



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

SENATOR WESLEY CHESBRO, CHAIR

MAY REVISION HIGHLIGHTS

May 13, 2005

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision by major subject matter area, which includes a summary of the General Fund.

Please note this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analysis for subcommittee hearings scheduled for the week of May 16.

OVERVIEW OF GOVERNOR'S MAY REVISION

On May 13, the Governor released his May Revision. The May Revision makes significant changes to the administration's proposals as presented in January. The key elements of the changes are as follows:

- General Fund net revenues increase by approximately \$4 billion (for the two-year period ending June 30, 2006) above January's estimate. The various interactions occurring between tax amnesty, "protective payments", and other accounting adjustments will need further review. "Protective payments" were made by corporations in response to the potential for higher post-amnesty penalties that will be in effect for audit-related tax payments.
- Transportation funding. Rescinds the borrowing of Proposition 42 funds, and provides \$1.3 billion for transportation projects.
- Eliminates the use of \$1.6 billion in Economic Recovery bonds.
- Provides additional one-time and limited on-going funding for various new K-12 programs, including: \$175 million (of which \$52 million is one-time) toward reducing class size in lower performing schools; \$30 million one-time for career technical education in grades 7 and 8; one-time \$18.2 million to increase the amount of fruits and vegetables served in the School Breakfast program; and \$57.5 million one-time for supplemental instruction for pupils who have or are at risk of failing the High School Exit Exam.
- Provides \$593 million toward payment of the VLF gap loan to cities and counties. This will provide approximately one-half of what would otherwise be due in 2006-07.
- Withdraws January proposals effecting the Senior Citizens' Property Tax Assistance and Senior Citizens' Renters' Tax Assistance Programs – approximately \$140 million combined.
- Withdraws the January CalWORKs proposals which would have reduced the Earned Income Disregard for CalWORKs families (approximately \$80 million) and increased sanctions and work participation (\$12 million).

2005-06 Governor's May Revision General Fund Budget Summary (in millions)		
	2004-05	2005-06
Prior Year Balance	\$7,200	\$6,714
Revenues and Transfers	\$79,495	\$83,867
Bond Proceeds	2,012	--
Total Resources Available	\$88,707	\$90,581
Non-Prop. 98 Expenditures	\$47,732	\$51,709
Proposition 98 Expenditures	\$34,261	\$36,816
Total Expenditures	\$81,993	\$88,525
Fund Balance	\$6,714	\$2,056
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$641	\$641
Special Fund for Economic Uncertainties	\$6,073	\$1,415 ¹

¹ Includes a \$900 million set aside for refunds/accelerations of amnesty related revenue in 2006-07.

General Fund Summary

Revenues. The May Revision contains approximately \$4 billion in new net revenues above the January 10 proposed budget. These new revenues are made up of tax amnesty and protective payments totaling \$3.7 billion (attributed to past fiscal years), \$2.7 billion in revenues for the current year and \$1.1 billion in the budget year. These revenues are offset by projected refunds of the protective payments. Coupled with other accounting

adjustments, the amount offset totals \$1.5 billion in the current year, \$1.1 billion in the budget year, and \$900 million in 2006-07.

Expenditures. The May Revision projects total General Fund expenditures for 2005-06 to be \$88.5 billion, an increase of \$2.8 billion over January's estimate.

- **Reserve.** The May Revision includes a final 2005-06 reserve for economic uncertainties of approximately \$1.4 billion, which represents an increase of \$900 million above January's estimate. The increase in the reserve reflects the administration's estimate of the amount of protective payments that may need to be refunded.

TABLE OF CONTENTS

	<u>Page</u>
Child Care	1
General Government	2
Inspector General	
Board of Equalization	
Secretary of State	
Department of General Services	
Department of Technology Services	
State Personnel Issues	
State Personnel Board	
Tax Relief	
Enterprise System Planning	
Strategic Sourcing	
Health	5
Medi-Cal and Key Public Health Items	
Healthy Families Program and Access for Infants and Mothers	
Developmental Services – Regional Centers and Developmental Centers	
Higher Education	8
University of California/California State University	
Financial Aid	
Community Colleges	
Human Services	11
In-Home Supportive Services Program	
California Work Opportunity and Responsibility to Kids	
Other Human Services Programs	
K-12 Education	14
Proposition 98	
K-12 Education Proposals	
Labor	17
Employment Development Department	
Local Government	18
Vehicle License Fee (VLF)	
Juvenile Justice	
Small/Rural Sheriff Programs	
Property Tax Administration Grant Program	
Public Safety	19
Department of Corrections	
Youth and Adult Correctional Agency	
Youth Authority	
Board of Prison Terms	
Board of Corrections	
Office of the Inspector General	
Trial Court Funding	
Office of Homeland Security	
Office of Emergency Services	

Overview of the May Revision of the 2005-06 Governor's Budget

Resources 23
 CALFED
 Fire Protection
 Tidelands Oil Revenues
 Paterno Flood Settlement
 Energy and Telecommunications
 Environmental Protection

Transportation 25
 Proposition 42 and Spillover Revenue
 Department of Transportation
 Department of Motor Vehicles

Veterans Affairs 27

CHILD CARE

- Decreases funding for Stage 2 child care services due to a decline in CalWORKS caseload (\$1 million Proposition 98; \$34.3 million TANF) and increases Stage 3 child care services by \$1.3 million Proposition 98 to account for a minor increase in caseload.
- Makes a technical adjustment (which accounts for current caseload estimates) to the Administration's January 10, 2005 proposal to phase out Stage 3 child care services.
- Makes a variety of adjustments to the amount of prior-year and current-year carryover funds which will be available for expenditure in the child care program in 2005-06.
- Revises fund “splits” between General Fund Proposition 98 and federal TANF and Child Care Development (CCDF) Block Grant funds.

