estimate will be refined in the May Revision after CalPERS establishes health benefit rates for 2008. Although all of this cost is budgeted from the General Fund, a significant portion of this cost is for retirees from programs funded by special funds or federal funds and is reimbursed through the Statewide Cost Allocation Plan--pro-rata assessments on special funds and federal funds for statewide costs.

Major Provisions

Governor's Employee Post-Employment Benefits Commission

Unlike pension benefits, the state funds Health and Dental Benefits for Annuitants on a "pay-as-you-go" basis, meaning that all contributions are used to pay the costs of current retiree benefits and no funds are invested for the future costs of current or future employees. In June 2004, the Governmental Accounting Standards Board (GASB) approved Statement 45 accounting standards for other (than pensions) post-employment benefits. This new rule states that all government employers must report the unfunded liabilities associated with their other post-employment benefits, such as retiree health and dental benefits, when these benefits are not provided through the pension plan.

Because this is currently a pay-as-you-go program, the state's unfunded liability is the amount that is required to provide future benefits for all current retirees and to meet the states obligation to existing employees when they retire. The new reporting requirement must be included in California's 2007-08 financial statements. The State Controller's Office is contracting with a private actuarial firm to calculate the state's liability for these benefits. Although the state is permitted to fund these benefits on a pay-as-you-go basis, the state will have to report its liability as determined by the actuaries. This could negatively affect the state's financial reports and impact its credit rating if the state does not reduce or manage the unfunded liability.

The Governor recently created a Public Employee Post-Employment Benefits Commission to examine what is owed in unfunded retirement benefits, both pension benefits and non-pension benefits such as health benefits, and to

recommend how best to meet those obligations as they become due. The budget states that the commission is the first step towards examining the entire issue of post-employment benefits promised to employees of cities, counties, special district, school districts, and the state, and to develop a plan to pay for these benefits. The commission includes twelve members: six, including the chairperson, appointed by the Governor, three appointed by the Speaker of the Assembly, and three appointed by the Senate President Pro Tem.

Medicare Part D Subsidy

Funding proposed for Health and Dental Benefits for Annuitants in 2007-08 includes $38 million from the Public Employees Contingency Reserve Fund, which results in an equivalent General Fund savings. These funds are payments to CalPERS from the federal Medicare Program. Under federal law, Medicare provides a subsidy payment to retiree health care systems that provide their own drug coverage in lieu of Medicare Part D. In the 2006-07 budget, the Legislature set aside these funds for future consideration. The Governor's budget now proposes to use them as an offset to the state's retiree health costs (which includes the cost of drug coverage).

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The Department of Fair Employment and Housing (DFEH) is responsible for protecting the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. One of the department's primary functions is the timely processing and resolution of discrimination complaints.

As shown below, the Governor's proposed budget includes a total expenditure of $24.4 million ($18.6 million General Fund) for the department, an increase of $2.7 million, or 12.4 percent), over the current year. Almost all of the increase is from the General Fund.

Department of Fair Employment and Housing
Budgeted Expenditures by Fund
(in thousands)

Fund	Actual 2005-06*	Estimated 2006-07*	Proposed 2007-08*
General Fund	$13,661	$16,007	$18,641

Federal Trust Fund	4,454	5,716	5,729
Total Expenditures (All Funds)	**$18,115**	**$21,723**	**$24,370**

The budget proposes 228.2 personnel-years (PYs) of staffing for DFEH in 2007-08, an increase of 16 PY (7.5 percent). Over the three-year period starting with 2005-06, the department's budget and staffing would grow significantly—by 35 percent and 22 percent, respectively. The additional resources provided in the current year and proposed for 2007-08 are not for new programs, but rather to improve the department's ability to process complaints in a timely manner and reduce the number of complaints that default to the courts.

Key Provisions

- **Improve Housing Case Processing.** The Governor's budget includes an increase of $873,000 (General Fund) and 6.7 positions to improve the department's ability to meet federal and state goals of issuing accusations for housing discrimination complaints within 100 days. DFEH has been penalized by the loss of some federal funds due to its failure to meet this schedule for a sufficient percentage of housing complaints. The proposed increase would be in addition to an augmentation provided in the 2006-07 budget of $1.1 million and 13 positions to increase the number of employment and housing discrimination complaints that DFEH can accept and to complete more investigations within the statutory 1-year time limit. The Legislature provided $500,000 in the 2006-07 budget to establish a complaint mediation program as an alternative to adversarial proceedings. The Governor vetoed the mediation funding, however, and no mediation program is included in the current Governor's Budget.

- **Legal and Administrative Support.** The budget requests an additional $1.5 million (General Fund) and 10 positions (6 lawyers and 4 administrative staff). The budget indicates that the additional staff is needed to handle increased legal workload, particularly an increased number of civil filings, and provide adequate budget, accounting and business services to the department.

- **Los Angeles District Reorganization.** The Governor's budget proposes an increase of $400,000 to decentralize and relocate the Los Angeles district office. Currently, the same building in downtown Los Angeles houses three DFEH district offices serving the counties of Los Angeles, San Bernardino, and Riverside. The department proposes to relocate two of the offices to outlying areas based on caseload statistics.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs, oversees housing planning statewide and code-setting processes, and regulates manufactured housing and mobile home parks. The Governor's budget proposes $968.6 million ($15.6 million General Fund, $174.5 million federal funds, and $778.5 million from bond funds and special funds) and 597.2 personnel-years (PYs) of staff for the department's activities in fiscal year 2007-08. This represents a spending increase of $314.3 million (48 percent) and a staffing increase of 70.3 PYs (13.3 percent) from the revised 2006-07 budget. The large spending and staffing increases primarily reflect the implementation of Proposition 1C—the Housing and Emergency Shelter Fund Act of 2006, which was approved by the voters at the November 2006 general election. Proposition 1C authorizes a total of $2.85 billion of bonds for housing and housing-related purposes.

The department's proposed General Fund support, although only a small portion of total funding, decreases by $3.4 million (18 percent), primarily due to elimination of one-time funding for reconstruction of daycare centers at two migrant farm worker housing centers, as discussed below. The General Fund supports the following HCD state operations: State Housing Law and Employee Housing Law enforcement; administration of the California Indian Assistance, Community Development Block Grant, Emergency Shelter, Housing Assistance, and Migrant Services programs; and Housing Element, and Redevelopment Agency oversight, reporting, and audits. In addition, the Governor's Budget proposes partial funding of the Enterprise Zone Program from the General Fund in 2007-08.

Department Of Housing and Community Development
Expenditures By Program
(in thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
Codes and Standards Program	$22,994	$28,097	$30,433	8.3%
Financial Assistance Program	510,570	607,389	887,623	46.1%
Housing Policy Development Program	25,177	26,092	56,052	114.8%
Distributed Administration Costs	(9,718)	(10,739)	(11,172)	4.0%
Loan Repayments Program	-7,212	-7,256	-5,493	-24.3%
Total Expenditures (All Programs)	**$551,545**	**$654,327**	**$968,620**	**48.0%**
Staffing (Personnel-Years)	**491.0**	**526.9**	**597.2**	**13.3%**

Major Provisions

Proposition 1C Housing Bond Programs

Proposition 1C, the Housing and Emergency Shelter Fund Act of 2006, authorizes a total of $2.85 billion of general obligation bonds for housing-related programs. Of this amount, $1.475 billion is subject to appropriation, and the remaining $1.375 billion is continuously appropriated for existing programs (such as Multifamily Rental Housing Program loans). The following table shows the total allocations of Proposition 1C bond funds by program.

Proposition 1C—Use of Bond Funds

(In Millions)

Development Programs		**$1,350**
Regional Planning, Housing and Infill Incentive	Grants for projects-including parks, water, sewer, transportation, and environmental cleanup-to facilitate urban "infill" development.	$850
Transit-Orientated Development	Grants and loans to encourage more dense development near transit.	300
Housing Urban-Suburban-and-Rural Parks	Grants for parks throughout the state.	200
Homeownership Programs		**$625**
CalHome	Homeownership programs for low-income households, such as loans for site development.	$290
Homebuyer's Downpayment Assistance	Deferred low-interest loans for up to 6 percent of home purchase price for first-time low-or moderate-income homebuyers.	200
Building Equity and Growth in Neighborhoods	Grants to local governments for home-buyer assistance.	125
Self-Help Construction Management	Grants to organizations which assist low- or moderate-income households in building or renovating their own homes.	10
Multifamily Housing Programs		**$590**
Multifamily Housing	Low-interest loans for housing devel-opments for low-income renters.	$345
Supportive Housing	Low-interest loans for housing projects which also provide health and social services to low-income renters.	195
Homeless Youth	Low-interest loans for projects that pro-vide housing for young homeless people.	50
Other Housing Programs		**$285**
Farmworker Housing	Low-interest loans and grants to develop housing for farm workers.	$135
Affordable Housing Innovation	Grants and loans for pilot projects that create or preserve affordable housing.	100
Emergency Housing Assistance	Grants to develop homeless shelters.	50
Total		**$2,850**

Source: Legislative Analyst's Office, *Implementing the 2006 Bond Package:*

Increasing Effectiveness Through Legislative Oversight, January 22, 2007.

The proposed budget indicates that HCD will spend (commit) $160 million of the continuously-appropriated Proposition 1C funds in the current year, and the budget proposes expenditures (commitments) of an additional $659.4 million of Proposition 1C funds in 2007-08, as shown in the following table (circled amounts indicate spending for which a budget appropriation is proposed; other amounts are continuously appropriated):

Proposition 1C, 2007-08 Governor's Budget

Governor's Proposed Expenditures

(In Millions)

Programs	2006-07	2007-08
Development		
Regional Planning, Housing and Infill Incentive	—	$101
Transit-Orientated Development	—	96
Housing Urban-Suburban-and-Rural Parks	—	31
Homeownership		
CalHome	$35	$56
Homebuyer's Downpayment Assistance	—	30
Building Equity and Growth in Neighborhoods	—	40
Self-Help Construction Management	—	3
Multifamily Housing		
Multifamily Housing	$70	$141
Supportive Housing	20	80
Homeless Youth	15	15
Other Housing		
Farmworker Housing	$20	$41
Affordable Housing Innovation/Pilot Programs	—	16
Emergency Housing Assistance	—	10
Totals	**$160**	**$660**

Source: Legislative Analyst's Office, *Implementing the 2006 Bond Package: Increasing Effectiveness Through Legislative Oversight*, January 22, 2007.

Indicates that spending requires an appropriation.

Programs with Proposed Budget Appropriations. The Governor's budget proposes budget appropriations totaling $284 million from Proposition 1C funding for programs that require annual legislative appropriation.

- $40 million for the Building Equity and Growth in Neighborhoods (BEGIN) Program, which provides grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes.

- $95 million for the Transit-Oriented Development Program to develop and construct housing projects close to transit stations.

- The proposed budget includes $145 million in awards for three programs that Proposition 1C requires be further specified through the adoption of additional subsequent legislation. The Administration will propose budget trailer bills to successfully implement these programs and to incentivise the creation of more housing.

- $100 million for Infill Incentives Grants. This will be a competitive performance-based award program of grants for critical infrastructure projects that will (a) measurably increase the supply of infill housing produced as a direct result of the state's investment, (b) encourage efficient land use and development patterns, and (c) ensure a reasonable geographic distribution of infrastructure resources throughout the state.

- $15 million for Affordable Housing Innovation. This would provide competitive grants or loans for projects or programs that demonstrate innovative, cost-saving ways to create or preserve affordable housing.

- $30 million for Housing and Urban-Suburban and Rural Parks. This new program would create incentives to increase housing production by rewarding local governments with grant funds to create or improve parks and recreational facilities that benefit and promote housing. This program would be administered by HCD in conjunction with the Department of Parks and Recreation according to the budget.

Continuously Appropriated Funds. The budget includes $376 million from continuously appropriated bond funds for the following program areas:

- $88 million for homeownership loans and grants. This amount includes $55 million for the CalHome Program administered by the department, which provides funding to promote affordable homeownership programs by helping families to become or remain homeowners, and $3 million for construction management grants to assist owner-builders. This amount also includes $30 million for California Housing Finance Agency (CalHFA) programs, $15 million for the California Downpayment Assistance Program for first-time homebuyers, and $15 million for the Residential Development Loan Program.

