



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

SENATOR WESLEY CHESBRO, CHAIR

## **MAY REVISION HIGHLIGHTS**

May 12, 2006

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 15.

## OVERVIEW OF GOVERNOR'S MAY REVISION

On May 12, the Governor released his May Revision. Total budget expenditures proposed in the May Revision from all sources (General Fund, special funds, and bond funds) is approximately \$131.1 billion. Total General Fund expenditures for 2006-07 are anticipated to be approximately \$101 billion.

The May Revision makes significant changes to the administration's proposals as presented in January. The key elements of the changes are as follows:

- Overall General Fund revenues increase by approximately \$7.5 billion (for the two-year period ending June 30, 2007) above January's estimate. Of the increase, the split between the two fiscal years is as follows: 2006-07 -- \$2.7 billion, and 2005-06 -- \$4.8 billion.
- K-14 Education funding. As a result of the increase in overall state revenues, the May Revision provides approximately \$2.9 billion (over the two-year period) in additional ongoing funding for K-14 education as required under Proposition 98. In addition, the administration proposes a settlement of a lawsuit related to the 2004-05 suspension of Proposition 98 – under the settlement the State will pay Proposition 98 “settle-up” of approximately \$3 billion as follow: \$300 million in 2007-08 and \$450 million in 2008-09 and annually thereafter until the \$3 billion “settle-up” is paid off.
- Debt Payments. Dedicates approximately \$1.6 billion toward debt prepayment or repayments. Of this amount \$1 billion is a dedicated prepayment of debt associated with the Economic Recovery bonds. Other major payments are made for Special fund loans (\$198 million), Flood Control subventions prepayment (\$100 million), Proposition 98 prepayment of a prior settle-up (\$150 million), and early prepayment of reimbursements to local governments for state mandated programs (\$87 million).
- Transportation. The Administration proposes to fund debt service on existing and future transportation bonds with any “spillover” revenues received in a given year. The May Revision estimates \$4.1 billion in “spillover” dedicated to debt service over a ten-year period beginning in the budget year. The “spillover” is a portion of the gasoline sales tax that is received on top of Proposition 42 revenue. Under existing statute, a portion of the 2006-07 spillover, and all spillover revenue in 2007-08 and beyond, would go to

the Public Transportation Account (PTA). Spillover revenues rise in years when gasoline prices increase faster than the prices of other goods.

In addition, the May Revision includes \$18.8 million to begin the planning, programming, and infrastructure development needed to implement the federal Real ID Act.

- **Health Services.** The May Revision proposes among other things: (1) \$400 million on a one-time basis to assist in the preparation of public health emergencies and natural disasters; (2) \$23 million to provide counties with financial support to enroll uninsured children in Healthy Kids programs; and (3) \$33 million General Fund for half-year costs to restore a prior 5-percent provider rate reduction in the Medi-Cal managed care program.
- **Human Services.** The May Revision withdraws January's proposal to delay the 2007 SSI/SSP cost-of-living adjustment an additional 15 months. The Senate Budget Committee rejected this proposal in January. The May Revision includes \$10 million General Fund for first year costs to implement the Title IV-E Waiver in order to provide preventive child welfare services for foster youth – this funding will be available for counties that formally commit to participate in the waiver.
- **Resources.** The May Revision provides \$50 million General Fund on a one-time basis for among other things: (1) \$10 million salmon and steelhead restoration, (2) \$10 million for marine life and marine reserve management, (3) \$10 million for non-game fish and wildlife programs, and (4) \$10 million for deferred maintenance of state parks.
- **Corrections and Law enforcement.** The May Revision includes among other things: (1) \$42.6 million split equally between the COPS and Juvenile Justice Crime Prevention programs; (2) \$50 million to award competitive grants for the implementation and assessment of local projects designed to reduce recidivism among mentally ill offenders; and (3) \$220 million in the budget year for Department of Corrections and Rehabilitation caseload adjustments in the adult inmate, juvenile, and parole populations.

In addition, the May Revision proposes a stand-alone item for the correctional health care program to allow the state to respond to the fiscal needs of the Receiver in the *Plata v. Schwarzenegger* lawsuit.

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**2006-07 Governor's May Revision  
General Fund Summary  
(in millions)**

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	<b>Revised <u>2005-06</u></b>	<b>Proposed <u>2006-07</u></b>
<b>PRIOR YEAR BALANCE</b>	<b>\$9,507</b>	<b>\$9,368</b>
Revenues and transfers	92,450	93,866 <sup>a</sup>
<b>TOTAL RESOURCES AVAILABLE</b>	<b>\$101,957</b>	<b>\$103,234</b>
Non-Proposition 98 Expenditures	\$54,260	\$59,737 <sup>a</sup>
Proposition 98 Expenditures	<u>38,329</u>	<u>41,248</u>
<b>TOTAL EXPENDITURES</b>	<b>\$92,589</b>	<b>\$100,985</b>
 <b>FUND BALANCE</b>	 <b>\$9,368</b>	 <b>\$2,249</b>
Encumbrances	\$521	\$521
Special Fund for Economic Uncertainties	\$8,847	\$1,728
<b>BUDGET STABILIZATION ACCOUNT (BSA)</b>	 --	 <b>\$472</b>
<b>TOTAL AVAILABLE RESERVE</b>	<b>\$8,847</b>	<b>\$2,200</b>

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<sup>a</sup> A total of \$944 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).

