OVERVIEW OF THE 2005-06 BUDGET BILL

Senate Bill 52

As Introduced

Senate Committee on Budget and Fiscal Review
Senator Wesley Chesbro, Chair

January 2005

California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
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January 26, 2005

Dear Colleague:

I am pleased to forward a copy of the *Overview of the 2005-06 Budget Bill* prepared by the staff of the Senate Budget and Fiscal Review Committee.

In the first section, we provide an overview of the state's fiscal condition. The next section, entitled "Budget Highlights," is organized by subcommittee, and details the budget for most departments and agencies. If you are looking for a specific department or agency, there is an index at the end of the highlights section.

In the Appendix, we include a working timeline for completing the budget and a list of assignments for the budget committee consultants.

If you have questions, please call me.

Sincerely,

WESLEY CHESBRO
Chair

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SETTING A CONTEXT

Once again the state is facing a major budget challenge. To effectively address the problem, the Legislature will have to consider the proposals made by the Administration, but also weigh a variety of other options to fully address California's budget shortfall; including, but not limited to, maximizing the receipt of federal funds, reviewing and eliminating tax loopholes that may not be achieving their intended purpose, and creating program efficiencies wherever possible.

In addition, the Governor has called a Special Session of the Legislation to deal with various proposals including major budget and pension changes. One component of the Governor's proposals would severely diminish the Legislature's appropriation authority by requiring automatic across-the-board reductions without regard to legislative priorities. Other components of the Governor's proposals actually eliminate current budgetary mechanisms available to help balance the budget.

In early February, the Senate Budget and Fiscal Review Committee will begin its regular subcommittee hearing process, which will conclude shortly after the Governor releases his May Revision to the Budget on or before May 14, 2005.

GOVERNOR'S PROPOSED 2005-06 BUDGET

Proposed Total State Spending for 2005-06. Total spending proposed for 2005-06 from all funds (General Fund, special funds, and bond funds) is $111.7 billion. General Fund expenditures are estimated to be $85.7 billion; special fund spending is approximately $23.3 billion, and selected general obligation bond fund expenditures are $2.7 billion.

General Fund Summary

Revenues: The Governor's budget estimates General Fund revenues and transfers to be $83.8 billion, an increase of $5.6 billion, or 7.1 percent, above the revised 2004-05 estimate of $78.2 billion. Total resources available, in 2005-06, from all sources (including economic recovery bonds) are estimated at $86.9 billion.

Expenditures: The budget proposes General Fund expenditures of $85.7 billion in 2005-06. This is an increase of $3.4 billion, or 4.2 percent, over the revised 2004-05 figure of $82.3 billion.

General Fund Summary (in millions)	2004-05	2005-06
PRIOR YEAR BALANCE	**$3,489**	**$1,425**
Revenues	77,904	83,227
Transfers	315	544
Economic Recovery Bonds	2,012	1,683
TOTAL RESOURCES AVAILABLE	**$83,720**	**$86,879**
Non-Proposition 98 Expenditures	$48,171	$49,206
Proposition 98 Expenditures	$34,124	$36,532
TOTAL EXPENDITURES	**$82,295**	**$85,738**
FUND BALANCE	**$1,425**	**$1,141**
Encumbrances	$641	$641
General Fund Reserve	$784	$500

General Fund Revenue By Source (in millions)

Source	2004-05	2005-06	Year-to-Year Percent Change
Personal Income Tax	$39,527	$42,895	8.5
Sales Tax	25,168	26,947	7.1
Corporation Tax	8,678	$9,015	3.9
Other	4,846	$4,915	1.4
TOTAL	**$78,219**	**$83,772**	**7.1**

Proposed 2005-06 General Fund Expenditures (in millions)

Major Program Area	2004-05	2005-06	Year-to-Year Percent Change
Education – Proposition 98 (K-12 / Community Colleges)	$34,124	$36,532	7.1
Health and Human Services	25,519	26,689	4.6
Higher Education (UC/CSU/Other)	7,912	8,589	8.6
Youth and Adult Corrections	6,897	6,980	1.2
All Other	7,843	6,948	-11.4
TOTAL	**$82,295**	**$85,738**	**4.2**

Definition of the Problem. The Governor's proposed budget identifies an accumulative General Fund deficit, the difference between revenues and expenditures for the two-year period ending on June 30, 2006, or $9.1 billion. This figure also includes a projected year-end General Fund reserve of $500 million.

How Does the Governor Close the Gap? The Governor’s budget, in order to bridge the gap between revenues and expenditures, relies to a large extent on loans and deferrals to balance the budget. The major components of the Governor’s budget solution are:

- Utilizing approximately half ($1.7 billion) of the remaining Economic Recovery Bonds. This would leave approximately $2 billion of unused bond authority out of the $15 billion of Economic Recovery Bonds authorized by Proposition 57.
- Suspending Proposition 42, in order to generate General Fund savings of $1.3 billion. Repayment of the suspended amount would be due within a 15-year period.
- Maintaining the current-year level of Proposition 98 funding at the amount provided in the 2004 Budget Act, estimated to save $2.3 billion over the two-year period.
- Proposing reductions to various programs in health and human services of approximately $1.2 billion. Total CalWORKs reductions account for over $653 million of the solution in this area, which includes grant reductions and elimination of cost-of-living adjustments.
- Proposing reductions in general government of $928 million. A large portion of proposed savings in this area are the result of employee compensation changes (primarily from an increase in state employees’ share of annual retirement contribution) for $408 million in anticipated savings; $136 million in savings is derived from eliminating the Senior Citizens’ Property Tax Assistance Program and limiting eligibility for the Senior Citizens Renters’ Tax Assistance Program.

- Reducing funding for resources by $475 million. A recent court decision (*Paterno* v. *State of California*) found the state facing increased liability for the structural integrity of the aging levee system in the Central Valley. The Governor proposes to finance a pending $464 million General Fund settlement of flood-related litigation against the state by issuing a judgment bond in the budget year.
- Proposing across-the-board reductions in departments of $150 million. The budget proposes to give departments flexibility to use lay-offs, hiring freezes, procurement reductions, or other administrative means to achieve these reductions.
- Adjusting revenues by $409 million -- the largest adjustments are from: (1) Public Transportation Account spillover revenues of approximately $216 million and (2) additional funding available as a result of increased Tidelands Oil revenues of approximately $121 million.
- Proposing reductions in Youth and Adult Correctional Agency of $292 million.
- Proposing reductions in the non-Proposition 98 portion of the education budget of $453 million -- primarily from the elimination of state contributions to the State Teachers' Retirement System.

GOVERNOR'S SPECIAL SESSION BUDGET PROPOSALS

The Governor has called the Legislature into special session to consider and act on various proposals. One of the proposals would change the budget process and has implications in various programmatic areas including pensions, transportation funding, and Proposition 98 (K-14 education) funding.

The budget indicates that the Governor will present a broad set of budget reforms to place on the ballot as constitutional amendments. The major elements of his proposal include the following:

- **Automatic Across-the-Board Cuts.** If General Fund revenues decline or General Fund expenditures exceed budgeted estimates by $250 million or more (adjusted annually for inflation), the Governor must call a special session of the Legislature to remedy the imbalance. If legislation is not enacted within 45 days (30 days if the budget has not been enacted), the State Controller would have to make across-the-board reductions in General Fund payments to all programs, with the exception of debt service and payments required by federal law, in a percentage amount determined by the Department of Finance. The across-the-board reductions would remain in place until the Governor declares resolution of the fiscal emergency.

- **Continuing Appropriation When Budget is Late.** When a budget has not been enacted by July 1, expenditure authority at the prior-year levels would continue subject to the same conditions that applied for that prior-year budget. This would remain in effect until a new budget is enacted.

- **Prohibition of Loans and Repayment of Loans.** Starting with the 2006-07 fiscal year, prohibition of new borrowing from special funds is activated and requires repayment of any existing special fund loans within 15 years. This prohibition would not apply in the case of short-term loans that are necessary to meet the state's short-term cash flow needs if repayment is made within the same fiscal year or within 30 days of enactment of the budget for the next fiscal year.

- **Payment of Mandated Cost Deferrals**. Extends the payment period to 15 years for approximately $1 billion of past local government claims for mandated costs reimbursements. Current law requires payment of these claims by 2011-12.

- **Proposition 98 Education Funding.** Reduces required state funding of K-14 education under Proposition 98. The "base" funding requirement for Proposition 98 in the future would be reset at the 2004-05 appropriation level, which reflects suspension of the Proposition 98 funding requirement in the current year. Beginning in 2006-07 authority to suspend Proposition 98 would be eliminated.

  The Administration proposes to eliminate the "Test 3" funding option under Proposition 98. This includes the "maintenance factor" whereby reduced funding under the Test 3 formula must be paid back in future years. The "Test 3" is used to reduce the growth rate of Proposition 98 funding in low revenue years. For 2005-06, the "maintenance factor" is approximately $3.7 billion. The state's current "maintenance factor" obligation would be converted to a one-time cash obligation to be paid to K-14 education over 15 years, rather than a gradual increase in the ongoing funding base.

  Any future "settle-up" obligations will have to be identified within 24 months and the amounts would be continuously appropriated. Finally, any appropriations in excess of the Proposition 98 minimum guarantee will not be rolled into the ongoing funding base.

- **Proposition 42 Transportation Funding.** The Governor's proposal eliminates the suspension authority for Proposition 42 transportation funding with the 2007-08 fiscal year and requires repayment of all past suspension amounts over a 15-year period, with authorization for the state to bond out this obligation.

- **Pension Changes.** The Governor proposes a constitutional amendment that prohibits state and local governments from offering defined benefit plans to new employees. New employees would be enrolled in defined contribution plans, similar to 401 (k) programs, with public employees making fixed annual payments.

STATUS OF CURRENT-YEAR (2004-05) BUDGET

In July 2004, the Legislature enacted the 2004 Budget Act (SB 1113, Chapter 208, Statutes of 2004). The 2004 Budget Act addressed a General Fund shortfall of roughly $16 billion. As enacted, the budget included a General Fund reserve of approximately $768 million. The Budget Act, and its implementing legislation, contained a number of budget-balancing solutions, including, but not limited to:

- The use of Economic Recovery Bonds (approved by the state electorate as Proposition 57 in March 2004);
- A diversion of local property taxes;
- Suspension of Proposition 98;
- Some targeted revenue increases and tax loophole closures;
- Other loans and borrowing – primarily in the form a Proposition 42 loan, and from the proceeds of pension obligation bonds financed by a temporary reduction in payments to the Public Employees' Retirement System;
- Program savings – including three-month delays in cost-of-living adjustments for California Work Opportunity and Responsibility to Kids (CalWORKs) and Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants, and reductions in support for the University of California and California State University; and
- Reductions in state operations spending.

Since the budget's enactment, the state's economy continues to grow at a moderate pace. According to the Department of Finance revenue expectations have improved since the 2004 Budget was enacted. Revenue estimates for 2004-05 have increased to a total of $78.2 billion, or $1.2 billion greater than previously estimated. Total resources available (including the use of economic recovery bonds) are estimated to be $83.7 billion.

However, the DOF estimates that revised current-year expenditures have also increased to approximately $82.3 billion. The Legislative Analyst indicated in her November forecast that increased current-year expenditures are the result of caseload increases, and in some instances, because the amount of savings resulting from various budgetary solutions are falling short of estimates.

SUBCOMMITTEE NO. 1

EDUCATION

K-12

Higher Education

K-12 EDUCATION

6110 Department of Education

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, and is responsible for the education of approximately 6.3 million students enrolled in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of 1,001 school districts, 58 county offices of education, and approximately 9,221 schools. More than 306,000 teachers are employed in public schools statewide.

Total K-12 Funding (All Funds)

The 2005-06 Governor's budget proposes $61.1 billion in total funding for K-12 education, which reflects an increase of $1.8 billion (3.0 percent) above the proposed 2004-05 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals $10,084 in 2005-06, an increase of $220 above the $9,864 per-pupil rate in 2004-05.

Table 1
K-12 Summary, All Funds
(dollars in thousands)

	2004-05 Revised	2005-06 Proposed	$ Change	% Change
General Fund*	$34,436,600	$35,884,400	$1,447,800	4.2
Local Property Taxes	11,407 800	11,819 600	411,800	3.6
Lottery Fund	810,150	810,150	0	0.0
Other State Funds	110,200	105,200	-5,000	-4.5
Federal Funds	7,583,500	7,532,900	-50,600	-0.7
Local Debt Service	1,195,500	1,195,500	0	0.0
Local Miscellaneous	3,794,900	3,794,900	0	0.0
Total Funds	**$59,338,650**	**$61,142,650**	**$1,804,000**	**3.0**
Per Pupil Funding	$9,864	$10,084	$220	

* General Fund includes Proposition 98 and Non-98 Funds.

As indicated by Table 1, the $61.1 billion for K-12 education includes $35.9 billion (58.7 percent) from the state General Fund; $15.6 billion (25.5 percent) in property taxes and other local revenues; $7.6 billion (12.3 percent) in federal funds, $810 million (1.3 percent) in state lottery funds and $105 million (0.2 percent) in other state funding.

As proposed, the total General Fund (Prop 98 and Non-98) increases by $1.4 billion (4.2 percent) and local property taxes increase by $412 million (3.6 percent). The budget also reflects a decrease of $50.6 million (0.7 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2005.

Proposition 98

Total Proposition 98 funding for K-14 education in 2005-06 is proposed at $50.0 billion, an increase of $2.9 billion (6.1 percent) over the revised 2004-05 budget. According to the Administration, the $50.0 billion meets the Proposition 98 minimum funding guarantee in 2005-06. In meeting the minimum guarantee, the Administration uses *Test 2* factors applied to the 2004-05 funding base, as currently budgeted.

The $2.9 billion increase in Proposition 98 funding in 2005-06 is covered primarily by an increase in state General Funds. As indicated in Table 2, Proposition 98 General Fund revenues increase by $2.4 billion (7.1 percent) and local property taxes grow by $475.9 million (3.7 percent).

Table 2 **K-14 Proposition 98 Summary** (dollars in thousands)	2003-04	2004-05	2005-06 Proposed	$ Change	% Change
Distribution of Prop 98 Funds					
K-12 Education	$41,800,043	$42,178,345	$44,705,043	2,526,698	6.0
Community Colleges	4,370,516	4,803,936	5,162,922	358,986	7.5
State Special Schools	40,302	41,504	41,708	204	.5
Dept. of Youth Authority	36,781	35,859	34,510	-1,349	-3.8
Dept. of Developmental Services	10,863	10,672	10,349	-323	-3.0
Dept. of Mental Health	13,400	8,400	8,400	0	-
Am. Indian Education Centers	3,778	4,476	4,688	212	4.7
Total	$46,275,683	$47,083,192	$49,967,620	$2,884,428	6.1
Prop 98 Fund Source					
State General Fund	$30,521,723	$34,123,805	$36,532,334	2,408,529	7.1
Local Property Taxes	$15,753,960	$12,959,387	$13,435,286	475,899	3.7
Total	$46,275,683	$47,083,192	$49,967,620	$2,884,428	6.1
K-12 Enrollment-ADA*	5,958,000	6,015,984	6,063,491	47,507	.8
K-12 Funding per ADA*	$7,017	$7,012	$7,374	$362	5.2

***** Average Daily Attendance

As indicated in Table 2, of the total $50.0 billion in Proposition 98 spending proposed for the 2005-06 budget, $44.7 billion is appropriated for K-12 schools and $5.2 billion is for Community Colleges. The K-12 share of Proposition 98 funding increases by $2.5 billion (6.0 percent) and the Community Colleges share increases by $359.0 million (7.5) percent.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 47,000 in the budget year, an increase of 0.8 percent over the revised current-year level. Average per-pupil Proposition 98 funding is estimated to be $7,374 in 2005-06, an increase of $362 (5.2 percent) over the $7,012 per pupil funding in 2004-05.

Major Adjustments for 2004-05

- **Apportionment Adjustments.** The Governor accounts for an increase of $122.6 million in General Fund revenue limit apportionments to reflect a number of different factors. Specifically, the budget provides $114.3 million for higher than estimated student enrollments and $29.5 million to compensate for a loss in estimated property tax revenues. In addition, the budget recognizes $24.5 million in savings from a reduction in unemployment insurance costs.

Major Adjustments for 2005-06

- **Overall Increase.** The Governor proposes a total of $44.7 billion in Proposition 98 funding for K-12 schools in 2005-06, an increase of $2.5 billion (6.0 percent) above the 2004-05 budget. As proposed, the budget provides $7,374 per-pupil in Proposition 98 funding in 2005-06, an increase of $362 (5.2 percent) per-pupil above the 2004-05 budget.
- **Growth Funding.** The budget provides $394.7 million to fully fund statutory enrollment growth for apportionments and categorical programs. The budget provides $245.9 million for revenue limit apportionment growth; $31.4 million for special education; $29.7 million for child care development; and $87.7 million for various other categorical programs. The budget estimates K-12 ADA growth of 0.8 percent.
- **Cost-of-Living Adjustments (COLAs).** The budget provides $1.6 billion to fully fund statutory COLAs for K-12 revenue limit and categorical programs. This provides a 3.93 percent COLA for revenue limits ($1,222.1 million); special education ($156.6 million); child care and development ($50.8 million); and various other categorical programs ($220.4 million) that require a COLA pursuant to state statute.
- **Deficit Factor Payment**. The Governor's Budget proposes an additional $328 million to pay down the revenue limit deficit factor to compensate for revenue limit reductions (overall reduction of 1.2 percent and foregone COLA of 1.8 percent) that originated in the 2003-04 budget. The 2004-05 budget appropriated $270 million as partial payment of the deficit factor obligation. This proposal provides another $328 million, which would bring the overall deficit factor to 1.132 percent for school districts and 1.126 percent for county offices of education.
- **Proposition 98 Reversion Funds.** The Governor proposes appropriating $138.6 million in one-time funds in 2005-06 from the Proposition 98 Reversion Account for a variety of programs, including: $100 million for school facility emergency repairs pursuant to the

Williams settlement agreement; $20 million to develop career technical education curricula within the community colleges; $10 million for CalWorks child care base adjustments; $4.9 million to fund court-ordered desegregation payments in Sunnyvale; $2.3 million for a deficiency in the California Standardized Testing and Reporting (STAR) program; $1.1 million in new training for school district chief business officers; and $354,000 to fund prior year shortfalls in the school meals program.

Major Issues – Special Session

The Governor proposes four budget and policy measures in Special Session that have a significant affect on K-12 education. Each of these measures is being proposed by the Governor as a constitutional amendment. If passed by the Legislature, these measures would have to be approved by statewide voters prior to enactment. These measures, as currently proposed by the Governor, are identified below and the major provisions that affect schools are summarized.

Statewide Budget Reforms. The Governor's proposal makes significant**,** comprehensive changes to the state's budget process that include substantial changes to Proposition 98; across-the-board reductions to all state funded programs including education; and payment for unfunded education and noneducation mandates within 15 years. While the full effects of the individual provisions (summarized below) and how they interact together are not fully understood at this time, the proposals will clearly have a substantial effect on short- and long-term funding for K-12 schools.

Proposition 98: Provisions make the following major changes to Proposition 98:

- Eliminates the Test 3 calculation and payment of maintenance factor in the fiscal year following the effective date of the measure (intended as 2006-07);
- Requires payments of outstanding maintenance factor (estimated at $3.7 billion at the end of 2005-06) by July 1, 2021;
- Excludes payments for outstanding maintenance factor from inclusion in the Proposition 98 base;
- Eliminates the authority to suspend Proposition 98 beginning in 2006-07;
- Requires calculation of Proposition 98 settle-up funds for 2005-06 and beyond within 24 months and provides settle-up payment via continuous appropriations;
- Deems settle-up obligations (estimated at over $1.3 billion) to be one-time obligations paid off within 15 years of the effective date of this measure; and
- Excludes payments in excess of the Proposition 98 minimum guarantee under Test 2 from being included in Proposition 98 base, unless specified by another appropriations statute.

Across-the-Board Reductions: Provisions require all state General Fund appropriations – including education – be reduced on a pro-rata basis when the Governor has declared a fiscal emergency and the Legislature has not passed legislation to address the fiscal emergency within 45 days, or 30 days if a continuous appropriations bill has been passed in lieu of a budget bill. The Director of Finance would determine the pro-rata reduction rate in order to bring General Fund appropriations in-line with General Fund revenues. Pro-rata reductions would not apply to certain types of payments including contracts, collective bargaining agreements, bonded indebtedness or payments required by federal law. The reductions would continue through the period specified or the fiscal year when the fiscal emergency is deemed ended.

Mandate Claims. Provisions require payment of all outstanding education mandate claims for school districts and community colleges that were incurred prior to 2004-05 and have not been paid prior to the 2005-06 year to be paid no later than 2020-21.

Statewide Pension Reforms (ACA 1X/Richman). Provisions would require public agencies, including school districts, to enroll employees hired after July 1, 2007, in a defined contribution pension plan, and prohibit enrollment in a defined benefit plan. The measure allows public agencies to offer employees who are enrolled in a defined benefit pension plan the option of transferring the member's interest in the plan to a defined contribution plan.

Merit Pay for Teachers & Administrators (SCA 1X/Runner). Requires Local Education Agencies (LEAs) and charter schools to base employment decisions solely on employee performance, as assessed annually, and on the needs of the school district and its pupils. The measure prohibits consideration of employee seniority in making employment decisions. Teacher and administrator performance would be locally determined based upon individual performance evaluations and improvement in student performance, as measured on state standardized tests.

School Budget Accountability (ACA 2X/Daucher). Provisions require a school district to develop an annual report for each school in the district that provides the following information: revenues by source; expenditures by line-item; salaries and benefits for employees by classification; description of all service and supply contracts and the amount expended; outstanding obligations; and reserve balances.

Major Issues – Regular Session

Proposition 98 – Current Year Funding. The Governor proposes to maintain Proposition 98 funding for K-14 education (K-12 schools and community colleges) at the level appropriated by the 2004-05 Budget Act. The 2004-05 budget appropriated $47 billion for K-14 education, which was approximately $2.0 billion below the minimum guarantee at the time of enactment. Due to larger than estimated state revenues and student enrollments, the minimum guarantee has grown an additional $1.1 billion since then. The Governor does not propose to fund this overall increase, estimated to save $2.3 billion over two years.

Proposition 98 – Budget Year Funding. The Governor proposes $50.0 billion for K-14 education in 2005-06, an increase of $2.9 billion (6.1 percent) over 2004-05. As proposed, the Governor's budget meets the Proposition 98 minimum funding guarantee in 2005-06. The

Governor calculates the minimum guarantee for the 2005-06 budget using *Test 2* factors applied to the 2004-05 base, as currently budgeted. The Governor's Budget does not propose suspension of Proposition 98 in 2005-06.

Reductions to State Contributions to CalSTRS. The Governor proposes to reduce state general funds (Non-98) for the California State Teacher's Retirement System (CalSTRS) by $469 million in 2005-06 to eliminate the state contribution for the CalSTRS Defined Benefit Program. Under this scheme, it is assumed that LEAs would have to fund continuation of these benefits. The budget does not provide funding for these costs, so presumably LEAs would have to provide funding from other appropriations in 2005-06. This would have the effect of reducing the overall Proposition 98 funding increase for K-12 schools from 6.0 percent to 4.8 percent in 2005-06.

Statutory Growth and COLA's Fully Funded. The Governor proposes expenditures of $2.0 billion to fully fund statutory growth and COLA's (cost-of-living adjustments) for K-12 revenue limit and categorical programs in 2005-06. Of this amount, the Governor proposes $395 million for enrollment growth, estimated to increase by 0.8 percent in 2005-06. In addition, the Governor proposes $1.65 billion for education program COLA's, estimated at 3.93 percent in 2005-06. These funds are considered "unrestricted funds" and can be used by LEAs for general purposes.

State Mandate Reimbursements. The budget proposes to defer or suspend all funding for education mandates in 2005-06. This is consistent with budget actions in recent years. According to the Legislative Analyst, mandated costs for K-12 schools are estimated at $250 million a year and cumulative, unpaid mandated costs claims are now estimated at $1.7 billion. By the end of 2005-06, the state will owe approximately $1.95 billion in education mandate costs. By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. Under the Governor's overall budget reforms the state would be required to pay schools for all unfunded mandates within 15 years .

Williams Settlement: The Governor proposes $100 million for emergency repairs of school facilities pursuant to the *Williams v. California* lawsuit settlement. Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the Williams settlement agreement, requires the state to appropriate at least $100 million in Proposition 98 reversion funds annually for emergency facility needs. This level of funding must continue until the state has provided a total of $800 million.

Special Education

- **Federal Funding** The Governor's budget appropriates an additional $65.1 million in federal special education funds authorized under the federal Individuals with Disabilities Education Act (IDEA). The Governor proposes to direct $24.8 million of these new funds to local education agencies (LEAs) in the form of AB 602 grant increases; approximately $20 million for adjustments to the new formula for children and youth residing in licensed children's institutions; and approximately $20 million for enrollment adjustments for preschool students. Under current state law, new federal special education funds are treated as an "offset" to state funding and not an augmentation that would increase special education base funding level. As recently reauthorized, the IDEA includes language that appears to prevent states from using new federal funds to offset state-mandated funding obligations, specifically enrollment growth and COLAs.

- **Mental Health Services.** The Governor proposes no changes to state and federal funding for mental health related services in 2005-06. Specifically, the budget continues $69 million in federal IDEA funds as reimbursement to county mental health agencies for AB 3632 services and continues $31 million in ongoing General Funds to local education agencies for mental health related services. In a separate, but related proposal, the Governor proposes to suspend county (noneducation) mandates for providing AB 3632 services. Under the provisions of Proposition 1A, as enacted by statewide voters last November, suspension of noneducation mandates in the budget signals elimination of a mandate. Under this scenario, schools would assume full responsibility for the provision of mental health related services, as required under federal law.

New Policy Initiatives. The Governor's *Budget Summary* identifies several policy issues that have not been formally developed at this time but are likely to be proposed through budget trailer bills. These policy initiatives include:

- **Career and Technical Education.** The Governor proposes additional funding and a number of changes to K-12 and Community Colleges programs to ensure that all students have access to quality career technical education programs.

- **Fitness and Nutrition.** As part of the Governor's Obesity Initiative, the Administration seeks to improve the quality of food and beverages and to increase physical fitness opportunities and activities on school sites.

- **Accelerated English Language Acquisition Program.** The Administration proposes a new program to provide targeted reading instruction to English learners in 4^{th} through 8^{th} grades.

- **Alternatives for Failing Schools.** The Administration proposes that the State Board of Education take action in failing schools to either convert them to charter schools or assign School Recovery Teams to manage schools. The administration proposes a number of new programs to build capacity in these areas.

- **Local Control School Pilot Program.** The Governor proposes to establish a new pilot program to increase student achievement by delegating budget authority and academic decision making to the school site level.

- **School Size Reduction.** The Governor proposes to create smaller learning environments within the state's elementary, middle, and high schools through changes to the school facility funding incentives and the allocation of new technical assistance and planning resources.

- **Improving Fiscal Health.** The Administration proposes new training programs to improve the skills of school district business officers.

- **Categorical Program Reforms.**
  - The Governor proposes providing additional flexibility for categorical programs included in the Professional Development Block Grant which was established by the AB 825 reforms enacted last year.
  - The Governor also proposes changes to simplify and clarify funding calculations under the Charter Schools Categorical Block Grant.

Child Care Programs

Background. The state makes subsidized child care services available to (1) families on public assistance and participating in work or other activities conducive to employment, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the family's progress in transitioning from welfare to work.

Child care services under Stage 1 are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two tiers: General Child Care (which is delivered predominately through child care vouchers and child care centers) and are available on a limited basis for families with exceptional financial need, while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

2005-06 Child Care Policy Proposals. The proposed 2005-06 Budget contains a total of $3.1 billion (both General Fund and federal funds) to provide child care services to CalWORKs recipients, former CalWORKs recipients, and the "working poor".

As part of his budget, the Governor proposes a variety of programmatic reforms to the state's subsidized child care programs. The proposals -- which will likely require statutory changes -- are aimed at saving the state General Fund monies, creating more "equity" between former CalWORKs recipients and the general public in obtaining child care services, and improving the quality of available childcare. Generally, the reforms will: (1) limit the amount of time CalWORKs families can receive an entitlement to child care; (2) decrease the reimbursement rates to providers; and (3) blur the lines between the services provided to former CalWORKs recipients and the general public. All together, the Administration expects its reform proposals to result in $172.1 million in savings (from both federal and state funds).

Limiting Eligibility. The Governor proposes to limit program eligibility by capping the length of time CalWORKs families may receive an entitlement to subsidized child care. Specifically, the proposal would place limits on the length of time CalWORKs families would be allowed to remain in Stage 3 child care, thus forcing future CalWORKs recipients to apply for General Child care services as soon as they are eligible to do so. This proposal is identical to the time-limit proposal submitted by the Administration as part of the 2004-05 May Revision.

Beginning in 2005-06, families in Stage 1 or 2 CalWORKs child care would be allowed to finish out their two year limit in those programs. At the point when families have earned income, they would be allowed to put their names on a general Alternative Payment Provider (AP)/child care voucher program waiting list and access general child care services as space becomes available. If at the end of their Stage 2 time, a general child care slot has not become available, then the family is eligible to move to Stage 3 child care where they will face another 1- or 2-year maximum before their child care entitlement expires. Families "off" cash aid as of July 1, 2005 would be allowed 2 years in Stage 3 before losing services; families "on" cash aid as of July 1, 2005 would be allowed one year in Stage 3 before losing services. The intent of the Administration is that an AP voucher child care slot will come available within the three or four years a CalWORKs family would spend on the waiting list.

In order to ease the transition, CalWORKs families currently in Stage 3 would be shifted to the voucher program where they would remain as long as the family and child(ren) remain eligible (the child is under age 13 and family income is within eligibility thresholds.) The Governor's proposal increases the amount of funding (and hence the number of child care "slots") in the AP/voucher program by $248.6 million to accommodate this influx of children. No immediate savings are expected as a result of this proposal.

Centralized Child Care Wait Lists. The Administration proposes to end the practice of having AP's maintain multiple child care waiting lists per region. Instead, the Governor proposes to have only one centralized waiting list per county. Lists would be maintained on a county-by-county basis by the local county child care planning council, which would receive additional funding to develop and maintain the lists. Under the Governor's proposal, the list would be divided into two sections: the first section would be for families whose income is below the level where fees/co-payments are charged; these families would receive care on a *first-come, first-served* basis. The second section would include families with slightly higher incomes (at or above the level where a fee/co-payment is required); these families would receive services based on income – with the lowest income families being served first (which is consistent with current practice).

11- and 12-Year Olds – Shift to Before/After School Programs. As part of the current year Budget Act, After School Programs are designated as the "preferred placement" (rather than traditional child care) for 11- and 12-year olds, and additional funding was provided in the 2004 Budget Act to expand the capacity of Before and After School Programs in order to accommodate more 11- and 12-year old students. Under the current practice, parents have the option of choosing Before/After School Programs as their primary source of child care, certify that Before/After School Programs meet their child care needs, and then actively remove their child from part or all of the subsidized child care program. Under the Governor's proposal, the burden shifts. Instead, parents would now be required to certify that a Before/After School

Program either does not exist or does not meet their needs in order to continue receiving subsidized child care for their 11- or 12-year old. The Administration estimates that this requirement to "opt out" of Before/After School Programs (rather than "opt in") will result in $23.8 million of savings in 2005-06.

Reimbursement Rates. In order to further reduce budget-year costs and provide a monetary incentive to improve the quality of child care, the Governor is proposing to reduce the reimbursement rates to licensed-exempt child care providers, while concurrently adopting a "tiered" reimbursement mechanism (similar to a salary schedule) which would compensate exempt providers more if they acquire specified training or early childhood education coursework. This rate change is expected to result in $140.1 million in savings in the 2005-06 fiscal year.

Under current law, licensed-exempt providers are paid 90 percent of the amount paid to family child care homes or center-based child care providers. Immediately upon enactment of the Budget, exempt providers would see their reimbursement rates fall to 60 percent of this rate. If, within 90 days, exempt providers demonstrate and/or certify that they've received the required training, then their reimbursement rate would stay at the reduced 60 percent level. If they fail to receive the required training within the 90 day window, their rates would be reduced to 55 percent of the Homes and Center-Based providers. At present, it is unclear how the rate adjustments would occur and whether or not contracts and/or agreements with local Alternative Payment Providers (APs) would need to be adjusted to accommodate the reduced rates.

The table below (information provided by the Department of Finance) illustrates the impact of the licensed-exempt rate proposal:

		Rate Structure *(Full month care for 2-5 year old child.)*		
Sample Counties	*Current Maximum Rate for Licensed-Exempt Providers (90% of max. licensed provider rate)*	*Median Rate Charged by licensed providers*	*Maximum rate if exempt provider demonstrates training (60% of max. licensed provider rate)*	*Maximum rate if exempt provider does not demonstrate training (55% of max. licensed provider rate)*
Sacramento	$526.00	$487.00	$350.70	$321.48
San Francisco	$779.50	$768.50	$519.60	$476.30
Los Angeles	$584.50	$541.50	$389.70	$357.23
Contra Costa	$623.50	$584.50	$415.80	$381.15
Fresno	$487.50	$433.00	$324.90	$297.83
Shasta	$467.50	$433.00	$311.70	$285.73

The Administration proposes imposing a similar rate-change structure for family child care home providers and center-based providers, but allows those providers two years to demonstrate training and/or licensing requirements. Under the Governor's proposal, family child care and child care center providers would see their reimbursement rates fall to 75 percent of the Regional Market Rate (RMR) ceiling (set at the 85th percentile of the RMR) if they do not demonstrate specified training or certification requirements. The 2005-06 budget shows no savings affiliated with this portion of the proposal, as rates for these providers would not be reduced until July 1, 2007.

In/Out of Market Rates. Current law, which has been suspended in this year's budget, limits the maximum rate that can be paid to a provider to the rate paid by a private-pay/unsubsidized family in the same region for the same services. In cases where a provider serves only state-subsidized children, the maximum rate is based on a sampling of the private-pay rate in the region.

While the Legislature has opted to suspend implementation of this law in the past, primarily due to the fact that rates would decrease for many providers, the Administration is proposing to put the law into effect because it will save approximately $8.2 million.

Use of Federal Poverty Level. Under current law, families are eligible for subsidized child care services if their income is at or below 75 percent of the State Median Income (SMI), as adjusted for family size. The Governor proposes the use of a new index – the Federal Poverty Level (FPL) – in place of the SMI beginning in 2005-06. The Administration sites the FPL as a more reliable index – it is updated annually by the federal government – and is the same index used to determine eligibility for other state and national health and human services programs. Based on the proposal, the shift to the FPL would be designed to ensure that no family currently eligible for services would lose eligibility. No monetary savings are associated with this proposal.

6120 California State Library

The Governor proposes to reduce funding for the Public Library Foundation (PLF) by $2.2 million; the PLF provides grants to local libraries for such basic operating expenses as maintaining hours of operation, book and periodical purchases, and library database and computer access. In addition, the Governor proposes to cut operational expense for the State Library by $170,000 (which equates to less than 1 percent of the Library's state operational budget).

Additional adjustments include: (1) a reduction of $828,000 to Library Development Services, which provides programs and services to local libraries such as access to licensed databases, telecommunication links among libraries, and electronic loan of materials; (2) a reduction of $276,000 to the English Acquisition Programs, which provides community-based English-literacy development programs for adults; and (3) an augmentation of $329,000 to support the acquisition and implementation of an automated Braille and Talking Book Library.

HIGHER EDUCATION

Governor's *Compact* with Higher Education. In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) which calls for the Governor to provide the UC and CSU with a specified level of General Fund support, as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. The Governor's 2004-05 Budget provides funding for UC and CSU pursuant to this agreement. Specifically, the *compact* contains the following provisions:

- *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement;

- *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11;

- *General Support*. Beginning in fiscal year 2005-06 and 2006-07, Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11) the Governor will provide increases of 4 percent annually.

- *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,000 FTES at CSU.

- *Long-Term Funding Needs*. Beginning in 2008-09 through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support , and building maintenance.

- <u>*Student Fees*</u>.

  Undergraduate Fees. In an effort to better stabilize fees after the sharp increases of the past couple years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU may increase fees up to 10 percent.

  Teacher Credentialing Fees. Fees will increase by no more than 10 percent annually; an 8 percent increase in fees is proposed by both UC and CSU in 2005-06.

  Academic Graduate Student Fees. Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors including the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

  UC Professional School Fees. UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs. For the 2005-06 academic year, fees will be increased approximately 3 percent. (This small increase is intended to provide some respite after last year's hefty professional school fee hikes.)

Student Fee Revenues. UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase with corresponding General Fund reductions as the state has done in recent "bad" budget years).

- *Accountability Measures*. In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

  Student Eligibility. Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

  Community College Transfer Students. Both UC and CSU will continue to accept all qualified community college transfer students.

  Community College Course Transfer. Both UC and CSU will increase the number of course articulation agreements as they relate to academic "majors" with community colleges. In 2005, UC agrees to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU will establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

  Summer Term/Off-Campus Enrollment Levels. By 2010-11, both UC and CSU will expand summer session and off-campus offerings and student enrollments by reaching FTES levels equivalent to 40 percent of regular-term enrollments.

  Academic Outreach Efforts. UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least $12 million and CSU agrees to provide at least $45 million to continue of the most effective academic outreach programs.

  A through G Course Offerings. Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

  Public Service. UC and CSU agree to strengthen student community service programs.

  Time to Degree. Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduate rates, and time-to-degree.

  Teacher Candidates. Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

OVERARCHING HIGHER EDUCATION ISSUES:

Student Enrollment Growth. Pursuant to the Governor's compact with UC and CSU, he proposes to fund enrollment growth equivalent to 2.5 percent. For UC, this equates to an increase of approximately 5,000 FTES and $37.9 million; for CSU, enrollments are proposed to increase by approximately 8,000 FTES and $50.8 million. At present, these dollars appear adequate to support the projected enrollment growth for the 2005-06 academic year.

While the California Community Colleges do not have a "compact" with the Governor, he does provide $136.7 million to fund enrollment growth of 3 percent throughout the community college system. These additional funds will allow colleges statewide to grow by an additional 34,000 FTES. Unlike prior years, when many primarily urban colleges were overenrolled and growth dollars were used to support unfunded students, the dollars provided in 2005-06 for this purpose will be used to actually grow the system.

General Campus Support. Consistent with the Governor's compact, his 2005-06 budget provides a General Fund, general support increase of 3 percent for both UC and CSU, providing those systems with $76.1 million and $71.7 million respectively. Funds will be used to cover cost-of-living-adjustments (COLA), salary, and other price increases.

Under the Governor's proposal, the community colleges also receive a statutory-COLA of 3.93 percent which equates to $195.5 million.

Student Fees. In 2004-05, the Governor proposed to establish a long-term student fee policy aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal, the Governor instead chose to integrate these student fee "principles" into his compact with UC and CSU.

Pursuant to the compact, UC and CSU are increasing undergraduate student fees by 8 percent in 2005-06; academic graduate students will see fee increases of 10 percent, while UC professional school students will have fee increases of approximately 3 percent. (Actual fee levels will be illustrated in table form later in this chapter.)

In keeping with his compact, the Governor does not propose "recapturing" the increased student fee revenue or offsetting the General Fund appropriations of the UC and CSU to account for the additional funds derived by the fee increases.

Further, the Governor is not proposing a fee increase at the community colleges. Staff notes that community college fees were increased dramatically in the last two state budgets: From $11 to $18 per unit in 2003-04 and then from $18 to $26 per unit in 2004-05.

6440 University of California

The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry, and veterinary medicine. The UC consists of nine campuses -- Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz -- which offer undergraduate, graduate, and professional education. The University of California, San Francisco is solely dedicated to the health sciences, and a tenth campus is currently being planned and constructed outside of Merced in the Central Valley. In addition to its instructional facilities, the university operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses as well as operating the Sacramento, San Diego and Orange county medical facilities.

Other 2005-06 Budget Changes. In addition to the compact-related budget changes discussed earlier in this document, the Governor proposes to: (1) eliminate state funding ($3.8 million) for the Institute for Labor Studies, and (2) reduce by $17.3 million the amount of funding provided by the Legislature to the UC as part of the 2004-05 budget process. Specifically, the Administration targets the $17.3 million reduction at either student academic outreach programs or state-funded enrollment growth.

UC Merced. The Governor and the UC continue plans to open the new UC Merced campus to students in the Fall of 2005. To meet this end, the 2005-06 budget proposes to allocate an additional $14 million for start-up costs associated with the Merced campus, bringing the 2005-06 operational costs to $24 million. These funds are used primarily to support a core staff of administrators and faculty, develop curriculum, and faculty recruitment, although in the first year costs associated with direct student instruction are included in the $24 million.

Capital Outlay. Specifically, the capital outlay portion of the budget includes $14.7 million in UC funds and $305.2 million in GO bond funds derived from the 2004 Educational Facilities Bond Act to develop working drawings and fund construction and equipment for 24 projects on 9 campuses.

Student Fees. For the fourth time in ten years, student fees are proposed to be increased at the UC. Specifically, the Governor's Budget proposes to increase undergraduate fees by 8 percent, bringing the total mandatory systemwide fees at UC to $6,769 per year. Fees for graduate students are proposed to increase 10 percent, while out-of-state students will pay an additional 5 percent on top of the other increases. Additional fees, which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV), are also proposed to be increased. In addition to the traditional professional school disciplines noted above, UC and the Administration are also proposing to assess a professional school surcharge on graduate students in Public Health, Public Policy and International Relations.

Fees at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) averaged $7,341 in 2004-05 which is $572 higher than the 2005-06 proposed fee levels for UC resident undergraduates.

University of California Student Fees

	Undergraduate		Graduate	
	Resident	**Nonresident**	**Resident**	**Nonresident**
1994-95	$4,111	$11,810	$4,585	$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03 *(fees increased mid-year)*	4,017	16,396	5,017	16,393
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	*6,769*	*2,589*	*8,556*	*23,517*

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an average of the campus-based fees for the nine campuses.

Students in professional degree programs (i.e., medicine, dentistry, law, veterinary medicine, business) pay a supplemental fee, in addition to the fees noted above, that ranges from $4,000 for students in public health, public policy or international relations to $14,276 for students in business and management.

6600 Hastings College of the Law

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year.

Policy development and oversight for the college is established and carried out by a board of directors who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of Law.

2005-06 Budget Changes. While not explicitly included in the Governor's compact with higher education, the Administration opted to afford the provisions of the compact to Hastings College of Law. Specifically, the budget proposes to provide Hastings with a 3 percent General Fund increase ($244,000) for basic budget support. The effect of this increase will help to mitigate some of the dramatic reductions faced by the college in recent years. While the compact also includes budget adjustments at UC and CSU to accommodate enrollment growth, Hastings enrollment levels are, and have remained, stable for a number of years thereby negating the need to fund enrollment growth.

After large fee increases of approximately 34% in the 2004-05 year, fee levels at Hastings will remain relatively constant in 2005-06 with an increase of less than $1,000 for residents (from $20,919 in the current year to $21,894 in 2005-06). Fees for nonresident students will remain constant at $33,119 per year.

6610 California State University

The California State University (CSU) system is composed of 23 campuses, including 22 university campuses and the California Maritime Academy. Administered and managed by an independent governing Board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate- and graduate-level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic "general education" breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate- and masters-level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral-level education with the University of California and private and independent institutions.

Other 2005-06 Budget Changes. In addition to the compact-related budget changes discussed earlier in this document, the Governor proposes to reduce, by $7 million, the amount of funding provided by the Legislature to the CSU as part of the 2004-05 budget process. Unlike the UC budget, which specifies the programs/services to be reduced, the Administration does not allocate the $7 million reduction, leaving that decision to the CSU Board of Trustees.

Capital Outlay. Specifically, the capital outlay portion of the budget includes $101.4 million in university funds; $163.8 million in lease-revenue bond funds; $694.8 million in GO bond funds derived from the 2002 and 2004 educational facilities bond acts. Funds will be used to develop working drawings and fund construction and equipment for 44 projects on 22 campuses.

Student Fees. For the fourth time in ten years, student fees are proposed to be increased at the CSU. Specifically, the Governor's Budget proposes to increase undergraduate fees by 8 percent, bringing the total mandatory system wide fees at CSU to $3,102 per year. Fees for graduate students are proposed to increase 10 percent while the nonresident surcharge (the amount paid by nonresidents in addition to the system wide fees) is proposed to remain stable.

Fees at the CSU comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged $5,656 in 2004-05, which was $2,554 more than the amount to be paid by CSU resident undergraduates in 2005-06.

California State University Student Fees

	Undergraduate		**Graduate**	
	Resident	**Nonresident**	**Resident**	**Nonresident**
1994-95	$1,584	$8,964	$1,584	$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03 *(fees increased mid-year)*	1,573	10,033	1,734	10,194
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	*3,102*	*13,272*	*3,684*	*13,854*

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. The CCC offers academic programs that (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California’s work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state’s economic development programs.

2005-06 Proposed Adjustments

Enrollment Growth. The Governor's 2005-06 budget proposes to provide $136.7 million to fund a 3 percent (or 34,000 FTE) increase in student enrollment. While statute only calls for enrollment growth funding of 1.89 percent, the statutory index (which is tied to the change in the adult population) has continuously failed to keep pace with actual student enrollment. Unlike prior years when campuses were serving large numbers of unfunded students, it appears that funding provided for enrollment growth in the current year budget indeed helped to accommodate those unfunded students as the number of overenrolled campuses has declined substantially. Total enrollment at community colleges is expected to exceed 1.18 million FTES.

Cost-of-Living-Adjustment. In addition to providing enrollment growth, the Administration proposes an additional $195.5 million for a 3.93 percent COLA for both general campus apportionments ($184.5 million) and specified categorical programs ($11.1 million).

Technical and Vocational Education. The Administration proposes to augment the community colleges by $20 million, one-time, to increase coordination between the colleges and their K-12 colleagues on industry-driven vocational and technical-career curriculum.

Set-Aside for Partnership for Excellence. The Administration sets aside $31.4 million to augment funding for the community college Partnership for Excellence Program. As part of the 2004 Budget Act, the Governor vetoed a like-amount and indicated that he would be willing to restore the funding if the community college system developed a district-specific accountability structure. Legislation signed at the end of the 2003-04 legislative session (Chapter 581, Statutes of 2004) requires the Community Colleges Board of Governors to provide recommendations to the Governor and the Legislature on potential district-level performance measures. These recommendations are expected this spring.

Equalization. Contrary to the Community Colleges systemwide budget request, the Governor does not provide any additional funding for equalization, which attempts to remedy the current per student funding disparities between districts.

Student Fees. No change proposed. Fee levels remain at $26 per unit. At present, approximately 42 percent of community college students are eligible for Board of Governor (BOG) Student Fee Waivers; this represents a slight increase of 4 percent over recent years. The Administration believes that this percent will likely remain constant in 2005-06.

State Teachers Retirement System (STRS). The Governor proposes to eliminate the annual state contribution to the STRS defined-benefit program for a General Fund savings of $469 million. Of this amount, approximately 7.6 percent represents the share of contributions allocated on behalf of community colleges. Assuming costs for participation in a STRS defined benefit program are shifted to local colleges, the costs would be approximately $35-40 million. Under the Governor's proposal, local school districts (and presumably local community college districts) would be granted explicit statutory authority to shift these costs to faculty through the collective bargaining process, or to allow faculty to "opt-out" of the defined benefit plan all together.

Proposition 98 "Split." The community college share of the Proposition 98 guarantee is expected to be approximately 10.31 percent, a change from the current-year split of 10.17 percent (current-year revised).

6420 California Postsecondary Education Commission

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. CPEC serves as the principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC's responsibilities include conducting analyses and making recommendations related to long-range planning for public postsecondary education, and analyzing both state policy and programs involving the independent and private proprietary educational sectors.

2005-06 Proposed Adjustments

Direct 2005-06 budget proposals related to CPEC are minimal and include mostly "baseline" adjustments related to retirement contributions, employee compensation, and facility leasing costs. The Governor does provide CPEC with an additional $12,000 as a General Fund "price increase". The largest proposal related to CPEC occurs outside the budget, in the Governor's reorganization plan (currently before the Little Hoover Commission). Under the Governor's reorganization proposal, CPEC would cease to exist and its functions would be shifted to a new Office of Higher Education and Financial Aid where they would be merged with the operations and functions of the California Student Aid Commission.

7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants and work study for postsecondary students attending California educational institutions. EdFUND, a nonprofit auxiliary of the SAC administers a variety of federally-backed student loan programs for both California and out-of-state students. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state's student population, and provides financial aid information to students, parents, and California's education community.

Background. In 2000, the Legislature passed and the Governor signed into law, SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program, all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth between $5,250 and

$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately $1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 ("B" average) and must not exceed the family income limit, which in the budget year will be approximately $69,600 for a family of four or $80,400 for a family of six. Students with GPAs under 3.0, but higher than a 2.0 ("C" average), are eligible for a Cal Grant "B" award provided their annual family income does not exceed $36,600 for a family of four. In addition, community college students meeting specified GPA and income requirements, who are transferring to a four-year college or university, prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a "second chance" to receive a Cal Grant and are eligible to compete for a bloc of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

The Student Aid Commission estimates that the total number of Cal Grants awards will reach approximately 260,000 in the 2005-06 fiscal year.

