

GOVERNOR'S
Budget
Summary
2005-06



Submitted by Arnold Schwarzenegger
Governor, State of California

to the California Legislature
Regular Session, 2005–06

2005-06 Budget Summary

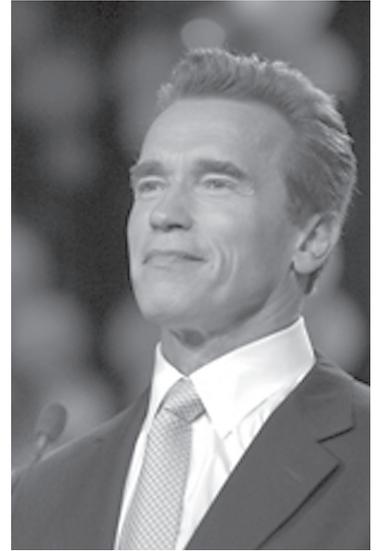
Table of Contents

Introduction	1
Overview of General Fund Revenues and Expenditures	6
Structural Reform	13
Summary Charts	17
Economic Outlook	22
Revenue Estimates	31
Demographic Information	54
K thru 12 Education	56
Higher Education	77
Health and Human Services	93
Corrections and Law Enforcement	136
Environmental Protection	148
Resources	151
Energy	158
Business, Transportation, and Housing	162
Judicial Branch	173
General Government	176
Labor and Workforce Development	186
Infrastructure	191
Assistance to Local Government	199
Statewide Issues	202
Appendices and Schedules	



GOVERNOR
ARNOLD SCHWARZENEGGER

January 10, 2005



To the Senate and Assembly of the Legislature of California:

In a difficult fiscal environment, this balanced budget provides a 4.2 percent increase in General Fund spending over last year to protect essential programs like education and social services. It does not raise taxes on working families and businesses that create jobs. And, it lays the groundwork for fundamental budget reform that our state desperately needs.

Just one year ago, California was facing economic ruin. We were staring at a budget gap of more than \$14 billion and a cash crisis of \$14 billion in June that would have sent the state into bankruptcy.

We chose a different path. We joined together to take action and began turning around years of fiscal mismanagement. Republicans and Democrats put Propositions 57 and 58 before the people of California, who gave it their solid approval. And, Republicans and Democrats passed a budget that began to bring spending in line with revenues - without raising taxes.

Last year, we stopped the bleeding. This year, we must begin to heal the patient.

Because of our formula-driven system of budgeting, we face a budget gap of more than \$9 billion if we do nothing. The budget I send to you today will close that gap, and do so again without raising taxes.

But unless we act to fundamentally change the laws that put so much of our spending on automatic pilot, we will continue to face huge deficits - year after year after year. We must fix a budget system that is broken. We must change the way that state government spends the people's money. That is why budget reform is a critical part of the reform agenda I will ask you to approve in a Special Session.

The California recovery is underway, bringing with it more jobs and growing revenues. However, if we leave in place a budget system that forces us to spend more money than we take in, we will fail to solve one of the most critical problems the people of California sent us to Sacramento to fix - the state budget.

Last year, we worked as partners to begin to make change. I ask you to continue our partnership this year to make even greater progress for the people.

Therefore, in accordance with Article IV, Section 12 of the California Constitution, I submit to you the Governor's Budget for 2005-06.

Sincerely,

Arnold Schwarzenegger



**DEPARTMENT OF
FINANCE**
OFFICE OF THE DIRECTOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

January 10, 2005

Dear Governor Schwarzenegger:

I herewith transmit for your approval the budget of the State of California proposed by the Department of Finance for the fiscal year July 2005 - June 2006.

This is a budget compelled by the necessity to bring our expenditures under control after they have been set on a course of increases outstripping the increases in our revenues. We comply with the Constitution of our State in submitting a budget that reaches balance within the budget year, including some reliance on new borrowing but no new taxes. However, this budget alone will not solve our State's fiscal problems. That will come only when our State has in place a system that prevents the borrowing from funds intended for other purposes, that cuts spending whenever revenues fall below spending levels, and that provides for an operational budget during the time between the expiration of a budget and the adoption of a new budget, every new fiscal year. I applaud your proposing those reforms contemporaneously with this Budget.

California represents the best hope for millions - the hope that each of us can lead a life enabling us to grasp the infinite within us. The best start on realizing that hope is to be honorably employed at a job earning enough to take care of one's family, and that hope will only be realized in our State when those with jobs to offer choose to stay, or to expand, in California. By presenting a budget that does not increase taxes, we hope to retain and attract those jobs in the near term. By presenting structural reforms in the way our State government operates, we hope to keep and increase those employment opportunities for generations to come, by reinforcing confidence in our State's fiscal responsibility.

This Budget was prepared through the remarkable skill and dedication of the women and men of the Department of Finance, with whom it is my privilege to work.

I admire your determination to serve the people of our State, Governor. You are a man of exceptional optimism, drive, and ability. May those virtues be matched by the performance of our State's economy.

Respectfully,

Tom Campbell
Director of Finance

Introduction

The economic recovery of California has begun strongly. This has brought new revenues to the State's treasury. Nevertheless, because of the system of expenditure programs that has been created over the last decade, the expenditures made by the state government would, if allowed to continue unchecked, have gone up even more than the increase in revenue. Left alone, the systems of California's public budget would have led to a widening deficit even as revenues increased.

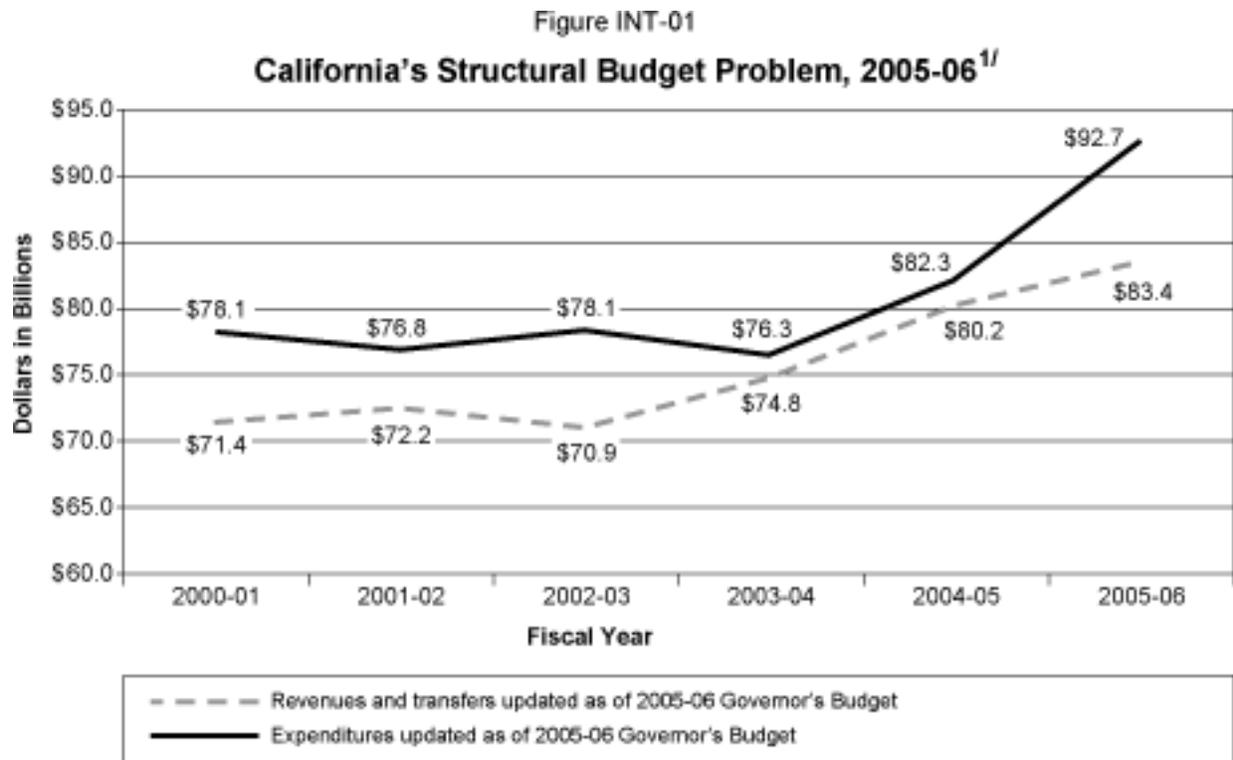
Both in his budget proposal and his structural reforms, Governor Schwarzenegger is proposing a course correction for California - to bring spending in line with revenues next year, and to bring the State's Budget back into true structural balance in future years.

In this Budget, the increase in state expenditures is kept to just over half (59 percent) the rate of increase of State revenues. The Budget relies on less borrowing than was contained in the 2004-05 Budget. In addition to the use of Economic Recovery Bonds, General Funds will not be transferred to Proposition 42, same as in 2004-05. Some Proposition 98 mandates will again be deferred as well. Other local government mandates will be entirely suspended to avoid the cost that the state would otherwise be obliged to send to the cities and counties to implement them.

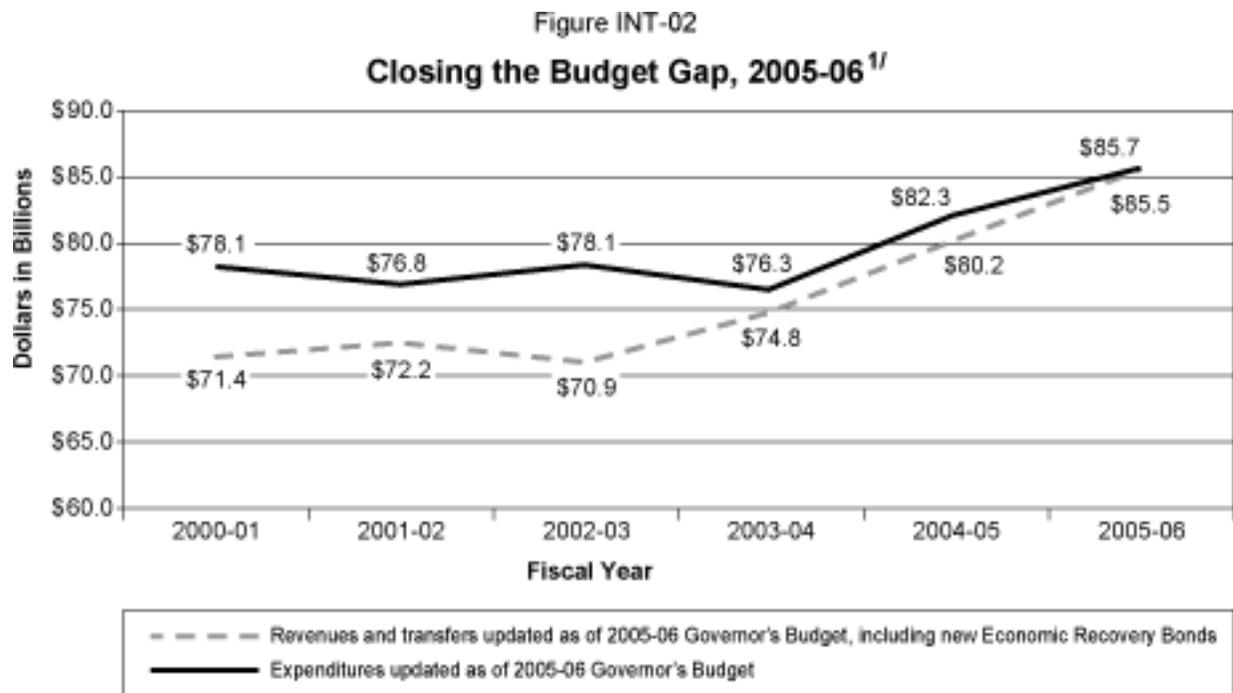
The budget related components of the Governor's structural reform package that will be submitted to the Legislature soon after this Budget will close off these approaches in future years. For Proposition 42, a stream of money that has proved unreliable (in this and in past budgets) will be replaced with the kind of stable and dependable source of funds needed to prepare California for its inevitable growth. Indeed, the structural reform package, we anticipate, will put an end to budget borrowing from all special and otherwise designated funds, including Proposition 98 - the same approach taken in last year's Proposition 1-A, which prohibits the State from taking local government revenue starting in 2006-07. California needs to close off all the loopholes to fiscal responsibility.

To avoid any appearance of masking the true consequences of allowing the current system to continue, the Governor's 2005-06 Budget does not incorporate any savings from these reforms.

Figure INT-01 illustrates how, left unchecked, expenditures would exceed available revenues by \$9.3 billion. Figure INT-02 illustrates how the Budget aligns expenditures and revenues in 2005-06.



^{1/}The 2003-04 and 2004-05 amounts have been adjusted to reflect the actual use of the Economic Recovery Bonds in 2004-05.



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To achieve balance in 2005-06, virtually every part of state government must take a reduction in the funding that it would otherwise have received if spending were allowed to grow unchecked. Left unaltered, the operation of Proposition 98 would have crowded out all available general funds - and would have resulted in deeper and more severe cuts to health and human services programs provided by the State. Last year, the education community joined with the Governor in postponing \$2 billion in what Proposition 98 would otherwise have provided. Given the alternative reductions that would have been required in health and human services, however, the Budget reflects a decision not to appropriate Proposition 98 increases of \$1.1 billion in 2004-05 and \$1.17 billion in 2005-06. These increases would otherwise have been required were the Proposition 98 guarantee allowed to run on autopilot next year.

Even with this proposed adjustment to Proposition 98 spending, the Governor's Budget provides for a substantial increase in both total funding and per pupil funding for K-12 and Community Colleges, while providing for health and human services funding to sustain a positive level of growth overall. However, it should be noted that the beneficiaries of many individual programs and grants will be reduced. The total level of expenditures for health and human services, nevertheless, will be able to stay above the level set in the 1998-99 fiscal year, adjusted for population and the California Consumer Price Index (CPI) since then. Additionally, the total level of expenditures for Medi-Cal will also remain above the amount set in 1998-99, adjusted for population and the medical price index since then.

The Governor's Budget reflects the imperative to better control program costs, while maintaining essential services for California's most disadvantaged and at-risk residents. To further highlight the Governor's priority of providing greater access for more of California's children to health insurance, the Governor's Budget protects funding for the Healthy Families Program and other programs for children's health. The Budget also reflects the priority the Governor has placed on programs for developmentally disabled Californians by protecting those programs from reductions that would compromise their important mission.

The Budget proposes reductions in the Governor's Office and as well as the remainder of the Executive Branch. The State's other constitutional offices and the co-equal branches of government are invited to offer reductions in their own growth rates during the Legislature's consideration of the Budget.

It is clear that substantial changes will have to be made in State employee contracts. In the private sector, defined benefit pension plans are increasingly being replaced with defined contribution plans; responsible governance compels that the state, at the least, involve employees who choose to stay in the defined benefit plan to take some additional financial responsibility for that plan's actuarial soundness. Further, the state's promise of 30 years' support for the State Teachers' Retirement System, made in 1970, has now more than run its course. It is time for that system, as in the private sector, to move toward an actuarially sound approach based on employees' own contributions, supplemented by their employer, the local school boards.

While State employee contracts need to be adjusted, the Budget assumes no savings from renegotiating existing contracts. As State employee contracts come due, however, some savings are expected, and those are noted in the budget projections.

Overall, the State of California is enjoying an economic recovery, but its government has not yet changed sufficiently to prevent the growth of autopilot expenditures that outstrip the growth of revenues. The solution is not to increase revenues by higher taxes; indeed, we fear that the sight of California dealing with the consequences of its autopilot expenditure system by increasing taxes will confirm the worst fears of those contemplating moving their businesses and jobs out of California. To continue to see jobs grow in our state, we must show those who can choose to place their hires anywhere in America or the world that California is the best place to build and expand. To do that, California must show it has the will to curb expenditures set in permanent formulas on the basis of one-time revenues during the late 90's boom, both within this year's budget, and in the structural reforms needed for the years to come.

The Governor's Budget is a statement that California is serious about its runaway expenditure problem and intends to fix it in a measured and balanced fashion - for the coming year and for keeps.

Closing the Gap in 2005-06

In the absence of corrective actions to slow spending growth, and the policy changes proposed, the State would spend \$92.6 billion General Fund in 2005-06 (Figure INT-01 shows \$92.7 billion because of policy changes). At the same time, the baseline estimate of resources available in 2005-06 is \$84.2 billion. In addition, the Budget recognizes the need to provide for a reserve of \$500 million and fund other adjustments totaling \$170 million General Fund. Thus in the absence of any policy changes to close the budget gap, the gap would have been \$9.1 billion. This gap is due to: (a) an operating deficit in 2004-05 of \$1.7 billion, (b) a gap between the growth in baseline expenditures and revenues of \$5.2 billion, (c) the loss of \$2 billion of Economic Recovery Bonds that were used to help fill the gap in 2004-05, and (d) \$170 million for other adjustments. Figure INT-03 shows how the Budget proposes to close this gap.

Figure INT-03

Closing the Gap	
(Dollars in Millions)	
	<u>2005-06</u>
Workload Budget Resources	\$84,198
Workload Budget Expenditures	<u>92,620</u>
Funding Gap at Workload Budget	-8,422
Adjustments Due to Policy Decisions	<u>-170</u>
Funding Gap with Policy Decisions	-8,592
Total Policy Decisions to Close the Budget Gap:	
Proposition 98	\$2,284
Non-Proposition 98:	
Business, Transportation and Housing	1,311
Health and Human Services	1,167
General Government	928
Education	543
Resources	475
Youth and Adult Correctional	272
Others	20
New Economic Recovery Bonds	1,683
Revenue Issues	<u>409</u>
Total	\$9,092
General Fund Reserve	<u><u>\$500</u></u>

The policy changes to close the gap consist mostly of reductions in the rate of increase of spending, totaling \$7 billion. The major reductions proposed to help close the budget gap in 2005-06 are discussed in the Overview of General Fund Revenues and Expenditures.

The Budget proposes to close the gap by also increasing available resources by (a) using \$1.7 billion of the Economic Recovery Bonds, which is about \$300 million less borrowing than was included in the Budget Act of 2004 and (b) a variety of proposals to increase revenues by a total of \$409 million without tax increases. These solutions provide for a General Fund reserve of \$500 million.

Overview of General Fund Revenues and Expenditures

While revenues are projected to increase again in 2005-06, expenditures, without changes, would outpace those additional revenues. When comparing revised figures for 2004-05 to the proposed 2005-06 Budget, nearly all areas have not increased as much as current funding formulas would prescribe, including Health and Human Services, K-12 Education, and State employees compensation.

Figure GRE-01 compares General Fund revenues and expenditures in 2005-06 to the current year. As the table shows, the Budget anticipates that revenues will increase by 6.8 percent. Because the Budget proposes to make less use of new Economic Recovery Bonds than in the 2004-05 year, total General Fund resources available are expected to increase by a slightly lower percentage.

Overview of General Fund Revenues and Expenditures

Figure GRE-01

General Fund Revenues and Expenditures				
2004-05 Revised vs. 2005-06 Proposed				
(Dollars in Millions)				
REVENUES	Revised 2004-05	2005-06	Dollar Change	Percent Change
Revenues	\$77,903.9	\$83,227.5	\$5,323.6	6.8
Transfers	315.2	544.0	228.8	72.6
Totals, Revenues and Transfers	78,219.1	83,771.5	5,552.4	7.1
New Economic Recovery Bonds	2,012.0 ^{1/}	1,682.8	-329.2	-16.4
Total	\$80,231.1	\$85,454.3	\$5,223.2	6.5
EXPENDITURES				
NON-PROPOSITION 98:				
Governor's Office	\$18.4	\$18.3	-\$0.1	-0.5
Remaining Executive	793.2	759.8	-33.4	-4.2
Legislature	297.7	309.9	12.2	4.1
Judicial	1,763.7	1,928.2	164.5	9.3
State and Consumer Services	534.9	563.4	28.5	5.3
Business, Transportation and Housing	376.6	380.3	3.7	1.0
Resources/Environmental Protection	1,140.8	1,338.7	197.9	17.3
Health and Human Services	25,518.6	26,689.2	1,170.6	4.6
Youth and Adult Correctional	6,896.9	6,979.7	82.8	1.2
Non-Proposition 98 Education	7,911.8	8,589.3	677.5	8.6
STRS Contribution	1,148.8	581.4	-567.4	-49.4
Labor and Workforce Development	87.2	87.2	0.0	0.0
General Government	1,682.5	980.1	-702.4	-41.7
Total - Non-Proposition 98	\$48,171.1	\$49,205.5	\$1,034.4	2.1
PROPOSITION 98:	\$34,123.8	\$36,532.3	\$2,408.5	7.1
TOTAL - ALL EXPENDITURES	\$82,294.9	\$85,737.8	\$3,442.9	4.2

^{1/} For the purposes of this table, this amount is included in General Fund resources to provide better comparability. It was budgeted as a reduction in expenditures in the 2004 Budget Act.

This figure also shows that General Fund expenditures are proposed to increase by 4.2 percent over the current year. The specific expenditure changes are summarized in More Highlights below.

Governor's Office

Expenditures are proposed to decrease \$24,000, or less than one percent. This decrease is primarily due to a reduction of \$282,000, offset by increases of \$199,000 for dues in interstate organizations and \$50,000 for price increases.

Overview of General Fund Revenues and Expenditures

Remaining Executive

Expenditures are proposed to decrease \$33.4 million, or 4.2 percent. The decrease is primarily due to the removal of one-time funding in 2004-05 for Southern California wildfires in the Office of Emergency Services budget. New expenditures for firefighting equipment update and maintenance, however, are included in Resources and Environmental Protection.

Legislature

Expenditures are expected to increase by \$12.2 million, or 4.1 percent, primarily due to an adjustment based on the growth in the State Appropriations Limit.

Judicial

Expenditures are proposed to increase \$164.5 million, or 9.3 percent. This increase is primarily attributable to:

- Application of a statutorily required growth factor to the budget of the State Trial Courts, at a cost of \$97.4 million.
 - Restoration of one-time reductions totaling \$60.5 million.
 - Augmentation of the State Trial Courts for increased employee compensation and benefits expenditures by \$4.1 million.
-

State and Consumer Services

Expenditures are proposed to increase by \$28.5 million, or 5.3 percent. The major adjustments contributing to this increase are as follows:

- \$10.4 million and 116.3 positions for the Franchise Tax Board (FTB) to assist in closing the tax gap and ensuring that all Californians pay their fair share of the tax burden. These proposals should increase revenues by \$76.8 million in 2005-06.
- Child Support Automation project costs at the FTB increase \$26.3 million.
- Costs of the 2004 Tax Amnesty program are reduced by \$9 million.
- Agency General Fund support budgets are reduced by \$8.3 million, which the Agency Secretary will have the discretion to achieve through hiring restrictions, layoffs, procurement reductions, or other administrative measures.
- A net increase of \$2.2 million for the Department of General Services attributable to proposed seismic retrofit costs (\$16.9 million) at San Quentin State Prison. This expenditure is offset by reductions of \$14.7 million resulting from the removal of one-time expenditures for 2004-05.

Overview of General Fund Revenues and Expenditures

Business, Transportation and Housing

Expenditures are proposed to increase by \$3.7 million, or 1 percent. This increase consists of workload increases totaling \$4.6 million, or 1.2 percent, offset by the following major policy changes proposed to close the budget gap:

- Proposition 42 transfer from the General Fund will be suspended in 2005-06, for a savings of \$1.3 billion. Since this transfer was also suspended in 2004-05, there is no change in funding between 2004-05 and 2005-06.
- Emergency Housing Assistance Program grants for shelter and services to homeless persons are reduced \$0.9 million to \$3.1 million.

Resources and Environmental Protection

Expenditures are proposed to increase by \$197.9 million, or 17.3 percent. This increase results from several expenditure changes, the most significant of which are as follows:

- Employee compensation costs for the Department of Forestry and Fire Protection will increase by \$47 million. In addition, a \$23 million augmentation is proposed to fund various firefighting improvements recommended by the Blue Ribbon Fire Commission, and a \$25 million augmentation is proposed for the emergency firefighting fund.
- Legislation enacted in 1998 appropriated \$235 million to line the All American Canal and fund other projects to reduce California's dependence on water from the Colorado River. \$59 million of that will be expended in 2005-06 to line the canal.
- Debt service for Resources land acquisitions and capital improvement projects approved in prior years has increased by \$44 million.

Health and Human Services

Expenditures are proposed to increase by \$1.2 billion from the revised 2004-05 Budget, or 4.6 percent. This increase consists of caseload and other workload increases totaling \$2.3 billion, or 8.9 percent, offset by the following major policy changes proposed to close the budget gap:

- California Work Opportunity and Responsibility to Kids (CalWORKs) Program savings totaling \$449 million by reducing grants by 6.5 percent for a savings of \$212 million; by suspending the CalWORKs July 1, 2005 Cost of Living Adjustment (COLA) for a savings of \$164 million; and by reducing the earned income disregard for a savings of \$73 million.
- Medi-Cal savings totaling \$260 million consisting of \$191 million savings from maximizing federal funds through a fund shift from the State-only General Fund program to federal funds for prenatal care; \$57 million savings from redirecting Proposition 99 funds to capture General Fund savings and maximize federal funds in the Access for Infants and Mothers (AIM) program, and \$12 million savings from Medi-Cal Redesign.

Overview of General Fund Revenues and Expenditures

- Supplemental Security Income/State Supplementary Payment (SSI/SSP) savings totaling \$259 million General Fund by suspending the January 1, 2006 State COLA for a savings of \$174 million, and by capturing General Fund savings of \$85 million, equivalent to the amount of the January 1, 2006 federal SSI COLA.
 - In-Home Supportive Services savings totaling \$195 million from rolling-back the State's portion of provider wages and health benefits to minimum wage (\$6.75 per hour); the State currently contributes up to \$10.10 per hour. Counties have the option of reinvesting in local savings (\$112 million from 2004-05 and \$93 million from 2005-06) obtained by the Administration under the IHSS waiver. This reduction will avoid more severe reductions in services.
-

Youth and Adult Corrections

Expenditures are proposed to increase by \$83 million, an increase of 1.2 percent over fiscal year 2004-05. This increase consists of population and other workload increases totaling \$287 million, or 4.1 percent, adjusted by the following major policy changes proposed to close the budget gap:

- A reduction of \$134.3 million General Fund due to funding local probation activities from Temporary Assistance for Needy Families (TANF) resources. The Department of Social Services' budget will provide \$201.4 million in TANF funding for juvenile probation, which is the same level of funding provided in prior years.
 - A \$95.3 million reduction in the Department of Corrections inmate and parolee programs.
 - An increase of \$25 million associated with funding for the Juvenile Justice Crime Prevention program to be distributed to counties by the Board of Corrections. This increase is part of a net \$75 million reduction, as \$100 million of savings is reflected in the Local Government Financing budget for this program.
-

Non-Proposition 98 Education

Expenditures are proposed to increase by \$677.5 million, or 8.6 percent. This increase consists of various baseline adjustments including the backfill of a one-time current year cost shift from General Fund to the Student Loan Operating Fund, enrollment growth and cost increases in higher education pursuant to the Governor's Compact with the University of California (UC) and California State University (CSU), caseload growth in financial aid, and other workload increases including General Obligation Bond debt service totaling \$752 million, or 9.5 percent, offset by the following major policy changes proposed to close the budget gap, totaling \$75.2 million:

- A one-time cost shift from the General Fund to the Student Loan Operating Fund in the Student Aid Commission of \$35 million for the budget year.
- Elimination of some of the one-time cost increases resulting from augmentations by the Legislature over the May Revision agreed-upon 2004-05 funding level related to the Higher Education Compact totaling \$28.1 million.

Overview of General Fund Revenues and Expenditures

- Local assistance reductions to the Student Aid Commission allocated to a reduction in the maximum CalGrant award for students attending private institutions totaling \$7.5 million.
 - Local assistance reductions totaling \$4.2 million.
 - State operations reductions in several agencies including Community Colleges and the State Library, among others, totaling \$414,000.
-

California State Teachers Retirement System

Contribution

Expenditures are proposed to decrease by \$567.4 million, a decrease of 49.4 percent over fiscal year 2004-05. The State's contribution to the Defined Benefit Program will be shifted to the school districts or the covered employees, saving the state \$469 million.

- The covered employees will be permitted to discontinue participation in a recently enacted annuity program and realize an increase in take-home pay.
-

General Government

Expenditures are proposed to decrease by \$702.4 million, a decrease of 41.7 percent over fiscal year 2004-05. This decrease consists of a workload budget decrease in addition to the following major changes:

- Pension Reform Savings - Savings of \$296 million are anticipated from two proposals to reform the State's pension contribution amounts. All employees, as their contracts expire, will be required to fund one-half of the future cost of retirement rather than approximately one-fourth of the amounts, saving \$206 million. Employees will be allowed to opt out of the California Public Employees' Retirement System. The State would augment their salaries by one-half the actuarial normal cost, netting a savings of \$90 million.
- Employee Compensation Costs - The Budget includes funding for existing Memoranda of Understanding obligations, which result in increased General Fund costs of \$198 million.
- Other Employee Compensation Savings - Savings of \$112 million are anticipated from several other employee compensation reforms to be included in new contracts such as a five-day furlough for State employees, elimination of two holidays, a change in how overtime is calculated, and a change in health benefit contributions.
- Reduce the benefits for the Senior Citizen Renters Tax Assistance Program to a level just above the 1998 levels for a savings of \$100.1 million.
- Savings of \$85.5 million are anticipated from the Alternate Retirement Program.
- Reduce funding for the Juvenile Justice Program by \$75 million and transfer the remaining \$25 million to the Board of Corrections for distribution to local governments.
- Elimination of the Senior Citizens' Property Tax Assistance Program for a savings of \$40.5 million and expansion of the Senior Citizens' Property Tax Deferral Program at \$4.7 million in additional

Overview of General Fund Revenues and Expenditures

costs. All taxpayers who were previously eligible for the Assistance Program will instead be allowed to defer their taxes.

- Eliminate the Small/Rural Sheriffs' Program for \$18.5 million in savings.
 - Reduce funding for Property Tax Administration Grants by \$5.6 million.
-

Proposition 98

General Fund expenditures are proposed to increase by \$2.409 billion, or 7.1 percent. When property taxes are taken into account, the total Proposition 98 guarantee will increase by \$2.884 billion, or 6.1 percent. This reflects increases in the Proposition 98 guaranteed funding level resulting from increases in General Fund revenues, adjusted for changes in local revenues. This also reflects a decision not to appropriate the \$1.1 billion in 2004-05 and \$1.17 billion in 2005-06 that would otherwise have been required were the Proposition 98 guarantee allowed to run next year as though the suspension had not occurred. The increase will be allocated as follows:

- \$2.080 billion for enrollment growth and cost-of-living, and other minor adjustments.
- \$329.3 million to repay in part the outstanding deficit reduction owed as a result of reductions to school district revenue limits made by the prior Administration.

In addition, the license-exempt child care reimbursement rates will be reduced due to budget constraints for a savings of \$79.3 million.

Structural Reform

The Governor's Budget balances expenditures and available resources (including Economic Recovery Bonds) in 2005-06. Beyond that, however, the State will continue to face a structural budget deficit unless the State's budgeting process is substantially reformed. Therefore, the Governor will propose a variety of reforms designed to lay the groundwork for balanced budgets in the future. The major reforms discussed in this section relate to changing the budget process and the pension program of government employees.

Living Within Our Means - The Budget Control

Proposal

Proposition 58, approved by the voters in March 2004, added for the first time a provision in the California Constitution requiring that the Legislature pass, and the Governor sign, a balanced budget. It also provided for a budget stabilization account to create a reserve to address expenditure and revenue fluctuations in the future. The budget process reform that the Governor is proposing builds upon Proposition 58 in several ways, with the overarching principle of increasing the State's ability to enact and implement balanced budgets.

