January 31, 2006

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2006-2007 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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BUDGET COMMITTEE STAFF

CHRIS WOODS ..... CHIEF CONSULTANT

SANDY PEREZ ..... COMMITTEE ASSISTANT
BRANCH STRICKLAND ..... COMMITTEE ASSISTANT

LEONOR EHLING ..... K-12 EDUCATION
CELIA MATA ..... HIGHER EDUCATION
DAN RABOVSKY ..... GENERAL GOVERNMENT, LOCAL GOVERNMENT, AND TAXES
ADAM DONDRO ..... GENERAL GOVERNMENT
JANUS NORMAN ..... PUBLIC SAFETY AND GENERAL GOVERNMENT
CHRISTIAN GRIFFITH ..... HUMAN SERVICES
MICHAEL DIMMITT ..... HEALTH SERVICES
KEALII BRIGHT ..... NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION
CHRIS WOODS ..... TRANSPORTATION

THE 2006-2007 STATE BUDGET

Overview

On Tuesday, January 10, 2006, Governor Schwarzenegger unveiled his proposed budget for the 2006-07.

The Governor's budget is now in the hands of the Legislature to review, analyze, debate, revise, and return to the Governor. Assembly Bill 1800 (Laird) and Senate Bill 1129 (Chesbro) 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.

Overall, the Governor's budget proposes expenditures of $125.6 billion for 2006-07. Of this amount, $97.9 billion is from the General Fund, an increase of $7.6 billion from revised current year spending totals. The budget projects available General Fund resources for fiscal year 2006-07 to be $98.6 billion, including a starting balance of $7 billion, and revenues and transfers of $91.6 billion. The Governor's proposed budget projects a final reserve of $153 million.

Major Features of the Governor's Proposed Budget

- **No General Tax Increases.** The Governor's proposed budget does not include any new general tax increase or tax cuts. However, the Governor does propose to extend the suspension of the Teacher Tax Credit and the Yacht Tax Credit, generating an additional $245 million for the budget year.

- **Proposition 98 Overappropriation.** The Governor's proposed budget overappropriates Proposition 98 by $1.7 billion, but does not restore any of the funds for the 2004-05 or the 2005-06 budget years that were not provided in violation of the education agreement struck by the Governor and the education community.

- **Student Fee Buyout.** The Governor's proposed budget includes funds to "buyout" a scheduled fee increase for the University of California and the California State University.

- **Seeks Deeper Cuts from the Aged and Disabled.** Despite record revenue growth, the Governor's proposed budget includes deeper cuts to the aged and disabled by proposing further delays in SSI/SSP COLAs.

- **Additional Funding for Healthcare Enrollment of Children.** The Governor's proposed budget includes funds to help enroll more children in

healthcare programs, but does not propose to expand enrollment eligibility.

- **Fully Funds Proposition 42.** The Governor's proposed budget includes $1.4 billion for full funding of Proposition 42 and also proposes to repay $920 million of a transportation loan a year earlier than scheduled.

- **Economic Recovery Bonds and the Budget Stabilization Account.** The Governor's proposed budget does not include the use of any of the remaining $3.7 billion of Economic Recovery Bonds, and does include the first transfer of $920 million (one percent of General Fund revenues) to the Budget Stabilization Account, as established with the passage of Proposition 58. Under the terms of Proposition 58, $460 million of the transfer will be used to pay down the Economic Recovery Bond debt.

- **General Fund Reserve of 0.16**%. The Governor's proposed budget includes only $153 million in the reserve for economic uncertainties. If General Fund spending were divided equally throughout the year, the reserve level would provide for only about 14 hours of General Fund spending.

  To provide some additional funds in the reserve, the Governor requests authority to transfer funds from the Budget Stabilization Account (BSA) to the reserve for economic uncertainties if needed during the budget year. The BSA was established by the voters in Proposition 58 for the purpose of building a deep reserve of the greater of $8 billion or five percent of General Fund resources to assist the state budget during downswings in California's volatile revenue streams. Under the Governor's proposal, $460 million could be used during the budget year and then not be available during the next economic downturn.

- **Increasing Operating Deficits**. While the Governor's proposed budget is balanced for the 2006-07 budget year, it is only the case because of a large prior year balance of $7 billion. Proposed expenditures for the budget year actually exceed revenues, resulting in an operating deficit of $6.4 billion. This large operating deficit exists even though revenues for the budget year have increased by over $2.7 billion from what was projected with the enactment of the Budget Act of 2005.

  In the Legislative Analyst's Fiscal Outlook, from November 2005, the operating deficit was projected to be about $4 billion for 2006-07 and slightly higher in 2007-08. The operating deficit would then begin to drop significantly to where there would be a very minor operating deficit in 2010-11.

  Under the Governor's proposal, even with higher revenue projections than used by the Legislative Analyst, the operating deficit is significantly higher.

The operating deficit grows from $6.4 billion in 2006-07 and 2007-08 to $9.7 billion in 2008-09. The deficit then drops slightly to $8.6 billion.

- **General Fund Risks.** The Governor's proposed budget faces General Fund risks of around $1 billion that are not accounted for in the budget projections, according to the Legislative Analyst's Overview of the Governor's Budget. The risks include the *Guillen* case, which is related to CalWORKS and would increase General Fund costs by $460 million if the state loses on appeal, local mandate costs for the 2004-05 and 2005-06 budget years, which could increase General Fund costs by $140 million; loss of federal funds; and the budget does not include any increases related to new collective bargaining agreements that must be reached with 18 units.

- **Statewide Savings.** The Governor's proposed budget includes an unallocated reduction of $150 million and a $58 million reduction in spending by holding positions vacant. The unallocated reduction is split between $50 million for 2005-06 and $100 million for 2006-07. These amounts are in addition to the $100 million in on-going unallocated cuts approved in the Budget Act of 2005.

Summary of Charts

General Fund Summary
(in millions)

	2005-06	2006-07
Prior Year Balance	**$9,634**	**$7,031**
Revenues and Transfers	$77,904	$91,545
Total Resources Available	**$97,325**	**$98,576**
Non-Proposition 98 Expenditures	$53,983	$57,446
Proposition 98 Expenditures	$36,311	$40,456
Total Expenditures	**$90,294**	**$97,902**
Fund Balance	**$7,031**	**$674**
Reserve for Liquidation of Encumbrances	$521	$521
Special Fund for Economic Uncertainties	$6,510	$153
Budget Stabilization Account		**$460**
Total Available Reserve		**$613**

Annual Operating Deficit
(in millions)

2005-06	2006-07	2007-08	2008-09	2009-10
-$2,603	-$6,357	-$6,381	-$9,694	-$8,649

General Fund Revenue Sources
(in millions)

Source	2005-06 (July '05 projection)	2006-07 (Jan. '06 projection)	Difference
Personal Income Tax	$43,231	$48,716	$5485
Sales Tax	26,951	28,295	1344
Corporation Tax	8,822	10,024	1202
Insurance Tax	2,300	2,340	40
Tobacco Taxes	116	118	2
Liquor Tax	315	316	1
Tobacco Bond Refi	525	--	-525
Other	2,211	1,736	-475
Total	**$84,471**	**$91,545**	**$7,074**

General Fund Expenditure
(in millions)

Category	2005-06 (July '05 projection)	2005-06 (Jan. '06 projection)	2006-07 (Jan. '06 projection)
Education (K-12)	$36,583	$36,058	$39,881
Health and Human Services	27,115	27,260	28,473
Higher Education	10,217	10,158	11,223
Business, Transportation and Housing	1,702	1,714	2,719
Legislative, Judicial, Executive	3,057	3,147	3,382
General Government	1,845	2,166	1,910
Youth and Adult Corrections	7,422	7,658	8,081
Resources	1,356	1,388	1,530
Environmental Protection	79	78	71
State and Consumer Services	562	578	540
Labor and Workforce Development	88	89	92
Total	**$90,026**	**$90,294**	**$97,902**

THE 2006-2007 STATE BUDGET

K-12 Education

DEPARTMENT OF EDUCATION

Major Provisions

Total funding for K-12 education

The Governor's budget proposes a total funding increase of $4.1 billion for K-12 education, including all funds. This proposed increase, and the corresponding fund resources, are summarized in Figure 1below.

Figure 1: Governor's Proposed 2006-07 Budget: Total K-12 Funding (dollars in millions)

Fund Source	2005-06 (revised)	2006-07	Change from 2005-06 revised Amount	Percent
General Fund	$36,072	$40,014	$3,942	10.9%
Local Property Taxes	12,092	12,224	132	1.1
Lottery Funds	1,022	1,022	0	0
Other State Funds	125	146	21	16.8
Federal Funds	7,456	7,469	13	0.2
Local Debt Service Taxes	1,500	1,500	0	0
Local Miscellaneous	3,855	3,855	0	0
Total Funds	**$62,122**	**$66,230**	**$4,108**	**6.6%**
Total Funds per pupil[1]	**$10,336**	**$10,996**	**$660**	**6.4%**

[1]Per-pupil funding is estimated using K-12 average daily attendance from the LAO of 6,010,454 for 2005-06 and 6,023,040 for 2006-07.

Overall Proposition 98 funding

The Governor's proposed budget provides a total increase of $4.3 billion in Proposition 98 funding for K-12 schools and community colleges over the revised funding level in last year's budget. The proposed increase is an 8.67 percent increase over the revised Proposition 98 amount provided in last year's budget for K-12 schools and community colleges. According to the Governor's estimates, this funding level is $1.7 billion more than the amount required to meet

the funding requirements for education for fiscal year 2006-07 (see below for more information about over-appropriation.) This total increase is split between K-12 education and community colleges, as follows, and is detailed in Figure 1, below:

- **Increase to K-12 education:** The budget proposes a $3.7 billion increase in Proposition 98 funding for K-12 education. (The composition of this increase is detailed below in Figure 2.)

- **Increase to community colleges:** The budget proposes a $606 million increase in Proposition 98 funding for community colleges. The proposed total Proposition 98 funding level for community colleges is 10.79% of total Proposition 98 funding. More details on this funding are contained in the section on Higher Education.

Figure 2: Proposed Proposition 98 Appropriations (dollars in millions)
(Figures may not add, due to rounding)

	2005-06 revised	2006-07	Change from 2005-06 revised	
			Amount	Percent
K-12 Proposition 98 (Department of Education)	$44,627	$48,356	$3,729	8.36%
Community colleges	$5,242	$5,848	$606	11.56%
Other agencies	$117	$113	-$3	-$2.72%
Total Proposition 98	**$49,986**	**$54,318**	**$4,332**	**8.67%**
General Fund	$36,311	$40,455	$4,145	11.41%
Property tax revenues	$13,675	$13,862	$187	1.37%
K-12 Prop. 98 funding per-pupil[1]	$7,425	$8,029	$604	8.13%

[1]Per-pupil funding is estimated using K-12 average daily attendance from the LAO of 6,010,454 for 2005-06 and 6,023,040 for 2006-07.

- **Current-year overappropriation.** The administration estimates that the Proposition 98 funding level for the current year (2005-06) is over-appropriated by $264 million, and this additional spending increases the 2006-07 minimum Proposition 98 requirement by a similar amount. This over-appropriation counts towards the maintenance factor (see the bullet below for more information).

- **Budget-year overappropriation.** The Governor's 2006-07 proposed Proposition 98 spending level overappropriates the minimum 2006-07 Proposition 98 guarantee by an estimated $1.7 billion. This does not include the $426 million automatic appropriation required to implement the Proposition 49 after school initiative. The administration considers the $426 million Proposition 49 augmentation as a separate adjustment to the base Proposition 98 funding level, on top of the minimum 2006-07 guarantee that would be calculated absent Proposition 49.

- **Outstanding maintenance factor debt.** The maintenance factor is the amount the state owes to school districts as a result of the state's suspension of the Proposition 98 minimum guarantee during the 2004-05 budget. The Proposition 98 formula includes a provision for gradually paying this off by including payments in the minimum funding calculation in Test 2 years, when the growth in General Fund revenues exceeds growth in per-capita personal income. When the state over-appropriates the minimum guarantee, the over-appropriation also counts toward the maintenance factor payments. The administration estimates the maintenance factor at approximately $3.7 billion at the beginning of 2006-07 (prior to any payments during 2006-07). The minimum 2006-07 guarantee requires a payment of about $300 million of this balance. The administration then counts its $1.7 billion proposed over-appropriation and the $426 million automatic Proposition 49 payment towards the maintenance factor, for a total repayment of $2.4 billion, leaving $1.3 billion left in as outstanding maintenance factor. There is concern that very little, if any, of the $426 million in Proposition 49 funding can be spent in the 2006-07 fiscal year, and many in the education community believe that the $426 million should not count toward the state's payment of the maintenance factor owed to schools (see Proposition 49, below). If the $426 million is excluded from the administration's maintenance factor calculation, the Governor's proposed education budget pays off $2 billion of the estimated $3.7 billion maintenance factor, leaving $1.7 billion left to be paid in future years.

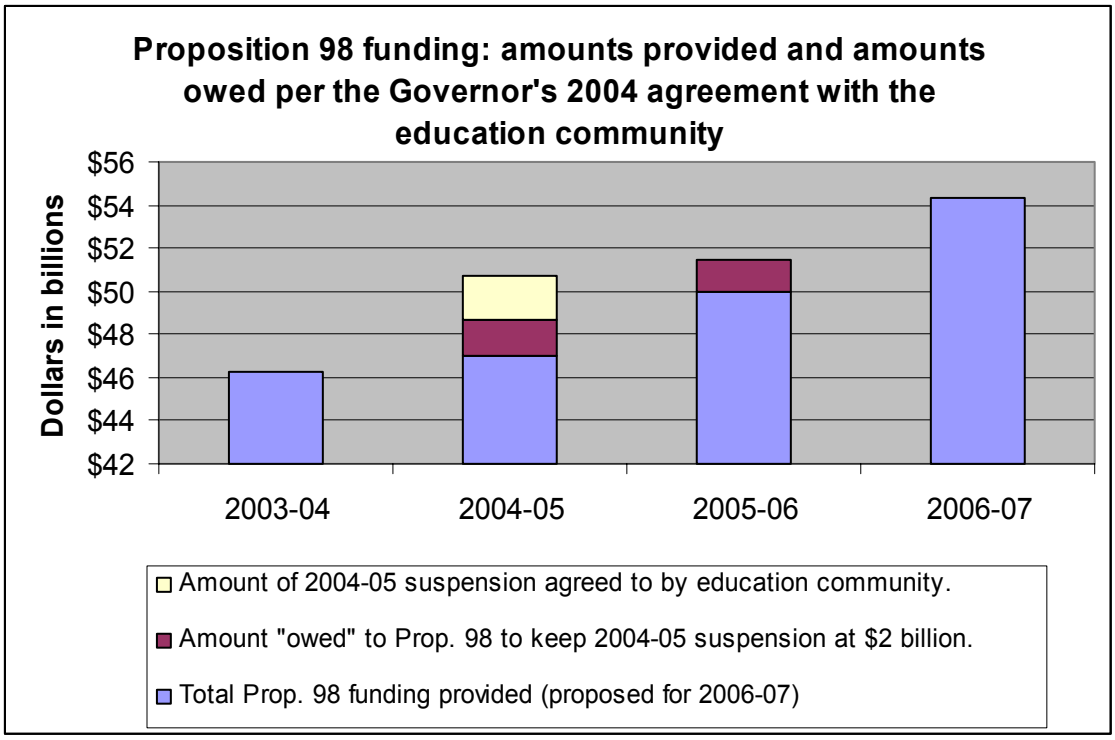
- **The 2004-05 agreement.** During the 2004-05 budget year, education advocates struck an agreement with Governor Schwarzenegger, the intent of which was to ensure a modest funding level for education while also capturing $2 billion in savings to help the state address its fiscal problems. (The Legislature was not a formal party to that agreement.) That agreement allowed for a historic suspension of the state's minimum spending requirement to education, which is allowed under times of fiscal distress under the provisions of Proposition 98. That suspension of Proposition 98 allowed the state to spend $2 billion less than the amount normally required to be spent on education in fiscal year 2004-05, thereby saving the state $2 billion, and helping solve its fiscal problems. (Even though the state spent $2 billion less than the Proposition 98 guarantee for

the 2004-05 year, it was still able to provide growth and COLA for education programs, plus additional education funding.)

The $2 billion estimated underfunding or suspension of the Proposition 98 minimum guarantee was based on estimates of General Fund revenue when the 2004-05 budget was enacted. However General Fund revenues grew faster than earlier estimated, thereby increasing the minimum required spending level on education (Proposition 98 guarantee) for fiscal year 2004-05 by $1.7 billion. This increase in the 2004-05 minimum funding level increased the amount of the suspension to $3.7 billion, up from the original $2 billion estimate when the 2004-05 budget was passed.[1] Education advocates argue that the suspension amount for 2004-05 (the gap between fiscal year 2004-05 education funding and the fiscal year 2004-05 Proposition 98 minimum guarantee) was not supposed to exceed $2 billion, and thereby argue that the state should have increased spending by $1.7 billion for fiscal year 2004-05, to reduce the suspension amount back down to $2 billion.

Since the state suspended its obligation to fund the minimum Proposition 98 spending level during the 2004-05 fiscal year, technically it is not obligated to pass on the $1.7 billion increase in the suspension amount. However, to meet the terms of the agreement between the Governor and education advocates to limit the suspension to $2 billion, the state would have needed to provide a $1.7 billion increase in Proposition 98 funding for the 2004-05 fiscal year. The value of the $1.7 billion for 2004-05 translates to another $1.5 billion for the 2005-06 fiscal year. Because the ultimate budgets for both those years did not include these amounts, the agreement was unfunded by $3.2 billion over the 2004-5 and 2005-6 years. For the 2006-07 year, the Governor's proposed over-appropriation of the minimum funding level would bring spending up to close to where it might be had the state spent an additional $1.7 billion in 2004-05 to maintain the suspension level at $2 billion, so the state would owe no additional funding for the 2006-07 fiscal year to comply with the original 2004 agreement. This phenomenon is illustrated below.

[1] Actually, when the 2004-05 budget was passed, the gap between education spending and the 2004-05 Proposition 98 guarantee was $2.3 billion, but when the Governor signed the budget he indicated that the amount above $2 billion ($300 million) would be earmarked for future education spending as a Proposition 98 reserve.



- **Breakdown of K-12 increase; most for increase in discretionary funding.** Much of the proposed $3.7 billion increase in Proposition 98 funding goes to a $2.7 billion increase in discretionary funding. The $2.7 billion increase in discretionary funding is made up of: $2.3 billion for COLA, $205 million for deficit factor reduction and $200 million for revenue limit equalization. The remaining $1 billion of the $3.7 billion increase is from new programs or increases to existing programs. Figure 3 below details how the $3.7 increase in Proposition 98 funding for K-12 is distributed.

Figure 3: Distribution of $3.7 billion increase in K-12 Proposition 98 funding (Amounts in Millions)

K-12 Expenditure Above 2005-06 Base Funding Level	
COLA for K-12 programs[1]	$2,283
Growth for K-12 programs	156
Deficit Factor Reduction (increase to revenue limits)[1]	205
Equalization (increase to revenue limits)[1]	200
Proposition 49 automatic appropriation	426
Mandates (2006-07 costs)	133
Physical Fitness Initiatives	85
Art, Music Block Grant for Elementary Schools	100
Teacher Recruitment Incentives for Low-Performing Schools	100
Beginning Teacher Support and Assistance – adds a third year	65
Education Technology block grants	25
High School Exit Exam Preparation	20
Fruits and Vegetables for Breakfast[2]	18
Various technical adjustments, other changes	-87
Total Proposition 98 increase above 2005-06 spending level	**$3,729**

[1]Part of the overall $2.7 billion increase in discretionary funding.
[2]Last year's funding level of $18.2 million was funded with one-time funds (Proposition 98 Reversion Account funds). The Governor proposes to fund the program this year with ongoing funds.

Growth and COLA

The Governor's proposed budget fully funds growth and COLA for K-12 programs.

- **Growth.** The administration proposes approximately $156 million for statutory enrollment growth for apportionments and categorical programs: $67 million for revenue limit apportionment growth, and approximately $89 million for growth in categorical programs. It estimates growth in average daily attendance at 0.21%.

- **COLA.** The administration proposes $2.3 billion to pay for a 5.18% cost-of-living adjustment. The cost of providing this COLA rate to revenue limits is $1.7 billion, and the cost for categorical programs is $594 million. This COLA rate is higher than the COLA rate in previous budgets, and will provide a significant source of discretionary funds for school districts, to help allay increasing costs, such as increased benefits costs for existing employees (eg., escalating health care premiums).

Increases to revenue limits (discretionary funds)

The Governor's budget includes a total increase of $405 million for permanent upward adjustments to school districts' and county offices of education's revenue limits, which are the rates used to determine the amount of discretionary funds (apportionments) that they receive. These increases take two forms. The first type of increase (deficit reduction) is distributed on an equal percentage basis to each school district and county office. The second type (revenue limit equalization) is distributed unequally, based on districts' distance from a target equalization rate.

- **Revenue limit deficit reduction/paying off debt from 2003-04 COLA denial**. The Governor proposes $205 million to increase the base revenue limits of school districts and county offices of education. This increase partially restores a COLA to revenue limits that was denied in the 2003-04 fiscal year, due to budget constraints. Last year's budget included $406 million for this purpose, and the 2004-05 budget included an increase of $270 million for this payment. The LAO estimates that if the Governor's proposal is adopted, the remaining debt (deficit factor) would be approximately $100 million. This funding is distributed on an equal percentage basis to each district and county office of education. The Governor also proposes a corresponding increase of $1.1 million to basic aid districts, to eliminate a deduction that was first levied in 2003-04 on basic aid districts to mimic the denial of the revenue limit COLA of the same year (since basic aid districts do not receive apportionments from the state). This increase in discretionary funding corresponds to a portion of the pre-budget deal the Education Coalition made with the Governor two years ago. That deal specified that first priority for any funds above growth and COLA should go toward restoring the cuts that were levied in fiscal year 2003-04.

- **Revenue limit equalization.** The Governor proposes $200 million for adjustments to revenue limits. Unlike deficit reduction, the amount of these permanent adjustments would differ from district to district. While some districts would receive large permanent increases, others would receive smaller or no permanent increases. The differences are based a formula that takes districts' revenue limits, deducts historic "add-on's," and then measures the distance from the new base and a "target" revenue limit, by size and type of district. The targets are different, depending on districts' size and type. Targets are determined by dividing up districts into groups of small and large elementary, unified and high school districts, and then finding a revenue limit under which fall districts that make up 90% of the average daily attendance of districts in that category. The formula under which the Governor is proposing to distribute the $200 million is contained in AB 441 (Simitian), Chapter 155 of 2001. To date,

the state provided $40 million for equalization under the AB 441 formula, during the 2001-02 budget, and $110 million during the 2004-05 budget. As part of the last appropriation for equalization in the 2004-05 budget, the education trailer bill (Chapter 216, Statutes of 2004) contained language expressing intent that future equalization appropriations use a formula different than that contained in AB 441: "It is the intent of the Legislature and the Governor that the equalization formulas in Sections 42239.44 and 42238.46 of the Education Code not be deemed to be a precedent for the distribution to school districts of additional equalization funding in any fiscal year subsequent to the 2004-05 fiscal year." This language stemmed from controversy over whether the AB 441 formula was really equalizing because of a) the formula's exclusion of revenue limit add-on's, b) the fact that the targets differed substantially by size and type of district, and c) concern that the AB 441 formula only attempts to equalize part of the apportionment equation. The apportionment formula is as follows:

District's average daily attendance X district's revenue limit = District's apportionment.

Not all districts have the same average daily attendance, or the same ability to maximum student attendance, so while the AB 441 formula attempts to equalize one factor in the equation, it does nothing to equalize the other factor.

Mandate funding

- **Paying ongoing costs.** The Governor's budget proposes that $133 million of the $4.3 billion increase in ongoing Proposition 98 funding go to pay for K-12 mandate costs incurred during the 2006-07 year. This is a departure from recent budgets, in which the state deferred the ongoing costs of mandates. The $133 million is expected to fall short of the full 2006-07 cost of mandate claims, and to address this possibility, the administration includes control language instructing the Controller to prorate payments proportionately between the various mandates. The administration also proposes to suspend the following four mandates, consistent with the Legislature's decision to suspend these same mandates in recent budgets: School Crimes Reporting II, School Bus Safety I and II, Law Enforcement Sexual Harassment Training, County Treasury Withdrawals, and Grand Jury Proceedings.

- **Prior-year costs.** The Governor's budget proposes a total of approximately $152 million in one-time funding to pay off prior-year mandate claims for K-12. The $152 million is made up of a combination of $133 million in settle-up money appropriated for the 2006-07 year in

Chapter 216 of 2004[2], plus $18.7 million in Proposition 98 reversion account funding proposed in the 2006 budget. Because these payments reimburse districts for prior-year costs, they serve as a source of one-time discretionary funds for districts.

- **Outstanding debt.** In its 2005-06 California Spending Plan concluded at the end of last year's budget cycle, the LAO estimated that the state owed approximately $1.46 billion to K-12 school districts and community college districts for prior-year mandate claims. This debt has accrued in recent budgets, as the state deferred the ongoing costs of K-14 mandate claims due to budget shortfalls. The administration has a lower estimate of the total debt, due to some discrepancy over claims for mandates that are being reconsidered the Commission on State Mandates.

Governor's New Initiatives

The Governor proposes that $413 million of the $3.7 billion increase for K-12 go toward the creation of new initiatives or the continuation or expansion of initiatives that were initiated just last year. A list of these programs and the amounts proposed for them is contained in Figure 4 below. A further description of each is contained below Figure 4.

Figure 4: Governor's New Initiatives:
Amounts proposed in 2006-07 budget

New Initiatives	Amount Proposed ($ in millions)
Arts, Music Block Grant for Elementary Schools	$100
Physical Education Block Grant	60
Physical Education Teacher Recruitment Incentives	25
Beginning Teacher Support and Assistance – expand a third year	65
Education Technology block grants	25
Sub-Total	**$275**
Continuation of Programs begun in last year's budget[1]	
Teacher Recruitment Incentives for Low-Performing Schools	100
Fruits and Vegetables for Breakfast	18
High School Exit Exam Preparation	20

[2] Chapter 216 of 2004 appropriated $150 million a year, beginning in 2006-07, to pay off amounts the state owes to meet the re-calculated minimum Proposition 98 guarantee for prior years. That bill specified that the appropriations be used to pay off prior-year mandate claims for K-12 and community colleges. Last year's budget made $16.8 million in early payments on the 2006-07 $150 million appropriation.