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## General Fund Summary

- **Revenues.** The May Revision projects total 2006-07 General Fund revenues of \$93.9 billion, or an increase of \$2.7 billion above January's estimate. Total available resources in the budget year are projected to be \$103.2 billion from all sources (including a carry forward balance of \$9.4 billion from the revised 2005-06 budget).
- **Expenditures.** Revised General Fund expenditures for the budget year are approximately \$101 billion, or \$3.1 billion above January's estimate.
- **Reserve.** The May Revision assumes a total available reserve of approximately \$2.2 billion. This amount represents two components (1) a Special Fund for Economic Uncertainties of \$1.7 billion; and (2) the Budget Stabilization Account (pursuant to Proposition 58) of \$472 million.
- **Structural Deficit.** The structural deficit (the gap between ongoing revenues and ongoing expenditures) is anticipated to be \$4.1 billion, after taking into account pre-and-repayment of various elements detailed in the May Revision.

### 2006-07 May Revision General Fund Revenue By Source (in millions)

Source	Gov. Budget Jan. 10 Amount	Gov. Budget Jan. 10 % of Total	May Revision Amount	May Revision % of Total
Personal Income Tax	\$48,716	52.9%	\$50,877	54.2%
Sales Tax	\$28,295	30.8%	\$28,103	29.9%
Corporation Tax	\$10,024	10.9%	\$10,507	11.2%
Other	\$4,970	5.4%	\$4,379	4.7%
<i>Total</i>	<b>\$92,005</b>	<b>100.0%</b>	<b>\$93,866</b>	<b>100.0%</b>

**2006-07 May Revision  
General Fund Expenditures  
By Major Program Area  
(in millions)**

<b>Major Program Area</b>	<b>Jan. 10 Amount</b>	<b>Jan. 10 % of Total</b>	<b>May Revision Amount</b>	<b>May Revision % of Total</b>
Education -- Proposition 98 (K-12 / Community Colleges)	\$40,456	41.3 %	\$41,248	40.8%
Health and Human Services	\$28,450	29.1 %	\$29,141	28.9%
Higher Education (UC/CSU/Other)	\$10,413	10.6 %	\$10,572	10.5%
Corrections and Rehabilitation (formerly Youth and Adult Corrections)	\$8,038	8.2 %	\$8,661	8.6%
Other	10,545	10.8 %	\$11,363	11.3%
<i>Total</i>	<b>\$97,902</b>	<b>100%</b>	<b>\$100,985</b>	<b>100%</b>

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## **CHILD CARE**

- Decreases funding for Stage 2 child care services due to an over-budgeting of enrollments in the Governor's January 10 proposal. Specifically, funding under the Governor's May Revision decreases by a net of \$25.9 million (\$33.4 million TANF decrease and \$7.5 million Proposition 98 increase).
- Increases funding for Stage 3 child care services by a net of \$18.6 million (\$26.1 million TANF increase; \$7.5 million Proposition 98 decrease).
- 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 2006-07.
- Provides \$50 million to expand state preschool programs to four-year old children living in the service areas of the lowest three decile schools. Funds will be allocated pursuant to legislation enacted during the current legislative session.

## GENERAL GOVERNMENT

### BOARD OF EQUALIZATION

**Vehicle, Vessel, and Aircraft Use Tax Exemption.** The Administration proposes to reduce their earlier revenue estimate for the one-year extension of the 12-month assumption for the assessment of use tax by \$7 million, down to a total of \$28 million. The proposed change conforms to recent analysis performed by the Legislative Analyst's Office.

### DEPARTMENT OF TECHNOLOGY SERVICES

**Consolidation Savings.** The Administration proposes to decrease the Department of Technology Services (DTS) budget by \$1,091,000 and 8.7 Positions to reflect staff savings achieved as a result of Data Center Consolidation. This request represents the first year of budget savings created by data center consolidation. The department estimates they will achieve \$45.6 million in savings over a four-year period.

### STATE PERSONNEL ISSUES

- **Augmentation for Employee Compensation.** Increases proposed General Fund augmentations by \$80.9 million and increases special fund augmentations by \$7.8 million. Of these amounts, \$25.2 million relates to the *Plata v. Schwarzenegger* lawsuit, with the remainder related to new estimates of the costs of bargaining-unit contract increases.
- **CalSTRS Technical Correction.** The Administration proposes to reduce State funding for the California State Teachers' Retirement System (CalSTRS) by \$121.5 million to correct an overpayment in past years that was the result of an error recently discovered in the CalSTRS accounting system.

### BUDGET ITEM 9100: TAX RELIEF

**Senior Citizens' Property Tax Assistance Program and Renters' Tax Assistance Programs.** The Administration proposes to increase funding for these programs by \$5.563 million to reflect a decrease of \$420,000 in the Senior Citizens' Property Tax Assistance Program and an increase of \$5.983 million in the Senior Citizens' Renters' Tax Assistance Program. These adjustments are based on revised participation estimates from the Franchise Tax Board.

**ECONOMIC RECOVERY FINANCE COMMITTEE**

**One Billion Dollar Transfer to the Deficit Recovery Bond Retirement Sinking Fund.** The Administration proposes a \$1.0 billion transfer from the General Fund to the Deficit Recovery Bond Retirement Sinking Fund to accelerate the repayment of the Economic Recovery Bonds (ERBs), which were authorized by the voters in Proposition 58. The Administration expects this transfer to enable the ERBs to be effectively paid off by June 30, 2009, one year ahead of previous projections. In addition, it is estimated that the pre-payment of the ERBs will result in more than \$147.9 million in simple interest savings.

