



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
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Quick Summary **The Governor's Budget Proposal**

January 11, 2007

On January 10, the Governor presented his proposed 2007-08 budget. Spending from all funds (General Fund, special funds and selected bond funds) totals \$143.4 billion.

General Fund spending is proposed to be \$103.1 billion, approximately \$1 billion, or one percent, greater than revised current-year spending total. Total available General Fund resources are \$104.5 billion. The total available 2007-08 ending reserve is \$2.1 billion (this is a combination of the traditional Special Fund for Economic Uncertainties of \$590 million General Fund and \$1.5 billion in the Budget Stabilization Account created as a result of Proposition 58).

Staff is preparing a more detailed review of the budget, to be released in late January. If you have questions, please contact the committee at (916) 651-4103.

General Fund Summary

- ✓ **Revenues:** The Governor's budget estimates General Fund revenues and transfers to be \$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 one percent, over the revised 2006-07 figure of \$102.1 billion.

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	\$2,453	\$590
BUDGET STABILIZATION ACCOUNT (BSA)	 \$472	 \$1,495
TOTAL AVAILABLE RESERVE	\$2,925	\$2,085

^a A total of \$2.046 million 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 Budget -- Major General Fund Changes

- ✓ Overall economic condition. According to the Department of Finance (DOF), economic growth will likely be modest in the first half of 2007, with a possibility of a slight increase in unemployment. DOF indicates that the second half of 2007 should have improved growth as state and national housing sectors begin to pull out of the modest slowdown.
- ✓ Reduces funding for CalWORKS by \$465 million in 2007-08 and \$566 million annually thereafter. There are many components to this reduction – including a significant modification to child-only benefits for a reduction of \$176 million; elimination of the safety net for children, as specified, and a \$140 million reduction due to a suspension of a cost-of-living adjustment.
- ✓ Proposes to cap state participation for any additional IHSS salary increases.
- ✓ Funds \$217 million for both state and federal COLAs components of the SSI/SSP program.
- ✓ Eliminates \$55 million in funding for Integrated Homeless Mentally Ill program and instead proposes to use Proposition 63 funding for this program.
- ✓ Includes \$36 million (\$17 million GF) to implement SB 437 – Healthy Families presumptive eligibility.
- ✓ Eliminates \$60 million for Proposition 36 (Substance Abuse and Crime Prevention Act) and increases from \$25 million to \$60 million the new performance and outcome program developed in 2006 under SB 1137 (Ducheny).
- ✓ Provides total Proposition 98 funding of \$56.8 billion (\$41.2 billion GF / \$15.6 billion in property taxes). This is a \$1.8 billion increase over revised 2006-07 expenditures. This enables the administration to fund a 4.04 percent COLA for K-12 and community colleges. There is approximately \$370 million for various administrative proposals. The administration also intends to re-bench Proposition 98 as a result of the various proposals.

- ✓ Increases funding for higher education by \$346 million to fund the Administration's compact with UC and CSU. However, the budget does not propose to buyout student fee increases at either UC or CSU.
- ✓ 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.
- ✓ Provides \$36 million (Motor Vehicle Account) to begin implementation of AB 32, Statutes of 2006 – Global Warming Solutions Act.
- ✓ Contains an increase of \$130 million for the Judiciary branch, primarily attributable to the year-to-year growth factor change in the State Appropriations Limit.
- ✓ Captures \$1.1 billion in Public Transportation Account (PTA) spillover funds and redirects the use of these funds for debt service on transportation bonds, home-to-school K-12 transportation, and transportation costs associated with developmental disabled persons in state regional centers.
- ✓ Provides approximately \$1.6 billion for paying down Economic Recovery Bonds.

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
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%

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 GO bonds placed on the ballot in the years 2008 and 2010. The use of these new bonds will focus on education (K-12 / higher education), water supply, court facilities, and public safety (primarily prison and local jail 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.

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Education

Proposition 98

Budget Year Increase – K-14 Education. The Governor proposes Proposition 98 funding of **\$56.8 billion** in 2007-08 for K-14 education. This provides an increase of **\$1.8 billion** (3.3 percent) for K-12 schools and community colleges above the 2006-07 revised budget. This level of funding meets the Proposition 98 minimum funding guarantee, as currently estimated by the Administration.

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.

K-12 Education Funding

Proposition 98 – Budget Year Increase. The Governor proposes a total of **\$50.4 billion** in Proposition 98 funding for K-12 schools in 2007-08, an increase of **\$1.4 billion** (2.9 percent) above the 2006-07 revised budget. As proposed, the budget provides **\$8,525 per-pupil** in Proposition 98 funding in 2007-08, an increase of \$275 per-pupil above the 2006-07 revised budget.

Growth Adjustments – Decrease in Students 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 -0.4 percent for education programs in 2007-08.

Cost-of-Living Adjustments Fully Funded. The Governor proposes to use most of the newly available Proposition 98 funding in 2007-08 to fully fund cost-of-living adjustments (COLAs) for education programs that are either required by statute or traditionally provided. The budget estimates a COLA increase of 4.04 percent in

2007-08, which equates to an increase of \$1.9 billion. Funding for COLAs provide discretionary funds to K-12 schools.

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.

Other Ongoing Funding Initiatives. While most of newly available Proposition 98 funds are budgeted for COLAs and child care in 2007-08, the Governor proposes a small number of new or expanded education programs affecting K-12 schools, most notably:

- **Career Technical Education:** The Governor proposes \$32 million in already available funding from the Community Colleges to expand the Career Technical Education programs. This 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.
- **Charter Schools Block Grant:** Provides a \$24.5 million increase in funding for the charter school categorical block grant as a baseline adjustment to implement statutory funding reforms enacted in 2005-06.
- **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.

Proposition 98 -- One-Time Funding Proposals. The Governor also proposes \$185.9 million in one-time funds from the Proposition 98 Reversion Account for the following programs:

- \$100 million for the Emergency School Repairs Program to finance school facility repairs pursuant to legislation implementing the *Williams* settlement agreement.
- \$43.9 million for the Charter School Facility Grant program to fund charter school facilities serving largely low-income students.
- \$25.7 million for CalWORKS Child Care.

- \$8.8 million to fully fund the Beginning Teacher Support and Assessment (BTSA) program in the current year.
- \$5.0 million for California High School Exit Exam (CAHSEE) study guides for students and for related staff development.
- \$1.5 million for the Partnership for Success pilot program between K-12 schools and CSU. The program is directed toward increasing the number of K-12 students that are prepared for college.
- \$1 million for the California Program Improvement Management System in order to help low performing schools and districts use data for improvement of student instruction and achievement.