Sub-Total	**$138**
Total: New Initiatives and Continuation of Last Year's New Initiatives	**$413**

[1]In addition to the above programs, the Governor proposes to expand the career-technical education program that was initiated last year, at $20 million. The Governor proposes to expand this program by an additional $30 million this year, for a total of $50 million. This appropriation affects K-12 schools, but goes to the community college budget, and for that reason is not included in the above chart.

- **Arts and Music Block Grant for grades K-8**. The Governor proposes $100 million in ongoing Proposition 98 funding for a new block grant to support standards-aligned art and music instruction. Funding would go to school districts, charter schools and county offices of education serving grades K-8. Funding would be distributed at a rate of $20 per pupil, with a minimum of $3,000 per schoolsite for schoolsites of ten or fewer students, and a minimum of $5,000 per schoolsite for schoolsites of more than ten students. Receiving schools can spend the funding on any of the following: 1) hiring additional staff, 2) purchasing new materials, books, supplies or equipment, 3) implementing or increasing staff development, as necessary to support standards-aligned arts and music instruction.

- **Physical Education Block Grant**. The Governor proposes $60 million for a new block grant to increase physical activity and implement a comprehensive standards-based physical education programs in grades kindergarten through eight. Minimum grants would be $3,000 per site for schoolsites with 10 or fewer students, and $5,000 per site for schoolsites with more than 10 students but less than 421 students. Schools with more than 420 students would then receive an additional amount per-pupil, depending on the amount of funding available after providing minimum grants. Receiving schools could use the funding for purposes relating to support physical education programs, including but not limited to: hiring staff, providing standards-aligned professional development, reducing class size, purchasing equipment, and developing or purchasing standards-aligned curriculum. The administration has indicated that it intends to introduce broad physical education legislation, which would implement this proposal as well as eliminate the current exemption from physical education for students 16 and over.

- **Physical Education Teacher Recruitment Incentives**. The Governor proposes $25 million for new incentive grants to 1,000 elementary, middle or junior high schools, to support the hiring of more credentialed physical education teachers. Funding would be distributed to 1000 schools in the amount of $25,000 per schoolsite, and would require a local match of equal value. Charter schools as well as non-charter elementary, middle and junior high schools would be eligible for funding. Funding could only be used to hire additional credentialed physical education teachers. The selection of schools to receive funding would be based on a random selection or qualified applicants, with some assurance that the funding be

equitably distributed based on type of school, size and geographic location. The administration has indicated that it intends to introduce legislation to implement this and the above proposal.

- **Beginning Teacher Support and Assistance**. The Governor proposes a $65 million increase to the Teacher Credentialing Block Grant. The first priority for these funds would be to pay for a year of mandatory support to third-year holders or preliminary teaching credentials teaching at the lowest-performing 30 percent of schools. Funding would be provided at a rate of $3,865 per teacher. The year of mandatory support would be through the Beginning Teacher Support and Assessment System, which an emphasis on issues such as diagnostic assessments, differentiated instruction, classroom management, and parental involvement. Second priority for the funding would be to provide optional training for teachers who are beyond their third year of teaching but are in their first year of teaching in one of the lowest-performing 30% of schools. The content of the training would be similar to the training provided for the first priority teachers. Funding for these second-priority teachers would be provided at a rate of $1,933 per teacher.

- **Education Technology Block Grants**. The Governor proposes $25 million for a new Digital Classroom Grant Program to implement, support and advance the effective use of information technology to improve instruction and academic achievement. Grants would be one-time in nature, and would be based on an allocation of $3,000 per classroom, based on the number of classrooms in schools that receive the grant. The Department of Education would randomly select school districts and charter schools from lists of small and large elementary, high school and unified districts within each of 11 California Technology Assistance Project regions. Once districts and charters are selected, those schools within the district or charter designed as having highest priority to receive grants would receive the one-time funding. Receiving districts and charter schools would be allowed to use the funding for any one-time expenditures, including, but not limited to, purchase of computer hardware or software, or professional development for teachers and principals on the use of classroom technology. In future years, schools not yet funded would receive the grants, until all schools have received the one-time grants. The administration has indicated that it intends to introduce legislation to implement this proposal.

- **Teacher Recruitment Incentives for Low-Performing Schools** – The Governor proposes $100 million to continue and expand a block grant program that was initiated just last year. Last year, in the May Revise, the administration proposed a new program to provide merit pay to teachers with students who show marked increases in test scores. The Legislature rejected the merit-pay concept, due to concerns about the

implementation problems and the equity problems inherent in such a proposal. However, as part of budget negotiations, the Legislature approved up to $46.5 million[3] in one-time funds for block grants to the lowest performing 30 percent of schools, to be used on any purpose related to improving the educational culture and environment at those schools. As of the date of publication of this document, California Department of Education (CDE) had not distributed this funding to qualified applicants. This year, the Governor proposes to continue the $46.5 million provided last year, and add $53.5 million to that amount, for a total of $100 million in ongoing funds. Each qualified district or charter school would receive $50 per pupil in the qualifying school, with a minimum of $5,000 per qualified schoolsite. The Governor lists the following possible uses for the money, although the uses are not limited to the following:

- Assuring a safe, clean school environment for teaching and learning.
- Forgiveness of student loans for teachers and principals.
- Activities, including differential compensation, focused on the recruitment and retention of highly qualified teachers.
- Payment of signing bonuses to teachers and principals.
- Payment of recognition pay to teachers and principals.
- Monetary assistance for housing and relocation costs to teachers and principals.
- Training for human resource professionals in effective recruitment and retention practices.
- Professional development and leadership training for teachers and principals.
- Activities, including differential compensation, focused on the recruitment and retention of highly qualified principals.

- **Fruits and Vegetables for Breakfast.** The Governor proposes $18.2 million in ongoing funding to continue a program initiated last year to include more canned and fresh fruits and vegetables in subsidized school breakfasts. The California Fresh Start Pilot Program was created by Chapter 236, Statutes of 2005, (SB 281 (Maldonado)) of last year. It allows school districts and charter schools to apply for an additional reimbursement of $0.10 per meal, to supplement funding they receive through the state and federal School Breakfast Programs. Receiving districts must spend at least 90 percent of the funding for the direct purchase of nutritious fruits and vegetables, which may be canned or fresh, but may not be juice or deep-fried. Receiving districts must also agree to serve one or two servings of fruits or vegetables at breakfast, and include tasting and sampling as part of nutrition education. Last year's

[3] Depending on the availability of funds in the Proposition 98 Reversion Account, which contains unused funds from prior year Proposition 98 appropriations.

proposal was funded with one-time funds, and this year's proposed amount would continue the program as the same level as last year, but with ongoing money. As of the date of publication, CDE had not distributed the $18.2 million in one-time funding provided in last year's budget for the program.

- **High School Exit Exam Preparation.** The Governor's budget proposes to continue and expand a program initiated last year to help students pass the California High School Exit Exam (CAHSEE). See below.

California High School Exit Exam Preparation

- **Governor's proposed augmentation.** The Governor proposes an augmentation of $20 million for a program that was created last year to help students pass the CAHSEE. Last year's budget funded this program at $20 million, so the proposed augmentation would mean a total of $40 million for the program. The Governor also proposes that $5 million of the proposed $40 million be set aside for alternative schools such as continuation, juvenile court, community day and adult education schools. Figure 5 below contains a comparison of last year's and this year's proposal. In addition to the above funding, the budget contains $177 million for a long-standing supplemental instruction program for students in grades 7-12 who "do not demonstrate sufficient progress toward passing the CAHSEE." Under this program, districts receive reimbursements of $3.87 per hour of supplemental instruction provided for these students. The proposed funding level for this program is consistent with funding levels in previous years, and is adjusted for growth and COLA.

Figure 5: CAHSEE Preparation Program:
Comparison of 2005-06 funding vs. 2006-07 proposal

	2005-06	***Proposed* for 2006-07**
Total amount provided, proposed	$20 million	$40 million
Amount provided per qualified pupil (non-special education students	$600 per non-special education pupil	$631 per non-special education pupil[1] (2005-06 rate adjusted for inflation)
Special set-asides	None	Sets aside $5 million of the proposed $40 million for small alternative schools that serve high-risk students
Estimated number of	Total = 33,333 non-	Total = 63,391non-special

students served with available funding	special education students in all high schools	education students 55,467 in comprehensive high schools 7,924 in alternative schools

[1]Special education students were funded through a different funding source – see "Funding for special education students" below.

- **Program detail.** The program proposed for expansion by the Governor provides funding to schools to provide intensive instruction and supplemental services that are designed to help students who have failed one or both parts of the CAHSEE be successful in passing. Intensive instruction and services may include, but are not limited, all of the following:

  - Individual or small group instruction.
  - The hiring of additional teachers.
  - Purchasing, scoring and reviewing diagnostic assessments.
  - Counseling.
  - Designing instruction to meet the specific needs of eligible students.
  - Appropriate teacher training to meet the needs of eligible students.

  Per AB 128 (Budget Committee), Chapter 234, that was approved last year to implement last year's $20 million appropriation, the CDE is supposed to rank schools based on their percentage of eligible students that have failed both parts of the exam, and then provide funding to schools at the rate of $600 per pupil, beginning with the highest ranked school and working down the list until the funding is exhausted.

- **Funding for special education students.** For the 2005-06 fiscal year, special education students were not included in the definition of "eligible students" for purposes of distributing the $20 million. However, the budget provided $52.6 million in special education funding to special education local planning areas on a one-time basis, with language specifying that the highest priority for the use of the funds is to provide intensive instruction and services to special education students who have failed one or both parts of the exam but must pass in order to receive a diploma in 2006. The administration indicates that it intends to continue this bifurcation of funding for the 2006-07 fiscal year, and it continues the $52.6 million in special education funding, on a one-time basis, with language allowing, but not requiring the Special Education Local Planning Area's (SELPA) to use the funds for CAHSEE services for special education students.

- **Class of 2006 first to have to pass CAHSEE.** The requirement that high school students pass the CAHSEE in order to receive a diploma will take

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.

- **Passage rates.** According to a September 30, 2005 report commissioned by the CDE, 78 percent of students in the class of 2006 had passed the CAHSEE by the end of their junior year. However, passage rates vary by group, as summarized in Figure 6 below. In general, passage rates are much lower for special education students, English learners and economically disadvantaged students. Students in the class of 2006 that have not passed both parts of the CAHSEE yet, have five more chances to pass the exam during their senior year: a September, November, February, March and May administrations. It is unclear what the passage rate was during the September and November administrations for the estimated 98,000 students in the class of 2006 that hadn't passed the exam at the end of their junior year.

Figure 6: HumRRO's[1] estimated passing rates for the class of 2006 after 11th grade

	Passed both	Passed English Language Arts portion only	Passed Math portion only	Passed neither portion
All students	78%	6%	5%	10%
Economically disadvantaged	66%	8%	9%	17%
English learners	51%	8%	16%	25%
Special education	35%	13%	10%	42%

[1]Human Resources Research Organization

Source: *Independent Evaluation of the California High School Exit Exam: 2005 Evaluation Report, September 30, 2005, p. 85*

Closing the Achievement Gap -- Accountability and Testing Programs

The administration proposes to continue a number of programs that serve low-performing schools and schools that have been identified for Program Improvement under the *No Child Left Behind Act*. Information on these programs, as well as additional information on the achievement gap, is detailed below.

- **State-funded programs: funding for HP program.** The Governor proposes a total funding level of $243 million for the High Priority Schools Grant Program, which provides grants of $400 per pupil to the lowest-performing 20 percent of districts. This is an increase of $4.7 million over the funding provided in last year's budget. This total includes $201 million for a new cohort of schools to apply and begin the program. Last year's budget included a similar overall level of funding for the HP program, but included $60 million for new schools to enter the program. However, the expenditure of the $60 million was contingent upon legislation, which was not enacted at the end of last year's session. The administration proposes to scoop up this $60 million in one-time unused funding, and spend it through the Proposition 98 Reversion Account (See Proposition 98 funding, above). The Governor also proposes $6 million for corrective action for non-Title I schools working with School Assistance and Intervention Teams or non-Title I schools subject to state and federal sanctions after participating in the Immediate Intervention/ Underperforming Schools Program (II/USP).

- **Phase-out of II/USP.** The Governor proposed budget also reflects the phase out of the II/USP program, with funding only for those schools that are under sanctions after completing the II/USP program. The II/USP is also a school assistance program, but was created before the High Priority Schools Grant Program, and provided grants of $200 per pupil to the lowest-performing 50 percent of schools.

- **NCLB/ Federal funding for Program Improvement Schools.** The Governor's budget proposes $69.2 million in funding to assist Title I schools and districts identified for Program Improvement to improve their performance. This is the same level of funding approved last year for this purpose. Current law allows states to set aside up to 4 percent of their total Title I grant for program to assist schools and districts that are identified for "Program Improvement." Under the federal *No Child Left Behind Act of 2001*, all states must map out an ultimate performance level that they will expect all students to meet in 10 years. States then must define "adequate yearly progress" toward that goal, and schools and districts that do not make adequate yearly progress toward that goal two years in a row are labeled "program improvement." The "program

improvement" status triggers a number of requirements and sanctions on the school and district, which are detailed in the Figure 7 below. To exit this status, program improvement schools must make adequate yearly progress two years in a row. For schools and districts already identified as "program improvement," each year of failure to meet adequate yearly progress results in more sanctions, and exit from the program becomes more difficult. According to information on the CDE's website, at the end of the 2005-06 year, a total of 1748 schools were program improvement: 397 in year 1 status, 540 in year 2 status, 407 in year 3 status, 156 in year 4 status, and 248 in year 5 status. At the same time there were 151 districts or county offices identified for program improvement, all in year 1 of that status.

Figure 7: Sanctions related to years a school is in Program Improvement

(Year 1 of program improvement is after a school has failed to meet adequate yearly progress two years in a row. In order to exit program improvement status, a school must meet adequate yearly progress two years in a row.)

Sanction	Year 1	Year 2	Year 3	Year 4	Year 5
District must notify school's parents of program improvement status	√	√	√	√	√
District must offer parents option to transfer children to another school and pay for transportation costs.	√	√	√	√	√
School must revise its school improvement plan.	√	√	√	√	√
School must set aside 10% of its Title I grant for professional development.	√	√	√	√	√
District must offer supplemental services (tutoring) to school's children and pay for it with Title I funds. District must use state-approved vendor for the tutoring.		√	√	√	√
District must do at least one of the following **corrective actions**: ▪ Replace school staff ▪ Impose new curriculum ▪ Decrease school's management authority. ▪ Appoint outside expert to advise the school. ▪ Increase amount of instructional time.			√	√	√
District must do one of the following things to **restructure the school**: Yr 4 is planning				√	√

▪ Replace staff. ▪ Reopen school as charter. ▪ Hire outside agency to operate school. ▪ Have the state manage the school.					

- **PPIC report on high standards and resource adequacy.** A recent study by the Public Policy Institute of California examined the achievement gap between low-income children and moderate-to-high-income children. It also examined the budgets of 49 schools across the state and surveyed staff to gauge their opinions on standards and resource adequacy. The report points out that California's standards envision its students achieving better than 70 percent of students in the rest of the nation. To quote a research brief on the report, School Resources and Academic Standards in California: Lessons from the Schoolhouse,

  > A financial analysis …tends to confirm past findings that although the goals California has set for student achievement are high, the resources being provided to meet those goals are not.

  The report also summarized responses from administrators and teachers, who stated that they felt the need for more resources to meet the state's high standards. Administrators stated they would use extra funds for additional time for teacher professional development and collaboration time to work on the best ways to achieve standards. Teachers stated they needed more staff for counseling, health services and English-language support.

- **PPIC report's findings on closing the achievement gap.** The same study highlighted the challenges that schools with high numbers of poor children have in meeting the state's standards, and suggests the need for more resources for these schools. To quote the report again,

  > The strong link between student poverty and low academic achievement suggests that schools with many low-income students may need more resources to reach the state's academic performance goals.

  In its examination of the budgets of the 49 schools, it found that while high-poverty schools received more state and federal categorical funds to address the achievement gap, those additional funds were more than offset at the high-poverty schools by lower expenditure rates of general purpose funds that go to all schools, and that the lower expenditures were the result of a) lower experience levels among teachers at the high-poverty schools, and b) larger class sizes at the high-poverty schools. This suggests that while high-poverty schools receive additional funds in some areas to help them address the achievement gap, they also receive fewer resources in other areas. This evidence, as well as the increased

pressure under the federal *No Child Left Behind Act* for the state to improve performance at all schools, suggests the need for additional resources to be targeted to these high-poverty schools.

Federal Funds

- **Reductions in most education programs.** Federal funds for K-12 education are expected to be on the decline for 2006-07, compared to 2005-06. This is in stark contrast to recent years, in which education programs received substantial increases. In December Congress passed the education appropriations bill, which the President signed on December 30. The final appropriations bill for education included a one percent across-the-board cut for many programs, with many programs receiving cuts of greater than one percent.[4] The only major programs that received reductions of less than one percent or increases were: Title I, special education, and Title III (English learners)[5]. Title I and special education both received reductions of less than one percent, which is still significant, given their size and the substantial increases of the past several years. Title III funding appears to be the only major program to receive an increase, at a little over 3 percent nationally. The appropriations bill also included reductions of more then one percent for some programs, and even eliminated funding for a few programs. Figure 8 below summarizes the national appropriations levels for federal K-12 education programs.

- **Impact on California.** California may experience a decline in the federal funding it receives from the federal government, as a result of the federal cuts. However, the extent of any reductions to California is unclear, due to the fact that some of the federal funds are distributed to states based on complicated formulas, and others are provided to states on a grant basis.

Figure 8: Federal funding: estimated reductions at the national level (dollars in millions)

Federal Program	Funding level in 2005 federal budget	Funding level in 2006 federal budget	Percentage difference in federal funding, compared to 2005 federal level
Title I	$12,740	$12,713	- 0.21%
Special education	$11,674	$11,653	- 0.18%

[4] As of the end of January, pieces of the federal budget were still not concluded. In particular, Congress was still set to consider the 2005 Budget Reconciliation Act. It is unclear how this act will affect federal funding for K-12 education.

[5] "Major program" is defined here as having a federal appropriation level of more than $200 million.

Reading First	$ 1,042	$ 1,029	- 1.19%
Even Start	$ 225	$ 99	- 56.02%
Comprehensive School Reform Demonstration Grants	$ 205	$ 8	- 96.14%
Improving Teacher Quality State Grants (Title II)	$ 2,917	$ 2,887	- 1.00%
Language Acquisition (Title III)	$ 676	$ 699	3.44%
Educational Technology State Grants	$ 496	$ 272	- 45.11%
State Assessments (Title VI)	$ 412	$ 408	- 1.00%
Safe and Drug Free Schools State Grant	$ 437	$ 347	- 20.78%
21st Century Community Learning Centers (after school programs)	$ 991	$ 981	- 1.00%
State Grants for Innovative Programs	$ 198	$ 99	- 50.10%
Charter Schools	$ 217	$ 215	- 1.00%
Adult Education	$ 570	$ 564	- 1.00%
Vocational Education	$ 1,194	$ 1,182	- 1.00%

- **Federal carryover proposal for Program Improvement Schools.** The Governor proposes to use $82 million in federal one-time carryover funds for a proposal to improve low-performing schools. The proposed budget bill proposes that the funds be available on a one-time basis to increase the capacity of schools and district identified as program improvement under the federal *No Child Left Behind Act* to assist their students in attaining academic proficiency. CDE would have to submit an expenditure plan and have it approved by the Department of Finance, before the funds could be expended. Also, the proposed budget contains language specifying that migrant education funds would have to be expended by locals in a manner consistent with federal requirements and existing plans for migrant education funds, which are agreed to by districts and regional migrant education centers.

  This proposal is similar to one that was introduced by the Governor in last year's May Revise but was later rejected by the Legislature. The Legislature rejected last year's proposal due to concerns about the fact that the funding would be re-directed away from existing federal programs,

such as migrant education, and the possible impact that could have on programs. Also, there were sufficient questions about:

- how the proposal would work,
- how the funding could be spent,
- whether an infusion of one-time funds would really help program improvement schools with their ongoing strategies to improve student performance, and
- whether the federal government would permit the redirection of funds away from long-standing federal programs.

Figure 9: Federal carryover funds contained in Governor's Program Improvement Proposal

Federal Program	Amount of carryover
Title I basic program	$24.3 million
Title I set-aside for school improvement	$22.3 million
Comprehensive School Reform Demonstration Grants	$16.2 million
Migrant Education	$19.2 million
Total	**$82 million**

Proposition 49 After School Program

As approved by voters in 2002, Proposition 49 requires the State to provide substantially more funding for the After School Education and Safety (ASES) program. When certain General Fund revenue conditions are met, the proposition triggers an automatic increase in state funding for the program—from the $122 million provided in 2003-04 to $550 million (a $428 million increase). These additional funds will be "on top of" the state's Proposition 98 minimum funding guarantee. Proposition 49 also converted after school funding to a "continuous appropriation" (that is, no annual legislative action is needed to appropriate funds). The Governor's proposed budget assumes that Proposition 49 is implemented in the budget year.

The state faces several significant challenges that must be addressed in order to fully implement the program in the budget year. Without these changes, it is very likely that a significant percentage of the additional funding provided by Proposition 49 will go unspent in the budget year.

- **Existing After School Programs Have Significant Unspent Funding Balances.** The State operates after school programs using federal 21st Century funding that mirrors the requirements of the State ASES program. A significant portion of the funding for this program has gone unspent.

21st Century Program Spending			
(Dollars in Millions)			
	2002-03	**2003-04**	**2004-05**
State appropriation	$40.9	$75.5	$162.8
Spending (estimate)	$17.1	$41.3	$119.8
Percent spent	42%	55%	74%

Advocates for after school programs suggest that the state's policies of awarding grants and attendance-based reimbursement combined with a low $5 per day reimbursement rate has resulted in the large amount of unspent funding in the program. Although the state made some changes to the 21st Century program last year to improve the ability of contractors to earn their funding, it is likely that the state will again have large unspent balances for both the 21st Century and ASES programs in the current year

- **Local Match Requirements Are Significant**. ASES requires local programs to provide at least a 50 percent match. While the program allows in-kind expenditures to count towards the local share, it is likely that local districts may not have planned for this program and may not be able to participate in first year or two of the program's implementation. There is some concern that some of the poorer parts of the state may face significant challenges in providing the matching funds and will not be able to participate in the program.

- **California Department of Education (CDE) Has Not Provided Staff to Implement Program.** Current state administrative staffing seems inadequate to administer the existing scope of the two after school programs. Advocates and contractors for after school programs complain of long delays in receiving payments and often payments are made without supporting documentation so that local districts can't post the funds to the correct program. The handful of staff currently at CDE struggle to meet the work-intensive requirements of the attendance-based reimbursement system.

  In order to implement Proposition 49 on July 1, 2006, the CDE will need to begin the application process during the spring of 2006 for an expected 4,000 new applications. The Governor's Budget provides nine positions for the program that would be established in July, but given the normal delays of the state's hiring process they would not be hired until the fall of 2006. The critical delay in providing resources to CDE means that CDE may lack the capacity to implement the program under the timeframes envisioned by the Administration. In addition, the rushed timeframe and

lack of personnel could lead to inconsistencies and errors in the awarding of grants for the new ASES programs.

The Governor's proposed budget only includes half of the administrative staff positions for Proposition 49 requested by CDE. CDE requested an additional nine positions that were not included in the budget. When the new positions contained in the budget are finally hired, they still may have difficulty handling the expected workload associated with implementing Proposition 49. This could further undermine the ability of CDE to implement and administer the program effectively.

- **Proposed Language to Change Program Not Provided.** Although the Administration has publicly committed to begin the Request For Proposal (RFP) process in March, it has also suggested that it will be making program changes in the near future. The Assembly has not received any proposed statutory changes to ASES necessary to implement Proposition 49. CDE will have problems sending out the RFP if it cannot outline the parameters of the program. Potential grantees also cannot make good decisions about participating in the program in 2006-07 if program rules have not been clearly spelled out before the RFP is issued. The Assembly will also need time to review potential policy changes to ASES, which may further delay the RFP process and potentially delay the program's start date.

- **ASES Program Structure Undermines Implementation.** Recent changes to the federal 21st Century after school program included increasing the reimbursement rate from $5 to $7.50 for each child per day, increasing school and district caps for the program, and allowing grantees to retain 15 percent of their grant for administration and start-up. These changes are designed to increase the number of children served by each grantee and reduce that amount of unexpended funds for the program. The ASES program also changed last year to allow for 15 percent start-up funding, but it did not adopt the other program changes made to 21st Century. ASES grantees will have difficulty fully utilizing their grants unless the other additional program changes are made to the reimbursement rate and the school-site and district enrollment caps.

  Both programs also have cumbersome attendance verification requirements that make the program difficult to operate and administer. The current system requires grantees to verify daily attendance in order to be reimbursed for after school provided. The payment claims for the existing programs result in over 4,000 pages of spreadsheets containing information that must be reviewed to justify payment for after school provided by grantees each quarter. The process of reviewing these claims and processing payments can take over 270 days.

- **Local Programs Will Need Time To Build Capacity**. Proposition 49 more than triples total program funding for after school funding within a short timeframe. The program is currently run through both school sites and non-profit community based organization. In many districts across the state, potential grantees need time to plan new program and secure physical space for their operation. Given the expectations that grantees will apply in the spring of 2006, many districts may not be ready to participate in the first year of the program. As a result, the utilization of the program may be lower in the first year.

- **Proposition 49 Funding Cannot Be Used For Start-Up Costs.** Proposition 49 funding rules are very restrictive and prevent the use of funding for capitol and start up costs necessary to create a new program. For many districts this lack of start up funding may prevent them from participating in the program.

Special Education

- **Growth and COLA, one-time funds.** The Governor proposes $168.1 million for growth and COLA for special education ($6.5 million for growth and $161.6 million for COLA). He also proposes to continue $52.6 million in one-time discretionary funding to SELPA's that was initiated last year. Last year's funding was also provided as a one-time increase above growth and COLA, and was accompanied by control language that the highest priority for the use of the funds is to provide intensive instruction and services to special education students who have failed one or both parts of the California High School Exit Exam but must pass in order to receive a diploma in 2006. The Governor continues the $52.6 million on a one-time basis, and includes language to allow, but not require, SELPA's to use the one-time funding to provide CAHSEE assistance to special education students. The proposed budget does not appear to contain any major changes for special education. It contains funding for the new licensed children's institutions funding formula at roughly the same level as last year, at $185.7 million.

- **Federal funds.** As noted above, the federal budget reduced overall funding for special education. It is unclear how this will affect federal special education funding for California, but the administration indicates it has not reflected any estimated effects in the January budget. It will reflect any changes in later proposed adjustment to the budget, such as May Revise.

