



Senate Budget and Fiscal Review Committee  
Senator Wesley Chesbro, Chair  
State Capitol, Room 5019  
651-4103

## **SUMMARY OVERVIEW PROPOSED 2006-07 BUDGET (AB 1801)**

Assembly Bill (AB) 1801 reflects final decisions of the Budget Conference Committee; with a companion measure (AB 1811 / SB 1140) to the Budget Bill containing various agreements reached by the leaders of the Legislature, and by and large the Governor. This budget is a fair and responsible budget that adequately funds base budgets, pays down debt, and makes critical investments in human infrastructure.

The proposal provides for a balanced budget as required by the State Constitution. In total, the budget crafted is based on \$103.4 billion in available General Fund resources, and contains \$101.3 billion in expenditures. The final General Fund reserve is approximately \$2.037 billion, which includes a \$472 million set-aside for the Budget Stabilization Account (BSA). In terms of all funds (General Fund, special funds, and select bond funds), the proposed budget is approximately \$130.9 billion.

The proposed Budget does not include any general tax increases and does not raise fees, in excess of administrative proposals, and in particular lowers the fees in the community colleges beginning next year, and insures no additional fee increases at the University of California (UC) and California State University (CSU).

### **K-12 Education**

Funding for K-12 education is consistent with the Proposition 98 levels estimated, by the administration, for the guarantee. The Budget appropriates over \$2.9 billion in discretionary funding, comprised of a COLA (5.92 percent, \$2.6 billion) and revenue limit deficit factor payment (\$309 million) for our schools.

In addition, the Conference Committee, as well as the leadership, re-prioritized the amount of available ongoing funding for education in order to: (a) reduce disparity in base general purpose revenue limit funding by providing \$350 million for K-12 equalization (allocated under the formula prescribed at the May Revise), and allocating an equivalent amount (\$350 million) for Economic Impact Aid for compensatory education services to underprivileged and English learning students; (b) provide \$105 million for a targeted block grant to support music and arts; (c) provide \$40 million for physical education grants, and \$50 million for preschool expansion (pursuant to legislation); (d) invest over \$50 million in educational resources (additional test administrations and supplemental intervention) to assist students to pass the California High School Exit Exam (CAHSEE); and (e) allocate \$200 million for counselors in grades 7 -12, with an emphasis on pupils at risk of not passing the CAHSEE.

With respect to one-time K-12 funding the budget provides: (a) \$534 million in a one-time block grant split between school districts (25 percent -- \$134 million) and school sites (75 percent -- \$400 million) to spend on their needs; (b) \$500 million for a Arts, Music and Physical Education block grant; (c) almost \$1 billion (in prior-year funds) to pay down prior-year education mandate claims; (d) \$100 million for an instructional materials/library materials/education technology block grant; (e) \$40 million for career technical education equipment, \$15 million for parental involvement, \$20 million for English learner research on best practices; and (f) \$50 million for teacher recruitment and retention consistent with current statute.

## **Community Colleges**

Major funding proposals for community colleges include: (a) reducing student fees, from \$26 to \$20 per unit, beginning in the Spring 2007 semester; (b) \$159 million for equalization of community college district funding; (c) \$95 million for matriculation services related to enhanced student orientation, assessment, placement and counseling; (d) \$30 million for noncredit rate increase, as specified; (e) \$100 million (one-time) block grant for local district priorities; (f) over \$90

million (one-time) for deferred maintenance and instructional materials; and (g) \$40 million (one-time) for career technical equipment and renovations.

This Budget maintains the Legislature's commitment to better the lives of all Californians by, among other things, proposing the following major items:

### **Higher Education**

- Capping fees, at the 2005-06 level, for students at the UC and CSU. In addition, provides adequate resources, over \$25 million, so that all Californians have the opportunity to succeed in our system of higher education through outreach and academic preparation.
- Allocating funds to insure an appropriate and fair marginal cost rate (the cost at which the state funds each additional student) is calculated for UC (\$9,901 / student) and CSU (\$7,225 / student).
- Adopting a comprehensive nursing package that provides funding for student growth, necessary equipment, and critical nursing faculty recruitment and retention incentives.