Other Budget Initiatives:

- **School Meals.** The Governor proposes to provide an unspecified increase in the reimbursement rate for school meals. The Governor proposed a \$38 million increase to the meal rate in the current year that was approved by the Legislature, but ultimately 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 food from student meals.
- **Backfill Funding for Rural Schools.** The Governor proposes a short-term General Fund loan of \$69 million in the current year to backfill the loss of federal aid from the National Forest Area Schools program for schools in rural areas of the state.
- **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.
- **Teacher Shortage:** 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.
- **School Business Officers.** The Governor proposes \$2.5 million to fully fund eligible candidates for the School Business Officers Training Program.

- **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.
- **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).

Child Care Programs

- Fully-funds Stage 2 and Stage 3 Child Care services with minor caseload changes to both programs.
- Removes \$269 million in federal TANF monies from CDE child care programs and instead funds the entirety of the Stage 2 and Stage 3 child care obligation with General Fund Proposition 98 dollars, rather than with the mix of funding sources (as had been done in past years).
- The effect is to "free up" \$269 million in TANF funds for other human services related needs and instead fully-commit Proposition 98 funds to this purpose.
- Child care programs are also slated to receive a 4.04 percent COLA (\$62.1 million) and a growth adjustment of approximately \$14.5 million.

Public Libraries

- Holds constant funding for the Public Library Foundation, which provides monies to local libraries based on a statutory formula. Funding provided for this program is proposed at the current-year level of \$21.3 million.

Higher Education

Fully-Funds Governor's "Compact" with University of California (UC) and California State University (CSU)

- Provides \$225.5 million to fund a four percent General Fund increase for the UC and CSU (\$116.7 million for UC and \$108.8 million for CSU).
- Legislative, Executive and Judicial Fellows programs, which are housed at the CSU, also receive a four percent augmentation totaling \$120,000.
- Funds enrollment growth of 2.5 percent at both UC and CSU to support an additional 13,355 full-time equivalent students (FTES) at a cost of \$120 million. (\$54.4 million to fund 5,000 FTES UC; and \$65.5 million to fund 8,355 FTES at CSU). Using the marginal cost of instruction methodology it proposed as part of the 2006-07 budget, the Department of Finance calculates, and then funds, a per FTES amounts of \$10,876 at UC and \$7,837 at CSU.
- Increases student fees by seven percent for UC undergraduate, graduate, and most professional school students and by ten percent for students at the CSU. This action increases revenues available to the university systems by \$104.7 million and \$97.8 million respectively. With these proposed changes, annual fees for UC undergraduate students will be approximately \$7,347; while fees for undergraduates at CSU will be approximately \$3,451.

Student Outreach. Eliminates all state funding for student academic preparation and education programs at both UC (\$19.3 million) and CSU (\$7 million).

State-Funded UC Research.

- Eliminates \$6 million in operational funding at UC to support research related to labor and employment;
- Provides an additional \$15 million for the existing Institutes for Science and Innovation, and \$5 million as a state "match" for a new UC competitive proposal for a Petascale Computer;
- Authorizes \$30 million in lease-revenue bonds for the Helios Project at the UC Lawrence Berkeley National Laboratory;
- Authorizes \$40 million in lease-revenue bonds to support the development of an Energy Biosciences Institute at either UC Berkeley or UC San Diego, provided the campuses are successful in their bid to win a competitive grant sponsored by BP (the BP Energy Bioscience Institute).

Community College Proposition 98 Support. General Fund Proposition 98 support for community colleges is proposed to increase by a total of 6.4 percent over the current year. In total, community colleges would receive \$6.3 billion in Proposition 98 support, which represents an increase of approximately \$380 million over the amount provided in the current year.

Community College COLA. Similar to K-12 education, the Budget proposes to fund a 4.04 percent cost-of-living adjustment for community colleges general apportionments at a cost of \$224.9 million. Additional funding is provided for a COLA in selected categorical programs.

Growth in Student Enrollments at the Community Colleges. The Budget proposes to provide \$238.2 million to fund two percent enrollment growth at the Community Colleges, which represents a slight increase over the 1.65 percent growth rate required by statute. These funds would be used to support an additional 23,000 Full-Time Equivalent Students (FTES).

Community Colleges Fees. Community College fees are proposed to remain at the newly-reduced level of \$20 per unit.

Additional CCC Adjustments.

In addition to the above-noted budget adjustments, the Governor proposes to:

- Redirect \$33.1 million of unused Basic Skills "over-cap" funds to support Matriculation and support services for students;
- Provide an additional \$9 million ongoing support for nursing education to expand nursing education programs and student enrollments.

Hastings College of Law. Consistent with the four percent General Fund augmentation that UC receives under the "compact", Hastings budget is also proposed to increase by four percent or \$406,000. Since Hastings enrollments have remained stable for many years, enrollment growth funding is unnecessary. In keeping with the actions of the Hastings Board of Directors, fees for Hastings students are proposed to increase by eight percent, resulting in an additional \$2 million worth of revenue. Annual student fees for California residents attending Hastings College of the Law will be \$24,000; nonresident students will pay approximately \$35,000 annually.

Cal Grant--Ongoing Support. The Governor provides an additional \$61.3 million General Fund for the Cal Grant program. This increase is due both to the growth in the number of students eligible for the program, and the increase in the cost of the Cal Grant award due to the proposed fee increases at both UC and CSU. The total number of Cal Grant entitlement awards is expected to exceed 197,425; competitive Cal Grant awards are expected to reach almost 58,000.

Cal Grant Award Level. The Governor proposes to maintain the Cal Grant award level for student attending private and independent colleges at the current level of \$9,708.

APLE Program. The Governor provides an additional \$2.9 million for increased Assumption Program of Loans for Education (APLE) costs in the 2007-08 fiscal year. In addition, the Governor proposes to retain the number of loan assumption warrants authorized under the APLE program at 8,000 annually, and continues to propose that 600 warrants be "set-aside" for students participating in the Governor's Mathematics and Science Teacher Initiative.

Employee Compensation

Pension Obligation Bonds. The 2006 Budget Act assumed the sale of Pension Obligation Bonds to generate a net of \$525 million in 2007-08. The Administration indicates it continues this assumption in the proposed budget.

State Employee Compensation. Base employee-compensation funding is included in individual department budgets. Budget Item 9800, which is proposed at \$972 million (\$468 million General Fund), covers 2007-08 cost increases associated with existing bargaining agreements and cost increases for excluded employees. Some of these costs result from the federal court order in the *Plata v. Schwarzenegger* Corrections lawsuit. This funding is distributed to individual departments after the budget is adopted. No increased costs, or savings, are budgeted for bargaining units with expired or expiring agreements; however, only the Corrections Bargaining Unit is currently working without a contract.