2005-06 Budget Changes. As part of his 2005-06 budget, the Governor proposes to maintain eligibility for, and award levels within, the Cal Grant program, with the following exception:

- **Private College Student Grant Amount**. The Governor proposes to reduce the grant level for students attending private and independent colleges by roughly 10 percent or $883 annually. This would result in the maximum grant level being decreased from the current $8,332 to $7,449. The Administration estimates that this reduction will reap $7.5 million in General Fund savings.

Other Budget Adjustments. As part of the 2004-05 mid-year (Control Section 4.10) reductions, the Governor proposes to decrease funding for the Cal Grant program by $44.8 million to account for fluctuations in applicant and award estimates; funding is then increased in 2005-06 by a like-amount thereby shifting funding from one fiscal year to the next.

The Governor proposes several budgetary changes in the Assumption Program of Loans for Education (APLE) including (1) an additional $6.8 million to fund the increase in loan assumptions coming due, and (2) the authorization of 100 new National Guard APLE awards in order to provide new recruits with an incentive to participate in the National Guard.

Using dollars from EdFUND's Student Loan Operating Fund (SLOF), the Administration proposes shifting $35 million in Cal Grant Costs from the General Fund to the SLOF in order to save $35 million of General Fund. A similar funding "swap" was used to help balance the budget in 2004-05 using $146.5 million of SLOF dollars to fund the Cal Grant program.

Proposed Reorganization. Like CPEC, the Student Aid Commission is also included in the Governor's board and commission reorganization proposal, which is currently before the Little Hoover Commission. Under the Governor's proposal, the Student Aid Commission would cease to exist and its functions would be transferred to the new Office of Higher Education and Financial Aid. According to the Administration, the creation of this office will align higher education policy and planning functions so that policy-makers, policy-implementers, and students will have more immediate access to a consolidated system of information. Under the Governor's proposal, the Office of Higher Education and Financial Aid would be responsible for reviewing and recommending policy related to student financial aid, administering financial aid programs, and proving financial-aid related outreach to students and families. The Office would be governed by a single executive officer who would serve at the pleasure of the Governor and be confirmed by the Senate.

6445 California Institute for Regenerative Medicine (CIRM)

Established pursuant to Proposition 71 as passed by the voters in 2004, The California Institute for Regenerative Medicine (CIRM) will administer the issuance of $3 billion in bond proceeds authorized for stem-cell research and assure that the bond funds are used pursuant to the intent of the voters. Proposition 71 created an Independent Citizen's Oversight Committee as CIRM's governing body. The Citizen's Oversight Committee is responsible for the daily operations of the CIRM and appoints members to the advisory groups charged with developing and maintaining accountability standards, reviewing grant bids, and constructing bond-funded research facilities.

$3 million in the form of a General Fund loan is appropriated via statute (*Health and Safety Code*, Section 125290.70) for the first-year start-up costs of the CIRM. Further, the bond funds used to support stem-cell research are continuously appropriated by statute (*Health and Safety Code*, Section 125291.20). In addition to the funding, the Governor's Budget includes 25 new positions in the current year and 50 positions in 2005-06 to staff the CIRM.

SUBCOMMITTEE NO. 2

NATURAL RESOURCES, ENVIRONMENTAL PROTECTION, and ENERGY

NATURAL RESOURCES

Overview

Background. The Resources Agency is responsible for the state's policies, programs, and activities relating to the conservation, management, and enhancement of California's natural and cultural resources. The Resources Agency is led by the Secretary for Resources and the agency oversees the following departments, commissions, conservancies, and other boards and authorities.

Departments:

- California Conservation Corps
- Department of Conservation
- Department of Forestry and Fire Protection
- Department of Fish and Game
- Department of Boating and Waterways
- Department of Parks and Recreation
- Department of Water Resources

Commissions:

- State Lands Commission
- California Coastal Commission
- San Francisco Bay Conservation and Development Commission
- Delta Protection Commission
- Energy Resources Conservation and Development Commission
- Native American Heritage Commission

Conservancies:

- California Tahoe Conservancy
- State Coastal Conservancy
- Santa Monica Mountains Conservancy
- San Joaquin River Conservancy
- Coachella Valley Mountains Conservancy
- San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy
- Baldwin Hills Conservancy
- San Diego River Conservancy
- Sierra Nevada Conservancy

Other Boards and Authorities:

- Special Resources Programs (Tahoe Regional Planning Agency, Yosemite Foundation Program, and Sea Grant Program)
- Colorado River Board
- Wildlife Conservation Board
- California Bay-Delta Authority

Governor's Budget. The Governor's budget proposes $3.5 billion to support the Resources Agency in 2005-06. Proposed budget year expenditures are approximately 33 percent less than the current year, primarily due to a reduction in resources bond funds available for appropriation.

The General Fund support for the Resources Agency is expected to increase by over $200 million, due to increased funding for debt service payments, additional funding to reimburse local governments for the lining of the All-American Canal, and program augmentations at the Department of Water Resources and the Department of Forestry and Fire Protection.

Total State Fund Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
State Operations	$3,103,329	$2,963,406	-$139,923	-4.5
Local Assistance	710,329	328,044	-382,285	-53.8
Capital Outlay	1,374,718	199,113	-1,175,605	-85.5
Total	$5,188,376	$3,490,563	-$1,697,813	-32.7
Funding Source				
General Fund	$1,067,272	$1,269,828	$202,556	19.0
Special Funds	1,820,472	1,624,135	-196,337	-10.8
Bond Funds	2,300,632	596,600	-1,704,032	-74.1
Total	$5,188,376	$3,490,563	-$1,697,813	-32.7

Issues

Unallocated Reductions. The Governor is proposing unallocated General Fund reductions as part of the budget proposal. The administration is directing department heads to determine the best way to make the reductions internally. Therefore, no details have been provided on what specific programs are being impacted as a result of the unallocated budget reductions. Approximately $12 million General Fund is proposed for reduction across all of the Resources Agency departments for the current year and budget year combined. This is about 1 percent of all General Fund for the Resources Agency budget proposed for 2005-06. Across the board reductions reduce legislative oversight since the Legislature does not participate or oversee the reductions made internally. The Legislature may wish to request that the administration report on the programs it plans to reduce as part of the unallocated reductions.

Governor's Reorganization Plan #1 (GRP 1). The Governor has proposed an executive reorganization plan that has been submitted to the Little Hoover Commission. This reorganization plan calls for elimination of the following boards and commissions under the jurisdiction of the Resources Agency.

- Boating and Waterways Commission (within the Department of Boating and Waterways).
- Colorado River Board.
- State Board of Fire Services (within the Department of Forestry and Fire Protection).
- Board of Forestry and Fire Protection (within the Department of Forestry and Fire Protection).

- State Mining and Geology Board (within the Department of Conservation).
- Off-Highway Motor Vehicle Recreation Commission (within the Department of Parks and Recreation).
- State Reclamation Board (within the Department of Water Resources).
- California Water Commission (within the Department of Water Resources).

All of the activities of the boards and commissions proposed for elimination are expected to transfer to departments within the Resources Agency. The Legislature will want to evaluate the pros and cons of an independent board versus a department in evaluating the Governor's plan for each of these boards and commissions. The independence of a board can help ensure that mandates are achieved even when there are legislative or administration pressures to do other wise. Conversely, a department structure is generally more accountable to the administration and the Legislature than is a board structure. However, there is often less public accountability with a department since many department actions are not subject to public hearing processes. The Legislature will want to evaluate this and other factors when evaluating the merits of GRP 1.

0540 Secretary for Resources

Background. The Secretary for Resources heads the Resources Agency. The secretary is responsible for overseeing and coordinating the activities of the departments, commissions, conservancies, and other boards and authorities that make up the Resources Agency.

Governor's Budget. The Governor's budget proposes $58 million to support the Secretary for Resources in the budget year. This is approximately 20 percent less than the estimated level of expenditures in 2004-05. This is primarily due to the reduced level of bond funds available for appropriation. The General Fund does not support the Secretary for Resources.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Administration	$72,423	$58,062	-$14,361	-19.8
Total	$72,423	$58,062	-$14,361	-19.8
Funding Source				
General Fund	$0	$0	$0	0.0
Special Funds	12,750	3,069	-9,681	-75.9
Bond Funds	58,890	54,288	-4,602	-7.8
Budget Act Total	*71,640*	*57,357*	*-14,283*	*-19.9*
Federal Trust Fund	269	184	-85	-31.6
Reimbursements	515	521	6	1.2
Total	$72,424	$58,062	-$14,362	-19.8

Highlights

Bond Funds for River Parkways Program. The Governor proposes to allocate $38.4 million in the budget year from Propositions 40 and 50 resources bonds to fund the River Parkways Program. This proposal essentially restores funding vetoed by the Governor in the 2004-05 budget. The Governor also proposes to allocate the remaining Proposition 50 bond funds ($51 million) over the 2006-07 and 2007-08 budget years.

Bond Funds for Sierra Nevada Cascade Program. The Governor proposes to allocate $11.7 million in the budget year from Proposition 50 resources bonds to fund the Sierra Nevada Cascade Conservation Grant Program. This proposal essentially restores funding vetoed by the Governor in the 2004-05 budget. The Governor also proposes to allocate the remaining Proposition 50 bond funds ($11.7 million) in 2006-07.

Issues

Implementation of River Parkways and Sierra Nevada Cascade Programs. Legislation was enacted as part of the 2004-05 budget to define and guide the implementation of the River Parkways and Sierra Nevada Cascade Programs. The Legislature may wish to follow-up on the implementation of these new guidelines.

3340 California Conservation Corps

Background. The California Conservation Corps (Corps) assists federal, state and local agencies and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women. The Corps provides on-the-job training and educational opportunities to California residents aged 18 through 23, with projects that conserve and enhance the state's natural resources and environment. In addition to activities traditionally associated with the Corps, like tree planting, stream clearance, and trail building, the Corps responds to emergencies caused by fires, floods, earthquakes, and other natural disasters. The Corps also develops and provides funding for 11 community conservation corps.

Governor’s Budget. The Governor’s budget proposes $102 million to support the Corps in 2005-06. This is an increase of nearly $30 million from current year expenditure levels due to increases in capital outlay projects funded by the Public Buildings Construction Fund. General Fund support for this program is proposed to remain relatively the same as in the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Training and Work Program	$72,613	$60,249	-$12,364	-17.0
Capital Outlay	0	42,449	42,449	0.0
Administration	6,480	6,480	0	0.0
less distributed administration	*-6,480*	*-6,480*	*0*	*0.0*
Unallocated Reduction	0	-378	-378	0.0
Total	$72,613	$102,320	$29,707	40.9
Funding Source				
General Fund	$23,749	$24,130	$381	1.6
Collins-Dugan California Conservation Corps Reimbursement Account	29,420	31,745	2,325	7.9
Other Special Funds	607	598	-9	-1.5
Bond Funds	8,410	3,398	-5,012	-59.6
Budget Act Total	*62,186*	*59,871*	*-2,315*	*-3.7*
Reimbursements	10,428	0	-10,428	-100.0
Public Buildings Construction Fund	0	42,449	42,449	0.0
Total	$72,614	$102,320	$29,706	40.9

Highlights

Corpsmember Population to Increase. The Governor proposes to serve 1,550 annualized corpsmembers in 2005-06. This is 175 more corpsmembers than are estimated to be served in the current year. The majority of the proposed expansion of the corpsmember population is funded by an increase in reimbursements from the Collins-Dugan Reimbursement Account ($3.3 million).

Ukiah Facility Proposed to Reopen. The Governor proposes to restore funding for the Corps' residential center in Ukiah. This facility was slated to close in the current year due to General Fund reductions. The center is reopened due to increases in reimbursements from the Collins-Dugan Reimbursement Account. The Governor also proposes to restore 14 positions to restore adequate staffing to the Ukiah facility.

Restoration of Evening Education and Training Program. The Governor proposes to restore funding for the Corps' evening education and training program statewide. This program had been reduced significantly over the past few years due to budget reductions and vacancy sweeps. The Governor proposes to restore 20 positions and provide contract funding that will enable the Corps to hire temporary help to address peak workload needs. These restorations are funded by increases in reimbursements from the Collins-Dugan Reimbursement Account.

Issues

Collins-Dugan California Conservation Corps Reimbursement Account. The augmentations to the Corps' program are proposed to be funded by an increase in reimbursements from the Collins-Dugan Reimbursement Account. Reimbursements are received by the Corps for work performed through contract with other state agencies, local governments, and other entities. Therefore, increased reimbursements rely on the department's ability to negotiate and complete reimbursement contract obligations. The Legislature may want to evaluate the administration's plans for increasing reimbursable contracts by $3.3 million to ensure that proposed increases in the corpsmember population are adequately funded.

Fuel Reduction and Fire Training Reimbursement Project. The 2004-05 budget included $1.5 million to the Corps to fund a fuel reduction and fire training program. This project included using $310,000 in Workforce Investment Act funds, $625,000 in Proposition 40 bond funds from the California Department of Forestry and Fire Protection, and $545,000 in reimbursements from work performed by the corpsmembers to fund fuel reduction in the Sierra Nevada and provide fire suppression training for about 75 corpsmembers. The Legislature may want to follow up on the implementation of this project.

3460 Colorado River Board

Background. The Colorado River Board (CRB) of California was established in 1937 by State statute to protect California's rights and interests in the resources provided by the Colorado River and to represent California in discussions and negotiations regarding the Colorado River and its management.

Governor's Budget. The Governor's budget proposes $1.2 million to support CRB in the budget year. This is approximately the same level of funding estimated for expenditure in the current year. Funding for this program was transferred exclusively to reimbursements from local water agencies in the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
State Operations	$1,224	$1,237	$13	1.1
Total	$1,224	$1,237	$13	1.1
Funding Source				
General Fund	$0	$0	$0	0.0
Budget Act Total	*0*	*0*	*0*	*0.0*
Reimbursements	1,224	1,237	13	1.1
Total	$1,224	$1,237	$13	1.1

Highlights

Colorado River Board Proposed for Elimination. The Governor is proposing to eliminate the Colorado River Board as part of the Governor's Reorganization Plan #1 (GRP 1). The GRP 1 proposes to transfer the activities of the board to the Department of Water Resources.

3480 Department of Conservation

Background. The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

Governor's Budget. The Governor's budget proposes $915 million to support DOC in the budget year. This is approximately 5 percent less than estimated current-year expenditures due to one-time expenditures in the recycling program and a reduction in the amount of bond funds available for land conservation programs. General Fund support for this program is approximately $4.9 million which is 22 percent more than in the current year due to a technical budget adjustment.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Geologic Hazards and Mineral Resources Conservation	$23,528	$27,276	$3,748	15.9
Oil, Gas, and Geothermal Resources	15,208	16,594	1,386	9.1
Land Resource Protection	40,528	21,855	-18,673	-46.1
Beverage Container Recycling and Litter Reduction	886,268	849,551	-36,717	-4.1
Administration	10,621	11,329	708	6.7
less distributed administration	*-10,621*	*-11,329*	*-708*	*0.0*
Unallocated Reduction	0	-62	-62	0.0
Total	$965,532	$915,214	-$50,318	-5.2
Funding Source				
General Fund	$3,969	$4,865	$896	22.6
Special Funds	914,744	879,467	-35,277	-3.9
Bond Funds	35,684	19,581	-16,103	-45.1
Budget Act Total	*954,397*	*903,913*	*-50,484*	*-5.3*
Federal Trust Fund	1,713	1,730	17	1.0
Bosco-Keene Renewable Resources Investment Fund	831	858	27	3.2
Reimbursements	8,590	8,713	123	1.4
Total	$965,531	$915,214	-$50,317	-5.2

Highlights

State Mining and Geology Board Proposed for Elimination. The Governor is proposing to eliminate the State Mining and Geology Board as part of his Governor's Reorganization Plan #1 (GRP 1). The Board serves as a regulatory, policy, and appeals body representing the state's interests in geology, geologic and seismologic hazards, conservation of mineral resources, and reclamation of lands following surface mining activities. The GRP 1 proposes to transfer the activities of the board to the DOC.

Issues

Williamson Act--Review of Cancellation Assessment. Last year, legislation was enacted to create a procedure for formally reviewing the county assessor's determination of the current unrestricted fair market value of land subject to a Williamson Act contract proposed for cancellation. Specifically, Chapter 794, Statutes of 2004 (SB 1820, Machado) allows DOC to request formal review from the county assessor if the department believes the current fair market valuations are inaccurate. The Governor's budget does not specifically provide additional funding to support this activity. Therefore, the Legislature may wish to inquire as to how DOC plans on reviewing Williamson Act contracts proposed for cancellation in the budget year.

Improving the Effectiveness of the Williamson Act. The Legislative Analyst's Office (LAO) has recommended in the past the gradual elimination of payments to local governments for the local revenue losses associated with Williamson Act contracts, citing substantial weaknesses in the program's effectiveness of preserving open space. The limits placed on property tax growth by Proposition 13 have reduced the effectiveness of the Williamson Act in preserving open space since property taxes have a relatively small financial impact and only marginally affect decisions to buy or develop real estate. The Legislature may wish to consider evaluating alternatives for increasing the effectiveness of the Williamson Act in preserving open space. One option would be to increase the penalties assessed for canceling a Williamson Act contract, thereby providing a greater incentive to keeping land in contract and preserving open space.

3540 Department of Forestry and Fire Protection

Background. The California Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. In addition, CDF (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

Governor's Budget. The Governor's budget proposes $877 million to support CDF in the budget year. This is approximately $6.5 million more than in is estimated for expenditure in 2004-05, which is primarily due to proposed budget augmentations to the department's fire suppression activities. The General Fund support for this program is $531 million, which is a $16.5 million increase over the current year, primarily due to the fire suppression augmentations.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Office of the State Fire Marshal	$13,271	$13,793	$522	3.9
Fire Protection	712,755	748,543	35,788	5.0
Resource Management	49,680	47,555	-2,125	-4.3
Capital Outlay	96,260	73,808	-22,452	-23.3
Administration	58,095	59,060	965	1.7
less distributed administration	*-57,665*	*-58,630*	*-965*	*0.0*
Unallocated Reduction	-1,401	-6,696	-5,295	0.0
Total	$870,995	$877,433	$6,438	0.7
Funding Source				
General Fund	$513,865	$530,639	$16,774	3.3
Special Funds	8,780	8,683	-97	-1.1
Bond Funds	9,379	9,296	-83	-0.9
Budget Act Total	*532,024*	*548,618*	*16,594*	*3.1*
Federal Trust Fund	34,739	31,309	-3,430	-9.9
Forest Resources Improvement Fund	853	4,625	3,772	442.2
Bosco-Keene Renewable Resources Investment Fund	3,757	0	-3,757	-100.0
Timber Tax Fund	30	30	0	0.0
Public Building Construction Fund	90,370	68,004	-22,366	-24.7
Reimbursements	209,223	224,847	15,624	7.5
Total	$870,996	$877,433	$6,437	0.7

Highlights

Funding for Fire Protection Equipment and Services. The Governor's budget proposes $15.2 million General Fund to fund fire protection equipment purchases and improve service contracts used in fire protection efforts. Approximately $10.8 million is proposed to replace fire engines and eleven firefighting helicopters, $2.9 million to upgrade radio equipment with narrowband capable equipment, and $1.5 million to cover cost increases in CDF's aircraft services and logistical support contracts.

protection of structures, as this responsibility belongs to local fire protection entities. However, during fire events the state works collectively with the locals to defend life and property along with its wildland protection responsibilities. Defending life and property increases fire protection costs significantly and as more people move in and around the state's wildlands, costs associated with defending wildlands and structures increases.

The budget proposed by the Governor in 2004-05 contained revenues from a SRA fire fee. This fee was to be levied on private landowners in SRAs to partially offset the state's costs of fire protection services benefiting these landowners. However, these fees were repealed as part of the 2004-05 enacted budget. One argument against these fees was that many landowners already pay a local fire assessment. Therefore, paying a state fire assessment would result in charging a landowner twice for fire protection. However, since the locals are only responsible for protection of structures, this local assessment only covers activities related to protecting structures. Therefore, landowners do not contribute funds to protect wildlands (except through general income taxes paid by all Californians). The Legislature may wish to evaluate a funding structure that requires some contribution by landowners to fund the state's protection of privately owned wildlands.

Jackson State Forest Issues Still Unresolved. The Governor vetoed legislation (SB 1648, Chesbro) in 2004 that would have provided temporary relief to the moratorium on timber harvesting at Jackson State Forest. However, since the Governor vetoed this legislation, the department will have to produce an EIR that satisfies the court overseeing the lawsuit and the plaintiff in the case in order for timber to be harvested on Jackson State Forest in the budget year. Since the department has not completed the required EIR it is not certain whether the revised plan will satisfy the court or the plaintiff. This results in uncertainty regarding the ability of the department to harvest at Jackson State Forest and collect sufficient revenues to support important state forestry programs. Revenues generated from timber harvesting on state forests is the primary funding source for the department's forestry programs. The Legislature may wish to consider diversifying the funding sources for the state's forestry programs. Revenues from the state's forests should be one source, but harvesting on state forestland is subject to great uncertainty and does not correlate with state forestry program needs.

Unallocated Reduction. The Governor's budget proposes an unallocated reduction of $1.4 million General Fund in the current year and $6.7 million General Fund in the budget year. It is unclear how this reduction will impact the department's budget. However, given the significant increases proposed to the fire suppression budget, it is likely that these reductions will disproportionately impact forestry activities at the department.

Fuels Management Activities. The Legislature approved $39 million Proposition 40 bond funds for fuel reduction activities in the Sierra Nevada in the current year. As part of this proposal statute was enacted to restrict the diameter of the trees (16 inches or less) to be harvested as part of the fuel reduction activities. The administration is requesting additional funding ($3.8 million federal funds) for fuel reduction activities and fire restoration for Southern California. The Legislature may wish to follow up on the implementation of the fuel reduction activities in the Sierra Nevada, including the department's implementation of the statute guiding the fuel reduction activities. The Legislature may also consider requiring similar restrictions to the fuel reduction activities in Southern California.

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3600 Department of Fish and Game

Background. The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish, wildlife, and natural resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates fishing and hunting. The DFG currently manages about 850,000 acres including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

Governor's Budget. The Governor's budget proposes $298 million to support DFG in 2005-06. This is a 19 percent reduction from the current year primarily due to a reduction in the amount of bonds available for appropriation in the budget year. General Fund support for this department is approximately $37 million, which is nearly the same level of funding in the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Biodiversity Conservation Program	$189,090	$127,220	-$61,870	-32.7
Hunting, Fishing, and Public Use	44,524	45,642	1,118	2.5
Management of Lands and Facilities	45,617	43,570	-2,047	-4.5
Conservation Education and Enforcement	50,347	50,933	586	1.2
Spill Prevention and Response	32,914	30,694	-2,220	-6.7
Capital Outlay	2,848	0	-2,848	-100.0
Administration	33,233	33,756	523	1.6
less distributed administration	-33,233	-33,756	-523	0.0
Unallocated Reduction	-322	-569	-247	0.0
Total	$365,018	$297,490	-$67,528	-18.5
Funding Source				
General Fund	$37,839	$37,307	-$532	-1.4
Special Funds	153,090	143,059	-10,031	-6.6
Bond Funds	73,824	9,252	-64,572	-87.5
Budget Act Total	*264,753*	*189,618*	*-75,135*	*-28.4*
Federal Trust Fund	65,262	66,656	1,394	2.1
Reimbursements	32,470	38,819	6,349	19.6
Salton Sea Restoration Fund	2,529	2,392	-137	-5.4
Harbors and Watercraft Revolving Fund	5	5	0	0.0
Total	$365,019	$297,490	-$67,529	-18.5

Highlights

Budget Funds Marine Life Protection Act. The Governor has proposed $500,000 from the Environmental License Plate Fund to fund continued work on the design and management of marine protected areas statewide.

Additional Funding to Enhance Land Management. The budget provides $2.2 million from federal and bond funds for various projects to manage and enhance lands owned by the department. Federal funds will be used to fund erosion control and vegetation management on department-owned properties in San Diego County that pose a fire threat.

Funding for Fishing Programs. The Governor proposes $1.3 million to fund an expansion of the state's Fish Health Program that inspects imported fish and fish for planting into public waters to minimize the impact of diseases on native species. The budget also includes funding for a Central Valley angler survey that is needed to continue to allow recreational fishing in the presence of listed species on the federal Endangered Species Act.

Issues

Implementation of Marine Life Protection Act. The Governor has proposed funding to implement the Marine Life Protection Act (MLPA) that requires the development of a plan for establishing networks of marine protected areas in California's waters. The administration has formed a Blue Ribbon Task Force to prepare statewide guidelines for developing a marine protected area master plan, create a pilot project along the Central Coast, develop a funding strategy for long-term implementation of the MLPA, and make recommendations for improving the coordination of marine protected areas with federal activities. The Legislature may wish to follow-up on the status of the department's implementation of the MLPA, including a specific timeline for completing the plan for establishing a network of marine protected areas.

Problems with Streambed Alteration Permitting Program. The department is responsible for implementing a streambed alternation permitting program (1600 permits). The department has been critically under staffed to deal with the workload of this program. Permits often do not get adequate review before they are issued and processing of these permits can be significantly delayed. The department has statutory authority to recover its costs associated with processing these permits from the permit applicants. However, to date the department has been unsuccessful in recovering costs associated with this program. The Legislature may wish to evaluate actions that may assist the department in cost recovery efforts so that permits are reviewed adequately and processed in a timely manner.

Timber Harvest Plan Review Statewide. During 2004 budget hearings the department reported that it would no longer be able to review timber harvest plans in the Sierra Nevada due to budget reductions. The Legislature may wish to review the adequacy of funding to support the department's resources for reviewing timber harvest plans. The DFG's review of the plans is critical to maintaining this CEQA equivalent process.

3640 Wildlife Conservation Board

Background. The Wildlife Conservation Board (WCB) acquires property in order to protect and preserve wildlife and provide fishing, hunting, and recreational access facilities. The WCB is an independent board in the Department of Fish and Game and is composed of the Director of the Department of Fish and Game, the Director of the Department of Finance, and the Chairman of the Fish and Game Commission. In addition, three members of the Senate and three members of the Assembly serve an advisory capacity to the board.

Governor's Budget. The Governor's budget proposes $29 million for WCB in 2005-06, which is over a 95 percent reduction from the current year. This reduction is due to a significant reduction in the bond funds available for appropriation. General Fund support for this board is $200,000, which about the same level of funding as in the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
State Operations	$6,045	$6,122	$77	1.3
Capital Outlay	742,417	23,096	-719,321	-96.9
Unallocated Reduction	0	-3	-3	0.0
Total	$748,462	$29,215	-$719,247	-96.1
Funding Source				
General Fund	$200	$197	-$3	-1.5
Special Funds	35,000	6,220	-28,780	-82.2
Bond Funds	698,117	21,798	-676,319	-96.9
Budget Act Total	733,317	28,215	-705,102	-96.2
Reimbursements	10,144	1,000	-9,144	-90.1
Oak Woodlands Conservation Fund	5,000	0	-5,000	-100.0
Total	$748,461	$29,215	-$719,246	-96.1

Highlights

Habitat Conservation Fund Acquisitions. The Governor proposes $21 million for acquisition, restoration, and enhancement of habitat from the Habitat Conservation Fund. This funding is required by Proposition 117, the California Wildlife Protection Act of 1990 that among other things requires an annual General Fund transfer to the Habitat Conservation Fund unless other funding sources are available. The administration proposes to use Proposition 50 bond funds to satisfy this obligation in the budget year.

Issues

Tidelands Oil Revenues. During the 2004 budget process it was discovered that the administration had forecast a relatively low level of tidelands oil revenues based on oil prices at the time. The Legislature estimated that approximately $40 million in additional tidelands oil revenues would be available in 2004-05 and allocated a portion of these additional funds to the following priorities: (1) $500,000 to the Marine Life Protection Act; (2) $165 million to the General Fund; (3) $10 million to ocean projects and $2.7 million to parks projects in the City of Los Angeles; (4) $6.5 million for salmon and steelhead restoration; (5) $1.5 million for environmental review of stream flow requirements on mid-California coastal streams; and (6) $4 million for fish hatchery operations. Nevertheless, to date the administration has only allocated funding for the Marine Life Protection Act and the General Fund. The other legislative priorities may not be funded due to a successful appeal by the City of Long Beach to keep tidelands oil revenues owed to the state. Without this payment from the City of Long Beach, tidelands oil revenues may not be sufficient to fund all of the legislative priorities despite increases due to higher than expected oil prices. The Legislature may want to continue to pursue getting more tidelands oil revenues in the current year. However, additional funding sources for these activities should also be explored.

Conservation Easements. The Legislature may wish to review the use of conservation easements as a means for preserving open space and critical habitat. The WCB's Hearst Ranch acquisition that continues to be considered for final approval is one of the largest conservation easement transactions in the nation. This easement transaction has been the target of some criticism regarding the level of protection provided by the terms of the easement. The Legislature may wish to evaluate the use of conservation easements in preserving open space and critical habitat and consider actions that will strengthen the resource protection and the state oversight of conservation easements.

3680 Department of Boating and Waterways

Background. The Department of Boating and Waterways (DBW) is responsible for planning and developing boating facilities on waterways throughout California. It is also responsible for protecting the public's right to safe boating by providing subventions to local law enforcement agencies. The department is also responsible for boating safety and education, licensing yachts, aquatic weed control in the Sacramento-San Joaquin Delta, and beach erosion control along California's coast.

Governor's Budget. The Governor's budget proposes $72 million to support DBW, which is approximately the same level of funding estimated for expenditure in the current year. The department is not supported by the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Boating Facilities	$48,246	$51,145	$2,899	6.0
Boating Operations	15,921	16,056	135	0.8
Beach Erosion Control	1,238	1,417	179	14.5
Capital Outlay	6,432	3,380	-3,052	-47.5
Administration	2,327	2,338	11	0.5
less distributed administration	-2,327	-2,338	-11	0.0
Total	$71,837	$71,998	$161	0.2
Funding Source				
General Fund	$0	$0	$0	0.0
Abandoned Watercraft Abatement Fund	500	500	0	0.0
Budget Act Total	500	500	0	0.0
Federal Trust Fund	9,427	8,111	-1,316	-14.0
Reimbursements	1,015	1,015	0	0.0
Harbors and Watercraft Revolving Fund	60,895	62,372	1,477	2.4
Total	$71,837	$71,998	$161	0.2

Highlights

Funding Provided for Public Small Craft Harbor Loans. The Governor proposes $19 million in special funds for loans to develop marinas and expand and rehabilitate existing marinas.

Funding Provided for Launching Facility Grants. The Governor proposes $12 million in special funds for grants for the construction of launching ramps and other facilities used when launching boats.

Boating and Waterways Commission Proposed for Elimination. The Governor is proposing to eliminate the Boating and Waterways Commission as part of his Governor's Reorganization Plan #1 (GRP 1). The Boating and Waterways Commission advises the Department of Boating and Waterways and provides consent of all the loans and grants made by the department to boating facilities. The GRP 1 proposes to transfer the activities of the board to DBW.

3720 California Coastal Commission

Background. The California Coastal Commission, following its initial creation in 1972 by a voter initiative, was permanently established by the State Coastal Act of 1976. In general, the act seeks to protect the state's natural and scenic resources along California's coast. It also delineates a "coastal zone" running the length of California's coast, extending seaward to the state's territorial limit of three miles, and extending inland a varying width from 1,000 yards to several miles. The commission's primary responsibility is to implement the act's provisions. It is also the state's planning and management agency for the coastal zone. The commission's jurisdiction does not include the San Francisco Bay Area, where development is regulated by the San Francisco Bay Conservation and Development Commission.

Governor's Budget. The Governor's budget proposes $15.5 million to support the commission in the budget year. This is approximately the same level of funding as estimated for expenditure in the current year. General Fund support for this program is approximately the same level as estimated for expenditure in 2004-05.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Coastal Management Program	$14,876	$14,751	-$125	-0.8
Coastal Energy Program	906	797	-109	-12.0
Administration	1,633	1,619	-14	-0.9
less distributed administration	-1,514	-1,538	-24	0.0
Unallocated Reduction	0	-152	-152	0.0
Total	$15,901	$15,477	-$424	-2.7
Funding Source				
General Fund	$9,797	$9,801	$4	0.0
Special Funds	1,362	1,360	-2	-0.1
Budget Act Total	11,159	11,161	2	0.0
Federal Trust Fund	3,020	3,032	12	0.4
Reimbursements	1,723	1,284	-439	-25.5
Total	$15,902	$15,477	-$425	-2.7

Issues

Improving Coastal Access and Development Mitigation. The Legislative Analyst's Office has found that some of the California Coastal Commission's permitting practices have temporarily and may permanently reduce the public's access to the coast. Specifically, they have found that the commission's tracking and reporting of "offers to dedicate" (OTD) could be improved. An OTD is a condition placed on a development permit in the coastal zone as mitigation for a particular development. Many OTDs provide public access to the beach or may set aside environmentally sensitive areas. However, many of these OTDs have not been accepted by the state or other entity and are unavailable for public use. An OTD is typically available to develop for a period of 21 years and many OTDs are set to expire without the full benefits of this mitigation measure being realized by the state. The Analyst's makes several recommendations for addressing the backlog of OTDs many of which are getting set to expire in the next few years, as well as improving future coastal development mitigation. The Analyst's recommendation includes increasing the commission's current fee structure to bring it more in line with permit fees at other local permitting agencies. Additional funding would help cover the costs of developing more OTD properties so that the state can benefit from these mitigation measures.

3760 State Coastal Conservancy

Background. The State Coastal Conservancy (SCC) is authorized to acquire land, undertake projects, and award grants for the purposes of (1) preserving agricultural land and significant coastal resources, (2) consolidating subdivided land, (3) restoring wetlands, marshes, and other natural resources, (4) developing a system of public accessways, and (5) improving coastal urban land uses. In general, the projects must conform to California Coastal Act policies and be approved by the conservancy governing board.

Governor's Budget. The Governor's budget proposes $69 million to support SCC in the budget year. This is approximately $217 million less than estimated for expenditure in the current year due to a reduction in the amount of bond funding available for appropriation. The SCC is not supported by the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Coastal Resource Development	$4,659	$4,744	$85	1.8
Coastal Resource Enhancement	3,335	4,610	1,275	38.2
Capital Outlay	278,260	59,577	-218,683	-78.6
Administration	2,905	3,174	269	9.3
less distributed administration	-2,905	-3,174	-269	0.0
Total	$286,254	$68,931	-$217,323	-75.9
Funding Source				
General Fund	$0	$0	$0	0.0
Special Funds	12,925	2,050	-10,875	-84.1
Bond Funds	236,894	57,248	-179,646	-75.8
Budget Act Total	249,819	59,298	-190,521	-76.3
Federal Trust Fund	4,415	2,125	-2,290	-51.9
Reimbursements	27,065	1,920	-25,145	-92.9
State Coastal Conservancy Fund	4,954	5,588	634	12.8
Total	$286,253	$68,931	-$217,322	-75.9

Highlights

California Ocean Protection Act Funded. The Governor proposes $1.2 million from the Environmental License Plate Fund to support the California Ocean Protection Council created by Chapter 719, Statutes of 2004 (SB 1319, Burton). This council will be responsible for coordinating activities of state agencies that are related to the protection and conservation of coastal waters and ocean ecosystems and improving the effectiveness of state efforts to protect ocean resources.

3790 Department of Parks and Recreation

Background. The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

Governor's Budget. The Governor's budget proposes $430 million for DPR in 2005-06, which is a 60 percent reduction from expenditure levels in the current year. This decrease is due to a reduction in the bond funds available for park projects in the budget year. General Fund support for DPR is proposed to increase by 16 percent in the budget year due to additional funding to implement the American's with Disabilities Act transition plan and employee compensation increases.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Support of the Department of Parks and Recreation	$299,803	$337,503	$37,700	12.6
Local Assistance Grants	461,166	44,087	-417,079	-90.4
Capital Outlay	305,063	49,643	-255,420	-83.7
Unallocated Reduction	0	-1,567	-1,567	0.0
Total	$1,066,032	$429,666	-$636,366	-59.7
Funding Source				
General Fund	$86,768	$100,976	$14,208	16.4
Special Funds	255,426	208,309	-47,117	-18.4
Bond Funds	612,948	52,805	-560,143	-91.4
Budget Act Total	955,142	362,090	-593,052	-62.1
Federal Trust Fund	70,952	29,052	-41,900	-59.1
Reimbursements	39,221	37,575	-1,646	-4.2
Harbors and Watercraft Revolving Fund	717	689	-28	-3.9
California Missions Foundation Fund	0	260	260	0.0
Total	$1,066,032	$429,666	-$636,366	-59.7

Highlights

American Disabilities Act Implementation. The Governor's budget includes $11.2 million General Fund to continue implementation of the American's with Disabilities Act (ADA) transition plan. This is year four of the multi-year effort to modify park properties to comply with ADA.

Funding for Hearst Acquisition. The Governor's budget includes $1.3 million General Fund for staffing and operating expenses to provide management and protection to the 800 acres west of Highway 1 that will be owned by the state as part of the Hearst Ranch acquisition. Funds would also be used to cover costs associated with allowing public access on conservation easement areas of the coast that are not owned by the state including San Simeon Point and Ragged Point.

Increased Parks Fees to Pay for Water Infrastructure Upgrades. The Governor proposes to raise state park fees to cover costs associated with upgrading outdated water and wastewater systems at various state park facilities. These upgrades are required to comply with state water quality and drinking water requirements.

Stanford Mansion Opens for Business. The Governor proposes $1.8 million in reimbursement funding for the department to operate the newly restored Stanford mansion, including providing resource protection, public access, educational tours, and protocol events for the Governor and Legislature.

Off-Highway Motor Vehicle Recreational Commission Proposed for Elimination. The Governor is proposing to eliminate the Off-Highway Motor Vehicle Recreational Commission as part of his Governor's Reorganization Plan #1 (GRP 1). The commission was created by the Legislature in 1982 to allow public input and provide policy guidance for the OHV program. The Commission's duties include: allocating funds for OHV capital outlay expenditures and OHV grants and cooperative agreements; certifying environmental impact reports; and considering adverse impacts on property in the vicinity of State Vehicle Recreation Areas, and recommending measures to the Division to reduce those impacts. The GRP 1 proposes to transfer the activities of the commission to DPR.

Recreational Trails Committee Proposed for Elimination. The Governor is proposing to eliminate the Recreational Trails Committee as part of his Governor's Reorganization Plan #1 (GRP 1). The committee advises the Director of DPR on the preparation and maintenance of a statewide system of recreational trails, coordinates trail planning and development throughout the state, and studies the utilization of various lands for recreational trail use. The GRP 1 proposes to transfer the activities of the committee to DPR.

Issues

Funding Ongoing Maintenance at State Parks. The state parks system has been greatly expanded over the past few years due to resources bond funds that have allocated millions of dollars for new property acquisition. However, while there have been significant bond funds to buy new properties there has been less funding available for ongoing maintenance and operations of the state parks. The Legislature may wish to evaluate different options for funding ongoing maintenance of the state park system so that generations of Californian's can enjoy the facilities.

Fee Program Report. The administration proposed a radically new park fee structure as part of the 2004-05 budget. This new fee structure was based on market mechanisms so that fees at parks that were in highest demand were increased more in proportion to less popular parks. The department also proposed to manage the fee schedule dynamically to adjust for changes in the market for recreation and the parks system. The Governor's 2005-06 budget includes a proposal to increase the fees by an additional $7 million to cover maintenance costs to water systems at several of the state parks. The Legislature requested the department to report on the results of implementing this new approach to fees as part of the 2004-05 budget. The Legislature may wish to evaluate this report and determine whether the new approach to fees is working without negative consequences.

3860 Department of Water Resources

Background. The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department maintains the State Water Resources Development System, including the State Water Project. The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and water projects. The department is also a major implementing agency for the CALFED Bay-Delta Program, which is putting in place a long-term solution to water supply reliability, water quality, flood control, and fish and wildlife problems in the San Francisco Bay/Sacramento-San Joaquin Delta Estuary.

Additionally, the department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts. (More on the CERS division of DWR is included in the Energy section of this report.)

Governor’s Budget. The Governor’s budget proposes $6.4 billion for DWR in the budget year, which is about 4 percent less than estimated for expenditure in 2004-05. This reduction is due to a lower level of energy expenditures in the budget year. General Fund spending for the department is proposed at $113 million, which is a 160 percent increase over the current year level. This large increase is due to an increase in funding to reimburse local governments for the lining of the All-American canal and augmentations to the department’s flood management programs.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
California Water Plan	$300,289	$335,912	$35,623	11.9
State Water Project Infrastructure	261,388	262,134	746	0.3
Public Safety and Prevention of Damage	76,869	93,269	16,400	21.3
Services	5,766	7,205	1,439	25.0
California Energy Resources Scheduling	5,671,248	5,339,741	-331,507	-5.8
Capital Outlay	308,686	319,354	10,668	3.5
Administration	63,700	63,700	0	0.0
less distributed administration	*-63,700*	*-63,700*	*0*	*0.0*
Loan Repayment Program	-4,013	-4,013	0	0.0
Unallocated Reduction	0	-576	-576	0.0
Total	$6,620,233	$6,353,026	-$267,207	-4.0
Funding Source				
General Fund	$43,029	$112,951	$69,922	162.5
Special Funds	9,785	9,857	72	0.7
Bond Funds	320,021	313,741	-6,280	-2.0
Budget Act Total	*372,835*	*436,549*	*63,714*	*17.1*
Federal Trust Fund	11,430	11,900	470	4.1
State Water Project Funds	528,176	533,731	5,555	1.1
DWR Electric Power Fund	5,670,759	5,339,741	-331,018	-5.8
Bosco-Keene Renewable Resources Investment Fund	20	0	-20	-100.0
Reimbursements	37,013	31,105	-5,908	-16.0
Total	$6,620,233	$6,353,026	-$267,207	-4.0

Highlights

Proposal to Finance Litigation Settlement with Bonds. The Governor proposes to finance a pending $464 million General Fund settlement of flood-related litigation (*Paterno* v. *State of California*) against the state by issuing a judgment bond in the budget year. The debt service on the bond would be funded from the General Fund beginning in 2006-07. Both the settlement and the terms of this bond have not been finalized and implementing trailer bill legislation is anticipated to authorize the bond. Judgment bonds have never been issued to finance judgment obligations by the state, but they have been used by local governments.

Expansion of Flood Management Programs. The Governor's budget proposes first year funding of a multi-year plan to improve flood management in California and reduce state liability associated with the Sacramento and San Joaquin flood control projects. The plan includes $9.7 million General Fund for flood project maintenance, system reevaluation and rehabilitation, emergency response, and floodplain management. In addition, the administration has also issued a white paper proposing actions to address the potential flood liabilities facing the state. The paper proposes to examine flood insurance requirements and consider the creation of a California flood insurance fund. The administration also proposes the creation of a Central Valley flood control assessment district with the authority to assess fees to provide adequate flood control protection for regional participants. Finally, the Governor recommends exempting flood control projects from inverse condemnation liability and exempting local flood control districts from the Proposition 218 two-thirds voting requirement.

Funds Allocated to Line All-American Canal. The Governor's budget includes $59 million General Fund to reimburse local water districts for costs associated with lining the All-American Canal. State funding for this activity was part of the Quantification Settlement Agreement related to reducing California's dependence on the Colorado River.

Additional Bond Funds Proposed for Expenditure. The Governor proposes allocation of $165.5 million in bond funds from Propositions 13, 50, and 204 resources bonds. These bond funds are for state operations to implement specified projects and local assistance grant programs. The bond funds are allocated to the following programs consisted with allocations specified in the bond acts.

- Integrated Regional Water Management Grants ($47.9 million Proposition 50).
- CALFED Water Use Efficiency Program ($34 million Proposition 50).
- Desalination Grant Program ($21.3 million Proposition 50).
- Yuba Feather Flood Protection Program ($21 million Proposition 13).
- Drinking Water Quality—Pilot Projects ($11.7 million Proposition 50).
- CALFED Surface Storage ($10.6 million Proposition 50).
- Sacramento Valley Water Management Program ($8.5 million Proposition 204).
- CALFED Water Supply Reliability ($7 million Proposition 50).
- CALFED Conveyance Program—South Delta Hydrodynamic Investigation ($1 million Proposition 13).
- CALFED Watershed Grant Program ($857,000 Proposition 50).
- CALFED Conveyance Program—South Delta Fish Facility Improvements ($800,000 Proposition 50).

- CALFED Conveyance Program—Tracy Fish Test Facility ($712,000 Proposition 50).
- Floodplain Mapping ($254,000 Proposition 50).

Additional Bond Funds for South Delta Improvement Program. The Governor proposes $26.6 million from Proposition 13 for the final design and construction costs for the South Delta Improvement Program.

Funding for Central Valley Flood Projects. The Governor proposes $16.7 million General Fund for various capital outlay flood control projects in the Sacramento and San Joaquin Valleys. Funding is allocated for the following projects:

- South Sacramento County Streams ($4.3 million).
- Sacramento River Bank Protection Project ($5.6 million).
- American River Common Features Project ($3.6 million).
- Terminus Dam, Lake Kaweah Project ($2.8 million).
- Various Real Estate Transactions ($401,000).

State Reclamation Board Proposed for Elimination. The Governor is proposing to eliminate the State Reclamation Board as part of his Governor's Reorganization Plan #1 (GRP 1). The Board is responsible for flood management in the Central Valley (along the Sacramento and San Joaquin rivers). The Central Valley has the most extensive flood management system in the state since the entire valley floor regularly flooded before its development. The SRB administers a permit and enforcement program for development within the Central Valley's floodplains. The GRP 1 proposes to transfer the activities of the board to DWR.

California Water Commission Proposed for Elimination. The Governor is proposing to eliminate the California Water Commission as part of GRP 1. The commission reports to the DWR director in an advisory role. Statute requires the commission to approve the department's regulations, and hold hearings and make recommendations regarding State Water Project development. The commission's main activity in more recent years has been to lobby on behalf of the state for federal appropriations. The GRP 1 proposes to transfer the activities of the commission to DWR.

Issues

Funding Flood Management Activities. The administration has put forward several recommendations for improving the state's ability to fund flood control in the Central Valley over the long-term. The Legislature should evaluate these and other options carefully to put in place a more rational funding structure for flood management statewide and especially in the Central Valley. *Paterno* v. *State of California* has made the state potentially liable for damages resulting from any levee failure within the Sacramento River flood control area. This is a huge financial liability that the state is currently not equipped to finance. Furthermore, there is a rising risk of levee failure as the system continues to age and maintenance programs are badly under-funded. The potential impacts on people and property of even a single failure are large. For example, the recent levee break on the Upper Jones track cost the state nearly $100 million to repair and it mainly impacted agricultural land. The costs would be substantially more if one of the growing urban communities in the Central Valley were inundated by a levee break. The administration has recommended ten strategies for dealing with California's flood crisis. The Legislature will want to evaluate these strategies along with other alternatives and enact a rational strategy for funding flood management for the short and long term in order to avoid disasters that would cost the state far more to deal with.

3870 California Bay-Delta Authority

Background. Pursuant to a federal-state accord signed in 1994, CALFED was administratively created as a consortium of state and federal agencies that have regulatory authority over water and resource management responsibilities in the Bay-Delta region. The CALFED program now encompasses 12 state and 13 federal agencies. The objectives of the program are to (1) provide good water quality for all uses; (2) improve fish and wildlife habitat; (3) reduce the gap between water supplies and projected demand; and (4) reduce the risks from deteriorating levees.

After five years of planning, CALFED began to implement programs and construct projects in 2000. The program's implementation—which is anticipated to last 30 years—is guided by the "Record of Decision" (ROD). The ROD represents the approval of the lead CALFED agencies of the final environmental review documents for the CALFED "plan." Among other things, the ROD lays out the roles and responsibilities of each participating agency, sets goals for the program and types of projects to be pursued, and includes an estimate of the program's costs for its first seven years. In the ROD, these costs are projected to total $8.5 billion for the program's first seven years (2000-01 through 2006-07). This amount has recently been revised upward to $9.2 billion.

The California Bay-Delta Authority (CBDA) oversees the CALFED program. Among the duties of CBDA are the annual review and approval of long-term expenditure plans of the implementing agencies and the preparation of a comprehensive program budget proposal.