- $141 million to provide affordable rental housing for the lower-income workforce, the elderly, disabled, and veterans.

- $41 million to produce rental and affordable ownership opportunities for farmworker families.

- $95 million to build supportive permanent, transitional, or emergency housing for the homeless and those transitioning out of homelessness, including $15 million for former foster-care and other homeless youth.

- $10 million to construct and expand shelters of last resort and transitional housing for the homeless.

Proposition 1C Support Costs. The Governor's budget request also includes $6.4 million of bond funds and 42.6 PYs of staff to implement Proposition 1C

Proposition 46. Proposition 46 is the Housing and Emergency Shelter Trust Fund Act passed by voters in November 2002 providing $2.1 billion for affordable homes for California's neediest citizens. As of December 31, 2006, the state had awarded approximately $1.6 billion to create or provide incentives for more than 100,000 affordable rental or owner-occupied homes and shelter spaces. The Governor's budget projects that new project commitments of Proposition 46 funds will decline from $237 million in the current year to $58 million in 2007-08 since most categories of funding are fully allocated.

Other Key Provisions

- **Office of Migrant Services (OMS) Child Care Centers.** The Governor's proposed budget does not include any funding for reconstruction of child care centers at the migrant farm worker housing centers operated by OMS. The 2006-07 budget provided $2.35 million (General Fund) to reconstruct two state-built OMS daycare facilities at the San Benito Center in Hollister and at the Buena Vista Center near Watsonville in order to address health and safety standards. The department's 2006-07 budget request indicated that it intended to seek additional capital funding in 2007-08 and 2008-09 to reconstruct child care centers at Gilroy and French Camp. However, the Governor's 2007-08 Budget does not include any funding for this purpose.

- **Maintains Funding for Homeless Shelter Operating Grants.** The Governor's proposed budget for 2007-08 maintains the current $4 million level of General Fund support for the Emergency Housing Assistance Program, which provides state grants (averaging about 10 percent of costs) for homeless shelters, In previous years, the Governor had proposed reducing these funds, but the Legislature restored them.

- **Restoration of Permanent Position Authority.** HCD requests the restoration of 18 permanent positions in various offices. These positions were among 57 vacant positions that were eliminated by provisions of the 2002 and 2003 Budget Acts. The department indicates that it considers these positions essential and that they have been staffed on a temporary basis within HCD's existing budget. However, HCD must now request permanent position authority pursuant to budget control section 31.00.

There is no additional cost for this proposal because the positions are currently being funded.

- **Administration of Geographically-Targeted Economic Development Areas (G-TEDAs).** The budget includes $747,000 ($697,000 General Fund and $50,000 from fees) and 4.0 positions to implement Chapter 718, Statutes of 2006 (AB 1550, Arambula) and increase technical assistance and provide oversight to G-TEDAs, including Enterprise Zones, Manufacturing Enhancement Areas, Local Military Base Recovery Areas, and Targeted Tax Areas. The state provides several hundred million dollars annually of tax incentives to businesses in these zones. The department has estimated a need for 8.8 PYs of additional staff to meet all of the workload needs that it has identified, including 2 PYs to implement the requirements of AB 1550. However, the budget provides only 4 PYs—2 PYs for AB 1550 and 2 for other identified workload—and leaves 4.8 PYs of workload unaddressed.

- **Community Development Block Grant (CDBG) Program.** The budget proposes to offset the $697,000 of increased General Fund support for G-TDA administration by reducing an equivalent amount of General Fund support for the administration of the federal CDBG Program. Funding for CDBG administration would be maintained by redirecting federal CDBG funds from grants to HCD administration. Separately, the budget also requests an additional federal funds augmentation of $444,000 for CDBG administration to meet federal requirements.

- **Factory-Built Housing.** The budget requests $287,000 (special fund) and 1.8 additional PYs to provide oversight of third-party inspections of manufacturers of factory-built housing for use in California and to address technical assistance and enforcement workload due to the increased use of factory-built housing. The augmentation can be accomplished within the current fee structure, according to the department.

LOCAL GOVERNMENT FINANCING

These budget items provide certain types of general financing and law enforcement grants to local governments. However, they represent only a small portion of state funding for local governments. Most of that funding is provided within various programs, particularly in Health and Social Services, and in direct funding for law enforcement through allocation of Local Public Safety Fund sales tax revenues and transportation subventions. Local governments also receive a permanent ongoing larger portion of property tax revenues to offset the reduction in the Vehicle License Fee (which the state funds by replacing the loss of property tax to schools).

Proposed spending in 2007-08 is $294.3 million (all General Fund)—essentially the same as in the current year. The large reduction of $1 billion in the current year, compared with 2005-06 is due to $1.2 billion of one-time funding provided 2005-06 to make local governments whole for the Vehicle License Fee "Gap Loan."

In addition to funding shown in this item, the budget includes a General Fund spending increase of $1.3 billion (for Proposition 98 K-14 Education) in order to replace property tax revenues that were diverted to schools and community colleges for two years in 2004-05 and 2005-06. The $1.3 billion of property tax revenue will be restored to cities, counties, special districts, and redevelopment agencies as provided under existing law.

Local Government Financing
Spending by Program
(thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
Aid to Local Government	$1,205,330	$53,500	$55,509	3.8%
Citizens' Option for Public Safety/ Juvenile Justice Grants	125,825	237,725	238,000	0.1%
Special Supplemental Subventions	2,115	2,709	800	-70.5%
Total Expenditures (All Programs)	**$1,333,270**	**$293,934**	**$294,309**	0.1%

Key Provisions

- **Juvenile Justice Crime Prevention Act.** The Governor's budget proposes $119 million for local juvenile justice grants—the same amount as in the current year.

- **Citizens' Option for Public Safety (COPS).** The Governor's budget also proposes to maintain COPS funding at $119 million. The program provides per-capita grants for local police departments, sheriffs, and district attorneys.

- **Rural and Small County Law Enforcement Grants.** The Governor's budget fully funds this program at $18.5 million, which provides grants of $500,000 to 37 counties.

- **Booking Fee Subventions Continue.** The Governor's budget includes $35 million to reimburse cities and other entities for booking fees that they paid to counties in 2006-07. Existing law authorizes counties to charge booking fees for their costs of booking into county jails persons arrested by city police departments or by peace officers of special districts. Budget trailer legislation in 2006, authorized a new system of jail access fees that would be much more limited than booking fees. In return, counties would receive subventions for jail operations, maintenance or construction.

However, budget bill language retains the former booking fee mechanism. The Department of Finance indicates that this is an error and it intends to implement the new system of jail access fees.

- **Reduction to Redevelopment Bond Debt Backfill.** The Administration proposes to reduce subventions to redevelopment agencies for bond debt service by $1.9 million. This backfill was created to enable payment of debt service after the state eliminated personal property tax subventions to redevelopment agencies in the late 1980s. The subventions were intended to ensure that redevelopment agencies would not default on bonds that had been backed with personal property tax subvention revenue. However, in some cases redevelopment agencies now receive these replacement subventions even though they no longer have bonds backed with personal property tax subventions and are not in danger of default absent the subvention. Budget Bill provisional language is proposed to reform the allocation of this subvention in accordance with the reduced appropriation.

COMMISSION ON STATE MANDATES

The task of the Commission on State Mandates is to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The commission was created as a quasi-judicial body to determine state mandated costs and consists of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county supervisor, or school district governing board member, appointed by the Governor and approved by the Senate. The budget proposes General Fund support of $1.7 million in fiscal year 2007-08 and 13.6 personnel-years (PYs) of staff for support of the commission. These amounts are the same as in the current year.

The bulk of the commission's budget is for local assistance to reimburse local governments (excluding K-14 education) for their costs of carrying out state-mandated local programs. The budget proposes a total of $11.5 million for these payments in 2007-08, all from special funds (primarily the Motor Vehicle Account in the State Transportation Fund). This compares with a total of $404.1 million for mandate reimbursement payments in the current year, of which the bulk--$402.4 million—was from the General Fund.

Major Provisions

No Funding for 2007-08 General Fund Mandate Claims

As noted above, the Governor's budget provides no funding for 2007-08 General Fund mandate claims (estimated at $118 million by the Department of Finance). Instead, the budget proposes to pay these claims in 2008-09.

Under existing law, local governments file mandate reimbursement claims with the State Controller's Office (SCO) by January 15th each year. These generally consist of claims for estimated costs for carrying out each mandate that year and revisions to adjust prior-year estimates to actual costs. Statutorily, these claims begin to accrue interest after 60 days. Existing law also provides for an annual mandate claims bill to pay these claims, but that is no longer done and funding is provided in the annual budget instead.

Proposition 1A, adopted by the voters in November 2004, generally requires that the state either fund mandate reimbursement claims that have been filed and approved as of the time that the budget is enacted or suspend any mandate that is left unfunded. That is, the budget must appropriate money to pay claims filed in the previous year, and which the state already has in hand before it may continue to require local governments to continue to incur costs for those mandates in the following year. There are a number of exceptions. The "pay or suspend" rule does not apply to claims for costs incurred prior to fiscal year 2004-05 (these "deferred" payments are being paid over a 15-year period starting in the current fiscal year), mandated costs for school districts or community colleges, or mandates relating to local government employee relations and benefits. However, the state still has a constitutional requirement to pay these claims in some reasonable time.

Budget Proposal Departs from Recent Policy. After several years of deferring most mandate payments due to the state's fiscal problems, the 2005-06 Budget appropriated a total of $241 million for mandate payments to local governments. This amount included funding for both the 2004-05 mandate cost claims (which were required to be paid in the 2005-06 budget to comply with Proposition 1A and avoid suspension of those mandates) *and* for payment of 2005-06 cost claims. Although Proposition 1A's "pay-or-suspend" rule did not require the payment of 2005-06 claims until 2006-07, the Legislature and the Administration made a policy choice to provide more timely payments to local governments, consistent with existing law, and to more fully recognize the costs of mandated programs in the state budget.

The 2006-07 Budget continued this policy. It provided $90.3 million to pay remaining 2005-06 claims for unsuspended mandates as required by Proposition

1A, and it also provided $109 million to pay the estimated costs of these mandates in 2006-07. Furthermore, the 2006-07 Budget also included $32 million to pay 2005-06 and 2006-07 claims for the Peace Officers' Procedural Bill of Rights (POBOR) mandate, an employee-relations mandate not subject to Proposition 1A.

The 2007-08 Governor's budget proposes a revised policy in which the state would only pay claims for General Fund mandates subject to Proposition 1A and POBOR in the subsequent year. This would comply with the Proposition 1A requirement, but would not be consistent with the intent of current law. The state would incur interest costs on the deferred claims and local governments would have to "float" these costs until they receive payment.

Other Key Provisions

- **Other Potential Unfunded Costs.**
  - **Deficiencies for 2006-07 Mandate Claims** The Governor's Budget includes Budget Bill language authorizing (subject to Legislative notification) the Director of Finance to augment a zero appropriation by any amount necessary to pay any remaining unpaid costs for 2006-07 mandate claims for those mandates that are subject to Proposition 1A and have not been suspended.
  - **New Mandates.** The budget does not include any funding to pay accumulated claims for newly-determined mandates.

- **Mandate Suspensions.** The budget proposes continued suspension of the 28 mandates suspended in the current year. Many of these mandates have been suspended continuously for some years.

- **Mandate Process Reform.** The Administration has proposed the creation of an alternative to cumbersome, contentious and lengthy current process in which the commission determines mandates and establishes their reimbursement guidelines. In the alternative process, the Department of Finance will work with local agencies to develop a cost-efficient method of compliance with new laws and a reasonable and relatively simple way to determine the amounts to be reimbursed to local governments. This new “joint determination” process would encourage local agencies and the Department of Finance to determine together, within 12 months of the enactment of a new statute, whether a new mandate has been imposed and the cost guidelines for that mandate. Costs, once agreed upon by both parties, would be submitted for Legislative review in the budget bill. If local agencies disagreed with the joint determination, they could opt to follow the current mandate determination process.

- **Repeal of Local Government Arbitration Mandate.** The budget proposes legislation to repeal the Local Government Employment Relations mandate created by Chapter 901, Statutes of 2000. The Governor's budget is now proposing that this mandate be repealed because it views these additional costs as unnecessary.