**PAYMENT OF INTEREST ON GENERAL FUND LOANS**

**Interest Cost for Special Fund Repayments.** The Administration proposes \$21 million in funding for the repayment of interest on 13 outstanding loans to the General Fund. In addition to the \$177 million in loans proposed for principal repayment, the state must pay the interest also owed for this borrowing.

## **HEALTH**

### **CHILDREN'S HEALTH INITIATIVE INTERIM ASSISTANCE**

- Provides \$22.8 million (General Fund) on a one-time only basis to be allocated to certain counties that have an existing children's health initiative program. These funds are to be used for children, aged 6 through 18 years, in families with income at or below 300 percent of poverty who are not insured or eligible for coverage under Healthy Families or full-scope Medi-Cal with no-share-of-cost. This assistance would be administered at the state level by the Managed Risk Medical Insurance Board (MRMIB).

The first priority for this appropriation would be to 10 counties that presently have a waiting list of about 11,000 children (as defined above). The remaining funds would then be allocated across all 18 counties that have a program. In total, 23,000 children are anticipated to be served through this one-time only funding. The Administration also proposes trailer bill language for this purpose. The Administration states that the intent of these funds is to serve as a bridge until resolution of the children's health initiative on the ballot in November.

### **PUBLIC HEALTH**

- Provides \$400 million (General Fund) on a one-time only basis to address public health emergencies and pandemic influenza. This includes funds for: (1) purchasing two mobile field hospitals (400 beds); (2) supplying and equipping over 41,000 alternate care beds; (3) purchasing 3.7 million courses of anti-viral medicines; (4) purchasing ventilators; (5) utilizing hospital staff for surge planning and exercises; (6) increasing bed capacity; and (7) conducting other statewide planning, training and exercising activities.
- Continues to fully fund the AIDS Drug Assistance Program (ADAP) and provides an additional \$3 million (drug rebate funds) for this purpose.
- Increases by \$2 million (General Fund) grant funding provided to the ten Alzheimer's Research Centers of California to continue diagnostic, education and consultation services, and expand clinical research.
- Increases by \$9.4 million (\$6.7 million Proposition 99 Funds) to fully fund services provided under the Every Woman Counts, a cancer detection program.

- Provides an increase of \$8.6 million (Genetic Disease Testing Fund) to reflect caseload adjustments and service utilization needs in the Prenatal Screening and Newborn Screening programs.

### **HEALTHY FAMILIES PROGRAM (HFP)**

- Assumes total expenditures of \$1.027 million (\$371 million General Fund) to fund a year-end enrollment of 867,727 children in the Healthy Families Program (HFP). This reflects a decrease in funding of \$19.8 million (\$6.1 million General Fund) and a decrease of 65,384 children over the January budget. This adjustment reflects updated caseload data trends, as well as minor adjustments to proposals pertaining to the retention of children already enrolled and promoting new enrollment.
- Proposes to modify the January proposal regarding an incentive program for certified application assistant payments by providing an additional \$25 per successful application filed using the electronic application—"Health-e-App".
- Increases by \$1.8 million (\$1 million Reimbursement from a foundation) to make changes to the Health-e-App to provide for a publicly available web-based version of this application for enrollment into the HFP and certain Medi-Cal programs.

### **MEDI-CAL PROGRAM**

- Assumes total Medi-Cal Program expenditures of \$35 billion, or a net increase of \$183.5 million (\$29.7 million General Fund) from the January budget. The average monthly caseload is estimated to be 6,665,000 enrollees that represents a reduction of about 2.1 percent, or 142,000 enrollees.
- Proposes an increase of \$61.2 million (\$30.6 million General Fund) to increase the rates paid to certain Medi-Cal Managed Care plans, including Central Coast Alliance for Health, San Diego Community Health Group, Contra Costa Health Plan, Health Plan of San Mateo, Partnership Health Plan of California, and Santa Barbara Regional Health Authority.

- Proposes trailer bill language to implement the provision of the federal Deficit Reduction Act of 2005 requiring, as a condition of receiving federal funds, that the Medi-Cal Program verify the citizenship of those individuals who declare that they are citizens of the United States. Under this new provision, these individuals are required to show proof of identify and citizenship at the time of application and upon eligibility redetermination. Budget bill language is also proposed to provide for the transfer of funds between Medi-Cal programs if higher county administration costs materialize.
- Proposes significant changes to existing law regarding the fees paid to the state by health care providers who are licensed and certified by the Department of Health Services. Changes are also proposed to the funding mechanism for the placement of Certified Nurse Assistants on a registry as required by federal law.
- Increases by \$2 million (\$1 million General Fund) to create a Disease Management Pilot Project for people living with HIV/AIDS.

## **DEVELOPMENTAL SERVICES – REGIONAL CENTERS & DEVELOPMENTAL CENTERS**

- Reflects total expenditures of \$3.2 billion (\$2.1 billion General Fund) for services and supports provided through the Regional Center system. This reflects a *net* increase of \$88.4 million (\$56.7 million General Fund).
- Continues the Governor's proposal to significantly limit the purchase of services by consumers and their families by applying new, restrictive contract language to Regional Centers in the development of consumer's individualized program plans (IPPs).
- Makes technical adjustments to a three percent rate increase for certain service providers as proposed in the January budget.
- Provides an increase of \$4.8 million (General Fund) to purchase prescription medications not covered by either the federal Medicare Part D Drug Program or by Medi-Cal.