State Employee Retirement. The California Public Employees' Retirement System (CalPERS) provides defined benefit retirement plans for State employees. The Governor's Budget includes \$2.7 billion (\$1.5 billion General Fund) for 2007-08 to fund retirement for current State employees. This is an increase of \$80 million over the State's contributions in 2006-07. Additionally, Budget Item 9650 includes \$1.1 billion General Fund for Health and Dental Benefits for Annuitants – an increase of \$38 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). This funding covers 2007-08 costs, and does not provide money to begin pre-funding retirement health costs for current State employees. By Executive Order, the Governor recently created the Public Employee Post-Employment Benefits Commission to examine unfunded retirement benefits.

Teachers Retirement. The State Teachers' Retirement System (CalSTRS) provides defined benefit retirement plans for public-school teachers. The Governor's Budget includes \$1.048 billion General Fund for 2007-08. The budget reduces the purchasing-power-protection State contribution from 2.5 percent of salary to 2.2 percent – for a savings of \$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.

Energy and Telecommunications

Global Warming Solutions. The Governor proposes \$1.27 billion for greenhouse gas emissions reduction efforts by the Public Utilities Commission (PUC). These funds are for the implementation of emission reduction strategies, evaluation of various electric and natural gas sector greenhouse gas emission cap scenarios, and development of protocols to measure and verify actual emissions reductions.

California Solar Initiative. The Governor proposes \$2.46 billion for the PUC to implement the California Solar Initiative. This initiative will provide \$3.4 billion in incentives for solar energy installations over the next 10 years, which is sufficient to provide 3,000 megawatts of solar energy and reduce annual carbon dioxide emissions by 3 million tons. This proposal would provide staff for PUC proceedings, develop a pricing structure that provides an incentive to generate solar energy during peak demand hours, and fund an independent program evaluation.

Video Competition Act. The Governor proposes \$950,000 to implement the Video Competition Act. The Digital Infrastructure and Video Competition Act of 2006 (AB 2987) appoints the PUC as the sole video franchising authority in the state. These resources will enable the PUC to monitor video service for non-discrimination, review applications and issue state franchises, and report annually to the Legislature.

California Consumer Power and Conservation Financing Authority (CPA). The Governor proposes transferring all remaining CPA funds (estimated at \$2.5 billion) to the Energy Commission. The CPA ceased administrative operations in 2004.

Electricity Oversight Board. The Governor proposes the elimination of the board. The Electricity Oversight Board provides regulatory oversight of California's restructured electricity industry. The proposed budget for this board is \$4 million.

Health & Human Services

Total Proposed Expenditures for Health & Human Services. The Governor proposes expenditures of \$78.7 billion (\$29.9 billion General Fund) for health and human services programs, including state support.

Key proposed adjustments 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.
- 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.
- Proposes the elimination of the Integrated Services for Homeless Adults with Serious Mental Illness Program for a decrease of \$54.9 million (General Fund).

Department of Health Care Services

The Governor proposes a total of \$38.1 billion (\$14.9 billion General Fund) for the Department of Health Care Services (DHCS). Of the total amount, \$37.7 billion is for local assistance and \$419 million is for state support.

Medi-Cal Program Proposals

Total Proposed Expenditures for the Medi-Cal Program. The Governor proposes total expenditures of \$37.4 billion (\$14.6 billion General Fund) for Medi-Cal which reflects an increase of \$1.9 billion (\$979.8 million General Fund) above the revised current-year. The General Fund increase primarily reflects increases in caseload and cost per eligible person. Total caseload is anticipated to be 6.7 million eligible people, an increase of 107,400 people, or 1.6 percent more than 2006-07.

Enrolling Children in Health Coverage—Implementation of SB 437 (Escutia), Statutes of 2006. The budget contains an *overall* increase of \$35.9 million (\$16.9 million General Fund) and 10 positions for implementation of this legislation which requires the simplification of enrollment processes into the Medi-Cal for Children and Healthy Families programs. The Medi-Cal Program will implement a pilot program for self-certification of income in two counties by July 1, 2007. This pilot is expected to increase Medi-Cal enrollment by 16,472 children in 2007-08.

California Discount Prescription Drug Program—AB 2911, Statutes of 2006. An increase of \$8.8 million (General Fund) and 16 positions are proposed to implement AB 2911 which creates the CA Discount Prescription Drug Program to provide low cost drugs to individuals in families with incomes below 300 percent of poverty.

Cost Containment for Pharmaceuticals. Savings of \$88 million (\$44 million General Fund) are assumed by switching the basis used to establish the drug reimbursement component of pharmacy claims in the Medi-Cal Program from the “average wholesale price” (AWP) to the “average manufacturer price” (AMP). The AMP provides a lower cost basis through its relation to the actual costs of production which limits the potential for price fixing. Use of the AMP is consistent with federal requirements.

Adult Day Health Care Reform—Implementation of SB 1755 (Chesbro), Statutes of 2006. An increase of \$4 million (\$1.9 million General Fund) and 47 positions is proposed to phase-in program reforms and develop a new rate methodology to ensure the receipt of federal reimbursement for these services.

Human Papillomavirus Vaccinations (HPV). An increase of \$11.3 million (\$5.6 million General Fund) is proposed to provide HPV to about 52,000 women aged 19 through 26 enrolled in the Medi-Cal Program.

Rate Reduction for Long-Term Care Facilities. The Governor proposes savings of \$14.4 million (General Fund) by limiting the maximum rate increase for freestanding skilled nursing facilities to 4.5 percent, rather than the maximum 5.5 percent as provided by AB 1629, Statutes of 2004.

Department of Public Health

Total Proposed Expenditures for Public Health Programs. SB 162 (Ortiz), Statutes of 2006, creates the Department of Public Health effective as of July 1, 2007. As such, the Governor's Budget reflects this change. The Administration notes that the reorganization of the Department of Health Services into the Department of Public Health and the Department of Health Care Services is budget neutral, as required by SB 162.

The Governor proposes total expenditures of \$3 billion (\$394.2 million General Fund) for 2007-08 for this new department. Of the total amount, \$716.5 million is for state support and \$2.3 billion is for local assistance.

Implementation of SB 1301 (Alquist), Statutes of 2006 regarding Inspections of Health Facilities. An increase of \$7.2 million (special funds) is provided to fund 45 positions to implement SB 1301 which requires the establishment of a system for the timely reporting of medical errors in general acute care hospitals, acute psychiatric hospitals, and special hospitals.

Implementation of SB 1312 (Alquist), Statutes of 2006 regarding Health Facilities. An increase of \$2.5 million (special funds) is provided to fund 16 positions to implement SB 1312 which requires the Licensing and Certification

Program to identify California-specific standards for the staffing and operation of long-term care facilities and to begin surveying against those standards.

California Environmental Containment Biomonitoring Program—SB 1379 (Perata), Statutes of 2006. An increase of \$1.2 million (General Fund) is provided to fund 3 positions and related expenditures to initiate planning for the implementation of SB 1379 that establishes this new program.