- **Education Mandates.** The proposed budget for the Department of Education includes only a minimal amount for 2007-08 mandate costs of K-12 schools. As with other local government mandates these costs would be deferred and paid in the future.

- **AB 3632 Mental Health Services for Students.** The Governor's budget for the Department of Mental Health includes $52 million as categorical funding (rather than mandate reimbursement) for this program in 2007-08. The 2006-07 Budget also provided $52 million for categorical funding in 2006-07 plus an additional $66 million to pay mandate claims for 2004-05 and 2005-06, prior to the provision of any categorical funding.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) regulates investor-owned natural gas and electricity utilities, telecommunications services, water companies, railroads, and certain passenger and household goods carriers. Specific activities include enforcement of safety regulations, regulation of rates for services, and promotion of energy and resource conservation. The commission now also issues statewide video franchises under the provisions of AB 2987 (Nuñez). The PUC consists of five members appointed to 6-year terms by the Governor.

As shown in the table below, the Governor's budget proposes $1.3 billion from special funds, almost entirely financed by utility ratepayers, and 950.2 personnel-years (PYs) of staff for support of the PUC and its programs in 2007-08, including $864.6 million for Universal Service telecommunications subsidy programs and $259.3 million for the Gas Consumption Surcharge Program (low-income natural gas rate assistance programs, energy efficiency and conservation activities, and public interest research and development related to natural gas). This represents an increase of 43 PYs (4.7 percent) of staffing and an overall funding decrease of $4.8 million (0.4 percent) from the revised 2006-07 budget. The proposed funding decrease results from an $18.8 million decline in spending for the Teleconnect Program (one of the Universal Service Telephone Programs) due to one-time expenditures in the current year to pay past claims from carriers. Excluding Teleconnect, overall PUC spending increases by 1.1 percent ($14.1 million).

Public Utilities Commission
Proposed Expenditures by Program
(thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
Regulation of Utilities	$430,971	$375,279	$381,501	1.7%
Universal Service Telephone Programs	796,462	897,408	884,615	-1.4%
Regulation of Transportation	14,123	18,637	20,458	9.8%
Administration (costs distributed to other programs)	(16,435)	(21,781)	(26,247)	20.5%
Total Expenditures (All Programs)	**$1,241,556**	**$1,291,324**	**$1,286,574**	-0.4%
General Fund	--	--	--	
Personnel-Years	**817.5**	**907.7**	**950.2**	4.7%

Key Provisions

- **Climate Change.** The Governor's budget proposes $1,272,000 (ratepayer funds) and three positions for the PUC's greenhouse gas emissions reduction efforts to implement the Global Warming Solutions Act of 2006 (AB 32,Nuñez). The request includes $1 million for consulting contracts. These resources will enable the PUC to conduct climate change proceedings to implement emission reduction strategies, evaluate various electric and natural gas sector greenhouse gas emission cap scenarios, and develop protocols to measure and verify actual emissions reductions. These resources are in addition to four staff currently working on climate change issues. This proposal is part of the Governor's Climate Action Team budget proposals coordinated by the California Environmental Protection Agency. AB 32 places primary responsibility for developing greenhouse gas emission reduction strategies with the Air Resources Board. Under AB 32, the board must consult with the PUC (and the Energy Commission) regarding impacts on the energy industry and utilities.

- **California Solar Initiative.** The budget proposes $2.5 million (reimbursements from utility ratepayer funds) and 2.9 positions to implement this initiative. This proposal will provide staff and $2.2 million for consultant contracts to enable the PUC to develop a pricing structure that provides an incentive to generate solar energy during peak-demand hours, and fund an independent program evaluation. The PUC has adopted a limit of five percent of program costs for evaluation and monitoring. However, the 2007-08 budget reflects a PUC decision to request (at this time) an amount equal to one percent of the program's $2.1 billion utility cost limit established in SB 1 (Murray), The PUC proposes this funding on an ongoing basis during the duration of the SB 1 program through 2017. The PUC's first SB1 report to the Legislature is due by June 30, 2009.

- **Video Franchising.** The budget requests $950,000 and 10.3 positions to implement AB 2987 (Nuñez)--the Digital Infrastructure and Video Competition Act of 2006. The funding is requested to enable the PUC to ensure that video service is non-discriminatory, review applications and issue state franchises, and report annually to the Legislature. This proposal includes one position for the Division of Ratepayer Advocates to promote service and quality standards on behalf of ratepayers.

- **Railroad Maintenance and Safety.** The Governor's budget proposes $705,000 in special funds for seven positions to conduct safety inspections of railroad equipment and facilities, to inspect high-risk tracks, and to collect and analyze data on near-miss accidents. This request is intended to implement AB 1935 (Bermudez) of 2006, which requires more frequent railroad safety inspections and other actions. The budget also requests an additional position and $77,000 for rail crossing safety. The 2006 Budget Act provided permanent authority for 10 and added 14.2 new railroad safety positions. However, the Governor vetoed an additional six railroad safety positions that the Legislature had added.

- **Infrastructure and Data Systems Improvements.** The budget requests a total of $3.8 million (primarily ratepayer funds) in order to continue a program of special maintenance projects and other improvements at its San Francisco headquarters building, including a new emergency generator that would include backup for the PUC's data center ($3.1 million) and to restructure the PUC data center, also including a backup generator and a dedicated development and testing lab ($765,000 and 2 positions).

- **Telecommunications Emergency Services.** The budget proposes $597,000 (ratepayer funds) and five limited-term positions to carry out the provisions of AB 2393 (Levine) to establish standards for emergency power backup for telecommunications systems and for "reverse 911" systems to notify the public of emergencies.

- **Passenger Carrier Enforcement at Airports.** The Governor's budget proposes $486,000 (special fund) for five positions to conduct inspections and enforcement of regulations regarding charter passenger carrier companies, such as limousine services, that provide service to airports.

ENERGY COMMISSION

The California Energy Resources Conservation and Development Commission (California Energy Commission—or CEC) is responsible for ensuring a reliable supply of energy to meet the state's needs, while protecting public health, safety, and the environment. Activities include permitting electric power plants and certain other energy facilities, assessing current and future energy demands and resources, developing energy efficiency standards and implementing programs to reduce wasteful and inefficient use of energy, stimulating development of alternative sources of energy such as wind, solar and biomass, and non-petroleum transportation fuels, analyzing transportation fuel supplies, prices and trends, and maintaining capabilities to respond to energy emergencies. The Commission oversees state-funded energy research and development projects, and also takes part in the state's efforts to reduce greenhouse gas emissions. The CEC works closely with the Public Utilities Commission on many issues involving the regulated electric and natural gas utilities.

The Governor's budget proposes $417.3 million from special funds (predominantly financed by utility ratepayer charges) and 534.8 personnel-years (PYs) of staff for the Energy Commission in fiscal year 2007-08, as shown in the table below. This represents an increase of 34.5 PYs (6.9 percent) of staff and a decrease of $92.3 million (18.1 percent) from the revised 2006-07 Budget.

Energy Commission
Proposed Spending by Program
(thousands)

Program	Actual 2005-06*	Estimated 2006-07*	Proposed 2007-08*	Percentage Change
Regulatory and Planning	$25,288	$27,025	$27,757	2.7%
Energy Resources Conservation	14,610	33,989	47,510	39.8%
Development	177,236	451,043	343,556	-23.8%
Policy, Management and Administration	11,565	13,653	13,199	-3.3%
Distributed Policy, Management and Administration	-11,565	-13,653	-13,199	-3.3%
Loan Repayments	-2,556	-2,422	-1,522	-37.2%
Total Expenditures (All Programs)	**$214,578**	**$509,635**	**$417,301**	-18.1%
General Fund	--	--	--	--
Personnel-Years (PYs)	**445.9**	**500.3**	**534.8**	6.9%

The large spending reduction primarily reflects decreases totaling $113 million in budgeted spending from the Renewable Resources Trust Fund (RRTF) and, the Public Interest Research, Development, and Demonstration Fund (which supports the Public Interest Energy Research, or PIER, Program). These two funds receive annual ("public goods charge") payments from the state's investor-owned electric utilities. The RRTF provides subsidies to projects that generate

electricity from renewable sources, such as solar energy, and the PIER Program funds a wide variety of energy-related research, including research on climate change. Expenditures from these funds are budgeted as commitments are made. However, payments under these commitments may not occur until future years (or at all in some cases). Proposed spending for commission staff and support excluding spending on grants, loans, and subsidies—will total $85.1 million in 2007-08, an increase of $10.6 million (14.3 percent) compared with the comparable estimated spending in the current year.

Major Provisions

Public Goods Charge Programs

As noted above, the budget projects significant spending reductions in the RRTF and PIER programs. However, this is not due to a lack of funds. The budget estimates that the RRTF and PIER Program funds will have a combined unencumbered balance of $185 million at the end of 2007-08. Cash balances will be much higher because a large portion of expenditures counted from both funds consists of funding commitments that will be drawn down over a number of years and (in the case of a portion of the RRTF) for Supplemental Energy Payments (SEPs), which are long-term commitments to provide electricity production subsidies to renewable energy projects. SEP commitments may or may not result in actual spending. This is because generally SEPs will get drawn down only if the price paid for the electricity by the contracting utility (usually based on the cost of electricity generated from natural gas) falls below a target amount. Most of the RRTF reserve, moreover, consists of a $131.8 million General Fund loan repayment in the current year.

The fund balances in RRTF and PIER are related to some larger issues. For example, the *2006 Integrated Energy Plan Report Update* noted that it was unlikely that the state would meet the accelerated Renewable Portfolio Standard (RPS) goal of 20 percent generation from renewables by 2010, in part due to slow project commitments. The *Update* also pointed out problems with the existing SEP approach that result in uncertainty and financing difficulties for projects. However, one of the proposed solutions was to shift additional price risk to the ratepayers, which would be a major change in policy from the existing policy of providing a *limited* amount of funding for SEP price guarantees.

In the case of the PIER Program, the accumulating balance of $43.2 million reflects, in part, savings from projects that were awarded but never completed or that used less than the full amount. Over time, the PEIR Program has build up an active inventory of hundreds of projects distributed among a wide variety of areas—from climate change to transmission technology. Administration of the research contracts is a significant task, and the budget requests an augmentation of $418,000 and 3 positions to augment its research oversight staff in 2007-08.

With additional funds available, it may be time to focus PEIR on some major research and development efforts.

Williams Settlement Funds

The budget includes a $24.8 million transfer from the Ratepayer Relief Fund to the Energy Conservation Assistance Account. The funds were received as part of a settlement agreement entered into between the California Attorney General and the Williams Energy Company in order to resolve a dispute related to contracts entered into during the electricity crisis. The budget proposes to use these funds to provide grants for energy projects at K-12 schools, including solar energy projects. The budget also includes $1.1 million and four new positions to administer the program.

Under the settlement agreement, a total of $69.2 million will be available to the state from current balances and payments by Williams through January 2010. The 2003-04 Budget and related trailer legislation created the Ratepayer Relief Fund and designated it as the recipient of any electricity crisis settlement funds that were not designated to be spent directly for relief of the ratepayers harmed by the alleged actions. Money in the Ratepayer Relief Fund may be appropriated for energy litigation costs of the Attorney General, for relief of affected ratepayers, or to pay debt service on the bonds issued by the Department of Water and Power to finance electricity purchases.

AB 2756 (Levine) of 2006, which was passed by the Legislature, but vetoed by the Governor, would have designated $22.2 million of the Williams Settlement funds for use by California public universities or community colleges for energy conservation projects on at their campuses or at K-12 public schools ranked in deciles 1 to 3.

The budget proposal raises the question of whether the proposed use of the Williams funds is the highest priority of the Legislature, particularly since public schools and higher education have large amounts of bond funds available.

Other Key Provisions

- **Global Warming Solutions Act (AB 32, Nuñez) Implementation.** The Governor's budget proposes $1.1 million in special funds for five permanent positions to work on emission reduction strategies in the energy sector. Among the primary strategies that these funds will be used for are reporting and verifying statewide greenhouse gas emissions, developing a program to monitor and enforce reporting requirements, and evaluating market-based mechanisms for greenhouse gas reduction.