- **AB 3632.** The budget contains $50 million in non-Proposition 98 General Fund to counties to cover the budget-year costs for counties to provide mental health services to special education students for whom mental

health services are included in their individualized education plans. This is in contrast to last year's budget that contained $60 million to cover the 2005-06 costs of the mandate, as well as $60 million to partially pay down what the state owes counties for prior-year claims for this mandate. The administration also continues $69 million in federal special education funds to counties to help them pay for these costs. It similarly continues $31 million in Proposition 98 funds to SELPA's to provide pre-referral services to special education students who may need more intensive mental health services. Both of these amounts were provided in the 2004-05 and 2005-06 budgets as well. The administration proposes language specifying its intent that the $50 million to counties be a set-aside amount for a new categorical program to replace the existing mandate, and that this amount combined with the amount provided to education cover the 2006-07 costs of providing mental health services to these students. Last year during the May Revise, the administration proposed to suspend the county mandate, effectively shifting the responsibility for providing the services to school districts. The Legislature rejected the administration's proposal last year, and maintained the mandate.

- **Due process deficiency.** The budget proposes $4.5 million in non-Proposition 98 General Fund to cover unexpected contract costs to administer the statewide special education due process program, as required by federal law. Last year, the contract was transitioned from McGeorge School of Law to the Office of Administrative Hearings within the Department of General Services.

Funding to implement Williams lawsuit

The Governor's proposed budget includes $106.6 million in one-time Proposition 98 Reversion Account funds for the School Facilities Emergency Repair Account, pursuant to the terms of the Elizer Williams v. State of California lawsuit settlement of 2004. The settlement intended to ensure that students in low-performing schools have access to adequate teachers, instructional materials and facilities. The settlement requires that the greater of $100 million or half of all funds from the Proposition 98 Reversion Account, which contains prior-year Proposition 98 savings from education programs, must go toward the School Facilities Emergency Repair Program, until the state has appropriated a total of $800 million for the program. The program funds emergency repairs in low-performing schools. Last year's budget contained $196 million in Proposition 98 Reversion Account funding for this purpose. *However, to date, less than $1 million of this amount has been allocated to eligible school districts, suggesting that the proposed 2006-07 funding level is far too high.* The Governor's budget also proposes $10 million for county offices to conduct audits of low-performing schools' compliance with the settlement.

Charter Schools

The Governor proposes an increase of $36 million in funding for the charter school categorical block grant, which is intended to provide charter schools with an amount of categorical funding similar to what non-charter schools receive. This increase is intended to fund an increase in the funding rate, as required by Chapter 359, Statutes of 2005 (AB 740 (Huff)), which included reforms to the formula for calculating the categorical block grant. Two years ago, the Legislature suspended the original formula, after years in which there were discrepancies between advocates, the LAO and DOF, over the results of the formula. Last year's legislation attempted to create some transparency in the formula, by changing and clarifying categorical programs from which charter schools are prohibited from receiving funding. Last year's legislation also clarified the formula by creating a specific per-ADA rate. The legislation establishes targets for increasing the rate to $400 per charter school ADA in 2006-07, and to $500 per charter school ADA in 2007-08. For 2005-06, the charter school categorical block grant amount was approximately $267 per charter school ADA.

Other Key Provisions

- **Instructional materials**. The Governor's budget proposes a $20 million increase above growth and COLA for instructional materials, for a total of $402 million in funding. This increase is equivalent to the amount that the Legislature had approved in last year's budget for supplemental instructional materials targeted to the needs of English learners, which was vetoed by the Governor. In his January 10 budget, the Governor appears to convert the money intended for English learners into the regular instructional materials program, which districts may use only to purchase materials off the list approved by the State Board for purchase. In addition, the Governor's budget estimates lottery revenues to be up by $211.6 million. Districts must spend at least 50 percent of this increase on instructional materials.

- **High-Speed Network**. The Governor's budget proposes to not include funding for the high-speed network, which is a statewide high-speed optical fiber internet network for K-12 that is part of a larger network serving private and public universities. Last year the Governor proposed $21 million for this network, but the Legislature deleted the funding because of a) savings available from the prior year's $21 million appropriation, b) a pending JLAC audit pending on the cost-effectiveness of the system. The administration proposes language specifying that budget decisions for the program will be made pending the results of the JLAC audit.

- **Charter School Facilities Grant Program.** The Governor's budget proposes to continue the $9 million provided in last year's budget for this 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. The budget proposes to fund this amount with one-time Proposition 98 Reversion Account funding, like last year.

- **High School Coaches Training Program.** The Governor's budget proposes $500,000 for high school coaches training, pursuant to legislation passed last year, creating the program (Chapter 673, Statutes of 2005).

- **Chief Business Officer Training Program.** The Governor's budget proposes $1,050,000 for the purpose of funding the Chief Business Officer Training Program, pursuant to legislation passed last year, creating the program (Chapter 356, Statutes of 2005). The Governor proposed a similar amount in last year's budget, but the amount was rejected by the Legislature.

- **CSIS.** The Governor's budget proposes a $2.8 million increase to the California School Information Services Program (CSIS). CSIS was initiated several years ago to help school districts electronically transfer student records and complete statewide reporting requirements electronically.

- **CALPADS.** The budget proposes an increase of $940,000 to support one position and to begin the next phase of the California Longitudinal Pupil Achievement Data System (CALPADS). This system was initiated in 2002 to track individual student progress over time, in compliance with *No Child Left Behind* requirements. CALPADS is also expected to provide more accurate information on dropout rates.

THE 2006-07 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.

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 8 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 3 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 4 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 1 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 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 205,976 FTE students including undergraduate, graduate and professional students.

The UC's general budget includes a total of $20.0 billion. This amount includes all funds including funds from the U.S. 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 state General Fund. The Governor's budget proposes a total of $5.1 billion, of which $3.0 billion are General Fund. This amount reflects an increase of 7.4 percent in General Fund over the revised 2005-06 budget levels of $2.8 billion.

Major Provisions

Buy out of Student Fee Increases

Consistent with the Governor's Compact, the UC Board of Regents approved last November a systemwide educational fee increases of eight percent for undergraduate students, 10 percent for graduate students, and five percent for students in most professional degree programs.

The Governor's budget proposes to provide $75 million to buy out the approved fee increases for undergraduate, graduate and professional school students. If the Governor's proposal is approved by the Legislature, the 2006-07 fees will remain at the 2005-06 levels.
The following table compares 2005-06 undergraduate and graduate fee levels with the proposed 2006-07 levels:

UC MANDATORY SYSTEMWIDE STUDENT FEES (LAO)

(Charges for Full-Time Students)

	2005-06		2006-07 Governor's Budget		2006-07 Regents' Budget	
	Sytemwide	Total[1]	Systemwide	Total[2]	Systemwide	Total[2]
Resident						
Undergraduates	$6,141	$6,802	$6,141	$6,802	$6,633	$7,294
Graduates	6,897	8,708	6,897	8,708	7,587	9,398
Nonresident						
Undergraduates	23,961	24,622	24,825[3]	25,486	25,359	26,020
Graduates	21,858	23,669	21,858	23,669	22,572	24,383

[1]Total fees include a registration fee of $735 and an average campus-based fee of $628 for undergraduate students and $1,659 for graduate students.

[2]Total fees include a registration fee of $765 and an average campus-based fee of $661 for undergraduate students and $1,811 for graduate students.

[3]The Governor's budget shows a proposed increase of 5 percent in nonresident tuition for undergraduates.

Professional Schools Fees

In addition to the educational fee, the registration fee and campus-based fees, a separate fee for professional school students is assessed for students enrolled in specified professional school programs. In 2006-07, the average campus-based fees for professional school students will range from a low of $1,121 for Theater, Film and TV to a high of $4,026 for Veterinary Medicine.

In the Compact with the Governor, the UC agreed to develop a plan to achieve fee levels for professional school students that would take into consideration a number of factors including average fees at other comparative institutions, average cost of instruction and total cost of instruction among others. A multi-year plan for professional fee increases has yet to be developed by the University at this time. In absence of such plan, the Regents approved, as part of the 2006-07 budget, professional school fee increases of three percent for educational and registration fees and five percent for professional school fees for a combined total of an eight percent increase for most professional degree programs. At the November meeting, the Regents were also asked to approve a 10 percent increase, instead of a five percent increase in professional school fees, for the law and business students at Berkeley and UCLA and for the law students at Davis. The University claims that "disproportionate" budget cuts in

General Fund to law and business programs in the last few years are making it extremely difficult for these programs to remain competitive with their peer institutions without additional resources.

The following table compares 2005-06 resident and nonresident professional school fee levels with the proposed 2006-07 levels:

UC PROFESSIONAL SCHOOL FEES (UC Data)

(Systemwide Charges for Full-Time Students)

Resident	2005-06[2]		2006-07 Governor's Budget		2006-07 [3] Regents' Budget	
	Systemwide	Total[4]	Systemwide	Total[4]	Systemwide	Total[4]
Business/Mgt.	$21,913	$23,907	$22,440	$24,434	$23,844	$25,838
Law	22,341	24,149	23,036	24,843	24,983	26,790
Medicine	20,232	22,211	20,582	22,559	21,612	23,589
Dentistry	22,236	24,515	22,887	25,166	24,036	26,315
Veterinary Medicine	17,674	21,701	18,024	22,051	18,926	22,953
Optometry	16,132	17,675	16,684	18,227	17,519	19,062
Pharmacy	17,641	19,519	18,240	20,118	19,153	21,031
Theater, film, and TV	12,751	13,964	13,101	14,314	13,757	14,970
Nursing	9,941	11,556	10,360	11,975	10,879	12,494
Public Health	10,897	12,503	10,897	12,503	11,442	13,048
New Programs[1]	10,897	12,489	10,897	12,489	11,442	13,034
Nonresident						
Business/Mgt.	$33,482	$35,474	$33,830	$35,824	$35,156	$37,150
Law	34,159	35,967	34,840	36,648	36,743	38,551
Medicine	32,477	34,456	32,827	34,806	33,857	35,836
Dentistry	33,520	35,799	34,141	36,420	35,240	37,520
Veterinary medicine	29,919	33,946	30,269	34,296	31,171	35,198
Optometry	28,377	29,920	28,929	30,472	29,764	31,307
Pharmacy	29,886	31,764	30,485	32,363	31,398	33,276
Theater, film, and TV	24,996	26,209	25,346	26,559	25,652	26,685
Nursing	22,186	23,801	22,605	24,220	23,124	24,739
Public Health	23,142	24,748	23,142	24,748	23,711	25,317
New Programs[1]	24,409	25,015	23,409	25,015	23,978	25,584

1 Includes Public Policy and international relations and Pacific Studies.
2 Includes a 3 percent across-the-board increase and an additional 7 percent increase for specified degree programs.
3 Includes a 3 percent educational/registration fee and an additional 5 percent increase for most degree programs.
4 Total fees include Educational, Registration, professional schools and campus fees and nonresident tuition.

Under the Governor's proposed 2006-07 budget, the total fee revenue for the UC, including educational, registration and professional schools fees, will total $1.4 billion.

Master's Nursing Program

The Governor's proposed budget provides $1.7 million for the UC to continue funding the expansion of entry-level master's nursing programs.

Last year, the Legislature added $4 million to the 2005 budget to expand 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 in the current 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 segments will increase nursing enrollments by at least 130 students each over the 2005-06 level in 2006-07. The segments will also provide a report to the Governor and the Legislature on or before February 1, 2006 on the use of the funds in 2005-06. The first year of funding is to be used for one-time expenditures such as instructional equipment, classroom and laboratory renovations, curriculum development, and faculty recruitment.

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

In his budget, the Governor includes $180,000 for a new cohort of 12 students for the PRIME-LC program, which prepares medical students to serve in underserved areas of the state.

The PRIME-LC 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. The goal of the program is to improve health care delivery, research and policy in underserved Latino communities. For the current year, the state provided $451,000 for continued funding of the first cohort of eight students which enrolled in 2004 and were initially supported by a grant from the California Endowment. The current year funding also includes support for a second cohort of 12 additional students which enrolled in 2005.

Math and Science Initiative

The Governor's proposed budget includes $375,000 to continue to expand the Governor's Math and Science Initiative program to the remaining three campuses.

Last year the state provided $750,000 to establish six Science and Math Resource Centers on UC campuses. Under this initiative, the UC has committed to increase the number of graduate math and science teachers from the current level of 250 per year to 1,000 per year by 2010. According to the UC, other than state support and the UC matching funds, 20 California companies have initially contributed more than $4 million to this initiative.

As part of the 2004 Compact with the Governor, the UC and the CSU agreed to develop a major initiative to improve the supply and quality of science and math teachers in public schools. For 2005-06, both segments are launching a statewide effort under a new program called "California Teach". At the UC, this program is called "*One Thousand Teachers, One Million Minds*" and it is being launched at eight out of the nine general campuses. This program will provide every UC undergraduate majoring in science, mathematics and engineering the opportunity to complete their UC major and all coursework that will prepare them to be a highly qualified math and science secondary/middle school teacher within four years. In addition, the program will introduce undergraduates to the K-12 classroom as freshmen and sophomores through mentored classroom assistantships and seminars taught by UC faculty and K-12 "Master Teachers". Beginning the summer of 2007, the program will also provide intensive summer institutes where students will receive instruction in the latest pedagogy required to be a highly qualified teacher in their areas.

Math and Science Teacher Shortage. According to the Educational Demographic Unit at the California Department of Education, statewide teacher hires for 2005-06 include 2,057 math teachers and 2,078 Life and Physical Science teachers. Even if the UC and the CSU were to achieve their goal of producing 1,000 qualified math and science teachers per year by the year 2010, the state may continue to fall short of teachers in these areas.

No Reporting Requirement. The Governor and the Legislature have yet to require a report from the University to find out if the established goals are being met as the initiative continues to be developed and implemented throughout the campuses.

Academic Preparation Programs

The Governor's budget proposes to eliminate $17.3 million for academic preparation programs. The *2005-06 Budget Act* provided $29.3 million for these

programs. Of this amount, $17.3 million were General Fund and $12 million were UC funds. In the Compact, the UC agreed to provide no less than $12 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."

Academic Preparation programs, formerly known as "Outreach" programs, have experienced severe budget cuts in the last three years to the point where the support for these programs at the UC has fallen by more than 50 percent from an all time high of $85.1 million in 2000-01 to $29.3 million in 2004-05.

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 2004-05 year, academic preparation programs at the UC served 349,972 students, including 7,900 students served specifically through the UC's College-Going Program in the Imperial Valley.

Labor Research Funding

The proposed budget also eliminates $3.8 million in funding for the Centers for Labor Research and Education at UC Berkeley's and UCLA's Institutes for Industrial Relations. For the current year, the UC redirected a total of $1.25 million in one-time funds from other research programs. Of this amount, $800,000 was allocated to the UC Berkeley campus and $450,000 to the UCLA campus. According to the UC, this funding ensures that campus-based labor research programs can continue to operate in 2005-06. The UC has yet to commit funding of $1.25 million for the systemwide competitive labor research grants, which are funded through the Office of the President. These systemwide grants were last awarded in June 2005.

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 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 is now divided in three ways. One third is 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 is allocated to the UC Berkeley campus and one third to the UCLA campus.

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.

Although labor research and education receives only a small fraction of the UC's $213 million General Fund total research funding, the 2006-07 budget proposal does not include any indication as to why funding for this program has been, once again, selected for elimination.

Other Key Provisions

- **Support Budget.** The Governor's budget proposes a three percent General Fund increase of $80.5 million for basic budget support.

- **Enrollment Growth.** The Governor's budget proposes $52 million for a 2.5 percent enrollment growth to fund an additional 5,149 FTE students.

- **Institutional Financial Aid.** The Governor's budget proposes to change the student fee revenue set-aside for financial aid from 25 percent to 30 percent for undergraduates and from 50 percent to 45 percent for graduate students. This is equivalent to a 33 percent return-to-aid. The UC Board of Regents already approved this change in November. For the current 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.

- **UC Merced.** The Governor's budget proposes to continue to provide a one-time $14 million appropriation for UC Merced for start-up costs including support for faculty salaries and recruitment, instructional technology, library materials, student services and operational support.

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 $37.4 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

- **Professional Schools Fee Increases.** The Governor's budget proposes a $1.4 million increase to backfill the eight percent student fee increase approved by the Hastings Board of Directors. This increase is consistent with the combined eight percent fee increase approved by the UC Regents for professional school students.

- **Support Budget.** The Governor's budget proposes a $253,000 increase, or three percent, for basic support.

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 332,223 FTE undergraduate and graduate students. The Governor's budget proposes a total of $4 billion. Of this amount, $2.8 billion are General Fund. This amount reflects an increase of 6.9 percent in General Fund over the revised 2005-06 budget levels of $2.6 billion.

Major Provisions

Buy out of Student Fee Increases

Consistent with the Governor's Compact, the CSU Board of Trustees approved last November a systemwide educational fee increase of eight percent for undergraduate and teacher credential students and 10 percent for graduate students.

The Governor's budget proposes to provide $54.4 million to buy out the approved fee increases for undergraduate, graduate students and students in teacher credential programs. If the Governor's proposal is approved by the Legislature, the 2006-07 fees will remain at the 2005-06 levels.

The following table compares 2005-06 fee levels with the proposed 2006-07 levels:

CSU MANDATORY SYSTEMWIDE STUDENT FEES (LAO)

(Charges for Full-Time Students)

	2005-06		2006-07 Governor's Budget		2006-07 Regents' Budget	
	Sytemwide	Total[1]	Systemwide	Total[2]	Systemwide	Total[2]
Resident						
Undergraduates	$2,520	$3,164	$2,520	$3,164	$2,724	$3,368
Teacher Ed	2,922	3,566	2,922	3,566	3,156	3,800
Graduates	3,102	3,746	3,102	3,746	3,414	4,058
Nonresident						
Undergraduates	12,690	13,334	12,690	13,334	12,894	13,538
Graduates	13,272	13,916	13,272	13,916	13,584	14,228

[1]Total fees include an average campus-based fee of $582 for undergraduate and graduate students.

[2]Total fees include an average campus-based fee of $644 for undergraduate and graduate students.

Under the Governor's proposed 2006-7 budget, the total fee revenue for the CSU, including educational, registration and campus-based fees, will total $1.2 billion.

Master's Nursing Program

The Governor's budget provides $1.7 million for the CSU to continue funding the expansion of entry-level master's nursing programs.

Last year, the Legislature added $4 million to the 2005 budget to expand 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 in the current 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 segments will increase nursing enrollments by at least 130 students each over the 2005-06 level in 2006-07. The segments will also provide a report to the Governor and the Legislature on or before February 1, 2006 on the use of the funds in 2005-06. The first year of funding is to be used for one-time expenditures such as instructional equipment, classroom and laboratory renovations, curriculum development, and faculty recruitment.

Math and Science Initiative

The Governor's proposed budget includes $1.1 million to continue the systemwide implementation of the Math and Science Initiative. The CSU will also add $1.2 million from 2006-07 enrollment growth funding to support the implementation effort.

For the current year, the State provided $250,000 for the CSU to work with the UC in coordinating the development of curriculum and services for four-year blended credential programs for math and science majors. Under this initiative, the CSU has committed to increasing the number of graduates who become math and science teachers from the current level of 748 per year to 1,496 per year by the year 2010.

As part of the 2004 Compact with the Governor, the UC and the CSU agreed to develop a major initiative to improve the supply and quality of science and math teachers in public schools. For 2005-06, both segments are launching a statewide effort under a new program called "California Teach". In its budget, the CSU states that it will expand its capacity in math and science teacher education by building on existing programs and offering new ones. Rather than relying on a single program model, it plans to expand multiple pathways, each one designed

to serve a targeted group of potential math and science candidates. Each of the 22 university campuses will build an approach based on a mix of credential pathways. Campuses will be asked to identify their chosen pathways and to demonstrate how their plan is aligned with the assessed needs for middle and high school math and science teachers in their service region. Existing math and science teacher enrollments and program capacity will determine enrollment targets for each campus.

Dropping CSU Teacher Education Enrollments. Last year, the LAO noted that in its recent enrollment report, the CSU's teacher education enrollments dropped by about 2,300 students between fall 2003 and fall 2004. According to the LAO, this implies that the state has a greater issue to tackle and producing the CSU's and UC's projected number of math and science teachers over time may not have much of a statewide effect.

Math and Science Teacher Shortage. According to the Educational Demographic Unit at the California Department of Education, statewide teacher hires for 2005-06 include 2,057 math teachers and 2,078 Life and Physical Science teachers. Even if the UC and the CSU were to achieve their goal of producing 1,000 qualified math and science teachers per year by the year 2010, the State may continue to fall short of teachers in these areas.

No Reporting Requirement. The Governor and the Legislature have yet to require a report from the University to find out if the established goals are being met as the initiative continues to be developed and implemented throughout the campuses.

Academic Preparation Programs and Student Support Services Programs

The Governor's budget proposes to eliminate $7 million for academic preparation and student services programs. The *2005-06 Budget Act* provided $52 million in General Fund 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."

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.

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 2004-05 year, the CSU served 5,337 schools and 498,174 K-12 students.

Other Key Provisions

- **Support Budget.** The Governor's budget proposes a three percent General Fund increase of $75.7 million for basic budget support.

- **Enrollment Growth.** The Governor's budget proposes, $57.7 million for a 2.5 percent enrollment growth to fund an additional 8,490 FTE students.

- **Institutional Financial Aid.** The Governor's budget proposes to increase the student fee revenue set-aside for financial aid from 25 percent to 33 percent. The CSU Board of Trustees already approved this change in November. For the current year, the first year of the Compact, the Trustees approved a 25 percent return-to-aid for undergraduate, graduate and students in credential programs.

- **Capitol Fellows Program.** The Governor's budget proposes to increase the program by $84,000 to reflect the three percent Compact funding increase to the base budget.

- **Retirement Costs.** The Governor's budget proposes to reduce retirement costs by $22.5 million to reflect revised retirement costs rates.

- **Shift of Student Fees to the CSU Trust Fund.** The Governor's budget proposes a $5 million reduction to the CSU's Compact funding to offset the estimated loss of General Fund interest earnings as a result of shifting student fee revenue from the General Fund to the CSU's Trust Fund.

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 from all fund sources, which include student fee revenue and federal and local funds. This amount reflects an increase of $606 million, or an 11.6 percent increase from current year funding. Of the $8.6 billion amount, $6.1 billion are General Fund and Proposition 98 sources. Of the $606 million amount, $596 million are General Fund and Proposition 98 sources. The community college share of Proposition 98 has increased from 10.46 percent in 2005-06 to 10.79 percent for fiscal year 2006-07.

Major Provisions

Equalization Funding

The Governor's budget proposes a $130 million augmentation for equalization funding which is estimated to fully equalize the per-student credit instruction rate at the 90th percentile of the statewide funding level. This additional funding is intended to build upon the $80 million provided in the *Budget Act of 2004* and the $30 million provided in the *Budget Act of 2005*. In 2004, budget trailer act language provided direction to the Chancellor's Office regarding district allocation of equalization funds and also required for a report to specified committees of the Legislature, the Department of Finance and the Legislative Analyst.

Career Technical Education Initiative

The 2006-07 proposes an additional $30 million to expand the Career Technical Education Initiative.

Last 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 initiative seeks to build on successful "Tech Prep" or "2+2" programs, in which students take two years of high school vocational courses that lead into a two-year CCC vocational credential or diploma program. Funds can be used for a wide variety of local activities, including curriculum development and equipment purchases.

Other Key Provisions

- **Enrollment Growth.** The Governor's budget provides $148.8 million in Proposition 98 General Fund for enrollment growth. This represents a three percent growth to provide access for an additional 35,000 FTE students.

- **General Purpose Cost-of-Living-Adjustment (COLA).** The Governor's budget proposes $264.6 million in Proposition 98 General Fund for a 5.18 percent COLA for general purpose apportionments for all districts.

- **Growth and COLA for Categorical Programs.** The Governor's budget proposes $20.8 million for a 1.7 percent growth and a 5.18 percent COLA for categorical programs.

- **Increased Funding for Disabled Student Programs and Services.** The Governor's budget proposes $9.6 million for Disabled Student Programs and Services including sign language interpretive services and real-time captioning equipment for deaf and learning disabled students.

- **California Partnership for Achieving Success (CalPASS) Augmentation.** The Governor's budget proposes an allocation of $500,000 to the CalPASS program for a total funding of $1.5 million to continue the statewide implementation of the program.

- **CCC Baccalaureate Partnership Program.** The Governor's budget proposes a $100,000 allocation for Baccalaureate Pilot Programs pursuant to Chapter 515, Statutes of 2005 (AB 1280, Maze). This augmentation funds two grants of $50,000 to facilitate collaborative partnerships between community colleges and four-year institutions for the provision of baccalaureate degrees on community college campuses.

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 $1.6 billion in State and Federal funds for CSAC. Of these total funds, $861.6 million are General Fund support, an increase of 14.5 percent from the fiscal year 2005-06 level of $752.4 million General Fund.

Key Provisions

- **Cal Grant Increase.** The Governor's budget proposes a $39.5 million increase for anticipated growth in costs for the program. This adjustment includes the reduction of $28.7 million associated with the proposed buy-out of fee increases of 8 percent for undergraduate students at the UC and the CSU.

- **General Fund Backfill.** The Governor's budget proposes a $51 million General Fund backfill to replace the Student Loan Operating Fund used to support financial aid programs in the *Budget Act of 2005-06*.

- **Increased Cal Grant Amounts for Private University Students.** The Governor's budget proposes $11.9 million in General Fund to increase the maximum award amount from $8,322 to $9,708 for new Cal Grant award recipients at private colleges and universities

- **Assumption Program of Loans for Education (APLE).** The Governor's budget proposes an increase of $6.8 million in General Fund to the APLE program for the anticipated growth in costs of funding new and continuing recipients.

- **National Guard APLE Awards.** The Governor's budget proposes the authorization of 100 new warrants for this program. Payments are estimated to begin no sooner than the 2007-08 fiscal year. In the last two consecutive budgets, the Governor has proposed authorization and funding for an initial cohort of awards pursuant to chapter 549 and 554, Statutes of 2004. The Conference Committee has rejected this proposal each time since this type of financial aid is not "need-based."

THE 2006-07 STATE BUDGET

Health Services

DEPARTMENT OF HEALTH SERVICES

Medi-Cal. Medi-Cal provides health care services to welfare recipients and other qualified low-income persons (primarily families with children and the aged, blind, or disabled). Expenditures for medical benefits are shared equally by the General Fund and by federal funds.

The Department of Health Services (DHS) administers the Medi-Cal Program. The California Medical Assistance Commission negotiates contracts with hospitals and health plans for the provision of Medi-Cal services. Other state agencies, including the Department of Social Services, the Department of Mental Health, the Department of Developmental Services, the California Department of Aging, and the Department of Alcohol and Drug Programs receive Medi-Cal funding from DHS for eligible services that they provide to Medi-Cal beneficiaries.