## Overview of the May Revision of the 2006-07 Governor's Budget

- Augments by \$2.9 million (General Fund) on a one-time basis to continue assisting new consumers with enrolling in a prescription drug program offered under the federal Medicare Part D Drug Program.
- Delays the closure of Agnews Developmental Center, located in San Jose, for one-year until June 30, 2008.
- Provides a *net* reduction of \$3.5 million (General Fund) by requiring Regional Centers to capture specified consumer information in order to draw down increased federal funds through the Home and Community Based Waiver. This is necessary due to the continued delay of implementing the CA Developmental Disabilities Information System (CADDIS).
- Provides for a \$2 million (General Fund) reappropriation for CADDIS to support activities necessary to complete a Special Project Report and other specified activities. In addition, several pieces of Budget Bill Language are proposed to (1) provide the Department of Finance with broad authority to appropriate funds for CADDIS if they deem appropriate, and (2) transfer the management and expenditure authority of the project to the CA Health and Human Services Agency.

## **MENTAL HEALTH**

- Provides an additional \$4.2 million (General Fund) and 42.5 positions to reflect a net increase in the penal code population of 158 patients at the State Hospitals.
- Reflects an increase of \$5.6 million (General Fund) and 68 positions for the December 2006 activation of an additional 36 Intermediate Care Facility beds at Salinas Valley State Prison. This adjustment is requested to address a court order in the Coleman case.
- Provides an increase of \$534,000 (Mental Health Services Act Funds) for the Mental Health Services Oversight and Accountability Commission.
- Increases by \$69 million (General Fund) and establishes a two-year pilot to restructure the AB 3632 mental health services program. The pilot includes suspending the state mandate for the two-year pilot period.

**Overview of the May Revision of the 2006-07 Governor's Budget**

- Provides an increase of \$1.2 million (Mental Health Services Fund) to coordinate the implementation of Phase II of the Governor's Initiative to End Long-Term Homelessness.



## **HIGHER EDUCATION**

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

- Provides \$1 million each to the UC and CSU (on a one-time basis) for faculty recruitment and start up costs associated with expanding nursing education programs;
- Does not provide any new funds to support Student Academic Preparation Programs at either UC or CSU.

### **Financial Aid**

- Makes baseline adjustments in both the Current- and Budget-Year to account for a lower than anticipated number of Cal Grant Entitlement awards (\$14 million current year; \$14.8 million budget year).
- Provides \$630,000 in one-time funds for a three-year Nurse Education Grant Pilot Program to encourage individuals to enroll in nursing degree programs and then serve as practicing nurses in state-operated facilities.

### **Community Colleges**

Governor's May Revision proposal includes a variety of augmentations for both the current year and the 2006-07 fiscal year. The funding proposals for the current fiscal year (2005-06) are all one-time in nature and include the following:

- \$100 million for deferred maintenance, instructional equipment, and hazardous materials abatement;
- \$77.7 million in general purpose funds, to be allocated to colleges based on a per full-time equivalent student (FTES) basis;
- \$40 million for equipment and infrastructure related to expanding career-technical education;
- \$15 million for payment of mandate claims;

Overview of the May Revision of the 2006-07 Governor's Budget

- \$23.6 million set-aside for one-time costs associated with replacing the Program-Based Funding system and replacing it with a new statutorily-established funding formula.

For the 2006-07 fiscal year, the Governor is proposing to increase funding by an additional \$80.4 million (net change). Proposals include the following:

- \$34.9 million to fund an increased COLA at 5.92 percent;
- \$85 million decrease to re-bench the enrollment estimates for the community colleges to account for decreased enrollments in the current year;
- \$22.3 million in one-time general purpose funds, to be allocated to colleges based on a per full-time equivalent student (FTES) basis;
- \$29.5 million in ongoing support for deferred maintenance, instructional equipment, and hazardous materials abatement;
- \$24 million for matriculation services to students;
- \$15 million for expanded economic development programs. Of this amount, \$8 million is specifically targeted at high growth, high demand sectors by providing job training to incumbent workers in those industries as well as courses and services to students wishing to enter those particular workforces;
- \$10 million to provide non-credit remediation programs for community college students have failed to pass the CAHSEE;
- \$4 million for mandates;
- \$2.5 million for apprenticeship programs;
- \$1.5 million for nursing faculty recruitment and retention. Funds are to be matched on a one-to-one basis by colleges and used to provide additional stipends to full-time nursing faculty;
- \$30 million set-aside to address fiscal solvency issues at Compton Community College;

**Overview of the May Revision of the 2006-07 Governor's Budget**

- \$500,000 for the Cal-PASS data sharing system to expand the program statewide.

## HUMAN SERVICES

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

#### *Major adjustments proposed in the May Revision:*

- **Rescind Delay of SSI/SSP Federal COLA.** The Governor has rescinded the January budget proposal to delay the 2007 federal SSI/SSP COLA by an additional fifteen months, from April 2007 to July 2008. This proposal was rejected by the Senate Budget Committee on January 26, 2006. In April 2007 the maximum SSI/SSP grant would increase from \$836 to \$849 per month for individuals, and from \$1,472 to \$1,491 per month for a couple.
- **Extend Deeming Period for CAPI.** The Governor continues to propose an extension of the deeming period for CAPI from ten to fifteen years for immigrants who entered the country on or after August 22, 1996. The CAPI program provides income assistance to low-income aged, blind, and disabled legal immigrants who do not qualify for SSI/SSP. During the deeming period, the income and resources of the person sponsoring the noncitizen will be taken into account when determining benefit eligibility. This five year extension would result in General Fund savings of \$12.5 million in 2006-07 and \$40 million in 2007-08.