- **California Solar Initiative and (SB 1, Murray).** The Governor's budget proposes a total of $1 million in special funds for the Energy Commission

to establish eligibility criteria for the New Solar Homes Partnership and to establish conditions for ratepayer-funded incentives for all installations of solar energy systems on all types of buildings and facilities included in the California Solar Initiative.

- **Greenhouse Gas Emissions Performance Standards.** The Governor's budget proposes $122,000 in special funds for one position to develop greenhouse gas emissions performance standards and implement regulations for all publicly owned electric utilities.

- **Public Purpose Natural Gas Research.** The Governor's budget proposes $471,000 in special funds to support four new positions to identify, develop, and manage transportation-related research projects that benefit natural gas ratepayers, as well as climate change and air quality research.

- **Petroleum Use Reduction Strategies.** The Governor's budget proposes $953,000 in special funds for two permanent and two limited-term positions to conduct petroleum industry reporting and to develop fuel-efficiency standards for tires so that vehicles consume less fuel.

ELECTRICITY OVERSIGHT BOARD
CALIFORNIA POWER AUTHORITY

As part of the Governor's proposal to eliminate some state boards and commissions, the Administration proposes legislation to eliminate these two energy-related entities.

California Consumer Power and Conservation Financing Authority. The California Consumer Power and Conservation Financing Authority (CPA) was created in response to the 2000-01 Energy Crisis and was charged with assuring a reliable supply of power to Californians at just and reasonable rates, including planning for sufficient reserves. However, without ratemaking authority or its own source of funds, the CPA was unable to finance major projects. The administrative operations of the agency ceased in October 2004 and its last remaining program, the Demand Reserve Program, is scheduled to expire June 30, 2007. The Budget proposes to transfer all remaining CPA funds (estimated at $2,541,000) to the Energy Commission (Energy Resources Programs Account) to repay loans provided by the Budget Act of 2002 and the Budget Act of 2003.

California Electricity Oversight Board. The Electricity Oversight Board (EOB) was created as a result of energy deregulation and was intended to ensure that wholesale energy markets and the electric transmission system function reliably at fair costs to consumers. The Administration contends that

many of its market oversight functions are no longer necessary as they have been filled by the federal government and the California Independent System Operator. The EOB also represents the state before the Federal Energy Regulatory Commission, Federal Courts and in regional forums. This function, according to the Administration, duplicates activities conducted by the Public Utilities Commission and the Office of the Attorney General. The budget, however, continues to include funding for this board at $4,128,000 and 23 positions (21.9 PYs) in 2007-08.

Who Will take over the EOB's Legal Actions? The EOB originally was established in the framework of electricity deregulation, and many of its original functions have either disappeared or diminished. However, the EOB staff has played a vital role in the state's legal efforts to recoup overcharges from the electricity crisis, and this role continues with billions of dollars still at stake for California ratepayers. While the Attorney General and the PUC also have roles to play, the EOB staff has built up a unique expertise and, unlike the PUC, which represents only the ratepayers of the investor-owned utilities, it represents the state as a whole. The budget does not address the disposition of the EOB's funding or staff or whether the state's position would be detrimentally affected by ending the EOB's participation in ongoing litigation and regulatory proceedings.

DEPARTMENT OF FOOD AND AGRICULTURE

The objectives of the Department of Food and Agriculture are to: serve the diverse citizens of California by maintaining an abundant, affordable, safe, and nutritious food supply; provide leadership, innovation and oversight in the production and marketing of agricultural products; prevent or eradicate animal diseases and exotic and invasive species harmful to people, commerce, and the environment; develop and enforce weights and measures standards for all types of products in California and at all levels of commerce; and support a network of fairs and expositions in the state for their societal and economic service values.

Key Provisions

- **Emergence Tower System for Fruit Fly Rearing Efficiency.** The Governor's budget proposes $658,000 General Fund to purchase and implement a tower system for rearing Mediterranean Fruit Flies (Medfly) for the Preventive Release Program.

- **All Vehicle Inspection Pilot Program**. The Governor's budget proposes $407,000 General Fund and 4.7 positions to continue the Private Vehicle Inspection Pilot Program at the Needles Agricultural Inspection Station.

- **Hydrogen Fuel Purity and Performance Standards**. The Governor's budget proposes $212,000 Department of Food Agriculture Fund to

purchase laboratory equipment and supplies necessary to develop and initiate standardized sampling, testing, and enforcement activities related to hydrogen fuel.

Key Provisions

- **Green Building Action Plan.** The Governor's budget proposes $3.4 million from the Service Revolving Fund and 4.7 positions to implement the required energy savings programs and projects as specified in the Governor's Executive Order and the accompanying Green Building Action Plan. According to the administration, these resources will enable the State to systematically reduce state energy consumption by taking all cost-effective measures described in the Green Building Action Plan to retrofit, build, and operate state-owned facilities rated 'Silver' or higher as determined by the United States Green Building Council Leadership in Energy and Environmental Design.

- **Capitol Repairs.** The Governor's budget proposes $7.4 million in General Fund and 4.3 positions to complete critical repairs to the State Capitol. A recently completed infrastructure report has identified the repair, system replacement, and maintenance activities necessary over the next 20 years to extend the useful life of the State Capitol.

- **Capitol Park Master Plan.** The Governor's budget proposes $1.5 million in General Fund to complete the Capitol Park Master Plan. The Capitol Park Master Plan will identify the historic landscape of the park, the current infrastructure conditions, security and maintenance needs, and future memorial locations and how to address all of the needs through the maintenance and reconstruction of the park over the next 50 year

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serves the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and assists disadvantaged and welfare-to-work 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 economic, occupational, and socio-demographic labor market information concerning California's workforce.

The Governor proposes $10.8 billion ($44.3 million General Fund) and 8,739.4 positions, a decrease of $332.0 million (3.0 percent) and 242.8 positions.

However, the current-year benefit estimates include a 10 percent or $880 million "buffer"; no buffer is included for 2007-08.

Key Provisions

- **Job Services Fund.** The Governor's proposed budget eliminates $27.1 million of EDD Contingent Funds from the Job Services Program resulting in a corresponding savings to the General Fund. The proposal is expect to result in the elimination of 271 positions. The reduction in staff will result in a noticeable decrease in employment-related services offered to the public by EDD. Although the EDD Contingent Funds are eliminated, the budget still includes $153 million of federal funds and reimbursements for Job Services.

- **Federal Workforce Investment Act Reduction.** The Governor's proposed budget reflects a projected 5.9 percent reduction in federal Workforce Investment Act funding in the budget year. Due to federal reductions and allocation changes California's WIA allocation is expected to decrease from $446.8 million in the current year to $420.5 million in the budget year, a decrease of $26.3 million. Workforce Investment Act funding is a major funding source for state and local job training programs and this reduction will compound the effect of the proposed Job Services Program reduction.

- **Automated Collection Enhancement System.** The Governor's proposed budget includes $2.8 million ($2.5 million General Fund and $.3 million various special funds) for the EDD's Automated Collection Enhancement System (ACES), which will improve the EDD's ability to track, collect, and audit the payment of specified employer payroll taxes, including the personal income tax withholding.

- **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. This transfer produces a General Fund savings of the same amount. This year's CalWORKs transfer is proposed at $35 million – up by $15 million. The amount of ETP funds used for CalWORKs has varied over the years, but last year the Legislature reduced the amount by $12.9 million, to $20.0 million. Despite the shift to CalWORKs, sufficient funds are available to maintain the current level of Employment Training Panel expenditures – about $54 million. The budget also includes a technical adjustment to provide an increase of $2.5 million (Employment Training Fund) for the Employment Training Panel to augment its employment training contract program.

- **Benefit Program 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 2006 forecast of future claims. The department will submit a revised forecast for benefit expenditures as part of the May Revision.

- **Tax Sharing Ratio Change.** EDD staff collects employer-based taxes including Unemployment Insurance, Disability Insurance, Employment Training Fund, and personal income tax withholdings (General Fund). The Administration proposes to realign EDD's funding for existing tax collection positions to reflect the actual tax collection workload associated with each program. This proposal would result in a no change in EDD expenditures, but would increase General Fund costs by $13.5 million (and reduce the cost to other funds by the same amount).

- **Disability Insurance Branch Automation.** The Governor's proposed budget includes $1.6 million Special Fund and 6.6 positions continue the implementation of the Disability Insurance Automation Project. The project will provide greater access to services for claimants, medical providers, and employers and allow EDD to comply with federal HIPAA (Health Insurance Portability and Accountability Act of 1996) guidelines. EDD expects the project to be completed in 2010-11 for a total cost of $28.6 million.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Department of Industrial Relations protects the workforce in California, improves working conditions, and advances opportunities for profitable employment. The Department is responsible for enforcing workers' compensation insurance laws, adjudicating workers' compensation insurance claims, and working to prevent industrial injuries and deaths. The Department also promulgates regulations 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.

Key Provisions

- **Industrial Welfare Commission Staffing.** The Governor's proposed budget proposes to restore $449,000 General Fund and three positions to support the activities of the Industrial Welfare Commission (IWC). In FY

04-05, the Legislature eliminated all staff and funding to support commission activities, but did not eliminate the commission itself or its state-mandated functions. The IWC ascertains wages, hours, and conditions of employment; investigates health and safety employment issues; responds to commissions; and conducts a bi-annual review of the adequacy of the minimum wage. The IWC is empowered to amend, rescind, or adopt any wage order covering any occupation, trade or industry in California.

- **Elevator Safety Unit Staffing.** The Governor's budget includes $1.9 million (Elevator Safety Account) and 15.2 positions to approve permits for elevator plans prior to construction, as required by law. The department reports that over 6,000 elevators and other conveyances are being installed or altered every year and are required to be inspected. The additional positions are needed because current-year staffing level is not sufficient to perform required inspections of these elevators. There is no state General Fund impact from this proposal.

- **Electronic Adjudication Management System.** The Governor's proposed budget includes $19.1 million special fund to implement the revised project costs of the Electronic Adjudication Management System (EAMS). The goal of the EAMS project is to bring all DIR's Division of Workers' Compensation computers on a common operating system, develop a automated digital calendaring system, creating a single case tracking system, and reducing the amount of paper files. According to the department, the scope of the project has increased since it was approved in June of 2004 due to an increased number of DIR staff and locations.

- **Elevator Safety Account Funding.** The Governor's proposed budget re-aligns Elevator Safety Account funding to better reflect the activities funded with the special funds. The realignment will result in a net savings of $448,000 General Fund and will also transfer $1 million of Permanent Amusement Ride Safety Inspection Fund to the Elevator Safety Account to reflect the current use of funding. This proposal will require statutory changes to enact.

- **Workers' Compensation Administration Revolving Fund.** The Governor's proposed budget includes a $1.1 million General Fund savings by funding 8.8 PY current Division of Labor Standards Enforcement activities that support Workers' Compensation administration to the Workers' Compensations Administration Revolving Fund.

- **Occupational Safety and Health Staffing.** The Governor's proposed budget includes $230,000 ($158,000 General Fund) and two positions to address workload increases related to federal OSHA compliance. One of the positions will assist in staffing the Occupational Safety and Health

Standards Board and the other will provide outreach activities to employers and employees in the tree trimming and reforestation industries.

- **Workers' Compensation Permanent Positions.** The Governor's proposed budget proposes to convert 28.0 limited-term positions into permanent positions for a cost of $1.9 million special fund. The nine positions were included as part of the 2004 Worker's Compensation Reform (SB 899) and were authorized for three years. The department believes that the workload associated with these positions remains and thus the positions should be continued. The budget also includes a proposal to increase Division of Workers' Compensation contract funding by $350,000 Special Funds to provide external medical reviews.

- **Census of Fatal Occupational Injuries Shift.** The Governor's proposed budget includes a proposal to shift the Census of Fatal Occupational Injuries (CFOI) program from the Division of Labor Statistics and Research to the Division Occupational Safety and Health. The CFOI program is a collaborative between the state and federal government and this shift is the result of an agreement with the United States Bureau of Labor Statistics regarding the best location within DIR for this function.

- **Labor Relations Unit Staffing.** The Governor's proposed budget includes $223,000 Special Fund and two positions to address DIR's labor relations with its own staff. The labor relations staffing would provide supervisor orientation, disciplinary process, new policy requirements and applicable Fair Labor Standards Act Provision. The staff would also consult with supervisors and intervene at a stage when employee concerns and disputes may be resolved informally.