GENERAL GOVERNMENT

OFFICE OF INSPECTOR GENERAL

- **Establish Office of Inspector General** (\$2.3 million General Fund first-year, \$4.7 million ongoing). The Administration proposes to establish an Office of Inspector General to conduct audits, investigations, and program reviews for the Executive Branch. This office will differ from the Bureau of State Audits and the Office of State Audits and Evaluations because it may conduct investigations on its own initiative. Within 60 days of the end of the fiscal year, the Inspector General will issue an annual report detailing audit, review, and investigative activities completed in that fiscal year. The Department of Corrections (with its own Inspector General) will be excused from the purview of this new office. Approximately 50 percent of the costs of this Office are expected to be generated by assessments on special and federal funds.

BOARD OF EQUALIZATION

- **Special Taxing Jurisdictions** (\$2.3 million General Fund). The Board of Equalization proposes to add 27.7 positions for workload associated with the creation of 24 new Special Taxing Jurisdictions established pursuant to voter decisions in the 2004 general election. These 24 new jurisdictions will add to the existing 35 jurisdictions.

SECRETARY OF STATE

Reappropriation of Help America Vote Act Funds (\$242 million federal funds). The Administration proposes to reappropriate \$242 million to continue implementation of the Help America Vote Act of 2002. This reappropriation will primarily fund creation of a statewide voter database and counties' overhaul of election equipment.

DEPARTMENT OF GENERAL SERVICES

Special Education Alternative Dispute Resolution Program (\$9.2 million, various funds). The DGS proposes \$9.2 million and 65.7 personnel years to take over the Special Education Alternative Dispute Resolution Program from McGeorge School of Law. A new Special Education Hearings Program would be established in DGS' Office of Administrative Hearings.

DEPARTMENT OF TECHNOLOGY SERVICES

- **Creation of the Department of Technology Services.** Proposes the addition of contingency appropriations due to the schedule for the Legislature's consideration of the Governor's Reorganization Plan #2, which would create the Department of Technology Services. Specifically, the Administration requests to add budget bill appropriations for the Teale Data Center, the Health and Human Services Agency Data Center, and the Telecommunications Division of the Department of General Services, to go into effect if the Legislature rejects the Governor's Reorganization Plan. A budget bill appropriation is also provided for the proposed Department of Technology Services.

STATE PERSONNEL ISSUES

- **Health and Dental Benefits for Annuitants** (\$34.5 million General Fund). The Administration proposes to increase expenditures by \$34.5 million because savings from the Medicare Modernization Act will not likely accrue until after 2005-06.
- **Augmentation for Employee Compensation.** Decreases proposed General Fund augmentations by \$36.2 million and increases special funds augmentations by \$55.1 million, related to new estimates of the costs of bargaining-unit contract increases.
- **CalPERS Rate Adjustment** (-\$152.7 million General Fund). On April 19, 2005, the Board of Directors for the California Public Employees' Retirement System (CalPERS) adopted a new policy for calculating the actuarial value of assets. The effect of this new policy will be to *reduce* the state's 2005-06 contributions to CalPERS by \$152.7 million.

STATE PERSONNEL BOARD

- **Peace Officers Procedural Bill of Rights (POBOR) mandate** (\$18.1 million General Fund). The January Governor's Budget had proposed to defer this mandate; the May Revision proposal rescinds the deferral and provides \$18.1 million to support the mandate costs in the budget year.

9100 TAX RELIEF

Senior Citizens' Property Tax Assistance Program and Senior Citizens' Renters' Tax Assistance Program (\$141.4 million General Fund). The Administration proposes to fully restore the Senior Citizens' Property Tax

Assistance Program and Senior Citizens' Renters' Tax Assistance Program. These programs had been scheduled for elimination (Property Tax Assistance) and reduction (Renters' Program).

ENTERPRISE SYSTEM PLANNING

Control Section 8.81- Enterprise System Planning Report (\$1.25 million). The Administration proposes to map the state's enterprise-wide business application development efforts through by contracting with an independent consultant. That consultant will gather data and develop an enterprise system planning report for coordinating and directing statewide enterprise system technology efforts and business applications.

STRATEGIC SOURCING

- **Control Section 33.50 – Strategic Sourcing.** The Administration proposes to eliminate \$144 million in savings built into the Governor's Budget for 2004-05 and 2005-06 related to refined procurement practices (e.g. buying in bulk), known as "strategic sourcing." Savings of \$48 million in the current year and \$96 million in the budget year had been built into the Governor's Budget. The Administration proposes budget bill language to allow the Department of Finance to periodically reduce departmental appropriations as real savings are realized.

HEALTH

MEDI-CAL & KEY PUBLIC HEALTH ITEMS

- Reflects a net decrease of \$480.1 million (\$262.4 million General Fund) in the Medi-Cal Program for the *current-year*. This decrease is due to a combination of factors including the following key adjustments:
 - Decrease in caseload of 15,400 Medi-Cal eligibles;
 - Delay in implementation of the nursing home quality assurance fee and associated rate increase as contained in AB 1629, Statutes of 2004 which results in a savings of \$99 million (General Fund);
 - Increase in the level of savings attributed to pharmacy cost control activities implemented in 2004 and the withdrawal of Vioxx from the list of Medi-Cal drugs;
 - Increase in the level of savings attributable to various cost containment measures implemented in prior budgets and adjustments due to utilization changes.

