

OVERVIEW OF THE 2007-08 BUDGET BILL

Senate Bill 54

As Introduced

Senate Committee on Budget and Fiscal Review

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January 24, 2007

Dear Colleague:

I am pleased to forward a copy of the *Overview of the 2007-08 Budget Bill*, which has been prepared by the staff of the Senate Budget and Fiscal Review Committee. The document is intended to provide a working understanding of the proposed budget by providing greater subject information and identification of issues. This document, as well as further analysis by the Legislative Analyst's Office, will provide the basis for budget hearings throughout spring.

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

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

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

Sincerely,

DENISE MORENO DUCHENY
Chair

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SUMMARY OVERVIEW

On January 10, the Governor presented his proposed 2007-08 budget. Spending from all funds (General Fund, special funds, and bond funds) totals \$143.4 billion. The Governor's proposed budget contains a total of \$104.5 billion in available General Fund resources. The budget proposes \$103.1 billion in General Fund expenditures, with an available year-end reserve of \$2.1 billion (this is a combination of the traditional Special Fund for Economic Uncertainties of \$590 million and \$1.5 billion in the Budget Stabilization Account (BSA) created as a result of Proposition 58).

Overall, General Fund revenues are estimated to be \$6.8 billion or 7.2 percent greater than what was projected when the current-year budget (AB 1801 – Chapter 47, Statutes of 2006) was passed in late June 2006. The Governor's budget summary indicates that revenues were exceptionally strong in 2006, but are projected to grow more moderately in 2007 and 2008.

The Governor proposes to increase new General Fund expenditures by approximately \$1 billion, or 1 percent above the revised 2006-07 level. This includes a \$595 million General Fund appropriation for early repayment of the Economic Recovery Bonds (ERBs) – this appropriation is in addition to the automatic repayment of approximately \$2.5 billion to retire ERB debt.

The proposed budget is not without potential risks and uncertainties because the budget balances new spending and closes the General Fund shortfall with \$3.4 billion in revenue assumptions, major reductions in various programs, and fund shifts that the Legislative Analyst's Office (LAO) indicates "...raise a number of serious policy and legal issues, which may make their implementation problematic." According to the LAO, the overall downside risks in the proposed budget could exceed the amount of available reserves. A cursory review of the proposed budget by the LAO raises three categories of concern:

- First, the budget assumes the state will prevail in its appeal of two court cases – the legality of using pension obligation bonds to fund an ongoing state expense and the lack of funding for a 2003 CalWORKs cost-of-living adjustment (which was triggered as a result of Governor Schwarzenegger rolling back the VLF tax increase). In addition, there may be legal issues regarding the proposed budget's use of Public Transportation Account (PTA) spillover funds.
- Second, some budget assumptions may be overly optimistic. For example, the LAO indicates that additional tribal gaming revenues appear to be overstated and the shift of PTA spillover funds which are dependent on gasoline prices that have fluctuated over the past year may make the use of these funds for ongoing purposes unreliable.
- Third, baseline assumptions may be unrealistic. At this point, recent revenue and economic information have been mixed and do not support the administration's higher revenue estimates; however, better analysis of year-end tax related information will provide a clearer

picture. In addition, property tax growth is estimated at 10 percent over the current year – which is very healthy, despite the current slowdown in the real estate sector. Any shortfall in property tax projections relative to the budget estimate will require a dollar-for-dollar offset in General Fund expenditures.

The Governor’s budget summary does acknowledge that economic growth will likely be modest in the first half of 2007, with a possibility of a slight increase in unemployment. The Department of Finance (DOF) indicates that the second half of 2007 should bring improved growth as state and national housing sectors begin to pull out of their slowdown; in addition, DOF believes both economies should improve further in 2008. A number of measures of the California economy, while showing signs of slowing, are strong—personal income, taxable sales, private-sector nonresidential and public works construction, and state exports.

Finally, the administration has highlighted that the proposed budget has eliminated the “operating” deficit – the difference between annual revenues and annual expenditures. Upon closer examination of the proposed budget, the LAO concludes that even if all the budget proposals were adopted and assumed savings were realized, the state’s projected gross operating or “structural” deficit would be reduced by only approximately one-half to around \$2.5 billion. However, the LAO has pointed out that the fiscal benefits of many of the budget’s proposals are overstated; meaning the decline in the operating deficit would be significantly less.

General Fund Summary

Revenues: The Governor's budget estimates General Fund revenues and transfers to be approximately \$101.3 billion, an increase of \$6.8 billion, or 7.2 percent, above the revised 2006-07 estimate of \$94.5 billion. Total resources available, in 2007-08, from all sources (including a carry forward balance of \$3.2 billion from 2006-07) are estimated at \$104.5 billion.

Expenditures: The budget proposes General Fund expenditures of \$103.1 billion in 2007-08. This is an increase of \$1 billion, or 1 percent, over the revised 2006-07 figure of \$102.1 billion.

| Proposed 2007-08 General Fund Summary (in millions) | | |
|--|-----------------------------------|------------------------------------|
| | Revised <u>2006-07</u> | Proposed <u>2007-08</u> |
| PRIOR YEAR BALANCE | \$10,816 | \$3,198 |
| Revenues and transfers | 94,519 | 101,278 ^a |
| TOTAL RESOURCES AVAILABLE | \$105,335 | \$104,476 |
| Non-Proposition 98 Expenditures | \$61,325 | \$61,951 ^a |
| Proposition 98 Expenditures | <u>40,812</u> | <u>41,190</u> |
| TOTAL EXPENDITURES | \$102,137 | \$103,141 |
| FUND BALANCE | \$3,198 | \$1,335 |
| Encumbrances | \$745 | \$745 |
| Special Fund for Economic Uncertainties (Traditional reserve) | \$2,435 | \$590 |
| Budget Stabilization Account (BSA) | \$472 | \$1,495 |
| TOTAL AVAILABLE RESERVE | \$2,925 | \$2,085 |

^a A total of \$2.1 billion will be transferred to the BSA consistent with Proposition 58. Of this amount, one-half will remain in the BSA for future purposes (shown as a reduction in revenue) and one-half will be transferred to accelerate the retirement of Economic Recovery Bonds (shown as an increase in expenditures).

**Proposed 2007-08
General Fund Revenue
By Source
(in millions)**

| <u>Source</u> | <u>Revised 2006-07</u> | <u>Proposed 2007-08</u> | <u>Year-to-Year % Change</u> |
|---------------------|----------------------------|-----------------------------|----------------------------------|
| Personal Income Tax | \$52,042 | \$55,598 | 6.8% |
| Sales Tax | 27,775 | 29,347 | 5.7% |
| Corporation Tax | 10,311 | 10,816 | 4.9% |
| Other | <u>4,391</u> | <u>5,516</u> | <u>25.6%</u> |
| TOTAL | \$94,519 | \$101,278 | 7.2% |

**2007-08
General Fund Solutions
(in millions)**

| Budget Assumption | Amount |
|---|----------------------|
| • Shift Public Transportation Account Spillover to Backfill General Fund Purposes | \$1,111 |
| • Anticipated Revenues from Tribal Gaming Compacts | \$506 |
| • Various proposals in CalWORKs – including elimination of child-only benefits after a specified time period and restriction of safety net grants | \$324 |
| • Suspension of CalWORKs cost-of-living adjustment (COLA) | \$140 |
| • Shift Stage 2 Child Care to Proposition 98 | \$269 |
| • Eliminate Teacher Tax Credit and "Yacht loophole" | \$200 |
| • Replace General Fund with bond funds for levies and parks deferred maintenance | \$280 |
| • Corrections reforms | \$100 |
| • Eliminate state funding for Homeless Mentally Ill | \$55 |
| • Unallocated reduction | \$100 |
| • Other miscellaneous policy savings | \$315 |
| Total | \$3.4 billion |

Total General Fund Spending Concentrated in Four Areas

Four policy areas account for approximately 90 percent of General Fund spending contained in the Governor’s Budget. The table below identifies the relative spending in these areas. Specifically, in the proposed 2007-08 budget:

- K-14 Education (which includes community colleges) under Proposition 98 is anticipated to expend \$41.2 billion, accounting for 40 percent of the General Fund spending;
- Health and Human Services expenditures are anticipated to be \$29.8 billion, accounting for 29 percent of the total;
- Higher Education (UC, CSU, and Student Aid Commission) expends \$11.1 billion, accounting for almost 11 percent of the total; and
- Corrections and Rehabilitation (formerly Youth and Adult Corrections) receives \$10 billion, accounting for approximately 10 percent of the total.

**Proposed 2007-08
General Fund Expenditures
(in millions)**

| <u>Major Program Area</u> | <u>Revised 2006-07</u> | <u>Proposed 2007-08</u> | <u>Year-to-Year % Change</u> |
|--|----------------------------|-----------------------------|----------------------------------|
| Education – Proposition 98 (K-12 / Community Colleges) | \$40,812 | \$41,190 | 0.9% |
| Health and Human Services | 29,797 | 29,848 | 0.2% |
| Higher Education (UC/CSU/Other) | 10,281 | 11,058 | 7.6% |
| Corrections and Rehabilitation (formerly Youth and Adult Corrections) | 9,183 | 9,989 | 8.8% |
| All Other | <u>12,064</u> | <u>11,056</u> | <u>-8.4%</u> |
| TOTAL | \$102,137 | \$103,141 | 1% |

Proposed 2007-08 Budget -- Major General Fund Changes

- Proposes Proposition 98 funding of \$56.8 billion for K-14 education. This provides an increase of \$1.8 billion (3.3 percent) above the revised 2006-07 Budget. This enables the administration to fund a 4.04 percent COLA for K-12 and community colleges. In addition, the Governor proposes to shift \$627 million in funding for the home-to-school transportation program from Proposition 98 to the Public Transportation Account (PTA). In making this shift, the administration proposes to re-bench the Proposition 98 minimum guarantee downward by \$627 million to reflect savings to the state General Fund.
- Removes \$269 million in federal TANF monies from CDE child care programs and instead funds the entirety of Stage 2 and Stage 3 child care obligation exclusively with General Fund Proposition 98 dollars.
- Provides \$345 million combined for the University of California and the California State University – this includes \$120 million for 2.5 percent growth and \$225.5 million for a four percent General Fund increase. The budget increases student fees by 7 percent at UC and 10 percent at CSU. However, the budget eliminates all state funding for student academic preparation and education programs at both UC and CSU.
- Reduces funding for the California Work Opportunity and Responsibility to Kids (CalWORKS) by \$465 million. The main components of these changes include restricting safety net grants (\$176 million), imposing full family sanctions, eliminating grants for children of CalWORKs ineligible parents (\$160 million), and suspending a cost-of-living adjustment (\$140 million).
- Proposes to cap the state's contributions to wage and benefit increases for In-Home Supportive Services (IHSS) resulting in a reduction of \$14 million General Fund.
- Reduces funding by \$60 million (50 percent of current level funding) for Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA). The budget would increase funding by \$35 million to the Substance Abuse Offender Treatment Program.
- Provides \$217 million to fully fund a 4.2 percent Supplemental Security Income/State Supplementary Payment (SSI/SSP) cost-of-living adjustment. The maximum grant would increase from \$856 to \$892 for individuals and \$1,502 to \$1,565 for a couple.
- Includes \$54 million to implement Proposition 83 (Jessica's law); proposed expenditures are for conducting evaluations of sexually violent predators and additional staffing at the State Hospitals to implement the new program.
- Eliminates \$55 million in funding for the Integrated for Homeless Adults with Serious Mental Illness program and instead proposes to use Proposition 63 funding for this program.
- Includes \$36 million (\$17 million GF) to implement SB 437 – which requires the simplification of enrollment processes into the Healthy Families and Medi-Cal for children program.
- Provides an increase of \$1.6 billion General Fund (\$3.9 billion total) for enrollment, caseload, and population driven programs in the Health and Human Services area.

- Increases funding for Corrections and Rehabilitation by \$807 million. Of this amount, \$583 million is primarily for population and workload increases and \$363 million is for various infrastructure projects related to the administration's corrections reform package.
- Contains an increase of \$147 million for the Judiciary branch, primarily attributable to the year-to-year growth factor change in the State Appropriations Limit. This includes \$17 million for the State Judiciary and \$130 million for Trial Courts. The budget proposes to add 100 new judgeships over a two-year period beginning in April 2008 – the expenditure of funds for new judgeships is restricted until legislation authorizing new judgeships is enacted.
- Provides \$36 million (Motor Vehicle Account) to begin implementation of AB 32, Statutes of 2006 – Global Warming Solutions Act. This measure requires the State Air Resources Board to adopt a statewide greenhouse gas emissions limit equivalent to the levels in 1990; to be achieved by 2020.
- Proposes elimination of the Teacher Retention Tax Credit and to make permanent the requirement that use tax be paid if a vehicle, vessel or aircraft is brought into the state within 12 months of purchase – for an overall General Fund savings of \$200 million.
- Captures \$1.1 billion in Public Transportation Account (PTA) spillover funds and redirects the use of these funds for debt service on transportation bonds (\$340 million), home-to-school K-12 transportation (\$627 million), and transportation costs associated with developmentally disabled persons in state regional centers (\$144 million).
- Fully funds Proposition 42 and revenue is estimated to be \$1.5 billion – which is an increase of \$47 million over the revised 2006-07 estimate.
- Includes \$468 million General Fund to cover the 2007-08 cost increases associated with existing collective bargaining agreements and cost increases for excluded employees. Some of the costs result from a federal court order in the *Plata v. Schwarzenegger* corrections lawsuit. Only the Corrections bargaining unit is currently working without a contract.
- Includes a transfer of approximately \$2 billion to the Budget Stabilization Account, consistent with the Proposition 58 target for 2007-08 of two percent of General Fund revenues. Half of this amount is used to accelerate payment of the Economic Recovery Bonds (ERBs). In addition, the budget proposes a further repayment of \$595 million from the General Fund

Strategic Growth Plan

The Governor's Budget Summary lays out his proposal to complete the Strategic Growth Plan (SGP) originally presented in 2006. The plan lays out the initial 10 years of a 20-year objective to focus on the state's infrastructure needs in the areas of transportation, K-12 and higher education, flood control and water supply, public safety, the courts, and other miscellaneous program areas. To fully complete this phase of the SGP, the administration is proposing a total of \$43.3 billion in new bonds -- \$29.4 billion in new general obligation bonds and \$13.9 billion of additional lease-revenue and self-liquidating revenue bonds; with the new General Obligation (GO) bonds placed on the ballot in the years 2008 and 2010. The use of these new bonds would

focus on education (K-12 / higher education), water supply, court facilities, and public safety (primarily prisons, jails, and local re-entry facilities).

In addition to the bond package, the Administration will require, prior to any funds being expended from existing or future bonds, the responsible state agencies to develop performance and outcome measures for each program or project that would be funded from the bonds. Regular audits will be conducted to ensure that bonds are being allocated according to those outcome criteria.

SUBCOMMITTEE No. 1

EDUCATION

K-12

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Higher Education

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K-12 EDUCATION

6110 Department of Education

Funding for California's public elementary and secondary education system is administered predominantly through the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education. The public elementary and secondary education system educates approximately 5.9 million students enrolled largely in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of nearly 1,000 school districts, 58 county offices of education, and more than 9,300 schools. Approximately 307,800 teachers are employed in public schools statewide.

Total K-12 Funding (All Funds)

The 2007-08 Governor's Budget proposes \$68.6 billion in total funding for K-12 education, which reflects an increase of \$1.8 billion (2.7 percent) above 2006-07 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, federal, other) totals \$11,584 in 2007-08, an increase of \$344 above the \$11,240 per-pupil amount in 2006-07.

| Table 1 | | | | | |
|-------------------------------------|-----------------|------------------|------------------|-----------------|----------------|
| K-12* Summary, All Funds | Actual | Revised | Proposed | | Percent |
| <i>(dollars in millions)</i> | 2005-06 | 2006-07 | 2007-08 | Amount | Change |
| K-12 Proposition 98: | | | | | |
| State General Fund | \$34,582 | \$36,658 | \$36,851 | \$ 193 | 0.5 |
| Local Property Taxes | 11,959 | 12,353 | 13,595 | 1,242 | 10.1 |
| Subtotal, Proposition 98 | (\$46,541) | (\$49,011) | (\$50,446) | (\$1,435)** | (2.9) |
| Other K-12 Funds: | | | | | |
| State General Fund (Non-98): | | | | | |
| Teacher Retirement | \$999 | \$876 | \$966 | \$ 91 | 10.4 |
| Bond Debt Service | 1,681 | 1,857 | 2,201 | 345 | 18.6 |
| Other Programs | 63 | 643 | 1,078 | 435 | 67.7 |
| State Lottery Fund | 1,036 | 1,012 | 1,012 | 0 | 0 |
| Federal Funds | 6,931 | 7,113 | 6,568 | -545 | -7.7 |
| Local Funds | | | | | |
| Debt Service | 1,660 | 1,660 | 1,660 | -- | -- |
| Other | 4,584 | 4,603 | 4,623 | 20 | 0.4 |
| Subtotal, Other Funds | (\$16,954) | (\$17,763) | (\$18,109) | (\$346) | (1.9) |
| Total , All Funds | \$63,495 | \$66,774 | \$68,555 | -\$1,781 | 2.7 |
| K-12 ADA | 5,964,108 | 5,940,989 | 5,917,948 | -23,041 | -0.39 |
| Per Pupil Funding, All Funds | \$10,646 | \$11,240* | \$11,584* | \$344 | 3.1 |

* Reflects the funding shift of \$627 million in funding for Home-to-School Transportation from Proposition 98 to the Public Transportation Account per the Governor's proposal. Without the shift, the K-12 Proposition 98 increase would total \$2.1 billion (4.2 percent).

** Includes one-time funds for prior year Proposition 98 settle-up.

As reflected in Table 1, the \$68.6 billion in total funds for K-12 education can be summarized as follows: \$42.1 billion (61.4 percent) in state funds (General Fund and State Lottery Fund); \$19.9 billion (29 percent) in local funds (property taxes and other local revenues); and \$6.6 billion (9.6 percent) in federal funds.

The budget reflects a decrease of \$545 million (7.7 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2007, once it is passed by Congress and signed by the President.

Proposition 98

Total Proposition 98 funding for K-14 education in 2007-08 is proposed at \$56.8 billion, an increase of \$1.8 billion, or 3.3 percent, over the revised 2006-07 budget. (See Table 2) The Administration states that this level of funding meets the Proposition 98 minimum funding guarantee in 2007-08, as currently estimated by the Department of Finance.

| Table 2 | | | | | |
|--|---------------------|---------------------|---------------------|--------------------|-------------|
| K-14 Proposition 98 | | | | | |
| Appropriations Summary | | | | | |
| <i>(dollars in thousands)</i> | 2005-06 | 2006-07 | Proposed 2007-08 | \$ Change | % Change |
| <i>Distribution of Prop 98 Funds</i> | | | | | |
| Department of Education | \$46,485,854 | \$48,945,279 | \$50,385,924* | \$1,440,645 | 2.9 |
| Community Colleges | 5,472,403 | 5,897,062 | 6,274,142 | 377,080 | 6.4 |
| Corrections & Rehabilitation** | 45,780 | 52,964 | 54,250 | 1,286 | 2.4 |
| State Special Schools | 42,567 | 44,533 | 44,253 | -280 | -0.6 |
| Commission on Teacher Credentialing | 31,814 | 49,881 | 39,881 | -10,000 | -20.0 |
| Dept. of Developmental Services | 10,217 | 9,121 | 8,677 | -444 | -4.9 |
| Dept. of Mental Health | 18,400 | 13,400 | 18,400 | 5,000 | 37.3 |
| School Facilities Aid Program | 7,841 | 5,766 | 5,015 | -771 | -13.3 |
| Am. Indian Education Centers | 4,698 | 4,343 | 4,518 | 175 | 4.0 |
| Total | \$52,119,574 | \$55,022,369 | \$56,835,060 | \$1,812,691 | 3.3 |
| <i>Prop 98 Fund Source</i> | | | | | |
| State General Fund | \$38,358,017 | \$40,812,023 | \$41,189,857 | \$377,834 | 0.9 |
| Local Property Taxes | 13,761,557 | 14,210,346 | 15,645,203 | 1,434,857 | 10.1 |
| Total | \$52,119,574 | \$55,022,369 | \$56,835,060 | \$1,812,691 | 3.3 |
| K-12 Enrollment-ADA*** | 5,964,108 | 5,940,989 | 5,917,948 | -23,041 | -0.39 |
| K-12 Funding per ADA**** | \$7,803 | \$8,293 | \$8,569 | \$276 | 3.3 |
| * Includes one-time funds for prior year Proposition 98 settle-up. | | | | | |
| ** Division of Juvenile Justice. (Formerly California Youth Authority.) | | | | | |
| ***Average Daily Attendance | | | | | |
| **** Includes one-time funds for prior year Proposition 98 settle-up. Without these one-time funds, K-12 per ADA funding totals would equal \$8,250 in 2006-07 and \$8,524 in 2007-08. | | | | | |

The Governor proposes to shift \$627 million in funding for the Home-to-School Transportation program – administered by the California Department of Education – from the Proposition 98 General Fund to the Public Transportation Account. In making this shift, the Administration proposes to rebench the Proposition 98 minimum guarantee downward by \$627 million.

Of the \$56.8 billion in Proposition 98 spending for K-14 education in 2007-08, \$50.4 billion is appropriated to the Department of Education for K-12 schools; \$6.3 billion for Community Colleges; and \$175 million for all other state education agencies.

General Funds comprise \$41.2 billion (72.5 percent) of total Proposition 98 funding; property taxes comprise the remaining \$15.6 billion (27.5 percent).

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to decrease by 23,041 in 2007-08, a decrease of 0.39 percent over the revised 2006-07 budget. Average per-pupil Proposition 98 funding is estimated to be \$8,569 in 2007-08, an increase of \$276 (3.3 percent) above the revised 2006-07 level of \$8,293.

Governor's Strategic Growth Plan for Education

Last January, the Governor proposed a 20-year Strategic Growth Plan to rebuild California's infrastructure system as a part of the 2006-07 budget proposals. This comprehensive plan covered K-12 and higher education, as well as transportation, air quality, water, public safety, courts and other public service infrastructures. The Governor and Legislature subsequently agreed on a comprehensive general obligation bond package, contained in four separate ballot measures that were approved by statewide voters in November 2006. One of these four measures – Proposition 1D – provides \$10.4 billion in new facility bonds for K-12 schools and higher education systems.

The Governor's proposes additional investments in California's infrastructure as a part of the 2007-08 budget proposals in order to further implement his Strategic Growth Plan. Overall, the Governor proposes \$29.4 billion in new bonds in 2008 and 2010. Of this amount, \$23.1 billion or nearly 79 percent is set-aside for expanding or improving education facilities -- \$11.6 billion for K-12 education and \$11.5 billion for higher education. The remaining portion of these bond proposals includes \$4 billion for water safety, \$2 billion for judiciary, and \$300 million for other public service infrastructure.

The summary below lays out the next phase of the Governor's Strategic Growth Plan 2008-2016 for K-12 Education and Higher Education. Of the \$11.6 billion in new K-12 facility bonds proposed by the Governor in 2008 and 2010, \$3.7 billion is provided for modernization; \$3.9 billion for new construction; \$2 billion for charter schools and \$2 billion for career technical education. These funds are estimated by the Administration to provide 22,100 new classrooms and 40,300 classroom renovations.

Table 3
Summary of Governor's Strategic Growth Plan for Education
General Obligation Bond Proposals
2006-2016
(in billions)

| | Approved 2006* | Proposed 2008 | Proposed 2010 | Proposed Total |
|-------------------------------|-------------------|------------------|------------------|-------------------|
| K-12 Education | | | | |
| Modernization** | \$3.3 | \$1.539 | \$2.13 | \$ |
| New Construction** | 1.9 | 2.931 | 1.0 | |
| Overcrowding Relief | 1.0 | | | |
| Charter Schools | 0.5 | 1.0 | 1.0 | |
| Career-Technical Education | 0.5 | 1.0 | 1.0 | |
| High Performance Schools*** | 0.1 | | | |
| Joint Use Facilities | .03 | | | |
| Total K-12 Education | \$7.3 | \$6.5 | \$5.1 | \$11.6 |
| Higher Education | | | | |
| UC/Hastings**** | \$0.9 | \$1.725 | \$1.035 | |
| CSU | 0.7 | 1.725 | 1.035 | |
| CCC | 1.5 | 3.75 | 2.25 | |
| Total Higher Education | \$3.1 | \$7.2 | \$4.320 | \$11.5 |
| Total Bond Proposal | \$10.4 | \$13.7 | \$9.4 | \$23.1 |

* Proposition 1D was approved by statewide voters in November 2006.

** Of new construction and modernization funds, up to \$200 million is available for small high schools and \$200 million is available for seismic safety projects.

*** Projects that meet performance criteria for energy, water, natural lighting, air quality, use of recycled materials, etc.

**** Requires \$200 million to be used for capital improvements to expand/enhance medical education programs with an emphasis on telemedicine. Includes \$100 million in lease revenue bonds.

The Governor proposes significant changes to the current school facility bond program as a part of the 2008 and 2010 bond proposals for K-12 schools. Specifically, the Governor proposes to revise the current state-local cost sharing ratio for *new construction* funds from the current 50 percent state/50 percent local to 40 percent state/60 percent local. The Governor also proposes to change the state-local ratio for *modernization* funds from the current 60 percent state/40 percent local to 40 percent state/60 percent local. These changes increase the local share of costs and reduce the state's share.

The Governor would maintain current 50 percent state/50 percent local cost sharing ratios for new charter school funding and career-technical education funding proposed in the 2008 and 2010 bond acts.

The Governor proposes another policy change to the school bond program as a part of the 2008 and 2010 bond act proposals that would limit state funding for site acquisition for new construction projects to the acreage that meets 150 percent of the Department of Education's pupil density standard.

The Governor also proposes \$100 million in facility bond funds for the State Special Schools – Schools for the Deaf (Freemont & Riverside) and School for the Blind (Freemont) – as a part of the \$300 million bond proposal in 2008 for Other Public Infrastructure.

Highlights

Cost-of-Living Adjustments (COLAs) Fully Funded. The budget provides **\$1.9 billion** to fully fund COLAs for K-12 revenue limit and categorical programs in 2007-08. The Administration estimates a 4.04 percent COLA for K-12 programs, which provides a \$1.4 billion increase for revenue limits and \$516 million increase for categorical programs. The 4.04 percent COLA is proposed for all programs that require a COLA pursuant to state statute or that traditionally receive a COLA. Funding for COLAs provide discretionary funds to K-12 schools.

Growth Adjustments – Decrease in Student Attendance Budgeted. The Governor’s Budget assumes an actual decline of K-12 students in 2007-08. Specifically, the budget estimates K-12 average daily attendance (ADA) of 5,918,000 in 2007-08, which reflects a decrease of 23,000 ADA from the revised 2006-07 budget. This ADA decline translates into a negative growth adjustment of 0.39 percent for education programs and generates net savings of approximately **\$87 million** in 2007-08. The 0.39 percent reduction for revenue limits totals \$125 million. Categorical programs receive positive growth of \$38 million because the 0.39 percent reduction does not apply to all categorical programs. As proposed by the Governor, categorical programs clearly tied to ADA rates receive negative growth adjustments, such as special education. The Administration proposes to protect other categorical programs, such as Economic Impact Aid and Foster Youth Services, from attendance losses by budgeting growth at zero rather than -0.39 percent. Other categorical programs with non-ADA based growth formulas receive positive growth funding if student counts are increasing.

Funding Shift – School Transportation. The Governor proposes to shift **\$627 million** in funding for the Home-to-School Transportation program from Proposition 98 General Fund to the Public Transportation Account (PTA). In making this shift, the Administration proposes to rebench the Proposition 98 minimum guarantee downward by \$627 million to reflect the savings in state General Funds. The Governor shifts annual expenditures for the Home-to-School Transportation (regular budget item and deferral item) to the PTA. The Governor includes a 4.40 percent COLA for the Home-to-School Transportation program in 2007-08.

Proposition 98 Increase for Child Care. The Governor proposes to increase Proposition 98 funding for CalWORKS child care by **\$269 million**. The effect is to reduce \$269 million in federal TANF funds for CalWORKS child care programs and instead fund all Stage 2 and Stage 3 child care programs with General Fund Proposition 98 dollars, rather than with the mix of funding sources in effect in past years. The effect is to "free up" \$269 million in TANF funds for other CalWORKS purposes and offset General Fund costs in order to create savings for the state.

Other Ongoing Program Increases: The Governor proposes very few other program increases or adjustments in ongoing Proposition 98 funds beyond COLA and child care in 2007-08. These proposals include:

- **Ongoing Funding for Adult English Language Instruction.** Provides **\$50 million** in ongoing funding for the Community-Based English Tutoring (CBET) program authorized by Chapter 632, Statutes of 2006 (SB 368/Escutia). Chapter 632 requires school districts, as a condition of funding, to provide free or subsidized programs of adult English language instruction to parents and other community members who pledge to provide personal English language tutoring to English learners. Chapter 632 makes funding for the CBET program subject to an annual appropriation in the Budget Act. The Governor's proposal essentially continues \$50 million in annual funding for the adult English language instruction and tutoring implemented pursuant to Proposition 227, as approved by voters in June 1998. Proposition 227 required the state to encourage family members and others to provide personal English language tutoring to children with limited English proficiency. Proposition 227 appropriated \$50 million annually -- over a ten year period ending in 2007 -- for this purpose. Chapter 632 continues the community-based adult English language instruction and tutoring program created by Proposition 227, with some modifications intended to improve the effectiveness of the program.
- **Charter Schools Block Grant:** Provides a **\$24.5 million** increase in funding for the charter school categorical block grant to complete the phase-in of funding reforms enacted in 2005-06. The 2006-07 budget increased funding by \$36 million to implement the first of two increases required by the new statute for the charter school categorical block grant pursuant to Chapter 359, Statutes of 2005. This augmentation reflects a \$500 increase in the categorical block grant level.
- **K-12 High Speed Network.** The Governor provides **\$10.4 million** in Proposition 98 funds for the K-12 High Speed Network in 2007-08. In addition the Governor authorizes \$4.6 million in E-Rate and California Teleconnet Funds and \$596,000 of unexpended cash reserves for the K-12 Network, bringing total expenditure authority to \$15.6 million in 2007-08. The 2006-07 budget provided the same level of funding, but included budget bill language and budget control language the Governor does not propose to continue in 2007-08. This language establishes expenditure standards and reporting requirements recommended by the Bureau of State Audits.
- **Mental Health:** Provides an additional **\$5 million** to the Department of Mental Health for expansion of the Early Mental Health Initiative program. This program provides three-year mental health grants to school sites for early identification and intervention services for students in grades K-3.

One-Time Funding Proposals: Proposition 98 Reversion Funds. The Governor proposes appropriating **\$185.9 million** in one-time funds in 2007-08 from the Proposition 98 Reversion Account for a variety of programs.

- **\$100 million** for the Schools Facilities Emergency Repair program pursuant to the *Williams* settlement agreement as articulated by Chapter 899, Statutes of 2006.
- **\$43.9 million** for the Charter Schools Facility Grant program established by Chapter 892, Statutes of 2001. Of this total, \$20 million is available for 2006-07 costs and \$23.9 million is

available for 2007-08. No charter school would be allowed to receive funds in excess of 75 percent of annual lease costs.

- **\$25.7 million** for CalWORKS Stage 2 child care adjustments.
- **\$8.8 million** for the Teacher Credentialing Block Grant to fully fund teachers participating in the Beginning Teacher Support and Assessment system in the current year.
- **\$5 million** to local education agencies for purchase of State Board approved study materials for students who have failed the California High School Exit Exam (CAHSEE). LEAs would be eligible for funding of up to \$20 for 11th and 12th grade students who have failed one or both parts of the CAHSEE. CDE shall select a vendor or vendors to develop and produce study guide workbooks. Study materials must assist students in mastering standards necessary for passing CAHSEE and must include both a computer based component to individualize student learning and professional development for teachers.
- **\$1.5 million** for a new Compact for Success pilot program between K-12 local education agencies and California State University campuses. The purpose of the program is to increase college-going and college-completion rates for participating students. Funds would be used for six regional partnerships that would develop and implement counseling, planning, mentoring and other related services. Private funds would be required to match state funds for the regional partnerships.
- **\$1 million** for a county office of education to contract with an outside agency to develop and implement an Internet-based information management system statewide and provide training on use of the system. The new system would provide a data management tool for schools that are subject -- or likely to be subject -- to state or federal intervention.

One-Time Funding Proposals – Current Year Proposition 98 Settle-Up Funds. The Governor proposes appropriating **\$72.5 million** in one-time General Funds for Proposition 98 settle-up in 2006-07. These proposals for K-12 Education include:

- **School Enrichment Block Grants.** The Governor proposes **\$50 million** in one-time funding to continue the School Enrichment Block Grant program for low performing schools. This proposal would provide third year funding for low performing schools that may be used for teacher recruitment and retention; building effective leadership; and assuring a safe and healthy school environment. This block grant program was first funded with up to \$49.5 million in one-time funds in 2005-06. Another \$50 million in one-time funds was provided in 2006-07. Funding is proposed at the rate of \$50 per pupil and can be expended for the general purposes of improving the school environment and culture, and may include: assuring a safe and clean environment, providing support services for students and teachers, providing differential compensation for highly qualified teachers and highly skilled principals, small group instruction, and teacher and administration collaboration time.
- **Teacher Recruitment.** The Governor proposes **\$10 million** in one-time Proposition 98 funds to create the EnCorps Teachers Program. This new program is intended to add 2,000 experienced retirees to the teaching corps. Funds for this new program are

budgeted to the Commission on Teacher Credentialing (CTC). (See following section for the CTC budget.)

- **School Business Officers.** The Governor proposes **\$2.5 million** to fully fund eligible candidates for the School Business Officers Training Program.

Student Data – California Longitudinal Pupil Achievement Data System (CALPADS). The Governor proposes **\$2.5 million** from state and federal sources to support district implementation of the CALPADS.

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

Other One-Time Funds – Quality Education Improvement Act. The Governor’s Budget Summary indicates that 2007-08 budget includes **\$300 million** to commence implementation of the Quality Education Improvement Act (QEIA). This amount provides **\$268 million** for K-12 schools and **\$32 million** for community colleges in 2007-08. As established by Chapter 751, Statutes of 2006 (SB 1133/Torlakson), the QEIA appropriates \$2.9 billion in Proposition 98 settle-up payments for K-12 schools and community colleges over a seven year period, beginning in 2007-08. For K-12 schools, the QEIA will provide increased student funding over seven years to a portion of schools ranked in the lowest two deciles of the Academic Performance Index. Schools selected to participate will receive \$500 annually per K-3 student, \$900 annually per grade 4-8 students, and \$1,000 annually per grade 9-12 student. Funding is intended to improve student achievement with an emphasis on requirements for reducing class sizes, improving teacher qualifications, and reducing pupil-counselor ratios in high schools.

Career Technical Education: The Governor proposes **\$32 million** for the Community Colleges to expand the Career Technical Education programs. Funding for this increase comes from community college funds available in 2007-08, pursuant to Chapter 751, Statutes of 2006. The Career Technical Education program links K-12 and community college programs to develop better pathways to the workforce and higher education. The Governor proposes to continue an additional \$20 million in funds provided to the Community Colleges in the current year for this purpose. (See Community Colleges section for additional detail.)

State Bond Facilities Expenditures. The Governor’s budget proposes to expend \$6.9 billion in state general obligation bond funds for school facilities including \$2.8 billion in 2006-07 and \$3.8 billion in 2007-08. More than \$3 billion of these funds come from the 2006 school facilities bond (Proposition 1D), approved by statewide last November. Remaining funds are available from earlier state bond acts. The Governor’s budget estimates debt service payments for the K-12 general obligation bond of \$1.9 billion in 2006-07 and \$2.2 billion in 2007-08. These expenses are paid for from the state General Fund (Non-98).

New Ongoing Programs Continued: The Governor proposes to continue funding for several new block grant programs created in the 2006-07 budget, including:

- **Grades 7-12 Counseling:** Provides funding of **\$208 million** to schools to continue funding for the Supplemental School Counseling program. The 2006-07 budget provided \$200 million for this new program to increase counseling services for students in grades 7-12. Priority for counseling services is given to students who are at-risk of not passing or who have not passed the California High School Exit Exam (CAHSEE) as well as students who are at-risk of not graduating high school due to insufficient credits.
- **K-12 Arts and Music Block Grant.** The Governor provides \$109.2 million to school districts, county offices of education and charter schools to continue funding for the Arts and Music Block for students in grades K-12. The 2006-07 provided \$105 million in Music and Arts Block Grants for this program. Funding may be used for a variety of purposes including hiring additional staff, purchasing new materials, books, supplies and equipment; and providing staff development.
- **K-8 Physical Education Block Grant.** The Governor provides **\$41.6 million** in Physical Education Teacher Incentive Grants to K-8 school districts and charter schools to support the hiring of additional credentialed physical education teachers. Grantees will be randomly selected and be equitably distributed based upon school type, size and geographic location. The 2006-07 budget provided \$40 million for this new program.

Other Budget Initiatives: The Governor proposes two initiatives for K-12 schools that are not funded in the budget, including:

- **School Meal Reimbursement Increase.** The Governor proposes to provide an unspecified increase in the reimbursement rate for school meal, breakfasts and lunches, in 2007-08. The Governor does not provide any funding in the budget for this purpose. The Governor proposed a \$37.8 million increase to the meal rate in 2006-07. This level of funding provided funding of 21 cents per meal – an increase of approximately seven cents per meal. This increase was approved by the Legislature in 2006-07, but ultimately vetoed by the Governor because new funding was not tied to improvements in the quality of school meals. Subsequent legislation to appropriate funding for school meals was also vetoed by the Governor. The Governor now proposes to consider meal rate increases in the budget year and tie any increases to legislation to eliminate unhealthy fats and fried foods from school meals.
- **Student Data - School Accountability Report Card (SARC).** The Administration proposes to work with the Legislature, Superintendent of Public Instruction, and other interested parties to redesign the School Accountability Report Card (SARC). These changes are sought to improve the accessibility and quality of school data for parents, the public, educators and policymakers.

Education Mandate Payments Deferred. The Governor proposes to continue the practice of deferring payments for education mandate claims in 2007-08. This practice arose in recent years as a means to achieve short-term budget savings. The annual cost of education mandates is estimated at approximately \$150 million for K-12 schools.

Prior-Year Mandate Payments. The Governor also proposes no additional funding to pay for outstanding prior year education mandate claims. The LAO estimates unpaid prior year claims will total \$273 million for K-12 schools by the end of 2006-07, including annual mandates payments deferred by the 2006-07 budget. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

Backfill Funding for Rural Schools. The Governor proposes a short-term General Fund loan of \$69 million in 2006-07 to backfill the loss of federal aid from the National Forest Area Schools program for schools in rural areas of the state. This loan is paid back in full in the 2007-08 budget.

Federal Carryover Funds for Reading First. The Governor proposes to use **\$15.1 million** in federal Reading First carryover funds for additional schools in currently funded school districts. The Governor's proposal does not allow any of these carryover funds to be used for schools in districts that are not currently participating in the program. The Reading First program provides reading instruction to K-3 students. The Governor vetoed \$15.1 million in the 2006-07 budget, which included \$3.0 million for schools in districts that are not currently participating in Reading First program. The Governor's veto expresses the view that funding should not be provided for new schools in districts that are not currently receiving funding.

State Operations – Restoration of State Board of Education Positions. The Governor's budget proposes to fully restore funding for staff and operations at the State Board of Education in 2007-08. The budget adds **\$1.5 million** in General Funds (Non-98) and **\$53,000** in reimbursements to restore 9.2 staff positions and other operating expenses for the State Board. The Legislature eliminated all funding for the State Board's staff and expenses in the 2006-07 budget in response to State Board actions on English/Language Arts curriculum as it affects the availability of instructional materials for English learners.

Issues

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

1. **Limited New, Ongoing Funding for Schools Beyond COLAs.** The Governor's budget provides limited discretionary Proposition 98 funding for K-12 schools in the 2007-08 budget. Most new, ongoing funding in 2007-08 is directed to COLAs for education programs. The Governor provides discretionary increases for child care, adult English tutoring and several other smaller programs. The Governor's budget does not include funds to increase school meals reimbursements, although this is identified as one of the Governor's initiatives in 2007-08. If COLA rates increase at May Revise, additional discretionary funding will be need to be redirected from other new discretionary program proposals or a deficit factor will be created for COLAs.

2. **Student Growth in Third Year of Decline.** The Governor's budget estimates that the number of students attending school in California is declining statewide for the third year in 2007-08. The Governor's budget actually reflects negative growth for all revenue limit programs and some categorical programs in 2007-08. This decline presents many challenges to schools. It will be important to understand more about how different state programs account for student workload changes. In addition, it will be important to look at the effects of declining enrollment on school districts statewide. Current law holds school districts harmless from enrollment losses for one-year. According to the Department of Finance, the cost of this hold harmless provision is \$500 million in 2007-08.
3. **Federal Funding – Will Losses Continue?** Federal education funds for California declined in 2006-07, and until last November, were expected to decline further in 2007-08. It is unclear what affect the new leadership in Congress will have on the level of education funding to states in 2007-08. The Governor's budget basically proposes 2007-08 federal funding for K-12 education at 2006-07 levels. Federal funds will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2007, once it is passed by Congress and signed by the President.
4. **What Happens for Students Who Have Not Passed CAHSEE?** The graduating class of 2006 was the first group of students in California that were required to pass the California High School Exit Exam (CAHSEE) in order to graduate from high school. Students begin taking the exam in 10th grade. The exam includes two tests – English Language Arts and mathematics. While passage rates have been increasing for students planning to graduate, significant numbers of students in the class of 2006 did not pass CAHSEE. The Governor's Budget continues **\$72.4 million** supplemental instruction funding for 11th and 12th graders who have not passed CAHSEE. However, it will be important to understand what happened to students in the class of 2006 who did not pass CAHSEE.

Child Care Programs

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

Child care services under Stage 1 are administered by DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by CDE. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid. Families receiving CalWORKS Stage 3 child care services have exhausted their two-year Stage 2 eligibility.

Child care services are available on a limited basis for families who demonstrate exceptional financial need (also known as the "working poor"), but who have not otherwise received assistance through the CalWORKS program. These services are delivered predominately through child care vouchers and child care centers. Under current practice, services to these two populations (former CalWORKS recipients and the "working poor") are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKS recipients.

2007-08 Child Care Highlights. The proposed 2007-08 budget contains a total of \$2.3 billion (both General Fund and federal funds) to provide child care services to CalWORKS recipients, former CalWORKS recipients, and the "working poor." Funding for state and federal After School programs is excluded from this total and will be discussed separately.

Budget Issues

Unlike prior years, the Governor does not propose any major programmatic reforms to CDE-administered subsidized child care programs, he does however, propose to freeze the income eligibility limits for the subsidized child care programs at the current-year State Median Income (SMI) levels.

The Governor's proposal contains minor budgetary changes in Stage 2 and 3 CalWORKS child care, as well as General Child Care, consistent with caseload changes within those programs. The Governor does, however, call for substantial reform to the CalWORKS program (as discussed in the Social Services section of this document) which, in the out-years, may have an impact on child care caseloads. These changes will not impact child care caseloads in either Stage 2 or Stage 3 CalWORKS Child Care in the 2007-08 fiscal year.

Included in the 2007-08 proposal is a shift in the traditional mix of funding for Stage 2 Child Care services. While long-administered by CDE, this program has traditionally been funded with both federal TANF and Proposition 98 dollars. For example, in the current year, funding for Stage 2 child care totals \$425.2 million. Of that amount, \$56 million comes from Proposition 98 while \$369 million is from federal TANF funds. For the budget year, the Administration

proposes funding all but \$42.7 million of the \$447.4 million Stage 2 budget from Proposition 98 sources (including \$25.7 million from the Proposition 98 reversion account and \$13.25 million in other Proposition 98 Child Care carryover funds). While this fund shift has been described by some as "moving" Stage 2 Child Care "into" Proposition 98, staff notes that it is simply a reconfiguration of the current funding sources for a program which has already been funded with Proposition 98 dollars.

After School Programs

Background. The state makes Before and After School Programs available to children statewide with funding provided by both the federal government (via the 21st Century Community Learning Centers Program) and the state General Fund.

In 2002, the voters approved Proposition 49 to increase the amount of state support available to Before and After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, the provisions of Proposition 49 went into effect in the 2006-07 fiscal year. This had the effect of requiring the state to quadruple (in a single year) the amount of funding it expends on state-funded After School Programs.

In the current year, the state is spending \$547.4 million General Fund to support After School Programs and the federal government is providing the state with \$162.6 million for a similar purpose. As a condition of Proposition 49, the State funds are continuously appropriated and are not appropriated in the annual Budget Act. Federal funds are appropriated annually in the Budget Act.

2007-08 After School Program Highlights. Funding for the State's After School program is proposed to remain constant at \$547.4 million, while federal support for the 21st Century Community Learning Centers Program is slated to decrease by \$33.6 million (to \$129 million), due to the absence of prior-year carry over funds which had been previously been available to supplement the program.

Preschool Programs

The Governor generally proposes to maintain the State Preschool Program at existing levels. The program is proposed to increase by \$5 million over the revised current-year budget level of \$413.6 million. This increase is due to a \$5 million augmentation for child care/preschool "wrap around" services which seek to bridge care for children between the time a preschool program ends and child care program would begin. Funds were provided for this purpose in the current year from one-time sources and were statutorily appropriated (Chapter 211, Statutes of 2006). Additional funding is provided for caseload adjustments to account for 2,550 new children, which are expected into the state's preschool programs in 2007-08.

6120 California State Library

There are no budget changes proposed for the Public Library Foundation (PLF), which, under the Governor's proposal, will remain funded at \$21.4 million. While this amount represents an

increase above the \$14.4 million provided in the 2005-06 Budget Act, it is still significantly below the 2000-01 funding level for the program, which exceeded \$56.8 million. Funds from the PLF are allocated to local libraries for general support, such as retaining library hours of operation; book and material purchases; and outreach services, such as the operation of bookmobiles.

6360 California Commission on Teacher Credentialing

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

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

The CTC currently receives approximately 250,000 annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

| Summary of Expenditures | | | | | |
|---------------------------------|-----------------|-----------------|-----------------|------------------|--------------|
| (dollars in thousands) | | | | | |
| | 2005-06 | 2006-07 | 2007-08 | \$ Change | % Change |
| General Fund | \$2,700 | \$0 | \$0 | -- | -- |
| General Fund, Proposition 98 | 24,988 | 49,881 | 39,881 | -\$10,000 | -20.0 |
| Teacher Credentials Fund | 11,442 | 15,369 | 14,601 | -768 | -5.0 |
| Test Development & Adm. Account | 2,814 | 4,792 | 4,188 | -604 | -12.6 |
| Reimbursements* | 76 | 1,027 | 248 | -779 | -75.9 |
| Total | \$42,020 | \$71,069 | \$58,918 | -\$12,151 | -17.1 |

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

In addition, the budget proposes a net reduction of \$1.4 million in expenditures from the two special funds that support the CTC’s state operations -- the Teacher Credentials Fund and million

from the Test Development and Administration Account. This reduction reflects a \$1.5 million decrease in pro-rata charges assessed to the CTC and a \$100,000 increase for other baseline budget adjustments. In total, the Governor's Budget proposes to expend \$18.8 million from CTC's two special funds in 2007-08.

The Governor's budget provides \$39.9 million from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. This amount continues the \$6.8 million increase provided in the 2006-07 budget to improve and expand intern grants to school districts and county offices of education, pursuant to Chapter 517 (SB 1209/Scott).

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

Highlights

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

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

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

Continue Efforts/Progress in Reducing Credential Processing Time. The Governor proposes to continue position authority provided in the 2006-07 budget to reduce credential processing time and backlogs. Specifically, the 2006-07 budget converted four high level positions in the Professional Services Division into seven technical positions in the Certification, Assignment and Waivers Division for this purpose. The Governor proposes to continue this authority for one additional year – until June 30, 2008. The Governor notes that while “significant” progress has been made in 2006-07, it is “critical” that efforts continue until the backlog is eliminated and processing time is below the 75-day standard.¹ The Governor also proposes to continue language requiring the CTC to submit quarterly reports to the Legislature, Legislative Analyst’s Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

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

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

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

¹ The Governor’s Budget summary indicates that during 2006-07 the “credentialing backlog” has been reduced from 77,000 to 44,000 applications and reduced average processing time below the regulatory time limit of 75 days for both credential renewals and university recommended credentials for new teachers. According to CTC, the credentialing backlog has been further reduced to 31,000 applications.

HIGHER EDUCATION

Overview of Governor's Compact with Higher Education. In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) that calls for the Governor to provide the UC and CSU with a specified level of General Fund support, as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. The Governor's 2007-08 Budget proposal provides funding for UC and CSU pursuant to this agreement. Specifically, the *compact* contains the following provisions:

- *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement;
- *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11;
- *General Support.* Beginning in fiscal year 2005-06 and 2006-07, the Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from **2007-08** to 2010-11), the Governor will provide increases of 4 percent annually.
- *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,350 FTES at CSU.
- *Long-Term Funding Needs.* Beginning in 2008-09, through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- *Student Fees.*

Undergraduate Fees. In an effort to better stabilize fees after the sharp increases of the past couple of years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU may increase fees up to 10 percent.

Teacher Credentialing Fees. Fees will increase by no more than 10 percent annually.

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

UC Professional School Fees. UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs.

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

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

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

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

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

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

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

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

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

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

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

OVERARCHING HIGHER EDUCATION ISSUES

Student Enrollment Growth (UC and CSU). Pursuant to the Governor's compact with UC and CSU, the Administration proposes to fund enrollment growth equivalent to 2.5 percent, which is consistent with the enrollment projections at the UC and CSU. For UC, this equates to an increase of approximately 5,000 FTES and \$54.4 million; for CSU, enrollments are proposed to increase by approximately 8,355 FTES and \$35.5 million.

Imbedded in the Governor's enrollment growth proposal is a substantial change in the methodology used by the state to calculate the per student "marginal cost of instruction," which is the rate of funding provided by the state for each new student. Specifically, the rate used by the Department of Finance in the Governor's 2007-08 proposal is derived from a methodology that was rejected by the Legislature during the current year budget negotiations.

In 2005, the Legislature requested that the Department of Finance and the Legislative Analyst convene a workgroup to examine possible changes to the marginal cost methodology in order to better capture the costs of educating students at UC and CSU. This request was spurred by a growing sense, both within the higher education segments and among legislators and staff that the per-student rate had not kept pace with actual costs incurred by the institutions in educating students.

Budget Issues

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

Student Enrollment Growth (Community Colleges). While the California Community Colleges do not have a "compact" with the Governor, he does provide \$238.2 million to fund enrollment growth of two percent throughout the community college system. These funds will allow colleges statewide to grow by an additional 23,000 FTES.

Until recently, statute dictated that community colleges were required to receive a minimum level of growth funding equivalent to the level of statutory growth provided to the K-12 system. However, legislation enacted in 2006 (Chapter 631, Statutes of 2006) establishes an alternative growth formula for community colleges which equally weights the 19 to 24-year old populations and the 25 to 65-year old populations. Based on that computation, the minimally funded growth rate for community colleges would be 1.65 percent. Funds provided in the Governor's budget exceed this amount.

Budget Issues

While the Legislature remains supportive of expanding access to higher education, it wants to neither over-appropriate funds for enrollment growth (since those funds will simply revert to the Proposition 98 Reversion Account), nor under-appropriate, thereby limiting student access. Given the current-year reduction in community college fees (from \$26 per unit to \$20 per unit), the Legislature will want to remain attentive to the student enrollment trends at colleges during the Spring 2007 term to determine if the two percent enrollment growth proposed by the Governor is indeed an appropriate funding level for the 2007-08 fiscal year.

General Campus Support. Consistent with the Governor's compact, his 2007-08 budget provides a General Fund, general support increase of four percent for both UC and CSU (including a four percent increase for the Legislative, Executive, and Judicial Fellows programs)

totaling \$225.5 million (\$116.7 million to UC and \$108.8 million to CSU). These funds will be used to cover cost-of-living-adjustments (COLA), salary, and other mandatory cost increases.

Under the Governor's proposal, the community colleges also receive a statutory COLA of 4.04 percent which equates to \$224.9 million.

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

For 2007-08, the Governor reverts to his previously-agreed up compact and increases fees at both UC and CSU. Instead of initially proposing specific fee increases in November of 2006 as is traditional, the UC and CSU instead proposed system budgets that contained revenue and resource assumptions – stating that those revenues could come either from the State General Fund (in the form of a student fee "buy out") or from a Student Fee Increase.

For UC, the Board of Regents budget states a need for approximately \$70 million from either state funds or a fee increase. This equates to revenues equaling a seven percent fee increase (after approximately \$36 million is returned to student financial aid) for most students, although some professional school students will see fee increases of closer to ten percent. At the CSU, the concept is the same although the calculations are slightly different. The CSU Board of Trustees budget proposal states a need for approximately \$65 million in revenues, which could be derived from either the state General Fund or increased student fees. In the case of CSU, this equates to a ten percent increase in student fees (after approximately \$32 million is returned to financial aid). In both cases, the Governor opted to increase fees rather than buying out the fee increases.

The Governor is proposing that fees at the community colleges -- which were reduced from \$26 to \$20 per unit in the current year -- remain constant.

Student Academic Preparation Programs. The Governor's Budget again fails to provide any state support (General Fund) for either UC or CSU's Student Academic Preparation or Early Assessment Programs. This equates to a loss of \$26.3 million for these programs (\$19.3 million for UC and \$7 million for CSU). As part of the 2005-06 budget process, the UC convened a bipartisan working group of university, legislative, and Administration representatives to address the Administration's concerns with the various Academic Preparation programs. In light of the efforts undertaken by the Legislature and the higher education segments to resolve any outstanding issues, it remains unclear why the Administration continues proposing the elimination of state funding for these programs.

6440 University of California

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

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

| Summary of UC Expenditures | | | | | |
|--|---------------------|---------------------|-----------------------|------------------|-------------|
| (dollars in thousands) | | | | | |
| | 2005-06 | 2006-07 | (Proposed) 2007-08 | \$ Change | % Change |
| General Fund | \$2,838,567 | \$3,077,984 | \$3,270,067 | \$192,083 | 6.2% |
| Public Transportation Account | 980 | 980 | 980 | -- | -- |
| Cigarette and Tobacco Products – Research Account | 14,253 | 14,253 | 14,253 | -- | -- |
| Earthquake Risk Reduction Fund of 1996 | 1,000 | 1,000 | 1,000 | -- | -- |
| Oil Spill Response Fund | 1,300 | 1,300 | 1,300 | -- | -- |
| California State Lottery Educ. Fund | 30,939 | 31,370 | 31,370 | -- | -- |
| Federal Trust Fund | 3,500 | 3,500 | 3,500 | -- | -- |
| Federal Funds (not in state treasury) | 16,550 | 17,000 | 17,000 | -- | -- |
| Breast Cancer Research Fund | 633 | 473 | 778 | 305 | 64.5 |
| Higher Education Fees and Income | 1,942,902 | 1,998,040 | 2,150,998 | 152,958 | 7.7 |
| UC Funds | 6,478,671 | 6,871,137 | 7,196,020 | 324,883 | 4.7 |
| Reimbursements | 2,516 | 1,496 | 4,820 | 3,324 | 222.2 |
| Health Care Benefits Fund | 1,725 | 235 | 1,997 | 1,762 | 749.8 |
| UC Federal Funds | 6,399,721 | 4,400,963 | 4,479,708 | 78,745 | 1.8 |
| UC Nonfederal Unclassified Funds | 1,872,295 | 1,895,983 | 1,972,479 | 76,496 | 4.0 |
| Total Expenditures, All Funds | | | | | |
| Total | \$19,618,355 | \$18,328,790 | \$19,159,346 | \$830,556 | 4.5% |

UC Merced. The new UC Merced campus opened to 865 FTES in the 2005-06 academic year, falling short of its goal of reaching 1,000 FTES by the end of the 2005-06 academic year. In the current year, the campus expects enrollments of approximately 1,350 FTES, again, falling short of its original goal of 1,800 FTES. The campus expects to grow by 800 students annually through the 2010-11 academic year, for a total enrollment of 5,000 FTES. With these new students, the campus will now receive enrollment funding totaling \$21.8 million in 2007-08; however, given that the Merced campus has not yet been able to achieve any "economies of scale" the campus still requires an additional appropriation from the state. For 2007-08, the Governor proposes to continue providing a total of \$24 million for the start-up costs associated with the Merced campus; of this amount, \$14 million is one-time. These funds are used primarily to hire a core staff of administrators and faculty, continue developing curriculum, and recruit faculty.

Employer Retirement Contributions. The UC Budget Proposal requested \$60 million in state funds to cover UC's employer costs of reinstating employer/employee contributions to its University of California Retirement Program (UCRP). This proposal was denied by the Administration and thus no funding was included in the Governor's January proposal.

Research. The Governor's Budget includes \$20 million General Fund, above the funding levels agreed to in his *compact*, to support two research initiatives at the UC. Of this amount, \$15 million is for the Institutes for Science and Innovation, bringing total state support to approximately \$19.8 million. While the infrastructure needs of the Institutes have, for the most part, been met, the funds will be used to support the core research functions. Funds will further be used to attract additional resources from industry and other governmental sources. The remaining \$5 million is to enhance UC's bid to win a National competition to build and operate a new petascale computing facility, which would become operational in 2011. The winner of the competition will build the world's fastest supercomputer and lead the next generation of National Science Foundation computer architectures and applications.

Offsetting the research funding increases discussed above, is the elimination of all state funding (\$6 million) for research activities related to Labor Studies.

Student Fees. As discussed earlier, the Governor proposes to increase student fees by seven percent to \$7,347 for Undergraduate students and \$9,481 for Graduate students. Additional fees, which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV), are also proposed to increase by a like amount.