- **Information Staffing.** The Governor's proposed budget includes $651,000 ($5,000 General Fund) and 5.6 positions to address information technology, data preservation, and litigations support workload.

- **Electrician Certification Staffing.** The Governor's proposed budget includes $323,000 Special Fund and four one-year limited-term positions within DIR's Division of Apprenticeship Standards. The proposal would continue positions dedicated to certify electricians, as required by AB 1087 (Calderon). The law required all electricians to be certified by 2005, however only 26,124 of the estimated 70,000 electricians have been certified so far. The budget request requests continuing the staffing for an additional year, as more certifications are expected in the budget year.

- **Division of Apprenticeship Standards Audits.** The Governor's proposed budget includes $339,000 Special Fund and three positions to increase the number of audits performed by the Division of Audits. The

increased staff will help DIR respond to a recent Bureau of State Audit report that cited problems with the Division of Apprenticeship Standards audit process. An internal review of audit requests suggests that about 500 additional apprenticeship programs currently need audits to address the concerns of the Bureau of State Audits. Since DIR believes each audit will require about 40 hours to complete, the new staff will perform about 156 additional audits annually.

- **Licensing and Registration Unit.** The Governor's proposed budget includes $225,000 ($160,000 General Fund) and five positions to address an increase in the licensing and registration unit workload. Recent changes to the licensing and regulation of farm, garment, and care wash industries have increased the number of applications received by DIR, overwhelming the current staff of 21 positions. The Administration expects the number of applicant received to increase from 9,139 to 10,859 in the budget year.

SECRETARY OF STATE

The Secretary of State (SOS), a statewide elected official, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The SOS 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 SOS is responsible for the appointment of notaries public, enforcement of notary laws and preservation of documents and records having historical significance. All documents filed are a matter of public record and historical importance. They are available through prescribed procedures for public review and certification as to authenticity.

As shown in the table below, the Governor's budget proposes total spending of $92.6 million ($36.2 million General Fund) for the SOS in 2007-08, a decline of 7.5 percent compared with estimated spending for the current year. The decline for the General Fund is 9.6 percent. Proposed staffing totals 477.3 personnel-years (PYs), an increase of 9 PYs (1.9 percent), compared with the current year. Year-to-year program spending comparisons are obscured by a change in program displays in the budget year that consolidates administration and management functions, but also revises other program categories.

Secretary of State
Expenditures by Program
(thousands)

Program	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Percentage Change
Filings and Registrations	$-	$-	$44,652	-
Elections	-	-	35,234	-
Archives	-	-	12,757	-
Administration and Technology (distributed)	-	-	(21,468)	-
Business Programs	40,606	45,171	-	-
Elections	29,508	38,802	-	-
Political Reform	2,936	3,603	-	-
Archives	10,806	12,247	-	-
Executive Administration (distributed)	(3,876)	(4,183)	-	-
Management Services Administration (distributed)	(6,715)	(8,516)	-	-
Information Technology Administration (distributed)	(7,176)	(7,479)	-	-
Local Assistance	192,001	-	-	-
Total Expenditures (All Programs)	**$276,237**	**$100,201**	**$92,643**	-7.5%
General Fund	$36,070	$39,974	$36,150	-9.6%
Federal Funds	195,800	14,465	10,673	-26.2%
Personnel-Years	**434.0**	**468.3**	**477.3**	1.9%

The proposed budget is only about one-third the size of the 2005-06 budget, which reflects the expenditure in the past year of $192 million of one-time federal grants provided under the Help America Vote Act, and $9.1 million of General Fund costs for the 2005 Special Election.

Major Provisions

Help America Vote Act Implementation

The federal Help America Vote Act (HAVA) of 2002 – passed in response to controversy surrounding the presidential election of 2000 requires that states comply with a series of federal election requirements that are intended to insure a fairer and more accurate federal election process. Such requirements include: replacing punch-card and lever operated voter equipment; allowing voters to verify their ballots; providing voters with provisional ballots; providing access for voters with disabilities; and creating a statewide voter registration database.

Revised Spending Plan for Help America Vote Act Expenditures. The Governor's budget includes $10.6 million in federal fund spending authority to continue implementing HAVA in accordance with a revised expenditure plan. A total of $369 million in federal funds has been appropriated to California for voter equipment replacement, voter education, and related activities. The SOS revised HAVA expenditure plan of September 13, 2006 indicates that $77.7 million of

these funds will remain uncommitted as of June 30, 2007. Of the $10.6 million requested for expenditure in the budget for 2007-08, $6.4 million will be used to begin implementing the VoteCal statewide voter database to meet HAVA requirements, $1.1 million to provide election assistance for people with disabilities, $1.9 million for administration, and $1.2 million for other elections-related activities.

VoteCal Registration Database. The Governor's proposed budget includes 6.5 positions and $6.9 million in federal HAVA funds to begin the process of replacing the existing CalVoter statewide voter database with a more centralized and technologically advanced VoteCal database. Currently, the state and the counties are operating with an interim approach that has been approved by the federal government on a temporary basis. The VoteCal database will contain the name and registration information for every legally registered active or inactive voter in California, which requires integration with all of the county voter registration systems. VoteCal also will have linkages to various official databases in order to confirm voter identity (such as the Department of Motor Vehicles, and the Social Security Administration), and to vital records and criminal justice records in order to validate information on deaths and felony convictions. The HAVA spending plan indicates that the cost of developing and implementing VoteCal will increase to $36.1 million in 2008-09, $14.2 million in 2009-10, and $9.6 million in 2010-11. After all federal HAVA funds are expended these positions will be funded by the General Fund.

Repayment for Help America Vote Act Audit Findings. The Governor's budget requests $2.4 million General Fund to repay the federal government for past inadequately documented and, in some cases, improper HAVA expenditures identified in audits by the U.S. Elections Assistance Commission. A previous repayment of $536,000 has been approved in the current year, bringing the total repayment to $2.9 million.

Other Key Provisions

- **Secretary of State Headquarters Repair and Shift to an Individual Rate Building.** The Governor's proposed budget requests $1.7 million to effect repairs to the Secretary of State's headquarters building in Sacramento, including replacement of the building roof, the establishment of a special repairs fund, and $15,000 for recurring maintenance for the security keycard system. The Secretary of State also requests shifting the annual budgeting of the headquarters building to an individual rate building, which will enable the establishment of a special repairs reserve account to fund future repairs to the building.

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, as amended by the voters and Legislature.

Key Provisions

- **Workload Growth.** The Governor's budget proposes $604,000 General Fund and 4.7 positions to support workload growth. Over several years, the scope of work performed by the Fair Political Practices Commission (FPPC) has increased as a result of enacted legislation. The FPPC has embarked on a multi-year plan to acquire sufficient staff to meet these mandatory workload demands.

DEPARTMENT OF VETERANS AFFAIRS

The California Department of Veterans Affairs (CDVA) provides services to California Veterans and their dependents, and to eligible members of the California National Guard. The principle activities of the CDVA include:

1. Providing home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans using proceeds from the sale of general obligation and revenue bonds;

2. Assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service officers, and direct educational assistance to qualifying dependents and;

3. Operating veterans' homes in Yountville, Barstow, and Chula Vista with several levels of medical rehabilitation services, as well as residential services. For the Barstow and Chula Vista Homes, the budget assumes full occupancy in all levels of care.

The Governor's Budget includes $349.3 million ($112.3 million General Fund) for Veterans Affairs, an 8 percent increase from last year.

Other Key Provisions

- **Veterans Home Information System.** The Budget provides $10.3 million General Fund ($7 million one-time) and 20.9 positions to procure and implement a statewide Veterans Home Information System that will replace the current proprietary system in the existing homes and be used in any additional homes that are constructed in the future. The information system is used to manage medical and operational records of veteran's home residents. The department is establishing a new system because it was unable to negotiate an extension of the contract with the current vender and will also need to establish an information system for the new GLAVC facilities.

- **Re-opening Barstow Skilled Nursing Facility.** The Governor's budget includes $2.3 million ($2.1 million General Fund) and 18 positions to reopen 40 Skilled Nursing Facility beds at the Barstow Veterans Home. The budget year will be the first step in a six year plan to establish a total of 100 beds that the facility. In 2003, the 122 bed Skilled Nursing Facility the previously operated at the Barstow home was closed due to severe licensing violations. The department is working with the Department of Health Services to reopen the facility under a 9-12 month observation period. Twenty beds will be brought online in the budget year and the other twenty beds will be added in 2008-09. In 2008-09 the proposal is expected to cost $4.5 million.

- **GLAVC Veterans Home Project.** Provides $995,000 General Fund and 7.6 positions for the initial construction and pre-activation phases of the Greater Los Angeles and Ventura County Veterans (GLAVC) Homes project. The staff will provide budget, contract, and informational technology support to GLACV. The GLAVC project will include three locations in Ventura, Lancaster and West Los Angeles. The department estimates that the Ventura and Lancaster locations will be completed in December 2008 and the West Los Angeles facility will be completed in December 2009.

- **Workload Alignment.** The Governor’s proposed budget realigns funding for Department of Veterans’ Affairs staffing to reflect actual duties performed for a net $2.8 million General Fund cost. An internal review by the Department found that 25 positions that were being funded with Farm and Home Loan Program Special Fund were actually working in other DVA programs that are supported with General Fund. The funding shift will pay for these positions with the correct funding source.

- **Federal Medicare Reimbursement.** The Governor's proposed budget reflects a $2.9 million General Fund savings resulting from projected federal Medicare revenue reimbursements for veterans' home activities. The additional funding is based upon a five-year historical pattern of expenditures at all three veterans' homes.

- **Veterans' Home Capital Projects.** The Governor's proposed budget includes four capital projects for the Department of Veterans' Affairs. The four projects will cost a total of $14.7 million and include: (1) renovation of the Yountville member services building ($13.8 million); (2) installation of an emergency generator in the nursing facility at Barstow ($445,000); (3) improvement of accessibility, lighting, and drainage of Kennedy Hall at Yountville ($226,000); and installation of an improved kitchen cooling system in Barstow (153,000).

- **Veterans' Home Information Technology Upgrade.** The Governor's proposed budget includes $6.5 million General Fund to replace the existing Department information technology infrastructure. According to the Department, the existing information technology infrastructure is obsolete and unable to meet the information and computing needs of the Department. The proposed upgrade would focus upon the improving the hardware and networking needs of the Department. The Department will likely need this modern IT platform to run the Veterans Home Information System (see first bullet point).

- **Equipment Replacement.** The Governor's proposed budget includes $3.2 million General Fund for equipment replacement and ongoing maintenance. The department estimates at least $6.5 million unmet or outdated replacement needs in the current year. The department provided a 28 page long list of equipment that is slated for replacement. The items range from a 35-year-old tablesaw, to 19-year-old refrigeration units, to a three-year-old ultraclave sterilizer.

- **Chula Vista Intermediate Care Facility (IFC).** The Governor's proposed budget adjusts the budget for the Chula Vista Home to reflect a decision to not convert the 55 bed Chula Vista Residential Care Facility for the Elderly (RCFE) into an Intermediate Care (IFC) facility. An IFC provides a higher level of medical care than an RCFE and would allow DVA to receive a higher level of federal reimbursement for care. The department had planned to convert the facility on July 1, 2005, but was unable to complete structural modifications necessary to comply with IFC requirements. The department has decided to abandon the conversion after several unsuccessful attempts to resolve the facility issues. The proposed adjustment in the budget will result in a net $558,000 General Fund savings in the budget year.

- **Veterans' Home Operating Costs**. The Governor's proposed budget provides an increased of $1.5 million General Fund to address increasing operating costs. More than $1.1 million of the proposed increase is due to increases in pharmaceuticals and outside medical expenses.

- **Veteran's Claim Representatives.** The Governor's proposed budget converts two limited term positions into permanent positions for a $180,000 General Fund cost. The positions provide veteran claim services in Los Angeles and San Diego Counties.

- **Contract Staffing Costs.** The Governor's proposed budget includes $71,000 to fund an increase in the personal services contracts for the Barstow and Chula Vista homes. Current law requires that contractors pay their staff no less 85 percent of the state employer cost of providing comparable wages and benefits for a state employee performing a similar duty. The July 1, 2006 general salary increase granted for nine bargaining units has triggered this provision, which has resulted in additional contract costs.