Governor's Budget. The Governor's budget proposes $37 million to support BDA in 2005-06, which is $128 million less than estimated expenditure levels in the current year. This decrease is primarily due to the reduction in bond funds available for appropriation.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
CALFED Program	$165,099	$36,691	-$128,408	-77.8
Unallocated Reduction	0	-132	-132	0.0
Total	$165,099	$36,559	-$128,540	-77.9
Funding Source				
General Fund	$8,437	$8,522	$85	1.0
Bond Funds	135,136	11,151	-123,985	-91.7
Budget Act Total	*143,573*	*19,673*	*-123,900*	*-86.3*
Federal Trust Fund	5,000	0	-5,000	-100.0
Reimbursements	16,526	16,886	360	2.2
Total	$165,099	$36,559	-$128,540	-77.9

CALFED Program Proposal. The Governor proposes $150 million to fund the CALFED program in the budget year. This is 63 percent less than estimated for expenditure in 2004-05. The decrease is primarily due to a reduction in bond funds available for appropriation. In addition, federal funds have not been budgeted for the 2006 fiscal year and the CALFED's 10-year financing plan has scaled back planned funding for the program. The table below provides a summary of the entire CALFED program, including funding by program element, state department, and fund source.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Expenditures by Program Elements				
Ecosystem Restoration	$101,076	$28,390	-$72,686	-71.9
Environmental Water Account	32,526	27	-32,499	-99.9
Water Use Efficiency	35,176	47,220	12,044	34.2
Water Transfers	604	604	0	0.0
Watershed	28,612	4,736	-23,876	-83.4
Water Quality	17,389	3,186	-14,203	-81.7
Levees	21,778	18,805	-2,973	-13.7
Storage	105,282	271	-105,011	-99.7
Conveyance	34,868	28,024	-6,844	-19.6
Science	21,871	9,676	-12,195	-55.8
Water Supply Reliability	1,834	1,834	0	0.0
Oversight and Coordination	7,407	7,493	86	1.2
Total	$408,423	$150,266	-$258,157	-63.2
Expenditures by Department				
Department of Water Resources	$274,864	$120,028	-$154,836	-56.3
California Bay-Delta Authority	31,102	19,673	-11,429	-36.7
State Water Resources Control Board	23,532	1,179	-22,353	-95.0
Department of Fish and Game	75,276	5,828	-69,448	-92.3
Department of Forestry and Fire Protection	240	150	-90	-37.5
Department of Conservation	3,321	3,321	0	0.0
San Francisco Bay Conservation Development Commission	88	88	0	0.0
Total	$408,423	$150,267	-$258,156	-63.2
Expenditures by Fund Source				
General Fund	$11,970	$12,055	$85	0.7
Proposition 204	1,575	6,649	5,074	322.2
Proposition 13	145,496	47,621	-97,875	-67.3
Proposition 50	207,254	70,819	-136,435	-65.8
State Water Project	40,004	10,959	-29,045	-72.6
Other State Funds	2,124	2,164	40	1.9
Federal Funds	56,495	0	-56,495	-100.0
Total	$464,918	$150,267	-$314,651	-67.7

Highlights

Budget Includes Framework for 10-Year Financing Plan. The Governor's budget includes a 10-year finance plan for the CALFED Bay-Delta Program. This plan reduces dependency on the General Fund and calls for new revenue sources to support the program. The plan identifies priorities, funding needs and beneficiaries for all CALFED activities. The plan calls for a reduction in the overall size of the program for the next 10 years and reduces average annual program costs from $1.3 billion to $807 million. The state's overall contribution is reduced from 59 percent to 30 percent over the 10-year period and the federal contribution is increased from 7 percent to 21 percent. The water user and local contribution are also proposed to increase from 33 percent to 49 percent and the plan identifies potential water user fees to support this increase. The funding allocations proposed in the Governor's 10-year financing plan are summarized below.

10-Year Funding Allocations by Beneficiary (dollars in millions)	State	Federal	Water Users	Local Match	Total Funding
Program Element					
Ecosystem Restoration	$542	$408	$400	$150	$1,500
Environmental Water Account	180	135	123	0	438
Water Use Efficiency	575	530	0	2,048	3,153
Water Transfers	6	0	0	0	6
Watershed	196	161	0	66	423
Water Quality	81	72	17	106	276
Levees	186	175	32	53	446
Storage	292	36	9	750	1,087
Conveyance	109	6	71	0	186
Science	167	151	109	10	437
Oversight and Coordination	74	47	0	0	121
Total Dollars	$2,408	$1,721	$761	$3,183	$8,073
Total Percentage	30%	21%	9%	39%	100%

The Governor's budget proposal does not include specific legislative proposals to implement new water user fees and other financing mechanisms that may need legislative action. The administration plans on submitting the details on implementation of their proposal in the Governor's May Revision.

Issues

10-Year Financing Plan Needs Legislative Review. This plan represents the first real step in putting forward a more sustainable plan for financing the CALFED program. This plan reduces reliance on state funds for support of the program and also implements to some extent the beneficiary pays philosophy. This plan represents a big step towards implementing the Record of Decision and funding the program based on the beneficiary pays principle. Nevertheless, the Legislature will want to evaluate the allocation of benefits among the different beneficiaries and how the different elements of the plan will be funded. Specifically, the Legislature may want to evaluate the proposed timing of user contributions to the CALFED program and whether other priorities should be included in the CALFED program. In addition, the Legislature needs to address a plan for prioritizing expenditures if federal funds are not realized on the schedule envisioned by the 10-year financing plan. Furthermore, the Legislature will need to review the administration's proposals for user fees when they are released in May.

Science Program Report. The Legislature requested BDA to prepare a report on a plan to develop a research agenda to determine the amount of water needed for the full recovery of delta dependent fish species. The Legislature may wish to review this report and determine whether the science program has a viable plan for making these determinations.

Regional Conservancies

Background. In order to promote the conservation of its land resources, the state has created eight regional conservancies that acquire and protect undeveloped lands in specific regions of the state. The conservancies are departments, located within the Resources Agency, which are charged with among other things, acquiring land in specified geographical areas in order to advance specified goals. While the particular statutory goals of each conservancy differ, in general the conservancies were created to protect certain vital land resources that were endangered by development or other threats.

Governor's Budget. The Governor's budget proposes $54 million for the state's eight regional conservancies. This is 55 percent less than estimated expenditures in the current year due to a reduction in the amount of bond funds available for appropriation.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
3125 - California Tahoe Conservancy	$37,655	$24,820	-$12,835	-34.1
3810 - Santa Monica Mountains Conservancy	29,667	10,217	-19,450	-65.6
3825 - San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy	13,185	5,015	-8,170	-62.0
3830 - San Joaquin River Conservancy	359	374	15	4.2
3835 - Baldwin Hills Conservancy	25,812	9,065	-16,747	-64.9
3845 - San Diego River Conservancy	490	274	-216	-44.1
3850 - Coachella Valley Mountains Conservancy	10,890	505	-10,385	-95.4
3855 - Sierra Nevada Conservancy	0	3,357	3,357	0.0
Total	$118,058	$53,627	-$64,431	-54.6

Highlights

Initial Funding Provided for Sierra Nevada Conservancy. The Governor proposes to fund start-up activities for the new Sierra Nevada Conservancy created by Chapter 726, Statutes of 2004 (AB 2600, Laird/Leslie). The Governor proposes $3.4 million from the Environmental License Plate Fund to support these activities.

ENVIRONMENTAL PROTECTION

Overview

Background. The California Environmental Protection Agency (Cal-EPA) is charged with implementing federal and state environmental quality standards. This is done through regulatory programs and incentive programs that seek to improve the quality of the environment for all Californians. The Cal-EPA is led by the Secretary for Environmental Protection and the agency oversees the following boards, departments, and offices.

Boards:

- Air Resources Board
- Integrated Waste Management Board
- State Water Resources Control Board (including the nine Regional Water Quality Control Boards)

Departments:

- Department of Pesticide Regulation
- Department of Toxic Substances Control

Offices:

- Office of Environmental Health Hazard Assessment

Governor's Budget. The Governor's budget proposes $1.2 billion to support Cal-EPA in 2005-06. The Governor's proposal is 14 percent less than the level of expenditures estimated in the current year primarily due to a reduction in resources bond funds available for appropriation. The General Fund support for the agency has been reduced by $4.7 million primarily due to the unallocated reductions proposed by the administration and a one-time General Fund outlay in the current year related to the state's takeover of a toxic landfill in Southern California.

Total State Fund Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
State Operations	$833,467	$978,733	$145,266	17.4
Local Assistance	556,698	215,995	-340,703	-61.2
Capital Outlay	900	0	-900	-100.0
Total	$1,391,065	$1,194,728	-$196,337	-14.1
Funding Source				
General Fund	$73,562	$68,903	-$4,659	-6.3
Special Funds	799,640	947,391	147,751	18.5
Bond Funds	517,863	178,434	-339,429	-65.5
Total	$1,391,065	$1,194,728	-$196,337	-14.1

Issues

Oversight of Enforcement. A recent news report spotlighting inaction by regulators in response to repeated water quality violations by the Hilmar Cheese Factory has raised questions about the effectiveness of the state's environmental enforcement activities. The Legislature and the administration spend a tremendous amount of time crafting laws and regulations that seek to improve environmental conditions, but without adequate enforcement these regulations do not meet their intended goals. The Legislature may want to spend some time surveying the adequacy of the state's enforcement resources and the effectiveness of the state's enforcement programs.

Unallocated Reductions. The Governor is proposing unallocated General Fund reductions as part of the budget proposal. The administration is directing department heads to determine the best way to make the reductions internally. Therefore, no details have been provided on what specific programs are being impacted as a result of the unallocated budget reductions. Approximately $1.1 million General Fund is proposed for reduction across all of the Cal-EPA boards, departments, and offices for the current year and budget year combined. This is about 2 percent of Cal-EPA's General Fund budget proposed for 2005-06. Across the board reductions reduce legislative oversight since the Legislature does not participate or oversee the reductions made internally. The Legislature may wish to request that the administration report on the programs it plans to reduce as part of the unallocated reductions.

Governor's Reorganization Plan #1 (GRP 1). The Governor has proposed an executive reorganization plan that has been submitted to the Little Hoover Commission. The reorganization plan calls for the elimination of the Integrated Waste Management Board within Cal-EPA. The plan would transfer the activities of the board to a designee of the Secretary for Environmental Protection. The Legislature will want to evaluate the pros and cons of an independent board versus a department in evaluating the Governor's plan. The independence of a board can help ensure that mandates are achieved even when there are legislative or administration pressures to do otherwise. On the other hand, a department structure is generally more accountable to the administration and the Legislature than is a board structure. However, there is often less public accountability with a department since many department actions are not subject to public hearing processes. The Legislature will want to evaluate this and other factors in evaluating the merits of GRP 1.

0555 Secretary for Environmental Protection

Background. The Secretary for Environmental Protection heads the California Environmental Protection Agency (Cal-EPA). The secretary is responsible for overseeing and coordinating the activities of the boards, departments, and office under the jurisdiction of Cal-EPA.

Governor's Budget. The Governor's budget proposes $8.5 million to support the Secretary for Environmental Protection. This is approximately the same level of funding than is estimated for expenditure in the current year. General Fund support for this office is proposed to remain about the same as the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Administration	$8,347	$8,549	$202	2.4
Unallocated Reduction	0	-21	-21	0.0
Total	$8,347	$8,528	$181	2.2
Funding Source				
General Fund	$1,325	$1,321	-$4	-0.3
Special Funds	2,740	3,816	1,076	39.3
Budget Act Total	*4,065*	*5,137*	*1,072*	*26.4*
Reimbursements	2,021	1,000	-1,021	-50.5
State Water Quality Control Fund	111	117	6	5.4
Environmental Enforcement and Training Account	2,000	2,124	124	6.2
Environmental Education Account	150	150	0	0.0
Total	$8,347	$8,528	$181	2.2

Issues

Consolidation of Administrative Functions. Legislation was enacted as part of the budget process in 2004-05 to consolidate administrative functions within the Environmental Protection Agency. Specifically, the legislation sought to streamline and consolidate various administrative functions to reduce overlap and duplication of activities. Specifically, the legislation enacted sought to consolidate information technology, fee collection, procurement of basic office supplies, and generic human resource functions. The legislation also sought a consolidation of special fund sources that could be combined. The Legislature may wish to follow up on the implementation of this legislation by the administration.

3900 Air Resources Board

Background. The Air Resources Board (ARB), along with 35 local air pollution control and air quality management districts, protects the state's air quality. The local air districts regulate *stationary sources* of pollution and prepare local implementation plans to achieve compliance with federal and state standards. The ARB is responsible primarily for the regulation of *mobile sources* of pollution and for the review of local district programs and plans. The ARB also establishes air quality standards for certain pollutants, administers air pollution research studies, and identifies and controls toxic air pollutants.

Governor's Budget. The Governor's budget proposes $237 million to support the ARB in 2005-06. This proposal is a 42 percent increase from the current year primarily due to the expansion of the Carl Moyer program following legislation enacted in 2004 and augmentations to various air programs to reduce particulate emissions and NAFTA related pollution. General Fund support for ARB remains relatively unchanged in the budget year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Mobile Source	$118,247	$183,946	$65,699	55.6
Stationary Source	38,842	42,797	3,955	10.2
Subvention	10,111	10,111	0	0.0
Administration	11,481	11,571	90	0.8
less distributed administration	*-11,481*	*-11,571*	*-90*	*0.0*
Unallocated Reduction	0	-34	-34	0.0
Total	$167,200	$236,820	$69,620	41.6
Funding Source				
General Fund	$2,224	$2,211	-$13	-0.6
Special Funds	149,201	218,133	68,932	46.2
Budget Act Total	*151,425*	*220,344*	*68,919*	*45.5*
Federal Trust Fund	11,826	12,006	180	1.5
Reimbursements	3,950	4,470	520	13.2
Total	$167,201	$236,820	$69,619	41.6

Highlights

Budget Implements Legislation to Expand Carl Moyer Air Quality Program. The Governor proposes $25 million special funds to implement Chapter 707, Statutes of 2004 (AB 923, Firebaugh), which increases the tire fee to provide additional funding to the Carl Moyer program. The budget also reflects full-year funding ($60.1 million special funds) for the Carl Moyer program provided from an increase in the smog check exemption fee enacted as part of the 2004-05 budget.

Budget Funds Programs to Address Fine Particulate Matter. The Governor proposes $8.6 million special funds to implement programs to reduce the public's exposure to fine and ultra-fine particulate matter (PM2.5). The programs include the development and implementation of already identified control measures to achieve needed emission reductions for PM2.5 State Implementation Plans and reduce public exposure to diesel particulate matter. The programs also includes the preparation of PM2.5 State Implementation Plans that will set forth the additional types of sources of PM2.5 and the level of control that is required to attain the federal standards.

Funds Expansion of NAFTA Vehicle Emission Reduction Program. The Governor proposes $3.7 million special funds to expand the Heavy-Duty Vehicle Inspection Program along the California-Mexico border area and the Port of Long Beach/Los Angeles. The funding will provide for the collection and analysis of data on Mexican fleet characteristics, fuel properties, and regional travel. The expanded program will add 16 new positions that will conduct random roadside inspections along the border region and full-time inspections at the Port of Long Beach/Los Angeles which is the expected destination of many of these trucks.

Expansion of Mobile Source Program. The Governor proposes $3.5 million special funds to meet increased workload demand in the mobile source regulatory program. This increase would add more staff to the mobile source certification and testing programs, vapor recovery rule development and certification, small off-road engine certification, cargo tanks development of control measures, and portable equipment registration programs.

3910 Integrated Waste Management Board

Background. The California Integrated Waste Management Board (CIWMB), in conjunction with local agencies, is responsible for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. The CIWMB administers various programs that promote waste reduction and recycling, with particular programs for waste tire and used oil recycling. The board also regulates landfills through a permitting, inspection, and enforcement program that is mainly carried out by local enforcement agencies that are certified by the board. In addition, CIWMB oversees the cleanup of abandoned solid waste sites.

Governor's Budget. The Governor's budget proposes $190 million to support CIWMB in the budget year. This is approximately 27 percent more than in the current year due to full-year costs associated with the E-Waste Recycling program. The board does not receive any General Fund support.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Permitting	$153,836	$195,072	$41,236	26.8
Administration	8,835	8,924	89	1.0
less distributed administration	*-8,835*	*-8,924*	*-89*	*0.0*
less loan repayments	*-4,297*	*-4,667*	*-370*	*0.0*
Total	$149,539	$190,405	$40,866	27.3
Funding Source				
Special Funds	$145,961	$189,711	$43,750	30.0
Bond Funds	140	142	2	1.4
Budget Act Total	*146,101*	*189,853*	*43,752*	*29.9*
Special Deposit Fund	3,235	345	-2,890	-89.3
Reimbursements	204	207	3	1.5
Total	$149,540	$190,405	$40,865	27.3

Highlights

Integrated Waste Management Board Proposed for Elimination. The Governor has proposed to eliminate the Integrated Waste Management Board as part of the Governor's Reorganization Proposal #1. The Governor proposes to transfer the board's activities to a designee of the Secretary for Environmental Protection.

Issues

E-Waste Recycling Program Implementation. The Waste Board, in conjunction with the Department of Toxic Substances Control and the Board of Equalization (BOE), has been working on the implementation of Chapter 526, Statutes of 2003 (SB 20, Sher) over the past year. There have been many problems with implementation of this program, including BOE's ability to register retailers and collect fees in a timely manner. The Legislature may wish to follow up on the implementation of this program, including any problems incurred in implementing the statute.

3930 Department of Pesticide Regulation

Background. The Department of Pesticide Regulation (DPR) administers programs to protect the public health and the environment from unsafe exposures to pesticides. The department (1) evaluates the public health and environmental impact of pesticides use; (2) regulates, monitors, and controls the sale and use of pesticides in the state; and (3) develops and promotes the use of reduced-risk practices for pest management. The department is funded primarily by an assessment on the sale of pesticides in the state.

Governor's Budget. The Governor's budget proposes $62 million to support DPR in 2005-06, which is approximately the same level of expenditures as in the current year. The department does not receive any General Fund support.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Registration and Health Evaluation	$17,126	$18,117	$991	5.8
Pest Management and Environmental Activities	42,992	43,780	788	1.8
State-Mandated Local Programs	1	157	156	15600.0
Administration	8,342	8,234	-108	-1.3
less distributed administration	*-8,342*	*-8,234*	*108*	*0.0*
Total	$60,119	$62,054	1,935	3.2
Funding Source				
General Fund	$1	$0	-1	-100.0
Special Funds	57,472	59,381	1,909	3.3
Budget Act Total	*57,473*	*59,381*	*1,908*	*3.3*
Federal Trust Fund	2,167	2,194	27	1.2
Reimbursements	479	479	0	0.0
Total	$60,119	$62,054	$1,935	3.2

Issues

Under-Collection of the Mill Assessment. The DPR recently completed an audit of Long's Drug Stores and found that nonpayment of the mill on pesticide products legally registered in California was common. In addition, illegal sale of nonregistered pesticide products was also common statewide. The DPR estimates that the mill assessment is not assessed on $200 million in registered consumer pesticides annually. This amounts to a loss of $4 million a year in mill assessments on the sale of registered products at the current mill rate. The mill losses are even larger if unregistered products found in the audit are included. The Legislature may wish to investigate this issue further and take action that would result in the collection of the mill on pesticides products sold by large chain outlets statewide. The mill fee is the primary funding source for DPR and is used to fund important programs that evaluate the public health and environmental impact of pesticide use and to regulate the industry.

3940 State Water Resources Control Board

Background. The State Water Resources Control Board (SWRCB), in conjunction with nine semi-autonomous regional boards, regulates water quality in the state. The regional boards—which are funded by the state board and are under the state board's oversight—implement water quality programs in accordance with policies, plans, and standards developed by the state board.

The board carries out its water quality responsibilities by (1) establishing wastewater discharge policies and standards; (2) implementing programs to ensure that the waters of the state are not contaminated by underground or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment, water reclamation, and storm drainage facilities. Waste discharge permits are issued and enforced mainly by the regional boards, although the state board issues some permits and initiates enforcement actions when deemed necessary.

The state board also administers water rights in the state. It does this by issuing and reviewing permits and licenses to applicants who wish to take water from the state's streams, rivers, and lakes.

Governor's Budget. The Governor's budget proposes $729 million to support SWRCB in the budget year. This proposal is approximately $300 million less than current year expenditure levels, mainly due to a reduction in the bond funding available for appropriation. General Fund support for the board is proposed to increase by $1.4 million in the budget year due to increases related to employee compensation and federally mandated activities related to the cleanup of Leviathan Mine.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Water Quality	$1,023,012	$719,206	-$303,806	-29.7
Water Rights	10,937	9,808	-1,129	-10.3
Administration	17,289	17,805	516	3.0
Less distributed administration	-17,289	-17,805	-516	0.0
Unallocated Reduction	-368	-454	-86	0.0
Total	$1,033,581	$728,560	-$305,021	-29.5
Funding Source				
General Fund	$27,883	$29,236	$1,353	4.9
Special Funds	320,470	351,177	30,707	9.6
Bond Funds	517,723	178,292	-339,431	-65.6
Budget Act Total	*866,076*	*558,705*	*-307,371*	*-35.5*
Federal Trust Fund	127,163	128,532	1,369	1.1
Reimbursements	10,014	9,815	-199	-2.0
State Water Quality Control Fund	21,130	22,130	1,000	4.7
State Water Pollution Control Revolving Fund	-2,682	-2,682	0	0.0
Petroleum Underground Storage Tank Financing Account	11,880	12,060	180	1.5
Total	$1,033,581	$728,560	-$305,021	-29.5

Highlights

Budget Implements Legislation to Increase Funding for Orphan Site Cleanup. The Governor proposes to increase appropriation from the Underground Storage Tank Cleanup Fund (USTCF) by $32.6 million, including transferring $10 million to the Orphan Subaccount. The proposed funding would implement Chapter 774, Statutes of 2004 (AB 1906, Lowenthal) which increases the petroleum storage tank fee and creates the Orphan Subaccount within the USTCF. The funds in the Orphan Subaccount are proposed to be used to remediate Brownfield sites in which petroleum contamination is the principle source of contamination. The $22.5 million increase in funding for the USTCF will be used to finance cleanup of additional claims on the state's current priority list. The Governor also proposes to appropriate $15 million in USTCF that have been reverted from prior year appropriations. These funds will be used to accelerate the reimbursement of cleanup costs.

Budget Implements Legislation to Re-Establish RUST Program. The Governor proposes $11.7 million to implement Chapter 624, Statutes of 2004 (AB 1068, Liu) that re-established the Repair and Replacement of Underground Storage Tanks (RUST) loan and grant program. This program provides loans for small businesses to repair, replace, or remove petroleum underground storage tanks to meet applicable standards. This funding would also be used to fund Chapter 649, Statutes of 2004 (AB 2955, McCarthy) that created a new grant program within RUST to provide funding for certain small businesses to install equipment for long-term leak detection monitoring.

Acceleration of Brownfield Reuse. The Governor proposes to provide $1.6 million and 15 positions to SWRCB to oversee the investigation and cleanup of military bases and new Brownfield sites. This proposal is in response to Chapter 705, Statutes of 2004 (AB 389, Montanez) that will likely increase the number of Brownfield properties that the state will be asked to oversee. Current statute allows certain persons to obtain liability protection if they purchase and remediate a Brownfield property under the oversight of the Department of Toxic Substances control or the SWRCB. Also included in the Governor's proposal is additional funding and positions at the Department of Toxic Substances Control.

Wetlands Protection. The Governor proposes to establish 7.4 positions to operate a regulatory program that protects wetlands no longer under the jurisdiction of the federal government due to the U.S. Supreme Court's "SWANCC" decision.

Additional Bond Funds Proposed for Expenditure. The Governor proposes allocation of $165.4 million in bond funds from Propositions 13 and 50 resources bonds. The bond funds are allocated to the following programs consistent with allocations specified in the bond acts.

- Coastal Water Quality Grants ($66.5 million - Proposition 50).
- Integrated Regional Water Management Grants ($55 million - Proposition 50).
- Clean Water and Water Quality Grants ($20.7 million - Proposition 50).
- Groundwater Monitoring Program ($10 million - Proposition 50).
- Water Recycling Grants ($6.4 million - Proposition 13).
- Non-Point Source Pollution Control Program Grants ($3.9 million - Proposition 13).
- Watershed Protection Grants ($1.9 million - Proposition 13).
- Coastal Non-Point Source Pollution Control Program Grants ($385,000 - Proposition 13).
- Ag Water Quality and Dairy Water Quality Grant Program—State Operations ($615,000 - Proposition 50).

Issues

Implementation of Bond Programs. The SWRCB has been the target of many complaints regarding its ability to issue bond awards in a timely manner. Participants in the board's process often complain about the length of time it takes for the board to process an application and reward a grant. During budget hearings in 2004, the board indicated that it was taking several steps to streamline and shorten the time it takes to review and award grants under its various bond programs. The Legislature may wish to follow-up on the implementation of these steps and the progress the board has made in improving the processing of grant awards.

Coordination of Ag Water Quality Grant Programs, Federal Grant Programs, and State Ag Waiver Regulatory Program. In the current year, legislation was enacted to provide bond funding for a new Ag Water Quality Grant Program and Dairy Water Quality Grant Program. These grant programs provide funds to support monitoring, demonstration, research, and construction of projects to reduce pollutants in agricultural drainage water and groundwater contamination. The federal government implements a similar program called the Environmental Quality Incentives Program that provides federal funds and technical assistance to farmers and ranchers implementing conservation plans to improve water quality. In addition, the SWRCB is also required to issue and enforce waivers for waste discharge requirements for agricultural dischargers. During the 2004-05 budget process the legislature requested a report on the coordination of these programs, including suggested legislative changes that may improve coordination. The Legislature may want to review this report and enact changes that will improve the coordination of these funds and regulatory actions to improve the quality of agricultural drainage water and groundwater.

In-Stream Flow Requirements on North Coast Streams. Legislation was enacted, Chapter 943, Statutes of 2004, (AB 2121, Committee on Budget), that requires the SWRCB to adopt, as state policy, guidelines developed by the State Department of Fish and Game and the National Oceanic and Atmospheric Administration regarding the amount of water needed in certain North Coast rivers for certain fish species. The legislation specifies that the board adopt these guidelines as state policy within two years after necessary environmental reviews are completed. The 2004-05 budget provided $1.5 million from tidelands oil revenues to fund in-stream flow requirements at the SWRCB. However, the administration's most recent estimates of tidelands oil revenues are significantly lower than previously anticipated due to a lawsuit by the City of Long Beach. Therefore, there may not be sufficient tidelands oil revenues to fund this activity in the current year. The Legislature may wish to follow-up on the administration's plans to implement AB 2121, including funding and a realistic timeframe for completing in-stream flow requirements.

3960 Department of Toxic Substances Control

Background. The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up or oversees the cleanup of contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; the General Fund; and federal funds.

Governor's Budget. The Governor's budget proposes $171 million to support DTSC in 2005-06. This is approximately $3 million more than estimated for expenditure in the current year. This increase is mainly due to employee compensation and augmentations proposed for the Brownfield reuse program. General Fund support for the department is proposed to decrease by

14 percent mainly due to backing out one-time funding in the current year used to take over operations of a toxic landfill in Southern California.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Site Mitigation and Brownfields Reuse	$94,123	$94,595	$472	0.5
Hazardous Waste Management	60,412	65,349	4,937	8.2
Science, Pollution Prevention, and Technology	12,207	10,798	-1,409	-11.5
Capital Outlay	900	0	-900	-100.0
Administration	33,520	34,572	1,052	3.1
less distributed administration	*-33,520*	*-34,572*	*-1,052*	*0.0*
Unallocated Reduction	0	-143	-143	0.0
Total	$167,642	$170,599	$2,957	1.8
Funding Source				
General Fund	$21,072	$18,186	-$2,886	-13.7
Special Funds	118,679	119,865	1,186	1.0
Budget Act Total	*139,751*	*138,051*	*-1,700*	*-1.2*
Federal Funds	21,691	24,948	3,257	15.0
Reimbursements	8,699	9,700	1,001	11.5
Superfund Bond Trust Fund	-2,500	-2,100	400	0.0
Total	$167,641	$170,599	$2,958	1.8

Highlights

Acceleration of Brownfield Reuse. The Governor proposes $1.7 million and 15 positions to DTSC to oversee nonmilitary-base Brownfield properties including additional Brownfield sites likely to be identified given the implementation of AB 389. This legislation allows certain persons to obtain liability protection if they purchase and remediate a Brownfield property under the oversight of DTSC or the State Water Resources Control Board. Also included in the Governor's proposal is additional funding and positions for the State Water Resources Control Board.

Proposes Permanent Funding to Evaluate Potential School Sites. The Governor proposes making eight limited-term positions permanent and allocates $815,000 from reimbursements to DTSC for the review of plans to construct new or expand existing schools using state funds. The

DTSC evaluates the plans to ensure that the proposed site is free from exposure to hazardous substances. The DTSC was required to review these plans by Chapter 992, Statutes of 1999 (AB 387, Wildman) and Chapter 1002, Statutes of 1999 (SB 162, Escutia).

Issues

State Takeover of Class I Landfill. The administration requested $1.8 million General Fund to take over operation of a Class I landfill in West Covina owned by BKK Corporation. The BKK Corporation was no longer able to fund all of its obligations to maintain the Class I landfill that is in post-closure. Therefore, DTSC has taken over operation of the landfill in the short term while efforts to identify responsible parties are in process. The DTSC has notified the parties responsible for the contamination and will be working on a plan for long-term maintenance of this site. The state is a responsible party since Caltrans was a large contributor of hazardous materials to this site while it was open. The Legislature may wish to evaluate the mechanisms in place to fund long-term care of closed landfills containing hazardous waste, including alternative mechanisms for funding the state's share of responsibility.

3980 Office of Environmental Health Hazard Assessment

Background. The Office of Environmental Health Hazard Assessment (OEHHA) identifies and quantifies the health risks of chemicals in the environment. It provides these assessments, along with its recommendations for pollutant standards and health and safety regulations, to the boards and departments in the California Environmental Protection Agency and to other state and local agencies. The OEHHA also provides scientific support to environmental regulatory agencies.

Governor's Budget. The Governor's budget proposes $14.8 million to support OEHHA in the budget year. This is about the same level of expenditure authority as in the current year. General Fund support for the office is proposed at $7.9 million, which is slightly more than current-year expenditures due to employee compensation increases and a proposed augmentation to evaluate sensitive subpopulations when developing Public Health Goals.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Health Risk Assessment	$14,992	$14,924	-$68	-0.5
Administration	2,939	2,969	30	1.0
less distributed administration	*-2,939*	*-2,969*	*-30*	*0.0*
Unallocated Reduction	0	-122	-122	0.0
Total	$14,992	$14,802	-$190	-1.3
Funding Source				
General Fund	$7,692	$7,852	$160	2.1
Special Funds	5,117	5,308	191	3.7
Budget Act Total	*12,809*	*13,160*	*351*	*2.7*
Federal Trust Fund	345	0	-345	-100.0
Reimbursements	1,840	1,642	-198	-10.8
Total	$14,994	$14,802	-$192	-1.3

Highlights

Additional Evaluation of Sensitive Populations. The Governor proposes $203,000 General Fund to support enhanced consideration of potential sensitive subpopulations when developing Public Health Goals. Consideration of sensitive subpopulations when developing Public Health Goals is required by Chapter 673, Statutes of 2004 (AB 2342, Jackson).

Issues

Adequacy of Funding. The Office of Environmental Health Hazard Assessment has suffered significant General Fund reductions over the last several years. However, some efforts have been made to diversify its funding sources over the past few years so that it is not over-reliant on the General Fund for support. Regardless of the efforts over the past few years, it is not clear that OEHHA's current level of funding is adequate to fund all of its mandates effectively. This is especially of concern given the new mandates required by AB 2342 that requires OEHHA to consider the impacts on sensitive subpopulations. The Legislature may wish to evaluate additional funding sources for OEHHA's activities, including finding additional special funding sources that may be appropriate.

ENERGY

Overview

Background. Several agencies play a role in developing, implementing, and managing the state's energy-related policies. These include the:

- **California Energy Commission.** This is the state's primary policy and planning agency in the energy area.
- **California Public Utilities Commission.** The commission is involved with various energy-related regulatory activities.
- **Electricity Oversight Board.** Its responsibilities include monitoring the state's electricity market.
- **California Power Authority.** This entity was created during the state's 2001 electricity crisis to finance new electricity generation and assure an adequate electricity supply for the state.
- **California Energy Resources Scheduling Division within the Department of Water Resources.** This is the entity that currently purchases electricity for the state on behalf of the state's three largest investor owned utilities (IOUs).
- **California Independent System Operator (ISO).** The ISO is a not-for-profit corporation that was created by the state when it deregulated its wholesale electricity industry in 1996. The ISO is not considered a state agency, but was created by the Legislature and is governed by a board of gubernatorial appointees. However, its activities are regulated by the federal government. The ISO is charged with managing the majority of the state's electricity transmission system, in order to ensure competitive access to the grid by all electricity sellers. It also seeks to ensure that the power grid is safe and reliable.

Highlights

Governor's Policy Statement. The Governor's Budget Summary included a lengthy list of actions the administration intends on pursuing to ensure stable supplies of energy at affordable prices. Most of these actions will be pursued through the California Public Utilities Commission (CPUC). However, some of the actions may require legislative action. The administration is pursuing the following actions:

- **Long-Term Energy Contracts.** The administration hopes to encourage utilities to enter into long-term contracts and has directed the CPUC to adopt rules that result in this behavior.
- **Adequate Planning Reserves**. The administration supports, and the CPUC has adopted, a 15 percent electricity reserve margin with implementation by the utilities by 2006.

- **Loading Order**. The administration is working with the CPUC to establish an approach to meeting the state's energy demand that first makes use of cost-effective investments in energy efficiency and demand response. Next, fulfills renewable energy requirements and then pursues fossil fuel generated power plants.
- **Competitive Procurement**. The administration supports establishing a competitive and transparent procurement process at the CPUC that gives the utilities the ability to purchase power at the lowest possible price.
- **Retail Choice**. The administration supports allowing large customers a choice in selecting their power suppliers.
- **Renewable Energy**. The administration supports the acceleration of the Renewable Portfolio Standard mandate of 20 percent renewable by 2017 and 33 percent by 2020.
- **Million Solar Roofs Initiative**. The administration plans to pursue an initiative that will promote the development of one-million solar roofs on residential and commercial buildings.
- **Green Buildings**. The Governor signed an executive order on December 14, 2004 that calls on the state to increase the energy efficiency in its buildings by 20 percent by 2015 and is encouraging the private sector to meet the same goals.
- **Conservation/Demand Response**. The Governor signed an executive order on July 27, 2004 instructing state agencies to take measures to reduce power use especially during peak times of the day and is working with the CPUC to expand demand response programs for summer 2005.
- **Interval Meters/Critical Peak Pricing**. The administration supports the deployment of advanced metering technology and the development of dynamic pricing tariffs.
- **Reduce Electric Rates**. The administration is continuing to pursue the renegotiation of long-term contracts held by the Department of Water Resources and is pushing the Federal Energy Regulatory Commission for additional refunds resulting from market abuses during the 2001 energy crisis.
- **Expand Transmission Infrastructure**. The administration is seeking all opportunities to expand the state's transmission infrastructure to reduce congestion costs and improve reliability.
- **Delay Retirement and Encourage Repowering of Key Power Plants**. The administration is working with the ISO, the California Energy Commission, and the CPUC to manage the retirement of energy generators to avoid problems during peak energy demand times. The administration also encourages the retrofitting of some power plants where cost effective.

Governor's Reorganization Plan #1. The Governor has proposed an executive reorganization plan that has been submitted to the Little Hoover Commission. This reorganization plan calls for the elimination of the California Power and Conservation Financing Authority and the Electricity Oversight Board. The plan would transfer the activities of the authority and the board to the California Energy Commission.

Issues

Summer 2005 Energy Resource Adequacy. The California Energy Action Plan has identified concerns regarding energy resource adequacy during the summer of 2005. Specifically, Southern California does not have an adequate operating reserve under both normal and hot weather conditions. Northern California reserves are adequate, but statewide reserves are low under hot weather conditions for the 2005 summer. The Energy Action Plan has identified several actions to maintain reliability of the energy system statewide, including delaying retirements of some key power plants and accelerating new generation and transmission projects. The Legislature may wish to evaluate these actions to assure the approach is consistent with legislative priorities and provide satisfactory assurances of reliable energy supply for the 2005 summer.

3360 California Energy Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

Governor's Budget. The Governor's budget proposes $317 million to support CEC in 2005-06. The proposed budget is approximately 17 percent less than estimated expenditures in the current year due to expenditure of a significant amount of accumulated renewable energy funding to help implement the renewable portfolio standard. The department does not receive any General Fund support.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Regulatory and Planning	$27,650	$25,731	-$1,919	-6.9
Energy Resources Conservation	30,896	21,954	-8,942	-28.9
Research and Development	327,325	276,560	-50,765	-15.5
Administration	11,399	11,522	123	1.1
less distributed administration	-11,399	-11,522	-123	0.0
Loan Repayments	-6,481	-7,563	-1,082	0.0
Total	$379,390	$316,682	-62,708	-16.5
Funding Source				
General Fund	$0	$0	0	0.0
Special Funds	362,752	302,026	-60,726	-16.7
Budget Act Total	*362,752*	*302,026*	-60,726	-16.7
Federal Funds	9,108	8,911	-197	-2.2
Reimbursements	6,178	5,745	-433	-7.0
Renewable Energy Loan Loss Reserve Fund	1,353	0	-1,353	-100.0
Total	$379,391	$316,682	-62,709	-16.5

Highlights

Increases Funding for Public Interest Energy Research Program. The Governor proposes a one-time $10 million augmentation to the Public Interest Energy Research (PIER) program to bring environmentally safe, affordable, and reliable electricity services and products to the marketplace. These additional funds are available due to a repayment of a loan to the General Fund made in 2003-04.

Initial Funding for Natural Gas Research Program. The Governor proposes $15 million to initiate a natural gas research program that will improve energy efficiency in consumer gas appliances and manufacturing processes.

Augmentation of Analytical Resources. The administration is proposing $796,000 in additional resources to improve the commission's analytical resources. Funding will be used to fund additional staff to support the procurement efforts at the CPUC and municipal utilities, increase analysis of new transportation fuel supply and inventory data, and upgrades to the commission's demand forecasting planning capabilities.

3860 Department of Water Resources (California Energy Resources Scheduling Division)

Background. The department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

Governor's Budget. The Governor's budget proposes $5.4 billion for electricity purchases and the administration of the CERS division of DWR. This is $332 million, or 6 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Energy Purchases	$5,624,128	$5,292,360	-$331,768	-5.9
Administration	47,120	47,381	261	0.6
Total	$5,671,248	$5,339,741	-331,507	-5.8

Issues

CERS Administration Support. The CERS division continues to manage billions of dollars of long-term electricity contracts signed during the electricity crisis. The CERS division continues to be financially responsible for the long-term contracts entered into by the department. However, the IOUs manage the receipt and delivery of the energy procured by the contracts. Despite this reduction in responsibilities, the department continues to rely heavily on expensive consulting contracts and personal service contracts. The Legislature may wish to evaluate the department's contracting activities and determine ways in which the state can reduce administrative costs associated with managing these electricity contracts.

8660 Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's budget proposes $1.2 billion to support CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Regulation of Utilities	$348,239	$349,890	$1,651	0.5
Universal Service Telephone Programs	881,347	852,035	-29,312	-3.3
Regulation of Transportation	14,647	15,412	765	5.2
Administration	17,868	16,341	-1,527	-8.5
less distributed administration	*-17,868*	*-16,341*	*1,527*	*0.0*
Total	$1,244,233	$1,217,337	-26,896	-2.2
Funding Source				
General Fund	$0	$0	0	0.0
Special Funds	1,230,449	1,203,430	-27,019	-2.2
Budget Act Total	*1,230,449*	*1,203,430*	-27,019	-2.2
Federal Funds	1,034	1,052	18	1.7
Reimbursements	12,751	12,855	104	0.8
Total	$1,244,234	$1,217,337	-26,897	-2.2

Highlights

Household Goods Carrier Enforcement. The Governor proposes to fund increased enforcement of household goods carriers consistent with Chapter 646, Statutes of 2003 (AB 845, Vargas). This legislation addressed serious consumer protection issues dealing with household goods carriers. This proposal also requires a change in law to increase the maximum fee paid by the household goods carriers to enable CPUC to collect sufficient revenues to fully fund this program.

Issues

California Teleconnect Program. The Legislature enacted, and the Governor signed, legislation as part of the 2004-05 budget to place limits on the subsidies provided by the commission by requiring the commission to calculate the Teleconnect subsidy after the federal E-Rate program subsidy has been counted against the telecommunications bill. The Legislature also required the CPUC to report on options for improving the Teleconnect Program in effectively addressing the "digital divide". The Legislature may wish to review this report and take actions to improve the effectiveness of this program.

Implementation of Energy Efficiency Programs. The CPUC recently made a decision to reform the administration of the state's multi-million dollar energy efficiency programs. Many changes were evaluated in determining the best administrative structure for the state's energy efficiency programs given the changes that have taken place in the marketplace since deregulation of the energy industry. The Legislature may wish to evaluate the recent CPUC decision and evaluate whether it maximizes effective use of the energy efficiency funds collected from ratepayers.

8665 California Consumer Power and Conservation Financing Authority

Background. The California Consumer Power and Conservation Financing Authority (California Power Authority, or CPA) was created by Chapter 10x, Statutes of 2001 (SB 6x, Burton), to assure a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. The CPA was also created to encourage energy efficiency, conservation, and the use of renewable resources. The CPA is authorized to issue up to $5 billion in revenue bonds to finance these activities. Chapter 10x also directs that the operation of the authority sunset on January 1, 2007.

Governor's Budget. The Governor's budget provides zero funding for CPA in the budget year. The Governor vetoed money provided for continued operations in the current year and CPA operations effectively shut down in Fall of 2004. However, the statute establishing the CPA is still current law.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Energy Acquisition	$10,311	$0	-$10,311	-100.0
Planning and Policy Development	166	0	-166	-100.0
Administration	120	0	-120	-100.0
less distributed administration	*-120*	*0*	*120*	*0.0*
Total	$10,477	$0	-$10,477	-100.0
Funding Source				
General Fund	$0	$0	$0	0.0
Special Funds	10,477	0	-$10,477	-100.0
Budget Act Total	*10,477*	*0*	-10,477	-100.0
Federal Trust Fund	0	0	0	0.0
Reimbursements	0	0	0	0.0
			$0	0.0
Total	$10,477	$0	-$10,477	-100.0

Highlights

CPA Proposed for Elimination. The Governor is proposing to eliminate the California Consumer Power and Conservation Financing Authority (CPA) as part of his Governor’s Reorganization Plan #1 (GRP 1). The GRP 1 proposes to transfer the activities of the authority to the California Energy Commission.

8770 Electricity Oversight Board

Background. The Electricity Oversight Board (EOB) was created by Chapter 854, Statutes of 1996 (AB 1890, Brulte), which deregulated California's wholesale electricity industry. The board was created to oversee the California Independent System Operator (ISO), which manages the transmission grid serving most of California, and the Power Exchange (PX), which, for a time, was the marketplace in which all electricity in the state was bought and sold. The EOB was also given very broad authority over ensuring reliability of the state's supply of electricity.

Governor’s Budget. The Governor’s budget proposes $3.9 million to support EOB in 2005-06, which is approximately the same level of expenditures as in the current year. The department does not receive any General Fund support.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Administration	$3,728	$3,850	$122	3.3
Total	$3,728	$3,850	122	3.3
Funding Source				
General Fund	$0	$0	0	0.0
Special Funds	3,728	3,850	122	3.3
Budget Act Total	*3,728*	*3,850*	*122*	*3.3*
Federal Trust Fund	0	0	0	0.0
Reimbursements	0	0	0	0.0
Total	$3,728	$3,850	122	3.3

Highlights

Electricity Oversight Board Proposed for Elimination. The Governor is proposing to eliminate the Electricity Oversight Board (EOB) as part of his Governor's Reorganization Plan #1 (GRP 1). The GRP 1 proposes to transfer the activities of the authority to the California Energy Commission.

AGRICULTURE

8570 Department of Food and Agriculture

Background. The California Department of Food and Agriculture (CDFA) provides services to both producers and consumers of California's agricultural products in the areas of agricultural protection, agricultural marketing, and support to local fairs. The purpose of the agricultural protection program is to prevent the introduction and establishment of serious plant and animal pests and diseases. The agricultural marketing program promotes California's agricultural products and protects consumer and producers through the enforcement of measurements, standards, and fair pricing practices. Finally, the department provides financial and administrative assistance to county and district fairs.

Governor's Budget. The Governor's budget proposes $318 million to support CDFA in 2005-06. This is approximately $1.6 million more than the level of expenditures estimated in the current year. This increase is primarily due to new programs to address emerging diseases and laboratory upgrades.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Type of Expenditure				
Agricultural Plant and Animal Health, Pest Prevention, and Food Safety Services	$148,953	$155,250	$6,297	4.2
Marketing and Commodity and Agricultural Services	69,730	71,025	1,295	1.9
Assistance to Fair and County Agricultural Activities	76,606	76,521	-85	-0.1
Capital Outlay	19,652	14,802	-4,850	-24.7
Administration	13,180	14,422	1,242	9.4
less distributed administration	*-12,077*	*-13,237*	*-1,160*	*0.0*
Unallocated Reduction	0	-1,159	-1,159	0.0
Total	$316,044	$317,624	$1,580	0.5
Funding Source				
General Fund	$95,977	$100,062	$4,085	4.3
Agriculture Fund	112,545	115,734	3,189	2.8
Other Special Funds	48,046	45,321	-2,725	-5.7
Bond Funds	1,000	1,178	178	17.8
Budget Act Total	*257,568*	*262,295*	*4,727*	*1.8*
Federal Trust Fund	35,295	33,648	-1,647	-4.7
Public Building Construction Fund	12,824	11,203	-1,621	-12.6
Harbors and Watercraft Revolving Fund	1,197	1,241	44	3.7
Reimbursements	9,159	9,237	78	0.9
Total	$316,043	$317,624	$1,581	0.5

Highlights

Funding for Mediterranean Fruit Fly Prevention Release Program. The Governor proposes $8 million General Fund to establish a permanent Mediterranean Fruit Fly (Medfly) Prevention Release program in the Los Angeles basin. This program would provide for the continual release of sterile Medflies within 2,500 square miles of the Los Angeles basin.

Funding Emerging Threats to Food Production. The Governor proposes $2.7 million General Fund to implement programs that address emerging diseases that seriously affect humans and animals and potential terrorist attacks on the food supply. Some of the emerging diseases addressed by these programs include Mad Cow Disease and Avian Influenza.

Issues

Review of Position Report. The Legislature enacted, and the Governor signed, legislation as part of the 2004-05 budget to require the department to follow normal state procedures for establishing new positions. This legislation also required the department to report on all of the existing positions created outside of normal state procedures. The Legislature may wish to evaluate this report and determine whether the positions created outside the normal state procedures are warranted on a workload basis.

Review Funding Options for the Mediterranean Fruit Fly Program. The Legislature and the Legislative Analyst's Office have attempted to explore other funding options for the state's Medfly Program. In 2004-05, the Legislature approved reporting language that requires the department to develop further options related to assessing international travel and commerce fees and maximizing federal funds to help fund the Medfly program. The Legislature may want to evaluate the department's response to this request in order to determine whether there is another feasible funding source, besides the General Fund, for the Medfly program.

SUBCOMMITTEE NO. 3

HEALTH AND HUMAN SERVICES

HEALTH & HUMAN SERVICES OVERVIEW

Summary of Governor's Proposed 2005-06 Budget

Services provided through Medi-Cal; Healthy Families; CalWORKS; In-Home Supportive Services; Regional Centers; and other programs touch the lives of millions of Californians. Health and Human Services programs provide access to short- and longer-term services and supports that promote the health, well-being, and independent living of our state's most vulnerable children, adults, seniors, and families.

The Governor's Budget for health and human services proposes a total of $69.8 billion ($26.7 billion General Fund) in combined state and federal funds, including expenditures for about 32,500 state employees. This reflects a net increase of $44.2 million (total funds) over the revised current year.

The Governor's proposed budget is built upon: (1) substantial reductions of over $1.1 billion (General Fund) to social services programs that serve low-income children and families; (2) a series of policy redesign ventures, including his Medi-Cal Redesign proposal and Regional Center Program service reductions; (3) implementation of federal law changes, such as the Medicare Modernization Act and Medicare Drug Benefit; (4) an array of other program reductions; and (5) closure of Agnews Developmental Center.

Key reduction proposals include the following:

- **California Work Opportunity and Responsibility to Kids (CalWORKs) Reductions.** The Governor proposes to reduce CalWORKs grants by 6.5 percent, eliminate CalWORKs Cost-of-Living Adjustments (COLAs); make additional grant reductions for employed CalWORKs families; reduce employment services funding; and implement other reductions to achieve General Fund savings of $641 million.

- **Suspend Supplemental Security Income/State Supplementary Program (SSI/SSP) COLAs.** The Governor proposes to withhold the January 2006 state and federal COLAs for SSI/SSP recipients to achieve General Fund savings of $259 million.

- **Reduce State Participation in In-Home Supportive Services (IHSS) Provider Wages**. Effective October 1, 2005, the budget proposes to reduce the level of state participation in IHSS-provider wages and benefits from $10.10 per hour to the state minimum wage of $6.75. Effective July 1, 2005, the budget proposes to roll back state participation in IHSS wage increases that were established under contracts negotiated by nine local IHSS public authorities in the current year. These changes would result in General Fund savings of $208 million.

- **Capitating Adult Dental Services (Medi-Cal Redesign Package).** The Governor proposes savings of $50.2 million ($25.1 million General Fund) in local assistance by restricting the amount of dental services provided to adults to $1,000 annually. An implementation date of August 1, 2005 is assumed. The DHS states that the $1,000 cap would exclude expenditures for federally mandated services provided by physicians, emergency services, and hospital costs associated with dental treatment. This proposal requires trailer legislation to enact.