Fees for undergraduate students at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) averaged \$8,354 in **2006-07**, which is \$1,007 higher than the **2007-08** proposed fee levels for UC resident undergraduates. Fees for graduate students at UC continue to be approximately \$1,800 below those charged at its comparison institutions.

| | University of California Student Fees | | | |
|--------------------------------------|---------------------------------------|-------------|----------|-------------|
| | Undergraduate | | Graduate | |
| | Resident | Nonresident | Resident | Nonresident |
| 1994-95 | \$4,111 | \$11,810 | \$4,585 | \$12,284 |
| 1995-96 | 4,139 | 11,838 | 4,635 | 12,334 |
| 1996-97 | 4,166 | 12,560 | 4,667 | 13,061 |
| 1997-98 | 4,212 | 13,196 | 4,722 | 13,706 |
| 1998-99 | 4,037 | 13,611 | 4,638 | 14,022 |
| 1999-00 | 3,903 | 14,077 | 4,578 | 14,442 |
| 2000-01 | 3,964 | 14,578 | 4,747 | 15,181 |
| 2001-02 | 3,859 | 14,933 | 4,914 | 15,808 |
| 2002-03 | 3,859 | 15,361 | 4,914 | 16,236 |
| 2002-03 | 4,017 | 16,396 | 5,017 | 16,393 |
| <i>(fees increased mid-year)</i> | | | | |
| 2003-04 | 5,530 | 19,740 | 6,843 | 19,332 |
| 2004-05 | 6,312 | 23,268 | 7,928 | 22,867 |
| 2005-06 | 6,802 | 24,622 | 8,708 | 23,669 |
| 2006-07 | 6,852 | 25,486 | 8,938 | 23,889 |
| 2007-08 | 7,347 | 27,027 | 9,481 | 24,466 |

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

Students in professional degree programs (i.e., medicine, dentistry, law, veterinary medicine, business) pay a supplemental fee, in addition to the fees noted above, that ranges from \$4,300 for students in public health, public policy, or international relations to \$19,000 for students in business/management and \$18,000 for students in law.

Capital Outlay. The capital outlay portion of UC's budget includes \$613.7 million for 28 new projects, as well as the continuation of existing projects. Of this amount, \$503.2 million would be derived from the 2006 Higher Education Capital Outlay Bond Fund and \$70 million would be financed through lease-revenue bonds; \$40.5 million in projects is being financed with UC funds. Following is a description of the most notable projects included in the Governor's proposal:

Telemedicine/Programs in Medical Education (PRIME) Facilities. UC proposes to continue efforts by its medical schools to address state objectives for (1) improved access to clinical services, (2) expansion of a systemwide network for telemedicine services, and (3) an increase in the number of doctors to meet California's needs. This project would provide specialized medical education and telemedicine facilities to train physicians to serve in medically-underserved areas and to provide specialist care and health education not readily available in

those communities. Governor's budget proposes \$227.7 million from a combination of GO Bond Funds (approximately \$200 million) and UC funds (approximately \$28 million) for all capital outlay phases (planning, working drawings, construction, and equipment).

Helios Research Facility. UC is proposing to construct a new research facility to be located at the Lawrence Berkeley National Laboratory. The Helios Research facility – which the Governor proposes to finance using \$30 million of lease-revenue bonds – would focus on the development of renewable and sustainable forms of energy drawn from sunlight. Ultimately, research would strive to use sunlight to manufacture transportation fuel, improve the conventional biomass conversion process, and convert sunlight to fuel. Funds are proposed for planning, working drawings, and construction.

Energy Biosciences Institute Facility. The Governor's Budget provides \$40 million in lease revenue bonds contingent upon UC winning a competition for the BP Corporation's Energy Biosciences Institute grant. The Institute's work is proposed to coordinate closely with that of the Helios Research Facility in that it will focus on converting biomass materials into fuels, converting fossil fuels to energy with less environmental damage, and maximizing oil extraction from existing wells in environmentally sensitive ways.

6600 Hastings College of the Law

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

2007-08 Budget Changes. While not explicitly included in the Governor's *compact* with higher education, the Administration has consistently opted to afford the provisions of the compact to Hastings College of the Law. Specifically, the budget provides Hastings with a four percent General Fund increase (\$406,000) for basic budget support. The effect of this increase will help mitigate some of the reductions faced by the college in recent years. While the compact also includes budget adjustments at UC and CSU to accommodate enrollment growth, Hastings enrollment levels are, and have remained, stable for a number of years thereby negating the need to fund growth.

Student Fees. After large fee increases of approximately 34 percent in the 2004-05 year, fee levels at Hastings remained relatively constant in 2005-06 with an increase of approximately \$2,000 for residents (\$22,297 total in the current year). Like UC and CSU, the Governor and the Legislature "bought out" proposed fee increases of eight percent in the current year.

For 2007-08, fees at Hastings are proposed to increase by eight percent, resulting in an additional \$2 million in revenue available to Hastings. Fees for resident students will be \$23,768 while fees for nonresident students will rise to \$34,993.

6610 California State University

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

Summary of CSU Expenditures

(dollars in thousands)

| | 2005-06 | 2006-07 | (Proposed) 2007-08 | \$ Change | % Change |
|--|--------------------|--------------------|-----------------------|------------------|-------------|
| General Fund | \$2,596,000 | \$2,811,384 | \$2,976,335 | \$164,951 | 5.9% |
| Higher Education Fees and Income (reclassified as CSU Trust Fund – please see below) | 1,230,748 | -- | -- | -- | -- |
| CSU Trust Fund | -- | 1,243,433 | 1,366,398 | 122,965 | 9.9 |
| State University Continuing Ed. Revenue Fund | 135,561 | 133,328 | 133,328 | -- | -- |
| CSU Dormitory Revenue Fund | 221,315 | 200,965 | 200,965 | -- | -- |
| CSU Parking Revenue Fund | 32,002 | 36,724 | 36,724 | -- | -- |
| California State Lottery Educ. Fund | 45,784 | 68,372 | 51,084 | -17,288 | -25.3 |
| Federal Trust Fund | 36,919 | 39,500 | 39,500 | -- | -- |
| Federal Funds (not in state treasury) | 353,693 | 354,000 | 354,000 | -- | -- |
| Other Unclassified CSU Funds | 1,303,303 | 1,305,709 | 1,305,709 | -- | -- |
| Reimbursements | 201,939 | 183,262 | 1,862 | -181,400 | -99.0 |
| 2004 GO Bond Fund | 26,000 | -- | -- | -- | -- |
| 2006 GO Bond Fund | -- | 50,000 | 50,000 | -- | -- |
| CSU Auxiliary Organizations | 283,787 | 260,013 | 260,013 | -- | -- |
| Total Expenditures, All Funds | | | | | |
| Total | \$6,467,051 | \$6,686,690 | \$6,775,918 | \$89,228 | 1.3% |

Other 2007-08 Budget Changes. In addition to the budget changes discussed earlier in this document, the Governor proposes to provide an additional \$2.0 million in funding (for a total of \$2.7 million) for his new Math and Science Teacher Initiative in order to encourage CSU to double the number of teachers it trains in these particular teaching disciplines.

No new funding is contained in the Governor's proposal for CSU to provide nursing-related education; however, the Governor's proposal *does* require the CSU to direct a portion of its general campus enrollment growth dollars toward growing its nursing programs by 340 FTES.

Student Fees. As discussed earlier, the Governor proposes to increase student fees by ten percent to \$3,451 for Undergraduate students and \$4,093 for Graduate students. Nonresident tuition for out-of-state students is proposed to remain constant at \$10,170 (above the amount paid by resident students).

Fees for undergraduate students at CSU's comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged \$6,655 in **2006-07**, which is \$3,204 more than the amount proposed for CSU resident undergraduates in **2007-08**. For graduate students, fee levels at CSU continue to be significantly lower than at its comparison institutions, by over \$4,700 annually.

| | California State University Student Fees | | | |
|----------------------------------|--|-------------|----------|-------------|
| | Undergraduate | | Graduate | |
| | Resident | Nonresident | Resident | Nonresident |
| 1994-95 | \$1,584 | \$8,964 | \$1,584 | \$8,964 |
| 1995-96 | 1,584 | 8,964 | 1,584 | 8,964 |
| 1996-97 | 1,584 | 8,964 | 1,584 | 8,964 |
| 1997-98 | 1,584 | 8,964 | 1,584 | 8,964 |
| 1998-99 | 1,506 | 8,886 | 1,584 | 8,964 |
| 1999-00 | 1,428 | 8,808 | 1,506 | 8,886 |
| 2000-01 | 1,428 | 8,808 | 1,506 | 8,886 |
| 2001-02 | 1,428 | 8,808 | 1,506 | 8,886 |
| 2002-03 | 1,428 | 9,888 | 1,506 | 9,966 |
| 2002-03 | 1,573 | 10,033 | 1,734 | 10,194 |
| <i>(fees increased mid-year)</i> | | | | |
| 2003-04 | 2,572 | 11,032 | 2,782 | 11,242 |
| 2004-05 | 2,916 | 13,086 | 3,402 | 13,572 |
| 2005-06 | 3,164 | 13,334 | 3,746 | 13,916 |
| 2006-07 | 3,199 | 13,334 | 3,781 | 13,951 |
| 2007-08 | 3,451 | 13,334 | 4,093 | 14,263 |

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

Capital Outlay. The capital outlay portion of CSU's budget includes \$650.4 million in funding (from all sources) to start 26 new projects and continue existing projects. Of this amount, \$380.4 million is derived from the 2006 Higher Education Capital Outlay Bond Fund; \$1.8 million comes from funds remaining from the 2004 Higher Education GO Bond; \$20 million is from the

1998 Higher Education GO Bond Fund; \$247.7 million are university funds; and \$500,000 are reimbursed from other sources.

6870 California Community Colleges

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

2007-08 Proposed Adjustments

Enrollment Growth. The Governor's 2007-08 budget proposes to provide \$109.1 million to fund a two percent (or 23,000 FTE) increase in student enrollment. This exceeds the growth level (1.65 percent) derived by the formula proposed in Senate Bill 361 (Chapter 631, Statutes of 2006), which equally weights the 19 to 24-year old populations and the 25 to 65-year old populations. The total number of students enrolled in community colleges statewide is expected to surpass 1.1 million FTES.

Cost-of-Living-Adjustment. In addition to providing enrollment growth, the Administration proposes an additional \$224.9 million for a 4.04 percent COLA for general campus apportionments. An additional \$19.6 million is provided for Categorical program COLA and enrollment growth.

Redirection of Unused Basic Skills "Overcap" Funding. Prior Budget Acts have provided funding, in excess of enrollment growth dollars otherwise provided in the budget, specifically to fund students enrolled in Basic Skills courses where the college is otherwise over their enrollment growth "cap" or allocation. This funding stream is commonly known as Basic Skills "overcap" funding. In the current year, the Budget Act provided \$33.1 million for this purpose and in 2005-06 \$30.7 million was provided for this purpose. In each of these fiscal years, the amount of funding appropriated in the Budget Act was not necessary to fulfill the need for which it was appropriated. Rather than retaining the funding within the Basic Skills program for another purpose, the Governor proposes to redirect \$33.1 million in 2007-08 from Basic Skills "overcap" to the Matriculation Program. Of that amount, the Governor targets \$19.1 million specifically for counseling and tutoring services for students determined to be most in "need for those services, with a priority placed on assisting first time students transitions from high school to community college."

Nursing. The Governor proposes to increase funding for nursing at the community colleges by \$9 million (one-time) and \$9 million (ongoing). The one-time funds (Proposition 98 settle-up funds to be appropriated in the Education Budget Trailer Bill) are for the community colleges to start up five new nursing programs (\$5 million) and create four new regional nursing simulation laboratories (\$4 million). Of the \$9 million in ongoing funds, \$5.2 million is scheduled to augment the community colleges attrition-reduction programs for nursing students and \$3.8

million will be used to provide incentive funding for districts to offer additional prerequisite courses in anatomy, physiology, and microbiology.

CalPASS. The Governor provides an additional \$1 million (from Proposition 98 settle-up funds) to support the CalPASS program, which eases student transition among K-12, the community colleges, and the four-year higher education institutions.

FCMAT. Governor's proposal includes \$350,000 to increase the involvement of the Fiscal Crisis Management Assistance Team (FCMAT) in the community colleges.

Student Fees. No changes are proposed. Fee levels remain at the recently-reduced level of \$20 per unit. At \$26 per unit, approximately 43 percent of community college students were eligible for Board of Governor (BOG) Student Fee Waivers. Without data available from the recent academic term (when student fees were reduced to the \$20 level), the Administration continues to budget under the assumption that the same percentage of community college students will remain eligible for BOG waivers in 2007-08.

Proposition 98 "Split." General Fund Proposition 98 support for community colleges is proposed to increase by 6.4 percent over the current year, thereby increasing the community college's "share" of Proposition 98 from the current-year (Budget Act) level of 10.74 percent to 11.06 percent in 2007-08. This level exceeds the statutory "split" of Proposition 98 resources between K-12 and community colleges as outlined in state law, and is due primarily to a \$627 million shift of K-12 Home-to-School Transportation Program dollars out of the K-12 budget to the Public Transportation Account, which dramatically increases the community college's share of a now smaller Proposition 98 appropriation.

In total, community colleges would receive \$6.3 billion (from all funding sources) under the Governor's proposal, which represents an increase of approximately \$380 million.

Capital Outlay. The capital outlay portion of the Community Colleges budget includes \$1.1 billion in funding (from all sources) to start 60 new projects and continue existing projects. Of this amount, \$894 million would be derived from the 2006 Higher Education Capital Outlay Bond Fund; \$149.8 million is remaining from the 2004 Higher Education GO Bond; \$13.4 million is comes from the 2002 Higher Education GO Bond; and \$24.6 million is left from the 1998 Higher Education GO Bond.

7980 Student Aid Commission

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

and provides financial aid information to students, parents, and California's education community.

Background. In 2000, the Legislature passed and the Governor signed into law, SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program, all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth between \$5,250 and \$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 ("B" average) and must not exceed the family income limit, which in the budget year, will be approximately \$73,200 for a family of four or \$84,600 for a family of six or more. Students with GPAs under 3.0, but higher than a 2.0 ("C" average), are eligible for a Cal Grant "B" award provided their annual family income does not exceed \$38,500 for a family of four. In addition, community college students who meet specified GPA and income requirements and transfer to a four-year college or university prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a "second chance" to receive a Cal Grant and are eligible to compete for a block of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

The Student Aid Commission estimates that the total number of Cal Grants awards will reach approximately 197,425 in the 2007-08 fiscal year.

2007-08 Budget Changes. As part of his 2007-08 budget, the Governor proposes to maintain eligibility for, and award levels within, the Cal Grant program, with the following exception of covering the increased mandatory fee levels proposed for the UC and CSU systems (as discussed previously in this section).

Other Budget Adjustments.

The Governor proposes several budgetary changes in the Assumption Program of Loans for Education (APLE) including: (1) an additional \$2.9 million to fund the increase in loan assumptions coming due; (2) the authorization of 8,000 APLE warrants annually with an earmark of 600 awards to be set-aside for students participating in the Governor's Math and Science Teacher Initiative at UC and CSU (a proposal which has been rejected by the Legislature for several years in a row); (3) the repayment of National Guard APLE warrants authorized in the current year Budget Act; and (4) the extension of the sunset date for the National Guard APLE program (through the budget trailer bill).

6445 California Institute for Regenerative Medicine (CIRM)

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

For 2007-08, the CIRM proposes to expend \$832.3 million of continuously-appropriated bond proceeds (*Health and Safety Code*, Section 125291.20) derived from Proposition 71. Staffing for the Institute is proposed to increase to 50 positions, totaling \$6.5 million. Included in the current year is the repayment of a \$153 million General Fund loan provided to CIRM for start-up costs as part of the current-year Budget (*Health and Safety Code*, Section 125290.70).

SUBCOMMITTEE No. 2

NATURAL RESOURCES, ENVIRONMENTAL PROTECTION, ENERGY, and AGRICULTURE

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NATURAL RESOURCES

Overview

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

Departments:

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

Commissions:

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

Conservancies:

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

Other Boards and Authorities:

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

Governor's Budget. The Governor's Budget proposes \$5.6 billion to support the Resources Agency in 2007-08. This is \$200 million less than estimated expenditures in the current year due to a reduction in capital outlay expenditure. The General Fund support for the Resources

Agency is expected to decrease by over \$689 million in the budget year due to increased reliance on bond funding.

| Total State Fund Expenditures | | | | |
|--------------------------------------|---------------------|---------------------|-------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| State Operations | \$ 3,886,105 | \$ 3,954,723 | \$ 68,618 | 1.8 |
| Local Assistance | 495,121 | 958,136 | 463,015 | 93.5 |
| Capital Outlay | 1,394,345 | 650,559 | -\$743,786 | -53.3 |
| Total | \$ 5,775,571 | \$ 5,563,418 | -\$212,153 | -3.7 |
| Funding Source | | | | |
| General Fund | \$ 2,161,394 | \$ 1,472,092 | -\$689,302 | -31.9 |
| Special Funds | 1,941,837 | 2,061,283 | 119,446 | 6.2 |
| Bond Funds | 1,672,340 | 2,030,043 | 357,703 | 21.4 |
| Total | \$ 5,775,571 | \$ 5,563,418 | -\$212,153 | -3.7 |

Highlights

Infrastructure Bond. In November 2006 the voters passed Proposition 1E and Proposition 84, which provide a combined \$9.5 billion in general obligation bond funds for resources related uses, such as flood protection, water quality, and parks. The Governor's budget proposes \$1.2 billion in Proposition 84 bond funds for 2007-08. The majority of these funds are for water-related projects under the Department of Water Resources.

Future Proposed Bonds. In addition to this spending, the Governor has proposed a Strategic Growth Plan for the state that includes an additional \$5.95 billion in flood and water infrastructure investments and conservation over the next 10 years. General obligation bonds would provide \$3.95 billion and revenue bonds would provide \$2 billion.

Levee Repair Funds. In 2006, AB 142 (Nunez) provided \$500 million General Fund for critical levee repairs. The Governor's Budget proposes to return \$200 million of the AB 142 funds to the General Fund, and replace those funds with Proposition 84 bond funds.

Issues

Infrastructure Bond. The Legislature may wish to review how the infrastructure investments proposed in the Governor's budget will protect and restore the state's natural resources. Specifically, the Legislature may wish to review actual capital improvement needs versus those proposed for funding in the Governor's budget. The Legislature may also wish to evaluate the individual plans departments have for spending the bond funds they are proposed to receive, if

such plans exist. The 2006 Five-Year Infrastructure Plan identified over \$18 billion in infrastructure needs across the entire Resources Agency. The Legislature may want to consider some of these needs in evaluating the Governor's plan.

Oversight of Bond Funds. The voters of California passed a large general obligation bond package in November 2006. To ensure that the intent of the voters is carried out, the Legislature should carefully monitor how departments spend these bond funds. The Legislature may wish to consider requiring quarterly status reports to be sent to the budget committees so that the usage of the funds can be tracked by department.

Information Technology. Multiple Resources Agency departments are requesting funds for data management, mapping, or other information technology related purposes. In considering these proposals, the Legislature may wish to examine these projects for significant overlap and potential for interdepartmental coordination.

CALFED Delta Action Plan. Pursuant to a federal-state accord signed in 1994, CALFED was administratively created as a consortium of state and federal agencies that have regulatory authority over water and resource management responsibilities in the Bay-Delta region. The CALFED program now encompasses 12 state and 13 federal agencies. The objectives of the program are to: (1) provide good water quality for all uses; (2) improve fish and wildlife habitat; (3) reduce the gap between water supplies and projected demand; and (4) reduce the risks from deteriorating levees. In 2006 the Legislature moved the responsibilities for CALFED away from the Bay-Delta Authority to various Resource Agency departments. The Legislature may wish to follow up on the implementation of this oversight, planning, and program execution change. Specifically, the Legislature may wish to question CALFED progress on areas of governance, program and fiscal management, program priorities, implementation schedules, conservation plans, the 100-Year Delta Vision, and the near-term funding plan.

0540 Secretary for Resources

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

Governor's Budget. The Governor's Budget proposes \$57 million to support the Secretary for Resources in 2007-08. This is nearly 63 percent less than estimated expenditures in the current year due to a reduction in the resources bond funds available for appropriation.

| Summary of Expenditures | | | | |
|--------------------------------|-------------------|------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Administration | \$ 165,272 | \$ 73,253 | -\$92,019 | -55.7 |
| Total | \$ 165,272 | \$ 73,253 | -\$92,019 | -55.7 |
| Funding Source | | | | |
| General Fund | \$ 5,909 | \$ 6,005 | \$ 96 | 1.6 |
| Special Funds | 3,478 | 3,316 | -162 | -4.7 |
| Bond Funds | 148,323 | 47,714 | -100,609 | -67.8 |
| <i>Budget Act Total</i> | <i>157,710</i> | <i>57,035</i> | <i>-100,675</i> | <i>-63.8</i> |
| Federal Trust Fund | 5,004 | 199 | -4,805 | -96.0 |
| Reimbursements | 2,558 | 16,019 | 13,461 | 526.2 |
| Total | \$ 165,272 | \$ 73,253 | -\$92,019 | -55.7 |

Highlights

San Joaquin River Restoration. The Governor's Budget proposes \$13.9 million in Proposition 84 bond funds to support implementation of a settlement agreement between the federal government, local water users, and environmental advocates to restore portions of the San Joaquin River, including channel modifications and ecosystem restoration projects that will be implemented by the Department of Water Resources and Department of Fish and Game.

Bond Funds for River Parkways Program. The Governor's Budget proposes to allocate \$20.5 million in the budget year from the Propositions 50 resources bond to fund the River Parkways Program.

CalFED Science Program Research Grants. The Governor proposes to allocate \$10.5 million in the budget year from Proposition 84 and Proposition 50 resources bonds to fund CalFED Science Program research grants.

Issues

Bond Funding. In November 2006 the voters passed Proposition 1E and Proposition 84, which provide a significant amount in general obligation bond funds for resources related uses, such as flood protection, water quality, and parks. The Legislature may wish to examine how the Secretary for Resources is coordinating bond fund projects and the oversight of bond funds use.

Oversight of the CALFED Program. In 2006 the Legislature moved the responsibilities for CALFED away from the Bay-Delta Authority to various Resource Agency departments. The Legislature may wish to follow up on the implementation of this oversight, planning, and

program execution change. Specifically, the Legislature may wish to question CALFED progress on areas of governance, program and fiscal management, program priorities, implementation schedules, conservation plans, the 100-Year Delta Vision, and the near-term funding plan.

3340 California Conservation Corps

Background. The California Conservation Corps (Corps) assists federal, state and local agencies and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women. The Corps provides on-the-job training and educational opportunities to California residents aged 18 through 23, with projects related to environmental conservation, fire protection, and emergency services. Some activities traditionally associated with the Corps are tree planting, stream clearance, and trail building. The Corps also develops and provides funding for 11 community conservation corps.

Governor's Budget. The Governor's Budget proposes \$65.4 million to support the California Conservation Corps in 2007-08. This is a 4 percent increase from estimated expenditure levels in the current year. General Fund support for the Corps is proposed to increase by about 13 percent in the budget year due to a proposal to increase the department's General Fund support and reduce the department's reliance on reimbursements.

| Summary of Expenditures | | | | |
|--|------------------|------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Training and Work Program | \$ 62,231 | \$ 61,678 | -\$553 | 0.9 |
| Capital Outlay | 892 | 3,691 | 2,799 | 313.8 |
| Administration | 7,525 | 7,783 | 258 | 3.4 |
| <i>less distributed administration</i> | -\$7,525 | -\$7,783 | -258 | 3.4 |
| Total | \$ 63,123 | \$ 65,369 | \$ 2,246 | 3.6 |
| Funding Source | | | | |
| General Fund | \$ 35,805 | \$ 40,606 | \$ 4,801 | 13.4 |
| Collins-Dugan California Conservation Corps | | | | |
| Reimbursement Account | 23,857 | 23,852 | -5 | 0 |
| Other Special Funds | 628 | 648 | 20 | 3.2 |
| Bond Funds | 2,833 | 263 | -2,570 | -90.7 |
| Total | \$ 63,123 | \$ 65,369 | \$ 2,246 | 3.6 |

Highlights

Increased General Fund Support. The Governor's Budget proposes \$4.8 million General Fund to maintain the Corps operations. Over the past few years, the level of reimbursements received has been decreasing. The budget proposal indicates that this level of funding is needed to maintain current operations given the instability of reimbursements.

3480 Department of Conservation

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

Governor's Budget. The Governor's Budget proposes \$1.2 billion to support DOC in the budget year. This is an increase of \$216 million over the estimated expenditures in the current year. The majority of this increase is from the Beverage Container Recycling and Litter Reduction program due to recent legislation that increased the California Redemption Value (CRV) payments.

| Summary of Expenditures | | | | |
|---|---------------------|---------------------|-------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Geologic Hazards and Mineral Resources Conservation | \$ 23,769 | \$ 24,227 | \$ 458 | 1.9 |
| Oil, Gas, and Geothermal Resources | 18,866 | 19,793 | 927 | 4.9 |
| Land Resource Protection | 25,738 | 36,250 | 10,512 | 40.8 |
| Beverage Container Recycling and Litter Reduction | 972,528 | 1,177,673 | 205,145 | 21.1 |
| Office of Mine Reclamation | 8,148 | 6,860 | -1,288 | -15.8 |
| Administration | 12,061 | 13,296 | 1,235 | 10.2 |
| <i>less distributed administration</i> | -12,061 | -13,296 | -1,235 | 10.2 |
| Total | \$ 1,049,049 | \$ 1,264,803 | \$ 215,754 | 20.6 |

| | | | | |
|---|---------------------|---------------------|-------------------|-------------|
| Funding Source | | | | |
| General Fund | \$ 4,587 | \$ 4,668 | \$ 81 | 1.8 |
| Special Funds | 1,010,328 | 1,215,647 | 205,319 | 20.3 |
| Bond Funds | 22,278 | 32,631 | 10,353 | 46.5 |
| <i>Budget Act Total</i> | <i>\$ 1,037,193</i> | <i>\$ 1,252,946</i> | <i>\$ 215,753</i> | <i>20.8</i> |
| Federal Trust Fund | 1,813 | 1,809 | -\$4 | -0.3 |
| Bosco-Keene Renewable Resources Investment Fund | 994 | 1,002 | 8 | 0.8 |
| Reimbursements | 9,050 | 9,046 | -4.00 | 0 |
| Total | \$ 1,049,050 | \$ 1,264,803 | \$215,753 | 20.6 |

Highlights

Agricultural Land Preservation. The Governor’s Budget proposes \$12.3 million from Proposition 84 bond funds for four positions to assist communities to build sustainable, clean communities; facilitate planning efforts to develop conservation easements that preserve agricultural land resources and their associated wildlife habitat values; facilitate the development of mitigation programs related to the conversion of agricultural land to urban; and related other uses.

Green City Partnership Initiative. The Governor's Budget proposes \$10.4 million from Proposition 84 bond funds for three limited-term positions and implementation costs for the Green City Partnership Initiative. This initiative would provide grants to enhance existing local general plans to incorporate multiple land use projects that would promote more environmentally sustainable communities. \$4 million of these funds would be used for mapping of natural resources data.

Comprehensive Recycling Community Project. The Governor's Budget proposes \$1.9 million in special funds to fund four positions and start-up costs of the Comprehensive Recycling Community (CRC) project. The CRC project intends to increase beverage container recycling by 50 percent in selected communities and to develop strategies, applicable to any community to maximize the recycling potential. This pilot project will select four cities and work with the local governments to implement strategies.

SMARA Lead Agency Compliance Review Program. The Governor's Budget proposes \$585,000 in special funds for five permanent positions to conduct audits of Surface Mining and Reclamation Act lead agency compliance and financial assurances. The State Mining and Geology Board has raised concerns that some lead agencies are not enforcing reclamation plans, and to date has taken over lead agency powers from two counties. The Legislative Analyst's Office has also raised concerns that some of the mining financial assurances may be inadequate for the required future environmental clean-ups.

Beverage Container Recycling Program Enforcement. The Governor's Budget proposes \$1.1 million to fund five permanent and five three-year limited-term positions to combat fraud in the Beverage Container Recycling Program. The passage of SB 332 (Sher) in 1999 added new types of beverage containers to the recycling program and increased eligible distributors from 969 to 3,234. The department has fallen behind in researching and assessing liability from unregistered companies. The department estimates that based on the number of registered participants with outstanding liabilities, delinquent reports, and the number of unregistered companies, the state is suffering revenue loss of approximately \$8.5 million annually.

Issues

Williamson Act Enforcement Revenue. The owner of agricultural land can enter into a contract, under the Williamson Act, to have that land used only for agricultural purposes for ten years, while in exchange lower property taxes are assessed on the land. If the owner of the property breaks the contract by constructing non-agricultural buildings on the property, the owner can be fined under the Williamson Act. During 2006-07 the Legislature provided \$463,000 for five two-year limited-term positions to increase Williamson Act enforcement. The increased enforcement of the Williamson Act increased revenues from fines. The Legislature may wish to consider making these enforcement positions permanent and appropriating some of the funds from the fines for the purchase of permanent agricultural easements.

3540 Department of Forestry and Fire Protection

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

Governor's Budget. The Governor's Budget provides \$686 million to support CDF in 2007-08. This is approximately \$38 million, or 6 percent, more than the level of expenditures estimated for the current year. The increase is due to increased capital outlay expenditures as well as employee compensation costs increases associated with fire protection. General Fund support for the department is also proposed to increase by approximately 5 percent as a result of increased capital outlay spending.

| Summary of Expenditures | | | | |
|--|-------------------|-------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Office of the State Fire Marshal | \$ 14,383 | \$ 15,766 | \$ 1,383 | 9.6 |
| Fire Protection | 845,660 | 851,201 | 5,541 | 0.6 |
| Resource Management | 56,822 | 69,017 | 12,195 | 21.5 |
| Capital Outlay | 8,793 | 30,954 | 22,161 | 252 |
| Administration | 66,759 | 67,006 | 247 | 0.4 |
| <i>less distributed administration</i> | -66,129 | -66,382 | -253 | 0.4 |
| Total | \$ 926,288 | \$ 967,562 | \$ 41,274 | 4.5 |
| Funding Source | | | | |
| General Fund | \$ 625,768 | \$ 654,938 | \$ 29,170 | 4.7 |
| Special Funds | 8,337 | 8,785 | 448 | 5.4 |
| Bond Funds | 12,947 | 22,005 | 9,058 | 69.9 |
| <i>Budget Act Total</i> | <i>\$ 647,052</i> | <i>\$ 685,728</i> | <i>\$ 38,676</i> | <i>5.9</i> |
| Federal Trust Fund | 29,311 | 26,258 | -3,053 | -10.4 |
| Forest Resources Improvement Fund | 699 | 7,802 | 7,103 | 1016.1 |
| Timber Tax Fund | 31 | 33 | 2 | 6.4 |
| Reimbursements | 249,199 | 247,741 | -1,458 | -0.6 |
| Totals | \$ 926,292 | \$ 967,562 | \$ 41,270 | 4.5 |

Highlights

Urban Forestry and Greening Projects. The Governor's Budget includes \$9.3 million in various bond funds for urban forestry and urban greening projects. CDF has encountered, in past years, non-implementation of grants by non-profits. The Legislature should examine CDF's criteria for providing grants and whether there is sufficient annual demand for such grants to appropriate the entire \$9 million in 2007-08.

Employee Compensation. The Governor's Budget includes \$4.1 million in reimbursement authority to fund increased employee compensation costs associated with funding year-round fire protection statewide.

Issues

Vendor Payments. The Governor proposes budget bill language allowing CDF to receive a General Fund loan for an unidentified amount in order to pay vendors in a timely manner. The current reimbursement system relies on actual expenditures and creates lag time between services received and payment for those services. CDF has been penalized for late payments to DVBE vendors. The Legislature may wish to consider having CDF report back on a more sustainable solution than continual General Fund loans.

Mobile Equipment Purchases. As part of the 2006-07 Budget, the Legislature has requested CDF to submit a report on January 10, 2007, on its expenditures for mobile equipment and recommended changes to the mobile equipment procurement process to ensure more timely purchases. The Legislature may wish to review this report once it is submitted for potential ways to improve CDF mobile equipment procurement.

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

Capital Outlay Design and Management. As part of the 2006-07 Budget, the Legislature requested a report on the actions that Department of General Services is taking, or plans to take, to address a backlog that has developed in the design and management by DGS of CDF's major capital outlay projects. The Legislature may wish to review this report to analyze if there are ways to improve the capital outlay process.

Infrastructure Bond. The Legislature may wish to evaluate the actual infrastructure needs identified by the department in the updated Five Year Infrastructure Plan that is forthcoming

from the administration. The 2006 Infrastructure Plan identified over \$1.4 billion in infrastructure needs for the department through 2010-011.

3560 State Lands Commission

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

Governor’s Budget. The Governor’s Budget proposes \$24.6 million (\$10.2 million General Fund) for SLC. This is a decrease of \$310,000 over the estimated expenditures in the current year. This decrease is due to a one-time expenditure in the current year to fund remediation of a toxic site owned by the state.

| Summary of Expenditures | | | | |
|--|----------------|----------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Mineral Resource Management | \$ 9,831 | \$ 8,161 | -\$1,670 | -16.9 |
| Land Management | 9,620 | 9,547 | -73 | -0.8 |
| Marine Facilities Division | 9,441 | 10,902 | 1,461 | 15.5 |
| Administration | 3,516 | 3,456 | -60 | -1.7 |
| <i>less distributed administration</i> | -3,516 | -3,456 | 60 | -1.7 |
| Total | \$ 28,892 | \$ 28,610 | -\$282 | -0.9 |
| Funding Source | | | | |
| General Fund | \$ 10,292 | \$ 10,213 | -\$79 | -0.8 |
| Special Funds | 14,639 | 14,408 | -231 | -1.6 |
| Bond Funds | 0 | 0 | 0 | |
| <i>Budget Act Total</i> | <i>24,931</i> | <i>24,621</i> | <i>-310</i> | <i>-1.2</i> |
| Reimbursements | 3,532 | 3,554 | 22 | 0.6 |
| Land Bank Fund | 429 | 435 | 6 | 1.4 |
| Total | \$ 28,892 | \$ 28,610 | -\$282 | -1.0 |

Highlights

Marine Oil Terminal Inspectors. The Governor's Budget proposes \$702,000 from special funds for four positions to carry out Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS) audits and related work. The MOTEMS audits are a regulatory requirement. These audits contain extensive inspection criteria and require engineering analyses to determine the structural, mooring, and berthing capacity of the oil terminals.

Remediation of Toxic State Lands at Selby. The Governor's Budget proposes \$1.2 million General Fund to fund the state's portion of remediation work at state-owned land in Selby. These funds will be used to fund de-acidification remediation of soils work at certain portions of the site.

Marine Safety Inspectors. The Governor's Budget proposes \$568,000 for five positions to perform ballast water testing on vessels entering California ports. The Marine Invasive Species Act (AB 433, Nation) requires that 25 percent of qualifying vessels have their ballast water tested in order to limit the entry of non-native species into California Waters. Currently, the department is testing between 14 and 16 percent of all qualifying vessels.

Issues

City of Long Beach. Legislation (Chapters 81 and 521, Statutes of 2005) created a new Oil Trust Fund to fund environmental cleanup of the tidelands oil fields in the City of Long Beach. The legislation transferred tidelands oil funds held by the city to the new fund and provides that \$2 million from monthly tidelands oil revenues also be deposited in the fund until the fund balance reaches \$300 million. The California State Lands Commission completed a study of the cost to perform environmental mitigation on the land. The study found current clean-up costs to be \$243 million, but over 30 years the cost would grow, with inflation. Further review of this information is warranted.

3600 Department of Fish and Game

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

Governor's Budget. The Governor's Budget proposes \$315 million to support DFG in the budget year. This is about 19 percent less than estimated expenditures in the current year due to a reduction in General Fund and bond funds available for appropriation. General Fund support for the department is proposed to decrease by 40 percent.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|---|-------------------|-------------------|------------------|--------------|
| Type of Expenditure | | | | |
| Biodiversity Conservation Program | \$ 302,776 | \$ 240,392 | -\$62,384 | -20.6 |
| Hunting, Fishing, and Public Use | 55,413 | 57,979 | 2,566 | 4.6 |
| Management of Lands and Facilities | 65,832 | 56,259 | -9,573 | -14.5 |
| Conservation Education and Enforcement | 52,866 | 55,336 | 2,470 | 4.7 |
| Spill Prevention and Response | 32,799 | 34,137 | 1,338 | 4.1 |
| Capital Outlay | 1,314 | 2,922 | 1,608 | 122.4 |
| Administration | 46,521 | 40,677 | -5,844 | -12.6 |
| <i>less distributed administration</i> | -46,512 | -40,677 | 5,835 | -12.6 |
| Totals | \$ 511,009 | \$ 447,025 | -\$63,984 | -12.6 |
| Funding Source | | | | |
| General Fund | \$ 133,078 | \$ 78,565 | -\$54,513 | -40.9 |
| Special Funds | 123,416 | 152,659 | 29,243 | 23.7 |
| Bond Funds | 133,628 | 83,996 | -49,632 | -37.1 |
| <i>Budget Act Total</i> | <i>\$ 390,122</i> | <i>\$315,220</i> | <i>-\$74,902</i> | <i>-19.2</i> |
| Federal Trust Fund | 57,270 | 57,701 | 431 | 0.7 |
| Reimbursements | 65,350 | 69,810 | 4,460 | 6.8 |
| Salton Sea Restoration Fund | 2,644 | 2,718 | 74 | 2.8 |
| Harbors and Watercraft Revolving Fund | 5 | 5 | - | 0 |
| Special Deposit Fund | 610 | 1,435 | 825 | 135.2 |
| Coastal Wetlands Account | -5,000 | 136 | 5,136 | -102.7 |
| Total | \$ 511,001 | \$ 447,025 | -\$63,976 | -12.5 |

Highlights

CalFED Bay Delta Ecosystem Restoration Program. The Governor's Budget proposes \$47 million from Proposition 84 funds for water quality projects in the Bay Delta region.

Salton Sea Restoration. The Governor's Budget proposes \$45 million from Proposition 84 funds for restoration of the Salton Sea.

Anadromous Fish Management. The Governor's Budget proposes \$11.5 million from Proposition 84 bond funds for 14.5 positions and program costs for Coastal Salmonid Monitoring Plan implementation, Coho Recovery Plan implementation, Coastal Steelhead and Chinook Recovery, and the Steelhead Report Card Program.

Yuba Feather River Flood Control. The Governor's Budget proposes \$7.4 million in special funds for environmental mitigation, restoration, and enhancement measures for the Yuba Feather River Flood Control Project.

Lower Colorado River Multi-Species Habitat Conservation Plan. The Governor's Budget proposes \$6.8 million from Proposition 84 bond funds for the acquisition of lands for natural resource protection and public access to natural resources, consistent with the Lower Colorado River Multi-Species Habitat Conservation Plan.

Issues

Quagga Mussel Invasion. A highly invasive fresh-water Quagga Mussel, related to the Zebra Muscle, was discovered in California on January 17, 2007. The Quagga Mussel was found in Lake Havasu and on the Metropolitan Water District intake pumps. DFG has expressed concern that the species could cause potentially wide-spread damage to drinking water pumping systems and other related infrastructure. The Legislature may wish to examine this issue to determine the proper course of action.

Salmon and Steelhead Trout Restoration. As part of the 2006-07 Budget Act, the Legislature required DFG to submit a report on the use of state funds to restore the Klamath River. The Legislature may wish to review this report to evaluate if the state could undertake a more systematic approach to Klamath River restoration.

3640 Wildlife Conservation Board

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

Governor's Budget. The Governor's Budget proposes \$155 million to support the WCB in the budget year. This is over a 72 percent reduction from estimated expenditures in the current year due to a reduction in the resources bond funds. General Fund support for the board increased by less than 9 percent in the budget year.

| Summary of Expenditures <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
|---|-------------------|-------------------|-------------------|-----------------|
| Type of Expenditure | | | | |
| State Operations | \$ 3,933 | \$ 4,281 | \$ 348 | 8.8 |
| Capital Outlay | 563,457 | 151,533 | -411,924 | -73.1 |
| Total | \$ 567,390 | \$ 155,814 | -\$411,576 | -72.5 |
| Funding Source | | | | |
| General Fund | \$ 5,201 | \$ 16,149 | \$ 10,948 | 210.5 |
| Special Funds | -7,266 | 3,058 | 10,324 | -142.1 |
| Bond Funds | 557,128 | 135,607 | -421,521 | -75.6 |
| <i>Total Budget Act</i> | <i>\$555,063</i> | <i>\$154,814</i> | <i>-\$400,249</i> | <i>-72.1</i> |
| Reimbursements | 8,226 | 1,000 | -7,226 | -87.8 |
| Oak Woodlands Conservation Fund | 4,160 | 0 | 4,160 | 100.0 |
| Total | \$ 567,449 | \$ 155,814 | -\$403,315 | -72.1 |

Highlights

Wildlife Protection Capital Outlay Projects. The Governor's Budget proposes \$68.3 million for Natural Communities Conservation Planning and oak woodlands conservation, as well as grants to integrate agricultural activities with ecosystem restoration and grants for grazing land, grassland, and rangeland protection.

Continuous Appropriation of Proposition 84 Funds. The Governor's Budget proposes \$60 million of Proposition 84 bond fund expenditures in 2006-07, and another \$60 million of Proposition 84 bond fund expenditures in 2007-08. These funds would come from a continuously appropriated allocation for forestry conservation, protection, and habitat preservation.

3680 Department of Boating and Waterways

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

Governor's Budget. The Governor's Budget proposes \$76.7 million to support DBW, which is approximately 12 percent less than expenditures in the current year. (The majority of DBW's budget is not subject to appropriation in the budget act. Only \$500,000 is subject to the Budget Act.) The department is not supported by the General Fund.

| Summary of Expenditures | | | | |
|--|------------------|------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Boating Facilities | \$ 59,117 | \$ 49,561 | -\$9,556 | -16.2 |
| Boating Operations | 20,519 | 20,678 | 159 | 0.8 |
| Beach Erosion Control | 1,641 | 311 | -1,330 | -81.1 |
| Capital Outlay | 6,045 | 6,140 | 95 | 1.6 |
| Administration | 2,447 | 2,361 | -86 | -3.5 |
| <i>less distributed administration</i> | -2,447 | -2,361 | 86 | -3.5 |
| Total | \$ 87,322 | \$ 76,690 | -\$10,632 | -12.2 |
| Funding Source | | | | |
| General Fund | \$ - | \$ - | \$ - | 0 |
| Special Funds | 1,250 | 500 | -750 | -60 |
| <i>Budget Act Total</i> | <i>1,250</i> | <i>500</i> | <i>-750</i> | <i>-60</i> |
| Federal Trust Fund | 13,499 | 10,036 | -3,463 | -25.6 |
| Reimbursements | 1,015 | 1,015 | 0 | 0 |
| Harbors and Watercraft Revolving Fund | 71,558 | 65,139 | -6,419 | -9.9 |
| Total | \$ 87,322 | \$ 76,690 | -\$10,632 | -13.2 |

Highlights

Public Small Craft Harbor Loans. The Governor proposes \$12 million in special funds for loans to develop new marinas and expand and rehabilitate existing marinas.

Launching Facility Grants. The Governor proposes \$12.9 million in special funds for grants for the construction of launching ramps and other facilities used when launching boats.

Private Recreational Marina Loans. The Governor proposes \$6 million in special funds for loans to fund private recreational marinas.

3720 California Coastal Commission

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

Governor's Budget. The Governor's Budget proposes \$12.6 million for support of the Coastal Commission in 2007-08. This level of spending is approximately the same as the current year. General Fund support for the department is also proposed to stay nearly at the same level.

| Summary of Expenditures | | | | |
|--|------------------|------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Coastal Management Program | \$ 16,337 | \$ 16,090 | -\$247 | -1.5 |
| Coastal Energy Program | 763 | 860 | 97 | 12.7 |
| Administration | 1,739 | 1,751 | 12 | 0.7 |
| <i>less distributed administration</i> | -1,658 | -1,651 | 7 | -0.4 |
| Total | \$ 17,181 | \$ 17,050 | -131 | -0.8 |
| Funding Source | | | | |
| General Fund | \$ 11,460 | \$ 11,351 | -109 | -0.9 |
| Special Funds | 1,333 | 1,298 | -35 | -2.6 |
| <i>Budget Act Total</i> | <i>\$12,793</i> | <i>\$ 12,649</i> | <i>\$-144</i> | <i>-1.1</i> |
| Federal Trust Fund | 3,052 | 2,910 | -142 | -4.6 |
| Reimbursements | 1,337 | 1,491 | 154 | 11.5 |
| Total | \$ 17,182 | \$ 17,050 | \$-132 | -0.8 |

Issues

North Coast Enforcement. Currently the Coastal Commission does not have sufficient staff to adequately enforce the State Coastal Act compliance in Northern California. Lack of enforcement means violations of the State Coastal Act can occur without due penalties. The Legislature may wish to review the Coastal Commission's enforcement staffing levels.

Alternative Energy Projects. The Coastal Commission is receiving interest in alternative energy projects, such as wave energy, on the coast. The commission has been contacted by 12 interested parties in the last year who wish to pursue projects on the coast for alternative energy. However, the commission currently does not have expertise on staff to review these types of energy projects. The utilization of alternative energy is relevant at this time as the Legislature has recognized the importance of global climate change and the need for California to actively pursue solutions to this problem. The Legislature may wish to evaluate the commission's workload in energy related activities and determine whether additional funding is warranted.

3790 Department of Parks and Recreation

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

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

Governor's Budget. The Governor's Budget proposes \$422 million to support DPR in 2007-08. This is about a 30 percent reduction from estimated expenditures in the current year. General Fund support for the department is proposed to decrease by about 35 percent reflecting an adjustment for one-time projects.

| Summary of Expenditures | | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Support of the Department of Parks and Recreation | \$ 466,148 | \$ 382,490 | -\$83,658 | -17.9 |
| Local Assistance Grants | 93,458 | 44,279 | -49,179 | -52.6 |
| Capital Outlay | 169,174 | 67,011 | -102,163 | -60.4 |
| Total | \$ 728,780 | \$ 493,780 | -235,000 | -32.2 |
| Funding Source | | | | |
| General Fund | \$ 231,630 | \$ 150,359 | -81,271 | -35.1 |
| Special Funds | 233,056 | 202,950 | -30,106 | -12.9 |
| Bond Funds | 139,291 | 69,403 | -69,888 | -50.2 |
| <i>Budget Act Total</i> | <i>\$ 603,977</i> | <i>\$422,712</i> | <i>\$-181,265</i> | <i>-30</i> |
| Federal Trust Fund | 77,633 | 27,241 | -50,392 | -64.9 |
| Reimbursements | 46,136 | 43,013 | -3,123 | -6.4 |
| Harbors and Watercraft Revolving Fund | 747 | 814 | 67 | 8.9 |
| California Missions Foundation Fund | 289 | 0 | -289 | -100 |
| Total | \$ 728,782 | \$ 493,780 | \$-235,002 | -32.2 |

Highlights

Infrastructure Bond. In November 2006 the voters passed Proposition 84, which provides \$400 million in general obligation bond funds for the state parks system for purposes of acquisition, development, and restoration of state parks. The Governor's Budget includes approximately \$26.7 million in Proposition 84 bond funds for the Department of Parks and Recreation.

Planning and Administrative Staff for Proposition 84. The Governor's Budget proposes \$5.2 million from Proposition 84 bond funds for 61 positions. These positions would provide the department with the expertise to implement Proposition 84 funded projects. These additional staff would work on planning and administering spending of the \$400 million provided to the department by Proposition 84.

Grant Management Staff for Proposition 84. The Governor's Budget proposes \$1.4 million from Proposition 84 bond funds for 10 new positions and support funding to administer department grants to local agencies and non-profits.

Bond Oversight Staff. The Governor's Budget proposes \$1.1 million from Proposition 84 bond funds for 8.4 new positions to oversee the bond on behalf of all recipient departments. These staff would be responsible for bond coordination, accounting, budgeting, and auditing. In addition, these staff would provide bond-related legal and GIS support to the Resources Agency.

Remediation Measures at Empire Mine. The Governor's Budget proposes \$4.1 million General Fund for contamination remediation measures at the Empire Mine State Historic Park.

Museum of Tolerance. The Governor's Budget proposes \$5 million General Fund for an expansion of the Museum of Tolerance at the Simon Wiesenthal Center. The expansion would create a new Inter-Dependence Culture Center.

Capital Outlay. The Governor's Budget proposes \$67 million from various bond funds for multiple capital outlay projects in state parks.

Issues

Infrastructure Bond. The Governor's Budget proposes to return \$160 million in General Fund appropriated in the 2006-07 Budget for parks maintenance and replace those funds with Proposition 84 bond funds. The department estimates that its backlog of deferred maintenance for the state park system is around \$900 million. The Legislature may wish to examine if maintenance of existing facilities is a proper use of bond funds.

3860 Department of Water Resources

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

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

Governor's Budget. The Governor's Budget proposes \$1.4 billion to support DWR in the budget year. This is a 27 percent increase over estimated expenditures in the current year mainly

the result of an increase in the amount of resources bond funds available for appropriation. General Fund support for the department is proposed to decrease by 99 percent to reflect a shift to bond funding. An additional \$6.4 billion is not subject to the Budget Act (these funds are primarily for energy payments related to the 2001 electricity crisis).

| Summary of Expenditures <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
|---|---------------------|---------------------|-------------------|-----------------|
| Type of Expenditure | | | | |
| California Water Plan State Water Project | \$ 419,532 | \$ 646,666 | \$ 227,134 | 54.1 |
| Infrastructure | 816,859 | 835,566 | 18,707 | 2.2 |
| Public Safety and Prevention of Damage | 262,430 | 597,163 | 334,733 | 127.5 |
| Services | 8,943 | 9,252 | 309 | 3.5 |
| California Energy Resources Scheduling | 5,789,862 | 5,577,211 | -212,651 | -3.7 |
| Capital Outlay | 451,074 | 196,607 | -254,467 | -56.4 |
| Administration | 63,700 | 63,848 | 148 | 0.2 |
| <i>less distributed administration</i> | -63,700 | -63,848 | -148 | 0.2 |
| Loan Repayment Program | -4,013 | -4,013 | 0 | 0 |
| Total | \$ 7,744,687 | \$ 7,858,452 | \$ 113,765 | 1.5 |
| Funding Source | | | | |
| General Fund | \$ 688,065 | \$ 5,115 | -\$682,950 | -99.3 |
| Special Funds | 12,717 | 11,923 | -794 | -6.2 |
| Bond Funds | 398,035 | 1,378,611 | 980,576 | 246.3 |
| <i>Budget Act Total</i> | <i>\$1,098,817</i> | <i>\$1,395,649</i> | <i>\$296,832</i> | <i>27</i> |
| Federal Trust Fund | 12,665 | 12,863 | 198 | 1.6 |
| State Water Project Funds | 817,898 | 837,026 | 19,128 | 2.3 |
| DWR Electric Power Fund | 5,789,862 | 5,577,211 | -212,651 | -3.7 |
| Bosco-Keene Renewable Resources Investment Fund | 20 | 0 | -20 | |
| Reimbursements | 25,425 | 35,703 | 10,278 | 40.4 |
| Total | \$ 7,744,687 | \$ 7,858,452 | \$ 113,765 | 1.4 |

Highlights

Infrastructure Bond. The Governor's Budget includes \$1.3 billion in bond funds for flood control and water supply investments. The majority of these funds are from the Proposition 84 and Proposition 1E bonds passed by voters in November 2006. The bond funds are allocated as follows:

- \$257.8 million is proposed for integrated regional water management and stormwater flood management. These funds would start a new ten-year program.
- \$23.5 million is proposed for the Delta Water Quality Program. These funds would be continuously appropriated up to \$125 million.
- \$369.8 million is proposed for evaluating and improving the State's flood control system. Of this amount, \$342.9 million would be for local assistance. The funds would support 52 new positions and various flood and levee programs.
- \$62.7 million is proposed for multi-benefit planning and feasibility studies related to future water needs.
- \$9.1 million is proposed for an urban streams grant program.
- \$255,000 is proposed for two positions to provide fiscal administration, coordination, and oversight of bond funds.
- \$149 million in various capital outlay expenditures, including \$100 million for levee repair.

Flood Management Comprehensive Strategic Plan. The Governor's Budget proposes \$11.9 million from AB 142 and Proposition 13 bond funds for 32 new positions to work on flood management issues, including improving maintenance programs, improving the effectiveness of emergency response programs, and updating floodplain maps.

San Joaquin River Restoration. The Governor's Budget proposes \$1.3 million in Proposition 13 bond funds to fund contracts and equipment for investigating, developing and implementing channel modifications on the San Joaquin River. In addition, these funds will be used as part of the State's cost share portion of actions proposed by the settlement of the *Friant Water User Authority and the Natural Resources Defense Council* lawsuit.

San Joaquin River Restoration Reimbursements. The Governor's Budget proposes \$57.9 million in reimbursement authority over five years for easement and title fee purchases, channel and structural improvements, and related research.

All-American Canal Lining. The Governor's Budget proposes \$82 million (\$47 million General Fund) for the lining of the All-American and Coachella Canals. This funding is consistent with the Quantification Settlement Agreement to reduce California's use of Colorado River water.

Sacramento Valley Water Management Program. The Governor's Budget proposes \$8.4 million in Proposition 204 bond funds to plan and implement a series of projects that would help meet the flow objectives required to maintain water quality in the Bay-Delta.

Contra Costa Water District Canal Lining. The Governor's Budget proposes \$2.8 million in Proposition 13 bond funds to fund phase II of possible retrofitting or contractions of new conveyance facilities along a segment of the Contra Costa Canal. This project is in the CALFED Record of Decision.

CALFED Surface Storage Program. The Governor's Budget includes \$3.7 million in various bond funds to fund the CALFED Surface Storage Program. Funding is allocated to the following projects:

- Common Assumptions (\$492,000).
- North of Delta Storage – Sites Reservoir (\$1.2 million).
- Los Vaqueros Reservoir Enlargement (\$1 million).
- Upper San Joaquin River Storage (\$1 million).

CALFED Conveyance and Water Quality Program Projects. The Governor's Budget includes \$5.9 million in various bond funds to continue evaluation and implementation of fish facility improvements at State Water Project and Central Valley Project fish collection facilities located in the South Delta. Funding will also be used to study South Delta hydrodynamics in order to continue fish entrainment evaluation. Funding will also be used to continue the Franks Tract Pilot Project alternatives development.

CALFED Bay-Delta Program Fish Passages. The Governor's Budget proposes \$1.2 million in Proposition 50 bond funds for 7.6 existing positions in the continued management, administration, and implementation of the CALFED fish passages program.

Issues

Infrastructure Bond. The Governor's Budget proposal contains a significant amount of new policy regarding funding flood management and water supply projects. The Legislature may wish to review these policies and determine whether they are consistent with its policy goals. The Legislature may also wish to review the benefits of the projects proposed for funding, including potential benefits to the environment and water supply. Furthermore, the Legislature may wish to evaluate the "green" construction policies of the department and whether to require a greater amount of environmentally sensitive construction practices.

Oversight of Bond Funds. In November 2006 the voters of California approved a large amount of general obligation bond funding for the state's water supply, levees, and other water related structures. To ensure that the intent of the voters is carried out, the Legislature should carefully monitor how the DWR spends these bond funds. The Legislature may wish to consider requiring quarterly status reports to be sent to the budget committees so that the usage of the funds can be tracked with greater transparency.

3870 California Bay-Delta Authority

Background. As part of the 2006-07 Budget Act, the Legislature transferred all positions and funding for the Bay-Delta Authority to the Department of Fish and Game, Resources Agency, the Department of Water Resources, and the Department of Health Services. The Resources Agency is continuing to support the public forums and stakeholder processes that were supported by the Bay-Delta Authority.

Governor's Budget. The Governor's Budget proposes no funding for the California Bay-Delta Authority, since the responsibilities of the department were moved to various other departments by the Legislature in 2006-07.

Regional Conservancies

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

Governor's Budget. The Governor's Budget proposes \$277 million for the state's nine regional conservancies. This is nearly the same as estimated expenditures in the current year due to resources bond funds available for appropriation.

| Summary of Expenditures <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
|---|-------------------|-------------------|------------------|-----------------|
| 3125 - California Tahoe Conservancy | \$ 42,054 | \$ 45,512 | \$ 3,458 | 8.2 |
| 3760 - State Coastal Conservancy | 181,357 | 133,975 | -47,382 | -26.1 |
| 3810 - Santa Monica Mountains Conservancy | 24,658 | 18,194 | -6,464 | -26.2 |
| 3825 - San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy | 6,741 | 38,834 | 32,093 | 476.1 |
| 3830 - San Joaquin River Conservancy | 449 | 456 | 7 | 1.5 |
| 3835 - Baldwin Hills Conservancy | 22,817 | 3,490 | -19,327 | -84.7 |
| 3845 - San Diego River Conservancy | 296 | 3,194 | 2,898 | 979.1 |
| 3850 - Coachella Valley Mountains Conservancy | 1,545 | 11,878 | 10,333 | 668.8 |
| 3855 - Sierra Nevada Conservancy | 3,815 | 21,404 | 17,589 | 461.1 |
| Total | \$ 283,732 | \$ 276,937 | -\$6,795 | -2.4 |

Highlights

Tahoe Conservancy Biomass Utilization Project. The Governor’s Budget proposes \$5.1 million in bond funds for a biomass energy pilot project in the Tahoe Basin. The Department of Forestry and Fire Protection would be a partner in the project.

Proposition 84 Bond Funds. The Governor’s Budget proposes nearly \$230 million in Proposition 84 bond funds for conservancies. These proposals are:

- \$27.3 million for Tahoe Conservancy for wildlife enhancement, watershed restoration, land acquisitions, and public access and recreation.
- \$85.4 million for State Coastal Conservancy to protect, restore and enhance beaches, as well as carry out the goals of the San Francisco Bay Area Conservancy Program.
- \$1.5 million for State Coastal Conservancy to hire five additional staff to implement Proposition 84 projects.
- \$28 million for State Coastal Conservancy to carry out projects and programs of the California Ocean Protection Council.

- \$17 million for Santa Monica Mountains Conservancy for restoration of rivers, lakes and streams, their watershed and associated lands, as well as other natural resources.
- \$25 million for San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy for various capital outlay projects.
- \$523,000 for San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy for five new positions to help administer Proposition 84 bond funds.
- \$8.5 million for San Joaquin River Conservancy to develop the San Joaquin River Parkway.
- \$1.5 million for San Joaquin River Conservancy for capital outlay and local assistance.
- \$3 million for Baldwin Hills Conservancy for capital outlay and local grants.
- \$2.9 million for San Diego River Conservancy for urban greening projects.
- \$11.5 million for Coachella Valley Mountains Conservancy for land acquisition.
- \$17.5 million for Sierra Nevada Conservancy for local grants.