MILITARY DEPARTMENT

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 Departments of the Army and Air Force staffing patterns. Since Department programs drive the need for infrastructure investment, each department has a related capital outlay program to support this need. In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense.

Key Provisions

- **National Guard Tuition Assistance Program.** The Governor's proposed budget includes $1.7 million to establish a tuition assistance program for members of the California National Guard (CNG). The program, which would annualize to $3.3 million in 2008-09 is intended to assist California National Guard members that are not eligible for federal programs, such

as the Montgomery GI bill. The funding would reimburse for tuition, book fees, and student fees at universities and colleges in California.

California offers fewer benefits to National Guard members than other states. The proposed tuition assistance program would bring the State in line with most others. The Military Department assumes 1,816 California National Guard members will participate in the program. The Budget also includes placeholder Trailer Bill Language to implement the new tuition assistance program through a regulatory process.

- **Armory Maintenance and Modernization.** The Governor's proposed budget includes $4.5 million ($3.0 million General Fund and $1.5 million Federal Trust Fund) for maintenance and repairs at armories statewide. The proposed funding will allow the department to continue making needed repairs, modernizing its armory infrastructure, and ensuring compliance with environmental laws and building codes at various armories on a priority basis.

  According to the Bureau of State Audits, 87 percent of the state's 109 armories are "in need of improvement". The Auditor looked at the rating of these facilities based upon the Army's criteria for evaluating facilities, which assigns a color to assess the overall adequacy of a facility based upon a traffic light (green, amber, and red) rating. In the latest rating, 72 of the armories were rated "red" and 23 of the armories were rated "amber". The Military Department has a backlog of about $35.7 million in maintenance issues at the 109 armories. The proposed increase will result in a total of $5.5 million ($3.6 million General Fund) available for maintenance and modernization.

- **California National Guard Funeral Honor Ceremonies**. The Governor's proposed budget includes $1.8 million General Fund and 22.1 positions to meet the demand for increased military funeral honor ceremonies in California. The California National Guard serves as the principle provider of such ceremonies for veterans who or whose families request funeral services in California with military honors. Last year the existing 43 positions performed 600 of the 900 military services requested. The Military Department projects 65,000 veteran deaths annually, which has resulted in the increased demand for additional funeral ceremonies.

- **Additional Armory and Airbase Maintenance Staff.** The Governor's proposed budget includes $1.5 million ($694,000 General Fund) and 12 positions for additional maintenance at Military Department facilities. Of this amount $774,000 ($442,000 General Fund) and 3.8 positions are provided to support the maintenance needs of four new armories at Azusa, Bakersfield, Lancaster, and Moreno Valley. In addition, $428,000 ($86,000 General Fund) and six positions is requested to support the

maintenance and operation of the Fresno Air National Guard 144th Civil Engineering Squadron. The Budget also proposes $292,000 ($166,000 General Fund) and two positions (one in Northern California and one in Southern California) to provide regional facilities and engineering support.

- **Service Member Care Position.** The Governor's budget includes $165,000 General Fund and one position to provide Service Member Care. The position will provide emergency crisis counseling, referral and personal support, combat stress evaluation, and mental health services to the state military force.

- **Disaster Response Training for Helicopter Crews.** The Governor's proposed budget includes $138,000 to train helicopter crew members to support the Military Support to Civil Authority during wild fire and flood rescue missions.

- **Administrative Staffing.** The Governor's proposed budget includes $82,000 General Fund and one position to support the department's fiscal and personnel processes**.**

- **Homeland Security Training and Exercise Program Funding.** The Governor's proposed budget includes $5.6 million special funds and five new positions to support homeland security functions performed by the Military Department. The Military Department provides the training and exercises associated with Homeland Security training. The proposal also appropriates $3.3 million in the current year and re-establishes seven limited-term positions.

- **Security Staffing.** The budget includes $3.5 million federal funding and 47 three-year limited term positions for security at Military Department installations.

- **Uniform Allowance.** The budget includes $69,000 General Fund to implement SB 1244 (Soto) which provides eligible State Military Reserve members with an annual $125 uniform and travel allowance.

- **Barstow Readiness Center.** The Military Department budget includes a $375,000 ($169,000 General Fund) capital project to enlarge the Kitchen and Latrine in the Barstow Readiness Center.

THE 2007-08 STATE BUDGET

Public Safety

DEPARTMENT OF JUSTICE

The constitutional office of the Attorney General, as chief law officer of the state, has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice.

The Department of Justice (DOJ) is responsible for providing skillful and efficient legal services on behalf of the people of California. The DOJ also coordinates efforts to address the statewide narcotic enforcement problem; assists local law enforcement in the investigation and analysis of crimes; provides person and property identification and information services to criminal justice agencies; supports the telecommunications and data processing needs of the California criminal justice community; and pursues projects designed to protect the people of California from fraudulent, unfair and illegal activities.

The Governor's budget proposes $825 million ($403 million from the General Fund) and 5,538.3 positions. This reflects an increase of $25.6 million and 64.2 positions over the 2006-07 budget.

Key Provisions

- **Correctional Law Section.** The Governor's budget proposes $4.8 million (General Fund) and 31.2 positions to support increase correctional federal habeas corpus workload. Created within the Correctional Law Section, the Correctional Writs and Appeals Unit will handle all correctional habeas corpus work for the Department of Corrections and Rehabilitation.

- **Correctional Law Section.** The Governor's budget proposes $2.1 million (General Fund) and 13.4 positions to handle increased class action workload for the Department of Corrections and Rehabilitation.

- **Criminal Justice Information Systems.** The Governor's budget proposes $1.6 million (General Fund) and eleven positions to complete the redesign of five automated database systems: Wanted Persons, Stolen Vehicles, Supervised Release File, Firearms Eligibility Applicants, and Domestic Violence Restraining Orders.

- **Energy Litigation.** The Governor's budget proposes $1.7 million (Ratepayer Relief Fund) for continuing energy litigation. Traditionally approved for a two-year limited term, the Energy Task Force litigation has resulted in the recovery of over $5 billion.

- **Underwriters Litigation.** The Governor's budget proposes $4.2 million (General Fund) and 2.6 positions to continue funding special counsel with expertise in insurance-coverage litigation. The department anticipates a recovery of $15 million to the General Fund.

- **CHP Representation.** The Governor's budget proposes $1.1 million (Legal Services Revolving Fund) and 6.6 positions to handle motions concerning personnel files for Highway Patrol Officers. CHP previously utilized administrative personnel to support this workload.

- **Salary Differential.** The Governor's budget proposes $1.7 million ($951,000 General Fund) to provide a 2.5 percent pay differential for non-supervising attorneys. In the 2006 budget act, the department requested, and received, the creation of a supervising attorney class at a 5 percent pay differential. This would cut the recently enacted differential in half.

- **Natural Resources.** The Governor's budget proposes $3.9 million (Legal Services Revolving Fund for 16.4 limited term positions to represent various state agencies in upcoming litigation in the Natural Resources Law Section.

- **Meagan's Law.** The Governor's budget proposes $767,000 to implement recent legislative enhancement to Meagan's law, specifically, SB 1128 (Chapter 337, Statutes of 2006) and AB 1849 (Chapter 886, Statutes of 2006).

JUDICIAL BRANCH

The mission of the Judicial Branch is to resolve disputes arising under the law and to interpret and apply the law consistently, impartially, and independently to protect the rights and liberties guaranteed by the Constitutions of California and the United States, in a fair, accessible, effective, and efficient manner.

In order to consolidate operational costs of the Judicial Branch, the Governor's budget combined the previously separate budgets of Judicial and State Trial Court Funding as the Judicial Branch beginning with the 2005-06 fiscal year.

The Governor's budget proposes $3.7 billion ($2.3 billion from the General Fund) and 1,840.6 positions. This reflects an increase of $196 million and 6.5 positions over the 2006-07 budget.

Major Provisions

Trial Court Funding

Chapter 850, Statutes of 1997, enacted the Lockyer-Isenberg Trial Court Funding Act of 1997 with the goal of providing stable and consistent funding for trial court operations. With the Act, funding for the Judicial Branch was consolidated at the state level, giving the Legislature authority to make appropriations and the Judicial Council responsibility to allocate funds to local trial courts.

Additionally, the Act provided counties with a tremendous amount of fiscal relief by capping their financial responsibility for trial court operations. With the state assuming the responsibility for future year costs beginning in 1997-98, counties are required to make Maintenance of Effort (MOE) Payments to the state reflecting the adjusted county support for trial court operations in 1994-95.

Chapter 227, Statutes of 2004 (SB 1102, Committee on Budget) changed the process for budgeting the Trial Court Funding program from the traditional state process in which annual adjustments are separately requested and approved based on demonstrated need-to a formulaic funding process. Specifically, current law requires use of the year-to-year growth in the State Appropriations Limit (SAL) to adjust the trial court budget every year. The language requires that the SAL growth factor be applied to trial court operating costs, excluding judicial officer salaries. This establishes a minimum funding level for the courts, which can be provided from any combination of the three revenue sources: the General Fund, filing fees and surcharge revenues, and the fixed county contribution. Additionally, under current law the Judicial Council can request additional funding above and beyond the SAL adjustment for (1) nondiscretionary costs that are growing faster than SAL, or (2) operational or programmatic changes that require additional funding.

Use of the SAL growth factor was thought to benefit the trial courts for three reasons. First, it was intended to provide stability and predictability to the Trial Court Funding program during periods of state fiscal crisis. Second, it was believed that more predictable funding for the trial courts would improve the process for adjusting local court employee salaries. Specifically, use of the SAL would allow local court administrators to know how much they could expect to receive from the state prior to negotiating salary increases with local court employees. Finally, since the Trial Court Funding program represents the vast majority of Judicial Branch spending, using SAL also provided a greater degree of financial independence and flexibility for the Judicial Branch.

Despite the intent, some stakeholders believe that the implementation of the SAL, as a budgetary growth factor, yet to accomplish its intention to provide a stable and predictable resources for trial court operations. Stakeholder concern centers on Judicial Council's ability to set funding priorities for the Trial Court Trust Fund. For example, in the current year, the Judicial Council prioritized a portion of SAL to fund under-resourced courts. While all agree with the notability of the effort, many stakeholder where concerned with the potential reduction in available funding for all trial court operations to provide supplemental support to a few trial courts. The Judicial Councils, however, asserts that the Trial Court Funding Act mandates they prioritize funding to promote equal access to courts statewide.

The 2007-08 Governor's proposed budget includes a SAL adjustment of $130.1 million, or 5.3 percent, for trial court operations.

Trial Court Facilities

Chapter 1082, Statutes of 2002 enacted the Trial Court Facilities Act of 2002 which requires the transfer of responsibility and/or title of more than 450 court facilities from the county's jurisdiction to the state. In accordance with the recommendations of the State Task Force on Courthouse facilities, the Act requires the Judicial Council and local counties to complete mandated negotiations for transfer of responsibility for court facilities by June 20, 2007.

To date, only twenty court facilities have completed the transfer process. Although there have been various impediments, the Acts prohibition on transferring title or responsibility to buildings with an unacceptable seismic safety rating has primarily caused the impasse. Senate Bill 10 (Chapter 444 of the Statutes of 2006) revised the Trial Court Facilities Act to allow certain seismically deficient courthouse facilities to transfer to the state so long as counties retain liability for earthquake-related damage, replacement, injury, and loss to the same extent that counties would have if the responsibility for court facilities had not transferred to the state. However, the legislation did not extend the June 2007 deadline.

Furthermore, the Act requires counties to make capped maintenance-of-effort payments based on historical facilities operations costs. However, with the approved increase of 50 new judgeships and the proposed increase of 100 judgeships, the Judicial Council is proposing larger facilities to accommodate "projected growth," increasing the state's facility maintenance and operations cost.

The Governor's budget proposes a $415,000 (General Fund) for operations support and $14.8 million (Special Fund) for capital outlay projects for facilities that have yet to transfer.

Other Key Provisions

- **New Judgeships.** The Governor's budget proposes $27.767 million to fund the authorization of 50 new judgeships. This proposal is the second phrase of the Administration's intent to create 150 new judgeships over three years.