Foodborne Illness Emergency Response. An increase of \$2.1 million (General Fund) is proposed to fund 9 positions to expand the department's emergency response capabilities to foodborne illnesses and to support food safety research into risk factors and prevention measures for foodborne illness outbreaks caused by eating contaminated California food products.

Healthcare Associated Infections Program—SB 739 (Speier), Statutes of 2006. An increase of \$2 million (\$1.5 million General Fund) to fund 14 positions to implement the requirements of SB 739 regarding healthcare associated infection surveillance and prevention.

HIV Reporting. The budget proposes \$2 million (General Fund) to provide additional local assistance funding to increase staff for HIV reporting activities to help California retain federal funding. The department states that this funding will accelerate the conversion process necessitated by new data collection and reporting requirements that support the state's receipt of about \$50 million in federal funds.

AIDS Drug Assistance Program (ADAP). The Governor proposes total expenditures of \$299.4 million (\$107.7 million General Fund) for ADAP. This is the same level of funding as provided in the Budget Act of 2006.

Prenatal Screening for Birth Defects—SB 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.

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.

Managed Risk Medical Insurance Board

The Healthy Families Program

Total Proposed Expenditures for Healthy Families Program. The budget proposes a total of \$1.1 billion (\$392 million General Fund) for the Healthy Families Program (HFP) in 2007-08. It is anticipated that 915,600 children will be enrolled as of June 30, 2008 for an increase of 73,900 children over the revised current-year, or 8.8 percent.

Implementation of SB 437 (Escutia), Statutes of 2006. The budget contains an *overall* increase of \$35.9 million (\$16.9 million General Fund) and 10 positions for implementation of this legislation which requires the simplification of enrollment processes into the Healthy Families and Medi-Cal for Children programs. For the Managed Risk Medical Insurance Board, self-certification of income at the annual eligibility review will be implemented by January 1, 2008, and is expected to increase HFP enrollment by 13,237 children in the first six months.

Department of Developmental Services

Total Proposed Expenditures. The Governor proposes total expenditures of \$4.3 billion (\$2.6 billion General Fund) in 2007-08, reflecting a *net* increase of \$233 million (\$36.5 million General Fund) or 5.7 percent over the revised 2006-07 budget for the developmental services system. 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, \$3.566 billion is proposed to provide services in the community through the Regional Centers for a net increase of \$251.3 million (\$46.5 million General Fund) or 7.6 percent over the revised current-year. Total expenditures for the state Developmental Centers is proposed at \$712.3 million (\$393.6 million General Fund), for a net decrease of \$18.4 million (decrease of \$9.8 million General Fund) or 2.5 percent less than the revised current-year.

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 for 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 will be providing this document to the Legislature in January.

Developmental Center Population. The budget reflects a decrease of \$30.5 million (\$15.2 million General Fund) to reflect a projected decrease of 245 consumers living in the Developmental Center system (from 2,834 consumers in 2006-07 to 2,589 consumers in 2007-08).

Mental Health Programs

Total Proposed Expenditures for Mental Health Programs. The Governor proposes overall expenditures of \$4.8 billion (\$1.9 billion General Fund) for a net increase of \$652.8 million (decrease of \$217.2 million General Fund) over the revised current-year budget. 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.

This net change primarily reflects continued growth in the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, the impact of Proposition 83 (Jessica's Law), elimination of the Integrated Services for Homeless Adults with Serious Mental Illness Program, and the removal of one-time costs for prior-year AB 3632 mandate claims.

Implementation of Proposition 83—Jessica's Law. An increase of \$53.8 million (General Fund) is proposed to implement this proposition approved by the voters in November 2006. This includes proposed expenditures for conducting Sexually Violent Predator (SVP) evaluations and additional staffing at the State Hospitals to implement the new program.

Eliminates the Integrated Services for Homeless Adults with Serious Mental Illness Program. A decrease of \$54.9 million (General Fund) is reflected due to the Governor's proposed elimination of this program.

Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. An increase of \$187.8 million (\$92.7 million General Fund) is proposed to fund caseload growth and related costs.

Salary Increases for Medical Services Personnel. An increase of \$7.1 million (\$6.9 million General Fund) is proposed to bring salaries for classifications providing medical care services at the State Hospitals within 18 percent of the *Plata* court-ordered salaries of the CA Department of Corrections and Rehabilitation. This will allow hiring and retention of medical staff at the State Hospitals.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The Governor proposes significant changes to the CalWORKs program resulting in General Fund savings of \$464.7 million in 2007-08 and \$566.3 million annually thereafter. These changes include the following elements:

Restrict Safety Net Grants. Under current law, CalWORKs adult recipients are limited to 60 cumulative months of cash assistance, but children continue to receive cash aid as long as the family meets CalWORKs eligibility guidelines, regardless of how many hours their parents work after “timing-out.” The Governor proposes to restrict safety net grants only to children whose parents work sufficient hours to meet federal work participation requirements after timing-out. This proposal would be implemented November 2007 and would result in General Fund savings of \$175.8 million.

Impose Full Family Sanctions. 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. The Governor proposes to eliminate this partial family sanction and impose a full family sanction whereby the entire grant is eliminated to 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 75 percent of sanctioned cases would begin working as a result of the change.

Eliminate Grants for Children of CalWORKs Ineligible Parents. Under current law, California provides CalWORKs grants to children whose parents are not eligible for CalWORKs, including US citizen children of undocumented immigrants. These grants to children are not subject to a time limit. The Governor proposes to eliminate grants to these children after 60 months. This proposal would be implemented in November 2007 and result in General Fund savings of \$160 million.

Suspend CalWORKs Cost-of-Living Adjustment (COLA). The Governor proposes to freeze the amount of CalWORKs grants 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.

In-Home Supportive Services (IHSS) Program

Cap State Participation in IHSS Wages and Benefits. The Governor proposes to limit the State's share in the cost of the IHSS program by suspending contributions to wage and benefit increases for IHSS workers. Resulting state-funded wages will remain at \$11.10 per hour in 2007-08 instead of increasing to \$12.10, resulting in a General Fund savings of \$14.1 million. Counties would have to fund any future increases in IHSS wages and benefits.

Proposition 36

Fifty Percent Reduction in Proposition 36 Funding. Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA) established sentencing guidelines that allow first or second time nonviolent adult drug offenders to receive drug treatment rather than prison time. The 2006-07 budget maintained the baseline funding of \$120 million General Fund for the program and made program reforms including flash incarceration, improved judicial oversight of program participants and expanded options for offender management. The reforms have been suspended by judicial injunction. As a result, the Governor proposes to reduce funding in 2007-08 by \$60 million General Fund and shift \$35 million to increase funding to \$60 million for the Substance Abuse Offender Treatment Program (OTP), established in the Budget Act of 2006 to enhance treatment services for Proposition 36 participants. The remaining \$25 million would be General Fund savings. Counties anticipate costs of over \$160 million in the current year for the Proposition 36 program.