### **Resources**

- Allocating \$250 million one-time for deferred maintenance of our state parks. Californians take advantage of the vast array of recreational opportunities our parks provide; however, with a \$1 billion deferred maintenance backlog, investment in our parks' infrastructure was a priority of the conference committee. Appropriating \$15 million for the operations and maintenance at new and existing state park facilities.
- Providing \$5 million for the Department of Fish and Game to implement the Marine Life Protection Act and Marine Life Management Act.
- Appropriating \$1.5 million for conservation planning and resource assessment.

- Allocating approximately \$14 million to the Department of Water Resources, the State Water Resources Control Board, and the Department of Toxic Substances Control to provide General Fund in lieu of fee increases.

## **Health**

- Providing \$39 million to increase funding to support Medi-Cal managed care rates paid to six plans that were experiencing fiscal solvency problems; in addition, provided a pool of funds (total of \$18 million) to provide additional funds to those plans that do not have a tangible net equity of 200 percent.
- Providing a 3-percent rate increase for most developmental disability services, including Day Programs, In-Home and Out-of-Home Respite services, Behavior Management, Independent Living, and Community Care Facilities; providing a 26 percent rate increase for Supported Employment Programs; doubling of the job placement fee (from \$1,000 to \$2,000); providing \$19.1 million (total funds) for the purpose of enhancing wages for direct care staff in Day Programs and Work Activity programs that meet specified criteria as specified; and allocating \$3 million for focused program development to encourage the expansion of Supported Employment Programs and community-based services.
- Allocating \$10 million (one-time) to Trauma Care Centers on a competitive basis.
- No reductions, for the first time in many years, to health care programs.
- Providing approximately \$214 million (\$180 million GF) to begin preparation for a pandemic influenza “surge” as proposed by the administration.

## **Human Services**

- Proposing to reinvest \$100 million in Temporary Assistance for Needy Families Program (TANF) funds back into the CalWORKs program to improve work participation rates and family outcomes. Changes in the federal TANF provided a window of opportunity to help more families leave assistance and become self-sufficient.

In addition, the Budget reprioritizes approximately \$100 million in existing CalWORKs funds to get more families engaged faster, prevent sanctions, and increase our investment in education, training, and child care.

- Increasing funds for Foster Care and Child Welfare by \$75 million (General Fund) above the May Revise for, among other things, program improvement and caseload reduction.
- Providing \$45 million for the pass-through of the 2.3 percent federal Cost-of-Living Adjustment (COLA) for the SSI portion of the SSI/SSP program on January 1, 2007. Over 1.2 million aged, blind and disabled individuals will receive an increase in their grant levels from this COLA.
- Allocating an additional \$6 million for the Multipurpose Senior Services program (MSSP) – the goal of the program is to arrange for and monitor use of community services to prevent or delay premature institutional placement of elderly clients.

### **Senior Citizen Tax Relief**

- Adopting necessary adjustments to insure full funding of the Senior Citizens' Property Tax Assistance Program and Renters' Tax Assistance Program. These adjustments are based on revised participation estimates from the Franchise Tax Board.

### **Public Safety**

- Insuring funds for public safety by approving \$238 million GF for the Citizen's Option for Public Safety (COPS) and the Juvenile Justice Crime Prevention Act (JJCPA) grant programs; \$18.5 million GF for grants to rural and small county sheriffs for law enforcement activities; \$45 million for Mentally disordered offender challenge grants; an additional \$8 million for vertical prosecution; and \$35 million for booking fees/local detention program.
- Adding budget language designating federal homeland security funds are made available to perform an independent "gap" analysis of the state's preparedness for a large-scale catastrophic disaster.

- Approving an augmentation of \$20 million for the California Multi-jurisdictional Methamphetamine Enforcement Team (Cal-MET).
- Allocating \$10 million for a Juvenile Justice Community Reentry Challenge Grant program for the purpose of improving the performance and cost-effectiveness of post-custodial reentry supervision of juvenile parolees, reducing recidivism rates, and piloting innovative reentry programs consistent with a focus on a rehabilitative treatment model.
- Appropriating \$100 million for additional healthcare expenditures, in the Department of Corrections and Rehabilitation, requested by the federal receiver in the *Plata* case.

### **Judiciary**

- Allocating \$5.4 million to begin the phasing-in of 50 new judges.
- Providing \$14.7 million to insure an 8.5 percent salary increase for judges beginning January 1, 2007.

### **Transportation**

- Providing an estimated \$1.4 billion for full transfer of General Fund sales tax revenue on gasoline in accordance with Proposition 42.
- Appropriating \$1.415 billion in early payments on outstanding Proposition 42 loans. Approximately \$920 million is for early payment of Proposition 42; this loan was not due until 2007-08. In addition, the budget provides an additional \$495 million to prepay the existing balance of interest bearing Proposition 42 loans.