- **Medi-Cal Enrollee Premiums (Medi-Cal Redesign Package).** Under this proposal, Medi-Cal enrollees with incomes above the federal poverty level would pay a monthly premium ($4 per month for children under 21 years, $10 per month for adults, and a maximum of $27 per month for a family) to maintain their Medi-Cal coverage.

  This premium proposal would affect about 460,000 families and children with household incomes above 100 percent of poverty (i.e., $1,306 per month for a family of three), and 90,000 seniors and individual with disabilities with incomes above the SSI/SSP level (i.e., $812 a month for a single person and $1,437 a month for a couple, effective April 1, 2005).

  The budget assumes increased costs of $2.3 million ($650,000 General Fund) in 2005-06 for system changes and then savings of $11.1 million ($5.5 million General Fund) in 2006-07 from both the collection of premiums as well as from disenrollment (i.e., people are dropped due to lack of payment).

- **Medicare Modernization Act and Medicare Drug Benefit Implementation.** The Medicare Modernization Act of 2003 (Act) implements the Medicare Part D drug program which provides drug benefits to all Medicare enrollees, including those that are Medi-Cal eligible (i.e., dual eligibles), effective January 1, 2006. Due to this coverage, the federal government will no longer provide federal funding for Medi-Cal coverage for dual eligibles. In addition, the state must reimburse the federal government a portion of the savings gained from not providing these drugs. The phased-down contribution, or "clawback", is 90 percent of the savings in 2006, based on a formula set in the Act, reduced each year until it reaches 75 percent.

  The budget assumes $746.8 million (General Fund) in savings from no longer providing Part D drugs to dual eligibles. The cost of the "clawback" is estimated to be $646.6 million (General Fund). Therefore, the budget assumes a net savings of $100.2 million (General Fund). However, the DHS savings estimate does not reflect any potential state General Fund costs that may occur through the Department of Developmental Services (DDS) due to the potential need to provide selected medications to individuals with developmental disabilities.

- **Continues Cost Containment Actions Taken in the Budget Acts of 2003 & 2004 for Regional Center Services.** The Governor proposes to continue several cost containment actions enacted as part of the Budget Acts of 2003 and 2004. The table below describes previously implemented cost containment measures.

Previously Implemented Cost Containment Measures	Revised 2004-05 Total	Revised 2004-05 General Fund	2005-06 Total	2005-06 General Fund
RC Operations Total	**($10,353,000)**	**($10,353,000)**	**($10,011,000)**	**($10,011,000)**
1. Delay in Assessment (60 – 120 Days)	(4,465,000)	(4,465,000)	(4,465,000)	(4,465,000)
2. Family Cost Participation	570,000	570,000	912,000	912,000
3. 2004-05 Unallocated Amount	(6,458,000)	(6,458,000)	(6,458,000)	(6,458,000)
RC Purchase of Services Total	**($70,037,000)**	**($60,498,000)**	**($85,997,000)**	**($73,421,000)**
1. Day Program Rate Freeze	(5,771,000)	(4,184,000)	(16,709,000)	(!2,114,000)
2. Contract Services Rate Freeze	(11,375,000)	(8,963,000)	(11,565,000)	(9,193,000)
3. CCF Rate Freeze	(12,389,000)	(7,433,000)	(12,389,000)	(7,433,000)
4. Elimination of the SSI/SSP Pass-Through to CCFs	(1,461,000)	(877,000)	(1,631,000)	(978,000)
5. Non-Community Placement Start-up Suspension	(5,962,000)	(5,962,000)	(5,962,000)	(5,962,000)
6. Family Cost Participation	(570,000)	(570,000)	(3,143,000)	(3,143,000)
7. Reduced Growth Trend	(11,357,000)	(11,357,000)	(11,357,000)	(11,357,000)
8. 2003-04 Unallocated Reduction	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
9. 2004-05 Unallocated Reduction	(7,000,000)	(7,000,000)	(7,000,000)	(7,000,000)
10 Revision of Eligibility Definition	(4,152,000)	(4,152,000)	(6,241,000)	(6,241,000)
TOTALS	**($80,390,000)**	**($70,851,000)**	**($96,008,000)**	**($83,432,000)**

- **New Cost Containment—Regional Center Purchase of Services Requirements.** The Governor proposes substantial policy changes through trailer bill legislation to grant Regional Centers (RCs) broad authority for reducing Purchase of Services (POS) expenditures. It is assumed that RCs would apply these new requirements at the time of an individual's program plan (IPP) development or scheduled review.

  Savings of $14 million ($10.5 million General Fund) are assumed for 2005-06 with total savings of at least $41.9 million ($31.4 million General Fund) annually once the phase-in has been completed. It should be noted that the Legislature has rejected similar proposals for the past three years.

- **Continuation of Moratorium and Proposed New Rate Redesign for Adult Day Health Care.** The Budget Act of 2004 and corresponding health trailer legislation implemented a moratorium on the growth of new Adult Day Health Care (ADHCs) sites effective October 1, 2004. The budget proposes to continue this moratorium for savings of $45.3 million ($22.6 million General Fund). This savings level assumes continuation of the moratorium through to December 30, 2005.

  In addition, the federal CMS wants California to move the existing ADHC Program to a federal Waiver (1915 (c)). Under this new Waiver, the Administration assumes that a new rate redesign will need to occur. As such, the budget also assumes savings of $13.3 million ($6.7 million General Fund) from changes to the rates (unbundling of the rate). It should also be noted that the Administration intends to introduce policy legislation to commence crafting of the Waiver proposal. An implementation date of January 1, 2006 is assumed.

HEALTH

0530 California Health and Human Services Agency

The California Health and Human Services Agency (CHHS Agency) administers the state's health, social services, rehabilitative and employment programs. The Secretary for the CHHS Agency advises the Governor on major policy and program matters and oversees the operation of the agency's departments. The purview of the CHHS Agency includes: (1) the departments of Aging, Alcohol and Drugs, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services; (2) the Health and Human Services Data Center; (3) the Office of Statewide Health Planning and Development; (4) the Managed Risk Medical Insurance Board; and (5) the Emergency Medical Services Authority.

Through the Budget Act of 2001 and SB 456 (Speier), Statutes of 2001, the Office of Health Insurance Portability & Accountability Act (HIPAA) Implementation was created. This office resides within the CHHS Agency.

The Office of HIPAA Implementation has statewide responsibility for the implementation of the federal HIPAA. The portion of HIPAA dealing with administrative simplification requires all billing and other electronic data transmissions to be standardized, as well as establishing new standards for the confidentiality and security of this information. The office was established to direct and monitor this process.

Summary of Funding

The budget proposes total expenditures of $230.1 million ($4.9 million General Fund). Of this total amount, (1) $3.5 million (General Fund) and 27 positions are proposed for the Secretary's Office, (2) $3.6 million and ten positions are for the Office of HIPAA Implementation, and (3) $223 million (CA Health and Human Services Data Center Revolving Fund) and 177 positions are proposed to be transferred to the CHHS Agency to establish a new Office of System Integration.

Through the Budget Act of 2004, the Secretary for the CHHS Agency received 14 new positions and an augmentation of $1.8 million (General Fund), or an increase of over 100 percent over the Budget Act of 2003. This adjustment is reflected in the base level funding for 2005-06. The Office of HIPPA reflects minor adjustments.

A significant policy change of establishing a new Office of System Integration at the agency level is proposed. Due to this proposed shift, the CHHS Agency budget reflects an increase of $223 million (CA Health and Human Services Agency Data Center Revolving Fund) and 199 positions as noted below.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Secretary for Health & Human Services	$3,504	$3,507	$3	--
Office of HIPAA	$3,552	$3,608	$56	1.5
Office of System Integration	NA	$222,974	$222,974	100
Funding Source				
General Fund	$4,884	$4,933	$49	1.0
Managed Care Fund	$364	$364	--	--
CA Health & Human Services Data Revolving Fund	--	$222,974	$222,974	100
Reimbursements	$1,808	$1,818	$10	0.5
Total, Health & Human Services Agency	$7,056	$228,271	$223,033	31.6

Issue for the CHHS Agency

New Office of System Integration. A significant policy change of establishing a new Office of System Integration at the agency level is proposed for increased expenditures of $223 million (CA Health and Human Services Agency Data Center Revolving Fund) and 199 positions. Currently, the Health and Human Services Agency Data Center provides consolidated electronic data processing and project management for departments within the CHHS Agency. However the budget proposes to bifurcate these responsibilities by shifting certain systems management functions to the CHHS Agency, and shifting other operations functions to the Department of Technology Services. This proposed transfer is discussed further under section 4130 Health and Human Services Agency Data Center, below.

4120 Emergency Medical Services Authority

The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the “911” emergency telephone system.

Summary of Funding

The budget proposes total expenditures of $22 million ($10.8 million General Fund) for the EMS Authority. This reflects a net decrease of $1.1 million primarily due to a decrease in federal fund support.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Emergency Medical Services	$23,159	$22,036	($1,123)	-4.8
Unallocated Reduction	--	($12)		NA
Funding Source				
General Fund	$10,778	$10,777	1	--
Federal Funds	$3,808	$2,734	($1,074)	-28.2
Reimbursements	$7,097	$6,931	($166)	-2.3
Other Funds	$1,476	$1,594	$118	8.0
Total, Emergency Medical Services	$23,159	$22,036	($1,123)	-4.8

Summary of Governor's Proposed Reductions and Augmentations

- **Bioterrorism Response Preparedness.** The EMS Authority seeks to continue appropriation authority of $6 million (federal Health Resources and Services Administration grant funds) to fund 6 limited-term positions set to expire in 2004 and provide $5.2 million in local assistance. These funds are part of the federal grant funds established by Congress after the events of 9/11/01. These resources are to be used to continue the development and implementation of a bioterrorism response system for the state, including expanding existing hospital communication systems as well as establishing linkages with hospitals in dispatch centers and ambulance providers. In essence, these funds are intended to enhance the readiness of the hospital and emergency medical services systems to deal with large numbers of casualties and communication system capacities.

- **Terrorism Response Training.** An increase of $270,000 (federal funds) is proposed to continue a one-year limited-term state position and to contract for the development of an electronic management system to track training courses completed by emergency medical system personnel. The state position will be used to review existing and proposed terrorism response medical training programs for emergency medical personnel and implement state terrorism response training standards.

- **Statewide Terrorism Threat Assessment Center--Medical Terrorism Assessment.** An increase of $311,000 (federal funds) is requested to fund two positions, overtime pay, and consultant expenditures to develop, implement and operate a coordinated medical terrorism monitoring and analysis program within the state. This request is part of a broader proposal related to the establishment of a new Statewide Terrorism Threat Assessment Center.

- **Child Care Training.** In order to provide preventive health and safety training program reviews of child care centers as required by existing law, the EMS Authority is proposing an increase of $77,000 (Emergency Medical Services Training Program Approval Fund) to fund a position to facilitate reviews and training program renewals.

4250 California Children and Families Commission

The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members. Three of the members are appointed by the Governor, two by the Senate Rules Committee, and two by the Speaker of the Assembly.

The commission is responsible for the implementation of comprehensive and integrated solutions to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are to be provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by the proposition, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

Summary of Funding

The budget proposes total expenditures of $563.4 million (special trust funds) for a decrease of $172.8 million over the revised current year. This reduction is due to a decline in revenues and a decline in carry-over funds which were available and have since been expended.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code and as such, are not subject to an annual appropriation through the Budget Act.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children's health care, child care and development, and family literacy.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Administrative Functions	$5,761	$5,574	($187)	3.2
Local Assistance—Counties	$730,475	$557,858	($172,617)	23.6
Funding Source				
Counties Children & Families Account	$469,919	$446,546	($23,373)	5.0
Mass Media Communications Account	$51,113	$34,446	($16,667)	32.6
Education Account	$79,820	$29,371	($50,449)	63.2
Child Care Account	$50,097	$17,723	($32,374)	64.6
Research & Development Account	$55,767	$17,923	($37,844)	67.8
Administration Account	$5,761	$5,574	($187)	3.2
Unallocated Account	$23,759	$11,849	($11,910)	50.1
Total Expenditures	$736,236	$563,432	($172,804)	23.5

4260 Department of Health Services

The goals of the Department of Health Services (DHS) are to: (1) promote an environment that contributes to human health and well-being; (2) ensure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness; and (5) ensure economic expenditure of public funds to serve those persons with the greatest health care needs. These goals are carried out through three key programmatic areas, including the Medi-Cal Program, Childrens Medical Services, and Public and Environmental Health.

The budget proposes expenditures of $37.6 billion ($13.6 billion General Fund), or a *net* increase of $280.1 million ($1.019 billion General Fund) over the revised 2004-05 budget. Of the total budget amount, $36.6 billion ($13.387 billion General Fund) is for local assistance.

The Governor proposes state support expenditures of $987.3 million ($264.2 million General Fund) which would support 6,069 authorized positions for an increase of 327 new positions over the revised current-year. Even though the Governor has imposed an unallocated reduction of $11.5 million (General Fund) on the department for 2005-06, expenditures for state support are proposed to grow by $10.5 million over the revised current-year

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Public & Environmental Health	$862,717	$887,587	$24,870	2.9
Medical Care Services	$33,848,236	$34,067,010	$218,774	0.6
County Health Services	$52,867	$52,867	--	--
Primary Care & Family Health	$1,533,989	$1,556,728	$22,739	1.5
State Mandates	$4	$3,761	$3,757	939
State Administration & Operations	$976,806	$987,341	$10,535	1.0
Totals, by Program Source	$37,274,619	$37,555,294	$280,675	0.8
Funding Source				
General Fund	$12,631,405	$13,651,257	$1,019,852	8.1
Federal Funds	$21,417,896	$20,980,414	($437,482)	-2.0
Special Funds & Reimbursements	$3,225,318	$2,923,623	($301,695)	-9.4
Totals, by Fund	$37,274,619	$37,555,294	$280,675	0.8

Highlights for the Medi-Cal Program

A. Summary of Funding and Enrollment.

The Governor proposes total expenditures of $34.1 billion ($12.9 billion General Fund) which reflects a General Fund increase of $981.7 million, or 8.2 percent above the revised current-year budget. The General Fund increase primarily reflects (1) increases in caseload and utilization for aged, blind and disabled individuals; (2) increases in federal Medicare premiums for which the state pays; (3) implementation of quality improvement fees and cost-of-living adjustments for nursing homes; (4) elimination of 2004-05 one-time savings; (5) changes in assumptions used for estimating anti-fraud savings; and (6) slower implementation of prior year cost containment activities.

California continues to have the lowest average cost-per-enrollee in the nation--$4,605 per enrollee versus a national average of $5,869 per enrollee (based on recent 2003 statistics).

Medi-Cal provides health insurance coverage to about 18 percent of Californians. Average monthly caseload is anticipated to increase in 2005-06 by about 170,500, or 2.6 percent, for a total of 6.8 million eligibles. Of the total Medi-Cal eligibles about 38.7 percent, or 2.6 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs).

Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship, and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

B. Summary of Administration's Medi-Cal Redesign Proposal.

Key Components to Proposal. The Governor's Medi-Cal Redesign consists of six components, as shown in the table below. The proposal would require considerable state statutory change, as well as approval by the federal Centers for Medicare and Medicaid (CMS) for certain components that require a federal Waiver, such as the hospital finance restructuring component and the premium proposal.

The underlying fiscal assumptions offered by the Administration for each of these components are evolving with critical questions yet to be fully answered, particularly regarding the restructuring of hospital financing, expansion of Medi-Cal Managed Care, and the premium proposal. (Details regarding the six components are discussed further, below).

Proposed Medi-Cal Redesign
2005-06 to 2008-09 General Fund Impact
(State Support & Local Assistance Amounts)
(Dollars in Thousands)

Proposed Redesign Component	2005-06	2006-07	2007-08	2008-09	Total
1. Medi-Cal Managed Care Expansion	$3,412	$40,098	$54,653	($85,487)	$12,675
2. Restructuring Hospital Financing	686	686	686	686	2,744
3. Capitating Dental Services	(24,843)	(25,325)	(25,325)	(25,325)	(100,818)
4. New Medi-Cal Premiums	6,847	(4,903)	(22,050)	(22,050)	(42,155)
5. Single Point of Entry Changes	2,126	(7,097)	(7,097)	(7,097)	(20,315)
6. County Performance Monitoring Standards	612	2,712	2,712	2,712	8,748
Totals	**($11,160)**	**$6,171**	**$3,579**	**($136,561)**	**($139,121)**

Need for Federal Funding Assistance for Hospitals. Federal Medicaid financing, provided through the state's Disproportionate Share Hospital (DSH) Program (SB 855 funds), the Emergency Services and Supplemental Payments Program (SB 1255 funds), and Graduate Medical Teaching Program, is an essential ingredient to California's overall health care system.

Presently, these supplemental federal fund programs operate through an existing Selective Provider Contract Waiver and "intergovernmental transfer" (IGT) process. The Administration maintains that this existing system must be completely restructured due to continued concerns expressed by the federal CMS.

Discussions with the federal CMS and the Administration have been ongoing since June 2004 yet it is still unknown what the federal funding commitment California may obtain for its safety net hospitals. Specifically the Administration is seeking an increase of $700 million, above the existing level of supplemental federal funding (about $2 billion), over a five-year period (Waiver timeframe).

The state did receive a six-month federal extension for the Selective Provider Contract Waiver and existing IGT process. This extension will continue the existing federal funding stream only until June 30, 2005. Though the Administration contends the federal CMS may not approve another extension after this date, the federal CMS has in the past provided extensions for other Medicaid Waivers that the state operates, if the state is working towards a solution.

The outcomes from the negotiations with the federal CMS on the hospital finance restructuring component are truly the linchpin of the Medi-Cal Redesign. If the Administration cannot obtain agreement by the federal CMS on the following pieces of this particular puzzle, then expansion of the aged, blind and disabled into managed care arrangements would not be fiscally plausible.

Specifically, the core aspects of the discussion are:

- Obtain federal CMS agreement on calculating a more favorable “Upper Payment Limit” (UPL) for California so that, among other things, certain managed care services can be counted towards supplemental federal payments;
- Ensure federal fund growth over the next five-years (an 1115 wavier would be for five-years) for supplemental hospital funding through the use of an appropriate indices; and
- Obtain agreement on the proposed new methodology for calculating “certified public expenditures”, in lieu of using the existing IGT method for obtaining supplemental federal funds. This would include the recognition of expenditures for indigent health care. This is needed in order to verify that sufficient funds could indeed be generated and to mitigate any potential federal audit exceptions for which hospitals or counties might be liable.

Even if the federal CMS were to favorably respond to the state, considerable analysis and re-crafting of existing systems would need to occur in order to effectuate the proposed changes. Utilization of a “certified public expenditures” approach would require almost a wholesale change to how hospitals account for costs currently. Twenty-one hospitals (public hospitals) would be directly responsible for the certified public expenditure accounting and calculation. How the supplemental federal funds are to be distributed across the 240 or so hospitals currently receiving these federal funds would also have to be determined. Many hospital operational details would have to be worked out.

Realistically it is very unlikely with all of the myriad of issues, those with the federal CMS as well as with the hospital industry, that a July 1, 2005 transition date from the existing process to a new 1115 Waiver could be achieved.

Medi-Cal Managed Care Expansion. Currently, some form of Medi-Cal Managed Care (Two-Plan Model, Geographic Managed Care, or County Organized Health System (COHS)) is in 22 counties and serves about 3.2 million Medi-Cal enrollees, primarily families and children. All of these existing geographic areas are primarily urban or suburban and have considerable health network capacity.

The Administration’s Medi-Cal Managed Care expansion would be achieved through a phased-in process over a twelve to eighteen month period commencing in January 2007. This expansion assumes the following key aspects:

- **New Counties.** The expansion of the managed care model to 13 additional counties, including El Dorado, Imperial, Kings, Lake, Madera, Marin, Mendocino, Merced, San Benito, San Luis Obispo, Sonoma, Placer and Ventura. This would include enrolling about 262,000 parents and children. It is assumed that some of these counties would merge with an existing Geographic Managed Care Model or COHS. For example, San Luis Obispo County could be included in the Santa Barbara COHS (Santa Barbara Regional Health Authority). Details of these relationships would need to be carefully worked out.
- **Aged, Blind and Disabled Individuals (Mandatory Enrollment).** The DHS has identified 36 Medi-Cal aid codes which they would require to enroll into a managed care plan. Dual eligibles (Medicare and Medi-Cal) would not be included in this mandated group but could be voluntarily enrolled at the individual’s option.

The 13 new managed care counties as referenced above would immediately enroll these individuals as part of their implementation plan along with families and children enrollees. The existing Two-Plan Model plans (located in 12 counties) and existing Geographic Managed Care plans (located in two counties) would phase-in this new population over a period of 12 months. It is assumed that about 500,000 or so aged, blind and disabled individuals would be enrolled in a managed care plan by the end of 2007-08 and beginning of 2008-09.

- **Acute and Long-Term Care Integration.** The Administration also proposes implementation of Acute and Long-Term Care Integration Projects (Projects) in Contra Costa, Orange, and San Diego counties. Dual eligibles (Medicare and Medi-Cal) living in these counties would be enrolled. The DHS states that these Projects would offer a comprehensive scope of services that manages the full continuum of health care needs, including primary care, case management, acute care, long-term care, dental services, emergency services, and drugs.

- **Capitation Rates and Assumed Local Assistance Savings.** There is considerable and ongoing debate regarding the rates paid under Medi-Cal Managed Care. Generally, federal law states that managed care rate reimbursements cannot exceed 95 percent of the fee-for-service rate. However, the DHS needs to have a comprehensive analysis done regarding their rate methodologies, particularly if mandatory enrollment of more medically involved individuals (aged, blind, disabled) is to occur.

  The DHS savings analysis simply assumes (1) a capitation rate of 95 percent of the fee-for-service equivalent cost for the 13 expansion counties, and (2) the Two-Plan Model 2003-04 fee-for-service equivalent costs for the existing counties.

  It should be noted that the DHS does not assume any local assistance savings for the expansion of managed care until 2008-09. For 2008-09 they project savings of $177.5 million ($88.7 million General Fund) based on an increased enrollment of 538,785 average monthly eligibles.

- **State Expenditures.** The DHS assumes an increase of $7.6 million ($3.3 million General Fund) in 2005-06 to hire 48 positions for this expansion component.

The Administration's proposed managed care expansion is ambitious, particularly given the state's history with past Medi-Cal managed care expansion efforts, including recent problems in Fresno County as well as in Stanislaus County.

The expansion into new counties, coupled with a mandatory enrollment of aged, blind and disabled individuals, is too much to accomplish successfully within the 12 to 18 month period designated by the Administration. This is particularly true when it comes to transitioning very medically involved individuals from providers they know and who know them, to a new network of providers.

If this expansion is to occur, comprehensive planning with impacted constituency groups, particularly stakeholders in the mental health and developmental disabilities communities, needs to occur. Ongoing involvement from local communities, as presently done in San Diego County, should also be a component requirement.

In addition, considerable fiscal issues, including resolution of complex hospital financing concerns and the development of meaningful managed care rates, need to be further studied and resolved if aged, blind and disabled individuals are to be required to be enrolled. It is well known that the COHS have been experiencing fiscal hardship in serving these very medically-involved individuals. In fact, the Budget Act of 2004 provided a three percent rate increase to the COHS due to low operating reserves and questions of fiscal solvency.

The expansion to the 13 additional counties would require considerable state and local planning efforts. Key factors for the state to evaluate health plan readiness of any managed care arrangement includes: (1) analysis of available service utilization and cost data; (2) network adequacy; (3) care coordination and carve-outs; (4) quality monitoring and improvement; (5) linkages with non-Medi-Cal services; (6) accessibility and availability of new treatment modalities; (7) community, provider and consumer input into the planning process; and (8) health plan and provider compliance with the Americans with Disabilities Act of 1990.

The inclusion of aged, blind and disabled individuals (36 new aid codes) would require an expanded state evaluation to determine health plan readiness. In conjunction with the federal CMS, the DHS would conduct readiness reviews of all Medi-Cal Managed Care plans prior to health plans becoming operational to serve this population. Specifically the DHS states that they would use the readiness model established under the COHS process.

Clearly, more detailed discussions with constituency groups and the Legislature are needed prior to any agreements for expansion.

Proposed Implementation of Medi-Cal Premiums. The Governor desires to impose monthly premium payments on Medi-Cal enrollees with family incomes above 100 percent of poverty, including aged, blind and disabled individuals. This proposal would require trailer legislation as well as federal CMS approval through a Waiver. (This Waiver would be separate from the proposed hospital financing Waiver).

A total of 550,000 people would be affected by the proposed premium. In the first year alone, the DHS assumes that 20 percent of these individuals will fail to pay and become disenrolled, and thereby add to the increasing ranks of the uninsured living in California.

Specifically, Medi-Cal enrollees with incomes above 100 percent of the federal poverty level would pay a monthly premium ($4 per month for children under 21 years, $10 per month for adults, and a maximum of $27 per month for a family) to maintain Medi-Cal coverage. For example, a family of three with a monthly earned income of $1,306 per month would pay $24 per month for coverage or $288 annually. The required premium payment represents about 1.5 to 2 percent of the total annual income for the affected individuals.

Enrollees would be dropped from Medi-Cal if they do not pay premiums for two consecutive months. If re-enrollment is pursued, the individual would be required to pay back premiums owed from the previous six months in which they were enrolled. This can become confusing due to Medi-Cal eligibility retroactivity (which is 90-days) as allowed by federal law.

The irony of this proposal is that it will make the Medi-Cal Program more costly to administer, more complex to process since counties will need to make additional computations, and result in more uninsured individuals. First, increased costs of $6.8 million (General Fund) are identified in the budget to begin implementation of the premium design process, including some expenditures for state staff. However, this proposed increase does not capture the additional information system processing costs for making needed changes at the county level (Statewide Automated Welfare systems), which will likely be several million. (An amount has yet to be determined).

Second, for all 1931 (b) category enrollees, the Administration is changing how the existing earned income deduction will be applied solely for the purpose of determining premiums. In effect, when determining whether premiums are to be paid, a different calculation will be used (i.e., allowing for only a $90 income disregard in lieu of the $240 and ½ disregard). Therefore, the result under this revised calculation is that more families will need to pay premiums because they will be considered above 100 percent of poverty.

Further, families enrolled in the 1931 (b) category will have difficulty re-enrolling into Medi-Cal if they are disenrolled due to failure to pay a premium. These "recipients" are usually individuals who have left CalWORKS and receive Medi-Cal-only services. The federal Welfare Reform Law of 1996 specifically authorized these individuals to receive Medi-Cal services because Congress wanted to transition individuals from welfare to work. One of the barriers to this transition was receipt of health care services. As such, 1931 (b) families can have incomes up to 150 percent of poverty and be eligible for Medi-Cal. However if they loose their existing eligibility, they would be eligible for Medi-Cal only if their income level was at 100 percent of poverty or below.

Based on the fiscal information provided by the Administration it is also unclear as to what additional costs are going to be incurred for conducting Medi-Cal re-determination processing. Under SB 87 (Escutia), Statutes of 2000, as well as federal law, individuals who loose Medi-Cal eligibility under one set of criteria may be eligible for Medi-Cal enrollment under another category. As such, Medi-Cal re-determinations must be made. It is not evident if these costs were accounted for in the fiscal estimates.

Finally, it is unlikely that managed care plans would appreciate having this level of uncertainty in their Medi-Cal enrollment if individuals are cycling on and off. It is also unclear how the continuous annual enrollment of children would be affected if premiums were not paid.

C. Summary of Governor's Reductions and Augmentations for the Medi-Cal Program

- **Capitating Adult Dental Services (Medi-Cal Redesign Package).** The Governor proposes savings of $50.2 million ($25.1 million General Fund) in local assistance by restricting the amount of dental services provided to adults to $1,000 annually. An implementation date of August 1, 2005 is assumed. The DHS states that the $1,000 cap would exclude expenditures for federally mandated services provided by physicians, emergency services, and hospital costs associated with dental treatment. This proposal requires trailer legislation to enact.

  Further clarification on this proposal is needed in order to better discern what specific procedures are exempt from the cap, as well as what medically needy individuals and necessary dental services would fall above a $1,000 cap. For example, dentures cost $900 but other related dental work associated with this procedure may fall above the cap, such as related gum work or necessary medications.

  If a cap is to be implemented, consideration of a sunset date or rate adjustment factor needs to be discussed as well. Medi-Cal dental reimbursement rates are extremely low and placing a cap in statute without consideration for out-year implications is not constructive policy. Adequate access to dental services needs to be part of the discussion.

On a technical note, the savings estimate assumed by the Administration did not account for increased expenditures associated with implementation by the state's fiscal intermediary for dental reimbursement processing. Reimbursement processing changes will need to be made if a cap is adopted. As such, the savings estimate is overstated.

With respect to state support, the DHS is seeking an increase of $165,000 ($59,000 General Fund) to hire one Associate Information Systems Analyst and a half-time Staff Counsel to implement the capitation proposal.

- **Medi-Cal Enrollee Premiums (Medi-Cal Redesign Package).** Under this proposal, Medi-Cal enrollees with incomes above the federal poverty level would pay a monthly premium ($4 per month for children under 21 years, $10 per month for adults, and a maximum of $27 per month for a family) to maintain their Medi-Cal coverage.

  This premium proposal would affect about 460,000 families and children with household incomes above 100 percent of poverty (i.e., $1,306 per month for a family of three), and 90,000 seniors and individual with disabilities with incomes above the SSI/SSP level (i.e., $812 a month for a single person and $1,437 a month for a couple, effective April 1, 2005).

  The budget assumes increased costs of $2.3 million ($650,000 General Fund) in 2005-06 for system changes and then savings of $11.1 million ($5.5 million General Fund) in 2006-07 from both the collection of premiums as well as from disenrollment (i.e., people are dropped due to lack of payment).

- **Expansion of Managed Care—More Counties and Required Enrollment (Medi-Cal Redesign).** A key component of the Governor's proposal is to expand Medi-Cal Managed Care to (1) include 13 additional counties, and (2) require new Medi-Cal enrollees who are aged, blind, and disabled to enroll in a managed care plan (mandatory enrollment). The expansion would be achieved through a phased-in process, and when fully implemented, Medi-Cal managed care plans would be in 35 counties.

  The budget proposes increased costs of $7.6 million ($3.3 million General Fund) to hire 48 new state positions for this expansion effort. The Administration projects that savings of $177 million ($89 million General Fund) will be achieved in 2008-09.

- **Restructuring Hospital Financing through a Federal Waiver (Medi-Cal Redesign Package).** The Governor is seeking a five-year hospital financing waiver that would completely restructure the $3.8 billion reimbursement system and would directly affect the financial viability of about 240 hospitals statewide. At least $900 million in existing federal funding is at risk for the state.

  This is a complex proposal and requires further in-depth discussions with the hospital industry and the federal government, along with substantive review by the Legislature prior to any enactment. Trailer bill legislation is proposed for this purpose.

  It should be noted that the budget for Medi-Cal local assistance does not reflect any changes regarding the implementation of a new Waiver for hospital financing. It assumes the same level of funding as presently provided. The state support budget however reflects an increase of $1.5 million ($686,000 General Fund) to support 12 new state positions for implementation.

- **Federal Regulations for Funding Prenatal Care.** The budget proposes a reduction of $191.1 million (General Fund) by submitting a State Plan Amendment (SPA) under the federal Children's Health Insurance Program (S-CHIP) to obtain a 65 percent federal match for prenatal care provided to undocumented women. The cost of this vital health care is currently supported entirely by the General Fund. The proposed savings level assumes that the SPA is filed with the federal CMS by June 30, 2005 and that the state will obtain federal matching funds for both the current-year and budget year ($95.5 million each). This proposal requires trailer legislation.

  Recent federal regulations under the S-CHIP (Healthy Families Program in California) state than an unborn child (fetus) may be considered an eligible child under the program. As such, a state may elect to extend eligibility to unborn children for health benefits coverage, including prenatal care and delivery.

- **Shift of Funding Proposed for Legal Immigrants.** Due to the Governor's proposal to obtain increased federal funds through S-CHIP as noted above, and as discussed under the Access for Infants and Mothers Program below, Proposition 99 Funds become available. The Governor is proposing to use a portion of these funds—a total of $54.4 million (Proposition 99 Funds) in the current-year and $32.8 million (Proposition 99 Funds) in the budget-year—to backfill for General Fund support in the Medi-Cal Program. Specifically, these funds would be used to provide services to legal immigrants. Shifting Proposition 99 Funds in this manner may raise issues of supplanting. Proposition 99 states that funds must be used to supplement services and not supplant existing programs. The Administration contends that urgency legislation is needed in order to capture the General Fund savings in the current-year.

- **Medicare Modernization Act and Medicare Drug Benefit Implementation.** The Medicare Modernization Act of 2003 implements the Medicare Part D drug program that provides drug benefits to all Medicare enrollees, including those that are Medi-Cal eligible (i.e., dual eligibles), effective January 1, 2006. Due to this coverage, the federal government will no longer provide federal funding for Medi-Cal coverage for dual eligibles. In addition, the state must reimburse the federal government a portion of savings gained from not providing these drugs. The phased-down contribution, or "clawback", is 90 percent of the savings in 2006, based on a formula set in the Act, reduced each year until it reaches 75 percent.

  The budget assumes savings from no longer providing Part D drugs to dual eligibles at $746.8 million (General Fund). The cost of the "clawback" is estimated to be $646.6 million (General Fund). Therefore, the budget assumes a net savings of $100.2 million (General Fund). However, the DHS savings estimate does not reflect any potential state General Fund costs that may occur through the Department of Developmental Services (DDS) due to the potential need to provide selected medications to individuals with developmental disabilities.

- **Changes in Medi-Cal Due to CalWORKS Reductions.** The Governor proposes to change CalWORKS rules to reduce both the maximum aid payments (MAP) and the earned income deduction for CalWORKS recipients, effective July 1, 2005. Therefore under this proposal, these individuals would no longer be categorically linked to CalWORKS but would be eligible for one-year of Transitional Medi-Cal (as required by federal law). After this one-year of Transitional Medi-Cal, some of these individuals would no longer be eligible for Medi-Cal. The budget does not reflect any dollars changes to Medi-Cal because the effect would not be seen until 2006-07.

However, for individuals enrolled in the 1931 (b) category of Medi-Cal eligibility, reduction of the CalWORKS MAP would lower the federal poverty threshold for recipients. As such, some individuals could lose their Medi-Cal eligibility. At this time, it is not clear from the Administration as to how many individuals this may affect.

- **Single Point of Entry—Processing Change for Children's Applications (Medi-Cal Redesign Package) Would Increase Expenditures.** Presently, joint applications (Medi-Cal and Healthy Families) are submitted to a "Single Point of Entry" where they are initially processed by the Healthy Families vendor. Medi-Cal applications that are received by the vendor must then be forwarded to a county (has to be a county or the state per federal law) for final Medi-Cal Program processing.

  Under this proposal, Medi-Cal applications for children received through the "Single Point of Entry" would now be completely processed by the vendor and then sent to the state for final "certification". The state would then send the completed Medi-Cal application to the appropriate county for ongoing case management. There are about 120,000 applications for children received annually by the vendor which would be affected.

  The table below displays the net costs to the state for this proposal which are $6.8 million ($2.1 million General Fund). This includes increased costs for 19.5 new state positions, as well as vendor contract expenditures and information system changes. It should be noted that the Healthy Families Program inadvertently did not capture the increased costs for the vendor processing in their budget. This is to be corrected in their May Revision.

Governor's Proposed Single Point of Entry	**DHS (Total Fund)**	**DHS (General Fund)**	**Healthy Families Program (General Fund)**
<u>Local Assistance</u>			
Program Savings	($210,000)	($105,000)	
County Administration	($2,182,000)	($1,091,000)	
Vendor Contract Costs	$1,150,000	$0	$1,150,000
Local Assistance	**($1,242,000)**	**($1,196,000)**	**$1,150,000**
Support Cost (19.5 new positions)	**$6,909,000**	**$2,172,000**	
Additional Costs ($2.1 million General Fund)	**$5,667,000**	**$976,000**	**$1,150,000**

Additional information needs to be obtained as to how this restructuring of the Single Point of Entry is to work, including information systems processing. On the surface, the proposal does not appear to actually streamline the process.

- **Medi-Cal to Healthy Families Program Bridge—County Performance Standards.** Existing law provides that children who are discontinued from enrollment in Medi-Cal due to increased family income are eligible to apply for enrollment into the Healthy Families Program (HFP). During the application period for the HFP, the child receives one additional month of Medi-Cal eligibility to mitigate any potential break in health care coverage.

  The Administration is proposing trailer legislation to require County Welfare Departments, who conduct the bridge process, to meet specified performance criteria regarding the enrollment of these children.

  The budget proposes a total increase of $5.3 million ($2.3 million General Fund) for this proposal. Of this amount, $827,000 ($392,000 General Fund) is for administration, including funds for three new state positions. The remaining amount is to provide health care services to about 22,500 more eligible children for the one month bridge. An implementation date of October 1, 2005 is assumed.

- **Continuation of Moratorium and Proposed New Rate Redesign for Adult Day Health Care.** The Budget Act of 2004 and corresponding health trailer legislation implemented a moratorium on the growth of new Adult Day Health Care (ADHCs) sites effective October 1, 2004. The budget proposes to continue this moratorium for savings of $45.3 million ($22.6 million General Fund). This savings level assumes continuation of the moratorium through to December 30, 2005.

  In addition, the federal CMS wants California to move the existing ADHC Program to a federal Waiver (1915 (c)). Under this new Waiver, the Administration assumes that a new rate redesign will need to occur. As such, the budget also assumes savings of $13.3 million ($6.7 million General Fund) from changes to the rates (unbundling of the rate). It should also be noted that the Administration intends to introduce policy legislation to commence with the crafting of this Waiver proposal. An implementation date of January 1, 2006 is assumed. However, this date is probably unrealistic due to the need to (1) obtain federal CMS approval, (2) potentially modify service delivery systems, and (3) modify administrative systems.

- **Quality Improvement Assessment Fee for Medi-Cal Managed Care Plans.** The budget assumes implementation of the Quality Improvement Assessment Fee for Medi-Cal Managed Care plans by July 2005 for net savings of $37 million (General Fund). However, federal CMS approval on this proposal has been languishing since the summer of 2004. As such, current year savings of $37 million (General Fund) which were assumed in the Budget Act of 2004 cannot now be achieved. In addition, certain health plans will likely need to make administrative changes in order for the fee to be appropriately implemented.

  Through this Quality Improvement Assessment, managed care plans will pay a fee to the state. The state will then obtain a federal match on the fee assessment. These funds would then be used to improve the quality of care in managed care plans through a rate enhancement, and the state would utilize the remaining amount as a General Fund offset.

- **Implementation of Skilled Nursing Home Rate Increase and Quality Assurance Fee.** The budget assumes implementation of AB 1629, Statutes of 2004, which (1) requires the DHS to provide a cost-of-living-adjustment (COLA) to nursing homes, effective August 1, 2004; (2) provides for the establishment of a facility specific rate methodology by August 1, 2005; and (3) institutes a Quality Assurance Fee to be effective by August 1, 2004. Costs to the Medi-Cal Program for the COLA and new rate methodology are expected to be $99 million (General Fund) in 2004-05 and $259.5 million (General Fund) in 2005-06.

  The DHS needs to submit a State Plan Amendment (SPA) to the federal CMS for their approval of the Quality Assurance Fee. As part of the SPA, the DHS will be seeking retroactive approval back to August 1, 2004 in order to obtain federal fund support and General Fund savings. Through the use of the Quality Assurance Fee, it is assumed that General Fund savings of $120 million for 2004-05 and $257 million for 2005-06 will be achieved.

- **Significant Changes Proposed for Third Party Liability Recovery.** The budget assumes savings of $43 million ($21.5 million General Fund) in local assistance for Medi-Cal through the enactment of trailer legislation and the hiring of 80.5 new state positions. Expenditures of $6.3 million ($1.9 million General Fund) are proposed to fund the new state positions. Annualized savings are projected to be $159.6 million ($79.8 million General Fund) once statutory measures and staff are fully in place.

  Though language has not yet been provided, it appears the Administration is seeking considerable statutory changes to amend existing laws on probate, estate recovery, personal injury, and special needs trusts, usually established for disabled individuals. The intent of these changes would be to grant the DHS broad authority to collect and recoup for Medi-Cal Program expenditures, including the ability to place liens on property. Savings of $8 million ($4.1 million General Fund) are attributable to these changes which are included in the overall savings estimate. Considerable discussion will need to occur to fully clarify the implications of these proposals to ensure that unintended consequences do not occur.

  The DHS is also requesting 80.5 new state positions for increased expenditures of $6.3 million ($1.9 million General Fund). This cost estimate assumes that all positions are hired as of July 1, 2005, which of course will not occur. Several of the positions, such as auditors and tax compliance representatives have been difficult for the DHS to hire in the past. As such, a more phased-in approach should be taken at a minimum.

  A more critical issue though is the method in which the DHS deploys staff. Several issues have been raised in the past with respect to the state's return on investment for some collection and recoupment personnel. As such, a more comprehensive assessment regarding the cost-benefit of this particular staff is needed.

- **Increased Anti-Fraud Savings.** The budget assumes savings of $71 million ($35.5 million General Fund) for 2005-06 from efforts commenced through increases in staffing provided to the DHS through the Budget Acts of 2000 and 2003. Most of this increased savings level is attributable to (1) withholding and temporarily suspending Medi-Cal reimbursement from providers when fraud is suspected, and (2) conducting special claims review of selected providers.

- **Increase for Medicare Part B Deductible.** An increase of $20 million ($10 million General Fund) is needed for the state to pay the Part B deductible of dually eligible Medi-Cal/Medicare enrollees. The federal Medicare Prescription Drug and Modernization Act of 2003 includes yearly increases to the Part B deductible. Each year, this deductible will increase according to an inflation factor determined by the federal government.

- **Continues the Disproportionate Share Hospital (DSH) Administrative Fee.** The Governor proposes to continue to redirect $85 million, obtained from intergovernmental transfers provided by public hospitals, from Disproportionate Share Hospital payments to the Health Care Deposit Fund in order to backfill for General Fund support in the Medi-Cal Program.

- **July 2004 Delayed Medi-Cal Checkwrite.** Through the Budget Act of 2004, a change was made in claims processing to delay all Medi-Cal checkwrites by one week to allow more time for review of provider claims prior to payment. This action deferred payments worth about $151 million (General Fund) to the budget year (2005-06). As such, this cost must be paid in 2005-06 as Medi-Cal returns to a 52 week checkwrites schedule.

- **Fluoride Varnish Added.** A net savings of $112,000 ($56,000 General Fund) is in the budget to add coverage provided by medical providers who see pregnant women and young children and can intervene earlier to prevent childhood tooth decay. The savings level includes the cost of providing two varnish applications.

- **Adjustments to Federally Qualified Health Clinics (FQHC) and Rural Health Centers for Prospective Payments.** An increase of $29.6 million ($14.8 million General Fund) is provided for FQHCs and RHCs that have opted to participate in the federal Prospective Payment Reimbursement (PPS) method of Medicaid (Medi-Cal) reimbursement. This increase reflects the annual Medicare Economic Index increase of 2.9 percent effective as of October 1, 2004, with another adjustment of 2.2 percent as of October 1, 2005.

Highlights for Primary Care & Family Health, Public Health & Environmental Health and County Health Services

Summary of Funding. The Governor proposes expenditures of almost $2.5 billion (total funds) for local assistance in 2005-06. This consists of: (1) $1.556 billion for Primary Care and Family Health, (2) $887.6 million for Public and Environmental Health, and (3) $52.9 million for County Health Services. The budget reflects a net increase of $22.7 million for Primary Care and Family Health and a net increase of $24.8 million (total funds) for Public and Environmental Health over the revised current-year. These proposed adjustments are discussed below.

Summary of Governor’s Reductions and Augmentations for Public Health

- **AIDS Drug Assistance Program (ADAP).** Total expenditures of $263.6 million ($91.2 million General Fund, $100.8 million federal funds, and $71.6 million in drug rebates) are proposed which reflects an increase of $56.2 million ($24.6 million General Fund and $31.6 million drug rebates) over the revised current-year. The proposed increase is based on actual ADAP expenditures through June 2004 and reflects ongoing cost trends for the program.

  The principle cost factors for ADAP are steadily increasing drug prices and an increasing client caseload. Individuals enrolled in the ADAP often continue in the program for long periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. It is estimated that ADAP will serve 30,446 clients in 2005-06.

- **California Rx Initiative.** The Administration proposes an increase of $4 million (General Fund) to implement a prescription drug discount program. The intent of the program would be to provide drug discounts to individuals under 300 percent of poverty who are otherwise not eligible for Medi-Cal or Medicare, or individuals in need of drugs not covered by Medicare. As amended, SB 19 (Ortiz) proposes the statutory changes needed to implement this Administration proposal.

  Of the proposed amount, $2 million (General Fund) is for state support and would be used to hire 18.5 new positions. The remaining $2 million in local assistance funds would be used for claims processing, development of a system, and pre-funding of rebased-based reimbursement for pharmacies during the initial phases of Cal Rx.

  According to the DHS, enrollment in the program would be simple and done through a pharmacy. An initial $15 enrollment fee for processing the application would be required, as well as an annual $15 re-enrollment fee. No copayments or deductibles would be required.

  To operate the program, the DHS would obtain federal CMS approval to be a State Pharmaceutical Assistance Program (SPAP). Under this federal authorization, drug manufacturers are able to discount drugs to a state without having the drug discount be considered the manufacturers “best price”. The federal CMS uses the “best price” designation to determine the federal Medicaid (Medi-Cal) drug rebate amounts to be paid by the manufacturers. Without this “best price” exemption, manufacturers are very reluctant to participate in the program because increased drug rebates would have to be paid to all state Medicaid (Medi-Cal) programs. Discussions on this issue will continue as the legislation proceeds through the policy process.

- **California Obesity Initiative.** The Governor is proposing an increase of $6 million (General Fund) for an obesity prevention program. Of this amount, $3 million is for state support including two new positions and consultant contacts, and $3 million is for local assistance. The DHS contends these new funds would be used to fill in gaps and complement existing nutrition programs which are primarily federally funded.

  A “coordinating office” would be created and would report directly to the State Public Health Officer. This new office would serve as the lead entity within the DHS to facilitate all public health obesity prevention initiatives.

  Of the proposed $6 million, about $2.8 million would be used for various consultant contracts as follows:

  - $150,000 for public relations;
  - $500,000 for clearinghouse information and training;
  - $500,000 for surveillance, applied research and evaluation activities;
  - $150,000 for DHS work place wellness; and

- $1.4 million for quality improvement techniques in up to six participating health plans in Medi-Cal. The techniques would include promotion of breastfeeding, increased screening to promote healthy eating, and treatment and referral for overweight and at-risk for overweight children.

The $3 million proposed for local assistance would be allocated to 15 new and existing "community action projects". The intent of these projects would be to address both nutrition and physical activity issues in local communities and serve as role models for the state.

There are many approaches to addressing nutritional and obesity-related health care concerns. Legislative proposals have endeavored to make nutritional changes in the schools, as well as to have health-related eating disorders covered by Medi-Cal and other forms of health insurance. Not all of which have been supported by the Administration.

Due to the state's fiscal crisis, question arises as to why the Administration's obesity-related health care concerns cannot be addressed through other means. For example, The California Endowment is presently investing $26 million for a variety of efforts, including $9 million to five communities over a four-year period to combat childhood obesity. Funds from the Families First Commission (Proposition 10) could be used for some of these efforts as well. Further, the Medi-Cal Program and other health care insurance programs should be incorporating best practices within this realm already. Finally, considerable investment is already being done through the Women, Infant and Children's Supplemental Nutrition Program, the California 5 a Day Program, Project LEAN, and several other programs operated by the DHS using federal funds. If the DHS wants to administratively reorganizing these programs to make them more efficient and effective, this can be done without increased General Fund support.

- **Proposed Elimination of the Office of Binational Border Health.** The Governor proposes to eliminate the Office of Binational Border Health (OBBH) in 2005-06 for a reduction of $694,000 (General Fund). Established in 2000, the OBBH fostered binational partnerships between Mexico and California regarding all aspects of public health. These efforts included (1) assessing public health status of border and binational communities, (2) coordinating environmental health issues such as air quality, water quality, food safety and lead exposure, (3) mitigating the spread of infectious disease, and (4) promoting health policy and program development for binational cooperation.

  As noted by the DHS, the OBBH serves as the single point of coordination on border health activities. As such, with thousands of individuals crossing the border every day, coupled with the extensive exchange of commerce and goods between California and Mexico, it only makes sense to maintain the OBBH to help ensure public health safety. It is a reasonable investment.

- **Significant Shifts in Funding for Proposition 99 Supported Programs.** The Governor proposes significant shifts in Proposition 99 funded programs, along with urgency legislation, for both the current-year and budget-year. The Administration states that the purpose of the urgency legislation is to address the current-year aspects of their proposal.

  The key shifts, as highlighted in the chart below, reflect the Governor's proposal to submit a State Plan Amendment (SPA) under the federal Children's Health Insurance Program (S-

CHIP) to obtain a 65 percent federal match for prenatal care provided to women. This proposed change would unencumber a portion of Proposition 99 Funds historically expended under the Access for Infants and Mothers (AIM) Program (Also see Item 4280, below).