At the local level, county welfare departments determine the eligibility of applicants for Medi-Cal and are reimbursed by DHS for the cost of those activities. The federal Centers for Medicare and Medicaid Services oversee the program to ensure compliance with federal law.

Public Health. The Department of Health Services delivers a broad range of public health programs. Some of these programs complement and support the activities of local health agencies in controlling environmental hazards, preventing and controlling disease, and providing health services to populations who have special needs. Other programs are solely state-operated programs such as those that license health facilities.

Key Provisions

- **Bioterrorism and Public Health.** The Governor's budget proposes $47.3 million and 58 positions for increasing the capacity of state and local governments to prevent and respond to disease outbreaks and natural or international disasters.

- **AIDS Drug Assistance Program.** The Governor's budget proposes to provide $28.1 million total funds, ($16.6 million General Fund) to fully fund the AIDS Drug Assistance Program.

- **Licensing and Certification.** The Governor's budget proposes to provide $17.6 million, ($45.2 million General Fund) and 118 permanent positions and 23 limited-term positions to complete all required state licensing and federal certification. The budget also provides $2.7 million in contract dollars for Los Angeles County to perform the functions of a Licensing & Certification district office.

- **Provider Rate Reduction.** The Governor's budget proposes that certain providers' reimbursements are reduced five percent for a $42.6 million savings.

- **Medi-Cal Buy-In.** The Governor's budget proposes that the costs for paying for the Medicare Part A and Part B premiums for persons eligible for Medi-Cal are projected to increase by $147 million General Fund.

- **Lead Poisoned Candy.** The Governor's budget proposes $1 million General Fund and eight positions to respond to the public health problem of children poisoned through the eating of candy.

- **Aged Drug Rebates.** The Governor's budget proposes $988.000 total funds, $494,000 General Fund, too continue 11 positions to resolve the aged drug rebate payment backlog and achieve budget savings

- **Computerization of Records.** The Governor's budget proposes $10.8 million total funds and 19 positions to implement Statewide Access and Automated Redaction and Computerization of Records

- **Breast and Cervical Cancer Treatment Program.** The Governor's budget proposes $1.9 million total funds, ($961,000 General Fund) for the Department of Health Services, to ensure timely processing of eligibility determinations for women with breast and cervical cancer who need treatment.

- **Outreach.** The Governor's budget proposes $34.2 million for outreach and retention in the Medi-Cal and Healthy Families Programs.

- **Medi-Cal Redetermination.** The Governor's budget proposes $22.7 million General Fund for caseload growth as a result of simplifying the Medi-Cal redetermination form to decrease turnover within the program.

- **Community Setting.** The Governor's budget proposes $1.6 million General Fund for proposals to serve Medi-Cal beneficiaries in the most integrated and appropriate community setting.

- **Managed Care for the aged Blind and Disabled.** The Governor's budget proposes $936,000 General Fund to phase in expanded enrollment of seniors and persons with disabilities into managed care by implementing performance standards, conducting outreach, and initiating mandatory enrollment in two counties.

- **Pilot Project.** The Governor's budget proposes $208,000 General Fund for a pilot project to coordinate the provision of healthcare to beneficiaries with chronic health conditions who may be seriously ill or near the end of life, and persons with serious mental illness or chronic health conditions.

- **Licensing and Certification.** The Governor's budget proposes to provide for the creation of a special fund for Licensing and Certification Program activities so that fees and expenditures related to the program can be better tracked. In addition, the Governor's budget provides $17.6 million from the new special fund for 141 new positions to better protect California's citizens, improve access to necessary services, and to meet current statutory requirements.

- **Adult Day Health Care.** The Governor's budget proposes to provide for Adult Day Healthcare Reform by adding back 3.8 positions to inspect facilities and to eliminate the use of the flat reimbursement rate. These proposals are projected to save $9.8 million General Fund and are to combat fraud and maximize the resources in the program.

- **Contributions to Counties.** The Governor's budget provides for Medi-Cal County Administration Cost Control through freezing the state's contribution to county overhead and salaries at the 2005-06 level for a savings of $21.2 million General Fund.

- **Medi-Cal Cost Recovery.** The Governor's budget proposes $989,000 total funds, $247,000 General Fund, to convert fifteen existing limited-term positions to permanent positions too continue the effort too recover Medi-Cal costs from the estates of deceased Medi-Cal and from other liable parties.

- **Medi-Cal Managed Care.** The Governor's budget proposes $1.6 million total funds, ($718,000 General Fund) and 17 positions to support the Medi-Cal Managed Care expansion to 13 counties.

- **Medicare Modernization Act.** The Governor's budget proposes $264,000 total funds, ($66,000 General Fund) and four positions to

address the workload created by the Medicare Modernization Act prescription drug program.

- **Quality Assurance Fee.** The Governor's budget proposes $6.8 million total fund, ($3.4 million General Fund) and 41.3 positions to implement the Nursing Facility Quality Assurance fee and Reimbursement.

- **Self Directed Waiver.** The Governor's budget proposes $193,000 total funds, ($96,000 General Fund) to implement the Self-Directed Waiver for people with Developmental Disabilities.

- **Assistive Living Waiver.** The Governor's budget proposes $1.2 million total funds, ($467,000 General Fund) to implement the Assistive Living Waiver Pilot Project.

- **Medi-Cal and Healthy Families Outreach.** The Governor's budget proposes $932,000 total funds, ($466,000 General Fund) and ten positions to encourage enrollment in Medi-Cal and Healthy Families through outreach.

- **Managed Care.** The Governor's budget proposes $1.2 million total funds, ($525,000 General Fund), and 11 positions for pilot projects to incorporate Dual Eligibles into Med-Cal Managed Care.

- **Home and Community Based Waiver Services.** The Governor's budget proposes $1.1 million total funds, ($355,000 General Fund), and 14 positions to implement to the waiver to provide increased accessibility of home and community-base services for beneficiaries who are physically disabled, consistent with the Olmstead Decision.

- **Hospital Reimbursement.** The Governor's budget proposes $1.5 million total funds, ($748,000 General Fund), and 13 positions to support the development, implementation, and on-going administration of the new reimbursement methodology.

- **Outreach to Seniors.** The Governor's budget proposes $916,000 total funds, ($386,000 General Fund), and nine positions to conduct outreach to increase enrollment of seniors and persons with disabilities in Medi-Cal Managed Care.

- **Drug and Medical Devises.** The Governor's budget proposes $815,000 in other funds and seven positions to conduct statutorily mandated new and renewal drug and medical devises licensing inspections, and to manage the administrative activities of the drug and medical device licensing programs.

DEPARTMENT OF DEVELOPMENTAL SERVICES

A developmental disability is defined as a severe and chronic disability, attributable to a mental or physical impairment that originates before a person's eighteenth birthday. Developmental disabilities include mental retardation, cerebral palsy, epilepsy, and autism. California provides developmentally disabled individuals with a variety of services, which are overseen by the state Department of Developmental Services (DDS). Unlike most other public social services or medical services programs, services are generally provided to the developmentally disabled at state expense without any requirements that recipients demonstrate that they do not have the financial means to pay.

Slightly more than 98 percent receive community-based services and live with their parents or other relatives, in their own houses or apartments, or in group homes that are designed to meet their medical and behavioral needs. The remaining 2 percent live in state-operated, 24-hour facilities.

The Community Services program provides community-based services to clients through 21 nonprofit, corporations known as regional centers (RCs) that are located throughout the state. The RCs are responsible for eligibility determinations and client assessment, the development of an individual program plan, and case management. The department contracts with the RCs to provide services to more than 200,000 clients each year.

The Developmental Center (DC) program operates five DCs, and two smaller facilities, which provide 24-hour care and supervision to approximately 3,500 individuals. Approximately 7,800 permanent and temporary staff serve the current population at all seven facilities.

Key Provisions

- **Agnews Developmental Center Closure.** The Governor's budget proposes $19.6 million, ($14.9 million General Fund), for the transition in to the community of the remaining estimated 177 residents of Agnews.

- **Regional Center Contracting Authority.** The Governor's budget provides the Department of Developmental Services with the authority to negotiate regional center contract language that will give the Regional Centers additional responsibilities to control the growth of purchased services. The proposed budget contains $7.6 million General Fund for contract costs. The budget projects a savings of $14.3 million, ($10.6 million General Fund) from the contract Purchase of Services Standards.

- **Autistic Spectrum Disorders (ASD) Initiative.** The Governor's budget proposes $2.7 million General Fund for expansion of the ASD Initiative. Resources will allow each regional center to provide a new program coordinator and clinical specialist for ASD support. The DDS will also establish and coordinate new state and regional ASD Resource Centers at the 38 community Family Resource Centers or similar community agencies throughout the state.

- **Provider Rate Increase.** The Governor's budget proposes $67.8 million ($46.1 million General Fund) to provide a 3 percent cost-of-living increase to regional center programs that have been subject to provider rate freezes for the past few years. The increase will promote provider stability and maintain continuity of services to consumers and families in the community. Although continuation of the existing rate freezes is necessary due to the ongoing structural budget deficit, the Administration recognizes that there is increasing stress on the provider system and relief is needed to help prevent program closures.

- **Renovation of satellite kitchens and dining rooms.** The Governor's budget proposes $1.2 million General Fund for the preliminary plans phase to renovate the satellite kitchens and dining rooms and $22.6 million Lease Revenue Bond for the design and construction of a new main kitchen at Porterville Developmental Center. The project will provide kitchens designed to efficiently accommodate the cook/chill food preparation method and will correct numerous health code deficiencies

- **Office of Protective Services.** The Governor's budget proposes to increase the budget by $660,000, ($380,000 General Fund) and 81 positions (65 of which are for existing functions that have been funded through redirections) in the Developmental Centers system. Also, the budget proposes to spend $752,000 ($452,000 General Fund), and six positions at Departmental Headquarters to implement the proposal.

DEPARTMENT OF MENTAL HEALTH

The Department of Mental Health directs and coordinates statewide efforts for the treatment of mental disabilities. The department's primary responsibilities are to (1) provide for the delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled; (2) operate four state hospitals; (3) manage state prison treatment services at the California Medical Facility at Vacaville and at Salinas Valley State Prison; and 4) administer various community programs directed at specific populations.

The state hospitals provide inpatient treatment services for mentally disabled county clients, judicially committed clients, clients civilly committed as Sexually Violent Predators and mentally disordered offenders and mentally disabled clients transferred from the California Department of Corrections.

Key Provisions

- **Civil Rights of Institutionalized Persons Act (CRIPA).** The Governor's budget proposes that the State of California work with the United States Department of Justice to bring all five state hospitals into compliance with the CRIPA. These efforts will reflect a fundamental shift in the state hospitals' treatment philosophy to one focusing on recovery rather than on the disease, disability, or disorder presented. The Governor's Budget includes $43.5 million ($37.8 million General Fund) and 432.0 additional positions for this purpose.

- **Salinas Valley Psychiatric Program.** The Governor's budget proposes to augment the budget by $7.1 million to expand the Intermediate Treatment Program for level IV patients. The number of beds will increase by 36 to a total of 100.

- **Juvenile Justice Wards.** The Governor's budget proposes to transfer the California Department of Corrections and Rehabilitation General Fund to the Department of Mental Health for treatment services provided to Division of Juvenile Justice Wards.

- **Licensing and Certification.** The Governor's budget proposes to augment the budget by $420,000 ($349,000 General Fund and $71,000 in reimbursements from the Department of Health Services) to support five positions to absorb the increased workload associated with facility licensing, program certification, program monitoring and oversight and investigations of complaints and incidents. Also new fees would be imposed for two types of facilities.

- **Mental Health Services to Special Education Pupils (AB 3632).** The Governor's budget proposes $100 million in special education funding in the Department of Education budget for mental health services to special education pupils as required by the Federal Individuals with Disabilities Education Act (IDEA). In addition, the budget includes $50 million non-Proposition 98 General Fund as a set-aside in the Commission on State Mandates budget for funding mental health services to pupils beyond those that are federally required under a new categorical program. The Administration has begun consultations with stakeholders about shifting AB 3632 services from a state-mandated program to a categorical

program effective fiscal year 2006-07. The Administration will broaden these discussions during the next few months so that a refined AB 3632 proposal may be introduced in the May Revision.

- **Renovation of satellite kitchens and dining rooms.** The Governor's Budget proposes $349,000 General Fund for the preliminary plans phase to renovate the satellite kitchens and dining rooms and $21.0 million Lease Revenue Bond for the design and construction of a new main kitchen at Patton State Hospital. The project will provide kitchens designed to efficiently accommodate the cook/chill food preparation method and will correct numerous health code deficiencies.

- **Renovation of satellite kitchens and dining rooms.** The Governor's Budget proposes $598,000 General Fund for the preliminary plans phase to renovate the satellite kitchens and dining rooms and $20.7 million Lease Revenue Bond for the design and construction of a new main kitchen at Napa State Hospital. The project will provide kitchens designed to efficiently accommodate the cook/chill food preparation method and will correct numerous health code deficiencies.

DEPARTMENT OF MANAGED HEALTHCARE

The mission of the Department of Managed Health Care is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system through:

- Administration and enforcement of California's HMO patient rights laws.
- Operating the 24-hour-a-day HMO Help Center.
- Licensing and overseeing all HMOs in the state.

Key Provisions

- **Provider Oversight Program Workload.** The Governor's budget proposes to include $3.8 million and 17 positions to conduct financial solvency oversight of risk bearing organizations and ensure prompt payment of health care provider claims.

- **Managed Risk Medical Insurance Board (MRMIB) Medical Loss Ratio Reviews.** The Governor's budget proposes to include two positions and

$169,000 in current year and $220,000 in budget year to perform health plan medical loss ratio reviews for MRMIB.

- **Legislative Analysis and Support Workload.** The Governor's budget proposes to include $171,000 and two positions to address legislative workload and provide improved service to the managed health care industry.

EMERGENCY MEDICAL SERVICES AUTHORITY

The program objectives of the Emergency Medical Services Authority are to:

- Assess statewide needs, effectiveness, and coordination of emergency medical service (EMS) systems.
- Review and approve local EMS response and service delivery plans.
- Coordinate medical and hospital disaster preparedness and response, and assist the Office of Emergency Services in the preparation of the medical component of the State Emergency Plan.
- Establish standards for the education, training, and licensing of specified emergency medical care personnel.
- Establish standards for designating and monitoring poison control centers.
- License paramedics, conduct investigations, and enforce disciplinary actions as necessary.
- Develop standards for pediatric first aid and CPR training programs for child care providers.
- Develop standards for emergency medical dispatcher training for the 9-1-1 emergency telephone system.
- Develop standards for training and use of automated external defibrillators.
- Establish standards for the development of trauma systems and approve trauma plans submitted by local EMS agencies.

Key Provisions

- **Emergency Medical Services Program and Personnel Preparedness Reforms.** The Governor's budget proposes $1.6 million ($1.5 million General Fund loan authority) and 7.4 positions in 2006-07 to enable the Emergency Medical Services Agency to perform the licensing and investigations of Emergency Medical Services Technicians and to provide additional state resources for paramedic misconduct investigations.

- **Personal Protective Equipment for Ambulance Personnel.** The Governor's budget proposes $2.3 million ($1.6 million General Fund) in 2005-06 to purchase protective equipment for ambulance personnel.

- **California Medical Assistance Teams.** The Governor's budget proposes a reimbursement of $1.8 million in 2006-07 and 1.9 positions to develop implement and administer three medical assistance teams to respond to disaster and emergency events.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (MRMIB) administers several programs designed to provide health care coverage to adults and children. The Managed Risk Medical Insurance Program (MRMIP) provides health insurance to California residents unable to obtain it for themselves or their families because of preexisting medical conditions. The Access for Infants and Mothers (AIM) program currently provides coverage for pregnant women and their infants whose family incomes are between 200 percent and 300 percent of the federal poverty level (FPL). The Healthy Families Program provides health coverage for uninsured children in families with incomes up to 250 percent of the FPL who are not eligible for Medi-Cal and, beginning in the budget year, will provide health coverage for certain uninsured infants born to AIM mothers.

The MRMIB also administers the County Health Initiative Matching Fund (CHIM), a program established last year as a component of Healthy Families. Under CHIM, counties, County Operated Health System managed care health plans, and certain other locally established health programs are authorized to use county funds as a match to draw down federal funding to purchase health coverage for children in families with incomes between 250 percent and 300 percent of the FPL. No state funds are used to support CHIM.

Key Provisions

- **Streamline Enrollment Processes for Children's Health Programs.** The Governor's budget proposes $9.6 million ($3.5 million General Fund) to simplify the enrollment process of children into the Healthy Families Program. This program change will enhance enrollment and retain currently eligible children, as well as ease administrative duties.

- **Electronic Application for Enrollment of Children.** The Governor's budget proposes $2.5 million ($1.0 million General Fund) to encourage the use of the electronic application, known as Health e App, for the Healthy Families Program. This program change will enhance enrollment and retain current eligible children, as well as ease administrative review of applications.

THE 2006-07 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 $17.7 billion ($8.8 billion General Fund) for the DSS, an increase of $218 million ($147 million General Fund). The budget includes a total of 4,424 DSS positions, a net increase of 110 positions over the current year.

Major Provisions

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 1.24 million (3.4 percent of California's total population), which is a 2.4 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. CAPI caseload is projected to decrease by 2.8 percent in 2006-07, to 7,817 average monthly recipients.

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

  The 2005 Budget Act suspended the state SSP COLA for 2006 and 2007, and delayed the federal SSI COLA for three months in each of those years. The three month delay of the 2007 SSI COLA in current statute results in savings of $54 million General Fund in 2006-07. The additional delay proposed in the Governor's Budget would result in additional General Fund savings of $54 million in 2006-07. Under the Governor's Budget proposal, the maximum SSI/SSP grant in 2007 would remain at the April 2006 level, which is $836 for individuals and $1,472 for a couple.

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

  California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing, and other necessities. They spend most of their grants on rent and utilities. According to the U.S Department of Housing and Urban Development, fair market rents for a studio apartment in California average $805 per month and range from $389 in Siskiyou County to $1,042 in Ventura County.

The fair market rent for a studio apartment exceeds the SSI/SSP grant in nine counties, and exceeds 50 percent of the grant in all but two counties. Since 1990, rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 17 percent. Without the COLA, beneficiaries will face additional pressure to reduce spending on food or utilities as housing costs increase.

- **Extend Deeming Period for CAPI.** The budget proposes to extend the deeming period for CAPI from ten to fifteen years for immigrants who entered the country on or after August 22, 1996. During the deeming period, the income and resources of the person sponsoring the non-citizen are taken into account when determining benefit eligibility. This five year extension results in General Fund savings (cost avoidance) of $12.5 million in 2006-07 and $40 million in 2007-08.

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

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

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

- **Pending Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, would limit retroactive lump-sum SSI/SSP payments to three months’ worth of benefits, and payments for any

additional retroactive benefits would be spread out over a year. This Act would also require more frequent redeterminations for SSI/SSP eligibility, which could potentially result in SSI/SSP program savings.

In Home Supportive Services (IHSS)

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 budget estimates that IHSS caseload will increase to 396,000 in 2006-07, an increase of 6.4 percent over 2005-06 caseload. Approximately half of IHSS consumers are age 65 and older. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload. Caseload, hours of service by case, and program costs have grown significantly faster than population growth since the mid-1990s.

The budget proposes $4 billion ($1.3 billion General Fund) for the IHSS program in 2006-07. This represents an increase of $167 million ($51.9 million General Fund) above the current year funding level, primarily due to caseload growth.

IHSS costs have steadily increased in recent years, despite $230 million in General Fund savings from the IHSS federal Independence Plus waiver 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.

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. In the current year, the state participates in wages and benefits up to $11.10 per hour, although actual wage rates vary by county. Most wage rates are determined by the board of supervisors and public authority that negotiates a contract with providers.

- **Continue Share of Cost Buyout.** The budget includes $24 million General Fund in 2006-07 to apply Medi-Cal share of cost rules to IHSS consumers.

Under the federal IHSS Plus waiver adopted in 2004-05, IHSS consumers must have a Medi-Cal eligibility determination, which in some case results in a higher share of cost to be funded by the state. The budget reflects $31 million General Fund for current year costs associated with the share of cost buyout as well as funding to cover the Medi-Cal spend down for IHSS consumers. DSS is funding IHSS consumers' SSI/SSP share of cost (spend down) to ensure consumers will remain Medi-Cal eligible until automation system changes are completed in May 2006.

- **Increase Quality Assurance Savings.** *The 2004-05 Budget Act* established an IHSS Quality Assurance program to make county determinations of service hours consistent throughout the state. Quality Assurance includes: 1) quality assurance functions in each county, 2) state resources for monitoring and supporting county activities, 3) standardized assessment training for county IHSS workers, and 4) periodic written notices to providers that remind them of their legal obligations to submit accurate timesheets. The budget reflects $431 million ($140.1 million General Fund) savings in 2006-07 due to reduced provider payments under this initiative. This savings estimate reflects phased-in implementation as county workers who have completed the training assess new cases or complete reassessments. When fully implemented, the DSS estimates that Quality Assurance will ultimately result in program savings of 13 percent. The Governor's proposed budget reflects savings of 11 percent due to ramp up time needed for quality assurance. The budget also includes $32.6 million ($11.7 million General Fund) for county staffing costs associated with the Quality Assurance Initiative.

- **Continue Quality Assurance State Staffing.** The budget requests $1.6 million ($788,000 General Fund) for a two-year extension of 16 expiring limited-term positions for the IHSS Quality Assurance Initiative. The DSS received 18 two-year limited-term positions for Quality Assurance implementation in 2004-05, and now indicates that continuation of 16 positions is necessary to continue implementation and provide ongoing county support and monitoring.

- **Continue Independence Plus Waiver Staffing.** The budget requests $422,000 ($211,000 General Fund) for a two-year extension of five expiring limited-term positions to support the IHSS federal Independence Plus Medicaid Waiver. As noted above, this waiver results in an estimated $230 million General Fund savings in 2006-07. The DSS received six two-year limited-term positions for the waiver in 2004-05, and now indicates that continuation of five positions is necessary for ongoing development and support of the waiver.

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.

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

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

- **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 485,000 cases.

  The Governor's budget estimates that CalWORKs caseload will increase during the current fiscal year from 484,034 to 487,465, an increase of 0.7 percent.

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

  California will face large costs to increase participation in work activities to meet the new requirements, and will still be at great risk of being penalized. The Center for Law and Social Policy estimates that the cost of increasing participation in work activities to meet the new requirements in California could exceed $400 million in 2007, and be in the range of $2 billion for the state for the next five years if the state's caseload does not fall. If the state fails to meet the work participation rate requirements, it is subject to a penalty equal to a 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 MOE spending by five percent, or $180 million. The Act also increases funding for child care, and California's share is estimated to be approximately $25 million per year.

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

- **The Maintenance of Effort (MOE).** Since federal Welfare Reform took effect in 1998, California has been 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.

  However, since CalWORKs began, the state has also treated the MOE as the ceiling of state participation in the CalWORKs program. Since 1998, the amount of General Fund budgeted for CalWORKs has been set exactly at the MOE level. Thus, any increase in expenses for CalWORKs programs would have to come out of reductions and savings in other areas of the program.

  The steep caseload decline over the last six years has provided sufficient savings to allow some increases in CalWORKs expenditures and still budget the program within the MOE level. Now that the caseload projections have flattened, any increases in costs to the program must be funded through programmatic reductions in other areas, if the State is to continue to treat the MOE level as the maximum funding level for CalWORKs.

  In addition, over the last five years, the state has expanded its definition of expenses that could use federal TANF funding or could be counted as part of the state's MOE. The core components of the CalWORKs program have been reduced or frozen so that the state could save General Fund by incorporating other programs in TANF. A shortage in CalWORKs funds has necessitated the suspension of the CalWORKs COLA for the 2001-02, 2003-04, 2005-06, and 2006-07 fiscal years.

- **Reduce CalWORKs Single Allocation.** The budget reduces $40 million in funding to counties for CalWORKs employment and other services, eligibility determination, and child care in 2006-07. Counties have not received a cost-of-doing business increase in their administrative and employment services allocations since 1999 and had their administration allocations reduced by $76 million in 2002.

- **Recent Changes to CalWORKs Fail To Yield Results.** The 2004-05 Budget Act changed client work participation requirements, in order to increase the state's work participation rate. However, in recent years, the CalWORKs work participation rate has been gradually declining. The budget assumes that the program reforms established in the 2004-05 Budget Act will have a minimal effect in 2005-06, and that $147 million in anticipated grant savings due to increased work hours will not materialize. The Administration also indicates that it will reduce the current year allocation to counties for child care funding by $114 million, as it anticipates this funding will be unspent due to lower than anticipated work hours. The budget anticipates that welfare reforms will have a moderate impact in 2006-07.

  Counties have expressed concern that scaling back fiscal estimates for the Welfare Reform and Pay for Performance initiatives is premature. Counties also suggest that making a significant current year reduction in funding for CalWORKs child care prevents effective program management, and destabilizes local CalWORKs programs.

- **Pay for Performance Delayed.** The *2005-06 Budget Act* established performance measures for the CalWORKs program, and provided a $30 million TANF set-aside for 2006-07 to provide payments to counties that meet performance goals for work participation and client income measures. Although the *2005-06 Budget Act* included $22 million in CalWORKs grant savings as a result of this program, the Administration now proposes to reduce that savings and delay implementation of Pay for Performance due to the delay in welfare reform described above. The budget eliminates the $30 million set-aside in TANF reserve for county performance payments in 2006-07.

- **Prospective Budgeting/Quarterly Reporting (CalWORKs and Food Stamps).** The 2002-03 Budget Act shifted the routine eligibility review period for CalWORKs and Food Stamp clients from monthly to quarterly reporting. This change was intended to reduce the Food Stamp error rate. Counties transitioned to prospective budgeting between November 2003 and June 2004. This change was expected to result in grant increases and eligibility determination savings due to fewer reported income changes. However, counties have indicated that eligibility savings are less than previously

estimated, primarily due to the time needed to process mid-quarter change reports.

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

The 2006-07 budget reflects only natural caseload adjustments for Food Stamp eligibility costs, and, despite the Governor's veto message, does not modify the previous assumptions for quarterly reporting. For CalWORKs eligibility, the budget maintains the $25 million eligibility funding increase through 2006-07, and indicates the DSS will complete an eight county time study to validate the actual time required to complete quarterly reporting and prospective budgeting activities. The budget also reduces CalWORKs grant costs by $42 million in the current and budget years, based on updated caseload data for quarterly reporting.

- **Reduce Tribal TANF Current Year Funding.** The budget reduces current year funding for Tribal TANF programs by $13 million (23 percent) to reflect revised implementation dates and caseload.