- Assumes total Medi-Cal Program expenditures of \$34.6 billion (\$13 billion General Fund) which reflects a *net* increase of \$514.9 million (\$16.1 million General Fund) for 2005-06.

- Reflects a decrease in the average monthly Medi-Cal enrollees of about 1.1 percent, or 75,000 less eligibles than projected in January. Total Medi-Cal eligibles for 2005-06 are estimated to be 6,735,000 people.

- Assumes implementation of the Governor's Medi-Cal Redesign package as presented in January, with minor technical adjustments.

- Assumes *net* savings of \$271 million (General Fund) from implementation of the federal Medicare Part D Drug Benefit as of January 1, 2006. Medi-Cal will discontinue the coverage of all drugs for "dual eligibles" (i.e., Medi-Cal and Medicare enrollees) that are covered under Part D. However, Medi-Cal will continue to pay for Medi-Cal drug coverage for those categories of drugs excluded from Part D. These categories include weight loss drugs, barbiturates, benzodiazepines, over-the-counter drugs, cough and cold drugs, and various medical supplies.

The federal government is also requiring states to contribute part of the savings obtained from no longer covering most drugs for dual eligibles—known as the “clawback”. Therefore, the key fiscal components are as follows:

- Increase of \$93.6 million (\$46.8 million General Fund) for continuation of certain Medi-Cal drugs not included in the Part D Drug Benefit;
 - Reduction of \$115.2 million (\$57.6 million General Fund) in the capitation rate paid to Medi-Cal Managed Care Plans because the Part D Drug Benefit will provide pharmaceutical services;
 - Increase of \$511 million (General Fund) to reflect California's payment to the federal government (“clawback”);
 - Reduction of \$771.1 million (General Fund) to reflect the shift of funding drugs for these dual eligibles from Medi-Cal to the Medicare Part D Drug Benefit.
-
- Increases by \$3.9 million (\$1.6 million General Fund) to fund outreach activities related to the implementation of the federal Medicare Part D Drug Benefit.

 - Reflects an increase of \$808 million (total funds) to provide for implementation of the quality assurance fee and rate increase for nursing homes as required by AB 1629, Statutes of 2004.

 - Provides a three percent rate increase to CalOPTIMA, effective as of October 1, 2005, for increased costs of \$9.2 million (General Fund).

 - Requests an increase of \$7.8 million (General Fund) for the Governor's CalRx proposal. This increase is in addition to his January proposal that provided \$3.9 million for this purpose. Most of this increase would be used to fund systems development costs for the proposal.

 - Provides an increase of \$12 million (General Fund) to mitigate the spread of West Nile Virus. Of this amount, \$10 million (General Fund) is for local assistance.

- Continues to fully fund the AIDS Drug Assistance Program (ADAP).

HEALTHY FAMILIES PROGRAM (HFP)

- Assumes total expenditures of \$959.4 million (\$347.4 million General Fund) to fund a year-end enrollment of 867,418 children in the Healthy Families Program. This reflects an increase in funding of \$64.4 million (\$22.2 million General Fund) and an increase of 78,117 children over the January budget.
- Reflects an increase of 1.2 percent in the average monthly rate for health, dental and vision insurance coverage as negotiated and approved by the Managed Risk Medical Insurance Board. This rate adjustment results in an increase of \$5.1 million (General Fund).

DEVELOPMENTAL SERVICES – REGIONAL CENTERS & DEVELOPMENTAL CENTERS

- Reflects total expenditures of \$2.9 billion (\$1.868 billion General Fund) for services and supports provided through the Regional Center system. This reflects a *net* decrease of \$30.1 million (decrease of \$78.1 million General Fund).
- Continues all proposed cost containment activities as presented in the Governor's January budget with minor technical adjustments.
- Requests a *net* increase of \$9.7 million (decrease of \$1.8 million General Fund) for Regional Centers to meet certain federal compliance requirements related to the Home and Community-Based Waiver.

HIGHER EDUCATION

University of California (UC) / California State University (CSU)

- Provides \$1 million to establish a new "Science and Math Teacher Initiative" at the UC (\$750,000) and CSU (\$250,000). The funds, which will be matched by UC and CSU, will be used to establish six centers aimed at providing students with advising and placement services, monitoring student progress, and assessing the program. Proposal also includes a loan assumption component for students (noted below).
- Makes no substantive changes to the original January 10, 2005 budget proposals for the UC, CSU, or Hastings College of Law.
- Provides an additional \$19 million General Fund for mandatory costs related to debt service payments (\$18.9 million UC; \$131,000 CSU). This increase is attributable to recent bond sales for the 2002 "Economic Stimulus" package of higher education capital outlay projects. These projects were approved by the Legislature and Governor using Lease-Revenue bond funds in the absence of statewide General Obligation bond dollars. *Note:* Funds were already set-aside in the January 10, 2005 budget proposal for this purpose. As a result, this May Revision item does not represent a new cost as the increase has already been accounted for.
- Provides \$26 million in General Obligation bond funds to the CSU for a variety of smaller "capital renewal" projects on campuses. Funds will be used to replace critical building infrastructure (such as HVAC systems) to extend the useful life of the building.
- Does not provide any new funds to support Student Academic Preparation Programs at either UC or CSU.