In addition, the Governor makes policy choices to then use a portion of the Proposition 99 Funds to backfill for General Fund savings in other health care programs.

	2004-05 Fund Shifts			2005-06 Fund Shifts		
Governor's Proposed Funding Shifts	**Proposition 99**	**General Fund**	**Federal Funds**	**Proposition 99**	**General Fund**	**Federal Funds**
Fund Access for Infants & Mothers (AIM) Program with General Fund	($71,354)	$24,974	$46,380	($78,440)	$27,454	$50,986
Technical fix for State Support	$1,100			$1,100		
Increase Every Woman Counts (cancer screening)	$8,959			$12,834		
Fund Caseload in State Hospitals for Mental Health	$9,784	($9,784)		$13,551		
Shift Expanded Access to Primary Care (EAPC) Clinic Funding				$10,000	($10,000)	
Shift Medi-Cal Legal Immigrants to Proposition 99 Funding	54,354	($54,354)		$32,793	($32,793)	
Net Total Adjustments	**$ 2,843**	**($39,164)**	**$46,380**	**($ 8,162)**	**($15,339)**	**$50,986**

As noted in the above chart, Proposition 99 Funds would be shifted from the AIM Program and used to backfill $39.2 million in General Fund support for the current-year, and $15.3 million in 2005-06. A General Fund increase of almost $25 million in the current year and $27.4 million in the budget year is then provided to AIM in order to draw down the federal S-CHIP (Title XXI) funds.

The Administration is proposing the use of General Fund support for AIM, in lieu of Proposition 99 Funds, because Proposition 99 Funds cannot be used to match federal funds unless a four-fifths vote of the Legislature is obtained for this specified purpose. It should be noted that a four-fifths vote has been achieved at least twice before for federal matching fund purposes.

Other key Proposition 99 Fund adjustments include the following:

- Uses $54.4 million (Proposition 99 Funds) in 2004-05 and $32.8 million (Proposition 99 Funds) in 2005-06 to backfill for General Fund support in the Medi-Cal Program, for services provided to legal immigrants;
- Uses $10 million (Proposition 99 Funds) to backfill for General Fund support in the Expanded Access to Primary Care (EAPC) Clinic Program;
- Increase by almost $12.8 million the Breast Cancer Early Detection Program to address caseload needs for screening services;
- Uses $9.8 million (Proposition 99 Funds) in 2004-05 and $13.5 million (Proposition 99 Funds) in 2005-06 to backfill for General Fund support in the State Hospitals operated by the Department of Mental Health; and

    - Restores $1.1 million (Proposition 99 Funds) for both 2004-05 and 2005-06 to DHS state support which was omitted inadvertently during the Administration's baseline budget building process.

- **Newborn Screening Expansion**. Senate Bill 142 (Alpert), Statutes of 2004, expanded the existing Newborn Screening Program from 39 conditions to 76 conditions through the use of Tandem Mass Spectrometry. To fund this expansion effort, the DHS is requesting an increase of $15 million (Genetic Disease Testing Fund) to (1) support three new positions, and (2) purchase $14.8 million in equipment and related services, including Tandem Mass Spectrometry equipment and software, laboratory services, and information processing system modifications.

  The enabling statute provided the DHS with authority to increase fees for this program, if required for the expansion effort. As such, the DHS is proceeding with emergency regulation authority to increase the fee from $60 to a total of $78, effective January 1, 2005.

- **Battered Women Shelter Program—Underserved Services.** The Administration proposes an increase of $1.1 million ($515,000 General Fund, $235,000 Domestic Violence Training Fund and $350,000 in Nine West Settlement Funds) to restore funds used to assist shelters to serve communities of color, teens, disabled women and others that traditionally do not seek shelter services but are at high risk for domestic/intimate partner relationship violence. It should be noted that this is a direct service program and not an outreach program.

- **Federal Bioterrorism Funding—Continue State Support for 95 Positions**. The Administration is seeking an increase of $8.2 million (federal funds) to support almost 95 positions (two-year limited-term) associated with the DHS' efforts regarding bioterrorism. The existing authority for these positions expires as of June 30, 2005.

  It should be noted that the five-year bioterrorism grant provided by the Centers for Disease Control (CDC) to fund 86 of the positions will expire on August 30, 2005 and a new multi-year grant will begin. The CDC has yet to finalize specifics on the requirements for the new federal grant funding cycle. As such, it is unclear as to whether all of the requested positions can be funded under the new cycle or whether the CDC will be changing its focus for states.

- **Continues Deferral of State Support for County Medical Services Program.** The Governor proposes to suspend for another year the $20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP). This $20.2 million has been suspended for the past several years since the CMSP has had reserve funds available. However, it is unknown at this time if the CMSP can continue to fully operate using only County Realignment Funds and dwindling Proposition 99 funds.

4270 California Medical Assistance Commission

The California Medical Assistance Commission (CMAC) was established in 1983 to negotiate contracts with specific services under the Medi-Cal Program on behalf of the Department of Health Services. State law and regulations govern the Commission's activities. The Commission is composed of seven voting members appointed to four-year terms.

Major Commission activities include the following:

- Negotiating contracts under the state's Selective Provider Contracting Program for Medi-Cal fee-for-service hospital inpatient services statewide;
- Negotiating contracts with hospitals for supplemental payments under the (1) Emergency Services and Supplemental Payment Program (SB 1255 funds), (2) Medi-Cal Medical Education Supplemental Payment Program, (3) Construction and Renovation Reimbursement Program (SB 1732), and (4) Small and Rural Supplemental Payment Program; and
- Developing and negotiating per capita, at-risk managed care contracts for health care services to Medi-Cal enrollees with County Organized Health Care Systems and participating Geographic Managed Care Plans.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
CA Medical Assistance Commission	**$2,604**	**$2,622**	**$18**	**0.6%**
Funding Source				
General Fund	$1,195	$1,207	$12	1.0%
Emergency Services & Supplemental Payments Fund	$111	$108	($3)	(2.7%)
Reimbursements	$1,298	$1,307	$9	0.7%

4280 Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers the: (1) Healthy Families Program, (2) Access for Infants and Mothers (AIM) and (3) Major Risk Medical Insurance Program.

The budget proposes total expenditures of $1.048 billion ($355.9 million General Fund, $620 million Federal Trust Fund, $1.7 million County Health Initiative Matching Funds, $40 million Major Risk Medical Insurance Fund, and $30.1 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. Of this total amount, $9.3 million is for state operations. This funding level represents an increase of 11.4 percent over the revised current-year. Most of this proposed net increase is due to increased enrollment into the Healthy Families Program. Significant adjustments are also proposed for the Access for Infants and Mothers (AIM) Program.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Major Risk Medical Insurance Program (including state support)	$39,144	$39,144	--	--
Access for Infants & Mother (including state support)	$123,176	$99,758	($23,418)	(19.0)
Healthy Families Program (including state support)	$806,778	$894,948	$88,170	10.9
County Health Initiative Program	$5,489	$4,663	($826)	15.0
Unallocated Reduction—State Support	--	($937)	($937)	(100)
Totals Expenditures	**$974,587**	**$1,038,513**	**$63,926**	**11.4**
Fund Sources				
General Fund	$303,286	$313,592	$10,306	3.4
Federal Funds	$617,860	$639,162	$21,302	3.4
County Health Initiative Matching Fund	$53,846	$53,846	--	--
Other Funds	$146,094	$149,707	$3,613	2.4
Total Funds	$1,121,086	$1,156,307	$35,221	3.1

Highlights for the Healthy Families Program

Summary of Funding and Enrollment. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

A total of $894.9 million ($325.2 million General Fund, $559.1 million Federal Title XXI Funds, $1 million Proposition 99 Funds, and $9.7 million in Reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of $88.2 million ($33.3 million General Fund) or 10.9 percent over the revised current-year.

The budget assumes a total enrollment of 789,301 children as of June 30, 2006, for an increase of 75,425 children over the revised current year enrollment level. This represents a budget year growth rate of 10.6 percent. This projected growth rate reflects a higher growth trend due to the (1) proposed restoration of the HFP and Medi-Cal Application Assistance Program, (2) proposed changes to the Medi-Cal to HFP Bridge process, and (3) the shift of infants from the Access for Infants and Mothers (AIM) Program to the HFP (See AIM Program discussion below).

The total enrollment figure is based on the sum of the five population segments as follows:

- Children in families up to 200 percent of poverty: 516,207 children
- Children in families between 201 to 250 percent of poverty: 190,775 children
- Children in families who are legal immigrants: 16,222 children

- Child Health Disability Prevention (CHDP) Gateway Access: 33,901 children
- Access for Infants and Mothers (AIM) Program shift 7,917 children

Other key funding assumptions are as follows:

- **Payments to Health, Dental and Vision Plans.** The payments to health, dental and vision plans remain unchanged from the Budget Act of 2004. However, it is likely that rate increases will be proposed at May Revision since the health plan contracts are opened for a reprocurement at that time. For children from one to 19 years the average cost is $91.46 per month for all benefits. For infants 0 to 1 years with family income between 200 percent and 250 percent of poverty the average cost is $214.99 per month for all benefits. For infants born to AIM moms who enrolled on or after July 1, 2004, a negotiated lump sum rate of $2,910 is used for the first two months of enrollment and then the HFP infant rate will be used for the remaining ten months.

- **Premiums for Families at 200 Percent of Poverty.** For families with incomes up to 200 percent of poverty, the average subscriber premium payment is $5.51 per child per month.

- **Premiums for Families Above 200 Percent of Poverty.** For families with incomes from 201 percent and above, the premiums will increase to $6.00 per child per month, effective July 1, 2005. This increase, as proposed by the Governor during 2004-05 budget deliberations, was included in the omnibus health trailer legislation for the Budget Act of 2004.

Summary of Governor's Reductions and Augmentations

- **Restoration of Certified Application Assistance Fees.** Historically, the HFP utilized a comprehensive outreach and enrollment process, which included the use of Certified Application Assistants (CAA), public relations, and a media campaign. These efforts, coupled with changes to the HFP application, streamlined the enrollment process and facilitated children getting HFP services. The use of CAA's was particularly effective. However due to fiscal constraints, these efforts were eliminated several years ago.

  An increase of $14.4 million ($6 million General Fund, $5.8 million federal funds and $2.6 million reimbursements) is proposed to (1) restore the CAA fees; (2) account for related increased enrollment impact; and (3) provide funding for three state positions. The specific program components and costs are as follows:

  - **Application Assistance Fees.** A total of $11.7 million (total funds) is proposed to (1) provide a $50 fee for each successfully enrolled HFP or Medi-Cal application upon request by a Certified Application Assistant, and (2) provide a $25 fee for each annual eligibility re-determination application that results in ongoing HFP coverage for an eligible subscriber.

  - **Impact on HFP Caseload Enrollment.** An increase of $2.4 million ($878,000 General Fund) is provided to account for an increase of 14,372 additional children who are anticipated to be enrolled in the HFP from the application assistance.

  - **State Administrative and Operational Support.** The MRMIB is requesting increased state support funds of $263,000 (General Fund) to support three new positions to oversee the implementation and monitoring of the administrative vendor and CAA implementation and operation activities.

- **Medi-Cal to Healthy Families Program Bridge—County Performance Standards.** Existing law provides that children who are discontinued from enrollment in Medi-Cal due to increased family income are eligible to apply for enrollment into the Healthy Families Program (HFP). During the application period for the HFP, the child receives one additional month of Medi-Cal eligibility to mitigate any potential break in health care coverage.

  The Administration is proposing trailer legislation to require County Welfare Departments, who conduct the bridge process, to meet specified performance criteria regarding the enrollment of these children. (See Item 4260, Department of Health Services, Medi-Cal Program). An implementation date of October 1, 2005 is assumed.

  With respect to the HFP, the budget assumes that an additional 9,907 children will be enrolled by June 30, 2006 due to the enforcement of the proposed standards. As such, an increase of $3.1 million ($1.1 million General Fund) is provided to fund these children.

- **Substantial Request for State Support.** The Governor is proposing an increase of $2.2 million ($775,000 General Fund) to support 24.5 new state positions. The MRMIB contends that these positions are needed to provide increased oversight of contractor and customer service functions. This reflects a 52 percent increase in positions over the revised current year.

- **Staff for Assistance to Counties for Healthy Kids Local Initiatives.** Several counties have developed their own local programs to provide health care coverage to uninsured low-income children from 250 percent to 300 percent of poverty, including Santa Clara, Alameda, San Francisco, San Mateo, San Joaquin, San Bernardino, Riverside, Santa Cruz, Tulare, and Los Angeles. Other counties are interested, but either require technical assistance in developing their own programs or would simply like the opportunity to use local funds to "buy in" to the HFP.

  The MRMIB is requesting an increase of $261,000 ($91,000 reimbursements from the Families First Commission, and $170,000 federal funds) to support three new positions to provide technical assistance and support to local counties in the development and expansion of their locally funded Healthy Kids Programs (250 percent to 300 percent of poverty level). These positions would be used to develop a "buy in" option in which counties could transfer local funds to the HFP and have their Healthy Kids eligible children participate directly in the HFP, at no cost to the state.

- **Continues County Health Initiative Matching (CHIM) Fund Program.** The budget proposes to provide a total of $4.6 million ($1.6 million County Health Initiative Matching Fund and $3 million federal funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001.

  Through this program, counties, local initiatives and County Organized Health Care Systems can submit proposals to receive federal matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These matching funds are unexpended federal Title XXI State Children's Health Insurance Program (S-CHIP) funds which the state presently does not need to support the existing HFP.

The funding in the budget includes (1) the federal funding needs for the four pilot counties—Alameda, San Francisco, San Mateo, and Santa Clara--, and (2) the phase two counties—Los Angeles, Santa Cruz, and San Joaquin.

- **Continues Funding for Rural Demonstration Projects.** Through the Budget Act of 2003, the Legislature shifted Proposition 99 Funds to the HFP to restore the Rural Demonstration Projects. The Governor continues to provide $2.8 million ($1.047 million Proposition 99 Funds) for these valuable projects.

Highlights for the Access for Infants and Mothers Program

Summary of Funding and Enrollment. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus $100 for the infant's second year of coverage.

Beginning July 1, 2004, infants born to AIM women will be automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the AIM mother was enrolled prior to that date. Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.

A total of $100.6 million ($19.2 million Perinatal Insurance Fund, $28.5 million General Fund, $52.9 million federal funds) is proposed for AIM in 2005-06. A total of 9,340 women, 8,946 first-year infants, and 72,607 second-year infants are expected to utilize AIM. This funding level reflects a reduction of $23.5 million (total funds) over the revised current-year. This reduction is due to the transition of the program as referenced.

Proposed Fund Shifts. With respect to funding sources, California is now able to obtain a 65 percent federal S-CHIP match for all AIM infants (200 percent to 300 percent of poverty) transitioned to the HFP. In addition, the Governor proposes to submit a State Plan Amendment (SPA) under the federal Children's Health Insurance Program (S-CHIP) to obtain a 65 percent federal match for prenatal care provided to women.

Both of these items result in savings to the state due to the enhanced federal funds. As such, the Administration is proposing to reduce Proposition 99 Funds, which flow through the Perinatal Insurance Fund in AIM, by $71.4 million in the current year and $80.7 million in the budget year. These Proposition 99 Funds would then be used to offset a net $54.5 million in General Fund support in various health care programs. (Also see Item 4260, Department of Health Services, Proposition 99 Funds discussion, above.)

Highlights for the Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of $40 million (Major Risk Medical Insurance Fund) to serve about 7,000 individuals. The budget proposes no substantial changes to the program.

4300 Department of Developmental Services

The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers (RC) and in state Developmental Centers (DC) for persons with developmental disabilities as defined by the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18^{th} birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to: (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services and supports are cost-effective for the state.

Summary of Total Department Funding

The budget proposes total expenditures of $3.7 billion ($2.3 billion General Fund), for a *net* increase of $166.4 million ($129.8 million General Fund) over the revised 2004-05 budget, to provide services and supports to individuals with developmental disabilities living in the community or in state Developmental Centers. The proposed $166.4 million ($129.8 million General Fund) augmentation represents an increase of 4.7 percent over the revised current year.

Of the total amount, $2.954 billion ($1.947 billion General Fund) is for services provided in the community, $699.2 million ($373.2 million General Fund) is for support of the state Developmental Centers, $36.4 million ($24.1 million General Fund) is for state headquarters administration, and $502,000 (General Fund) is for state-mandated local programs.

The Administration proposes to close Agnews Developmental Center, located in San Jose, by July 2007. As such, the budget contains adjustments to transition towards this closure, including increased investment in housing options, community-based services and supports, and related resource development. A comprehensive outline of the Agnews closure proposal is contained under the Issues Section for the Developmental Centers, below.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Community Services Program	$2,766,542	$2,953,691	$187,149	6.8
Developmental Centers	$721,541	$699,232	($22,309)	(3.1)
State Administration	$35,324	$36,427	$1,103	3.1
State Mandated Local Program	$4	$502	$498	125
Total, Program Source	$3,523,411	$3,689,852	$166,441	4.7
Funding Source				
General Fund	$2,214,571	$2,344,424	$129,853	5.9
Federal Funds	$53,908	$55,730	$1,822	3.4
Program Development Fund	$1,497	$2,268	$771	51.5
Lottery Education Fund	$2,204	$2,204	--	--
Developmental Disabilities Services	$300	$0	($300)	(100)
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	$1,250,931	$1,285,226	$34,295	2.7
Total Expenditures	$3,523,411	$3,689,852	$166,441	4.7

Highlights for Community-Based Services

Summary of Funding and Enrollment. The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

The budget proposes expenditures of $2.953 billion ($1.9 billion General Fund) for community-based services, provided via the RCs, to serve a total of 208,000 consumers living in the community. This funding level includes $461.7 million for RC operations and $2.471 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of $187.1 million ($142.6 million General Fund), or 6.8 percent, over the revised current year budget for RCs. Most of this increase is attributable to: (1) an increase in enrollment — 8,765 new consumers; (2) an increase in the utilization of services by consumers; (3) restoration of a one-time $29.9 million adjustment associated with the availability of reimbursements for South Central Los Angeles Regional Center; (4) updated community placement plan funding to reflect some consumers transitioning from Agnews Developmental Center to the community; and (5) an increase for RC operations pertaining to activities associated with the Home and Community-Based Wavier.

The following chart depicts consumer enrollment for RC services over the last five-years.

Regional Center Enrollment Chart

Fiscal Year	RC Enrollment	Yearly Difference in Consumers	Percent Increase
2000-01	163,613	8,651	5.6%
2001-02	172,714	9,101	5.6%
2002-03	182,175	9,461	5.5%
2003-04	190,116	7,941	4.4%
2004-05 (Estimated)	199,255	9,139	4.8%
2005-06 (Proposed)	208,020	8,765	4.4%

The DDS notes that several key factors appear to be driving caseload growth trends, including the following:

- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities;
- Significant increase in the diagnosed cases of autism, the causes of which are not yet fully understood; and
- Likelihood that medical professionals are identifying more developmentally disabled individuals at an earlier age.

Summary of Governor's Key Reductions and Augmentations for Regional Centers

- **Continues Cost Containment Actions Taken in the Budget Acts of 2003 and 2004.** The Governor proposes to continue several cost containment actions enacted as part of the Budget Acts of 2003 and 2004. These include: (1) $10 million ($7 million General Fund) in unallocated reductions for the Purchase Of Services; (2) a Day Program rate freeze; (3) a contract services rate freeze; (4) a Community Care Facility rate freeze; (5) elimination of the SSI/SSP pass-through to Community Care Facilities (CCFs); (6) a delay in intake and assessment (from 60 days to 120 days); (7) non-community placement plan start-up suspension; (8) an unallocated reduction of $6.5 million to RC Operations; and (9) implementation of a Family Cost Participation Program (also see below).

  The following table provides a summary of the fiscal affects of these prior year actions as they pertain to the revised current-year funding and budget year funding.

Summary Table of Previous Cost Containment

Previously Implemented Cost Containment Measures	Revised 2004-05 Total	Revised 2004-05 General Fund	2005-06 Total	2005-06 General Fund
RC Operations Total	**($10,353,000)**	**($10,353,000)**	**($10,011,000)**	**($10,011,000)**
1. Delay in Assessment (60 – 120 Days)	(4,465,000)	(4,465,000)	(4,465,000)	(4,465,000)
2. Family Cost Participation	570,000	570,000	912,000	912,000
3. 2004-05 Unallocated Amount	(6,458,000)	(6,458,000)	(6,458,000)	(6,458,000)
RC Purchase of Services Total	**($70,037,000)**	**($60,498,000)**	**($85,997,000)**	**($73,421,000)**
1. Day Program Rate Freeze	(5,771,000)	(4,184,000)	(16,709,000)	(!2,114,000)
2. Contract Services Rate Freeze	(11,375,000)	(8,963,000)	(11,565,000)	(9,193,000)
3. CCF Rate Freeze	(12,389,000)	(7,433,000)	(12,389,000)	(7,433,000)
4. Elimination of the SSI/SSP Pass-Through to CCFs	(1,461,000)	(877,000)	(1,631,000)	(978,000)
5. Non-Community Placement Start-up Suspension	(5,962,000)	(5,962,000)	(5,962,000)	(5,962,000)
6. Family Cost Participation	(570,000)	(570,000)	(3,143,000)	(3,143,000)
7. Reduced Growth Trend	(11,357,000)	(11,357,000)	(11,357,000)	(11,357,000)
8. 2003-04 Unallocated Reduction	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
9. 2004-05 Unallocated Reduction	(7,000,000)	(7,000,000)	(7,000,000)	(7,000,000)
10 Revision of Eligibility Definition	(4,152,000)	(4,152,000)	(6,241,000)	(6,241,000)
TOTALS	**($80,390,000)**	**($70,851,000)**	**($96,008,000)**	**($83,432,000)**

- **New Cost Containment—Regional Center Purchase of Services Requirements.** The Governor proposes substantial policy changes through trailer bill legislation to grant Regional Centers (RCs) broad authority for reducing Purchase of Services (POS) expenditures. It is assumed that RCs would apply these new requirements at the time of an individual's program plan (IPP) development or scheduled review. Savings of $14 million ($10.5 million General Fund) are assumed for 2005-06 with total savings of at least $41.9 million ($31.4 million General Fund) annually once the phase-in has been completed. It should be noted that the Legislature has rejected similar proposals for the past three years. This proposal is discussed in more detail below (See Issues Section). The Legislature has yet to receive any trailer bill language on this issue.

  The Governor is also proposing an augmentation of $6.2 million (total funds) to RC operations for implementation of the proposed POS requirements. This increased funding is to be used as follows: (1) 52 new positions; (2) $302,000 for office rent; (3) $500,000 for increased administrative law hearings; (4) $240,000 for annual statements of POS; and (5) $170,000 in other operating expenditures.

- **Implementation of the Family Cost Participation Program.** As required in the Budget Act of 2004, the Family Cost Participation Program (FCP Program) was implemented on January 1, 2005 under emergency regulation authority. Savings of $3.3 million ($2.6 million General Fund) are assumed in the budget year from this action. A report on the status of implementation is due to the Legislature by April 1, 2005.

  Under this program parents of children between the ages of 3 through 17 years who live in their parents' home, receive certain services purchased through an RC, and are not Medi-Cal eligible, will be required to pay a cost participation amount based on a sliding fee scale. The services for which a fee is to be paid include the following service categories: In-Home Respite, Out-of-Home Respite, and Miscellaneous (recreational therapists, speech pathologists, mobility training specialists and counseling).

- **Adjustments in RC Expenditures for Agnews Developmental Center.** The Governor proposes to close Agnews Developmental Center, located in San Jose, by July 2007. As such, the budget contains adjustments to transition towards this closure, including increased investment in housing options, community-based services and supports, and related resource development. The current year provides $11.1 million (General Fund) in one-time funds to facilitate the development of community-based living options for current residents of Agnews. A plan for the expenditure of these one-time funds was submitted to the Joint Legislative Budget Committee on January 10, 2005.

  For 2005-06, an increase of $6.6 million (total funds) is proposed. This amount includes $349,000 for increased RC staff for the three Bay Area RCs, including dental coordinators, nurse coordinators, and client program coordinators. The remaining $6.2 million is for community placement plan services in the Purchase of Services category for functions such as resource development, and services and supports in the community for individuals recently transitioned from Agnews.

  A more complete discussion on the proposed Agnews Developmental Center closure is in the Developmental Centers Section, below.

- **Expansion of Self-Directed Services Model through the Independence Plus Waiver.** As authorized through trailer legislation for the Budget Act of 2003, the DDS is proceeding with a federal Independence Plus Waiver to expand the Self-Directed Services Model. The Self-Directed Services Model is an alternative service model that enables participants to receive an individual budget allocation that will result in a 10 percent cost reduction in the aggregate to the state. Five percent of this savings will be set aside for participating consumers' unanticipated needs, and the remaining five percent is savings to the General Fund. It is assumed that 800 consumers will receive self-directed services in 2005-06 for savings of $300,000 (General Fund).

  The budget is also requesting an increase of $500,000 ($300,000 General Fund) to fund 5 positions at DDS Headquarters to implement and monitor the Independence Plus Waiver and the Self-Directed Services Model.

- **Continuation of Eligibility Definition.** Through statutory changes enacted as part of the Governor's Budget Act of 2003, California now uses the federal standard for "substantial disability" in determining Lanterman Developmental Disabilities Services Act eligibility criteria. This revision requires a person to have deficits in at least three of the seven life domains, including learning, self-care, economic self-sufficiency, and others. The budget assumes that 501 individuals applying for RC services will not now be eligible for them for estimated savings of $2.6 million (General Fund).

- **Augmentation for Regional Center Operations for the Home and Community-Based Waiver.** Through the revised current-year budget, the Administration is proposing to provide an increase of $10.6 million (General Fund), obtained from increased reimbursements from the Home and Community-Based Waiver, to provide additional resources for RC Operations. The DDS states that through RC contract language they will instruct the RCs to utilize these additional resources for increased staff and quality assurance activities for maintaining the Home and Community-Based Waiver. The budget proposes to continue this adjustment into 2005-06.

- **Implementation of Medicare Part D Prescription Drug Benefit.** In 2003, the President's new federal Medicare Prescription Drug Improvement and Modernization Act (Act) was approved by Congress. Under this Act, beginning January 1, 2006, coverage for prescription medications will shift from Medicaid (Medi-Cal) to Medicare for individuals who are eligible under both programs (i.e., dual eligibles). No transitional grace period will be provided. As such, in order to enable all DDS consumers--RC and DC-- to participate in this new benefit program, the Administration will need to develop a funding mechanism based on Medicare Advantage Prescription Drug Plans. The Governor's budget contains no detail as to how the DDS will proceed with this new program. They do note that the state will realize both additional revenues and additional costs, but the amounts are unknown at this time. This will be a significant May Revision issue.

- **Status of Rate Standardization Project.** The Administration notes they are working to address the issue of standardizing negotiated rates for vendors who provide services to consumers in the community. Though no detail is provided in the Governor's budget, they note that proposals may be forthcoming in his May Revision.

- **Transition For Vendor Audits:** Through the Budget Act of 2004, the Legislature directed the DDS to undertake joint responsibility with RCs for auditing vendors providing services to RC consumers. As such, part of the auditing function was transferred from the RCs to the DDS. This created a dual system for auditing vendors. Unfortunately, the Governor's budget does not identify any 2005-06 savings from this activity though the Legislature and the Legislative Analyst's Office expected at least several million in savings from this effort.

- **California Developmental Disabilities Information System (CADDIS) Project Delayed Again—Loss of Federal Funds.** The CADDIS is an integrated case management and fiscal accounting system that is being implemented by the RCs at the direction of the DDS. This new system is needed in order to enhance the receipt of federal funds, as well as to obtain more accurate and necessary consumer data regarding needs and services.

  The target date for implementation had been June 2004. This date was pushed back to December 2004 through the Budget Act of 2004. Now the DDS states that implementation will not occur until May 2006. This delay will result in a loss of $30.3 million in federal funds ($10.4 million in 2004-05 and $19.9 million in 2005-06).

- **Quality Management System—Headquarters' Support.** Consistent with federal government requirements promulgated by the Center for Medicare and Medicaid Services (CMS), the DDS is seeking an increase of $500,000 ($300,000 General Fund) to support four positions to develop a statewide Quality Management System to be incorporated into all aspects of the developmental disabilities service system.

- **Title XX Social Services Block Grant Fund Shift.** The Governor proposes to shift $60 million in federal Title XX Social Services Block Grant funds and delete a like amount in

General Fund support for Regional Center services. The federal Temporary Assistance for Needy Families (TANF) law allows the state to transfer up to 10 percent of its TANF funds to Title XX. The transferred TANF funds must be spent on children or their families with incomes below 200 percent of poverty. Once transferred, the funds may be used to support any programs that meet the stated Title XX goals, including preventing inappropriate institutional care. It should be noted that the proposed $60 million in Title XX funds may be needed to fund baseline needs in the CalWORKS Program.

Issues for Community-Based Services

1. New Cost Containment—Regional Center Purchase of Services Requirements.

Summary of Phase-In and Requirements. The Governor proposes substantial policy changes through trailer bill legislation to grant Regional Centers (RCs) broad authority for reducing Purchase of Services (POS) expenditures. It is assumed that RCs would apply these new requirements at the time of an individual's program plan (IPP) development or scheduled review.

An individual's IPP is to be reviewed no less than once every three years. As such, the budget assumes that one-third of the RC population (208,000 people) would have their plans reviewed each year. The proposed cumulative savings from these new requirements are as follows:

Fiscal Year and Cumulative Effect	Total POS Reduction From Requirements	Proposed General Fund Savings
2005-06		
• One-third of population is reviewed.	$14 million	$10.5 million
2006-07		
• Continue 2005-06 savings and review next one-third of population.	$28 million	$20.9 million
2007-08		
• Continue 2005-06 and 2006-07 savings and review next one-third of population.	$41.9 million	$31.4 million

The Governor's proposed POS requirements and their anticipated component savings are as follows:

- **Vendor Selection Based On Lowest Cost:** The cost of providing services by different vendors, if available, would be reviewed by an RC and the least costly vendor who is able to meet the consumer's needs, as identified in the consumer's IPP, would be selected. This provision is assumed to save $25 million ($18.4 million General Fund) annually when fully implemented.

- **Statement of RC Services:** RCs would annually provide the consumer or their parent/guardian a statement of RC purchased services and supports. This statement would include the type, unit, and cost of the services and supports. This provision of the guidelines is intended to serve as a validation that the described services and supports are indeed being provided to the consumer by the designated vendor. This guideline is intended to save $6.2 million ($4.6 million General Fund) annually when fully implemented.

- **Directs RCs to Adhere to Existing Laws and Regulations In Purchasing Services:** RCs would be directed to establish internal processes to ensure that (1) their staff is following all laws and regulations when purchasing services and supports for consumers, and (2) other services, such as generic services provided by other agencies in the community, are pursued and used prior to authorizing the expenditure of RC funds for consumers. It is anticipated that $6.2 million ($4.6 million General Fund) in savings would be obtained annually when fully implemented.
- **Services to a Minor Child:** Under the Governor's proposal, legislation would be enacted to require RCs to take into account the family's responsibility for providing similar services to a minor child without disabilities when determining which services or supports would be purchased by the RC for the child. It is assumed that $2.7 million ($2.4 million General Fund) would be achieved annually when fully implemented.
- **RC Clinical Review:** RCs would be required to have a clinician review all requests for certain services and supports prior to the RC authorizing their purchase for the consumer. This review would pertain to certain supplemental program supports, assistive technology and environmental adaptations, behavioral services, specialized medical or dental services, and therapeutic services. The Administration assumes savings of $1 million ($750,000 General Fund) annually when fully implemented.
- **Use of Group Modality:** RCs would be directed to give preference for purchasing a service or support using a group modality, in lieu of an individual intervention, if a consumer's needs, as identified in their IPP, could be met using a group modality for the following services: Behavioral Services, Social and Recreation Activities, and Non-Medical Therapy Services. This provision is assumed to save $800,000 annually when fully implemented.

Comments. The Legislature is still pending receipt of proposed trailer legislation for these new POS requirements from the Administration. However, the outline provided thus far appears to be quite similar to proposals made by the Administration, and rejected by the Legislature, over the course of the last three years.

As such, a key concern is how would a consumer's individual program plan (IPP) be affected by these requirements? Services included in the consumer's IPP are considered to be entitlements (court ruling). Therefore, at a minimum, it would appear that at least a portion of the proposed POS requirements would potentially be found to be illegal.

It is equally unclear at this time what interaction this proposal may have with the Administration's proposed Medi-Cal Redesign which would mandate the enrollment of aged, blind and disabled individuals into a Medi-Cal Managed Care plan. Under existing state statue, if a "generic" service (meaning an existing public service or program) cannot meet the need of the individual with developmental disabilities, then an RC will need to purchase the service if the service in question is identified in the individual's IPP. Therefore, RCs may need to eventually purchase more specialized medical care or behavioral services, but only if they are contained within the IPP.

As such, the potential for cost-shifting, conflicts in policy, and potential risks to consumer health and safety could be significant. Considerable discussion needs to occur, and the implications of both the short-term and longer-term effects of these combined proposals need to be clearly understood.

As specifics begin to come forth from the Administration it will be imperative for the Legislature to maintain both access and consumer choice to an array of services and supports, and to maintain legislative authority in order to preserve the integrity of the overall program. Any statutory language will need to be crafted carefully and thoughtfully with the involvement of the individuals and families who receive the services and with the various businesses that provide the services. Consumer health and safety issues will also be paramount.

Highlights for the State Developmental Centers

Summary of Funding and Enrollment. The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

The revised current-year budget reflects total expenditures of $721.5 million ($387.1 million General Fund) for the DCs, or an increase of $16.4 million ($8.3 million General Fund) over the Budget Act of 2004. Most of this increase is due to rising employee compensation costs.

The budget proposes expenditures of $699.2 million ($373.2 million General Fund), excluding state support, to serve 3,071 residents who reside in the state DC system. This reflects a caseload decrease of 236 residents, or 7.1 percent, and a net reduction of $22.3 million, or 3.1 percent, as compared to the revised 2004-05 budget.

The net reduction of $22.3 million is the result of (1) a reduction in state staff due to the continuing decline in resident population; (2) an increase in operating expenses due to price increases; and (3) an unallocated reduction of $3.724 million, as directed by the Governor.

The Administration proposes to close Agnews Developmental Center, located in San Jose, by July 2007. As such, the budget contains adjustments to transition towards this closure. This issue is discussed further below.

According to recent DDS data, the average cost per person residing at a DC is about $228,000 annually. This figure varies across the DCs due to differences associated with resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors. In addition, due to the level of fixed costs at the DCs and the need to maintain minimum staffing levels, the cost per resident will continue to increase as the total resident population decreases.

Developmental Center Residents

Fiscal Year	DC Residents	Yearly Difference in Residents	Percent Decrease
2000-01	3,768		
2001-02	3,676	-92	2.4%
2002-03	3,583	-93	2.5%
2003-04	3,417	-166	4.6%
2004-05 (Estimated)	3,307	-110	3.2%
2005-06 (Proposed)	3,071	-236	7.1%

Summary of Governor's Key Reductions and Augmentations for Developmental Centers

- **Developmental Center Resident Population.** The Governor proposes a decrease of $25.1 million ($13.7 million General Fund) and 397 positions resulting from a projected net decline in population of 236 residents (from 3,307 residents to 3,071 residents).
- **Governor's Unallocated Reduction.** The Governor has directed state departments to make unallocated reductions across several program areas. For the DCs, a reduction of $3.7 million ($2.1 million General Fund) was designated. At this time it is not clear how this reduction may affect services.
- **Closure Plan for Agnews Developmental Center.** The Administration proposes to close Agnews Developmental Center, located in San Jose, by July 2007. The Administration provided the Legislature with a closure plan, as required by statute, on January 10, 2005. The budget reflects a net decrease in the DC budget of $2.8 million General Fund. This issue is discussed more comprehensively below in the Issues Section.
- **Life Services Alternative Homes for Agnews Transition.** The DDS continues to provide $814,000 (total funds) for the Life Services Alternative Homes (LSA). These homes were established to enable individuals with challenging needs that are placed out of, or deflected from, admission to Agnews DC to be served in the community. Managing the LSA Homes involves collaboration between the DDS, San Andreas RC, the Housing Choices Coalition, Agnews DC and the LSA non-profit contractor. These homes will provide 15 beds in three five-bed facilities. Staff from the Agnews DC provides services to the individuals residing in the LSA homes.
- **Janitorial Contract Costs.** An increase of $2.2 million ($1.3 million General Fund) is requested to adjust this contract as directed by the Department of Personnel Administration using their blended rate methodology for contracted benefits.

Issues for the Developmental Centers

1. Closure Plan for Agnews Developmental Center (Plan).

Background—Why Close by 2007? The Administration's closure Plan calls for closure by June 30, 2007. The Plan reflects the results of a broad based advisory committee, along with six planning teams and numerous work groups, which provided input to the DDS in planning the closure. These efforts first commenced in early 2003, since at that time, it was anticipated closure would occur by June 2005.

The decision to postpone the closure date was based on the limited capacity of the Bay Area community to provide the range and types of services needed to transition residents living at Agnews by 2005. Specifically, the Administration was proposing to place up to 100 residents at Lanterman DC and up to 200 individuals at Sonoma DC in order to meet the original 2005 closure date. Further, in many situations, multiple moves of the residents would have been needed. As such, the Legislature redirected capital outlay funds of $11.1 million (one-time only) in the Budget Act of 2004 to facilitate the development of community-based living options for the current residents of Agnews.

Background—Demographics of Residents. As of June 30, 2004, Agnews had 376 residents. Of these residents, over 90 percent are served by one of the three Bay Area RCs (17 percent by Golden Gate; 22 percent by East Bay; and 52 percent by San Andreas). Over 55 percent of the residents have lived at Agnews for more than 20 years. The DDS notes that in recent discussions with residents and their families, almost two-thirds of the persons interviewed identified the Bay Area as being their location of choice.

About 80 percent of the residents have severe to profound mental retardation, with the majority of the individuals having more than one developmental disability including epilepsy, cerebral palsy, and autism. In addition, one-third of the residents have a diagnosed mental disorder, and over one-fourth of the population requires medication for psychiatric conditions or behavioral challenges.

The Agnews population is also aging, with 65 percent of the residents being over the age of 40, and 8 percent at 65 years or older.

Background--Agnews Land (East Campus). Agnews currently resides on 87 acres in San Jose. Other acreage once associated with the DC has been sold or transferred in previous years. There are 51 buildings on the campus, comprising 692,800 gross square feet of space. A cogeneration plant provides energy to Agnews and markets electricity through a complex agreement with a third party. The agreement expires in 2020.

The Department of General Services (DGS) is the lead agency in facilitating the future use of the real estate, existing leases, structures and infrastructure of the campus. The DDS has responsibility for maintaining the property for up to one-year from the date or closure, or until the DGS transfers or otherwise disposes of the asset.

Key Components of Plan. The basic principle underlying the Plan is to provide opportunities for the residents of Agnews to remain in their home communities within the greater Bay Area. To achieve this objective, the Plan provides for the development of new resources and innovative programs. Key components are as follows:

- **Bay Area Unified Community Placement Plan.** The three RCs (Golden Gate, San Andreas, and East Bay) have a unified plan for community placement whereby extensive individual assessment and person-centered planning is conducted. A regional approach (greater Bay Area) is then taken for the planning and development of services and supports for individuals with developmental disabilities. By taking a unified approach to housing, health services, quality assurance, and residential living options, resources can be used more efficiently and effectively, and more individuals can be transitioned to the community, when appropriate. The RCs note that intensive planning is in process to transition about 90 individuals to the community in 2005-06.

- **Housing Development.** Through the use of $11.1 million from the Budget Act of 2004 and the passage of AB 2100, Statutes of 2004, the DDS proposes to authorize the Bay Area RCs to fund predevelopment costs (escrow deposit, environmental impact, various fees and related matters) to establish a permanent stock of housing for individuals with developmental disabilities transitioning from Agnews. The Bay Area RCs will contract with a local non-profit housing coalition to administer the fund. Housing will be developed using a lease/purchase/donate model facilitated by the Bay Area RCs and the local housing coalition.

- **Family Teaching Home Model:** AB 2100, Statutes of 2004, also added a new "Family Teaching Home" model to the list of residential living options. This new model is designed to support up to three adults with developmental disabilities by having a "teaching family" living next door (usually using a duplex). The teaching family manages the individuals' home and provides direct support when needed. Wrap-around services, such as work and day program supports, are also part of the model.

- **Pilot Projects for Adults with Special Health Care Needs.** Through policy legislation, the DDS is proposing to establish a new pilot residential project designed for individuals with special health care needs and intensive support needs. This pilot would be a join venture with the Department of Social Services (DSS) and would serve up to 120 adults, with no more than five adults residing in each facility. This pilot would be limited to individuals currently residing at Agnews.

- **Use of State Employees to Facilitate Transition.** The DDS proposes to use up to 200 Agnew's employees to augment and enhance services provided in the community. These state employees would be used to provide direct care, resolve crises, train and provide technical assistance to new providers, and other functions. The employees would operate under special contracts between the state and either an RC or service provider. These arrangements would continue through 2009. DDS is pursuing policy legislation for this purpose.

- **New Quality Management System.** A new Quality Management System is being developed by the DDS which is based on a federal Center for Medicare and Medicaid (CMS) model. This new system is to be interwoven with existing monitoring and follow-up visits which are presently conducted. The DDS states that this system establishes clear indicators of performance for all state employees and providers to share responsibility in assuring that outcomes are met successful.

4440 Department of Mental Health

The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of four State Hospitals—Atascadero, Metropolitan, Napa and Patton--, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civilly committed patients under contract with County Mental

Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available, (2) the Medi-Cal Mental Health Managed Care Program, (3) the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for adolescents, and (4) mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

The budget proposes expenditures of $2.747 billion ($1 billion General Fund) for mental health services, for an overall increase of $78.1 million, or 8.2 percent over the revised current year. This General Fund increase is the net result of significant adjustments in the State Hospital budget as well as the funding of local mandates after three years of suspended payments.

As noted in the table below, $1.861 billion is for local assistance, $875.2 million is for the State Hospitals, and $12.5 million (General Fund) is for state mandated local programs. In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of $38.5 million ($5.4 million General Fund).

It should be noted that revenues generated from the passage of Proposition 63 are not yet reflected in the budget. An expenditure plan from the Administration, as required by the proposition, will be forthcoming at the May Revision. Projected revenues to be available for expenditure are $254 million in 2004-05 and $683 million for 2005-06. These funds are a continuous appropriation and are therefore, not subject to annual Budget Act appropriation.

In addition, it is estimated that almost $1.220 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Source				
Community Services Program	$1,773,472	$1,860,792	$87,320	4.9
Long Term Care Services	$802,270	$875,193	$72,923	9.1
Unallocated Reduction—State Support		($949)	($949)	(100)
State Mandated Local Programs	$7	$12,509	$12,502	1,786
Total, Program Source	$2,575,749	$2,747,545	$171,796	6.7
Funding Source				
General Fund	$956,640	$1,034,692	$78,052	8.2
General Fund, Proposition 98	$8,400	$8,400	--	--
Proposition 99 Funds (Hospital Acct)	$16,724	$20,491	$3,767	22.5
Federal Funds	$61,872	$61,936	$64	(0.1)
Reimbursements	$1,529,525	$1,619,810	$90,285	5.9
Traumatic Brain Injury Fund	$1,432	$1,060	($372)	26.0
CA State Lottery Education Fund	$1,156	$1,156	--	--
Total Department	$2,575,749	$2,747,545	$171,796	6.7

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of $1.861 billion (total funds) for community-based local assistance, including Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment Program, applicable state support, the Conditional Release Program and related community-based programs.

This reflects a *net* increase of $87.3 million (total funds) as compared to the revised current-year. This increase is primarily due to caseload and utilization of services adjustments in the baseline EPSDT Program and Mental Health Managed Care, as well as an adjustment to the San Mateo Field Test Project.

In addition, it is estimated that $1.220 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. This 2005-06 realignment amount reflects an increase of $19.4 million, or about 1.6 percent more than the current year. This estimate is based on the following revenue estimates:

- Sales Tax $835,285,000
- Vehicle License Fee Account $365,679,000
- Vehicle License Fee Growth Account $ 19,474,000

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. The first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues is then distributed according to a formula in statute.

Summary of Governor's Reductions and Augmentations

- **Proposition 63 the Mental Health Services Act.** In November 2004, voters approved this proposition which will provide a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds $1 million annually.

  For the current-year, projected revenues to be deposited into the Mental Health Services Account are $254 million, and for 2005-06 estimated revenues are $683 million. An expenditure plan from the Administration, as required by the proposition, will be forthcoming at the Governor's May Revision. It should also be noted that the Mental Health Services Account is a special fund which provides for a continuous appropriation and is not therefore contingent upon an annual Budget Act appropriation.

- **Activation of Coalinga State Hospital.** The Governor proposes an increase of $65.7 million (General Fund) for the continuing activation of Coalinga State Hospital which is scheduled to open in September 2005 with a capacity of 250 beds. Sexually Violent Predators (SVPs) currently at Atascadero State Hospital will be transferred to Coalinga. Of the amount proposed, $38.3 million is to support about 660 level-of-care positions, $8.7 million is to support 140 non-level-of-care positions and $18.7 million is to support operating expenses including relocation costs for state employees choosing to transfer to Coalinga.

- **Proposed Shift of Pre-commitment Sexually Violent Predators.** The Governor proposes trailer legislation to amend statute to require individuals currently housed at a State Hospital awaiting completion of their SVP commitment proceeding (pre-commitment), be transferred to local custody (county jail or retention) until they are actually committed. The budget assumes savings of $9.2 million (General Fund) from this action.

- **Restructure the Treatment of Sexually Violent Predators.** The Governor proposes trailer legislation to amend statute to restructure the supervision and treatment services of SVP patients in State Hospitals, including the establishment of a new secure SVP residential licensing category. The budget assumes savings of $6 million (General Fund) in 2005-06 and $11 million (General Fund) in 2006-07.

- **Increased Staff for Youth and Skilled Nursing Facilities at Metropolitan State Hospital and Napa State Hospital.** An increase of $3.6 million (County Realignment Funds) is proposed to increase staff resources at the Youth Program located at Metropolitan State Hospital, and for the Skilled Nursing Program at Napa State Hospital. These staff adjustments are based on patient acuity and needs.

- **Early Periodic Screening Diagnosis and Treatment Program (EPSDT).** The Governor proposes a *net* increase of $47.5 million ($27.2 million General Fund) for the Early Periodic Screening Diagnosis and Treatment Program (EPSDT).

- **State Mandates on Local Programs and AB 3632 Services.** With the passage of Proposition 1A, the state is now obligated to reinstitute payments to local agencies for state mandated costs. A General Fund increase of $12.5 million is proposed for payments to local agencies for mental health related mandates.

  However, the Governor continues to suspend payments to counties for mental health services provided to special education students (so called AB 3632 services) even though these services are mandated per the federal Individuals with Disabilities Education Act (IDEA).

  AB 3632, Statutes of 1984, shifted responsibility for proving mental health treatment services to special education pupils from Local Education Agencies (LEAs) to County Mental Health Plans (County MHPs). However, appropriate funding was not shifted to the County MHPs to cover these services. As such County MHPs have cobbled together a stream of funds including County Realignment Funds, state mandate claims, and more recently $69 million in federal funds obtained from the Department of Education, to meet the needs of these students.

  The Governor's budget does continue the $69 million in federal IDEA funds as contained in the DOE appropriation, as well as $31 million (General Fund) to LEAs for mental health related services. However, County MHPs are still under funded going into the budget year, as well as being owed for some past state mandate claims.

  It is estimated that County MHPs provide AB 3632 services to about 27,000 students each year for a total annual cost of $120 million.

- **Mental Health Managed Care Program.** A net General Fund increase of $5.7 million for both inpatient and specialty mental health services is being proposed. Most of this adjustment is due to caseload increases.

- **Early Periodic Screening Diagnosis and Treatment Program (EPSDT).** The Governor proposes a *net* increase of $47.5 million ($27.2 million General Fund) for the Early Periodic Screening Diagnosis and Treatment Program (EPSDT).

- **State Mandates on Local Programs and AB 3632 Services.** With the passage of Proposition 1A, the state is now obligated to reinstitute payments to local agencies for state mandated costs. A General Fund increase of $12.5 million is proposed for payments to local agencies for mental health related mandates.

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HUMAN SERVICES

4130 Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC) provides consolidated electronic data processing and project management for departments within the Health and Human Services Agency. The HHSDC has two components: Operations and Systems Management. The Operations component provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency. The Systems Management component manages five major projects for the Department of Social Services (DSS) and one project for the Employment Development Department (EDD).

The HHSDC is supported entirely by reimbursements from client departments. For the Systems Management projects, state and federal funding is budgeted in the DSS and EDD budgets, and then transferred to the HHSDC Revolving Fund.