Other Human Services Programs

Fully Fund Supplemental Security Income/State Supplementary Payment (SSI/SSP) Federal Cost of Living Adjustment (COLA). The Governor proposes to provide \$216.7 million General Fund to fully fund a 4.2 percent SSI/SSP COLA. 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.

Modest Augmentation for Community Care Licensing (CCL). The Governor proposes to provide an additional \$6.1 million General Fund (\$6.6 million total funds) to increase protections for clients in licensed facilities and improve the efficiency and effectiveness of the CCL program. Specific components include: \$4.1 million General Fund and 58.5 positions to increase the number of random sample licensing visits from 20 percent to 30 percent; \$1.5 million General Fund to implement a Licensing Reform Automation Program; and \$0.5 million General Fund and 6.5 positions for follow-up visits when a Temporary Suspension Order, Revocation, or Exclusion Order has been served.

Slight Increase for Child Welfare Services. The Governor proposes to provide an additional \$2.9 million General Fund (\$5.4 million total funds) in 2007-08 for: probation-specific activities related to the implementation and completion of the county improvement plans (\$2 million General Fund); improving the identification of mental health and developmental needs of children and youth in foster care and access to mental health treatment resources for children and youth in foster care and at-risk of foster care entry (\$0.3 million General Fund); establishing a Child Family Services Review Unit to oversee data quality and integrity, monitor program performance; ensure compliance with the federal Child and Family Services Review (\$0.5 million General Fund); and supporting the Child Welfare Council created by Chapter 384, Statutes of 2006 (AB 2216) (\$0.1 million General Fund).

Judicial Branch

Total Proposed Expenditures for the Judicial Branch. The Governor proposes \$3.7 billion (\$2.3 billion General Fund) for the Judicial Branch. This is \$196 million (\$243.7 million General Fund) above the estimated expenditures for 2006-07 primarily due to the year-over-year change in the State Appropriations Limit. The proposed funding for the Judicial Branch is allocated to the State Judiciary (\$426.7 million) and the Trial Courts (\$3.3 billion).

Annual Growth Factor for the Judicial Branch. The Governor proposes to fully fund the annual growth factor for the Judicial Branch based on the year-over-year change in the State Appropriations Limit at a cost of \$146.8 million General Fund. This includes \$16.7 million for the State Judiciary and \$130.1 million for the Trial Courts.

Trial Court Facilities. The Governor proposes \$2 billion in general obligation bond authority to build new trial court facilities.

New Judgeships. 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. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted.

Implement Recently Enacted Legislation. The Governor proposes \$17.4 million General Fund to implement the Conservatorship and Guardianship Reform Act of 2006. The Governor also proposes \$1.4 million General Fund to provide court-appointed counsel for children in dependency cases as required by recent legislation.

Labor

Employment Development Department (EDD). The Governor's Budget reflects revised estimates of benefit expenditures. Total department expenditures in 2007-08 are reduced by \$332 million (to \$10.8 billion) from the adjusted 2006-07 level. This adjustment is primarily a result of recent benefit claims, and the October 2006 forecast of future claims. The Budget includes a significant State-funding cut for the Job Services Program – the cut of \$27 million would benefit the General Fund.

Department of Industrial Relations (DIR). The Governor proposes \$19.1 million to continue the implementation of the Electronic Adjudication Management System information technology project, which will improve case management in the Division of Workers' Compensation.

Veterans' Affairs

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	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

(*dollars in thousands)

Greater Los Angeles and Vatura County (GLAVC) Veterans Home Construction. The Administration proposes \$995,000 and 7.6 positions to initiate construction and pre-activation phases of the GLAVC veterans home project. When completed, the GLAVC home will include adult day health care, assisted living, and a skilled nursing facility.

Barstow: 40 Skilled Nursing Facility Beds. The Administration proposes \$2.3 million (\$2.1 million General Fund and \$245,000 other funds) and 18 positions to reopen 40 Skilled Nursing Facility beds at the Barstow Veterans Home. The reactivation of the unit will occur over two fiscal years.

Enterprise Wide Veterans Home Information System. The Governor's Budget includes \$10.3 million General Fund (\$7 million one-time) and 20.9 positions to procure and implement a statewide Veterans Home Information System that will replace the current proprietary system in the existing homes and support homes that may be constructed in the future.

Local Government

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.

State Mandate Funding. The Governor's Budget includes \$11 million to local governments for the costs of mandates attributable to the 2006-07 fiscal year. The Administration partially funds payable mandate claims anticipated in 2007-08 and does not fund past mandate claims included in a statutorily designated 15-year repayment schedule.

Mandate Reimbursement Process. The Administration will propose a reimbursement process change wherein the Department of Finance will work with local agencies to develop a cost-efficient method of compliance with new laws and a relatively simple way to determine the amount local governments will be reimbursed.

Rural and Small County Law Enforcement Grants. The Governor's Budget fully funds the Rural and Small County Law Enforcement Grants subvention at \$18.5 million. This program provides \$500,000 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.

Williamson Act. The Governor's Budget fully funds the Williamson Act subventions for open space preservation at \$39.1 million.

Public Safety & Corrections

California Department of Corrections and Rehabilitation

Total Proposed Funding for the California Department of Corrections and Rehabilitation (CDCR). The Governor proposes \$10 billion (\$9.7 billion General Fund) for CDCR in the budget year. This is \$249.5 million (\$444.6 million General Fund) more than the estimated expenditures for 2006-07.

Adult Inmate and Parolee Population Estimates. The Governor's budget projects that the average daily adult inmate population and adult parolee population in the current year is higher than anticipated in the 2006-07 Budget Act. The Governor proposes \$9.7 million General Fund to address this growth in the current year. Estimates for the adult inmate and parolee populations in the budget year are also estimated to grow beyond the current year levels. 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 anticipated to be 177,577 and the average daily adult parolee population is anticipated to be 122,148, which is 2.4 percent higher and 2.5 percent higher, respectively.

Adult Parole Population and Caseload Savings. The Governor's budget also includes estimated savings resulting from modifications to the parole structure. This includes automatic discharge from parole for individuals with 12 months of "clean time" and no parole for some low level offenders. The budget also assumes elimination of 90-day diagnostic evaluations. These changes are estimated to result in savings of \$56.7 million in the budget year.

Juvenile Offenders and Parolee Population Estimates. The Governor's budget estimates that the juvenile offender population and juvenile parolee population in the current year will be lower than anticipated in the 2006-07 Budget Act. This decrease in population along with delays in the implementation of the Safety and Welfare and Mental Health Remedial Plans required by the *Farrell* lawsuit will result in \$10.5 million General Fund savings in the current year. Population estimates are projected to continue 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. Due to the declining juvenile population, General Fund Proposition 98 funding for the Division of Juvenile Justice (DJJ) will decrease by \$1.9 million in the current year and \$2.6 million in the budget year.