Financial Aid

- Rescinds the Governor's January 10, 2005 proposal to reduce the Cal Grant award level for students attending private colleges and universities. Under the May Revision, \$7.5 million is provided to maintain the maximum grant amount at the current-year level of \$8,332.

Overview of the May Revision of the 2005-06 Governor's Budget

- Establishes a new loan forgiveness program for students who agree to become Math and Science teachers (pursuant to the Governor's "Math and Science Teacher" initiative at UC and CSU), and authorizes up to 350 new loan forgiveness warrants for this program.
- Makes baseline adjustments in both the Current- and Budget-Year to account for a higher than anticipated number of Cal Grant Entitlement awards (\$9.2 million CY; \$15.7 million BY).
- Funds \$51 million of 2005-06 Cal Grant expenses with Student Loan Operating Fund (SLOF) reserves from EdFUND. *Note:* EdFUND is the nonprofit auxiliary organization established by the state to administer the federal student loan guarantee program. In January, the Governor proposed to fund \$35 million worth of Cal Grant costs with SLOF funds and the May Revision increases this amount by \$16 million.
- Provides \$7.6 million in federal funds (via an interagency agreement with the Department of Social Services) for the Chafee Foster Youth Program, which provides current and former foster youth with up to \$5,000 annually for collegiate or vocational education.

Community Colleges

- May Revision provides \$40 million for community college equalization, to be allocated pursuant to the current statutory formula. Total funding of \$120 million, including the \$80 million provided in the current year, is approximately half the amount needed to fully equalize per credit student funding rates.
- \$10 million (one-time) in the current year to increase "enrollment capacity" and meet equipment and infrastructure needs in community college nursing education programs, pursuant with the Governor's Nursing Initiative.
- Provides \$500,000 for the Cal-PASS data sharing system, contingent upon UC and CSU providing matching fund for the program.
- Restores the \$31.4 million that was set-aside in January for the Partnership for Excellence Program. This funding reflects an agreement between the

Overview of the May Revision of the 2005-06 Governor's Budget

community colleges and the Administration on how to implement "meaningful, district-specific accountability".

- Provides an additional \$17.4 million (one-time) to expand the Governor's Career-Technical Education Initiative. These funds are in addition to the \$20 million already provided in the Governor's January proposal. Funds will be used to increase coordination between community colleges and high schools to fully articulate "industry-driven" career technical curricula. Articulated curricula provide a clear career pathway linking high school courses with community colleges courses thereby allowing students to obtain the direct skills necessary to enter into high need, emerging sectors while avoiding course duplication and unnecessary redundancy.
- Provides an additional \$14.1 million to reflect an increase in the statutory COLA from the January level of 3.93 percent to the current 4.23 percent.
- Increases the General Fund share of the 2005-06 Proposition 98 funding guarantee by \$67.2 million to account for lower than expected property tax and student fee revenues estimates.

HUMAN SERVICES

In-Home Supportive Services (IHSS) and Supplemental Security Income/State Supplementary Payment (SSI/SSP) Programs

May Revision retains the following proposals:

- **Reduce State Participation for IHSS Provider Wages.** The Governor continues to propose a reduction in state participation in IHSS wages and benefits from \$10.10 per hour to the minimum wage (\$6.75). This proposal was rejected by Senate Budget Subcommittee No. 3 on May 5th. Reducing state participation in IHSS wages and benefits to the minimum wage would result in savings of approximately \$204 million General Fund.
- **Suspend SSI/SSP State and Federal COLAs.** The Governor continues to withhold the January 2006 federal SSI cost-of-living adjustment (COLA), for savings of \$97 million General Fund in 2005-06. The Governor also proposes to suspend the January 2006 State SSP COLA, for savings of \$131 million General Fund in 2005-06. The maximum SSI/SSP grant would remain at the current level, which is \$812 per month for individuals living independently and \$1,437 per month for a couple living independently.

California Work Opportunity and Responsibility to Kids (CalWORKs)

Major adjustments proposed in the May Revision:

- **Rescind January Proposal to Reduce CalWORKs Earned Income Disregard.** The Governor has rescinded the January budget proposal to reduce the CalWORKs Earned Income Disregard. This proposal would have resulted in \$82 million in savings by reducing the level at which low-income working families would remain eligible for CalWORKs benefits.
- **Revise County Pay for Performance Proposal.** The January budget proposed to tie county administration funding to CalWORKs client work participation rates, for projected CalWORKs grant savings of \$22 million. The May Revision proposes to maintain the projected grant savings, but sets aside \$30 million in incentive funding for counties that meet specified CalWORKs program outcomes.

- **Rescind CalWORKs Sanction Proposal.** The Governor has rescinded the January budget proposal to revise CalWORKs sanction policies, due to a delayed report on CalWORKs sanctions by the RAND Corporation (which was contracted to provide the sanctions report by April 1, 2005.) Rescinding this proposal restores \$12 million for the CalWORKs program.