Proposition 58 provides that whenever the Director of Finance advises the Governor that State spending is at a level that is likely to exceed available revenue, the Governor may call a special session of the Legislature to address the imbalance. The Governor's reform proposal will require the Governor to call a special session.

Despite the constitutional requirement to send the Governor a budget by June 15, the Legislature has not done so for the last 18 years. The proposed reform will provide that whenever the State does not have a budget in effect at the beginning of the fiscal year (July 1), the appropriation levels in the previous year's budget will remain in effect until such time as the Legislature and the Governor enact a new budget. This provision will ameliorate the consequences of the habitual budget stalemates that have occurred in the past while creating an incentive to enact a budget on time. These stalemates have not only interfered with good operation of state programs; they have often cost the State money by delaying the onset of needed reforms.

Under Proposition 58, when the Governor calls a special session to address a budgetary imbalance, the Legislature has 45 days to act. If it fails to do so, it is prohibited from passing any other laws until it has acted to address the budgetary imbalance. The Governor's reform proposal will substantially strengthen Proposition 58 by requiring the State Controller to implement an across-the-board reduction in all State payments (except for debt services and other instances where doing so would violate the federal constitution). These reductions would be implemented only if the Legislature and the Governor have failed to agree on a plan to address the budget imbalance within the 45-day deadline.

Furthermore, when a new budget year begins without a budget having been enacted, the analysis to see whether resources cover expenditures will be made immediately, and the across-the-board cuts, if necessary, will be implemented within 30 days, not 45 days of the day the Budget was due.

In addition, the Governor's reform proposal will include a variety of changes to the Constitution to increase the State's ability to enact and implement balanced budgets in the future. These changes include Proposition 98 Reform, Proposition 42 Reform, Special Fund Reform, and Debt Consolidation.

There is no magic bullet to the State's ongoing structural budget shortfall. Full recovery and a return to a structurally balanced budget will take work and sacrifice by the Administration, the Legislature, local governments, and constituencies around the state. However, the budget process reforms that the Governor is proposing will create the tools and the incentives needed to return California's Budget to true structural balance.

Proposition 98 Reform

Currently, the Legislature can suspend the Proposition 98 guarantee with a bill approved by two-thirds of each house. The Governor's reform proposal would eliminate the ability to suspend Proposition 98. It will also provide for any Settle-Up funds to be provided through a continuous appropriation, to ensure that never again will the State be able to under-fund the schools. Since there can never again be under-funding, the structure of Proposition 98 should be changed to reflect there will be no further use of the maintenance factor. Obligations will not be allowed to pile up from year to year. Settle-Up payments will take place as soon as the relevant year's numbers are known and certified. The guarantee will thus be set at the 2004-05 appropriated level, with increases guaranteed each year as specified in Proposition 98 (generally, a percentage increase equal to the sum of growth in average daily attendance and the State's per capita personal income). Since the State is no longer going to provide make-up of a maintenance factor obligation, in turn the State is no longer going to take advantage of the Test 3 calculation which allowed the State to reduce Proposition 98 when General Fund revenues are lower. Once a Proposition 58 reserve is available, it could help cushion the impact of lower General Fund revenue years. The State will pay its obligation to K-14 under Proposition 98 as specified in the original two tests, and will not postpone that obligation to future years. All prior sums due for the maintenance factor and Settle-Up will be viewed as a one-time obligation and will be paid over a period of up to 15 years.

Proposition 42 Reform

Proposition 42, enacted by the voters in 2002, requires the State to deposit the proceeds of the sales tax collected on the sale of gasoline into the Transportation Investment Fund (TIF). The TIF can only be used to pay for transportation projects. However, since its enactment, Proposition 42 has been suspended once and partially suspended a second time. Last year, the Governor reached an agreement with local governments to allow the State to take local property tax funds for two years, and then constitutionally prohibit such taking in the future. The Governor's reform proposal takes a similar approach to sales tax on gasoline. It would allow the State to suspend Proposition 42 for two more

years (2005-06 and 2006-07), but removes from the Constitution the ability to suspend after that. All Proposition 42 transfers that are suspended will be treated as loans to the General Fund.

Special Funds Reform

In times of budget crisis, the State has often borrowed money from special funds. This borrowing often imposes hardships on the programs that these funds are intended to support, such as transportation and license-based programs. The budget process reform proposal will prohibit such budget borrowing.

Debt Consolidation

Selected amounts owed by the State to the following accounts will be proposed for repayment over a period of up to 15 years:

- Proposition 42 loans
- Maintenance Factor and accumulated Settle-up under Proposition 98
- Unfunded mandates upon local governments
- Unfunded mandates upon schools (from Proposition 98 funds)

Pension Reform

The escalating costs of public employee pensions are putting pressure on all levels of government in California. Several cities, counties, and school districts around the state face significant threats to their financial solvency in large part due to exorbitant pension agreements. The State's pension costs have increased by \$508 million annually due to the enactment of a single bill - Chapter 555, Statutes of 1999 (SB 400) - that greatly expanded pension benefits at a time when the California Public Employees' Retirement System (CalPERS) was experiencing extraordinary, short-lived investment returns.

In recognition of the rising costs of the CalPERS, the Budget proposes to bargain with employee unions to equalize the employee and employer share of the annual contribution to CalPERS as labor contracts come due, for a General Fund savings of \$206 million in 2005-06. While this will save costs, it falls short of fundamental reform of the public pensions.

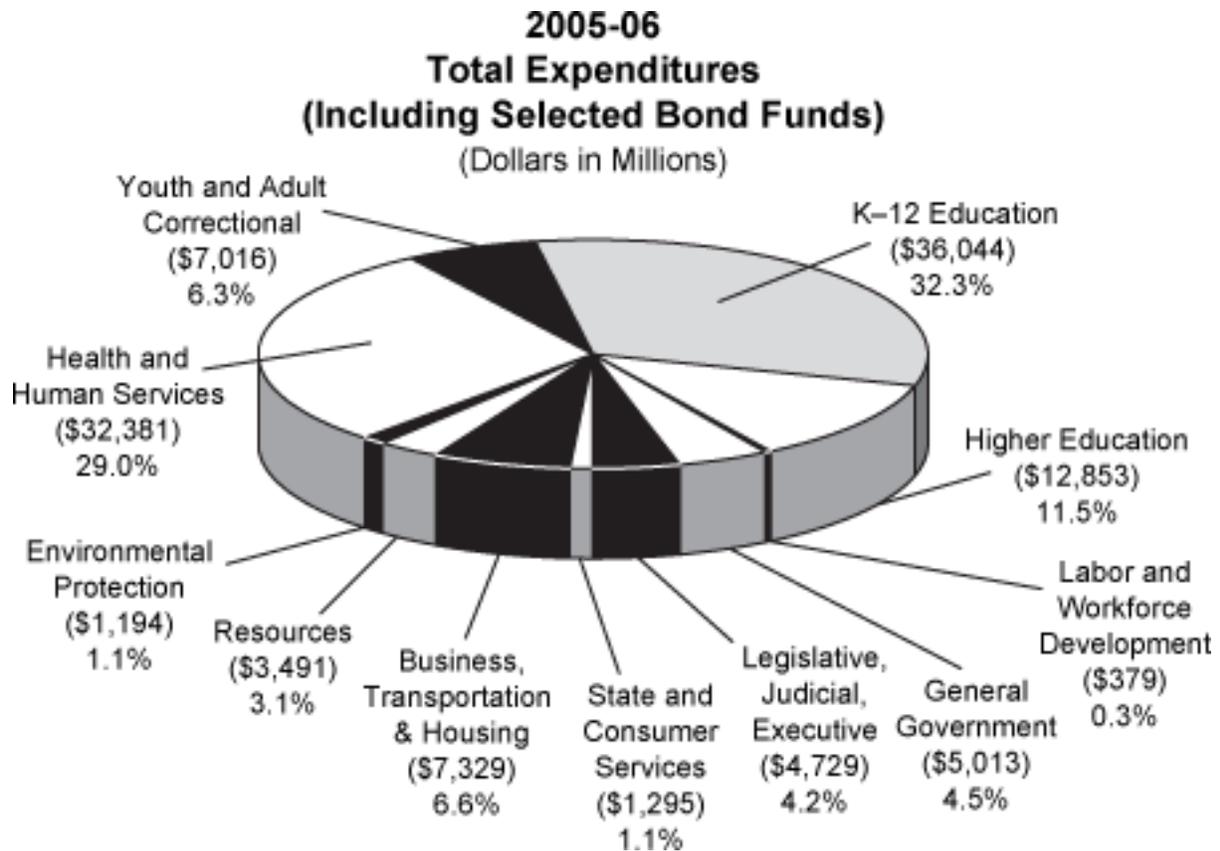
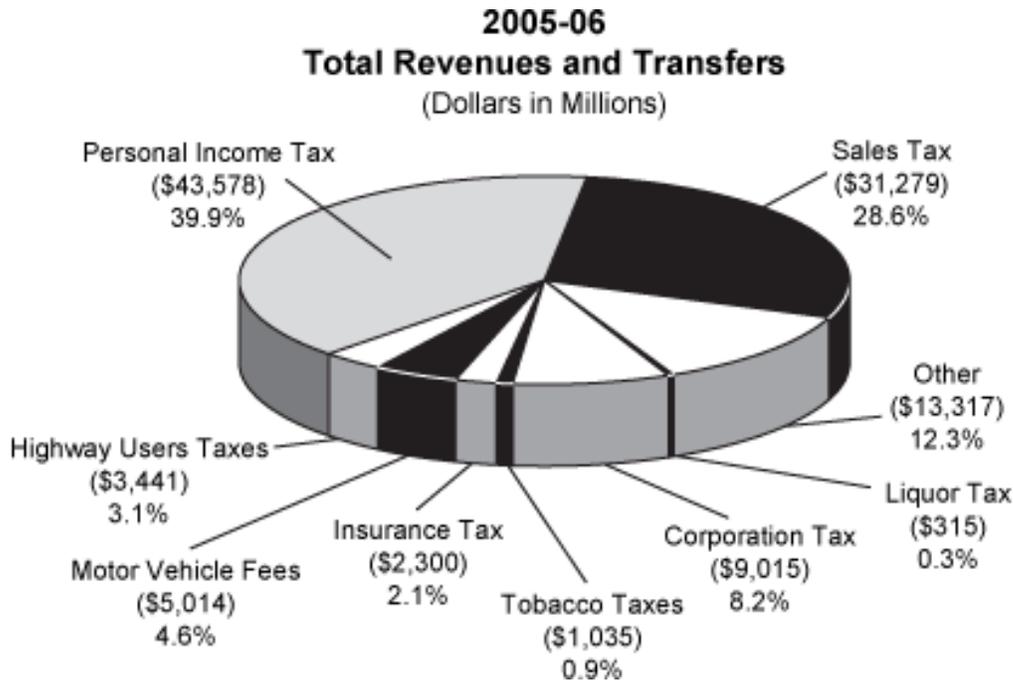
Private sector pension plans have moved away from defined benefits toward defined contributions. Defined benefit plans commit the pension plan to permanent increases, regardless of the ability of the employer and employee to pay for the actuarial costs in the future. They also inhibit employees from changing employers, something that is increasingly common in the private sector job market, because they do not usually allow the employee to move the pension from one employer to another. In contrast, defined contribution plans leave flexibility for the employer and the employee to adjust payments over time and they give the employee a portable pension that can be carried to a new employer.

In order to achieve real reform, not only for State employees' pensions but of all public employee pension systems, the Governor is proposing a constitutional amendment that prohibits the State or any

Structural Reform

of its political subdivisions from offering defined benefit plans to new employees. Over time, this reform will save billions of dollars to all levels of government and will give employees the kind of portability and affordability that is common in private sector pension plans.

Summary Charts



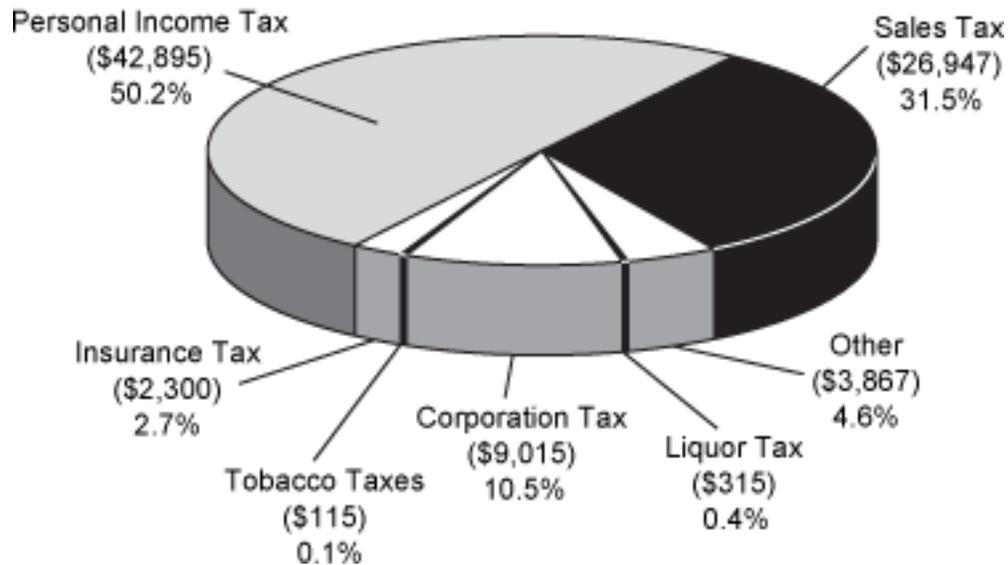
**2005-06 Governor's Budget
General Fund Budget Summary**
(Dollars in Millions)

	<u>2004-05</u>	<u>2005-06</u>
Prior Year Balance	\$3,489	\$1,425
Revenues	\$77,904	\$83,227
Transfers	\$315	\$544
Economic Recovery Bonds	<u>\$2,012^{1/}</u>	<u>\$1,683</u>
Total Resources Available	\$83,720	\$86,879
Non-Proposition 98 Expenditures	\$48,171	\$49,206
Proposition 98 Expenditures	<u>\$34,124</u>	<u>\$36,532</u>
Total Expenditures	\$82,295	\$85,738
Fund Balance	\$1,425	\$1,141
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$641	\$641
Special Fund for Economic Uncertainties	\$784	\$500

^{1/} For the purposes of this chart, this amount is included in General Fund resources to provide better comparability. It was budgeted as a reduction in expenditures in the 2004 Budget Act.

**2005-06
General Fund Revenues and Transfers**

(Dollars in Millions)



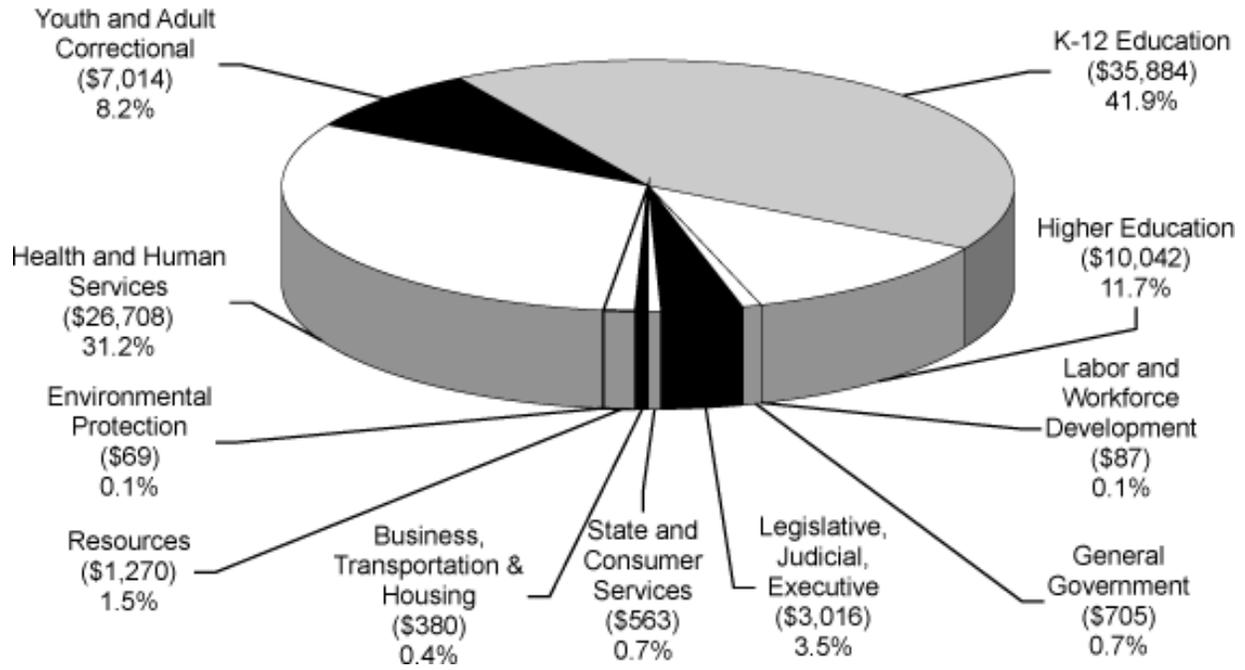
2005-06 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2004-05
Personal Income Tax	\$42,895	\$683	\$43,578	\$3,797
Sales Tax	26,947	4,332	31,279	2,013
Corporation Tax	9,015	-	9,015	337
Highway Users Taxes	-	3,441	3,441	85
Motor Vehicle Fees	21	4,993	5,014	176
Insurance Tax	2,300	-	2,300	70
Liquor Tax	315	-	315	3
Tobacco Taxes	115	920	1,035	-30
Other	3,846	9,470	13,316	2,592
Total	\$85,454	\$23,839	\$109,293	\$9,043

Note: Numbers may not add due to rounding.

**2005-06
General Fund Expenditures**
(Dollars in Millions)



General Fund Expenditures by Agency
(Dollars in Millions)

	<u>2004-05</u>	<u>2005-06</u>	<u>Change</u>	<u>%</u>
Legislative, Judicial, Executive	\$2,873	\$3,016	\$143	5.0%
State and Consumer Services	535	563	28	5.2%
Business, Transportation & Housing Resources	377	380	3	0.8%
Environmental Protection	1,067	1,270	203	19.0%
Health and Human Services	74	69	-5	-6.8%
Youth and Adult Correctional	25,543	26,708	1,165	4.6%
K-12 Education	6,933	7,014	81	1.2%
Higher Education	34,435	35,884	1,449	4.2%
Labor and Workforce Development	9,363	10,042	679	7.3%
General Government	87	87	-	0.0%
	<u>1,008</u>	<u>705</u>	<u>-303</u>	<u>-30.1%</u>
Total	\$82,295^{1/}	\$85,738	\$3,443	4.2%

^{1/} For purposes of this chart, the use of Economic Recovery Bonds (\$2.012 billion) is included in resources to provide better comparability. It was budgeted as a reduction in expenditures in the 2004 Budget Act.

Note: Numbers may not add due to rounding.

Economic Outlook

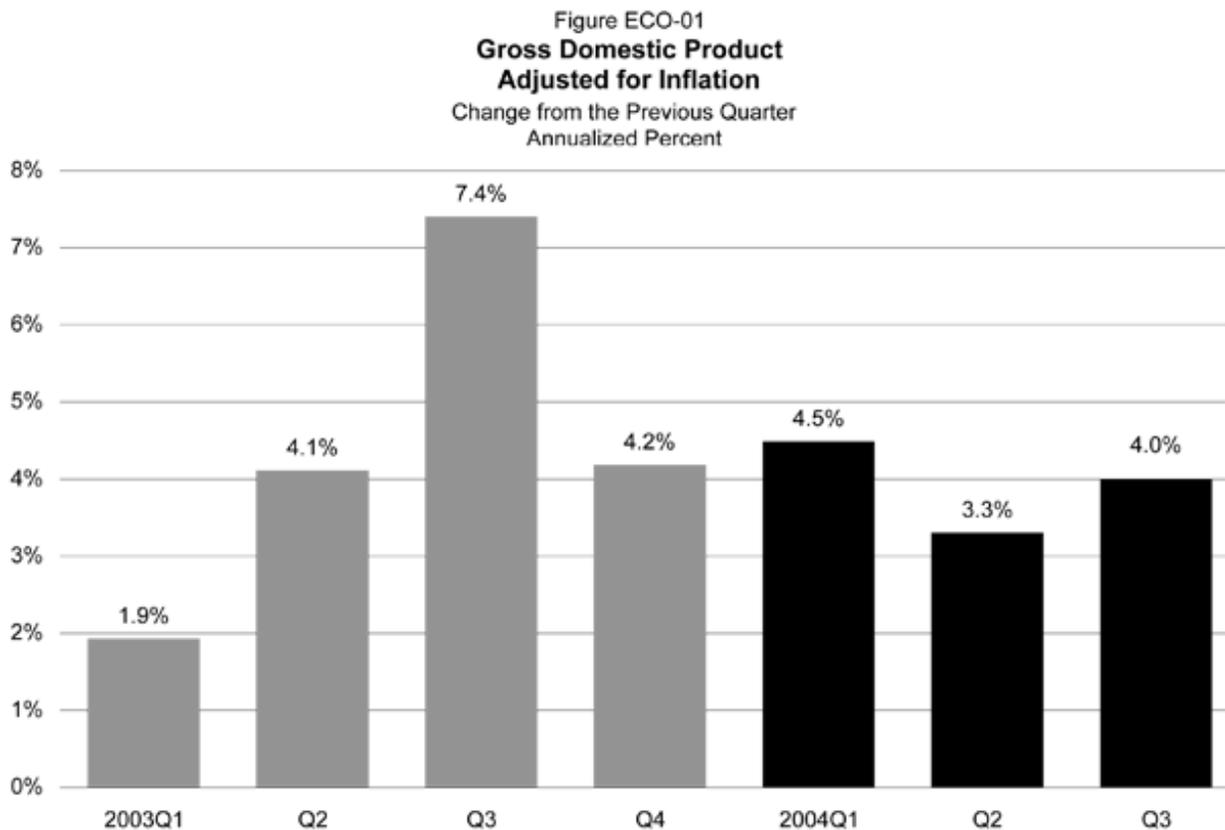
The national and California economies improved considerably in 2004. Output of the national economy grew at almost its fastest rate in 20 years. Personal income and taxable sales growth picked up significantly in California, and state exports rebounded. Labor markets strengthened in both the State and the nation. Output of the national economy will grow somewhat slower in 2005 and 2006 but still be sufficient to build on the improvement made in labor markets in 2004. In addition, growth in personal income and wages and salaries, in both the State and the nation, will remain near the improved levels seen in 2004, as increased competition for workers results in bigger raises and bonuses.

The Nation - A Maturing Recovery

Output of the national economy grew more quickly and labor markets improved in 2004 despite soaring energy prices, the waning of the fiscal stimulus of the federal tax cuts of the prior three years, and tightening monetary policy. To be sure, increased federal spending gave the economy a boost, as did historically low mortgage rates and other long-term interest rates. But the economy's ability to sail through strong headwinds in 2004 is the best evidence yet that the economic recovery from the 2001 recession is now sustainable. What has brought this about is an increasingly balanced mix of growing consumer spending, business investment, federal government spending, and exports.

The fast economic growth in 2004 also means, however, that the initial phase of the economic expansion is over and that the strongest growth of the recovering economy might well be behind it. In fact, signs coming from the economy near the end of 2004 hinted that growth was slowing as 2005 neared.

Output growth of 4 percent in the third quarter of 2004, however, was more than enough to lock in annual average growth of above 4 percent for the year (Figure ECO-01).



Consumer spending made the greatest contribution to third-quarter output growth, expanding by over 5 percent on an annualized basis. Strong yet volatile, motor vehicle sales drove growth of durable goods expenditures above 17 percent. Spending on consumer nondurables also grew rapidly at almost 5 percent. Such strong consumer spending is quite remarkable, given the modest employment growth that accompanied it. As a result, the personal savings rate fell to a record quarterly low, and consumers' debt burden increased from already worrisome levels. The 2004 holiday shopping season will be closely watched for indications about the resiliency of consumer spending going forward.

Industrial production made a dramatic improvement in 2004. After slowing in both 2002 and rising only slightly in 2003, the nation's index of industrial output grew by over 4 percent in 2004. Rising high technology output led the expansion, a good sign for California. Capacity utilization also increased in 2004.

The continued rebound in business investment played a big role in the strong expansion of the national economy in 2004. Business investment was nearly 14 percent higher in the first three quarters than in the corresponding quarters of 2003. Information processing equipment and software investments led the way, expanding over 17 percent in the first three quarters of 2004.

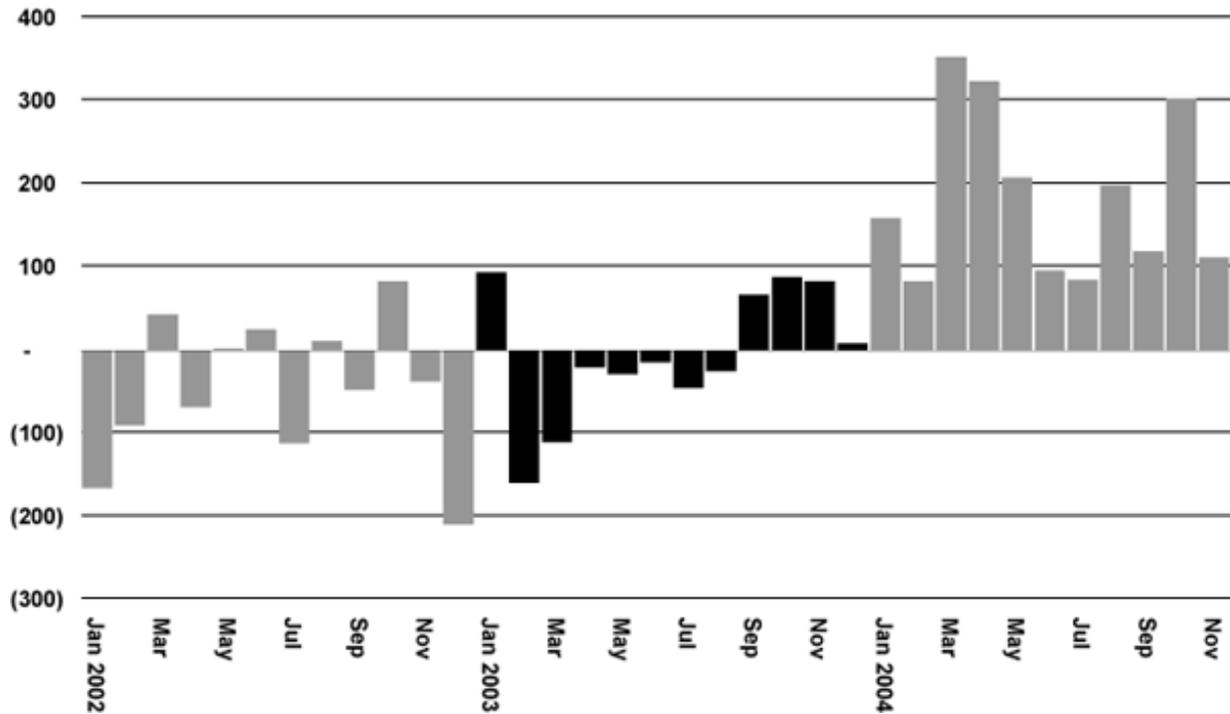
Low mortgage interest rates had an outsized impact on real estate and residential construction markets. Home mortgage interest rates below six percent sustained robust home sales and, thus, home

construction. Sales of existing homes equaled or exceeded 6 million units every month in 2004 through October. New home sales averaged over 1.1 million units in 2004, a nearly 8 percent increase from 2003. This strong demand generated a greater than 5 percent increase in new housing starts, resulting in the strongest home building pace since 1978.

International markets brought mixed news for the nation. Rising exports were good news for many producers, especially high technology suppliers. Exports of goods and services expanded about 13 percent, a healthy improvement on the 4.6 percent gain in 2003. Import growth, however, outstripped the improvement in exports. Driven by an improving economy, and to a significant degree, by rising oil prices, the nation's appetite for imports expanded over 17 percent, resulting in a record trade deficit for the year. The nation's monthly trade deficit worsened to over \$53 billion during the final months of 2004. The average monthly deficit in 2003 was \$41 billion.

Job creation improved in 2004, although it was lower than what was seen in past economic recoveries when output growth was as strong. The resiliency of the economic recovery was in doubt until the nation started stringing together monthly job gains in September 2003. After losing an average of 5,000 jobs each month in 2003, the nation added a monthly average of about 185,000 jobs during the first 11 months of 2004 (Figure ECO-02), somewhat better than what is needed for labor markets to improve. Construction, professional and business services, education, and the public sector provided most of the job gains. Strong output growth achieved with only modest job growth meant that labor productivity growth was substantial. Business productivity grew an average of 4.5 percent during the first three quarters of 2004, very strong by historical standards. This improvement should have many long-term benefits.

Figure ECO-02
U. S. Nonfarm Employment
 Month-to-Month Change, 1,000s of Jobs



As 2004 drew to a close, a number of forward-looking indicators sounded cautionary signals. The Index of Leading Indicators fell at a 3 percent year-over-year pace during the final months of the year. This is a sharp turnaround from the extremely strong improvements made at the beginning of the year. Weakening consumer expectations, slower vendor deliveries, and shorter factory workweeks were the principal causes. Consumers became more sanguine about the near future as indicated by a rise in the Consumer Confidence Index during the final month of the year, following a decline in the preceding months. The demand for factory output leveled off late in the year, in contrast to the exceptional growth that characterized 2003 and early 2004. New orders for factory goods, which grew by about a 9 percent annual rate at the beginning of the year, were expanding by less than 1 percent by the end of the year.

Looking forward, the economy will continue to grow, but more modestly. Real Gross Domestic Product growth will moderate to a still-healthy 3.3 percent pace in 2005 and to 3 percent in 2006, as consumer spending decelerates modestly as does the rate of growth in investment.

Inflation-adjusted consumer spending will expand by 2.9 percent in 2005, as compared to 3.6 percent in 2004. The fiscal stimulus from the three Bush Administration tax cuts has run its course. Rising interest rates will diminish home mortgage refinancing, which has been fueling strong consumer spending. Higher energy costs will also dampen consumption expenditures, though the downward turn at the end of the year was welcome.

A number of factors may work against business investment in 2005. The sunset at the end of 2004 of the federal accelerated depreciation allowance for equipment purchases accelerated some equipment purchases into 2004 that would have otherwise been made in 2005. Thus, equipment purchases will likely be somewhat depressed in early 2005, even though they will rebound by midyear. More generally, pressures on corporate profits, such as higher energy costs and rising labor costs - principally soaring health care benefits costs - will dampen business fixed investment growth. Furthermore, after two years of strong home building, rising mortgage interest rates should temper residential investment in 2005.

Better job gains are likely in store for 2005 and 2006. Nonfarm payroll employment should grow by about 2.2 million, or 1.7 percent, in 2005 and 1.6 million, or 1.2 percent, in 2006. Even though this will be a significant improvement on the 1 percent gain in 2004, it is modest compared to gains in most other post-World War II economic recoveries. Faced with rising benefits costs, employers will remain conservative about hiring. Furthermore, productivity gains will allow them to expand output without adding considerably to payrolls.

To be sure, things could turn out better than expected. A steep drop in oil prices would give a considerable boost to the economy. A quick, dramatic improvement in conditions in Iraq would likely make consumers much more confident. Downside risks persist, however, stemming from rising employee benefit costs, high housing prices, and the trade and federal budget deficits.