- **Tribal TANF, Tribal Child Welfare, and Indian Child Welfare Act (ICWA).** The budget requests $223,000 ($51,000 General Fund) to establish 2 positions to support Tribal TANF and child welfare programs, as well as ICWA. An increasing number of Native American Tribes or Tribal consortia have established Tribal TANF programs in recent years, and some Tribes have expressed interest in establishing their own Tribal Child Welfare programs. In addition, due to the complexity of ICWA, additional information and support for local entities may be needed to ensure consistent ICWA compliance. Note that the Legislature approved the establishment of 1.0 DSS position for ICWA compliance in the 2005-06 budget bill, but the Governor vetoed that position.

- **Use TANF to Backfill Federal Disallowance for Child Welfare Services (CWS).** The budget proposes to shift a combined total of $58 million in current and budget year TANF funding from CalWORKs to CWS - Emergency Assistance Program, to backfill a federal funding disallowance in CWS. For further information, please see Children and Family Services Highlights below.

- **Hurricane Katrina Costs.** The budget requests $8.5 million ($7.3 million TANF/MOE/General Fund) in the current year and $4.9 million ($3.4 million TANF/MOE/General Fund) in the budget year for services and grants provided in California to evacuees from Hurricane Katrina under the CalWORKs, Food Stamps, IHSS, and SSI/SSP programs. The budget does not anticipate that the federal government will reimburse the state for these costs.

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 State 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

- **In-and-out of Market Regulations.** The Governor's proposed budget does not extend a suspension of regulations that will base the rate child care providers are paid on an amount paid by an unsubsidized private paying family that they serve. If the child care provider does not serve private paying families, the regulations would arbitrarily pick five providers in the area to ascertain their rates for private pay families. The regulations are intended to enforce current law, which requires that the state not pay more for child care services for subsidized families than what is paid by private pay or unsubsidized families for the same service.

  The Legislature has expressed interest in addressing this issue through a statutory process for three reasons: First, such a mechanism would undermine efforts to tie the rate of child care providers to quality because the private pay rate would be the sole determinate of the subsidized rate. Second, the mechanism could create a disincentive for child care providers to reduce their rates to other working poor families. Third, the administration of such a provision would be cumbersome and would require unsubsidized private paying families to submit personal information to the State or its contractors.

- **Family Eligibility Levels Continue to Be Frozen.** Families are currently eligible for subsidized child care services if their income is at or below 75

percent of the State median income, as adjusted for family size. However, the State has frozen this eligibility level since 2000, resulting in a reduction in the actual eligibility level to less than the 60th percentile of the current State Median Income.

- **General Child Care Program Receives Growth and COLA Adjustments.** The Governor's proposed budget includes Proposition 98 Growth and COLA adjustments that will increase in the Standard Reimbursement Rate for General Child Care Contractors from $30.04 to $31.09 per child per day.

- **Alternative Payment Program Administration.** The Governor's proposed budget includes a provision, which would allow Alternative Payment Programs to spend up to 20 percent of their total voucher contract for administration. This represents a one percent increase in the maximum reimbursement rate for AP administration.

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.

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

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

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

  - $250,000 to contract for an integrated licensing/certification fee collection process.

- Require individuals who have been denied licensure/employment due to failed criminal background clearance to wait a minimum of two years before reapplying.
- $115,000 to contract out administrator certification testing and grading functions. The budget also requests statutory changes to allow administrator certification fees to be adjusted.
- 38 permanent positions to increase the number of random visits from 10 percent of facilities to 20 percent each year.
- 29 two and a half-year limited-term positions and $110,000 for overtime to eliminate the significant backlog in licensing visits.
- 1 one-year limited-term personnel position to assist with hiring the requested licensing positions.
- 5 permanent positions to operate a training academy for new licensing staff.
- 2.5 permanent positions to share the DSS database of excluded or abusive employees with other HHS departments.
- 4.5 permanent positions to handle information regarding convictions after arrest provided by the Department of Justice.

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

- **Child Welfare Services (CWS).** This program encompasses a variety of services designed to protect children from abuse, neglect, and exploitation. Services include Emergency Assistance, Family Maintenance, Family

Reunification, and Permanent Placement. Combined average monthly caseload for these programs is estimated to decline by 1.5 percent in the budget year, primarily due to a decline in Permanent Placement caseload. Total funding for CWS increased by 1.8 percent, to $2.2 billion ($631 million General Fund).

- **Foster Care Program.** The state's Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. Average monthly Foster Care caseload is estimated to decrease by 0.2 percent, to 74,900 children. Continuing the historical trends, the number of children in group homes and foster family agencies is increasing, while the number of children in foster family homes is decreasing. Total funding for Foster Care decreased by 0.2 percent, to $1.7 billion ($427 million General Fund).

Foster Care Placements	
Placement Type	**Description**
Foster Family Homes	♦ A residential facility that serves no more than six foster children. ♦ Provides 24-hour care and supervision in a licensee's home. ♦ Foster care grant may be supplemented for care of children with special needs.
Foster Family Agency Homes	♦ Homes operating under nonprofit foster family agencies which provide professional support. ♦ These placements are required by law to serve as an alternative to group home placement.
Group Homes	♦ A facility of any capacity that provides 24-hour non-medical care, supervision, and services to children. ♦ Generally serve children with more severe emotional or behavioral problems who require a more restrictive environment.

- **Kin-GAP Program.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The projected average monthly caseload is 15,500 children, reflecting an increase of 2.7 percent. The Kin-GAP program is funded with TANF and General Fund MOE funding. Total funding for Kin-GAP increased by 2 percent, to $100 million TANF/MOE.

- **Adoptions Program.** The state's adoptions programs include the Adoptions Assistance Program (AAP) as well as other state and county

efforts to improve permanency outcomes for foster children. The AAP provides subsidies to promote permanent placement of children that are older, members of sibling groups, have disabilities, or are otherwise difficult to place. Budget year AAP caseload is expected to be 75,000, an increase of 7.9 percent over current year. Total funding for AAP and other adoptions programs increased by 8.8 percent, to $775 million ($348 million General Fund).

- **State Fares Poorly in Federal Review.** 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 developed a set of outcome measures and overhauled 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.

- **County Share of Federal Penalties.** 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 budget year, but could dramatically increase if the State’s performance does not improve in subsequent years.

The Governor's budget includes a proposal to shift a portion of these penalties to counties. The Department of Social Services believes that such a shift is permissible under the recently adopted local government protections enacted in Proposition 1A.

County-level initiatives that improve performance are the only way the State will improve its overall performance. While passing on the penalties to counties may seem like an incentive for counties to increase performance, it may not be fair. The state has determined through an extensive study that the counties do not receive sufficient funding to meet even current state mandates for service delivery levels. In addition, the counties would be penalized for the state failing to meet goals that were set at the state level, without significant county feedback.

- **Pending Federal Budget Changes.** Shortly after it returns on February 1, 2006, the U.S. House of Representatives will vote on a budget package already approved by the Senate. This package, called the Deficit Reduction Act of 2005, contains numerous reductions to human services, including foster care and child welfare.

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

- **Program Improvement Plan Continues.** The Governor's budget continues to fund required Program Improvement Plan activities. The Program Improvement Plan is a plan that the state submitted to the federal government to illustrate the steps California would take to improve performance. The budget maintains a total of $26.6 million ($15.5 million General Fund) to support child welfare system reforms that were established in previous years. The Governor's budget includes $12.9 million ($7.6 million General Fund) for the Child Welfare Outcomes and Accountability System, established by AB 636 (Steinberg), Ch. 678/2001. The budget also includes $13.7 million ($7.8 million General Fund) to support 11 counties using Differential Response, the California Standardized Safety Assessment System, and enhanced permanency and youth transition standards. Note that the Governor vetoed $5.6 million ($3.5 million General Fund) in additional funding for CWS reforms in 2005-06, noting that the "legislative augmentation exceeds the level of funding

that is necessary to implement approved CWS program improvement initiatives and strategies, achieve compliance with federal performance requirements, and avoid federal penalties."

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

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

- **Backfill Title IV-E Foster Care Disallowances.** The Governor's budget requests $25.3 million General Fund in the current year and $8.4 million General Fund in the budget year to backfill a $33.8 million Title VI-E federal funding disallowance for Foster Care for calendar year 2003. The budget also proposes to shift a combined total of $58 million in current and budget year TANF funding from CalWORKs to the CWS-Emergency Assistance Program, to backfill a Title IV-E federal funding disallowance. The Emergency Assistance Program provides emergency shelter care, crisis resolution, emergency response, and case management for children at risk due to abuse, neglect, abandonment, or exploitation.

- **Continue Staffing for Title IV-E Child Welfare Waiver.** The Governor's budget proposes $805,000 ($403,000 General Fund) to extend four limited-term positions for development and implementation of the Title IV-E Child Welfare Waiver Demonstration "Capped Allocation" Project (CAP). The department has been negotiating with the federal government for a number of years to develop this waiver. If approved, this waiver would allow the use of Title IV-E funds for preventive child welfare services, such as improved hotline response, more parenting education and counseling, multi-disciplinary teams, and services to more families on a voluntary basis.

- **Establish Foster Care Infant Rate.** The Governor's budget proposes $611,000 ($156,000 General Fund) in the current year and $1.2 million

($313,000 General Fund) in the budget year to fund a special Foster Care rate for teen mothers who are in foster care placement with their children. This rate, established by SB 500 (Kuehl), Ch. 630/2005, provides a $200 monthly payment above the current infant supplement for the added care and supervision provided by the foster caregiver to the teen parent and child. An estimated 408 teen mothers are in foster care placement with their children.

- **Restore Foster Care Audits Staff.** The Governor's budget proposes $577,000 ($357,000 General Fund) and the restoration of six three-year limited-term positions to perform fiscal audits of non- profit corporations that operate Foster Family Agencies or group home programs. Positions to perform this audits function were eliminated in 2003-04 position reduction drills.

- **Augment Foster Care Child Relationships Program.** The Governor's budget includes a total of $23 million ($10 million General Fund) for the Foster Care Child Relationships Program. This program was established by AB 408 (Steinberg), Chapter 813/2003 to help ensure that older foster youth develop significant and supportive relationships prior to their emancipation. The current year funding level for this program is $5.2 million ($2.3 million General Fund). The additional funding included in the budget would be used to fund AB 1412 (Leno), Ch. 640/2005, which expands the number of children covered by this program, and ensures that developmentally appropriate children are involved in the development of their case plan, help plan for permanent placement, and that children 12 and older review their case plan and receive a copy. Note that the budget proposes to delay implementation of AB 1412 from January 1, 2006 to July 1, 2006.

- **Augment Transitional Housing for Foster Youth.** The Governor's budget proposes an additional $1 million General Fund to augment the Transitional Housing Placement Program (THPP), established under AB 1119 (Migden), Ch. 639/2002. This funding will allow more counties to participate in THPP, which provides housing assistance to emancipating foster youth.

- **Discontinue Dependency Drug Court Funding.** The Governor's budget does not maintain the $2 million federal PSSF funding included in the *2005-06 Budget Act* for Dependency Drug Courts. The Administration indicates that it will consider restoration of this funding upon review of an evaluation report for Dependency Drug Courts that is due to the Legislature during 2006 budget hearings.

- **Expand Kinship Support Services.** The Governor's budget proposes an additional $2.5 million General Fund to expand current county programs and allow all counties to apply for Kinship Support Services funds. This

program, which was funded at $1.5 million General Fund for eleven counties in 2005-06, provides community-based family support services to kinship (relative) caregivers and the children who are placed in their homes by the juvenile court or who are at risk of dependency or delinquency.

- **Improve Adoptions Outcomes.** The Governor's budget proposes a total of $12.2 million ($7.1 million General Fund) to hire additional state and county adoptions caseworkers. The additional staff are expected to increase adoptions by 560 in 2006-07. The funding includes $1.4 million ($698,000 General Fund) for 16.5 DSS positions in the Adoptions Services Bureau, which serves a 28-county service area. The funding also includes $10.8 million ($6.4 million General Fund) for local assistance to reflect a 15.6 percent increase in county adoptions caseworkers, offset by minor adjustments in Foster Care and AAP costs. Note that the Governor vetoed $229,000 ($100,000 General Fund) for Adoptions Assistance training in 2005-06, noting that DSS intends to increase efforts in 2005-06 to provide adoptions training and technical assistance to county social workers within existing resources.
- **Reduce Caseload Impact under *Rosales v. Thompson*.** Based on actual claims, the number of cases transferring from CalWORKs to Title IV-E Foster Care under the *Rosales v. Thompson* decision is fewer than expected. The *Rosales* decision broadened eligibility and extended federal Title IV-E Foster Care benefits to relatives caring for foster children who were previously eligible only for CalWORKs benefits at significantly lower rates. The *2005-06 Budget Act* anticipated $7 million General Fund savings as a result of cases shifting from CalWORKs to Foster Care. However, based on actual claims data, the Governor's Budget estimates significantly fewer CalWORKs cases will shift to Foster Care, and as a result reflects no net General Fund savings.

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 increase the DCSS budget by $9 million, or 0.6 percent, to $1.4 billion. The budget includes 534.2 positions for DCSS, a net increase of 19.1 positions.

Major Provisions

Child Support Collections 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)	2004-2005 Actual	2005-2006 Estimated	2006-2007 Projected
Non-Assistance Collections (Payments to Families)	$1665	$1,711	$1,773
Assistance Collections (Payment to Government)	$663	$662	$656
Total Collections	**$2,313**	**$ 2,3792**	**$2,429**

Although the budget anticipates that total collections will increase by 2.4 percent, assistance collections are expected to decline by 6.7 percent. Assistance collections, which have been declining since 2000-01, reflect payments from non-custodial parents that are redirected to the state and federal government to repay past welfare costs. Non-assistance collections are fully directed to custodial parents and children. In addition, as a result of flat or declining collections and increasing costs, the state's child support system continues to rank well below the national average for cost-effectiveness.

Federal Penalty for Child Support Automation

The budget includes $220 million General Fund for the anticipated September 2006 payment of the federal child support automation penalty for federal fiscal year 2006. The state has been required to pay an increasing penalty each year since 1997 due to the state's failure to implement a single statewide child support automation system. The September 2006 payment is anticipated to be the last payment the state will make. The DCSS will then request certification that the automation system is sufficiently operational to qualify for penalty relief in future federal fiscal years. The State will need to show that the California Child Support Automation System and the Statewide Distribution Unit are operational in order to avoid a penalty in the next fiscal year.

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 SDU component of CCSAS will provide statewide collections and electronic disbursement of child support payments. In 2005-06 the SDU is being implemented in stages; several new counties are converting to the SDU each month. Total funding for the SDU component is estimated to be $37.7 million in 2006-07. All employers and non-custodial parents are scheduled to begin sending child support payments through the centralized SDU in May or June 2006.

Potential Federal Budget Changes Reduce Child Support Funding

On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the U.S. Senate. This package, called the Deficit Reduction Act of 2005, cuts federal funding for many programs affecting children, families, and youth, including state child support collection programs.

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

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

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

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

- **Continue Development of CCSAS Child Support Enforcement (CSE) Component.** The Governor's budget proposes a total funding for the CSE component of $141.5 million in 2006-07. The CSE component of CCSAS will provide a statewide central database for case management, financial management, and interstate communication. The budget requests 3 new positions, and the redirection of 10 existing DCSS positions to continue development of this system. This component is scheduled to be completed by September 2008.
- **Establish Customer Support Service Center.** The Governor's budget proposes $824,000 ($280,000 General Fund) for 13.1 new positions, and 3.5 redirected positions, to establish a statewide Customer Service Support Center. This Center would respond to telephone inquiries regarding child support cases that will be added to the SDU as it becomes operational.
- **Establish Centralized Financial Management Team.** The Governor's budget proposes $530,000 ($180,000 General Fund) for 5.5 new positions, and 4.5 redirected positions, to establish a Centralized Financial Management Team to resolve exceptions for non-assistance child support cases that will be added to the SDU as it becomes operational. These exceptions include multiple county collection adjustments and holds, and other issues that would not be resolved by local child support agencies.

- **Extend the Compromise of Arrears Program (COAP).** The Governor's budget proposes $520,000 ($177,000 General Fund) to maintain 6.5 of 9 expiring limited-term positions for the COAP. This program accepts reduced lump sum settlements from non-custodial parents with arrearages in exchange for their commitment to make ongoing payments.
- **Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs.** The Governor's budget proposes trailer bill language to continue the suspension of two programs, the Health Insurance Incentives, and the Improved Performance Incentives programs, through 2006-07. The Health Insurance and the Program Improvement Incentive programs were part of the Child Support reform legislation passed in 1999. The Health Insurance Incentives program paid local child support agencies (LCSAs) $50 for each case for which they obtained third-party health insurance coverage or insurance for child support applicants or recipients. The Improved Performance Incentives program provided the ten best performing LCSAs with 5 percent of the amount they collected on behalf of the state for public assistance payment recoupments. The funding received by the LCSAs from the Improved Performance Incentives program was required to be reinvested back into the Child Support Program. These programs were suspended for four years beginning 2002-03. The Department of Finance notes that LCSAs are required by DCSS regulations to seek third-party health insurance coverage as part of their normal business processes.

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 $614.6 million ($243.2 million General Fund) for 2006-07, an increase of 0.8 percent over the current year.

Major Provision

Continue Funding Proposition 36 (SACPA)

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 expires at the end of 2005-06, the sentencing provisions do not expire.

The budget proposes to allocate $120 million General Fund for SACPA in 2006-07. If the state reduces funding for SACPA or other alcohol and drug treatment programs in 2006-07, it will fail to meet its maintenance-of-effort (MOE) requirement for the federal Substance Abuse Prevention and Treatment (SAPT) Block Grant. Failure to meet the SAPT MOE would result in a significant reduction in federal funding for alcohol and drug treatment.

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

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

Other Key Provisions

- **Establish Drug Medi-Cal Fraud Deterrence Program.** The Governor's budget proposes $286,000 ($143,000 General Fund) and 3 positions to establish a Drug Medi-Cal Fraud Deterrence Program. These resources would be used to provide more consistent oversight and monitoring of Drug Medi-Cal Narcotic Treatment Program (NTP) providers that contract directly with the DADP. These positions are projected to increase Drug Medi-Cal recoupments by $3.7 million in 2006-07.
- **Increase Drug Medi-Cal Funding and Caseload.** The Governor's budget proposes $121.1 million ($63.2 million General Fund) for the Drug Medi-Cal

program. This represents a 6 percent increase over revised current year funding, due to increased program caseload. Methadone treatment represents over 60 percent of Drug Medi-Cal expenditures.

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 $194.7 million for 2006-07 ($35.5 million General Fund), a 0.4 percent increase over the current year.

Key Provision

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

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 $167.7 million (1.5 million General

Fund) for 2006-07, a 2.8 percent decrease compared to current year funding. The decrease is due to the expiration of one-time federal funding in 2005-06 for weatherization and energy assistance for low-income households.

Key Provisions

- **LIHEAP.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, contains a one-time augmentation for the Low-Income Home Energy Assistance Program (LIHEAP). The Legislative Analyst's Office estimates that California's share of this augmentation will be $45 million. LIHEAP provides weatherization and energy assistance for low-income households.
- **Naturalization Services Program.** The Governor's budget proposes to continue the Naturalization Services program for $1.5 million in General Fund.

THE 2006-07 STATE BUDGET

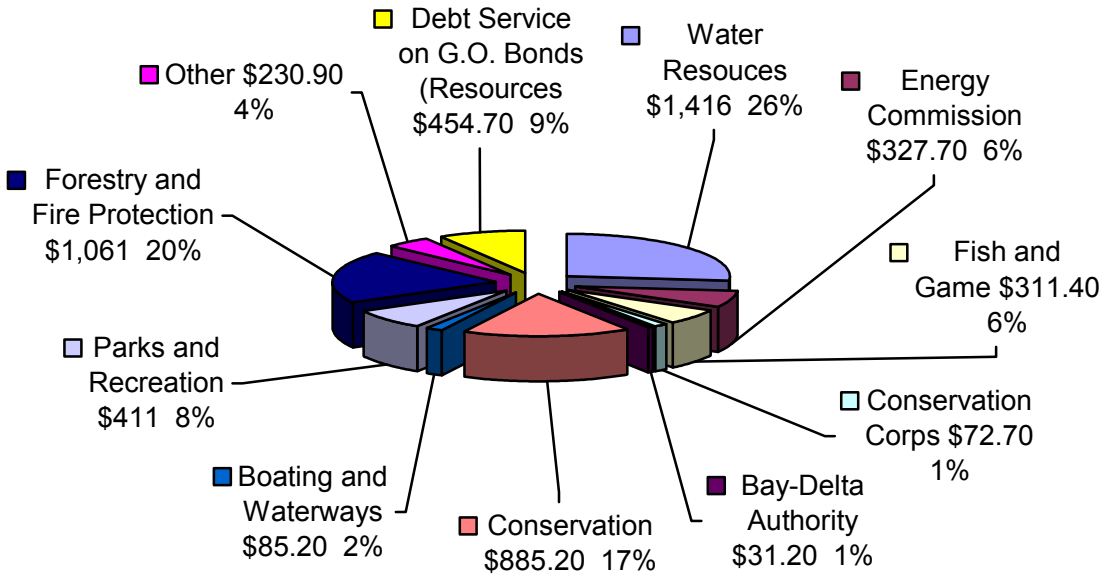
Natural Resources and Environmental Protection

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 $10.3 billion ($1.5 billion General Fund) and 16,134 positions for state operations, local assistance, and capital outlay for the various entities within the Resources Agency. This represents a decrease of $1.6 billion from 2005-06 – resulting primarily from declining bond revenue.

Proposed Resouces Expenditures 2006/07
(Dollars in Millions)



Key Provisions

- **River Parkway and Sierra Nevada Cascade Conservation Grants.** The Governor's budget proposes to appropriate $42.59 million (Proposition 40 and Proposition 50 bond funds) to the Office of the Secretary for River Parkway and Sierra Nevada Cascade Conservation Grants.

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 CCC hires young men and women to assist governmental and nongovernmental organizations in conserving, protecting, and restoring natural resources while providing corps members with on-the-job training and educational opportunities.

The Governor's Budget proposes $58.9 million ($32.9 million General Fund) which is a decrease of $3.5 million over the 2005-06 budget.

Key Provisions

- **Collins-Dugan Fund Shift.** The Governor's budget proposes to shift $8.2 million from the Collins-Dugan California Conservation Corps Reimbursement account to the General Fund. This fund shift is being proposed to maintain current program service levels in light of declining bond funds.

DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The California Department of Forestry and Fire Protection (CDFF) protects the people of California from fires, responds to emergencies as part of the California Emergency Plan, and protects and enhances 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 $854 million ($572 million General Fund) which is an increase of $43.5 million over the 2005-06 budget.

Key Provisions

- **Capital Outlay Staffing.** The Governor's budget proposes to provide 15 positions to CDFF to establish a new capital outlay implementation function within the department. The workload addressed in the proposal is currently under the purview of the Department of General Services. Due to delays projected by DGS; CDF is proposing to perform associated workload within the department in order to expedite the increased workload.

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 Department is also responsible for the diversified use of fish and wildlife including recreational, commercial, scientific and educational uses.

The Governor's budget proposes $310.1 million ($53.5 million General Fund) in support of the DFG's activities.

Major Provisions

Balancing of the Fish and Game Reservation Fund

The Governor's budget proposes to provide an augmentation of $6.0 million (General Fund) Augmentation to fully backfill costs associated with the implementation of AB 7 (Cogdill) This proposal includes trailer bill language that would make adjustments to AB 7 - adjust deposit requirements, implementation timelines and other factors - in order to reduce costs and improve implementation feasibility.

Additionally, the Governor's budget proposes a $4.0 million (General Fund) augmentation to encompass a shortfall in the Fish and Game Preservation Fund Non-Dedicated revenues.

Other Key Provisions

- **Fisheries Restoration Grants Program.** The Governor's budget proposes a $4 million augmentation (General Fund) to support the state match for grants and contracts to restore habitat for coastal anadromous salmonid species in coastal counties.

- **Bay Delta Sport Fishing Enhancement Stamp.** The Governor's budget proposes to augment the department's budget by $1.5 million (Fish and Game Preservation Fund) and 2.5 positions to provide fishery enhancement, angler access and education projects for the Bay delta.

- **San Joaquin River Restoration.** The Governor's budget proposes to augment the Department's budget by $5 million (Proposition 13 funds) over the next three years to support San Joaquin River Restoration activities related to the fishery, wetland and riparian resources and regional water supply reliability in the San Joaquin Valley. The appropriation will be scheduled as follows: $750,000 in 2006-07; $2.25 million in 2007-08; and $2.25 million in 2008-09.

- **Automated License Data System.** The Governor's budget proposes to provide $448,000 (Fish and Game Preservation Fund) for the creation of an automated License Data System to replace the current paper based process. With the new system, license sales will be made available over the internet, allow for improved sales data collection and support point of sale terminals.

- **Mitigation Fish Hatchery Programs.** The Governor's budget proposes to provide $681,000 (Federal Trust Fund and Reimbursements) to restore and enhance salmon and steelhead hatchery mitigation programs and increase public outreach at four State-operated hatcheries in the Feather River, Mokelumne River, Nimbus (American River) and the Merced River.

- **Land Management Enhancement.** The Governor's budget proposes $886,000 (Proposition 12 Funds) in expenditure authority to continue resource management projects on DFG managed lands.

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 Program.** The Governor's budget proposes $1.3 million augmentation (Special Funds) support: access to trail easements; acceptance of Offers to Dedicate (OTD); design and construction of trails, stairways, staging areas, restrooms and interpretive signage; and provision of facilities for physically disabled, or mobility impaired visitors.

- **Watersheds.** The Governor's budget proposes $23.5 million (Proposition 50 funds) for grants to local entities for watershed related projects.

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

- **Boating Facilities Division.** The Governor's budget proposes $21.4 million (Harbors and Watercraft Revolving Fund) for public loans for expansions and rehabilitation of existing marinas.

- **Launching Facility Grants**. The Governor's budget proposes $9.6 million (Harbors and Watercraft Revolving Fund) for local assistance grants for launching facility capital outlay grants.

- **Marina Construction**. The Governor's budget proposes $3.5 million (Harbor and Watercraft Revolving Fund) for Marina construction loans.

- **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.

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. With increased urbanization, the establishment of park units and recreation areas accessible to the major population centers of the state has become particularly important.

The Governor's budget proposes $381.6 million ($112.8 million General Fund) in support of the Department of Parks and Recreation's activities. Proposed 2006-07 funding for the Department represents a reduction of $180.8 million (all funds) which can be attributed primarily to declining bond funds.

Key Provisions

- **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.

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's budget proposes $1.2 billion ($215.9 million General Fund) in support of the Department of Water Resources' activities.