May Revision retains the following proposals:

- **Reduce CalWORKs Grants by 6.5 Percent (Implementation delayed by Three Months).** The budget proposes to reduce CalWORKs grants by approximately 6.5 percent, resulting in savings of \$165 million. The May Revision delays implementation of this proposal by three months, to October 1, 2005. Under the Governor's proposal, the maximum monthly cash grant for a family of three in a high-cost county would be reduced by \$47, from \$723 to \$676, a level below the grant level in effect in 1989. The reduction would be partially offset by a \$22 increase in monthly food stamp benefits.
- **Eliminate CalWORKs Cost of Living Adjustment (COLA).** The budget continues to suspend the July 2005 COLA, and permanently suspend all future CalWORKs COLAs, resulting in annual savings of \$135 million.
- **Child Care Reform.** The budget continues to reduce license-exempt child care reimbursement levels, and establish a tiered reimbursement structure for all child care providers, resulting in savings of \$58 million in the Department of Social Services, and additional Prop 98 savings in the California Department of Education (CDE).
- **Reduce Employment Services Funding.** The budget continues to eliminate \$50 million in 2005-06 that was included in the 2004 Budget Act for CalWORKs employment services.

Other Human Services Programs

Major adjustments proposed in the May Revision:

- **Community Care Licensing Trigger Reinstated.** The 2003 Budget Act reduced the frequency of Community Care Licensing periodic visits, but also included a statutory trigger to increase the frequency of visits if the number of citations per year exceeds the previous year's total by 10 percent or more. The

Governor's Budget proposed to eliminate this trigger, but the May Revision rescinds this proposal. Eliminating the trigger would have resulted in potential savings of \$2.6 million (\$2.2 million General Fund).

- **Child Welfare Services (CWS) Program Improvement Plan (PIP).** The CWS PIP is intended to improve the state's child welfare and foster care outcomes. As part of the PIP, the January budget proposed \$26.6 million (\$14.7 million General Fund) to expand the use of key child welfare reform strategies beyond the eleven counties currently using these strategies. The May Revision includes a decrease of \$5.9 million (\$2.7 million General Fund) in Child Welfare Services to reflect a revised implementation strategy for the CWS PIP. The revised proposal, in consultation with key stakeholders, would:
 - Continue the implementation and evaluation of CWS PIP activities in the initial 11 counties funded at the 2004-05 appropriation level;
 - Suspend expansion to the second cohort of counties pending a thorough evaluation of measurable data from the first pilot group;
 - Redirect resources proposed for PIP expansion to support efforts to improve AB 636 performance and federal improvement measures; and
 - Reappropriate unspent federal Promoting Safe and Stable Families and State Children's Trust Fund funds from 2004-05 to 2005-06 to support county activities associated with implementation of System Improvement Plans and ongoing PIP initiatives.

Education

PROPOSITION 98

Proposition 98 – Maintain Current Year Funding. The Governor proposes to maintain Proposition 98 funding for K-14 education at the level appropriated by the 2004-05 budget act, adjusted only for a decline in enrollment growth. The 2004-05 budget was approximately \$2.0 billion below the Proposition 98 minimum guarantee, which is currently suspended, at the time of enactment. The minimum guarantee has grown an additional \$1.8 billion since then, due to larger than estimated state revenues.

Proposition 98 – Budget Year Increase Continued. The Governor continues to propose \$50.0 billion for K-14 education in 2005-06. This level of funding was estimated to meet the Proposition 98 minimum guarantee at the time the Governor's January 10 budget was released. Due to changes in enrollment and year-to-year revenues, the Governor's budget is now estimated to be \$509 million above the minimum guarantee.

Proposition 98 -- One-Time Settle-Up Funding in Budget Year. The Governor proposes approximately \$250 million in one-time Proposition 98 settle-up funds in 2005-06. The Governor proposes to utilize these funds for a variety of program expenditures in K-12 education and community colleges.

K-12 EDUCATION

Overall Increase. The Governor proposes a total of \$44.6 billion in Proposition 98 funding for K-12 schools in 2005-06. As proposed, the budget provides \$7,402 per-pupil in Proposition 98 funding in 2005-06.

Statutory Growth and COLA's Adjusted. The Governor continues to propose full funding for statutory growth and COLA's (cost-of-living adjustments) for K-12 revenue limit and categorical programs in 2005-06. The May Revise provides a net decrease of \$197.9 million for revenue limit and categorical program enrollment growth and COLA adjustments. This reflects a decline in ADA growth rates from 0.79 percent to 0.69 percent (-\$311.0 million) and an increase in COLA rates from 3.93 percent to 4.23 percent (\$113.1 million) from the Governor's January estimates.

Additional Funding for Deficit Factor Payment Continued. The Governor's Budget continues to propose an additional \$328 million to pay down the revenue limit deficit factor to compensate for revenue limit reductions that originated in the 2003-04 budget.

New Program Proposals. The Governor's Budget proposes to fund a number of new or expanded K-12 education programs with settle-up funding and some Proposition 98 reversion funds as a part of the May Revise budget, including:

- Class Size Reduction Expansion for Schools in Deciles 1-3 -- \$175.4 million (\$123 million ongoing; \$51 million one-time)
- Teacher Recruitment, Retention and Recognition for Schools in Deciles 1-3 --\$49.5 million
- Supplemental Instruction for High School Exit Exam – \$57.5 million (includes reallocation of existing categorical funds)
- Teacher Credentialing Block Grant (BTSA Expansion Beyond 2nd and 3rd Years) -- \$ 30 million
- Career and Technical Education for 7th and 8th Grade Students -- \$30 million
- School Meal Funding for Fruits and Vegetables -- \$18.2 million
- Physical Education Testing Expansion to Grade 3 -- \$2.2 million
- High School Coach Training -- \$500,000
- Charter School Facilities Grants -- \$9 million
- California Local Education Accountability Reform (CLEAR) program - \$5.6 million

Accountability. The Governor's May Revise proposes \$154.7 million in carryover funds from a number of federal programs authorized under No Child Left Behind to assist schools and districts identified as Program Improvement. These funds will be detailed in a forthcoming plan from the State Board. The Governor also

proposes an additional \$15 million for High Priority Schools program, bringing new funds to \$60 million in 2005-06.