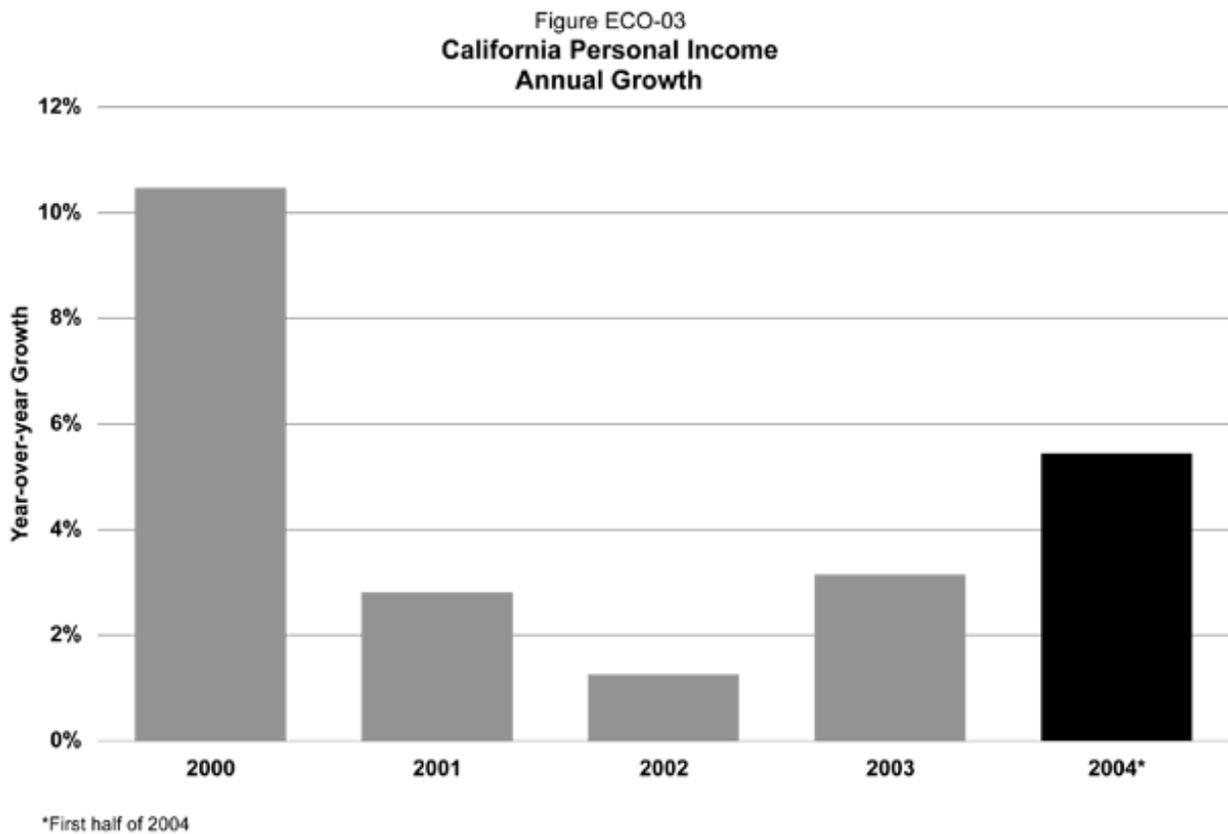
For several years, rising home values have added fuel to consumer spending and residential construction. Rapid home price appreciation was the main reason for sustained consumer spending during the 2001 recession. Driven by historically low mortgage interest rates, and an improving economy, national home values rose nearly 8 percent during the first three quarters of 2004, the greatest appreciation since 1981. This came on top of a nearly 6 percent gain in 2003. Rising home prices, though, have outstripped the growth of income for the past four years. This raises the potential for a slowdown in real estate appreciation and, thus, the removal of a major stimulus for consumer spending. An actual decline in real estate values, of course, would have severe impacts on household balance sheets that could lead to a serious slowdown in consumption. However, that is not being forecast.

The nation's trade and federal budget deficits present potentially serious threats to economic growth, although not so much within the forecast horizon. A stubborn and record-setting trade deficit is resulting in a falling dollar, which, while stimulating exports, drives up inflation through higher import prices. Even though the value of the dollar has dropped considerably, it has not been enough to make an appreciable dent in the trade deficit.

California - Stronger Growth

The California economy also strengthened in 2004. Broad economic measures like personal income and taxable sales grew more quickly. Exports of made-in-California merchandise posted a good gain after plummeting for three years. Residential construction increased again. New business incorporations accelerated.

Personal income - income received by California residents from all sources - was up 5.4 percent from a year earlier in the first half of 2004. A year earlier, personal income was up only 2.4 percent. On this broad measure, the state is doing a little better than the nation, where personal income grew by 5.1 percent in the first half of 2004 and 2.3 percent in the first half of 2003 (Figure ECO-03).



Statewide taxable sales also grew more quickly in the first half of 2004, with sales 6.1 percent higher than in the first half of 2003. In the first half of 2003, they rose only 3.3 percent. The most recent data on county taxable sales show that sales in the Bay Area rose for the second consecutive quarter in the fourth quarter of 2003. Before then, the Bay Area suffered nine consecutive quarters of year-over-year declines.

Made-in-California merchandise exports began to turn around in the fourth quarter of 2003 after falling by 26 percent in the preceding three years. In the first three quarters of 2004, exports were 20 percent

higher than a year earlier. Increased exports to Mexico, mainland China, Japan, South Korea, France, Singapore, Hong Kong, Taiwan, and the United Kingdom were instrumental in the turnaround. Exports of computer and electronic products, transportation equipment, and machinery (except electrical) accounted for over three-quarters of the gain in total exports.

Like the nation, California enjoyed better job gains in 2004. In the first 11 months of 2004, California nonfarm payroll employment was 0.9 percent higher than a year earlier. In the first 11 months of 2003, in contrast, nonfarm payroll employment was 0.4 percent lower than a year earlier. The improvement in 2004 was due primarily to better job growth in construction; trade, transportation, and utilities; and the information industries. There were also smaller declines in manufacturing employment. Limiting the improvement in job growth in 2004 were larger declines in government employment and smaller gains in employment in the financial sector.

In addition, the state's unemployment rate and the number of unemployed persons fell during 2004. However, the labor force participation rate - the percent of the civilian noninstitutional population in the labor force - remained low.

The San Francisco Bay Area passed a milestone in the second half of the year when it began to gain jobs for the first time in almost four years. The California recession during the early 2000s was concentrated in the Bay Area. While nonfarm payroll employment remains depressed, the region should contribute to state job growth going forward.

Construction was up in the first 11 months of 2004. Housing permits issuance (number of units) rose by 6.6 percent in the first 11 months of 2004 from the same months in 2003. Single-family permits were up 9.3 percent, while multi-family permits were up 0.1 percent. Los Angeles and San Bernardino Counties recorded the largest absolute gains while much of the San Joaquin Valley experienced large percentage increases. Permits were down in the San Francisco Bay Area and the Central Coast.

The dollar value of private nonresidential construction permits rose by 12.4 percent in the first 11 months of 2004 compared to the same period a year ago. These permits fell by more than a quarter from 2000 to 2003. New permits for retail and office space and alterations and additions contributed most to the rebound in 2004.

Public works construction was up slightly in the first ten months of 2004 with heavy construction up sharply, mostly due to a large increase in water and sewer works construction. Public building construction, however, was lower than a year ago despite stronger spending for school and community college buildings.

California housing markets continued to set new records in 2004, with sales up 4.1 percent and median prices up 20.9 percent in the state in the first 11 months, according to data compiled by DataQuick Information Systems. Most of the sales gain was in the first half of the year when sales were up 9.8 percent. During the July-to-November period, sales were off by 1.6 percent compared to the same five-

month period a year ago. Year-over-year price gains have remained stable at the 19 to 23 percent level all year.

Commercial real estate markets generally improved. Of the metropolitan areas surveyed by CB Richard Ellis, Orange, San Diego, and Ventura Counties were among the five counties in the nation with the lowest office vacancy rates in the third quarter of 2004. San Francisco, San Jose, and Oakland continued to have above-average vacancy rates, but San Francisco and San Jose vacancy rates declined appreciably over the last year. Industrial vacancy was well below the national average in Orange and Los Angeles Counties but above the national average in San Francisco, San Diego, and Sacramento in the third quarter. Vacancy in the latter two jumped over the last year.

California's tourism and convention business continued to improve in 2004. Convention bookings were up in San Francisco, Anaheim, and San Diego, while lagging in Los Angeles. Non-convention related tourism was stronger in all four major markets. Hotel and motel occupancy rates improved in all major markets, and average daily room rates also increased. Passenger traffic was up at all major airports. Los Angeles International and San Francisco International experienced double-digit increases in both domestic and international travelers. Far East visitors returned in numbers, and business travel rebounded.

The State's economic fate is closely tied to the nation's. In the coming year, U.S. output growth is projected to slow somewhat, but wage and salary and personal income growth will pick up slightly. California will track the national economy on these measures.

Personal income growth is estimated to have grown by 5.6 percent in 2004 and is forecasted to expand by 5.8 percent in 2005, 6 percent in 2006, and 5.8 percent in 2007 - all slightly faster than the corresponding rates for the nation. The improvement reflects better job growth, increases in base wages and salaries, and a stock market-induced increase in bonus and stock option income in the next three years.

Nonfarm employment, which is on track to grow by 1 percent in 2004, is projected to grow by 1.8 percent in both 2005 and 2006 and 1.7 percent in 2007. The strongest growth in 2005 is expected in construction, aerospace products and parts manufacturing, transportation and warehousing, motion picture and sound recording, professional and business services, and private educational and health services. The state's unemployment rate is forecast to average 6.2 percent in 2005, unchanged from 2004.

Home building will slow somewhat in 2005, 2006, and 2007 after exceeding 200,000 units permitted in 2004. Higher mortgage rates will take some steam out of home sales.

Figure ECO-04 provides selected economic data for 2004, 2005, and 2006.

Figure ECO-04
Selected Economic Data for 2004, 2005, and 2006

	2004 (Est.)	2005 (Projected)	2006 (Projected)
United States			
Real gross domestic product (2000 CW* \$, percent change)	4.4	3.3	3.0
Personal consumption expenditures	3.6	2.9	3.0
Gross private domestic investment	13.3	5.0	1.7
Government purchases of goods and services	2.2	2.5	1.7
GDP deflator (2000=100, percent change)	2.1	2.0	1.8
GDP (current dollar, percent change)	6.6	5.4	4.8
Federal funds rate (percent)	1.3	2.6	3.4
Personal income (percent change)	5.2	4.9	5.4
Corporate profits before taxes (percent change)	13.5	35.0	1.4
Nonfarm wage and salary employment (millions)	131.3	133.5	135.1
(percent change)	1.0	1.7	1.2
Unemployment rate (percent)	5.5	5.3	5.5
Housing starts (millions)	1.9	1.8	1.7
(percent change)	4.8	(5.5)	(7.7)
New car sales (millions)	7.5	7.6	7.5
(percent change)	(1.9)	1.5	(1.0)
Consumer price index (1982-84=100)	188.8	193.2	196.9
(percent change)	2.6	2.3	2.0
California			
Civilian labor force (thousands)	17,658	17,991	18,311
(percent change)	1.1	1.9	1.8
Civilian employment (thousands)	16,569	16,871	17,149
(percent change)	1.8	1.8	1.6
Unemployment (thousands)	1,089	1,119	1,162
(percent change)	(7.6)	2.8	3.8
Unemployment rate (percent)	6.2	6.2	6.3
Nonfarm wage and salary employment (thousands)	14,558	14,824	15,087
(percent change)	1.0	1.8	1.8
Personal income (billions)	\$1,252.1	\$1,324.1	\$1,404.0
(percent change)	5.6	5.8	6.0
Housing units authorized (thousands)	210.0	199.0	195.0
(percent change)	6.2	(5.3)	(1.8)
Corporate profits before taxes (billions)	\$117.8	\$127.8	\$133.0
(percent change)	16.7	8.5	4.0
New auto registrations (thousands)	1736.0	1722.0	1787.0
(percent change)	0.0	(0.8)	3.8
Total taxable sales (billions)	\$486.1	\$513.7	\$542.3
(percent change)	5.7	5.7	5.6
Consumer price index (1982-84=100)	195.5	201.1	206.2
(percent change)	2.7	2.9	2.5

* CW: Chain Weighted

Note: Percentage changes calculated from unrounded data.

Revenue Estimates

California revenues began recovering in 2003 and showed solid growth in 2004. The outlook for 2005 and 2006 is for continued gains. Therefore, revenue expectations have improved from what was projected at the time the 2004 Budget Act was enacted. Since that time, the General Fund revenue forecast for major taxes and licenses has increased by \$1.2 billion for the past and current years combined, with total 2004-05 revenues and transfers estimated at \$78.2 billion. In addition, a year-over-year increase of 6.8 percent in revenues (not including transfers), or \$5.3 billion, to \$83.2 billion is expected for 2005-06. The revenue increase includes significant gains in the three major taxes: personal income tax, sales tax, and corporation tax.

Figure REV-01 provides a summary of the revenue forecast for 2004-05 and 2005-06, as well as a preliminary report of actual receipts for 2003-04. Figure REV-02 provides a historical summary of total State tax collections, Figure REV-03 outlines the State's tax rates, and Figure REV-04 provides historical revenues from major taxes.

Figure REV-01
General Fund Revenue
 (Dollars in Millions)

	2003-04 Preliminary	2004-05 Forecast	2005-06 Forecast
Personal income tax	\$36,399	\$39,527	\$42,895
Sales and use tax	23,847	25,168	26,947
Corporation tax	6,926	8,678	9,015
All other	7,590	4,846	4,915
Total revenues and transfers¹	\$74,762	\$78,219	\$83,772
Annual percent change	4.8%	4.6%	7.1%

¹ Does not include proceeds from Economic Recovery Bonds

Figure REV-02
Summary of State Tax Collections
 (Excludes Departmental, Interest, and Miscellaneous Revenue)

	Per Capita ^{1,2} Personal Income	State Tax Collections (Dollars in Millions)		Taxes per Capita ¹		Taxes per \$100 of Personal Income ³	
		General Fund	Total	General Fund	Total	General Fund	Total
1967-68	\$3,878	\$3,558	\$4,676	\$185.55	\$243.86	\$4.78	\$6.29
1968-69	4,199	3,963	5,173	203.94	266.21	4.86	6.34
1969-70	4,521	4,126	5,409	208.96	273.94	4.62	6.06
1970-71	4,806	4,290	5,598	214.08	279.36	4.45	5.81
1971-72	5,034	5,213	6,597	256.22	324.24	5.09	6.44
1972-73	5,454	5,758	7,231	279.72	351.28	5.13	6.44
1973-74	5,944	6,377	7,877	305.57	377.45	5.14	6.35
1974-75	6,551	8,043	9,572	379.85	452.06	5.80	6.90
1975-76	7,128	9,050	10,680	420.19	495.87	5.89	6.96
1976-77	7,824	10,781	12,525	491.48	570.98	6.28	7.30
1977-78	8,569	12,951	14,825	579.41	663.25	6.76	7.74
1978-79	9,581	14,188	16,201	621.30	709.45	6.48	7.40
1979-80	10,752	16,904	19,057	726.83	819.41	6.76	7.62
1980-81	11,961	17,808	20,000	748.80	840.97	6.26	7.03
1981-82	13,179	19,053	21,501	784.78	885.62	5.95	6.72
1982-83	13,771	19,567	22,359	788.83	901.39	5.73	6.55
1983-84	14,569	22,300	25,674	880.14	1,013.30	6.04	6.96
1984-85	16,012	25,515	29,039	988.34	1,124.85	6.17	7.03
1985-86	16,980	26,974	30,898	1,021.63	1,170.25	6.02	6.89
1986-87	17,700	31,331	35,368	1,158.18	1,307.41	6.54	7.39
1987-88	18,590	31,228	35,611	1,126.67	1,284.81	6.06	6.91
1988-89	19,648	35,647	40,613	1,255.49	1,430.39	6.39	7.28
1989-90	20,639	37,248	43,052	1,278.16	1,477.32	6.19	7.16
1990-91	21,733	36,828	43,556	1,234.66	1,460.21	5.68	6.72
1991-92	21,758	40,072	48,856	1,315.62	1,604.01	6.05	7.37
1992-93	22,482	39,197	48,230	1,264.93	1,556.44	5.63	6.92
1993-94	22,607	38,351	48,941	1,224.72	1,562.90	5.42	6.91
1994-95	23,174	41,099	50,648	1,303.75	1,606.67	5.63	6.93
1995-96	24,149	44,825	54,805	1,413.51	1,728.20	5.85	7.16
1996-97	25,356	47,955	58,400	1,500.33	1,827.10	5.92	7.21
1997-98	26,517	53,859	64,826	1,659.61	1,997.56	6.26	7.53
1998-99	28,482	58,199	69,724	1,770.96	2,121.65	6.22	7.45
1999-00	29,900	70,027	81,773	2,095.45	2,446.93	7.01	8.18
2000-01	32,372	75,668	88,147	2,219.08	2,585.05	6.85	7.99
2001-02	32,626	62,654	73,237	1,801.21	2,105.46	5.52	6.45
2002-03	32,468	64,879	75,498	1,833.10	2,133.14	5.65	6.57
2003-04 ^P	32,933	70,136	81,521	1,948.69	2,265.02	5.92	6.88
2004-05 [*]	34,218	76,265	89,779	2,084.27	2,453.59	6.09	7.17
2005-06 [*]	35,611	81,611	96,019	2,194.86	2,582.35	6.16	7.25

¹ Per capita computations are based on July 1 populations estimates, benchmarked to the 1990 Census.

² Personal income data are on a calendar year basis (e.g., 2002 for 2002-03).

³ Taxes per \$100 personal income computed using calendar year personal income (e.g., 2003 income related to 2003-04 tax collections).

^P Preliminary.

^{*} Estimated.

Figure REV-03
**Outline of State Tax System
as of January 1, 2005**

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	\$0.20	Equalization	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% ¹	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65% ¹	Franchise	General
Tobacco:				
Cigarette	Package	\$0.87 ²	Equalization	See below ²
Other Tobacco Products	Wholesale price	46.76% ³	Equalization	See below ²
Energy Resources Surcharge				
	Kilowatt hours	\$0.0002	Equalization	Energy Resources Surcharge Fund
Horse Racing License				
	Amount wagered	0.4% - 2.0%	Horse Racing Bd.	See below ⁴
Estate				
	Taxable Fed. Estate	0% ⁵	State Controller	General
Insurance				
	Gross Premiums	2.35% ⁷	Insurance Dept.	General
Liquor License Fees				
	Type of license	Various	Alc. Bev. Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	0.65% ⁸	DMV	Motor VLF, Local Revenue ⁹
Fuel—Gasoline	Gallon	\$0.18	Equalization	Motor Vehicle Fuel ¹⁰
Fuel—Diesel	Gallon	\$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$40.00	DMV	Motor Vehicle ¹¹
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway ¹²
Personal Income				
	Taxable income	1.0% - 9.3% ¹³	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Private Railroad Car				
	Valuation	¹⁴	Equalization	General
Retail Sales and Use				
	Sales or lease of taxable items	5.75% ¹⁵	Equalization	See below ¹⁶

¹ Minimum tax is \$800 per year for existing corporations. New corporations are exempt from the minimum tax for the first two years.

² This tax is levied at the combined rate of 10 cents per pack of 20 cigarettes for the General Fund, 26 cents per pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents per pack for the Breast Cancer Fund, and 50 cents per pack for the California Children and Families First Trust Fund.

³ A tax equivalent to the tax on cigarettes. The rate reflects the 50 cents per pack established by the California Children and Families First Initiative, with funding for the Cigarette and Tobacco Products Surtax Fund and the California Children and Families First Trust Fund.

⁴ The Fair and Exposition Fund supports county fairs and other activities, the Satellite Wagering Account funds construction of Satellite Wagering Facilities and health and safety repairs at fair sites. The Wildlife Restoration Fund and General Fund also receive moneys.

⁵ The Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act eliminates the State pick-up tax beginning in 2005. The provisions of the federal Act sunset after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted to make the provisions permanent.

⁷ Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.

⁸ Department of Motor Vehicles. Beginning January 1, 1999, vehicle owners paid only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) was paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided for an additional 32.5-percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF offset was set at 67.5 percent. From June 30, 2003, through November 18, 2003, the VLF reduction was suspended. On November 17, 2003, Governor Schwarzenegger rescinded the suspension, thereby reinstating the offset. Effective January 1, 2005, the VLF rate is 0.65 percent.

⁹ For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

¹⁰ For administrative expenses and apportionment to State, counties and cities for highways, airports and small craft harbors.

¹¹ For support of Department of Motor Vehicles, California Highway Patrol, other agencies and motor vehicle related programs.

¹² For state highways and Department of Motor Vehicles administrative expense. Chapter 861, Statutes of 2000, replaced the current weight fee schedule for trucks, which is based on the unladen weight of commercial trucks and trailers, with a new schedule based on the gross weight capacity of trucks alone, in order to comply with the International Registration Plan standards. Chapter 719, Statutes of 2003, increased weight fees to achieve revenue neutrality as specified in Chapter 861.

¹³ A one percent surcharge is imposed on incomes above \$1 million, with the proceeds funding mental health programs.

¹⁴ Average property tax rate in the State during preceding year.

¹⁵ Includes a 5 percent rate for the State General Fund and Public Transportation Account, a 0.25 percent rate for the Economic Recovery Fund, and a 0.50 percent rate for the Local Revenue Fund.

Figure REV-04
Comparative Yield of State Taxes, 1970-71 through 2005-06
 Includes both General and Special Funds
 (Dollars in Thousands)

Fiscal Year Ending	Sales and Use (a)	Personal Income (b)	Corporation (c)	Tobacco (d)	Estate Inheritance and Gift (e)	Insurance (f)	Alcoholic Beverage (g)	Motor Vehicle Fuel (h)	Vehicle Fees (i)
1971	\$1,808,052	\$1,254,383	\$532,091	\$239,721	\$185,699	\$158,423	\$106,556	\$674,635	\$513,202
1972	2,015,983	1,785,618	862,522	247,424	220,192	170,179	112,091	712,426	547,845
1973	2,198,523	1,884,058	896,117	253,602	260,119	179,674	114,884	746,196	586,922
1974	2,675,738	1,829,385	1,057,191	258,921	231,934	201,697	119,312	742,702	644,448
1975	3,376,078	2,579,676	1,253,673	261,975	242,627	202,991	120,749	752,234	684,453
1976	3,742,524	3,095,611	1,285,515	268,610	316,648	241,224	125,313	766,565	749,898
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	127,485	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	132,060	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,595	420,184	140,059	896,591	1,021,866
1980	6,623,521	6,508,015	2,510,039	290,043	465,611	448,228	138,940	852,752	1,066,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	480,926	142,860	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	278,824	482,300	454,984	139,523	833,446	1,373,354
1983	7,785,488	7,701,069	2,536,011	271,621	517,875	736,929	136,209	928,633	1,614,963
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	137,433	1,213,167	1,906,290
1985	9,797,564	10,807,705	3,854,593	262,868	296,805	643,139	135,786	1,158,637	2,137,328
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	132,262	1,194,172	2,515,266
1987	10,904,022	13,924,527	4,800,843	255,076	273,089	1,008,804	131,288	1,245,881	2,692,835
1988	11,650,531	12,950,348	4,776,388	250,572	304,148	1,158,321	128,734	1,293,254	2,966,334
1989	12,650,893	15,889,179	5,138,009	569,617	335,091	1,317,690	128,264	1,320,512	3,142,484
1990	13,917,771	16,908,588	4,965,389	787,078	388,527	1,187,684	128,524	1,349,146	3,305,711
1991	13,839,573	16,852,079	4,544,783	745,074	488,774	1,287,152	129,640	1,966,771	3,513,159
1992	17,458,521	17,242,816	4,538,451	726,064	446,696	1,167,307	321,352	2,467,229	4,389,862
1993	16,598,863	17,358,751	4,659,950	677,846	458,433	1,189,181	292,107	2,412,574	4,470,321
1994	16,857,369	17,402,976	4,809,273	664,322	552,139	1,195,921	275,797	2,547,633	4,518,796
1995	16,273,800	18,608,181	5,685,618	674,727	595,238	998,868	268,957	2,685,731	4,749,594
1996	17,466,584	20,877,687	5,862,420	666,779	659,338	1,131,737	269,227	2,757,289	5,009,319
1997	18,424,355	23,275,990	5,788,414	665,415	599,255	1,199,554	271,065	2,824,589	5,260,355
1998	19,548,574	27,927,940	5,836,881	644,297	780,197	1,221,385	270,947	2,863,846	5,660,574
1999	21,013,674	30,894,885	5,724,237	978,513	890,489	1,253,972	273,112	3,025,226	5,610,374
2000	23,451,570	39,578,237	6,638,896	1,216,651	928,146	1,293,777	282,166	3,068,694	5,263,245
2001	24,287,928	44,618,532	6,899,322	1,150,869	934,709	1,495,566	288,450	3,142,142	5,295,542
2002	23,795,936	33,051,107	5,333,030	1,102,806	890,627	1,595,846	292,627	3,286,903	3,836,796
2003	24,898,676	32,713,830	6,803,583	1,055,505	647,372	1,879,784	290,564	3,202,512	3,965,410
2004	26,506,911	36,398,983	6,925,916	1,081,588	397,848	2,114,980	312,826	3,324,883	4,415,126
2005*	29,265,591	39,781,000	8,678,000	1,064,700	209,000	2,230,000	312,000	3,357,313	4,838,356
2006*	31,278,514	43,578,000	9,015,000	1,034,700	0	2,300,000	315,000	3,440,973	5,014,106

(a) Includes the 0.5 percent Local Revenue Fund and the 0.25 percent sales tax, effective July 1, 2004, for repayment of economic recovery bonds.
 (b) Includes the revenue estimate for a 1 percent surcharge on incomes over \$1 million, with proceeds funding mental health programs.
 (c) Includes the corporation income tax and, from 1989 through 1997, the unitary election fee.
 (d) Proposition 99 (November 1988) increased the cigarette tax to \$0.35 per pack and added an equivalent tax to other tobacco products. The Breast Cancer Act added \$0.02 per pack effective 1/1/94.
 Proposition 10 (November 1998) increased the cigarette tax to \$0.87 per pack and added the equivalent of \$1.10 tax to other tobacco products.
 (e) Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduces the State pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2006.
 (f) The conclusion of litigation resulted in additional revenue of \$51 million in 1987-88, \$178 million in 1988-89, \$7 million in 1990-91, and \$5 million in 1991-92. It also resulted in refunds of \$46 million in 1993-94, \$127 million in 1994-95, \$39 million in 1995-96, \$15 million in 1996-97, and \$30 million in 1997-98.
 (g) Alcoholic beverage excise taxes were significantly increased effective July 15, 1991.
 (h) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.
 (i) Registration and weight fees, motor vehicle license fees, and other fees. Beginning January 1, 1999, vehicle owners paid only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) was paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided for an additional 32.5-percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF offset was set at 67.5 percent. From June 30, 2003, through November 18, 2003, the VLF reduction was suspended. On November 17, 2003, Governor Schwarzenegger rescinded the suspension, thereby reinstating the offset. Effective January 1, 2005, the VLF rate is 0.65 percent. 2004-05 figures exclude a gap loss estimated at \$1.2 billion which will be paid in August 2006 as required by Chapter 231, Statutes of 2003.
 * Estimated.

Revenue Generating Measures

Last year, several revenue-generating provisions were enacted, including a two-year suspension of the teacher tax credit and the Natural Heritage Preservation Tax Credit, increased collection of the use tax on luxury vessels, and a tax amnesty program for the personal income tax, the corporation tax, and the sales tax. Figure REV-05 provides additional detail on these measures.

Figure REV-05
2004-05 Revenue Measures
Summary of Fiscal Impact
(Dollars in Millions)

Chapter/Bill Number	Description	Fiscal Impact		
		2004-05	2005-06	2006-07
Chapter 226/SB 1100	Teacher tax credit: two-year suspension	\$210.0	\$180.0	\$0.0
Chapter 226/SB 1100	Natural Heritage Preservation Tax Credit: two-year suspension	10.3	8.9	4.4
Chapter 226/SB 1100	Vehicle, vessel, and aircraft use tax (sunsets July 1, 2006)	25.9	34.5	0.0
Chapter 226/SB 1100	Tax amnesty program (net cash basis)	211.0	52.0	-27.0
Chapter 868/AB 263	Insurance subsidiary dividends received deduction	8.0	9.0	7.0
Chapter 212/SB 1098	A portion of the sales tax revenue on gasoline remains in the General Fund	128.0	0.0	0.0
	Total	\$593.2	\$284.4	-\$15.6

General Fund Revenue

Overall, General Fund revenues and transfers represent 78 percent of total revenues. The remaining 22 percent are special fund revenues dedicated to specific programs. The three largest revenue sources (personal income, sales, and corporation taxes) account for about 77 percent of total revenues.

Personal Income Tax: \$42.895 Billion

The personal income tax, the State's largest revenue source, is expected to contribute 50 percent of all General Fund revenues and transfers in 2005-06. Personal income tax revenues are forecast to increase by 8.6 percent for 2004-05 and 8.5 percent for 2005-06.

The California personal income tax is closely modeled after the federal income tax law. California's tax is imposed on net taxable income: that is, gross income less exclusions and deductions. The tax is steeply progressive, with rates ranging from 1 percent to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

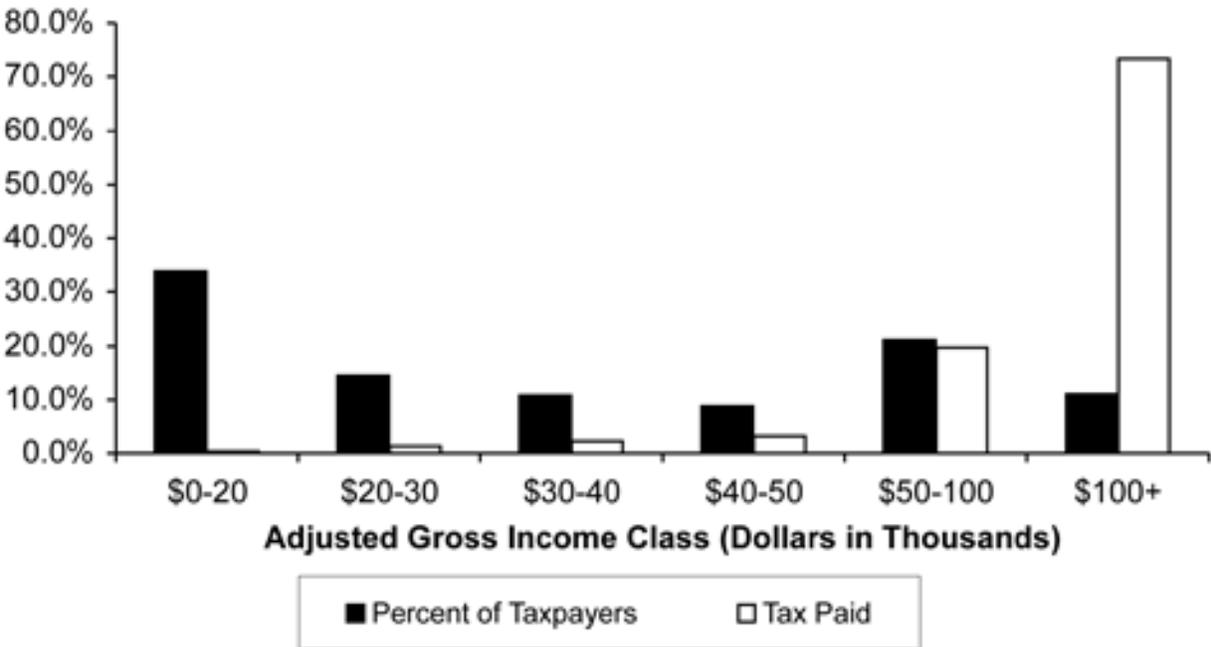
The personal income tax is adjusted annually by the change in the California Consumer Price Index to prevent taxpayers from being pushed into higher tax brackets by inflation only, without a real increase in income.

In addition, taxpayers may be subject to an alternative minimum tax (AMT), which is much like the federal AMT. This feature is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below a minimum level. The AMT is equal to 7 percent of the alternative minimum taxable income that exceeds an exemption amount.