- **Child Dependency.** The Governor's budget proposes $1.37 million to the Court of Appeals to fund court appointed counsel for children in dependency cases as mandated by AB 2480 (Stats. 2006, Ch. 385). AB 2480 requires appointed counsel for child that are appellants or when counsel would benefit the child.

- **Access to Justice.** The Governor's budget proposes $5 million to fund a pilot project at three courts that will provide attorney representation for civil litigants who need assistance beyond self-help programs.

- **Program Workload Adjustments.** The Governor's budget proposes $3.2 million and 19.1 positions to accommodate increases in workload due to the Trial Court Funding Act that has required increased services and support from the Administrative Office of the Courts.

- **Federal Grants.** The Governor's budget proposes a $1 million increase in Federal Trust Fund Authority in anticipation of three federal grants: Child Data Collection; Judge & Attorney Training; and a study of Elder Courts.

DEPARTMENT OF CORRECTIONS AND REHABILITATION

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 Governor's budget proposes $9.8 billion ($9.5 billion from the General Fund) and 65,973.3 positions. This reflects an increase of $606.8 million and 2,312.3 positions from the revised 2006-07 budget.

Major Provisions

Prison Overcrowding

Although the Department of Corrections and Rehabilitation faces a number of challenges, the correlating problem within the state's correctional system is the number of incarcerated individuals in comparison to state's physical and programmatic capacity. Over last ten years, the department has experienced a total inmate population growth of more than 30,000, with inmates housed in community correctional centers, State hospitals, camps and institutions. Likewise, institutional population has also increased to 164,179 (as of June 20, 2005) far exceeding the departments design bed capacity of 81,008. The Governor's budget projects an average daily population of 177,577 for 2007-08, an increase of 4,176 inmates over the current year.

During the 2006 special session on prison overcrowding, the Administration testified that CDCR will run out of existing capacity, including the use of more than 18,500 nontraditional beds, needed to house the projected number of prisoners by June 2007. The Administration proposed $6 billion in capital outlay projects to add 43,738 beds by fiscal year 2012-13. In addition, the Administration sought to contract out 4,500 female offenders to rehabilitative community correctional facilities and house foreign nationals with ICE holds out-of-state. At the conclusion of the special session, the Legislature rejected the Administration's proposal, due to a number of unaddressed concerns.

On October 4, 2006, the Governor issued an emergency proclamation citing severe overcrowding as a threat to health and safety in 29 of the state's 33 prisons. The proclamation allowed CDCR to immediately contract with out-of-state correctional facilities to temporarily house California inmates. In response, CDCR signed two separate contracted with the GEO Group Inc and the Correctional Corporation of America to temporarily provide 2,260 beds for inmates outside of California. As of January 26, 2007, California has 353 inmates: 80 inmates located Tennessee and 273 located in Arizona and. CDCR intention is to transfer 80 inmates every week until the supply of volunteer inmates is exhausted.

In January, U.S. District Judge Lawrence Karlton, presiding judge of *Coleman v. Schwarzenegger* (class action lawsuit regarding prison mental health care), delayed his ruling on whether or not to establish a three-member judicial panel to make recommendations for relieve prison overcrowding until June. With the delay, the Administration has been provided with six months to make progress toward downsizing the population. If acceptable progress in not made during the six months, Judge Karlton may order the creation of the judicial panel which could recommend the early release of prisoners.

Prison Reform Package

The Governor's budget attempts to responds to the challenges facing the state's correctional facility by proposing a reform package that seeks to address institutional capacity, sentencing and parole.

The second phrase of the Administration's Strategic Growth Plan includes $10.9 billion ($9.5 billion in lease-revenue bonds, $1.1 billion in local matching funds and $300,000 General Fund) for public safety. The majority of the resources, $5.5 billion, are set aside for expansion of local jails and juvenile facilities. It is estimated that funding will provide for the construction of 45,000 new jail beds and 5,000 beds for juvenile offenders.

In addition to the resources, the Administration also proposes to change state sentencing law to increase the number of offenders held at the local level. For adult offenders, the Administration seeks to raise the minimum state prison term from one year to three years; thereby increasing the number of offenders eligible to serve sentences at local facilities.

California currently has 116 local jail facilities located in 57 counties with a combined state rated capacity of 75,339 adults. These county jails house pre-sentenced arrestees awaiting adjudication for charged crimes, and convicted felons and misdemeanants. Most counties are also dealing with issues of overcrowding. Twenty counties are operating under court order jail population caps, and another 12 counties operate under self-imposed caps. As a result, a number of individuals are being release prior to completion of their sentence. In 2005, 233,000 people were released early or never incarcerated due to local jail overcrowding. The Administration's proposal would not provide immediate relief, with early completion estimates of 2010.

Additionally, the Governor proposes $2.7 billion to expand capacity at existing facilities adding over 16,000 new beds; $1.6 billion to construct up to 7,000 re-entry facility beds in coordination with local government inmates nearing their parole date; $1 billion for expansion of health care facilities in conjunction with federal court mandates; and $117 million to address additional funding needs to complete the construction of a new secure facility for San Quentin's condemned population.

Sentencing and Parole

With the release of the prison bond proposal, the Governor announced his intention to create a Sentencing Commission. According the Administration, "California's current sentencing structure 'determinate sentencing' has been ineffective for three decades." The purpose of the Commission would be to act as a statutorily established advisor to the Legislature. Similar to the functions of the

standing policy committees, the Commission would provide the Legislature with analyses of bills and act as a clearinghouse and research arm with regard to sentencing policy.

According to proposed urgency bill language, the first order of business for the Commission is to produce a report, by July 1, 2007, provide recommendations regarding the state's patrol system, including the length of parole, and which persons should serve a period of parole. In congruence, the Administration also proposed dramatically changing California system of parole, in order to create a saving of $56.7 million.

The newly proposed Sentencing Commission will make a determination regarding which inmates will be directly discharged from prison versus serving a parole term. Currently, California requires all released inmates to serve a parole term. Moreover, the Administration also seeks to provide low level offender with an automatic discharge for parole supervision if they have twelve months of "Clean Time," as well as eliminate the 90 day court order diagnostic evaluations.

In regards to the $1.6 billion bond proposal to construction re-entry facility beds, the Administration has yet to provide relevant data concerning the population these facilities would serve or the programmatic aspect of re-entry. In addition to the actual success rate of directly charged inmate's that seemingly are excluded from the re-entry facility.

Juvenile Population Realignment

Included in the Governor's reform packet is a proposal for the Division of Juvenile Justice (DJJ) that seeks to determine where juvenile offenders would be best served during rehabilitation. Concluding the rehabilitative efforts are assisted by close physical proximity to services and familial support, the Administration has introduced a proposal to reduce DJJ institutional population by 1,338 offenders by June 30, 2008. With a project of 2,630 youthful offenders by June 30, 2007, DJJ intends to narrow the scope of their intake, by no longer accepting female offenders, certain parole violators and non-violent male offenders under 21 years of age. In addition, the Administration also intends to begin shift segments of the current population to local facilities – 119 female offenders and 726 non-violent males – for a total estimated savings of $32.9 million.

However, despite the resources provided in the Governor's strategic growth plan and the proposed $53 million block grant, there is no certainty that local capacity exist to service the variety of needs of this population, including, but not limited to, mental health and drug treatment. Conversely, the Administration did remove the budget year funding for the Juvenile Justice Challenge grant, but the department is moving forward with the $10 million provided in the current year.

Other Key Provisions

- **Adult Probation.** The Governor's budget proposes $50 million to support the Adult Probation Accountability and Rehabilitation Act. The purpose of the Act is to support local probation departments in an effort to reduce crime through improvement rehabilitative services and increase supervision for offenders ages 18-25.

- **Sex Offenders.** The Governor's budget proposes $45.6 million and six positions to implement the recommendations of the High Risk Sex Offender Task Force, which includes complete implementation of the nationally recognized Containment Model, which provide systematic management of sex offenders through comprehensive treatment.

- **Sex Offenders.** The Governor's budget proposes $77.3 million and 311.2 positions for the implementation of Jessica's law throughout the Department, Institutions, Parole and Board of Parole Hearings

- **Coleman.** The Governor's budget proposes $50.6 million for salary increases for mental health professions within the department in accordance with a federal court order in the case of *Coleman v. Schwarzenegger.*

- **Perez.** The Governor's budget proposes a total of $78.7 million for increases in dental staff and salary for dental health professionals within the department in accordance with a federal court order in the case of *Perez v. Tilton.*

GAMBLING CONTROL COMMISSION

The California Gambling Control Commission, under the Gambling Control Act has jurisdiction over the operation, concentration, and supervision of gambling establishments, and over all persons or things having to do with the operations of gambling establishments in the State of California. There are approximately 100 cardrooms and 55 tribal casinos in current operation.

The Governor's budget proposes $136.9 million and 62.7 positions. This reflects a decrease $5.6 million from the revised 2006-07 budget.

Key Provision

- **Tribal Gaming Compacts.** The Governor proposes $500 million in new revenues to the General Fund for five tribal-state gaming compacts that

have not been ratified by the Legislature. The five tribes have existing tribal gaming operations and have negotiated amended compacts with the Administration: Agua Caliente Band of Cahuilla Indians, Pechanga Band of Luiseno Mission Indians, San Manuel Band of Mission Indians, Morongo Band of Cahuilla Mission Indians, and Sycuan Band of Diegueno Mission Indians. The amended compacts would add 22,500 new gaming devices in California.

OFFICE OF EMERGENCY SERVICES

The principal objective 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. Additionally, the Office of Homeland Security is responsible for the development and coordination of a comprehensive state strategy related to terrorism that includes prevention, preparedness, and response and recovery.

The Governor's budget proposes $1.3 billion ($184.8 million from the General Fund) and 563.4 positions. This reflects a decrease of $1.1 million and 42.8 positions from the revised 2006-07 budget.

Major Provisions

Antiterrorism Fund

Chapter 38 of the statutes of 2002 created the Antiterrorism fund in conjunction with the California Memorial Scholarship Program. Revenue for the Antiterrorism Fund is derived from the sale of memorial licenses plates issued by the Department of Motor Vehicles. Eighty-five percent of the license plate proceeds are deposited into the Antiterrorism fund, of which half will be allocated to OES and half is available to other agencies for the purpose of funding antiterrorism activities. The estimated beginning fiscal year balance is $5.9 million, with estimated budget year revenue of $1.3 million. To date, the fund has yet to be expended.

During the 2006 budget cycle, the Administration proposed amending the original intent of the Antiterrorism Fund, by dedicating all its resources to support security efforts for mass transit. The Administration proposed utilizing fund to establish the California Mass Transportation Security Program to provide grants to local rail transit and bus operators for regional preparedness. However, the Legislature rejected the Administration's proposal because request activities overlapped with available federal resources and the limited available funding would not have greatly impacted the needs of mass transit.

This year the Governor proposes to utilize the Antiterrorism Fund to establish the California Port Security Grant Program. The purpose of the grant, totaling $5 million, is to assist ports in preparing for, responding to and militating against acts of terrorism by implementing transportation worker identification credentialing program. The funds would be distributed between the state's eleven ports.

Other Key Provisions

- **Response and Recovery.** The Governor's budget proposes $1.2 million ($608,000 General Fund) and 14 positions to re-establish a Southern California Recovery Branch unit to complete backlogged disaster recovery activity and add additional staff at headquarters to address ongoing disaster recovery activity.

- **Forensic Science.** The Governor's budget proposes $910,000 (Federal Trust Fund) to provide local assistance in compliance with the federal Paul Coverdell Forensic Science Improvement Act grant. The intent of the grant is to improve the quality and timeliness of forensic science.

- **Victims of Crime.** The Governor's budget proposes $3.1 million (Federal Trust Fund) to provide local assistance in compliance with federal Victims of Crime Act funds.

- **Public/Private Partnerships.** The Governor's budget proposes the creation of the Disaster Resistant Communities Account, which will allow the Office to accept and appropriation private monetary contributions.

THE 2007-08 STATE BUDGET

Transportation

DEPARTMENT OF TRANSPORTATION (CALTRANS)

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.