Categorical Reform. The Governor's May Revise proposes to allow up to 50 percent transfer of funds among categorical programs previously included in the mega-item, and now included in Control Section 12.40 of the budget. The Governor also proposes trailer bill language that would provide additional transfer flexibility among several new categorical block grants created by AB 825.

Mental Health Related Services. The Governor's May Revise repeals, rather than suspends, the mandate for AB 3632 services on county mental health agencies. This proposal would permanently shift responsibility to schools. The Governor proposes to continue \$100 million in funding for special education mental health services in the K-12 budget. The Governor also proposes \$90 million in one-time funding for counties as partial payment for AB 3632 services provided in prior years.

LABOR

EMPLOYMENT DEVELOPMENT DEPARTMENT

- Adjustments are requested for the Workforce Investment Act (WIA) Program to decrease state operations by \$1.2 million and decrease local assistance by \$7.6 million – both for the Consolidated Workers Program (special fund).
- Various payment adjustments are proposed based on updated projections of claims (all special funds):
 - Projected Unemployment Insurance benefit payments are decreased by \$36.1 million. Operations expenditures are decreased by \$23.1 million and 326.1 personnel years.
 - Projected Disability Insurance Program benefit payments are decreased by \$145.9 million. Operations expenditures are decreased by \$4.5 million and 68.8 personnel years.
 - Projected School Employees Fund payments are increased by \$26.8 million.
- Augments expenditures by \$10 million (\$5 million General Fund), for the Governor's Nursing Education Initiative.

LOCAL GOVERNMENT

VEHICLE LICENSE FEE

- **Expedited Vehicle License Fee “Gap” Repayment.** The Administration proposes to expedite payment to cities and counties by \$593.4 million for the Vehicle License Fee (VLF) revenues not received in 2003-04 due to suspension of the VLF offset. Payment of this VLF “gap” loan is not required until 2006-07, however, the Administration asserts that early repayment will relieve some budget pressure in 2006-07.

JUVENILE JUSTICE CRIME PREVENTION ACT

- **Partial restoration of funding for the Juvenile Justice Crime Prevention Act (JJCPA) program.** The Administration proposes to restore \$25 million to the JJCPA program and, in a corresponding action, withdraw the \$25 million Governor's Budget augmentation to the Board of Corrections for distribution to local governments for law enforcement services. The Administration asserts that actual spending lags by three fiscal quarters and that funding of \$25 million—coupled with the \$75 million carryover from the current year appropriation—will provide the equivalent of \$100 million in budget year funding. This proposal would preserve a \$75 million reduction in the budget year.

SMALL/RURAL SHERIFFS LAW ENFORCEMENT AUGMENTATION

- **Restoration of funding for the Small/Rural Sheriff's Law Enforcement Augmentation.** The Administration proposes to restore \$18.5 million in funding for 37 small and rural counties' law enforcement activities. A funding reduction for those activities was included in the Governor's Budget.

PROPERTY TAX ADMINISTRATION GRANT PROGRAM

- **Amended reduction in funding for Property Tax Administration Grant Program.** The Administration proposes to amend the \$4.7 million reduction to the Property Tax Administration Grant Program by offsetting that reduction by \$2.5 million. Counties where grant funds result in increased property tax revenues to offset the state's Proposition 98 General Fund costs will be funded at the statutory level. Seven counties that do not generate offsetting Proposition 98 savings (Marin and San Mateo) or have not submitted applications recently for the grant funds (Alpine, Inyo, Mariposa, Sierra, and Trinity) will still incur a reduction.

PUBLIC SAFETY

DEPARTMENT OF CORRECTIONS (CDC)

- **Overview.** The May Revise proposes an increase of \$19.7 million in the current year based on a higher than estimated inmate population. For the budget year, the May Revise proposes a net increase of \$191.4 million above the January budget.
- **CDC Population Adjustments.** The May Revise proposes an increase of \$85.4 million General Fund and 991.6 positions above the January budget based on higher population estimates in 2005-06. Of the increased amount, \$58.1 million is the reversal of savings assumed for parole accountability changes from past budgets.
- **Programmatic Changes.** The May Revise proposes an increase of \$105 million for various programmatic proposals.
 - Provides \$5.8 million General Fund and 46.2 positions for additional security staffing at the California Institute for Men (CIM) to enhance staff and inmate safety.
 - Provides \$1.7 million General Fund for special repairs to fund construction projects at CIM necessary to address critical safety issues identified by the Office of the Inspector General and the Board of Corrections.
 - Restores \$51.1 million of the \$95.3 million General Fund reduction to inmate and parole programs proposed in the January budget. The net reduction to parole and inmate programs is now proposed at \$44.2 million. The proposal allocates the \$44.2 million reduction by eliminating funding for a number of intermediate sanction programs, and a 50 percent reduction to the substance abuse treatment and control unit (SACTU) program.
 - Provides \$15 million General Fund to add inmate and parole programs that are evidence based. The proposal includes language that requires that CDC provide the Legislature with a plan for the programs prior to any funds being spent.