Major Provisions

Flood Protection

In the 2006-07 budget, the Governor has proposed a total of $76.3 million ($66.4 million General Fund) in flood protection funding that will go to address improvements and maintenance along the Central Valley Flood Control System and other capital improvements along the Sacramento and American Rivers. Specifically, the budget proposes to provide:

- $35 million (General Fund) to implement a multi year Central Valley flood management plan.

- $41.3 million ($31.4 million General Fund) for six new or continuing flood control capital projects: Folsom Dam Modifications, American River Common Features, Sacramento River Bank Protection, Folsom Dam Raise, American River Natomas Features, and Upper Sacramento River Levee Restoration.

Other Key Provisions

- **Lining of the All American Canal.** The Governor's budget proposes to provide $84 million (General Fund) for the lining of the All American Canal.

- **CALFED –Water Use Efficiency.** The Governor's budget proposes to fund $32.1 million (Proposition 50) of the CALFED Water Use Efficiency Program that provides grants to water districts and other applicants for water efficiency projects.

- **CALFED Bay Delta Program.** The Governor's budget proposes to increase funding for the Bay Delta Program by $34 million ($11 million-Proposition 50; $22 million-Proposition 13) and will be broken out as follows: Conveyance ($5.5 million); Water Quality ($6.5 million); Ecosystem Restoration ($15.7 million); and Surface Storage ($6.4 million). Funding in this proposal will result in a net budget increase of $29.8 million because funding requested for the Department overhead in this proposal will be offset by overhead cost reductions in other DWR programs.

- **CALFED –Storage.** The Governor's budget proposes $2.0 million in Local Assistance funding (Proposition 13) for the San Luis Low Point Bypass feasibility study.

- **San Joaquin River Restoration.** The Governor's budget proposes $5 million (Proposition 13) over three-years for the state-led program to investigate non-flow related restoration actions such as fish passage,

water quality and water supply alternatives for the San Joaquin River. Funding for this proposal will be appropriated as follows: $1 million in 2006-07; $2.0 million in 2007-08; and $2.0 million in FY 2008-09. The Department of Fish and Game has submitted a matching San Joaquin River Restoration proposal.

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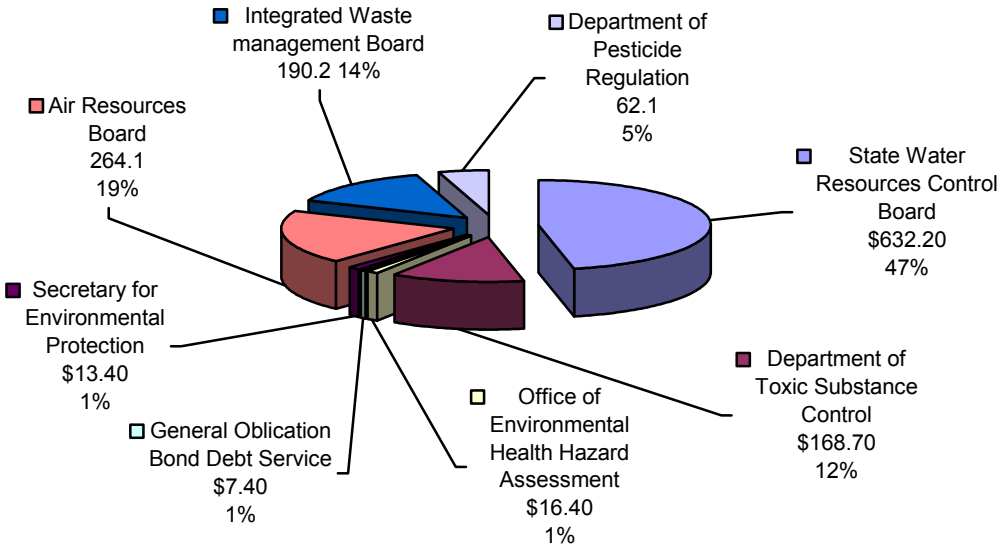
CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

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 $1.4 billion ($71.4 million General Fund and $1.3 billion other funds) and 4,547.2 positions for CalEPA, which reflects a decrease of $436.4 million ($6.7 million General Fund and $429.7 million other funds) below the revised 2005-06 Budget. Most of the decrease in funding is attributable to less bond money being available for expenditure in 2006-07.

Proposed Envionmental Protection Expenditures
2006/07
(Dollars in Millions)



Major Provisions

Climate Change Emission Reduction Initiative

In the 2006-07 budget, the Governor has proposed a cross agency initiative - directed by the Secretary of CalEPA - focused on the reduction of statewide greenhouse emissions and the achievement of increased climate change emission standards. This initiative includes $7.3 million ($135,000 General Fund and $7.0 million other funds) and would enact the goals outlined by Executive Order S-3-05 through participation of the Secretary for CalEPA, Air Resources Board, Energy Commission, Public Utilities Commission and the Waste Management Board.

Under this proposal, the Secretary for CalEPA's budget includes $900,000 ($135,000 General Fund, $765,000 Special Fund) and two personnel years that will, with assistance from other agencies, analyze and report on the effects of climate change on California as well as prepare and report on possible mitigation and adaptation plans that combat adverse consequences of climate change.

Other Key Provisions

- **California-Mexico Border Coordination.** The Governor's budget proposes to redirect 5 positions and $619,000 (various funds) from existing boards to the Office of the Secretary to support agency-wide environmental policy and program coordination for California-Mexico border-related activities.

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 $264.1 million ($2.2 million General Fund, $261.9 million other funds) in support of the Air Resources Board's activities which represents a $6.3 million decrease in funding for the board.

Key Provisions

- **Climate Change Initiative.** The Governor's budget proposes $5.2 million ($3.3 million one-time Air Pollution Control Fund and $1.9 million ongoing Motor Vehicle Account) and 14.8 positions for the Air Resources Board to develop measures that require the use of bio-diesel fuel, reduce hydrofluorocarbon emissions and reduce emissions from heavy-duty vehicles.

- **Goods Movement.** The Governor's budget proposes $1.6 million (Motor Vehicle Account) and 8.0 personnel years to demonstrate new technologies and develop mitigation measures from goods movement activities.

- **Hydrogen Highway.** The Governor's budget proposes $6.5 million (Motor Vehicle Account) to establish three public hydrogen fueling stations and federal matching funds for five hydrogen fuel cell buses for operation in public transportation.

- **Environmental Enforcement.** The Governor's budget proposes to include $4.0 million ($1.3 million one-time Air Pollution Control Fund and $2.7 ongoing Motor Vehicle Account) and 19 positions for the Air Board to enforce heavy-duty diesel regulations, evaluate on-board diagnostic systems in vehicles, and replace older testing and diagnostic equipment.

- **Clean Air Grant Program.** The Governor's budget proposes a one-time augmentation of $2 million (Air Pollution Control Fund) for the expansion of the Innovative Clean Air Technologies Grant Program in order to facilitate the commercialization of new and innovative clean-air technologies.

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 Board protects public health and safety and the environment through the regulation of solid waste facilities, including landfills. Board activities include research, permitting, inspection, enforcement, public awareness, market development to promote recycling industries, and technical assistance to local agencies in development of local integrated waste management plans.

The Governor's budget proposes a total of $190.2 million (special funds) for the Waste Board's programs which represents a $10.1 million reduction in programmatic spending over 2005-06.

Key Provisions

- **Electronic Waste Recycling.** The Governor's budget proposes $1.1 million (Electronic Waste Recovery and Recycle Account) to implement the provisions of the Electronic Waste Recycling Act. Additionally the budget proposes $223,000 and 3.0 personnel years to prevent recycling fraud in the program.

- **Rubberized Asphalt Concrete Grant Program.** The Governor's budget proposes $5.2 million (Tire Recycling Management Fund) and 3.0 permanent positions to enhance enforcement of the waste and used tire industry.

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 proposed budget contains provides $62.1 million in overall funding for the department, an increase of $1.4 million over 2005-06.

Key Provisions

- **Program Reorganization.** The Governor's budget proposes to implement a program reorganization in the department that would consolidate the Registration and Health evaluation program with its Pest Management, Environmental Monitoring, Enforcement and Licensing program.

- **Mill Assessment Compliance Enforcement.** The Governor's budget proposes $425,000 (Department of Pesticide Regulation Fund and 4.0 auditor positions to enhance enforcement of mill assessment collections and regulation.

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 $632.3 million ($28.8 million General Fund) in support of the State Water Resources Control Board's activities which represents an cumulative decline of $408 million (all funds) in funding that is comprised primarily of declining bond funds.

Key Provisions

- **Stormwater and Wastewater Regulatory Funding.** The Governor's budget proposes $4.5 million (Waste Discharge Permit Fund) to support existing staff in the National Pollutant Discharge Elimination System (NPDES) permit program and shift funding to support the Surface Water Ambient Monitoring (SWAMP) program.

- **Surface Water Ambient Monitoring Program.** The Governor's budget proposes a one-time augmentation of $4.0 million (Waste Discharge permit Fund) to provide for increased surface water monitoring.

- **Proposition 13 and 50 Program Implementation.** The Governor's budget proposes $40.4 million in local assistance bond funds for future approved projects. Included in this funding are funds for water recycling, non-point sources pollution control, watershed and other CALFED related programs.

THE 2006-07 STATE BUDGET

General Government

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 $20.7 million ($15.2 million General Fund) for the department, an increase of $1.6 million 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 2004-05	Estimated 2005-06	Proposed 2006-07
General Fund	$13,617	$13,634	$15,237
Federal Trust Fund	4,939	5,470	5,508
Total Expenditures (All Funds)	**$18,556**	**$19,104**	**$20,745**

The budget proposes 212 personnel-years (PYs) of staffing for DFEH in 2006-07, an increase of 14.2 PY (7.2percent).

Key Provisions

- **Discrimination Complaint Caseload.** The Governor's budget proposes an increase of $1.1 million and 13 positions to increase the number of discrimination complaints that DFEH can accept and to complete more investigations within the statutory 1-year time limit. Last year, the Assembly version of the 2005-06 Budget included an augmentation of $600,000 and 9 positions to improve caseload processing (this augmentation, however, was not included in the enacted budget).

- **Appointment Scheduling and Application Processing**. The Governor's Budget includes $464,000 and 2 positions for DFEH to automate its appointment scheduling and processing of "Right to Sue" applications, in which complainants seek permission to file a discrimination lawsuit in place of a DFEH investigation.

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 $477.5 million ($16.8 million General Fund, $172.9 million federal funds, and $287.8 million from bond funds and special funds) and 519.4 personnel years of staff for the department's activities in fiscal year 2006-07. This represents a spending decrease of $176.4 million but an increase of 19.7 positions from the revised 2005-06 budget. The large spending decline primarily reflects (1) a reduction in spending from Proposition 46 housing bonds because most of the bond money already has been committed, (2) additional federal housing funds received in the current year and treated as one-time in the budget, and (3) one-time federal disaster-relief spending in the current year.

The department's proposed General Fund support, although only a small portion of total funding, increases by $2.6 million (17.9 percent), primarily due to increased funding for 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.

Department of Housing and Community Development
Budgeted Expenditures by Program
(in thousands)

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Codes and Standards Program	$22,327	$25,302	$26,937
Financial Assistance Program	585,129	607,073	431,340
Housing Policy Development Program	25,106	27,368	25,503
Administration Program	9,987	10,013	10,319
Distributed Administration Program	-9,818	-9,995	-10,314
Loan Repayments Program	-4,534	-5,805	-6,247
State-Mandated Local Programs	1	-	-
Total Expenditures (All Programs)	**$628,198**	**$653,956**	**$477,538**

Key Provisions

- **Office of Migrant Services (OMS) Repair, Reconstruction, and Operation.** The Governor's budget proposes a General Fund augmentation of $3.4 million for the migrant farm worker housing centers operated by OMS. Of this amount, $2.35 million would be used 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 also plans to request additional capital funding in 2007-08 and 2008-09 to reconstruct child care centers at Gilroy and French Camp. The remaining $1.025 million would be an ongoing increase in the budget for operation and maintenance for the migrant centers. The OMS operates 25 Migrant Centers throughout California.

- **Reduction in Homeless Shelter Grants.** The Governor's budget reduces the General Fund support for the Emergency Housing Assistance Program, which provides State grants (averaging about 10 percent of costs) for local agency-operated homeless shelters, by $864,000, for a total of $3.1 million in funding for fiscal year 2006-07. For several years, the Governor has proposed this reduction, which has been restored by the Legislature. In signing the *2005-06 Budget Act*, Governor Schwarzenegger explained that he was sustaining the funding restoration on a one-time basis in anticipation of an expansion of supportive housing for chronically mentally ill homeless persons. The 2005-06 budget established a multiyear allocation of $40 million of Proposition 46 housing bond funds, plus additional funds from the California Housing Finance Agency and Proposition 63 mental health funds to increase housing for the chronically mentally ill portion of the homeless population. HCD estimates that it will spend $18 million of the Proposition 46 bond funds in the current year and $14.5 million in 2006-07.

- **Consumer Protection and Services to Manufactured Home Dealers and Salespersons**. The Budget includes $501,000 (special fund) and 6 positions to process increased license applications, investigate consumer complaints, and staff the Office of Mobilehome Ombudsman.

- **Enterprise Zone Fees.** The budget requests trailer bill language to provide permanent fee authority to support the department's administration of Enterprise Zone tax incentives. HCD assesses a $10 fee for each certification of a qualified employee issued by local zone administrators. This fee generates almost $700,000 annually. Statutory authority for this fee currently expires on December 31, 2006.

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 $154.8 million ($95.9 million General Fund) for the State Controller's Office (SCO) in 2006-07, an increase of $27.8 million (21.9 percent) over the current year. Most of the increase is from the General Fund. Proposed staffing is 1,142 personnel-years (PYs), an increase of 28 PYs. These increases reflect scheduled increases to develop the 21st Century Project, as discussed below.

State Controller's Office
Budgeted Expenditures by Program
(in thousands)

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Accounting and Reporting	$11,974	$15,355	$13,751
Audits	22,284	24,229	24,065
Personnel/Payroll Services	25,925	32,116	58,963
Information Systems	13,992	14,516	15,087
Collections	15,527	16,056	16,573
Disbursements and Support	34,179	36,579	37,883
Distributed to Other Programs	-9,714	-10,061	-10,061
Loan Repayment Programs	-3,193	-1,842	-1,477
Total Expenditures (All Programs)	**$110,974**	**$126,948**	**$154,784**

Major Provisions

21st Century Project

The budget proposes an increase of $37.5 million ($20.1 million General Fund) and 46.5 1-year limited-term positions to implement the design, development, and initial rollout phases of the a new human resources management system. This system will replace the current dated and obsolete systems that handle state payroll, employment history, leave accounting, and position control.

The new system will provide much better accounting for personnel costs by fund, allow calculations and tracking of actual salary savings for departments, and provide better information to improve the fiscal oversight of the Administration and the Legislature over the state's human resources management. Funding for this multiyear project first was provided in 2004-05.

Other Key Provisions

- **Apportionments Payment System.** The Governor's budget proposes $766,000 (special funds) for the third year of this project to replace the existing aging system that distributes apportionments of various revenues to local entities. Ongoing annual maintenance costs are projected at $62,000.

- **Unclaimed Property Program Staffing.** The Governor's budget proposes $554,000 from the General Fund for 7.2 PYs of staff to handle increased workload for the unclaimed property program, including attempting to notify owners of unclaimed property, auctioning contents of abandoned safe deposit boxes, and operational support.

- **Bank Reconciliation System Replacement.** The Governor's budget proposes $710,000 ($308,000 General Fund) to replace the SCO's existing system for issuing and tracking warrants for the state. The SCO indicates that the current system is obsolete and technicians trained to operate it are becoming increasingly scarce.

DEPARTMENT OF VETERANS AFFAIRS

The 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 $314.7 million ($68.8 million General Fund) for Veterans Affairs, a 3.6 percent increase from last year.

Major Provisions

Yountville Alzheimer's and Dementia Unit

The Governor's Budget proposes $3.8 million ($3.4 million General Fund) and 75.7 positions to operate a new Alzheimer's and Dementia Unit at the Yountville Home. The new unit is expected to serve 75 current residents identified with these conditions with a specifically designed facility to care for them. A corresponding augmentation of $1.3 million ($371,000 General Fund) and 33.5 positions will backfill of two nursing wards that currently house this population.

Congressional Action Threatens Cal-Vet Farm and Home Purchase Loan Program

Congress is considering a bill that would sunset the Cal-Vet Farm and Home Purchase Loan program. Under current law, any veteran that served prior to 1977 and left active duty less than 30 years ago can receive a low-interested fixed rate home loan. Congress is considering changing the eligibility for the program to allow veterans that have served after 1977 to also qualify for the program. However, the current bill, HR 4297, also contains provisions to limit the number of loans the State can offer each year. More troubling, the bill also contains language to sunset the entire program in 2010.

California is one of five states to currently offer such a program. California's program has issued 400,000 loans and has a net portfolio of over $2.3 billion. The can issue tax-exempt bonds to raise funding through and enterprise fund to provide the low-interest loans. If the program were to sunset, the State would lose the ability to issue the bonds.

Other Key Provisions

- **Veterans Home Construction Team.** The Governor's budget proposes renewing two Veterans Home Fund Construction Team positions for $211,000 General Fund.

- **Yountville Infrastructure Study.** The Governor's budget proposes a $500,000 General Fund appropriation for an infrastructure study for the 105 year-old Yountville Home.

- **Salary Savings Exemption.** The Governor's budget proposes $1.7 million to exclude 27.8 PY of nurses and other 24-hour care staff from the calculation of salary savings for CDVA. This change would be consistent with the practice of other State departments which currently exclude their 24-hour care facilities staff from salary savings calculations.

- **Combat-Related Behavior Treatment Program.** The Governor's budget proposes $1 million General Fund and 11 positions to establish a new program to treat veterans with post traumatic stress disorder, and other combat-related psychiatric problems. The new program will offer psychology, psychiatry, and substance abuse treatments services.

- **Barstow Nursing Bed Restoration.** The Governor's budget proposes $1.3 million ($906,000 General Fund) and 10.6 positions to restore 20 nursing beds at the Barstow Home. Barstow Home closed its nursing facility in 2003 after a series of incidents involving mistreatment of residents. The Department of Health Services authorized Barstow to re-open its skilled nursing facility in April 2005.

- **Yountville Recreation Building Renovation.** The Governor's budget proposes $8.3 million to renovate the Yountville Home recreation building. This project will improve the functionality of the building and also address hazardous material abatement and fire and seismic code issues.

- **Increased Operating Costs.** The Governor's budget proposes several adjustments to the DVA budget to address rising costs of doing business. These requests include an increase in worker's compensation insurance, food, and contracted services.

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

- **Repairing and Maintaining Armories.** The Governor's budget proposes $3.5 million for maintenance and repair of armories throughout California. There is an estimated $35 million in deferred maintenance costs across the State that needs to be addressed.

- **Creating an Internal Control Office.** The Governor's budget proposes $182,000 General Fund and two auditor positions to provide an ongoing audit of the departments fiscal systems and practices.

- **Land for Headquarters**. The Governor's budget proposes $1 million General Fund for a two-year purchase option on 30 acres of land at the former Mather Air Force Base to build a headquarters for the department. The full cost of the headquarters is expected to be $98.5 million.

- **Homeland Security Funding.** The Governor's budget proposes $1.7 million federal funds and 7 positions for federal Office of Homeland Security contracts.

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.

Major Provisions

Benefit Levels

EDD administers four major benefit programs for workers. The budget provides some caseload adjustments to these programs:

Unemployment Insurance (UI): Total benefits are projected to decrease by $458.8 million in 2005-06 and decrease from 2005-06 appropriation by $507.7 million in 2006-07. This will result in a corresponding decrease in EDD staff and operations of 122.3 PY resulting in a current year savings of $10.2 million and a budget year savings of $9.3 million.

Disability Insurance (DI) Program: Benefits are projected to increase over $185.6 million over the current year budget appropriation and decrease in next year by $79.7 million in the budget year. This will result in a decrease in operational expenditures by 66.7 PY and $4.3 million in the current year and a decrease of 23.9 PY and $1.5 million in the budget year.

School Employees Fund Program: Benefits are projected to decrease by $35 million in 2005-06 and decrease by $41.4 million in 2006-07.

Workforce Investment Act (WIA) Program: WIA is proposed to increase by $17.8 million in the current year.

Other Key Provisions

- **Automated Collection Enhancement System.** The Governor's budget proposes an augmentation of $3.1 million ($2.7 million General Fund) and 15 positions to continue a technology project that will integrate and automate tax information.

- **Disability Insurance Automation Project.** The Governor's budget proposes $1.8 million special funds and 6.7 PY to fund the first year of a four-year project to automate disability claims.

- **Employment Training Panel.** The Governor's budget proposes restoring $5 million of Employment Training Funding that had previously been earmarked for the CalWORKs program in the Department of Social Services. This restoration will increase the amount of funding available for employment training.

- **Backfill of Federal Funds.** The Governor's budget proposes restoring $6.9 million in federal funds with State EDD Contingency Funds. These funds would continue Wagner-Peyser programs, Veterans Employment and Training, and the Unemployment Insurance Program identity verification program.

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.

Major Provisions

Worker's Compensation Reform

The budget contains four proposed changes related to recent legislation regarding workers-compensation. These changes are as follows:

Return-to-work. The budget includes $577,000 and one PY for payments to small employers who comply with the Return-to-work program.

Repeal of the $100 Initial Lien Filing Fee. The Budget trailer bill proposes to repeal a requirement that medical-legal providers to pay a $100 filing fee when filing an initial lien on a claim. The administration believes that the fee requirement is not resulting in the settlement of claims and is a significant workload burden.

Position Upgrade. The budget includes $971,000 to reclassify positions into higher paid classification that reflect the more complex nature of the work performed.

Extension of Limited Term Positions. The budget includes four PY of limited-term legal positions be continued an additional two years. These positions are associated with the implementation of the worker's compensation legislative changes contained in SB 899 of 2004.

Other Key Provisions

- **Collections Unit.** The Governor's budget proposes $561,000 special funds and five positions to establish a Division of Labor Standards and Enforcement collection unit to pursue the collection of judgments and liens associated with labor law violations.

- **District Office Upgrades.** The Governor's budget proposes $2.5 million of facility maintenance issues. Of this amount, $2.2 million and 2 PY is for deferred maintenance costs at all 24 district offices through the State. $228,000 of this amount is allocated for security barriers at two district offices.

- **Pressure Vessel Safety.** The Governor's budget proposes $1 million special funds and 8 PY to address increase workload in Pressure Vessel Unit.

DEPARTMENT OF CONSUMER AFFAIRS

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 important advocate on consumer and business issues.

Key Provisions

- **Medical Board of California.** The Governor's budget proposes $3.9 million for the Medical Board of California to implement SB 231 (Figueroa) Chapter 674, Statutes of 2005, which increases physicians' initial licensure fees and biennial renewal fees from a current ceiling of $610 to $790. The bill also extends the sunset date for the Board to 2011 and makes several changes to implement the recommendations from an Enforcement Monitor, who was authorized by the Legislature, to study the Board's enforcement and diversion programs.

- **iLicensing System.** The Governor's budget proposes $3.7 million and 8.6 positions to establish a new iLicensing System that will make online services available to the consumers of all programs overseen by the Department. According to the Administration, this system will provide increased consumer accessibility and convenience to the 2.3 million licensees and applicants to the Department.

- **Bureau of Automotive Repair.** The Governor's budget proposes $3.8 million for the Bureau of Automotive Repair to implement AB 383 (Montañez) Chapter 565, Statutes of 2005, which increases income

eligibility criteria for participation in the Smog Check Repair Assistance Program. This bill increases the allowable maximum household income under federal guidelines for participation in the program and directs the Department of Consumer Affairs, if it determines the number of applications exceeds the funds available, to give priority to applications from low-income motor vehicle owners, as defined, in the test-only portion of the Smog Check program.

- **Bureau of Security and Investigative Services (BSIS).** The Governor's budget proposes $1.4 million for the Bureau of Security and Investigative Services to implement SB 194 (Maldonado) Chapter 655, Statutes of 2005, which requires proprietary private security officers to register with BSIS and submit to a background check by the Department of Justice.

DEPARTMENT OF GENERAL SERVICES

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.

Key Provisions

Williams Settlement. The Governor's budget proposes $14.1 million for Fiscal Year 2005-06 pursuant to AB 351 (Chu) Chapter 124 Statutes of 2005, which appropriated these funds from the General Fund to DGS to pay for the settlement of the Williams lawsuit.

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 to restore funding for the Small Business Loan Guarantee Program for repayment of a $10.7 million loan made to the General fund during the 2002-03 budget year.

- **Tourism.** The Governor's budget proposes to augment funding for the State Tourism Marketing budget by $2.7 million (General Fund).

SECRETARY OF STATE

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The 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.

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, which 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 outlined by HAVA guidelines 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 list.

In order to implement HAVA requirements, California received $84.5 million (federal funds) in 2003-04 and $264.4 million (federal funds) in the spring of 2004. In the 2004-05 budget, the legislature required that the Secretary of State provide a written plan for the use of HAVA funds to the Department of Finance and the Legislature for approval prior to the subsequent release of those funds. A revised spending plan is forthcoming, but has not yet been approved.

Other Key Provisions

- **Special Election Costs.** The Governor's budget proposes to fully fund the Secretary of State and counties for the costs incurred administering the November 2005 Special Election. The Secretary of State is allocated $9 million and the counties are proposed to receive $45 million.

- **Notary Public Section.** The Governor's budget proposes $3.1 million in Business Fees Fund and 28.5 positions to address the increasing workload in the Notary Public Section of the Business Programs Division. The Governor's budget changes 12 positions from limited-term to permanent, and adds seven new 2-year limited positions. The Public Notary Section is responsible for all issues relating to public notaries, certifications, notary seals, enforcing laws related to the Child Support Enforcement Program, and investigating violations of notary law.

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CALIFORNIA ARTS COUNCIL

The California Arts Council was established in January 1976 to encourage artistic awareness, participation, and expression; to help independent local groups develop their own arts programs; to promote the employment of artists and those skilled in crafts in both the public and private sector; to provide for the exhibition of art works in public buildings throughout California; and to enlist the aid of all state agencies in the task of ensuring the fullest expression of our artistic potential.

The Council recognizes that the arts are essential for the cultural, educational, social and economic development of California. The Council seeks to further its mandates and services to the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community, which are broad-based and extended across the state from its largest metropolitan areas to its most rural areas.