Effective July 1, 2005, the budget proposes to eliminate the HHSDC and consolidate the Operations component and the Teale Data Center into the newly proposed Department of Technology Services (DTS). The budget also proposes to shift the HHSDC Systems Management component to the Health and Human Services Agency, Office of System Integration. This proposal is in response to Legislative direction in the 2003 Budget Act to consolidate data center activities.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Funding				
Operations	$122,955	$0	-$122,955	-100.0
Systems Management Services	$203,170	$0	-$203,170	-100.0
Source of Funding				
HHSDC Revolving Fund	$326,125	$0	-$326,125	-100.0
Total	$326,125	$0	-$326,125	-100.0

Highlights

- **Transfer HHSDC Systems Management to Health and Human Services (HHS) Agency.** Due to concerns about the high level of oversight needed to successfully implement and maintain large automation projects, the budget proposes to transfer the HHSDC Systems Management component to the HHS Agency.

- **Consolidate HHSDC Operations and Teale Data Center into Department of Technology Services.** The budget proposes to consolidate the HHSDC Operations component, the Teale Data Center, and certain functions of the Department of General Services into the DTS. The Administration intends to submit a Governor's Reorganization Plan to the Little Hoover Commission to reflect this consolidation. The Administration indicates that the DTS would be continuously appropriated.

- **Implement Child Welfare Services/Case Management System (CWS/CMS) Go Forward Plan.** The CWS/CMS provides database, case management, and reporting functions for the Child Welfare System. The budget provides $121.1 million ($60.1 million General Fund) for maintenance of the existing system and other newly required activities needed to maintain federal matching funds for this system. These activities, known as the "Go Forward" plan, include a technical architectural alternative analysis, migration of the application hosting to the HHSDC from a private vendor location, and other activities to determine if or how the CWS/CMS should be changed to meet federal standards. Budget year funding represents an increase of $27.7 million ($13.9 million General Fund), primarily due to Go Forward activities.

- **Procure Case Management, Information and Payrolling System (CMIPS) II Contract.** The existing CMIPS provides client case management and provider payrolling functions for the In-Home Supportive Services (IHSS) program. The budget includes $13.7 million ($6.8 million General Fund) for contract planning, procurement, and implementation activities. This represents an increase of $12 million above the current year, which included only contract planning activities.

- **Continue Statewide Automated Welfare System (SAWS) Maintenance and Implementation Activities.** SAWS consists of five automation systems and a project management office that support eligibility determination and caseload tracking functions for Medi-Cal, California Work Opportunity and Responsibility to Kids (CalWORKs), Food Stamps, Foster Care, Refugee Resettlement, County Medical Services, and county General Assistance programs. The budget provides $236.9 million ($83.5 million General Fund) to maintain the four fully implemented SAWS systems and continue county conversion activities for the final automation project, the Welfare Client Data System (WCDS). Implementation activities for WCDS are scheduled to be completed in 2006-07.

- **Maintain Electronic Benefit Transfer (EBT) System.** The EBT system provides cash and food benefits to CalWORKs and Food Stamp clients via debit card technology and retailer point-of-sale terminals. The budget requests $49.8 million ($9.5 million General Fund) for ongoing system maintenance. This amount represents a $7.6 million reduction, due to completion of implementation activities in July 2004.

- **Maintain Statewide Fingerprint Imaging System (SFIS).** The SFIS records fingerprints and photo images of CalWORKs and Food Stamp applicants to prevent duplicate aid payments. The budget requests $8.0 General Fund to continue to maintain the SFIS.

Issues

- **Consolidation and Transfer of HHSDC Needs Further Review.** The budget proposes to eliminate the HHSDC, consolidate the Operations component into the newly proposed DTS, and shift the Systems Management component to the Health and Human Services Agency, Office of System Integration. In addition, the Administration intends to submit a Governor's Reorganization Plan to implement these changes. As the DSS provides most of the funding for the automation projects managed under the Systems Management component, and all but one of the projects serve programs administered by the DSS, management of these projects could be assumed by the DSS.

  The Legislature may wish to consider whether to transfer the Systems Management component to the HHS Agency or the DSS. Establishment of the DTS is discussed further in the State Administration section of this document, under organization code 1955.

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies, and programs to assist health care delivery systems. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; and (4) health care information. Although total funding for OSHPD decreases by $1.1 million (1.7 percent) compared to the current year, General Fund expenditures increase by $2.0 million.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
General Fund	$131	$2,082	$1,951	1489.3
Federal Trust Fund	1,345	1,241	-$104	-7.7
Special Funds	57,661	55,690	-1,971	-3.4
Reimbursements	2,217	1,274	-943	-42.5
Total	$61,354	$60,287	-$1,067	-1.7

Highlights

- **Use General Fund for Song Brown Program.** This program seeks to increase the number of family health care providers, particularly in underserved areas of the state. The budget continues to provide $4.2 million total funds to maintain the Song Brown Program, but uses General Fund resources to support half of the program's costs. The remaining costs continue to be supported by the California Health Data and Planning Fund. In 2004-05 this program was funded entirely by the California Health Data and Planning Fund. However, the department indicates that this fund does not have sufficient resources to continue fully funding the Song Brown Program without increased revenue from hospital fees. The budget also requests to make permanent 2.0 existing limited-term positions for this program.

4170 California Department of Aging

The California Department of Aging (CDA) is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve elderly and functionally impaired Californians. The department provides services under: (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The budget proposes $187.8 million for 2005-06, a slight decrease compared to the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
General Fund	$35,155	$35,207	$52	0.1
State HICAP Fund	1,779	1,780	$1	0.1
Federal Trust Fund	143,322	142,796	-526	-0.4
Special Deposit Account	1,552	1,573	21	1.4
Reimbursements	6,384	6,439	55	0.9
Total	$188,192	$187,795	-$397	-0.2

Highlights

- **Redirect Federal Funds for Medicare Consumer Information.** The budget proposes to use $93,000 in existing federal funds to establish 1.0 permanent position to develop training and program standards for consumer information on the federal Medicare Modernization Act of 2003. That Act established prescription drug benefits and changed managed care options for Medicare beneficiaries. Although the CDA previously contracted with consultants to develop Medicare consumer information training and programs, it now indicates that the need for ongoing specialized expertise and closer management oversight requires a state position.

4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) provides statewide leadership and oversight for local alcohol and drug intervention, prevention, detoxification, treatment and recovery services, including Drug Medi-Cal, Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000), Drug Courts, and the Office of Problem Gambling. The budget proposes $613.7 million ($242.6 million General Fund) for 2005-06, an increase of 1.2 percent over the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Funding				
Prevention	$71,322	$71,331	$9	0.0
Treatment and Recovery	489,678	497,475	$7,797	1.6
Perinatal	45,195	45,123	-$72	-0.2
Source of Funding				
General Fund	$238,778	$242,630	$3,852	1.6
Driving-Under-the-Influence Program Licensing Fund	1,586	1,601	15	0.9
Narcotic Treatment Program Licensing Fund	1,131	1,321	190	16.8
Indian Gaming Special Distribution Fund	3,018	3,040	22	0.7
Audit Repayment Trust Fund	67	67	0	0.0
Federal Trust Fund	290,595	290,598	3	0.0
Resident Run Housing Revolving Fund	39	39	0	0.0
Reimbursements	72,753	76,007	3,254	4.5
Substance Abuse Treatment Trust Fund	228	374	146	64.0
Sale of Tobacco to Minors Control Account	-2,000	-2,000	0	0.0
Total	$606,195	$613,677	$7,482	1.2

Highlights

- **Increase Drug Medi-Cal Funding and Caseload.** The budget requests $118.9 million ($62.8 million General Fund) for the Drug Medi-Cal program. This represents a 6.5 percent increase over revised current year funding, due to a net increase of 7.7 percent in program caseload. Methadone treatment represents over 60 percent of Drug Medi-Cal expenditures.

- **Implement Federal Access to Recovery Grant.** The budget includes $7.6 million in the current year and $7.6 million in the budget year for a federal Access to Recovery grant. The DADP will use this grant to provide vouchers to substance abusing 12 to 20 year olds for treatment and recovery support services. Youth will be able to choose from an expanded number and type of providers, including faith-based organizations and other nontraditional providers. The DADP requests 2.0 three-year limited-term positions to implement and support the grant.

Issues

1. **Drug Medi-Cal Caseload Increases.** The budget estimates that regular Drug Medi-Cal caseload will increase in the budget year, while Perinatal Drug Medi-Cal caseload is estimated to decrease. In 2004-05, the Legislative Analyst's Office (LAO) reviewed the Drug Medi-Cal program and found that a disproportionately small share of the Drug Medi-Cal budget is spent on women and children.

   The Legislature may wish to examine the decline in perinatal caseload, discuss any efforts that have been made to increase the number of women and children in treatment programs, and discuss efforts the department has made to address other issues raised in the LAO report.

2. **Drug Medi-Cal Provider Rates Held at 2002-03 Levels.** The 2004 Budget Act reduced Drug Medi-Cal provider rates to 2002-03 levels during 2004-05. The budget proposes to maintain rates at the 2002-03 level in the budget year, to achieve savings of $7.2 million ($3.7 million General Fund).

   The Legislature may wish to consider the effects on providers of maintaining Drug Medi-Cal rates at the 2002-03 level, and the potential for methadone clinic closures if rates are not increased.

3. **Report Due on Quality Improvement Assessment Fee (QIAF) for Methadone Clinics.** The 2004 Budget Act included budget bill language to require the DADP to report to the Legislature by January 10, 2005 on the feasibility of a QIAF for methadone clinics. If approved by the federal government, a QIAF would allow a fee to be assessed on clinics, and the fee revenue used to draw down additional federal funds.

   Upon receipt of the report, the Legislature may wish to consider the feasibility of a QIAF for methadone clinics.

4. **Proposition 36 Results are Emerging.** Proposition 36 provides drug treatment instead of incarceration for certain first or second time non-violent adult drug offenders. This law also appropriates $120 million annually through 2005-06 for drug treatment. Researchers at the University of California at Los Angeles (UCLA) are currently evaluating the results of Proposition 36.

   While the program shows preliminary evidence of effectiveness, the Legislature may wish to review those results and consider options to improve the program, particularly as 2005-06 is the last year of statutory appropriation for treatment under Proposition 36. Although the state must continue spending this amount after 2005-06 to meet its maintenance of effort requirement for the federal Substance Abuse Prevention and Treatment Block Grant, the funding may be used for other drug and alcohol services beyond Proposition 36 clients.

4700 Department of Community Services and Development

The Department of Community Services and Development (DCSD) distributes federal and state funding to local entities that provide energy and weatherization assistance and a variety of other community services for low-income households. The budget proposes $170.4 million for 2005-06, a 4.8 percent reduction compared to current year funding.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Funding				
Energy Programs	$110,048	$105,105	-$4,943	-4.5
Community Services	67,399	65,301	-$2,098	-3.1
Naturalization Services	1,500	0	-$1,500	-100.0
Source of Funding				
General Fund	$1,500	$0	-$1,500	-100.0
Petroleum Violation Escrow Account	0	4,049	4,049	0.0
Federal Trust Fund	171,359	164,248	-7,111	-4.1
Reimbursements	6,088	2,109	-3,979	-65.4
Total	$178,947	$170,406	-$8,541	-4.8

Highlights

- **Eliminate Naturalization Services Program.** The budget proposes to eliminate the Naturalization Services Program to achieve savings of $1.5 million General Fund. This program is funded entirely by the General Fund, and is the only component of the DCSD that uses General Fund resources.

- **Implement Additional Low-Income Energy Assistance.** The budget proposes to spend $4.0 million in recently received one-time Petroleum Violation Escrow Account funds for the Low-Income Home Energy Assistance Program (LIHEAP). This funding is in addition to the $101.1 million in existing federal funds provided for LIHEAP in the budget year. This program subsidizes household energy costs and weatherization services for low-income households. The department indicates that the additional funding will be used to weatherize 3,320 additional low-income households.

Issues

- **Elimination of Naturalization Services.** The budget proposes to eliminate the Naturalization Services Program, which assists legal permanent residents obtain citizenship. This program funds local organizations that conduct outreach, intake and assessment, citizenship application assistance, citizenship testing and interview preparation. In 2005 the program is expected to assist an average of 12,000 individuals in the completion of citizenship applications. The program spends an average of $125 per client. Total funding for the program in 2004-05 was $1.5 million General Fund.

  The Legislature may wish to consider the effectiveness of the Naturalization Services program, and whether this program increases the number of immigrants that become citizens. The Legislature may also wish to consider the effect of naturalization services and increased citizenship rates on the state's ability to draw down additional federal funds for cash assistance, Medi-Cal, and Food Stamp benefits. Further, it may be helpful for the Administration to report on funding for naturalization services in the Department of Education and other areas of the budget.

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation (VR) program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies (education, mental health, welfare). The department also provides support services for Community Rehabilitation Programs, including independent living centers. The budget proposes total funding of $345.1 million, a reduction of less than one percent from the current year.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Funding				
Vocational Rehabilitation Services	$322,529	$325,532	$3,003	0.9
Support of Community Facilities	19,735	19,747	12	0.1
Source of Funding				
General Fund	$43,348	$44,198	$850	2.0
Vending Stand Account	3,394	3,447	53	1.6
Federal Funds	287,622	289,572	1,950	0.7
Reimbursements	7,900	7,900	0	0.0
Total	$342,264	$345,117	$2,853	0.8

Highlights

- **Increase Vocational Rehabilitation (VR) Caseload.** Budget year VR caseload is estimated to rise to 122,958 total cases, an increase of 2.2 percent over revised current year caseload. The budget includes a 0.9 percent increase in total VR costs.

5175 Department of Child Support Services

The Department of Child Support Services (DCSS) administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support funds are collected and distributed to families, including securing child and spousal support, medical support, and determining paternity. The Department has responsibility for addressing federal fiscal sanctions related to California's failure to develop adequate automation systems for child support services. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and monitors state results on federal performance standards.

The budget anticipates collections of $2.4 billion in the budget year, an increase of 1.7 percent over the current year. The department's overall budget expenditures are proposed to increase by $279.2 million, or 25.5 percent, to $1.4 billion. The budget also requests the establishment of 10.5 new positions, and continuing authority for 25.4 limited-term positions that would otherwise expire.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
General Funds	$302,642	$508,155	$205,513	67.9
Federal Funds	504,565	568,972	$64,407	
Reimbursements	122	123	1	0.8
Child Support Collection Recovery Fund	287,978	297,305	9,327	3.2
Total	$1,095,307	$1,374,555	$279,248	25.5

Highlights

- **Automation Systems:**

  1) **Fund Federal Penalty for Child Support Automation.** The budget includes $218 million General Fund for the anticipated September 2005 payment of the federal child support automation penalty for federal fiscal year 2005. The state has been required to pay an increasing penalty each year since 1997 due to the state's failure to implement a single statewide child support automation system. The DCSS is currently developing the California Child Support Automation System (CCSAS), which, when completed, would allow the state to avoid future penalties.

  2) **Continue Development of CCSAS Child Support Enforcement (CSE) Component.** The CSE component of CCSAS will provide a statewide central database for case management, financial management, and interstate communication. The budget includes an additional $53.4 million ($26.3 million General Fund) and the redirection of 1.5 existing DCSS position and reestablishment of 1.5 expiring limited-term positions to continue development of this system. This component is scheduled to be completed by September 2008.

  3) **Continue Development of CCSAS State Disbursement Unit (SDU) Component.** The SDU component of CCSAS will provide statewide collections and electronic disbursement. The budget includes an additional $24 million ($7.6 million General

Fund) and 37.0 positions (10.5 new and 26.5 redirected) to continue development of this system. This component is scheduled to be completed by August 2008.

4) **Consolidate and Maintain Existing Automation Systems.** In recent years the DCSS has been consolidating data from the 30 existing local automation systems into two systems. As these efforts are almost complete, the budget reflects a reduction of $17.7 million General Fund compared to current year funding for consolidation. Current year funding also reflects a shift of $15.5 million from federal funds to the General Fund, as the federal Administration for Children and Families has indicated it will not provide federal funds for conversion efforts.

- **Delay and Reform the Compromise of Arrears Program (COAP).** The budget proposes $721,000 ($245,000 General Fund) to maintain 9.0 of 23.0 expiring limited-term positions to redesign and implement the COAP. This program offers reduced lump sum settlements to parents in exchange for their commitment to make ongoing payments. The DCSS indicates this program cannot be implemented as initially designed, and proposes to delay implementation and retool the program design.
- **Maintain 4.0 Positions for Administrative Hearings.** The budget proposes to make permanent 4.0 expiring limited-term positions in the Department of Social Services (DSS) that conduct child support administrative hearings. These positions are co-located in the DSS with staff that provide administrative hearings for a number of other programs, including Food Stamps and CalWORKs. The cost to maintain these positions is $498,000 ($169,000 General Fund), which the DCSS provides to the DSS as reimbursements. These positions are among 7.0 positions originally established in 2003-04 to address increased hearing workload. The DCSS indicates that the number of hearings has declined since 2003-04, and that only 4.0 positions are necessary on an ongoing basis.

Issues

1. **Full Federal Penalty Will be Assessed in 2005-06.** Since 1997, California has been subject to substantial federal penalties due to the state's failure to establish a single statewide system for the collection of child support. The penalties are a percentage of program administration costs, with an increasing percentage each year. California has reached the maximum percentage level at 30 percent of administrative costs. The budget includes $218 million General Fund in 2005-06 for the federal fiscal year 2005 penalty. The 2004 Budget Act did not include funding for this penalty, as the payment was deferred to September 2005, which is in the last quarter of federal fiscal year 2005.

   The Administration indicated in May 2004 that it would request early federal certification of automation system compliance in September 2005, which would reduce the penalty by 90 percent. In October 2004 the federal government told the Administration that certification would not be approved until full CCSAS SDU implementation occurs in all counties, and no penalty reduction would be approved until full implementation. This results in continued full annual federal penalties from September 2005 through August 2008, when the CCSAS SDU component is scheduled for completion.

   The budget requests $14 million to implement the initial phase of the SDU component more quickly. The overall timeline for project completion would remain the same.

The Legislature may wish to review the status of CCSAS development, discuss whether the additional funding is cost-effective, and review a cost-benefit analysis of federal funding for CCSAS that is scheduled to be provided by the department by March 1, 2005. Further, the Legislature may wish to request that the Administration continue to pursue federal penalty relief, as development of the required automation system is underway.

2. **State Scores Below Average on Child Support Performance Measures.** The state receives federal financial incentives and penalties based on five performance measures applied to local child support agency performance. In federal fiscal year 2002 California's average score ranked 41st among 54 states and territories on federal performance measures. In particular, the state ranks well below the national average on cost effectiveness. As the budget estimates only a modest 1.7 percent increase in revenues (despite recent funding for collection enhancement discussed below), the anticipated federal incentives for 2005-06 remain essentially unchanged at $47.3 million.

   The Legislature may wish to review the most recent federal performance results, the demographic and other factors that contribute to those results, and strategies for improvement.

3. **COAP Implementation Delayed.** The Budget Act of 2003 established the COAP to address the significant amount of child support arrears debt in the state. This program offers reduced lump sum settlements to parents in exchange for their commitment to make ongoing payments. The DCSS indicates that due to automation system constraints, this program cannot be implemented as initially designed. The budget proposes to retool the program and extend 9.0 of the 23.0 positions initially provided for this program. Of the $10 billion in child support arrears owed in California, the department estimates that approximately $4.5 million will be collected in the current year and $17.1 million will be collected in the budget year as a result of initial COAP efforts.

   The Legislature may wish to ask the department to report on the initial results and findings in COAP pilot counties, and proposed efforts to reform this program. In particular, the Legislature may want to review how the automation system challenges may be addressed, particularly in the context of concurrent CCSAS development.

5180 Department of Social Services

The Department of Social Services administers a variety of programs with four major goals: (1) provide temporary cash assistance and services to encourage low-income families with children to attain self-sufficiency by moving from welfare to permanent employment; (2) provide social services to elderly, blind, disabled and other adults and children, protecting them from abuse, neglect and exploitation, and helping families stay together and in the community; (3) regulate group homes, preschools, foster care homes, day care and residential care facilities to ensure they meet established health and safety standards; and (4) conduct disability evaluations and provide benefit payments for federal and state programs serving the aged, blind and disabled.

The budget proposes $16.8 billion ($8.5 billion General Fund) for the DSS, a decrease of $870 million ($307 million General Fund). The budget includes a total of 4,270 positions, a net decrease of 9.1 positions from the current year. The major programmatic reductions included in the budget result in General Fund and federal Temporary Assistance to Needy Families (TANF) fund reductions of approximately $1.1 billion.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Program Funding *				
CalWORKs	$5,133,372	$4,615,792	-$517,580	-10.1
SSI/SSP and CAPI	3,444,020	3,523,082	79,062	2.3
IHSS	3,612,887	3,096,078	-516,809	-14.3
Child Welfare Services	1,869,340	1,985,033	115,693	6.2
Foster Care, Kin-GAP, and Adoptions Assistance	1,627,263	1,654,330	27,067	1.7
Other County Admin and Automation, Adult Protective Services, Juvenile Treatment and Probation	1,540,675	1,485,972	-54,703	-3.6
State Operations: Community Care Licensing, Disability Evaluation, Program Administration	$466,343	$463,758	-$2,585	-0.6
Source of Funding				
General Fund	$8,763,405	$8,456,037	-$307,368	-3.5
Emergency Food Assistance Fund	351	442	91	25.9
Cont. Care Provider Fee Fund	1,001	1,010	9	0.9
Technical Assistance Fund	23,951	23,955	4	0.0
Certification Fund	1,178	1,187	9	0.8
Child Health and Safety Fund	1,368	2,049	681	49.8
Employment Training Fund	40,039	40,039	0	0.0
State Children's Trust Fund	6,883	2,771	-4,112	-59.7
Transitional Housing for Foster Youth Fund	545	546	1	0.2
Child Support Collections Recovery Fund	14,356	14,796	440	3.1
Child Welfare Services Program Improvement Fund	0	500	500	0.0
Federal Funds	6,112,806	6,038,835	-73,971	-1.2
Reimbursements	2,728,017	2,241,878	-486,139	-17.8
Total	**$17,693,900**	**$16,824,045**	**-$869,855**	**-4.9**

* Note that all programs except SSI/SSP and State Operations also receive a combined total of $1.4 billion annually in county share of cost funding. County funding is not reflected in the tables above, but is included in the program funding discussions below to provide a more complete analysis of program expenditures. The SSI/SSP program also includes almost $5.2 billion in federal funds which are not included in the state budget, as they are provided directly to recipients.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

- **Program Description.** CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs minimum basic standard of adequate care, having less than $2000 in resources, and having a car valued at $4,650 or less. The average family of three must have an annual net income below $12,066, or 77 percent of the federal poverty level, to be eligible for CalWORKs. Program recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work or work-related activities per week to remain eligible for benefits. Adults have a lifetime limit of five years (60 months) in CalWORKs.

- **Enrollment Summary.** After peaking in March of 1995, CalWORKs enrollment has dropped by 48 percent through 2004. Enrollment has decreased by 33 percent since CalWORKs replaced the former Aid to Families with Dependent Children (AFDC) program in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, enrollment bottomed out in 2003-04, and is projected to increase by 1.9 percent in 2004-05.

  The budget proposes significant reductions in the CalWORKs program, resulting in a caseload decrease of 0.8 percent below current year, or 472,786. Without those reductions, average monthly enrollment would have been 486,425 cases.

- **Funding Summary.** CalWORKs is funded through an annual federal Temporary Assistance for Needy Families (TANF) block grant of $3.7 billion, plus $2.7 billion in state funds to meet a federal Maintenance of Effort (MOE) requirement. The state's MOE is based on welfare spending in 1994, adjusted downward for achievement of certain work participation goals. Federal law requires states to spend TANF funds on current and former welfare recipients, with limited exceptions. Accordingly, California spends most federal TANF funds on CalWORKs, and directs some TANF and state MOE funding to activities in other departments.

  The budget proposes total TANF/MOE funding of $5.9 billion ($4.7 billion of which will be spent on the CalWORKs program and $1.2 billion to support non-CalWORKs federally allowable activities). This constitutes a $528 million, or 10 percent decrease in CalWORKs expenditures from the current year.

CalWORKs Highlights

- **Reduce CalWORKs Grants by 6.5 percent.** The budget proposes to reduce the maximum aid payment under CalWORKs by approximately 6.5 percent, resulting in savings of $212 million. For a typical family of three, the maximum monthly grant would be reduced from $723 to $676.

- **Eliminate CalWORKs Cost of Living Adjustment (COLA).** The budget proposes to suspend the July 2005 COLA, and permanently suspend all future CalWORKs COLAs, resulting in savings of $162 million.

- **Increase Earned Income Disregard.** The budget proposes to reduce the Earned Income Disregard for CalWORKs families, resulting in $80 million savings. According to the Legislative Analyst, a family of three earning $1,000 would see their monthly grant reduced by $93, in addition to the grant reduction already noted.

- **Increase Sanctions and Work Requirements.** The budget proposes to expand the CalWORKs work participation reforms that were included in the 2004 Budget Act. The additional reforms are not specified, but will be based on the result of a pending evaluation of CalWORKs sanction policies, and are estimated to result in savings of $12 million.

- **Reduce Employment Services Funding.** The budget proposes to eliminate $50 million in 2005-06 that was included in the 2004 Budget Act for CalWORKs employment services.

- **Child Care Reform.** The budget proposes to reduce license-exempt child care reimbursement levels, and establish a tiered reimbursement structure for all child care providers to encourage additional provider training, resulting in savings of $61 million in the DSS, and $53 million TANF savings in the Department of Education.

- **County Pay for Performance Proposal.** The budget proposes to tie county administration funding to CalWORKs client work participation outcomes. County allocations for 2006-07 would be adjusted based on employment and work participation rates in 2005-06. This proposal would result in savings of $22 million, due to lower grant costs as clients increase earnings and the number of hours work.

- **Transfers TANF to non-CalWORKs Programs.** The budget proposes to increase TANF fund transfers to support non-CalWORKs activities. The budget proposes the following new or increased TANF transfers: $55 million to the Foster Care program, $60 million to the Department of Developmental Services, $201 million to county probation facilities.

- **CalWORKs 60-month Time Limit.** The budget includes $92 million in additional grant and services savings to reflect 17,000 additional CalWORKs cases reaching their 60-month eligibility time limit.

- **Prospective Budgeting.** The budget includes $76 million in additional county administration savings due to prospective budgeting/quarterly reporting.

CalWORKs Issues

The budget includes total CalWORKs reductions of $641 million General Fund/TANF. As a result of these reductions, average monthly caseload would be reduced by 13,639 cases.

1. **Increase Earned Income Disregard.** The budget proposes to reduce the Earned Income Disregard for CalWORKs families. This proposal would result in savings of $79.5 million in 2005-06 and $109.3 million annually, thereafter. Current law allows the first $225 of income per month to be exempt under CalWORKs eligibility guidelines, plus 50 percent of any remaining income. The budget's proposal would reduce the income disregard to $200 and 40 percent of remaining income. This proposal would reduce the level at which low-income working families remain eligible for CalWORKs benefits, and would affect 112,669 families in 2005-06.

The Legislature may wish to consider the effect of this proposal on work participation rates, and the effect it may have on participants' work incentives. The Legislature may also wish to consider how regional unemployment rates and other local factors would affect the results of this proposal. In addition, the Legislature may wish to review how this proposal would affect the amount of Food Stamps and other benefits that participants may receive.

2. **CalWORKs Grant Reduction and Suspension of COLAs.** The budget proposes to reduce CalWORKs grants by 6.5 percent, suspend the July 2005 CalWORKs COLA, and permanently suspend all future COLAs, for combined General Fund savings of $376 million.

   The proposed CalWORKs grant changes would have a combined effect of reducing the maximum monthly grant for a family of three with no earnings from $723 to $676, a reduction of $47 per month. The reduction would be partially offset by an increase in Food Stamp benefits. The proposed grant level of $676 per month is lower than the amount provided to AFDC recipients in 1989, although the purchasing power of the grant in 2005-06 would be 60.7 percent of the 1989 level. Absent the 6.5 percent reduction, the July 2005 COLA would have increased the maximum CalWORKs grant to $757 per month for a family of three.

   In addition to decreasing resources available to very low-income families, the grant reductions and increase in the earned income disregard will make 13,639 families ineligible for CalWORKs cash assistance, a caseload reduction of 2.8 percent. The average monthly number of children in families that would no longer receive grants is 35,092. All remaining children (average monthly 959,320) would be in families with grants reduced in 2005-06 as a result of the reductions.

   CalWORKs recipients spend most of their grants on rent and utilities. According to the U.S. Department of Housing and Urban Development, fair market rents for a one-bedroom apartment in California average $878 per month and range from $417 in Modoc County to $1475 in Santa Clara County, compared to the proposed maximum monthly grant of $676 for a family of three. Since 1990, the net results of suspended COLAs and reductions to CalWORKs grant levels have reduced the purchasing power of the grant by 34 percent.

   The Legislature may wish to consider the combined effect of the proposed grant changes and the increase in the earned income disregard, and the effect of both proposals on families who will become ineligible for aid. The Legislature may also wish to consider the effect of grant changes on CalWORKs exits and work participation rates. Further, the Legislature may consider the future effects on low-income families of the proposed permanent suspension of CalWORKs COLAs, particularly as housing, transportation, and utility costs continue to rise.

   The Legislature may wish to consider the overall pressure on the CalWORKs budget, the proposed reforms and grant changes, and determine the appropriate balance between funding for CalWORKs services and grants.

3. **Increase Sanctions and Work Requirements and Reduce Employment Services**. The budget proposes to expand the CalWORKs work participation reforms that were included in the 2004 Budget Act. The additional reforms are not specified, but will be based on a pending evaluation of CalWORKs sanction policies, and are estimated to result in savings of

$12 million in 2005-06. The budget also reduces funding for employment services by $50 million.

The Legislature may wish to discuss the results of the evaluation of CalWORKs sanction policies, and consider how those results may be affected by the proposal to reduce funding for employment services. The Legislature may also wish to consider the characteristics of families that are most likely to be affected by proposed sanction policies, why those families are being sanctioned, and effective strategies for curing their sanction status.

4. **Child Care Redesign.** The budget proposes various reforms intended to facilitate equitable access to care, promote quality of care, and reduce costs. These reforms include $60.8 million Stage 1 savings and $52.5 Stage 2 savings (in the Department of Education budget) due to a tiered reimbursement structure that reduces rates but provides rate adjustments for providers with additional training or higher environmental rating scale evaluations, and $8 million ($1.8 million Stage 1) savings due to implementation of an alternative rate-setting mechanism for providers that serve only subsidized families. Further details of proposals are discussed under the California Department of Education (CDE).

   The Legislature may wish to request further information from the Administration on how this proposal would be implemented. For example, how would providers be notified of these changes, and how much advance notice would they receive before the rate reduction? How would existing child care contracts with the CDE be affected by the proposals? Would rates be adjusted throughout the year if additional training requirements are satisfied? The Legislature may also wish to consider the cost and availability of training classes that providers would need to qualify for additional reimbursement.

5. **CalWORKs Work Participation Reforms and Federal TANF Reauthorization.** The 2004 Budget Act included CalWORKs work participation reforms to prepare the state for CalWORKs program changes under potential TANF reauthorization bills that may be enacted by Congress in the near future. These reforms are intended to increase the program's "work first" approach and engage families as soon as possible in services they need to become self-sufficient. The Legislature may wish to ask the department and counties to report on their progress in implementing these reforms and describe any early results of these efforts.

   Federal law established the TANF program in 1996, with an expiration of 2002. However, Congress was unable to pass a reauthorization bill before September 2002, and the program has since been funded through a series of continuing resolutions. The current resolution expires on March 31, 2005. The Legislature may also wish to have the department report on the status of federal TANF reauthorization bills.

6. **October 2003 COLA**. From 2000-01 through 2003-04, statute authorized an additional CalWORKs COLA in October of each year so long as Vehicle License Fee (VLF) tax relief was also implemented. Governor Davis suspended the VLF tax relief in June 2003, which triggered the suspension of the October 2003 CalWORKs COLA. However, Governor Schwarzenegger rolled back the VLF tax increase and did not restore funding for the October 2003 COLA. A court ruling in 2004 found that the October 2003 COLA was required, but the Administration is appealing the ruling, and funding for the COLA was not included in the

budget. Funding this COLA would result in costs of $228 million for retroactive payments, and $134 million in ongoing annual costs.

7. **TANF Transfers to Other Programs.** CalWORKs is funded through the TANF block grant, plus state funding to meet the federal MOE requirement. Until 2004-05, CalWORKs funding had been limited by broadening definitions of expenditures counted toward the TANF MOE requirement and TANF transfers to non-CalWORKs programs. Although the MOE requirement is primarily met through expenditures on CalWORKs and other DSS programs, expenditures in other departments are also used to satisfy the MOE. At the same time, caseload has continued to flatten after many consecutive years of decline, COLAs have increased grant payments, and total funding for CalWORKs has not grown above the minimum amount needed to meet the MOE.

   The combined effect of these policies is that the state has had to reduce components of the CalWORKs program to fund other priorities. The 2004 Budget Act addressed this issue through a one-time change that eliminated the use of TANF funds for juvenile probation services, reduced most TANF transfers to Title XX, and changed the definition of child care expenditures counted toward the MOE.

   The budget proposes to increase TANF fund transfers to non-CalWORKs activities by $316 million, including $55 million to the Foster Care program, $60 million to the Department of Developmental Services, and $201 million to county probation facilities. Reducing the TANF funding from these programs would require a corresponding General Fund backfill to maintain total funding for these programs at the level proposed in the budget.

   The Legislature may wish to consider the feasibility of developing a prioritization for TANF funding, and whether this additional TANF funding for non-CalWORKs programs is consistent with Legislature's overall budget priorities.

Food Stamps Program

- **Program Description.** The Food Stamps program provides food benefits via Electronic Benefit Transfer (EBT) cards to eligible low-income families and individuals. The DSS provides statewide oversight, and counties perform eligibility determination functions. Families eligible for CalWORKs are automatically eligible for Food Stamp benefits. Low-income working families and individuals are also eligible for Food Stamp benefits, even if they have not enrolled in the CalWORKs program.

- **Enrollment Summary.** The department estimates that average monthly Food Stamp caseload in 2005-06 will be 2.1 million persons, a 4.9 percent increase over 2004-05. Approximately 57 percent of these beneficiaries are not receiving cash assistance. The proportion of "non-assistance" Food Stamp caseload in the program has grown significantly in recent years, and increased enrollment among non-assistance households has been the driving factor in overall program growth since 2000-01.

- **Funding Summary.** Food Stamp benefits are funded entirely by federal funds. These funds are not included in the state budget, as the U.S. Department of Agriculture provides funding for food directly to beneficiaries via EBT cards. California received approximately $2.0 billion in Food Stamp benefits in 2004. The federal government also funds 50 percent of the program's administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent, respectively. The budget anticipates that funding for county administration activities will be $731.1 million ($268.3 million General Fund), a decrease of $17.3 million ($5.6 million General Fund) compared to the current year.

The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Total funding for benefits and administrative costs is estimated to be $24.6 million General Fund in 2005-06, to provide benefits to 21,000 beneficiaries.

Food Stamp Budget Highlights

- **Food Stamp Simplification Options.** The budget proposes to implement optional federal provisions to simplify the eligibility determination process for the Food Stamp program. Certain eligibility requirements would be aligned with CalWORKs, and a mandatory Standard Utility Allowance (SUA) would be implemented. Effective January 1, 2006, these new eligibility guidelines are expected to result in $15.7 million in additional federal Food Stamp benefits for 60,000 existing and 6,000 new families in 2005-06. Further increases would be achieved under full year implementation in 2006-07.

Issue for the Food Stamps Program

- **Are the Proposed Food Stamp Simplification Options Sufficient to Address the State's Low Food Stamp Participation Rate?** At 39.0 percent, California has the lowest Food Stamp participation rate in the nation. The state's low income residents receive only 8.0 percent of all Food Stamp benefits provided by the federal government. While the simplification options included in the budget are expected to increase the participation rate and amount of federal benefits, the Legislature may wish to examine additional strategies to increase the participation rate. As the Legislative Analyst's Office reported in 2004, Food Stamp benefits not only improve the well-being of recipients, but the funding behind the benefits stimulates the state's economy and results in additional General Fund revenue that exceeds the administrative costs of eligibility determination.

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

- **Program Description.** The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Beneficiary grants generally reflect the maximum grant less any offsetting personal income. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of cost, for the In-Home Supportive Services Program, and may be eligible for other programs designed to support individuals living in the community.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients.

SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. There are over twenty different SSI/SSP payment standards. Both the federal and state grant payments for SSI/SSP recipients are adjusted for inflation each January through Cost-of-Living-Adjustments (COLAs). Federal law provides an annual SSI COLA based on the Consumer Price Index, and state law provides an annual SSP COLA based on the California Necessities Index. As of April 2005, the maximum grant will be $812 per month for an aged or disabled individual living independently and $1,437 per month for an aged or disabled couple living independently.

The CAPI program was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the DSS and administered locally by counties. CAPI grants are $10 less than SSI/SSP grants for individuals and $20 less than SSI/SSP grants for couples.

- **Enrollment Summary.** The budget projects SSI/SSP average monthly enrollment will grow by 2.4 percent, from 1,189,000 in 2004-05 to 1,216,000 in 2005-06. Approximately 71 percent of recipients are disabled or blind, and the remainder are elderly. Caseload is increasing most rapidly among disabled recipients, at 2.9 percent in 2005-06. Caseload among elderly recipients is expected to increase by 1.4 percent in 2005-06. Total caseload has increased by 2.0 percent or more each year since 1998-99. CAPI caseload is projected to increase by 4.9 percent in 2005-06, to 9,025 average monthly recipients.

- **Funding Summary**. SSI/SSP grants have two components: the SSI component, which is federally funded, and the SSP component, which is state funded. Total funding for SSI/SSP is estimated to be $8.3 billion ($3.36 billion General Fund) in 2004-05, and $8.6 billion ($3.44 billion General Fund) in 2005-06. General Fund expenditures are projected to increase by 2.4 percent, to reflect an increase in caseload. The federal funds in the SSI portion of the grant are not included in the state budget, as they are federally administered. Total funding for the CAPI program is estimated to be $81.8 million General Fund in 2004-05 and $83.3 million General Fund in 2005-06.

SSI/SSP Highlights

- **Withhold Federal SSI COLA.** The Governor proposes to withhold the January 2006 2.3 percent federal SSI COLA, for savings of $84.7 million General Fund in 2005-06, and $169.4 million annually. This is achieved by reducing the SSP component of the grant by the same amount as the federally funded January 2006 SSI COLA.

- **Suspend State SSP COLA.** The Governor proposes to suspend the January 2006 4.6 percent state SSP COLA, for savings of $174.2 million General Fund in 2005-06, and $348.4 million General Fund annually.

SSI/SSP Issues

- **Withhold and Suspension of SSI/SSP COLAs.** The January 2006 COLAs proposed for suspension would have increased the maximum grant for an individual by approximately $24 to $836 per month, and would have increased the maximum grant for a couple by approximately $46 to $1,483 per month. Even with those scheduled increases, grant levels have not kept pace with inflation in recent years due to the suspension of the January 2004 SSP COLA and the deferral of the January 2005 COLA until April 2005. Suspension of the January 2006 COLAs would further erode the ability of grant payments to keep pace with cost of living increases, such as rising food, housing, and transportation costs.

  California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing, and other necessities. They spend most of their grants on rent and utilities. According to the U.S Department of Housing and Urban Development, fair market rents for a studio apartment in California average $748 per month and range from $341 in Alpine County to $1,294 in Santa Clara County. The fair market rent for a studio apartment exceeds the SSI/SSP grant in 13 counties, and exceeds 50 percent of the grant in 40 counties. Since 1990, rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 18 percent. Without the COLA, beneficiaries will face additional pressure to reduce spending on food or utilities as housing costs increase.

  The Legislature may wish to review and discuss the effect on beneficiaries of not providing SSI/SSP COLAs in 2005-06. The Legislature may also wish to examine strategies to encourage disabled recipients to increase rehabilitation activities and seek or increase employment. In addition, the Legislature may wish to examine the effectiveness of the state's rehabilitation programs, and whether additional funding for such programs would be cost-effective at reducing SSI/SSP costs.

In-Home Supportive Services (IHSS) Program

- **Program Description.** The In-Home Supportive Services (IHSS) program funds personal care services for low-income aged, blind or disabled individuals that are at risk for institutionalization. IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the recipient, county contracts with service providers, or through welfare staff. County welfare departments visit recipients in their homes to determine the number of authorized hours of service per day.

- **Enrollment Summary.** The budget estimates that IHSS recipients will increase to 382,000 in 2005-06, an increase of 7.7 percent over 2004-05 caseload. Slightly more than half of IHSS consumers are disabled, and slightly less than half are elderly. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload. Caseload, hours of service by case, and program costs have grown significantly faster than population growth since the mid-1990s.

- **Funding Summary.** The budget proposes $3.2 billion ($1.02 billion General Fund) for the IHSS program in 2005-06. This represents a decline of $512.7 million ($159.9 General Fund) below the current year funding level. The decline is due to proposed provider wage participation reductions of $673.1 million ($206.7 million General Fund), offset by an increase in funding to reflect caseload growth.

  IHSS General Fund costs have more than doubled from $527 million in 1998-99 to $1.2 billion in 2004-05, despite $231 million in additional federal funds from a recent federal Medicaid waiver for part of the program. Nonetheless, the average annual cost per individual (approximately $9,400 in the current year) is still less than one-fifth the cost of nursing home placement. The program's growth rate has been fueled by multiple factors, including the establishment of a state entitlement for personal care services, population increases, and an increase in the proportion of IHSS consumers who are severely disabled, greater utilization of service hours by case, and higher provider rates. In addition, demographic trends and a programmatic shift to support the elderly and persons with disabilities in community settings have increased the number of beneficiaries.

  Wage increases have reportedly contributed to enrollment growth and increases in the numbers of hours used, as higher wages have made it easier for beneficiaries to hire providers and fully utilize authorized hours of care. This is in addition to the direct impact of provider wage increases on IHSS costs. The state has participated in IHSS provider wages above the minimum wage since 1999-2000. In the current year the state participates in wages up to $10.10 per hour, although each county's wage rates are generally determined by the board of supervisors and public authority that negotiates a contract with providers.

IHSS Highlights

- **Eliminate State Participation in IHSS Provider Wages above Minimum Wage**. The Governor proposes to reduce the level of state participation in IHSS provider wages and benefits from $10.10 to the state minimum wage of $6.75, effective October 1, 2005. This would result in savings of $541.7 million ($164.0 million General Fund) in 2005-06, and $217 million in annual General Fund savings.

- **Roll-back Wages to 2004 Levels.** Effective July 1, 2005, the Governor proposes to roll-back state participation in IHSS wage increases that were established under contracts negotiated by nine local IHSS public authorities in the current year. The budget reflects savings of $131.3 million ($42.7 million General Fund) in 2005-06 for this proposal.

- **Increase Quality Assurance Savings.** The 2004 Budget Act included an IHSS quality assurance component that is intended to make county determinations of service hours consistent throughout the state. The budget indicates that implementation of this initiative has been delayed two months, to December 2004. The budget reflects $218.2 million ($70.9 million General Fund) in savings due to reduced provider payments under this initiative, which is five times more than the $39.0 million ($12.7 million General Fund) in expected current year savings.

IHSS Issues

1. **Effects of IHSS Wage Reductions.** Effective October 1, 2005, the budget proposes to reduce the level of state participation in IHSS provider wages and benefits from $10.10 to the state minimum wage of $6.75. Effective July 1, 2005, the budget proposes to roll-back state participation in IHSS wage increases that were established under contracts negotiated by nine local IHSS public authorities in the current year. These changes would result in savings of $673 million ($207 million General Fund) in 2005-06, and $260 million in annual General Fund savings. Under the Governor's proposals, counties would have to reduce IHSS provider wages or fund the difference between minimum wage and the negotiated wage with county funds upon expiration of current collective bargaining contracts.

   Currently 13 of 41 public authorities offer wages and benefits at or above the maximum reimbursement rate of $10.10 per hour. Twenty-seven of 41 public authorities offer wages and benefits above the minimum wage level of $6.75 per hour.

   California chose to increase state participation in provider wages to increase the ability of IHSS consumers to hire providers and to reduce turnover among providers. A reduction in IHSS wages may reduce available workers, increase provider turnover rates, decrease the ability of consumers to hire providers, and negatively affect quality of care. Additionally, a decrease in wages may result in an increase in CalWORKs and Medi-Cal costs, as some providers are or would become low-income themselves.

   This proposal is inconsistent with the *Olmstead* decision, which requires states to provide services to persons with disabilities in the least restrictive setting possible. The proposed reductions will restrict access to community-based services while demographic changes and a programmatic shift to support elders and persons with disabilities in community settings continue to increase demand for services.

   The Legislature may wish to consider how the Governor's proposals will impact California's compliance with the *Olmstead* decision, the effect of the Governor's proposals on persons with disabilities and elders, and the extent to which reduced access to IHSS services will lead to higher provider turnover, increased nursing home placements, and reduced quality of care. The Legislature may also wish to consider the effect of these proposals on county budgets and realignment funding for health and social services. Finally, the Legislature may wish to consider if these proposals are affected by the recently approved Proposition 1A, which expands the definition of a state-reimbursable local mandate.

2. **Implementation of Quality Assurance Initiative Needs Further Review.** The IHSS Quality Assurance Initiative, established under the 2004 Budget Act, includes: 1) quality assurance functions in each county, 2) state resources for monitoring and supporting county activities, 3) standardized assessment training for county IHSS workers, and 4) periodic written notices to providers that remind them of their legal obligations to submit accurate timesheets. The DSS received 18.0 positions for implementation and ongoing activities. The budget indicates that implementation of this initiative has been delayed by two months, to December 2004. The budget also reflects $218.2 million ($70.9 million General Fund) in savings due to reduced provider payments under this initiative, which is five times more than the $39.0 million ($12.7 million General Fund) in expected current year savings.

The Legislature may wish to review the department's progress in implementing this program, and may wish to have the department report on the extent of payment fraud and abuse that has been identified thus far. The Legislature may also wish to review the significant increase in budget year savings, and consider any programmatic issues that may be contributing to that increase.

The budget also indicates that the DSS will release a Request for Proposal in 2005-06 to procure an IHSS worker telephone tracking system. This system would be developed in 2006-07 and implemented in each county to minimize fraud and abuse. The Legislature may wish to have the department provide further information on this proposal, including potential start-up costs, long-term savings, and how this system interacts with the CMIPS and CMIPS II payroll systems.

Children and Family Services Programs

- **Program Descriptions, Caseload, and Funding.** The state administers a continuum of programs and services designed to protect children from abuse, neglect, and exploitation, strengthen families, deliver services to children in out-of-home care, and support the adoption of children with special needs. These programs are operated by county welfare departments. The budget provides $4.88 billion ($1.45 billion General Fund) to support children and family services programs.

    1) **Child Welfare Services (CWS).** This program encompasses a variety of services designed to protect children from abuse, neglect and exploitation. Services include Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement. Combined average monthly caseload for these programs is estimated to decline by 1.4 percent in the budget year. However, funding for CMS increased by 5.3 percent, to $2.2 billion.

    2) **Foster Care Program.** The state's Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. Average monthly Foster Care caseload is estimated to decrease by 0.2 percent, to 74,200 children. However, the number of children served in group homes and foster family agencies is increasing, while the number of children in foster family homes is decreasing.

    3) **Kin-GAP Program.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The projected average monthly caseload is 16,100 children, reflecting an increase of 7.7 percent. Funding for the program is anticipated to increase by a proportionate amount, to $102.9 million.

    4) **Adoption Assistance Program (AAP).** The AAP provides subsidies to promote permanent placement of children that are older, members of sibling groups, have disabilities, or are otherwise difficult to place. Budget year caseload is expected to be 71,000, an increase of 9.4 percent over current year. The budget proposes $651.8 million ($280 million General Fund) for this program, which represents a total funds increase of 12.5 percent.

Children and Family Services Highlights

- **New CWS Reform Package.** The budget includes $26.6 million ($14.7 million General Fund) to expand the use of Differential Response, the California Standardized Safety Assessment System, and enhanced permanency and youth transition standards. Eleven counties currently use these tools to improve safety and child well-being outcomes. This funding would expand this program to eleven additional counties.

- **CWS Federal Grant Funding Declines for Promoting Safe and Stable Families (PSSF) Program.** The budget includes a reduction of $18.9 million to reflect reduced federal grant funds for the PSSF program. This program provides community-based, family-centered services that focus on supporting and preserving families.

- **Transfer Temporary Aid for Needy Families (TANF) Funds to Foster Care.** The budget proposes to transfer $55.1 million in TANF funds from CalWORKs to the Foster Care program to offset General Fund support for the Foster Care program. The state's use of TANF funds to support non-CalWORKs programs limits the state's ability to afford the CalWORKs program without additional General Fund spending.

Issue for Children and Family Services

- **Proposed CWS Reforms Require Further Review.** Despite three concurrent reform efforts over the last few years and a clear need for improvement, implementation of CWS reform has been sporadic and inconsistent across the state. These reform efforts have intended to address longstanding problems with the state's CWS program and the correspondingly high number of children in Foster Care. California's Foster Care population represents 20 percent of the national Foster Care caseload.