Overview of the May Revision of the 2005-06 Governor's Budget

- Provides \$17.3 million General Fund and 59.6 positions to begin to implement improvements to the dental program as part of a pending settlement on the delivery of dental care services. The funding provides additional office technicians, dental assistants and equipment upgrades.
- Provides \$5.2 million General Fund for mental health services. Of the total, \$1.1 million is related to fund recruitment and retention pay differentials for mental health professions at 12 institutions, and \$4.1 million is to provide additional mental health staffing for Administrative Segregation and Security Housing Units at Corcoran State Prison. This request is intended to comply with court orders in the *Coleman* lawsuit.
- Reduces \$10.6 million General Fund from the January request for improvements to the health care delivery service based on updated information on staffing needs and contracting costs. The Legislature had already taken action on these reductions.
- Reduces \$1.4 million General Fund related to estimated energy savings for two energy projects.

YOUTH AND ADULT CORRECTIONAL AGENCY (YACA)

- Provides \$3.1 million General Fund and 20.2 positions to begin work on reforms of juvenile programs at the state and local levels. The funding will provide staff for an analysis of programs and facilities at the state level and for work on a task force with local governments. The administration indicates that this proposal is intended to begin a long-term approach to re-invent the juvenile corrections system in California.
- Provides for a budget display consistent with the Governor's Reorganization Plan that merges the all the departments within the YACA agency into the new Department of Corrections and Rehabilitation (DCR).

YOUTH AUTHORITY (CYA)

- Provides an increase of \$6.6 million General Fund and a decrease of \$9.8 million in reimbursements due to the estimated ward population. The ward population is projected to be 2,615 by the end of the budget year – a decrease of 715 wards from the projections in the January budget. The year-end parole

population is now estimated to be 3,375 – a decrease of 75 parolees since January.

- Provides \$6.8 million General Fund to fund remedial plans approved by the courts in April and May for the *Ferrell v. Allen* case. Specifically, the May Revise proposes the following:
 - \$1.2 million and 14.7 positions to implement the mental health delivery remedial plan.
 - \$2.5 million and 19 positions to implement the sex offender treatment remedial plan.
 - \$3.1 million and 11.4 positions to implement the disabilities remedial plan.

BOARD OF PRISION TERMS

- Provides an increase of \$2.1 million General Fund and 20.6 positions for a projected increase in parole revocation hearings.
- Reduces \$190,000 General Fund to eliminate the augmentation proposed for lifer hearing workload in the January budget.

BOARD OF CORRECTIONS (BOC)

- Reduces \$25 million General Fund in the BOC budget and shifts that amount to Budget Item 9210 to fund the Juvenile Justice Crime Prevention Act.

OFFICE OF THE INSPECTOR GENERAL (OIG)

- Provides \$4.1 million General Fund and 23.4 positions based the development of a new workload model.
- Provides \$3.4 million General Fund and 18.9 positions to implement additional workload resulting from the Youth and Adult Correctional Agency reorganization. The funding will allow the OIG to perform pre-appointment reviews of prospective wardens, audits of each correctional institution at least once every four years, and a one year post-appointment audit of new wardens.

TRIAL COURT FUNDING

- Provides an increase of \$24.4 million General Fund to fund the State Appropriations Limit (SAL) growth factor at 6 percent. The January budget previously included \$97.4 million, so the budget now proposes a total increase of \$121.8 million for the SAL baseline adjustment.

OFFICE OF HOMELAND SECURITY

- Proposes legislation to establish the Office of Homeland Security (OHS) as a new state agency. Currently, the OHS exists as a program within the Office of Emergency Services.
- Provides \$146.4 million in federal funds to support homeland security activities.

OFFICE OF EMERGENCY SERVICES

- Provides \$35 million General Fund for the estimated costs of response to the 2005 Winter Storms and the 2005 February Flood/Mudslide. These amounts represent the state share of the costs for these two federally-declared disasters.
- Provides \$5 million General Fund to purchase new fire engines.

RESOURCES

- **CALFED.** The May Revision proposal does not include new water user fees or other mechanisms to implement the beneficiary-pays principle for the CALFED program. The Governor's proposal includes a three point plan to address the CALFED program as we move forward.
 1. **Independent Review.** The plan includes \$300,000 to the Resources Agency to manage a contract to support an independent program and fiscal review of the CALFED program.
 2. **Program Priorities.** The plan includes re-focusing the CALFED program to solve conflicts with Delta water supply, water quality, levee stability and the environment.
 3. **Financing.** The plan includes the development of a new ten-year action plan, to be developed in coordination with stakeholders and federal partners. The new action plan will focus on solving the highest priority Delta issues and include funding from the state, federal and local levels consistent with the beneficiary-pays principle. For the budget year, the May Revision proposes to increase reimbursement authority for the Department of Fish and Game by \$30 million to accommodate user contributions which may be necessary. The administration also pledges to request an additional \$40 million in federal funds from the 2006 federal budget for the CALFED program.
- **Fire Protection.** The May Revision proposal includes \$5 million General Fund (one-time) to accelerate the replacement of approximately 19 additional fire engines. This proposal is above the Governor's January budget proposal to permanently increase the department's budget for purchasing new fire equipment by \$10.8 million, a 150 percent increase over the baseline. The May Revision also proposes to restore the \$6.7 million General Fund unallocated reduction proposed in the Governor's January proposal.
- **Tidelands Oil Revenues.** The May Revision proposal reflects a downward revision in Tidelands Oil Revenues of approximately \$95.3 million over the current year and budget year. This reflects a recent decision by the California Court of Appeal to allow the City of Long Beach to set aside some of the revenues in an abandonment account to cover future costs associated with abandoning the existing oil field. The City of Long Beach has approximately \$83 million of tideland oil revenues on deposit in its abandonment fund and is

proposing to deduct \$4 million from monthly tideland oil payments to the state. The Legislature had allocated tideland oil revenues to various legislative priorities in the current year, including ocean projects and salmon restoration. These priorities will not be funded in the current year.

