



Senate Budget and Fiscal Review Committee
Senator Denise Moreno Ducheny, Chair
State Capitol, Room 5019
651-4103

**SUMMARY OVERVIEW
PROPOSED 2007-08 BUDGET
(SB 77 & SB 78)**

On June 29, the Budget Conference Committee (using Senate Bill 77) completed its work. Since the conclusion of the Budget Conference Committee, other changes have been incorporated into SB 78 (Ducheny). The underlying foundation for this budget was accomplished primarily through the full committee and subcommittee process.

The Budget now before the Legislature is based on \$105.7 billion in available General Fund resources and \$103.1 billion in General Fund expenditures. The final General Fund reserve is projected at \$3.4 billion (which equates to \$1.9 billion Fund for Economic Uncertainties and a \$1.5 billion Budget Stabilization Account). Compared to the Governor's May Revision, the Budget has a GF reserve that is \$1.3 billion greater and reduces the "operating deficit" by \$857 million below what was proposed in the May Revision.

Some of the key aspects of the Budget are as follows:

- **\$3.4 Billion Reserve.** The Budget includes a total available GF reserve of approximately \$3.4 billion, which is \$1.3 billion, or 62 percent more than the Governor's May Revision proposed reserve level. This is the largest projected reserve in state history.
- **Difficult Choices.** The Budget reflects difficult decisions in order to craft a final solution including being unable to provide funding for: (1) CalWORKs cost-of-living adjustments; (2) General Fund backfill for student fee increases at

UC and CSU; and (3) current year Prop 98 “settle-up” funding (thereby taking a more prudent fiscal approach to Proposition 98 in the out years). Further difficult choices include: (1) permanently delaying, from January to June, the state portion of the SSI/SSP cost-of-living adjustment; (2) reducing funding for Proposition 36; and (3) shifting approximately \$1.2 billion from public transit to benefit of the overall condition of the General Fund.

- **Economic Recovery Bonds Repayments.** The Budget includes \$2.5 billion in repayment of Economic Recovery Bonds.

Some of the highlights of the Budget include, but are not limited to, the following: (by subject matter area):

K-12 EDUCATION

- Provides full funding for growth and COLA (\$2.1 billion, or 4.53 percent); does not create new programs.
- Maintains funding for K-12 equalization consistent with last year’s final budget act.
- Provides \$25 million for the school meals program in order to increase the state reimbursement rate from 16 cents to 21 cents per meal, thus improving the quality of school breakfasts and lunches. There has not been an overall state rate increase in 15 years.
- Appropriates \$50 million to fund the continuation of the Community Based English Tutoring program which provides English language instruction to adults.
- Does not appropriate \$402 million in current year Proposition 98 “settle-up” funding.

HUMAN SERVICES

- Creates no new social services programs.
- Rejects the administration’s proposal to eliminate the 2008 COLA for SSI/SSP recipients and instead delays the COLA until June 1 of each year. This delay generates \$123 million in General Fund savings without any permanent impact to grant levels.
- Reduces the TANF reserve by \$84 million.
- Rejects \$314 million in administration CalWORKs proposals that penalize children and families seeking to become self-sufficient.
- Invests in prevention programs that provide future cost savings: (a) \$10 million for a 5 percent rate increase for foster family homes and an increase in group

home rates beginning January 1; (b) \$20 million for transitional housing for foster youth; and (c) \$2 million to increase the private adoption agency reimbursement rate. Investments in these three programs have shown to reduce out-year Medi-Cal, welfare, unemployment, and foster care costs (in the case of adopted children).

- Provides \$12 million for adult protective services.
- Provides \$100 million for Proposition 36 (the Substance Abuse and Crime Prevention Act). In addition, provides \$20 million for the Substance Abuse Offender Treatment Program.

HIGHER EDUCATION

- Insures access to higher education by restoring \$26 million in academic preparation programs at UC and CSU.
- Provides a general support increase of approximately four percent (\$225.5 million) at UC and CSU; and \$117.3 million for an enrollment growth equivalent to 2.5 percent (at both institutions).
- Provides community colleges a 4.53 percent COLA.
- Provides \$70 million in lease-revenue bonds to construct a new Helios Energy Biosciences Institute at UC Berkeley.

CHILD DEVELOPMENT

- Provides full funding of Stage 2 and Stage 3 CalWORKs child care.
- Provides \$6.8 million to “unfreeze” the State Median Income levels and allow families to work toward self-sufficiency, earn slightly more, and still retain critical child care services.
- Approves the continuation of \$50 million for current-year preschool expansion; however, further expansion of the program was denied.

TRANSPORTATION

- Includes \$1.6 billion to fully fund Proposition 42, including \$83 million in required repayments.
- Provides approximately \$4.4 billion in Proposition 1B bonds, as follows: (a) \$3.8 billion for transportation projects; (b) \$40 million for port security; (c) \$100 million for Mass Transit Security; and (d) over \$400 million for air quality improvement.
- Restores \$200 million (for local transit operations) of the Governor's original \$1.3 billion public transit reduction.

- Shifts engineering workload related to new capital outlay projects from being performed solely by outside contractors, as requested by the administration, to being performed based on the historical split of 90 percent state staff to 10 percent contractors.
- Provides \$15.5 million in Proposition 116 bond funds for the High Speed Rail Authority.