ENVIRONMENTAL PROTECTION

Overview

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

Boards:

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

Departments:

- Department of Pesticide Regulation
- Department of Toxic Substances Control

Office:

- Office of Environmental Health Hazard Assessment

Governor's Budget. The Governor's Budget proposes \$1.4 billion to support Cal-EPA in 2007-08. This is nearly the same as the level of expenditures estimated in the current year. Local assistance is proposed to be reduced by nearly 28 percent.

| Total State Fund Expenditures <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
|---|---------------------|---------------------|------------------|-----------------|
| Type of Expenditure | | | | |
| State Operations | \$ 1,086,310 | \$ 1,166,495 | \$ 80,185 | 7.4 |
| Local Assistance | 424,349 | 306,590 | -117,759 | -27.8 |
| Capital Outlay | 4,083 | 1,000 | -3,083 | -75.5 |
| Total | \$ 1,514,742 | \$ 1,474,085 | -\$40,657 | -2.7 |
| Funding Source | | | | |
| General Fund | 91,501 | 85,827 | -5,674 | -6.2 |
| Special Funds | 1,055,450 | 1,036,792 | -18,658 | -1.8 |
| Bond Funds | 367,791 | 351,466 | -16,325 | -4.4 |
| Total | \$ 1,514,742 | \$ 1,474,085 | -\$40,657 | -2.7 |

Highlights

Infrastructure Bond. In November 2006 the voters passed Proposition 1B, Proposition 1E and Proposition 84, which provide a combined \$10.7 billion in general obligation bond funds for resources related uses, such as flood protection, water quality, air quality, and other resource protection. Proposition 1B provides \$1.2 billion for air quality, of which \$200 million is dedicated for school buses. Proposition 1E provides approximately \$4.1 billion for levees and flood protection. Proposition 84 provides \$5.4 billion for water quality, drinking water and supply, flood control, and preservation of rivers and coasts. The Governor's Budget proposes \$351 million from these bond funds for Cal-EPA departments.

In addition to the bonds passed by voters in November 2006, the Governor has proposed as part of the Strategic Growth Plan an additional \$6 billion in infrastructure investments over the next 10 years. New general obligation bonds would provide \$4 billion, while revenue bonds would provide \$2 billion. The Governor is proposing that the \$4 billion in general obligation bonds be placed on the November 2008 ballot. The Governor in his state-of-the-state speech stated that a portion of these proposed bonds would be utilized for two new dams.

Global Warming Solutions Act Implementation. The Global Warming Solutions Act of 2006 (AB 32, Nunez and Pavley) requires the reduction of greenhouse gasses to 1990 levels by 2020. The Act makes the State Air Resources Board (ARB) the lead agency in implementation and enforcement. Greenhouse gas reductions will be achieved through the adoption of market-based compliance mechanisms. This Act continues the work of the Climate Change Initiative Action Team. The Governor directed the Secretary of Cal-EPA to coordinate oversight of the efforts to meet these greenhouse gas reduction targets and required a report to the Governor and the Legislature on the progress in meeting these targets starting in January 2006. The Governor's Budget includes \$26.5 million in special funds to implement this Act. The majority of the funding is for the Air Resources Board.

Issues

Infrastructure Bond. The Legislature may wish to review how the infrastructure investments proposed in the Governor's Budget will protect and restore the state's environment. Specifically, the Legislature may wish to review how proposed projects are coordinated, how projects are prioritized, and if the amount of funds for particular types of projects is adequate. The Legislature may also want to examine the various departments' ability to expend funds quickly enough to receive the large appropriations that are requested in the Governor's 2007-08 Budget.

Timing of New Bonds. The Legislature may wish to evaluate the timing of the proposed \$4 billion general obligation bond for the November 2008 ballot. The departments may not be able to responsibly spend \$10.7 billion in existing bond authority by 2008, and thus the request for voter approval of further funds may not be necessary at that time.

Oversight of Bond Funds. The voters of California passed a large general obligation bond package in November 2006. To ensure that the intent of the voters is carried out, the Legislature should carefully monitor how departments spend these bond funds. The Legislature may wish to

consider requiring quarterly status reports to be sent to the budget committees so that the usage of the funds can be tracked by department.

Global Warming Solutions Act Implementation. The Governor has identified several actions in the budget to help in meeting the greenhouse gas emissions reduction targets set in the Global Warming Solutions Act of 2006. However, it is not clear that these actions are sufficient to meet these targets. Cal-EPA prepared a Climate Action Team Report that outlined the strategies the departments could undertake to reduce greenhouse gas emissions. Not all of the strategies recommended in the report are being undertaken by the Cal-EPA departments. The Legislature may wish to review the actions recommended by the Climate Action Team Report for further steps that should be taken in order to reach the 2020 target.

0555 Secretary for Environmental Protection

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

Governor’s Budget. The Governor’s Budget proposes \$10.7 million to support the Secretary for Environmental Protection. This is a 19 percent increase over estimated expenditures in the current year. General Fund support for the Secretary is proposed to increase by about \$118,000.

| Summary of Expenditures | | | | |
|--|----------------|----------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Support | \$ 13,279 | \$ 15,027 | \$ 1,748 | 13.2 |
| Total | \$ 13,279 | \$ 15,027 | \$ 1,748 | 13.2 |
| Funding Source | | | | |
| General Fund | \$ 1,971 | \$ 2,089 | \$ 118 | 5.9 |
| Special Funds | 7,036 | 8,636 | 1,600 | 22.7 |
| <i>Budget Act Total</i> | <i>9,007</i> | <i>10,725</i> | <i>1,718</i> | <i>19.1</i> |
| Reimbursements | 1,877 | 1,904 | 27 | 1.1 |
| State Water Quality Control Fund | 175 | 177 | 2 | 1.1 |
| Environmental Enforcement and Training Account | 2,066 | 2,066 | 0 | 0 |
| Environmental Education Account | 155 | 155 | 0 | 0 |
| Total | \$ 13,280 | \$ 15,027 | \$ 1,747 | 13.2 |

Highlights

Global Warming Solutions Act Implementation. The Governor's Budget proposes \$1.4 million in special funds for five positions to coordinate and manage the Global Warming Solutions Act implementation effort.

Issues

Global Warming Solutions Act Implementation. Although the Air Resources Board is the implementing agency of the Act the Governor's Budget proposes funds for the Secretary for Environmental Protection to coordinate Cal-EPA departments in their work on greenhouse gas reduction. The Legislature may wish to evaluate the workload requirement for the Secretary for Environmental Protection in implementation of the Act.

3900 Air Resources Board

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

Governor's Budget. The Governor's Budget proposes \$375 million to support the ARB in 2007-08. This is a 23 percent increase from estimated expenditures in the current year due to an increase in available bond funds. General Fund support for the ARB is also increasing by over 50 percent.

| Summary of Expenditures | | | | |
|--|-------------------|-------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Mobile Source | \$ 269,938 | \$ 330,468 | \$ 60,530 | 22.4 |
| Stationary Source | 43,803 | 53,033 | 9,230 | 21.1 |
| Subvention | 10,111 | 10,111 | 0 | 0 |
| Capital Outlay | 120 | 1,000 | 880 | 733.3 |
| Administration | 11,960 | 13,926 | 1,966 | 16.4 |
| <i>less distributed administration</i> | -11,960 | -13,926 | -1,966 | 16.4 |
| Total | \$ 323,972 | \$ 394,612 | \$ 70,640 | 21.8 |
| Funding Source | | | | |
| General Fund | \$ 2,280 | \$ 3,435 | \$ 1,155 | 50.7 |
| Special Funds | 302,913 | 275,639 | -27,274 | -9 |
| Bond Funds | 0 | 96,500 | 96,500 | 100 |
| <i>Budget Act Total</i> | <i>305,193</i> | <i>375,574</i> | <i>70,381</i> | <i>23.1</i> |
| Federal Trust Fund | 13,778 | 13,963 | 185 | 1.3 |
| Reimbursements | 5,002 | 5,075 | 73 | 1.5 |
| Total | \$ 323,973 | \$ 394,612 | \$ 70,639 | 21.8 |

Highlights

Infrastructure Bond. In November 2006 the voters passed Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006 which provides \$1.2 billion for air quality improvement efforts. The Governor's Budget proposes \$96.5 million in Proposition 1B bond funds for the replacement of 535 pre-1987 school buses and retrofits of approximately 1,500 old diesel school buses.

Global Warming Solutions Act Implementation. The Governor's Budget proposes \$24.3 million in special funds for 123 new positions, as well as contract and equipment funds to fund greenhouse gas reduction responsibilities given to the ARB by the Global Warming Solutions Act of 2006. These positions would undertake a broad range of planning, regulatory, and enforcement efforts, including inventory development, reporting requirements, completion of a greenhouse gas reduction plan, development and implementation of measures to reduce greenhouse gases, studies and scientific analysis, and program outreach.

Implement Hydrogen Highway Blueprint. The Governor's Budget proposes \$6 million in special funds for implementation of the Governor's Hydrogen Highway Blueprint. This funding will continue six expiring positions for the Hydrogen Highway program. This funding would also leverage private matching funds to construct up to twelve publicly accessible hydrogen fueling stations, four of which would utilize renewable hydrogen production technologies.

Mobile Source Certification. The Governor's Budget proposes \$1.2 million in special funds for nine new positions to implement new regulations for in-use emissions for light-duty vehicles that go into effect in 2007.

Diesel Health Risk Management Program. The Governor's Budget proposes \$1.2 million in special funds for seven new positions to implement regulations adopted to reduce the risk from diesel particulate matter. These positions will assist those affected by the regulation to understand and implement the regulations.

Issues

Global Warming Solutions Act Implementation. The Legislature may wish to evaluate the workload requirement for ARB in implementing the Act. The Legislature may also wish to examine the steps that ARB is proposing to take over the next year to ensure that implementation of the Act will proceed on schedule.

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

Environmental Enforcement. In the 2006-07 budget, the Legislature provided the ARB \$4 million for increased enforcement presence and for improving the effectiveness of the board's existing enforcement programs. The Legislature may wish to examine steps the ARB has taken to strengthen its existing enforcement programs.

3910 Integrated Waste Management Board

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

Governor’s Budget. The Governor’s Budget proposes \$198.4 million to support CIWMB in the budget year. This is nearly the same level of support as in the current year. The board does not receive any General Fund support.

| Summary of Expenditures | | | | |
|--|-------------------|-------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Waste Reduction and Management | \$ 201,188 | \$ 201,169 | -\$19 | 0 |
| Administration | 9,195 | 9,195 | 0 | 0 |
| <i>less distributed administration</i> | -9,195 | -9,195 | 0 | 0 |
| <i>less loan repayments</i> | -2,042 | -2,042 | 0 | 0 |
| Total | \$ 199,146 | \$ 199,127 | -\$19 | 0 |
| Funding Source | | | | |
| Special Funds | \$ 198,218 | \$ 198,485 | \$ 267 | 0.1 |
| Bond Funds | 150 | 0 | -150 | -100 |
| <i>Budget Act Total</i> | <i>198,368</i> | <i>198,485</i> | <i>117</i> | <i>0.1</i> |
| Federal Trust Fund | 91 | 0 | -91 | -100 |
| Special Deposits Fund | 351 | 307 | -44 | -12.5 |
| Reimbursements | 336 | 335 | -1 | -0.3 |
| Total | \$ 199,146 | \$ 199,127 | -\$19 | 0 |

Highlights

Global Warming Solutions Act Implementation. The Governor’s Budget proposes \$618,000 in special funds for one new position and contract costs to implement solid waste landfill gas and reduced waste strategies to meet greenhouse gas emission reduction targets. CIWMB is a member of the Climate Action Team.

Landfill Closure and Post-Closure Maintenance. The Governor’s Budget proposes \$552,000 in special funds for two new positions to implement AB 2296 (Montanez). Specifically, AB 2296 requires a study to determine what conditions could potentially have long-term affects on solid waste landfills and to examine the financial assurance mechanisms to protect the state from long-term post-closure maintenance and corrective action costs at these facilities.

Education and Environment Initiative. The Governor’s Budget proposes \$695,000 in special funds for 5.5 permanent positions to continue the coordination, development and promotion of environmental education for all elementary and secondary school students.

Medical Waste Management Act. The Governor's Budget proposes \$129,000 in special funds for implementation of SB 1305, the Medical Waste Management Act (Figueroa). CIWMB will implement this Act through public education campaigns, mail-back programs, and monitoring and reporting on the state's progress.

Electronic Waste Recycling Fraud Prevention. The Governor's Budget proposes \$435,000 in special funds for five permanent positions to implement the Electronic Waste Recycling Act of 2003. The funds would be used to implement fraud prevention and compliance assistance, as well as implement and enhance the recovery and recycling payment system.

Auditors. The Governor's Budget proposes \$518,000 in special funds for five positions to conduct financial, performance, and other service audits of oil recycling, tire recycling, and electronic waste recycling.

Issues

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

Waste Tire Enforcement Program. As part of the 2006-07 Budget, the Legislature required that CIWMB submit, on March 31, 2007, a report providing specific metrics for evaluating the Waste Tire Enforcement Program. The Legislature may wish to review this report for possibly requiring annual performance measures for the program.

3930 Department of Pesticide Regulation

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

Governor's Budget. The Governor's Budget proposes \$65.8 million to support the DPR in 2007-08, which is a four percent increase over the level of expenditures as in the current year. The department does not receive any General Fund support.

| Summary of Expenditures | | | | |
|--|------------------|------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Pesticide Programs | \$ 65,855 | \$ 68,884 | \$ 3,029 | 4.6 |
| Administration | 9,342 | 9,368 | 26 | 0.3 |
| <i>less distributed administration</i> | -9,342 | -9,368 | -26 | 0.3 |
| Total | \$ 65,855 | \$ 68,884 | \$ 3,029 | 4.6 |
| Funding Source | | | | |
| Special Funds | \$ 63,048 | \$ 65,849 | \$ 2,801 | 4.4 |
| <i>Budget Act Total</i> | <i>\$ 63,048</i> | <i>\$ 65,849</i> | <i>\$ 2,801</i> | <i>4.4</i> |
| Federal Trust Fund | 2,200 | 2,229 | 29 | 1.3 |
| Reimbursements | 606 | 806 | 200 | 33 |
| Total | \$ 65,854 | \$ 68,884 | \$ 3,030 | 4.6 |

Highlights

Pesticide Pollution Prevention Grant Program. The Governor's Budget proposes \$780,000 in special funds for two limited-term positions to implement a limited-term Pesticide Pollution Prevention Grant Program. This grant program will focus on the implementation of integrated pest management practices that reduce or eliminate pollution and pesticide exposure in agricultural and urban environments.

Eliminate Food Safety Account. The Governor's Budget proposes to collapse the Food Safety Account into the Department of Pesticide Regulation Fund. The \$316,000 currently in the Food Safety Account would be moved into the DPR Fund with no cost to the state. The DPR Fund is for the enforcement of pesticide laws while the Food Safety Account is for use toward specific pesticide programs.

Expansion of Healthy Schools Act. The Governor's Budget proposes \$149,000 in special funds for one position to expand implementation of the Healthy Schools Act to private day care facilities as required by Chapter 865 of the Statutes of 2006 (AB 2865, Torrico). The funds would be used for providing outreach materials and presentations.

Mitigation of Pesticide Impacts. The Governor's Budget proposes \$634,000 in special funds for five positions to develop and implement pesticide mitigation measures through the adoption of statewide rules, improved occupational outreach programs, and action on pesticide product registrations.

Pesticide Enforcement and Compliance Improvements. The Governor's Budget proposes \$667,000 in special funds for six new positions to provide additional state oversight of field enforcement activities carried out by county agricultural commissioners (CAC) and to establish a training program for conducting CAC hearings.

Issues

Department Reorganization. The 2006-07 Budget Act consolidated the department's two branches into one single branch. The Legislature may wish to evaluate the impact of this reorganization on program delivery and program accountability. Prior to reorganization, there were ongoing concerns regarding the independence of the department's risk assessment activities from its risk management functions. The Legislature may also wish to evaluate the impact of the reorganization on the separation of these functions.

3940 State Water Resources Control Board

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

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

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

Governor's Budget. The Governor's Budget proposes \$657 million to support the SWRCB in the budget year. This proposal is approximately \$112 million less than current year expenditure levels, mainly due to a reduction in bond funding. General Fund appropriation is expected to stay nearly the same.

| Summary of Expenditures | | | | |
|--|-------------------|-------------------|-------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Water Quality | \$ 927,734 | \$ 823,408 | -\$104,326 | -11.3 |
| Water Rights | 13,642 | 11,137 | -2,505 | -18.4 |
| Administration | 18,950 | 18,890 | -60 | -0.3 |
| <i>less distributed administration</i> | -18,950 | -18,890 | 60 | -0.3 |
| Total | \$ 941,376 | \$ 834,545 | -\$106,831 | -11.4 |
| Funding Source | | | | |
| General Fund | \$ 39,091 | \$ 39,102 | \$ 11 | 0 |
| Special Funds | 362,715 | 362,980 | 265 | 0.1 |
| Bond Funds | 367,641 | 254,966 | -112,675 | -30.6 |
| <i>Budget Act Total</i> | <i>769,447</i> | <i>657,048</i> | <i>-112,399</i> | <i>-14.6</i> |
| Federal Trust Fund | 128,877 | 128,578 | -299 | -0.2 |
| Reimbursements | 9,999 | 9,999 | 0 | 0 |
| State Water Quality Control Fund | 23,309 | 29,495 | 6,186 | 26.5 |
| State Water Pollution Control Revolving Fund | -2,682 | -2,682 | 0 | 0 |
| Petroleum Underground Storage Tank Financing Account | 12,426 | 12,107 | -319 | -2.6 |
| Total | \$ 941,376 | \$ 834,545 | -\$106,831 | -11.4 |

Highlights

Water Quality Projects. The Governor's Budget proposes \$132.5 million in various bond funds for local assistance in water recycling, agricultural drainage loans, wastewater construction and other water quality related uses.

Proposition 84 Local Assistance Funds. The Governor's Budget proposes \$105.2 million in Proposition 84 bond funds for 18 personnel and local assistance grants in water pollution control, agricultural water quality, urban storm-water runoff reduction, and clean beaches programs.

Watershed Protection and Basin Planning. The Governor's Budget proposes \$6.1 million in Proposition 84 bond funds for 12 personnel and local assistance. The funds would be used toward a pilot grant program for local agencies to update their general plans to incorporate watershed protection efforts into their land use policy. In addition, the funds would be used for

scientific contracts to incorporate water quality basin plans into the next update of the California Water Plan.

Brownfields Funding Initiative. The Governor's Budget proposes \$3.1 million in special funds for 25 new positions to increase cleanup of brownfields and to convert backlogged sites to cost recovery.

Underground Storage Tank Cleanup Fund Augmentation. The Governor's Budget proposes \$12.9 million in special funds for cleanup of brownfields and orphan sites.

Regulating Confined Animal Facilities. The Governor's Budget proposes \$1.1 million in special funds for regulation of confined animal facilities in the San Joaquin region, where there are over 1,500 dairies. These funds will be used for regulation, including inspections, of new and existing confined animal facilities. These funds will also be used for studies to provide scientific data on the impact of animal waste and associated waste chemicals on ground and surface water from the dairies and other confined animal facilities, such as swine facilities.

Wastewater Regulatory Programs. The Governor's Budget proposes \$4 million (\$1.3 million General Fund) for the National Pollutant Discharge Elimination System (NPDES) program support. These funds are requested since the State Water Board redirected the funds that were supporting the program to other uses.

Sanitary Sewer Overflow Reduction Program. The Governor's Budget proposes \$384,000 in special funds for the administration of the Sanitary Sewer Overflow Reduction Program.

Leviathan Mine Pollution Abatement Project. The Governor's Budget proposes \$582,000 General Fund for two positions for pond water treatment, removal and disposal of sludge, and water monitoring at the Leviathan Mine.

Issues

Infrastructure Bonds. The Governor's Budget proposes a large amount of general obligation bond funds for the Water Board. However, there is no list of projects provided as part of this funds request. The Legislature may wish to examine the Water Board's plan for expending these funds and the project prioritization criteria that will be used. The Legislature may also wish to examine how project accountability will be measured.

3960 Department of Toxic Substances Control

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

Governor's Budget. The Governor's Budget proposes \$144 million to support the DTSC in 2007-08. This is 2.5 percent less than estimated expenditures in the current year. This reduction is due to a decrease in General Fund appropriations.

| Summary of Expenditures | | | | |
|---|-------------------|-------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Site Mitigation and Brownfields Reuse | \$ 102,137 | \$ 106,047 | \$ 3,910 | 3.8 |
| Hazardous Waste Management | 66,999 | 65,711 | -1,288 | -1.9 |
| Science, Pollution Prevention, and Technology | 10,593 | 11,178 | 585 | 5.5 |
| State as Certified Unified Program Agency | 1,199 | 1,271 | 72 | 6 |
| Capital Outlay | 3,963 | 0 | -3,963 | -100 |
| Administration | 31,475 | 33,217 | 1,742 | 5.5 |
| <i>less distributed administration</i> | -31,475 | -33,217 | -1,742 | 5.5 |
| Total | \$ 184,891 | \$ 184,207 | -\$684 | -0.4 |
| Funding Source | | | | |
| General Fund | \$ 32,453 | \$ 25,321 | -\$7,132 | -21.9 |
| Special Funds | 115,480 | 118,953 | 3,473 | 3 |
| <i>Budget Act Total</i> | <i>147,933</i> | <i>144,274</i> | <i>-3,659</i> | <i>-2.5</i> |
| Federal Funds | 26,567 | 27,801 | 1,234 | 4.6 |
| Reimbursements | 10,391 | 10,632 | 241 | 2.3 |
| Stringfellow Insurance Proceeds Account | 0 | 1,500 | 1,500 | 100 |
| Total | \$ 184,891 | \$ 184,207 | -\$684 | -0.4 |

Highlights

Global Warming Solutions Implementation. The Governor's Budget proposes \$115,000 for one position to identify potential toxic releases or unintended environmental consequences of hazardous waste facilities.

Stringfellow Hazardous Waste Site Management. The Governor's Budget proposes \$3.7 million (\$2.2 General Fund augmentation) for the operation and maintenance of the Stringfellow Hazardous Waste Site, as well as continuation of the site's removal and remediation activities.

Laboratory Infrastructure and Equipment. The Governor's Budget proposes \$978,000 in special funds and Toxic Substances Control Account funds to purchase equipment for the Environmental Chemistry Laboratory.

Pollution Prevention and Compliance. The Governor's Budget proposes \$451,000 in special funds for 3.5 positions to implement pollution prevention concepts, best management practices, training and outreach to proactively reduce the use of chemicals of concern. Specifically, these positions would work on reducing metals in packaging and lead in children's jewelry.

Environmental Contaminant Biomonitoring Program. The Governor's Budget proposes \$123,000 General Fund to begin implementation of portions of SB 1379 (Perata). SB 1379 establishes the California Environmental Contaminant Biomonitoring Program to monitor the presence and concentration of designated harmful chemicals. These funds would be used for planning the development of the program.

Treated Wood Waste. The Governor's Budget proposes to redirect \$431,000 in special funds for 4.5 positions and one temporary position to evaluate and collect data on treated wood waste. These funds would also be used toward the establishment of an inspection and enforcement program to ensure proper management of hazardous treated wood waste, as well as outreach and guidance to businesses and households.

Hazardous Materials Collection. The Governor's Budget proposes \$219,000 in special funds and reimbursements for two positions for urban environment clean-ups. These funds will be used for technical and administrative management of on-going projects as well as oversight and investigation of additional sites.

Environmental Fee Collection. The Governor's Budget proposes \$268,000 in special funds to fund the increased costs of the Interagency Agreement with the Board of Equalization for collection of the Environmental Fee.

Glendale Regional Office Move. The Governor's Budget proposes \$1.9 million in special funds and reimbursements for expenses related to moving the Glendale Regional office to its new location.

3980 Office of Environmental Health Hazard Assessment

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

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

| Summary of Expenditures | | | | |
|--|------------------|------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Health Risk Assessment | \$ 17,072 | \$ 17,459 | \$ 387 | 2.3 |
| Administration | 3,263 | 3,266 | 3 | 0.1 |
| <i>less distributed administration</i> | -3,263 | -3,266 | -3 | 0.1 |
| Total | \$ 17,072 | \$ 17,459 | \$ 387 | 2.3 |
| Funding Source | | | | |
| General Fund | \$ 8,782 | \$ 8,933 | \$ 151 | 1.7 |
| Special Funds | 6,040 | 6,250 | 210 | 3.5 |
| <i>Budget Act Total</i> | <i>14,822</i> | <i>15,183</i> | <i>361</i> | <i>2.4</i> |
| Federal Trust Fund | 500 | 514 | 14 | 2.8 |
| Reimbursements | 1,749 | 1,762 | 13 | 0.7 |
| Total | \$ 17,071 | \$ 17,459 | \$ 388 | 2.3 |

Highlights

Additional Proposition 65 Funding. The Governor's Budget proposes \$203,000 in special funds to augment the department's Proposition 65 program. These funds will be used to support two positions and two limited-term positions to develop Proposition 65 regulations and provide legal support.

Environmental Contaminant Biomonitoring Program. The Governor's Budget proposes \$167,000 General Fund for three positions to plan for the implementation of SB 1379 (Perata). SB 1379 establishes the California Environmental Contaminant Biomonitoring Program to monitor the presence and concentration of designated harmful chemicals.

Toxicologist. The Governor's Budget proposes \$125,000 in special funds for one position to complete and update toxic endpoint analysis of regulated hazardous chemicals, provide technical expertise for the periodic revision of the list of regulated chemicals and the threshold quantities, and to assist Cal-EPA in hazardous substance management standards.

ENERGY & UTILITIES

Overview

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

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

Highlights

Electricity Oversight Board. The Governor is proposing to eliminate the Electricity Oversight Board.

3360 California Energy Commission

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

Governor’s Budget. The Governor’s Budget proposes \$399 million to support CEC in 2007-08. The proposed budget is approximately 18 percent less than estimated expenditures in the current year due to a reduction in renewable energy and PIER funding. The department does not receive any General Fund support.

| Summary of Expenditures | | | | |
|--|----------------|----------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Regulatory and Planning | \$ 27,025 | \$ 27,757 | \$ 732 | 2.7 |
| Energy Resources Conservation | 33,989 | 47,510 | 13,521 | 39.8 |
| Research and Development | 451,043 | 343,556 | -107,487 | -23.8 |
| Administration | 13,653 | 13,199 | -454 | -3.3 |
| <i>less distributed administration</i> | -13,653 | -13,199 | 454 | -3.3 |
| <i>less loan repayments</i> | -2,422 | -1,522 | 900 | -37.1 |
| Total | \$ 509,635 | \$ 417,301 | -\$92,334 | -18.1 |
| Funding Source | | | | |
| General Fund | \$0 | \$0 | \$0 | 0 |
| Special Funds | 491,912 | 399,166 | -92,746 | -18.8 |
| <i>Budget Act Total</i> | <i>491,912</i> | <i>399,166</i> | <i>-92,746</i> | <i>-18.8</i> |
| Federal Funds | 11,978 | 12,390 | 412 | 3.4 |
| Reimbursements | 5,745 | 5,745 | 0 | 0 |
| Total | \$ 509,635 | \$ 417,301 | -\$92,334 | -18.1 |

Highlights

Global Warming Solutions Act Implementation. The Governor’s Budget proposes \$1.1 million in special funds for five permanent positions to work on emission reduction strategies in the energy sector. Among the primary strategies that these funds will be used for are reporting and verifying statewide greenhouse gas emissions, developing a program to monitor and enforce reporting requirements, and evaluating market-based mechanisms for greenhouse gas reduction.

Greenhouse Gas Emissions Performance Standards. The Governor’s Budget proposes \$122,000 in special funds for one position to develop greenhouse gas emissions performance standards and implement regulations for all publicly owned electric utilities.

Photovoltaic and Energy Efficiency Funding for Schools. The Governor’s Budget proposes \$1.1 million in special funds for four permanent positions to provide grants, loans, and technical support for the photovoltaic and energy efficiency program in public K-12 schools.

Million Solar Roofs. The Governor's Budget proposes \$486,000 in special funds for implementation of SB 1 (Murray). The legislation requires the Energy Commission to establish eligibility criteria for solar energy systems and to establish conditions for ratepayer funded incentives for all installations of solar energy systems on all types of buildings and facilities included in the Million Solar Roofs Initiative.

Public Purpose Natural Gas Research. The Governor's Budget proposes \$471,000 in special funds to support four new positions to identify, develop and manage transportation-related research projects that benefit natural gas ratepayers, as well as climate change and air quality research.

PIER Electricity Program Implementation. The Governor's Budget proposes \$418,000 in special funds to support three new positions for research in global climate change, solar energy, and electricity distribution.

Petroleum Industry Reporting and Reducing Petroleum Use. The Governor's Budget proposes \$953,000 in special funds for two permanent and two limited-term positions to conduct petroleum industry reporting and to develop fuel-efficiency standards for tires so that vehicles use less fuel.

Issues

Photovoltaic and Energy Efficiency Funding for Schools. The Governor's Budget proposes special funds from a lawsuit settlement for the creation of permanent positions for the photovoltaic and energy efficiency program in public K-12 schools. The Legislature may wish to consider making these positions temporary as the final settlement payment for the program will be made in 2010.

Million Solar Roofs. Renewable energy is an important component in reducing greenhouse gas emissions. The Legislature may wish to inquire as to how this program will interrelate to the Global Warming Solutions Act of 2006 implementation actions.

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

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

Governor's Budget. The Governor's Budget proposes \$5.6 billion to fund the CERS division of the Department of Water Resources (DWR). This is \$212 million, or 3.7 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year. These funds are not subject to appropriation in the budget bill.

| Summary of Expenditures | | | | |
|--------------------------------------|---------------------|---------------------|-------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Electricity Purchases | \$ 4,859,909 | \$ 4,643,218 | -\$216,691 | -4.5 |
| Interest Expense - Revenue Bonds | 460,841 | 441,269 | -19,572 | -4.2 |
| Payment of Principal - Revenue Bonds | 447,690 | 470,140 | 22,450 | 5 |
| Administration | 21,422 | 22,584 | 1,162 | 5.4 |
| Total | \$ 5,789,862 | \$ 5,577,211 | -\$212,651 | -3.7 |

8660 Public Utilities Commission

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

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

| Summary of Expenditures | | | | |
|--|---------------------|---------------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type Expenditure | | | | |
| Regulation of Utilities | \$ 375,297 | \$ 381,501 | \$ 6,204 | 1.6 |
| Universal Service Telephone Programs | 897,408 | 884,615 | -12,793 | -1.4 |
| Regulation of Transportation | 18,637 | 20,458 | 1,821 | 9.7 |
| Administration | 21,781 | 26,247 | 4,466 | 20.5 |
| <i>less distributed administration</i> | -21,781 | -26,247 | -4,466 | 20.5 |
| Total | \$ 1,291,342 | \$ 1,286,574 | -\$4,768 | -0.4 |
| Funding Source | | | | |
| General Fund | \$0 | \$0 | \$0 | 0 |
| Special Funds | 1,277,329 | 1,269,575 | -7,754 | -0.6 |
| <i>Budget Act Total</i> | <i>1,277,329</i> | <i>1,269,575</i> | <i>-7,754</i> | <i>-0.6</i> |
| Federal Funds | 1,209 | 1,702 | 493 | 40.8 |
| Reimbursements | 12,786 | 15,297 | 2,511 | 19.6 |
| Total | \$ 1,291,324 | \$ 1,286,574 | -\$4,750 | -0.4 |

Highlights

Global Warming Solutions Act Implementation. The Governor’s Budget proposes \$1.3 million in special funds for three new positions to model the costs and benefits of various greenhouse gas emissions cap scenarios and develop protocols for measuring and verifying greenhouse gas emissions reductions in the power sector.

Electricity Market Design. The Governor’s Budget proposes \$408,000 in special funds for one position to evaluate and plan for the reopening of retail electricity market competition in California.

California Solar Initiative. The Governor’s Budget proposes \$2.4 million in reimbursements for the PUC to implement, administer, and evaluate the California Solar Initiative.

Railroad Maintenance and Safety. The Governor’s Budget proposes \$705,000 in special funds for seven positions to conduct safety inspections of railroad equipment and facilities, to inspect high-risk tracks, and to collect and analyze data on near-miss accidents.

Video Competition Act Implementation. The Governor’s Budget proposes \$950,000 in special funds for 10.5 positions to regulate video services.

Passenger Carrier Enforcement at Airports. The Governor's Budget proposes \$486,000 in special funds for five positions to conduct regulations enforcement of charter passenger carrier companies, such as limousine services, that provide service to airports.

Issues

Electricity Market Reopening. The Governor's Budget proposes to begin research into reopening the California electricity market for retail competition. In the past, California's experiments with deregulation have proven to be costly. The Legislature may wish to examine what the PUC's plans are specifically, what the potential benefits and costs of such a plan may be, and what the implications of such deregulation would be for the consumers of California.

8665 California Consumer Power and Conservation Financing Authority

Background. The California Consumer Power and Conservation Financing Authority (CPA) was created in response to the 2000-01 energy crisis and was charged with assuring a reliable supply of power to Californians at reasonable rates, including planning for sufficient reserves. The administrative operations of the agency ceased in October 2004 and its last remaining program, the Demand Reserve Program, is scheduled to expire on June 30, 2007.

Governor's Budget. The Governor's Budget proposes to eliminate the CPA and transfer all remaining CPA funds (estimated at \$2.5 million) to the Energy Commission for repayment of loans.

8770 Electricity Oversight Board

Background. The Electricity Oversight Board (EOB) was created as a result of energy deregulation and was intended to ensure that wholesale energy markets and the electric transmission system function reliably at a fair cost to consumers. The EOB investigates the structure, function, and competitiveness of markets for bulk energy, transmission, and generating capacity. The EOB also conducts oversight and performance evaluation of the California Independent System Operator. The EOB also represents the state before the Federal Energy Regulatory Commission, Federal Courts and in regional forums.

Governor's Budget. The Governor's Budget proposes to eliminate the EOB, while providing it with \$4.1 million in operations funding for 2007-08.

| Summary of Expenditures | | | | |
|--------------------------------|----------------|----------------|------------------|-----------------|
| <i>(dollars in thousands)</i> | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Administration | \$ 4,073 | \$ 4,128 | \$ 55 | 1.3 |
| Total | \$ 4,073 | \$ 4,128 | \$ 55 | 1.3 |
| Funding Source | | | | |
| Special Funds | \$ 4,073 | \$ 4,128 | \$ 55 | 1.3 |
| Total | \$ 4,073 | \$ 4,128 | \$ 55 | 1.3 |

Issues

Budget Allocation. The Governor's Budget proposes to provide the EOB with a full operating budget for 2007-08. The Legislature may wish to consider whether a full operating budget is necessary for a board that is proposed for elimination.

Electricity Market Reopening. The Governor's Budget for the Public Utilities Commission proposes researching options to reopen the California electricity market for retail competition. The Legislature may wish to consider the impact of eliminating an oversight board while pursuing greater market competition.

AGRICULTURE

8570 Department of Food and Agriculture

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

Governor's Budget. The Governor's Budget proposes \$242 million to support CDFA in 2007-08. This is approximately \$9 million less than the level of expenditures estimated in the current year. This decrease is primarily due to a reduction in special funds.

Summary of Expenditures

(dollars in thousands)

| | 2006-07 | 2007-08 | \$ Change | % Change |
|---|------------|------------|------------|----------|
| Type of Expenditure | | | | |
| Agricultural Plant and Animal Health, Pest Prevention, and Food Safety Services | \$ 172,586 | \$ 160,947 | -\$ 11,639 | -6.7 |
| Marketing and Commodity and Agricultural Services | 68,736 | 58,993 | -9,743 | -14.2 |
| Assistance to Fair and County Agricultural Activities | 60,817 | 26,621 | -34,196 | -56.2 |
| General Agricultural Activities | - | 43,149 | 43,149 | 100.0 |
| Capital Outlay | 24,395 | 3,611 | -20,784 | -85.2 |
| Administration | 14,561 | 14,029 | -532 | -3.7 |
| <i>less distributed administration</i> | -13,376 | -12,826 | 550 | -4.1 |
| Total | \$ 327,719 | \$ 294,524 | -\$33,195 | -10.1 |

Funding Source

| | | | | |
|---------------------------------------|------------------|------------------|-----------------|-------------|
| General Fund | \$ 101,699 | \$ 99,261 | -\$2,438 | -2.4 |
| Special Funds | 148,529 | 141,955 | -6,574 | -4.4 |
| Bond Funds | 1,180 | 1,178 | -2 | -0.2 |
| <i>Budget Act Total</i> | <i>\$251,408</i> | <i>\$242,394</i> | <i>-\$9,014</i> | <i>-3.6</i> |
| Federal Trust Fund | 42,779 | 38,762 | -4,017 | -9.4 |
| Public Building Construction Fund | 18,356 | - | -18,356 | -100.0 |
| Harbors and Watercraft Revolving Fund | 1,296 | 1,336 | 40 | 3.1 |
| Reimbursements | 13,879 | 12,032 | -1,847 | -13.3 |
| Total | \$ 327,718 | \$ 294,524 | -\$33,194 | -10.1 |

Highlights

Agency Reorganization. The Governor's Budget proposes a new program within CDFA, the General Agricultural Activities Program. This program provides the fiscal and policy oversight of federal agricultural grants to California. In addition, this new program will coordinate departmental resources and provide centralized communications to the agricultural industry. Despite this reorganization, the overall number of positions at the department is decreasing from 2006-07 levels.

CDFA Implementation of the Global Warming Solutions Act of 2006. The Governor's Budget proposes \$331,000 in reimbursements and on-going authority of \$323,000 for two positions. These new positions would perform scientific and economic studies on reducing green house gasses through a reduction in enteric fermentation (emissions from cattle) and an increase in soil carbon sequestration using conservation tillage and cover crops.

Hydrogen Highway. The Governor's Budget proposes \$212,000 in special funds and on-going authority of \$53,000 for the Division of Measurement Standards to acquire laboratory equipment and laboratory supplies to develop and initiate standardized sampling, testing, and enforcement activities related to hydrogen quality. This proposal supports the Governor's Hydrogen Highway Blueprint Plan.

Private Vehicle Inspection Program. The Governor's Budget proposes \$407,000 General Fund to support five 1-year limited-term positions to conduct a pilot project to determine the pest introduction risk presented by private vehicles entering the state. The program was piloted in 2006-07 with five 1-year limited-term positions.

Emergence Tower System for Fruit Fly Rearing Efficiency. The Governor's Budget proposes \$658,000 General Fund for purchase of equipment for the fruit fly Preventative Release Program and for repositioning and disposal of trailers. The new equipment would allow for a 50 percent increase in fruit fly production. USDA has committed to constructing a new facility into which the equipment would be placed. A previously appropriated \$1 million for facilities would revert from the Architectural Revolving Fund to the General Fund.

Deferred Maintenance and Equipment Replacement. The Governor's Budget proposes \$500,000 in special funds for on-going authority to pay for services rendered, repair and replace laboratory equipment, and modify or upgrade existing facilities at the Center for Analytical Chemistry.

Issues

Program Review. The Department of Finance conducted a program review of the Department of Food and Agriculture and found some programs were not properly categorized. In response to the review, the General Agricultural Activities program category was formed within CDFA and some existing activities were moved under that budget heading.

Citrus Freeze. In January 2007 California experienced unusually cold weather that severely impacted the state's agricultural sector. Early estimates are that 75 percent of the state's citrus crop may have been lost. Impact has also been felt in other agricultural crops sensitive to the cold, such as avocados. The Legislature may wish to consider coordinated actions to assist California's agricultural sector, such as appeals to the Federal government for assistance.

SUBCOMMITTEE No. 3

HEALTH, HUMAN SERVICES, LABOR and VETERANS AFFAIRS

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HEALTH & HUMAN SERVICES OVERVIEW

Summary of Governor's Proposed 2007-08 Budget

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

The budget for Health and Human Services proposes a total of \$78.7 billion (\$29.9 billion General Fund) in combined state and federal funds, including expenditures for about 33,380 state employees for 2007-08.

Key proposals include the following:

- Proposes significant changes to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program resulting in a decrease of \$464.7 million (General Fund) in 2007-08. The main components of these changes include restricting safety net grants, imposing full family sanctions, eliminating grants for children of CalWORKs ineligible parents, and suspending the CalWORKs cost-of-living adjustment.
- Proposes to cap the state's contributions to wage and benefit increases for In-Home Supportive Services (IHSS) resulting in a reduction of \$14.1 million (General Fund).
- Proposes to cut Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA), funding by \$60 million (50 percent of current funding). The budget would increase funding by \$35 million to the Substance Abuse Offender Treatment Program (OTP).
- Provides an increase of \$3.9 billion (\$1.6 billion General Fund) for enrollment, caseload, and population driven program increases in health and human services program.
- Reflects the reorganization of the Department of Health Services into two separate departments—(1) the Department of Health Care Services, and (2) the Department of Public Health—as required by SB 162 (Ortiz), Statutes of 2006.
- Provides an increase of \$53.9 million (General Fund) to implement Proposition 83—Jessica's Law—approved by voters in November 2006, within the Department of Mental Health.
- Proposes the elimination of the Integrated Services for Homeless Adults with Serious Mental Illness Program for a decrease of \$54.9 million (General Fund) within the Department of Mental Health.

Each of these proposals is discussed in more detail below.

HEALTH

0530 California Health and Human Services Agency

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

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

The Office of Systems Integration (OSI) within the CHHS Agency manages five major projects for the Department of Social Services (DSS) and one project for the Employment Development Department (EDD). Funding for OSI is supported entirely by reimbursements from the DSS and EDD budgets.

Summary of Funding. The budget proposes total expenditures of \$186.7 million (\$5.3 million General Fund) which reflects a net decrease of \$18.1 million (total funds), primarily in the Office of System Integration.

An increase of \$900,000 (federal grant funds) is proposed for the office of the Secretary to oversee and manage efforts to implement California's Real Choices Transition grant awarded by the federal government. The grant is a five-year \$3 million award which will be used to build California's long-term care system infrastructure and to increase the capacity of the home and community-based services system.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|------------------|------------------|------------------|------------|
| Secretary for Health & Human Services | \$3,520 | \$4,279 | \$759 | 21.6 |
| Office of Health Insurance Portability | \$3,755 | \$3,820 | \$65 | 1.7 |
| Office of System Integration | \$197,512 | \$178,591 | -\$18,921 | 9.6 |
| Funding Source | | | | |
| General Fund | \$5,108 | \$5,294 | \$186 | 3.6 |
| Federal Funds | \$300 | \$900 | \$600 | 200 |
| Reimbursements | \$1,867 | \$1,905 | \$38 | 2.0 |
| Office of Systems Integration Fund | \$197,512 | \$178,591 | -\$18,921 | 9.6 |
| Total, Health & Human Services | \$204,787 | \$186,690 | -\$18,097 | 8.8 |

4100 State Council on Developmental Disabilities

Background. The State Council on Developmental Disabilities (Council) advocates and implements policies and practices that achieve inclusion in all aspects of community life for Californians with developmental disabilities and their families. The Council administers grants to community-based organizations that fund new and innovative community program projects to improve and enhance services for individuals with developmental disabilities and their families. In addition, the thirteen Local Area Boards provide a valuable service to consumers and families by providing individualized advocacy services and trainings, as well as conducting Life Quality Assessments.

Summary of Funding. The budget proposes total expenditures of \$13.9 million (federal funds and reimbursements) for the Council which reflects an overall reduction of \$487,000 (federal funds and reimbursements). The proposed adjustments are technical in nature.

| Summary of Expenditures | | | | |
|---|-----------------|-----------------|---------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| State Council Planning & Administration | \$1,738 | \$1,715 | -\$23 | -1.3 |
| Community Program Development | \$1,987 | \$1,987 | 0 | 0 |
| Local Area Boards | \$10,715 | \$10,251 | -\$464 | -4.3 |
| Total Expenditures | \$14,440 | \$13,953 | -\$487 | 3.4 |
| Funding Source | | | | |
| Federal Funds | \$7,514 | \$7,216 | -\$298 | 3.9 |
| Reimbursements | \$6,926 | \$6,737 | -\$189 | 2.7 |
| Total Funding | \$14,440 | \$13,953 | -\$487 | 3.4 |

4120 Emergency Medical Services Authority

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

Summary of Funding. The budget proposes total expenditures of \$25 million (\$12.5 million General Fund) for the EMS Authority. This reflects a net decrease of \$18.2 million (\$16.6 million General Fund) primarily due to the elimination of one-time only funds of \$17.9 million (\$16.6 million General Fund) which were used to purchase three Mobile Hospitals in 2006-07.

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|------------------|--------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Program Source | | | | |
| Emergency Medical Services | \$43,155 | \$24,999 | -\$18,156 | 42.0 |
| Funding Source | | | | |
| General Fund | \$29,134 | \$12,550 | -\$16,584 | -56.9 |
| Federal Funds | \$2,754 | \$2,442 | -\$312 | -11.3 |
| Reimbursements | \$9,368 | \$8,167 | -\$1,201 | -12.8 |
| Other Funds | \$1,899 | \$1,840 | -\$59 | -3.1 |
| Total Expenditures | \$43,155 | \$24,999 | -\$18,156 | -42.0 |

4250 California Children and Families Commission

Background. The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members.

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

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

Summary of Funding. The budget proposes total expenditures of \$750.4 million (Special Trust funds) for an increase of \$7.2 million over the revised current year.

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

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

| Summary of Expenditures | | | | |
|--------------------------------------|------------------|------------------|----------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Administrative Functions | \$17,719 | \$18,169 | \$990 | 5.6 |
| Local Assistance—Counties | \$725,577 | \$732,280 | \$6,703 | 1.0 |
| Funding Source | | | | |
| Counties Children & Families Account | \$478,923 | \$481,879 | \$2,956 | 0.6 |
| Mass Media Communications | \$52,933 | \$53,024 | \$91 | 0.2 |
| Education Account | \$81,602 | \$82,540 | \$938 | 1.1 |
| Child Care Account | \$44,197 | \$44,214 | \$17 | .04 |
| Research & Development Account | \$47,708 | \$47,625 | -\$83 | -0.2 |
| Administration Account | \$17,719 | \$18,169 | \$450 | 2.5 |
| Unallocated Account | \$20,214 | \$22,998 | \$2,784 | 13.8 |
| Total Expenditures | \$743,296 | \$750,449 | \$7,153 | 1.0 |

4260 Department of Health Care Services

Background. Effective July 1, 2007, pursuant to SB 162 (Chapter 241, Statutes of 2006), specific programs and public health responsibilities currently vested with the Department of Health Services will transfer to the newly established Department of Public Health, and the Department of Health Services will be renamed the Department of Health Care Services (DHCS). The creation of the two new departments is budget neutral, as required by the legislation; however, it is not cost neutral as discussed below under the Department of Public Health.

The DHCS finances and administers several individual health care service delivery programs, including the Medi-Cal Program, Children’s Medical Services, Office of Long-Term Care, Primary Care Clinic Program, and Rural Health Program.

Summary of Funding. The budget proposes expenditures of \$38.1 billion (\$14.9 billion General Fund) for 2007-08. Of the total amount, \$37.7 billion (\$14.7 billion General Fund) is for local assistance and \$418.8 million (\$151.7 million General Fund) is for state support. State support expenditures are spread across the three program areas as noted in the chart below. Proposed funding sources are summarized below.

| Summary of Expenditures (dollars in thousands) | 2007-08 |
|--|---------------------|
| Medi-Cal Program | \$37,735,433 |
| Children’s Medical Services | \$313,998 |
| Primary and Rural Health | \$57,814 |
| Total Expenditures | \$38,107,245 |

| Funding Source | |
|--|---------------------|
| General Fund | \$14,902,710 |
| Federal Funds | \$21,073,001 |
| Medi-Cal Inpatient Payment Adjustment Fund | \$579,726 |
| Health Care Support Fund | \$741,912 |
| Demonstration Disproportionate Share Hospital Fund | \$452,855 |
| Children’s Medical Services Rebate Fund | \$6,500 |
| Reimbursements | \$226,605 |
| Special Deposit Fund | \$24,083 |
| Private Hospital Supplemental Fund | \$28,068 |
| Distressed Hospital Fund | \$14,606 |
| Nondesignated Public Hospital Supplemental Fund | \$49 |
| Hospital Services Account, Tobacco Product Surtax | \$18,000 |
| Unallocated Account, Tobacco Product Surtax | \$37,926 |
| Other Special Funds | \$1,204 |
| Total Expenditures | \$38,107,245 |

Highlights for the Medi-Cal Program

Summary of Local Assistance Funding and Enrollment. The Governor's budget proposes total expenditures of \$37.4 billion (\$14.6 billion General Fund) which reflects an increase of \$1.9 billion (\$979.8 million General Fund) over the revised current-year. The *net* General Fund increase primarily reflects: (1) increases in caseload and utilization for aged, blind and disabled individuals; (2) increases in federal Medicare premiums which are paid by Medi-Cal; (3) rate adjustments for various long-term care facilities; and (4) increases in caseload in the Senior Care Action Network.

California continues to have one of the lowest average cost-per-enrollee rates in the nation at \$5,626 per enrollee, versus a national average of about \$7,220 per enrollee or 28 percent higher than California.

Medi-Cal provides health insurance coverage to about 18 percent of Californians. Average monthly caseload is anticipated to increase in 2007-08 by about 107,400 people, or 1.6 percent, for a total of 6.7 million eligibles.

Of the total Medi-Cal eligibles, 3.4 million or over 50 percent are deemed to be in the medically needy category which is mainly comprised of low-income working families, and individuals who are aged, blind or disabled. About 38 percent, or 2.5 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs).

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

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

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

- **Reduces the Growth Capitation for Freestanding Nursing Homes and Subacute Facilities.** A reduction of \$28.8 million (\$14.4 million General Fund) is proposed by limiting the maximum annual rate increase or "growth cap" to 4.5 percent, instead of the statutorily required 5.5 percent as contained in AB 1629, Statutes of 2004. The Administration is proposing trailer bill language for this purpose, as well as a sunset extension of the rate methodology. Presently, the existing rate methodology sunsets as of July 31, 2008.
- **Proposed Reduction to the Rates Paid to Pharmacists for Dispensing Drugs under Medi-Cal.** A reduction of \$88 million (\$44 million General Fund) is assumed by changing the existing payment structure for pharmacy reimbursement from the "Average Wholesale Price" (AWP) to an "Average Manufacturer Price" (AMP). The pharmacy reimbursement consists of two components—a drug ingredient cost and a dispensing fee. The proposed change would reduce the amount paid for drug ingredient costs.

The DHS states that changes in the federal Deficit Reduction Act of 2005 make the proposed reduction viable for the state since certain drug cost information will now be readily available for comparison purposes which is consistent with federal requirements.

At this time, the Administration has not proposed any changes to the pharmacist’s dispensing fee. However, the DHCS intends to conduct a survey of the Medi-Cal pharmacy reimbursement rates to discern if an adjustment is needed. It should be noted that the Legislature provided \$600,000 (\$300,000 General Fund) in the 2006 Budget Bill for the DHCS to conduct said study but it was vetoed by the Governor. It is likely that this survey will reflect a need to increase the dispensing fees paid under the Medi-Cal Program. May Revision adjustments to this issue are anticipated.

- Rate Increases for “Level A” Nursing Facilities and Other Long-Term Care Facilities.** An increase of \$119.9 million (\$60 million General Fund) is provided for rate increases to long-term care facilities *not* governed by the rate methodology contained in AB 1629, Statutes of 2004. Specifically, this rate adjustment applies to “Level A” Nursing Facilities, Intermediate Care Facilities for the Developmentally Disabled (ICF-DD), Distinct-Part Nursing Facilities, Subacute facilities and Rural Swing Beds. Each facility type receives a different percentage increase, based upon their peer grouping and cost reports.
- Reflects Restoration of Provider Payment for Medi-Cal Managed Care Plans.** The budget contains an increase of \$133 million (\$66.5 million General Fund) which reflects the budget year cost of restoring the actuarial equivalent amount of five percent, effective January 1, 2007, for health plans participating in the Medi-Cal Managed Care Program. This is consistent with Assembly Bill 1762, Statutes of 2003, which required a temporary five percent reduction for three years (which sunset as of December 31, 2006). The expenditures for this adjustment are shown in the table below.

| Medi-Cal Managed Care Type of Health Plan | 2006-07 Adjustment (Total Funds) | 2007-08 Adjustment (Total Funds) |
|--|--|--|
| Two Plan Model | \$45 million | \$90 million |
| Geographic Managed Care | \$6.6 million | \$13.3 million |
| County Organized Healthcare Systems | \$14.5 million | \$29 million |
| Program of All-Inclusive Care for the Elderly (PACE) | \$20,000 | \$45,000 |
| Senior Care Action Network | \$45,000 | \$139,000 |
| Kaiser Prepaid Health Plan | \$50,000 | \$102,000 |
| AIDS Healthcare Foundation | \$200,000 | \$400,000 |
| TOTALS | \$66.41 million | \$133 million |

- Several Key Reports due to the Legislature Regarding Rates and Performance Measures for the Medi-Cal Program.** The Legislature, through the budget process, has requested the DHCS to provide certain information regarding the establishment of rates within both the Fee-for-Service Program and Managed Care Program, as well as the establishment of performance measures and quality of health care measures within the overall program. First, as part of the Administration’s Medi-Cal redesign proposal in 2005, the DHCS had stated they would provide the Legislature with an analysis of designing and implementing performance measures and quality of health care measures regarding the

provision of services to age, blind and disabled individuals enrolled in Medi-Cal Managed Care. This information has yet to be provided.

Second, the DHCS contracted with the Mercer corporation to conduct an analysis of the rate methodology used in Medi-Cal Managed Care and to offer suggestions for improvement. This report, completed in August 2006, has not yet been provided to the Legislature.

Third, the Budget Act of 2006 requires the DHCS to provide the Legislature with an analysis that compares Medi-Cal Fee-for-Service rates with federal Medicare rates by no later than March 15, 2007. A total of \$600,000 (\$300,000 General Fund) was provided for the DHCS to hire a contractor for this purpose. It is anticipated that the report will be completed and provided to the Legislature within the specified timeframe.

- **Proposed Changes to the Medi-Cal Managed Care Enrollment Packet.** The Administration is proposing trailer bill legislation to modify existing statute regarding the contents of the enrollment package which is sent to Medi-Cal enrollees regarding their health plan choices. Specifically, the Administration is proposing to change the package to have it list providers located near the individual's home or workplace. The budget assumes savings of \$2 million (\$1 million General Fund) from this action.
- **Implements a Rate Increase for Program of All-Inclusive Care for the Elderly (PACE).** As directed by the Budget Act of 2006, and accompanying trailer bill legislation, the budget provides an increase of \$4.4 million (\$2.2 million General Fund) to establish capitation rates for PACE plans at no less than 90 percent of the Fee-for-Service equivalent, including the DHCS' cost of administration.
- **Implementation of Senate Bill 437 (Escutia), Statutes of 2006—Two Pilot Projects for Self-Certification in Medi-Cal.** An increase of \$20.7 million (\$10.3 million General Fund) is provided to fund caseload increases anticipated to result from the implementation of two pilot projects for the self-certification of Medi-Cal enrollees. Specifically, the legislation establishes a process that allows both applicants and enrollees to self-certify the amount and nature of assets and income without the need to submit documentation. Based on specified criteria, ten counties are eligible to conduct a pilot and two of them will be selected by the DHCS.

The Medi-Cal local assistance budget also includes: (1) an increase of \$6.9 million (\$3.5 million General Fund) for county administration to process the self-certification applications, including intake and continuing case costs; and (2) an increase of \$525,000 (\$263,000 General Fund) for a contractor to design an evaluation process for the self-certification pilot projects.

- **Implementation of Senate Bill 437 (Escutia), Statutes of 2006—Presumptive Programs and WIC Gateway.** The budget provides an increase of \$418,000 (\$175,000 General Fund) for a feasibility study report (FSR) of technology requirements to determine the amount and types of systems resources needed to implement provisions contained in SB 437, Statutes of 2006. Specifically, the legislation requires the Administration to streamline and enhance the application process used within the Medi-Cal Program and Healthy Families Program. These enhancements involve electronic interactions with the Women, Infants and Children

Supplemental Food (WIC) Program, and the establishment of two new presumptive eligibility programs.

- **Continues Efforts From Last Year to Increase Medi-Cal and Healthy Families Program Enrollment for Children via Outreach Activities.** The budget proposes to continue several strategies to improve the enrollment of uninsured, eligible children into the Medi-Cal and Healthy Families Program. The Medi-Cal Program contains total expenditures of \$84.8 million (\$39.9 million General Fund) which reflects an overall increase of \$37.6 million (\$18 million General Fund) for these various strategies and resulting caseload. In addition, the Healthy Families Program contains a separate appropriation for this purpose. The following key adjustments are for the Medi-Cal Program:
 - ✓ A total of \$29.7 million (total funds) for the DHS to allocate to selected counties to partner with public and private community organizations for outreach, streamlined enrollment and related measures. This reflects an increase of \$10 million (\$4.4 million General Fund) over the current year.
 - ✓ A total of \$52.1 million (\$25.3 million General Fund) to fund Medi-Cal caseload increases and county administrative processing for enrollment which are attributable to the simplified redetermination form implemented in 2006. This reflects an increase of \$26.9 million (\$13.4 million General Fund) over the current year.
- **Federal Government Denies Funds for Certain Family PACT Waiver Services.** An increase of \$2.5 million (General Fund) is provided to fund certain services that have historically been part of the state's Family PACT Waiver Program which were recently denied federal funding approval by the Center on Medicare and Medi-Cal (CMS). Specifically, these services include mammography, Hepatitis B vaccines, five medical procedures related to complications of particular contraceptive methods, and diagnostic testing regarding cancer. These medically necessary services will now be fully General Fund supported.

California's Family PACT Waiver has been in existence since 1997; however, the Waiver must be renewed by the federal CMS on a regular basis in order to maintain the receipt of federal funding. It should be noted that our existing Waiver expired in November 2004 and the federal CMS has been issuing temporary extensions until a new agreement can be achieved. However, pending new federal requirements may place a portion of the existing federal funding for the Waiver at further risk, which could result in additional General Fund expenditures. More will be known on this issue in the spring.

- **Funds for Cervical Cancer Prevention—Human Papillomavirus Vaccine.** A total of \$11.3 million (\$5.6 million General Fund) is provided to fund the delivery of this vaccine to applicable women enrolled in the Medi-Cal Program. The vaccine requires three doses to be effective and will cost \$441 per Medi-Cal enrollee for the full regimen. The federal Food and Drug Administration has approved this vaccine for cervical cancer prevention.
- **Adjustments to Adult Day Health Care (ADHC) for Local Assistance.** A decrease of \$5 million (\$2.5 million General Fund) is reflected to account for changes enacted in Senate Bill 1755 (Chesbro), Statutes of 2006, regarding a tightening of the medical necessity criteria

used for enrollment into an ADHC facility. This reduction assumes a January 1, 2008 implementation date.