- **Paterno Flood Settlement.** The state owes \$464 million for damages resulting from a 1986 failed levee in Yuba County. The administration is proposing to finance this settlement in three segments.
 - \$11 million General Fund for damages to the Peach Tree Mall proposed for payment in the budget.
 - \$25 million General Fund for damages to the tenants of the Peach Tree Mall proposed for payment in the budget.
 - \$428 million for damages to approximately 3,000 individuals. The claimants have agreed to sell their claim for a lump sum to Merrill-Lynch. The state will finance repayment to Merrill-Lynch over the next ten years. The first payment is proposed in the budget year and is \$67.1 million General Fund.

ENERGY AND TELECOMMUNICATIONS

- **Frontier Transmission Line Project.** The May Revision proposes an increase of \$2.5 million from the Energy Resources Program Account to support California's participation in the Frontier Transmission Line Project. This funding would provide California's share of support for the Coordinating Committee and hire technical and legal consultants to begin work on the project and bring it to a point where developers will take over and fund the remaining feasibility work. This transmission line would originate in Wyoming, run through Utah and Nevada, and provide California with additional electricity to meet its future electricity demands.

ENVIRONMENTAL PROTECTION

- **Carl Moyer Program.** The May Revision proposes to expend an additional \$12.5 million (one-time) for incentive grants to reduce emissions from heavy-duty diesel engines from the Carl Moyer program. These revenues were received in the current year from the implementation of AB 923 (which increased the tire fee to provide additional ongoing revenues for the Carl Moyer program).

TRANSPORTATION

TRANSPORTATION FUNDING: PROPOSITION 42 & SPILLOVER REVENUE

- Withdraws the proposal to suspend Proposition 42 in 2005-06. Proposition 42 revenue is estimated by the Department of Finance at \$1.3 billion. This May Revision proposal would increase 2005-06 General Fund expenditures by \$1.3 billion and the funding would be allocated, pursuant to statute, as follows:
 - \$678 million for Traffic Congestion Relief Program (TCRP) projects.
 - \$254 million for cities and counties for local streets and roads.
 - \$254 million for the State Transportation Improvement Program.
 - \$63 million for State Transit Assistance.
 - \$63 million for other mass transit programs.

- Reduces the assumed revenue in 2005-06 from tribal gaming bonds by \$222 million (from \$1.2 billion to \$1.0 billion). This change leaves \$222 million in outstanding loans from the Traffic Congestion Relief Fund to the General Fund. The Administration proposes to repay these loans by 2021 under the provisions of the Administration's budget control proposal.

- Continues the following Governor's Budget proposals related to Proposition 42:
 - Delays repayment of Proposition 42 loans made in 2003-04 and 2004-05. Current statute requires repayment of these loans by June 30, 2009, and the Governor would move the full repayment date to 2022.
 - Amends the Constitution to prohibit Proposition 42 suspensions after 2006-07.

- Continues the Governor's Budget proposal to retain \$380 million in Public Transportation Account "spillover" revenue in the General Fund. This is a revised revenue estimate, which is \$164 million higher than the figure in the Governor's January Budget. Spillover revenue comes from a portion of the sales tax on gasoline and, under current statute, would otherwise be transferred to the Public Transportation Account, with half of that amount then transferred to the State Transit Assistance budget item. Note, State Transit Assistance receives Proposition 42 funding under the Governor's proposal.

DEPARTMENT OF TRANSPORTATION – NEW PROPOSALS

- Requests budget changes to transfer \$101.6 million from operations to capital outlay. Caltrans indicates it will realize an operations savings of \$51.6 million in 2004-05 and requests to revert this amount. An unallocated reduction in operations of \$50 million is requested for 2005-06. Caltrans requests to use these savings to increase the 2005-06 appropriation for transportation projects by \$101.6 million.
- Requests Capital Outlay Support budget changes as follows:
 - Baseline workload: Decreases funding by \$2.3 million and 237 full-time equivalents in cash overtime and contract staff.
 - Proposition 42 workload: Increases funding by \$79.9 million, 175 positions, and 453 full-time equivalents in cash overtime and contract staff.
 - Tribal securitization revenue workload: Increases funding by \$96.7 million, 141 positions, and 545 full time equivalents in cash overtime and contract staff.

DEPARTMENT OF MOTOR VEHICLES

- Requests \$4.1 million and 9.5 positions to implement Chapter 920 (SB 1500) and Chapter 948 (AB 2709), Statutes of 2004, which provides for mandatory electronic reporting of vehicle insurance changes and making this information available to law enforcement.

VETERANS AFFAIRS

- Reduces the proposed unallocated General Fund reduction, which the Governor's January Budget set at \$973,000. This proposal would increase General Fund support for Veterans' Homes by \$876,000, and retain an unallocated General Fund reduction of \$97,000.