HEALTH

- Maintains a \$214 million (\$107 million GF) rate increase to health care plans participating in the Medi-Cal Managed Care program.
- Restores \$55 million for the Integrated Services to the Homeless Mentally Ill program; thereby rejecting the administration's proposal.
- Provides, consistent with the administration, a savings of \$77.4 million to pharmacy reimbursements under the Medi-Cal program and makes a one-time adjustment to the dispensing fees to address the change in average manufacturer price.
- Adjusts the EPSDT (the Early Periodic Screening Diagnosis and Treatment program) funding stream to insure budget year funding and make payments over a three-year period for past claims.
- Approves funding to accelerate, by one year, the implementation of the state's bio-monitoring program. This program will measure chemical contamination in various segments of the general public.

JUDICIAL / PUBLIC SAFETY

- Approves a Juvenile Justice Reform package that provides block grants and competitive grants to local governments to realign certain low-level wards (wards committed for non-707b offenses) to the counties. These reforms are designed to improve the outcomes and treatments of youthful offenders and provide resources to counties while reducing long-term costs to the state.
- Contains \$9.5 million for local anti-gang programs that focus on gang prevention, intervention, re-entry education, job training and skill development, and family and community services. Of this amount, \$6.5 million is for three-year competitive grants available to cities and community-based organizations. The budget further provides \$7 million to the CHP to assist local law enforcement in addressing gang problems.
- Approves \$28 million to begin funding 50 new judgeships.
- Provides \$30 million for the Mentally Ill Offender Crime Reduction (MIOCR) program.

- Appropriates \$238 million GF for the Citizen's Option for Public Safety (COPS) and the Juvenile Justice Crime Prevention Act (JJCPA) grant programs; and \$18.5 million GF for grants to rural and small county sheriffs for law enforcement activities.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

- Provides \$3 million in additional support for state game wardens at the Department of Fish and Game.
- Provides significant funding from GO bond appropriations for clean air and environmental protection efforts, including flood and levee evaluations and repairs, regional water management and local groundwater assistance, water pollution control, and school bus replacement.
- Includes an additional \$2.2 million for both expanded private vehicle inspections at border stations and high-risk pest exclusion programs administered by county agricultural commissioners.
- Approves \$1 million to pursue climate change litigation; restricts the funding to defending current law requiring greenhouse gas reductions in automobiles.

GENERAL GOVERNMENT / STATE ADMINISTRATION

- Contains no new general taxes.
- Provides \$2.5 billion for repayment of the Economic Recovery Bonds.
- Denies the administration's proposal to eliminate the Williamson Act subvention to local governments.
- Includes a total unallocated reduction to state government of \$100 million.
- Includes \$8 million for the Unclaimed Property Program in order to provide improved notification to potential owners of unclaimed property. The Controller will now notify all property owners before unclaimed property transfers to the state.
- Appropriates Proposition 1C (The Housing and Emergency Shelter Trust Fund Act of 2006) bond funding of approximately \$778 million.
- Restores \$27.1 million to the Job Services Program. The Administration had proposed reducing expenditures from the Employment Development Department Contingency Fund so that resources could instead be transferred to the General Fund.

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

		Adjusted 2006-07 Budget		Proposed Budget (SB 77) 2007-08
Prior-year balance		\$10,540		\$4,329
Revenues and Transfers		\$95,541		\$101,323
Total Resources Available		\$106,081		\$105,652
Total Expenditures		\$101,752		\$103,045
Fund Balance		\$4,329		\$2,607
Budget Reserve:				
Reserve for Liquidation of Encumbrances		(\$745)		(\$745)
Special Fund for Economic Uncertainties		\$3,584		\$1,862
Budget Stabilization Account		\$472		\$1,495
TOTAL AVAILABLE RESERVE		\$4,056		\$3,357

**Major Changes from Governor's May Revision
(in millions)**

	Impact on Reserve
Governor's May Revision Reserve (adjusted per DOF)	\$2,067
Reduces Revenue from Tribal Gaming Compacts	-\$22
Reduces Revenue due to reinstating Yacht Sales Tax Loophole	-\$21
Rejects CalWORKS cut to kids	-\$314
Rejects the cut to the SSI/SSP COLA (instead delays COLA 5 months)	-\$25
Rejects cut to Homeless Mentally Ill Integrated Services	-\$55
Adjusts EPSDT Repayment schedule	\$156
Reduces administration's cut to Public Transit by \$200 million	-\$200
Additional Public Transit reductions	159
Rejects elimination of Williamson Act Subvention	-\$39
Rejects transfer from EDD Contingent Fund	-\$27
Reduces Current Year Proposition 98 Settle-up	\$402
Shifts Budget Year Proposition 98 costs to Reversion Funds	\$328
Funds Juvenile Justice Reform	-\$78
Restores 2006-07 MIOCR Grants, but cuts budget year amount	\$15
Rejects Court Security Increase	\$37
Shifts Funding Source for capital projects	\$101
Rejects FISCAL new spending proposal, but provided some planning funds	\$32
Rejects additional early repayment of ERB	\$595
Increased unallocated reduction	\$40
TANF Reserve transfer	\$84
Miscellaneous/Rounding	\$122
Net Improvement from Governor's May Revision	\$1,290
Final Budget Reserve	\$3,357