### **Employee Compensation**

- Allocating \$30 million (total funds) to begin addressing recruitment and retention issues in employee compensation for represented and excluded employees.
- Approving Governor's Budget and Finance letters related to State bargaining units with contractually specified increases for 2006-07.

## GENERAL FUND SUMMARY

The following chart – a summary of the General Fund – illustrates how the budget crafted by the Conference Committee, as adjusted by leadership decisions, compares with the Governor's *Adjusted* May Revision for both 2005-06 and 2006-07. Throughout the Budget Conference Committee process, the DOF acknowledged additional expenditures that they did not include in the May Revision, and accordingly adjusted their budget totals to reflect the changes (see discussion on General Fund reserve).

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

	<i>Adjusted</i> 2005-06	<i>Adjusted</i> Agreement 2005-06	<i>Adjusted</i> May Revision 2006-07	<i>Adjusted</i> Agreement (AB 1801) 2006-07
<b>Prior-year balance</b>	\$9,468	\$9,512	\$9,425	\$9,529
Revenues and Transfers	\$92,450	\$92,453	\$93,866	\$93,882
Final revenue adjustments	296	296	--	--
<b>Total Resources Available</b>	<b>\$102,214</b>	<b>\$102,261</b>	<b>\$103,291</b>	<b>\$103,411</b>
May Revise expenditures	\$92,589	\$92,732	\$100,985	\$101,168
Expenditure adjustments by DOF	\$200	--	\$302	--
Final additional expenditures	--	--	--	157
<b>Total Expenditures</b>	<b>\$92,789</b>	<b>\$92,732</b>	<b>\$101,287</b>	<b>\$101,325</b>

<b>Fund Balance</b>	<b>\$9,425</b>	<b>\$9,529</b>	<b>\$2,004</b>	<b>\$2,086</b>
<b>Budget Reserve:</b>				
Reserve for Liquidation of Encumbrances	(521)	(521)	(521)	(521)
Special Fund for Economic Uncertainties	8,904	\$9,008	1,483	1,565
Budget Stabilization Account	--	--	472	472
<b>TOTAL AVAILABLE RESERVE</b>	<b>\$8,904</b>	<b>\$9,008</b>	<b>\$1,955</b>	<b>\$2,037</b>

## REVENUE PICTURE

The Budget assumes General Fund revenues and transfers totaling \$93.9 billion. This amount, when added to a \$9.5 billion starting balance, provides a total of \$103.4 billion in available General Fund resources. The revenue assumptions in the Budget proposal are very similar to the May Revision. The primary difference is that the anticipated additional revenue derived from the enforcement of current retail licensing laws. The following chart identifies the revenue sources composing the General Fund for 2006-07.

### 2006-07 General Fund Revenue Sources (in millions)



<b>Source</b>	<b>May Revision Amount</b>	<b>May Revision % of Total</b>	<b>Final Agreement Amount</b>	<b>Final Agreement % of Total</b>
Personal Income Tax	\$50,877	54.2%	\$50,885	54.2%
Sales Tax	\$28,103	29.9%	\$28,114	29.9%
Corporation Tax	\$10,507	11.2%	\$10,507	11.2%
Insurance Tax	\$2,340	2.5%	\$2,340	2.5%
Tobacco Taxes	\$118	0.1%	\$118	0.1%
Liquor Tax	\$316	0.3%	\$316	0.3%
Other	\$1,605	1.7%	\$1,605	1.7%
<b>Total</b>	<b>\$93,866</b>	<b>100.0%</b>	<b>\$93,882</b>	<b>100.0%</b>

## **EXPENDITURE PICTURE**

The Budget contains General Fund expenditures of \$101.3 billion. This amount is slightly higher (\$37 million) than the level proposed in the *adjusted* May Revision.