Key Provisions

- **Local Assistance.** The Governor's budget proposes to use an additional $1.8 million in funds from the Graphic Design License Plate Account for local assistance programs administered and funded by the California Arts Council. Local assistance grants were eliminated after 2002-2003. The additional funding is available to reinstate those grants because SB 1213 (Scott), Chapter 393, Statutes of 2004, increased the cost of the Art License Plate, funding the Graphic Design License Plate Account.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefit for more than 1.4 million active employees and retires of state and local agencies in California. Benefits include retirement, disability, and survivor's retirement benefits; Social Security for State employees; and the development, negotiation and administration of contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long term care program for members and eligible individuals.

CalPERS is governed by a Board of Administration. The California Constitution provides that the Board of Administration has authority over the administration of the retirement system. Therefore, the budget data presented here is for informational purposes only, with the exception of the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

Key Provisions

- **2005-2006 Contribution.** The Governor's budget proposes a reflection of the state's General Fund 2005-06 contribution reduction to CalPERS by $152.7 million ($251.5 million all funds). This decrease is based on CalPERS new "asset smoothing and amortization" policies implemented at the April 19, 2005 Board of Directors meeting. This new policy spreads the system's market value asset gains and losses over 15 years, as opposed to the former practice of three years. This is expect to reduce employer rate volatility by 52 percent in future years as well.

DEPARTMENT OF PERSONNEL ADMINISTRATION

The Department of Personnel Administration is the Governor's chief personnel policy advisor. The Department represents the Governor as the "employer" in all matters concerning state employer-employee relations. The Department is responsible for all issues related to salaries, benefits, positions classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Department of Personnel Administration's responsibilities include:

- Representing the Governor in negotiations with employee labor organizations regarding terms and conditions of employment

- To manage salaries, benefits, classifications and training, and administers all aspects of the terms and conditions of employment except for merit related issues (hiring, promotion and discipline).

- Administer the tax deferred savings program for state employees.

- Provide staffing for the California Citizens' Compensation Commission.

Key Provisions

- **Employee Classification.** The Governor's budget proposes an additional $1 million in General Funds for the purpose of reforming the state employee classifications and determining appropriate testing instruments for the revised state classification structure. This process will be a joint effort between the State Personnel Board and the Department of Personnel Administration.

- **Legal Office.** The Governor’s budget proposes an additional six positions and $852,000 in reimbursement authority to meet the current workload demands of the Department of Personnel Administration’s legal office. Demand is increased due to a rise in litigation relating to collective bargaining issues and legal actions regarding state employees.

- **Enrollee-Funded Vision Care.** The Governor’s budget proposes one new position and $82,000 in reimbursement authority for the purpose of creating an enrollee funded vision care program for state retirees. Currently, retiree’s are eligible for both health care and dental care funded by the state. This vision plan would be a stand-alone pool, separate from

the active employees' plan. All administrative costs will be covered through the enrollee monthly vision premiums.

EMPLOYEE COMPENSATION

This budget reflects funding augmentation amounts for state civil service and other employee compensation. Employee compensation funding is based on approved Memoranda of Understanding for represented employees and the announcement of salary and benefit levels by the Department of Personnel Administration or other authorized entities for excluded employees.

Key Provisions

- **Bargaining Unit MOU's.** The Governor's budget proposes funding in accordance with the MOU's signed with 5 collective bargaining units. The budget does not, however, include funding for the 18 bargaining units whose agreements have, or will expire. The Department of Personnel Administration was augmented last spring to fund comprehensive employee compensation surveys. These surveys, when completed, will be used by the Administration to guide its negotiations with the remaining bargaining units. Any budgetary changes from future MOU's will have to be amended into the budget.

- **General Fund Reduction.** The Governor's budget proposes a reduction in salaries and wages by $58 million, approximately equivalent to 1 percent of the 2005-2006 salaries and wages budget. The Administration is not proposing to reduce individual employee salaries, but hope to achieve this reduction primarily through vacancies. They will also allow reductions in expenditures on staff benefits, operating expenses, and equipment related to salaries and wages expenditures to be applied towards this reduction goal.

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 PUC consists of five members appointed to 6-year terms by the Governor.

The Governor's Budget proposes $1.2 billion from special funds financed by utility ratepayers and 884.5 personnel-years (PYs) of staff for support of the PUC and its programs in 2006-07, including $861.4 million for Universal Service telecommunications subsidy programs and $258 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 33.7 PYs (4 percent) of staffing and an overall funding increase of $18.7 million (1.5 percent) from the revised 2005-06 budget.

Public Utilities Commission
Budgeted Expenditures
(in thousands)

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Regulation of Utilities	$414,998	$350,685	$364,956
Universal Service Telephone Programs	701,986	858,035	861,420
Regulation of Transportation	13,849	16,498	17,509
Administration	17,868	16,435	20,925
Distributed Administration	-17,868	-16,435	-20,925
Total Expenditures (All Programs)	**$1,130,833**	**$1,225,218**	**$1,243,885**

Major Provisions

Telecommunications Bill of Rights

The Governor's budget proposes $9.9 million of telecommunication ratepayer funds and 29.5 additional positions to enhance consumer protection under the draft "Telecommunications Bill of Rights (BOR)" decision proposed by Commission president Peevey and former member Kennedy in January 2006. The commission anticipates action on the proposal in March.

The draft decision emphasizes consumer outreach and education and emphasizes informed consumer choice, rather than additional prescriptive requirements, as the preferred means of ensuring fair competition in the rapidly changing telecommunications marketplace. The PUC also would enhance its

capacity to handle and analyze consumer complaints and to enforce existing consumer information and anti-fraud laws and requirements. The draft decision also includes policy decisions to allow non-communications purchases to be charged to cell phones, and requiring wireline carriers to offer stand-alone DSL service (as the PUC also required for AT&T and Verizon in their merger approvals). Commissioner Grueneich has issued an alternative proposed decision that is somewhat more prescriptive.

The budget request includes the following elements:

- ***Consumer education and outreach.*** This campaign would emphasize collaboration with community-based organizations (CBOs) to reach non- or limited-English and low-income communities. The budget requests a total of $7.1 million for the advertising and outreach campaign ($5.7 million for marketing and advertising and $1.35 million for CBOs and targeted outreach) and one new position for liaison with CBOs.

- ***Improved handling of consumer complaints.*** The budget requests 21 new positions to increase the staff of the Consumer Affairs Bureau. The bureau has a complaint backlog of 19,000, according to the budget (60 percent related to telecommunications), and 4,000 callers a month on the complaint hotline do not reach a bureau staffer. Moreover, the complaint hotline is only open from 10 am to 3 pm weekdays. In the 2005-06 Budget, the Legislature added 5 positions to the bureau to begin working down the backlog. The current budget request would increase hotline operation to 10 hours daily. The commission, however, does not identify any specific workload or performance targets for the new staff.

- ***Creation of a Telecommunications Consumer Fraud Unit.*** The budget requests 7.5 new positions to identify problems and follow up on complaints using a "progressive enforcement" approach that would first attempt to resolve disputes with the cooperation of carriers. The request also includes $300,000 to contract with the Attorney General to jointly pursue fraud cases, and one of the new staff will be devoted to developing relationships with law enforcement.

Comments. The budget proposal lacks a specific problem definition, as well as quantifiable goals and objectives. In part, this reflects the rapidly changes occurring in telecommunications and fragmented regulatory jurisdiction (the PUC does not regulate broadband, satellite, or cable services; and its wireline and wireless jurisdiction is shared with the federal government). The commission even seems confused as to whether there really is a problem. For example, the draft decision states that "There is no conclusive showing on the record that telephone customers in general are significantly dissatisfied with their service or that their level of dissatisfaction is increasing." On the other hand, the budget request cites a survey finding that almost half of respondents didn't even know

that they could file complaints with regulators if they have an unresolved dispute with their carrier. In any case, the limited accessibility of the consumer hotline and long backlog of complaints have given consumers little incentive to file complaints with the PUC. Finally, the budget proposal is predicated on the ability of the PUC to identify potential enforcement issues by analyzing trends in complaints, which it cannot do with its current obsolete consumer complaint database. The PUC indicates that it is preparing a feasibility study report to replace the database and will request additional funds for that purpose.

Rail Safety

The Governor's budget proposes $1.4 million ($946,000 PUC Transportation Reimbursement Account, $252,000 State Highway Account, and $180,000 Public Transportation Account) and 14.2 positions to enhance rail safety through additional accident investigations, evaluations of quiet zone notices, railroad inspections, and oversight of rail transit agencies' homeland security programs. Specifically, this proposal includes the following:

- Continue on a permanent basis 10 limited-term positions for railroad safety inspections (6 positions) and rail safety analysis (3 positions, plus one supervisor) at a cost of $946,000. These positions were included in a legislative augmentation to the 2005-06 Budget. The Governor vetoed several additional legal and federal coordination positions and stated that he was approving the 10 positions on a one-time basis pending PUC action to correct deficiencies in accounting for program funds. The PUC indicates that it has corrected those deficiencies, and the budget now seeks to make the positions permanent.

- Add three staff at a cost of $252,000 for the Rail Crossing Engineering Section in order to increase safety at rail crossings, investigate crossing accidents, and carry out federal requirements, including approval of Quiet Zones.

- Add two staff at a cost of $180,000 for rail transit safety accident investigation and rail transit security oversight. The PUC indicates that these positions would backfill positions that it has diverted to address increased workload for oversight of rail transit construction projects.

Other Key Provisions

- **Division of Ratepayer Advocates (DRA).** The Governor's budget proposes $154,000 of ratepayer funds to establish a lead attorney position within the DRA, as provided for in SB 608 (Escutia). In addition, the budget proposes to redirect 6 positions within DRA—5 for water rate

cases and 1 for telecommunications workload. These staff would be redirected from DRA workload related to electric and gas utilities.

- **Other Staff Redirections.** The Governor's budget proposes the following redirections of 24 existing PUC positions:

  - 12 analyst positions to implement the Governor's Climate Action Strategies. The areas in which these staff would work include the Governor's goal of increasing the Renewable Portfolio Standard (RPS) to 33 percent (versus the existing statutory goal of 20 percent); evaluation and expansion of utility energy efficiency programs; implementation of the California Solar Initiative; electric sector carbon policy; and the Green Buildings Initiative. This proposal raises the issue of whether these Governor's initiatives should be authorized in legislation prior to budgeting resources to carry them out. The redirections would come from other, often related, functions in the PUC's Energy Division and from elimination of staff to inspect payphones throughout the state (which the PUC indicates may require legislation).

  - 3 technical positions to assist with implementing the RPS, distributed generation policies, and the Governor's Million Solar Roofs initiative. Staff will be redirected from utility reliability functions and from support of the Low Income Oversight Board.

  - 4 positions to verify and evaluate utility energy efficiency programs and to implement advanced metering and demand response programs. Of the 4 positions, 3 also will come from the payphone program and 1 from support of the Low Income Oversight Board.

  - 2 positions to handle increased workload for General Rate Cases for the three major electric utilities. The redirection will reduce staff available to process other rate decisions, such as those affected smaller electric utilities.

  - 2 positions for workload needed to monitor utility procurement of energy resources. These positions also would be redirected from the Low Income Oversight Board, leaving the board without technical support.

  - 1 position to function as a Small Business Liaison for the PUC. The redirection would reduce commission outreach, communications, and public forums in the Inland Empire.

- **Headquarters Building Improvements and Child Care Study.** The budget requests one-time funding of $1,122,000 of ratepayer funds for a

variety of maintenance repairs and energy efficiency improvements at the PUC's San Francisco headquarters. The request also includes $500,000 for a study of relocating the building's child care center from the basement to the first floor of the building.

- **Workstation Makeover.** The Governor's budget proposes $2.4 million in 2006-07 to be followed with an additional request for $2.4 million in 2007-08 to replace the PUC's modular workstations, which were purchased in 1986.

ENERGY COMMISSION

The California Energy Commission (CEC) is responsible for ensuring a reliable supply of energy that meets California's needs and complies with environmental, safety, and land use goals. The Commission reviews and approves applications to site major electricity power plants, encourages measures to reduce the inefficient use of energy and adopts energy conservation standards for buildings and appliances, evaluates energy usage and forecasts energy supply and demand for the state; monitors alternative ways to supply energy, and oversees state-funded energy research and development projects.

The Governor's budget proposes $327.7 million from special funds (predominantly financed by utility ratepayer charges) and 492.4 personnel-years (PYs) of staff for the Energy Commission in fiscal year 2006-07. This represents an increase of 8.3 PYs and a decrease of $105.9 million from the revised 2005-06 Budget.

California Energy Commission
Budgeted Expenditures
(in thousands)

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Regulatory and Planning	$26,880	$25,775	$26,179
Energy Resources Conservation	22,130	26,504	22,880
Development	183,120	383,203	279,758
Policy, Management and Administration	11,398	11,551	13,082
Distributed Policy, Management and Administration	-11,398	-11,551	-13,082
Loan Repayments	-5,179	-1,883	-1,133
Total Expenditures (All Programs)	**$226,951**	**$433,599**	**$327,684**

The large spending reduction results from one-time spending commitments of accumulated carryover balances budgeted in the current year from Renewable Resources Trust Fund (RRTF) and, to a lesser degree, 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). Ongoing spending for commission staff and support excluding spending on grants, loans, and subsidies—will total $71.1 million in 2006-07, an increase of $4 million (6 percent) compared with the current year.

Major Provisions

Renewable Resources 5-Year Investment Plan

Existing law requires the CEC to prepare investment plans to guide the expenditure of RRTF funds. The second 5-year investment plan must be presented to the Legislature by the end of March 2006. That plan will address the best use of RRTF funds collected between January 2007 and January 2012, including some of the funds budgeted for expenditure in 2006-07. Although existing law continuously appropriates RRTF funds for the purpose of renewable energy subsidies, expenditure of post-2006 funds is contingent on further action by the Legislature to "reauthorize" the program after review of the new 5-Year Investment Plan.

One of the primary purposes of the RRTF is to provide financial incentives to increase renewable energy electricity generation to meet the state's Renewable Portfolio Standard (RPS) goal of 20 percent of electricity from renewable resources by 2017. Although the CEC publishes annual reports on the RRTF program, those reports do not assess progress towards meeting the RPS or whether RRTF funding is likely to be adequate. The 2006 5-Year Investment Plan should address these issues. An assessment of the adequacy of RRTF funding also is needed to determine the need for the General Fund to repay $150 million previously borrowed from the RRTF. The Governor's Budget does not propose any repayment of this loan in 2006-07.

PIER Plan

Existing law also requires a March 2006 report from the CEC to the Legislature on the PIER Program. The report must set out long-term research priorities, and a program management and staffing plan. The commission now has hundreds of active PIER research and development projects. The report must identify in priority order the five to ten most important research areas, and address, the most effective management, staffing and funding structure to carry out those priorities.

Other Key Provisions

- **Climate Change Initiative.** The Governor's budget proposes an augmentation of $612,000 to fund 4 positions and $200,000 of ongoing contract funds to help implement the Governor's June 2005 Executive Order setting out his greenhouse gas emission reduction goals for California. The CEC's tasks would be to reduce emissions from electricity generation, accelerate the RPS, update the greenhouse gas emissions inventory, and implement energy efficiency programs. These strategies were identified by the Governor's Climate Action Team. This proposal is part of a $7.2 million multi-agency proposal coordinated by CalEPA.

- **Alternative Transportation Fuels**. AB 1007 (Pavley) requires the Energy Commission to develop a plan to increase the state's use of alternative transportation fuels. The budget includes $500,000 of one-time contract funds to complete the alternative fuels plan. The plan will evaluate fuels on a full fuel-cycle basis, set goals for the use of alternatives by 2012, 2017, and 2022, and recommend policies to ensure that alternative fuel goals are attained.

- **Public Purpose Natural Gas Research**. The Governor's budget proposes $504,000 from the Gas Consumption Surcharge Fund to add 5 additional positions to oversee this research program and to expand it to include transportation-related research that will benefit natural gas ratepayers. The budget indicates that the CEC will spend $16.8 million on natural gas research in 2006-07. The request would double existing staff in this program, which was first funded in the 2005-06 Budget.

- **Verifying Energy Efficiency Savings.** The Governor's budget proposes $209,000 for two permanent positions to assist in the Public Utilities Commission's efforts to verify the performance of utility energy conservation and efficiency programs.

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ENERGY REORGANIZATION

The Administration continues to support legislation to create a Department of Energy and a Cabinet-level Secretary of Energy. Specific functions of the Department of Energy would include:

- Transmission line siting.

- Representation before the Federal Energy Regulatory Commission.

- Development of public interest energy research on renewable energy technology.
- Petroleum fuels supply and demand analysis.
- Natural gas supply and electricity demand forecasting.
- Renewable energy portfolio standards program.
- Energy efficiency standards.

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 $370.6 million ($212.8 million from the General Fund), and 3,802 personnel-years (PYs) of staff for the BOE in fiscal year 2006-07. Total funding decreases by $8 million (2.1 percent), and General Fund support declines by $10 million (4.5 percent), compared with spending estimates for the current year. Proposed staffing increases slightly—by 7.5 PYs—from the current-year estimate. The primary reason for the spending reduction is that current-year spending includes a one-time augmentation of $15 million ($12.9 million General Fund) for repair of the BOE headquarters building curtainwall in Sacramento. This administration is allocating this funding from the Emergency and Contingency appropriation the 2005 Budget Act. The BOE also is redirecting $5 million within its 2005-06 budget for this project.

State Board of Equalization
Budgeted Expenditures by Program
(in thousands)

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
County Assessment Standards Program	$7,804	$8,654	$8,414
State-Assessed Property Program	7,026	7,950	7,500
Timber Tax Program	1,940	2,157	2,168
Sales and Use Tax Program	267,609	293,832	285,474
Hazardous Substances Tax Program	3,073	3,827	3,827
Alcoholic Beverage Tax Program	1,608	1,573	1,481
Tire Recycling Fee Program	610	1,059	1,042
Cigarette and Tobacco Products Tax Program	9,624	15,394	16,627
Cigarette and Tobacco Products Licensing Program	7,114	8,925	9,445
Transportation Fund Tax Program	19,290	20,159	19,549
NAFTA Program	-	700	1,167
Occupational Lead Poisoning Prevention Fee Program	637	660	644
Integrated Waste Management Program	271	425	413
Underground Storage Tank Fee Program	2,211	2,194	2,112
Oil Spill Prevention Program	253	244	238
Energy Resources Surcharge Program	262	243	234
Annual Water Rights Fee Program	358	377	417
Childhood Lead Poisoning Prevention Fee Program	331	475	469
Marine Invasive Species Program	321	407	407
Emergency Telephone Users Surcharge Program	588	604	581
E-Waste Recycling Fee Program	3,095	5,177	4,950
Insurance Tax Program	258	144	136
Natural Gas Surcharge Program	317	433	406
Appeals from Other Governmental Programs	2,148	2,177	2,051
Administration	34,135	33,213	33,213
Distributed Administration	-33,399	-32,397	-32,397
Total Expenditures (All Programs)	**$337,484**	**$378,606**	**$370,568**

Key Provisions

- **Out-of-State Tobacco Purchases.** The Governor's budget proposes $1.9 million ($216,000 General Fund) and 19.5 PYs (2-year limited-term) for the BOE to collect unpaid California taxes from on cigarettes and other tobacco products that were purchased over the internet or through the mail from out-of-state sellers. As a result of legal action by the Attorney General, the BOE has obtained 450,000 sales invoices from out-of-state sellers, and the BOE has subpoenaed 65,000 purchase and delivery records from common carriers. The additional staff will process these records and develop tax assessments. The program will focus primarily on resellers and other significant purchasers of cigarettes and tobacco products who have evaded paying California cigarette and tobacco taxes and sales and use taxes. The BOE estimates the program will generate $33.8 million in additional revenues in 2006-07. Most of the money will go to the Proposition 10 and Proposition 99 funds; $3.9 million will go to the

General Fund, and the Breast Cancer Fund would receive $777,000. In 2007-08, the projected revenue gain drops to $16.9 million, as the staff works down the backlog of purchase records.

- **Retail Licensing Enforcement.** The Governor's budget proposes $1.6 million ($1.1 million General Fund) and 13.8 PYs (2-year limited term) for a BOE "pilot program" to identify and register businesses that fail to pay sales and use taxes on the goods and services these businesses provide. The board estimates that these enforcement efforts will generate $12.6 million in additional sales and use tax revenues in 2006-07, ($7.9 million General Fund). However, this gain is only a small portion of the $300-million annual tax loss that the BOE estimates from unregistered businesses. More resources could produce more revenue at a high benefit-to-cost ratio. For example, the board estimates that annual revenue gain could be increased to $25 million by adding about 33 PYs, instead of the 13.8 PYs requested.

- **Vehicle Inspection Station Tax Leads.** The Governor's budget proposes $1.4 million ($811,000 General Fund) and 15.1 PYs (2-year limited term) for the BOE to identify property brought into the state without the payment of applicable sales and use taxes. The two-year pilot program will be run from California Department of Food and Agriculture (CDFA) border inspection stations, through which all commercial vehicle traffic must pass. Under the program, CDFA staff will send to the BOE copies of bills of lading and registration documents from motor carriers who transport alcoholic beverages, tobacco products, fuel products, or personal property that is subject to sales or use tax. In addition, sales and use tax leads will be identified through BOE fuel tax compliance operations at CHP inspection stations. The BOE will then review the documents to determine whether the entities shipping or receiving the goods are registered with the BOE, and whether those entities have paid the applicable sales and use taxes on the products. The BOE estimates the program will generate $7.4 million in additional sales and use taxes in 2006-07, of which $4.2 million will go to the General Fund.

- **International Fuel Tax Agreement.** The Governor's budget proposes $1.1 million in federal funds and 11.5 PYs for the second year of a 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 is able to perform this service itself. This program was established administratively in the current year.

- **Property Tax Valuation Factors.** The Governor's budget proposes $263,000 (General Fund) and 1.9 positions for the BOE to develop more accurate property tax valuation factors for biopharmaceutical and non-production computer equipment. Valuation factors are used by county assessors to determine the value of commercial business equipment for property tax purposes.

- **AB 71 Funding Shift.** The budget proposes to shift $2.4 million of the cost of the $9.4 million cost of the Cigarette and Tobacco Products Licensing Program--established by AB 71 (Horton) in 2003—from one-time licensing fees to the various funds that receive cigarette and tobacco tax revenues (primarily Propositions 10 and 99 funds), as contemplated by AB 71. The shift reflects the spending down of the one-time licensing revenues, and will increase to $7.4 million in 2007-08, according to BOE estimates.

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). The budget proposes total spending of $662 million ($499 million General Fund) and 5,160 personnel-years (PYs) of staff for support of the FTB in fiscal year 2006-07. Total proposed spending declines by $34.5 million (5 percent) from the current year, including a General Fund spending reduction of $14.8 million (2.9 percent). Staffing is essentially flat from the current year. The overall spending decrease primarily reflects a $33.8 million decline in funding for development and initial implementation of the Child Support Enforcement System, which reflects the planned spending needs of that program in 2006-07.

Franchise Tax Board
Budgeted Expenditures by Program
(in thousands)

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Tax Programs	$408,123	$421,747	$418,614
Homeowners and Renters Assistance	4,366	5,787	5,789
Political Reform Audit	1,398	1,523	-
Child Support Collections	13,148	-	-
Child Support Automation	147,011	236,720	202,879
Department of Motor Vehicles Collections Program	5,178	5,722	5,803
Court Collection Program	5,752	6,045	9,933

Contract Work	4,620	12,088	12,155
Administration	23,040	23,051	23,051
Distributed Administration	-23,040	-23,051	-23,051
Lease Revenue Bond Payments	7,270	7,267	7,242
Total Expenditures (All Programs)	**$596,866**	**$696,899**	**$662,415**

Major Provisions

Is Tax Program Staffing Adequate?

Staffing for FTB Tax Programs has declined significantly since 2004-05. Proposed staffing in 2006-07 would be 679 PYs less than actual staffing in 2004-05—a decline of 13.3 percent. FTB administrative staffing also is declining by more than 100 PYs—about 25 percent. Most of the staffing reduction occurs in the current year. Some of the staffing reduction reflects savings from greater use of electronic filing. However, the staffing loss may also reflect the impact of a $7.8 million unallocated reduction that the Governor included in the FTB's 2005-06 budget, as well as other factors. The Governor's 2006-07 Budget does not identify the actions taken to absorb the 2005-06 unallocated reduction or whether the proposed staffing level is optimal in terms of revenue generation and taxpayer services. Furthermore, the proposed budget would authorize the Department of Finance to make additional unidentified reductions that could affect FTB.

No New Tax Gap Proposals

Unlike recent years, the FTB budget does not propose any new efforts to close the "tax gap"—the difference between the full amount of taxes owed under existing law and the amount actually collected. FTB has estimated the tax gap at $6 billion. The BOE budget proposal does include some new tax gap proposals, but they are very modest in scope.

Other Key Provisions

- **Out-of-State Legal Counsel.** The Governor's budget requests $694,000 from the General Fund and 1.4 PYs t for the FTB to contract with outside counsel to represent the Board in out-of-state bankruptcy cases. The budget indicates that the Attorney General previously performed this function, but has indicated that he no longer has resources for this purpose.

- **Court-Ordered Debt Collection Program.** The Governor's budget requests $3.8 million (special fund) and 29.6 PYs to expand the Court

Ordered Debt Collection Program to serve all 58 counties, consistent with the direction in SB 246 (Escutia) of 2004.

REVENUE PROPOSALS

The Governor's budget includes a net General Fund revenue gain of $234 million resulting from the following tax proposals that would require legislation.

- **Continued Suspension of Teacher Retention Tax Credit.** This proposal would suspend this personal income tax credit for one additional year (tax year 2006), resulting in an estimated General Fund revenue gain of $210 million. The credit was suspended in 2002 and also in 2004 and 2005. It provides credits ranging up to $1,500 to teachers, depending on their years of service.

- **Extension of "Yacht Tax" Loophole Closure**. This proposal would extend the "yacht tax" provision by one year for an estimated General Fund revenue gain of $35 million (plus about $18 million for local governments). Under this provision, California residents who purchase a vehicle, vessel or aircraft out of state and bring it into California within 12 months must pay Use Tax on that item if it is subject to California registration or property tax (if not, then the use tax applies if the item is used or stored in California more than half of the time during the first twelve months after purchase). Currently, this provision sunsets on June 30, 2006, after which vehicles, vessels, and aircraft could again be brought into California without a tax liability after just 90 days. The revenue estimate in the budget is the same as the estimate when this provision was enacted in 2004 budget trailer legislation. The BOE anticipates updating this estimate in the May Revision, but the board indicates that $15 million of additional revenue already has been collected on motor homes alone.