The DHCS is also seeking an increase of \$3.9 million (\$1.8 million General Fund) to fund 30.5 positions for various functions related to proposed changes to the ADHC Program. In addition, the Department of Public Health is requesting an increase of \$100,000 (\$49,000 General Fund) to support one position for this purpose.

- **Provides Cost of Doing Business for County Administration.** An increase of \$36.9 million (\$18.4 million General Fund) is provided to adjust the baseline amount provided to county social services departments to conduct Medi-Cal eligibility processing for the state.
- **Provides Funding to Commence Implementation of AB 2911 (Nunez), Statutes of 2006.** A total of \$8.8 million (General Fund) is proposed to fund 16 positions to commence implementation of the California Discount Prescription Drug Program. Under this program, the DHCS will negotiate with drug manufacturers and pharmacies for rebates and discounts to reduce prescription drug prices for uninsured and underinsured low to moderate income Californians. The DHCS notes that additional state support funding will be required next year as implementation proceeds.
- **Begin Replacement of Medi-Cal Claims Processing and Policy Management Information System.** An increase of \$2.5 million (\$628,000 General Fund) is proposed to fund 22 positions to begin preliminary work necessary to procure a new Medi-Cal management information system (MMIS) and a Fiscal Intermediary contract. This system is used to process all Fee-for-Service Medi-Cal payments and is used to conduct related information management activities associated with core program functions. This system, and the associated Fiscal Intermediary contract (presently managed by Electronic Data Systems—EDS), is one of the largest and most complex systems utilized by the state. The federal CMS will be providing the state with certain federal specifications that the system will be required to meet as well. This project is a multi-year effort and will require a considerable investment of resources.

In addition, an increase of \$196,000 (\$40,000 General Fund) to support 2 positions for this purpose is requested within the Department of Public Health.

- **Augmentation for Disease Management Pilot Projects.** Total funds of \$8.6 million (\$4.3 million General Fund) are provided for the DHCS to proceed with two pilot projects and an assessment of the program. This reflects an increase of \$4.8 million (\$2.4 million General Fund) over the current-year. Though these projects have been delayed for several years, the DHCS contends that implementation will commence shortly.
- **Assumes a January 1, 2008 Implementation of Coordinated Care Management Pilot Projects.** The budget provides an augmentation of \$2.7 million (\$1.4 million General Fund) for the DHCS to enter into one or more contracts to implement a coordinated care management demonstration project for medically involved Medi-Cal enrollees, including seniors and persons with disabilities who have chronic conditions or who may be near the end of life. The Budget Act of 2006 provided funding for the DHCS to establish and commence with these projects.

- **Provides Increased Federal Funds to Reflect Implementation of Assembly Bill 959 (Frommer), Statutes of 2006.** The budget increases by \$127.5 million (federal funds) to reflect the inclusion of freestanding outpatient clinics and state-operated Veteran's Homes to the current Medi-Cal outpatient supplemental program. Under this program, clinics that are enrolled as Medi-Cal providers and are owned or operated by the state, city, county, city and county, the University of California system, or health care districts are eligible to receive supplemental payments. The supplemental payment, when combined with the amount received from other sources of reimbursement, cannot exceed 100 percent of the costs of providing services to Medi-Cal enrollees.
- **Automation of Medi-Cal Provider Enrollment.** The budget provides \$220,000 (\$110,000 General Fund) to initiate development of a Medi-Cal provider enrollment and document tracking system. This system would be used to streamline the provider enrollment process, thereby shortening the time it takes to enroll providers in Medi-Cal.
- **State Staff for Aged Drug Rebates.** The budget proposes to convert 5.5 existing limited-term positions to permanent status and to extend 5.5 limited-term positions for one-year in order to resolve the aged drug rebate backlog. An increase of \$1.1 million (\$542,000 General Fund) is proposed for this purpose. The budget assumes a savings of \$8 million (\$4 million General Fund) within the Medi-Cal Program due to the collection of rebate funds.
- **More Staff Requested for Managing the Hospital Financing Waiver.** An increase of \$1.1 million (\$561,000 General Fund) is requested to support 11 positions to provide increased assistance in managing the ongoing administration of this complex Waiver.
- **More Staff Requested for Continued Implementation of the Health Insurance Portability and Accountability Act (HIPAA).** An increase of \$2.3 million (\$565,000 General Fund) is proposed to support 19 positions to continue various activities to implement federal HIPAA requirements.
- **More Staff for Implementing Federal Deficit Reduction Act (DRA) of 2005--Citizenship and Asset Eligibility Requirements.** The budget proposes an increase of \$571,000 (\$285,000 General Fund) to support 5 positions regarding the implementation of federal DRA requirements affecting the Medi-Cal Program specific to eligibility and access to services.
- **More Staff for Monitoring County Performance Standards.** An increase of \$195,000 (\$97,000 General Fund) to support two positions is requested to conduct monitoring activities associated with county administration of Medi-Cal eligibility processing and county performance standards regarding this processing. Currently, counties must meet specified performance standards or be subject to a corrective action plan and a 2 percent recoupment of funds from the state. The DHCS states that they will be increasing these performance standards from the current 90 percent compliance rate to a 95 percent compliance rate. This would require trailer bill legislation to enact.

Highlights for Children's Medical Services & Primary Care and Rural Health

- **California Children's Services (CCS) Program.** A total of \$237.7 million (\$58.5 million General Fund) is budgeted for children enrolled in the CCS Program. This reflects an increase of \$25.7 million (\$7 million General Fund) which is primarily due to increased caseload identified through the Healthy Families Program. Children enrolled in the Healthy Families Program who have a CCS-eligible medical condition receive medical treatment services through CCS providers.
- **Expansion of the Newborn Hearing Screening Program.** An increase of \$1.9 million (\$1.5 million General Fund) is provided to expand the Newborn Hearing Screening Program to all infants in California by requiring all hospitals with licensed perinatal services to offer hearing screening services and by making available hearing screening services to newborns who are not delivered in hospitals. Of the proposed increase, \$1.5 million is to contract with Hearing Coordination Centers to provide technical assistance and consultation to 100 new hospitals to familiarize them with the existing program, including the inpatient screening process. The remaining amount is for various activities, including tracking and monitoring all participating infants.

The Medi-Cal Program includes an increase of \$1.3 million (\$653,000 General Fund) to pay for screens provided to infants enrolled in Medi-Cal.

- **Child Health Disability Prevention (CHDP) Program.** A total of \$3 million (General Fund) is budgeted for the CHDP Program to provide vaccinations and health screenings for children not otherwise eligible for the Medi-Cal or Healthy Families programs. No policy changes are proposed.
- **Genetically Handicapped Persons Program (GHPP).** A total of \$49.3 million (\$25.1 million General Fund) is provided for the GHPP which reflects a decrease of \$1.9 million (decrease of \$2.7 million General Fund) as compared to the revised current-year. Most of this reduction is attributable to the DHCS finally implementing a blood factor drug rebate program after four years of difficulties.
- **Funds for Implementation of Hospice and Pediatric Palliative Care as Required in Assembly Bill 1745 (Chan), Statutes of 2006.** An increase of \$408,000 (\$174,000 General Fund) is provided to support 3 positions to begin implementation of this program to provide hospice and palliative care to children.
- **Proposes Elimination of State Support for County Medical Services Program.** The Governor proposes to permanently eliminate the \$20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP) through proposed trailer bill legislation. This \$20.2 million has been suspended for the past several years since the CMSP has had reserve funds available.

4265 Department of Public Health

Background. Effective July 1, 2007, pursuant to Chapter 241, Statutes of 2006, specific programs and public health responsibilities currently vested with the Department of Health Services will transfer to the newly established Department of Public Health (DPH).

The mission of the DPH is to protect and improve the health of Californians primarily through population-based programs, including the: (1) prevention and control of chronic diseases; (2) investigation, prevention and control of infectious disease; (3) prevention and control of environmental and occupational diseases; (4) regulation of public drinking water; (5) regulation of medical waste handling and disposal; (6) regulation of food safety; (7) regulation of medical device approval; (8) regulation of low level radioactive waste disposal; and (9) coordination of family-centered preventive and primary care services to low-income women, infants, children and families. In addition, the DPH disburses and monitors funds allocated to counties for emergency preparedness functions and for certain health related services.

Summary of Funding. The budget proposes expenditures of \$3 billion (\$394.2 million General Fund) for the DPH. Of this total amount, \$716 million (\$116.5 million General Fund) is for state support and is used to fund 3,284 positions. The remaining \$2.3 billion (\$278 million General Fund) is for local assistance.

| Summary of Expenditures (dollars in thousands) | 2007-08 |
|--|--------------------|
| Public Health Emergency Preparedness | \$149,699 |
| Public and Environmental Health | \$2,649,758 |
| Chronic Disease Prevention and Health Promotion | \$290,341 |
| Infectious Disease | \$536,170 |
| Family Health | \$1,489,654 |
| Health Information and Strategic Planning | \$32,377 |
| County Health Services | \$70,413 |
| Environmental Health | \$230,803 |
| Licensing and Certification Program | \$210,766 |
| Licensing and Certification of Facilities | \$202,673 |
| Laboratory Field Services | \$8,093 |
| Total Expenditures | \$3,010,223 |

| | |
|---|-------------|
| Funding Source | |
| General Fund | \$394,172 |
| Federal Funds | \$1,468,510 |
| Genetic Disease Testing Fund | \$118,856 |
| Licensing and Certification Fund | \$77,895 |
| WIC Manufacturer Rebate Fund | \$297,401 |
| AIDS Drug Assistance Program Rebate Fund | \$91,890 |
| Water Security, Clean Drinking Water, Beach Protection Fund | \$111,233 |
| Safe Drinking Water Account | \$11,278 |

| | |
|--|--------------------|
| Drinking Water Treatment and Research Fund | \$5,054 |
| Childhood Lead Poisoning Prevention Fund | \$20,810 |
| Birth Defects Monitoring Fund | \$4,174 |
| Radiation Control Fund | \$22,470 |
| Food Safety Fund | \$6,328 |
| Reimbursements | \$141,666 |
| Other Special Funds | \$238,486 |
| Total Expenditures | \$3,010,223 |

- New Department and Organizational Structure.** Chapter 241, Statutes of 2006, establishes a Department of Public Health (DPH) and statutorily transfers responsibilities from the Department of Health Services effective July 1, 2007. The legislation requires that the reorganization from one department to two departments be budget neutral, resulting in no increases to the General Fund or other state funds.

The core functions of the new DPH will include: (1) Emergency Preparedness; (2) Communicable Disease Control; (3) Chronic Disease and Injury Prevention; (4) Laboratory Sciences; (5) Family Health Programs; (6) Environmental and Occupational Health; (6) Drinking Water and Environmental Management; (7) Food, Drug and Radiation Safety; (8) Health Statistics; (9) Health Facility Licensure and Certification; (10) Office of Multicultural Health; and (11) Office of Binational Border Health.

Costs associated with the reorganization are being absorbed within existing budgets (both the DPH as well as the revamped Department of Health Care Services). The Administration says it is their intent to have expenditures from the split absorbed equally by the two departments. At this time, it is anticipated that about \$6.5 million (total funds) in initial costs are associated with the reorganization.

According to the Administration, the reorganization will generate costs in three major areas: (1) space, equipment and consulting; (2) information technology hardware; and (3) personnel. Space and equipment costs are estimated to be \$900,000 if moving costs to relocate employees can be kept to a minimum. A “change management” consultant has been hired at a cost of \$100,000 to assist the Administration in the reorganization. The estimated cost of the information technology transition is about \$500,000 annually for three years.

The reorganization will require 57 positions to be redirected for key management and administrative functions in the DPH and the Department of Health Care Services. The cost for the 57 management and administrative positions is about \$5 million (total funds). These redirected positions will be used for the: (1) Director of DPH and one of the Chief Deputies; (2) Deputy Directors and support staff for the Office of Legal Services, Office of Civil Rights, Office of Public Affairs, Office of Legislative Affairs, Administration Division, and Information Technology Services Division; and (3) management staff for Internal Audits, Financial Management, Personnel Management, and Information Technology Services.

- Governor Substantially Increases Fees Paid by Health Care Providers for Licensing and Certification (L&C) Purposes.** The Administration proposes to substantially increase the fees paid by health care providers to be licensed and certified by the DPH for proposed savings of \$7.2 million (General Fund) in 2007-08. This proposal is contrary to the agreement crafted through the Budget Act of 2006 which provided some General Fund support to the L&C division in an effort to provide a three-year transition to a fully fee supported program.

A key aspect of this agreement last year was the acknowledgement that the existing L&C division within the DPH was woefully under staffed and not meeting standards for ensuring patient safety and medical quality, including not responding to complaints at nursing homes on a timely basis. As such, about 150 positions were added to the division to commence with numerous improvements. The L&C division is making considerable progress, but it is acknowledged that more work needs to be done, as referenced by the additional budget requests noted below.

The L&C division is in transition for making improvements but many health care providers who must rely on the DPH to operate their businesses are not receiving a service that meets their needs. For example, legislation enacted several years ago to streamline the licensing and certification process for California’s 600 community clinics has not been fully implemented. Other examples exist as well. Therefore, to have the program fully fee supported places an undue burden on many health care providers.

It is not yet known how high the proposed fee increase will be since the Administration needs to provide the Legislature with a full report on the proposed increases by February 1. However, preliminary estimates regarding a portion of the proposed fee increases are as follows:

| Type of Facility (Estimate—impact not fully known) | Existing L&C Fee | Governor’s Proposed Fee | Governor’s Increase |
|--|---------------------------------|------------------------------------|--|
| Community & Primary Care Clinics | \$600 | \$2,440 | \$1,840 306 percent increase |
| Hospice Care | \$1,000 | \$2,880 | \$1,880 188 percent increase |
| Psychology Clinics | \$600 | \$2,440 | \$1,840 306 percent increase |
| Surgical Clinics | \$1,500 | \$2,440 | \$940 63 percent increase |
| Rehabilitation Clinics | \$500 | \$2,440 | \$1,980 388 percent increase |
| Kidney Dialysis Clinics | \$1,500 | \$2,440 | \$940 63 percent increase |
| Skilled Nursing Facilities | \$203 per bed | \$346 per bed | \$143 per bed 70 percent increase |
| Intermediate Care Facility for Developmentally Disabled—H and N | \$1,000 per facility | \$686 per bed (usually 6 beds) | \$3,116 per facility 311 percent increase |
| Intermediate Care Facility for Developmentally Disabled | \$592 per facility | \$686 per bed (usually 6 beds) | \$3,524 per facility 595 percent increase |

- **Implementation of Senate Bill 1312 (Alquist), Statutes of 2006.** An increase of \$2.5 million (L&C Fund) to support 16 positions is proposed to implement this legislation which requires surveys and inspections for compliance with state standards to the extent that state standards exceed federal law, and provide greater protection to residents of long-term care facilities. In addition, the Administration is proposing trailer bill language to limit the scope of the inspections. This language has not yet been received.
- **Implementation of Senate Bill 1301 (Alquist), Statutes of 2006.** An increase of \$7.2 million (L&C Fund) to support 43 positions is proposed to implement this legislation related to the reporting of and follow-up on adverse events in hospitals (27 specific types of events). This increase also includes \$315,000 to modify the L&C website in order to display the outcome of inspections, investigations, compliance histories and related items in health care facilities.
- **Request for Legal Staff in Support of Increased Licensing and Certification (L&C) Enforcement.** The DPH is seeking an increase of \$711,000 (\$355,000 L&C Fund) to support 6.5 positions to handle anticipated increased workload associated with enforcement and disciplinary actions against licensees who are found to be in violation of L&C standards.
- **Implementation of Senate Bill 739 (Speier), Statutes of 2006—Healthcare Associated Infections Program.** An increase of \$2 million (\$1.6 million General Fund and \$400,000 Licensing and Certification Fund) is proposed to support 14 positions and various contracts to implement SB 739 which requires the establishment of a Healthcare Associated Infection Program. This legislation requires the DPH to implement a healthcare associated infection surveillance and prevention program, investigate the development of electronic reporting, adopt new administrative regulations and evaluate the compliance of facilities with policies and procedures to prevent healthcare associated infections. In addition, the DPH must appoint an Advisory Committee that will make recommendations for the prevention and reporting of these infections.
- **Implementation of Senate Bill 1379 (Perata), Statutes of 2006—CA Environmental Contaminant Biomonitoring Program.** A total of \$1.5 million (General Fund) is proposed to begin the planning process that will develop this comprehensive Biomonitoring Program. Of this total amount, \$1.2 million (General Fund) is proposed for the DPH. The DPH funds are to support three positions at the DPH and to contract with the federal Centers for Disease (CDC) at a cost of \$847,000. The federal CDC is to assist in designing the sampling program and study architecture necessary to provide a strong scientific foundation for the program.
- **Proposed Reduction of \$5.6 million to HIV Education and Prevention Services.** The Governor proposes to reduce by \$5.6 million (General Fund) the amount provided to local health jurisdictions to provide education and prevention services focused on mitigating the spread of HIV/AIDS. Total expenditures for these services are proposed to be \$32.2 million (\$24.9 million General Fund).
- **AIDS Drug Assistance Program Funded at Current Level.** The Governor proposes no adjustments to the AIDS Drug Assistance Program for 2007-08. Existing funding for this program is \$299.4 million (\$107.6 million General Fund, \$100.9 million federal grant funds and \$90.8 million AIDS Drug Rebate Fund) to serve about 25,000 clients.

- **Local Assistance Funding for Name-Based HIV Reporting Activities.** An increase of \$2 million (General Fund) is proposed to provide an accelerated HIV reporting effort in the 62 local health jurisdictions as directed by SB 699 (Soto), Statutes of 2006. The Administration states it is their intent to provide this additional funding for three fiscal years.

According to the DPH, the \$2 million would be allocated to the top 11 counties with the highest number of reported non-name code HIV cases and cumulative AIDS cases in the HIV/AIDS case registry. The funds would be provided as an augmentation to each of these counties' baseline surveillance budget. Surveillance funding for the remaining 47 counties would remain the same.

SB 699 makes HIV infection reportable by name and requires health care providers and laboratories to provide this information to local health jurisdictions. It also requires local health jurisdictions to report unduplicated HIV cases to the DPH. Previously, HIV infections were reported to the state using a non-name code instead of a patient's name.

SB 699 was the result of changes at the federal level which would affect California's receipt of federal Ryan White CARE Act funds. Specifically, the federal government declared that HIV data would not be accepted unless it was reported by name. Starting in federal fiscal year 2007, HIV counts in addition to AIDS counts will be used to allocate Ryan White CARE Act moneys to states. California presently receives about \$122 million in Ryan White CARE Act Title II funds. Without the implementation of SB 699, California is at risk of losing about \$50 million in these federal funds annually. An accelerated HIV reporting effort will assist California in avoiding federal grant reductions.

According to the department, each local health jurisdiction's HIV/AIDS surveillance program will be responsible for developing a performance measured plan based on state requirements and specific federal guidelines. The department will provide technical training where needed and will monitor the progress of implementation.

- **Emergency Response to Foodborne Illness.** An increase of \$2.1 million (General Fund) is proposed to support 9 new positions and to fund two contracts to investigate foodborne illnesses and outbreaks, and enhance the state's capability to test food and environmental samples for investigation purposes. The nine positions would be used to establish three teams of investigators, scientists, laboratorians, and administrative support to provide emergency outbreak investigation capacity for the state and provide support to the 62 local health jurisdictions. Presently there is one team of two investigators and one scientist that is used by the department for investigations of foodborne illness.

Of the total amount, \$670,000 would be used for various contracts. Specifically, \$170,000 would be used for communications system operations and \$500,000 for research grant awards. The communications system operations would be allocated as follows: (1) \$90,000 to contract for satellite imagery, aerial photography and geographic information system consultant to provide mapping for the emergency response teams to conduct environmental investigation or sampling; (2) \$50,000 to contract for an early warning message system to send health alerts and recall notices to manufacturers, retailers, local health jurisdictions and other entities; and (3) \$30,000 to contract for satellite communications and internet access to provide rapid communications at remote locations during investigations.

The \$500,000 in proposed research funds would be used to fund two to four proposals from researchers to: (1) identify sources and vectors for E. coli in the environment and factors that affect contamination of leafy greens; (2) identify mitigation strategies and technologies from planting to retail to reduce the frequency of E. coli in leafy greens; (3) assess the impact of transport practices and conditions on the survival and growth of E. coli on leafy greens; and (4) determine the ability of E. coli and other pathogens to survive composting processes as currently conducted and the potential for multiplication of the surviving pathogens in composted materials. The Administration states that the \$500,000 for research would be used to leverage additional matching research funds from the leafy greens industry.

- **Meat and Poultry Recalls—Implementation of SB 611 (Speier), Statutes of 2006.** An augmentation of \$389,000 (General Fund) is proposed to support three positions to implement SB 611. Specifically, SB 611 does the following: (1) requires meat or poultry suppliers, distributors, brokers, or processors to immediately notify the DPH and their customers when they have or will have recalled products that meet federal USDA criteria for a Class I or Class II recall; (2) requires these entities to provide the DPH with an electronic list of all their customers that have or will receive any product subject to recall; (3) provides for the DPH to notify local health jurisdictions of the recalled product; and (4) provides for the local health jurisdictions to notify the public.

The requested positions would coordinate with local health agencies, document and track recalls, and provide recall effectiveness checks on recalled commodities. In addition, these positions would provide training to local health staff and industry representatives regarding proper procedures for the follow-up and evaluation of recalls.

- **Inspections of Low-Acid Canned Food to Prevent Botulism.** An increase of \$326,000 (Cannery Inspection Fund) to support three positions is requested to inspect low acid canned food canneries to ensure that these products are produced without botulism toxin contamination. The DPH states that these positions are necessary due to increased workload with the addition of ten new canneries since 2005 and with seven additional cannery license applications underway.
- **Prenatal Screening for Birth Defects—Senate Bill 1555 (Speier), Statutes of 2006.** An increase of \$4.6 million (special funds) is provided to fund 6 positions and various activities associated with the implementation of SB 1555 which requires improved prenatal screening and additional activities regarding the causes of birth defects. In addition, an increase of \$10 million (\$5 million General Fund) is provided in the Medi-Cal Program to fund the cost of this new screen for pregnant women enrolled in Medi-Cal.
- **Local Assistance Funding for the Prenatal Screening Program.** Total expenditures of \$47.6 million (Genetic Disease Testing Fund) are proposed for an increase of \$15.8 million (Genetic Disease Testing Fund) for 2007-08. This increase is to comply with the statutory requirements of SB 1555, Statutes of 2006, which expanded the screening panel provided under the program. The legislation increased fees by \$40 to support the expanded screening panel of prenatal tests.
- **Local Assistance Funding for the Newborn Screening Program.** Total expenditures of \$45.9 million (Genetic Disease Testing Fund) are proposed for an increase of \$1 million (Genetic Disease Testing Fund) for 2007-08. Screening for Cystic Fibrosis and Biotinidase

Deficiency were added to the program through the Omnibus Health Trailer legislation of 2006 and these expenditures are reflected in the budget. A \$17.75 fee increase was instituted on August 1, 2006 to support this expansion. (The fee is now \$45.)

- **Reproductive Health and Research—Implementation of SB 1260 (Ortiz), Statutes of 2006.** An increase of \$208,000 (General Fund) is provided to fund one position within the department and to contract for services to implement SB 1260 which pertains to the oversight of human embryonic stem cell research in California.
- **Expand the Women, Infants and Children (WIC) Supplemental Nutrition Program's Breastfeeding Peer Counseling Program.** The budget proposes to redirect \$426,000 (federal funds) from operating expenses to fund five new positions within the WIC Program to expand the breastfeeding peer counseling program from a pilot project to all 82 WIC agencies statewide. The DPH states that by expanding this program, more women will breast feed their infants and California will be able to maximize the use of an estimated \$65 million in surplus federal funds available for expenditure in the state budget year.
- **Child Nutrition and WIC Reauthorization Act.** A redirection of \$338,000 (federal funds) from operating expenses is proposed to fund four new positions within the WIC Program to implement new requirements of the federal Child Nutrition and WIC Reauthorization Act. Specifically, these resources would be used to implement a vendor peer group system, competitive price criteria, and allowable reimbursement levels to ensure that the WIC Program pays vendors competitive prices for supplemental WIC foods.
- **Prostate Cancer.** The budget continues \$3.5 million (General Fund) for the treatment of Prostate Cancer (through the Improving Access, Counseling and Treatment for Californians with Prostate Cancer—IMPACT) pursuant to Chapter 442 (Ortiz), Statutes of 2005.
- **Stop Tobacco Access to Kids Enforcement (STAKE) in the City of Los Angeles.** The budget proposes to establish five positions within existing resources to conduct compliance checks of tobacco retailers to reduce illegal tobacco product sales to minors in the City of Los Angeles. Federal law requires that California must decrease the ability for minors to purchase tobacco products and maintain a statewide sales rate to minors of less than 20 percent in order to maintain the receipt of federal Substance Abuse and Prevention Treatment Block Grant funds. Up to 40 percent of California's grant funds or about \$100 million (federal funds) could be in jeopardy if the statewide sales rate rises beyond the 20 percent.

Presently California's rate is 13.2 percent. However, the City of Los Angeles has a sales rate to minors of over 35 percent. Therefore, the DPH is proposing to focus additional efforts there to mitigate the high rate.

4270 California Medical Assistance Commission

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

Major Commission activities include the following:

- Negotiating contracts for Medi-Cal fee-for-service hospital inpatient services statewide;
- Negotiating contracts with private hospitals for supplemental payments under special programs available to contract hospitals under the Medi-Cal Program; and
- Approving contracts for health care services to Medi-Cal enrollees with County Organized Health Care Systems and participating Geographic Managed Care Plans.

Summary of Funding. The budget proposes total expenditures of \$2.8 million (\$1.4 million General Fund) to support 22 positions and reflects no policy changes for 2007-08.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|----------------|----------------|-------------|------------|
| CA Medical Assistance Commission | \$2,720 | \$2,750 | \$30 | 1.1 |
| Funding Source | | | | |
| General Fund | \$1,376 | \$1,391 | \$15 | 1.1 |
| Reimbursements (from the DHCS) | \$1,344 | \$1,359 | \$15 | 1.0 |
| Total Expenditures | \$2,720 | \$2,750 | \$30 | 1.1 |

4280 Managed Risk Medical Insurance Board

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

Summary of Funding. The budget proposes total expenditures of almost \$1.3 billion (\$394.7 million General Fund, \$776.5 million Federal Trust Fund and \$111.1 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. This funding level represents a net increase of \$82.5 million (\$32.6 million General Fund) over the revised current-year. The net increase is due to changes in the Healthy Families Program and Access for Infants and Mothers (AIM) Program as discussed below.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|---|--------------------|--------------------|------------------|-----------------|
| Program Source | | | | |
| Major Risk Medical Insurance Program (including state support) | \$44,652 | \$39,808 | -\$4,844 | 10.8 |
| Access for Infants & Mother (including state support) | \$128,403 | \$139,677 | \$11,274 | 8.8 |
| Healthy Families Program (including state support) | \$1,023,688 | \$1,099,685 | \$75,997 | 7.4 |
| County Health Initiative Program | \$3,061 | \$3,168 | 107 | 3.5 |
| Totals Expenditures | \$1,199,804 | \$1,282,338 | \$82,534 | 6.9 |
| Fund Sources | | | | |
| General Fund | \$362,020 | \$394,669 | \$32,649 | 9.0 |
| Federal Funds | \$717,402 | \$776,529 | \$59,127 | 8.2 |
| Other Funds | \$120,382 | \$111,140 | -\$9,242 | 7.7 |
| Total Funds | \$1,199,804 | \$1,282,338 | \$82,534 | 6.9 |

Highlights for the Healthy Families Program

Background. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

Families pay a monthly premium and copayments, as applicable. The amount paid varies according to a family's income and the health plan selected. Families with incomes between 200 percent and 250 percent of poverty pay \$12 to \$15 per child per month. The family maximum per month is \$45 for these families. Families below 200 percent of poverty pay premiums ranging from \$4 to \$9 per child per month, up to a family maximum of \$27 per month. Families

that select a health plan designated as a “community provider plan” receive a \$3 discount per child on their monthly premiums.

In addition, infants born to mothers enrolled in the Access for Infants and Mothers (AIM) Program (200 percent of poverty to 300 percent of poverty) are immediately enrolled into the Healthy Families Program and can remain under the HFP until at least the age of two. If these AIM to HFP two-year olds have families that exceed the 250 percent income level, then they would no longer be eligible to remain in the HFP.

Summary of Funding and Enrollment. A total of \$1.1 billion (\$392.2 million General Fund, \$689.5 million Federal Title XXI Funds, \$2.2 million Proposition 99 Funds, and \$6.4 million in reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of \$75.8 million (\$32.5 million General Fund), or 9 percent over the revised current-year.

The budget assumes a total enrollment of 915,598 children as of June 30, 2008, an increase of 73,870 children over the revised current year enrollment level, or a growth rate of 8.8 percent.

This projected enrollment level reflects growth primarily attributable to: (1) restoration of the Certified Application Assistance Program and related outreach and enrollment changes contained in the Budget Act of 2006; and (2) implementation of Senate Bill 437 (Escutia), Statutes of 2006, which provides for a self-certification process at annual eligibility review.

Total enrollment is summarized by population segments below:

- Children in families up to 200 percent of poverty 607,818 children
- Children in families between 201 to 250 percent of poverty 193,177 children
- Children in families who are legal immigrants 15,810 children
- Access for Infants and Mothers (AIM)-Linked Infants 16,476 children
- New children due to changes in Certified Application Assistance 21,908 children
- New children due to various modifications in the enrollment process 47,173 children
- New children due to implementation of SB 437, Statutes of 2006 13,237 children

Summary of Governor’s Reductions and Augmentations

- **Continues Use of Certified Application Assistance Fees to Increase HFP Enrollment as Contained in the Budget Act of 2006.** The budget provides continued funding for the Certified Application Assistance (CAA) Program by providing a total of \$9.1 million (\$3.5 million General Fund) within the HFP for CAA payments. Specifically, under the CAA approach, a \$50 fee is paid for each person successfully enrolled in the HFP or Medi-Cal, and a \$25 fee is paid for each annual eligibility re-determination enrollment. In addition, CAAs receive an additional \$10 incentive payment for those applications submitted by them which use the online Health-e-App automated process.

As noted above, it is anticipated that an additional 21,908 children will be enrolled into the HFP due to CAA Program enrollment and outreach activities. An increase of \$20.9 million (\$7.6 million General Fund) is provided for this caseload increase.

- **Implementation of Senate Bill 437 (Escutia), Statutes of 2006, to Provide Self-Certification.** For the HFP, three adjustments are proposed for implementation. First, an increase of \$426,000 (\$149,000 General Fund) is proposed to fund four positions to implement: (1) a self-certification process; (2) a presumptive eligibility process; and (3) a gateway from the Women, Infant, and Children's Supplemental Food (WIC) Program to the HFP. Second, an increase of \$5.5 million (\$2 million General Fund) is provided to fund an increase in caseload of 13,237 children attributable to a January 1, 2008 implementation of SB 437 requirements. Third, an increase of \$600,000 (\$210,000 General Fund) is provided for systems changes required of the Administrative Vendor to implement the new electronic processes.
- **Rate Increase for Plans Serving Infants.** Payments to health, dental and vision plans serving infants aged 0 to 1 years old whose family income is between 200 percent and 250 percent of poverty was increased from \$222.80 per infant per month to \$236.22.
- **Continues County Health Initiative Matching (CHIM) Fund Program.** The budget proposes a total of \$2.7 million (\$943,000 County Health Initiative Matching Fund and \$1.8 million federal funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001. This funding level supports a total of 2,074 children in the pilot counties of Santa Clara, San Mateo, San Francisco and Santa Cruz.

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

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

Highlights for the Access for Infants and Mothers Program

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

As of July 1, 2004, infants born to AIM women are automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1, 2005 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the

AIM mother was enrolled prior to that date. Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.

A total of \$138.7 million (\$60.7 million Perinatal Insurance Fund and \$78 million federal funds) is proposed for AIM in 2007-08. A total of 13,912 women are expected to utilize AIM. This funding level reflects an increase of \$11.2 million (total funds) over the revised current-year. This increase is due to caseload increases as well as an increase in the capitation payment made to health plans (from \$9,530 per woman per month to \$9,541 per woman per month).

Highlights for the Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of \$40 million (Major Risk Medical Insurance Fund) to serve about 8,700 individuals. The budget also proposes to redirect \$200,000 from direct services to fund two positions to provide more administrative oversight of the program.

4300 Department of Developmental Services

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

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

Summary of Funding. The budget proposes total expenditures of \$4.3 billion (\$2.6 billion General Fund), for a *net* increase of \$233 million (\$36.5 million General Fund) over the revised current year for the developmental services system. The proposed augmentation represents an increase of 5.7 percent over the revised current year.

In addition, the revised 2006-07 budget proposes a \$106.4 million (\$71.2 million General Fund) increase from the enacted Budget to address adjustments for employee compensation, caseload and service utilization as well as the effect of the change in the minimum wage.

Of the total amount proposed for 2007-08, \$3.6 billion (\$2.2 billion General Fund) is for services provided in the community through Regional Centers, \$712.3 million (\$393.6 million General

Fund) is for support of the state Developmental Centers, and \$40.1 million (\$26.4 million General Fund) is for state headquarters administration.

| Summary of Expenditures | | | | |
|--|--------------------|--------------------|------------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Program Source | | | | |
| Community Services Program | \$3,314,749 | \$3,566,049 | \$251,300 | 7.6 |
| Developmental Centers | \$730,629 | \$712,268 | -\$18,361 | -2.5 |
| State Administration | \$40,084 | \$40,106 | 22 | 0.1 |
| Total, Program Source | \$4,085,462 | \$4,318,423 | \$232,961 | 5.7 |
| Funding Source | | | | |
| General Fund | \$2,572,111 | \$2,608,617 | \$36,506 | 1.4 |
| Federal Funds | \$55,144 | \$55,411 | \$267 | 3.6 |
| Public Transportation Account | \$0 | \$143,993 | \$143,993 | 100 |
| Program Development Fund | \$2,019 | \$2,012 | -\$7 | -0.3 |
| Lottery Education Fund | \$489 | \$489 | \$0 | 0 |
| Developmental Disabilities Services | \$41 | \$0 | -\$41 | -100 |
| Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management | \$1,455,658 | \$1,507,901 | | |
| Total Expenditures | \$4,085,462 | \$4,318,423 | \$232,961 | 5.7 |

Highlights for Community-Based Services Provided Through Regional Centers

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

Summary of Funding and Consumer Population. The budget proposes expenditures of \$3.6 billion (\$2.2 billion General Fund) for community-based services, provided via the RCs, to serve a total of 220,600 consumers living in the community. This funding level includes \$501 million for RC operations and \$3.1 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of \$215.3 million (\$48.5 million General Fund), or 7.6 percent, over the revised current year. The General Fund adjustment represents an increase of 2.3 percent. Most of the increase is attributable to: (1) an increase in the utilization of services by consumers; (2) an increase of 8,445 consumers for 2007-08; (3) adjustments for the minimum wage increases which are to occur; and (4) an increase for RC operations.

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

- Significant increase in the diagnosed cases of autism, the causes of which are not fully understood.
- Over 57 percent of the RC population is under 22 years of age. It is likely that medical professionals are identifying more developmentally disabled individuals at an earlier age.
- Over 70 percent of consumers now reside in the home of a parent or guardian, as compared to only 64 percent in 1994.
- Decreases continued in the proportion of consumers living in community care settings (i.e., out-of-home placement) and State Developmental Centers. Specifically, about 13 percent of consumers now live in a community care setting compared to 18 percent in 1994.
- Hispanics remain the fastest growing segment of the population increasing from about 24 percent in 1994 to about 32 percent in 2005. Over this same period, the white segment of the population decreased from 49 percent to about 42 percent.
- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities.

Summary of Governor's Key Reductions and Augmentations for Regional Centers

- **Regional Center Population and Service Utilization Update.** An increase of \$223.9 million (\$42.7 million General Fund) is proposed to support population increases and service utilization needs. A total of 220,600 consumers are estimated for 2007-08, an increase of 8,445 consumers over the revised current-year.
- **Effect of New Minimum Wage Adjustments on Community-Based Programs.** The fiscal effect of the minimum wage adjustments, effective as of January 1, 2007 and January 1, 2008, are estimated to be \$26.4 million (\$18.3 million General Fund) for the revised current-year, and \$71.4 million (\$49.8 million General Fund) for 2007-08. These wage adjustments impact entry-level direct care staff that provide services in community care facilities, day and work activity programs, respite care, and supported living arrangements.
- **One-Time Fund Shift to Public Transportation Account to Save General Fund.** The budget proposes to use \$144 million in Public Transportation Account funding, on a one-time only basis, in lieu of General Fund support to fund certain transportation services provided through the Regional Centers. These transportation services include those provided by public transit, specialized transportation companies, service providers and families.
- **Proposed Increases in Federal Reimbursements for ICF-DD Facilities.** The budget assumes the receipt of increased federal funds through an amendment to California's Medi-Cal Program to include payment for Day Programs and non-medical transportation services for Regional Center consumers residing in Intermediate Care Facilities for the Developmentally Disabled (ICF-DD facilities). A savings of \$44 million General Fund is assumed for this proposal.
- **Agnews Developmental Center Closure Continuation.** The budget proposes a *net* increase of \$40.3 million (\$32.3 million General Fund) over the revised current-year for both the Regional Center *and* Developmental Center systems to affect the planned closure of Agnews Developmental Center by June 2008. This consists of a decrease of \$10.4 million (\$5.6 million General Fund) in the Developmental Centers and an increase of \$50.7 million (\$37.9

million General Fund) for the Regional Centers. It is anticipated that 145 consumers will transition from Agnews into the community. The department has updated their Agnews Closure Plan and has provided it to the Legislature.

- **Continues Expansion of Autistic Spectrum Disorders Initiative as Initiated in the Budget Act of 2006.** An increase of \$1.7 million (total funds) is provided for RC Operations to reflect the full year cost of providing additional staff at the RCs for various activities related to serving individuals with a diagnosis of Autism.

Highlights for the State Developmental Centers

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

Summary of Funding and Enrollment. The budget proposes expenditures of \$712.3 million (\$393.6 million General Fund), excluding state support, to serve 2,589 residents who reside in the state DC system. This reflects a caseload decrease of 245 residents or 8.6 percent.

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

- **Developmental Center Resident Population.** A reduction of \$30.5 million (\$9.6 million General Fund) is proposed to reflect a projected decline of 245 residents in the Developmental Center system (from 2,834 residents in 2006-07 to 2,589 residents in 2007-08).
- **Closure of Agnews Developmental Center.** The DDS provided the Legislature with its updated closure plan on January 10, 2007 as required. This plan has been updated for the past three years in order to provide up-to-date information on the closure of this facility.

The budget provides an overall net increase to the developmental services system of \$40.3 million (\$32.3 million General Fund) due to the anticipated transition of 145 consumers from the Agnews Developmental Center into the community. The DC budget decreases by \$10.4 million (\$5.6 million General Fund), reflecting reduced staffing costs associated with the reduction in the number of Agnews residents. The RC budget is projected to increase by \$50.7 million (\$37.9 million General Fund) for the costs of providing services to consumers in the community.

- **Porterville Developmental Center Intensive Behavioral Treatment Residence.** An increase of \$1.1 million (General Fund) is proposed to fund 5 new positions and equipment expenditures to begin activation of the 96-bed intensive behavioral treatment residence at Porterville as of January 1, 2008.
- **Employee Compensation and Retirement Contributions.** The budget contains an increase of \$31.5 million (\$18.3 million General Fund) for 2006-07 and \$33.1 million (\$19.2 million

General Fund) in 2007-08 to reflect revised employee compensation, health and retirement benefits.

4440 Department of Mental Health

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

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

Specifically, counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available; (2) implementation of the Mental Health Services Act of 2004; (3) the Medi-Cal Mental Health Managed Care Program; (4) the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for adolescents; and (5) necessary mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

Governor's Budget. The budget proposes expenditures of \$4.8 billion (\$1.9 billion General Fund) for mental health services, an increase of \$652 million (decrease of \$217.2 million General Fund) from the revised current-year budget. It should be noted that the decrease of \$217.2 million in General Fund support compared to the revised current-year is due to the large number of increases in the revised current-year budget adjusted after the enactment of the Budget Act of 2006. (These figures exclude proposed capital outlay expenditures.)

Of the total amount, \$1.2 billion (\$1.1 billion General Fund) and 10,900 positions are proposed to operate the State Hospital system. The remaining \$3.4 billion (\$762.8 million General Fund) is for community-based mental health programs.

In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of \$13.7 million (\$6.2 million General Fund and \$7.5 million Public Building Construction Fund) for 2007-08. These funds would be used for: (1) the construction of the main kitchen and satellite kitchens at Metropolitan, Napa and Patton state hospitals; (2) a study of the kitchen facilities at Atascadero State Hospital; (3) preliminary plans and working drawings for fencing of secure beds at Metropolitan State Hospital; (4) the replacement of the bulk liquid oxygen storage tank at Napa State Hospital; and (5) upgrade the telecommunications infrastructure at Metropolitan State Hospital.

Further, it is estimated that almost \$1.3 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals. The total amount reflects an increase of \$90.4 million (County Realignment Funds) or almost 7.4 percent over the anticipated current-year level.

| Summary of Expenditures | | | | |
|---|--------------------|--------------------|------------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Program Source | | | | |
| Community Services Program | \$2,934,452 | \$3,489,904 | \$555,452 | 18.9 |
| Long Term Care Services | \$1,105,049 | \$1,233,828 | \$128,779 | 11.6 |
| State Mandated Local Programs | \$66,000 | 0 | -66,000 | 100 |
| Subtotal | \$4,105,501 | \$4,723,732 | \$618,231 | 15 |
| Capital Outlay for State Hospitals | \$42,629 | \$13,698 | -\$28,931 | -67.8 |
| Total, Program Source | \$4,148,130 | \$4,737,430 | \$589,300 | 14.2 |
| Funding Source | | | | |
| General Fund (includes Capital Outlay) | \$2,131,741 | \$1,904,283 | -\$227,458 | -10.7 |
| General Fund, Proposition 98 | \$13,400 | \$18,400 | \$5,000 | 37.3 |
| Mental Health Services Fund (Proposition 63 of 2004) | \$515,826 | \$1,509,954 | \$994,128 | 192 |
| Federal Funds | \$63,292 | \$63,334 | 42 | -- |
| Reimbursements | \$1,380,526 | \$1,232,344 | -\$148,182 | -10.7 |
| Traumatic Brain Injury Fund | \$1,211 | \$1,165 | -\$46 | -3.8 |
| CA State Lottery Education Fund | \$95 | \$95 | 0 | 0 |
| Licensing & Certification Fund | \$357 | \$357 | 0 | 0 |
| Public Buildings Construction Fund | \$41,682 | \$7,498 | -\$34,184 | -82 |
| Total Department | \$4,148,130 | \$4,737,430 | \$589,300 | 14.2 |

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of \$3.4 billion (\$762.9 million General Fund) for community-based local assistance, including the Mental Health Services Act funding, Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, applicable state support, the Conditional Release Program and related community-based programs.

This reflects a *net* increase of \$562 million (total funds) compared to the revised current-year. This *net* increase is primarily due to: (1) an increase of \$187.8 million (\$92.7 million General Fund) in the EPSDT Program; (2) an increase in expenditures of \$994.1 million for services funded using the Mental Health Services Fund; (3) an increase of \$9.8 million (total funds) for the Healthy Families Program; (4) an increase of \$8.3 million (total funds) for Mental Health Managed Care; (5) an increase of \$5 million (General Fund-Proposition 98) for the Early Mental Health Initiative Program; and (6) the elimination of the Integrated Services for Homeless Adults with Serious Mental Illness Program for a reduction of \$54.9 million (General Fund).

County Realignment Revenues. It is estimated that \$1.318 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. The total amount reflects an increase of \$90.4 million (County Realignment Funds) or about 7.4 percent over the estimated current-year level.

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

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

- **Mental Health Services Act (Proposition 63).** In November 2004, voters approved this Proposition to provide a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds \$1 million annually.

The total resources available in the Mental Health Services Account are \$3 billion for 2006-07 and \$4.3 billion for 2007-08. Of this amount, the budget proposes total expenditures of \$517.9 million for 2006-07 and \$1.5 billion for 2007-08, most of which is for local assistance. A report from the DMH regarding the implementation of the Act is expected shortly. The Mental Health Services Account is a special fund which is continuously appropriated and therefore is not contingent upon an annual Budget Act appropriation.

- **Early and Periodic Screening and Treatment (EPSDT) Program.** The budget proposes a series of adjustments resulting in an increase of \$302.7 million (General Fund) for past year deficiencies and an increase of \$92.7 million (General Fund) for 2007-08. To-date, the Legislature has not received sufficiently detailed information to adequately evaluate the prior year deficiency requests. These issues will be discussed through the budget process.
- **Governor Proposes to Eliminate the Integrated Services for Homeless Adults with Serious Mental Illness Program.** The Governor proposes to eliminate this program, for a reduction of \$54.9 million (General Fund), which provides comprehensive services to individuals who are homeless or at risk of homelessness and have a serious mental illness. The Administration contends that the significant increases in the EPSDT Program, as noted above, allow for the elimination of this program while still meeting the Proposition 63—Mental Health Services Act—maintenance of effort requirements.
- **Adjustments for the Mental Health Managed Care Program.** A total of \$462 million (\$235.1 million General Fund) is proposed for 2007-08 which reflects an increase of \$8.3 million (\$4.2 million General Fund) over the current year. Most of this increase is attributable to additional caseload. It should be noted that the Governor did not provide a medical cost-of-living-adjustment as permitted in statute. The last time this adjustment was provided was in the Budget Act of 2000.
- **Adjustments for the Healthy Families Program.** Based on updated actual data, an increase of \$9.8 million (\$9.2 million in reimbursements from County Realignment Funds

and \$537,000 General) is proposed to provide supplemental mental health services to children enrolled in the Healthy Families Program as required by existing law. This increase is primarily due to caseload changes.

- **Augmentation for Early Mental Health Initiative.** An increase of \$5 million (General Fund-Proposition 98) is proposed to expand the Early Mental Health Initiative to more classrooms.
- **Mental Health Services to Special Education Pupils (AB 3632).** The budget provides \$52 million (General Fund) within the DMH appropriation for mental health services provided to children enrolled in special education as directed by AB 3632, Statutes of 1984 and as required by the federal Individuals with Disabilities Education Act (IDEA). Additional funding for related services is contained within the Department of Education's appropriation.
- **Proposed Increase for Personnel and Labor Staff at Headquarters.** An augmentation of \$470,000 (\$362,000 General Fund) is requested to fund 5.5 positions in the personnel and labor section at DMH headquarters to facilitate administrative issues pertaining to the State Hospitals and Mental Health Services Act program, including all aspects of the personnel process.

Highlights for the State Hospitals

Summary of Funding for the State Hospitals. Total expenditures of \$1.2 billion (\$1.1 billion General Fund) and 10,900 positions are proposed to operate the five State Hospitals, which serve a projected total population of 6,544 patients, for 2007-08. This reflects an increase of \$114.8 million (\$88.3 million General Fund) and 1,020 positions from the revised current-year. These proposed increases are primarily due to: (1) implementation of Proposition 83—Jessica's Law—and Senate Bill 1128 (Alquist), Statutes of 2006, both pertaining to sex offenders; (2) continued implementation of a settlement agreement with the federal government regarding the Civil Rights for Institutionalized Persons Act (CRIPA); and (3) continued implementation of the *Coleman* Court decision.

Summary of Projected Patient Population at the State Hospitals. The DMH estimates a patient population of 6,544 patients for 2007-08 (as of June 30, 2008) at the five State Hospitals—Napa, Coalinga, Metropolitan, Patton and Atascadero. This represents a net increase of 468 patients, primarily patients designated as Sexually Violent Predators (SVP), over the revised current-year.

Over 91 percent of the patients are admitted under a penal code-related commitment, such as Mentally Disordered Offender, Not Guilty by Reason of Insanity, Incompetent to Stand Trial, and SVP. All penal code-related patients are funded exclusively with General Fund support. The remaining 19 percent of the patients are civil commitments who have been placed at the State Hospitals by the counties as provided for under the Lanterman-Petris-Short Act. County commitments are funded using County Realignment Funds.

The proposed patient caseload for each State Hospital is as follows:

| Hospital Summary | Budget Act of 2006 (6/30/2007) | Revised 2006-07 (6/30/2007) | Proposed Patient Growth for 2007-08 | Proposed 2007-08 Population (6/30/08) |
|------------------|--------------------------------|-----------------------------------|-------------------------------------|---------------------------------------|
| Atascadero | 1,295 | 1,361 | 7 | 1,368 |
| Coalinga | 717 | 922 | 440 | 1,362 |
| Metropolitan | 667 | 667 | 21 | 688 |
| Napa | 1,195 | 1,195 | 0 | 1,195 |
| Patton | 1,525 | 1,525 | 0 | 1,525 |
| Vacaville | 270 | 270 | 0 | 270 |
| Salinas | 136 | 136 | 0 | 136 |
| TOTALS | 5,806 | 6,076 (271 more) | 468 | 6,544 |

Summary of Governor’s Reductions and Augmentations for the State Hospitals

- **Significant Patient Population Changes at the State Hospitals.** A net increase of \$81.3 million (\$80.7 million General Fund) is proposed for various patient population changes. These net adjustments reflect an increase of 922 staff positions and an increase of 468 patients as compared with the revised current-year. The key adjustments are noted below:
 - ✓ **Projected Population Affect of Proposition 83 of 2006--Jessica’s Law and SB 1128 (Alquist), Statutes of 2006.** An increase of \$24.1 million (General Fund) and 286 staff is proposed due to a projected increase in Sexually Violent Predator (SVP) commitments. It is estimated that these new laws will result in an increase of 440 SVPs. The DMH acknowledges that this estimate is on the upper end of the range (i.e., from 49 to 440 patients annually) and may be adjusted at the May Revision.
 - ✓ **Administration’s Technical Error and Proposed Adjustment.** An increase of \$14.8 million (General Fund) and 165 positions are requested for the current-year, and an increase of \$29.6 million (General Fund) and 331 positions are requested for 2007-08, to correct for an error contained in the Governor’s May Revision 2006 budget adjustments. The Administration contends these adjustments are necessary to ensure that the DMH remains in compliance with Level-of-Care staffing ratios required under the Civil Rights for Institutionalized Persons Act (CRIPA).
 - ✓ **Patient Population Adjustments for Baseline Caseload.** A net increase of \$1.1 million (total funds) and 17 staff is proposed to accommodate all other patient population adjustments.
 - ✓ **Continued Activation of Coalinga State Hospital.** An increase of \$5.6 million (General Fund) and 61 positions are proposed for the continued activation of Coalinga State Hospital, specifically the residential units. Coalinga State Hospital is a 1,500 bed facility located adjacent to Pleasant Valley State Prison which admitted its first patients in September 2005. These 61 positions are all for Non-Level-of-Care and were deferred

until 2007-08 due to a slower phase-in. Of the total amount requested, \$500,000 is for hiring staff above minimum salaries and for recruitment and retention.

- ✓ **Operating Expenses for Patient-Driven Needs.** A total increase of \$5.2 million (General Fund), including a “price” adjustment to recognize inflation, is proposed for patient-driven operating expenses including food, drugs and laboratory supplies, and outside medical costs.
- **Patton State Hospital Expanded Police Department.** An augmentation of \$1.7 million (General Fund) and 30 positions is proposed to implement the second phase of the expansion of the Patton State Hospital police department to address issues regarding safety and security associated with the penal code population.
- **Expanded Scope for Sexually Violent Predator (SVP) Evaluations.** Both SB 1128 (Alquist), Statutes of 2006 and Proposition 83 of 2006—Jessica’s Law—expand the criteria of a sex offender to qualify as an SVP. As such, the number of referrals from the Department of Corrections and Rehabilitation (CDCR) to the DMH for screening and evaluation for SVPs is proposed to increase substantially. Specifically, the CDCR estimates that 5,528 cases will be referred to the DMH in the first year of implementation for an 800 percent increase over the number of cases presently evaluated. The budget proposes an increase of \$15.2 million (General Fund) for the revised current year and \$25 million (General Fund) in 2007-08 to account for the increased volume of evaluations to be conducted by private, specialized contractors.
- **Request for Administrative Support for Implementation of Jessica’s Law and SB 1128 (Alquist), Statutes of 2006.** A total of \$4.8 million (General Fund) is proposed to fund 44 positions at DMH headquarters and 8 positions at Coalinga State Hospital for administrative and support positions to implement these two laws relating to SVPs. Specifically, positions are needed to: (1) process and track new cases; (2) oversee psychiatrist contracts for processing of SVP evaluations; (3) provide assistance to the State-Automated Risk Assessment Tool for Sex Offenders Committee; and (4) develop, implement and evaluate a High Risk Sex Offender treatment program along with the CDCR.
- **Coleman Court Salary Adjustment for Co-Located Positions at Vacaville and Salinas Valley Psychiatric Programs.** An augmentation of \$5.5 million (General Fund) is proposed to enable DMH staff to have salary parity with the CA Department of Corrections and Rehabilitation (CDCR) for staff at Salinas Valley and Vacaville Psychiatric Programs that provide treatment to the CDCR inmates. In *Coleman v. Schwarzenegger*, which pertains to access to mental health treatment for inmates, the Special Master has recommended increases in compensation provided to CDCR’s mental health clinicians, including psychiatrists, psychologists, psychiatric social workers, occupational and recreational therapists, RNs, LVNs and medical transcribers, as well as supervisors in all these categories. The proposed DMH augmentations would be for these same classifications in the psychiatric programs located within the prisons.

HUMAN SERVICES

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies, and programs to assist health care delivery systems. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; and (4) health care information. The budget proposes funding for OSHPD in 2007-08 of \$77.5 million (\$5.1 million General Fund), a 4.3 percent increase over the current year.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|---|----------|----------|-----------|----------|
| General Fund | \$5,436 | \$5,122 | -\$314 | -5.8 |
| Federal Trust Fund | 1,235 | 1,235 | 0 | 0.0 |
| Special Funds | 65,316 | 69,562 | 4,246 | 6.5 |
| Reimbursements | 2,253 | 1,538 | -715 | -31.7 |
| Total | \$74,240 | \$77,457 | \$3,217 | 4.3 |

Highlights

- **Continue Logbook Redesign Project.** The budget requests \$2.4 million from the Hospital Building Fund and one position to procure a replacement automation system for its Logbook Database System. This system is used by OSHPD's Facilities Development Division to track health facility construction projects through plan review and construction. Logbook also contains modules to track health facility compliance with SB 1953 and facilitate emergency operations in the event of a natural disaster.
- **Implement Chapter 679, Statutes of 2006 (SB 1661).** The budget requests \$1.4 million from the Hospital Building Fund (\$1.2 million one-time) and three positions to implement SB 1661, which provided general acute care hospitals that meet specified criteria the opportunity to obtain an additional two-year extension of the deadline by which they have to comply with statutory structural and nonstructural seismic safety requirements. SB 1661 requires OSHPD to develop a needed survey, validate reported hospital data, and publish the information on the OSHPD website. The one-time funding would be used by OSHPD to contract for staff to conduct on-site visits to assist hospitals in completing the surveys.
- **Provide Hospital Fair Pricing Policies.** The budget requests \$688,000 from the California Health Planning and Data Fund (\$459,000 one-time) to develop an on-line system to implement Chapter 775, Statutes of 2006 (AB 774). AB 774 requires OSHPD to collect

from each hospital a copy of its charity care policy, discount payment policy, eligibility procedures, review process and application form for financial assistance, and make that information available to the public.

4170 California Department of Aging

The California Department of Aging (CDA) is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve elderly and functionally impaired Californians. The department provides services under: (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The budget proposes \$222 million for 2007-08, a 0.4 percent increase over the current year.

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|--------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| General Fund | \$61,475 | \$62,500 | \$1,025 | 1.7 |
| State HICAP Fund | 2,461 | 2,456 | -5 | 0.2 |
| Federal Trust Fund | 146,911 | 146,950 | 39 | 0.0 |
| Special Deposit Account | 1,578 | 1,560 | -18 | -1.1 |
| Reimbursements | 8,658 | 8,534 | -124 | -1.4 |
| Total | \$221,083 | \$222,000 | \$917 | 0.4 |

Highlights

- **Criminal Record Clearances for Long-Term Care Ombudsmen.** The budget requests \$293,000 General Fund for CDA to contract with the California Department of Social Services and the 33 Area Agencies on Aging to process criminal record clearances and conduct fingerprinting locally for Long-Term Care Ombudsmen staff and volunteers as mandated by Chapter 902, Statutes of 2006 (SB 1759).
- **Ongoing Reform of Adult Day Health Care (ADHD).** The budget requests \$194,000 (\$94,000 General Fund) and one position for CDA to provide legal analysis and consultation on complex issues arising in implementation of ADHC program reforms.