### California Work Opportunity and Responsibility to Kids (CalWORKs)

#### *Major adjustments proposed in the May Revision:*

- **Restore CalWORKs Pay for Performance.** The Governor has rescinded the January budget proposal to delay implementation of the Pay for Performance program. The May Revision includes \$40 million in incentive funds to counties to support improvement in three outcome measures developed in 2005-06.
- **Partially Restore County Single Allocation Funding.** The January budget proposed to reduce funding to counties for CalWORKs eligibility, employment, and other services by a combined total of \$199 million in current year and budget year. The May Revision restores \$50 million to reflect actual costs for the CalWORKs client prospective budgeting system, but maintains the remainder of the January reductions.

- **CalWORKs Participation Improvement Project.** The Governor proposes \$20 million to provide funding to counties on a competitive basis to increase CalWORKs client engagement and the work participation rate.
- **Establish TANF Reauthorization/CalWORKs Reform Reserve.** The Governor proposes to increase the TANF reserve by \$115 million to fund future CalWORKs program improvements identified through the TANF Reauthorization stakeholder process that is currently underway.

## **Other Human Services Programs**

### *Major adjustments proposed in the May Revision:*

- **Funding for Title IV-E Waiver Implementation.** The Governor proposes \$10 million General Fund for preventative services and support for counties that choose to implement the federal IV-E waiver. This waiver allows counties to choose a capped allocation that combines federal, state, and county funding for foster care and child welfare services, and allows counties flexibility to improve child safety, permanence, and well-being outcomes.
- **Expand Child Welfare Performance Improvement Program (PIP) Initiatives.** The PIP is intended to improve the state's child welfare and foster care outcomes. The May Revision proposes \$11.9 million additional General Fund to expand three key PIP strategies to 18 additional counties in 2006-07.
- **Child Support Transitional Arrearages.** The Governor proposes \$25.5 million General Fund to resolve child support arrears created by a payment processing change implemented by the state. The state would make payments on behalf of non-custodial parents affected by the processing change in 2006-07, and the state would be repaid upon termination of each child support order.
- **Monitoring Hospital Seismic Safety.** The Governor proposes 16.0 new positions, \$1.3 million in special funds, and policy changes to improve the efficiency of the hospital facility safety review functions performed by the Office of Statewide Health Planning and Development. This proposal reflects options discussed in Senate Budget Subcommittee No. 3 on March 23, 2006.

## Education

### PROPOSITION 98 (K-14)

*Proposition 98 -- One-Time Settle-Up Funding in Budget Year.* The Governor proposes an additional **\$2.1 billion** in one-time Proposition 98 settle-up funds in 2006-07. These one-time funds reflect an increase in the minimum guarantee in 2005-06 resulting from an unexpected \$4 billion increase in state revenues. The Governor proposes to utilize these one-time funds for a variety of program expenditures in K-12 education and community colleges in 2006-07.

*Proposition 98 – Ongoing Budget Year Funding.* The Governor proposes to increase the level of Proposition 98 funding for K-14 education in 2006-07 by approximately **\$800 million** above the Governor's January 10 budget. This will provide a total of \$55.1 billion for Proposition 98 in 2006-07, an increase of **\$5.1 billion** above the amount appropriated in 2005-06.

*Proposition 98 –One-Time Settlement Funding.* The Governor proposes **\$3.0 billion** in settlement of the lawsuit regarding Proposition 98 funding. Under the settlement, the Governor would provide Proposition 98 settle-up payments to reflect amounts education groups feel they are owed for the 2004-05 and 2005-06 fiscal years. The settlement would provide one-time settle-up payments beginning with **\$300 million** in 2007-08 and **\$450 million** a year in 2008-09 through 2013-14. The uses of these funds will be determined in legislation.

### ***K-12 EDUCATION***

The Governor proposes to spend the additional **\$800 million** in **ongoing funds** for a variety of new or expanded program purposes, including some of the following:

- **Expansion of Arts and Music Grants.** Proposes an additional **\$66 million** for grants to K-12 schools, beyond the **\$100 million** proposed in January for K-8 schools.
- **School Counselors.** Proposes **\$200 million** to increase the number of counselors serving students in grades 7-12.

- **Preschool Initiative.** Proposes **\$50 million** to expand preschool opportunities for 4-year olds residing in low performing school districts.
- **CAHSEE Assistance.** Proposes an additional **\$25 million** for intensive intervention services for students who have failed or are at –risk of failing the CAHSEE exam. This brings total funding for the program to \$65 million.
- **K-12 High Speed Network:** Provides **\$8.6 million** in General Funds for support and operation of the network, in addition to \$7.0 million in other available funds, bringing total funding to \$15.6 million.
- **Teacher Credentialing Reforms:** Provides an additional **\$20 million** for various teacher credentialing reforms contained in SB 1209 (Scott).