  A recent federal review concluded that California is not operating in substantial conformity in all children and family services outcome areas. The state negotiated a Program Improvement Plan (PIP) with the federal government, which outlines steps the state plans to take to improve its outcomes, including timeframes for achieving improvement, and commitments to dozens of specific program performance improvements.

  California has also been engaged in the development and implementation of a new system, based on federal performance reviews, to measure specific county outcomes. Chapter 678, Statutes of 2001 (AB 636, Steinberg) requires the state to establish an outcome-based system to evaluate county operations of child welfare services. The new California Child Welfare Outcomes and Accountability System includes web-based reporting of county outcomes, and requires counties to conduct self-assessments and develop system improvement plans.

  In addition, California recently concluded its three-year Child Welfare Stakeholders (CWS) Group process, which examined California's child welfare services programs and recommended changes. The group released its CWS Redesign report in September 2003. The Redesign outlines a broad long-term plan to improve the child welfare services system. The plan includes the development of partnerships between CWS agencies and community based organizations, as well as efforts to improve access to preventative services and supportive services for families.

The budget includes $26.6 million ($14.7 million General Fund) to expand the use of Differential Response, the California Standardized Safety Assessment System, and enhanced permanency and youth transition standards. Eleven counties currently use these tools to improve safety and child well-being outcomes. This funding would expand this program to eleven additional counties.

The Legislature may wish to consider the expected result of the proposed funding increase. Do the reforms complement each other and existing reform efforts? How will proposed reforms improve outcomes for children and families? Are the proposed funding augmentations the best use of limited resources?

Community Care Licensing

The Community Care Licensing Division (CCLD) of the DSS licenses over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing and adult day care. The CCLD visits a randomly selected 10 percent of facilities annually, and visits all facilities no less than once every five years. At-risk facilities are visited at least annually. The budget does not propose any significant changes to CCLD funding or positions.

Issue

- **Licensing Reform Proposal Anticipated.** The 2003 Budget Act reduced the frequency of licensing visits to more effectively target CCLD resources. However, that legislation also provided that if the number of citations increased by more than 10 percent, the number of unannounced visits would also increase. The department indicates that the number of citation is projected to increase, and that it has formed a workgroup to review licensing practices and address this increase. This workgroup may also be addressing reports by the Bureau of State Audits (BSA) and the California Performance Review that found some duplication among the various HHS departments that license health and community care facilities. The Legislature may wish to ask the department to report on the progress of the workgroup and provide data on the frequency and severity of facility complaints, citations, and deaths.

SUBCOMMITTEE NO. 4

LEGISLATIVE, EXECUTIVE, JUDICIAL BRANCH,
TRANSPORTATION, and GENERAL GOVERNMENT

Transportation

State Administration

Judicial Branch

TRANSPORTATION

Governor Proposes Significant General Fund Saving from Transportation

The Governor proposes to retain gasoline sales tax revenue of approximately $1.53 billion in the General Fund instead of transferring these funds to transportation. This revenue would otherwise support transportation through a $216 million Public Transportation Account "spillover" transfer and a $1.31 billion Proposition 42 transfer. Additionally, the Governor proposes to reschedule past transportation loans due by June 30, 2009, over a 15-year period ending in 2021-22. These proposals would delay highway and mass-transit projects in the Traffic Congestion Relief Program, the State Transportation Improvement Program, and delay improvements to local streets and roads. The Governor proposes an amendment to the Constitution to prohibit the suspension of Proposition 42 after 2006-07.

Background on Proposition 42 and Past Transportation Loans

- **Origin of the Traffic Congestion Relief Program and Proposition 42.**
    - ➢ The Traffic Congestion Relief Program (TCRP) was established with the 2000-01 budget (AB 2928, Torlakson) as a six-year funding program – with $2 billion transferred from the General Fund to the Traffic Congestion Relief Fund in 2000-01 and gasoline sales tax revenue of approximately $1.1 billion transferred annually in 2001-02 through 2005-06 from the General Fund. The program did not increase taxes, but rather used existing General Fund revenue. Program revenue is statutorily distributed as follows:
        - $4.9 billion for 141 specified transportation projects.
        - $400 million to cities and counties for local streets and roads.
        - $5 million to the High Speed Rail Authority.
        - The remainder (about $2 billion) is proportionally allocated, with 40 percent for State Transportation Improvement Program projects, 40 percent for local streets and roads, and 20 percent for public transportation.
    - ➢ General Fund revenues for the 2001-02 budget were below the level anticipated at the time of AB 2928, and as part of the enacted 2001-02 budget, implementation of the annual gasoline sales tax transfers to the TCRP was delayed two years – to 2003-04. As part of the budget agreement, a proposition was submitted to voters which placed the program in the Constitution and made permanent the use of gasoline sales tax revenue for transportation. Voters approved Proposition 42, which also contained a provision that allows the Legislature to suspend the funding with a two-thirds vote.

- **Traffic Congestion Relief Fund loans to the General Fund and Proposition 42 suspensions.**
  - The 2001 Budget Act, the 2002 Budget Act, and legislation enacting the 2002-03 mid-year budget revision, loaned a total of $1.38 billion from the Traffic Congestion Relief Fund to the General Fund with repayment due in 2005-06.
  - The 2003 Budget Act partially suspended the 2003-04 Proposition 42 transfer with $289 million transferred and $868 million suspended. Repayment of the suspended amount is statutorily required in 2008-09. This funding level allowed projects with current allocations to continue work, but was not sufficient to allow new project allocations.
  - The 2004 Budget Act fully suspended the 2004-05 Proposition 42 transfer of $1.243 billion with repayment statutorily required in 2007-08. However, the budget includes several mechanisms for early repayment of the $1.38 billion loan due in 2005-06: a $43 million General Fund transfer; a $140 million transfer of "spillover" gasoline sales tax money that would otherwise go to the Public Transportation Account; and $1.2 billion from tribal gaming bonds.
- **Intra-transportation loans.** Several loans have been made from the State Highway Account and the Public Transportation Account to backfill other transportation funds for the delayed implementation of the TCRP and the loans from the Traffic Congestion Relief Fund to the General Fund. These funds have stayed within transportation; however, they have shifted funds that would otherwise be available for highway capacity projects to TCRP projects (highway expenditures comprise 35 percent of expenditures for TCRP projects) and to local streets and roads projects.
  - As part of the 2001-02 refinancing of the TCRP, the State Highway Account transferred $143 million in 2001-02 and $150 million in 2002-03 to cities and counties, which represented the same amount expected if the sales tax on gasoline was transferred in those years. To repay the State for this loan, cities and counties forgo their 2006-07 and 2007-08 gasoline sales tax money (Prop 42 transfer) and this funding goes instead to the State Transportation Improvement Program.
  - Also as part of the 2001-02 refinancing of the TCRP, the State Highway Account financed capital outlay support for TCRP projects totaling $89 million over 2000-01 through 2002-03, with repayment due in 2006-07. The tribal gaming bonds that are part of the 2004 budget repay this loan.
  - The 2002 Budget Act included a $474 million loan from the State Highway Account to the Traffic Congestion Relief Fund. The 2003 Budget Act repaid $100 million, the 2004 Budget Act repays $20 million, and the tribal gaming bonds repay the remainder.
  - The 2001 Budget Act and 2002 Budget Act included loans totaling $275 million from the Public Transportation Account to the Traffic Congestion Relief Fund, with repayment due in 2007-08. If the tribal gaming bonds meet the $1.2 billion revenue target, these loans will be fully repaid.

Governor's Budget Proposals for Proposition 42

- **Suspension of the 2005-06 Proposition 42 transfer.** The Governor proposes to suspend the Proposition 42 transfer of $1.31 billion in gasoline sales tax revenues from the General Fund to transportation. The Administration proposes to repay the $1.31 billion over a 15-year period ending in 2021-22. If Proposition 42 is not suspended, the funding would be allocated in 2005-06 as follows.
  - $678 million for the Traffic Congestion Relief Program (TCRP).
  - $253 million for the State Transportation Improvement Program (STIP).
  - $253 million for local streets and roads.
  - $126 million to the Public Transportation Account (PTA).
- **Constitutional amendment to Prohibit 42 suspensions after 2006-07**. The Governor proposes to amend the Constitution to prohibit suspension of Proposition 42 after 2006-07, and prohibit any loans from the State Highway Account and Public Transportation Account to the General Fund.
- **Delayed repayment of 2003-04 and 2004-05 Proposition 42 loans.** The Governor proposes that $2.1 billion in past Proposition 42 loans, which are currently due by June 30, 2009, be repaid over a 15-year period ending in 2021-22. Language requiring repayment by 2021-22 would be included in the proposed constitutional amendment. The language would specify that repayment in each fiscal year shall not be less than one-fifteenth ($1/15^{th}$) of the total amount due.
- **Proposition 42 in 2006-07.** The budget does not speak to the suspension of Proposition 42 in 2006-07; however, the Administration proposes to "firewall" Proposition 42 starting in 2007-08 and does not rule-out a suspension proposal for next-year's budget.

Tribal Gaming Bonds. The Governor's Budget assumes $1.2 billion in tribal gaming bonds will successfully be sold in 2005-06, instead of in 2004-05 as assumed at the time of the 2004 Budget Act. If successfully sold, the bonds would fully repay loans made from the Traffic Congestion Relief Fund to the General Fund, and associated loans from the State Highway Account and the Public Transportation Account to the Traffic Congestion Relief Fund. Statute requires General Fund repayment of the Traffic Congestion Relief Fund loan by June 30, 2006. If the tribal gaming bonds are not sold, or generate less that $1.2 billion, the General Fund will have to repay the remainder of the loan. The Administration proposes to amend current law to release the General Fund from any repayment obligation for the Traffic Congestion Relief Fund loan, and instead specify that repayment of the loan shall only be from tribal gaming revenue – either with annual revenue, or a bond backed by future revenue.

Public Transportation Account "Spillover" Revenue. For 2005-06, the Governor projects spillover revenue of $216 million, and proposes to retain the entire amount in the General Fund. Prior to 1972, gasoline was exempt from the sales tax. Chapter 1400, Statutes of 1971, relinquished 0.25 percentage points of the state's 4.00 percent sales tax to local governments to fund transportation development (primarily mass transit). To hold the General Fund harmless, the tax base was broadened to include gasoline. The legislation further provided a mechanism to assure that the General Fund would not benefit as a result of the broadened tax base – this "spillover" formula transfers any net General Fund revenue gain to the Public Transportation

Account. The spillover only occurs in years when gasoline prices are high relative to the prices of other goods. No spillover occurred during the period of 1994-95 through 2000-01; however, a spillover of $11.3 million occurred in 2001-02.

- The 2003 Budget Act projected a spillover of $87 million and associated trailer-bill legislation retained that amount in the General Fund (with any amount above $87 million to be transferred to the Public Transportation Account).
- The 2004 Budget Act projected a spillover of $140 million and trailer-bill legislation directs that amount to the Traffic Congestion Relief Fund as partial repayment of past loans to the General Fund (any excess spillover is retained by the General Fund).

Summary of Transportation Loans to the General Fund

Transportation Loans to the General Fund	Loan Amount (in thousands)	Current-law due date	Proposed due date
Traffic Congestion Relief Fund loans (made in 2001-02 and 2002-03)	$1,383,000	June 30, 2006	By tribal gaming revenue - no GF obligation
2003-04 Propositions 42 loan	868,000	June 30, 2009	June 30, 2022
2004-05 Proposition 42 loan	1,243,000	June 30, 2008	June 30, 2022
2005-06 Proposition 42 loan (proposed)	1,310,000	n.a.	June 30, 2022
2006-07 Propositions 42 Loan (not currently proposed but allowable with the Governor's plan)	1,383,000	n.a.	June 30, 2022
Total	$6,187,000		

Other Transportation Initiatives Proposed by the Governor

Eliminate the High Speed Rail Authority (HSRA). The Governor proposes to transfer the functions of the HSRA Board to the California Transportation Commission. The Authority Board has nine members (five members appointed by the Governor, two appointed by the Senate Committee on Rules, two appointed by the Speaker of the Assembly) who do not receive a salary. This proposal is one of the structural changes the Governor will submit to the Little Hoover Commission. The Governor did not propose legislation to remove the high-speed rail bond measure from the November 2006 ballot. Despite the elimination proposal, the budget augments funding for the high-speed rail project by $2.7 million for the legal defense of the Environmental Impact Report, a route realignment study, and a business plan.

Eliminate the Transportation Advisory Committee. The Governor proposes to eliminate the Transportation Advisory Committee, which is a 16-member board created in 1973 to advise Caltrans on both the preparation of legislatively required reports and the designation of official scenic highways. Board members are appointed by the Legislature and do not receive a salary. The Administration contends that changes to the transportation planning process in 1997 (SB 45, Kopp), increased the level of local participation and partnership in transportation issues, such that the Advisory Committee is no longer needed. This proposal is one of the structural changes the Governor will submit to the Little Hoover Commission.

Transportation Management and Project Delivery Proposals. The Governor's Budget Summary indicates the Administration will propose a comprehensive package of management and project delivery proposals for the 2005-06 legislative session under the title, "GoCalifornia." These proposals will include increased authority for design-build contracting and public-private partnerships. The Administration anticipates releasing the proposals in the Spring, 2005.

2640 Special Transportation Programs

The Special Transportation Program provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation projects. Revenue comes from the sales tax on diesel fuel and a small portion of the sales tax on gasoline.

The Governor proposes funding of $137.3 million for Special Transportation Programs – an increase of $19.9 million (17 percent) over current-year funding. The increase in funding is primarily due to projections of higher diesel-fuel prices. Half of the projected Public Transportation Account "spillover" revenue would go this budget item under current law; however, the Administration proposes to retain all spillover revenue of $216 million in the General Fund.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises less than 9 percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, and airport safety, land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The Governor proposes total expenditures of $8.0 billion ($0 General Fund), a decrease of $119 million (1.5 percent) from the current-year budget.

Expenditure by Program (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Aeronautics	$7,620	$12,705	$5,085	66.7
Highway Transportation	7,220,543	$6,583,256	-637,287	-8.8
Mass Transportation	254,371	755,817	501,446	197.1
Transportation Planning	143,940	145,940	2,000	1.4
Administration	327,088	319,207	-7,881	-2.4
Equipment Program	147,685	165,046	17,361	11.8
State Mandated Local Programs	1	0	-1	-100.0
Total	$8,101,248	$7,981,971	-$119,277	-1.5

Expenditure by Category (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Personal Services	$1,779,950	$1,799,077	$19,127	1.1
Operating Expenses and Equipment	1,383,402	$1,425,629	42,227	3.1
Tort Payments	41,356	41,356	0	0.0
Debt Service (GARVEE bonds)	54,695	72,899	18,204	33.3
Local Assistance	1,980,369	1,429,380	-550,989	-27.8
Capital Outlay - Office Buildings	2,483	34,646	32,163	1,295.3
Capital Outlay - Transportation Projects	2,835,008	3,147,984	312,976	11.0
Unclassified	23,985	31,000	7,015	29.2
Total	$8,101,248	$7,981,971	-$119,277	-1.5

Expenditure by Fund Type (dollars in thousands)	2004-05	2005-06	$ Change	% Change
General Fund	$0	$0	$0	0.0
Federal Trust Fund	2,921,927	$2,402,637	-519,290	-17.8
Special Funds and Bond Funds	4,181,094	4,683,294	502,200	12.0
Reimbursements	998,227	896,040	-102,187	-10.2
Total	$8,101,248	$7,981,971	-$119,277	-1.5

Major Budget Proposals

Highway Maintenance Funding. The Administration requests a permanent increase of 38.0 positions and $45.8 million for highway infrastructure preservation and to implement the statewide culvert inspection and repair program. The 2004 Budget Act included a one-time augmentation of the same amount and approved budget trailer legislation (SB 1098) requiring Caltrans to provide the Legislature with a five-year maintenance plan by January 31, 2005. This yet-to-be-released report, should provide additional information on the appropriate level of maintenance funding.

Fuel and Insurance Cost Escalations. The Administration requests $13.1 million in additional expenditure authority to fund various Caltrans programs for price increases for fuel and insurance. The increase for fuel is $9.8 million (to $26.5 million – a 37 percent increase) and the increase for insurance is $3.2 million (to $8.8 million – a 58 percent increase).

Storm-water Workload. The Administration requests a permanent increase of 45 positions and $11.7 million for the maintenance of storm-water structural treatment best management practices. The Department's storm-water activities are driven by requirements of the federal Clean Water Act, requirements of the State Water Resources Control Board and various regional boards, and legal settlements. This specific request relates to requirements of a recent legal settlement with the Natural Resources Defense Council. Additionally, the Administration requests a one-time augmentation of $3.8 million for the purchase of fleet equipment.

Capital Outlay Support Program Service Contracts. The Administration requests a permanent increase of $11.7 million (to $23.6 million – a 98 percent increase) for non-project-specific contracts. Services include document reproduction, photography and satellite imagery, environmental studies, and training.

Oakland District Office Building Seismic Retrofit. The Administration requests $34.5 million to fund the working drawings and construction of the Oakland district office building seismic retrofit.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property.
The Governor proposes $1.4 billion in total expenditures for the CHP, an increase of $44 million (3 percent) from the current-year budget.

Major Budget Proposals

Capital Outlay. The Administration requests an augmentation of $10.2 million in Motor Vehicle Account funds for the following facilities projects:

- Santa Fe Springs area office: Design and construct a new office at a cost of $3.3 million.
- Los Angeles area office: Purchase the existing facility that the CHP currently leases for $2.3 million.
- Williams area office: Construct a new office at a cost of $4.3 million. The Williams area office was damaged by fire in 1999.

Reimbursement Authority. The Administration requests increased CHP reimbursement authority of $480,000 and 5.5 additional positions to perform administrative functions for programs that transferred from the Technology, Trade, & Commerce Agency to the Business, Transportation & Housing Agency. These programs include the Film Commission, the Infrastructure Bank, the Small Business Loan Program, and the Office of Military Support.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of $762 million, an increase of $7 million (1 percent) from the current-year budget.

Major Budget Proposals

Capital Outlay. The Administration requests an augmentation of $11.2 million in Motor Vehicle Account funds for asbestos abatement and office renovations for the third floor of the Sacramento DMV headquarters building.

Moving Costs. The Administration requests one-time funding of $781,000, special funds, for moving costs related to three existing offices where the lessors do not intend to renew the DMV lease.

STATE ADMINISTRATION

Statewide Unallocated Reduction

The Governor's Budget includes $150 million in unallocated reductions to most departments' state operations budgets. This is similar to the Control Section 4.10 reductions of 2004-05; however, the means for the budget-year reductions are unspecified. Departments may reduce their budgets using layoffs, hiring freezes, procurement reductions, or other administrative means. The Legislature may want to consider the impacts of these reductions *on a departmental basis* to ensure that no legislative priorities are harmed by these reductions.

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with planning, research and liaison with local governments. OPR also oversees programs for small business advocacy, rural policy, environmental justice, and helps implement decisions made within the Administration. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and overseas the California Service Corps. Total proposed budget expenditures are $47.2 million, of which $4.1 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
State Planning and Policy Development	$3,420	$4,153	$733	21.4
California Service Corps	43,818	43,164	-654	-1.5
Unallocated Reduction	0	-62	-62	0.0
Total, Programs	$47,238	$47,255	$17	0.0
Fund Source				
General Fund	$2,878	$4,076	$1,198	41.6
Property Acquisition Law Money Acct.	521	0	-521	-100.0
Federal Trust Fund	42,761	42,779	18	0.0
Reimbursements	1,078	400	-678	-62.9
Total, Fund Source	$47,238	$47,255	$17	0.0

Key Budget Adjustment

Augmentation of $390,000 and one position for services related to developing guidelines for tribal consultations.

0820 Department of Justice

It is the responsibility of the Attorney General to uniformly and adequately enforce the laws of the State of California. Under the direction of the Attorney General, the Department of Justice (DOJ) enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies.

The budget proposes a total of $687.7 million for the DOJ, an increase of $44.7 million or 6.6 percent from revised current year budget. The proposed General Fund support of $322.5 million represents an increase of $3.6 million, or 1.1 percent from the revised current-year budget.

Summary of Program Requirements (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Directorate and Administration	$25,810	$27,418	$1,289	5.0%
Distributed Directorate and Administration	-25,810	-27,418	-1,289	5.0%
Legal Support and Technology	46,082	47,723	993	2.2%
Distributed Legal Support and Technology	-46,082	-47,723	-993	2.2%
Executive Programs	14,136	14,160	1,535	10.9%
Civil Law	120,691	116,247	9,522	7.9%
Criminal Law	113,810	114,506	7,203	6.3%
Public Rights	63,769	69,437	3,466	5.4%
Law Enforcement	172,551	174,367	13,007	7.5%
Criminal Justice Information Services	166,358	170,960	14,184	8.5%
Gambling	15,233	15,307	-248	-1.6%
Firearms	12,030	12,293	-2,180	-18.1%
State-Mandated Local Programs	1	420	0	0.0%
Unallocated Reduction	-1800		-1,800	100.0%
Total	$676,779	$687,697	$44,689	6.6%

Highlights

Budget-Year Adjustments

- A General Fund increase of $4 million for a Criminal Justice Information System Redesign - to redesign the Wanted Persons, Stolen Vehicles, Supervised Release File, Firearms Eligibility Applicants, and Domestic Violence Restraining Order automated database systems.

- A General Fund increase of $1.7 million and 12 positions to the Bureau of Forensics to handle the increase in criminalistics workload and an increase of $1.5 million General Fund to improve and replace equipment used by the Bureau of Forensic Services' Criminalistics Laboratory System.

- An increase of $11.2 million from the DNA Identification Fund and 46 positions to begin implementation of Proposition 69, which makes any person convicted of a felony eligible for inclusion in the Forensic DNA Identification Database and Data Bank and the California Automated Palm Print System.

- A reduction of $283,000 General Fund from the Spousal Abuser Prosecution (SAP) program. The SAP program provides funding to 47 multidisciplinary teams statewide for the vertical prosecution of domestic violence cases. A total of $2.8 million General Fund remains in the budget to continue the existing program.

0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. Total proposed budget expenditures are $124.7 million, of which $72.7 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Accounting and Reporting	$12,680	$14,266	$1,586	12.5
Audits	22,908	24,232	1,324	5.8
Personnel and Payroll Services	26,338	32,559	6,221	23.6
Information Systems	14,080	14,227	147	1.0
Collections	15,825	15,455	-370	-2.3
Disbursements and Support	35,513	35,666	153	0.4
Distributed to Other Programs	-9,645	-9,661	-16	0.0
Loan Repayment Programs	-2,140	-2,054	86	0.0
Unallocated Reduction pursuant to Budget Control Section 33.50	-449	0	449	0.0
Total, Programs	$115,110	$124,690	$9,580	8.3
Fund Source				
General Fund	$70,969	$72,695	$1,726	2.4
Federal Trust Fund	1,253	1,258	5	0.4
Reimbursements	32,882	34,020	1,138	3.5
Other Funds	10,006	16,717	6,711	67.1
Total, Fund Source	$115,110	$124,690	$9,580	8.3

Key Budget Adjustments

Augmentation of $1.3 million and 13.7 positions for Unclaimed Property Program activities and external legal costs.

Augmentation of $10.4 million and 29.7 positions for development of a human resources management system. This workload is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems.

Increased funding for the Apportionment Payment System overhaul of $1.69 million. This sum would fund the second year of a multi-year project to replace the existing overburdened computer system.

Increased funding for the California Automated Travel Expense Reimbursement System (CalATERS) by $731,000 to provide better management of state employee travel activities.

0855 Gambling Control Commission

The California Gambling Control Commission (GCC) was established by Chapter 867, Statues of 1997 (SB 8, Lockyer). The five-member commission is appointed by the Governor subject to Senate confirmation. The GCC is responsible for setting policy, issuing licenses, administering, adjudicating, and regulating all matters related to controlled gambling in California.

In addition, pursuant to the Tribal Gaming Compacts and Executive Order D-31-02, the GCC is responsible for (1) administering the gaming license process, (2) controlling, collecting and accounting for all gaming device license fees, (3) making findings of suitability regarding key employees of tribal gaming operations, and (4) ensuring the allocation of gaming devices among California's tribes does not exceed the allowable number in the compacts. Included with this responsibility is serving as Trustee for the Revenue Sharing Trust Fund and Administrator of the Special Distribution Fund.

The budget proposes $139.7 million from special funds for the GCC which is $13,000 greater than anticipated expenditures in the current year. Of the total funding, $13.2 million is proposed for state operations, an increase of $3.1 million above estimated current year expenditures. The primary reason for the increase is related to a proposal to add new funding based on compact workload (highlighted below). The budget also proposes $126.5 million for local assistance – primarily for making payments to non-gaming tribes from the Revenue Sharing Trust Fund and for local mitigation efforts.

Summary of Fund Sources (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Indian Gaming Revenue Sharing Trust Fund	$98,091	$96,500	-$1,591	-1.6%
Indian Gaming Special Distribution Fund	39,284	40,885	1,601	4.1%
Gambling Control Fund	2,308	2,311	3	0.1%
Total	$139,683	$139,696	$13	0.0%

Highlight

Compact Workload Adjustment. The budget includes a current-year augmentation of $2.2 million ($2.2 million Special Distribution Fund and $54,000 Gambling Control Fund) and a 2005-06 augmentation of $4.8 million ($4.7 million Special Distribution Fund and $124,000 Gambling Control Fund). The proposal includes adding 43.1 new positions to bring the total number of positions at the GCC to 88.7. The Administration indicates that the new funding and positions will address workload resulting from the new Tribal-State Gaming Compacts in 2004, as well as the development and implementation of a state testing laboratory and field testing program, and auditing activities to ensure compliance with new and amended Compacts and gaming laws.

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department are the state's major tax collection agencies. BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. Total proposed budget expenditures are $364.9 million, of which $209.5 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
County Assessment Standards	$8,027	$8,094	$67	0.8
State Assessed Property	6,772	6,827	55	0.8
Sales and Use Tax	281,178	281,006	-172	-0.1
Cigarette and Tobacco Products Tax	12,667	17,094	4,427	34.9
Diesel and Use Fuel Tax	16,929	16,242	-687	-4.1
Administration	33,213	33,213	0	0.0
Distributed Administration	-33,213	-33,213	0	0.0
Other Programs	32,998	35,655	2,657	8.1
Unallocated Reduction	0	-62	-62	0.0
Total, Programs	$358,571	$364,856	$6,285	1.8
Fund Source				
General Fund	$207,889	$209,481	$1,592	0.8
Motor Vehicle Fuel Account	20,169	19,402	-767	-3.8
Federal Trust Fund	32	0	-32	-100.0
Reimbursements	106,033	101,464	-4,569	-4.3
Other Funds	24,448	34,509	10,061	41.2
Total, Fund Source	$358,571	$364,856	$6,285	1.8

Key Budget Adjustments

The proposed BOE augmentations are driven primarily by recently enacted legislation affecting their tax and fee responsibilities. These include:

- $5.7million in special funds and 76.8 positions to administer the electronic waste recycling fee (SB 50),
- $850,000 in special funds and 9.6 positions to fund ongoing cigarette and tobacco products taxes (Proposition 10 – The California Children and Families First Act of 1998),
- $224,000 in special funds and 5.6 positions for the tire recycling fee increase (AB 923), and

- $79,000 in special funds and one position for the underground storage tank maintenance fee increase (AB 1906).

0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary laws and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, Information Technology and Management Services Divisions. Total proposed budget expenditures are $76.4 million, of which $30.3 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Business Programs	$39,068	$41,353	$2,285	5.8
Elections	249,129	17,653	-231,476	-92.9
Political Reform	3,329	2,537	-792	-23.8
Archives	13,834	14,131	297	2.1
Executive Administration	2,844	2,950	106	3.7
Distributed Executive Administration	-2,844	-2,950	-106	0.0
Management Services	5,646	5,063	-583	-10.3
Distributed Management Services	-5,266	-4,683	583	0.0
Information Technology	7,534	7,555	21	0.3
Distributed Information Technology	-7,216	-7,237	-21	0.0
Local Assistance	42,600	0	-42,600	-100.0
State Mandated Local Programs	4	0	-4	-100.0
Total, Programs	$348,662	$76,372	-$272,290	-78.1
Fund Source				
General Fund	$40,466	$30,299	-$10,167	-25.1
Secretary of State's Business Fees	31,034	33,319	2,285	7.4
Federal Trust Fund	266,100	1,700	-264,400	-99.4
Reimbursements	9,462	9,454	-8	-0.1
Victims of Corporate Fraud Compensation	1,600	1,600	0	0.0
Total, Fund Source	$348,662	$76,372	-$272,290	-78.1

Key Budget Adjustments

Suspension of four mandates (Voter Registration Procedures, Absentee Ballots, Permanent Absentee Voters, and Brendan Maguire Act) for the budget year.

Augmentation of $3.02 million for election costs in excess of base funding for such costs.

Issues

Special Items of Expense. The Governor's Budget expenditure of $3.02 million for "special items of expense" is meant to cover anticipated elections costs in the budget year. In previous years, the Secretary of State has usually relied on the deficiency process to pay for these costs, a practice inconsistent with the "critical and unanticipated" criteria of that process. Consequently, budgeting election costs beforehand appears prudent. However, based on information provided in previous deficiency submissions, it is unclear that all proposed activities to be funded out of the $3.02 million will viewed by the Legislature as being strictly confined to election activities and not a routine Secretary of State process.

Help America Vote Act (HAVA) Spending. The 2003-04 Budget Act included $85 million in federal funds for the Secretary of State to implement election reform changes required by the federal HAVA of 2002. HAVA funds are being disbursed nationwide in order to implement broad election reforms to improve the accuracy and performance of state's voting processes. For California, this includes developing a statewide voter database and replacing punch card voting machines with more modern equipment. The 2004-05 budget appropriated an additional $264 million in federal funds for these purposes.

To date, the SOS has been able to spend relatively little HAVA funds due primarily to a delay in the promulgation of federal spending guidelines and lack of an approved spending plan. Additionally, fund misuse and mismanagement documented in a December 2004 Bureau of State Audits report has raised questions over how HAVA funds have been spent.

In the 2004-05 Budget Act, the Secretary of State was directed to provide the Legislature with a spending plan for review prior to receiving authority to spend further HAVA funds. When the SOS sought expedited approval of a partial plan in September 2004, the Joint Legislative Budget Committee (JLBC) rejected all parts of that request not directly tied to the November election duties.

As of January 2005, the Secretary of State has not provided the Legislature a spending plan for the more than $300 million in outstanding available federal funds. Once the plan is submitted, the Legislature must evaluate the merits of the programmatic expenditures, set priorities for funding, and approve measures for success.

0950 State Treasurer's Office

The State Treasurer, a constitutionally established office, provides banking services for State government with the goals of minimizing interest and service costs and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the State; investment of temporarily idle State monies; administration of the sale of State bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other State agencies.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

Total proposed budget expenditures for the State Treasurer's Office are $22.7 million, of which $6.1 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Investment Services	$2,715	$2,709	-$6	-0.2
Cash Management	7,623	7,603	-20	-0.3
Public Finance	5,992	5,973	-19	-0.3
Securities Management	4,260	4,249	-11	-0.3
Administration and Information Services	9,714	9,874	160	1.6
Distributed Administration	-7,680	-7,693	-13	0.0
Total, Programs	$22,624	$22,715	$91	0.4
Fund Source				
General Fund	$6,028	$6,068	$40	0.7
Reimbursements	16,596	16,647	51	0.3
Total, Fund Source	$22,624	$22,715	$91	0.4

Key Budget Adjustment

The Governor's Budget includes Budget Bill language that would enable the Director of Finance to authorize a no interest, short-term loan from the General Fund to the State Treasurer's Office for the purpose of meeting cash shortfalls resulting from delayed reimbursements from other funds. A notice of transfer must be filed with the Joint Legislative Budget Committee 30 days prior to the proposed transfer date.

STATE AND CONSUMER SERVICES AGENCY

This section includes the budgets of the Science Center; the Department of Consumer Affairs (including all bureaus, boards programs and divisions); the Department of Fair Employment and Housing; the Franchise Tax Board; the Department of General Services; the State Personnel Board; the Public Employees' Retirement System; and the State Teachers' Retirement System. Additionally, this section includes the proposed Department of Technology Services, which would consolidate the Stephen P. Teale Data Center, the Health and Human Services Data Center, and certain telecommunications functions of the Department of General Services. Departments with major budget change proposals are highlighted.

1100 California Science Center

The California Science Center is an educational, scientific, and technological center administered by a nine-member board of directors appointed by the Governor. It is located in Exposition Park, a 160-acre tract just south of the central part of Los Angeles, which is owned by the state in the name of the Science Center. In a number of state-owned buildings, the Science Center presents a series of exhibits and conducts associated educational programs focusing on scientific and technological developments of the state. In addition, the Science Center, through the Park Manager, is responsible for maintenance of the park, public safety, and parking facilities.

The Governor proposes total expenditures of $19.9 million ($14.5 million General Fund) for the Science Center – an increase of $121,000. The Administration proposes an increase of $573,000 in the Exposition Park Improvement Fund appropriation to fund security improvements, grounds maintenance, and other expenses. The budget also includes a $183,000 unallocated General Fund reduction, which coupled with baseline General Fund increases, results in a net General Fund reduction of $20,000. Additionally, the 2004 Budget Act includes provision language that requires the Science Center to report on options for charging a fee for admissions to offset General Fund support.

1110 & 1111 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 27 semi-autonomous boards and 11 bureaus and programs that regulate over 230 professions. The 2005-06 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals $386.7 million ($376,000 General Fund), which is an increase of $34.3 million from the current year.

Major Budget Proposals

Elimination of Boards and Commissions. The Governor proposes to eliminate the below Boards and Commissions with their functions assumed by the Department of Consumer Affairs. This proposal is one of the structural changes the Governor has submitted to the Little Hoover Commission.

9-1-1 Advisory Board	Physical Therapy Board of California
Accountancy, California Board of	Physician Assistant Committee
Acupuncture Board	Pilot Commissioners Board
Alarm Company Operator Disciplinary Review Comm.	Podiatric Medicine, Board of
Architects Board, California	Private Security Disciplinary Review Commission (North)
Barbering and Cosmetology, California State Board of	Private Security Disciplinary Review Commission (South)
Behavioral Sciences, Board of	Professional Engineers and Land Surveyors, Board of
Building Standards Commission	Psychology, California Board of
Contractors State License Board	Registered Nursing, California Board of
Court Reporters Board of California	Registered Veterinary Technicians Committee
Dental Auxiliaries, Committee on	Respiratory Care Board of California
Dental Board of California	Seismic Safety Commission, California
Geologist and Geophysicists, Board for	Service Agency Advisory Committee
Guide Dogs for the Blind, State Board of	Speech-Language Pathology and Audiology Board
Hearing Aid Dispensers Advisory Committee	Structural Pest Control Board
Landscape Architects Technical Committee	Mexican American Veterans' Memorial Commission
Medical Board of California	Veterans Memorial Commission, California Vietnam
Occupational Therapy, California Board of	Veterinary Medical Board
Optometry, State Board of	Vocational Nursing and Psychiatric Technicians, Board of
Pharmacy, California State Board of	

Underground Economy Statewide Investigative Fraud Team. The Governor proposes an augmentation of $998,000 (special fund) and 11 three-year limited-term positions for the purpose of enforcement activities against unlicensed contractors who are part of the underground economy. The Department of Industrial Relations and the Employment Development Department are the other members of the proposed Economic and Employment Enforcement Coalition.

Bureau of Automotive Repair – Repair Assistance Program. The Governor proposes an augmentation of $4.8 million (special fund) and 17 positions to meet consumer demand for the Repair Assistance Program. The Repair Assistance Program provides qualified consumers financial assistance toward the repair of a vehicle that fails its biennial Smog Check inspection. Additional revenue is available for this program from legislation enacted in 2004 - SB 1107 (Committee on Budget and Fiscal Review) and AB 2128 (Jackson).

Bureau of Automotive Repair – Vehicle Retirement Program. The Governor proposes an augmentation of $13.6 million (special fund) and 21 positions to meet consumer demand for the Vehicle Retirement Program. The Vehicle Retirement Program offers eligible motorists $500 to retire their high-polluting vehicle. Additional revenue is available for this program from legislation enacted in 2004 – SB 1107 (Committee on Budget and Fiscal Review) and AB 2128 (Jackson).

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes total expenditures of $18.8 million ($13.3 million GF), a 1 percent increase from the current year. The Administration proposes an unallocated General Fund reduction of $211,000 for DFEH.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view. Total proposed budget expenditures for the Franchise Tax Board are $699.7 million, of which $512.3 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Tax	$416,104	$422,096	$5,992	1.4
Homeowners and Renters	5,688	5,199	-489	-8.6
Political Reform Audit	1,481	0	-1,481	-100.0
Child Support Collections	16,455	16,760	305	1.9
Child Support Automation	155,606	236,988	81,382	52.3
DMV Collections	5,568	5,647	79	1.4
Court Collection Program	5,762	5,966	204	3.5
Contract Work	7,344	7,408	64	0.9
Administration	23,051	23,051	0	0.0
Distributed Administration	-23,051	-23,051	0	0.0
Lease Revenue Bond Payment	7,410	7,410	0	0.0
Unallocated Reduction	-3,139	-7,840	-4,701	0.0
Total, Programs	$618,279	$699,634	$81,355	13.2
Fund Source				
General Fund	$485,929	$512,273	$26,344	5.4
Motor Vehicle Account	1,927	1,956	29	1.5
Motor Vehicle License Fee Account	3,640	3,691	51	1.4
Court Collection Account	5,762	5,966	204	3.5
Reimbursements	120,938	175,654	54,716	45.2
Other Funds	83	94	11	13.3
Total, Fund Source	$618,279	$699,634	$81,355	13.2

Key Budget Adjustments

Augmentation of $26.3 million General Fund and $53.2 million special funds, and 15.5 positions for the California Child Support Automation Project. These expenditures are part of a ten-year plan to overhaul how the state tracks and collects child support payments.

Augmentation of $1.8 million and 17.1 positions to increase staffing for the Abusive Tax Shelter Taskforce. Estimated revenue gains from this expenditure are $43 million in 2005-06 and $60 million in 2006-07.

Augmentation of $8.6 million and 99.2 positions to enhance "tax gap" (the difference between what is owed to the state and what is paid) enforcement activities. Estimated revenue gains from this activity are $34 million in 2005-06 and $44 million in 2006-07.

Reduction of $575,000 and 12 positions for workload reductions related to the Administration's proposed replacement of the Senior Citizen's Property Tax Assistance Program and limiting eligibility for the Senior Citizen Renters' Tax Assistance. (Details to these changes are found in the "9100 – Tax Relief" section.)

Issue

In recognizing the dramatic growth in abusive tax shelter schemes and tax evasion activities, the Administration has responded by proposing an augmentation to the FTB's enforcement programs. Underlying the Administration's proposal is an assumption of a revenues to expenditures "return." For the last several years, the Administration has proposed and the Legislature adopted a 5:1 revenues to audit expenditures return ratio. However, given the dynamic nature of the abusive tax shelter schemes and the age of the 5:1 rule, the Legislature may wish to revisit the underlying revenues to return ratio.

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security.

Total proposed budget expenditures for the Department of General Services are $970.2 million, of which $250,000 is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Building Regulation Services	$145,946	$220,462	$74,516	51.1
Real Estate Services	344,650	328,762	-15,888	-4.6
Statewide Support Services	417,798	397,668	-20,130	-4.8
Administration	35,714	36,274	560	1.6
Distributed Administration	-12,994	-12,994	0	0.0
Total, Programs	$931,114	$970,172	$39,058	4.2
Fund Source				
General Fund	$15,000	$250	-$14,750	-98.3
State Emergency Telephone Number Account	152,902	144,894	-8,008	-5.2
State Motor Vehicle Insurance Account	28,455	29,248	793	2.8
Public School Planning, Design, & Construction Review Revolving	31,086	31,837	751	2.4
Architecture Revolving Fund	38,497	36,987		
Service Revolving Fund	630,125	696,658	66,533	10.6
2002 State Schools Facilities Fund	12,129	11,952		
			-177	-1.5
Other Funds	22,920	18,346	-4,574	-20.0
Total, Fund Source	$931,114	$970,172	$39,058	4.2

Key Budget Adjustments

Reduction of $6.2 million special funds and 114 positions at the Office of State Printing, reflecting fewer state agency printing contracts and a statewide conversion to more digital technology printing and Internet publishing. Under this proposal, "core" services to the Legislature and other state agency clients would be preserved.

Reduction of $10.7 million special funds and 50.7 positions to reflect transferring services of the Office of Network Services to the Department of Technology Services. The Department of Technology Services is described below.

Issues

Internet Marketing of All Real Property Assets. The budget includes the creation of an Internet marketing plan to enhance the public exposure of state properties. All of the state's real property assets—surplus and non-surplus—would be listed online, facilitating perusal and (potentially) bid offers by private buyers. The Legislature may wish to consider whether it is in the state's best public policy interest to expose every parcel of state property to a market valuation.

Creation of a Department of Technology Services. The Governor will formally propose the creation of the Department of Technology Services in a Governor's Reorganization Plan (anticipated later this spring). The Department is expected to be funded at $235.4 million and 776 positions. The Department of Technology Services is intended to be the "general purpose technology service provider for the executive branch" and will include the Teale Data Center, elements of the Health and Human Services Data Center, and the voice telecommunications and data networking functions of DGS' Telecommunications Division.

While such consolidation could bring efficiencies and cost savings to these technology activities, it could also add bureaucracy and slow procurement. The Legislature will want to carefully explore whether a centralized technology services department will best serve the state. Further, the Legislature will want to ensure the proper appropriation and policy oversight for technology purchases is not ceded to the Executive branch.

California Procurement Initiative for 21st Century. The Governor proposes to update state procurement practices, primarily though upgrading the CalBuy system, online reverse auctions, and enhanced training to facilitate the use of new procurement technologies. Through an extension of the "Strategic Sourcing" initiative begun in the current year, the Administration expects to save an additional $95 million. Given the relatively minimal experience the state has with strategic sourcing and other "e-procurement" reforms, the Legislature will want to carefully examine the expense and savings assumptions behind this initiative.

1920 State Teachers' Retirement System (STRS)

The State Teachers' Retirement System provides retirement-related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college system. This budget item shows STRS benefit expenditures and revenue, with General Fund support included as a "nonadd." General Fund support for STRS is budgeted in item 6300 – in the Education section of the budget. The 6300 item includes the Governor's proposal to permanently discontinue the State's 2.017-percent STRS contribution to save the General Fund $469 million in 2005-06.

1955 Department of Technology Services

The Department of Technology Services (DTS) is the Governor's reorganization proposal for the consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The Administration proposes a new Technology Services Board (Board), composed of the State Chief Information Officer, the Director of Finance, the Controller, and Agency Secretaries, to provide governance and guidance to the DTS. The Administration proposes a continuous appropriation for the DTS in contrast to the current practice of budget act appropriations for the existing data centers. The Administration has submitted a total of eight budget change proposals, primarily for additional equipment and staffing. No position savings is proposed in the short-term from the consolidation.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, Managed Health Care and Stephen P. Teale Data Center. Transportation-related departments are included in the Transportation section of this overview. Departments with major budget changes are highlighted below.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. The budget is proposed at $31.1 million (State Corporations Fund), an increase of $1.8 million.

Major Budget Proposals

Additional Examiners. The Governor proposes to augment the budget by $1.5 million, and add 15.2 positions (7 limited-term), to meet statutorily mandated exam cycles and to provide adequate levels of industry regulation and consumer protection against lending and financing fraud.

California Electronic Access to Securities Information (Cal-EASI) Program. The Governor proposes to augment the budget by $668,000 to expand and permanently fund the Cal-EASI document management system, which provides efficiencies in online filings by licensees and provides public access to imaged filings.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes $563.2 million ($13.3 million General Fund) in total expenditures for the department – a decrease of $34.9 million.

Major Budget Proposals

Federal HOME Program. The Governor proposes permanent continuation of five limited-term positions and associated expenditure authority of $634,000 (federal funds) to administer the federal Housing and Urban Development (HUD) HOME program. The HOME program provides block grants for the creation and preservation of affordable housing.

Office of Migrant Services. The Governor proposes to redirect $9.5 million of Proposition 46 bond funds from the Joe Serna, Jr. Farmworker Housing Grant Program's $25 million Migratory Agricultural Worker set-aside to fund construction expenditures at the Office of Migrant Services migrant centers.

2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes $34.6 million (no General Fund) in total expenditures for the department – an increase of $1.6 million. The Administration requests a one-time augmentation of $445,000 (special fund) to fund 16 new temporary-help positions to process the increased volume of real estate examination and license transactions.

2400 Department of Managed Health Care

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system.

The Governor proposes $35.9 million (special fund) in total expenditures for the department – a decrease $331,000. The Administration requests authority to add 4 positions for the HMO Help Center to be funded within existing resources.

2780 Stephen P. Teale Data Center

The Stephen P. Teale Data Center provides a range of information technology services and products to state agencies. The Governor proposes to merge the Teale Data Center with the Health and Human Services Data Center and certain telecommunications functions of the Department of General Services. The merged department would be called the Department of Technology Services (organizational code 1955). The Administration will submit this reorganization proposal to the Little Hoover Commission. No funding is budgeted for the Teale Data Center for 2005-06, because funding has been shifted to the new department.

GENERAL GOVERNMENT

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Administration	$1,218	$1,658	$440	36.1
Unallocated Reduction	0	-29	-29	0.0
Total, Programs	$1,218	$1,629	$411	33.7
Fund Source				
General Fund	$1,218	$1,629	$411	33.7
Total, Fund Source	$1,218	$1,629	$411	33.7

Total proposed budget expenditures for the Commission on State Mandates are $1.6 million, all of which is state General Fund.

Key Budget Adjustment

Augmentation of $427,000 and four positions to reduce the backlog in the mandates test claim process (the process of determining whether a mandate exists).

Issue

State Mandated Local Cost Reimbursements. The 2004-05 budget repealed, deferred, and suspended various local reimbursement mandates and associated payments. Legislation passed in 2004 and Proposition 1A provided important reforms to the mandates process, including: requiring a statutory payback schedule for mandate deferrals, clarifying the definition of a mandate, and limiting budget options to suspending or deferring mandates.

Notwithstanding those reforms, more work must be done to improve the timeliness, accuracy, and relevancy of the mandates determination processes. This will include expediting determination and payment processes, reducing overpayments and illegitimate claims, and enhancing the Legislature’s ability to eliminate or amend outdated or superseded mandates.

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief proposed in 2005-06 totals $539.4 million, all of which is General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Senior Citizens' Property Tax Assistance	40,494	0	-$40,494	-100.0
Senior Citizens' Property Tax Deferral	$11,900	$16,600	4,700	39.5
Senior Citizen Renters' Tax Assistance	142,636	42,507	-100,129	-70.2
Homeowners' Property Tax Relief	433,200	440,000	6,800	1.6
Subventions for Opens Space ("Williamson Act")	39,388	39,661	273	0.7
Substandard Housing	0	0	0	0.0
Vehicle License Fee Offset	0	0	0	0.0
State-Mandated Local Programs	0	658	658	0.0
Total, Programs	$667,618	$539,426	-$128,192	-19.2
Fund Source				
General Fund	$667,618	$539,426	-$128,192	-19.2
Total, Fund Source	$667,618	$539,426	-$128,192	-19.2

Key Budget Adjustments

Elimination of the Senior Citizen’s Property Tax Assistance Program and a partial offset by expanding the Senior Citizen’s Property Tax Deferral Program. Total savings are $35.7 million.

Reduction to benefits for seniors participating in the Senior Citizen’s Renters’ Tax Assistance Program, scaling them back to 1998 levels. Total savings are $100 million.

Funding for the following mandates: Senior Citizen’s Property Tax Deferral ($238,000), unitary countywide tax rates ($138,000), and Allocation of Property Tax Revenue ($285,000).

Issue

Senior Citizens’ Property Tax Assistance. The Tax Relief budget item contains two significant reductions to state housing support for senior citizens: (1) the California Performance Review proposal to replace the Senior Citizen’s Property Tax Assistance Program (a tax forgiveness program) with the Senior Citizen’s Property Tax Deferral Program (a tax deferral program), and (2) lowering eligibility to the Senior Citizen’s Renters Tax Assistance from persons making $37,300/year to those making $13,200/year—slightly above the federal poverty line for a family of two. The Legislature may wish to consider the effect of these reductions on other state and local funded support services, as they could offset savings.

9210 Local Government Financing

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas. Local Government Financing proposed in 2005-06 totals $157.4 million, all of which is General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Programs				
Aid to Local Governments	$118,571	$54,334	-$64,237	-54.2
Citizens' Option for Public Safety (COPS)	199,725	100,000	-99,725	-49.9
Special Supplemental Subventions	650	650	0	0.0
State-Mandated Local Programs	0	2408	2,408	0.0
Total, Programs	$318,946	$157,392	-$161,554	-50.7
Fund Source				
General Fund	$318,946	$157,392	-$161,554	-50.7
Total, Fund Source	$318,946	$157,392	-$161,554	-50.7

Key Budget Adjustments

Elimination of funding for the Juvenile Justice Crime Prevention Act program, a reduction of $100 million General Fund.

Reduction of $5.7 million in grants to counties for property tax administration.

Elimination of $18.5 million in funding for 37 small counties who had received $500,00 each in the current year.