The Governor's budget proposes $12.8 billion, including $1.6 billion from the General Fund. This reflects an increase of $1.5 billion from the revised current year budget, due primarily to the implementation of Proposition 1B.

Major Provisions

Proposition 42

Proposition 42 was approved by California voters in March 2002 and requires General Fund revenue from the sales tax on gasoline is to be transferred from the General Fund to the Transportation Investment Fund (TIF). The Governor's proposed budget includes a transfer of $1.6 billion for the budget year. This amount includes an $83 million repayment of Proposition 42 funds that were suspended in prior years and are now required to be repaid pursuant to Proposition 1A, passed by the voters in 2006.

The Proposition 42 revenues are allocated as follows:

- $678 million for the Traffic Congestion Relief Fund (TCRF), which provides funding for 141 specified projects;
- Forty percent of the remaining amount is divided among the State Transportation Improvement Program (STIP);
- Twenty percent to the Public Transportation Account (PTA), half of which goes to state transit assistance for local agencies; and
- Forty percent to cities and counties for street and road maintenance.

Beginning with the 2008-09 budget year, no funds will go to the TCRF, and instead the entire amount will be allocated pursuant to the percentages listed above.

For the budget year, the $1.6 billion transfer is proposed to provide $684 million to the TCRF, $699 million for the STIP, and $175 million for the PTA. Local streets and road do not receive an allocation for 2007-08. This is the result of local governments receiving their share from State Highway Account funds in 2002-03 and 2003-04 when there was not a General Fund transfer. Therefore, funds that would otherwise go to local governments in 2006-07 and 2007-08 will instead go to the STIP.

Public Transportation Account General Fund Offset

The Governor's proposed budget includes a fund shift of $1.1 billion of General Fund expenditures to the Public Transportation Account (PTA). Of this amount, $617 million consists of PTA spillover revenues. The General Fund savings is achieved by shifting the following to the PTA:

- $627 million for Home-to-School Transportation.
- $144 million to the Developmental Services for Regional Center Transportation.
- $340 million to repay General Obligation Bond Debt Service.

The Governor's official Budget Summary states that both the Home to School Transportation and the Regional Center Transportation would continue to be funded from the PTA in future years, with any shortfall due to PTA revenues not being sufficient to be made up with General Funds. Subsequent documents from the Administration indicate only the Home-to-School Transportation would continue being a PTA funded program in future years.

The Governor's proposal will reduce what would otherwise be available for local transit operations by about $309 million. In addition, the PTA fund balance available to deliver STIP projects would be reduced. While this may not cause cash flow problems in the short term, it ultimately does mean there is less funds available for transit capital projects.

As mentioned above, $617 million of the $1.1 billion fund shift come from PTA spillover revenues and the Governor's proposal is to permanently shift the spillover revenues to cover current General Fund obligations. The spillover is the amount of funds that would otherwise go the General Fund (now Proposition 42) but instead are transferred to the PTA when specific conditions are met. Generally, these conditions occurs when the rate of sales taxes collected from the sale of gasoline exceeds the rate collected or the rest of goods sold in the state.

The spillover dates back to the early 1970s when a portion of General Fund sales taxes was shifted to local governments for transportation purposes and gasoline was then added to the sales tax base to backfill the General Fund for the transfer. The spillover mechanism is designed to keep the General Fund from receiving a windfall from the changes when gas prices are higher relative to the rest of goods sold in the state.

While the spillover has been suspended in the past with the funds then flowing to the General Fund, it is generally understood at this point that doing so would not benefit the General Fund's bottom line, instead the funds would become subject to the allocation formula of Proposition 42. As a result, the Governor – beginning with the last May Revision and continuing with this budget proposal – has found alternative ways to shift the spillover revenues that ultimately benefit the bottom line of the General Fund.

Proposition 1B Bond

In November 2006, the voters approved Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Act of 2006. The bond provides a total of $19.9 billion for transportation infrastructure investments. The following chart identifies the allocation of the bond.

Congestion Reduction, Highway and Local Road Improvements	(in millions)
♦ Corridor Mobility	$4,500
♦ State Transportation Improvement Program (STIP)	2,000
♦ Local Roads	2,000
♦ Highway 99	1,000
♦ State-Local Partnership	1,000
♦ State Highway Operations and Protection Program (SHOPP)	750
Sub-total	***$11,250***
Transit	
♦ Local Transit	$3,600
♦ Intercity Rail	400
Sub-total	***$4,000***
Goods Movement and Air Quality	
♦ Trade Corridors	$2,000
♦ Air Quality	1,000
♦ School Bus Retrofit	200
Sub-total	***$3,200***
Safety and Security	
♦ Transit Security	$1,000
♦ Grade Separation	250
♦ Local Bridges	125
♦ Port Security	100
Sub-total	***$1,475***
Total	**$19,925**

Unlike parts of the other bonds approved in November that have continuous appropriations, all of the transportation bonds revenues need to be appropriated by the Legislature.

The Governor's proposed budget appropriates a total of $7.7 billion to be expended over the next three fiscal years. In drafting the Proposition 1B, the Legislature specifically required appropriation of the funds by the Legislature in order to preserve Legislative control and oversight. If approved, the Legislature would give up that control over the subsequent two fiscal years by calling for a three year appropriation in the 2007-08 budget.

In addition, the Governor proposes $523 million of Proposition 1B funds for expenditure in the current year. The funds would go primarily for the State Transportation Improvement Program (STIP) ($262 million), the State Highway Operation and Protection Program (SHOPP) ($141 million), and Corridor Mobility ($100). STIP and SHOPP expenditures could be expedited without urgency legislation so long as there are clear assurances the appropriation would

ultimately be provided in the Budget Act. Corridor Mobility spending could not occur with urgency legislation in the current year.

The following chart specifies the Governor's proposal for Proposition 1B funds:

(in millions)	2006-07	2007-08	2008-09	2009-10	Total
Congestion Reduction, Highway and Local Road Improvements					
♦ Corridor Mobility	$100	$317	$712	$1090	$2,219
♦ STIP	262	340	287	408	1,297
♦ Local Roads	-	600	300	150	1,050
♦ Highway 99	-	28	44	99	171
♦ State-Local Partnership	-	170	166	166	502
♦ SHOPP	141	403	102	13	659
Transit					
♦ Local Transit	-	600	350	350	3,600
Goods Movement and Air Quality					
♦ Trade Corridors	15	170	255	255	2,000
♦ Air Quality	-	-	-	-	1,000
♦ School Bus Retrofit	-	97			97
Safety and Security					
♦ Grade Separation		55	60	59	250
♦ Local Bridges	5	9	13	17	125
Total	**$523**	**$2,789**	**$2,289**	**$2,607**	**$8,203**

Other Key Provisions

- **Tribal Gaming Bonds.** The Governor's proposed budget assumes that the Tribal Gaming bond will not be sold in either the current year or the budget year. As a result, the state will instead receive the annual $100 million contribution in each year and this will be used to repay Traffic Congestion Relief Fund loans to the General Fund in 2001-02 and 2002-03. The repayment is used to repay secondary loans to the State Highway Account (SHA) and the PTA. For the budget year, the Governor proposes the $100 million be repaid to the SHA and used for pavement rehabilitation projects in the SHOPP and Maintenance Program.

- **State Transportation Improvement Program (STIP).** The Governor's proposed budget supports the full programming capacity of the 2006 STIP of $5.6 billion. In addition, as discussed above, the Governor's proposes $262 million in the current year and $340 in the budget year from Proposition 1B bond revenues for the STIP.

- **State Highway Operation and Protection Program (SHOPP).** The Governor's proposed budget includes $1.8 billion for the SHOPP, which is the budget year portion of the $12.9 billion 2006 Fund Estimate. The SHOPP is comprised of projects that reduce collisions and hazards to motorists, preserve bridges and roadways, enhance and protect roadsides, and improve the operation of the state highway system.

- **Maintenance Funding.** The Governor's proposed budget includes $1.2 billion for maintenance of highways, right of ways, and state bridges, as well as to inspect local bridges. This includes an $85 million increase from SHA revenues that would otherwise be transferred to the PTA.

- **Capital Outlay Support.** The Governor's May Revision will contain the proposed staffing for capital outlay support. The Administration annually waits until May to make to proposal to better reflect the project support needs.

STATE TRANSIT ASSISTANCE

State Transit Assistance (STA) provides the budget for the State Transportation Assistance program, which provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation programs.

The Governor's budget proposes $784.7 million for STA. This includes $184.7 million for the traditional STA purposes, a decrease of $439 million for the current year. The remaining $600 million is Proposition 1B funds for capital projects.

Key Provisions

- **Reduced Funding for STA.** As mentioned above, The Governor's budget proposes a decrease of $439 million for traditional STA purposes in the budget year. This reduction is the result of several factors:

  First, the current year budget contained a significant increase for STA due to the repayment of Proposition 42 funds ($110 million) and the allocation of PTA spillover revenues to STA ($248 million). For the budget year, Proposition 42 repayments are not as significant, and the Governor proposes to divert all PTA spillover revenues to offset General Fund obligations (as discussed under the Caltrans section). The proposed PTA spillover diversion reduces STA funding by $309 million in the budget year.

  Second, the current year budget for STA was based on overly high gasoline price projections, which resulted in STA receiving $102 million

more than it otherwise would. To offset this over appropriation, the Governor's budget proposes to reduce the budget year appropriation by the same amount so that over the two years, STA receives the accurate appropriation. Alternatively, the Legislature could pass legislation to clarify the current year appropriation and then budget the accurate budget year amount in the budget.

If STA were to receive the additional $102 million reduced to offset the current year over appropriation and the $309 million from the PTA spillover, the budget for traditional STA purposes would be $595 million – rather than the budgeted $184 million.

- **Proposition 1B Bond Funds.** The Governor's proposed budget includes $600 million from Proposition 1B bond funds for STA for transit capital expenditures. This is part of a $1.3 billion appropriation the Governor proposes to be available over a three year period. In addition, the Governor proposes trailer bill language to establish Transportation Commission oversight of the capital projects.

CALIFORNIA TRANSPORTATION COMMISSION

The California Transportation Commission (CTC) advises and assists the Administration and the Legislature in formulating and evaluating State policies, plans and funding for California's transportation programs.

The Governor's budget proposes $5.7 million, an increase of about $300,000 from revises current year funding.

HIGH SPEED RAIL AUTHORITY

The High Speed Rail Authority (HSRA) is charged with planning the development and implementation of an intercity high-speed rail service. The Governor's proposed budget includes $1.2 million for the HSRA.

Funding for the development and construction of the system would come from a General Obligation Bond that the Legislature has approved for the ballot. However, the Legislature has also twice delayed the vote on the bond and it is now scheduled for the November 2008 ballot. The Governor now proposes to defer the bond vote indefinitely in order to provide debt capacity for his additional bond proposals.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol (CHP) is the state's largest law enforcement agency. It patrols over 105,000 miles of state highways and county roads, ensures the safe operation of commercial trucks through inspection at weigh stations, and protects state facilities and the people who work and conduct business in them.

The Governor's budget proposes $1.8 billion, an increase of $150.1 million above revised current year funding.

Key Provisions

- **Staffing Increase.** The Governor's budget proposes an increase of $17.5 million for 50 additional uniformed CHP officers and 40 support positions. This proposal is in addition to the 240 uniformed officers and 70 support positions approved in the current year and are being phased in over the current and budget years. The significant proposed growth in CHP personnel is the result of the state's rapid growth in population, in the licensed drivers, and in the development of new communities.

- **Enhanced Radio System.** The Governor's budget proposes $51.4 million for the second of a five-year project to enhance and replace obsolete components of the CHP radio system. The entire replacement is projected to cost $504 million over five years.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. The Department is currently reviewing its methods of providing services to the public and developing alternatives to visiting the field offices.

The Governor's budget proposes $902.9 million, (Special Funds), an increase of $19.2 million from the revised current year budget.

Key Provisions

- **Real ID Act.** The Governor's budget does not propose any new funding to implement the Real ID Act due to delays in the development of the federal regulations. The Administration does anticipate requesting additional funding this spring, once the federal regulations are complete.

- **Information Technology Modernization.** The Governor's budget proposes $24 million to continue the process of replacing the DMV's antiquated mainframe systems with commercially available software. The total cost of the replacement is expected to be $242 million over seven years.