The Governor proposes to spend the additional **\$2.1 billion in one-time funds** for a variety of new or expanded program purposes, including some of the following:

- **Prior-Year Mandates Claims.** Proposes **\$650 million** for payment of prior-year mandate claims allocated on the basis of oldest claims first. This expenditure is estimated to cover over half of the outstanding audited claims.
- **Classroom Fund for Supplies and Equipment.** Proposes **\$400 million** in discretionary classroom supply and equipment funds for all K-12 classroom teachers.
- **Arts and Music Equipment and Supplies.** Proposes **\$250 million** for equipment and supplies to restore and expand the capacity of programs in K-12 schools.
- **Physical Education Equipment.** Proposes **\$250 million** for the purchase of physical education equipment and supplies in K-12 schools.
- **Instructional Materials.** Proposes **\$250 million** for the purchase of standards-aligned materials and supplemental materials for K-12 pupils.
- **English Learner Materials.** Proposes **\$30 million** for supplemental materials for students who are English language learners.

- **School Library Materials.** Proposes **\$75 million** for the purchase of school library materials in K-12 schools.
- **Career Technical Education Equipment and Supplies.** Proposes **\$50 million** for career technical education equipment and materials for students in grades 7-12.
- **Retiree Health Benefit Liabilities.** Proposes **\$10 million** to require districts that have outstanding long-term obligations to develop a plan for meeting those obligations.

**Other Adjustments:**

***Statutory Growth and COLA's Adjusted.*** The Governor continues to propose full funding for statutory growth and COLAs (cost-of-living adjustments) for K-12 revenue limit and categorical programs in 2006-07. The May Revision provides a net increase of **\$110.5 million** for revenue limit and categorical program enrollment growth and COLA adjustments. This reflects a decline in ADA growth rates from 0.21 percent to -0.26 percent (-\$205.9 million) and an increase in COLA rates from 5.18 percent to 5.92 percent (\$320.4 million) from the Governor's January estimates.

***Additional Funding for Deficit Factor Payment Continued.*** The Governor's Budget proposes an additional **\$102.4 million**, which, together with the **\$200 million** proposed in January, will eliminate deficit factor obligations that originated with the 2003-04 budget.

***Equalization Funding Continued.*** The Governor's Budget proposes an additional **\$100 million** for revenue limit equalization in 2006-07 on top of the **\$200 million** proposed in January.

***Annual Mandates Payments.*** The Governor proposes an additional **\$30 million** to cover the costs of annual education mandate payments, bringing total funding to **\$163.6 million** in 2006-07.

***School Nutrition.*** The Governor proposes an increase of **\$37.8 million** to increase the state reimbursement rate for school breakfasts and lunches from 15 to 22 cents in order to increase the quality of school meals.



***Student Data.*** The Governor proposes an increase of **\$31.0 million** to assist school districts in establishing the hardware and software capabilities and data management processes to ensure effective transition to the CALPADS student data system in 2008.

***Mental Health Related Services.*** The Governor's May Revise provides **\$169 million** for special education mental health and pre-referral services, an increase of **\$19 million** over the Governor's January 10 budget. The Governor proposes to repeal the mandate on county mental health agencies for providing mental health related services required by individualized education plans (IEPs). The Governor proposes to create a new program jointly administered by county offices of education, school districts and county mental health agencies.

### **California State Library**

- Provides \$7 million for the Public Library Foundation, which supports basic library operations such as maintaining hours of operation, purchasing materials, and providing homework and literacy assistance;
- Provides \$7 million for Transaction-Based Reimbursements, to help cover local library costs associated with (1) making direct library loans to individuals who do not reside in their service area as well as (2) interlibrary loans whereby materials are shared between libraries.

## **LABOR**

### **EMPLOYMENT DEVELOPMENT DEPARTMENT**

- Various budget adjustments are proposed based on improved economic conditions and updated projections of claims (all special funds):
  - Projected Unemployment Insurance benefit payments are decreased by \$65.0 million. Operations expenditures are decreased by \$642,000 and 11.9 personnel years.
  - Projected Disability Insurance Program benefit payments are decreased by \$105.5 million. Operations expenditures are decreased by \$2.7 million and 40.6 personnel years.
- Two adjustments are requested for the Workforce Investment Act (WIA) Program (federal funds).
  - Increase state operations by \$351,000 for the Consolidated Workers Program.
  - Increase budget authority by \$5.0 million to reflect the receipt of Workforce Investment Act Special Grant funds for the Workforce Innovation in Regional Economic Development Initiative.

## **LOCAL GOVERNMENT**

### **CITIZENS OPTION FOR PUBLIC SAFETY (COPS) AND JUVENILE JUSTICE CRIME PREVENTION ACT (JJCPA)**

- **Augmentation to the Juvenile Justice Crime Prevention Act (JJCPA) and the Citizens Option for Public Safety (COPS) Program.** The Administration proposes to restore the JJCPA and COPS Programs to their approximate 2000-2001 funding levels, by adding \$21.3 million to each program (\$42.6 million total). JJCPA funds are distributed to counties for juvenile crime prevention activities. COPS funds are used for jail construction, criminal prosecutions, and other related purposes. The proposed level of increase is consistent with the funding level set when the Schiff-Cardenas Crime Prevention Act of 2000 was enacted.

### **BOOKING FEES**

- **Revision to Governor's Budget Proposal to Fund Booking Fees.** The Administration proposes to revise their earlier proposal to fund booking fees consistent with funding prior to 2005-06, and establish a new trust fund in each county for local detention facilities. The proposal would provide \$40 million for the operation, renovation, remodel, reconstruction, and new construction of local detention facilities. County officials would control expenditures from this "Local Detention Facility Fund." Statutory changes would allow counties to charge other local governments for jail access for certain crimes.