Proposition 63, passed by voters in November 2004, imposed a personal income tax surcharge of 1 percent on taxpayers' taxable income above \$1 million. The surcharge will be levied beginning January 1, 2005, and the proposition stipulated that the revenue resulting from the surcharge would be transferred to a special fund (the Mental Health Services Fund) dedicated to funding county mental health services and program expenditures. Pursuant to the Proposition, the estimated revenue from the additional tax is \$254 million in 2004-05 and \$683 million in 2005-06. The actual amount collected from the additional tax will not be known, however, until the spring of 2007, when 2005 tax return data are available. (See the Health and Human Services Section for a discussion on the mental health services programs that will be funded by the surcharge.)

The challenge in forecasting personal income tax receipts is increased by the progressive nature of the tax, since one dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income return. On the other hand, very high-income taxpayers usually have considerable discretion over the timing of income and deductions. Thus, substantial changes in the portfolios or tax planning of relatively few high-income taxpayers can have a dramatic effect on State revenues. In 2002, for example, the top 11 percent of State taxpayers, those with adjusted gross incomes of over \$100,000, paid 73 percent of the personal income tax. This is demonstrated in Figure REV-06, which shows the percent of total returns and tax paid by adjusted gross income class. Data for 2003 will be available in the spring.

Figure REV-06
Percent of Taxpayers and Percent of Tax Paid by Adjusted Gross Income Class
2002 State Tax Data



With regard to market-related income, preliminary data indicate that growth resumed in 2003 and growth is expected to continue, albeit at more sustainable levels. Based on preliminary 2003 tax year data provided by the Franchise Tax Board, it is estimated that capital gains grew by 30 percent in 2003, after the drastic declines experienced in 2001 and 2002, and it is projected that capital gains will increase by 15 percent in 2004 and 10 percent in 2005. The level of capital gains and annual percentage changes from 1990 through 2005 are shown in Figure REV-07. Figure REV-08 shows the portion of General Fund revenues from capital gains and stock options. Aside from the assumptions regarding stock market-related income, the key factor underlying this forecast is that the general state economy strengthened in 2004 and continued growth is expected in 2005 and 2006.

Figure REV-07
California Capital Gains Taxable Income

Tax Year	Dollars in Billions	Percent Change
1990	\$21.4	
1991	\$16.1	-24.9%
1992	\$15.9	-0.6%
1993	\$18.8	17.7%
1994	\$17.4	-7.5%
1995	\$21.1	21.6%
1996	\$33.4	58.0%
1997	\$46.4	39.1%
1998	\$57.7	24.3%
1999	\$91.0	57.8%
2000	\$117.6	29.2%
2001	\$50.7	-56.9%
2002	\$35.5	-29.8%
2003 [¶]	\$46.2	30.0%
2004 [*]	\$53.1	15.0%
2005 [*]	\$58.5	10.0%

[¶] Preliminary.

^{*} Estimated.

Figure REV-08
Capital Gains and Stock Options
As a Percent of General Fund Revenues
(Dollars in Billions)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003^P</u>	<u>2004^Q</u>	<u>2005^Q</u>
Capital Gains	\$57.7	\$91.0	\$117.6	\$50.7	\$35.5	\$46.2	\$53.1	\$58.5
Stock Options	\$25.6	\$50.0	\$78.5	\$44.6	\$22.2	\$24.9	\$32.0	\$33.1
Total	\$83.3	\$141.0	\$196.1	\$95.3	\$57.7	\$71.1	\$85.1	\$91.6
Tax at 9%	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capital Gains	\$5.2	\$8.2	\$10.6	\$4.6	\$3.2	\$4.2	\$4.8	\$5.3
Stock Options	\$2.3	\$4.5	\$7.1	\$4.0	\$2.0	\$2.2	\$2.9	\$3.0
Total	\$7.5	\$12.7	\$17.6	\$8.6	\$5.2	\$6.4	\$7.7	\$8.2
Total General Fund Revenues & Transfers	\$58.6	\$71.9	\$71.4	\$72.3	\$71.3	\$74.8	\$78.2	\$83.8
Capital Gains and Stock Options as % of General Fund								
	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>	<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06</u>
Capital Gains	8.9%	11.4%	14.8%	6.3%	4.5%	5.6%	6.1%	6.3%
Stock Options	3.9%	6.3%	9.9%	5.6%	2.8%	3.0%	3.7%	3.6%
Combined	12.8%	17.6%	24.7%	11.9%	7.3%	8.6%	9.8%	9.8%

Note: 2002-03 revenues do not include \$9.242 billion in economic recovery bonds.
2003-04 revenues do not include \$2.012 billion in economic recovery bonds.
2005-06 revenues do not include \$1.683 billion in economic recovery bonds.

^P Preliminary.

^Q Estimated.

Personal income tax revenues forecasted for 2004-05 and 2005-06, as compared with preliminary numbers for 2003-04 collections, are as follows:

Personal Income Tax Revenue

(Dollars in Billions)

- 2003-04 (Preliminary) \$36.399
- 2004-05 (Forecast) \$39.527
- 2005-06 (Forecast) \$42.895

Sales Tax: \$26.947 Billion

Receipts from sales and use taxes, which are the State's second largest revenue source, are expected to contribute nearly 32 percent of all General Fund revenues and transfers in 2005-06. Sales and use

taxes are imposed on the retail sale or use of tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions are provided for certain necessities such as food for home consumption, prescription drugs, and electricity, making the tax more progressive than it would be otherwise. Additional exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to goods used in space flight.

A summary of the sales and use tax rates currently imposed at the State and local levels is presented in Figure REV-09. Combined State and local tax rates currently imposed in each county are summarized in Figure REV-10.

**Figure REV-09
State and Local Sales and Use Tax Rates**

State Rates		
General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75%, and during 2002 and thereafter, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 State-local realignment.
Economic Recovery Fund	0.25%	Beginning on July 1, 2004, a new temporary 0.25% sales tax rate was imposed, with revenues dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%.
Local Uniform Rates¹		
Bradley-Burns	0.75% ² or 1.00%	Imposed by city and county ordinance for general purpose use. ³
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.
Local Add-on Rates⁴		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.25% increments up to a combined maximum of 2.00% in any county. ⁵ Any ordinance authorizing a transactions and use tax requires approval by the county Board of Supervisors or special purpose authority created by the county Board of Supervisors plus two-thirds of the voters.

¹ These locally-imposed taxes are collected by the State for each city and county and are not included in the State's revenue totals.

² The 1 percent rate was temporarily decreased by 0.25 percent on July 1, 2004, and a new temporary 0.25 percent tax imposed to repay Economic Recovery Bonds. Cities and counties will receive additional property tax revenues equal to the 0.25 percent local sales tax reduction.

³ The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area (or 0.75 percent during the period when Economic Recovery Bonds are being repaid).

⁴ These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the State for each jurisdiction and are not included in the State's revenue totals.

⁵ The two exceptions to the 2 percent maximum are Los Angeles County, which may impose up to 2.5 percent, and San Diego County, which is subject to a 1 percent maximum. Fresno, Nevada, Solano, and Stanislaus may levy transactions and use taxes in increments of 0.125 percent.

Figure REV-10
Combined State and Local Sales and Use Tax Rates by County

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.75%	Madera	7.75%	San Joaquin ¹⁶	8.00%
Alpine	7.25%	Marin	7.75%	San Luis Obispo	7.25%
Amador	7.25%	Mariposa ⁸	7.75%	San Mateo	8.25%
Butte	7.25%	Mendocino ⁹	7.75%	Santa Barbara	7.75%
Calaveras	7.25%	Merced ¹³	7.75%	Santa Clara	8.25%
Colusa	7.25%	Modoc	7.25%	Santa Cruz ¹⁷	8.25%
Contra Costa ¹	8.75%	Mono	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey ¹¹	7.75%	Sierra	7.25%
El Dorado ²	7.75%	Napa	7.75%	Siskiyou	7.25%
Fresno ³	8.275%	Nevada ¹²	7.875%	Solano	7.375%
Glenn	7.25%	Orange	7.75%	Sonoma ¹⁸	8.00%
Humboldt ⁴	8.25%	Placer	7.25%	Stanislaus	7.375%
Imperial ⁵	8.25%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito ¹³	8.00%	Tulare ¹⁹	7.75%
Lake ⁶	7.75%	San Bernardino ¹⁴	8.00%	Tuolumne ²⁰	7.75%
Lassen	7.25%	San Diego ¹⁵	8.25%	Ventura	7.25%
Los Angeles ⁷	8.75%	San Francisco	8.50%	Yolo ²¹	7.75%
				Yuba	7.25%

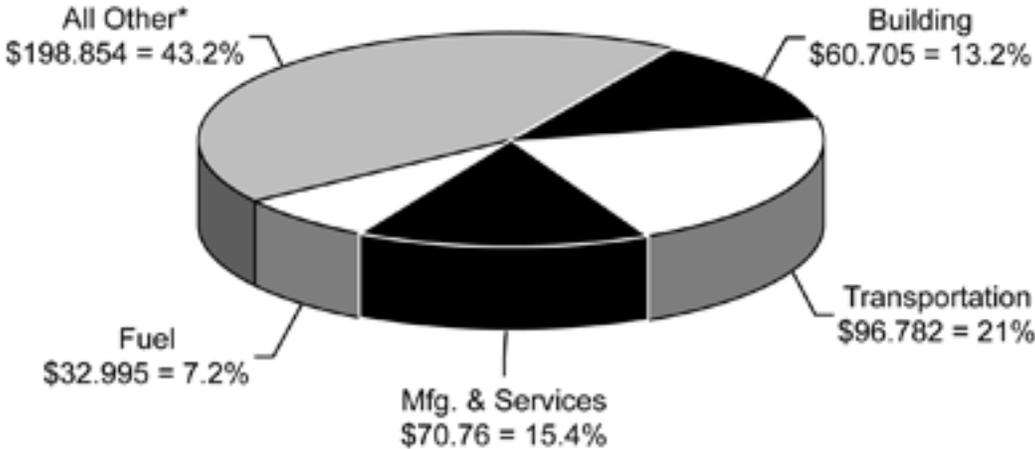
¹ 8.75% for sales in the City of Richmond (effective 4/1/05).
² 7.50% for sales in the City of Placerville and 7.75% for sales in the City of South Lake Tahoe (effective 4/1/05).
³ 8.175% for sales in the City of Clovis and 7.975% in the County of Fresno (effective 4/1/05).
⁴ 8.25% for sales in the City of Trinidad.
⁵ 8.25% for sales in the City of Calxico.
⁶ 7.75% for sales in the City of Clearlake and the City of Lakeport (effective 4/1/05).
⁷ 8.75% for sales in the City of Avalon.
⁸ 7.75% in the County of Mariposa (effective 4/1/05).
⁹ 7.75% for sales in the City of Willits, Point Arena, and Fort Bragg (effective 1/1/05).
¹⁰ 7.75% for the City of Los Banos (effective 4/1/05).
¹¹ 7.75% for the City of Sand (effective 4/1/05).
¹² 7.875% for sales in the Town of Truckee.
¹³ 8.00% for the City of San Juan Batista (effective 4/1/05).
¹⁴ 8.00% for the City of Montclair (effective 4/1/05).
¹⁵ 8.25% for the City of El Cajon (effective 4/1/05).
¹⁶ 8.00% for the City of Stockton (effective 4/1/05).
¹⁷ 8.25% for sales in the City of Santa Cruz and the City of Capitola (effective 4/1/05).
¹⁸ 7.725% for sales in the City of Sebastopol and Santa Rosa (both effective 4/1/05).
¹⁹ 7.50% for sales in the City of Visalia and 7.75% for sales in the City of Farmersville (effective 4/1/05).
²⁰ 7.75% for the City of Sonora (effective 1/1/05).
²¹ 7.75% for sales in the City of Woodland, the City of West Sacramento, and the City of Davis.

Taxable sales grew by 4.3 percent in 2003, after two years of 0.1 percent declines. Preliminary data received for the first three quarters of 2004 indicate that growth in taxable sales continues to increase, with sales for 2004 expected to be up by 5.7 percent. Taxable sales are anticipated to continue

increasing at similar year-over-year rates for 2005 and 2006 due to the improving economy, increasing by 5.7 percent and 5.6 percent, respectively.

The sales and use tax revenue forecast is prepared by relating taxable sales to economic factors such as income, employment, housing starts, new vehicle sales, and inflation. Details for 2003 sales by major component are presented in Figure REV-11. The forecast is then adjusted for significant legislation and other factors expected to affect sales tax revenues.

Figure REV-11
2003 Taxable Sales by Major Components
(Dollars in Billions)



* Includes apparel, general merchandise, specialty goods, eating and drinking establishments, and agricultural goods.

Current law specifies that certain State revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account (PTA). The Governor's Budget proposes to maintain the base level of transfers to the PTA, but specifies that any excess sales tax revenues on gasoline, which would otherwise be designated as PTA "spillover," be credited to the General Fund for 2005-06. This is expected to increase General Fund revenues by \$216 million in 2005-06. This follows the 2004 Budget Act provision that transfers "spillover" amounts of \$140 million to the Traffic Congestion Relief Fund and retains the remainder of approximately \$128 million for the General Fund.

The total transfer to the PTA is estimated to be \$266 million in 2004-05 and \$275 million in 2005-06.

Beginning on July 1, 2004, a new, temporary 0.25 percent sales tax rate was imposed, with revenues dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will end and the local government general purpose sales tax rate will return to 1 percent, from 0.75 percent. Revenues from this 0.25 percent sales tax rate are estimated at \$1.167 billion in 2004-05 and \$1.358 billion in 2005-06.

Revenues from State-imposed sales tax rates are shown in Figure REV-12. The following table shows the General Fund sales tax revenue forecast for 2004-05 and 2005-06, compared with preliminary numbers for 2003-04 collections:

Figure REV-12
Sales Tax Revenue
 (Dollars in Thousands)

	2003-04 Preliminary	2004-05 Forecast	2005-06 Forecast
General Fund	\$23,847,329	\$25,168,000	\$26,947,000
Sales and Use Tax-Realignment	2,442,620	2,524,900	2,699,000
Public Transportation Account	216,962	265,691	274,514
Traffic Congestion Relief Fund	0	140,000	0
Economic Recovery Fund	0	1,167,000	1,358,000
Total	\$26,506,911	\$29,265,591	\$31,278,514

Sales and Use Tax Revenue

(Dollars in Billions)

- 2003-04 (Preliminary) \$23.847
- 2004-05 (Forecast) \$25.168
- 2005-06 (Forecast) \$26.947

Corporation Tax: \$9.015 Billion

Corporation tax revenues are expected to contribute nearly 11 percent of all General Fund revenues and transfers in 2005-06. These revenues are derived from five taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations that do business in California, while the latter is imposed on corporations that do not do business in the state but derive income from California sources. An example of this type of out-of-state company would be a corporation that maintains a stock of goods in California from which deliveries are made to fill orders taken by independent dealers or brokers.

- Corporations that have a limited number of shareholders and meet other requirements to qualify for State Subchapter S status are taxed at a 1.5 percent rate rather than the 8.84 percent imposed on other corporations. (Subchapter S status provides the limited liability of corporate status combined with the tax advantages of partnerships; i.e., the S-corporation's profits and losses flow through to its shareholders and are subject to tax at the appropriate personal income tax rate.)
- Banks and other financial corporations pay an additional 2 percent tax (i.e., "bank tax") on their net income. This tax is in lieu of local personal property taxes and business license taxes, but in addition to the franchise tax.
- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that high-income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- A minimum franchise tax of \$800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax.

In forecasting the corporation tax, the relationship of California taxable profits to national corporate profits is important. The forecast also involves analysis of the trend in California's non-farm employment level, California's unemployment rate relative to that of the nation's, as well as recent actual cash experience for this tax. Finally, critical information from the most recent tax year, such as carryover credits and refunds, is analyzed.

From 1943 through 1985, corporation tax liability as a percentage of profits closely tracked the corporation tax rate. However, beginning in 1986, the tax liability as a percentage of profits plunged, eventually reaching a low of 5.3 percent in 2000, well below the expected level of 8.84 percent. For 2002, the tax liability as a percentage of profits was 5.9 percent. In recent years, S-corporation activity and use of credits were the primary factors contributing to a divergence between profit and tax-liability growth. The election of S-corporation status results in a reduced corporate rate, with the income and tax liability on that income shifted to the personal income tax. S-corporations accounted for 31.6 percent of total taxable profits in 2002, whereas in 1991, their share was only 14.7 percent. Consistent with the economic outlook and reflecting a rather strong forecast for corporation tax profits in 2004, corporation tax revenues are expected to increase by 25.3 percent in 2004-05 and 3.9 percent in 2005-06.

Corporation tax revenues forecasted for 2004-05 and 2005-06, as compared with preliminary numbers for 2003-04 collections, are as follows:

Corporation Tax Revenue

(Dollars in Billions)

- 2003-04 (Preliminary) \$6.926
- 2004-05 (Forecast) \$8.678
- 2005-06 (Forecast) \$9.015

Insurance Tax: \$2.3 Billion

The majority of insurance written in California is subject to a 2.35 percent gross premiums tax. This premium tax takes the place of all other State and local taxes except those on real property and motor vehicles. The basis of the tax is the amount of "gross premiums" received, less return premiums, upon business done in California.

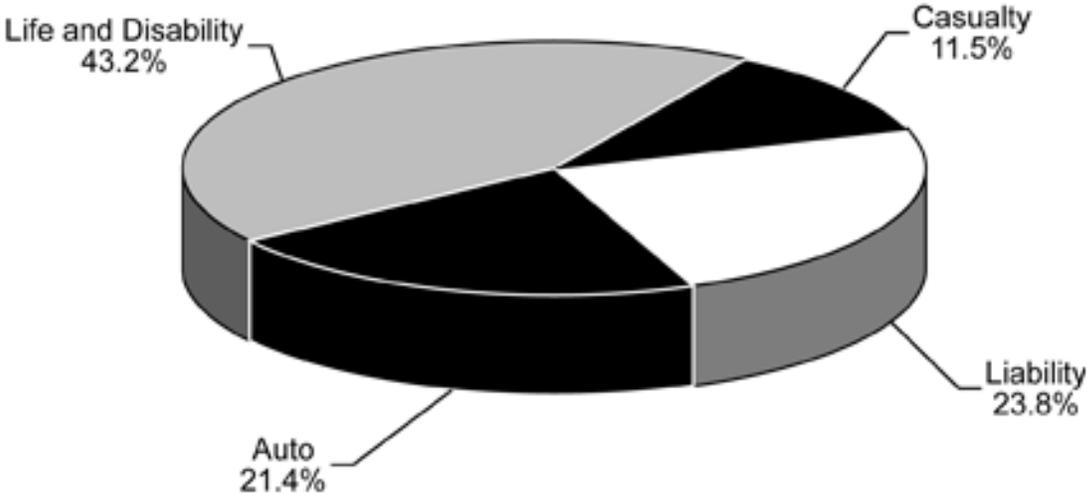
There are some exceptions. Insurers transacting title insurance are taxed upon all income received in this state, with the exceptions of interest, dividends, rents from real property, profits from the sale or disposition of investments, and income arising out of investments. Ocean marine insurers are taxed upon underwriting profits at a 5 percent rate. Other exceptions to the 2.35 percent rate include certain pension and profit-sharing plans, including qualified annuities, which are taxed at a lower rate of 0.5 percent, and certain specialized lines of insurance that are taxed at 3 percent.

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from over 300 insurance companies, which represent approximately 63 percent of the insurance written in California.

For 2003, \$98.6 billion in taxable premiums written were reported, an increase of 7.5 percent over 2002. The most recent survey indicates that premiums written will increase by 5.5 percent in 2004 and by 5.1 percent in 2005. Due to factors such as tax deferrals, averaging, and various applied tax rates, revenues grow at different rates than premiums written.

Figure REV-13 illustrates the proportion of premiums written by insurance type from which the revenue is derived. The proportion of auto and casualty insurance remained similar for both 2002 and 2003, at 21 percent and 11 percent, respectively. The proportion of life and disability insurance decreased from 47 percent to 43 percent, while the proportion of liability insurance increased from 21 percent to 24 percent. Double-digit growth in the workers compensation line from 2001 through 2003 is expected to slow to about 6 percent for 2004, before declining for 2005. Long-term, it is generally expected that demand for annuity products will increase with the aging population.

Figure REV-13
2003 Insurance Tax Components



Revenues forecasted for 2004-05 and 2005-06, as compared with preliminary numbers for 2003-04 collections, are as follows:

Insurance Tax Revenue

(Dollars in Billions)

- 2003-04 (Preliminary) \$2.115
- 2004-05 (Forecast) \$2.23
- 2005-06 (Forecast) \$2.3

Estate/Inheritance/Gift Taxes: \$0

Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The pick-up tax is computed on the basis of the federal "taxable estate," with tax rates that range from 0.8 percent to 16 percent. This tax does not increase the liability of the estate due to the fact that it would otherwise be paid to the federal government.

The Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax by 2010. The Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2005. Revenues will decline by more than \$1 billion from what they

would have been in 2004-05, absent these changes in federal law. The provisions of the federal Act sunset after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted to make the elimination permanent.

Revenues forecasted for 2004-05 and 2005-06, as compared with preliminary numbers for 2003-04 collections, are as follows:

Estate, Inheritance, and Gift Tax Revenue

(Dollars in Millions)

- 2003-04 (Preliminary) \$397.8
- 2004-05 (Forecast) \$209
- 2005-06 (Forecast) \$0

Alcoholic Beverage Taxes: \$315 Million

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The rates vary with the type of alcoholic beverage.

The tax rate per gallon for beer, dry wine, and sweet wine is \$0.20. The tax rates per gallon for sparkling wine and distilled spirits are \$0.30 and \$3.30, respectively.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Overall, consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

Revenues forecasted for 2004-05 and 2005-06, as compared with preliminary 2003-04 collections, are shown in Figure REV-14.

Figure REV-14
Beer, Wine, and Distilled Spirits Revenue
 (Dollars in Millions)

	2003-04 Preliminary	2004-05 Forecast	2005-06 Forecast
Beer and Wine	\$166.1	\$159.0	\$162.0
Distilled Spirits	<u>146.7</u>	<u>153.0</u>	<u>153.0</u>
Total	\$312.8	\$312.0	\$315.0

Cigarette Tax: \$115 Million

Proposition 10 increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds allocated to the Cigarette and Tobacco Products Surtax Fund. Thus, this proposition increased the total excise tax on other tobacco products by an amount equivalent to an increase in the cigarette tax of \$1 per pack.

The State excise tax on cigarettes of 87 cents per pack is allocated as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution as specified in Proposition 10.
- Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rates levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Ten cents of the per-pack tax is allocated to the State's General Fund.
- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and State anti-smoking campaigns funded by Proposition 99 revenues and revenues from the Master Tobacco Settlement have all significantly reduced cigarette consumption.

Per capita consumption (based on population ages 18-64) declined on average 3.5 percent annually from 1982-83 through 1987-88, and then decreased even more rapidly with the onset of Proposition 99. During 1989-90, per capita consumption was about 123 packs; by 1997-98, it had fallen to 83 packs per capita, a 33 percent decrease over eight years. Price increases stemming from tobacco litigation, in conjunction with the State's excise tax hike in 1999, further reduced per capita consumption by approximately 31 percent since that time to 52 packs in 2003-04. The long-term downward trend in taxable consumption should continue to reduce cigarette sales.

Chapter 890, Statutes of 2003 (AB 71), established licensing provisions for cigarette and tobacco products manufacturers, wholesalers, distributors, and retailers. Chapter 881, Statutes of 2002 (SB 1701), requires the existing cigarette stamp to be replaced by an encrypted stamp in 2005. Proper licensing and increased enforcement efforts, combined with a "smart" stamp, are expected to improve compliance and reduce tax evasion.

Wholesale price data provide the basis for the revenue estimate for other tobacco products, which include items such as cigars, chewing tobacco, and snuff. For 2003-04 other tobacco products contributed 4 percent to total tobacco revenues. Historically these taxes have generally contributed less than 5 percent to the total of all the tobacco revenues collected on an annual basis. The long-term use of other tobacco products is expected to decrease at a rate similar to cigarettes.

The Proposition 10 tobacco-related taxes are collected primarily to support early childhood development programs as specified. These proceeds are deposited to the California Children and Families First Trust Fund and are estimated at \$601 million in 2004-05, and \$585 million in 2005-06. Funds from the Proposition 99 tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at \$318 million in 2004-05 and \$309 million in 2005-06. An additional \$24 million for breast cancer research will be generated in 2004-05 and \$23 million in 2004-05 by the 2 cents-per-pack cigarette tax enacted in 1993. The original 10 cents-per-pack tax on cigarettes is allocated to the General Fund.

Total tobacco tax revenues forecasted for 2004-05 and 2005-06, as compared with preliminary numbers for 2003-04 collections, are shown in Figure REV-15.

Figure REV-15
Tobacco Tax Revenue
(Dollars in Millions)

	2003-04 Preliminary	2004-05 Forecast	2005-06 Forecast
General Fund	\$117.1	\$119.0	\$115.0
Cigarette and Tobacco Products Surtax Fund	320.8	318.0	309.0
Breast Cancer Fund	23.4	24.0	23.0
California Children and Families First Trust Fund	601.7	601.0	585.0
Cigarette and Tobacco Products Compliance Fund	<u>18.5</u>	<u>2.7</u>	<u>2.7</u>
Total	\$1,081.5	\$1,064.7	\$1,034.7

Special Fund Revenue

The California Constitution, codes, and statutes specify the uses of certain revenues, with receipts accounted for in various special funds. In general, special fund revenues consist of three categories of income:

- Receipts from tax levies that are allocated to specified functions, such as motor vehicle taxes and fees.
- Charges for special services provided for specific functions, including such items as business and professional license fees.

- Rental royalties and other receipts designated for particular purposes: for example, oil and gas royalties.

Taxes and fees related to motor vehicles comprise about 35 percent of all special fund revenue. Principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2005-06, \$8.5 billion in revenues will be derived from the ownership or operation of motor vehicles, a 2.9 percent increase from the 2004-05 level. About 40 percent of all taxes and fees collected on motor vehicles will be returned to local governments. The remaining portion is available for various State programs related to transportation and services to vehicle owners.

Chapter 85, Statutes of 1991, created the Local Revenue Fund for the purpose of State-local program realignment. Revenue attributable to a 0.5 percent sales tax rate is transferred to this special fund. During 2005-06, local governments are expected to receive \$2.7 billion from this revenue source, up 6.9 percent from 2004-05. In addition to this revenue, a portion of vehicle license fees (including amounts backfilled by the General Fund prior to 2004-05) is transferred to the Local Revenue Fund. Although there were significant changes in vehicle license fees in 2003-04 and 2004-05, described in the section below, the Local Revenue Fund was held harmless.

Motor Vehicle Fees: \$4.99 Billion

Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and various other charges related to vehicle operation.

The vehicle license fee (VLF) is imposed for operating a vehicle on public highways in California. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. All of the revenues from this tax, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.

The VLF is calculated on the vehicle's "market value," which is the cost to the purchaser exclusive of sales tax, adjusted by a depreciation schedule. For motor vehicles, the schedule is based on an 11-year depreciation period; an 18-year depreciation period is used for trailer coaches. A 0.65 percent rate is applied to the depreciated value to determine the fee (2 percent prior to January 1, 2005). Thus, revenue from this source is contingent on the number of vehicles in California, the ages of those vehicles, and their most recent sales prices.

As part of the State-local program realignment, Chapter 87, Statutes of 1991, revised the vehicle license fee depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. All of the revenue from this base change is transferred to local governments.

Chapter 322, Statutes of 1998, established a program to offset a portion of the vehicle license fees paid by vehicle owners. This program is referred to as an "offset" rather than a tax credit, because the total

amount of VLF legally due from the taxpayer was not changed. Instead, the State paid or "offset" a portion of the amount due, and taxpayers paid the remaining balance. Beginning January 1, 1999, a permanent offset of 25 percent of the amount of the VLF owed became operative. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent offset through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning on July 1, 2001, the VLF was reduced by 67.5 percent. The General Fund has generally backfilled the offset so that the tax relief did not result in a revenue loss to local governments. As the amount paid by taxpayers decreased due to increased tax relief, the amount backfilled by the General Fund increased. With the economic decline of 2003, however, the VLF was increased. Then, on November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03, which directed the Department of Motor Vehicles to lower the VLF and to reinstate the offset (to benefit local governments) as soon as administratively feasible. Although taxpayers received refunds that restored the VLF tax relief, there was a lag, or gap, in local government payments. This loss to local governments is estimated at \$1.187 billion and is scheduled to be repaid in August 2006.

The General Fund offset program and refunds provided tax relief of \$4.312 billion in 2003-04. The local government agreement reached as part of the 2004 Budget Act eliminated the VLF offset, but reduced the VLF tax rate so that taxpayers will continue to receive the same tax relief that they previously received. Local governments are receiving property tax revenues to compensate them for the loss of VLF revenue. For 2004-05 and 2005-06 only, that replacement revenue will be reduced by \$1.3 billion to assist the State.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF, which in this instance is administered by the Department of Housing and Community Development rather than the Department of Motor Vehicles. All other mobile homes are subject to the local property tax. Chapter 699, Statutes of 1992, provided that all trailer coach license fees that are administered by the Department of Motor Vehicles be deposited in the General Fund. Beginning in 1994-95, all other trailer coach license fees are also deposited in the General Fund.

Chapter 861, Statutes of 2000, replaced the current weight fee schedule for commercial trucks, which was based on unladen weight, with a gross vehicle weight schedule. This change was necessary to conform to the federal International Registration Plan by January 1, 2002. While Chapter 861 was intended to be revenue-neutral, the new fee schedule resulted in a substantial reduction in weight fee revenues. In order to address the revenue shortfall, Chapter 719, Statutes of 2003, was enacted to adjust the fee schedule to achieve revenue neutrality and improve enforcement.

Allowing for scrappage and for vehicles entering and leaving California, the total number of vehicles, (autos, trucks, trailers, and motorcycles) including multi-state vehicles, is estimated at 30,311,000 for 2004-05 and 31,062,000 for 2005-06, a 2.5 percent increase. The forecast assumes 2.47 million new

vehicles in 2005-06.

Motor vehicle fees revenue is summarized in Figure REV-16.

Figure REV-16
Motor Vehicle Fees Revenue
 (Dollars in Thousands)

	2003-04 Preliminary	2004-05 Forecast	2005-06 Forecast
Vehicle License Fees	\$1,532,586	\$535,338	\$553,280
Realignment	519,037	1,608,220	1,661,650
Registration, Weight, and Other Fees	<u>2,344,825</u>	<u>2,674,826</u>	<u>2,777,864</u>
Total	\$4,396,448	\$4,818,384	\$4,992,794

Motor Vehicle Fuel Taxes: \$3.44 Billion

The motor vehicle fuel tax (levied on gasoline), diesel fuel tax (levied on diesel), and the use fuel tax (levied on alternative fuels such as liquefied petroleum gas, natural gas, and alcohol fuel) provide the major sources of funds for maintaining, replacing, and constructing State highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

The motor vehicle fuel tax (gas tax) is collected from distributors at the terminal rack level (i.e., the point at which fuel is loaded into ground transportation). Motor vehicle fuel is taxed at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gasoline, and specified blends of gasoline and alcohol sold for vehicular use on California public streets and highways.

The Motor Vehicle Fuel Tax Law also applies an excise tax of 2 cents per gallon on aircraft jet fuel sold at the retail level. Certain sales are exempt from the aircraft jet fuel tax, including those to certified air common carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Chapter 912, Statutes of 1994, established the Diesel Fuel Tax Law. Prior to the operative date of Chapter 912, diesel fuel had been taxed under the Use Fuel Tax Law. The diesel fuel tax is collected from distributors at the terminal rack level and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax-exempt uses, is not taxed.