Funding for the following mandates: open meetings act notices ($2 million), rape victims counseling centers notices ($187,000), and health benefits for survivors of peace officers and firefighters ($221,000).

Funding for the Citizen’s Option for Public Safety (COPS) is preserved at the current year level. COPS provides discretionary funding for local police departments, sheriffs (for front line law enforcement and jail services) and district attorneys (for prosecutions).

Issue

Juvenile Justice Grants. The budget asserts that $25 million of the sum eliminated from Juvenile Justice Crime Prevention Act programs will be diverted to the Board of Corrections "for distribution to local governments." It is not clear if this sum is intended to provide support for activities associated with the Juvenile Justice Crime Prevention Act. If that is the case, local agencies' spending guidelines should be clarified for the Legislature.

9800 Employee Compensation

The budget proposes $260.9 million ($197.9 million General Fund) to fund compensation and benefit adjustments for existing contract obligations for state employees. This includes salary increases for Bargaining Units 5, 6, and 8, as well are increases in the employer contribution toward dental and vision care premiums.

The employee compensation savings proposed by the Governor for 2005-06, are included in a new budget item: 9955 Employee Compensation Reform. A description of these savings is outlined below.

9955 Proposed Employee Compensation Adjustments

This new budget item is included in the Governor's Budget to report savings from proposed employee compensation adjustments. The Administration indicates that total savings of $896.7 million ($493 million General Fund) would be realized in 2005-06 if the proposals are approved in their entirety.

Savings from the 2004 Alternative Retirement Program. The Governor proposes to budget savings of $155.4 million ($85.5 million General Fund), from the Alternative Retirement Program enacted in August 2004 (SB 1105, Committee on Budget and Fiscal Review). The Administration requests the authority for the Director of Finance to reduce department budgets to capture this savings.

The Alternative Retirement Program generated long-term budget savings to support the issuance of pension obligation bonds that would provide General Fund relief in 2004-05. The Administration now expects the bonds to be sold in 2005-06 instead of 2004-05, and expects bond revenues to be $765 million instead of $929 million.

Savings from 2005-06 Employee Compensations Proposals. The Governor proposes various changes that would reduce net compensation to state employees. The Administration estimates savings would total $741.3 million ($407.7 million General Fund). These proposals would be phased in as collective bargaining agreements are renegotiated. The proposals are as follows:

- **Defined-benefit retirement plan changes for existing employees.** Beginning in 2005-06, the Governor proposes to require employees to pick up one-half of the total charges approved by CalPERS. This would shift $374 million ($206 million General Fund) from the state to employees in 2005-06. Additionally, the Governor proposes to allow employees to opt out of CalPERS, with an estimated savings to the state of $164 million ($90 million General Fund).

- **Five-day furlough of state employees.** The Governor proposes a five-day furlough of state employees to save the state an estimated $109 million ($60 million General Fund) in 2005-06.

- **Eliminate leave from the overtime calculation**. The Governor proposes to eliminate holiday, sick leave, vacation, annual leave, and compensating time off, from the calculation of overtime. The Administration estimates this will generate 2005-06 savings of $36.4 million ($20 million General Fund).

- **Health-benefit reductions.** The Governor proposes the following reductions to generate total 2005-06 savings of $55.3 million ($30.0 million General Fund):
  - New employees must work 6 months before health care is provided.
  - Enroll employees retired from the military in the federal health care program.
  - Reduce the amount the state contributes to health care by $14.20/month.

- **Eliminate two state holidays.** The Governor proposes to eliminate 2 state holidays to save the state an estimated $3.1 million ($1.7 million General Fund).

- **Cap the accrual of vacation and annual leave.** The Governor proposes to cap the accrual of vacation and annual leave at 640 hours. While the Administration indicates this will result in cost savings, it does not score any 2005-06 budget savings from this proposal.

Defined-Contribution Retirement Plan for New Employees. The Governor proposes an amendment to the Constitution that would prohibit the state or any of its political subdivisions from offering defined-benefit plans to new employees. This change would become effective July 1, 2007, and no savings or costs are included in the 2005-06 budget for this proposal. Employees would receive a state contribution each year into their employee pension account, and their benefit level at retirement would depend on the investment earnings of their individual account. Existing government employees would continue to receive a defined-benefit level at retirement, unless they voluntarily opt to convert to the defined-contribution plan.

JUDICIAL BRANCH

0250 Judicial Branch

The Governor's budget combines the Judicial and Trial Court Funding budgets into one budget for the Judicial Branch. The budget proposes a total of $3 billion ($1.8 billion General Fund and $1.3 billion other funds) for the Judicial Branch.

Of the total amount, the budget proposes expenditures of $373.5 million ($308.9 million General Fund) for items related to the state judiciary. The state judiciary items include the Supreme Court ($40.7 million), the Courts of Appeal ($178.3 million), the Judicial Council – which includes the Administrative Office of the Courts (AOC) ($110.5 million), the Judicial Branch Facility Program ($32.6 million), and the California Habeas Corpus Resource Center ($11.4 million). The proposed amount for the state judiciary is a decrease of $43 million, or 10.3 percent, from estimated expenditures in the current year. The reduction is due primarily to the transfer of $64.1 million for local assistance grants that were previously funded in the Judicial Council item, but are now funded in the Trial Court Funding item. Total authorized positions for the state judiciary entities would increase by 100 positions to 1,851.9 positions. These new positions are primarily related to a proposal to have the AOC provide centralized administrative services support such as accounting and human resources for the local trial courts.

The proposed total budget for the Trial Court Funding item is $2.7 billion ($1.5 billion General Fund and $1.2 billion other funds). This amount is an increase of $220.4 million, or 9 percent, from anticipated expenditures in the current year.

Summary of Program Requirements (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Supreme Court	$40,279	$40,743	$464	1.2%
Courts of Appeal	176,423	178,295	$1,872	1.1%
Judicial Council	194,241	110,468	-$83,773	-43.1%
Judicial Branch Facility Program	0	32,596	32,596	N/A
Habeas Corpus Resource Center	11,133	11,425	$292	2.6%
Unallocated Reduction	-5,500	-	$5,500	-100.0%
Subtotal, Judiciary	*$416,576*	*$373,527*	*-$43,049*	*-10.3%*
Support for the Operations of Trial Courts	$2,117,558	$2,269,111	$151,553	7.2%
Salaries of Superior Court Judges	232,991	233,530	539	0.2%
Assigned Judges	19,254	20,254	$1,000	5.2%
Court Interpreters	67,735	70,986	$3,251	4.8%
Grants		64,069	64,069	N/A
Subtotal, State Trial Court Funding	*$2,437,538*	*$2,657,950*	*$220,412*	*9.0%*
Total	$2,854,114	$3,031,477	$177,363	6.2%

Highlights

- An increase of $97.4 million based on a growth factor tied to the State Appropriations Limit.
- An increase of $92.6 million for increased trial court costs. This baseline adjustment is intended to cover increased costs related to court employee salary and benefits, court employee retirement, court security, and county-provided services that the courts will be facing in 2005-06 due to increases in the current year.
- Restoration of one-time reductions in the current year budget totaling $60.5 million ($55 million for trial court funding and $5.5 million for state judiciary items).
- Creation of a separate line item for the Judicial Branch Facility Program. Previously, funding of $32.6 million for this program was part of the Judicial Council line item.
- An increase of $13.1 million in reimbursements and 91.5 positions within the AOC to provide administrative support services such as accounting, human resources and treasury functions to the trial courts. With this proposal administrative services for one third of the trial courts will have been assumed by the AOC, with the remaining courts transitioning by 2008-09.

Selected Issues

Trial Court Budget Tied to the State Appropriations Limit. As part of the 2004 Budget Act, the Legislature approved statutory changes which will annually grow the budget for the state's trial courts by the same percentage as the State Appropriations Limit (SAL). This is the first year that the trial court budget has been increased by the growth factor as opposed to submission of individual Budget Change Proposals. The courts will be able to use this growth factor funding to pay for court operations and other ongoing needs of the courts. The Judicial Council will determine how to allocate the funding among the local courts. The budget currently proposes $97.4 million based on the SAL, but the SAL calculation will be revised at the time of the May Revision. The Administration proposes adding a similar growth factor based on the SAL for the state judiciary items starting in fiscal year 2007-08.

Transfer of Trial Court Facilities to the State. Pursuant to the Trial Court Facilities Act of 2002, the process for the transition of court facilities from the county to the state has started in the current year. The AOC estimated that in the current year between 100 and 140 facilities would be transferred to the state. The Legislative Analyst's Office (LAO) has estimated that the cost of renovating existing buildings and constructing new ones would be between $4.9 billion and $5.5 billion over the next ten years. It is intended that the funding for the transition will come from fees that are deposited into the State Court Facilities Construction Fund. The budget proposes repayment of $72.7 million from the General Fund to the State Court Facilities Construction Fund to repay a loan from the 2003-04 fiscal year. In the current year, the Construction Fund has loaned the General Fund $30 million. The January budget proposal does not include any new expenditure proposals related to trial court facilities.

SUBCOMMITTEE NO. 5

PUBLIC SAFETY, LABOR, AND VETERANS AFFAIRS

Public Safety

Labor

Veterans Affairs

PUBLIC SAFETY

0550 Secretary for Youth and Adult Correctional Agency

The Youth and Adult Correctional Agency (YACA) is responsible for general oversight of the Department of Corrections (CDC), the Department of the Youth Authority, the Board of Prison Terms, the Board of Corrections, the Narcotic Evaluation Authority, and the Commission on Correctional Peace Officers' Standards and Training.

The budget proposes $2.8 million from the General Fund and 20.8 positions for the agency. This amount is a decrease of $28,000, or 1 percent, from estimated current-year expenditures. The budget includes an unallocated reduction of $43,000 for YACA.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	$ Change	% Change
General Fund	$2,801	$2,773	-$28	-1.0
Reimbursements	0	0	0	0.0
Total	$2,801	$2,773	-$28	-1.0

Selected Issue

Restructure and Reform of Youth and Adult Correctional Agency (YACA). As part of a proposed reorganization for the YACA, the Governor submitted a reorganization plan to the Little Hoover Commission. The plan consolidates the agencies within YACA to create a new Department of Corrections and Rehabilitation. Within the new department, the Office of the Secretary would report directly to the Governor and fulfill all the current Agency Secretary roles as well as advise and assist in the implementation of major policy and program matters.

The departments and agencies within the YACA would be reorganized within the new department. The Board of Prison Terms, the Narcotic Addict Authority Board, and the Youth Authority Board would be eliminated and their existing procedures and functions would be transferred to the Board of Parole Hearings. The Board of Corrections and the Commission on Correctional Peace Officer Standards would be eliminated and a new Corrections Standards Authority would assume their functions. The Youth Authority and the CDC would be reorganized within the new department to create six divisions: the Division of Youth Operations; the Division of Adult Operations; the Division of Parole Operations; the Division of Community Partnerships, the Division of Education, Vocations, and Offender Programs; and the Division of Correctional Health Care Services. In addition, the plan calls for changes to the appointment process for certain positions. For example, under the plan, prison wardens would no longer be confirmed by the Senate.

The budget proposal does not assume any of the elements from the reorganization at this time. While the plan indicates that eliminating duplication and leveraging scale could amount in significant savings in operational costs, the reorganization plan itself does not provide any fiscal details, nor does it identify any anticipated savings from reorganizing the various entities. In fact, the implementation of the plan may eventually require additional resources.

0690 Office of Emergency Services

The primary purpose of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters.

The budget proposes total expenditures of $1.1 billion, a reduction of $39 million or 3.5 percent from estimated current year expenditures. Of the total funding, $140.4 million is from General Fund, $30.3 million is from various special funds and reimbursements, and $947 million is from federal funds.

Summary of Program Requirements (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Mutual Aid Response	$ 16,255	$ 16,499	$ 244	1.5
Plans and Preparedness	245,923	246,306	383	0.2
Disaster Assistance	637,587	600,658	-36,929	-5.8
Criminal Justice Projects	207,840	204,127	-3,713	-1.8
California Anti-Terrorism Information Center	6,700	6,700	0	0.0
Administration and Executive	6,372	6,383		
Distributed Administration	-5,477	-5,477	0	0.0
Office of Homeland Security	2,987	3,957	970	32.5
Unallocated Reduction	-354	-614	-260	0.0
State-Mandated Local Programs	2	255	253	N/A
Total	$1,117,835	$1,078,794	-$39,041	-3.5%

Summary of Fund Sources (dollars in thousands)	2004-05	2005-06	$ Change	% Change
State Operations				
General Fund	$38,983	$39,428	$445	1.1
Federal Funds	31,031	32,112	1,081	3.5
Reimbursements	2,133	2,671	538	25.2
Other Funds	3,106	3,046	-60	-1.9
Subtotal, State Operations	*$75,253*	*$77,257*	*2,004*	*2.7*
Local Assistance			0	0.0
General Fund	$101,462	$60,707	-40,755	-40.2
Federal Funds	915,969	915,709	-260	0.0
Other Funds	25,151	25,121	-30	-0.1
Subtotal, Local Assistance	*$1,042,582*	*$1,001,537*	*-41,045*	*-3.9*
Total	$1,117,835	$1,078,794	-$39,041	-3.5%

Highlights

Budget-Year Adjustments

- Proposes an additional $1.8 million ($1.7 million federal funds; and $100,000 Antiterrorism Fund) and 19 limited-term positions to manage federal homeland security grants for the California Office of Homeland Security.
- Proposes a reduction of $4 million General Fund to certain public safety local assistance programs. The proposal eliminates the following programs: Community Crime Resistance Program ($231,000); Career Criminal Apprehension Program ($866,000); Serious Habitual Offender Program ($137,000); Vertical Defense of Indigents Program ($172,000); and Drug Abuse Suppression in Schools Program ($690,000). In addition, the Rural Crime Prevention Program would be reduced by $1.9 million from the current funding level of $3.3 million.
- Dedicates $300,000 from the Gang Violence Suppression grants to the CALGANG Project. The funds would be used to maintain the CALGANG Database system, which is an automated gang intelligence database.

Selected Issues

Homeland Security Grants. The federal Department of Homeland Security is responsible for allocating federal homeland security grants to state and local emergency prevention, preparedness, and response personnel. The funding generally flows to California through the state's Office of Homeland Security (OHS), which is within the OES. Total funding for Homeland Security grants to California for federal fiscal year 2003 was $339.9 million and $364.7 million for federal fiscal year 2004. On October 2004, the Department of Homeland Security Appropriations Act of 2005 was signed, appropriating approximately $2.5 billion for homeland security grants. At this time, it is estimated that California will be eligible for $282 million for federal fiscal year 2005. Because the state is currently in the process of applying for these grants, which are available for expenditure over three years, the funding is not included in the January budget. The Department of Finance anticipates submitting a Finance Letter in the spring once the grant awards have been made.

Law Enforcement and Victims' Services programs administered by OES. For the purpose of achieving efficiencies in the administration and implementation of criminal justice programs, the Office of Criminal Justice Planning (OCJP) was abolished effective January 1, 2004. Pursuant to an interim plan, the law enforcement and victims' services programs previously administered by OCJP are being administered by OES. In order to consolidate and restructure the administration of criminal justice programs, Control Section 25.00 of the Budget Act of 2003 required a Governor's Restructuring Plan (GRP) to be submitted by March 1, 2004. No such plan has been submitted. The Administration is continuing to work on a consolidation plan for the victim services programs within a number of departments, but no such plan is included as part of the budget.

5240 Department of Corrections

The Department of Corrections (CDC) is responsible for the control, care, and treatment of men and women who have been convicted of serious crimes and entrusted to the department's Institution and Community Correctional programs. In addition, the CDC maintains a Health Care Services Program to address inmate health care needs and a civil narcotics treatment program for offenders with narcotic addictions.

The budget proposes $6.5 billion for the CDC, which is an increase of $247.5 million, or 4 percent, from the revised current year budget. General Fund expenditures are proposed to increase by $250 million to a total of $6.4 billion, or 4.1 percent above current-year expenditures. The total number of positions at the CDC would increase by 1,575 positions to 51,848 positions.

Summary of Program Requirements (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Institution Program	$4,509,057	$4,670,003	160,946	3.6%
Health Care Services Program	1,004,378	1,095,668	91,290	9.1%
Inmate Education Program	175,372	181,018	5,646	3.2%
Community Correctional Program	600,691	656,629	55,938	9.3%
Administration	147,276	162,657	15,381	10.4%
Distributed Administration	-147,276	-162,657	-15,381	10.4%
Unallocated Reduction	-28,946	-95,294	-66,348	229.2%
State Mandated Local Programs	1	0	-1	-100.0%
Total	$6,260,553	$6,508,024	247,471	4.0%

Highlights

Fall 2004 Population Estimates. The CDC performs population projections biannually, in the spring and in the fall. The population projections use a complex statistical model to estimate the population based on a number of variables, including the breakdown between males and females and between different custody levels. Generally the fall population projections are completed by October, however as of mid-January, the final Fall 2004 population projections have not been completed or released. On June 30, 2004 the actual population in CDC was 163,500. This amount was 3,378 higher than anticipated in the Spring 2004 forecast. The difference was due primarily to more new admissions and more parole violators returned to custody than originally expected; this increase was partially offset by more releases to parole than expected. The draft Fall 2004 population projections estimate that the June 30, 2005 inmate population will be 164,048. This amount is 6,830 inmates higher than projected in Spring 2004, primarily due to a significant increase in the number of new admissions from court and the number of parole violators with new terms. The draft projections estimate that the population will increase by 1,784 inmates to 165,832 on June 30, 2006. For the next five years, the draft population projections grow steadily with the institution population expected to increase to 171,137 by June 30, 2010.

Population Assumptions in the Budget. The current inmate population is significantly higher than was previously funded in the 2004 Budget Act. The current inmate population is approximately 163,000, while the 2004 Budget Act provides funding for an assumed average daily population of only 157,259. The revised proposal for the current year (2004-05) now assumes that the average daily population (ADP) will be 163,019 – an increase of 5,760 ADP over the funded amount. The CDC estimates that for the current year, it will require an additional $207.5 million General Fund to support this increase. The CDC indicates that the increase in population is due to an increase in the number of new admissions from court and parole violators with new terms, as well as delays in implementing the parole reforms enacted by the 2003 and 2004 Budget Acts.

For the budget year, the Governor's proposal assumes that CDC's average daily population will decrease from 163,019 in 2004-05 to 162,755 in 2005-06, a reduction of 264 inmates, or 0.2 percent. The CDC indicates that the projected reduction in the inmate population is due to the anticipated impact of the parole reforms from the 2003 and 2004 Budget Acts. Despite this projected decrease, the budget is proposed to increase by $280.2 million from amount originally appropriated in the 2004 Budget Act.

Major Budget Adjustments

- An unallocated reduction of $95.3 million from Inmate and Parole Programs.
- An increase of $45 million, which represents a price increase of 2.6 percent on all operating expenses and equipment expenditures.
- An increase of $271.5 million General Fund for previously negotiated compensation increases for CDC employees.
- An increase of $35 million General Fund to eliminate salary savings for certain posted positions. Last year, the Legislature approved funding to eliminate salary savings for posted correctional officer positions. This proposal eliminates the salary savings requirement for posted sergeant, lieutenant, and supervising correctional cook positions. The proposal also reduces the salary savings requirement for Medical Technical Assistants (MTAs), registered nurses, psych tech, and certain facility operations, case records, and education positions.
- An increase of $9.8 million and 146 positions to increase the budgeted relief for noncustody positions such as MTAs and nurses.
- An increase of $30.1 million and 109 positions to improve inmate medical services. The proposal includes funding for physician assessments and enhanced training for doctors.

Selected Issues

Unallocated Reduction to Inmate and Parole Programs. The Governor proposes an unallocated reduction of $95.3 million from CDC's Inmate and Parolee Programs. No specific proposal for reductions has been submitted at this time, but reductions to Inmate and Parolee Programs could potentially include cuts to substance abuse treatment programs, inmate or parolee employment programs, academic education programs, and vocational education programs. The Administration indicates that this reduction may be replaced with savings generated through revisions to the labor agreement with Bargaining Unit 6 that expires at the end of fiscal year 2005-06. To the extent that the reduction in inmate and parolee programs has an impact on the ability to place inmates in work or education programs, or to reduced recidivism, there will be increased costs to CDC as a result of the reduction.

Oversight on the Implementation of Adopted Parole Reforms. The Legislature has approved a series of prison and parole reforms in the last two years. The actual savings from proposals adopted in the budget from the last two years are significantly less than originally estimated. The 2003 Budget Act estimated savings of $191 million in 2003-04 and over $225 million in 2004-05 from these reforms; the Administration estimated that the reforms it proposed as part of the 2004 Budget Act would provide additional savings of $85.4 million in the 2004-05 year and $60.6 million in 2005-06. During that time, the budget for the CDC has grown by $1.2 billion, from $5.3 billion in 2002-03 to a proposed $6.5 billion for 2005-06. The Legislature will want to review the steps CDC has taken to implement new programs and the causes for delaying reforms and achieving savings. The reforms adopted in the last two years are highlighted below.

Legislative Prison Reforms in the 2003 Budget Act. The Legislature approved several prison reform proposals in the 2003 Budget Act that estimated savings of $191 million in 2003-04 and over $225 million in 2004-05 from these changes. None of these reforms required any statutory changes. The actual savings from these proposals has been considerably less than budgeted, due to implementation delays, revised cost estimates, and overlapping savings. These legislative reforms included the following:

- *Restructuring Educational Training Programs*. Many inmates eligible to receive day-for-day credits were unable to participate because there were not enough programs available. The Legislature provided funding to avoid eliminating existing educational program staff, and restructured the programs in order to make them available in reception centers.

- *Use of Intermediate Sanctions for Parole Violators*. Approximately 32,000 low-level parolees (no underlying violent or serious commitment offense and no violent or serious priors) annually violate their parole and spend an average of 153 days in custody. Reforms expanded the use of intermediate sanctions such as Substance Abuse Treatment Control Units (SACTU), and community detention alternatives such as half-way back homes and electronic monitoring for low level parolees who commit parole violations of a technical nature.

- *Expansion of the Mentally Ill Parolees Program*. Provides additional pre-release planning and enhanced community treatment service for mentally ill parolees.

- *Creation of a Drug Treatment Furlough Program*. Eligible inmates would receive treatment in a secure, supervised, community residential program for the final 120 days of their sentence.

Parole Accountability Reforms in the 2004-05 Budget. As part of the 2004-05 May Revise, the Governor proposed expansion of the legislative reforms from the previous budget. The Administration estimated that the reforms would provide savings of $85.4 million in the current year and $60.6 million in 2005-06. Due to implementation delays, savings at CDC in the current year will be significantly less than assumed in the budget. These major reforms include the following:

- *Increased Access to Intermediate Sanctions*. The proposal allows parolees access to intermediate sanctions such as SACTUs, Half-Way Back Homes, and electronic monitoring more than once, and allows all technical and minor violators of parole access to graduated sanctions.

- *Expands the Restitution Work Furlough Program.* This expansion increases the number of available slots from 110 beds to 500 beds statewide.

- *Expands the Substance Abuse Treatment and Recovery (STAR) program.* This program is an instructional-based treatment program designed to teach parolees how to address and prevent substance abuse. This expands the program to an additional 25 sites, for a total of 53 sites statewide.

- *Discharge from Parole Consistent with Current Law*. This proposal reviews and amends Board of Prison Terms regulations to ensure that parolees are discharged according to the times specified in statute. The proposal indicates that significant savings would be achieved if parolees with 12 consecutive months of “clean time” are discharged, estimating savings of $59.5 million.

Incarceration of Undocumented Felons. The Governor assumes that the state will receive $78.5 million in federal State Criminal Alien Assistance Program (SCAAP) funding. The Administration indicates that this amount represents only 10.8 percent of the estimated $729.7 million that CDC and CYA expect to spend in 2005-06 on the incarceration of foreign nationals.

Fiscal Accountability and Management of Resources at CDC. Of particular interest will be ensuring that CDC is effectively and efficiently managing the resources it is provided. Between 1998-99 and 2002-03, CDC annually received nonpopulation-related deficiency funding of between $60 million and $249 million. Last year the Legislature made efforts to respond to these deficiencies by eliminating unauthorized positions, creating a separate line item for education, requiring additional institution-by-institution reporting, and making CDC and DOF responsible for ensuring that positions in the post assignment schedule actually match budgeted positions. The Legislature may wish to review the implementation of these changes and their impact on fiscal accountability at the CDC.

5430 Board of Corrections

The Board of Corrections (BOC) works in partnership with city and county officials to develop and maintain standards for the construction and operation of local jails and juvenile detention facilities and the employment and training of local corrections and probation personnel. The BOC also disburses training funds and administers the federal Violent Offender Incarceration/Truth-in-Sentencing (VOI/TIS) Grant, the Juvenile Hall/Camp Restoration program, and the Mentally Ill Offender Crime Reduction Grant program. The BOC allocates these funds to public, private, or private/nonprofit participants in the local corrections community. The BOC is composed of 13 members -- 10 appointed by the Governor and confirmed by the Senate. The appointments represent specific elements of local juvenile and adult criminal justice systems and the public. Statutory members are the Secretary of the Youth and Adult Correctional Agency, who serves as Chair, and the Directors of the Departments of Corrections and Youth Authority.

The budget proposes $73.1 million for the BOC, a decrease of $109.2 million, or 59.9 percent below estimated current-year expenditures. This decrease is due primarily to the proposed shift of funding for county youth probation programs from the General Fund to the federal Temporary Assistance for Needy Families (TANF) funds within the Department of Social Services. In the current year, the budget provides $134 million from the General Fund for this program.

Summary of Program Requirements (dollars in thousands)	2004-2005	2005-2006	$ Change	% Change
Corrections Planning & Programs	$141,526	$30,586	-110,940	-78.4%
Facilities Standards & Operations	1,854	1,444	-410	-22.1%
Standards & Training for Corrections	2,751	2,748	-3	-0.1%
Administration	352	352	0	0.0%
Distributed Administration	-352	-352	0	0.0%
Juvenile Justice Grants Program	36,185	36,484	299	0.8%
Unallocated Reduction	0	-42	-42	
State Mandated Local Programs	1	1,859	1,858	N/A
Total	$182,317	$73,079	-$109,238	-59.9%

Selected Issues

Funding for County Youth Probation Programs. The proposed budget shifts funding for county youth probation programs from the General Fund to federal TANF funds. In the current year, this program had been shifted from TANF funds to the General Fund. Specifically, $134 million in General Fund was provided in the current year in the BOC budget to continue this program, with partial-year funding of $67.1 million provided in federal TANF dollars through the Department of Social Services. Under the 2005-06 budget proposal, $201.4 million for county youth probation programs would be funded through federal TANF funds. Funding this program through TANF will impact other programs, such as CalWORKs, that are also funded through TANF funds.

Juvenile Justice Crime Prevention Act Funds. The budget proposes de-linking the Juvenile Justice Crime Prevention Act (JJCPA) and the COPS programs and reducing funding for the JJCPA program by $75 million. The remaining $25 million would be shifted to the BOC for distribution to local governments. Since the creation of the JJCPA program, its funding has been linked with that of the COPS program. The funding for the COPS program is proposed to continue at $100 million. A statutory change de-linking the funding for the programs would be needed to enact this proposal.

This proposal would eliminate a program that has shown effectiveness in reducing juvenile crime and delinquency. The JJCPA program requires the BOC to submit an annual report to the Legislature on the: 1) overall effectiveness of the statutorily required local planning process; 2) program expenditures; and 3) results on six juvenile justice outcomes. The results for the statutorily mandated outcomes indicate that the JJCPA programs, as a whole, are making a significant difference in curbing juvenile crime and delinquency. For example, the analysis of outcomes for juveniles receiving program services compared to juveniles in a county-designated reference group shows lower arrest and incarceration rates, and higher rates for completing restitution payments and performing court ordered community service for juveniles served by the program. In addition, results on commonly used local outcomes, including increased school attendance, improved academic performance, and decreased drug usage, also underscore the effectiveness of the JJCPA programs.

5440 Board of Prison Terms

Chapter 1139, Statutes of 1976 (SB 42), established the Community Release Board in 1977. The board was renamed the Board of Prison Terms (BPT) effective January 1, 1980 with the enactment of Chapter 255, Statutes of 1979 (SB 281). The BPT considers parole release and establishes the length and condition of parole for all persons sentenced to prison under the Indeterminate Sentence Law, persons sentenced to prison for a term of less than life under Penal Code section 1168 (b), and persons serving a sentence of life with possibility of parole. The BPT has nine commissioners appointed by the Governor and confirmed by the Senate. Each commissioner serves a four-year term. The Governor designates the chairperson of the BPT and deputy commissioners are employed by the BPT in civil service positions. Their duties include hearing and deciding cases.

The budget proposes $72.8 million for the BPT, an increase of $1.8 million or 2.6 percent above estimated current-year expenditures.

Summary of Expenditures (dollars in thousands)	2004-2005	2005-2006	$ Change	% Change
General Fund	$70,926	$72,771	$1,845	2.6%
Reimbursements	81	81	$0	0.0%
Total	$71,007	$72,852	$1,845	2.6%

Selected Issue

Implementation of the Valdivia Remedial Plan. As part of the budget for the current year, the Legislature approved 134 new positions and $35.4 million for the BPT to implement the Valdivia Remedial Plan in compliance with a federal judge's court order to reform the state's parole revocation process. The budget proposes an additional $7 million and 61 positions as a caseload adjustment to continue implementation of the remedial plan.

The remedial plan makes several significant changes to the process including the implementation of a probable cause hearing for all revoked parolees within ten business days, the provision of attorneys, the holding of revocation hearings within 35 days, and the centralization of most parole hearings at reception centers and contracted facilities. The Legislature may wish to follow-up with BPT on its implementation of the remedial plan, as well as reviewing the plan's impact on revocations and the revocation process.

Lifer Hearing Backlog. Certain offenders in California prisons, particularly those punished for murder, are serving so-called indeterminate sentences in which the period of time to be served in prison before release to parole is not fixed in advance by the court. These indeterminately sentenced offenders are often called "lifers" even though most are eventually legally eligible for release. The BPT is the state agency primarily responsible under state law for deciding when those lifers who have served the minimum required prison time, and thus are now eligible for parole, will actually be released to the community. The BPT indicates that there is currently a backlog of 1,388 life term cases awaiting hearings. The Legislature may wish to review the reasons for the growing backlog and BPT's plan for reducing the backlog.

5460 Department of the Youth Authority

The goals of the Youth Authority (CYA) are to provide public safety through the operation of secure institutions, rehabilitate offenders, encourage restorative justice, transition offenders back to the community, and support local government and intervention programs.

The budget proposes expenditures of $400.2 million for the CYA, a decrease of $8.1 million, or 1.9 percent from anticipated current-year expenditures. The primary reason for this reduction is the projected decrease in the CYA's ward and parole populations.

In the current year, the ward population is projected to decrease by 465 wards or 11.9 percent from the amount projected in the 2004 Budget Act to 3,430 wards by June 30, 2005. For 2005-06, the budget proposal projects the ward population to decrease by another 100 wards, or 2.9 percent resulting in a projected June 30, 2006 population of 3,330. The parole population is projected to decrease by 340 cases in the budget year to 3,450 by June 30, 2006.

Summary of Program Requirements (dollars in thousands)	2003-2004	2004-2005	$ Change	% Change
Institutions & Camps	$315,120	$310,525	-$4,595	-1.5%
Parole Services & Community Corrections	43,845	41,209	-2,636	-6.0%
Education Services	46,595	44,522	-2,073	-4.4%
Youth Authority Board	3,231	3,251	20	0.6%
Administration	31,711	31,040	-671	-2.1%
Distributed Administration	-31,063	-30,347	716	-2.3%
Unallocated Reduction	-1,105	0	1,105	-100.0%
Total	$408,334	$400,200	-$8,134	-1.9%

Major Budget Adjustments

- For the budget year, the population adjustment includes an additional $186,000 General Fund, a decrease of $11.7 million in reimbursements, and a reduction of 140.5 positions due to the projected decrease in the ward and parolee populations.
- The proposal includes $2.1 million General Fund for a price increase, representing a 2.6 percent increase for operating expenses and equipment in the CYA budget.

Selected Issues

Conditions of Confinement and Treatment at CYA. The CYA and YACA have been working on remedial plans related to expert findings that documented serious deficiencies in the following areas: the level of violence at CYA institutions; the adequacy of mental health care; substance abuse and other treatment programs; health care services; education; and preventing gang violence. The remedial plans are due to be submitted to the federal court by the end of January. The Governor's budget does not contain any proposals related to the settlement of the conditions-of-confinement lawsuit at the CYA. The Administration indicates that details of the remedial plans and any associated funding needs will be provided as part of the May Revise.

Structural Reform of CYA. The problems confronting the CYA will likely not be solved by focusing solely on the deficiencies identified in the expert reports. Fundamental, structural reforms may need to be considered to address the underlying causes that have led to the current conditions at the CYA. Any such reforms should also be considered in the context of whether existing resources within CYA are being used efficiently and effectively.

Juvenile Justice Reform. The Administration indicates that it is working with local government and other stakeholders in the juvenile justice system to develop a comprehensive plan to reform California's juvenile justice system and to redefine the role of the CYA, but no specific plan is included with the budget. Potential policy changes that are being evaluated include shifting responsibility for supervising youthful offenders on parole from CYA to the counties; limiting the types of offenders that can be sent to CYA; and establishing a new direction for the CYA that focuses on the most serious offenders and those in need of mental health and sex offender treatment.

8120 Commission on Peace Officer Standards and Training

The Commission on Peace Officer Standards and Training (POST) is responsible for raising the competence level of law enforcement officers in California by establishing minimum selection and training standards, and improving management practices. The proposed budget for POST is $60.8 million, an increase of $6.1 million, or 11.1 percent from estimated current year expenditures. The budget proposes transfer of $14 million from the Driver Training Penalty Assessment Fund to the Peace Officers' Training Fund, pursuant to Control Section 24.10. The General Fund portion of the budget is proposed to increase by $4.5 million due to funding for a state mandated local program related to domestic violence standards and policies. Funding for this mandate had been previously deferred.

Summary of Expenditures (dollars in thousands)	2004-2005	2005-2006	$ Change	% Change
General Fund	$1	$4,509	$4,508	N/A
Peace Officers' Training Fund	53,471	55,016	$1,545	2.9%
Reimbursements	1,259	1,259	$0	0.0%
Total	$54,731	$60,784	$6,053	11.1%

1870 California Victim Compensation and Government Claims Board

The California Victim Compensation and Government Claims Board, formerly known as the Board of Control, consists of three members, the Director of General Services who serves as the chair, the State Controller, and a public member appointed by the Governor. The primary functions of the Board of Control are to: (1) compensate victims of violent crime and eligible family members for certain crime-related financial losses; (2) consider and settle all civil claims against the state; (3) provide equitable travel allowances to certain government officials; (4) respond to bid protests against the state alleging improper or unfair acts in the procurement of supplies and equipment; and (5) provide reimbursement of counties' expenditures for special elections.

Budget Request. The budget proposes $141.3 million, which is an increase of $4.1 million, or 3.2 percent, from anticipated current-year expenditures. Of the total proposed expenditures, $124.1 million is proposed for the Citizens Indemnification Program, which indemnifies those citizens who are injured and suffer financial hardship as a direct result of a violent crime.

The Claims Board is primarily funded from the Restitution Fund, with total expenditures of $101.4 million proposed from the Restitution Fund, and $31 million from federal funds.

Summary of Expenditures (dollars in thousands)	2004-2005	2005-2006	$ Change	%Change
General Fund	$0	$0	$0	N/A
Restitution Fund	88,942	101,376	$12,434	14.0%
Federal Trust Fund	39,374	31,016	-$8,358	-21.2%
Reimbursements	862	895	$33	3.8%
Total	$129,178	$133,287	$4,109	3.2%

LABOR

Crosscutting Labor Issues

Elimination and Consolidation of Boards and Commissions. The Governor has included changes to five labor boards in his reorganization plan. These proposals will be submitted to the Little Hoover Commission for comment, and then submitted to the Legislature for action.

- **Merger of three labor boards:** The Governor proposes to merge the Occupational Safety and Health Appeals Board, the Unemployment Insurance Appeals Board, and the Workers' Compensation Appeals Board into a single newly-created nine-member commission. The existing boards rule on disputes between workers and employers in their specific subject-matter areas. All board members are paid a salary.
- **Elimination of the Industrial Welfare Commission (Commission):** The Governor proposes to transfer the functions of the Commission to the Labor and Workforce Development Agency. The Commission includes five members with two members representing labor, two members representing employers and one member representing the general public. All members are appointed by the Governor with the consent of the Senate. Statute requires the Commission to conduct a full review of the adequacy of the minimum wage at least once every two years. The Legislature de-funded the Commission for 2004-05.
- **Elimination of the Commission on Health and Safety and Workers' Compensation (Commission).** The Governor proposes to transfer the functions of the Commission to the Labor and Workforce Development Agency. The Commission is a joint labor-management body created in 1993 and charged with overseeing the health and safety and workers' compensation systems and recommending administrative or legislative modifications. Commission members do not receive salaries. Four members are appointed by the Governor and four by the Legislature.

0559 Secretary for Labor and Workforce Development Agency

The Labor and Workforce Development Agency brings together the departments, boards and commissions that train, protect and provide benefits, such as unemployment insurance and workers' compensation, to employees and employers of California. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor proposes $2.2 million (reimbursements) and 13.2 positions for the Office of the Secretary, an increase of $19,000 over the current year.

7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Family Leave program, and assists job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

The Governor proposes $11.6 billion ($19.2 million General Fund), a decrease of $562.3 million (4.6 percent) from the current-year budget. The change is primarily driven by a projected decrease in benefit claims due to improved economic conditions.

Expenditure by Program (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Employment & Employment Services	$214,862	$217,174	$2,312	1.1
Tax Collections & Benefit Payment	11,259,402	10,726,262	-533,140	-4.7
Unemployment Insurance Appeals Board	74,735	75,551	816	1.1
Administration	47,174	52,894	5,720	12.1
Distributed Administration	(46,515)	(51,194)	-4,679	0.0
Employment Training Panel	44,041	36,073	-7,968	-18.1
Workforce Investment Act	477,720	452,685	-25,035	-5.2
National Emergency Grant Program	45,000	45,000	0	0.0
Unallocated Reduction		(299)	-299	0.0
Total	$12,116,419	$11,554,146	-$562,273	-4.6

Major Budget Proposals

Program Benefit Adjustments. The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2004 forecast of future claims. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

- Unemployment Insurance (UI): Benefits are proposed to decrease by $13 million in 2004-05 and decrease by $401.6 million in 2005-06.
- Disability Program: Benefits are proposed to increase by $382.5 million in 2004-05 and increase by $209.2 million in 2005-06.

- School Employees Fund Program: Benefits are proposed to decrease by $34.1 million in 2004-05 and decrease by $35.9 million in 2005-06.

Last April, the Unemployment Insurance Fund exhausted its fund balance and a short-term federal loan was obtained. The loan was repaid in May with no interest penalty. The current benefit forecast suggests another loan will be required in the spring of 2005; however, like last year, it is expected the fund balance will rebound and the balance will be positive at the end of calendar-year 2005. Last year, the Legislative Analyst's Office suggested there is a long-term solvency problem for the UI Fund absent corrective action. The Administration has not submitted a proposal to deal with long-term UI Fund solvency; however, it is requesting budget authority to pay any federal interest charges, if they are required, with the EDD Contingent Fund.

Benefit-Audit Augmentation. The Governor proposes an augmentation of $9.1 million (special funds) and 147 temporary positions to liquidate the benefits-audit backlog. The Administration indicates there is a 2.1 million benefit-audit backlog, and the expected recovery is $42.1 million (special funds).

Economic and Employment Enforcement Coalition. The Governor proposes to augment the Employment Development Department ($2.5 million and 23.7 positions) to conduct increased enforcement activities against employers who violate labor laws. The EDD indicates this proposal would combat a significant increase in the number of employers attempting to illegally cut operating costs by converting acknowledged employees to independent contractors. The Department of Industrial Relations and the Contractors' State License Board are the other members of the proposed Economic and Employment Enforcement Coalition.

Employment Training Panel. The proposed budget continues the practice of transferring Employment Training Panel funds to the Department of Social Services for CalWORKs employment training programs to backfill for General Fund reductions. Employment Training Panel Program expenditures are proposed at $36 million in 2005-06, down from $44 million in 2004-05.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations is to protect the workforce in California, improve working conditions, and advance opportunities for profitable employment. The department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims, works to prevent industrial injuries and deaths, promulgates and enforces laws relating to wages, hours, and conditions of employment, promotes apprenticeship and other on-the-job training, assists in negotiations with parties in dispute when a work stoppage is threatened, and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor proposes $344.1 million ($63.1 million General Fund), an increase of $25.1 million from the current-year budget.

Expenditures by Program (dollars in thousands)	2004-05	2005-06	$ Change	% Change
Self-Insurance Plans	$3,003	$3,587	$584	19.4
Mediation/Conciliation	2,266	2,261	-5	-0.2
Workers' Compensation	139,905	154,257	14,352	10.3
Commission on Health and Safety and Workers' Compensation	2,796	3,139	343	12.3
Division of Occupational Safety and Health	81,491	85,225	3,734	4.6
Division of Labor Standards Enforcement	43,490	46,983	3,493	8.0
Division of Apprenticeship Standards	8,369	9,991	1,622	19.4
Division of Labor Statistics and Research	3,930	3,915	-15	-0.4
Claims, Wages, and Contingencies	33,761	33,842	81	0.2
Administration	26,335	36,939	10,604	40.3
Distributed Administration	(26,335)	(36,939)	-10,604	0.0
Unallocated Reduction		(955)	-955	0.0
State-Mandated Local Programs	2	1,852	1,850	92500.0
Total	$319,013	$344,097	$25,084	7.9

Major Budget Proposals

Economic and Employment Enforcement Coalition. The Governor proposes an augmentation of $3 million (special funds) and 27.5 positions to conduct increased enforcement activities against employers who violate labor laws. The DIR would use these additional positions to increase inspection activity and issue citations and penalties to employers who keep employees "off the books" and/or do not follow workplace safety regulations. The Employment Development Department and the Contractors' State License Board are the other members of the proposed Economic and Employment Enforcement Coalition.

VETERANS AFFAIRS

8950 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With $50 million in general obligation bonds (Proposition 16, 2000), $162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004, Wesson]), and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor proposes total expenditures of $301.5 million ($67.7 million General Fund), a decrease of $3.0 million from the current-year budget.

Major Budget Proposals

Chula Vista Veterans' Home. The Governor proposes to convert the 52 Chula Vista residential care beds to intermediate care beds, which would allow for a higher-level of assisted care. The Administration indicates this will increase federal funds by $2 million, decrease General Fund support by $940,000, and require an increase of 8.4 positions.

Budget Act Appropriations. The Governor proposes to consolidate the support appropriations for the three existing veterans' homes and the headquarter operation into a single departmental organization code. The Administration indicates this is a more traditional budgetary treatment and will provide more flexibility to reallocate resources to meet emergent needs.

Northern California Veterans' Cemetery. The Governor proposes to add funding of $446,000 ($327,000 General Fund and $119,000 federal funds) and 1.0 position for operations and maintenance of the new Northern California Veterans' Cemetery near Redding.

Yountville Veterans' Home. The Governor proposes to augment funding by $832,000 on a one-time basis ($200,000 General Fund and $632,000 Federal Grant Fund) to replace a failed chiller at the Yountville facility.

Unallocated Budget Reduction. The Governor proposes an unallocated General Fund reduction of $973,000.

APPENDIX

TIMELINE FOR THE 2005-06 BUDGET BILL

Friday	January 10	• Governor submits State Budget to the Legislature. • Committee releases *Quick Summary of Governor's Proposed Budget*.
Monday	January 17	Martin Luther King, Jr. Holiday
Wednesday	January 26	Committee conducts overview hearing of the budget. Department of Finance presents budget and the Legislative Analyst provides initial review. Committee releases *Overview of the 2005-06 Budget Bill*
Monday	February 14	Lincoln's Birthday Holiday
Monday	February 21	Washington's Birthday Holiday
Tuesday	February 22	Legislative Analyst submits *Perspectives and Issues of the 2005-06 Budget* to the Legislature.
Thursday	February 24	Legislative Analyst submits *Analysis of the 2005-06 Budget* to the Legislature.
Monday	February 28	Subcommittees may begin hearings.
Thursday	March 17	Spring Recess begins.
Tuesday	March 29	Legislature reconvenes.
Monday	May 2	Department of Finance submits final capital outlay revisions.
Friday	May 13	Governor delivers May Revision to the Legislature.
Friday	May 20	Subcommittees complete hearings.
Tuesday	May 24	Committee meets to adopt subcommittee reports. Committee releases *Major Action Report.*
Thursday	May 26	Senate votes on Senate budget bill.
Monday	May 30	Memorial Day Holiday
Wednesday	June 1	Budget Conference Committee may begin. Conference *Agenda* available from committee.
Monday	June 6	Conference Committee completes work.
Friday	June 10	Senate and Assembly vote on budget bill and budget trailer bills.
Tuesday	June 15	Legislature must pass budget to meet constitutional deadline for passage of the budget.

Staff Assignments

Corrections/Public Safety	Alex MacBain
Education	
K-12	Kim Connor
Higher Education	Amy Supinger
Energy	Keely Martin Bosler
Environmental Protection	Keely Martin Bosler
Labor	Brian Annis
Local Government	Dave O'Toole
Health	Diane Van Maren
Resources	Keely Martin Bosler
Revenues	Dave O'Toole
Social Services	Anastasia Dodson
State Administration	Dave O'Toole Brian Annis
Transportation	Brian Annis
Veterans Affairs	Brian Annis
Committee Assistants	Glenda Higgins Rose Morris
Receptionist	Mary Teabo

CALIFORNIA STATE BUDGET HISTORY

Fiscal Year	Bill and Chapter No.	Date Passed and Chaptered		Total Budget ($ Billions)
1965-66	**AB 500/757**	**6-18**	**6-30**	**4.0**
1966-67[a]	**SB 1XX/2**	**6-30**	**6-30**	**4.7**
1967-68	**AB 303/500**	**6-29**	**6-30**	**5.0**
1968-69	**SB 240/430**	**6-28**	**6-29**	**5.7**
1969-70	**SB 255/355**	**7-3**	**7-3**	**6.3**
1970-71	**AB 525/303**	**7-4**	**7-4**	**6.6**
1971-72[b]	**SB 207/266**	**7-2**	**7-3**	**6.7**
1972-73[c]	**SB 50/156**	**6-15**	**6-22**	**7.4**
1973-74	**AB 110/129**	**6-28**	**6-30**	**9.3**
1974-75	**SB 1525/375**	**6-28**	**6-30**	**10.3**
1975-76	**SB 199/62**	**6-26**	**7-1**	**11.5**
1976-77	**SB 1410/320**	**7-1**	**7-2**	**12.6**
1977-78	**AB 184/219**	**6-24**	**6-30**	**14.0**
1978-79	**AB 2190/359**	**7-5**	**7-6**	**18.8**
1979-80	**SB 190/259**	**7-12**	**7-13**	**21.5**
1980-81	**AB 2020/510**	**7-16**	**7-16**	**24.5**
1981-82	**SB 110/99**	**6-15**	**6-28**	**25.0**
1982-83	**AB 21/326**	**6-30**	**6-30**	**25.3**
1983-84	**SB 123/324**	**7-19**	**7-21**	**26.8**
1984-85	**AB 2313/258**	**6-15**	**6-27**	**31.0**
1985-86	**SB 150/111**	**6-13**	**6-28**	**35.0**
1986-87	**AB 3217/186**	**6-12**	**6-25**	**38.1**
1987-88	**SB 152/135**	**7-1**	**7-7**	**40.5**
1988-89	**AB 224/33**	**6-30**	**7-8**	**44.6**
1989-90	**SB 165/93**	**6-29**	**7-7**	**48.6**
1990-91	**SB 899/467**	**7-28**	**7-31**	**51.4**
1991-92	**AB 222/118**	**6-20/7-4**	**7-16**	**55.7**
1992-93	**AB 979/587**	**8-29**	**9-2**	**57.0**
1993-94	**SB 80/55**	**6-22**	**6-30**	**52.1**
1994-95	**SB 2120/139**	**7-4**	**7-8**	**57.5**
1995-96	**AB 903/303**	**8-2**	**8-3**	**56.8**
1996-97	**SB 1393/162**	**7-8**	**7-15**	**61.5**
1997-98	**AB 107/282**	**8-11**	**8/18**	**67.2**
1998-99	**AB 1656/324**	**8-11**	**8-21**	**71.9**
1999-00	**SB 160/50**	**6/16**	**6/29**	**81.3**
2000-01	**AB 1740/52**	**6/22**	**6/30**	**99.4**
2001-02	**SB 739/106**	**7/21**	**7/26**	**103.3**
2002-03	**AB 425/379**	**9/1**	**9/5**	**98.9**
2003-04	**AB 1765/157**	**7/29**	**8/2**	**98.9**
2004-05	**SB 1113/208**	**7/29**	**7/31**	**105.3**

[a] *1966 Second Extraordinary Session.*
[b] *First year budget was to be enacted by June 15.*
[c] *June 15 constitutional deadline met (5).*

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