### **MANDATE PAYMENTS TO LOCAL GOVERNMENTS**

- **Augmentation for Payments for the Second Year of Reimbursements to Local Governments.** The Administration proposes to augment their Governor's Budget-proposed funding level for local government mandates by \$71.8 million, including an increase of \$86.9 million to pay the 2007-08 mandate debt repayment in advance of the required timeline and an offsetting \$15.1 million reduction for statutory repayment of past due mandates based on revised repayment information.

## **PUBLIC SAFETY**

### **DEPARTMENT OF CORRECTIONS & REHABILITATION (CDCR)**

- **Overview.** The May Revise proposes an increase of \$45.9 million in the current year primarily based on a higher than estimated inmate population. For the budget year, the May Revise proposes a net increase of \$219.6 million above the January budget.
- **CDCR Current Year Adult Population Adjustments.** For the current year, the May Revise proposes an increase of \$43.7 million General Fund based on the adult population. The May Revise reflects an estimated institutional average daily population (ADP) of 168,018 (an increase of 1,680 above the January estimate), and a projected parolee ADP of 115,290 (a decrease of 234 below the January estimate).
- **CDCR Budget Year Adult Population Adjustments.** The May Revise proposes an increase of \$142 million General Fund and an additional 1,076 positions based on projected increases to the adult population above the amount projected in January. The May Revise reflects an estimated institutional ADP of 175,627 inmates, which represents 5,422 more inmates than was projected in the January budget. The projected parolee ADP is 117,754, which is an increase of 1,534 above the January budget.
- **Adult Local Assistance.** The May Revise includes an additional \$10 million to fund local entities for the costs to house state inmates. This amount includes \$2.5 million to increase the daily jail rate from \$68.22 to \$71.57.
- **Juvenile Population Changes.** The May Revise includes General Fund augmentations of \$2.1 million in the current year and \$7.3 million in the budget year. For the current year, the year-end juvenile institution population is projected to decrease by 155 wards to 2,805 while the juvenile parole population is projected to decrease by 160 parolees to 3,260. For the budget year, the year-end ward population is projected to be 2,660, or 20 below the January budget, and the parole population is projected to be 2,935, or 240 below the January budget. The request for increased funds, despite falling populations, is due to increases for salaries of trainees attending the Academy and errors in budgeting for Youth Correctional Counselors, and the opening of a

new housing unit at Heman G. Stark Youth Correctional Facility in the budget year.

- **Programmatic Changes.** The May Revision proposes an increase of \$58.4 million General Fund and \$19.5 million special fund for various programmatic proposals.
  - Reduces \$6.6 million General Fund to recognize the actual costs for creating a new classification for case records staff. The budget previously included \$10 million for this proposal.
  - Provides \$12.7 million General Fund for a 10 percent salary increase for qualifying psychiatrists in response to a recent court order in the *Coleman* case.
  - Provides \$915,000 General Fund for pay enhancements to mental health staff working at Corcoran State Prison in response to a recent court order in the *Coleman* case.
  - Provides \$1.4 million General Fund for a 3 percent pay increase for various headquarters positions that oversee the Statewide Mental Health Service Delivery System in response to a recent court order in the *Coleman* case.
  - Provides \$50 million General Fund to establish the Mentally Ill Offender Crime Reduction Grant Program in the Corrections Standards Authority. The program is intended to provide grants to support the implementation and evaluation of locally developed demonstration projects designed to curb recidivism of persons with mental illness.
  - Provides \$19.5 million from the Corrections Training Fund to provide funding to reimburse local correctional agencies for the costs of providing training consistent with the standards developed by the Corrections Standards Authority. This program has been unfunded for the last several years.
  - Creates a stand-alone budget item for the Health Care Program. This item will include provisions allowing for expedited revision of the level of funding needed for the Receiver appointed to oversee the provision of medical care in the state prisons under *Plata v. Schwarzenegger*.

## OFFICE OF EMERGENCY SERVICES

- **Vertical Prosecution Block Grants.** Proposes an increase from the General Fund of \$10.1 million to fund vertical prosecution units. This proposal would restore cuts to this program that were made in previous years.
- **California Multi-jurisdictional Methamphetamine Enforcement Team Program.** Proposes an increase from the General Fund of \$20.0 million for the California Multi-jurisdictional Methamphetamine Enforcement Team Program, to intensify current methamphetamine eradication efforts. Funds will be distributed to all four High-Intensity Drug Trafficking Areas in California.
- **Reappropriation of Frozen Federal Funds.** Proposes to reappropriate \$10.4 million from the Federal Trust Fund to allow the encumbrance and expenditure of frozen federal funds to support Criminal Justice Programs. The funds were frozen by the U.S. Department of Justice because the Office of Emergency Services was unable to comply with federal certification requirements due to poor recordkeeping by the former Office of Criminal Justice Planning.

## DEPARTMENT OF JUSTICE

- **DNA Fingerprint, Unsolved Crime and Innocence Protection Act.** Proposes an increase of \$2 million General Fund to provide additional resources to the Bureau of Forensic Services within the Department of Justice's Division of Law Enforcement, to support workload associated with the DNA Fingerprint, Unsolved Crime and Innocence Protection Act (Proposition 69).