Chapter 1053, Statutes of 2000, required that the State excise tax on gasoline be collected at the terminal rack level, rather than at the level at which the fuel changes ownership. Standardizing the point of collection conforms to federal law and is expected to increase compliance.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels remain untaxed until they are dispensed into a motor vehicle that is operated on California highways or is suitable for highway operation. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight in lieu of the 6 cents-per-gallon tax.

The Mills-Hayes Act specifies that, in lieu of the other fuel taxes described above, a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain common carriers.

Although gasoline consumption rose 2.6 percent during 2003-04, high prices in 2004 are expected to contribute to a decline of 1 percent in 2004-05. Growth of 2.4 percent is forecast for 2005-06.

Because the majority of diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel consumption grew by 2.6 percent in 2003-04, and is expected to rise by 5.9 percent in 2004-05 due to the improving economy, and 3.5 percent in 2005-06.

Proposition 111, enacted in June 1990 to generate new transportation funding, increased gasoline and diesel fuel tax rates by 5 cents per gallon each, effective August 1, 1990. Proposition 111 also increased gas and diesel fuel tax rates by an additional 1 cent-per-gallon each January 1 thereafter, until an 18-cent-per-gallon rate became effective January 1, 1994. The rates have remained constant since that time. Revenues raised by Proposition 111 equaled \$1.63 billion during 2003-04, and are expected to be \$1.62 billion and \$1.66 billion during 2004-05 and 2005-06, respectively.

Motor vehicle fuel revenues are shown in Figure REV-17.

Figure REV-17
Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

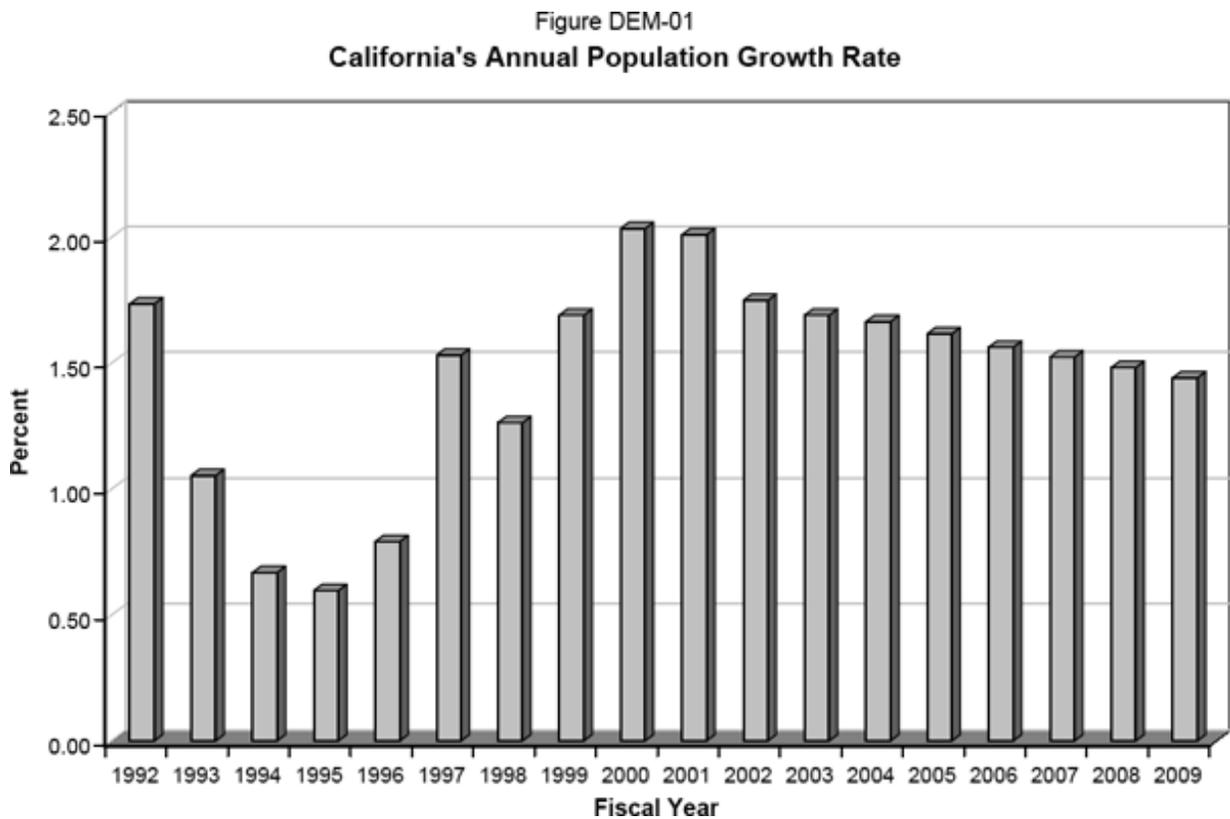
	2003-04 Preliminary	2004-05 Forecast	2005-06 Forecast
Gasoline ¹	\$2,821,845	\$2,838,892	\$2,905,411
Diesel	<u>500,807</u>	<u>515,921</u>	<u>533,012</u>
Total	\$3,322,652	\$3,354,813	\$3,438,423

¹ Does not include jet fuel.

Demographic Information

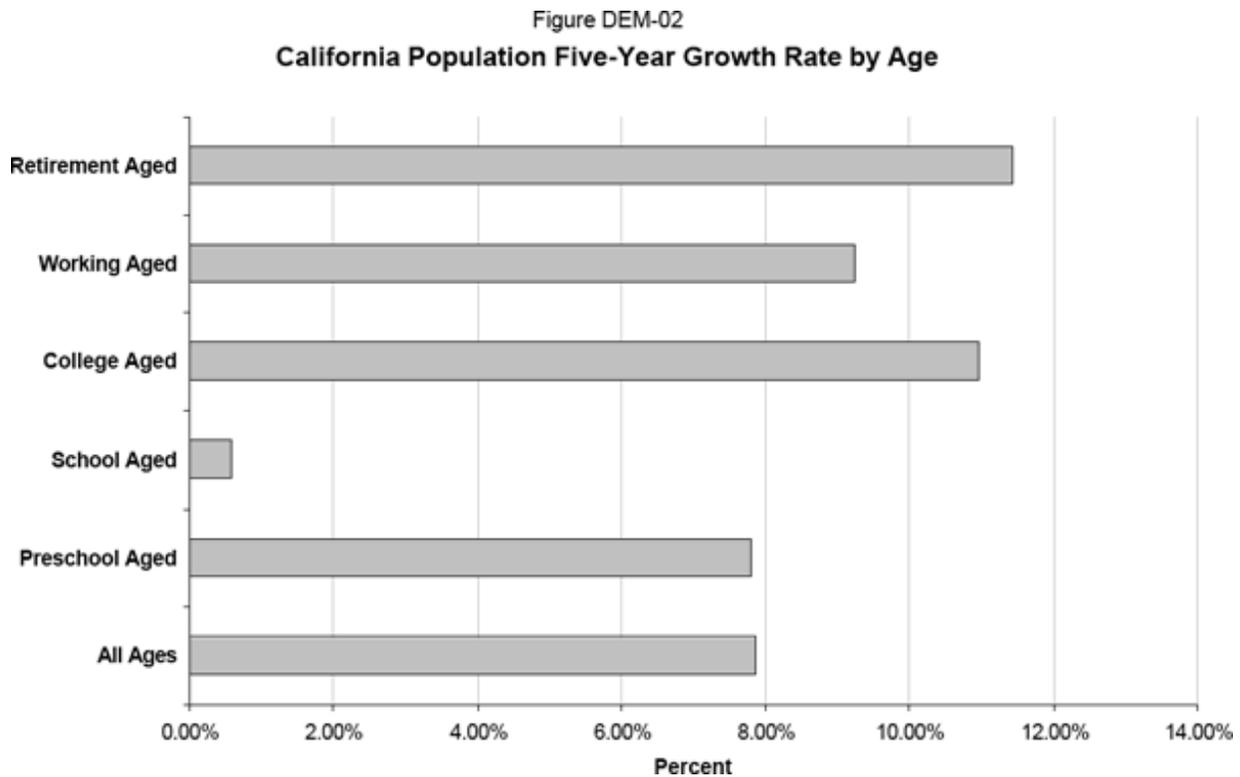
Population Overview

At more than 36.5 million people as of mid-2004, California's population continues to experience strong growth. Despite a slowdown in the mid-1990s, the state has experienced population growth in excess of 1 percent per year since 1997 (see Figure DEM-01).



- The July 1, 2004, estimate of the population is 36,591,000. It is forecast to be 37,183,000 in 2005 and nearly 38 million in 2006. This reflects a short-term annual growth rate of just over 1.6 percent.

Through the next five years, the state will grow by an average of 575,700 people each year. The state's growth in the first decade of this century is about equally attributable to natural increase (more children being born than people dying) and net migration (people moving to California from other states and other countries, less those moving out) - 53 percent and 47 percent, respectively.

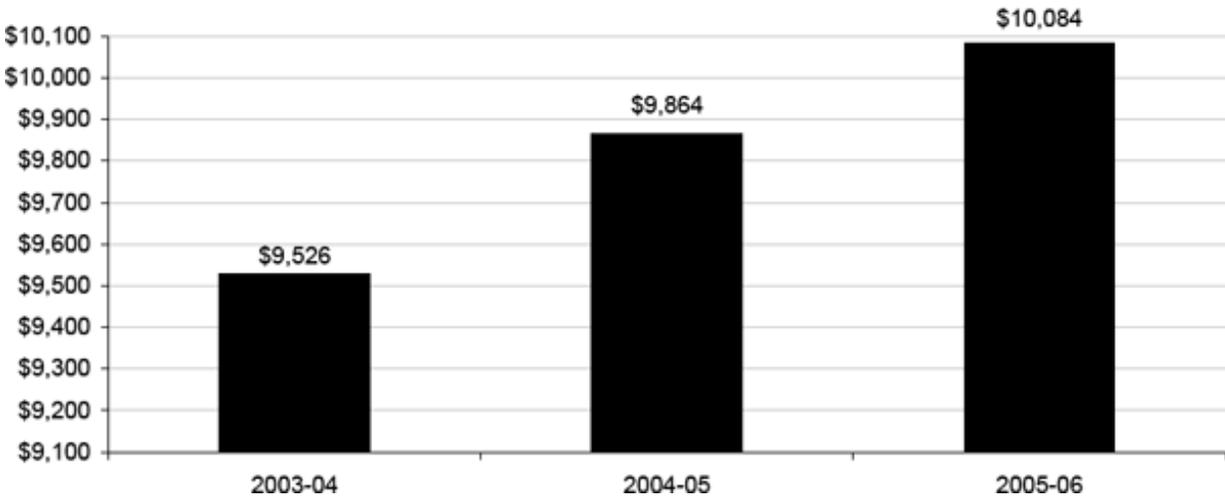


- By July 2009, California will add nearly 3 million people to reach 39,469,000, a five-year growth rate of 7.9 percent. This compares to the 9.5 percent overall population growth over the five-year period since 1999.
- Population growth rates vary significantly by age group. The state's total five-year population growth of 7.9 percent is consistent with 7.8 percent growth in the pre-school age group. In contrast, only a 0.6 percent growth rate is anticipated in the school age group. On the other hand, the college aged group will grow nearly 11 percent while the working and retirement-aged populations will grow in excess of 9 percent and 11 percent, respectively (see Figure DEM-02). The population in the working ages will increase by 1.8 million.
- In Fall 2003, K-12 public school enrollment was more than 6.2 million students. Starting in 2003 and continuing through the decade, school enrollment growth will be slower than that of the general population because the number of births in the state declined in the 1990s. However, it should be noted that births increased more in 2003 than they have in any year since 1990.
- Also in 2003, K-12 public school enrollment growth dropped below 1 percent. Enrollment growth has not been less than 1 percent since 1983 - 20 years ago. Growth rates are expected to continue to decline, dropping to 0.1 percent in 2008. After that, growth begins to increase, but never exceeds 0.5 percent in any year.

K thru 12 Education

Despite the fiscal challenges facing California, the kindergarten through 12th grade (K-12) education budget augments core instructional programs through an increase of \$1.8 billion in total revenues to public schools. As a result, total per-pupil expenditures from all fund sources will exceed \$10,000 for the first time. Total per-pupil expenditures from all sources are projected to be \$9,864 in fiscal year 2004-05 and \$10,084 in fiscal year 2005-06 (see Figure K12-01).

Figure K12-01
K-12 Education Total Spending Per Pupil



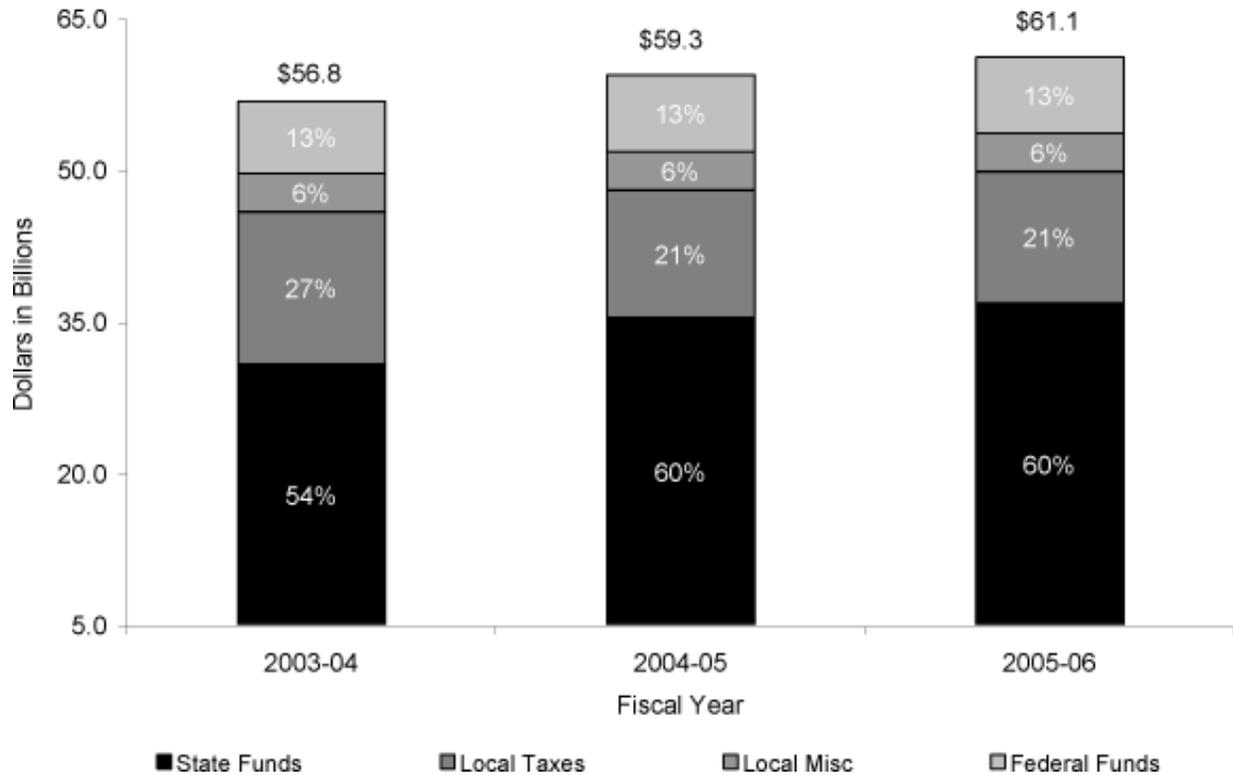
As indicated in Figure K12-02, \$61.1 billion will be devoted to California's 989 school districts and 58 county offices of education. Figure K12-03 displays the various sources of revenues for schools. With this substantial level of per-pupil funding, California's public schools will be able to provide 6.3 million pupils a high-quality education.

Figure K12-02
Total Revenue for K-12 Education
2005-06 Governor's Budget
(Dollars in Thousands)

	2003-04	2004-05	2005-06	Percent Change, 04-05 to 05-06
<u>K-12 Education</u> ¹				
General Fund	29,767,400	34,436,600	35,884,400	4.2%
Local Property Taxes	13,861,000	11,407,800	11,819,600	3.6%
Lottery	873,106	810,150	810,150	0.0%
Other State Funds	111,800	110,200	105,200	-4.5%
State School Fund (NonAdd)	(-3,008)	(-3,008)	(-3,008)	
Federal Funds	7,154,000	7,583,500	7,532,900	-0.7%
Local Debt Service Taxes	1,195,500	1,195,500	1,195,500	0.0%
Local Miscellaneous	3,794,900	3,794,900	3,794,900	0.0%
Total Funds	56,757,706	59,338,650	61,142,650	3.0%

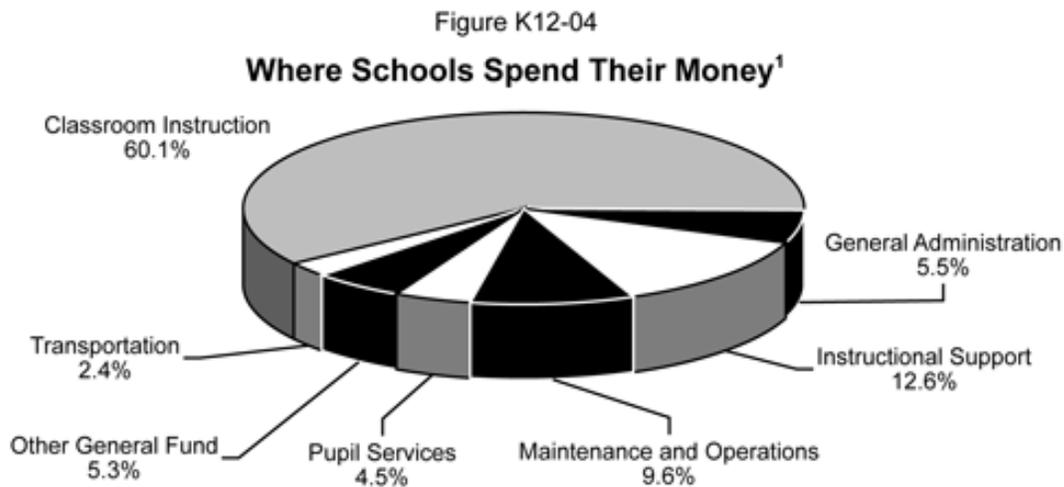
¹2003-04, 2004-05 and 2005-06 are estimated.

Figure K12-03
Sources of Revenue for California's K-12 Schools
 (As a Percent of Total)



Total 2005-06 Proposition 98 support for K-12 education will increase 6 percent over the revised 2004 Budget Act level, as adjusted for changes in local revenues, average daily attendance growth (ADA), and forecasted economic factors. This level of funding supports K-12 Proposition 98 per-pupil expenditures of \$7,374 in 2005-06, up from \$7,012 in 2004-05; an increase of 5.2 percent.

Expenditures reported by schools from their general funds, and the various categories of expenditure, along with respective shares of total funding for each category, are displayed in Figure K12-04. All costs shown are those reported to the State by schools using the definitions specified in the California School Accounting Manual.



Classroom Instruction includes: general education, special education, teacher compensation, and special projects.
 General Administration includes: superintendent and board, district and other administration, centralized electronic data processing, and maintenance and operations for administration.
 Instructional Support includes: instructional, school site, and special projects administration.
 Maintenance and Operations includes: utilities, janitorial and groundskeeping staff, and routine repair and maintenance.
 Pupil Services includes: counselors, school psychologists, nurses, child welfare, attendance staff, libraries, and media centers.
 Other General Fund includes: spending for tuition, facilities, contracts with other agencies, and transfers to and from other district funds.

¹ Based on 2002-03 expenditure data reported by schools for their general purpose funding.

Proposition 98 Guarantee

The 2004 Budget Act reflected Proposition 98 appropriations at a rebased level approximately \$2 billion less than otherwise would have been required to meet the constitutionally guaranteed funding level for 2004-05. Subsequently, the guaranteed funding level for 2004-05 has increased by over \$1.1 billion primarily due to increases in General Fund revenues. However, given the size of the State's budget shortfall and to avoid significant reductions in programs critical to the health and well-being of the State's most vulnerable children and families, the Administration proposes to maintain 2004-05 expenditures at the Budget Act level, as adjusted for changes in local revenues and ADA growth. This proposal results in savings of \$1.1 billion in 2004-05 and an additional \$1.17 billion in 2005-06.

Despite the savings to the Proposition 98 funding level described above, the Governor's Budget for 2005-06 includes an increase of \$2.9 billion to cover increases in growth and cost-of-living adjustments (COLAs) for revenue limits and categorical programs, as well as \$328 million to repay almost half of the outstanding deficit factor owed as a result of reductions to school revenue limits (general purpose funding for schools) made by the prior Administration.

Total 2003-04 Proposition 98 funding was \$46.3 billion, of which the General Fund share is \$30.5 billion. Total 2004-05 Proposition 98 funding is \$47.1 billion, which reflects a 1.7 percent increase over

2003-04. The General Fund share is \$34.1 billion in 2004-05. These funding levels have been adjusted for changes in attendance and costs for apportionment programs. No discretionary reductions to program levels are proposed. Total 2005-06 Proposition 98 funding is proposed at \$50 billion, which reflects a 6.1 percent increase over 2004-05. The General Fund comprises approximately 73 percent, or \$36.5 billion of total proposed Proposition 98 funding (see Figure K12-05). These totals include funding for K-12 and community colleges.

Figure K12-05
Proposition 98 Appropriations
 (Dollars in Thousands)

	2003-04	2004-05	2005-06
State General Fund	30,521,723	34,123,805	36,532,334
Local Revenue	15,753,960	12,959,387	13,435,286
Total	46,275,683	47,083,192	49,967,620
Distribution:			
Department of Education	41,800,043	42,178,345	44,705,043
California Community Colleges	4,370,516	4,803,936	5,162,922
State Special Schools	40,302	41,504	41,708
Department of Youth Authority	36,781	35,859	34,510
Department of Developmental Services	10,863	10,672	10,349
Department of Mental Health	13,400	8,400	8,400
American Indian Education Centers	3,778	4,476	4,688
Total	\$46,275,683	\$47,083,192	\$49,967,620
Percentage Share of State General Fund SAL ^{1/} Revenues and Transfers	43.4%	44.6%	44.6%

1/ State Appropriations Limit, Article XIII B

Achieving High Academic Standards Through Healthy and Effective Learning Environments

In communities across the state, teachers, principals, and school administrators are working to improve pupil achievement and the Administration is committed to equipping them with tools to help them succeed. The Administration aims to reduce bureaucracy and make more resources available to serve students in schools, ensure that schools that are failing, fiscally and academically, are provided the necessary accountability and training to create healthy and successful schools, and provide more opportunities for students in school through the following initiatives:

- Investing in California's Future:
 - o Expanding career technical education programs.
 - o Providing better nutritional food alternatives and physical exercise programs in schools.
 - o Providing English learners with added instruction in reading.

- Creating Alternatives for Failing Schools:
 - o Turning around failing schools through charter schools.
 - o Establishing School Recovery Teams with the assistance of Leadership Institutes.
 - Increasing Flexibility and Accountability for Improved Student Achievement:
 - o Establishing a pilot program to provide more programmatic and budgetary control at the school-site.
 - o Creating smaller schools and learning environments.
 - o Providing fiscal management training to school business officers.
 - o Consolidating teacher recruitment and professional development programs into a single block grant.
-

Career Technical Education Reform

The Administration proposes a series of reforms to ensure that all students have educational opportunities that lead to successful employment in a variety of career fields. The Administration calls upon school districts to begin a renewed emphasis on providing students a career technical education pathway to success. The Career Technical Education Reform plan builds upon successful programs in the K-12 and community college systems, expands course offerings, and helps meet the demand for career technical instruction.

To expand the use and effectiveness of career technical education in California, the Administration's approach supports the following:

- Increasing student and faculty awareness of vocational and technology-related careers.
- Expanding the capacity of K-12 schools and community colleges to provide more coordinated instruction to students in these career fields.
- Revising teacher requirements to ensure sufficient numbers of well-prepared faculty are available to provide this cutting-edge instruction.
- Designing system measures to evaluate a school's performance in preparing students for careers.
- Supporting the Higher Education Compact's goal to have the University of California (UC) and the California State University (CSU) review and accept high school courses that integrate academic and career-technical course content.

Specific reform components include:

Exploring Career Technical Education Opportunities in Middle Schools

The Administration proposes expanding students' exposure to career technical education by requiring all middle school students to take an introductory level career-technical education course covering a variety of career fields in lieu of one of the current elective course offerings.

Refocusing the Role of the California Occupational Information Coordinating Committee (COICC)

The Administration proposes working with COICC to refocus their efforts to ensure that career information is distributed to all middle school and high school counselors. This entity is currently charged with collecting and distributing occupational information to program planners and youth and adult students.

Reforming Alternative Credentialing Requirements for K-12/California Community Colleges Career Education Faculty

To meet the demand for middle and high school teachers with current knowledge of industry-relevant workforce skills, the Administration proposes reforming teacher credentialing, particularly for K-12 schools, by creating consistent requirements between both segments. These changes will help to ensure a sufficient supply of the most knowledgeable instructors within each career sector. (See the Higher Education major program area summary for additional discussion.)

Revising the Community College 75/25 Requirement

In order to allow community college districts to employ as many current professional practitioners as course demand dictates, the Administration proposes excluding career-technical education courses offered by community colleges from application of the 75 percent full-time faculty requirement. This change will help districts hire sufficient faculty with the most up-to-date knowledge of current entry-level skill standards. These skills are not always available from tenured full-time faculty. (See the Higher Education major program area summary for additional discussion.)

Expanding Community College Economic Development Efforts to K-12 Schools

The Administration proposes greater coordination of community colleges with K-12 schools in career technical courses through the expansion of the community college Economic Development Program. As also discussed in more detail in the Higher Education summary, the Budget provides \$20 million to create courses that are articulated between K-12 and community colleges. This proposal builds on the Economic Development Program's successful integration with business and emerging industries and the effective Tech Prep Model (also known as the 2+2 Model).

The Tech Prep program establishes an articulated series of career technical courses beginning at high schools and continuing to community colleges. Specifically, the program involves two years of secondary-level education in core proficiency areas and technical knowledge related to specified career fields that meet the prerequisite requirements of a two-year institution. After completing these core requirements, students progress to a two-year postsecondary education institution for more rigorous, career-specific, and worksite-based training that culminates with the completion of an associate degree

or certificate in the career field. By aligning career-technical education curriculum between K-12 and community colleges to more targeted industry-driven programs, the State can successfully expand career options for students.

Improving the School Accountability Report Card (SARC)

Currently the SARC does not adequately measure public schools' effectiveness in preparing students for successful skilled technical careers. The Administration proposes revising the SARC to include additional measures that evaluate schools' performance in offering career-technical education coursework, employing qualified career technical education teachers, and the success of students engaged in these courses.

Supporting the Higher Education Compact's Goals for Career-Technical Course Content

To ensure better articulation of career technical education between K-12 and higher education, the Higher Education Compact requires UC and CSU to encourage, review, and approve as meeting "a-g" requirements high school college preparatory courses that integrate academic and career-technical course content. (See the Higher Education major program area summary for additional discussion.)

Fitness and Nutrition Initiative

Recent reports published by the U.S. Centers for Disease Control indicate that over 9 million, or 16 percent of children and teens ages 6 to 19 are overweight; triple the percentage in 1980. The reports also indicate that roughly one-third of school students are not engaging in the recommended amounts of moderate or vigorous physical activity and that a similar amount of adults are inactive during their leisure time. As a result, among California's children, more than one out of three is overweight or at risk of being overweight.

Student fitness not only reduces health and stress risks, but also promotes self-esteem and academic achievement. Additionally, young people who learn how to stay healthy are less likely to get involved with drugs or alcohol. As part of the Governor's California Obesity Initiative to improve the health of California's children, the Administration proposes the following:

- Improve the nutritional quality of food and beverages available in schools.
- Increase opportunities for physical fitness and activities in schools.
- Seek legislation to establish a program to make fresh fruits and vegetables available to students in schools.

(See the Health and Human Services major program area for more details on the California Obesity Initiative, and related budget proposals in the Department of Health Services.)

Accelerated English Language Acquisition Program

The Administration proposes to establish a new Accelerated English Language Acquisition Program to provide targeted reading instruction to English learners in 4th grade through 8th grade. This proposal, based upon the successful Reading First Program, will combine professional development and school-site support to increase reading acquisition. This program will provide additional support in English language acquisition and improved reading skills that are critical to student success.

The Governor's Budget proposes to focus funding from the English Language Acquisition Program to provide the following services:

- Intensive teacher professional development on reading instruction and the use of standards-aligned instructional materials.
- Reading coaches and content experts to provide support to teachers.
- The use and support of assessment data in the classroom.
- Classroom reading materials.

Creating Alternatives For Failing Schools

The federal No Child Left Behind (NCLB) Act of 2001 has focused attention on the nation's lowest performing schools. Under NCLB, when schools fail to meet benchmarks of academic achievement they are designated "Program Improvement Schools." Currently, there are over 1,600 California schools in Program Improvement. Of these schools, 286 are in their fourth or fifth year of Program Improvement. By 2006, it is estimated that nearly 1,000 schools could be in their fourth or fifth year of Program Improvement. When a school fails to improve after five years, NCLB provides local communities with options to ensure that their students receive a quality education.

Under the State's system of accountability, there are also measures for addressing the needs of failing schools, including restructuring school management. There currently are 128 schools that have failed to make progress under the Immediate Intervention Underperforming Schools Grant Program (II/USP). These schools have been identified as State-Monitored by the State Board of Education (SBE) and are required to contract with a School Assistance and Intervention Team (SAIT) to implement school reform efforts and improve academic performance. Beginning in 2005-06, schools failing to make progress under the High Priority Schools Grant Program will enter sanctions for the first time.

This initiative is a two-pronged approach to address the needs of our failing schools by providing timely and meaningful assistance. Specifically, the Administration proposes that the SBE take action in failing schools by either of the following:

- Converting them into charter schools.
- Assigning School Recovery Teams to manage the schools.

Charter Schools

Public charter schools provide an alternative to the traditional public school by allowing greater fiscal and instructional flexibility. In return, the charter school is held accountable for improving the academic achievement of its students.

The Administration will work to create a public-private partnership aimed at expanding the number of public charter schools that will serve students who attend the State's lowest performing schools. In this manner, it will galvanize local communities to reconstitute failing schools into small, independent public charter schools that prepare students for college and the workplace.

School Recovery Teams (SRTs)

The SBE will be authorized to assign "leadership teams" to provide targeted assistance, including replacing existing administrative structures at a school site. The main focus of the team will be to manage the school. Teams will be assigned to take over the duties of the existing principal, assistant or vice principals, academic deans, district coordinators, designated reform coordinators, and teacher leaders. The SBE will work with the existing Principal Leadership Institutes at University of California Berkeley and University of California Los Angeles and others to develop a list of qualified individuals to serve on a SRT.

Underperforming Schools Program (II/USP) and High Priority Schools Grant Program (HPSGP)

In addition to the initiatives proposed above, the Governor's Budget includes significant resources to improve the academic performance of low-performing schools. The Budget includes \$271.4 million for II/USP and HPSGP. Of this amount, \$45 million will be provided for a second cohort of HPSGP schools during 2005-06.

Alternative Authorizers for Charter Schools

The Administration is committed to encouraging increased local control in schools. Charter schools have proven to be an important option in this regard. Not only do they increase parental choice by providing a wide variety of educational programs, they also create competition with traditional public schools, thereby spurring these schools to be more responsive to the needs of their communities.

Most often, a school's charter is granted by the school district in which it is located. Not all school districts, however, have the capacity or the inclination to oversee these charter schools properly. Due to this lack of oversight, some charter schools have been fiscally or academically mismanaged.

In order to address this problem, and to allow for the establishment of charter schools where they are most needed, the Administration will introduce legislation to allow entities such as colleges and universities, to be designated, subject to authorization by the SBE, as alternative regional authorizers of charter schools.