Juvenile Population Savings. The Governor proposes reducing the number of juveniles housed in state facilities by transferring all female and some low level male offenders to local facilities. This will result in an estimated \$32.9 million in savings to the General Fund in the budget year. The Governor also proposes to eliminate the Juvenile Justice Community Reentry Challenge Grant, which will save an additional \$10 million General Fund.

State Prison Expansion. The Governor proposes \$2.7 billion (\$300 million General Fund and \$2.4 billion lease-revenue bonds) to build over 16,000 new beds at existing prison facilities. This funding would also be used for critical water and sewer infrastructure upgrades and to build a new correctional officer training facility. This proposal is similar to what the Governor proposed in the 2006 special session.

New Re-Entry Facilities. The Governor proposes \$1.6 billion in lease-revenue bonds to build up to 7,000 new beds in new smaller re-entry facilities. These facilities would house prisoners with less than 12 months left of their sentence and for parole violators. This proposal is similar to what the Governor proposed in the 2006 special session.

Health Care Facilities. The Governor proposes \$1 billion in lease-revenue bonds to build 10,000 specialized beds and treatment and program space for medical, mental health, and dental services as directed by the court-appointed Receiver in *Plata v. Schwarzenegger*.

New San Quentin Condemned Inmate Complex. The Governor proposes \$117 million in lease-revenue bonds to complete construction of a new facility to house the condemned inmate population at San Quentin.

Local Jail and Juvenile Facility Expansion. The Governor proposes \$5.5 billion in lease revenue bonds to build 45,000 new jail beds and 5,000 new juvenile beds. The Governor's proposal assumes \$1.1 billion in matching funds from local governments to fund these additional beds.

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. 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 to continue state efforts to comply with the requirements of *Coleman v. Schwarzenegger* in the budget year. 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 to continue the state efforts to comply with the requirements of *Perez v. Schwarzenegger* in the budget year. This includes funding to lower dentist-to-inmate ratios and for potential salary increases for dental service providers.

Parole Hearings Workload. The Governor proposes an additional \$5 million General Fund in the budget year to ensure the continued implementation of the court approved *Valdivia* Remedial Plan for correctional case records services and attorney services for each parolee.

State 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 \$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.

Teacher Salary Augmentations. 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.

Residential Aftercare and Drug Treatment Furlough. The Governor proposes \$12.2 million in additional funding to implement recent legislation (SB 1453, Speier) that requires mandatory residential aftercare programs for some offenders. These funds will also be used to maintain the current level of drug treatment furlough beds. The drug furlough beds had been funded with monies that will now be used to fund mandatory residential aftercare.

Adult Probation Services Expansion. The Governor proposes \$50 million General Fund for a 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.

Jessica's Law Implementation. The Governor proposes \$30.4 million General Fund for the current year and \$77.3 million for 2007-08 for CDCR to implement Jessica's Law (Proposition 83) that was passed by the voters in November 2006. These funds would be used to screen inmates, provide Global Positioning System monitoring for paroled sex offenders, and reduce parole caseloads so that agents can more closely monitor sex offenders. The Department of Mental Health is also allocated an additional \$82.8 million General Fund to implement the new law in the current and budget years.

High Risk Sex Offenders. The Governor proposes \$47.2 million General Fund to implement the High Risk Sex Offender Task Force recommendations. These funds will be used to train parole agents on the Sex Offender Containment Model, provide for parolee treatment, biannual polygraph testing of parolees, dedicated parole agents for statewide Sexual Assault Felony Enforcement Teams, and the creation of a Sex Offender Management Board.

Critical Information Technology Projects. The Governor proposes \$36.1 million General Fund in the budget year to fund two new 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.

Out-of-State Beds. The Governor proposes to expend an additional \$10.3 million General Fund in the current year and \$13.2 million in 2007-08 to fund the transfer of 2,260 inmates to prison facilities outside of California.

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.

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.

Incarceration of Undocumented Felons. The budget assumes \$114.1 million in federal State Criminal Alien Assistance Program (SCAAP) funding for 2006-07 and 2007-08.

California Sentencing Commission. The Governor proposes to create the California Sentencing Commission to review and make recommendations on sentencing guidelines. The budget includes \$457,000 General Fund to support the commission.

Department of Justice

Total Proposed Funding for the Department of Justice. The Governor proposes \$825.2 million (\$402.7 million General Fund) for the Department of Justice. The proposed funding for the Department of Justice is allocated as follows; \$224.6 million for law enforcement programs, \$361.4 million for legal service programs, \$185.9 million for California Justice Information Services program, \$20.4 million for the Division of Gambling Control, \$16.7 million for the Firearms Division, and \$16.2 million for Executive Programs.

New DNA Laboratory. The Governor proposes \$400 million in lease-revenue bonds to construct a new DNA Laboratory for the Department of Justice.

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 recent legislation (SB 1128, Alquist and AB 1849, Leslie).

Natural Resources

Total Proposed Expenditures for Resources. The Governor's budget proposes \$6.4 billion (\$1.5 billion General Fund) for all departments, boards, and commissions under the Resources Agency.

Flood Protection. In November 2006 the voters passed a measure allowing the sale of \$4.1 billion in general obligation bonds for various flood management programs. Traditionally, the state has directly funded the construction and repair of flood management structures such as levees, typically with a federal and local cost share. The Governor proposes \$630 million in bond funds to repair critical levee erosion sites, provide subventions to help local governments in flood prevention, and continue development of the state's strategic flood management capability.

Proposition 84 Funding. In November 2006 the voters passed a measure allowing \$5.4 billion in general obligation bonds for water, flood control, natural resources, park, and conservation projects. The Governor proposes using \$1.1 billion in Proposition 84 funds for various resources uses, including:

- \$28 million to the Ocean Protection Program to create marine protected areas, ensure sustainable fisheries, and regulate marine industries.
- \$17.5 million to the Sierra Nevada Conservancy for improvement of the environmental, economic, and social well-being of the Sierra Nevada region.
- \$5.1 million for grants in bioenergy production.

All-American Canal Lining. The Governor proposes \$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.

Resources Secretary and CALFED Bay-Delta Program. The Governor's budget proposes \$73 million in the Resources Secretary budget for the CALFED Bay-Delta Program.

San Joaquin Restoration. The Governor proposes over \$15 million for the San Joaquin River restoration.

State Parks Budget. The Governor proposes \$4.1 million General Fund for the continued remediation of Empire Mine State Historic Park. The Governor also proposes \$5 million in local assistance to the Simon Weisenthal Center.

Parks Maintenance Reversion. The Governor proposes reverting \$160 million General Fund for Parks and Recreation deferred maintenance. The funds would be replaced with bond funds.