4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) provides statewide leadership and oversight for local alcohol and drug intervention, prevention, detoxification, treatment, and recovery services, including Drug Medi-Cal, Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000, or SACPA), Drug Courts, the Office of Problem Gambling, and the Substance Abuse Offender Treatment Program. The budget proposes \$662.8 million

(\$285.2 million General Fund) for 2007-08, a decrease of \$11.5 million (\$8.3 million General Fund) or 0.02 percent from the current year.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|------------------|------------------|------------------|-------------|
| Programs | | | | |
| Prevention | \$80,370 | \$76,879 | -\$3,491 | -4.3 |
| Treatment and Recovery | 544,240 | 534,463 | -9,777 | -1.8 |
| Perinatal | 49,643 | 51,445 | 1,802 | 3.6 |
| Fund Source | | | | |
| General Fund | \$293,525 | \$285,154 | -\$8,371 | -2.9 |
| Federal Trust Fund | 286,246 | 282,441 | -3,805 | -1.3 |
| Special Funds | 5,969 | 6,302 | 333 | 5.6 |
| Reimbursements | 88,513 | 88,890 | 377 | 0.4 |
| Total | \$674,253 | \$662,787 | -\$11,466 | -1.7 |

Highlights

- **Reduce Funding for Proposition 36 (SACPA).** The budget proposes reducing funding for SACPA by \$60 million General Fund, a 50 percent cut in total funding. Of the \$60 million, \$35 million would be transferred to the Substance Abuse Offender Treatment Program, bringing total funding to \$60 million. The remaining \$25 million would be General Fund savings. (For further details, see *Issues* below.)
- **Redirect Funding for Administration of the Substance Abuse Offender Treatment Program (OTP).** The budget requests a redirection of \$305,000 General Fund from the existing OTP local assistance appropriation to establish 3.5 limited-term positions in DADP to administer the OTP. The funding transfer and positions would be administratively established in January 2007. The budget also calls for statutory changes to the OTP to modify the drug court requirement, remove the county allocation cap, and eliminate the sunset date.
- **Redirect Funding for Comprehensive Drug Court Implementation (CDCI).** The budget requests a redirection of \$341,000 General Fund from the existing CDCI local assistance appropriation to establish four permanent positions in DADP to administer the expanded funding provided in the 2006-07 budget for adult felon drug courts and dependency drug courts. The funding transfer and positions would be administratively established in January 2007.
- **Redirect Funding for Implementation of the California Methamphetamine Initiative (CMI).** The budget requests a redirection of \$197,000 General Fund from existing funding provided for the CMI to provide two limited-term positions to DADP to provide state support to the CMI. The 2006-07 budget provided \$10 million each year until 2008-09 for a multi-media methamphetamine public education campaign. The requested positions would work with the consultant to develop the media campaign and conduct additional activities to

coordinate, support, and disseminate to counties best practices on the prevention and treatment of methamphetamine abuse.

- **Implementation of Licensing and Certification Reforms.** The budget requests \$1.2 million and 12.5 positions (4.5 limited-term) in DADP to conduct biennial compliance visits of licensed and/or certified programs, and federally required monitoring reviews and complaint investigations of Drug Medi-Cal providers. The budget also calls for statutory language to permit the collection of fees from all providers to fund these activities and would establish a new fund for the fee revenues. The fees would initially be set at \$2,150 biennially (which is what current law requires for-profit providers be charged) and DADP would convene a stakeholder group to determine a permanent fee schedule.
- **Provide Funding for Implementation of Chapter 875, Statutes of 2006 (SB 1453).** The budget requests \$519,000 General Fund and six positions (two limited-term) to DADP to license and certify additional drug treatment providers as a result of enactment of SB 1453. SB 1453 requires non-violent prison inmates who participated in drug treatment in prison to enter a 150-day residential aftercare drug treatment program upon their release from prison.
- **Drug Medi-Cal Funding and Caseload.** The budget requests \$149 million (\$79.7 million General Fund) for the Drug Medi-Cal program. This represents a 8.4 percent increase over revised current year funding, due to increased program caseload. Methadone treatment represents over 60 percent of Drug Medi-Cal expenditures.

Issues

1. **Reduce Funding for Proposition 36 (SACPA).** SACPA, approved by the voters on November 7, 2000, sentences non-violent drug defendants to drug treatment rather than jail or prison. SACPA continuously appropriated \$120 million General Fund annually from 2001-02 through 2005-06 to fund county drug treatment services and criminal justice supervision. The 2006-07 budget maintained \$120 million General Fund for SACPA and included statutory program reforms including flash incarceration, improved judicial oversight of program participants, and expanded options for offender management. However, these statutory reforms are being legally challenged by the proponents of Proposition 36 and have been suspended by judicial injunction. It is not known when or how this legal challenge will be resolved.

In response to the suspension of the reforms, the budget proposes to reduce \$60 million General Fund for SACPA in 2007-08. Of this \$60 million, \$35 million is proposed to be redirected to provide an increase to the Substance Abuse Offender Treatment Program (OTP). The remaining \$25 million would be one-time General Fund savings. The Administration states that it will revise its budget proposal in the May Revision to move the remaining \$60 million in General Fund for Proposition 36 to OTP if the program reforms are not implemented.

Although DADP is still analyzing the situation, it does not appear at this time that the \$25 million General Fund cut to SACPA will result in failure of California to meet its maintenance-of-effort (MOE) requirement in 2007-08 for the federal Substance Abuse Prevention and Treatment (SAPT) Block Grant. Failure to meet the SAPT MOE results in a reduction in federal funding for alcohol and drug treatment.

Although funding for SACPA has been cut in half, the sentencing provisions do not expire. Therefore, counties are still required to make treatment available to eligible offenders directed by the courts to participate in SACPA. Actual SACPA expenditures were \$134 million in 2003-04, \$143 million in 2004-05, and \$150 million in 2005-06. Counties requested a total of \$209 million to fully fund SACPA in 2006-07.

4700 Department of Community Services and Development

The Department of Community Services and Development (DCSD) distributes federal and state funding to local entities that provide energy and weatherization assistance and a variety of other community services for low-income households. The budget proposes \$169.8 million for 2007-08, essentially the same funding level provided in the current year.

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|-------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Programs | | | | |
| Energy Programs | \$101,241 | \$101,298 | \$57 | 0.0 |
| Community Services | 65,421 | 65,453 | 32 | 0.0 |
| Naturalization Services | 3,000 | 3,000 | 0 | 0.0 |
| Fund Source | | | | |
| General Fund | \$3,000 | \$3,000 | \$0 | 0.0 |
| Federal Trust Fund | 164,540 | 164,630 | 90 | 0.0 |
| Reimbursements | 2,122 | 2,121 | -1 | 0.0 |
| Total | \$169,662 | \$169,751 | \$89 | 0.0 |

Highlights

- Maintain Naturalization Services Program Funding.** The budget maintains the \$1.5 million General Fund augmentation for the Naturalization Services Program provided in 2006-07. Total funding for the program remains at \$3 million General Fund.

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation (VR) program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies (education, mental health, welfare). The department also provides support services for Community Rehabilitation Programs, including independent living centers. The budget proposes total funding of \$389.7 million, a 3.3 percent increase over the current year.

| Summary of Expenditures | | | | |
|------------------------------------|------------------|------------------|-----------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Programs | | | | |
| Vocational Rehabilitation Services | \$357,260 | \$370,641 | \$13,381 | 3.7 |
| Support of Community Facilities | 19,878 | 19,076 | -802 | -4.0 |
| Fund Source | | | | |
| General Fund | \$55,659 | \$57,674 | \$2,015 | 3.6 |
| Vending Stand Account | 3,478 | 3,361 | -117 | -3.4 |
| Mental Health Services Fund | 195 | 214 | 19 | 9.7 |
| Federal Trust Fund | 307,517 | 320,568 | 13,051 | 4.2 |
| Reimbursements | 10,289 | 7,900 | -2389 | -23.2 |
| Total | \$377,138 | \$389,717 | \$12,579 | 3.3 |

Highlights

- California HIV/Auto-Immune Disorder Demonstration Project.** The budget proposes \$3.3 million in federal fund authority for DOR to continue to implement this project. The funding is from a federal Social Services Administration (SSA) grant available to states to study various interventions to assist Supplemental Security Income Program beneficiaries in returning to work. The SSA awarded DOR \$12 million over five years for implementation of this project. Funding for the project began in the current year.
- Replace the Field Computer System.** The budget requests \$466,000 of increased federal fund authority to begin the initial development and procurement process for a new Electronic Records System to replace the existing field computer system. The DOR has submitted a feasibility study report to the Department of Finance for this project.

5175 Department of Child Support Services

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

The budget anticipates total collections of \$2.35 billion in the budget year, approximately the same as the current year (\$2.36 billion). The department's overall budget expenditures are

proposed to decrease by \$444.8 million, or 28.7 percent, to \$1.1 billion. This decrease is due primarily to the elimination of the federal penalty costs and decreased child support automation costs.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|--------------------|--------------------|-------------------|--------------|
| General Funds | \$584,939 | \$319,843 | -\$265,096 | -45.3 |
| Federal Funds | 723,839 | 567,455 | -156,384 | -21.6 |
| Reimbursements | 123 | 123 | 0 | 0.0 |
| Child Support Collection Recovery Fund | 242,889 | 219,556 | -23,333 | -9.6 |
| Total | \$1,551,790 | \$1,106,977 | -\$444,813 | -28.7 |

Highlights

- Eliminate Funding for the Federal Penalty for Child Support Automation.** The budget assumes that the final payment of the federal child support automation penalty was made in the current year. The state has been required to pay an increasing penalty each year since 1997 due to the state's failure to implement a single statewide child support automation system. The DCSS is currently developing the California Child Support Automation System (CCSAS) and in September 2006, requested certification from the federal government that this automation system is sufficiently operational to qualify for penalty relief in future federal fiscal years. The budget assumes federal certification of the entire system by 2008-09.
- Implement the Federal Deficit Reduction Act (DRA).** The budget reflects the following adjustments to reflect implementation of the DRA: (1) \$67.6 million (\$23 million General Fund) to backfill for lost federal financial participation (FFP) resulting from the elimination of states' ability to use federal performance incentive funds as a match for FFP (which avoids a funding reduction for local child support agencies); (2) \$1.8 million General Fund to cover the \$25 annual application fee required by the DRA for families who have at least \$500 in annual collections and have never received Temporary Assistance for Needy Families; and (3) \$27.8 million in reduced collection revenues to reflect the increased payments to custodial parents of the first \$50 of the current month's child support payment collected from the non-custodial parent.
- Reduce CCSAS Project Costs.** The budget reduces funding for the CCSAS project by \$107.2 million (\$11.2 million General Fund) to reflect cost changes identified in various approved special project reports and budget Control Section 11.0 notification letters to the Legislature. Sufficient resources for DCSS to continue development of CCSAS are provided.
- Establish a Statewide Employer Data File (EDF).** The budget requests 6.5 new positions and redirection of \$249,000 (\$93,000 General) of existing DCSS funds to manage and support a centralized, statewide EDF. The EDF would generate wage assignments, employer verifications, and medical support orders and is intended to improve employer data quality, increase collections, and provide a basis for achieving better performance.

- **Establish an Internal Audit Unit Within DCSS.** The budget requests two positions and redirection of \$154,000 (\$64,000 General Fund) to establish an Internal Audit Unit within CDSS' Office of Audits and Compliance. The Internal Audit Unit would conduct audits and evaluations of DCSS, including internal control reviews, compliance reviews, special investigations, efficiency reviews, and technical assistance and consulting services. This unit is intended to safeguard assets, ensure the reliability of financial records, and improve efficiencies in operations.
- **Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs.** The budget proposes trailer bill language to continue the suspension of two programs, the Health Insurance Incentives and the Improved Performance Incentives programs, through 2007-08. 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 five 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 five years beginning 2002-03. The Department of Finance notes that LCSAs are required by DCSS regulations to seek third-party health insurance coverage as part of their normal business processes.

Issues

1. **Decisions to be Made in Ongoing Implementation of the Federal Deficit Reduction Act (DRA).** The DRA included a number of provisions that significantly impact the provision of child support services. Some of the provisions are mandatory and already take effect. These are addressed in the 2007-08 budget changes described above. Other provisions are optional and go into effect in October 2008 and October 2009. In addition, some of the mandatory provisions may be implemented in different ways. In short, the state has a number of choices to make on how and whether to implement various provisions of the federal DRA. Different options will have different impacts on families, the state's performance and effectiveness, and the General Fund, and some will require statutory changes. The Legislature will need to weigh in on all these implementation discussions and decisions.

5180 Department of Social Services

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

evaluations and provide benefit payments for federal and state programs serving the aged, blind and disabled.

The budget proposes \$18.7 billion (\$8.9 billion General Fund) for the DSS, an increase of \$388.2 million (but a decrease of \$329.9 million General Fund). These amounts do not reflect the county share of cost for programs administered by DSS, as county funding is not included in the state Budget Act. However, the table below includes county funding to better reflect total program expenditures. The budget includes a total of 4,580.5 DSS positions, a net increase of 138.5 positions over the current year.

| Summary of Expenditures | | | | |
|--------------------------------|---------------------|---------------------|------------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Programs | | | | |
| CalWORKs | \$4,985,471 | \$4,726,289 | -\$259,182 | -5.2 |
| Food Stamps | 891,811 | 918,005 | 26,194 | 2.9 |
| IHSS | 4,323,610 | 4,424,916 | 101,306 | 2.3 |
| SSI/SSP | 3,542,774 | 3,892,908 | 350,134 | 9.9 |
| Foster Care | 1,659,575 | 1,630,471 | -29,104 | -1.8 |
| Child Welfare Services | 2,380,328 | 2,400,637 | 20,309 | 0.9 |
| Title IV-E Waiver Adjustment | 17,100 | 50,270 | 33,170 | 194.0 |
| Adoption Assistance | 779,041 | 847,918 | 68,877 | 8.8 |
| Kin-GAP | 139,726 | 191,800 | 52,074 | 37.3 |
| Other County Services | 453,381 | 459,936 | 6,555 | 1.4 |
| Community Care Licensing | 112,793 | 119,915 | 7,122 | 6.3 |
| Other State Operations | 416,115 | 426,869 | 10,754 | 2.6 |
| Fund Source | | | | |
| General Fund | \$9,206,702 | \$8,876,793 | -\$329,909 | 3.6 |
| Technical Assistance Fund | 22,256 | 21,236 | -1,020 | -4.6 |
| Employment Training Fund | 20,000 | 35,000 | 15,000 | 75.0 |
| Child Support Collections | | | | |
| Recovery Fund | 12,849 | 11,760 | -1,089 | 8.5 |
| Other Special Funds | 9,667 | 13,750 | 4,083 | 42.2 |
| Federal Trust Fund | 6,079,582 | 6,689,601 | 610,019 | 10.0 |
| Reimbursements | 3,017,374 | 3,098,513 | 81,139 | 2.7 |
| County Funds (Non-add) | 1,333,295 | 1,343,281 | 9,986 | 0.7 |
| Total | \$19,701,725 | \$20,089,934 | \$388,209 | 2.0 |

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

- Program Description.** CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs minimum basic standard of adequate care, having less than \$2,000 in resources, and having a car valued at \$4,650 or

less. The average family of three must have an annual net income below \$12,782 or 77 percent of the federal poverty level, to be eligible for CalWORKs. Program recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work or work-related activities per week to remain eligible for benefits. Adults have a lifetime limit of five years (60 months) in CalWORKs.

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

- **Enrollment Summary.** After peaking in March of 1995, CalWORKs enrollment has dropped by 48 percent through 2004. Enrollment has decreased by 33 percent since CalWORKs replaced the former Aid to Families with Dependent Children (AFDC) program in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, enrollment flattened in 2003-04, and has remained relatively stable since then. Caseload is projected to decrease by 1.5 percent in 2006-07, and increase by 0.1 percent in 2007-08. Average monthly enrollment is estimated to be 468,000 cases in 2007-08.
- **Funding Summary.** CalWORKs is funded through an annual federal Temporary Assistance for Needy Families (TANF) block grant of \$3.7 billion, plus \$2.7 billion in state and county funds to meet a federal Maintenance of Effort (MOE) requirement. The state's MOE is based on welfare spending in 1994, adjusted downward for achievement of certain work participation goals. Federal law requires states to spend TANF funds on current and former welfare recipients, with limited exceptions. Accordingly, California spends most federal TANF funds on CalWORKs, and directs some TANF and state MOE funding to activities in other programs and departments.

The budget proposes total TANF/MOE funding of \$6.4 billion (\$4.7 billion of which will be spent on the CalWORKs program). This constitutes a \$259.1 million, or 5.2 percent, decrease in CalWORKs TANF/MOE expenditures from the current year.

CalWORKs Highlights

- **Restrict Safety Net Grants.** The budget proposes to eliminate safety net grants for those children whose parents do not work sufficient hours to meet federal work participation requirements after "timing-out." This proposal would be implemented in November 2007 and would result in General Fund savings of \$175.8 million. A statutory change would also be needed to implement this proposal.

CalWORKs adult recipients are limited to 60 cumulative months of cash assistance. Under current law, children continue to receive cash aid until they are 18 years of age, as long as the family meets CalWORKs eligibility guidelines, regardless of how many hours their parents work after timing-out. Although information is still being gathered on the specific characteristics of the safety net caseload, there are an estimated 100,000 children in over 45,000 families receiving safety net cash assistance in 2006-07. This proposal assumes that only 26 percent of the safety net caseload will meet the work participation requirements and

remain eligible for safety net grants. There appears to be no research linking the elimination of safety net grants with increased work participation.

- **Impose Full-Family Sanctions.** The budget proposes to impose a “full-family” sanction whereby a family’s entire grant is eliminated for those families with an adult who does not comply with CalWORKs requirements for more than 90 days. This proposal would result in a General Fund cost of \$11.4 million because it assumes 70 percent of sanctioned cases would begin working (or participate in an allowable non-work activity) and need child care, as a result of the change. A statutory change would also be needed to implement this proposal.

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

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

- **Eliminate Grants for Children of CalWORKs Ineligible Parents.** The budget proposes to eliminate after 60 months grants to children whose parents are not eligible for CalWORKs. These parents are ineligible because they are undocumented non-citizens, drug felons, or fleeing felons. The children include US citizen children of undocumented non-citizens. Under current law, the CalWORKs grants provided to children of ineligible parents are not subject to a time limit. This proposal would be implemented in November 2007 and result in General Fund savings of \$160 million. There would be no impact to the state’s work participation rate because these adults are already excluded from the work participation calculations.
- **Suspend CalWORKs Cost-of-Living Adjustment (COLA).** The budget proposes to freeze the amount of CalWORKs grants at their current levels resulting in General Fund savings of \$140.3 million. The current maximum grant for a family of three is \$723 per month. The 4.2 percent COLA that otherwise would have gone into effect on July 1, 2007, would have increased the grant for a family of three by \$30 to \$753 per month.
- **Implement TANF Reauthorization Provisions of Chapter 75, Statutes of 2006 (AB 1808).** AB 1808, the human services trailer bill to the 2006 Budget Act, contained changes to the CalWORKs program in response to the federal (Deficit Reduction Act) DRA, which reauthorized the TANF program. The TANF reauthorization provisions of the DRA increased 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 became effective on October 1, 2006. AB 1808 contained specific provisions intended to result in a renewed focus on work participation leading to an increase in the work participation rate. The budget includes \$73.2 million (\$1.3 million General Fund) for implementation of the TANF reauthorization provisions in AB 1808, and projects an increase in the work participation rate of about four percent in 2007-08 and six percent in 2008-09.

- **Support for TANF Reauthorization.** The budget requests \$2.2 million in federal fund authority and 20 positions for DSS to support data collection for federal work participation in each county, including verification of data and reporting procedures, and to perform oversight and field monitoring of county procedures and case documentation for verification of recipient participation hours at the county level. These positions are intended to improve monitoring and measurement of the performance of counties to meet new federal data quality assurance mandates.
- **Support for AB 1808 Activities.** The budget requests \$832,000 in federal fund authority and seven limited-term positions for DSS to hold regular performance outcome measurement meetings with the counties to highlight best practices and identify obstacles to performance, and conduct county peer/state reviews to assist counties in improving work participation rates and implementation of the CalWORKs program. The DSS request also includes \$250,000 to fund a contract with a consultant to design, develop, and implement a statewide performance indicator system for the CalWORKs program in the counties. In addition, the budget proposes to use \$244,000 in TANF funds to support county welfare departments' participation in the county/state peer reviews. These funds would be used for travel, per diem, and backfilling staff costs.
- **Change Recipient Reporting Frequency.** The budget proposes statutory modifications to the process for redetermining benefit levels for CalWORKs and Food Stamp recipients and a change to the reporting frequency for recipients from quarterly to semi-annually. The change in reporting frequency is expected to simplify the process for recipients and counties. When the trailer bill language is available, a specific assessment of the modifications to the redetermination process can be made. These changes would take effect in 2008-09.
- **Fund Pay for Performance.** The budget proposes \$40 million from the 2006-07 TANF reserve to pay counties that meet performance goals for work participation and client income measures in 2007-08. The 2006-07 Budget Act delayed implementation of the Pay for Performance program.
- **Reduce CalWORKs Single Allocation.** The budget reduces \$16 million in funding to counties for CalWORKs employment and other services, eligibility determination, and child care in 2007-08. The 2006-07 Budget Act also reduced the single allocation by \$40 million.
- **Support Title IV-E Child Welfare Waiver Demonstration Project.** The budget requests \$180,000 (\$90,000 General Fund) and 1.5 limited-term positions for DSS to support implementation of the Title IV-E Child Welfare Waiver Capped Allocation Project (CAP). The DSS received approval on March 31, 2006 of its Title IV-E waiver request to block grant

some of the state's Title IV-E funds and allow participating counties more flexibility in the use of these foster care funds. Participating counties are allowed to use foster care funds to provide front-end services to address the needs of children and families to prevent removing the child from the home, to focus on interventions for children most at-risk of entering foster care, and to reunify families more quickly. There are currently two counties participating, Los Angeles and Alameda. The DSS positions would assist the counties with accounting and other systemic changes required by the waiver.

- **Support to Implement Chapter 672, Statutes of 2006 (SB 1569).** The budget requests \$93,000 General Fund and one position to implement SB 1569. SB 1569 extended eligibility for certain public social services to non-citizen victims of human trafficking, domestic violence, and other serious crimes. DSS staff would develop implementing regulations and administer the program.
- **Excess General TANF/Maintenance of Effort (MOE).** The budget proposes TANF/MOE expenditures that are \$203 million in excess of the required level in an effort to achieve a greater caseload reduction credit, as allowed by the federal government. These excess TANF/MOE expenditures represent funding for California Department of Education child care and after school programs and are expected to increase California's caseload reduction credit up to five percent.

CalWORKs Issues

1. **Work Participation Requirements of the Deficit Reduction Act (DRA).** The work participation requirements of the DRA, effective October 2006, 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.

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.

Although the budget includes proposals intended to increase the work participation rate by a total of six percent in 2007-08 and 13 percent in 2008-09, these measures have not been demonstrated to be successful. While increasing the state's work participation rate is critical, it is worth considering whether there are other methods to do so that do not potentially jeopardize the well-being of some of California's most vulnerable children. In addition, the Legislature may wish to consider how counties are doing in implementing the changes in AB 1808, as well as any other already-proven programmatic methods implemented in other

states, before making even more changes. In any case, further discussions will be needed in developing alternatives.

- 2. Budgeting Methodology for County Operations Funding.** Prior to 2001-02, the state used the Proposed County Administrative Budget (PCAB) process to develop the annual budget for program operations in CalWORKs and other health and human service programs. The PCAB process required counties to project their needs for the coming year and scrutinized counties' assumptions in order to build the statewide CalWORKs budget. Funding increases to reflect the increased cost of doing business have been suspended since 2000-01. As a result of the lack of updated budget methodology, state budget staff have no basis for checking assumptions about the cost to implement program enhancements or the savings associated with program changes.

In the budget hearing process last spring, the California Welfare Directors Association (CWDA), the California State Association of Counties, and the Urban County Caucus indicated that the budget for county operations no longer represents actual program funding needs and spending abilities across counties. Counties have absorbed more than \$568 million (all funds) in increases in utilities, transportation, health care, retirement, and salary increases.

To begin to address this problem, the Legislature adopted language in the human services trailer bill to the 2006 Budget Act, AB 1808 (Chapter 75, Statutes of 2006), that requires DSS to estimate the costs for county administration of human services programs using county-specific cost factors in the programs' budgeting methodology. The DSS is required to consult with CWDA to develop the survey instrument to gather and the process to incorporate county cost factors in the estimate. Beginning with the 2007-08 May Revision, DSS must identify in its budget documents the estimates developed of the counties' cost of doing business and the difference between that estimate and the amount actually included in the budget.

- 3. 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 approximately \$434 million through June 2007 for retroactive payments and \$114 million in ongoing annual costs.

Food Stamps Program

- Program Description.** The Food Stamps program provides food benefits via Electronic Benefit Transfer (EBT) cards to eligible low-income families and individuals. The DSS provides statewide oversight, and counties perform eligibility determination and employment services functions. Families eligible for CalWORKs are automatically eligible for Food

Stamp benefits. Low-income working families and individuals are also eligible for Food Stamp benefits, even if they have not enrolled in the CalWORKs program.

- **Enrollment Summary.** The department estimates that average monthly Food Stamp caseload in 2007-08 will be 2.1 million persons, a 2.3 percent increase over 2006-07. Approximately 68 percent of these beneficiaries are not receiving cash assistance. The proportion of “non-assistance” Food Stamp caseload in the program has grown significantly in recent years, and increased enrollment among non-assistance households has been the driving factor in overall program growth since 2000-01.
- **Funding Summary.** Food Stamp benefits are funded entirely by federal funds. These funds are not included in the state budget, as the U.S. Department of Agriculture provides funding for food directly to beneficiaries via EBT cards. Californians are estimated to receive approximately \$2.7 billion in federal Food Stamp benefits in 2007-08. The federal government also funds 50 percent of the program’s eligibility determination and administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 69 percent to 31 percent, respectively. The budget anticipates that funding for county activities will be \$918.0 million (\$335.1 million General Fund), an increase of \$26.2 million (\$11.6 million General Fund) compared to the current year, due to increasing caseload.

The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Total funding for benefits and eligibility costs is estimated to be \$27.7 million General Fund in 2007-08, to provide benefits to 23,600 beneficiaries.

Food Stamp Issues

1. **Budgeting Methodology for County Operations Funding.** The county operations costs to administer food stamp programs are included in the overall review of the budgeting methodology for county operations. See a detailed discussion of the issue in the *CalWORKs Issues* section above.

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

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

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

SSI/SSP grant levels vary based on a recipient’s living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. There are over twenty different

SSI/SSP payment standards. Both the federal and state grant payments for SSI/SSP recipients are adjusted for inflation each January through cost-of-living-adjustments (COLAs). Federal law provides an annual SSI COLA based on the Consumer Price Index, and state law provides an annual SSP COLA based on the California Necessities Index. As of January 2007, the maximum grant is \$856 per month for an aged or disabled individual living independently and \$1,565 per month for an aged or disabled couple living independently.

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

- **Enrollment Summary.** The budget projects SSI/SSP average monthly enrollment will grow by 2.1 percent, from 1,239,000 in 2006-07 to 1,265,000 in 2007-08. Approximately 8 percent of recipients are under age 18, 49 percent are age 18 to 64, and 43 percent are age 65 and older. CAPI caseload is projected to decrease by 21.9 percent in 2007-08, to 11,415 average monthly recipients.
- **Funding Summary.** SSI/SSP grants have two components: the SSI component, which is federally funded, and the SSP component, which is state funded. Total funding for SSI/SSP is estimated to be \$8.7 billion (\$3.5 billion General Fund) in 2006-07, and \$9.4 billion (\$3.9 billion General Fund) in 2007-08. General Fund expenditures are projected to increase by 9.9 percent, to reflect an increase in caseload and funding of the 2008 state and federal COLAs. The federal funds in the SSI portion of the grant are not included in the state budget, as they are federally administered. Total funding for the CAPI program is estimated to be \$95.9 million General Fund in 2006-07 and \$129.5 million General Fund in 2007-08. In addition to caseload, this 34.1 percent increase is due to the increased caseload resulting from the expiration of the ten-year sponsor deeming period for the first round of CAPI recipients.

SSI/SSP Highlights

- **Fund 2008 Federal SSI and State SSP COLAs.** The budget provides \$216.7 million General Fund to fully fund the state SSP COLA of 4.2 percent. The maximum SSI/SSP grant would increase from \$856 to \$892 for individuals and \$1,502 to \$1,565 for a couple. The proposal also would pass on \$34.4 million in additional federal funds to fully fund the federal 1.2 percent COLA for SSI.

In-Home Supportive Services (IHSS) Program

- **Program Description.** The In-Home Supportive Services (IHSS) program funds personal care services for low-income aged, blind or disabled individuals that are at risk for institutionalization. IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by

the consumer, county contracts with service providers, or through welfare staff. County welfare departments visit consumers in their homes to determine authorized hours of service.

- **Enrollment Summary.** The budget estimates that IHSS caseload will increase to 395,100 in 2007-08, an increase of 5.4 percent over 2006-07 caseload. Approximately half of IHSS consumers are age 65 and older. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload. Caseload, hours of service by case, and program costs have grown significantly faster than population growth since the mid-1990s.
- **Funding Summary.** The budget proposes \$4.4 billion (\$1.4 billion General Fund) for the IHSS program in 2007-08. This represents an increase of \$101.3 million (\$27.7 million General Fund) above the current year funding level, a 2.3 percent increase.

IHSS costs have steadily increased in recent years. Nonetheless, the average annual cost per individual, approximately \$10,300 (\$3,399 General Fund), is still less than one-fifth the cost of nursing home placement. The program's growth has been fueled by multiple factors, including the establishment of a state entitlement for personal care services, population increases, and an increase in the proportion of IHSS consumers who are severely disabled, greater utilization of service hours by case, and higher provider rates. In addition, demographic trends and a programmatic shift to support the elderly and persons with disabilities in community settings have increased the number of beneficiaries.

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

IHSS Issues

1. **Limit State Share of the Cost of IHSS.** The budget proposes statutory changes that would limit the state's participation in the cost of IHSS provider wages and benefits to those in effect as of January 10, 2007. Future wage and benefit increases collectively bargained at the local level and those existing agreements that take effect after January 10 would be financed by the counties. Absent this proposal, the projected growth in statewide revenues would have resulted in the state's participation in IHSS wages and benefits increasing from \$11.10 per hour to \$12.10 per hour in 2007-08. The budget assumes that this proposal will result in cost avoidance of at least \$14.1 million in the current year and unknown future cost savings

The Administration has clarified that any requests from counties for wage increases that were submitted to DSS and approved by January 10 would receive the state share of the wage and benefit increases (regardless of when the increases take effect). Note that notwithstanding this proposal, the budget includes \$7.8 million (\$2.5 million General Fund) in the current

year and \$16.5 million (\$5.4 million General Fund) in the budget year to fund the recently enacted minimum wage increases.

- Budgeting Methodology for County Operations Funding.** The county operations cost to administer the IHSS program is included in the overall review of the budgeting methodology for county operations. See a detailed discussion of the issue in the *CalWORKs Issues* section above.

Children and Family Services Programs

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

The budget provides \$6 billion (\$1.7 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 2.3 percent in the budget year. Total funding for CWS increased by 0.9 percent, to \$2.4 billion (\$714 million General Fund).
- ✓ **Foster Care Program.** The state's Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. Average monthly Foster Care caseload is estimated to decrease by 4.4 percent, to 69,000 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 1.8 percent, to \$1.6 billion (\$449.7 million General Fund). Rates paid to group homes, foster family agencies, and foster family homes have not been raised since 2000-01, or five years.
- ✓ **Kin-GAP and Enhanced Kin-GAP Programs.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The Enhanced Kin-GAP Program was established in 2006 as a voluntary alternative to the regular Kin-GAP Program. The Enhanced Kin-GAP program is funded at the same rate as the regular program plus a clothing allowance and a specialized care increment as appropriate. The

projected average monthly caseload for both programs is 20,789 children, reflecting an increase of 21.5 percent. Total funding for both programs increases by 37.5 percent to \$191.8 million (\$144.2 million General Fund).

- ✓ **Adoptions Program.** The state's adoptions programs include the Adoptions Assistance Program (AAP) as well as other state and county efforts to improve permanency outcomes for foster children. The AAP provides subsidies to promote permanent placement of children that are older, members of sibling groups, have disabilities, or are otherwise difficult to place. Budget year AAP caseload is expected to be 77,600, an increase of 6.6 percent over current year. Total funding for AAP and other adoptions programs increased by 8.8 percent, to \$847.9 million (\$380.7 million General Fund).

Children and Family Services Highlights

- **Increase Department of Social Services Staff to Meet Federal Requirements.** The budget requests \$1.7 million (\$641,000 General Fund and 15 permanent positions, six of which are existing limited-term positions to be converted to permanent, for the DSS to ensure that the state's CWS system is prepared to meet new federal Child and Family Services Review (CFSR) requirements. These staff would provide state leadership and oversight, monitoring compliance, data quality and integrity improvements, and technical assistance to counties for the federal CFSRs. In 2002, California underwent its first review, which resulted in the State's failure to meet federal expectations in 12 of 14 CSFR outcome areas. Although the state is now in compliance with 10 of the 14 outcome areas, we remain subject to over \$34.4 million in potential sanctions should we fail to reach all identified targets by April 2007. Any fiscal sanctions will accrue interest until the targets are reached or the next CFSR scheduled for spring or summer of 2008.
- **Maintain Funding for the CWS Outcome Improvement Project (CWSOIP).** The budget proposes to continue providing \$98.8 million (\$61.4 million General Fund) in 2007-08 to all counties to be spent flexibly on local priorities identified in each county's approved System Improvement Plan pursuant to AB 1808. The System Improvement Plans are required to identify strategies that county welfare and probation departments agencies will use to improve outcomes for children and families.
- **Increase Funding for Enhanced Kin-GAP Program.** The budget includes \$93.7 million (\$71.2 million General Fund) in increased costs to reflect the transfer of additional cases to the Enhanced Kin-GAP Program.
- **Additional Federal Promoting Safe and Stable Families (PSSF) Grant Funds.** The budget reflects an increase of \$4.3 million federal PSSF funds for 2007-08 to support monthly caseworker visits.
- **Remove Funding for Title IV-E Foster Care Disallowance Backfill.** The budget removes \$8.4 million General Fund to reflect the final amount needed to backfill for a \$33.8 million Title IV-E federal funding disallowance for Foster Care for calendar year 2003.

- **New Funding for Tribal-State Title IV-E Agreements.** The budget requests an increase of \$150,000 General Fund for 2007-08 to provide start-up funds for three years to allow the pass-through of \$215,000 Title IV-E funds to tribes seeking to provide their own child welfare services.
- **Oversee the Title IV-E Waiver.** The budget requests \$180,000 (\$90,000 General Fund) and 1.5 limited-term positions for DSS to conduct administrative oversight and evaluation activities related to the Title IV-E Child Welfare Waiver Demonstration “Capped Allocation” Project.
- **Increase Costs for *Rosales v. Thompson*.** The budget provides \$795,000 General Fund and reflects \$1.2 million in county costs to reflect increased foster care costs resulting from the reversal of the *Rosales v. Thompson* court decision. 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 federal Deficit Reduction Act clarified federal statute, in effect reversing the expanded eligibility criteria.
- **Provide Resources to Implement Chapter 386, Statutes of 2006 (AB 2488).** The budget requests \$274,000 (\$187,000 General Fund) and three permanent positions for DSS and \$1.8 million (\$1.0 million General Fund) for county administration in 2007-08 to implement AB 2488. AB 2488 modified the existing Mutual Consent Program by lowering the age of consent of disclosure of contact information between adoptees and their siblings from 21 years to 18 years of age. AB 2488 also allows the court to require that a California licensed adoption agency actively search on behalf of one sibling for a sibling who has not already consented to disclosure. The resources provided would enable the DSS and county welfare departments to provide confidential intermediary services to siblings and adoptees.
- **Provide Resources to Implement Chapter 809, Statutes of 2006 (SB 1393).** The budget requests \$381,000 General Fund and three permanent positions to implement SB 1393. SB 1393 provides for an expedited process with fewer requirements for re-adoption in California of a foreign-born child adopted by California residents in the child’s country if the DSS has certified that the laws of the foreign country where the child was originally adopted meet or exceed California’s adoption laws and mandates. The additional staff would track and process requests for jurisdictions within the countries, promulgate regulations, and provide ongoing technical assistance.
- **Provide Resources to Implement Chapter 754, Statutes of 2006 (SB 1758).** The budget requests 237,000 General Fund and two permanent positions for DSS to implement SB 1758. SB 1758 requires DSS to establish an Adoption Facilitator Registry.
- **Maintain Dependency Drug Court Funding.** The budget proposes to continue providing \$4.8 million General Fund for the county Dependency Drug Court pilots and the cost-benefit evaluation in 2007-08. The budget also proposes to shift this funding from DSS’ budget to the Department of Alcohol and Drug Programs (DADP) in 2007-08. The funding for Dependency Drug Courts is currently provided to DADP through an interagency agreement with DSS.

Children and Family Services Issues

- 1. Alternative Funding for CWS.** The human services trailer bill to the 2006 Budget Act, AB 1808 (Chapter 75, Statutes of 2006), directed DSS to work with the County Welfare Directors Association, legislative staff, and members of organizations that represent social workers to develop a methodology for budgeting the CWS program to meet specified program requirements and outcomes. This new funding methodology is to be presented to the Legislature on February 1, 2006 and is intended to be implemented in the 2007-08 fiscal year.
- 2. Budgeting Methodology for County Operations Funding.** In addition to the new CWS budgeting methodology under development, CWS administrative funding is undergoing review as part of the examination of the budgeting methodology for county operations funding. See a detailed discussion of the issue in the CalWORKs *Issues* section above.

Community Care Licensing

The Community Care Licensing (CCL) Division of DSS licenses over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified foster family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing, and adult day care. Licensing activities are primarily carried out by state staff, although some counties are responsible for licensing child care and foster family homes. CCL staff currently visit a randomly selected 20 percent of facilities annually, and visit all facilities no less than once every five years. At-risk facilities are visited at least annually.

The budget includes \$119.9 million (\$38.2 million General Fund) and 1,187.6 positions for CCL in 2007-08. This represents a 6.3 percent increase over the current year funding of \$112.8 million (\$32.3 million General Fund) and 1,114.1 positions. Approximately 15 percent of funding is for county licensing activities, and the remaining funding is for state licensing activities.

Community Care Licensing Highlights

- Licensing Reform Automation Project.** The budget requests \$1.7 million (\$1.5 million General Fund) and ten positions for DSS to begin a project to upgrade its information technology systems supporting the licensing program. Although already identified as a need in DSS' IT Strategic Plan, this proposal responds to findings of deficiencies in enforcement and inadequate program oversight and accountability in an audit of DSS' efforts to rebuild the child care program completed in May 2006 by the Bureau of State Audits (BSA). This IT project is expected to take two years to complete.
- Increase Facility Inspections and Follow-up Visits.** The budget requests \$4.9 million (\$4.6 million General Fund) and 65 positions. Of the 65 positions, 58.5 would be used to increase from 20 percent to 30 percent the number of facilities that are randomly selected for annual visits to comply with the statutory requirement that the number of facilities visited annually be increased by ten percent if total citations issued by DSS exceed the previous

year's total by ten percent. The remaining 6.5 positions would be used to address DSS follow-up enforcement deficiencies identified in the May 2006 BSA audit.

LABOR

0559 Secretary for Labor and Workforce Development Agency

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

The Governor proposes \$2.2 million (reimbursements and special funds) and 14.2 positions for the Office of the Secretary, a decrease of \$135,000 with no change in positions. The Administration did not submit any budget change proposals for the Agency.

7100 Employment Development Department

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

The Governor proposes \$10.8 billion (\$44.3 million General Fund) and 8,739.4 positions, a decrease of \$332.0 million (3.0 percent) and 242.8 positions. However, the current-year benefit estimates include a 10 percent or \$880 million "buffer"; no buffer is included for 2007-08.

| Expenditure by Program (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|---|---------------------|---------------------|-------------------|-------------|
| Employment & Employment Services | \$181,852 | \$153,065 | -\$28,787 | -15.8 |
| Tax Collections & Benefit Payment | | | | |
| State Operations | 632,749 | 633,923 | 1,174 | 0.2 |
| Disability Insurance Payments* | 4,427,751 | 4,306,570 | -121,181 | -2.7 |
| Unemployment Insurance Payments* | 5,176,629 | 5,023,681 | -152,948 | -3.0 |
| School Employees Payments* | 87,170 | 79,181 | -7,989 | -9.2 |
| Unemployment Insurance Appeals Board | 73,008 | 74,533 | 1,525 | 2.1 |
| Administration | 54,971 | 57,259 | 2,288 | 4.2 |
| Distributed Administration | (51,194) | (51,194) | 0 | 0.0 |
| Employment Training Panel | 53,711 | 53,939 | 228 | 0.4 |
| Workforce Investment Act | 446,761 | 420,491 | -26,270 | -5.9 |
| National Emergency Grant Program | 45,000 | 45,000 | 0 | 0.0 |
| Total | \$11,128,408 | \$10,796,448 | -\$331,960 | -3.0 |

* 2006-07 amounts include a 10-percent buffer above the forecast

Major Budget Proposals

Benefit Program Adjustments. The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2006 forecast of future claims. The level of anticipated benefits for the Disability Insurance, Unemployment Insurance, and School Employee Programs are included in the above table. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

Job Services Program Cut. The Governor proposes a reduction of \$27.1 million (EDD Contingent Fund) and 271.0 positions to the Job Services Program. This proposal would benefit the General Fund, because the \$27.1 million saved would be transferred to the General Fund. Job Services would continue at a reduced level utilizing \$153.1 million in federal funds and reimbursements.

Tax Sharing Ratio Change. The EDD collects employer-based taxes including Unemployment Insurance, Disability Insurance, Employment Training Fund, and personal income tax withholdings (General Fund). The Administration proposes to realign EDD's funding so that each fund would pay its "fair share" of tax collection costs. This proposal would result in a net-zero change in EDD expenditures, but would increase General Fund costs by \$13.5 million (and reduce the cost to other funds by the same amount).

Employment Training Panel. The proposed budget continues the practice of transferring Employment Training Panel (ETP) funds to the Department of Social Services for CalWORKs employment training programs. This transfer produces a General Fund savings of the same amount. This year's CalWORKs transfer is proposed at \$35 million – up by \$15 million. The amount of ETP funds used for CalWORKs has varied over the years, but last year the Legislature reduced the amount by \$12.9 million, to \$20.0 million. Despite the shift to CalWORKs, sufficient funds are available to maintain the current level of Employment Training Panel expenditures – about \$54 million.

7120 California Workforce Investment Board

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

The Governor proposes \$4.4 million (federal funds and reimbursements) and 20.9 positions for the Board's budget – a decrease of \$428,000 and no change in positions. The reduction is due to baseline reductions - the Administration did not submit any budget change proposals for the Board.

7350 Department of Industrial Relations

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

The Governor proposes \$384.5 million (\$68.2 million General Fund) and 2,739.0 positions, an increase of \$21.8 million (6.0 percent) and 31.9 positions.

| Expenditures by Program (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|------------------|------------------|-----------------|------------|
| Self-Insurance Plans | \$3,731 | \$3,778 | \$47 | 1.3 |
| Mediation/Conciliation | 2,358 | 2,359 | 1 | 0.0 |
| Workers' Compensation | 166,474 | 179,024 | 12,550 | 7.5 |
| Commission on Health and Safety and Workers' Compensation | 3,132 | 3,080 | -52 | -1.7 |
| Division of Occupational Safety and Health | 89,509 | 96,652 | 7,143 | 8.0 |
| Division of Labor Standards Enforcement | 48,909 | 50,382 | 1,473 | 3.0 |
| Division of Apprenticeship Standards | 10,478 | 11,207 | 729 | 7.0 |
| Division of Labor Statistics and Research | 4,008 | 3,904 | -104 | -2.6 |
| Claims, Wages, and Contingencies | 34,132 | 34,132 | 0 | 0.0 |
| Administration | 30,205 | 31,366 | 1,161 | 3.8 |
| Distributed Administration | (30,205) | (31,366) | -1,161 | 0.0 |
| Total | \$362,731 | \$384,518 | \$21,787 | 6.0 |

Major Budget Proposals

Elevator Program, Plan Checking Unit Augmentation. The Governor proposes to augment the Department's budget by \$1.9 million (special fund) and 16.0 positions to establish an elevator plan checking unit. This augmentation would allow DIR to comply with the requirements of Labor Code Section 7301.1, which mandates that on or after June 30, 2003, no conveyances are to be erected, constructed, installed, or materially altered unless a pre-work permit was obtained from the Division of Occupational Safety and Health.

Re-Fund the Industrial Welfare Commission. The Governor requests an augmentation of \$449,000 (General Fund) and 3.0 positions to restore funding and staff to the Industrial Welfare Commission (IWC). In 2004-05, the Legislature eliminated all funding for the IWC; however, the statutory responsibilities of the IWC were not amended. Among other responsibilities, the IWC is required to conduct a full review of the adequacy of the minimum wage at least once every two years. The Administration indicates the General Fund cost of this proposal is offset by General Fund savings in another DIR budget proposal.

Additional Funding for the Electronic Adjudication Management System. The Governor requests an increase of \$11.8 million (special fund) in multi-year funding for the Electronic Adjudication Management System (EAMS). The project was originally approved by the Legislature in 2004-05 with an anticipated cost of \$24.0 million. In October 2006, the Administration submitted a Section 11.00 letter to the Joint Legislative Budget Committee indicating a new project cost of \$35.8 million; and DIR has since entered into a contract with a vendor to implement the system. According to the Administration, the system will provide for a cost-efficient electronic adjudication management system to improve services provided by the Division of Workers' Compensation and the Workers' Compensation Appeals Board.

VETERANS AFFAIRS

8950 Department of Veterans Affairs

The Department of Veterans Affairs (CDVA) has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. Using \$50 million in general obligation bonds available through Proposition 16 (passed by the voters in 2000), \$162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004]), and \$207 million in U.S. Department of Veterans Affairs federal funds, the CDVA expects to open new veterans' homes in Ventura (opening in 2008), Lancaster (2008), West Los Angeles (2009), Fresno and Redding (both opening after 2009).

The Governor's budget funds 1,605 positions (including 52 new positions) and budget expenditures as follows:

If implemented as proposed, General Fund support for the CDVA will balloon from \$67.3 million in 2005-06 to a proposed \$112.3 million in the budget year—and increase of 67 percent over two years.

| Summary of Expenditures | | | | |
|--|------------------|------------------|-----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$87,957 | \$112,348 | \$24,391 | 27.7% |
| Veterans' Farm and Homebuilding Fund of 1943 | 182,555 | 180,549 | -2,006 | -1.1 |
| Federal Trust Fund | 23,395 | 28,017 | 4,622 | 19.8 |
| Reimbursements | 28,152 | 27,421 | -731 | -2.6 |
| Other Funds | 1,109 | 1,004 | -105 | -9.5 |
| Total, Fund Source | \$323,168 | \$349,339 | \$26,171 | 8.1% |

Highlights

Funding for Veterans’ Homes. The Governor proposes a four percent increase in funding for the three active Veterans’ Homes, from \$124.2 million in the current year to \$129.5 million in the budget year.

| Home <i>(dollars in thousands)</i> | 2006-07 Funding | Proposed 2007-08 Funding |
|--|----------------------------------|---|
| Yountville | \$82,333 | \$85,172 |
| Barstow | 15,535 | 18,303 |
| Chula Vista | 26,348 | 26,020 |
| TOTALS | \$124,216 | \$129,495 |

Budget Authority Adjustment for Failed Intermediate Care Facility (ICF) Conversion at Chula Vista Veterans’ Home. The Governor’s Budget includes a reduction in Federal Fund and General Fund reimbursements by \$2 million and an increase in the General Fund contribution by \$940,000 to reflect an unsuccessful effort to convert the Chula Vista Residential Care for the Elderly Facility to an ICF. Eight positions will be eliminated pursuant to this adjustment. The Department sought and received approval to upgrade their care facility. However, during the conversion process the CDVA realized that the project was not financially or physically feasible due to fire and building code regulations, the need for revised architectural drawings, and unforeseen project costs.

Information Technology Infrastructure Upgrade. The Administration requests \$6.5 million General Fund and one two-year limited term position to upgrade the department’s key information technology hardware and software infrastructure. The department asserts that they have made little investment in IT infrastructure during the last five years.

Enterprise Wide Veterans Homes Information System. The budget includes 22 positions and \$10.3 million to procure and implement a new Veterans Home Information System (VHIS) for the veterans’ homes. The proposed system is intended to conform to federal regulations on data reliability and transferability. This enterprise solution is intended to address the IT needs of as-yet unbuilt homes and resolve contract issues with the current information system provider, Meditech.

Personal Services Contracts Adjustment. The Administration requests \$71,000 General Fund to increase the personal services budgets at the Chula Vista Home and Barstow Home in order to conform with recently negotiated labor agreements. Statute requires that all personal services contracts include employee compensation valued at no less than 85 percent of the state employer cost of providing comparable wages and benefits to state employees.

Veterans Claims Representation at District Offices. The Administration seeks \$180,000 General Fund and authority to convert two expiring limited term positions to permanent positions. The two Veteran Claim Representative positions were established through a 2005-06 Budget Change Proposal with direction to increase applications for benefits and reach out to underserved populations.

Reopen 40 Beds at Barstow Veterans Home. The Administration requests to reopen 20 beds at the skilled nursing facility at the Barstow Veterans Home with 19 new positions and \$2.3 million (\$2.1 million General Fund). The 20 remaining beds will open in 2008-09 budget year and ongoing costs to operate the 40 bed facility will be \$4.5 million (including \$2.9 million General Fund) and 54 positions. The CDVA believes opening this skilled nursing facility at Barstow will provide a better range of care to veterans and prevent the relocation of residents who require that particular level of care.

Position Funding Alignment. The budget includes 25 positions and \$2.8 million General Fund to reflect the realignment over time of positions originally assigned to the Farm and Home Program—and funded by sources other than General Fund—but reassigned to other General Fund supported programs such as the Farm and Home Program workload subsidy. The department was directed in current year budget bill language to provide a budget change proposal and workload justification for all 25 positions.

Greater Los Angeles/Ventura County (GLAVC) Veterans Home Start-Up Costs. The budget includes 8 positions and \$995,000 General Fund for the construction and pre-activation phases of the GLAVC veterans homes. The positions will oversee construction and business operations and ensure the veterans homes are compliant with federal, state, and local laws and regulations. The Department anticipates the first GLAVC home will open in December 2008.

Equipment Replacement Program. The budget includes \$3.2 million General Fund for ongoing maintenance and equipment replacement at the veterans homes and headquarters building. The average age of the homes' major, minor, and patient equipment is between 5 and 19 years old. The CDVA believes this appropriation is necessary to correct existing equipment deficiencies.

Baseline Adjustment for Operating Expense and Equipment. The budget includes an operating expense increase of \$1.5 million General Fund (ongoing) for increased costs of pharmaceuticals, outside medical services, central supply items, supplemental medical insurance, natural gas, and petroleum purchases.

SUBCOMMITTEE No. 4

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

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SUBCOMMITTEE No. 4

LEGISLATIVE, EXECUTIVE, JUDICIAL BRANCH, TRANSPORTATION, PUBLIC SAFETY, and GENERAL GOVERNMENT (continued)

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TRANSPORTATION

Overview of the Transportation Budget

The Governor proposes total transportation expenditures of \$16.382 billion (\$1.558 billion General Fund) in 2007-08. These expenditure figures include the following departments (dollars in thousands):

| Department | General Fund | Other Funds | Total |
|---|---------------------|---------------------|---------------------|
| CA Transportation Commission (CTC) | | \$5,725 | \$5,725 |
| State Transit Assistance (STA) | | \$784,658 | \$784,658 |
| Department of Transportation (Caltrans) | \$1,558,396 | \$11,201,402 | \$12,759,798 |
| High Speed Rail Authority (HSRA) | | \$1,159 | \$1,159 |
| Office of Traffic Safety (OTS) | | \$96,299 | \$96,299 |
| California Highway Patrol (CHP) | | \$1,831,399 | \$1,831,399 |
| Department of Motor Vehicles (DMV) | | \$902,860 | \$902,860 |
| TOTAL | \$1,558,396 | \$14,823,502 | \$16,381,898 |

Proposed expenditures in 2007-08 are \$1.9 billion more than revised 2006-07 expenditures – primarily due to revenue from the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B). In addition to the figures listed above, Budget Item 9350 apportions monies collected by the State to local governments based on a statutory formula, including \$1.173 billion in transportation revenues from the Highway Users Tax Account and \$600 million in Prop 1B bond funds.

2600 California Transportation Commission

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

The Governor proposes total expenditures of \$5.7 million and 17.6 positions for the CTC (no General Fund). The only budget change proposal is an augmentation of \$289,000 and 2 positions to perform workload associated with the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B). The budget also reflects \$3 million in local assistance expenditures related to Proposition 116 (Rail Transportation Bond Act of 1990).

2640 State Transit Assistance

The State Transit Assistance (STA) budget item provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation programs. Revenue traditionally comes from the sales tax on diesel fuel and a portion of the sales tax on gasoline (including a Proposition 42 component), and is available for either operations or capital investment. With the passage of the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B), bond funds are also available for this program. However, bond funds may only be used for capital investment.

The Governor proposes funding of \$784.7 million for State Transit Assistance – an increase of \$160.9 million. This proposal includes \$600 million in Prop 1B bond funds and \$185 million in traditional fuel sales tax funds. While this proposed budget is up overall, the STP would actually receive a \$411 million cut relative to what current statute dictates. This program, under statute, would receive 50 percent of specified fuel sales tax revenue, or \$596 million with the Governor's Budget revenue forecast. The Administration indicates this \$411 million reduction ties to an overpayment of \$102 million in 2006-07 and the STA's share of 2007-08 spillover revenue, which is estimated at \$309 million. The spillover reduction is proposed to be an ongoing budget reduction. This proposal is part of the larger Administration proposal to use \$1.1 billion in Public Transportation Account revenues for General Fund relief. The overall proposal is discussed in the Caltrans section below.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of over 15,000 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into five primary programs: Aeronautics; Highway Transportation; Mass Transportation; Transportation Planning; and Administration.

The Governor proposes total expenditures of \$12.760 billion (\$1.558 billion General Fund) and 21,758.3 positions, an increase of \$1.541 billion (14 percent) and 68.4 positions. The increase is primarily due to revenue from the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B). Note, the Administration is also requesting a supplemental appropriation for 2006-07 to allocate \$523 million in Prop B bond funds in the current year.

Caltrans Budget Summary

| Expenditure by Program (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|---|---------------------|---------------------|--------------------|-----------------|
| Aeronautics | \$8,501 | \$8,693 | \$192 | 2.3 |
| Highway Transportation | 9,554,208 | \$11,336,749 | 1,782,541 | 18.7 |
| Mass Transportation | 1,113,002 | 873,938 | -239,064 | -21.5 |
| Transportation Planning | 197,411 | 179,476 | -17,935 | -9.1 |
| Administration | 345,599 | 360,942 | 15,343 | 4.4 |
| Total | \$11,218,721 | \$12,759,798 | \$1,541,077 | 13.7 |
| Expenditure by Category | | | | |
| (dollars in thousands) | 2004-05 | 2005-06 | \$ Change | % Change |
| Personal Services | \$1,905,825 | \$2,072,361 | \$166,536 | 8.7 |
| Operating Expenses and Equipment | 1,582,737 | \$1,565,112 | -17,625 | -1.1 |
| Tort Payments | 53,556 | 53,556 | 0 | 0.0 |
| Debt Service (GARVEE bonds) | 72,899 | 72,899 | 0 | 0.0 |
| Local Assistance | 2,957,970 | 3,193,413 | 235,443 | 8.0 |
| Capital Outlay - Office Buildings | 0 | 62,337 | 62,337 | 0.0 |
| Capital Outlay - Specialty Buildings | 54,742 | 119,909 | 65,167 | 119.0 |
| Capital Outlay - Transportation Projects | 4,545,306 | 5,589,211 | 1,043,905 | 23.0 |
| Unclassified | 45,686 | 31,000 | -14,686 | -32.1 |
| Total | \$11,218,721 | \$12,759,798 | \$1,541,077 | 13.7 |
| Expenditure by Fund Type | | | | |
| (dollars in thousands) | 2004-05 | 2005-06 | \$ Change | % Change |
| General Fund | \$2,642,668 | \$1,558,396 | -\$1,084,272 | -41.0 |
| Federal Trust Fund | 3,484,477 | \$4,054,454 | 569,977 | 16.4 |
| Proposition 1B Bond Funds | 523,000 | \$1,491,750 | 968,750 | 185.2 |
| Special Funds | 3,470,769 | 4,457,280 | 986,511 | 28.4 |
| Reimbursements | 1,097,807 | 1,197,918 | 100,111 | 9.1 |
| Total | \$11,218,721 | \$12,759,798 | \$1,541,077 | 13.7 |

Transportation Finance Issues**Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B)**

Prop 1B provides for a general obligation bond issue not to exceed \$19.925 billion. The budget includes appropriations totaling \$7.685 billion in Prop 1B bond funds, although only \$2.789 billion is expected to be allocated, or committed, in 2007-08. Additionally, the Administration will be requesting a supplementary appropriation of \$523 million to support Prop 1B allocations in 2006-07. Dollars below are in thousands.

| Proposition 1B Category | 2006-07 Allocations | 2007-08 Allocations | 2007-08 Appropriations | Total 1B Amount | Budget |
|---|---------------------|---------------------|------------------------|---------------------|------------------------|
| Corridor Mobility Improvement Account (CMIA) | \$100,000 | \$317,000 | \$2,119,000 | \$4,500,000 | Caltrans |
| Transit | 0 | 600,000 | 1,300,000 | 3,600,000 | State Trans Assistance |
| State Transportation Improvement Program (STIP) | 262,000 | 340,000 | 1,035,000 | 2,000,000 | Caltrans |
| Local Streets & Roads | 0 | 600,000 | 1,050,000 | 2,000,000 | Shared Revenues |
| Trade Infrastructure | 15,000 | 170,000 | 680,000 | 2,000,000 | Caltrans |
| State Highway Operations and Preservation Program (SHOPP) | 141,000 | 403,000 | 518,000 | 750,000 | Caltrans |
| State/Local Partnership | 0 | 170,000 | 502,000 | 1,000,000 | Caltrans |
| Grade Separations | 0 | 55,000 | 174,000 | 250,000 | Caltrans |
| State Route 99 Improvements | 0 | 28,000 | 171,000 | 1,000,000 | Caltrans |
| School Bus Retrofit | 0 | 97,000 | 97,000 | 200,000 | Air Resources Board |
| Local Bridge Seismic Retrofit | 5,000 | 9,000 | 39,000 | 125,000 | Caltrans |
| Intercity Rail* | 0 | 0 | 0 | 400,000 | na |
| Transit Security* | 0 | 0 | 0 | 1,000,000 | na |
| Trade Infrastructure Air Quality* | 0 | 0 | 0 | 1,000,000 | na |
| Port Security* | 0 | 0 | 0 | 100,000 | na |
| TOTAL | \$523,000 | \$2,789,000 | \$7,685,000 | \$19,925,000 | |

* No appropriations are requested in the Governor's Budget for these programs – the Administration indicates it is still considering program implementation approaches. Spring Finance Letters may request funding for these programs.