Local Control: Achieving Academic Success

School districts must navigate through a maze of more than 60 different State categorical programs, complex funding formulas, and restrictive program requirements. The sheer number and complexity of these categorical programs distract educators from their core mission and keep resources from being used efficiently.

While Chapter 871, Statutes of 2004 (AB 825) was a step in the right direction, the Secretary for Education (OSE) will pursue greater local control. To this end the OSE will sponsor legislation establishing the California Local Education Accountability Reform (CLEAR) program, which seeks to increase student academic achievement by delegating budgetary and academic decision-making and accountability to the school site. The CLEAR program will be established as a voluntary pilot program. The program will place more control of school resources at each school site and encourage the active participation of parents and teachers all focused on one goal, increasing student academic achievement.

School Size Reduction

National studies have documented that small schools offer advantages over large schools. Smaller schools often produce higher academic achievement, particularly for minority and poor students. In addition, students in small schools have better attendance and graduation rates, fewer discipline problems, greater participation in extracurricular activities, and higher student and parent satisfaction levels than their peers in large schools. Given these findings, it is concerning that enrollment in California's school sites has grown significantly over the last decade. Currently, enrollment in the State's five largest elementary schools ranges from 2,000 pupils to 2,700 pupils, enrollment in the five largest middle schools ranges from 3,150 pupils to 4,300 pupils, and enrollment in the five largest high schools ranges from over 4,800 pupils to 5,300 pupils.

Promoting Smaller Learning Environments

The Administration seeks to convert the State's largest elementary, middle, and high schools into smaller learning environments or schools-within-schools. These smaller learning environments will provide a more effective learning experience and the opportunity for students and teachers to develop closer relationships. The Administration intends to pursue these changes through the School Facility Program and also by making resources available for technical assistance and planning purposes.

School Facilities Program Incentives

Legislation signed in the last session, Chapter 894, Statutes of 2004 (Assembly Bill 1465), requires the State Allocation Board to set aside \$20 million in bond funds, beginning January 1, 2006, to be used to fund a pilot program for the construction of small high schools (fewer than 500 pupils) located in large districts. These funds will be used to increase the School Facilities Program's current per-pupil grant amounts by 20 percent as an incentive for districts to participate in the pilot program.

Technical Assistance and Planning

The Office of the Secretary for Education will work to develop partnerships with foundations and the private sector to promote the use of small learning environments. Through these efforts, the Administration hopes to promote an awareness of the benefits of small learning communities and make technical assistance available to school districts to aid in the implementation of a small schools approach.

Improving Fiscal Health

Recent years have seen a large increase in the number of school districts in fiscal distress. This trend is evident in the number of school districts with qualified and negative interim certifications. In the six-year period from 1998-99 to 2003-04, the number of negative and qualified certifications at the second interim financial report tripled from 15 to 45. During this same period, four school districts experienced fiscal insolvencies so severe as to necessitate emergency loans and a State takeover of operations. These are clear signs that the fiscal health of California's school districts is being threatened.

Reasons for this increase in the level of fiscal distress include local budget decisions and, in almost every fiscal crisis, failure by school districts to adhere to appropriate fiscal management practices when implementing fiscal controls and monitoring, making budget and enrollment projections, and accounting for revenues and expenditures.

Strong Fiscal Accountability

A strong fiscal accountability system helps prevent fiscal crises in schools through ample sunshine on the budget process, early identification of fiscal problems, and intervention when a district's fiscal health is threatened. Recognizing the critical need for strong fiscal accountability, the Governor sponsored and signed Chapter 52, Statutes of 2004 (AB 2756). This legislation increased accountability for school officials, established appropriate checks and balances in collective bargaining, and clarified the process for State takeover of insolvent school districts.

While AB 2756 was an important step forward in protecting the fiscal health of school districts, the Administration seeks further progress in this area. To accomplish this objective, the Governor's Budget proposes the establishment of a training program aimed at addressing the shortage of well-qualified business officers.

Chief Business Officer Training

California's K-12 public schools are a major business enterprise with a total budget of more than \$61 billion from all funding sources, serving more than six million students in over 1,000 school districts and county offices of education. In recent decades, school district budgeting has become increasingly complex, requiring a broader and more comprehensive set of skills than in the past. However, the pool of candidates possessing the necessary skills to successfully administer district budgets has not kept

pace with these changes. A common factor in districts facing fiscal crisis is a failure by school district fiscal staff to implement appropriate budget projections, accounting procedures, and fiscal controls consistent with professional standards.

To address this problem, the Administration will pursue legislation to establish the Chief Business Officer Training Program. Over the next three years, this program will provide training to over 1,000 school district and county office of education chief business officers in key elements of school fiscal management. The program's goal is to help ensure that fiscal staff in districts and county offices of education have the skills and knowledge necessary to effectively manage the significant resources provided for K-12 education.

The Governor's Budget proposes \$1.1 million from the Proposition 98 Reversion Account to support this program. Funding will be allocated to school districts and county offices of education to pay for training conducted by State-approved providers. Priority for enrollment will be given to candidates from districts that are currently operating with a State-appointed administrator or trustee, or districts that have received a negative or qualified interim certification within the past five years.

Categorical Reform

In an effort to further streamline school funding and increase local flexibility, the Administration proposes funding reforms for teacher professional development and credentialing programs and the charter school categorical block grant. Specifically, the Administration proposes reducing the number of State-funded categorical programs through the expansion of block-granted funding for professional development programs and reforming the charter school block grant to increase the predictability of funding for charter schools.

Professional Development Block Grant

The Governor's Budget proposes to give school districts more local flexibility by including additional categorical programs into the Professional Development Block Grant established by Chapter 871, Statutes of 2004 (AB 825). Specifically, \$113.1 million from the following programs: Teacher Credentialing Block Grant (\$83.9 million), Peer Assistance Review (\$27.3 million), Bilingual Teacher Training (\$1.9 million), and Teacher Dismissal Apportionment (\$43,000), are added to the new Professional Development and Teacher Credentialing Block Grant for total funding of \$361.7 million. Districts will be allowed to use funds from the Professional Development and Teacher Credentialing Block Grant to fund activities that support the goals and objectives of the consolidated programs. In addition, school districts will be allowed to use these funds to expand participation in the Advancement Via Individual Determination program which is funded at \$8.2 million from non-Proposition 98 General Fund.

Charter Schools Categorical Block Grant Reform

To provide charter schools with more funding predictability, the Governor's Budget proposes to reform the Charter Schools Categorical Block Grant to provide a simpler and clearer method for calculating the block grant appropriation. This method eliminates the linking of the block grant to specific categorical programs and instead establishes a base funding level adjusted annually to reflect charter school enrollment growth and cost of living adjustments. The Budget includes \$62 million for this block grant, or an increase of \$10 million over the current year. This reflects an augmentation above what is needed for charter enrollment growth and COLA. The Administration proposes to review the base amount of the block grant periodically to ensure that the funding level is sufficient to meet charter schools' demonstrated needs. In addition, charter schools will continue to be eligible to apply separately for funding for specific categorical programs.

Teacher and Administrator Professional Development

The State established two rigorous teacher and administrator training programs in 2001 designed to strengthen existing school staff competency in new curriculum and professional standards - the Mathematics and Reading Professional Development Program and the Principal Training Program. Funding for both of these programs is maintained outside of the Professional Development and Teacher Credentialing block grants, as the purpose of these programs is to provide specific training to teachers and administrators during a limited time period.

Mathematics and Reading Professional Development

To increase the number of highly qualified teachers throughout California's schools, the Governor's Budget provides \$31.7 million to continue professional development activities in reading and math academic content standards and use of standards-aligned instructional materials. This funding will provide more than 12,600 training opportunities during 2005-06.

Principal Training

The Governor's Budget provides \$5 million for the fifth year of the Principal Training Program. This program will provide 15,000 principals and vice principals with training in instructional standards and effective school management techniques. Including 2005-06 projections, the program will have trained approximately 10,833 participants since its inception.

State Child Care Programs

Subsidized child care services help low-income working families increase self-sufficiency, contribute to the school readiness of younger children, and support CalWORKs families' engagement in work participation activities. The Governor's Budget provides a total of \$3.1 billion for the various child care programs administered by the Department of Education, the Department of Social Services, and the California Community Colleges. General Fund spending decreases by \$27.4 million, while federal fund spending increases by \$33.9 million. These adjustments reflect proposed reforms with estimated

savings of \$94.8 million Proposition 98 General Fund, caseload changes, the provision of statutory growth and COLA adjustments to non-caseload-driven programs, and other miscellaneous adjustments including those related to one-time funding.

Child Care Growth and Cost of Living Adjustments

An augmentation of \$80.5 million General Fund is provided to non-caseload-driven programs, including \$29.7 million for growth of 2.41 percent and \$50.8 million for a COLA of 3.93 percent. This statutory growth adjustment is based upon the change in the population of children under four.

Increasing Quality and Equity in Access

The Administration proposed significant changes to the State's subsidized child care system in the 2004-05 Governor's Budget. The proposal included reforms in eligibility criteria, family fees, provider reimbursement, and program integrity measures. Last year's effort resulted in legislation to determine rates of both overpayments and suspected fraud related to eligibility determinations, family fees, provider reimbursement rates, and the need for child care. In addition, after-school programs were designated as the preferred placement for 11 and 12 year olds. It was agreed that all other proposed reforms would be deferred for one year to allow time for the Administration and the Legislature to develop refined reforms to California's child care system that also would make a contribution to solving the State's structural fiscal gap. To further this collaborative effort, the 2005-06 Governor's Budget includes various reforms that will facilitate equitable family access to care and establish a child care system that acknowledges and promotes high quality child care.

Child Care Quality

The Administration's proposal reduces license-exempt child care reimbursement levels. In doing so, the Administration will also create financial incentives for child care providers to raise and demonstrate the quality of their services by seeking health and safety training, obtaining a child care license or teaching permit, enhancing their knowledge of early childhood development, raising scores on environmental rating scales, and becoming accredited. For example, license-exempt providers will have incentives to complete health and safety training, seek early childhood education, or obtain a license. These providers will have 90 days to obtain this training before their reimbursement rates are reduced. The reduction in the reimbursement limits for these license-exempt providers will be 39 percent if they do not obtain the training. But even if they do obtain training, the Budget must propose a reduction in the reimbursement limits of 33 percent based on budget realities and the belief that such child care, provided by neighbors and family members, does not require a large state subsidy to be induced.

Over the next two years, operators of family child care homes will have incentives to enhance their early childhood education, raise scores on environmental rating scales, and seek National Association for Family Child Care accreditation. Similarly, licensed child care centers will have incentives to raise their environmental rating scale scores, enhance the qualifications of their staff, and seek accreditation from either the National Association for the Education of Young Children or the National After School Association (formerly the National School-Age Care Alliance). To allow time for licensed providers to

seek out and use these measures, the current reimbursement ceiling for licensed providers will be maintained for two years, after which time reimbursement ceilings will be set according to a provider's quality-of-care.

To establish and maintain the infrastructure necessary to make these incentives more accessible to providers, the Governor's Budget includes federal funding for environmental rating scale evaluations and for the training of environmental rating scale evaluators.

Equitable Provider Rates

For the past two years, regulations establishing an alternative rate setting mechanism for providers that only serve subsidized families have been suspended. The Administration proposes to implement these regulations immediately to ensure that reimbursement rates for State-subsidized child care are reasonably tied to the rates paid by non-subsidized families.

Equity in Access

Child care services are an entitlement for working poor families who are participating in CalWORKs. Current State law entitles CalWORKs families to subsidized child care for two years after they leave cash aid in Stage 1, administered by the Department of Social Services, and Stage 2, administered by the Department of Education. In addition, funding traditionally has been provided to allow CalWORKs families to continue to receive subsidized child care without time limits in Stage 3. However, child care services for other working poor families are discretionary and limited by available funding. The Administration's proposal will result in the neediest families having equal access to subsidized child care regardless of whether they are current or former CalWORKs recipients or have never received CalWORKs assistance.

Expanding the Alternative Provider Program

CalWORKs child care will be time-limited and CalWORKs families will be allowed to transition into an expanded general (non-CalWORKs) alternative provider (AP) program as follows:

- Families in Stage 3 CalWORKs child care as of June 30, 2005, will be transferred into the general AP program, along with the associated funding. This continues services for families in Stage 3 and permanently expands the general AP program.
- Families who are off cash aid but still in either Stage 1 or Stage 2 CalWORKs child care will be allowed to remain in these programs for up to two years from the date they left cash aid, but will immediately put their name on a waiting list and be allowed to access services in the general AP program as slots become available. At the end of the two years, they will move to Stage 3, where they will have a maximum of two additional years before their CalWORKs child care entitlement expires, thus enabling them enough time to obtain a slot in the general AP program.
- Families who are still receiving cash aid will continue to receive subsidized child care until they leave aid, their names will be added to the waiting list concurrently with earned income while on

aid, and they will be assured a maximum of three additional years of CalWORKs child care after they leave cash aid to allow them time to find a slot in the general AP program.

Waiting List Reform

Each county will establish one centralized child care eligibility list consisting of two parts. The first part will be for families with monthly income below the income level at which fees begin to be charged, and these families will receive child care on a "first come, first served" basis. In the second part, eligibility for families with monthly income at or above the level at which fees begin to be charged will be based on lowest income served first, consistent with current practice. The Governor's Budget includes \$7.9 million for counties to develop and maintain these centralized eligibility lists.

Rebench Eligibility Adjustments to Federal Poverty Level

Families are currently eligible for subsidized child care services if their income is at or below 75 percent of the State median income, as adjusted for family size. However, CalWORKs public assistance eligibility levels rely upon "cost-based" indexes, such as the Federal Poverty Level (FPL). Beginning in 2005-06, income eligibility for child care programs also will be based upon the FPL. This change will provide greater consistency between California's child care programs and other State and national health and human services programs. In addition, no family currently receiving subsidized child care will lose its eligibility under this proposal.

Special Education

Under State law and the federal Individuals with Disabilities Education Act (IDEA), individuals with exceptional needs are entitled to a free, appropriate public education. Students requiring special education are served either by local education agencies using State, federal, and local property tax funds or by the State Special Schools operated by the Department of Education. The Governor's Budget provides \$172.7 million in additional General Fund for special education programs, including increases of \$156.6 million for a 3.93 percent COLA, and \$31.4 million for growth. The Governor's Budget also reflects a local property tax increase of \$15.3 million and a total increase of \$65.1 million in federal funds, of which \$24.8 million is passed through to local education agencies (LEAs).

The 2005-06 fiscal year also marks the reauthorization of the IDEA. The reauthorization includes a commitment by the federal government to meet the full 40 percent funding level, originally promised at the inception of IDEA, by the year 2011. Among other changes, the reauthorization includes provisions to align IDEA with the NCLB, provides more flexibility and control for LEAs, and prohibits states from using increased federal funds to offset State-mandated funding obligations such as enrollment growth and COLA.

Standardized Testing and Reporting (STAR) Exam

The STAR exam measures pupil performance on various State-adopted content standards. The 2005-06 Governor's Budget includes an augmentation of \$4.5 million for the STAR program, recognizing the need to fully fund the number of expected test-takers, as well as to reflect the updated estimate of savings resulting from scaling back the norm-referenced portions of the test. An additional \$5.7 million also is provided to backfill one-time federal funding used to support the program in 2004-05.

In January, the Administration and the Department of Education will sponsor legislation to remedy the inconsistencies in last year's reauthorization legislation (SB 1448), which failed to fully re-authorize all portions of the STAR program and changed the current practice of not conducting test preparation programs.

Other Major Budget Adjustments

Average Daily Attendance Growth

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools continues to be relatively low. For the current year, total K-12 ADA is estimated to be 6,016,000, which is an increase of 58,000 ADA or 1 percent over the 2003-04 fiscal year, and is 9,000 ADA greater than the 2004-05 May Revision estimate. For the budget year, total K-12 ADA is estimated to be 6,063,000. This total reflects ADA growth of 47,000, or 0.8 percent over the current year.

2004-05 Apportionment Adjustments

For the current year, the Governor's Budget provides an increase of \$122.6 million in Proposition 98 General Fund to school district and county office of education revenue limit apportionments (school general purpose funding). This reflects increases of \$114.3 million for greater enrollment growth than previously estimated and \$29.5 million to backfill a decline in local property taxes. These adjustments are partially offset by a reduction of \$24.5 million in unemployment insurance costs based on updated information regarding 2003-04 costs.

2005-06 Budget Adjustments

K-12 Enrollment Growth - The Governor's Budget provides a \$394.7 million increase to fully fund statutory ADA growth: \$245.9 million for revenue limit apportionments, \$31.4 million for Special Education, \$29.7 million for child care and development, \$5.8 million for K-3 class size reduction, and \$81.9 million for other categorical programs.

Cost of Living Adjustment - The Governor's Budget fully funds an estimated \$1.6 billion (3.93 percent) statutory COLA increase: \$1,222.1 million for revenue limits, \$156.6 million for Special Education, \$50.8 million for child care and development, \$14 million for class size reduction, and \$206.4 million for various categorical programs.

Deferred Appropriations

One-time savings were achieved several years ago by shifting expenditures from the last month of one year to the first month of the next. The 2005-06 Budget reflects an ongoing level of deferrals of \$1.1 billion for K-12 education. As the Budget only proposes to continue the current level of deferrals, no additional savings are achieved.

Educational Revenue Augmentation Fund (ERAF)

Decrease

During the State budget crises in 1992-93 and 1993-94, a series of measures were enacted requiring local governments (counties, cities, special districts, and redevelopment agencies) to shift a portion of the property taxes that they receive to the ERAF that was created in each county for allocation to school districts, county offices of education, and community college districts. Any property tax revenue growth from year to year is distributed among the local agencies and the county ERAF. Because the State uses the ERAF to support Proposition 98 requirements for schools and community colleges, any change in the ERAF adjusts the State's Proposition 98 General Fund obligation.

Voters approved Proposition 1A in November 2004, implementing the Administration's agreement with local governments. This Proposition requires a shift of ERAF funds from schools to local governments to replace reduced Vehicle License Fee revenues for 2004-05 and 2005-06. As a result of this action, approximately \$674 million in additional Proposition 98 General Fund support for schools is provided to backfill the shift in 2005-06.

General Fund Non-Proposition 98 Reductions

In order to bring spending in line with available revenues it was necessary to reduce \$888,000 from the following General Fund Non-Proposition 98 local assistance programs:

- \$840,000 is reduced from Advancement Via Individual Determination (AVID). To mitigate this reduction, districts will be authorized to shift funding from the Professional Development Block Grant to expand their participation in AVID.
 - \$48,000 is reduced from Vocational Education Student Organizations, leaving \$464,000 available for the program.
-

Proposition 98 Reversion Account

One-time Proposition 98 Reversion Account funding totaling \$138.6 million will be appropriated as follows:

- \$100 million for school facility emergency repairs, consistent with the Williams agreement.

- \$20 million for Career Technical Education Curriculum, funded within the community college system.
 - \$10 million for CalWORKs child care base adjustments.
 - \$4.9 million for the Sunnyvale desegregation deficiency.
 - \$2.3 million for a shortfall in funding for the STAR assessment.
 - \$1.1 million for school business officer training.
 - \$354,000 for shortfalls in child nutrition funding in fiscal years 1999-00, 2000-01, and 2003-04.
-

State Department of Education

The Department of Education administers both State and federal education programs and operates the State Special Schools and Diagnostic Centers. The Governor's Budget proposes \$301.7 million (\$119.9 million General Fund and \$181.8 million other funds) and 2,645.2 positions for state operations in 2005-06. This represents an increase of \$1.2 million General Fund and 15 positions above the revised 2004-05 levels. This primarily reflects miscellaneous baseline adjustments such as employee compensation, rent, and price increases. General Fund increases also include \$203,000 for the adoption of instructional materials. Additional federal funds also are provided, including \$963,000 for State Special School transportation costs, \$832,000 for additional staff to monitor Non-Public Schools and Licensed Children's Institutions, and \$68,000 for additional staff to support local financial reporting.

California State Library

The California State Library (CSL) serves as the central reference and research library for the Governor, the State Legislature, and state government officials and staff. The CSL also provides grants and technical consulting assistance to local libraries. The Governor's Budget proposes \$71.6 million (\$45.4 million General Fund and \$26.2 million other funds) and 202.4 positions for the CSL in 2005-06. This represents a reduction of \$3.2 million General Fund from revised 2004-05. This reflects:

- A \$329,000 General Fund augmentation for the acquisition and implementation of a replacement automated library system to support the CSL's Braille and Talking Book Library operations.
 - A \$170,000 General Fund reduction in state operations. The CSL will have the flexibility to implement the state operations reduction through layoffs, hiring freeze, procurement reductions, or other administrative means as it may choose.
 - A \$3.3 million General Fund reduction in local assistance. The local assistance reduction includes a \$2.2 million reduction to the Public Library Foundation program, an \$828,000 reduction to the Library Development program, and a \$276,000 reduction to the English Acquisition program.
-

California Commission on Teacher Credentialing

The Commission on Teacher Credentialing (CTC) develops standards for the preparation, certification, and assessment of K-12 public school teachers, as well as school administration and service professionals. The CTC implements these programs through the issuance of teaching credentials,

accreditation of teacher preparation programs, and development and administration of examinations and assessments of teacher knowledge and ability.

The CTC's revenues are derived from credentialing and examination fees paid by K-12 teachers, administrators, and professional services personnel. The Governor's Budget proposes \$57 million (\$31.8 million General Fund and \$25.2 million other funds) and 160.3 positions for CTC in 2005-06. This represents a reduction of \$3.3 million (\$3.5 million General Fund) and 6 positions from the revised 2004-05 Budget. The General Fund reduction is due to removal of \$3.5 million in one-time funding from the pre-intern program.

Streamlining Teacher Credentialing

The first year of full implementation of the Teacher Credentialing Service Improvement Project (TCSIP) will be in 2005-06. The TCSIP allows colleges and universities to submit credential applications electronically and allows applications to be renewed online. The Bureau of State Audits, in its recent audit of the CTC, recommended these changes as ways to achieve efficiencies. To reflect the decreased staff time required to process applications, a reduction of \$600,000 for 6 positions is proposed from the Teacher Credentials Fund.

The Governor's budget also includes the following initiatives:

- The Administration will work with the CTC to develop a streamlined accreditation process for teacher preparation programs. These changes will ensure that teacher preparation programs at the State's colleges and universities are aligned in a more coherent and cohesive manner to California's content standards and curriculum frameworks. The goal of these efforts is to create a larger cadre of highly qualified teachers for California's schools, particularly in low performing districts.
- The Administration proposes that all public and private colleges and universities that have teacher preparation programs that have been accredited by the CTC be responsible for approving and electronically submitting all credentialing applications for their students. This will result in significant additional workload savings for the CTC and better ensures that applications from new teachers are processed in a timely manner, thus allowing them to enter the classroom as soon as possible.

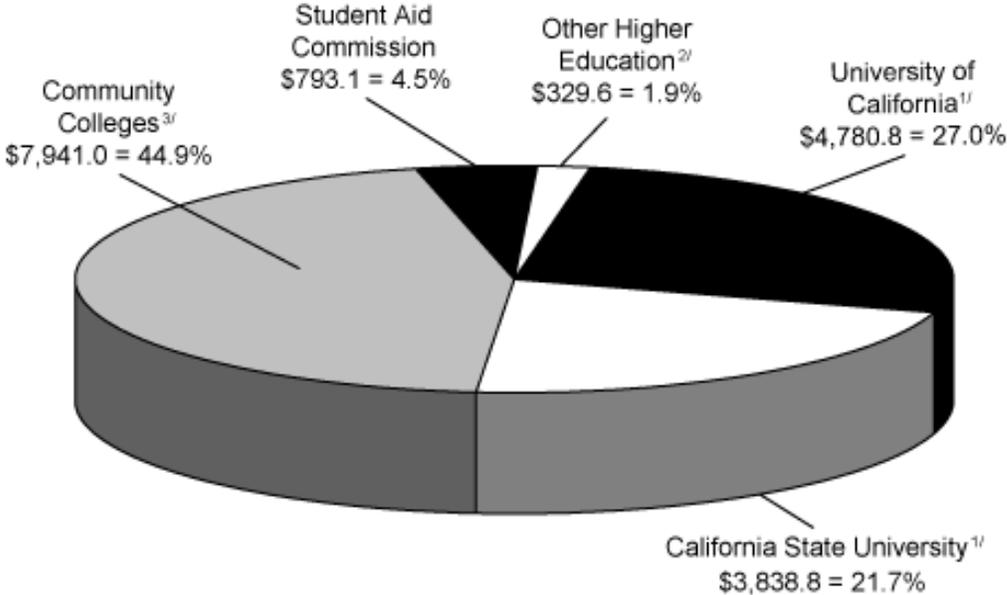
Higher Education

California's economy is increasingly dependent upon experienced and educated business women and business men, highly trained scientists, well-educated professionals, skilled doctors and nurses, qualified teachers, and other well-trained workers. Using the Master Plan for Higher Education as a blueprint to guide policy decisions, the State's institutions of higher education - the University of California (UC), the California State University (CSU), Hastings College of the Law, and the California Community Colleges (CCC) - play a key role in training the workforce that helps shape the State's economy. The California Student Aid Commission provides for grants and loans to assist financially needy California students in achieving their educational goals toward this end.

Recognizing that the institutions for higher education are integral to California's economic well-being, the Administration is committed to fulfilling the Higher Education Compact that was signed in spring 2004 with both UC and CSU to provide funding stability and preserve educational quality over the next six fiscal years in exchange for improved accountability in a variety of key student performance indicators. The Compact provides a long-term resource plan for UC and CSU that addresses base budget allocations, enrollment, student fees, and other key program elements through 2010-11. In exchange for this long-term stability, the segments committed to improving or preserving successes in student and institutional outcomes in numerous program areas including program efficiency, utilization of systemwide resources, and student-level outcomes. The 2005-06 Governor's Budget marks the first year of funding under that agreement.

Despite the severe constraints on the State's Budget, and the need to revisit the funding provided by Proposition 98 for K-14 education, the Governor will fully fund the commitments he undertook in the Higher Education Compact. Additionally, the Budget continues to invest substantial additional funding in the Community Colleges and Student Aid Commission to ensure access to quality higher education and training is available for all qualified students. As shown in Figure HED-01 and Figure HED-02, the Budget contains \$17.7 billion total funds and \$11.9 billion General Fund for all segments of Higher Education. These amounts represent a 5.3 percent increase in total funds and 6.9 percent increase in General Fund over the revised 2004-05 Budget.

Figure HED-01
Proposed Higher Education 2005-06 Expenditures
All Funds
(Dollars in Millions)



1/ For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.
2/ The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.
3/ For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

Figure HED-02
Higher Education Expenditures
General Fund, Lottery Funds, State School Fund,
Local Revenues and Student Fees
(Dollars in Millions)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Change from 2004-05	
							Dollar	Percent
University of California ^{1/}								
Total Funds	\$4,228.0	\$4,482.6	\$4,418.5	\$4,516.1	\$4,533.4	\$4,780.8	\$247.4	5.5%
General Fund	3,191.6	3,322.7	3,150.0	2,868.1	2,708.8	2,806.3	\$97.5	3.6%
California State University ^{1/}								
Total Funds	3,104.5	3,433.2	3,525.9	3,651.4	3,649.9	3,838.8	\$188.9	5.2%
General Fund	2,429.0	2,680.7	2,697.1	2,625.7	2,496.7	2,607.2	\$110.5	4.4%
Community Colleges								
Total Funds	5,993.4	6,457.1	6,588.5	6,712.8	7,560.0	7,941.0	\$381.0	5.0%
General Fund & P98 ^{3/}	4,510.4	4,701.1	4,869.9	4,507.0	5,034.4	5,407.8	\$373.4	7.4%
Student Aid Commission (GF)								
Total Funds	498.8	558.5	585.2	688.6	748.5	793.1	\$44.6	6.0%
General Fund	487.4	544.0	569.0	672.1	589.4	745.5	\$156.1	26.5%
Other Higher Education ^{2/}								
Total Funds	223.9	207.5	180.6	199.4	304.5	329.6	\$25.1	8.2%
General Fund	209.6	192.3	165.0	179.6	277.7	302.6	\$24.9	9.0%
Total Funds	\$14,048.6	\$15,138.9	\$15,298.7	\$15,768.3	\$16,796.3	\$17,683.3	\$887.0	5.3%
General Fund	\$10,828.0	\$11,440.8	\$11,451.0	\$10,852.5	\$11,107.0	\$11,869.4	\$762.4	6.9%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

^{3/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

Higher Education Access

Access remains a high priority for the Administration. UC and CSU enrollment plans project average enrollment increases of 2.5 percent per year through the end of the decade. This growth rate represents an increase of 5,000 students for UC and 8,000 students for CSU and is in addition to the augmented student enrollment provided in the final 2004 Budget Act. The Administration proposes to provide funding for this enrollment growth at the current agreed-upon marginal cost of instruction. A portion of this funding is expected to be used to implement State support for existing summer enrollments on campuses not currently receiving State support for summer instruction. Funding for expanded enrollment included in the 2004 Budget Act is continued in the 2005-06 fiscal year.

Total funded Full-Time Equivalent Students (FTES) for 2005-06 at UC and CSU are respectively proposed at 205,976 and 332,233. Figure HED-03 displays past, current, and projected budget year FTES levels for the institutions of higher education.

Figure HED-03
Higher Education
Full-Time Equivalent Students

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Change from 2004-05	
							FTES	Percent
University of California	171,270	185,304	196,188	201,896	200,976 ^{1/}	205,976	5,000	2.5%
Undergraduate	(132,026)	(144,091)	(152,527)	(155,754)	(155,647)	(159,730)	(4,083)	2.6%
Graduate	(26,666)	(28,487)	(30,531)	(32,874)	(32,963)	(33,860)	(897)	2.7%
Health Sciences	(12,578)	(12,726)	(13,130)	(13,268)	(12,366)	(12,366)	(20)	0.2%
California State University	290,554	316,395	331,353	331,705	324,120	332,223	8,103	2.5%
Undergraduate	(246,511)	(267,100)	(276,607)	(278,774)	(272,419)	(279,207)	(6,788)	2.5%
Graduate/Post-baccalaureate	(44,043)	(49,295)	(54,746)	(52,931)	(51,701)	(53,016)	(1,315)	2.5%
Community Colleges	1,041,829	1,105,000	1,128,954	1,108,348 ^{2/}	1,142,987 ^{2/}	1,177,276	34,289	3.0%
Hastings	1,198	1,200	1,262	1,250	1,250	1,230	(20)	-1.6%
Total Students	1,504,851	1,607,899	1,657,757	1,643,199	1,669,333	1,716,705	47,372	2.8%

^{1/} Budgeted. Estimated enrollment is 201,621 for UC.

^{2/} Figure reflects DOF projection of budget FTES. There is insufficient data to project unfunded or over-cap levels.

Access to education in the CCC system is funded to grow by approximately 3 percent. The allocation of \$136.7 million will help fund this growth in both credit and noncredit FTES. This increase will fund services for 34,000 additional students for a total for approximately 1,177,000 FTES in 2005-06.

Student Fees

UC and CSU Undergraduate Student Fees

Recognizing the financial hardships on students and their families created by uncertain fee increases, the Administration and the two university segments agreed to implement a more stable fee policy that caps student fee increases at reasonable and predictable levels, while also providing adequate funding for cost increases for student-fee-funded programs and preserving the quality of the universities. The Compact includes a long-term student fee policy that calls for increases to undergraduate student fees based on the rise in California per capita income with flexibility to increase no more than 10 percent in any year, based on fiscal circumstances.