Fire Protection Budget. The Governor proposes an increase of \$11 million for employee compensation at the Department of Forestry and Fire Protection. The Governor also proposes 225 new positions at the Department of Forestry and Fire Protection.

Agriculture

Total Proposed Expenditures. The Governor's budget proposes \$294.5 million (\$99.3 General Fund) to support the California Department of Food and Agriculture for 2007-08. This is a \$33.2 million decrease from the 2006-07 budget.

Emergence Tower System for Fruit Fly Rearing. The Governor proposes \$658,000 General Fund to purchase and implement a tower system for rearing Mediterranean Fruit Fly (Medfly) and other Fruit Flies for the Preventive Release Program. This new system would increase the number of sterile flies produced for release by 50 percent while requiring less space.

Continuation of the All Vehicle Inspection Pilot Program. The Governor proposes \$407,000 for the continuation the All Vehicle Inspection Pilot Program located at the Inspection Station in Needles, California for a second year.

Environmental Protection

Total Proposed Expenditures. The Governor's budget proposes \$1.7 billion (\$86 million General Fund) for all boards, departments, and offices under the Environmental Protection Agency.

Global Warming Solutions Act. The Governor proposes \$35.8 million in special funds for CalEPA boards and departments to implement measures to reduce greenhouse gas emissions and develop a market-based compliance program. Recent legislation (AB 32) requires that the State Air Resources Board (ARB) adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with this program, as specified. The bill requires ARB to adopt a statewide greenhouse gas emissions

limit equivalent to the statewide greenhouse gas emissions levels in 1990 to be achieved by 2020.

Hydrogen Highway. The Governor proposes \$6 million in special funds to continue the development of the Hydrogen Highway. This funding will provide matching funds for up to eight publicly accessible hydrogen fueling stations and will prioritize funding for stations that generate hydrogen from promising renewable technologies.

Low-Emission School Buses. The Governor proposes \$96.5 million in general obligation bond funds for the replacement of 535 pre-1987 school buses and retrofits of 1,500 old diesel school buses.

Infrastructure Bonds – Water Quality. Proposition 84 provides \$5.4 billion in general obligation bond fund for water supply needs and protection of natural resources. The Governor proposes \$1.1 billion for the State Water Resources Control Board for water quality programs, including:

- \$75.7 million for low interest loans or grants for wastewater treatment facilities and pollution control projects.
- \$6.2 million for grants for public agencies or nonprofit organizations to improve agricultural water quality.
- \$14.6 million for grants to local public agencies for projects that contain storm water runoff.
- \$8.8 million for grants to local public agencies for water quality projects in coastal waters, estuaries, and bays.
- \$6.1 million for basin and land use planning activities.

Brownfields. The Governor proposes \$3.1 million Cleanup and Abatement Account for the Water Board to accelerate the cleanup of approximately 750 brownfield sites. The Governor further proposes \$219,000 special funds for the Department of Toxic Substances Control to implement recent legislation that provides incentives for brownfield cleanups (SB 1689).

Biomonitoring. The Governor proposes \$1.5 million General Fund to begin implementation of Chapter 599, Statutes of 2006, (SB 1379, Perata) which requires the Department of Public Health, in collaboration with Cal/EPA, to establish a Biomonitoring Program. Biomonitoring is a scientific technique for assessing human exposure to chemicals based on sampling and analysis of an individual's tissues and fluids.

State Administration and General Government

Board of Equalization

The Governor's Budget includes an augmentation of \$5.9 million and 79 positions for expanded administration of Board of Equalization (BOE) tax programs. These measures include:

- **CONSUMER USE TAX SECTION ENHANCEMENT:** The Administration seeks to permanently establish six limited term positions first established in 2005, at a continued cost of \$313,000 (\$203,000 GF). The BOE anticipates a 14-1 cost benefit ratio.
- **U.S. CUSTOMS PROGRAM AUGMENTATION:** The Administration requests 15.5 new positions and \$1.1 million for the purpose of developing and investigating tax leads turned over by the U.S. Customs Service. Based on the activity in this program over the last two years the BOE anticipates revenues of \$15.2 million, a 15-1 cost benefit ratio.
- **ALCOHOL BEVERAGE TAX PROGRAM WORKLOAD.** The Administration requests two permanent positions and \$244,000 GF to restore resources for conducting field audits, program screenings, tax return processing, issuing refunds, and collecting the alcohol beverage tax. The BOE anticipates these resources will generate \$1.5 million, a 5.6 to 1 benefit-cost ratio.
- **TIRE FEE INCREASE WORKLOAD.** The Administration requests to make permanent 5.5 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 30 to 1 benefit-cost ratio.
- **ELECTRONIC WASTE RECYCLING FEE WORKLOAD ADJUSTMENT.** The Administration requests a reduction of 19.7 positions and \$1.3 million (E-Waste Recovery and Recycling Account). This realignment is intended to align budgeted dollars with a revised workload estimate of registered retailers.

- **INTERNATIONAL FUEL TAX AGREEMENT (IFTA) WORKLOAD GROWTH.** The Administration requests \$1,004,000 (Motor Vehicle Fuel Account and 11 new positions, including 8 new positions and 3 three-year limited term positions. This proposal will better enable the BOE to meet national IFTA membership requirements and safeguards the estimated \$3.0 billion in matching federal funds. The BOE anticipates these new positions will generate an additional \$2.7 million (Motor Vehicle Fuel Account) annually.
- **UNDERGROUND STORAGE TANK MAINTENANCE FEE PROGRAM.** The Administration requests 7.1 positions, including 2 two-year limited term positions, and \$771,000 to address an ongoing workload backlog in the Underground Storage Tank Maintenance Fee Program. The fees collected in this program are used for grant and loan programs to assist underground storage tank program owners in replacing or repairing their tanks, as well as enabling the state to remediate abandoned underground storage tank sites.
- **MOTOR VEHICLE FUEL AUDIT STAFF AUGMENTATION.** The Administration requests \$715,000 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 \$19 million associated with these positions, a 23-1 benefit-cost ratio.
- **ASSEMBLY BILL 1803.** In accordance with Chapter 77, Statutes of 2006 (AB 1803), the Board of Equalization requests reimbursement authority to recover costs associated with implementing and administering statutory changes to the BOE's Environmental Fee Program. Four new positions and \$483,000 are also needed to carry out these changes. This bill 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 \$1.46 million (\$1 million GF) 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/year.

VEHICLE, VESSEL, AND AIRCRAFT USE TAX PAYMENTS. The Administration proposes 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. 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, current law would restore in 2007-08 a provision 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.

Franchise Tax Board

The Administration proposes to decrease the Franchise Tax Board's budget by \$139.9 million, relative to the 2006 Budget Act. Approximately \$99.2 million of this reduction is related to concluding responsibilities for the California Child Support Automations System. The Governor's Budget also includes several measures to address the tax gap.