- **Conformity for Health Savings Accounts (HSAs).** HSAs are a feature of federal income tax law that allows contributions to a special account to pay for the qualified medical expenses of the account holder and his or her spouse and dependents. They are similar to retirement accounts, such as 401Ks, in that contributions to, and earnings within, an HSA are not taxed. In order to qualify for an HSA, an individual must have a "high-deductible" health plan with a deductible of at least $1,000 or $2,000 for a family. Annual contributions to an HSA may be up to the deductible amount subject to certain limits. Generally, distributions from an HSA must be used only for medical expenses or they are subject to a 10-percent penalty, unless the account holder is 65 or older. Unused contributions and earnings may accumulate from year to year. Individuals eligible for an HSA must not have any health coverage other than a high-

deductible policy. Currently, California taxpayers using HSAs must pay state personal income tax on their (or their employer's) contributions to, and earnings within, and HSA. (Employer contributions to employee HSAs are deductible as employee compensation costs, however.) The budget proposes legislation to make such contributions and earnings tax deductible for the beneficiaries under California personal income tax law. The budget estimates that this change will reduce General Fund revenues by a total of $11 million ($3 million in 2005-06 and $8 million in 2006-07). This proposal was considered in tax conformity legislation last year, but was not included in the final package.

- **Film Credits.** The budget states that the Administration continues to support legislation to establish tax credits to "address the economic impact of run-away film production." The budget does not propose any tax change that would affect state revenue through 2006-07, but indicates that its long-term revenue projections assume an annual revenue loss of $75 million due to tax credits to encourage film production in California. Recent press reports have indicated that California film and TV production activity has increased and is relatively strong now, even absent this incentive.

Because all of the revenue gains result from extensions of sunsets on existing tax provisions, the budget's tax proposals result in a net revenue *loss* of $11 million when compared with the revenue base in the current year.

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 $1.6 million in fiscal year 2006-07 and 13.6 personnel-years (PYs) of staff for support of the commission. These amounts are essentially the same as in the current year.

The bulk of the commission's budget is for local assistance to reimburse local governments for their costs of carrying out state-mandated local programs. The budget proposes $241.7 million ($240 million General Fund) for these payments in 2006-07, an increase of $120.7 million from the current year amount within the

commission's budget. However, year-to-year spending remains essentially flat after adjusting for a budgeting change for AB 3632 mental health services to special education pupils--$120 million was provided in the Department of Mental Health's budget in the current year, but the Governor's budget shifts funding for this mandate to the commission's budget in 2006-07 (at $50 million). In addition, the Governor's budget proposes $47 million for certain Proposition 98 mandate payments in the budgets of the Department of Education and the California Community Colleges.

Major Provisions

Mandate Payments

Proposition 1A, adopted by the voters in November 2004, generally requires that the state either fund approved mandate reimbursement claims (as of the time that the budget is enacted) or suspend any unfunded mandate. 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 to be paid over a 5-year period starting in fiscal year 2006-07 under existing law), mandated costs for school districts or community colleges, or mandates relating to local government employee relations and benefits.

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 (including $120 million appropriated to the Department of Mental Health for AB 3632 mandate costs of counties). This amount consisted of outstanding $133.2 million for 2004-05 mandate cost claims, (which were required to be paid in the 2005-06 Budget to comply with Proposition 1A) and $107.9 million for payment of claims for 2005-06 costs. Costs for the Peace Officers Procedural Bill of Rights, which is not subject to Proposition 1A, continued to be deferred, and a variety of mandates were suspended, repealed, or revised. 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 and to more fully recognize the costs of mandated programs in the state budget.

The Governor's 2006-07 budget proposes the following amounts for mandate payments to local governments in 2006-07.

- $47.9 million for payment of 2006-07 mandate claims.
- $45.7 million for payment of prior obligations under mandates that have been newly determined by the commission.

- $98.1 million for the first year of a 15-year payment plan to reimburse counties for mandated costs for which funding was deferred in years prior to 2004-05. Local governments have submitted more than $1 billion of claims for reimbursement of these past costs. The State Controller has been reviewing the claims, but funding was deferred in prior years' budgets.

- $50 million of non-Proposition 98 General Fund money as a set-aside in the Commission on State Mandates budget for funding county mental health services to pupils. Budget Bill language states intent to convert this mandate to a categorical program (please see discussion under the Department of Mental Health).

As in the current year, the budget proposes to suspend many mandates, most of which have been suspended for a number of years.

Education Mandates. The budget of the Department of Education also includes substantial funding for K-12 mandate payments--$133 million of Proposition 98 2006-07 funds to pay for mandate costs incurred during 2006-07, and $152 million of Proposition 98 Reversion Account and Settle-up funds to pay a portion of outstanding claims from prior years (please see the discussion in the K-12 Proposition 98 section).

LAO Identifies Major Funding Deficiencies. On a preliminary basis, the Legislative Analyst's Office has identified a funding shortfall in the range of $140 million for local government mandate costs in 2006-07 (including carryover deficiencies from 2005-06). Funding deficiencies also are anticipated for education mandates.

DOF Mandate Unit. The Department of Finance Budget also requests $537,000 financed from mandate cost savings and 3.8 positions for a unit within the department devoted to addressing issues related to reimbursable state-mandated local programs. The purpose of this unit is to perform policy and legislative analyses, develop policy and processes to improve the mandates system, and ensure fair and equitable payment of costs associated with mandated local programs.

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.

Proposed spending in 2006-07 is $262.9 million (all General Fund)—a reduction of $1.1 billion from the current year. The large reduction is due to $1.2 billion of one-time funding in the current year to make local governments whole for the Vehicle License Fee "Gap Loan," which was paid one year early. Ongoing funding increases by $112.8 million.

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.

Key Provisions

- **Juvenile Justice Crime Prevention Act.** The Governor's budget proposes $100 million for local juvenile justice grants. This represents an increase of $73.9 million. The increase maintains the actual program funding. Current-year funding was reduced on a one-time savings due to carryover cash availability.

- **Citizens' Option for Public Safety (COPS).** The Governor's budget proposes to maintain COPS funding at $100 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.** The Governor's budget includes $40 million and proposes legislation to reinstate these subventions, which were eliminated in the 2004-05 Budget (effective in 2005-06). 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. The former subventions (which totaled $38.2 million) were based on the amounts of booking fees paid in 1998 and did not necessarily reflect current booking fee payments. Also, the 2004-05 budget action included legislation limiting counties' booking fees to half of their costs. The Governor's budget indicates that the Administration will propose legislation to revise the booking fee subvention methodology.

- **Disaster Relief.** The Governor's budget includes $1.6 million to replace property tax revenue losses to local communities affected by disasters in 2005 pursuant to existing law.

- **Property Tax Administration Program (PTAP)**. The Governor's budget continues the suspension of grants to counties as provided under the 2005-06 budget agreement for a General Fund savings of $60 million. The budget indicates that the Administration is working to develop a new PTAP for implementation in 2007-08. The state has a major financial stake in local property tax revenues because they are the source of $13.9 billion of support for K-14 Education. For most school districts and community college districts, these property tax revenues offset state funding required by Proposition 98 on a dollar-for-dollar basis. In the absence of state funding for property tax administration, property tax administration is funded solely by cities, counties, and special districts. Because they do not receive a significant proportion of the revenue generated by property tax administration, they are unlikely to fund property tax administration at the optimal level.

HEALTH 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 2005-06 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 2005-06 monthly contribution maximums are $394 for a single enrollee, $738 for an enrollee and one dependent, and $933 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 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Health and Dental Benefits for Annuitants	$800,676	$895,197	$1,019,368
Total Expenditures (All Programs)	**$800,676**	**$895,197**	**$1,019,368**

The budget estimates that spending for Health and Dental Benefits for Annuitants will total $1 billion in 2006-07—an increase of 13.8 percent from the current-year amount. This estimate will be refined in the May Revision after CalPERS establishes health benefit rates for 2007. 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

GASB Statement 45

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 Governor's budget indicates that the State Controller's Office will contract 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.

Given that annual costs are now $1 billion, and have been increasing rapidly, the state's unfunded liability will be large. The need to recognize this liability presents a challenge, but also several opportunities. Because the state is an

ongoing entity, a pay-as-you-go approach can be viable (it's what the state has done for 47 years) unless commitments are made that will require devoting ever-increasing shares of the state budget to these retiree benefits in the future. By annually calculating the unfunded liability for these benefits, compliance with GASB Statement 45 will assist the Legislature in identifying future funding pressures earlier, when corrective actions may still be possible. Furthermore, if the state were to begin making contributions to reduce the unfunded liability, and if those contributions were invested by CalPERS, the earnings could help to mitigate future costs.

BUDGET ADJUSTMENT AUTHORITY

The Governor's budget for 2006-07 includes the following general authorizations to reduce or adjust spending.

- **Mid-Year Reductions.** Budget Control Section 4.06 would allow the Director of Finance to reduce General Fund appropriations if necessary to protect the financial interests of the state. Reductions would be limited to twenty-five percent of the affected appropriation and require notification to the Legislature within 30 days.

- **Minimum Wage Adjustment.** Budget Control Section 3.65 augments various departmental budgets by a total of about $19 million ($10.3 million General Fund) to pay increased personnel costs due to a $1 increase in the minimum wage, effective September 1, 2006, as proposed by the Administration.

- **Unallocated Reductions.** Budget Control Section 3.45 authorizes unallocated reductions in General Fund spending totaling $150 million ($50 million in 2005-06 and $100 million in 2006-07). These one-time reductions are in addition to the $100 million unallocated 2006-07 reduction provided for in Control Section 4.05 of the 2005 Budget Act (for a total of $250 million in unallocated reductions). The budget indicates that the Department of Finance will work with agency secretaries and others to determine specific reductions.

- **One-Percent Personnel Reduction.** Control Section 3.45 requires the Director of Finance to reduce salaries and wages spending by $58 million (General Fund) in 2006-07. According to the Governor's Budget Summary, this savings will be achieved primarily through vacancies.

THE 2006-07 STATE BUDGET

Public Safety

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 $3.4 billion ($2 billion from the General Fund) and 1,889.2 positions. This reflects an increase of $140 million and 23.1 positions from the revised 2005-06 budget.

Major Provisions

Extension of the State Appropriations Limit

In 2004, the Legislature enacted SB 1102, Chapter 227, Statutes of 2004 to provide a more stable and reliable funding methodology for trial court funding. The legislation contained language for an annual adjustment to trial courts funding based on the State Appropriations Limit (SAL). The legislation purposefully did not contain language applying the SAL to judicial compensation or the remainder of the Judicial Branch.

The implementation of the SAL for trial courts provided the Judicial Council with increase control of the allocation of funding to meet court operation needs on a statewide basis. Furthermore, it allowed the courts to significantly improve the manner in which it handled employee compensation. Prior to SAL, the courts negotiated in the dark with employee bargaining units, because state support was tied to specific budget control language.

Currently, the SAL funding methodology only applies to approximately 69 percent of the current total Judicial Branch budget. The Governor's budget seeks to expand the SAL funding model to the entire judicial branch, resulting in a General Fund augmentation of $17.9 billion, or a growth of 4.7 percent.

Other Key Provisions

- **New Trial Court Judges.** The Governor's budget proposes 150 new trial court judgeships, over a three-year period, with 50 new judgeships authorized each year. Budget year cost of $5.5 million supports a one-month funding need. The entire three-year proposal is projected to cost $123 million.

- **Court Security.** The Governor's budget proposes $18.7 million to add 97 entrance-screening stations in Superior Court facilities and establish a five-year replacement cycle for the new and existing screening equipment. Of this request $13.5 million is ongoing to provide for security contracts with local sheriff and marshal staff.

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 $795 million ($387 million from the General Fund) and 5,386.2 positions. This reflects an increase of $52 million and 155.5 positions from the revised 2005-06 budget.

Major Provisions

Gang Suppression Enforcement Teams

The Governor's budget proposes $6.5 million (General Fund) and 33.6 permanent positions to establish four new Gang Suppression Enforcement Teams in 2006-07 and two additional team in 2007-08 for a total on-going program of $9.8 million and 50 positions. The mission of the Teams will be to

provide leadership to local law enforcement to suppress multi-jurisdictional violent crimes.

In the greater Los Angeles area, it is estimated that there are 100,000 gang members, representing more that 1,300 gangs. Although that number represents less than 1 percent of the population, gangs account for at least 50 percent of the region's homicides. However, gang activity is not precluded to urban pockets, but has spread to communities large and small throughout the state.

Gangs currently engage in a wide range of activities including murder, armed robbery, extortion, alien smuggling and arms and drug trafficking. Gang Suppression Enforcement Teams will focus on uprooting higher-level gang leadership, with an estimated 600 arrests per year.

California Methamphetamine Strategy

The proliferation of Methamphetamine usage is the number one drug problem in California. Easily prepared from household ingredients, Methamphetamine is a highly addictive synthetic drug that can be smoked, snorted, injected or swallowed. Prolonged usage of the substances is known to cause kidney disorders, heart failure, brain damage and stroke.

DOJ's California Methamphetamine Strategy (CALMS) program was the first in the nation to address methamphetamine issues on a statewide basis, and has been historically proven to be an effective tool in combating state methamphetamine manufacturing. The DOJ claims that decreases in staffing (due to a number of pressures including redirected resources to Homeland Security) have result in a decrease in methamphetamine laboratory seizures.

The Governor's budget proposes $6 million (General Fund) and 31.2 permanent positions to establish three new CALMS teams to work in conjunction with local law enforcement to seize and prosecute cross-jurisdictional methamphetamine cases.

Other Key Provisions

- **Firearms Database.** The Governor's budget proposes $5 million (General Fund) and 34 positions. The Armed Prohibited Persons System (APPS), which becomes operational in April 2006, will identify individuals who are lawfully obtained a firearm but have since become prohibited. Based on a completed survey of firearm ownership records, DOJ estimates that more than 57,300 prohibited individuals will be identified when APPS is fully implemented.

- **Special Crimes Unit.** The Governor's budget proposes $1.3 million (General Fund) and 13.2 positions to support criminal case workload in the area of complex financial crimes and identity theft. Such crimes typically entail millions of dollars lost for Californians and require a significant amount of time and sophistication to audit, investigate, and prosecute.

- **Tribal Gaming Compliance.** The Governor's budget proposes $3.3 million ($367,000 General Fund) and 19 positions in 2006-07 and 16 positions ($211,000 General Fund) in 2007-08 to address increase inspection and investigative workload related to existing and new negotiated Tribal State Gaming Compacts.

- **Underground Economy.** The Governor's budget proposes $556,000 (General Fund) to establish an underground Economy Statewide Investigation and Prosecution Unit. The unit will assist in the State's campaign against the underground economy that undermines legitimate businesses, workers and taxpayers, by investigating and prosecuting multi-regional cases.

GAMBLING CONTROL COMMISSION

The California Gambling Control Commission (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 $137 million ($725,000 from the General Fund) and 68.4 positions. This reflects a decrease $48.5 million but an increase of 22.8 positions from the revised 2005-06 budget.

Key Provisions

- **Field Inspection Program.** The Governor's budget proposes $1.7 million ($359,000 General Fund) and 14.5 positions to augment Licensing and Audit workload and establish a Field Inspection Program. The Field Inspection Program will provide random onsite inspections of gaming devices under the provisions of the new and amended compacts.

- **Technical Services Program.** The Governor's budget proposes $732,000 ($366,000 General Fund) and 5.0 positions (two-year limited term) to develop a Technical Services Program, Research and Testing

Unit. The Unit will seek to provide the state with technical staff resources to provide oversight for electronic gaming devices and equipment.

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 $8.1 billion ($7.8 billion from the General Fund) and 60,966.2 positions. This reflects an increase of $364 million and 2357.4 positions from the revised 2005-06 budget.

Major Provisions

Inmate Dental Care

In December of 2005, the Prison Law Office filed a class action lawsuit, *Perez v. Hickman et al,* against CDCR alleging that they fail to provide a system for delivery of dental care services in a timely fashion. The lawsuit assets that CDCR actions are result in inmates suffering permanent and unnecessary damages to their health in violation of the Eighth Amendment to the United States Constitution.

Currently CDCR Dental Services are not meeting Federal and State regulatory agencies' basic dental requirements. In fact, the Office of the Inspector General cited multiple CDCR institutional dental department as being seriously deficient and stated that inmates are not receiving dental services required under state regulations.

The Governor's budget proposes $21.6 million and 326.2 permanent positions to implement the first phrase of the Inmate Dental Services Program to meet the Stipulated Agreement from *Perez v. Hickman*. Full implementation of the program is estimated at six years, at an estimated cost of $38.3 million for the first three years.

Other Key Provisions

- **Recidivism Reduction.** The Governor's budget proposes $22.8 million and 217.5 positions for the continuation of enhanced inmate and parolee programs to reduce in-prison violence and parole recidivism. This proposal seeks to provide every eligible inmates with a needs assessment within 3 to 5 years, which will enable the department to provide inmates with educational and life skill programs.

- **High Risk Sex Offender Parolees.** The Governor's budget proposes $5.1 million to expand the use of Global Positioning Systems (GPS) to monitor and track the movement of High Risk Sex Offender parolees assessed to be at a high risk to re-offend. This proposal seeks to utilize GPS on a total of 2,500 paroles.

- **Adult Healthcare Services.** The Governor's budget proposes $68.1 million to augment the department's health care program, including $9.1 million for medical guarding.

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.

The Governor's budget proposes $1 billion ($124 million from the General Fund) and 497.1 positions. This reflects a decrease of $247 million and 8.8 positions from the revised 2005-06 budget.

Major Provisions

State Warning Center

The Governor's budget proposes a significant staffing increase for the State Warning Center (SWC). Housed at the OES headquarters, SWC is the state's centralized point of information coordination during an emergency. The budget proposes 8.8 positions and $617,000 (all General Fund) to assist SWC in meeting in 24 hour coverage obligation for emergency notifications.

Currently, SWC is staffed in 12-hour shifts using a rolling pattern of six shifts in compliance with the Fair Labor Standards Act. According to OES, proper staff of the center consists of at least two Emergency Notification Controllers and one Emergency Services Coordinator. OES presently possess the minimum level of

staff to cover its 24-hour obligation, but believes staffing levels do not meet additional workload demands or account for vacation and sick time.

Sexual Assault Felony Enforcement

Penal Code Section 13887 authorized the establishment of Sexual Assault Felony Enforcement (SAFE) Teams throughout the state. The purpose of the teams is to coordinate with local law enforcement agencies to monitor, investigate, apprehend, and prosecute habitual sex offenders who violate their parole, fail to register or commit new offenses.

There are 84,923 registered sex offenders currently living in California. Of that number, approximately 23 percent (14,940) are in violation of their registration requirements.

The Governor's budget seeks the infusion of state funds to establish or enhance SAFE Teams in 40 counties throughout the state. Specifically, the budget proposes $6 million in the budget year (with three positions) and $2 million in 2007-08, for an ongoing program of $8 million (all General Fund).

Other Key Provisions

- **Victim's Services.** The Governor's budget proposes $1.1 million (special funds) and one position to provide increase local assistance to Victim-Witness Center throughout the state that assist victims/witnesses during parole revocation hearings.

OFFICE OF HOMELAND SECURITY

The Office of Homeland Security develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate the recovery effort. The OHS also serves as the State Administering Agency for federal homeland security grants and the state's primary liaison with the United States Department of Homeland Security.

The Governor's budget proposes $184 million and 31.9 positions. For the current fiscal year, the costs of the OHS are funded through the Office of Emergency Services. The Governor's Budget reflects technical adjustments necessary for the OHS to be budgeted as an independent entity, effective January 1, 2007, if legislation is passed that establishes the Office in statute.

Key Provisions

- **Mass Transportation Security.** The Governor's budget proposes $5.0 million in the budget year to the creation of the California Mass Transportation Security Grant Program. This proposal is in response to the noted terrorist attacks on London's public transit system in July of 2005. The grant program will assist regional preparedness for local rail transit and intra-city bus systems.

- **Science and Technology Unit.** The Governor's budget proposes five positions and $465,000 (all special funds) for the creation of a Science and Technology Unit. The unit will mirror the functions of the federal Department of Homeland Security Directorate at the state level. Its mission will be to coordinate the implementation of technological solution and best practices to counter act terrorist activity.

THE 2006-07 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 $11.5 billion, including $2.3 billion from the General Fund, and 21,862.5 positions for 2006-07. This reflects a decrease of $898.7 million from the revised current year budget (due primarily to cost for the Bay Bridge retrofit increasing in the current year) and an increase of 211.8 positions from the revised current year budget.

Major Provisions

Proposition 42

Proposition 42 was approved by California voters in March 2002. Generally, Proposition 42 requires 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 $1.4 billion for the budget year and includes an early repayment of $920 million that the General Fund owes to the TIF.

Under the provisions of Proposition 42, funds transferred from the General Fund are allocated annually 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 $1.4 billion transfer is proposed to provide $678 million to the TCRF and will provide $146 million for the PTA. However, the amount for the STIP will be $582 million – greater than the 40 percent share, and there will be no funds for local streets and roads. 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.

The $920 million early repayment is proposed to provide $410 million for the TCRF, $255 million for the STIP, $255 million for local governments, and no funds for the PTA. When combined with the remaining $430 million to be repaid in 2007-08, all categories will receive their entire share.

The following chart illustrates how the entire $2.3 billion of Proposition 42 related transfers will be allocated:

In millions

	Prop. 42 Transfer	**Early TIF Repayment**	**Total**
TCRF	$678	$410	$1,088
STIP	$582	$255	$837
PTA	$146	--	$146
Local Government	--	255	$255
Total	**$1,406**	**$920**	**$2,326**

Public Transportation Account Spillover

The PTA 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 when a portion of General Fund sales taxes was shifted to local governments for transportation purposes and the 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. However, the spillover can be suspended through statute and the funds therefore remain in the General Fund and are not subject to the provisions of Proposition 42.

As part of the budget agreement for the *2005-06 Budget Act*, the PTA spillover was suspended in its entirety for 2005-06, and up to $325 million for the 2006-07. For the current year, that results in General Fund savings of $398 million, up from an estimated $350 million at the time of the Budget Act. For the budget year, the statute provides for the first $200 million of would-be spillover to stay in the General Fund and the next $125 million to the Bay Bridge seismic retrofit.

The Governor's proposed budget projects the spillover amount to be $317 million, which results in $200 million for the General Fund and $117 million for the Bay Bridget project. Should the spillover amount grow to over $325 million, then any amount above that would then go to the PTA, unless the Legislature enacts further statutory changes.

Taxes at the Pump not Going to Transportation

In addition to the $200 million of PTA spillover that the Governor's budget continues to take from transportation and keep in the General Fund, significant other taxes paid at the pump also are not directed to transportation.

In some cases, certain taxes have been levied over the years for specific purposes including for public safety, state-local realignment of programs, or debt repayment. But a significant amount of the sales taxes paid at the pump also is available for general purpose use at the local level.

At the state level, no taxes paid at the pump are available for general purposes such as education, locking up criminals, or providing SSI payments to the aged and disabled, except in instances where the PTA spillover or Proposition 42 are suspended.

For the budget year, local governments are projected to collect about $269 million in local sales taxes at the pump that are not specified for a specific purpose.

At the same time, however, the Governor's budget includes a total of $255 million in state sales tax revenue from the sale of gasoline that is then transferred to local governments for maintenance of their streets and roads.

It is an inconsistency in California today that state sales tax revenues of gasoline are restricted for transportation purposes, including the transfer of hundreds of million of dollars to local governments, while local governments are not required to use their own revenue collected at the pump to take care of their own roads.

State Transportation Improvement Program

The STIP is the primary program for funding regional and interregional transportation projects throughout the state. The 2006 STIP will be adopted by the California Transportation Commission later in the year. Currently, the STIP fund estimate stands at approximately $5.6 billion. Of this amount, $3.8 billion is necessary to cover the amounts of the 2004 STIP that are carried over due to funds not meeting the 2004 projections. The remaining $1.8 billion will be available for new programming.

However, due to federal funds being higher than earlier projections and the Governor's proposal to repay a portion of a Proposition 42 loan early, the adopted STIP could have significantly more programming capacity than what is currently projected.

Other Key Provisions

- **Tribal Gaming Bonds.** The Governor's proposed budget assumes $1 billion in the current year for the repayment of transportation funds owed by the General Fund. The bonds were originally scheduled for sale during the 2004-05 budget year and were projected to generate $1.2 billion in revenues. The revised amount should ultimately generate $465 million for the State Highway Account, $290 million for the Traffic Congestion Relief Program, $122 million for the PTA, and $122 million for local streets and roads.

- **State Highway Operation and Protection Program (SHOPP).** The Governor's proposed budget includes $1.7 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.

- **Federal Funds.** The Governor's proposed budget includes $3.5 billion from the Federal Trust Fund. The five year federal transportation authorization was enacted in August of 2005, and it provides approximately a 28 percent increase in annual allocation over the previous transportation authorization.

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 $2.1 million, all from special fund sources and 14 positions.

Key Provisions

- **Toll Bridge Oversight.** The Governor's budget proposes an increase of $206,000 and one position for the CTC's new responsibilities on the Toll Bridge Program Oversight Committee to manage the remaining seismic retrofitting of the state-owned toll bridges.

SPECIAL TRANSPORTATION PROGRAM

The Special Transportation Program 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 $235 million, from the Public Transportation Account (PTA), an increase of $34.3 million from the revised current year level.

Key Provisions

- **Increased Funding for State Transportation Assistance (STA).** The Governor's budget proposes an increase of $34.3 million for the STA, which is primarily due to higher projected sales tax revenue on motor fuels. Funding would be approximately $200 million higher in the current year and $160 million in the budget year is the PTA spillover was not suspended for both years.

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 $1.6 billion (special funds); an increase of $124.7 million above revised current year funding.

Key Provisions

- **Staffing Increase.** The Governor's budget proposes an increase of $33.7 million for additional CHP personnel throughout the state. The proposal is expected to provide 240 new uniformed officers and 70 new support and managerial staff by the end of the budget year.

- **Enhanced Radio System.** The Governor's budget proposes $57.1 million for the first of a five-year project to enhance and replace obsolete components of the CHP radio system.

- **Wireless 9-1-1 Staffing.** The Governor's budget proposes $6.4 million and 173 new positions for CHP Communication Centers to expedite the answering of 9-1-1 calls.

- **Capital Outlay.** The Governor's budget proposes $5.7 million for various capital outlay projects for the CHP, including $2.8 million for land acquisition and preliminary plans for a new facility for the Oceanside area office and $1.1 million for land acquisition and preliminary plans for a new facility in the Oakhurst area office.

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 $817.9 million, (special funds), an increase of $47.3 million from the revised 2005-06 budget.

Key Provisions

- **Electronic Insurance Verification System Project.** The Governor's budget proposes $9.3 million to contract with an outside vendor related to new electronic insurance requirements.

- **Remittance System Replacement.** The Governor's budget proposes $5.4 million to replace the existing remittance system which processes vehicle registration and driver license renewals by mail.