Because of the State's fiscal crisis, undergraduate student fees increased 14 percent for 2004-05. However, the Compact specifies that fees will increase by no more than 10 percent per year on average from 2004-05 through 2006-07. As a result, UC and CSU have adopted an 8 percent increase for 2005-06 undergraduate student fees. Consistent with the Compact, the segments will dedicate a substantial portion of the fee increases for financial aid for needy students. Fees at California's public higher education institutions remain low in comparison to other public institutions. Figure HED-04 shows that UC's 2004-05 undergraduate fees are nearly 14 percent lower than the average of other national comparative institutions, while CSU's 2004-05 undergraduate fees are almost 48 percent lower, and these calculations exclude the further benefit of Cal Grants that are used by many students in these systems.

Figure HED-04
Higher Education Fees

• 2004-05 Fee Comparison

	UC ^{d1}				Other Public Institutions (2004-05)		
	2004-05 Ed/Reg Fee	2004-05 Total Fee	2005-06 Ed/Reg Fee	2005-06 Total Fee	Average	Highest	Lowest
Undergraduate	\$5,684	\$6,312	\$6,141	\$6,789	\$7,341	\$8,722	\$5,907
Graduate	\$6,269	\$7,875	\$6,897	\$8,556	\$10,138	\$13,585	\$8,310
CSU^{d2}							
Undergraduate	\$2,332	\$2,916	\$2,520	\$3,102	\$5,656	\$8,869	\$3,034
Graduate (non-teacher prep.)	\$2,820	\$3,404	\$3,102	\$3,684	na	na	na
Graduate (teacher prep)	\$2,707	\$3,291	\$2,922	\$3,504	na	na	na
CCC^{d3}							
Full-Time Undergraduate Student	\$780		\$780		\$2,155	\$4,771	\$949
Bachelor-Degree Holders	\$780		\$780		na	na	na

^{d1} UC's 2005-06 fees are anticipated to increase by 8 percent for undergraduate and 10 percent for graduates, and consist of an undergraduate education fee of \$6,141 (\$6,897 for graduate students), which includes a registration fee of \$735, and an average campus-based fee of \$628 for undergraduate students and \$1,659 for graduate students.

^{d2} CSU's 2005-06 fees are anticipated to increase by 8 percent for undergraduates, 8 percent for teacher preparation graduates, and 10 percent for other graduates, and include an undergraduate education fee of \$2,520 (\$3,102 for non-teacher preparation graduates and \$2,922 for teacher preparation graduates) and a campus-based fee of \$582 for both undergraduate and graduate students.

^{d3} Comparison data for other states reflect 2003-04 data.

• 2004-05 Professional School Fee Comparison:

	UC ^{d1}	Other Public/Private Institutions		
		Average	Highest	Lowest
Law	\$20,828	\$27,723	\$36,490	\$14,577
Medicine	\$21,388	\$29,044	\$37,947	\$21,267
Business Administration	\$21,279	\$30,623	\$41,812	\$9,735

^{d1} Professional fees reflect base fee levels, only.

• Percent of Instruction Paid by Students:

	2004-05	2005-06
UC	32.9%	34.2%
CSU	20.7%	21.8%
CCC	16.5%	15.9

CCC Fees

The Budget proposes no additional increase in fees for the 2005-06 fiscal year. While fees for the community colleges have increased in each of the last two years, California's fees remain the lowest in the nation and more than 63 percent lower than the national average (see Figure HED-04). However, given the Administration's commitment to broad access for all qualified students, the Budget recognizes the need to minimize barriers and maintain the low student fees.

UC and CSU Graduate Student Fees

The Compact also provides that UC and CSU develop plans to achieve student fee levels in graduate academic programs that consider the following factors: average cost of instruction, average fees at other public comparison institutions, total cost of attendance, market factors, the need to preserve and

enhance the quality of graduate academic programs, the State's need for more graduates in a particular discipline, and financial aid requirements of graduate academic students. In addition, the segments committed to make progress toward the Administration's policy expectation that graduate fees be 50 percent higher than systemwide undergraduate fees to reflect the higher cost of instruction and relative value of graduate education to the student.

In 2004-05, graduate fees were increased 20 percent at UC and 25 percent at CSU, except for credential candidates who experienced only 20 percent increases. Consistent with the Compact and the prior year's substantial increases, both UC and CSU have adopted a moderate 10 percent student fee increase for graduate students for 2005-06.

Higher Education Initiatives

While the basic funding needs for the four-year higher education segments have been addressed through the Compact and the Community Colleges funding levels are a large part determined through the benefits of the Proposition 98 Guarantee, the Administration believes all segments need to work closer together to advance the best interests of all students and our economic future. In this respect the Governor encourages more involvement of the college and university systems to utilize their capacity to assist K-12 schools in two major areas where improvement is needed. Those areas include reinvigorating the relevance and availability of career technical education so that pathways for success are available for all students, and to improve the supply of highly qualified math and science teachers to ensure California is able to maintain its leadership in industries requiring employees with high levels of those necessary skills in order to propel our economy in the future.

Economic Development and Career Technical Education Reform

As discussed in the K-12 program summary, the Administration is committed to improving the link between all education segments in preparing students for highly skilled emerging careers in the continually advancing California economy. The reforms proposed for K-12 career technical education have an important link to the California Community Colleges Economic Development Program. The mission of this program is to advance California's economic growth and global competitiveness through quality education, and services focusing on continuous workforce improvement, business development, and technology deployment. There are 101 Regional Centers administered by the community colleges throughout the state. Regional Centers implement industry aligned career training programs focused on one of ten categories or "initiatives" such as Health Occupations, Advanced Transportation Technologies, Small Business Development Centers, or International Trade Development. The Regional Centers provide services to students and industries such as developing new instructional curriculum, developing instructional materials, and conducting aligned faculty training, seminars, and workshops. In addition to Regional Centers, the program includes competitive grant-funded Regional Collaboratives, which provide incentives for businesses in key regional growth industries to partner with colleges to train students to be employable in these industries and to upgrade the skills of the existing

workforce to ensure competitiveness. These Regional Collaboratives augment the types of businesses that can participate in the colleges' Economic Development Program's Regional Centers and focus on high impact, emerging industries that are identifiable economic development priorities for specific regions.

By increasing the capacity of the Economic Development Program and other reforms, the Administration proposes to improve the coordination and articulation of curriculum between K-12 and community college career technical education programs to create a more seamless and effective system, as well as to increase relevant course availability for K-12 students. To ensure successful integration, the Administration proposes the following funding increases and reforms that affect higher education segments:

- **Expand Community College Economic Development Efforts with K-12 Schools** - The Budget provides \$20 million to create new articulated courses between K-12 and community colleges by building on the community colleges Economic Development Program's successful integration with business and emerging industries. By aligning career-technical education curriculum between K-12 and community colleges to more targeted industry-driven programs through the existing Tech Prep 2+2 model, the State can successfully expand the career options for students. As also discussed in the K-12 program summary, the 2+2 program focuses on two years of secondary-level education in core proficiency areas and technical knowledge related to specified career fields that meet the prerequisite requirements of a two-year institution. After completing these core requirements, students progress to a two-year postsecondary education institution for more rigorous, career-specific, and worksite-based training that culminates with the completion of an associate degree or certificate in the career field.
- **Reform Alternative Credentialing Requirements for K-12/CCC Career Education Faculty** - Attrition, and out-of-date credentialing requirements for faculty providing career technical and vocational instruction threaten the State's ability to meet the demand for industry relevant workforce preparation. As discussed in the K-12 program summary, the Administration proposes to reform K-12 and community college instructor credentialing by creating consistent requirements between both segments that will ensure a sufficient supply of the most knowledgeable instructors within each career sector. Credentialing requirement alignment will also facilitate improvements in successfully integrating new K-12 and community college vocational and career technical curriculum.
- **Revise the Community College 75/25 Requirement** - Current law penalizes community college districts from utilizing part-time faculty by requiring that no less than 75 percent of credit instruction be taught by full-time faculty. While the Administration recognizes the benefits of full-time faculty in most academic disciplines, it also believes the relevancy of cutting edge career technical and vocational education should not be impeded by this requirement. As discussed in the K-12 program summary, in order to provide community college districts with the ability to employ as many current professional practitioners as course demand dictates, the Administration proposes to exclude career technical education courses offered by community colleges from application of the 75/25 requirement. This change will ensure districts can hire sufficient faculty who have the most

up-to-date knowledge of current entry level skill standards, which is not always available from tenured full-time faculty.

Finally, it is noted that the Higher Education Compact reflects commitments by both UC and CSU to support expansion of career technical education courses by ensuring articulation of high school career preparatory courses that integrate academic "a-g" requirements, and through other activities. For example:

- UC continues to work closely with the State Department of Education (SDE) and schools/districts around the state to promote the development of high school courses that successfully integrate academic and career technical content. A study released by the SDE in October 2004 reported that UC has accepted 3,336 career technical courses to meet the "a-g" subject area requirements. This total represents a 59 percent increase over the previous year.
- In a strong, public endorsement of the integration of academic and career technical course content, the November issue of UC Notes led with an article entitled "Choosing the Right Course: College Prep, Career Tech or Both?" This newsletter was distributed to 10,000 high school counselors, administrators, and others.
- During the past year, the UC Director of Undergraduate Admissions participated as an active member of the California Career Technical Education Model Curriculum Standards and Framework Advisory Group, lending expertise to further support the growing partnership.
- UC staff has presented at numerous statewide career technical education conferences, advising high school educators in ways to successfully design courses that simultaneously satisfy the UC/CSU "a-g" requirements as well as industry standards for entry into the California workforce.

Increasing the Supply of Highly Qualified Math and Science Teachers

A critical shortfall exists in California schools in the number and quality of K-12 teachers in science and math. In 2002-03, all segments of California higher education institutions collectively awarded 1,389 mathematics degrees. Yet, the total need for new math teachers that year was 2,131. Of the total number of math majors, only 823 were awarded math teaching credentials, thus meeting only about one-third the need for new mathematics teachers. The Compact calls for UC to work in collaboration with the CSU to develop a major initiative to improve the supply and quality of science and math teachers in the state.

Addressing this problem is critical to the state's economy and is among the Governor's highest priorities. California has one of the largest economies in the world and its remarkable growth has been fueled by the rapid expansion of the high-tech industries and is becoming increasingly dependent upon the foundation of science, technology, engineering, and mathematics fields. If California is to remain economically competitive, education, government, business, and community leaders must work together to ensure that our teachers are better qualified to instruct students in science and math.

The UC and CSU intend over the next five years to expand significantly the number of science and mathematics teachers being educated. This expansion will be included as part of the UC and CSU's planned enrollment growth.

Since 1997, CSU has been a leader in efforts to improve the quality of teacher preparation in California. In addition to programs and partnerships already in place to assess credential candidate teacher and subject matter content preparation, and that support lifelong professional development programs for new teachers, CSU has previously worked with K-12 school districts to provide in-service professional development programs for mathematics teachers who are under-prepared in the mathematics subject area. Also, CSU is currently devoting resources to recruit highly qualified teachers for California's K-12 schools.

Under the Compact, new proposals will be pursued in conjunction with CSU efforts currently under way or in development to ensure that the majority of new teachers will have the skills necessary, particularly in the areas of special education and English and language arts, to meet the demands of rigorous State standards and that continue to improve the quality and efficiency of teacher training sufficient to meet demand.

University of California

UC provides graduate and undergraduate instruction, and is the only segment authorized to independently award doctoral degrees as well as professional degrees in law, medicine, dentistry, and veterinary medicine. In addition, UC is the primary State-supported academic agency for research. UC has three missions: instruction, public service, and research. In addition to providing instruction, UC operates teaching hospitals and clinics, research institutes and laboratories, agricultural field stations, and the Cooperative Extension program.

Total Funding

The Governor's Budget provides total funding of \$4.781 billion for the UC, including \$2.806 billion General Fund. These amounts reflect an increase of 5.5 percent in total funds and 3.6 percent in General Fund over the revised 2004-05 Budget levels of \$4.533 billion in total funds and \$2.709 billion General Fund.

UC Merced

The Merced campus will officially open its doors in the fall of 2005. It is anticipated the campus will enroll 1,000 FTES (600 freshmen, 300 transfers, and 100 graduate students). This is the first new UC campus to open in four decades. Development of UC Merced is part of the University's strategy to increase enrollment capacity that will serve the entire state, enhance access to students in an area that has been traditionally underserved, and provide the benefits of an additional research university to all Californians. As a powerful economic engine, the campus will make valuable contributions to a region

that suffers from high unemployment. One-time funding of \$14 million is included in the Budget for start-up costs needed to open the campus, including support for faculty salaries and recruitment, instructional technology, library materials, student services, and expanded general operational support.

Program Enhancements and Budget Adjustments

In accordance with the Compact, the Governor's Budget includes General Fund increases for UC of 3 percent for basic budget support - such as faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases-and 2.5 percent for enrollment growth. The Governor's Budget proposes the following adjustments:

- \$76.1 million increase (3 percent) for basic budget support consistent with the Compact.
- \$37.9 million increase (2.5 percent) for enrollment growth consistent with the Compact.
- \$14 million one-time funds for costs associated with making UC Merced operational in 2005-06 for a total funding level of \$24 million.
- \$3.8 million reduction by eliminating the one-time General Fund legislative augmentation for the Multi-Campus Research Units for Labor Studies.
- In addition to the amount above, the 2004 Budget Act was augmented by \$26.5 million for enrollment growth and outreach programs beyond the obligations of the Compact. The Budget reduces \$17.3 million of this amount and provides UC with the discretion to determine how to balance the needs for outreach and student enrollment funding. The Administration will work with the UC to develop performance measures to evaluate the cost effectiveness of all outreach programs.

California State University

CSU provides undergraduate instruction and graduate instruction through the master's degree and is authorized both to award doctoral degrees in conjunction with UC or a private institution and to conduct research related to its instructional mission. Students from the top one-third of the state's high school graduates, as well as those transfer students who have successfully completed specified college work, are eligible for undergraduate admission to CSU. Many CSU students are older and/or employed and attend part-time, especially at the graduate level.

Total Funding

The Governor's Budget provides total funding of \$3.839 billion for the CSU, including \$2.607 billion General Fund. These amounts reflect an increase of 5.2 percent in total funds and 4.4 percent in General Fund over the revised 2004-05 Budget levels of \$3.650 billion in total funds and \$2.497 billion General Fund.

Program Enhancements and Budget Adjustments

In accordance with the Compact, the Governor's Budget includes General Fund increases for CSU of 3 percent for basic budget support - such as faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases - and 2.5 percent for enrollment growth. The Governor's Budget proposes the following adjustments:

- \$71.7 million increase (3 percent) for basic budget support consistent with the Compact.
- \$50.8 million increase (2.5 percent) for enrollment growth consistent with the Compact.
- \$44.4 million increase for baseline retirement contribution increases.
- The 2004 Budget Act was augmented by \$37.7 million for enrollment growth and outreach programs beyond the obligations of the Compact. The Budget reduces \$7 million of this amount and provides CSU with the discretion to determine how to balance the needs for outreach and student enrollment funding. The Administration will work with the CSU to develop performance measures to evaluate the cost effectiveness of all outreach programs.

Hastings College of the Law

Hastings was established in 1878 as the Law Department of the University of California. However, it is an independent entity today that grants professional school law degrees in conjunction with the University. Special concentrations include International and Comparative Law, Civil Litigation, Public Interest Law, and Taxation.

Total Funding

The Governor's Budget provides total funding of \$35.4 million for Hastings in 2005-06, including \$8.4 million General Fund. These amounts reflect an increase of 1.3 percent in total funds and 3 percent in General Fund over the revised 2004-05 Budget levels of \$34.9 million in total funds and \$8.1 million General Fund.

Program Enhancements and Budget Adjustments

Consistent with the Compact, the Governor's Budget includes a 3 percent General Fund increase for basic budget support, including faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases. The Governor's Budget proposes the following adjustment:

- \$244,000 General Fund increases for basic budget support.

California Community Colleges

Community Colleges are publicly supported local education agencies that offer academic and vocational education at the lower division level for both younger and older adult students; advance California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement; and provide remedial instruction for hundreds of thousands of adults throughout the state through basic skills courses and adult non-credit instruction.

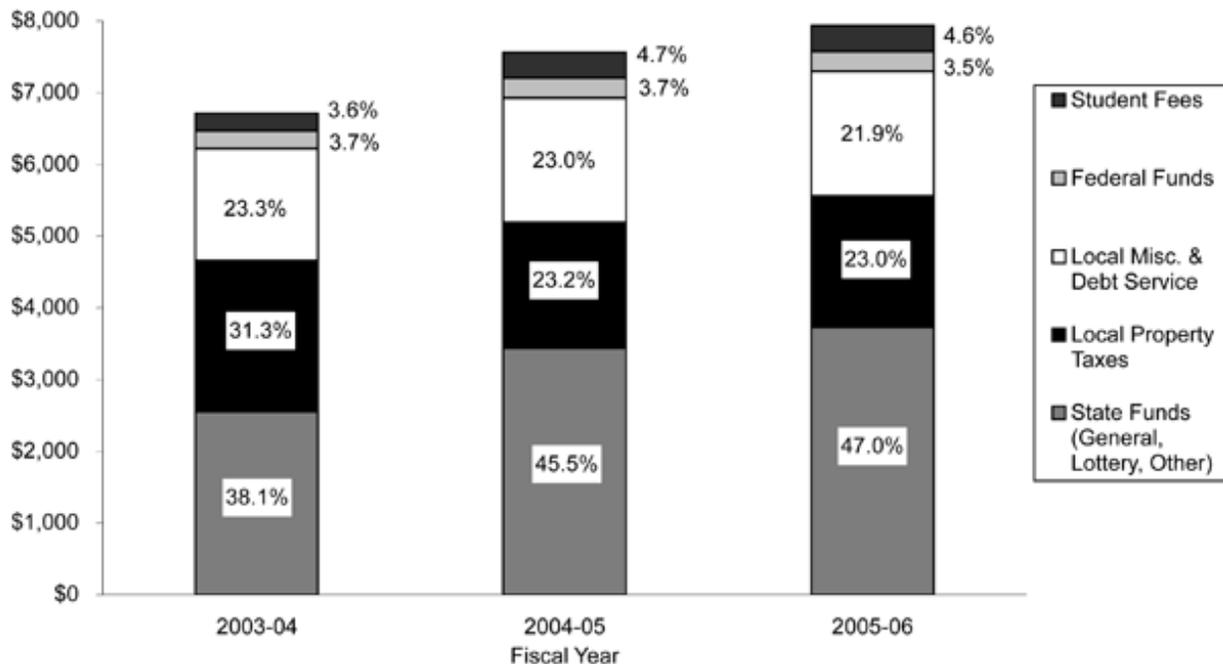
Total Funding

The Governor's Budget proposes over \$7.9 billion for the CCC through a combination of State, local property tax and federal revenues, student fees, and other local miscellaneous revenues. Of this amount, \$5.4 billion from Proposition 98 sources, including local property taxes, and non-Proposition 98 General Fund are provided. These increases reflect a 5 percent increase in total funds and a \$373.4 million or 7.4 percent increase from Proposition 98 and non-Proposition 98 General Fund sources. Figure HED-05 shows total funding for the CCC in 2005-06. Figure HED-06 shows the major funding sources and their proportions of total funding, from 2003-04 through 2005-06.

Figure HED-05
Significant Revenue Sources for Community Colleges
 (Dollars in Millions)

<u>Source of Funds</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>Change From 2004-05</u>	
							<u>Dollars</u>	<u>Percent</u>
State General Fund	\$2,796.8	\$2,847.0	\$2,879.5	\$2,404.9	\$3,284.0	\$3,580.8	\$296.8	9.0%
Lottery Fund	121.0	138.1	141.2	140.9	143.3	139.9	-\$3.4	-2.4%
Local Property Taxes	1,713.6	1,854.1	1,990.4	2,102.1	1,750.4	1,827.0	\$76.7	4.4%
Student Fees	156.7	164.1	169.2	243.3	357.5	368.2	\$10.7	3.0%
Other State Funds	12.5	10.5	11.3	8.6	8.8	9.1	\$0.3	2.9%
Federal Funds	197.5	225.9	250.9	249.2	277.1	277.1	\$0.0	0.0%
Local Miscellaneous	987.5	1,186.8	1,038.8	1,405.6	1,563.0	1,563.0	\$0.0	0.0%
Local Debt Service	<u>8.2</u>	<u>30.7</u>	<u>107.1</u>	<u>158.0</u>	<u>175.7</u>	<u>175.7</u>	<u>\$0.0</u>	<u>0.0%</u>
TOTAL REVENUE	\$5,993.6	\$6,457.1	\$6,588.5	\$6,712.8	\$7,560.0	\$7,941.0	\$381.0	5.0%

Figure HED-06
Revenue Source for Community Colleges
 (Dollars in Millions)



Program Enhancements and Budget Adjustments

Significant augmentations and other changes to the community colleges budget include:

- \$136.7 million for Enrollment Growth - This augmentation proposes 3 percent growth in apportionments that provides access for an additional 34,000 FTES, for a total of over 1,177,000 FTES in 2005-06. This level of funded growth exceeds the 1.89 percent change in adult population, which is the current statutory index for system growth.
- \$195.5 million for COLA - This augmentation proposes a 3.93 percent COLA for general-purpose funds and selected categorical programs. This adjustment provides \$184.5 million to fully fund cost-of-living increases for community college apportionments, and \$11.1 million to provide cost-of-living increases for categorical programs providing essential services to special populations.
- \$31.4 million Set-Aside for District Level Accountability - Consistent with the Governor's message when signing the 2004 Budget Act, the Governor's Budget sets aside \$31.4 million for potential restoration to community college apportionments, pending the outcome of a district-specific accountability mechanism under consideration by a Board of Governor's workgroup established by Chapter 581, Statutes of 2004 (AB 1417).
- \$20 million for Economic Development and Career Technical Education - Refer to Higher Education Initiatives section for details.
- State Operations Reduction - The Governor's Budget proposes a reduction to the Chancellor's Office of \$137,000 as part of a larger non-Proposition 98 General Fund reduction necessary to

bridge the gap between expenditures and projected revenues. The Chancellor will have the flexibility to implement the reduction through layoffs, a hiring freeze, procurement reductions, or other administrative means it may choose while preserving resources that ensure district accountability.

Financial Aid Programs

The California Student Aid Commission (CSAC) administers State financial aid to students attending all segments of public and private postsecondary education. Working together with EdFund, which is the auxiliary loan guarantee agency that operates with oversight by CSAC, the Commission administers federal and State-authorized financial aid, including State-funded grants, work-study programs, and loans that are federally guaranteed. In addition to serving as California's student loan guaranty agency, EdFund serves as a guaranty agency for colleges and universities located throughout the United States.

Business Diversification

Pursuant to authorization granted by Chapters 216 and 657, Statutes of 2004, CSAC and EdFund are developing proposals for EdFund to use a portion of its operating surplus to diversify its business operations. The business diversification proposals that CSAC and EdFund are developing will allow EdFund to remain competitive in the national loan guaranty marketplace and will ensure the continued viability of EdFund and high quality, low cost services to students. Any business diversification activities proposed by CSAC and EdFund will be approved by both the Administration and the Legislature before they are initiated.

Total Financial Aid Funding

The Governor's Budget provides total local assistance funding of \$793.1 million for CSAC in 2005-06, including \$745.5 million General Fund. These amounts reflect an increase of 6 percent in total funds and 26.5 percent in General Fund over the revised 2004-05 Budget levels of \$748.5 million in total funds and \$589.4 million General Fund. (See Figure HED-07 and Figure HED-08 for total financial aid and growth in Cal Grants, respectively).

Figure HED-07
Financial Aid Grants
General Fund and Fee Revenue Funded
 (Dollars in Thousands)

Institution/Fund Source	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Change from 2004-05	
							Dollars	Percent
University of California ^{1/}	\$234,054	\$259,700	\$287,761	\$355,654	\$396,898	\$443,938	\$47,040	11.9%
General Fund	85,563	69,199	52,199	52,199	52,199	52,199	\$0	0.0%
Fee Revenue ^{2/}	148,491	190,501	235,562	303,455	344,699	391,739	\$47,040	13.6%
California State University ^{1/} , ^{2/}	131,618	135,563	132,716	242,206	260,466	283,766	\$23,300	8.9%
General Fund	65,647	65,647	51,147	51,147	51,147	51,147	\$0	0.0%
Fee Revenue	65,971	69,916	81,569	191,059	209,319	232,619	\$23,300	11.1%
Community Colleges ^{1/}								
General Fund	89,351	91,853	102,723	166,859	261,880	269,736	\$7,856	3.0%
Student Aid Commission ^{1/} , ^{4/}								
General Fund	487,438	543,962	569,024	672,058	735,919	780,525	\$44,606	6.1%
Total	\$942,461	\$1,031,078	\$1,092,224	\$1,436,777	\$1,655,163	\$1,777,965	\$122,802	7.4%
General Fund	727,999	770,661	775,093	942,263	1,101,145	1,153,607	\$52,462	4.8%
Fee Revenues	214,462	260,417	317,131	494,514	554,018	624,358	\$70,340	12.7%

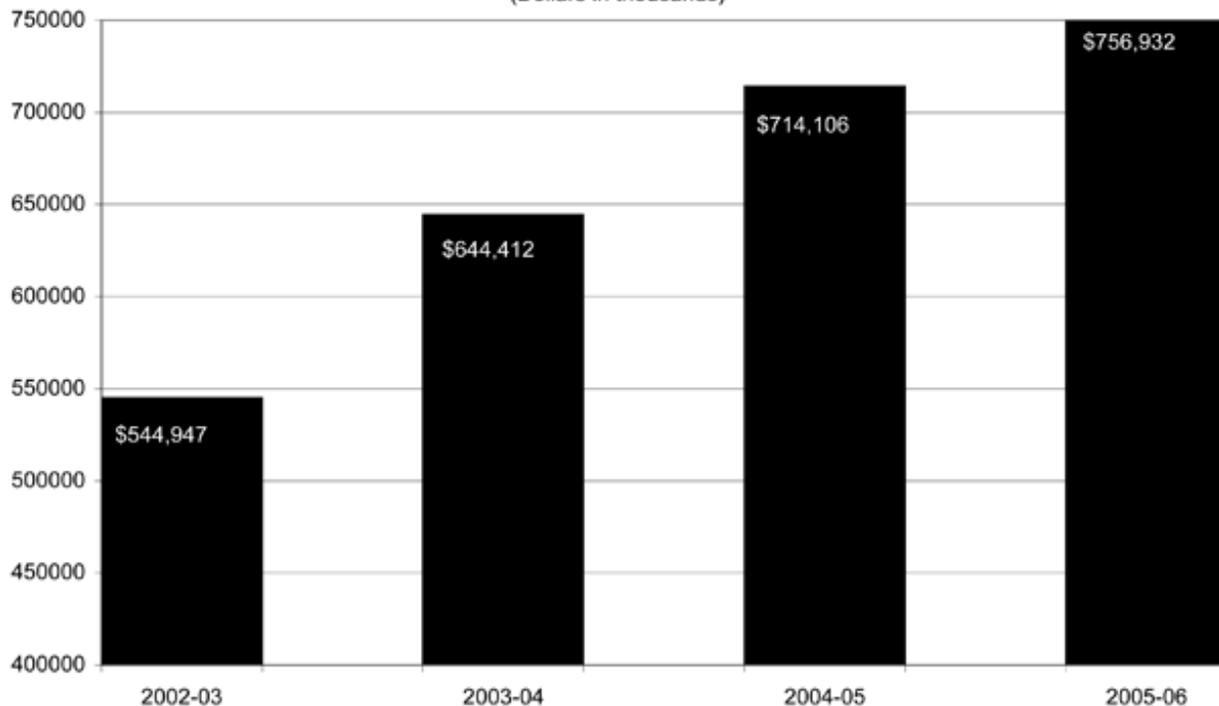
^{1/} Reflects budgeted amounts for 2004-05 and 2005-06.

^{2/} Includes \$14 million GF for EOP grants through 1998-99 and \$17 million from 1999-00 to 2003-04.

^{3/} Beginning in 2004-05, UC augmented its student fee revenues for financial aid by \$8.140 million by increasing fees to non-resident students.

^{4/} Includes one-time fund shift from General Fund to Student Loan Operating Fund in 2004-05 (\$146.5 million) and 2005-06 (\$35.0 million).

Figure HED-08
Cal Grant Funding
 (Dollars in thousands)



Program Enhancements and Budget Adjustments

The Governor's Budget proposes the following baseline adjustments for CSAC financial aid programs:

- \$146.5 million General Fund backfill to replace the use of one-time surplus monies from the Student Loan Operating Fund (SLOF) that were used to support financial aid programs in 2004-05.
- An increase of \$44.8 million for the Cal Grant Program, over the revised current year estimate which reflects General Fund savings of a similar amount that CSAC expects for 2004-05.
- \$6.8 million General Fund for growth in the Assumption Program of Loans for Education (APLE).

Additionally, the Budget proposes the following policy adjustments:

- \$200,000 General Fund to implement an initial cohort of National Guard APLE awards pursuant to Chapters 549 and 554, Statutes of 2004. These warrants provide up to \$11,000 for reimbursement of college loans in exchange for completing service enlistments in the National Guard. Chapter 554 (SB 1322) expands eligibility for awards to prospective guard members, including those enrolled in seeking vocational educational degrees, in order to enhance enlistment incentives. Chapter 549 (AB 997) authorizes awards for persons who have already completed a baccalaureate degree and ensures academic leave to those members called to active duty.
- \$35 million one-time increase in SLOF monies to support CSAC financial aid programs in 2005-06, thereby generating an equivalent General Fund savings.

A General Fund reduction of \$7.5 million by reducing the maximum new Cal Grant awards for students at private colleges and universities from \$8,322 to \$7,449. This reduction is necessary in the context of the State's current budget shortfall.

Health and Human Services

Health and Human Services Agency (HHS) programs provide medical, dental, mental health, and social services to California's most needy residents. For the 2005-06 fiscal year, expenditures for all HHS budgets total \$69.8 billion in combined State and federal funds. This includes expenditures for approximately 32,500 State employees. Figure HHS-01 displays expenditures for each major program area, and Figure HHS-02 displays program caseloads. This expenditure level is greater than the 1998-99 budget year adjusted for population and the California Consumer Price Index (CPI) over the last seven years (see Figure HHS-03); further, the total level of expenditures for Medi-Cal will still remain above that set for 1998-99, adjusted for population and the medical price index since then (see Figure HHS-04). The fiscal year 2005-06 totals exceed the total revised 2004-05 Budget by \$44.1 million, which, after accounting for population growth and the general CPI, constitutes an increase of less than 1 percent.