TAX GAP MEASURES. The Administration requests continued funding of \$19.6 million and 218.3 positions to support existing efforts to narrow the tax gap and develop new initiatives to further close that gap. 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. Anticipated revenues in the budget year from new tax gap programs are approximately \$80 million in the budget year.

These important and far-reaching proposals include the extension of positions and activities approved in prior budgets, such as 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.

TEACHER RETENTION TAX CREDIT. The Governor's Budget proposes elimination of the Teacher Retention Tax Credit, generating a savings of \$165

million General Fund. The tax credit provides up to \$1,500 to credentialed teachers, depending on their years of service. This credit was suspended in 2002, 2004, 2005, and 2006.

Intervenor Compensation

The Administration proposes an increase of \$780,000 (Insurance Fund) for “Intervenors” acting on behalf of consumers to resolve conflicts with insurers. Intervenors may be compensated by either the Insurance Commissioner or a judge. This augmentation funds the increased need for intervenor compensation.

Unallocated Reductions

The Governor’s Budget includes savings of \$100 million through unallocated reductions to departments’ budgets. These reductions will be authorized through statewide budget control section 4.05.

Secretary of State

HELP AMERICA VOTE ACT (HAVA) EXPENDITURES. The Governor’s Budget includes \$10.4 million in federal funds to continue implementing HAVA. Of this total, \$6.5 million will be used to begin implementing the VoteCal statewide voter database and \$3.9 million for elections-related activities like supporting interim voting systems, providing assistance to disabled voters, and voter education.

SAFE AT HOME PROGRAM. Chapter 639, Statutes of 2002 (SB 1062, Migden) created the “Safe at Home” Program to provide support services to victims of domestic violence and stalking. The Secretary of State proposes to \$292,000 and 2.8 positions to expand this program to include victims of sexual assault. The funds will provide staffing, equipment, and printing materials for program enrollment.

Department of General Services

GREEN BUILDING PLAN. The Administration requests \$3.4 million and 4.7 positions to implement the Governor's "Green Building Action Plan." These funds and positions would be tasked to reduce energy consumption by building, retrofitting, and operating state buildings to conform to that plan.

CAPITOL REPAIRS. The Governor's Budget includes \$7.4 million (General Fund) to effect critical structural repairs to the State Capitol, which were previously identified in a 20-year infrastructure report.

Department of the Military

FUNERAL HONORS. The Governor's Budget includes \$1.8 million (General Fund) and 22.1 positions to provide the additional resources necessary to meet the increased demand for military funeral honors.

ARMORY MAINTENANCE AND REPAIRS. The Administration requests \$4.5 million (\$3 million General Fund) to allow the Department of the Military to address their armory infrastructure needs by making repairs, modernizing facilities, and ensuring compliance with environmental laws and building codes. The Administration estimates a total deferred maintenance backlog of \$35 million in the state's armories.

Elimination of Boards and Commissions

The Administration proposes the elimination of several boards and commissions. A new budget control section is proposed to enable the Director of Finance to reduce appropriations as needed to reflect the eliminated of boards and commissions.

Housing and Community Development

The Governor's Budget includes \$969 million for the Department of Housing and Community Development, which represents a \$314 million increase over the adjusted 2006-07 level. This increase is primarily associated with bond revenue from Proposition 1C on the November 2006 ballot.

Transportation

Department of Transportation (Caltrans) Budget. The proposed Caltrans budget of \$12.7 billion reflects a \$1.5 billion increase over the adjusted 2006-07 level. This increase is primarily associated with bond revenue authorized by Proposition 1B, which was approved by voters on the November 2006 ballot.

Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). Proposition 1B provides for a general obligation bond issue not to exceed \$19.9 billion. The budget includes appropriations totaling \$7.7 billion in Proposition 1B bond funds, although only \$2.8 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 Proposition 1B allocations in 2006-07. Dollars below are in millions.

Proposition 1B Category	2007-08 Allocations	2007-08 Appropriations	Budget
Corridor Mobility Improvement Account (CMIA)	\$317	\$2,119	Caltrans
Transit	600	1,300	State Trans Assistance
State Transportation Improvement Program (STIP)	340	1,035	Caltrans
Local Streets & Roads	600	1,050	Shared Revenues
Trade Infrastructure	170	680	Caltrans
State Highway Operations and Preservation Program (SHOPP)	403	518	Caltrans
State/Local Partnership	170	502	Caltrans
Grade Separations	55	174	Caltrans
State Route 99 Improvements	28	171	Caltrans
School Bus Retrofit	97	97	Resources
Local Bridge Seismic Retrofit	9	39	Caltrans
TOTAL	\$2,789	\$7,685	

Shift Mass Transit Revenues to General Fund Obligations: The Governor proposes to use \$1.1 billion in Public Transportation Account (PTA) funds to pay the following General Fund obligations.

- \$627 million for Home-to-School Transportation (currently Proposition 98).
- \$340 million for transportation-related general obligation bond debt.
- \$144 million for transportation services 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 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).

Proposition 42/Gasoline Sales Tax Revenue. The Governor is *not* proposing a Proposition 42 suspension for 2007-08 and revenue is estimated to be \$1.5 billion – an increase of \$47 million over the revised 2006-07 estimate.

Repayment of Prior Transportation Borrowing. The Governor’s Budget includes repayment of \$83 million for past Proposition 42 borrowing. This amount matches the minimum annual repayment amount required by Article XIX B of the Constitution, as amended by Proposition 1A on the November 2006 ballot. The 2006 Budget Act provided for early repayment of \$1.42 billion in past Proposition 42 borrowing and approximately \$750 million remains outstanding. The Governor’s Budget assumes litigation will continue to delay the sale of tribal gaming bonds, which would provide for repayment of approximately \$827 million in General Fund debt to the Traffic Congestion Relief Fund. However, the Administration assumes quarterly tribal payments will allow the repayment of \$100 million in 2006-07 and \$100 million in 2007-08 – this would leave approximately \$850 million outstanding for repayment after 2007-08.

California Highway Patrol (CHP) Budget. The Governor’s Budget includes the following significant augmentations for the CHP (all special fund):

- \$17.5 million for 50 additional CHP Officers and 41 non-uniformed positions.
- \$51.4 million for year two of the public-safety radio upgrade project.
- \$7.7 million and 68 positions for the Biennial Inspection of Terminals Program.

Department of Motor Vehicles (DMV) Budget. The Governor's Budget includes the following significant augmentations for the DMV (all special fund):

- \$24 million for year two of the Information Technology Modernization project.
- No funding is requested for the federal Real ID Act because the federal regulations have not been released. DMV anticipates spring Finance Letter requests related to Real ID.