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

<b>Category</b>	<b><i>Adjusted May Revision Amount</i></b>	<b><i>Adjusted May Revision % of Total</i></b>	<b><i>Adjusted Final Agreement Amount</i></b>	<b><i>Adjusted Final % of Total</i></b>
Education (K-12)	\$40,580	40.2%	\$40,511	40.0%
Health and Human Services	\$29,221	28.8%	\$29,346	29.0%
Higher Education	\$11,279	11.1%	\$11,370	11.2%
Business, Transportation and Housing	\$2,381	2.4%	\$3,030	2.2%
Legislative, Judicial, Executive	\$3,431	3.4%	\$3,428	3.4%
General Government	\$3,149	3.1%	\$2,295	2.9%
Corrections and Rehabilitation (formerly Youth and Adult Corrections)	\$8,761	8.6%	\$8,751	8.6%
Resources	\$1,742	1.7%	\$1,828	2.0%
Environmental Protection	\$75	0.1%	\$88	0.1%
State and Consumer Services	\$571	0.6%	\$577	0.6%
Labor and Workforce Development	\$97	0.1%	\$101	0.1%
<b>Total</b>	<b>\$101,287</b>	<b>100%</b>	<b>\$101,325</b>	<b>100%</b>

## **REDUCING DEBT**

The proposed Budget reduces existing debt and includes no new borrowing. The budget reduces overall debt by over \$3.8 billion (when including payment for past year education mandates) The following are the major debt reducing actions taken by the Budget Conference Committee, including changes reflected by legislative leadership:

- Provides \$1.415 billion in early payments on outstanding Proposition 42 loans. Approximately \$920 million is for early payment of Proposition 42, as proposed by the administration; this loan was not due until 2007-08. In addition, the budget provides an additional \$495 million to prepay the existing balance of interest bearing Proposition 42 loans.
- Provides \$170 million for the first and second (prepayment) year of a 15-year repayment cycle for past due state mandate claims; while recognizing a cost savings calculation of \$44 million related to reduced or disallowed mandate

claims. In addition, provides \$233 million for the payment of the cost (in arrears) of 2005-06, as well as prepayment of 2006-07 mandates; including \$17 million in both 2005-06 and 2006-07 for the costs of the Peace Officers Bill of Rights mandate.

- Provides for an additional \$472 million to assist in the accelerated payment of the Economic Recovery Bonds – consistent with Proposition 58.
- Repays approximately \$959 million (one-time) in past mandate claims that are owed to local school districts. The Conference Committee believed it was critical that the state continues to make progress in decreasing the debts owed to schools.
- Provides \$101 million for payment of local flood control claims and support of the local flood control subvention program. These payments had been suspended because of budgetary constraints in recent years.
- Allocates a total of \$347 million for repayment of various special fund loans.

## **GENERAL FUND RESERVE**

The Final Budget agreement contains a total reserve of approximately \$2.037 billion, including a set-aside of \$472 million for the Budget Stabilization Account (BSA) consistent with Proposition 58.

The administration's *adjusted* GF reserve is approximately \$1.955 billion. The Governor's original May Revision contained a total reserve of \$2.2 billion. However, throughout Budget Conference Committee, the DOF acknowledged various expenditure adjustments that were unaccounted for, including: (1) Medicare Part D enacted legislation, \$100 million (2005-06); (2) Foster Care, \$50 million, (3) late data related to Proposition 98, \$178 million (which also effects prior-years); (4) Public Employee Retirement System rate adjustment, \$43 million; (5) \$12 million related to mental health costs associated with the *Coleman lawsuit*; and (6) \$100 million in acknowledgement of possible healthcare related costs required by the federal Receiver who now oversees all healthcare to person within the adult corrections system. Accordingly, during the Budget Conference Committee, DOF began making these adjustments to their original GF reserve.

The following table shows the differences between the Final Reserve and the changes made to the Governor's original May Revision reserve.

**2006-07  
General Fund Reserve  
(in millions)**

	<i>Adjusted May Revision</i>	<b>Conference Committee Reserve</b>
<b>Starting Available Reserve</b>	<b>\$2,200</b>	<b>\$1,899</b>
✓ Reduction to reserve due unaccounted Medicare Part D enacted legislation	-\$100	--
✓ Reduction to appropriately account for inmate healthcare	-\$100	--
✓ Proposition 98 adjustments (prior and current year adjustments)	-\$178	--
✓ DMH changes related to <i>Coleman lawsuit</i>	-\$12	--
✓ PERS rate adjustment	-\$43	--
✓ Foster care adjustment per the administration's agreement	-\$50	--
✓ Other miscellaneous adjustments	-\$58	--
✓ Leadership expenditure adjustments	--	-\$157
✓ Final prior-year revenue adjustment	\$296	\$296
<b>Final Reserve</b>	<b>\$1,955</b>	<b>\$2,037</b>