While many past bond revenues have been continuously appropriated upon bond passage, Prop 1B funds require an appropriation by the Legislature to expend the funds. The Administration is requesting an appropriation level that will cover anticipated expenditures through 2009-10. That means that the Administration would not have to come forward with a Prop 1B appropriation request in either the 2008-09 or 2009-10 budgets. Alternatively, the Legislature could decide to appropriate only the amount necessary for 2007-08 expenditures, or appropriate all \$19.9 billion in Prop 1B bond funds this year. The Administration indicates it will also submit budget trailer bill language for Prop 1B programs.

The Governor's revised Strategic Growth Plan includes a request for \$29.4 billion of new general obligation bonds and \$13.9 billion of additional lease-revenue and self-liquidating revenue bonds for the 2008 and 2001 ballots in the areas of education, public safety, and other infrastructure. No additional transportation-related bonding (beyond that already authorized by Prop 1B) is included in the Governor's Strategic Growth Plan.

Shift Public Transportation Account Revenues to Pay General Fund Obligations

The Governor proposes to shift \$1.1 billion in Public Transportation Account (PTA) funds to pay the following State obligations, which are currently the responsibility of the General Fund:

- \$627 million for Home-to-School Transportation (currently Proposition 98).
- \$340 million for transportation-related general obligation bond debt.
- \$144 million for regional center transportation budgeted in the Department of Developmental Services.

The PTA will receive an estimated \$617 million in “spillover” funds in 2007-08 – up from the revised estimate of \$549 million for 2006-07. The proposed shift would exceed the 2007-08 amount of the volatile spillover revenues, which have materialized in recent years due to high gasoline prices. The Administration indicates this shift will not have a major impact, in the short-term, on transit capital projects because of bond and other funding resources. However, the proposal does represent a reduction in what local transit agencies would otherwise receive for operations in 2007-08, and would, over the long-term, reduce funding available for mass transit capital projects through the State Transportation Improvement Program (STIP). The Administration indicates they intend to permanently redirect spillover funds to pay current General Fund obligations. Based on a similar proposal by the Administration in May 2006, spillover revenue over the next ten years may sum to around \$4 billion.

Public Transportation Account “Spillover” Background

The spillover transfer dates back to legislation enacted in the early 1970’s. Chapter 1400, Statutes of 1971, relinquished 0.25 percentage points of the State’s four percent sales tax to local governments to fund transportation development (primarily mass transit). To hold the General Fund harmless, the tax base was broadened to include gasoline. The legislation further provided a mechanism to assure that the General Fund would not benefit as a result of the broadened tax base – this “spillover” formula transfers any net General Fund revenue gain to the Public Transportation Account (PTA). Half of this PTA transfer is then transferred to local transit agencies through the State Transit Assistance budget. The spillover only occurs in years when gasoline prices are high relative to the prices of other goods.

No spillover occurred during the period of 1994-95 through 2000-01, or in 2002-03; however, a spillover of \$11.3 million occurred in 2001-02. In recent years, spillover revenue has been triggered, but in some cases the revenue has been redirected.

- The 2003 Budget Act projected a spillover of \$87 million and associated trailer-bill legislation retained that amount in the General Fund (with any amount above \$87 million to be transferred to the Public Transportation Account). Actual spillover revenue turned out to be \$88.7 million.
- The 2004 Budget Act projected a spillover of \$140 million and trailer-bill legislation directed that amount to the Traffic Congestion Relief Fund as partial repayment of past loans to the General Fund (any excess spillover was retained by the General Fund). Actual spillover revenue turned out to be \$225.8 million.

- The 2005 Budget Act projected a spillover of \$380 million and trailer-bill legislation retained the full spillover in the General Fund. In part, this General Fund relief allowed for the first full Proposition 42 transfer in 2005-06. The revised estimate for spillover revenue is \$381 million.
- The 2006 Budget Act projected a spillover of \$668 million and trailer-bill legislation (SB 1132) directed the funding as follows:
 - \$200 million to the Transportation Deferred Investment Account as part of Proposition 42 loan repayment.
 - \$125 million to the Bay Area Toll Authority for the Bay Bridge Seismic Retrofit Project.
 - \$33 million for appropriations in the 2006 Budget Act (\$20 million for Agricultural Industries Transportation Services and \$13 million for the High-Speed Rail Authority)
 - 20 percent of the remainder (estimated at \$62 million) to Caltrans for mass transportation.
 - 80 percent of the remainder (estimated at \$248 million) to local transit agencies through the State Transit Assistance budget item.

The Department of Finance indicates the revised estimate for 2006-07 spillover is \$549 million (down \$119 million from the prior \$668 million projection).

Proposition 42

For 2007-08, the Governor proposes full Proposition 42 funding for transportation, which the Department of Finance estimates will be \$1.475 billion. As required by the Constitution, the funding would be allocated as follows:

- \$602 million for the Traffic Congestion Relief Program (TCRP).
- \$698 million for the State Transportation Improvement Program (STIP).
- \$88 million for the Public Transportation Account (PTA).
- \$88 million for State Transit Assistance to local agencies.

The “Proposition 42” transfer dates back to the Traffic Congestion Relief Program (TCRP), which was established with the 2000-01 budget (AB 2928, Torlakson) as a *six-year* funding program. Program funding comes from a portion of the sales tax on gasoline. When budget shortfalls in 2001-02 constrained the General Fund, the second-year funding for the program was delayed until 2003-04 and Proposition 42 was placed before voters to make the program permanent. As part of the 2001-02 budget, cities and counties received their “Prop 42” local streets and roads allocation from the State Highway Account (instead of the General Fund) in 2001-02 and 2002-03 and, in exchange, shifted their 2006-07 and 2007-08 allocations to the State – that is why the STIP receives a large allocation in 2007-08 and no funding is included for cities and counties. The Proposition 42 transfer was partially suspended in 2003-04 and fully suspended in 2004-05 (see the transportation loan section below). Full Proposition 42 transfers were made in 2005-06 and 2006-07.

Repayment of Past Transportation Loans

- Proposition 42 loans.** The 2003 Budget Act partially suspended the 2003-04 Proposition 42 transfer with \$289 million transferred and \$868 million suspended. The 2004 Budget Act fully suspended the 2004-05 Proposition 42 transfer of \$1.258 billion. Budget trailer bill language designated both of these suspensions as loans and required repayment by June 30, 2009. Full Proposition 42 transfers were made in 2005-06 and 2006-07. The 2006 Budget Act included early loan repayments totaling \$1.42 billion for the 2003-04 and 2004-05 Proposition 42 suspensions. Proposition 1A was placed on the November 2006 ballot, which requires, among other provisions, repayment of the outstanding Proposition 42 loans in minimum annual payments of one-tenth the total amount due. The chart below indicates approximately \$711 million remains outstanding, but this figure may be closer to \$750 million when interest is included. Consistent with the Proposition 1A minimum repayment requirements, \$83 million (from the General Fund) is proposed for repayment in 2007-08.
- Traffic Congestion Relief Fund loans / Tribal Gaming Bonds.** The 2001 Budget Act, the 2002 Budget Act, and legislation enacting the 2002-03 mid-year budget revision, loaned a total of \$1.383 billion from the Traffic Congestion Relief Fund to the General Fund. \$334 million of this loan was repaid at the end of 2005-06. The 2006 Budget Act assumed \$827 million in tribal gaming bonds would successfully be sold in 2006-07 to partially repay the outstanding amount. Lawsuits have delayed the issuance of the bonds for more than two years. The Governor’s Budget assumes the bonds will *not* be successfully sold in either 2006-07 or 2007-08. Absent a bond sale, the Administration intends to use existing statutory authority to transfer \$100 million in annual tribal gaming revenues to repay a portion of the loan in both the current year and budget year. This would leave about \$850 million outstanding after 2007-08. The repayment of loans to the Traffic Congestion Relief Fund supports secondary loan repayments from that fund to both the State Highway Account and the Public Transportation Account.

Summary of Transportation Loans to the General Fund

| Transportation Loans to the General Fund (in thousands) * | Loan Amount | Amount repaid through 2006-07 | Repayment in Proposed Budget (2007-08) | Outstanding amount (after 2007-08) * | Proposition 1A Due Date |
|---|--------------------|-------------------------------|--|--------------------------------------|-------------------------|
| ▶ Traffic Congestion Relief Fund loans (from 2001-02 & 2002-03) | \$1,383,000 | \$434,000 | \$100,000 | \$849,000 | none |
| ▶ 2003-04 Propositions 42 loan | 868,000 | 495,000 | 43,500 | 329,500 | June 30, 2016 |
| ▶ 2004-05 Proposition 42 loan | 1,258,000 | 920,000 | 39,500 | 298,500 | June 30, 2016 |
| Total | \$3,509,000 | \$1,849,000 | \$183,000 | \$1,477,000 | |

* Interest is required for portions of the loaned amount, but not included in these calculations

- **Secondary Transportation Loans / Transfers.** In 2000-01 through 2002-03, a total of \$563 million was loaned from the State Highway Account (SHA) to the Traffic Congestion Relief Fund (TCRF), and a total of \$275 million was loaned from the Public Transportation Account (PTA) to the TCRF, both for TCRF cash flow purposes. With the proposed repayment for 2007-08, approximately \$102 million would remain outstanding to the SHA and approximately \$265 million would remain outstanding to the PTA. These outstanding amounts will be repaid as tribal gaming revenues provide payment to the Traffic Congestion Relief Fund. After 2006-07 Proposition 42 loan repayments, all outstanding amounts are due to the TCRF (about \$627 million, excluding interest), except for \$1 million still due to the PTA.

Non-Article XIX Funding

The Administration proposes to amend statute to permanently retain approximately \$85 million in annual miscellaneous revenues, which are not subject to the expenditure restrictions in Article XIX of the Constitution, in the State Highway Account (SHA) instead of transferring these revenues to the Public Transportation Account (as specified by Section 183.1 of the Streets and Highways Code). This miscellaneous revenue is primarily derived from the rental and sale of Caltrans property originally purchased for highway purposes. Because the revenue is not restricted by Article XIX, it can be expended for either highway or mass transportation purposes. Prior to 2000-01, and the addition of Section 183.1, the funding was retained in the SHA. Since 2000-01, the funding has been transferred to the PTA, except in 2003-04 and 2004-05 when the funding was retained in the SHA by budget bill language.

Caltrans Budget Proposals

Highway Maintenance Funding. The Administration requests a permanent increase of \$85 million and a one-time increase of \$100 million for highway infrastructure preservation (for a combined total request of \$185 million). The permanent increase of \$85 million would be budgeted in the Maintenance Program, and the one-time increase of \$100 million would be budgeted in the State Highway Operations and Protection Program (SHOPP). In last year's budget request for 2006-07, the Administration requested an ongoing highway preservation increase of \$105 million – the Legislature approved the funding, but shifted the funding from the SHOPP to the Maintenance Program, which is where the funding has historically been budgeted. The Legislature may want to similarly review the nature of the SHOPP projects anticipated for the \$100 million to determine if the Maintenance Program would be a more appropriate home for the funding. Pursuant to Section 164.6 of the Streets and Highways Code, the Department is required to present to the Legislature a five-year maintenance plan no later than January 31, 2007. This report should assist the Legislature in its review of the budget request.

Environmental Mandates. The Administration submitted two budget requests related to environmental mandates.

- Budget Change Proposal #2B requests \$1.4 million (annually for five years) to purchase alternative fuel fleet equipment to comply with ongoing federal, State, and local air quality mandates.

- Budget Change Proposal #8 requests \$11.8 million in 2007-08 to comply with two air quality mandates adopted by the California Air Resources Board (ARB). The cost varies each year, but over five years is estimated at \$27.8 million. Funding would allow for the purchase of exhaust filter traps for heavy-duty trucks and the replacement of portable engines and other equipment.

Public Safety Radio. The Department requests funding of \$7.2 million in 2007-08 and a total of \$19.6 million over five years, to convert the low band radio systems concentrated in the mountainous regions of District 10 (east of Stockton) to a high band system. The Department indicates that most Caltrans Districts (3, 4, 6, 7, 8, 9, 11, and 12) currently operate on high band. The Budget Change Proposal does not address the Administration's plans for other Districts that operate with low band. Last year the Legislature added Section 8592.7 to the Government Code, which requires the following:

- (a) A budget proposal submitted by a state agency for support of a new or modified radio system shall be accompanied by a technical project plan that includes all of the following:*
 - (1) The scope of the project.*
 - (2) Alternatives considered.*
 - (3) Justification for the proposed solution.*
 - (4) A project implementation plan.*
 - (5) A proposed timeline.*
 - (6) Estimated costs by fiscal year.*
- (b) The committee shall review the plans submitted pursuant to subdivision (a) for consistency with the statewide integrated public safety communications strategic plan included in the annual report required pursuant to Section 8892.6.*
- (c) The Telecommunications Division of the Department of General Services shall review the plans submitted pursuant to subdivision (a) for consistency with the technical requirements of the statewide integrated public safety communication strategic plan included in the annual report required pursuant to Section 8592.6.*

The Budget Change Proposal does mention Department of General Services participation in the project, but it is not explicit concerning whether the requirements of subsections (b) and (c) have been met. The submitted document does touch on each of the requirements of subsection (a), but the depth and breadth of the material would not seem to constitute a "technical project plan."

Intelligent Transportation System. The Administration submitted three budget requests related to Intelligent Transportation Systems (ITS). ITS includes loop detectors that monitor freeway speed, changeable message signs, highway advisory radio, metering lights, and freeway cameras. These technologies communicate traffic conditions to drivers and reduce congestion.

- Budget Change Proposal #13 requests \$1.2 million in 2007-08 and \$1.1 million in 2008-09 to fund a two-year pilot project that will determine the effectiveness of purchasing real-time traffic data from private vendors. The private vendors would supply traffic speed information from Automatic Vehicle Location technologies, cellular signals, and/or other technologies. If this technology is viable, it may result in cost saving and traffic-congestion reduction because freeway loop detectors would no longer need to be installed and maintained.

- Budget Change Proposal #14 requests \$9.7 million (ongoing) and 40 positions in the Maintenance Program to increase maintenance and repair of new Intelligent Transportation System (ITS) field elements. The Department indicates that the number of traffic signals and ramp meters has increased by approximately 600 since positions were last increased in 1999, and ITS elements have increased by 2,400 units.
- Budget Change Proposal #15 requests \$1.5 million (ongoing) and 15 positions in the Highway Operations Program to increase operational support of the increasing number of Intelligent Transportation System (ITS) field elements. The Department indicates that the number of field elements has increased by 3,294 (225 percent) since the last staff increase for this purpose in 1997.

Specialty Building Facilities. The Administration requests an appropriation of \$119.9 million in 2007-08 for specialty building facilities such as equipment facilities, maintenance facilities, material labs, and traffic management centers. This is an increase of \$65.2 million, or 120 percent from the amount appropriated in 2006-07.

Oakland District Office Building Seismic Retrofit. Last year the Legislature approved a funding request of \$44.3 million for the construction phase of the seismic retrofit of the District 4 office building in Oakland. Based on bids received, the Administration now indicates the cost of the project has increased by \$18 million – to \$62.3 million. The Department requests a reversion of last year’s funding, and a new appropriation of \$62.3 million for the project.

2665 High-Speed Rail Authority

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

The Governor proposes \$1.2 million and 6.5 positions for the HSRA, a decrease of \$13.2 million and no change in positions. Last year the Legislature augmented the HSRA budget by \$13 million and 3 positions to: (1) complete the draft environmental impact report for the Central Valley to San Francisco Bay Area route; (2) complete a financing plan to be submitted to the Legislature no later than May 1, 2007; and (3) commence site-specific environmental work, right-of-way acquisition, and identification of necessary grade separations to improve and preserve rail corridors. Current law provides for a proposition on the November 2008 ballot to provide \$9.95 billion in general obligation bonds for the high-speed rail and related rail projects; however, the Governor proposes to delay this bond vote indefinitely.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state’s highway system. The CHP also has responsibilities relating to vehicle theft

prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for State employees and property.

The Governor proposes \$1.831 billion in total expenditures (no General Fund) and 11,012 positions for the CHP, an increase of \$150.1 million (9 percent) and 325.7 positions.

Major Budget Proposals

Enhanced Radio System. The budget includes \$51.4 million for the 2007-08 cost of upgrading the CHP's public safety radio system. Last year the Legislature approved this five-year project that has total costs of \$494 million. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. As part of last year's project approval, the Legislature required annual project reporting for the life of the project – the first report is due March 1, 2007.

Officer Staffing Augmentation. The Governor requests \$17.5 million (\$21 million ongoing) to add 50 uniformed positions and 41 support staff. Last year, the Legislature approved a staffing increase of 310 positions (240 Officers and 70 supervisory and non-uniformed support staff) to be phased in over two years (the 2007-08 phase added 75 Officers). The CHP indicates this increase would help address the continual increase in workload associated with population growth throughout the state.

Office of Internal Affairs. The Governor requests \$952,000 in reimbursement authority and 5.0 two-year limited-term positions to respond to the unfunded workload brought about by requests for investigative services from outside agencies. The Department indicates state departments frequently call upon the CHP to conduct independent reviews and investigations. Investigations are normally approved by the Business, Transportation and Housing Agency and the Governor's Office. The external investigations can consume up to 85 percent of the Investigation Unit's resources and in these cases leave minimal resources for internal investigations.

Motor Carrier Safety Program. The Governor requests a permanent increase of \$4.8 million to augment staffing 67.9 positions (60 Motor Carrier Specialists and 11.5 support positions). The Administration indicates this will allow the Department to complete 100 percent of the Biennial Inspection of Terminals (BIT), instead of the current 58 percent inspection rate. Motor Carrier Specialists visit terminals to: (1) inspect maintenance and inspection reports for buses and trucks; (2) inspect a sample of required driver records; and (3) investigate hazardous materials handling practices. The Department indicates that statute requires fees to be set at a level to fund the program; however, currently the Motor Vehicle Account (MVA) funds \$2.1 million of the cost and the requested augmentation would be funded exclusively through the MVA.

Capital Outlay. The Administration requests an augmentation of \$8.1 million for three major capital outlay facilities projects – two projects are in the working-drawings phase (Oceanside Area Office [\$1.1 million] and Oakhurst Area Office [\$636,000]) and would likely come forward with construction funding requests in 2008-09 totaling about \$21 million; a third project is in the construction phase (San Diego Area Office [\$6.2 million]) and involves the renovation of an existing office.

2740 Department of Motor Vehicles

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

The Governor proposes total expenditures of \$902.8 million (no General Fund) and 8,280.1 positions, an increase of \$19.2 million (2 percent) and a decrease of 24.1 positions.

Budget Proposals

Information Technology Modernization Project. The Administration requests 2007-08 funding of \$23.9 million and 25 positions to continue with the Information Technology Modernization Project. Last year, the Legislature approved funding of \$2.1 million and 5 positions for the first year of this seven-year \$242 million project.

Credit Card Processing Fees. The Administration requests an augmentation of \$11.4 million in 2007-08 and \$12.7 million in 2008-09 to continue the payment of credit and debit card processing fees. In 2005-06 the Legislature approved two-year limited-term funding for DMV to pay these processing fees. At times in the past, the DMV has charged customers "convenience fees" to cover the cost of processing fees. Funding was provided in 2005-06 to eliminate these convenience fees to encourage customers to pay with a credit cards and reduce visits to DMV offices.

Facility Support Projects. The Administration requests 2007-08 funding of \$9.6 million (\$4.7 million ongoing) to remove non-public programs out of field offices and into stand-alone leased facilities or consolidated leased facilities. The DMV indicates these changes would reduce overcrowding in field offices, and also be beneficial in addressing a surge in visits that would accompany the implementation of Real ID (see the Real ID discussion below).

Headquarters Seismic Retrofit / Asbestos Abatement Project. The Administration requests \$84.6 million to complete the reconstruction of the Sacramento headquarters building. Last year the Legislature approved \$2.2 million for working drawings and the construction phase of the project was estimated at \$50 million. The construction phase of the project is now estimated at \$82 million.

Major Issue

Federal REAL ID Act. On May 11, 2005, President Bush signed H.R. 1268, which includes the Real ID Act of 2005. Regulations from the federal government on the implementation of this law have been delayed and are now expected in April or even later this year. Last year, the DMV estimated implementation of Real ID may cost the State \$500 million to \$750 million. It will also cause inconvenience for California driver's license holders, because most people will have to go to a DMV location to re-verify their identity. Real ID requires people without a passport to have a compliant driver's license or identification card by May of 2008 in order to enter a federal building or cross an airport checkpoint. No federal funds have been provided to California for Real ID. The Administration did not submit any 2007-08 budget requests related to Real ID, although spring Finance Letters may request budget changes.

PUBLIC EMPLOYMENT & RETIREMENT

1880 State Personnel Board

The State Personnel Board (SPB) is responsible for California's civil service system. The SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor proposes expenditures of \$23.9 million (\$5.5 million General Fund) and 161.3 positions – an increase of \$1.7 million and 24.7 positions.

Major Budget Proposals

Information Technology (IT) Classification Reform. The Governor requests \$571,000 (General Fund) and four positions to administer the selection phase for the new IT classifications. Last year, the Legislature approved funding of \$640,000 in the Department of Personnel Administration's budget to develop an IT classification and reform plan.

Centralized Internship Program. The Governor requests \$482,000 (reimbursements) and three positions to begin implementation of a centralized internship program for college students. The program would begin by placing science and engineering students within the California Environmental Protection Agency, but would eventually expand to other student majors and State departments. The Administration indicates that this is motivated by the surge in retirements that the State is expecting over the next five years.

FI\$CAL Positions: The Governor proposes \$794,000 (reimbursements) and nine positions to implement SPB's portion of the Financial Information System for California (FI\$CAL) information technology project, which would be coordinated by the Department of Finance.

1900 Public Employees' Retirement System

The Public Employees' Retirement System (PERS) provides benefits to about one million active and inactive members and about 441,000 retirees. PERS membership is divided approximately in thirds among current and retired employees of the State, schools, and participating public agencies. The Constitution grants the PERS Board "plenary authority and fiduciary responsibility for investments of moneys and administration of the system" as specified. PERS sets the State's retirement and healthcare contribution levels – consistent with union contracts negotiated by the Governor and approved by the Legislature, and vested benefits. This budget item shows PERS benefit and administrative expenditures. State retirement contributions for current employees are built into individual department budgets and Control Section 3.60 (see also the "Control Section 3.60" summary later in this section). State funding for 2007-08 Health and Dental Benefits for Annuitants is Budget Item 9650 (See also the "9650 Health and Dental Benefits for Annuitants" summary later in this section).

The PERS Board adopted a 2007-08 budget that anticipates benefit and administrative expenditures of \$13.6 billion (and 1,954 positions) – up \$1.2 billion (and 1.9 positions) from 2006-07. Administration is relatively unchanged, so this increase is due to increased benefit

costs. The State's retirement contribution for current employees is estimated at \$2.7 billion (including \$1.5 billion General Fund) – an increase of \$80 million (including a \$44 million General Fund increase) relative to 2006-07. The State's 2007-08 cost for health and dental benefits for annuitants is estimated at \$1.1 billion General Fund – an increase of \$38 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). The State's retirement contribution and annuitant health and dental contribution will be re-estimated by PERS around the time of the May Revision and the budgeted amounts will be adjusted at that time.

Highlights

Health Care Decision Support System Innovative Progress Project. PERS requests \$3.3 million in 2007-08 and \$3.7 million in 2008-09 from the Public Employees' Contingency Reserve Fund to proceed with a competitive re-procurement for this health care data. This request would continue the practice of PERS contracting with a vendor to collect health-related data feeds from health plans and provide analytical tools to access, manipulate, and report on the data. Most PERS funds are continuously appropriated, but some health-related activities are appropriated in the Budget Act and Budget Change Proposals are submitted by the Department. Note, the special authority provided to PERS by the Constitution does not extend to the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

1920 State Teachers' Retirement System

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

The STRS Board adopted a 2007-08 budget that anticipates benefit and administrative expenditures of \$8.5 billion (and 777.2 positions) – up \$774 million (and 60.5 positions) from 2006-07. Administration, including services to members and employers, is up about \$12 million, and benefit costs are up about \$761 million. In the 6300 Budget Item, the Governor is proposing \$1.048 billion (General Fund) in State contributions to STRS – up from the \$959 million provided in 2006-07. Note: 2006-07 funding included a one-time reduction of \$120 million that related to a past accounting adjustment.

Highlights

Reduction in Purchasing-Power-Protection Contribution. The proposed budget reduces the purchasing-power-protection State contribution from 2.5 percent of salary to 2.2 percent – for an annual savings of about \$75 million. The Administration indicates this contribution level is sufficient to maintain the existing benefit based on a 2005 actuarial analysis. Additionally, the Administration proposes to vest this benefit at the current 80-percent of purchasing-power protection. No change is proposed for the current-law State base contribution of 2.017 percent of teacher salary, which is separate from the purchasing-power-protection amount. In total, the Administration proposes State funding of \$1.048 billion for STRS: \$547 million for purchasing-

power protection (also called “Supplemental Benefit Maintenance”); and \$501 million for the base 2.017 percent contribution.

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) represents the Governor as the “employer” in all matters concerning the State workforce. The Department is responsible for all issues related to salaries, benefits, position classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Governor proposes expenditures of \$93.6 million (\$33.7 million General Fund) and 233 positions for DPA – an increase of \$1.8 million and 16.6 positions.

Highlights

Savings Plus Program. The Governor requests \$928,000 (special fund) to fund increased costs for the Third Party Administrator and external auditors for the Savings Plus Program and the Alternative Retirement Program.

FI\$CAL Positions: The Governor proposes \$1.1 million (reimbursements) and 11.5 positions to implement DPA’s portion of the Financial Information System for California (FI\$CAL) information technology project, which would be coordinated by the Department of Finance.

9650 Health and Dental Benefits for Annuitants

This budget item provides funding for health and dental benefit services for retired state employees and their dependents. The California Public Employees’ Retirement System (PERS) negotiates health care rates with providers and these future negotiations will affect the final cost to the State. A revised cost number should be available about the time of the May Revision. This funding covers 2007-08 costs, and does not provide money to begin pre-funding retirement health costs for current State employees.

Budget Item 9650 includes \$1.057 billion (\$1.019 billion General Fund) for Health and Dental Benefits for Annuitants – an increase of \$38.0 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). In past years, the funding for this item was based on a forecast of budget-year costs. This year, the budget-year amount is the sum of current-year costs and the Medicare Part D subsidy (see also Medicare Part D discussion below).

Issues

Medicare Part D. PERS is expected to annually receive approximately \$38 million in federal subsidies from the Medicare Part-D drug program. The Administration proposes to use these subsidies to supplant a portion of the General Fund cost for Health and Dental Benefits for Annuitants beginning in 2007-08.

GASB 45. Government Accounting Standards Board Statement 45 (GASB 45) requires government financial reports to quantify the unfunded liabilities associated with retiree health benefits. Last year, the Legislative Analyst estimated the State liability may be in the range of \$40 billion to \$70 billion; and the annual cost to fully pre-fund this benefit over 30 years may be in the range of \$6 billion. No money is proposed for pre-funding health benefits in 2007-08; however, Executive Order S-25-06 signed on December 28, 2006, created the Public Employee Post-Employment Benefits Commission to examine unfunded retirement benefits.

9800 Employee Compensation

Base employee-compensation funding is included in individual department budgets. Budget Item 9800 appropriates funding for 2007-08 cost increases associated with existing bargaining agreements and cost increases for excluded employees. For example, many units have contracts that provide for a cost-of-living increase on July 1, 2007, the estimated cost of this increase is included in this item. Additionally, other new costs, such as employee compensation costs that result from a court order, may be included in this item.

Budget Item 9800 is proposed at \$972 million (\$468 million General Fund). Included in this amount is a funding request of \$22.7 million (\$20.8 million General Fund) to increase salaries for specified medical classifications at the Department of Developmental Services, the Department of Veterans' Affairs, and the Department of Mental Health, to bring pay in those classifications within 18 percent of the court-ordered salary for the same classifications in the Department of Corrections and Rehabilitation – the court order relates to the *Plata v. Schwarzenegger* lawsuit. No funds are set aside to pay for any potential costs related to a new agreement with Bargaining Unit 6, which represents Corrections' Officers. Unit 6 is the only unit currently working with an expired contract.

Control Section 3.60 State Retirement Contribution

This control section specifies retirement contribution rates for 2007-08 and provides authority to the Director of Finance to adjust appropriations to conform to these rates. The actual retirement rates are set by the California Public Employees' Retirement System (PERS). State costs for 2007-08 are estimated at \$2.8 billion (including \$1.5 billion General Fund) – an increase of \$80 million (including a \$44 million General Fund increase) relative to 2006-07. PERS generally updates these rates at the time of the May Revision.

STATE ADMINISTRATION

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, agency secretaries, general government departments and budget items, and budget control sections.

0502 Office of the Chief Information Officer

The Administration requests 49 positions and \$7.8 million (Department of Technology Services Revolving Fund) to establish a centralized information technology (IT) management department and ensure that project specific activities are coordinated with other departments and reflect the state's policies and direction for information technology development.

This request is based on the passage of Chapter 533, Statutes of 2006 (SB 834, Figueroa), which established an Office of the Chief Information Officer (OCIO) and prescribed duties including: (1) advising the Governor on IT issues; (2) minimizing overlap and redundancy of state IT operations; (3) coordinating the activities of agency information officers; (4) advancing organizational maturity and capacity in IT management; and (5) establishing performance measures for IT systems and services.

According to the bill author's office, "Though the state has a chief information officer, it is not a statutory position, but a designation given to one of the governor's employees, thus the CIO has no specific authority. The author indicates that experts, both inside and outside of state government, have been calling for the establishment of a statutory CIO."

The OCIO would incorporate the project oversight and review function of the Department of Finance's Office of Technology Review, Oversight, and Security (OTROS). (Information security components also now housed in the Department of Finance would shift to the State and Consumer Services Agency.) Twenty-six positions in OTROS would move to the new Office of the Chief Information Officer to continue the project oversight and review activities.

The Budget Subcommittee will seek assurances that a centralized department, enterprise-wide purchasing approach—the contracting methodology adopted with the ill-fated Oracle contract, resulting in the disestablishment of the Department of Information Technology—will not again lead to poor IT contract decisions.

The fiscal analysis of SB 834, provided a legislative fiscal committee, characterizes the expense for the OCIO as "currently funded" and "absorbable." The Budget Subcommittee will want the Administration to explain why the OCIO should be funded at \$7.8 million and nearly 50 positions above what statute intended. Further, the Budget Subcommittee will want to

understand why this level of proposed authority shouldn't again receive the full scrutiny of policy committees.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with legislative analysis and planning, policy research, and liaison with local governments. The OPR also oversees programs for small business advocacy, rural policy, and environmental justice. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and overseeing the California Service Corps.

The Governor's budget funds 91.3 positions (including 19 new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$10,263 | \$10,436 | \$173 | 1.7% |
| Federal Trust Fund | 38,312 | 38,405 | 93 | 0.2 |
| Reimbursements | 2,217 | 3408 | 1,191 | 53.7 |
| Total | \$50,792 | \$52,249 | \$1,457 | 2.9% |

Highlights

Tribal Consultations and Guidelines. The OPR requests \$195,000 General Fund to continue training and outreach to tribal governments and updating the state's *General Plan Guidelines*, utilized by communities throughout California when updating their general plans. The request includes a one year extension of a Senior Planner position for tribal support, established for two years limited-term in the 2005 Budget Act. Pursuant to Chapter 905, Statutes of 2004 (SB 18), the OPR were directed to develop consultation guidelines for local governments and tribes in order to encourage protection of Native American lands.

Office of the Small Business Advocate. The OPR requests \$234,000 General Fund and two positions to fund the Office of the California Small Business Advocate (CSBA). Prior to the disestablishment of the Office of Trade and Commerce in 2002, functions of the Office of the CSBA was transferred to the OPR. The OPR has performed the duties of the CSBA over the last five years by periodically establishing a CSBA and funding it from existing resources. However, the OPR believes that 2006 legislation adding new responsibilities for the CSBA to study the effects of state regulation on small businesses and to develop an emergency preparedness handbook necessitates ongoing funding.

Homeland Security Grant Program. The OPR's California Service Corps requests \$3 million in federal fund reimbursements from the State Homeland Security Grant Program in order to enhance local communities' emergency response through training, outreach, and other volunteer

service opportunities. The Administration has designated the California Service Corps to administer the federal Citizen Corps Program and coordinate volunteers in the event of an emergency.

0690 Office of Emergency Services

The primary purpose of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters. During an emergency, the OES functions as the Governor's immediate staff to coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the Office of Homeland Security (OHS) develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate the recovery effort. The OHS also serves as the state administering agency for federal homeland security grants and the state's primary liaison with the U.S. Department of Homeland Security.

The budget proposes total expenditures of \$1.3 billion, an increase of \$1.1 million or less than one percent from estimated current year expenditures. General Fund expenditures are anticipated to be \$184.8 million in 2007-08, an increase of \$5.3 million or approximately three percent above revised current year expenditures.

| Summary of Programs (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|--------------------|--------------------|----------------|-------------|
| Support of Office of Homeland Security | \$340,020 | \$346,305 | \$6,285 | 1.8 |
| Mutual Aid Response | 17,173 | 17,449 | 276 | 1.6 |
| Plans and Preparedness | 36,968 | 40,152 | 3,184 | 8.6 |
| Disaster Assistance | 640,965 | 643,404 | 2,439 | 0.4 |
| Criminal Justice Projects | 230,719 | 218,918 | -11,801 | -5.1 |
| California Anti-Terrorism Info Center | 6,811 | 6,912 | 101 | 1.5 |
| Executive and Administration | 7,850 | 8,489 | 639 | 8.1 |
| Distributed Administration | (6,779) | (6,828) | -49 | -0.7 |
| Support of Other State Agencies | 22,000 | 22,000 | -- | 0.0 |
| Total | \$1,295,727 | \$1,296,801 | \$1,074 | 0.08 |

| Summary of Expenditures | | | | |
|--------------------------------|-------------|-------------|-----------|--------|
| (dollars in thousands) | | | | % |
| | 2006-07 | 2007-08 | \$ Change | Change |
| <i>State Operations</i> | | | | |
| General Fund | \$46,785 | \$52,606 | \$5,821 | 12.4 |
| Federal Funds | 64,893 | 68,091 | 3,198 | 4.9 |
| Reimbursements | 2,671 | 2,671 | 0 | 0.0 |
| Other Funds | 3,935 | 4,583 | 648 | 16.5 |
| Subtotal, State Operations | \$118,284 | \$127,951 | \$9,667 | 8.2 |
| <i>Local Assistance</i> | | | | |
| General Fund | \$132,660 | \$132,167 | -\$493 | -0.4 |
| Federal Funds | 1,019,270 | 1,011,996 | -7,274 | -0.7 |
| Reimbursements | 5,571 | -- | -5,571 | -100.0 |
| Other Funds | 19,942 | 24,687 | 3,455 | 23.8 |
| Subtotal, Local Assistance | \$1,177,443 | \$1,168,850 | -8,593 | -0.7 |
| Total | \$1,295,727 | \$1,296,801 | \$1,074 | 0.1 |

Highlights and Issues

Response and Recovery Division Workload Increase. The budget includes \$1.2 million (\$608,000 General Fund) and 14 positions to eliminate a significant backlog of disaster assistance claims and provide improved service to local governments and disaster victims.

Fiscal Administration Best Practices. The budget provides \$573,000 General Fund and 9 positions to address the need for better fiscal administration, as identified by the Office of State Audits and Evaluations, the Little Hoover Commission, and other state oversight agencies.

Antiterrorism Funds. The budget proposes \$5 million from the Antiterrorism Fund to fund a new program to establish the California Port Security Grant Program. This program is intended to provide regional preparedness grants to assist ports in preparing for, responding to, and mitigating potential acts of terrorism by implementing a transportation worker identification program. The Antiterrorism Fund was created by Chapter 38, Statutes of 2002 (AB 1759, Wesson) following the terrorist attacks on September 11, 2001. The fund receives revenues from the California memorial license plates, which are estimated at \$1.3 million annually. Money from the Antiterrorism Fund has not been appropriated in past years, and the estimated available balance is \$5.4 million. The ongoing grant program would be \$1 million annually.

Independent Gap Analysis. The 2006 Budget Act requires the OES to contract for an independent gap analysis to assess the strengths and vulnerabilities of California's emergency preparedness system for catastrophic events and the projected costs to address specific roles and possible gaps in state, local, and federal government agencies' capacity to respond, including the areas of governance, interoperability, medical response and surge capacity, evacuation, and economic recovery, and shall consider the role of the private sector in support of government response. The report shall recommend specific funding and policy options to address the identified gaps. The gap analysis will measure the state's baseline emergency capability and

evaluate and quantify areas where systems, resources and organizations can be improved. The analysis is on schedule to be completed by August 1, 2007.

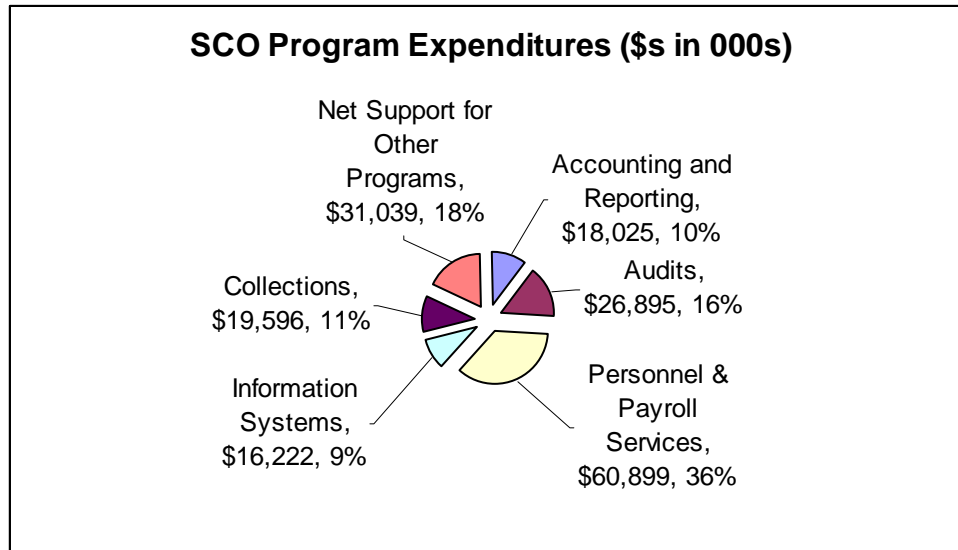
0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the unclaimed property law and property tax postponement programs.

The Governor’s budget includes 1,234.5 positions (including 136 new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$101,559 | \$103,430 | \$1,871 | 1.8% |
| Federal Trust Fund | 1,346 | 1,394 | 48 | 3.6 |
| Reimbursements | 36,766 | 41,991 | 5,225 | 14.2 |
| Other Funds | 22,829 | 25,257 | 2,428 | 10.6 |
| Total | \$162,500 | \$172,072 | \$9,572 | 5.9% |

The chart below shows SCO expenditures by function:



Highlights

Human Resources Management System (HRMS)/21st Century Project. The State Controller’s Office (SCO) requests an augmentation of \$38.3 million and 80.6 one-year limited-term positions to complete the system development phase of this project and begin rollout. This request constitutes the fourth year of funding in what is expected to be a six-year, \$140 million project.

This request is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems. The HRMS will also include a statewide time and attendance capability, greatly enhancing the Controller, Administration, and Legislature’s fiscal oversight abilities. For example, it is expected that the system will eventually capture actual salary savings at each department, replacing the arbitrary five percent standard used statewide today.

Technology, Trade, and Commerce Program Staffing. The SCO requests \$90,000 General Fund to extend a limited-term position for two additional years in order to collect and account for loan debts due to the state from the former Technology, Trade, and Commerce Program. The SCO assumed all loans, grants, and encumbrances when the Technology, Trade & Commerce Agency (TT&C) was disestablished in 2003.

Clean-up of Contaminated Property in Stockton. The SCO requests \$1 million (Underground Storage Tank Cost Recovery Fund) to perform remediation on real property that has escheated to the state. The petroleum-contaminated parcel is located in Stockton’s Central Business District and is owned by the State of California. The regional water quality control board recently met with the SCO and urged them to quickly mitigate the problem or face possible litigation.

Mandate Auditors: Conversion of Limited-Term to Permanent. The SCO requests \$999,000 to make 11 expiring limited-term positions permanent. In 2005-06 the Legislature augmented the SCO budget by \$996,000 and 11 positions to analyze older mandate cost claims

that were approaching the end of the statute of limitations for initiating claims audits. For every \$1 spent on these audit efforts, the mandate claim auditors have identified approximately \$17 in over claimed costs.

Apportionment Payment System. The SCO requests \$799,000 in fee revenues collected from various special funds to support ongoing maintenance and operation of the Apportionments Payment System (APS). Five positions would be funded by this assessment and a previously approved General Fund appropriation of \$62,000. The APS project was developed to fix a dangerously overburdened system that endangered timely distribution of apportionments to local agencies. Funding for this activity is provided through a statewide budget item, Control Section 25.50.

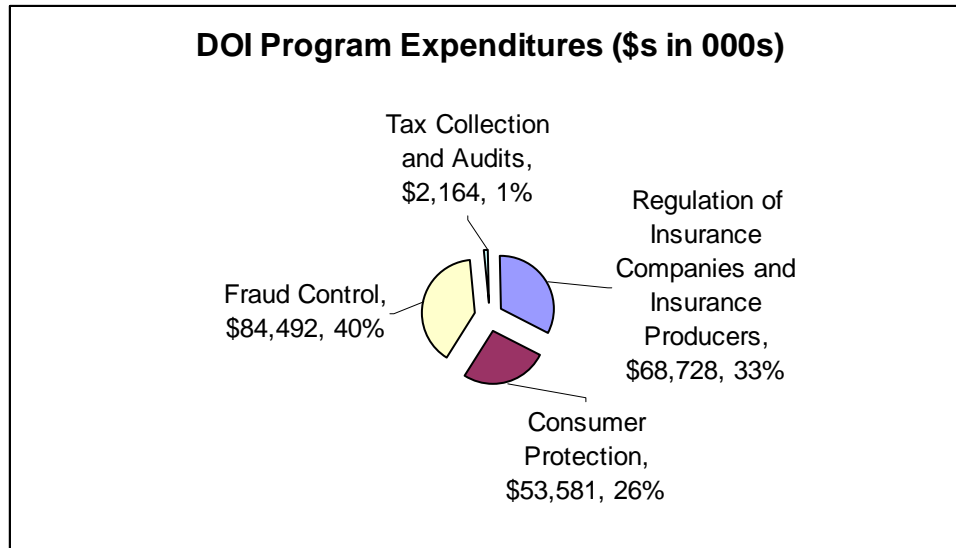
Salary Increase for Staff Management Auditors. The SCO requests \$224,000 (\$106,000 General Fund) to support a five percent salary increase for the Staff Management Auditor (Specialist), established in 2006-07 with Department of Personnel Administration approval. The SCO has experienced significant recruitment and retention problems because of unfavorable Staff Management Auditor salary comparisons between the SCO and other state and local agencies.

0845 Department of Insurance

Under the leadership of the state’s Insurance Commissioner, the Department of Insurance regulates the largest insurance market in the United States with over \$118 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and those insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and combats insurance fraud.

The Governor’s budget funds 1,263.4 positions (no new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|----------------|-------------|
| (dollars in thousands) | | | | |
| | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| Insurance Fund | \$207,529 | \$208,715 | \$1,186 | 0.6% |
| Reimbursements | 250 | 250 | 0 | 0.0 |
| Total | \$207,779 | \$208,965 | \$1,186 | 0.6% |



Highlights

Intervenors. The Department of Insurance proposes an increase of \$780,000 (Insurance Fund) ongoing for increased expenses associated with contracted “intervenors,” who act on behalf of consumers to resolve compensation claims conflicts with insurers. Intervenors may be compensated by either the Insurance Commissioner or a judge.

Upgrade of Legal Branch Positions. The Department of Insurance requests \$164,000 (Insurance Fund) to upgrade two Staff Counsel III positions to Staff Counsel IV positions and upgrade 23 Staff Counsel II positions to Staff Counsel III positions. The department believes that expanding scope of practice and retention issues necessitate these salary increases.

Automobile Insurance Fraud Program Spending Authority Increase. The Department of Insurance requests \$1.6 million (Insurance Fund) to distribute assessments collected from insurers to district attorneys to investigate and prosecute fraudulent automobile insurance claims. The department’s Automobile Insurance Fraud Program is funded by an annual fee of one dollar per insured vehicle, paid by California insurance companies.

Enterprise Information Portal. The Department of Insurance requests authority to redirect two positions and associated funding from the Regulation of Insurance Companies and Producers Program to the Administration Program to assist in the implementation of the Enterprise Information Portal. The Enterprise Information Portal, a computer system designed to aggregate multiple insurance data sources into a usable format, was established in 2005-06 with a \$2 million initial appropriation.

ISSUES

Increase to Local Assistance Workers’ Compensation Spending Authority. The Department of Insurance requests \$1.3 million (Insurance Fund) ongoing to fund increased investigations and prosecution of workers’ compensation fraud. This augmentation would raise the size of this annual subvention to local district attorneys to \$22.7 million (Insurance Fund). The need for an additional assessment on insurers for this activity was decided by the Governor-appointed Fraud Assessment Commission in December 2005.

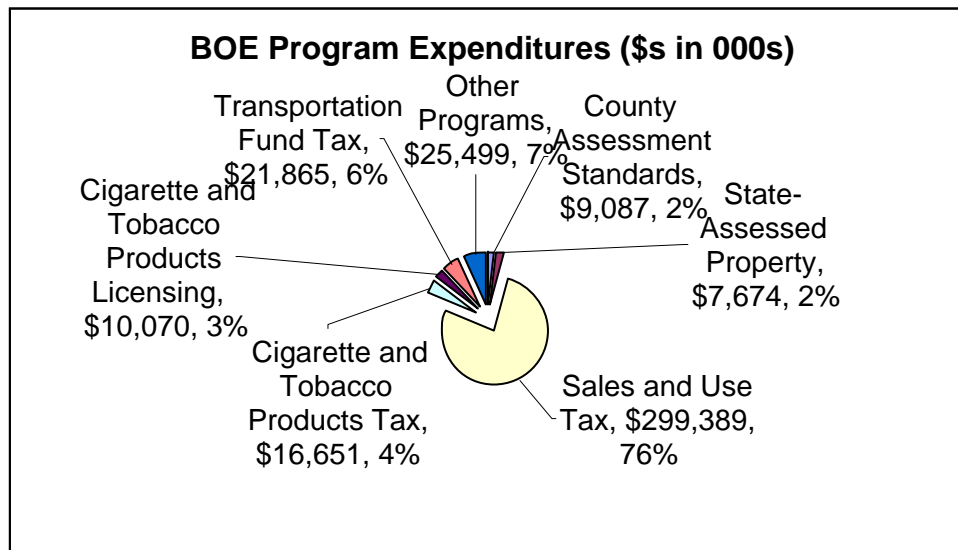
This issue was funded in the current year for one year only, based on the understanding that a separate workers’ compensation fraud study would provide findings relevant to how the department combats workers’ compensation fraud. The Budget Subcommittee will want to understand how those findings support this request.

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board, and the Employment Development Department are the state’s major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, and others. The BOE also assesses utility property for local property tax purposes, oversees the administration of local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including Franchise Tax Board decisions under the personal income tax and bank and corporation tax laws.

The Governor’s budget funds 3,800 positions (including 81 new positions) and budget expenditures as follows:

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$215,984 | \$218,135 | \$2,151 | 1.0% |
| Motor Vehicle Fuel Account | 20,118 | 20,865 | 747 | 3.7 |
| Federal Trust Fund | 1,228 | 1,594 | 366 | 29.8 |
| Reimbursements | 115,334 | 117,351 | 2,017 | 1.7 |
| Other Funds | 31,656 | 32,290 | 634 | 2.0 |
| Total | \$384,320 | \$390,235 | \$5,915 | 1.5% |



Highlights

The Governor’s budget includes several tax gap enforcement activities which altogether would generate \$12.5 million in new General Fund revenues.

Consumer Use Tax Section Revenue Enhancement. The Administration requests to make permanent six limited-term positions first established in 2005, at an ongoing cost of \$313,000 (\$203,000 General Fund). These positions will ensure collection of use tax in the compliance program for vehicles, vessels, and aircraft. Based on the last two years of program activity, the BOE anticipates annual revenues of \$4.3 million, a 14:1 benefit-cost ratio.

U.S. Customs Program Augmentation. The Administration requests 15.5 limited term positions, one permanent position, and \$1.1 million (\$696,000 General Fund) for the purpose of developing and investigating tax leads turned over by the U.S. Customs service. U.S. Customs electronic records tell the BOE where out-of-state imports were shipped in-state, information that can be compared to use tax payments. Based on the activity in this program over the last two years the BOE anticipates revenues of \$15.2 million to be generated, a 13:1 benefit-cost ratio.

Alcohol Beverage Tax Program Workload. The Administration requests two permanent positions and \$244,000 General Fund to restore resources for conducting field audits, collections, tax return processing, refunding and other tasks associated with administering the alcohol beverage tax. The BOE asserts that current staffing levels are inadequate to complete workload and generate the full amount due in annual alcohol beverage tax revenue. The BOE anticipates these resources will generate \$1.3 million, a 5.7:1 benefit-cost ratio.

Tire Fee Increase Workload. The Administration requests to make permanent 5.8 currently limited-term positions at a cost of \$485,000 (California Tire Recycling Management Fund), in order to strengthen the BOE’s ability to collect the tire fee. Collection efforts from the current

positions have yielded a more than 60:1 benefit-cost ratio. Additionally, the Administration seeks statutory authority to shift reimbursement for BOE staff work from reimbursement by the California Integrated Waste Management Board to a direct appropriation from the California Tire Recycling Management Fund.

Electronic Waste Recycling Fee Workload Adjustment. The budget includes a reduction of 20.7 positions and \$1.3 million (E-Waste Recovery and Recycling Account). Additionally, the BOE seeks to extend six expiring limited-term positions for an additional two years, at a cost of \$230,000. This realignment is intended to align budgeted dollars and staffing with a revised workload estimate of e-waste registered retailers.

International Fuel Tax Agreement (IFTA) Workload Growth. The Administration requests 11 new positions, including 8 new positions and 3 three-year limited-term positions, funded by redirecting existing funding of \$1 million from the Motor Vehicle Fuel Account. This proposal will better enable the BOE to meet national IFTA membership requirements and protects the estimated \$3 billion in matching federal funds. The BOE anticipates these new positions will generate an additional \$2.7 million annually for the Motor Vehicle Fuel Account.

Motor Vehicle Fuel Audit Staff Augmentation. The Administration requests \$715,000 (Motor Vehicle Fuel Account) and 5 audit positions to take advantage of new data generated by an automated reporting system and ensure tax compliance within the BOE's transportation tax programs; the motor vehicle fuel tax, diesel fuel tax, and jet fuel tax. The BOE anticipates revenues of \$14 million associated with these positions, a 21:1 benefit-cost ratio.

Expanded Environmental Fee Program (Assembly Bill 1803). In accordance with Chapter 77, Statutes of 2006 (AB 1803, Committee on Budget), the Board of Equalization requests reimbursement authority to recover costs associated with implementing and administering statutory changes to the BOE's Environmental Fee Program. Five new positions and \$483,000 (fee reimbursements) are needed to carry out these changes. AB 1803 expanded the types of businesses subject to the environmental fee to include limited liability companies, limited partnerships, limited liability partnerships, general partnerships, and sole proprietorships.

E-Filing Infrastructure Project. The Administration requests two positions and \$1.5 million (including \$949,000 General Fund) to expand electronic filing of returns to include the most complex and detailed returns. These returns constitute approximately 175,000 accounts and 89 percent sales and use tax revenues. The BOE anticipates that this expansion of e-file capacity will enable them to accelerate revenue collections by about \$20 million each year.

Tobacco Products Manufacturer and Importing Licensing (AB 1749). In accordance with Chapter 501, Statutes of 2006 (AB 1749, Horton) the Board of Equalization seeks 8.1 positions and \$1.2 million (\$181,000 General Fund) to implement AB 1749. This bill expanded the licensing and reporting requirements for tobacco manufacturers and importers. The BOE expects additional revenue of approximately \$4.2 million annually, a 6:1 benefit-cost ratio.

Tax Payment Delinquencies: Public Disclosure (AB 1418). In accordance with Chapter 716, Statutes of 2006 (AB 1418, Horton) the Board of Equalization seeks one, two-year limited-term position and \$106,000 (\$69,000 General Fund) to implement AB 1418. This bill required the

BOE and Franchise Tax Board to compile and make public on a quarterly basis a list of the 250 largest delinquent taxpayers.

Vehicle, Vessel, and Aircraft Use Tax Payments. The Administration proposes to make permanent a statutory requirement that use tax be paid if a vehicle, vessel or aircraft is brought into the state within 12 months of purchase. Currently, use tax (state and local) is imposed on property purchased outside of California at the same rate and with the same method as the sales tax, but brought into and used in California. Unless amended, a suspended provision of law would be reactivated declaring that a vehicle, vessel, or aircraft purchased outside the state and brought into the state 90 days after purchase is not subject to the tax.

0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. The Secretary of State is responsible for the appointment of notaries public, enforcement of notary law and preservation of certain records with historical significance. The Secretary of State's office includes Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Programs.

The Governor's budget funds 477 positions (including 15 new positions) and budget expenditures as follows:

| Summary of Expenditures | | | | |
|---|------------------|-----------------|-----------------|--------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$39,974 | \$36,150 | -\$3,824 | -9.6% |
| Secretary of State's Business Fees | 36,791 | 36,854 | 63 | 0.2 |
| Federal Trust Fund | 14,465 | 10,673 | -3,792 | -26.2 |
| Reimbursements | 7,347 | 7,339 | -8 | -0.1 |
| Victims of Corporate Fraud Compensation | 1,624 | 1,627 | 3 | 0.2 |
| Total | \$100,201 | \$92,643 | -\$7,558 | -7.5% |

Highlights/Issues

Revised Spending Plan for Help America Vote Act Expenditures. The Governor's Budget includes \$10.6 million in federal fund spending authority to continue implementing HAVA in accordance with a revised expenditure plan. A total of \$369 million in federal funds has been appropriated to California for voter equipment replacement, voter education, and related activities. Of the \$10.6 million requested for expenditure in the budget, \$6.4 million will be used to begin implementing the VoteCal statewide voter database, \$1.1 million to provide election assistance for people with disabilities, \$1.9 million for administration, and \$1.2 million for other elections-related activities.

Given the past history of misuse and delays in encumbering federal funds, the Budget Subcommittee will closely examine the latest expenditure plan, focusing on the projected rates of expenditure and specific use of funds.

Voter Registration Database Replacement. The Secretary of State requests 6.5 positions and \$6.9 million in federal fund spending authority to begin the process of replacing the existing

CalVoter statewide voter database with a more centralized and technologically advanced VoteCal database. The VoteCal database will contain the name and registration information for every legally registered active or inactive voter in California. After all federal HAVA funds are expended these positions will be funded by the General Fund.

Repayment for Help America Vote Act Audit Findings. The Secretary of State requests \$2.4 million General Fund to repay the Federal Trust Fund for illegal HAVA expenditures identified by the U.S. Elections Assistance Commission. A previous repayment of \$536,000 has been approved in the current year, bringing the total repayment to \$2.9 million.

Secretary of State Headquarters Repair and Shift to an Individual Rate Building. The Secretary of State requests \$1.7 million to effect repairs to the Secretary of State’s headquarters building in Sacramento, including replacement of the building roof, the establishment of a special repairs fund, and \$15,000 for recurring maintenance for the security keycard system. The Secretary of State also requests to shift the annual budgeting of the headquarters building to an individual rate building, which will enable the establishment of a special repairs reserve account to fund future repairs to the building.

0950 State Treasurer’s Office

The State Treasurer, a constitutionally established office, provides banking services for state government with the goals of minimizing interest and service costs, and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities, and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

The Governor’s budget funds 226.6 positions (with 4 new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|--------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$6,068 | \$6,132 | \$64 | 1.1% |
| Reimbursements | 16,533 | 16,637 | 104 | 0.6 |
| Total | \$22,601 | \$22,769 | \$168 | 0.7% |

Highlights

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

Appropriation Reduction for California Industrial Financing Advisory Commission. The California Industrial Financing Advisory Commission (CIDFAC) requests a reduction of one position and \$151,000 (Industrial Development Fund) to reflect a decrease in workload. The CIDFAC's revenue is generated by manufacturing finance activity, which has slowed considerably in the current economy. Additionally, new financing options available to businesses in Federal and State tax law has slowed CIDFAC activity.

STATE AND CONSUMER SERVICES AGENCY

The State and Consumer Services Agency includes the budgets of the Department of Consumer Affairs (including all bureaus, boards programs and divisions); the Department of Fair Employment and Housing; the Franchise Tax Board; the Department of General Services; and the Department of Technology Services. Departments with major budget change proposals are highlighted. The State Personnel Board; the Public Employees' Retirement System; and the State Teachers' Retirement System are included in the Public Employment and Retirement section of this overview.

0510 State and Consumer Services Agency

The State and Consumer Services Agency oversees the departments listed above, among others.

The Governor proposes \$3.2 million (\$2.5 million General Fund) and 23.7 positions – an increase of \$1.8 million and 14.9 positions.

Highlights

Creation of California Office of Information Security and Protection. The Administration proposes to reorganize the Information Security and Consumer Privacy Protection functions of the State by merging the Office of Privacy Protection (currently within the Department of Consumer Affairs) with the State Information Security Office (currently at the Department of Finance) to create the new Office of Information Security and Protection at the State and Consumer Services Agency. With the addition of three new positions, the Office would have a staff of 14 people and a budget of \$1.7 million. Note, the Administration is also proposing to reorganize other aspects of State information technology (IT) management by shifting certain IT functions at the Department of Finance to the Office of the Chief Information Officer, which was formally created by SB 834 (Chapter 533, Statutes of 2006).

1110 & 1111 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 27 semi-autonomous boards and 13 bureaus and programs that regulate over 230 professions. The 2007-08 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals \$447.0 million (no General Fund) and 2,758 positions, which is an increase of \$31.8 million and 113 positions.

Highlights – Boards (1110)

Accounting Board. The Governor proposes various staffing and funding increases that total \$1.3 million and 16.1 new positions. Among these are 3 new positions and \$213,000 for the Practice Privilege Program, which was added by SB 1543 (Chapter 921, Statutes of 2004) to allow out-of-state accountants to practice in California, as specified.

Various Boards – New Statutory Requirements. The Governor proposes the following budget augmentations citing the requirements of legislation chaptered in 2006.