## JUDICIAL BRANCH

- **Court Technology.** Proposes to reduce \$12.3 million from the January budget due to a revised information technology project schedule and cost estimate submitted by the Judicial Branch. The Judicial Branch indicates that these funds are no longer needed.

## NATURAL RESOURCES

- **Department of Fish and Game.** The May Revision proposes one-time General Fund monies for the following activities:
  - \$10 million for salmon and steelhead restoration projects.
  - \$10 million to support implementation of the Marine Life Protection Act.
  - \$10 million to fund non-game fish and wildlife public trust resources activities and law enforcement activities.
  - \$5 million to start an endowment account that will provide ongoing funding to manage coastal wetlands.
  - \$8.8 million for levee and structural repairs on DFG-owned lands.
  - \$19.9 million to the Fish and Game Preservation Fund to bring all of the sub-accounts within the fund into balance.

The May Revision also proposes ongoing General Fund monies for the following activities:

- \$2.6 million to support 11 new positions to implement the Marine Life Protection Act.
- **Department of Parks and Recreation.** The May Revision proposes \$10 million in one-time General Fund monies to address deferred maintenance in the State Parks system.
- **Wildlife Conservation Board.** The May Revision proposes \$5 million in one-time General Fund monies for riparian and wetlands conservation projects.
- **Department of Water Resources.** The May Revision proposes General Fund monies for the following flood-related expenditures:
  - \$100 million for local flood control subventions.
  - \$2.2 million for administrative support of emergency levee repairs.
  - 25 new positions to implement AB 142 (Nunez) that provided \$500 million for levee repairs.
- **Department of Forestry and Fire Protection.** The May Revision proposes General Fund monies to fund the following fire protection expenditures:
  - \$7 million to cover increased costs associated with workers' compensation and unemployment insurance.
  - \$5 million to support additional staff to hire and train new fire fighters.
  - \$8.4 million to cover additional overtime costs for fire fighters.

The May Revision also proposes \$9 million in additional revenues from timber harvesting on state forest land for various forest resources enhancement programs.

## **ENVIRONMENTAL PROTECTION**

- **Climate Change Initiative.** The May Revision proposes \$500,000 one-time funding for the Secretary for Environmental Protection to evaluate alternatives for establishing a mandatory climate change emissions reporting system.



## TRANSPORTATION

### TRANSPORTATION FUNDING

- **Proposition 42:** Continues to support full funding for Proposition 42. Adjusts the estimate for 2006-07 revenue up by \$13.6 million – to a total of \$1.420 billion. The revised level of funding would be allocated, pursuant to the Constitution, as follows:
  - \$678 million for Traffic Congestion Relief Program (TCRP) projects.
  - \$0 for local streets and roads.
  - \$593 million for the State Transportation Improvement Program.
  - \$74 million for State Transit Assistance.
  - \$74 million for other mass transit programs.
  
- **Loan Repayment:** Continues to support repayment for past Proposition 42 loans at the level of \$920 million. The allocation of this repayment is unchanged from the Governor's Budget proposal:
  - \$410 million for Traffic Congestion Relief Program (TCRP) projects.
  - \$255 million for local streets and roads.
  - \$255 million for the State Transportation Improvement Program.
  - \$0 for State Transit Assistance.
  - \$0 for other mass transit programs.
  
- **Spillover Revenue:** Proposes to fund debt service on existing and future transportation general obligation bonds with any “spillover” revenues received in a given year. The “spillover” is a portion of the gasoline sales tax that is received on top of Proposition 42 revenue. Under existing statute, a portion of the 2006-07 spillover, and all spillover revenue in 2007-08 and beyond, would go to the Public Transportation Account (PTA). Spillover revenues rise in years when gasoline prices increase faster than the prices of other goods. The Administration has increased its 2006-07 spillover estimate from the \$317 million in the Governor's budget, to \$669 million – an increase of \$352 million. This proposal would not affect the \$125 million in spillover revenues set aside for the San Francisco Oakland Bay Bridge project by Assembly Bill 144 (Chapter 71, Statutes of 2005).

## SPECIAL TRANSPORTATION PROGRAMS

- Requests an increase of \$36.2 million, including \$34.8 million from increased diesel fuel sales taxes and \$1.4 million from Proposition 42 revenues. This funding supports local transit agencies.

## DEPARTMENT OF TRANSPORTATION

- Requests a decrease in personal services and operating expenses to deliver planned baseline Capital Outlay Support (COS) workload. The May Revision proposes a net reduction of \$39.3 million and 412 full-time position equivalents, including 215 personnel years (PYs) of state staff positions, cash overtime (62 PY equivalents), and contract staff (135 PY equivalents). This request includes the transfer of \$8.1 million in savings from COS Stormwater-related activities to the Maintenance Program for litter removal and bridge paint containment.

## DEPARTMENT OF MOTOR VEHICLES

- Requests \$18.8 million and 3.9 positions for information technology projects and planning activities related to the federal Real ID Act (Act). Federal regulations implementing the Act are expected in the fall of 2006, and states are required to implement the provisions of the Act by May 2008.

## **VETERANS AFFAIRS**

- **Veterans Home Information System.** The Administration proposes to contract with private consultants for \$421,000 General Fund to prepare a feasibility study report for replacing the Veterans Home Information System. This system serves as the network to exchange data communications between veterans homes and the department and is approaching the end of its useful service life.