- **Medical Board:** \$100,000 (one-time) is requested to implement AB 2342 (Chapter 276), which requires the Board, in conjunction with the Health Professions Education Foundation, to study the issue of its providing medical malpractice insurance for physicians and surgeons who provide voluntary unpaid services to indigent patients.
- **Board of Barbering and Cosmetology:** \$188,000 and 1.5 positions (ongoing) are requested to implement new workload requirements mandated by AB 861 (Chapter 411), which requires a study on licensing individuals with criminal records and allows the Board to issue probationary licenses.
- **Dental Board:** \$69,000 and 0.5 positions are requested to address increased licensing workload created by the enactment of SB 438 (Chapter 909), which broadens the scope of practice for Oral and Maxillofacial surgery permit holders. Additionally, \$63,000 and one position are requested to address the increased workload of SB 683 (Chapter 805), which provides an additional licensure pathway.
- **Committee on Dental Auxiliaries:** \$303,000 and two positions are requested to fund examination development workload created by SB 1541 (Chapter 908).

Highlights – Bureaus (1111)

Professional Fiduciaries Bureau. The Governor requests \$1.1 million and five positions in 2007-08 for the newly-created Professional Fiduciaries Bureau. The Bureau was established by SB 1550 (Chapter 491, Statutes of 2006) and will license and regulate professional fiduciaries.

Bureau of Automotive Repair. The Governor proposes an augmentation of \$12.3 million and 9.1 positions in 2007-08 and \$22.9 million and 13 positions in 2008-09 to implement the provisions of AB 1870 (Chapter 761, Statutes of 2006). AB 1870 requires the Bureau to incorporate a visible smoke test into the Smog Check Program and increase the polluting vehicle retirement payment from \$1,000 to \$1,500.

Bureau of Private Postsecondary and Vocational Education. The Governor proposes to continue the operation of the Bureau, which is scheduled to sunset effective July 1, 2007. The Administration proposes a funding increase of \$3.4 million and 21.4 positions. Additionally, the Administration indicates it will sponsor legislation to reform the Bureau's operations.

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes \$24.4 million (\$18.6 million General Fund) and 228.2 positions – an increase of \$2.6 million and 16.2 positions.

Highlight

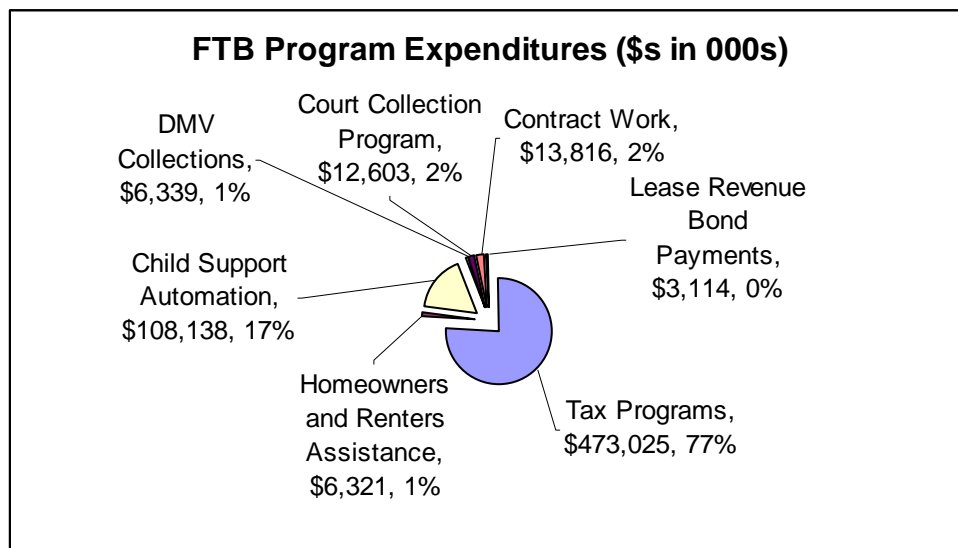
Staffing Augmentation. The Administration submitted two proposals to increase staffing. Budget Change Proposal #1 requests \$873,000 (General Fund) and seven positions to address the increasing number of housing cases filed annually. Budget Change Proposal #2 requests \$1.5 million (General Fund) and 10 positions to address increased workload in the legal and administration areas.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

The Governor’s budget funds 5,174 positions (including 240 new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|-----------------------------------|------------------|------------------|-------------------|---------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$562,159 | \$517,959 | -\$44,200 | -7.9% |
| Motor Vehicle Account | 2,180 | 2,198 | 18 | 0.8 |
| Motor Vehicle License Fee Account | 4,106 | 4,141 | 35 | 0.9 |
| Court Collection Account | 10,572 | 12,603 | 2,031 | 19.2 |
| Reimbursements | 184,161 | 86,354 | -97,807 | -53.1 |
| Other Funds | 101 | 101 | 0 | 0.0 |
| Total | \$763,279 | \$623,356 | -\$139,923 | -22.0% |



Highlights

E-Commerce Portal Infrastructure. The Administration requests \$1.5 million General Fund and one position to replace the current Internet infrastructure at the Butterfield Way campus in Sacramento and provide redundancy to accommodate growth in the FTB's e-commerce programs. These programs facilitate taxpaying by providing online filing services and other capabilities previously done by mail or phone. This request represents year one of a three-year project of which total costs are expected to be \$4.5 million.

Legal Support for Abusive Tax Shelters. The Administration requests \$1.3 million and 10 new positions to address Abusive Tax Shelter workloads. This workload was first funded in a 2005-06 budget change proposal on a limited-term basis. Projected workload has not abated since the positions were established and the department seeks to establish the positions permanently.

Child Support Automation System. The department requests a budget reduction of \$99.2 million (\$33.7 million General Fund) to reflect reduced project costs for the implementation of the CCSAS project. The CCSAS is a multi-year information technology project to develop, implement, and maintain an automated child support tracking system. This request conforms to the timelines and findings of the latest project Special Project Report and progress reports filed with the Federal government.

Tax Payment Delinquencies: Public Disclosure (AB 1418). In accordance with Chapter 716, Statutes of 2006 (AB 1418, Horton) the Franchise Tax Board seeks one, 1-year limited-term position and \$144,000 General Fund to implement AB 1418. This bill required the BOE and Franchise Tax Board to compile, and make public on a quarterly basis, a list of the 250 largest delinquent taxpayers in excess of \$100,000. The FTB estimates that this action will generate \$30 million in 2007-08 and \$5 million thereafter.

Elimination of Tax Clearance Certificate (AB 2341). The Administration proposes to recognize savings of \$1.3 million General Fund and a reduction of 18 positions to reflect the implementation of Chapter 773, Statutes of 2006 (AB 2341, Villines). This bill eliminated a requirement for businesses to obtain a tax clearance when they closed down and in some cases suspends liability for the annual or minimum franchise tax.

Teacher Retention Tax Credit. The Governor's Budget proposes elimination of the statutory authority for the Teacher Retention Tax Credit, which would generate savings of \$165 million General Fund. The tax credit provides up to \$1,500 to credentialed teachers, depending on their years of service. Created in 2000, the credit has been suspended in 2002, 2004, 2005, and 2006.

Issue

Tax Gap Budget Change Proposal. The FTB estimates that the tax gap, the difference between what taxpayers actually pay and what they should pay, is around \$6.5 billion/year. In a typical tax year, approximately 89 percent of all taxes owed are ultimately paid, with the remaining 11 percent constituting the tax gap. The tax gap is harmful to the state in many ways, but

principally because: (1) those who pay their fair share pay higher taxes to cover the gap, and (2) tax collections are undermined by the public perception that some are not paying their fair share.

The tax gap is manifested in three forms: manipulated tax filings through underreporting of income and overstating deductions; nonfiling of tax returns; and underpayment of amounts owed. Underreporting income and overstating deductions is by far the most common form (80 percent of total) with nonfiling and underpayments making up the remaining causes (about 10 percent each).

The Administration requests funding of \$19.6 million General Fund and 230 positions to support existing efforts to narrow the tax gap and develop new initiatives to further close that gap. Anticipated revenues in the budget year are approximately \$77.5 million in the budget year. These important and far-reaching proposals include the extension of positions and activities approved in prior budgets. The continuing initiatives include efforts to detect preparers of fraudulent returns, identifying new information sources to identify non-filers, and augmenting audit and collections staff.

The new initiatives focus on longer-term approaches to narrowing the tax gap and are based on a recently developed strategic plan to address the tax gap. They include: expanding the corporate non-filer program, addressing out-of-state tax avoidance, and improving methods for detecting under reporters.

Consistent with past years' practice, the Budget Subcommittee will seek to clarify the benefits of these initiatives, gauge the impact on taxpayer behavior, and explore other means to narrow the \$6.5 billion tax gap even further.

Restoration to Customer Service Level. The administration requests \$1.3 million and 27 positions to restore staffing levels in the Franchise Tax Board's Contact Centers and related supporting workloads. These call center positions were eliminated in recent years to meet budget reduction targets and the department now asks that they be restored in order to restore taxpayer and tax practitioner customer service and meet a response time target of responding to 80 percent of all calls within 2 minutes.

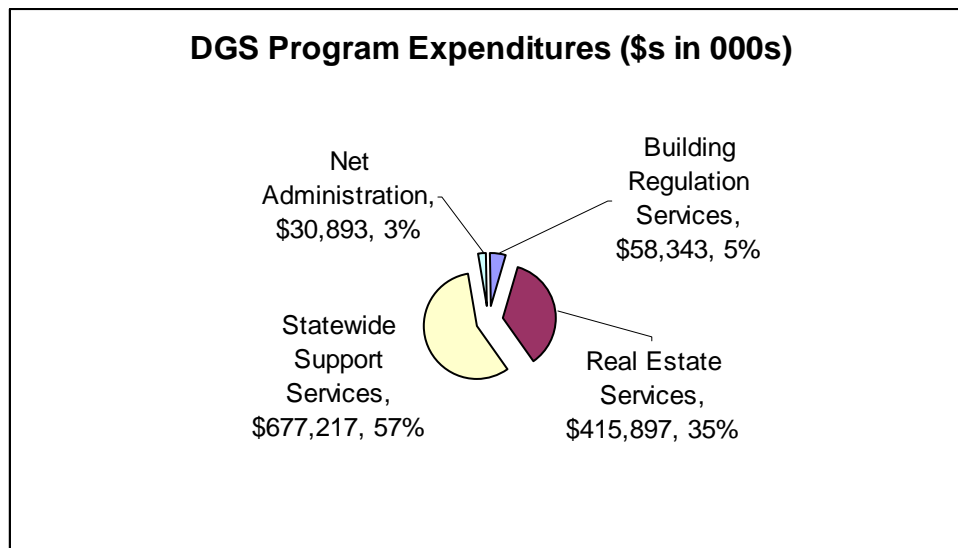
Given the Administrations' extensive emphasis on taxpayer enforcement actions over the past few years, the Budget Subcommittee will look closely at this proposal and other means to better facilitate taxpayers' contact with FTB.

1760 Department of General Services

The Department of General Services (DGS) provides management review and centralized support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties, as well as the state's procurement of materials, communications, transportation, printing, and security.

The Governor's budget funds 3,703 positions (including 67 new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|--|--------------------|--------------------|------------------|--------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$8,012 | \$9,225 | \$1,213 | 15.1% |
| State Emergency Telephone Number Account | 157,931 | 154,578 | -3,353 | -2.1 |
| State Motor Vehicle Insurance Account | 29,937 | 30,034 | 97 | 0.3 |
| Public School Planning, Design, & Construction Review Revolving Fund | 35,440 | 35,638 | 198 | 0.6 |
| Architecture Revolving Fund | 40,132 | 41,283 | 1,151 | 2.9 |
| Service Revolving Fund | 767,142 | 878,436 | 111,294 | 14.5 |
| Other Funds | 32,498 | 33,156 | 658 | 2.0 |
| Total | \$1,071,092 | \$1,182,350 | \$111,258 | 10.4% |



Highlights

Support for Implementation of the Global Warming Solutions Act of 2006. The Administration requests five positions and \$428,000 (Service Revolving Fund) to support the Bureau of Property Management’s implementation of Chapter 488, Statutes of 2006 (AB 32, Nunez), the Global Warming Solutions Act of 2006. The Act and related Executive Orders

require DGS to reduce energy purchases for state-owned buildings and to design, build, and operate “greener” buildings.

Private Consultants for Green Building Initiative. The Administration seeks \$3 million (Service Revolving Fund) to secure private consultants to pursue Leadership in Energy and Environmental Design (LEED) goals for eleven state office buildings. This energy efficiency goal is based on the Global Warming Solutions Act of 2006 (AB 32, Nunez), and ties to Executive Order S-20-04, an executive order relating to environmental protection. The cost for this consulting service will be shared by the departments occupying the eleven affected buildings.

Office of Administrative Hearings. The Administration requests to make permanent 73 limited-term Office of Administrative Hearings attorney and support positions. These positions don’t expire until June 2008 so there will be no fiscal impact in the budget year. The cost to make these positions permanent will be \$9.2 million (Service Revolving Fund) ongoing starting in 2008-09. These staff provide services for the Special Education Dispute Resolution Program, which mediates between school districts and parents of developmentally disabled children. The department has faced difficulty in fully staffing for this program due to the limited term nature of the existing positions. Funding for these positions is provided through an interagency agreement with the Department of Education.

Baseline Funding Adjustment for Natural Gas Services. The budget includes \$63.1 million (Service Revolving Fund) to permanently increase the department’s baseline natural gas budget up to \$234.3 million, the expenditure level of the prior year. This increase is driven by the state’s expanded use of natural gas energy, growth in the number of state agency natural gas consumers, and the price of natural gas. The Natural Gas Services Program began in 1997-98 with a budget of \$27 million and has been augmented five times since then, reaching a currently authorized budget of \$173 million.

Budget Bill Language for Tenant Improvements on DGS Individual Rate Buildings.

The Administration seeks statutory authorization to allow the department to spend sinking funds without submission of a budget change proposal for tenant improvements or utilization of vacant state-owned office space. The department believes the length of time necessary for approval of a BCP is too long and detrimental to the most cost effective use of state office space.

Asset Enhancement of Current Surplus Properties. The budget includes a one-time augmentation of \$1.6 million (Property Acquisition Law Money Account) for external consultant services to enhance the valuation of three current surplus properties. These properties are the Lanterman Developmental Center in Pomona, Fairview Developmental Center in Costa Mesa, and Los Angeles Civic Center. The Department reports that the sale of these properties has the potential to increase the market value of these properties by as much as \$30 million.

Conversion of Expiring Positions to Permanent in Office of Public School Construction. The Administration requests \$1.1 million (\$331,000 General Fund) ongoing to make permanent 13 expiring positions in the Office of Public School Construction (OPSC), Fiscal and Program Services Office. The OPSC asserts that not extending these positions would slow the processing of construction applications for the School Facilities Program. These positions will expire on June 30, 2007.

Secretary of State Building: Conversion to Individual Rate Building. The Administration seeks \$14.1 million (Service Revolving Fund) to transition the costs of debt service and set up a building rental rate for the building and establish a special repairs reserve account to fund future repairs to the building. The department asserts that the Secretary of State does not have the expertise or funds available to ensure the building is properly maintained and repaired.

Fleet Analysis and Reporting System. The budget includes a request for two positions and \$614,000 in 2007-08 (Service Revolving Fund) and four positions and \$1.3 million (Service Revolving Fund) in 2008-09 to continue development of a Fleet Analysis and Reporting System to improve tracking state vehicles. Once fully implemented, the department expects savings in excess of \$2 million from surplus vehicle sales.

Infrastructure Studies for DGS Buildings. The budget includes \$230,000 (Service Revolving Fund) for the preparation of two infrastructure studies of DGS buildings. These studies are normally conducted every 20-25 years. The two buildings to be studied are the Gregory Bateson Building and State Personnel Board Building, both in Sacramento.

California Highway Patrol (CHP) Enhanced Radio System. The budget includes 14 positions and \$4.9 million (Service Revolving Fund) in 2007-08 and \$9.4 million (Service Revolving Fund) in 2008-09 to facilitate the implementation of a new public safety radio communications system. All costs of this Budget Change Proposal have previously been identified and approved in a CHP BCP and will be recovered through billing the CHP.

Earthquake Safety Public Buildings Rehabilitation Bond Fund. The Administration requests to eliminate two positions and \$651,000 in expenditure authority for the Earthquake Safety Public Buildings Rehabilitation Bond Fund. A position to handle project management duties for eight proposed earthquake safety projects would be funded from the Architectural Revolving Fund.

State Capitol and Grounds Maintenance and Repairs. The budget includes \$1.2 million General Fund and 4.5 positions to conduct repair projects in the State Capitol and maintenance needs of the barrier system in Capitol Park.

Support for Department of Finance's FISCAL Project. The budget includes 17 positions and \$1.9 million (Service Revolving Fund) to support implementation of the Department of Finance's FISCAL project. This project seeks to update budget-related IT infrastructure throughout state agencies and the Legislature. The total FISCAL request for the budget year (directed by the Department of Finance) is \$35.7 million General Fund and 238 positions.

Capital Outlay BCP: Sacramento Public Safety Communications Decentralization. The budget includes \$4.8 million (various funds) to commence a design phase for the relocation of two critical public safety communications from the top floor of the Resources Building in Sacramento. The Administration seeks to relocate this type of facility from the downtown area to a more seismically sound structure, at a cost of \$29.5 million General Fund.

ISSUE

Augmentation for Building Security Services. The Administration requests \$1.1 million (Service Revolving Fund) to fund increased costs contained in the Master Security Services Agreement for 15 state buildings. This agreement and procurement of private security services is overseen by the California Highway Patrol, who had previously provided security services for these buildings.

The Legislature enacted budget bill language directing the Department of General Services to survey departments and report back by March 15th on security-related expenditures at state buildings from 2000 to 2006. This proposal will be viewed in light of that information (when provided) and the merits of adopting statewide security standards for state buildings.

1955 Department of Technology Services

The Department of Technology Services (DTS) was created in 2005 by the reorganization and consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The DTS serves the common technology needs of state agencies and other public entities. The DTS maintains accountability to customers for providing secure services that are responsive to their needs and represent best value to the state. Funding for DTS is provided by contracts with other state departments.

The Governor’s budget funds 767 positions (including 3 new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|--|------------------|------------------|-----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| Department of Technology Services Revolving Fund | \$235,712 | \$255,799 | \$20,087 | 8.5% |
| Total | \$235,712 | \$255,799 | \$20,087 | 8.5% |

Highlights

FI\$Cal Project Support. The budget includes three positions and \$352,000 (reimbursements) to support implementation of the Department of Finance’s Financial Information System for California (FI\$Cal) project. The FI\$Cal project is a long-term IT project to procure a comprehensive statewide financial management system, to include budgeting, accounting, procurement, cash management, and related components. The budget includes a total of \$35.7 million and 238 permanent positions to support a revised special project report for the FI\$Cal.

Prior Year Project Expenditure Adjustments. The Administration requests to reduce the DTS’ baseline budget to align appropriations with the ongoing costs of related projects. The proposed reductions decrease expenditures by \$9.3 million in the budget year and \$6.4 million in

2008-09. The DTS is a fee-for-service organization and operates solely upon reimbursements. This BCP requests the funding authority needed to meet customer's needs and requirements.

Enterprise Data Storage. The Administration requests \$5.3 million in 2007-08 (DTS Revolving Fund) to purchase and upgrade existing data storage capacity and safeguard customer data in order to meet anticipated growth needs of DTS' more than 450 customers. Specific needs have been identified in the mainframe storage capacity, midrange storage capacity, tape storage capacity, and connectivity infrastructure.

Network Workload Growth. The Administration requests a \$3.9 million increase in DTS Revolving Fund spending authority to replace phased-out hardware and accommodate network growth. The funding supports growth in the Wide Area Network, workload growth in supporting the California Child Support Automation System, and replacement of Local Area Network switches where vendor support is ending.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, and Managed Health Care. Transportation-related departments are included in the transportation section of this overview. Departments with major budget changes are highlighted below.

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency (BT&H) is a member of the Governor's Cabinet and oversees departments within the Agency. In addition, the Secretary's Office oversees smaller programs, such as the Small Business Loan Guarantee Program and the Film Commission, which are budgeted directly in the Secretary's Office.

The Governor proposes total expenditures of \$27.7 million (\$9.5 million General Fund) and 63.6 positions for the Office of the Secretary – an increase of \$2.4 million and three positions.

Highlights

Small Business Loan Guarantee Program – Severe Economic Dislocation Grants. The Governor requests a one-time appropriation of \$832,000 General Fund and \$4.3 million federal funds to establish a new loan guarantee program that would primarily use federal funds associated with the Sudden and Severe Economic Dislocation (SSED) Program. The Administration indicates that the Technology, Trade, and Commerce Agency, which was abolished in 2003, administered a Sudden and Severe Economic Dislocation Grant Program as a revolving loan program. With the demise of the Agency, the federal money remains, but cannot be accessed without a General Fund match and a new agency home. The new program would provide loan guarantees to small businesses in areas affected by natural disaster or the loss of jobs from a major employer.

California Travel and Tourism Commission. The Governor proposes to lower General Fund support from \$7.3 million to \$1 million in both 2006-07 and 2007-08 for the Tourism Commission. This proposal is motivated by the passage of AB 2592 (Chapter 790, Statutes of 2006, Leno) which allows the rental car industry to self-assess a new customer fee to support tourism marketing in California. The new fees are expected to bring in \$25 million in 2006-07 and \$50 million in 2007-08 and annually thereafter, which allows for both General Fund savings and an expanded tourism marketing budget.

International Trade and Investment Offices. The Governor requests three new permanent positions, 2007-08 funding of \$591,000, and ongoing funding of \$441,000, to undertake international trade and investment activities. The Administration indicates this request is associated with SB 1513 (Chapter 663, Statutes of 2006, Romero) which, among other provisions, requires the BT&H Agency to complete a study on the role of the state in global markets, develop a strategic international trade and investment plan, convene a statewide partnership to advise the Secretary on the strategic plan and needs of businesses, and study the

feasibility of international trade offices. The Senate Floor analysis for SB 1513 assumed the BT&H Agency could absorb the workload and cost of the study within existing resources.

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor proposes total expenditures of \$51.5 million (no General Fund) and 459.2 positions – a decrease of \$716,000 and no change in positions. No budget change proposals were submitted for the ABC.

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) regulates depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad.

The Governor proposes total expenditures of \$28.4 million (no General Fund) and 224.1 positions - an increase of \$2.4 million and 13.7 positions.

Highlight

Additional Examiners. The Governor proposes to augment the budget by \$1.2 million and 10 positions (eight Examiners, one Office Technician, and one Financial Institutions Manager) to expand bank examinations in the areas of electronic banking and disaster preparedness. The Administration indicates that California's oversight in these areas is deficient relative to other states.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries.

The Governor proposes total expenditures of \$33.9 million (no General Fund) and 277 positions, an increase of \$553,000 and 1.8 positions from the revised current year amounts.

Major Budget Proposals

Examiner Workload. The Administration submitted two proposals to address increased workload for Examiners. The permanent continuation of three limited-term Examiners and \$342,000 is requested for the Lender-Fiduciary Program. Two Staff Services Analysts and

\$159,000 is requested for the Investment Program to take over certain analytical duties currently performed by Examiners to allow current Examiners to spend more time in the field.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The Department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$968.6 million (\$15.6 million General Fund) and 597.2 positions for the department – an increase of \$314.3 million (48 percent) and 70.3 positions.

Revenue Changes

The majority of the Department's expenditures are supported by general obligation bond revenue. The budget includes \$58 million from the Emergency Shelter Trust Fund Act of 2002 (Prop 46) – down by \$170.8 million from 2006-07 due the full expenditure of bond funds for some programs. The budget includes \$659.4 million from the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). Portions of Prop 1C funds are continuously appropriated, and the Department is using this existing authority to expend \$161 million in Prop 1C funds in 2006-07.

The second largest revenue source is federal funds, estimated at \$174.5 million in 2007-08, which is about the same as 2006-07. Remaining expenditures of about \$77 million are covered by the General Fund (\$15.6 million), fees, and other miscellaneous revenues.

Highlights

Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). Prop 1C provides for a general obligation bond issuance not to exceed \$2.85 billion. The Governor proposes to expend \$659.4 million of Prop 1C revenues in 2007-08 (including \$6.4 million and 45 new positions for administration). Using existing expenditure authority, the Department plans to spend \$161 million in 2006-07 (including \$1 million for administrative costs), for a combined two year total of \$820 million. Some Prop 1C programs are already continuously appropriated and other programs require a Budget Act appropriation to authorize expenditure. The Administration also indicates it will be submitting budget trailer bill language to implement certain Prop 1C programs. The chart below outlines proposed Prop 1C expenditures by category and indicates whether each program will be administered by the Housing and Community Development (HCD) Department, or by the California Housing Finance Authority. Dollars are in thousands and 2006-07 and 2007-08 allocations exclude administrative costs.

| Proposition 1C Category | 2006-07 Allocations | 2007-08 Allocations | Total Prop 1C | Approp Type | Budget |
|--|---------------------|---------------------|--------------------|-------------|--------|
| <u>Homeownership Programs</u> | | | | | |
| CalHome | \$35,000 | \$55,000 | \$290,000 | Continuous | HCD |
| CA Homeownership Program (BEGIN) | 0 | 40,000 | 125,000 | Budget Act | HCD |
| Self-Help Housing Program | 0 | 3,000 | 10,000 | Continuous | HCD |
| CA Homebuyers Down-payment Assistance Program | 0 | 15,000 | 100,000 | Continuous | CalHFA |
| Residential Development Loan Program | 0 | 15,000 | 100,000 | Continuous | CalHFA |
| Affordable Housing Innovation Fund | 0 | 15,000 | 100,000 | Budget Act | HCD |
| <u>Multifamily Rental Housing Program</u> | | | | | |
| General | 70,000 | 140,000 | 345,000 | Continuous | HCD |
| Supportive Housing | 20,000 | 80,000 | 195,000 | Continuous | HCD |
| Homeless Youths | 15,000 | 15,000 | 50,000 | Continuous | HCD |
| <u>Other Programs</u> | | | | | |
| Serna Farmworker Loans/Grants | 20,000 | 40,000 | 135,000 | Continuous | HCD |
| Emergency Housing Assistance | 0 | 10,000 | 50,000 | Continuous | HCD |
| Infill Incentive Grants | 0 | 100,000 | 850,000 | Budget Act | HCD |
| Transit Oriented Development | 0 | 95,000 | 300,000 | Budget Act | HCD |
| Housing Urban-Suburban and Rural Parks | 0 | 30,000 | 200,000 | Budget Act | HCD |
| TOTAL | \$160,000 | \$653,000 | \$2,850,000 | | |

Funding Shift for New Permanent Positions. The Administration submitted two budget change proposals that would shift existing funds from temporary help and contract vendors to establish 21 new state positions.

- Budget Change Proposal #1 would reestablish 18 of the 57 positions lost due to the hiring freeze in 2002 and 2003. The Department would use existing temporary help dollars such that there would be no net funding increase.
- Budget Change Proposal #2 would establish three new positions to perform work currently done by vendors on the Codes and Standards Automated System (CASAS). The Department would shift contract dollars so this proposal would not result in a net funding increase.

Augmentation for New Permanent Positions. The Administration submitted five proposals, in addition to the Prop 1C request, that would establish 12 new positions to address workload and/or improve customer service.

- Budget Change Proposal #4 would establish four new positions, at a cost of \$697,000 (redirected General Funds), to increase technical assistance and support for the Enterprise Zone program.

- Budget Change Proposal #6 would establish three new positions, at a cost of \$287,000 (funded with existing fees), to provide oversight of third-party inspections and certification of an increased number of factory-built housing.
- Budget Change Proposal #6 would establish three new positions, at a cost of \$287,000 (funded with existing fees), to provide oversight of third-party inspections and certification of an increased number of factory-built housing.
- Budget Change Proposal #10 would establish one new position, at a cost of \$174,000 (various funds), to handle workload increases in the Technical Support Section of the Information Technology Branch.
- Budget Change Proposal #11 would establish one new position, at a cost of \$116,000 (various funds), to handle workload increases in the Budget and Contracts Office.

2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$46.6 million (no General Fund) and 336.5 positions for the Department – an increase of \$1.6 million, and no change in positions. No budget change proposals were submitted for the Department.

2400 Department of Managed Health Care

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

The Governor proposes \$43.4 million (no General Fund) and 297.3 positions for the Department – an increase of \$72,000 and no change in positions. No budget change proposals were submitted for the Department.

GENERAL GOVERNMENT

8620 Fair Political Practices Commission

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974. The objectives of the Political Reform Act are to ensure that election campaign expenditure data is fully and accurately disclosed so that the voters may be fully informed, inhibit improper financial practices, and regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.

The Governor’s budget funds 77 positions (including 5 new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|--------------------------------|----------------|----------------|--------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$7,441 | \$8,048 | \$607 | 8.2% |
| Total | \$7,441 | \$8,048 | \$607 | 8.2% |

Highlight

Administrative Workload Growth. The Administration requests five positions and \$604,000 to support administrative workload at the Fair Political Practices Commission (FPPC). Four of the requested positions would assist with budget, personnel and information technology workload, and one would address conflict of interest review issues in the Technical Assistance Division.

8860 Department of Finance

The Department of Finance is responsible for advising the Governor on fiscal matters, preparing the annual executive budget, evaluating the operation of state government, and developing economic and demographic information. In addition, the department oversees the operation of the state's accounting and fiscal reporting system. The Office of State Audits and Evaluations assesses the operation of the state's programs. Finally, the Office of Technology, Review, Oversight, and Security serves as the administration's information technology project review unit.

| Summary of Programs (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|-----------------|-----------------|-----------------|-------------|
| Annual Financial Plan | \$20,976 | \$21,081 | \$ 105 | 0.5 |
| Statewide Systems Development Program and Information System Assessments | -- | 37,941 | 37,941 | 100.0 |
| Supportive Data Administration | 14,032 | 12,401 | -1,631 | -11.6 |
| Administration | 16,332 | 12,956 | 3,376 | -20.7 |
| Distributed Administration | 6,168 | 7,612 | 1,444 | 23.4 |
| | -6,168 | -7,612 | -1,444 | -23.8 |
| Total | \$51,340 | \$84,379 | \$33,039 | 64.4 |

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|-----------------|-----------------|-----------------|-------------|
| General Fund | \$37,195 | \$68,773 | \$31,578 | 84.9 |
| Other Unallocated Special Funds | -- | 587 | 587 | 100.0 |
| Unallocated Bond Funds – Select | -- | 127 | 127 | 100.0 |
| Other Unallocated Cost Funds | -- | 352 | 352 | 100.0 |
| Reimbursements | 14,145 | 14,540 | 395 | 2.8 |
| Total | \$51,340 | \$84,379 | \$33,039 | 64.4 |

Highlights/Issues

Financial Information System for California (FI\$Cal). The budget includes \$35.7 million and 238 permanent positions to support a revised special project report for a comprehensive statewide financial system named the Financial Information System for California (FI\$Cal).

In 2005-06, the DOF began development of a Budget Information System (BIS). The scope of the BIS project was to implement a commercial off-the-shelf Budget Information System to meet statewide and departmental budget development and budget administration needs. The purpose of the BIS was to streamline budget processes and develop a year-round integrated budget

system to replace the multiple legacy budget systems. According to the Legislative Analyst Office, the total budget for BIS was projected at \$138 million.

The proposed budget expands the original project’s scope in order to procure a comprehensive statewide financial system that will encompass the management of resources in the areas of budgeting, accounting, procurement, cash accounting, grant management and human resources management and renames the revised project the Financial Information System for California (FI\$Cal). The estimated cost of the revised project is: \$221 million in 2008-09, \$210 million in 2009-10, and \$212 million in 2010-11; presumably these are one-time costs, and it is unclear what would be the ongoing operating costs of such a project. A closer examination of this and other major IT projects is warranted in light of the major cost implications and other functional changes in other areas of the budget.

Office of Technology Review, Oversight and Security (OTROS). The budget proposes to transfer \$3.3 million General Fund and 29 positions from OTROS to a newly created Office of the Chief Information Officer (OCIO). According to DOF, transferring the OTROS function to the OCIO will allow the State Chief Information Officer (CIO) to shape project planning documents and to exercise statewide direction, strategic planning and management, as well as control functions such as approval/disapproval of proposed projects, or providing conditional project approval.

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state.

The Governor’s budget funds 14 positions (with no new positions) and expenditures as follows:

| Summary of Expenditures | | | | |
|-----------------------------------|------------------|-----------------|-------------------|---------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$404,095 | \$1,715 | -\$402,380 | -99.6% |
| State Highway Account | 0 | 8 | 8 | n/a |
| Motor Vehicle Account | 1,551 | 10,825 | 9,274 | 597.9 |
| Dept of Pesticide Regulation Fund | 162 | 666 | 504 | 311.1 |
| Total | \$405,808 | \$13,214 | -\$392,594 | -96.7% |

Highlight

The Governor’s budget includes no adjustments to the Commission on State Mandates program budget.

Issues

Local Government State Mandates Payments. The budget includes no funding for General Fund mandate payments. The Administration has adopted a perspective that these mandates are due and payable not at the time individual claims are received (standard practice to date), but instead when all claims are received and audited. This change results in a one time cost shift to 2008-09 and a budget savings of approximately \$125 million.

The Budget Subcommittee will closely examine the legality and practicality of this Administration proposal.

Statutory Repayment of Past Due State Mandate Claims. The Administration proposes no payments for past due state mandate claims to local governments. In accordance with Proposition 1A (2004), the state must repay local agencies within 15 years for all of the pre-2004 mandates that have not been reimbursed. The approximate total of past due mandates is \$1.2 billion. However, the current year budget included two years' worth of these payments, allowing the option of forgoing a year's worth of payments in the proposed budget.

Local Government Mandate Suspensions. The same twenty-eight mandates that were suspended last year are again recommended for suspension in the budget year. The Budget Subcommittee will carefully evaluate the cost savings and policy implications of suspending each of these mandates.

Mandate Process Changes. The Administration has proposed the creation of an alternative mandate claim filing process to potentially reduce delays in mandate determinations and reduce costs. This new "joint determination" process would encourage local agencies and the Department of Finance to determine together, within 12 months of the enactment of a new statute, whether a new mandate has been established and the cost for that mandate. Costs, once agreed upon by both parties, would be submitted for Legislative review in the budget bill. If either the Department of Finance or local agencies disagreed with the joint determination, they may still opt to follow the current mandate determination process.

8910 Office of Administrative Law

The Office of Administrative Law is responsible for reviewing administrative regulations proposed by over 200 state regulatory agencies for compliance with standards set forth in California's Administrative Procedure Act, for transmitting these regulations to the Secretary of State, and for publishing regulations in the California Code of Regulations. In response to petitions by interested persons, the Office evaluates whether rules being used by state agencies constitute underground regulations which have not been properly adopted pursuant to the requirements of the Administrative Procedure Act and issues formal determinations reflecting those evaluations. The Office oversees the publication and distribution, in print and on the Internet, of the California Code of Regulations and the California Regulatory Notice Register.

The Governor's budget funds 20 positions (including two new positions) and expenditures as follows:

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|---|----------------|----------------|-------------|-------------|
| Fund Source | | | | |
| General Fund | \$2,906 | \$2,933 | \$27 | 0.9% |
| Total | \$2,906 | \$2,933 | \$27 | 0.9% |

Highlights

Conversion of Limited-Term Attorney Positions to Permanent. The Administration requests \$224,000 General Fund to convert two expiring Staff Counsel positions at the Office of Administrative Law (OAL) to permanent positions. Established in the 2005 Budget, these positions support OAL efforts to enforce laws prohibiting the use of underground regulations. Since establishment, the OAL reports that underground regulation caseload has increased significantly.

Shift from Reimbursements to Revenue. The Administration seeks to revise \$298,000 of the Office of Administrative Law’s (OAL) spending authority from a reimbursement to a direct General Fund cost basis. This conversion is based on the revisions to the contract with the printer of California’s Code of Regulations, which make it more appropriate to make a direct appropriation for printing services.

8940 Department of the Military

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to: (1) supply mission ready forces to the federal government as directed by the President; (2) provide emergency public safety support to civil authorities as directed by the Governor; and (3) support local communities as directed by proper authorities. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense.

The Governor’s budget funds 780 positions (including 95 new positions) and expenditures as follows:

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|------------------|------------------|----------------|-------------|
| Fund Source | | | | |
| General Fund | \$42,330 | \$44,829 | \$2,499 | 5.9% |
| Armory Discretionary Improvement Account | 146 | 150 | 4 | 2.7 |
| Armory Fund | 1,425 | 0 | -1,425 | -100.0 |
| Federal Trust Fund | 68,544 | 70,548 | 2,004 | 2.9 |
| Reimbursements | 15,286 | 15,610 | 324 | 2.1 |
| California Military Family Relief Fund | 250 | 250 | 0 | 0.0 |
| Total | \$127,981 | \$131,387 | \$3,406 | 2.7% |

Highlights

Education Assistance Program. The Administration requests \$1.7 million General Fund in 2007-08 and \$3.3 million General Fund in 2008-09 and ongoing to establish a California National Guard Election Assistance Program to provide tuition assistance for Guard members and support with recruitment and retention efforts. The Administration will propose enabling legislation to establish this program.

Armory Maintenance and Repair Baseline Increase. The Administration seeks to address a maintenance backlog for state armories by establishing a baseline increase of \$4.5 million (\$3 million General Fund, \$1.5 million Federal Trust Fund) for an ongoing maintenance and repair budget. These funds would be used for cyclic maintenance and remedial repairs as required. This request follows a one-time augmentation in the same amount for the current year.

New Armory Utilities Costs and Maintenance Cost Increases. The Administration requests a baseline increase of \$774,000 (\$442,000 General Fund) and four positions to provide custodial services to four new armories brought online in 2006. Based on the custodial budgets of armories of similar size, the California Military Department estimates operational costs of \$124,000 at each armory.

Military Funeral Honors Program.

The Governor's Budget includes \$1.8 million (General Fund) and 23 positions to provide the additional resources necessary to meet the increased demand for military funeral honors. The proposed administrative staff will train personnel, assign missions, submit reports to the Department of Defense, and perform other support tasks.

Stationary Engineer Positions. The Administration seeks to establish two stationary engineer positions at a cost of \$292,000 (\$166,000 General Fund) to assist in the preventive maintenance, perform repairs, and evaluate contractor work at California National Guard facilities. The

department is not currently authorized the Stationary Engineer positions sought for this specialized type of work.

Service Member Care. The Administration requests \$165,000 General Fund ongoing and one position to establish a full time mental health care capability. The proposed position will provide emergency crisis counseling, referral and personal support, combat stress evaluations, and other mental health support. Unlike California law enforcement agencies, the California Military Department has no full-time support system in place for service members.

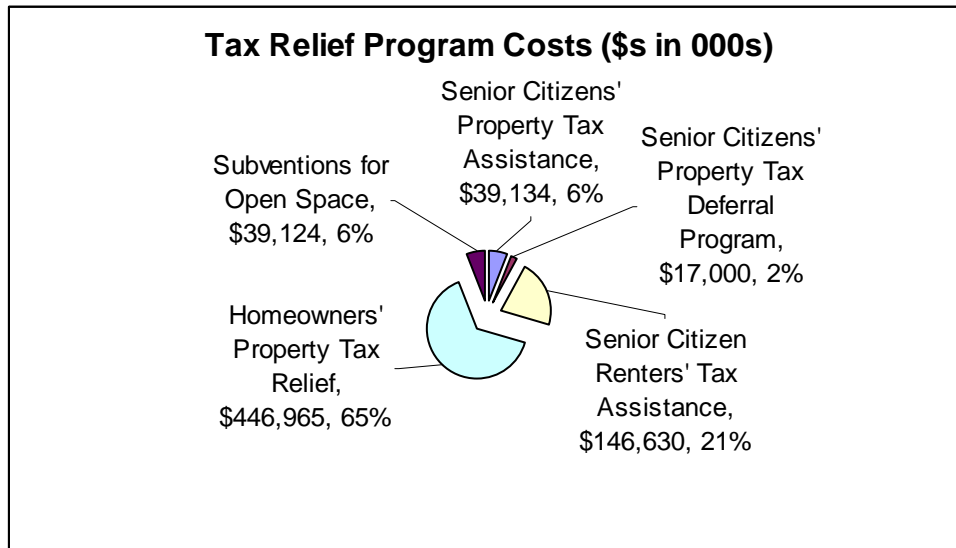
Homeland Security Training and Exercise Program. The Administration requests \$5.7 million ongoing (reimbursements) and 12 five-year limited-term positions to expend funds received from the Office of Homeland Security for staffing support and operational expenses. (The Office of Homeland Security received these funds from the Department of Homeland Security.) These positions would support the Office of Homeland Security’s statewide antiterrorism program and other training.

Federal Reimbursements for Force Protection. The Administration seeks to expend \$3.5 million (Federal Trust Fund) and establish 47 three-year limited-term positions to provide security for California National Guard installations and Army airfields. The Federal government has agreed to provide security staffing at eight selected California National Guard stations that are considered “mission essential.”

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief is provided to individuals who agree to hold their land as open space under the Williamson Act of 1965 and through payments to cities and counties to help defray revenues lost as a result of tax relief programs.

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$682,436 | \$688,853 | \$6,417 | 0.9% |
| Total | \$682,436 | \$688,853 | \$6,417 | 0.9% |



Budget Proposal

Williamson Act. The Governor’s budget fully funds the Williamson Act subventions for open space preservation at \$39.1 million.

9210 Local Government Financing

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has several programs where the state and counties jointly provide funding for services. State funding is also included in public safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

Local Government Financing expenditures are as follows:

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|--------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$293,934 | \$294,309 | \$375 | 0.1% |
| Total, Fund Source | \$293,934 | \$294,309 | \$375 | 0.1% |

Major Budget Proposals

Reduction to Redevelopment Bond Debt Backfill. The Administration proposes to reduce subventions to redevelopment agencies for bond debts by \$1.9 million. This backfill was created to enable payment of debt service after statute reduced personal property tax subventions to redevelopment agencies. Budget bill provisional language is proposed to reform the allocation of this subvention in accordance with the reduced appropriation.

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

Juvenile Justice Crime Prevention Act (JJCPA). JJCPA program funding is \$119 million, the equivalent of last year's appropriation.

Citizen's Option for Public Safety (COPS). Funding for the COPS program is maintained at \$119 million. This program provides discretionary funding on a per capita basis for local police departments and sheriffs for front line law enforcement (with a minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

Local Detention Facility Fees. The Administration includes an appropriation of \$35 million for activities associated with local detention facilities. Chapter 1805, Statutes of 2006 (AB 1805, Committee on Budget) established that counties, cities and counties, and certain cities may apply to the Controller to receive funding for local detention facilities and related equipment when an appropriation is made for that purpose.

9840 Augmentation for Contingencies and Emergencies

Each year, the Budget Act includes appropriation items in Item 9840 to be used to supplement departments' appropriations that are insufficient due to unanticipated expenses or emergency situations. There are three separate appropriations, one for each fund type - General, special, and non-governmental cost funds. These appropriations are allocated to other departments by the Department of Finance (with Legislative review) based upon the determination of need.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|-----------------|-----------------|----------------|--------------|
| Fund Source | | | | |
| General Fund | \$45,714 | \$49,000 | \$3,286 | 7.2% |
| Other Unallocated Special Funds | 9,753 | 15,000 | 5,247 | 53.8 |
| Various Other Unallocated Non-Governmental Cost Funds | 15,000 | 15,000 | 0 | 0.0 |
| Total | \$70,467 | \$79,000 | \$8,533 | 12.1% |

No adjustments are proposed for this item.

Budget Control Sections

Control Section 4.05: Unallocated Reductions. The Governor's Budget includes a \$100 million unallocated reduction for state agency's General Fund appropriations.

The original use of this control section was to reduce departments' budgets through layoffs, hiring freezes, procurement reductions, or other administrative means to achieve reductions. However, in recent years debt financing cost savings and caseload decreases—expenditure adjustments that occur naturally and don't involve departmental reductions—have been increasingly utilized to reach unallocated reduction targets. For example, the current year unallocated reduction goal of \$200 million was met by recognizing more than \$132 million in reduced debt general obligation debt service and interest on General Fund loans. While it is important to recognize these savings for the purpose of an accurate budget, the Budget Subcommittee may wish to reconsider how these reductions are recognized in a statewide control section.

Control Section 4.26: Elimination of Boards and Commissions. The Administration proposes a budget control section to instruct the Director of Finance to reduce items of appropriation to reflect savings achieved by abolishing the following boards and commissions: (1) California Consumer Power and Conservation Financing Authority; (2) California Electricity Oversight Board; (3) California Quality Education Commission; (4) Heritage Preservation Commission; and (5) Public Library Construction and Renovation Board.

Control Section 35.60: Budget Stabilization Account (BSA) Transfer to the General Fund. The Administration proposes to allow the Director of DOF to make transfers from BSA to the General Fund reserve whenever s/he determines that a shortfall will occur in the General Fund

reserve (with Legislative notification afterwards). This proposal was considered and rejected by Budget subcommittees last year.

JUDICIAL BRANCH

0250 Judicial Branch

Background. The California Constitution vests California's judicial authority in a three part court system composed of the Supreme Court, the Courts of Appeal, and the Trial Courts (also referred to as Superior Courts). The budget for the Judicial Branch is divided between two main segments, the State Judiciary and the Trial Courts. The State Judiciary encompasses the activities of the following entities:

- **Supreme Court**—The highest court in the state judicial system reviews legal questions of statewide importance and appeals of all death penalty judgments.
- **Courts of Appeal**—The six district Courts of Appeal hear appeals in all areas of civil and criminal law.
- **Habeas Corpus Resource Center**—This center provides legal representation for defendants in death penalty habeas corpus proceedings in the Supreme Court and in the federal courts.
- **Judicial Council**—The Judicial Council of California administers the state's judicial system. The Administrative Office of the Courts is the administrative arm of the Judicial Council and oversees the Judicial Branch Facility Program.

The largest component of the budget for the Judicial Branch is the local assistance for California's 58 Trial Courts (one in each county). Chapter 850, Statutes of 1997 (AB 233, Escutia and Pringle) shifted primary fiscal responsibility for these courts from the counties to the state. Under this law the state now funds the Trial Courts above a fixed county contribution.

Additional legislation and a voter initiative have further reshaped the Trial Courts since 1998. Proposition 220, passed by the voters in 1998 unified the county's superior and municipal courts into a one-tier trial court system. Chapter 1010, Statutes of 2000 (SB 2140, Burton) gave the courts the status of independent employers, making Trial Court staff employees of the court. Finally, Chapter 1082, Statutes of 2002 (SB 1732, Escutia) set up a framework to transfer the courthouses from the county to the state. The Judicial Branch is currently in the process of making these transfers and current law allows facilities to be transferred until the end of the 2006-07 fiscal year.

Governor's Budget. The Governor's budget proposes \$3.7 billion to support the Judicial Branch, which is 3.6 percent greater than estimated expenditures in the current year. General Fund support for the Judiciary is \$2.3 billion, which is about 12 percent greater than estimated expenditures in the current year. The increase in the budget year is primarily due to the year-over-year growth in the State Appropriations Limit and the full-year costs of 50 new judgeships approved in the 2006-07 Budget Act.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|--------------------|--------------------|------------------|------------|
| Type of Expenditure | | | | |
| Supreme Court | \$43,332 | \$44,924 | \$1,592 | 3.7 |
| Courts of Appeal | 190,781 | 203,610 | 12,829 | 6.7 |
| Judicial Council | 121,823 | 127,529 | 5,706 | 4.7 |
| Judicial Branch Facility Program | 34,727 | 36,387 | 1,660 | 4.8 |
| State Trial Court Funding | 3,091,911 | 3,265,197 | 173,286 | 5.6 |
| Habeas Corpus Resource Center | 13,344 | 14,263 | 919 | 6.9 |
| Capital Outlay | 87,498 | 19,527 | -67,971 | -77.7 |
| Total | \$3,583,416 | \$3,711,437 | \$128,021 | 3.6 |
| Funding Source | | | | |
| General Fund | \$2,007,914 | \$2,251,581 | \$243,667 | 12.1 |
| Special Funds | 1,489,097 | 1,394,804 | -94,293 | -6.3 |
| <i>Budget Total</i> | <i>3,497,011</i> | <i>3,646,385</i> | <i>149,374</i> | <i>4.3</i> |
| Federal Trust Fund | 6,371 | 6,391 | 20 | 0.3 |
| Judicial Branch Workers' Comp Fund | 2 | 2 | 0 | 0.0 |
| Public Building Construction Fund | 21,178 | 0 | - | - |
| Reimbursements | 58,855 | 58,659 | -196 | -0.3 |
| Total | \$3,583,417 | \$3,711,437 | \$128,020 | 3.6 |

Infrastructure Bond. The Governor has proposed a continuation of phase one of his Strategic Growth Plan, which includes \$2 billion in general obligation bonds for new and expanded court facilities. The Governor indicates that the \$2 billion being proposed will handle the most critical infrastructure needs and allow the courts to leverage private funding through public-private partnerships. Potential partnerships include exchanging outdated court facilities on valuable urban land for new court facilities on less prominently located property, co-locating revenue-generating commercial space in new court buildings, and contracting with private firms to construct and operate court buildings in exchange for lease payments.

Highlights

Entire Judicial Branch Fully Funded at State Appropriations Limit Rate. The Governor proposes to fully fund the entire Judicial Branch based on the year-over-year change in the State Appropriations Limit (5.36 percent) at an incremental cost of \$146.8 million General Fund. This includes \$16.7 million in additional monies for the State Judiciary and \$130.1 million for the Trial Courts. Current law requires that the Trial Courts receive a growth factor based on the State Appropriations Limit, but this is not a requirement in state law for the State Judiciary.

New Judgeships Proposed. The Governor proposes \$27.8 million in the budget year and \$74.3 million in 2008-09 to add 100 new judgeships over a two-year period beginning in April 2008. This proposal also supports the conversion of up to 161 judicial officers to judgeships, as the positions become vacant, funded from within existing resources. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted. In 2006 the Governor proposed adding 150 judges over a three-year period and the Legislature approved 50 new judgeships.

Funding Implements Recently Enacted Legislation. The Governor proposes \$17.4 million General Fund to implement the Conservatorship and Guardianship Reform Act of 2006. This Act increases court oversight over the conservatorship and guardianship system for elderly and dependent adults. These funds are proposed on a two-year limited-term basis so that the courts can better estimate the total costs to implement this new law.

The Governor also proposes \$1.4 million General Fund to implement AB 2480 (Evans) to require court-appointed counsel for children in appeals of dependency court orders.

New Access to Justice Pilot Program. The Governor proposes \$5 million General Fund to implement a pilot project in three Trial Courts to identify and provide representation to unrepresented litigants on civil matters who need more assistance than what is now available through the self-help programs. The program will help to develop models for providing representation to civil litigants who require representation.

Work to Start on New Court Facilities. The Governor proposes \$19.5 million in State Court Facilities Construction Fund to fund acquisition and working drawings for seven new courthouses in the following counties: Contra Costa, Joint Facility for Plumas and Sierra, Mono, Madera, San Bernardino, San Joaquin, and Riverside.

Issues

New Judgeships Need Legislative Approval. The Governor is proposing to add 100 new judgeships over a two-year period beginning in April 2008 and convert 161 subordinate judicial officers to judgeships. The Legislature may wish to evaluate the need for these new judgeships.

Most Trial Court Facilities Will Not Transfer to State by Deadline. The counties started transferring court facilities to the state in 2004-05. However, the transfer process has been slow and to date only 20 facilities have been transferred. One of the primary reasons for the delay was that a significant number of the court facilities were in need of seismic upgrades that prevented them from being transferred to the state. Legislation enacted in 2006, SB 10 (Dunn), addresses this issue by allowing buildings that need significant seismic upgrades to be transferred to the state so long as liability for all earthquake-related damage remains with the counties.

Current law requires that the counties transfer the court facilities by the end of the current year and the Administrative Office of the Courts expects that another 70 facilities will transfer by this statutory deadline. This leaves 360 court facilities that will not transfer by the statutory deadline. The Legislature may wish to evaluate how to deal with the facilities that have not been transferred by the statutory deadline.

Infrastructure Bond Issues. The Governor's Strategic Growth Plan includes \$2 billion in general obligation bonds to build new and renovate existing court facilities. This represents a portion of the \$5.2 billion identified in the 2006 Five-Year Infrastructure Plan for various

courthouse projects. Furthermore, the Judicial Council has identified nearly \$10 billion in needs to bring all courts up to secure and safe standards and to accommodate growth. A recent report on court facilities found that over half of county court buildings are not able to accommodate people with disabilities, lack up-to-date fire and life safety systems, and pose a substantial seismic risk. The Legislature may wish to evaluate the Governor's bond proposal to determine if it is adequate to meet the immediate needs of the courts.

Furthermore, legislation enacted in 2002 (SB 1732, Escutia) authorized specific penalties and surcharges to be allocated to the State Court Facilities Construction Fund to provide revenues dedicated to the construction and rehabilitation of state court facilities. The Legislature may also wish to consider the availability of these revenues in conjunction with the revenue bond to determine the amount of bond funding needed by the Judicial Branch.

Building Maintenance Payments From Counties Fall Short. As mentioned previously, the state is in the process of taking over responsibility for court facilities previously owned by the counties. As part of this transfer, the counties will pay the state for operations and maintenance of the court buildings through a County Facility Payment. The amount paid annually by the counties is being determined when each court facility is transferred to the state and is based on a five-year average of operations and maintenance costs developed five years ago.

The state is finding that in many cases these maintenance payments do not adequately cover the operations and maintenance costs of the buildings, especially given the age and condition of many of these buildings. Current law allows the County Facility Payments to be augmented by the General Fund at a rate equal to the growth in the State Appropriations Limit two years after the building has transferred from the county to the state. However, even this amount may not be adequate to address all of the operations and maintenance needs of these aging court buildings. The Legislature may wish to evaluate options for addressing ongoing shortfalls in operations and maintenance of state court facilities.

0280 Commission on Judicial Performance

Background. The Commission on Judicial Performance is an independent agency responsible for investigating complaints of judicial misconduct and judicial incapacity and for disciplining judges pursuant to the California Constitution. The Commission is composed of 11 members; three judges appointed by the Supreme Court, two attorneys appointed by the Governor, and six lay citizens, of whom two are appointed by the Governor, two are appointed by the Senate Committee on Rules, and two are appointed by the Speaker of the Assembly.

Governor's Budget. The Governor's budget includes \$4.4 million from the General Fund to support the Commission in the budget year. This is approximately the same level of funding as estimated for expenditure in the current year. There are no budget change proposals for the Commission.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|----------------|----------------|-------------|------------|
| Type of Expenditure | | | | |
| Commission | \$4,378 | \$4,400 | \$22 | 0.5 |
| Total | \$4,378 | \$4,400 | \$22 | 0.5 |
| Funding Source | | | | |
| General Fund | \$4,379 | \$4,401 | \$22 | 0.5 |
| <i>Budget Total</i> | <i>4,379</i> | <i>4,401</i> | <i>22</i> | <i>0.5</i> |
| Judicial Branch Workers' Comp Fund | -1 | -1 | 0 | 0.0 |
| Total | \$4,378 | \$4,400 | \$22 | 0.5 |

0390 Contributions to the Judges' Retirement System

Background. The Judges' Retirement System funds retirement benefits for California's Supreme, Appellate, and Trial Court Judges. The Judges' Retirement System receives contributions equal to eight percent of salary from both active judges and the state. Additional contributions come from filing fees for specific civil cases and investment income. These contributions have not been sufficient to fully fund benefit payments and current law requires the state General Fund to make up the difference between existing contributions and the required benefit payments to retired judges.

A second retirement system for judges was established in 1994 for all new judges elected or appointed after November 1994. The second system receives contributions from judges equal to 8 percent of their salary as well as investment income. The state also makes General Fund contributions to this fund annually to ensure required benefit payments to retired judges.

Governor's Budget. The Governor's budget proposal includes \$334 million (\$175 million General Fund) to support the two judges' retirement systems in the budget year. This is nearly 10 percent more than estimated for expenditure in the current year due to a \$19 million increase in General Fund to meet the required benefit payments to retired judges.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|------------------|------------------|-----------------|-------------|
| Type of Expenditure | | | | |
| State Operations | \$3,050 | \$3,050 | \$0 | 0.0 |
| Local Assistance | 152,656 | 171,716 | - | - |
| Unclassified | 149,066 | 159,321 | 10,255 | 6.9 |
| Total | \$304,772 | \$334,087 | \$29,315 | 9.6 |
| Funding Source | | | | |
| General Fund | \$155,706 | \$174,766 | \$19,060 | 12.2 |
| <i>Budget Total</i> | <i>155,706</i> | <i>174,766</i> | <i>19,060</i> | <i>12.2</i> |
| Judges' Retirement Fund | 147,628 | 157,445 | 9,817 | 6.6 |
| Judges' Retirement System II Fund | 1,438 | 1,876 | 438 | 30.5 |
| Total | \$304,772 | \$334,087 | \$29,315 | 9.6 |

Issues

Recruitment and Retention of Judges. Retirement benefits are an important factor in recruiting and retaining judges. Recent reviews of the current retirement benefits for judges find that they may not be adequate for retaining experienced judges. The Legislature may wish to modify the current retirement system so that experienced judges have improved incentives for remaining on the bench in California.

PUBLIC SAFETY

0820 Department of Justice

Background. The Department of Justice (DOJ) is under the direction of the Attorney General. The Attorney General is elected by the public and is required by the California Constitution, as the chief law officer of the state, to ensure that California's laws are uniformly and adequately enforced. The DOJ also serves as the state's primary legal representative and provides various services to assist local law enforcement agencies. The DOJ is organized into the following seven programmatic functions:

- **Civil Law**—Represents the state in civil matters and is organized in the following sections: Business and Tax; Correctional Law; Employment, Regulation and Administration; Government Law; Health, Education and Welfare; Health Quality Enforcement; Licensing; and Tort and Condemnation.
- **Criminal Law**—Represents the state in all criminal matters before the Appellate and Supreme Courts. The Criminal Law Program also assists district attorneys and conducts criminal investigations and prosecutions where local resources are inadequate.
- **Public Rights**—Provides legal services to all state agencies and constitutional officers and is organized in the following issue areas: Civil Rights and Enforcement; Charitable Trusts; Natural Resources; False Claims; Energy and Corporate Responsibility; Indian and Gaming Law; Environmental Law; Land Law; Consumer Law; Antitrust Law; and Tobacco Litigation Enforcement.
- **Law Enforcement**—Provides various services to local law enforcement and is organized into the following five elements: (1) the Bureau of Investigation conducts criminal investigations of statewide importance; (2) the Bureau of Narcotic Enforcement provides leadership, coordination, and support to law enforcement to combat the state's narcotic problem; (3) the Bureau of Forensic Services provides evaluation and analysis of physical crime evidence for state and local law enforcement; (4) the Western States Information Network provides an automated database of suspected criminal elements to law enforcement in neighboring states; and (5) the Criminal Intelligence Bureau shares criminal intelligence regarding organized crime, street gangs, and terrorist activity to other law enforcement agencies.
- **California Justice Information Systems**—Provides criminal justice information and identification services to law enforcement, regulatory agencies, and the public.
- **Gambling Control**—Regulates legal gambling activities and ensures that gambling on tribal lands is conducted in conformity with a gaming compact.
- **Firearms**—Provides oversight and regulation of firearms in California.

Governor’s Budget. The Governor’s budget proposal includes \$825 million to support DOJ in 2007-08. General Fund support for the department is about \$403 million, which is about \$4.8 million less than what is estimated for expenditure in the current year. This reduction is primarily due to one-time expenditures in the current year.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|------------------|------------------|-----------------|------------|
| Type of Expenditure | | | | |
| Directorate and Administration | \$29,195 | \$29,886 | \$691 | 2.4 |
| <i>less distributed Administration</i> | <i>-29,195</i> | <i>-29,886</i> | <i>-691</i> | <i>0.0</i> |
| Legal Support and Tech Admin | 52,191 | 53,425 | 1,234 | 2.4 |
| <i>less distributed Legal and Tech</i> | <i>-52,191</i> | <i>-53,425</i> | <i>-1,234</i> | <i>0.0</i> |
| Executive Programs | 16,278 | 16,222 | -56 | -0.3 |
| Civil Law | 133,391 | 145,990 | 12,599 | 9.4 |
| Criminal Law | 111,214 | 123,525 | 12,311 | 11.1 |
| Public Rights | 90,397 | 91,859 | 1,462 | 1.6 |
| Law Enforcement | 227,922 | 224,604 | -3,318 | -1.5 |
| California Justice Information Services | 182,731 | 185,961 | 3,230 | 1.8 |
| Gambling | 19,180 | 20,408 | 1,228 | 6.4 |
| Firearms | 18,537 | 16,653 | -1,884 | -10.2 |
| Total | \$799,650 | \$825,222 | \$25,572 | 3.2 |
| Funding Source | | | | |
| General Fund | \$407,478 | \$402,676 | -\$4,802 | -1.2 |
| Special Funds | 190,633 | 208,791 | 18,158 | 9.5 |
| <i>Budget Total</i> | <i>598,111</i> | <i>611,467</i> | <i>13,356</i> | <i>2.2</i> |
| Federal Trust Fund | 44,745 | 41,259 | -3,486 | -7.8 |
| Reimbursements | 44,484 | 43,099 | -1,385 | -3.1 |
| Special Deposit Fund | 2,662 | 2,687 | 25 | 0.9 |
| Domestic Violence Reimbursements | 1,918 | 1,918 | 0 | 0.0 |
| Ratepayer Relief Fund | 12,281 | 7,170 | -5,111 | -41.6 |
| Legal Services Revolving Fund | 95,449 | 117,622 | 22,173 | 23.2 |
| Total | \$799,650 | \$825,222 | \$25,572 | 3.2 |

Infrastructure Bond. The Governor proposes \$400 million in lease-revenue bonds for a new facility to house a new DNA laboratory and to co-locate other DOJ functions that are currently housed in leased space and other facilities around the Sacramento area.

Highlights

Habeas Corpus Workload Increase. The Governor proposes \$4.8 million General Fund to augment the department's Criminal Law division to support the increased federal habeas corpus workload. Federal habeas corpus litigation arises when inmates challenge life parole decisions and revocation decisions made by the Board of Parole Hearings and prison discipline or post-sentence credit decisions made by the Department of Corrections and Rehabilitation (CDCR). These filings have increased dramatically since November 2005 when the court eliminated the requirement that inmates needed permission from the court before filing federal habeas corpus appeals.

Correctional Law Workload Increase. The Governor proposes \$2.2 million General Fund to augment the department's Civil Law division to handle the increased class action workload related to CDCR. The CDCR is currently being sued in 23 class action lawsuits, including *Plata v. Schwarzenegger*, *Coleman v. Schwarzenegger*, and others. The department expects that four additional class action lawsuits will be filed against CDCR in the budget year, further increasing DOJ's workload.

Underwriter Litigation Continues. The Governor proposes \$4.2 million General Fund to maintain staffing to continue with a class action lawsuit against insurance companies referred to as the *Underwriters* litigation. This litigation is against insurance companies that reneged on insurance coverage held by the state on the Stringfellow hazardous waste dump, thereby leaving the state with significant clean up costs on this site. The DOJ has recovered more than \$120 million from insurance companies in this lawsuit thus far.

Megan's Law Implementation. The budget proposes \$767,000 to enhance the Megan's Law website to include additional information about sex offenders as mandated by legislation (SB 1128, Alquist and AB 1849, Leslie) enacted in 2006.

Issues

Infrastructure Bond Issues. The Governor's Strategic Growth Plan includes \$400 million in lease-revenue bonds to build a new facility to replace the existing DNA laboratory in Richmond, California and co-locate other DOJ functions currently in lease space and other buildings in the Sacramento area. This is about \$200 million more than identified in the 2006 Five-Year Infrastructure Plan for a new DNA laboratory. The Legislature may wish to evaluate the level of bond funding being proposed and determine why it is significantly more than proposed in the current year. Furthermore, the department has had a difficult time recruiting staff at its DNA laboratory in the San Francisco Bay Area because of the high cost of living in this area. The Legislature may also wish to evaluate relocating the DNA laboratory to make it easier to recruit staff.

DNA Identification Funding Possibly Short in Current Year. The Governor's budget assumes that the DNA Identification Fund will receive \$16 million in revenues in the current year. This fund receives revenues from an additional \$1 penalty for every \$10 of fine, penalty, or forfeiture collected by the courts for criminal offenses and all offenses involving a violation of the Vehicle Code. This fund supports activities related to Proposition 69, a 2004 voter initiative that requires DNA collection from all felons and adults and juveniles arrested for certain crimes. The department has indicated that early revenue collections were not at a rate fast enough to

reach \$16 million in the current year and General Fund monies may be needed to backfill this shortfall to continue Proposition 69 activities in the current year. The Governor’s budget contains budget bill language that allows revenue shortfalls to be backfilled by General Fund monies upon approval of the Joint Legislative Budget Committee. The Legislature may wish to determine a more realistic revenue assumption for the DNA Identification Fund that more closely reflects actual revenues.

0855 Gambling Control Commission

Background. The California Gambling Control Commission (GCC) is the primary state agency that regulates and licenses personnel and operations of the state’s gambling industry. The commission regulates 55 tribal casinos and more than 100 gambling establishments and cardrooms.

Governor’s Budget. The Governor’s budget allocates nearly \$137 million to GCC. This is a slight decrease from estimated expenditures in the current year.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|------------------|------------------|-----------------|-------------|
| Type of Expenditure | | | | |
| Commission | \$142,443 | \$136,827 | -\$5,616 | -3.9 |
| Total | \$142,443 | \$136,827 | -\$5,616 | -3.9 |
| Funding Source | | | | |
| Special Funds | \$40,459 | \$40,327 | -\$132 | -0.3 |
| <i>Budget Total</i> | <i>40,459</i> | <i>40,327</i> | <i>-132</i> | <i>-0.3</i> |
| Indian Gaming Rev Share Trust Fund | 101,984 | 96,500 | -5,484 | -5.4 |
| Total | \$142,443 | \$136,827 | -\$5,616 | -3.9 |

Highlight

Budget Counts on General Fund Revenues from Amended Tribal-State Gaming Compacts. The Governor’s budget counts on over \$500 million in new revenues to the General Fund from five tribal-state gaming compacts that have not been ratified by the Legislature. The following five tribes have existing tribal gaming operations and have negotiated amended compacts with the administration: Agua Caliente Band of Cahuilla Indians, Pechanga Band of Luiseno Mission Indians, San Manuel Band of Mission Indians, Morongo Band of Cahuilla Mission Indians, and Sycuan Band of Diegueno Mission Indians. The amended compacts would add 22,500 new gaming devices in California.

Issue

Revenues from Tribal-State Gaming Compacts May Be Overstated. The Legislative Analyst's Office (LAO) believes that the Governor's budget overstates the amount of revenue from tribal gaming that the state will receive in the budget year by at least \$200 million. Limited information has been provided by the administration about how quickly the tribes plan on phasing in the new gaming devices. The latter assumption is critical to determining how much revenue will be received in the budget year. Furthermore, the Legislature has not ratified the amended compacts and will need to do so quickly to receive additional tribal gaming revenues in the budget year. However, even if the Legislature does act quickly, revenues may still be less than estimated in the Governor's budget because the budget may rely on overly optimistic assumptions about the phase-in of the new gaming devices.

1690 Alfred E. Alquist Seismic Safety Commission

Background. The Seismic Safety Commission is the primary state agency responsible for reducing earthquake risk to life and property. The Commission investigates earthquakes, researches earthquake-related issues and reports, and recommends to the Governor and Legislature policies and programs needed to reduce earthquake risk. Legislation (SB 1278, Alquist) enacted in 2006, renamed, in memoriam, the Seismic Safety Commission to the Alfred E. Alquist Seismic Safety Commission and moved it under the purview of the State and Consumer Services Agency.

Governor's Budget. The Governor's budget proposal includes \$3.2 million from special funds for the support of the Commission. This is about \$2 million more than estimated for expenditure in the current year. This is primarily due to a new research grant program funded from the settlement of a lawsuit. (The totals included in the table below for 2006-07 include the half-year estimated expenditures for the old Seismic Safety Commission under the organization code of 8690.)

| Summary of Expenditures | | | | |
|--------------------------------|----------------|----------------|----------------|--------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Commission | \$1,206 | \$3,194 | \$1,988 | 164.8 |
| Total | \$1,206 | \$3,194 | \$1,988 | 164.8 |
| Funding Source | | | | |
| Special Funds | \$1,131 | \$1,117 | -\$14 | -1.2 |
| <i>Budget Total</i> | <i>1,131</i> | <i>1,117</i> | <i>-14</i> | <i>-1.2</i> |
| Reimbursements | 75 | 77 | 2 | 2.7 |
| Special Deposit Fund | - | 2,000 | - | - |
| Total | \$1,206 | \$3,194 | \$1,988 | 164.8 |

Highlight

New Grant Program. The Governor proposes to expend \$2 million special funds for a new grant program to fund research topics selected from the Commission’s Earthquake Research Plan. The grant program is funded from monies received from the settlement of a lawsuit in the Los Angeles Trial Court. The total settlement expected to be received by the commission for the grant program is \$6 million.

1870 California Victim Compensation and Government Claims Board

Background. The California Victim Compensation and Government Claims Board’s primary functions are to compensate victims of violent crime and consider and settle civil claims against the state. The Board consists of three members, the Director of General Services who serves as the chair, the State Controller, and a public member appointed by the Governor. The board also determines equitable travel allowances for certain government officials, responds to protests against the state alleging improper or unfair acts in the procurement process, and provides reimbursement of counties’ special election expenses.

Governor’s Budget. The Governor’s budget proposal includes \$139.5 million to support the California Victim Compensation and Government Claims Board’s activities. This is a slight decrease from estimated expenditures in the current year due to one-time payments to reimburse local governments for a special election in the current year. The budget does not propose any General Fund expenditures for the board in the budget year.

Current Year Spending Changes. The Governor’s budget reflects an increase in spending in the current year of \$1.3 million from the Restitution Fund. These monies were appropriated in AB 50 (Leno) in the 2006 Legislative session to fund the reauthorization of an interagency

agreement between the board and the University of California, San Francisco for the operation of the Trauma Recovery Center at San Francisco General Hospital. This center is a pilot project of the University designed to develop and test a comprehensive model of care as an alternative to fee-for-service care reimbursed by victim restitution funds. This model is attempting to improve access to services for poor people, homeless people, and people with mental health needs that are victims of violent crime.

| Summary of Expenditures | | | | |
|---|------------------|------------------|-----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Citizens Indemnification | \$130,125 | \$128,713 | -\$1,412 | -1.1 |
| Quality Assurance and Rev Recovery Div | 8,795 | 9,489 | 694 | 7.9 |
| Disaster Relief Claim Program | 19 | - | - | - |
| Civil Claims Against the State | 1,364 | 1,318 | -46 | -3.4 |
| Citizens Benefiting the Public Administration | 20 | 20 | 0 | 0.0 |
| <i>less distributed Administration</i> | -9,488 | -9,704 | -216 | 0.0 |
| Executive Office Administration | 391 | 507 | 116 | 29.7 |
| Counties' Special Education Reimb | 1,765 | - | - | - |
| Total | \$142,088 | \$139,540 | -\$2,548 | -1.8 |
| Funding Source | | | | |
| General Fund | \$1,765 | - | - | - |
| Special Funds | 106,716 | 106,035 | -681 | -0.6 |
| <i>Budget Total</i> | <i>108,481</i> | <i>106,035</i> | <i>-2,446</i> | <i>-2.3</i> |
| Federal Trust Fund | 32,224 | 32,187 | -37 | -0.1 |
| Reimbursements | 1,383 | 1,318 | -65 | -4.7 |
| Total | \$142,088 | \$139,540 | -\$2,548 | -1.8 |

8120 Commission on Peace Officer Standards and Training

Background. The Commission on Peace Officer Standards and Training (POST) is responsible for raising the competence level of law enforcement officers in California by establishing minimum selection and training standards, improving management practices, and providing financial assistance to local agencies relating to the training of law enforcement officers.

Governor’s Budget. The Governor’s budget proposal includes \$62.7 million from special funds to support POST in the budget year. This is a nearly 8 percent increase over estimated expenditures in the current year. This increase is due primarily to a budget proposal to replace inoperable driving simulators used to train law enforcement.

| Summary of Expenditures (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
|--|-----------------|-----------------|----------------|------------|
| Type of Expenditure | | | | |
| Standards | \$5,396 | \$5,438 | \$42 | 0.8 |
| Training | 30,727 | 35,290 | 4,563 | 14.9 |
| Peace Officer Training | 21,944 | 21,944 | 0 | 0.0 |
| Administration | 6,036 | 6,167 | 131 | 2.2 |
| <i>less distributed Administration</i> | <i>-6,036</i> | <i>-6,167</i> | <i>-131</i> | <i>0.0</i> |
| Total | \$58,067 | \$62,672 | \$4,605 | 7.9 |
| Funding Source | | | | |
| Peace Officers' Training Fund | 56,806 | 61,413 | 4,607 | 8.1 |
| <i>Budget Total</i> | <i>56,806</i> | <i>61,413</i> | <i>4,607</i> | <i>8.1</i> |
| Reimbursements | 1,259 | 1,259 | 0 | 0.0 |
| Total | \$58,065 | \$62,672 | \$4,607 | 7.9 |

Highlights

Replacement of Law Enforcement Driving Simulators. The Governor proposes \$3.5 million special funds to replace the eight oldest Law Enforcement Driving Simulators. These simulators are located in the State Regional Skills Training Centers and are needed as part of the Perishable Skills training required of California’s peace officers every two years.

Development of Web Based Training. The Governor proposes \$650,000 in special funds to develop a new web-based training portal, including converting current CD-ROM training to web-based. The funds will also be used to create an on-line survey mechanism for determining training needs of local law enforcement.

Increase Audit Capability. The Governor proposes \$250,000 in special funds to increase the contract it has with the State Controller’s Office to audit local law enforcement to ensure that local agencies are submitting appropriate reimbursement claims. This augmentation will allow the Controller’s Office to complete 30 to 35 audits annually, thereby auditing every agency once within a 20-year period.

8140 State Public Defender

Background. The Office of the State Public Defender was originally created to represent indigent criminal defendants on appeal. However, since 1990, the mandate of the office has been refocused to death penalty cases. The Office of the State Public Defender litigates death penalty cases both on appeal and habeas corpus.

Governor’s Budget. The Governor’s budget proposal includes \$12 million to support the Office of the State Public Defender. This is approximately the same level of funding as is estimated for expenditure in the current year.

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|-------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| State Public Defender | \$11,988 | \$12,040 | \$52 | 0.4 |
| Total | \$11,988 | \$12,040 | \$52 | 0.4 |
| Funding Source | | | | |
| General Fund | \$11,988 | \$12,040 | \$52 | 0.4 |
| Total | \$11,988 | \$12,040 | \$52 | 0.4 |

8180 Payments to Counties for Costs of Homicide Trial

Background. The state provides reimbursement to counties for the costs of conducting homicide trials. Under current law, a county may apply to the State Controller for reimbursement of certain costs of homicide trials and hearings. For most counties, the maximum amount that the county may be reimbursed is based on the county population, the assessed value of property within the county, and the number of homicide trials conducted during the fiscal year. However, certain counties are reimbursed for 100 percent of homicide trial costs.

Governor’s Budget. The Governor’s budget proposes \$2.5 million in General Fund monies to pay counties for the costs of homicide trials. This is \$1 million less than is estimated for expenditure in the current year.

| Summary of Expenditures | | | | |
|--------------------------------|----------------|----------------|-----------------|--------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| County Costs | \$3,500 | \$2,500 | -\$1,000 | -28.6 |
| Total | \$3,500 | \$2,500 | -\$1,000 | -28.6 |
| Funding Source | | | | |
| General Fund | \$3,500 | \$2,500 | -\$1,000 | -28.6 |
| Total | \$3,500 | \$2,500 | -\$1,000 | -28.6 |

8550 California Horse Racing Board

Background. The California Horse Racing Board (CHRB) licenses racing industry participants, enforces racing rules related to drugs and other offenses, administers efforts to protect racing horses, and oversees programs to improve the health of jockeys and other industry employees. The CHRB regulates operations at 14 racetracks, 20 simulcast facilities, and advance deposit wagering services (available via telephone or on-line).

Governor’s Budget. The Governor’s budget proposal includes \$10.8 million to support the CHRB in 2007-08. This is about 4 percent more than is estimated for expenditure in the current year due to one-time information technology hardware purchases proposed in the budget year.

| Summary of Expenditures | | | | |
|--|-----------------|-----------------|---------------|------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| California Horse Racing Board | \$10,392 | \$10,818 | \$426 | 4.1 |
| Administration | 7,011 | 8,115 | 1,104 | 15.7 |
| <i>less distributed Administration</i> | <i>-7,011</i> | <i>-8,115</i> | <i>-1,104</i> | <i>0.0</i> |
| Total | \$10,392 | \$10,818 | \$426 | 4.1 |
| Funding Source | | | | |
| Special Funds | \$8,969 | \$9,287 | \$318 | 3.5 |
| <i>Budget Total</i> | <i>8,969</i> | <i>9,287</i> | <i>318</i> | <i>3.5</i> |
| Special Deposit Fund | 1,423 | 1,531 | 108 | 7.6 |
| Total | \$10,392 | \$10,818 | \$426 | 4.1 |

CORRECTIONS AND REHABILITATION

5225 Department of Corrections and Rehabilitation

Background. The California Department of Corrections and Rehabilitation (CDCR) is responsible for the incarceration, training, education and care of adult felons and nonfelon narcotic addicts, as well as juvenile offenders. The CDCR also supervises and treats adult and juvenile parolees, and is responsible for the apprehension and reincarceration of those parolees who commit parole violations. The department also sets minimum standards for the operation of local detention facilities and selection and training of law enforcement personnel, as well as provides grants to local governments for crime prevention and reduction programs.

The department operates 33 adult prisons, including 11 reception centers, a central medical facility, a treatment center for narcotic addicts under civil commitment, and a substance abuse facility for incarcerated felons. The CDCR also operates eight juvenile correctional facilities, including three reception centers. In addition, CDCR manages 13 Community Correctional Facilities, 44 adult and juvenile conservation camps, the Richard A. McGee Correctional Training Center, and 202 adult and juvenile parole offices.

In 2005, the CDCR was created pursuant to the Governor's Reorganization Plan 1 of 2005 and Chapter 10, Statutes of 2005 (SB 737, Romero). All departments that previously reported to the Youth and Adult Correctional Agency were consolidated into CDCR. The departments consolidated into the current CDCR are: the Youth and Adult Correctional Agency; the California Department of Corrections; the Youth Authority; the Board of Corrections; the Board of Prison Terms; and the Commission on Correctional Peace Officers' Standards and Training.

Governor's Budget. The Governor's budget proposal includes \$20 billion for CDCR in 2006-07. This is 104 percent more than estimated expenditure levels in the current year due to the Governor's infrastructure proposal to issue lease-revenue bonds to build more prison beds. General Fund support for CDCR is \$10 billion in the budget year, which is nearly 9 percent (\$808 million), more than estimated for expenditure in the current year (these numbers include funding from Proposition 98). These increases are primarily due to a variety of increases to the department's support budget (\$505 million), including funding to comply with the various court orders and lawsuits, and implementation of Proposition 83 (Jessica's Law) and other recommendations of the High Risk Sex Offender Task Force.

The budget also proposes significant General Fund increases for local assistance (\$121 million) and capital outlay (\$182 million) in the budget year. The increase in funding for local assistance is primarily due to a proposed shift of a portion of juvenile offenders to local detention facilities and a new program to enhance probation services for the 18-to 25-year old population. The increased funding for capital outlay is due to the Governor's proposed infrastructure proposal that includes a sizeable increase in General Fund monies for critical upgrades to water and wastewater infrastructure at existing prisons.

| Summary of Expenditures | | | | |
|---|--------------------|---------------------|---------------------|--------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| Administration | \$268,564 | \$287,754 | \$19,190 | 7.1 |
| Sentencing Commission | - | 457 | - | - |
| Corrections Standards Authority | 273,176 | 350,622 | 77,446 | 28.4 |
| Juvenile Operations | 202,727 | 207,766 | 5,039 | 2.5 |
| Juvenile Education and Programs | 168,500 | 178,148 | 9,648 | 5.7 |
| Juvenile Parole | 50,207 | 37,164 | -13,043 | -26.0 |
| Juvenile Healthcare | 109,057 | 99,571 | -9,486 | -8.7 |
| Adult Operations | 5,227,093 | 5,292,902 | 65,809 | 1.3 |
| Adult Parole | 755,593 | 809,195 | 53,602 | 7.1 |
| Board of Parole Hearings | 102,567 | 108,508 | 5,941 | 5.8 |
| Community Partnerships | 11,842 | 10,622 | -1,220 | -10.3 |
| Adult Education and Programs | 285,814 | 456,876 | 171,062 | 59.9 |
| Adult Healthcare | 1,615,012 | 1,787,033 | 172,021 | 10.7 |
| Plata Compliance | 99,716 | 150,000 | 50,284 | 50.4 |
| Capital Outlay | 441,534 | 10,054,133 | 9,612,599 | 2,177.1 |
| General Obligation Debt | 197,449 | 211,781 | 14,332 | 7.3 |
| Total | \$9,808,851 | \$20,042,532 | \$10,233,681 | 104.3 |
| Funding Source | | | | |
| <i>General Fund, Non-Proposition 98</i> | <i>\$9,099,428</i> | <i>\$9,891,411</i> | <i>\$791,983</i> | <i>8.7</i> |
| <i>General Fund, Proposition 98</i> | <i>52,964</i> | <i>54,250</i> | <i>1,286</i> | <i>2.4</i> |
| <i>GO Bond Debt Service</i> | <i>197,449</i> | <i>211,781</i> | <i>14,332</i> | <i>7.3</i> |
| <i>less Federal SCAAP Assistance</i> | <i>-114,135</i> | <i>-114,135</i> | <i>0</i> | <i>0.0</i> |
| General Fund, Total | 9,235,706 | 10,043,307 | 807,601 | 8.7 |
| Special Funds | 22,142 | 22,091 | -51 | -0.2 |
| GO Bond Expenditures | 2,885 | 0 | -2,885 | -100.0 |
| <i>Budget Total</i> | <i>9,260,733</i> | <i>10,065,398</i> | <i>804,665</i> | <i>8.7</i> |
| Federal Trust Fund | 147,974 | 143,186 | -4,788 | -3.2 |
| CA State Lottery Education Fund | 277 | 277 | 0 | 0.0 |
| Inmate Welfare Fund | 64,380 | 67,661 | 3,281 | 5.1 |
| Special Deposit Fund | 1,083 | 1,018 | -65 | -6.0 |
| Public Building Construction Fund | 244,095 | 9,677,764 | 9,433,669 | 3,864.8 |
| Reimbursements | 90,310 | 87,228 | -3,082 | -3.4 |
| Total | \$9,808,852 | \$20,042,532 | \$10,233,680 | 104.3 |

Infrastructure Bond. The Governor has proposed a second phase of his Strategic Growth Plan, which includes \$10.9 billion for new and expanded prison facilities. The majority (\$9.5 billion) of this plan would be funded with lease-revenue bonds. The plan includes the following components:

- **Expansion of Existing Prison Facilities.** \$2.7 billion (\$300 million General Fund and \$2.4 billion lease-revenue bonds) to add over 16,000 new beds at existing prison facilities, expand power, water, and wastewater treatment facilities to accommodate the expanded capacity, and build a new correctional training facility in Southern California.
- **Build New Re-entry Facilities.** \$1.6 billion in lease-revenue bonds or contracting authority to construct up to 7,000 beds in coordination with local governments for inmates nearing their parole date and revoked parolees.
- **Expand Local Jails and Juvenile Facilities.** \$5.5 billion (\$4.4 billion lease-revenue bonds and \$1.1 billion local matching funds) to add 45,000 new jail beds statewide and 5,000 new juvenile beds.
- **Expand Health Care Facilities.** \$1 billion for specialized beds, treatment space, and program space for mental health services, dental services, and general medical services. These funds will be set aside until cost estimates of specific projects become available from the court-appointed Receiver in *Plata v. Schwarzenegger*.
- **San Quentin Condemned Inmate Complex.** \$117 million in lease-revenue bonds to address additional funding needed to complete construction of a new secure facility for the state's condemned population at San Quentin.

Current Year Spending Changes. The budget includes \$485 million in additional General Fund expenditures in the current year above the expenditure level in the 2006-07 Budget Act. The following adjustments are proposed to the current year budget:

- **Comply with Court Orders and Lawsuits.** \$130 million General Fund to comply with various court orders and lawsuits affecting CDCR. This includes \$35.5 million to comply with the *Coleman v. Schwarzenegger* lawsuit that was appropriated by SB 1134 (Budget) at the end of the legislative session in 2006.
- **Implement Sex Offender Management Plan.** \$30.4 million General Fund to implement Proposition 83 (Jessica's Law) passed by the voters in November 2006 and other recently-enacted legislation related to managing sex offenders. The Department of Mental Health is provided an additional \$29 million for its role in implementing Proposition 83.
- **Out-of-State Inmate Transfers.** \$10.3 million General Fund to cover the additional costs incurred to transfer inmates to out-of-state facilities to alleviate overcrowding in CDCR facilities. The total estimated costs to transport and house inmates in private prisons outside of California in the current year is \$30.7 million, which is offset by population savings related to not housing these prisoners in California.
- **Adult Population Adjustment.** \$9.7 million General Fund to fund a slight increase in the adult inmate and parole populations in the current year.

- **Juvenile Population Adjustment.** Negative \$12.4 million General Fund resulting from a delay in the implementation of smaller living units and staffing ratios required by *Farrell v. Tilton* and a slight reduction in the juvenile offender and parole population.
- **Infrastructure Adjustment.** \$13.4 million General Fund to account for various reappropriations and carryovers from capital outlay projects funded in prior years.
- **Other Adjustments.** Negative \$42.5 million General Fund for various adjustments, of which the largest is a \$30 million savings related to a delayed roll out of the Mentally Ill Offender Crime Reduction (MIOCR) grant program to local governments.
- **Employee Compensation.** \$345.7 million General Fund for employee compensation adjustments in the current year. The largest adjustment is due to a recent arbitration decision involving the California Correctional Peace Officers Association.

The Legislature already appropriated a portion (\$35.5 million General Fund) of the \$485 million in SB 1134 (Budget) at the end of the 2006 legislative session. However, the administration still needs the Legislature to appropriate two additional supplemental appropriations bills appropriating \$134.5 million to cover non-population driven deficiencies (\$124.9 million) and population-related deficiencies (\$9.6 million General Fund) in the current year. In addition to these two supplemental appropriations bills, there is a sizeable increase in employee compensation expenses that the administration plans to fund through an augmentation to the 9800 employee compensation budget item.

Adult Population Highlights

Adult Population Estimate. The Governor proposes \$58.8 million General Fund to fund growth in the adult inmate and parolee population for 2007-08. The 2007-08 average daily adult inmate population is estimated to be 177,577 and the average daily adult parolee population is anticipated to be 122,148. These populations are 2.4 percent and 2.5 percent higher, respectively, than the estimates for the current year.

Realignment of Adult Population. The Governor proposes that beginning in 2008-09, specified non-serious, non-violent offenders with terms of three years or less will serve their sentences in county jail closer to their families and communities. The Governor estimates that this will reduce state prison costs by \$250 million in 2008-09 and \$500 million by 2009-10. The Governor does not propose any savings in the budget year from this proposal.

Continue to Fill Out-of-State Beds. The Governor proposes \$13.2 million in the budget year to cover additional costs associated with transferring 2,260 inmates to prison facilities outside of California. The total estimated costs to transport and house inmates in private prisons outside of California in the budget year is \$59.7 million, which is offset by population savings related to not housing these prisoners in California prisons.

Adult Parole Reforms. The Governor's budget includes estimated savings resulting from modifications to the parole structure. The proposed modifications include: (1) automatic discharge from parole for individuals with 12 months of "clean time"; (2) no parole for some non-serious, non-violent offenders as recommended by a sentencing commission; and (3) elimination of 90-day diagnostic evaluations. These changes are estimated to result in savings of

\$56.7 million in the budget year. The administration is proposing trailer bill language to implement the first and third modification to the parole structure. The second modification would depend on recommendations made by a sentencing commission that is also being proposed by the Governor.

Juvenile Justice Highlights

Juvenile Population Estimates. Population estimates of juvenile offenders and parolees are projected to decrease in the budget year. However, there is an overall increase in funding of \$5.8 million General Fund proposed for the budget year so that the department can continue to implement smaller living units and staffing ratios to comply with the *Farrell v. Tilton* lawsuit. The 2007-08 year-end juvenile offender population is estimated to be 2,490 and the year-end juvenile parolee population is estimated to be 2,405. These populations are 5 percent and 13 percent lower, respectively, than the estimates for the current year.

Realignment of Juvenile Population. The Governor proposes reducing the number of juveniles housed in state facilities by transferring all female and some low-level male offenders to local detention facilities. This realignment of the juvenile offender population is estimated to save the state \$32.9 million in the budget year.

Eliminates Juvenile Parole Reentry Grant. The Governor proposes to eliminate the Juvenile Justice Community Reentry Challenge Grant in the budget year resulting in \$10 million General Fund savings. The department plans on continuing to allocate the grant in the current year.

Rehabilitation Program Highlights

Implement Female Offender Initiative. The Governor proposes \$3.8 million General Fund in the budget year to lay the ground work for transferring 4,350 female offenders to Female Rehabilitative Community Correctional Centers and to activate a 35-bed community based facility in Fresno.

Enhanced Adult Probation Services. The Governor proposes \$50 million General Fund for a grant program to expand local adult probation services. These monies will be used to focus on providing services to 18- to 25-year olds and will be modeled after the Juvenile Justice Crime Prevention Act program.

Rehabilitation and Recidivism Reduction Programs. The Governor proposes \$41.1 million General Fund to augment programs that reduce recidivism in the budget year. This is in addition to the \$52.8 million provided in the 2006-07 Budget Act. The Governor proposes to build on the current year efforts and continue funding educational needs assessments, substance abuse program expansions, mandatory conditions of parole, and other programs to reduce recidivism.

Pay-Parity for State Prison Teachers. The Governor proposes \$4.9 million General Fund to provide schedule and pay parity with the Division of Juvenile Justice for all teachers and vocational instructors in adult institutions.

Fund Expanded Residential Aftercare. The Governor proposes \$12.2 million General Fund in additional funding to implement recent legislation (SB 1453, Speier) that requires mandatory residential aftercare programs for some offenders. These funds will be used to maintain the

current level of drug treatment furlough beds. The drug treatment furlough beds had been funded with monies that will now be shifted to fund mandatory residential aftercare.

Healthcare Highlights

Health Care Lawsuit - *Plata v. Schwarzenegger*. The 2006-07 Budget Act allocated \$100 million to fund healthcare activities at CDCR directed by the court-appointed Receiver in the *Plata v. Schwarzenegger* lawsuit. To date, the Receiver has directed expenditure of \$50 million of this amount, which has resulted in \$55 million in ongoing expenditures that have been built into the 2007-08 base budget. The Governor's budget includes an additional \$150 million General Fund to fund new costs driven by the Receiver in 2007-08.

Mental Health Care Lawsuit - *Coleman v. Schwarzenegger*. The Governor proposes \$109.1 million General Fund for the budget year to continue state efforts to comply with the requirements of *Coleman v. Schwarzenegger*. This includes funding to increase salaries for mental health professionals and retrofit intake cells within administrative segregation units.

Dental Care Lawsuit - *Perez v. Schwarzenegger*. The Governor proposes \$78.7 million General Fund for the budget year to continue the state efforts to comply with the requirements of *Perez v. Schwarzenegger*. This includes funding a lower dentist-to-inmate ratio and for potential salary increases for dental service providers.

Other Highlights

Creates a Sentencing Commission. The Governor proposes to create a sentencing commission that will review and make recommendations on sentencing guidelines. The budget includes \$457,000 General Fund to support the commission in the budget year. The administration plans to sponsor urgency legislation that it hopes will pass the Legislature in the early months of 2007. Once established, the sentencing commission would be directed by the Governor to review and recommend changes to the parole system.

Federal Funds Cover Small Portion of Costs to Incarcerate Undocumented Felons. The budget assumes \$114.1 million in federal State Criminal Alien Assistance Program (SCAAP) funding for the budget year. The Governor's budget estimates that total costs associated with incarcerating undocumented felons in state prison will be \$897.3 million in the budget year. Therefore, federal funding will cover less than 13 percent of the total costs of incarcerating undocumented felons.

Implement Sex Offender Management Plan. The Governor proposes \$122.8 million General Fund for 2007-08 to implement Jessica's Law (Proposition 83) that was passed by the voters in November 2006, other recently-enacted legislation, and recommendations of the High Risk Sex Offender Task Force. The Department of Mental Health is provided an additional \$54 million for its role in implementing Proposition 83.

Implement Critical Information Technology Projects. The Governor proposes \$36.1 million General Fund in the budget year to fund two information technology projects, the Consolidated Information Technology Infrastructure Project and the Strategic Offender Management System. The Consolidated Information Technology Infrastructure Project will consolidate the department's current information technology infrastructure and provide the basic network

infrastructure for planned and future projects to centrally track and update inmate information. The Strategic Offender Management System will track inmate information in a centralized system.

Increase Base Funding for Facility Maintenance and Major Equipment Replacement. The Governor proposes \$69 million General Fund to augment the department's baseline budget for maintenance, special repairs, and major equipment purchases.

General Issues

Long-Term Population Management Needed. California's prison population is at an all-time high and California's prisons are filled to over capacity. The state has also been named in numerous class action lawsuits that are changing the way state prison functions. In three of these suits, motions have been filed to cap the prison population. One judge has given the state until June to improve prison conditions and relieve prison overcrowding. These issues and more have resulted in the department's current crisis management approach to managing the prison population. This is not a cost-effective or sustainable long-term approach to population management. Furthermore, it has made it difficult to establish programs and practices that improve inmates' access to programming and improve safety in the institutions. A few years ago the department started to evaluate and make long-term plans for the mission of each of its 33 institutions. However, these planning efforts have been on hold, in part, because of the healthcare Receiver and because these long-term planners are needed to assist in day-to-day crisis management.

The department needs to re-engage in real long-term population management. Just building more beds will not result in population management, the department needs to become more efficient and active at managing its population to improve safety in the prisons and reduce recidivism. The Legislature should evaluate a multi-strategy approach to help refocus CDCR on long-term population management.

Vacancies Plague the Department. The CDCR has long standing problems in recruiting and retaining staff across all classifications. The recent pay raises ordered by the Receiver (*Plata*) and Special Master (*Coleman*) for healthcare staff were to help fill the huge number of vacancies in healthcare staffing. However, the problem does not end there. Every year the state spends hundreds of millions of dollars on overtime pay because the prisons do not have an adequate number of correctional officers to cover prison operations. Correctional officer vacancies result in some officers working two consecutive shifts and many days in a row without a day off. This is not an ideal environment for the retention of staff and for the safety of the officers. In addition, vacancies also plague other areas of the department. In a recent vacancy report from the State Controller, over 1,200 positions were eliminated because they were vacant for more than six months. Nearly 400 of these positions were adult basic education and vocational teachers. Without adequate numbers of teachers it is difficult for the department to provide basic rehabilitative programming. The Legislature may wish to continue to work on creative solutions for addressing the vacancy problems that plague the department. The Legislature may also wish to consider this problem when adding additional capacity at some prisons where recruitment is especially difficult because of the location of the prison facility.

Performance Metrics Need Refinement. As part of the 2006-07 Budget Act, the Legislature requested that numerous performance metrics be included in the Governor's budget and in a separate supplemental report to the Legislature. These metrics were to help improve the transparency and oversight of the department's operations and budget. The department has provided the first round of data with the budget. However, some of the data is incomplete and difficult to interpret. The Legislature may wish to review this data and make changes to improve its usefulness in providing transparency and oversight of CDCR's operations and budget.

Infrastructure Issues

Prison Overcrowding and "Bad" Beds Impact Prison Operations. The California prison system currently has over 16,000 "bad" beds, which are bunks on dayroom floors and gyms. These bad beds impact prison operations on many levels. They make it more difficult for prison officials to maintain safe conditions for prison staff and inmates. They also reduce the space available for inmate programs. Furthermore, the overcrowding of the prison facilities has overburdened the basic infrastructure of many of the institutions resulting in sewage spills and shortages of safe drinking water.

The Governor declared a State of Emergency on October 4, 2006 citing that California's prisons are beyond capacity and that action needed to be taken immediately to remedy the situation. Soon after the declaration, the department entered into contracts with several private prisons outside of the state to house volunteer inmates. To date, the state has transferred 240 inmates out of state (160 prisoners to the Florence Correctional Facility in Arizona and 80 inmates to the West Tennessee Detention Facility). The department plans on transferring a total of 2,260 inmates to correctional facilities out of state in the current year. These efforts will help relieve some overcrowding at some facilities, but will not be enough to eliminate all of the bad beds in California institutions. The Legislature may wish to consider additional strategies to reduce the number of bad beds in California prisons.

Infrastructure Bond Issues. The Governor has proposed \$10.9 billion in bonds as part of his Strategic Growth Plan to build new and expanded prison facilities in California. There are five main components of the plan and each of these proposals raises several issues that the Legislature may wish to consider. When considering this bond, the Legislature may also wish to evaluate other strategies that may reduce the state prison population thereby reducing the needs for additional capacity at the state level. Nevertheless, there is an immediate need for additional space to relieve overcrowded conditions that impact safety and programs within California's state prisons.

Expansion of Existing Prison Facilities. The Governor has proposed \$2.7 billion for new beds at existing prisons. The Legislature may wish to evaluate the types of beds being proposed for construction and whether they address the department's needs based on the changing prison population. The Legislature may also wish to evaluate where the administration is proposing to add additional beds to determine whether it is feasible to hire the additional staff needed. The Legislature will also want to evaluate the Governor's proposal to determine if adequate space is being planned so that inmates will have access to programs within the institution. Finally, it will be critical to evaluate the existing infrastructure at the prison to determine whether it can accommodate additional beds.

Build New Re-entry Facilities. The Governor has proposed \$1.6 billion to construct up to 7,000 re-entry beds. These are a new type of facility being proposed by the administration. The Legislature may wish to consider developing general guidelines for partnering with local governments to get these facilities sited and constructed. These facilities, if designed correctly, could help to reduce recidivism by providing a critical link to the community where the offender will parole. Furthermore, these facilities could reduce the overall costs of incarcerating parole violators that are returned to prison for short stays by keeping them in the community and not transporting them hundreds of miles away to a state prison.

Expand Local Jails and Juvenile Facilities. The Governor has proposed \$5.5 billion for new jail beds and juvenile facilities. The Governor has proposed \$4.4 billion in state monies to fund local jail and juvenile facility expansions. In doing this, the Legislature may wish to determine what reasonable contributions should be made by local governments. The Governor has proposed a realignment of the prison population to shift all inmates with sentences of three or less years to serve their time at local jails as opposed to state prison. The Legislature may want to consider this as part of an overall package that includes bonds for local facilities. In addition, the Governor's proposal assumes that the state will leverage some local funds for the construction of these facilities. The Legislature may wish to explore, in more detail, how this financing relationship will be shared between the state and the locals.

Expand Health Care Facilities. The Governor's proposal sets aside \$1 billion for health care facilities to be developed by the healthcare Receiver. At this point in time, the Receiver has not determined the amount that is needed to modify the state's facilities to provide a constitutional level of health care. The Receiver has tentatively determined that he needs 10,000 non-acute specialized beds for health and mental health inmates. The Receiver is currently conducting a census of what those needs are, but could include beds appropriate for geriatric inmates, terminally ill inmates, and inmates with mobility issues.

The Receiver has indicated that he also needs to make modifications to the existing facilities in order to expand treatment space for health care services. The Legislature may wish to evaluate the Receiver's report that is due to the court in May to understand better what the infrastructure costs are related to healthcare modifications. Furthermore, the Legislature will want to determine, to the extent possible, how the administration's capacity expansion proposal coordinates with the Receiver's plans for modifications to specific facilities.

San Quentin Condemned Inmate Complex. The Governor has proposed \$117 million to complete construction of a new condemned inmate complex at San Quentin. The Legislature may wish to evaluate the amount being proposed to determine whether it is adequate to finish the modernization of the new condemned inmate complex at San Quentin. The Legislature may also want to evaluate why this project has greatly exceeded original cost estimates.

Adult Population Issues

Inmate Population Realignment Needs Review. The Governor has proposed realigning the inmate population so that specified non-serious, non-violent offenders with terms of three years or less serve their sentences in county jail as opposed to state prison. Keeping some offenders in the communities where they were committed could help to keep family connections intact and

reduce recidivism. The Legislature may wish to evaluate the impacts of this policy change on state prison capacity, local jail capacity, and recidivism rates.

Oversight Needed on Out of State Transfers. The Governor has already started transferring some inmates to private prison facilities out of state. Even though these inmates will be serving their sentence in a facility outside of the state, they will still be returned to California to parole. The Legislature may wish to evaluate the department's plans for oversight and management of this new program. It will be difficult for the state to provide the same level of oversight that it does at private prisons and community correctional facilities in state. As the state takes steps to relieve overcrowding in its institutions, the Legislature will want to evaluate the cost effectiveness of this program to determine whether it should be continued indefinitely.

Adult Parole Reforms. The Governor is proposing modifications to the parole structure to reduce costs and refocus parole resources on the most serious offenders. Currently, state parole resources are stretched thin because all persons leaving state prison are placed on parole regardless of their crime or risk of recidivism. This means that parole agents are not always able to spend adequate time working with and supervising high risk parolees. This will be further exacerbated by the passage of Proposition 83 (Jessica's Law) that will demand more parole resources for all sex offenders. The Legislature may wish to evaluate whether the Governor's proposed changes improve public safety by focusing parole agent time on the highest risk population. The Legislature may also want to evaluate the validity of the level of budget savings being estimated from the proposed parole reforms.

Juvenile Justice Issues

Realignment of Juvenile Population. The Governor has proposed transferring all female inmates and some non-violent male offenders to local detention facilities thereby further reducing the population in state Division of Juvenile Justice (DJJ) facilities. Keeping juveniles in the county of commitment improves the ability for families to stay connected which can help to reduce recidivism. The Legislature may wish to evaluate the impact of this realignment on recidivism reduction.

It is also not clear whether locals have enough capacity to accommodate this shift in the budget year. The Governor's budget counts on savings in the budget year that may be unrealistic and the Legislature will want to review this to ensure that the division does not suffer from an unrealized budget cut. Furthermore, the shift in population to the locals will change the makeup of the population at DJJ and could alter the *Farrell* lawsuit reform plans. The Legislature may wish to evaluate what changes, if any, will need to be taken to modify the *Farrell* reform plans to accommodate the change in population. Furthermore, shifting the population back to the locals will result in a lot of excess capacity in DJJ facilities. The Legislature may also wish to evaluate how this space could be used if this transfer does occur.

***Farrell v. Tilton* Reform Implementation.** The Legislature will want to review the implementation status of the various *Farrell* reform plans. The Governor's budget assumes significant savings in the current year because of a delayed implementation of smaller living unit sizes. The Legislature will want to review the implementation schedule and evaluate what, if any, hurdles are present to prevent implementation. As mentioned above, the Legislature will

also want to investigate the impacts of population realignment on the implementation of the *Farrell* reforms.

Rehabilitation Program Issues

Rebuilding Rehabilitation Strategies. In the current year, \$52.8 million General Fund was added to CDCR's budget for various strategies to reduce recidivism. The Legislature may wish to evaluate the progress the department has made in implementing these strategies and the extent to which these strategies have met recidivism reduction goals. The department's overall approach to rehabilitation has suffered for many years and the department is currently in a state of rebuilding. The Legislature approved \$900,000 to fund an expert panel to review the current state of programming within CDCR and make recommendations for improving the programming delivered to inmates and parolees. The Legislature will want to review this report and determine how to better allocate rehabilitation monies provided to the department to deliver programs that maximize reductions in recidivism. The Governor's budget is proposing \$41 million in additional expenditures to build on and expand funding provided in the current year. The Legislature will want to evaluate how this money is being allocated to determine whether it is allocated consistent with legislative priorities.

Female Offender Initiative. The Governor has proposed some nominal monies to continue laying the groundwork for a program that transfers over 4,000 female inmates to smaller community correctional facilities closer to the communities where the inmates were committed. This strategy is an attempt to reduce recidivism by strengthening relationships with family and children and improving access to programming that will help reduce recidivism. The Legislature may wish to evaluate the status of implementing this strategy and what additional groundwork is needed before the program can be fully implemented.

New Probation Grant. The Governor is proposing a new grant to enhance probation services provided by local law enforcement. The Legislature may wish to consider how this grant is structured in order to ensure its effectiveness and overall accountability. The Legislature may wish to develop performance metrics to ensure that the money is being used effectively to reduce recidivism of probationers thereby reducing the population that is sent to prison. The administration plans on modeling this grant program after the Juvenile Justice Crime Prevention Act program. The Legislature should evaluate this program to determine if any modifications should be made that would improve the program and improve its effectiveness.

Healthcare Issues

Status of Court-Appointed Healthcare Receiver. The healthcare services at CDCR have been under a federal court-appointed Receiver since 2006 as a result of the class-action lawsuit *Plata v. Schwarzenegger*. Major actions taken by the Receiver to date include approving raises for medical staff and eliminating the Medical Technical Assistant (MTA) classification that was a custody/healthcare hybrid position and replacing it with a new Licensed Vocational Nurse (LVN) classification. To date, the state has spent \$194 million General Fund most of which is ongoing funding to address the *Plata* lawsuit. The budget proposes to add an additional \$50 million in the current and budget year to continue to fund compliance activities.

The Receiver is currently working on a Plan of Action that is due to the court in mid-May. This plan will detail additional changes the Receiver plans on making to healthcare operations in the prisons. The Legislature may wish to review this plan in order to get a better understanding of what additional costs the state will need to plan for to bring healthcare services up to a constitutional level of care in the state prisons.

Increased Costs Related to Other Healthcare Lawsuits. Over the last few years the state has appropriated millions of dollars to comply with two other class action lawsuits to improve mental health care (*Coleman v. Schwarzenegger*) and dental care (*Perez v. Tilton*) within state prisons. To date the state has appropriated \$126.8 million to implement changes to improve mental health care in state prisons under the *Coleman* lawsuit and \$41.3 million to comply with the *Perez* lawsuit. The Governor's budget contains additional funding in the current and budget years above these levels to implement further changes to meet court orders in both lawsuits. The Legislature may wish to evaluate the department's implementation efforts to determine whether progress has been made in complying with these court orders. The Legislature may also wish to gather information to determine what other steps are needed to satisfy the courts so that the Legislature can plan for future expenditures.

Other Issues

Sentencing Commission. The Governor has proposed establishing a sentencing commission to review and make recommendations on sentencing guidelines. If designed correctly, sentencing commissions can improve the cost effectiveness of the state's incarceration policies. Sentencing commissions generally evaluate data to determine what types of offenders should be incarcerated. This is in contrast to the current legislative and initiative process that is not based solely on data and research in determining sentencing guidelines. The Legislature may wish to evaluate the Governor's proposal to determine whether it will be effective in improving public safety and making the state's incarceration policies more cost effective.

Sex Offender Management Plan. The Governor proposes to implement Proposition 83 (Jessica's Law) which was passed by the voters in November 2006 as well as several new policies that were recommended by the High Risk Sex Offender Task Force. The Legislature will want to evaluate the new policies recommended by the High Risk Sex Offender Task Force to determine their cost effectiveness in improving public safety. The Legislature may also wish to review whether any of the task force recommendations require additional legislation to provide clearer direction to the department on how the specific recommendations should be implemented.

0552 Office of the Inspector General

Background. The Office of the Inspector General (OIG) oversees the state's correctional system through audits, special reviews, and investigations of the Department of Corrections and Rehabilitation (CDCR). The Office is also charged with evaluating the qualifications of candidates being considered by the Governor for appointment to warden of a correctional facility or superintendent of a juvenile facility. The Office also monitors internal affairs investigations conducted by CDCR to ensure they are performed in a timely and professional manner.

Governor’s Budget. The Governor proposes \$18.6 million General Fund to support the OIG. This is nearly 18 percent more than is estimated for expenditure in the current year. This increase is primarily due to a budget proposal to expand the types of investigations the OIG completes to include a facility inspection program and follow-up to critical incidents.

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|----------------|-------------|
| (dollars in thousands) | 2006-07 | 2007-08 | \$ Change | % Change |
| Type of Expenditure | | | | |
| State Operations | \$15,814 | \$18,638 | \$2,824 | 17.9 |
| Total | \$15,814 | \$18,638 | \$2,824 | 17.9 |
| Funding Source | | | | |
| General Fund | \$15,814 | \$18,638 | \$2,824 | 17.9 |
| <i>Budget Total</i> | <i>15,814</i> | <i>18,638</i> | <i>2,824</i> | <i>17.9</i> |
| Total | \$15,814 | \$18,638 | \$2,824 | 17.9 |

Highlights

New Audit Functions. The Governor proposes \$1.8 million General Fund to expand the audit functions of the OIG. These funds are proposed to be used to expand the types of investigations conducted by the OIG to include a facility inspection program and follow-up to critical incidents.

New Review of Candidates for Superintendent of Juvenile Correctional Facilities. The Governor proposes a little less than \$1 million General Fund to implement legislation (AB 971, Jerome Horton) enacted last year to require the OIG to review candidates for appointment as superintendent of a juvenile correctional facility.

Issues

Audit Functions Redirected from CDCR. The Governor’s budget proposal to augment the OIG’s audit functions is being funded by transferring \$1.8 million General Fund from CDCR’s Office of Audits and Compliance. This will result in a reduction to CDCR’s internal audit capability. The Legislature may wish to evaluate whether CDCR’s internal audit workload has decreased and whether the transfer of funding from CDCR to OIG is justified.

APPENDIX

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TIMELINE FOR THE 2007-08 BUDGET BILL

| | | |
|-----------|-------------|---|
| Tuesday | January 10 | Governor submits State Budget to the Legislature. |
| Wednesday | January 10 | Committee releases <i>Quick Summary of Governor's Proposed Budget</i> . |
| Monday | January 16 | Martin Luther King, Jr. Holiday |
| Wednesday | January 24 | Committee conducts overview hearing of the budget. Department of Finance presents budget and the Legislative Analyst provides initial review. Committee releases <i>Overview of the 2007-08 Budget Bill</i> . |
| Thursday | February 1 | Subcommittees may begin oversight hearings. |
| Monday | February 12 | Lincoln's Birthday Holiday |
| Monday | February 19 | Washington's Birthday Holiday |
| Wednesday | February 21 | Legislative Analyst submits <i>Perspectives and Issues of the 2007-08 Budget and Analysis of the 2007-08 Budget</i> to the Legislature. |
| Monday | February 26 | Subcommittees may begin budget hearings. |
| Friday | March 30 | Cesar Chavez Birthday Holiday |
| Thursday | March 29 | Spring Recess begins. |
| Monday | April 9 | Legislature reconvenes. |
| Monday | May 1 | Department of Finance submits final capital outlay revisions. |
| Monday | May 14 | Governor delivers May Revision to the Legislature. |
| Wednesday | May 23 | Subcommittees complete hearings. |
| | May | Committee may meet to adopt subcommittee reports. Committee releases <i>Major Action Report</i> . |
| Thursday | May | Senate may vote on Senate budget bill. |
| Monday | May 28 | Memorial Day Holiday |
| Friday | June 1 | Budget Conference Committee may begin. Conference <i>Agenda</i> available from committee. |
| Monday | June 11 | Conference Committee completes work. |
| Friday | June 15 | Legislature must pass budget to meet constitutional deadline for passage of the budget. |

STAFF ASSIGNMENTS

| | |
|---------------------------|-------------------------------|
| CORRECTIONS/PUBLIC SAFETY | Keely Martin Bosler |
| EDUCATION | |
| K-12 | Kim Connor |
| Higher Education | Amy Supinger |
| ENERGY | Seija Virtanen |
| ENVIRONMENTAL PROTECTION | Seija Virtanen |
| LABOR | Brian Annis |
| LOCAL GOVERNMENT | Dave O'Toole |
| HEALTH | Diane Van Maren |
| RESOURCES | Seija Virtanen |
| REVENUES | Dave O'Toole |
| SOCIAL SERVICES | Eileen Cubanski |
| STATE ADMINISTRATION | Dave O'Toole Brian Annis |
| TRANSPORTATION | Brian Annis |
| VETERANS AFFAIRS | Dave O'Toole |
| COMMITTEE ASSISTANTS | Glenda Higgins Rose Morris |
| RECEPTIONIST | Mary Teabo |

CALIFORNIA STATE BUDGET HISTORY

| Fiscal Year | Bill and Chapter No. | Date Passed and Chaptered | | Total Budget (\$ Billions) |
|----------------------|----------------------|---------------------------|------|----------------------------|
| 1965-66 | AB 500/757 | 6-18 | 6-30 | 4.0 |
| 1966-67 ^a | SB 1XX/2 | 6-30 | 6-30 | 4.7 |
| 1967-68 | AB 303/500 | 6-29 | 6-30 | 5.0 |
| 1968-69 | SB 240/430 | 6-28 | 6-29 | 5.7 |
| 1969-70 | SB 255/355 | 7-3 | 7-3 | 6.3 |
| 1970-71 | AB 525/303 | 7-4 | 7-4 | 6.6 |
| 1971-72 ^b | SB 207/266 | 7-2 | 7-3 | 6.7 |
| 1972-73 ^c | SB 50/156 | 6-15 | 6-22 | 7.4 |
| 1973-74 | AB 110/129 | 6-28 | 6-30 | 9.3 |
| 1974-75 | SB 1525/375 | 6-28 | 6-30 | 10.3 |
| 1975-76 | SB 199/62 | 6-26 | 7-1 | 11.5 |
| 1976-77 | SB 1410/320 | 7-1 | 7-2 | 12.6 |
| 1977-78 | AB 184/219 | 6-24 | 6-30 | 14.0 |
| 1978-79 | AB 2190/359 | 7-5 | 7-6 | 18.8 |
| 1979-80 | SB 190/259 | 7-12 | 7-13 | 21.5 |
| 1980-81 | AB 2020/510 | 7-16 | 7-16 | 24.5 |
| 1981-82 ^c | SB 110/99 | 6-15 | 6-28 | 25.0 |
| 1982-83 | AB 21/326 | 6-30 | 6-30 | 25.3 |
| 1983-84 | SB 123/324 | 7-19 | 7-21 | 26.8 |
| 1984-85 ^c | AB 2313/258 | 6-15 | 6-27 | 31.0 |
| 1985-86 ^c | SB 150/111 | 6-13 | 6-28 | 35.0 |
| 1986-87 ^c | AB 3217/186 | 6-12 | 6-25 | 38.1 |
| 1987-88 | SB 152/135 | 7-1 | 7-7 | 40.5 |
| 1988-89 | AB 224/33 | 6-30 | 7-8 | 44.6 |
| 1989-90 | SB 165/93 | 6-29 | 7-7 | 48.6 |
| 1990-91 | SB 899/467 | 7-28 | 7-31 | 51.4 |
| 1991-92 | AB 222/118 | 6-20/7-4 | 7-16 | 55.7 |
| 1992-93 | AB 979/587 | 8-29 | 9-2 | 57.0 |
| 1993-94 | SB 80/55 | 6-22 | 6-30 | 52.1 |
| 1994-95 | SB 2120/139 | 7-4 | 7-8 | 57.5 |
| 1995-96 | AB 903/303 | 8-2 | 8-3 | 56.8 |
| 1996-97 | SB 1393/162 | 7-8 | 7-15 | 61.5 |
| 1997-98 | AB 107/282 | 8-11 | 8/18 | 67.2 |
| 1998-99 | AB 1656/324 | 8-11 | 8-21 | 71.9 |
| 1999-00 | SB 160/50 | 6/16 | 6/29 | 81.3 |
| 2000-01 | AB 1740/52 | 6/22 | 6/30 | 99.4 |
| 2001-02 | SB 739/106 | 7/21 | 7/26 | 103.3 |
| 2002-03 | AB 425/379 | 9/1 | 9/5 | 98.9 |
| 2003-04 | AB 1765/157 | 7/29 | 8/2 | 98.9 |
| 2004-05 | SB 1113/208 | 7/29 | 7/31 | 105.3 |
| 2005-06 | SB 77/38 | 7/7 | 7/11 | 117.3 |
| 2006-07 | AB 1801/47 | 6/27 | 6/30 | 131.4 |

^a 1966 Second Extraordinary Session.

^b First year budget was to be enacted by June 15.

^c June 15 constitutional deadline met (5).

CALIFORNIA STATE BUDGET HISTORY