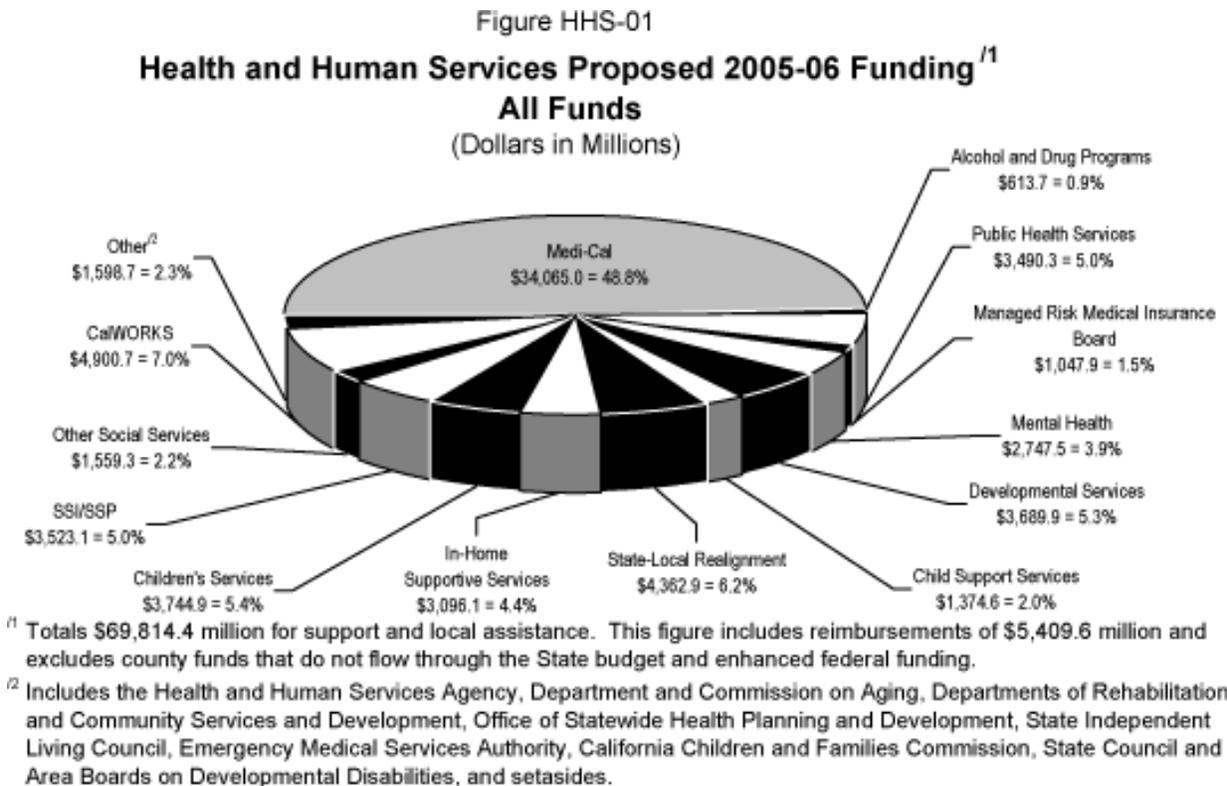


Figure HHS-02
Major Health and Human Services Program Caseloads

	2004-05	2005-06	
	Revised	Estimate	Change
California Children's Services ^{a/} (treatment of physical handicaps)	175,940	182,830	6,890
Medi-Cal Eligible CalWORKs	6,631,200	6,807,900	176,700
Average Monthly Individuals Served	1,285,700	1,205,200	-80,500
Average Monthly Cases (Families)	495,300	472,800	-22,500
Foster Care	74,900	75,900	1,000
SSI/SSP (support for aged, blind, and disabled)	1,188,500	1,216,400	27,900
In-Home Supportive Services	354,900	382,100	27,200
Child Welfare Services ^{b/}	168,700	167,400	-1,300
Non-Assistance Food Stamps	466,400	504,300	37,900
State Hospitals			
Mental health clients ^{c/}	5,266	5,454	188
Developmentally disabled clients ^{d/}	3,307	3,071	-236
Community Developmentally Disabled Services			
Regional Centers	199,255	208,020	8,765
Vocational Rehabilitation	76,251	78,369	2,118
Alcohol and Drug Programs ^{e/}	403,800	428,400	24,600
Healthy Families Program ^{f/}			
Children	713,876	779,394	65,518

a/ Represents unduplicated quarterly caseload in the CCS Program.

b/ Represents Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement service areas on a monthly basis. Due to transfers between each service area, cases may be reflected in more than one service area.

c/ Represents the year-end population. Includes population at Vacaville and Salinas Valley CDC Facilities.

d/ Represents average in-center population. Reflects the impact of Agnews Developmental Center closure.

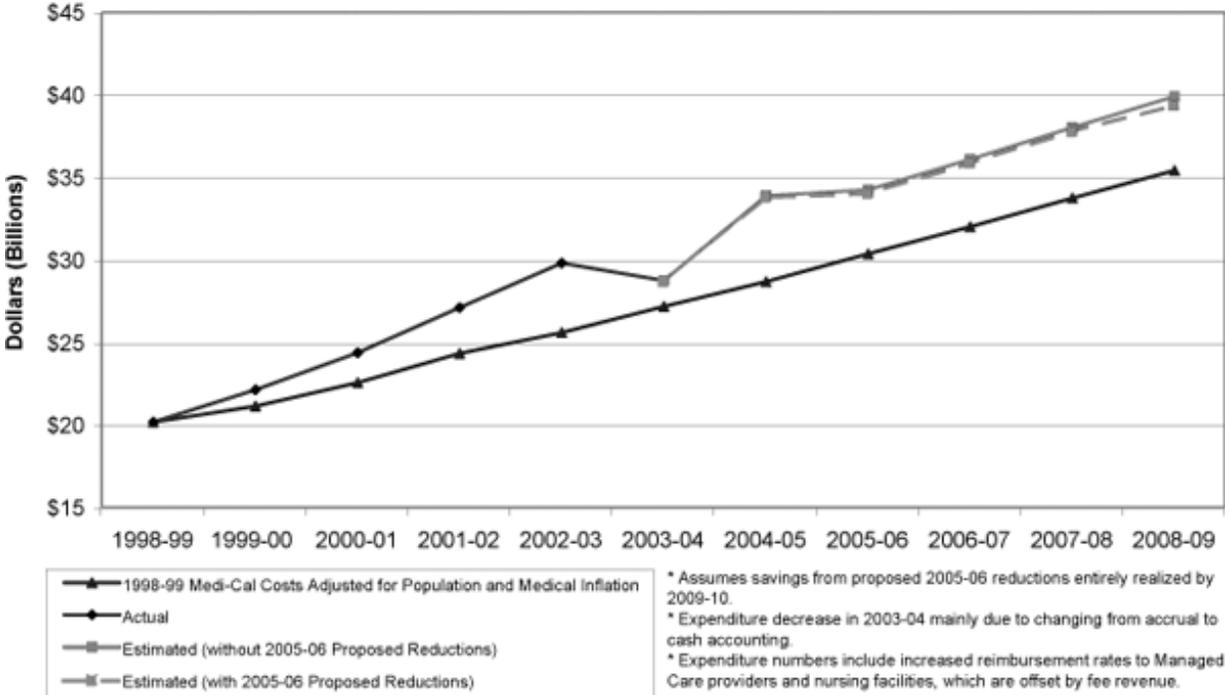
e/ Represents Drug Medi-Cal and Prop 36 Clients.

f/ Represents the year-end population.

Figure HHS-03
Health and Human Services
Total Expenditures v. Population Growth



Figure HHS-04
Projected Medi-Cal Expenditures
(Total Funds)



HHSA oversees an array of departments and boards that provide essential services to many of California's most vulnerable and at-risk residents. Health and Human Services departments accomplish their missions by administering State and federal programs for health care, social services, public assistance, and rehabilitation including Medi-Cal, California Work Opportunity and Responsibility to Kids (CalWORKs), and the regional centers. These programs touch the lives of millions of California's most needy and vulnerable residents and provide access to critical services that promote their health, well-being, and ability to function in society. The Administration is committed to striking a balance between the twin imperatives of maintaining access to essential health and human services for our state's most disadvantaged and at-risk residents while pursuing ways to better manage and control costs.

Savings of \$1.2 billion resulting from policy-based decisions offsets the 2005-06 General Fund workload budget for the HHSA of \$27.8 billion. These savings reflect the need to produce a balanced, responsible budget; they are outlined under the Health and Human Services Savings Proposal section. The decisions behind these savings reflect the imperative to better control program costs, while maintaining essential services for our state's most disadvantaged and at-risk residents. They further reflect the Governor's commitment to protecting the developmentally disabled, and progress toward his goal that all of California's children have health insurance.

The Agency also has been instructed to reduce its budget by \$24.4 million agency-wide, with the flexibility to implement the reductions with layoffs, hiring freeze, procurement reductions, or other administrative means as it may choose.

Health and Human Services Initiatives

The Governor's Budget proposes a number of reforms and initiatives that reflect the imperative to maintain essential services to our state's most vulnerable and at-risk residents and to better manage and control program costs. These initiatives reflect an emphasis on priority populations, such as uninsured children who are eligible, but not enrolled in Medi-Cal or the Healthy Families Program, and priority policy areas, such as obesity prevention and mental health, that are critical to promoting the health and well-being of the people of California. Specific activities related to Proposition 63, the Mental Health Services Act, are discussed under the Department of Mental Health.

Medi-Cal Program Redesign

Since 1965, Medi-Cal has provided health care funding for low-income children and their parents, pregnant women, seniors, and persons with disabilities. In addition to providing the benefits required by federal law, California is one of eight states that provide a wide range of optional benefits. Medi-Cal is the second largest expenditure in the State budget behind K-12 education. In the past five years, Medi-Cal expenditures have grown by 50 percent. Much of this increase stems from program expansions that added 1.2 million new recipients over the past five years, a 32 percent increase. This growth has occurred within a program model that is cumbersome, overly complex, and provides the State with little flexibility to make necessary modifications that reflect changes in the health care system.

The magnitude of Medi-Cal in terms of people served and dollars expended compels close examination of the program's structure, financing, and operations. The Governor's Budget proposes a redesign of select components of Medi-Cal to increase efficiency and effectiveness for beneficiaries and providers, improve health care outcomes, and provide for the long-term financial viability of the program. The components of Medi-Cal program redesign are described hereafter, while the fiscal components are outlined in Figure HHS-05.

Figure HHS-05
Medi-Cal Redesign
2005-06 to 2008-09 General Fund Impact
(Dollars in Thousands)

Redesign	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Total</u>
Improving Access to Care and Health Outcomes Through Managed Care Expansion	\$3,412	\$40,098	\$54,653	-\$85,487	\$12,675
Stabilizing the Financing of California's Safety Net Hospitals	686	686	686	686	2,744
Modifying the Medi-Cal Dental Benefit Package	-24,843	-25,325	-25,325	-25,325	-100,818
Beneficiary Cost Sharing	6,847	-4,903	-22,050	-22,050	-42,155
Easing Enrollment for Children	976	-7,097	-7,097	-7,097	-20,315
County Performance Standards Monitoring	612	2,712	2,712	2,712	8,748
Total	-\$12,310	\$6,171	\$3,579	-\$136,561	-\$139,121

These restructuring proposals are designed to improve access to services and to reduce cost. The Budget has been cautious, however, in the savings it assumes because it will take time to implement many of these changes properly. Actual experience will prove what savings have occurred and those will be reflected when realized. Nevertheless, it is appropriate to anticipate some savings even now, and so some conservative estimates have been included in the Budget.

Improving Access to Care and Health Outcomes Through Managed Care Expansion

Redesign will expand the use of managed care for families and children into up to 13 additional counties and require new participants who are aged, blind, and disabled to enroll in managed care plans. Managed care increases beneficiaries' access to services, improves patient outcomes, provides greater accountability for health care dollars, and is less costly than the unmanaged fee-for-service program. The managed care expansion will be achieved in the selected counties through a phased-in process,

commencing approximately January 1, 2007. In addition, as a way to improve outcomes and encourage care delivery in the least restrictive setting possible, Medi-Cal will create Acute and Long Term Care Integration plans in three counties to provide integrated Medi-Cal and Medicare services to seniors and persons with disabilities.

Stabilizing the Financing of California's Safety Net Hospitals

In 2004-05, California will receive approximately \$3.6 billion from the federal government for reimbursement to hospitals. In response to the federal government's criticism of California's current system of financing the State's hospital safety net, the Administration has developed an alternative hospital financing structure. This approach seeks to secure stable and increasing federal funding for the safety net hospitals for a five-year period and to support the State's expansion of managed care. Approximately 240 hospitals in the state, those that contract with Medi-Cal and those receiving disproportionate share hospital payments, are impacted to varying degrees by this proposal.

Modifying the Medi-Cal Dental Benefit Package

Redesign will align the Medi-Cal dental benefit package with that of private sector employer-based and other public plan dental packages, establishing a yearly limit of \$1,000 for dental services for adults, excluding federally mandated emergency services. The annual limitation on dental benefits will cover the majority of the dental needs of the affected individuals, including the cost of dentures. Virtually all commercial dental plans, including those offered to State employees, include annual limits on dental benefits.

Beneficiary Cost Sharing

This proposal will establish monthly premiums for individuals with monthly incomes above the poverty level (\$1,306 for a family of three) and for seniors and persons with disabilities, above the monthly Supplemental Security Income/State Supplemental Payment (SSI/SSP) level (\$812 for a single person and \$1,437 for a couple). Premiums will be \$4 per month for each child under 21, \$10 per month for adults, with a monthly cap of \$27 per month per family. Individuals participating in current share-of-cost programs under Medi-Cal would be exempt.

Implementation of premiums will make Medi-Cal comparable with employer-based health plans and other public programs. For example, the Healthy Families program charges premiums for families at these income levels, and the newly created county children's coverage programs charge premiums for families at lower income levels than the Medi-Cal proposal. This modest cost sharing proposal will emphasize beneficiary personal responsibility for and ownership of their health care.

Streamlining Enrollment for Children

This proposal will streamline the Medi-Cal eligibility determination process for children whose applications are submitted to the Healthy Families vendor, known as the Single Point of Entry (SPE). Initial Medi-Cal applications for children that are received by the SPE will be processed by the SPE,

instead of being forwarded to a county for processing. The SPE will become a centralized one-stop center to make preliminary eligibility determinations for Medi-Cal applications for children. Federal law requires a government employee to certify eligibility for Medi-Cal, and this proposal will have the Department of Health Services (DHS) certify the eligibility determinations of the SPE. This proposal will reduce duplication of effort by the SPE and counties, thereby reducing the length of time it takes to enroll a child in ongoing Medi-Cal.

County Performance Standards Monitoring

This proposal will secure vendor services to monitor county compliance with performance standards. These activities will ensure that initial eligibility determinations and annual redeterminations are completed within the identified federal and State statutory guidelines. Counties annually self-report to the DHS if they have met all of the performance standards; however, there are no State verifications of these efforts. As an operating efficiency, the DHS will secure a contractor to ensure counties maintain a given level of compliance with the performance standards. Should there be lack of compliance, fiscal sanctions against the county will be pursued.

No additional savings have been assumed from performance standards monitoring because the Medi-Cal estimate already reflects a flattening in the caseload due to redeterminations and significant savings from the existing mid-year status reporting. The county performance standards monitoring activities will ensure that this savings is achieved.

Expanding Health Insurance Coverage For Children

The Administration supports the goal that every child in California has health insurance. Access to affordable coverage is essential for children to obtain the preventive and primary care services necessary to be healthy and to succeed in school and in life. California has made impressive inroads in the effort to reduce the number of uninsured children in our state; however, growth in the enrollment of the Healthy Families Program has slowed. Experts estimate that approximately 431,000 uninsured children are still eligible for Medi-Cal or Healthy Families.

Recognizing California's continued fiscal challenges, the Administration proposes a number of incremental reforms that place a priority on maximizing the enrollment and retention of uninsured children eligible for Medi-Cal or Healthy Families. These reforms advance important objectives, including increased awareness of the importance of health coverage and the availability of no- and low-cost insurance plans for children of low-income families; simplified enrollment and retention systems; and extended utilization of county-based efforts for children not eligible for State programs.

Improve Outreach and Enrollment by Restoring Healthy Families Program/Medi-Cal Application Assistance

The Governor's Budget proposes \$5.9 million General Fund and \$8.6 million in matching federal funds to re-establish application assistance fees to support individuals and organizations working to maximize

successful enrollment of children in Healthy Families and Medi-Cal. Because of the State's fiscal crisis, funding for Healthy Families education, outreach and application assistance was eliminated in recent years. During the two years without payment for application assistance, Healthy Families has found that enrollment has leveled off, the quality of the applications submitted has deteriorated significantly, and there is a higher rate of disenrollment at the annual eligibility review. It is estimated that this proposal will provide assistance to over 200,000 Medi-Cal and Healthy Families applicants, over 60,000 Healthy Families subscribers during annual eligibility reviews, and will add 15,000 children to Healthy Families in 2005-06. The Managed Risk Medical Insurance Board (MRMIB) plans to seek urgency legislation to authorize the program in 2004-05, which would increase the Healthy Families Program caseload for 2005-06.

Improve Retention of Children Transitioning from Medi-Cal to Healthy Families Program Through Performance Standards

The Governor's Budget includes \$5.6 million (\$2.1 million General Fund) to establish Medi-Cal/Healthy Families Bridge Performance Standards to ensure that counties comply with the Bridge requirements. Under State law, children no longer eligible for Medi-Cal because of their age or their family's increase in income are given one month of additional Medi-Cal coverage to allow time for the family to complete the Healthy Families application. This extra month of eligibility is referred to as the "Bridge." Counties are required to forward applications to Healthy Families when children are eligible for the Bridge. It is expected that the performance standards will increase the number of referrals by 30,000 a year and that 10,000 additional children will be served by the Healthy Families Program in 2005-06 and 27,000 additional children in future years.

Assistance to County Initiatives - Healthy Families Program Buy-In

A growing number of counties have established county initiatives to provide low-cost health coverage to children not eligible for Medi-Cal or Healthy Families. To help support these local efforts, the Governor's Budget proposes funding to enhance the MRMIB's capacity to provide technical assistance to counties that are attempting to establish stand-alone "Healthy Kids" programs. The persons working in these positions also will work with interested counties to develop a Healthy Families buy-in option in which counties could transfer local funds to Healthy Families and have their "Healthy Kids" eligible children participate directly in Healthy Families. The positions, which will be established in 2004-05, are proposed to be funded by the First 5 California Children and Families Commission, which will provide MRMIB the 35 percent State share (\$49,000 in 2004-05 and \$91,000 in 2005-06) needed to obtain federal financial participation.

Facilitate Enrollment by Revising the Joint Healthy Families Program/Medi-Cal Application

To further reduce the barriers to families applying for Medi-Cal and Healthy Families, the Administration will update the joint Medi-Cal/Healthy Families application form for the first time in five years. These revisions will improve the application layout and design, include an authorization form to release

information to certified application assistants, and make it more user friendly. The new form will be easier for parents to complete, thereby increasing enrollment of uninsured children in the Healthy Families and Medi-Cal programs.

California Obesity Initiative

The Governor's Budget includes \$6 million General Fund to support a comprehensive obesity prevention program. Californians have gained 180,000 tons, or an average of 10.7 pounds each, in the past decade alone. Among California's children ages 9 to 11, more than one out of three is overweight or at risk of being overweight. Obesity has become a serious epidemic. Environmental forces and individual choices that lead to unhealthy eating and physical inactivity, as well as other social, economic, and policy forces, have pushed our population into obesity, and, ultimately, fatal diseases such as diabetes, high blood pressure, and heart disease, to name just three. A bold change of direction is necessary to develop the ways in which we are going to combat these forces and make it possible for all Californians, especially our children, to lead active, healthy lives.

This proposal will allow the DHS to provide leadership in preventing obesity by promoting healthy eating, regular physical activity, and responsible choices by individuals. Although the overall objectives will require commitment and action from government, business, academia, and other communities, the budget proposal includes the beginnings of a turning point in the way that Californians approach their eating habits and physical activity.

To this end, the Administration is proposing a comprehensive framework to:

- Support healthy school environments by improving the nutritional quality of food and beverages available and increasing opportunities for physical activity.
- Increase access to obesity prevention and intervention services in public and private health insurance programs.
- Support the planning and design of healthy communities by supporting local efforts to make California more conducive to walking and increased physical activity.
- Prevent obesity through workplace changes that support increased physical activity and healthy eating.
- Recognize obesity prevention as a statewide health priority through public education and outreach, including a Governor's Summit on healthy eating and physical activity.

The proposed funding also will support Medi-Cal managed care efforts to increase obesity-related screening and counseling and provide referral and treatment for overweight and at-risk-for-overweight children. It also will support community-based projects to implement environmental changes in schools, workplaces and restaurants to support healthy eating and increased physical activity, and to initiate comprehensive employee wellness initiatives to increase coordination and improve the success of existing obesity prevention efforts.

California Rx (Cal Rx) - Prescription Drugs for the Uninsured

The Governor's Budget includes \$4 million General Fund to implement the California Rx (Cal Rx) Program. The affordability and availability of prescription drugs continues to be an issue for Californians, especially for the uninsured. The Kaiser Family Foundation indicates that more than one-third of uninsured patients do not have a prescription filled because they cannot afford it. In September 2004, the Governor announced his intent to make discounted drugs available to California's low-income uninsured families and individuals. The Governor's efforts have brought pharmaceutical manufacturers to the table to develop an approach that builds upon Medi-Cal's success in negotiating drug rebates.

Cal Rx will utilize a "single point of entry" approach, where uninsured families and individuals under 300 percent of the annualized federal poverty level (\$27,936 for an individual and \$56,568 for a family of four) will have access to a Web-based clearinghouse that will allow the uninsured to more readily access the free and reduced-price drug assistance programs currently offered by the pharmaceutical manufacturers. In addition, Cal Rx beneficiaries who do not qualify for free drug programs will be able to take their prescription to a pharmacy and save approximately 40 percent off the retail price.

The discounts available through Cal Rx will be competitive with savings available through Canadian drug websites. Further, these drugs will be legal and will meet federal Food and Drug Administration standards for safety. It is estimated that more than 4 million Californians with ongoing prescription drug needs will be eligible for this program.

The Administration intends to introduce legislation to create the program, with an anticipated implementation date of January 1, 2006.

Streamlining Hospital Construction Review

To provide timely approval of building plans and to avoid costly construction delays, the Office of Statewide Health Policy and Development (OSHPD) has made significant progress in recruiting technical professional experts such as structural engineers and fire and life safety officers for the planning and construction of health facilities projects, resulting in faster turnaround time for project review and approvals. As part of the Administration's efforts to reduce delays, the Administration will be sponsoring legislation to allow hospitals to contract with an independent plan reviewer to review large hospital construction projects. In addition, OSHPD plans to conduct regular seminars for the hospital and construction industry to discuss best practices and improve communications with its customers.

Health and Human Services Savings Proposals

Notwithstanding the value and importance of the services provided by departments under the purview of the HHS, many of the Agency's major programs are significant contributors to the overall growth in State expenditures (see Figure HHS-03 and Figure HHS-04). The State's fiscal challenges compel the Administration to bring overdue focus and attention to the need to reduce expenditures so as not to

exceed available General Fund resources. The Governor's Budget proposes reforms, reductions, and savings for a number of HHSA programs, including Medi-Cal and CalWORKs. Those reductions are highlighted below, and are also addressed further as part of individual departmental highlights.

Department of Health Services Savings Proposals

- Additional Medi-Cal Pharmacy Rebates - \$20 million General Fund savings in recently negotiated rebates for heartburn medication.
 - Maximize Federal Funds for Prenatal Care - \$191 million General Fund savings reflecting accessing federal funding for prenatal care provided in Medi-Cal.
 - Medi-Cal Redesign - \$12.3 million General Fund savings attributed to redesigning Medi-Cal to increase efficiency and effectiveness for beneficiaries and providers, improve health care outcomes, and to aid in the long-term financial viability of the program.
 - AIDS Drug Assistance Program Rebates - \$8.8 million General Fund savings related to higher-than-anticipated collections of drug manufacturer rebates.
 - Eliminate General Fund support for the Office of Binational Border Health - \$694,000 General Fund savings for this office, which will have a minimal impact on communication between California and Mexican officials regarding disease prevention and coordination among local border health agencies. This reduction is compelled by the need to save funds in the budget; \$500,000 in federal funds still remain to support the office's mission.
-

Department of Mental Health Savings Proposals

- Return Custody of Precommitment Sexually Violent Predators (SVP) to local custody - \$9.2 million General Fund savings for the State hospitals are projected for 2005-06, by keeping precommitment SVPs in local custody until they are committed by the courts as SVPs, and by transferring existing precommitment SVPs in State hospitals to local custody.
 - SVP Treatment Restructuring - \$6 million General Fund savings for the State Hospitals are projected for 2005-06, growing to \$11 million in 2006-07, by restructuring supervision and treatment services provided by State hospitals to SVPs.
-

Managed Risk Medical Insurance Board Savings Proposals

- Maximize Federal Funds for Prenatal Care - \$51 million General Fund savings reflecting accessing federal funds for prenatal care provided in the Access for Infants and Mothers Program.
-

Department of Community Services and Development Savings Proposals

- Eliminate Naturalization Services Program - This program assists immigrants in obtaining citizenship. Elimination of this program will result in General Fund savings of \$1.5 million in 2005-06 and annually thereafter. State Department of Education programs provide similar services.

Department of Social Services Savings Proposals

Figure HHS-06

Comparison of Temporary Assistance for Needy Families (TANF) Maximum Payments for the Ten Most Populous States¹

State	Monthly Grant for Family of Three
New York	\$691
California	676
Michigan	489
New Jersey	424
Pennsylvania	421
Illinois ²	383
Ohio	373
Florida	303
Georgia	280
Texas	223

¹ California grant amount reflects the 6.5 percent reduction in 2005-06, while the grant amounts for all other states are as of January 1, 2005.

² Illinois has three grant levels. Amount shown reflect mid level.

- Eliminate CalWORKs Cost-of-Living Adjustment (COLA) - This proposal will eliminate the statutory requirement to provide an automatic annual grant COLA, which is required regardless of whether sufficient resources are available to support such an increase. This will result in savings of \$163.8 million in 2005-06 and annually thereafter.
- Strengthen Work Requirements - This proposal will build on reforms included in the 2004 Budget to strengthen the work focus of the CalWORKs program. The Department of Social Services will reexamine individual work requirements in the spring after it has completed the statutorily required evaluation of CalWORKs sanction policies in order to determine additional changes to increase participation in work. Savings are targeted at \$12 million beyond the 2005-06 impact of the CalWORKs reform enacted in 2004-05.

- Reduce the Earned Income Disregard - This proposal will allow CalWORKs families to keep \$200 and 40 percent of remaining earned income rather than the current \$225 and 50 percent of remaining earned income. This proposal will result in savings of \$79.5 million in 2005-06 and \$109.3 million annually thereafter. California's earned income disregard policy will continue to be one of the most generous among the large states and will continue to offer a significant incentive to work.
- CalWORKs Pay for Performance Proposal - The Administration proposes to implement a new incentive system that bases a portion of the counties' single allocation for administration and employment services on specific outcomes of CalWORKs clients in each county. The Pay for Performance model will help to ensure that counties invest resources in activities that are most effective and efficient in achieving the desired outcomes, such as higher work participation rates among CalWORKs recipients. This proposal is estimated to result in savings of \$22.2 million in 2005-06.
- CalWORKs Grant Reduction - This proposal will reduce grants by 6.5 percent to align benefit levels better with Temporary Assistance for Needy Families (TANF) programs in other states to obtain General Fund savings. Even with this reduction, California's grant levels will remain the fourth highest of all 50 states and second highest of the 10 most populous states (see Figure HHS-06). This proposal will result in savings of \$212.3 million in 2005-06 and annually thereafter.
- Eliminate Employment Services Augmentation - This proposal will delete the one-time legislative augmentation for CalWORKs employment services provided in 2004-05 for savings of \$50 million. The CalWORKs budget maintains an augmentation of \$191.9 million for employment services provided in 2004-05 and 2005-06 to enable counties to provide services tailored to their individual needs to move CalWORKs recipients from public aid to employment.
- Reduce Current Year Tribal TANF Expenditures - This proposal will reduce the amount of State funding provided to the tribal entities in 2004-05 to reflect an anticipated decline in programmatic expenditures. This one-time adjustment will result in savings of \$5 million.
- Offset Changes in 2004-05 Expenditures With Savings - This proposal will modify the past practice of not adjusting current year funding when updated current year estimates result in lower costs. While counties historically received increases for current year caseload growth, employment services and administration components were not adjusted when current year estimates resulted in lower costs. Making all adjustments will result in a savings of \$42.9 million.
- Suspend State Participation in Increased Contract Costs for In-Home Supportive Services (IHSS) - Consistent with collective bargaining mandates, 12 counties negotiated contracts to increase IHSS service provider wages and/or health benefits since the 2004 Budget Act. Current law requires the State to pay a share of cost, and does not afford consideration of the State's ability to pay. This proposal will maintain State participation in wages and in health benefits at the level of funding in the 2004 Budget Act and will result in General Fund savings of \$42.7 million annually.
- Reduce State Participation in IHSS Wages/Health Benefits - The Administration proposes to reduce the maximum level of IHSS provider wages and benefits in which the State will participate to the minimum wage (\$6.75 per hour). Currently, the State shares up to \$10.10 per hour in provider wages and benefits, and up to the Maximum Allowable Contract Rates for contract providers. This proposal will result in General Fund savings of \$152.1 million in 2005-06 and

\$216.8 million annually thereafter. Counties have the option of reinvesting local savings (\$112 million from 2004-05 and \$93 million from 2005-06) obtained by the Administration under the IHSS waiver. This redirection will avoid more severe reductions in services.

- SSI/SSP COLA - The Administration proposes that the January 2006 State COLA be suspended, for General Fund savings of \$174.2 million in 2005-06 and \$348.4 million annually thereafter. This proposal will not change the amount of the monthly grants received by SSI/SSP participants.
- Capture General Fund Savings Equal to the Federal SSI COLA - The Administration proposes that the pass-through of the January 2006 federal COLA be withheld for General Fund savings of \$84.7 million in 2005-06 and \$169.4 million annually thereafter. This proposal will not change the amount of the monthly grants received by SSI/SSP participants.

Department of Developmental Services Savings Proposals

- Proposals for Long Term Cost Containment - \$4.2 million net General Fund savings in the regional centers' budget in 2005-06, growing to \$14.7 million in 2006-07 and \$25.2 million in 2007-08, for regional center use of sensible guidelines when developing consumer service plans and purchasing services.
- Expansion of Existing Self-Directed Services - \$1.3 million net General Fund savings in the regional centers' budget in 2005-06 for regional center expansion of an innovative self-directed services program. These savings are partially offset by \$282,000 in implementation costs of the Department of Developmental Services (DDS) headquarters.
- Redirect Federal Funds to DDS Programs - This proposal will transfer \$60 million in available Title XX federal funds from the Department of Social Services budget to offset a like amount of General Fund costs in the DDS budget. This will result in General Fund savings of \$60 million in 2005-06 and annually thereafter.

Department of Health Services

The mission of the Department of Health Services (DHS) is to protect and improve the health of Californians. To accomplish this, the Department administers a broad range of public health programs and the California Medical Assistance Program for low-income individuals and families: Medi-Cal. In 2005-06, DHS' budget totals approximately \$37.6 billion (\$13.7 billion General Fund) and 5,667.6 positions. Funding for 2005-06 reflects a General Fund increase of approximately \$1 billion compared to the revised 2004-05 Budget due primarily to increases in statutory caseload programs.

Public Health

The DHS administers numerous public health programs to prevent disease and premature death and to enhance the health and well-being of Californians. The DHS works to prevent chronic diseases such as Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), cancer, cardiovascular disease, and environmental and occupational diseases. Further, the DHS protects the public from consuming unsafe drinking water, manages and regulates the safety of food, drugs, medical devices, and radiation sources, and operates vital public health laboratories.

State expenditures for all public health programs and state administration total \$3.5 billion (\$703 million General Fund) in 2005-06. This represents an increase of \$53.5 million, or 8.2 percent above General Fund expenditures in the revised 2004-05 Budget.

Newborn Screening Program Expansion

The Governor's Budget includes \$15 million Genetic Disease Testing Fund and 2.8 positions to expand the Newborn Screening Program. This expansion will allow the DHS to screen newborns for an additional 37 treatable genetic diseases using Tandem Mass Spectrometry technology. The use of this technology will allow physicians to treat newborns and reduce the debilitating effects of genetic disease. The DHS estimates that each year approximately 561,000 children will be evaluated and 83 children will be diagnosed and receive treatment as a result of this expansion.

Bioterrorism Prevention and Preparedness

The Governor's Budget includes \$108.6 million federal funds and 99.5 positions to support California's public health system's capacity to respond to bioterrorism, outbreaks of infectious diseases, and other public health threats.

In response to the heightened threat of bioterrorism, Congress authorized funding through the Public Health and Social Services Emergency Fund to support activities related to countering potential biological threats to the civilian population. For the past three years, the DHS has been awarded grants from the Centers for Disease Control and Prevention and the Health Resources and Services Administration, under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002.

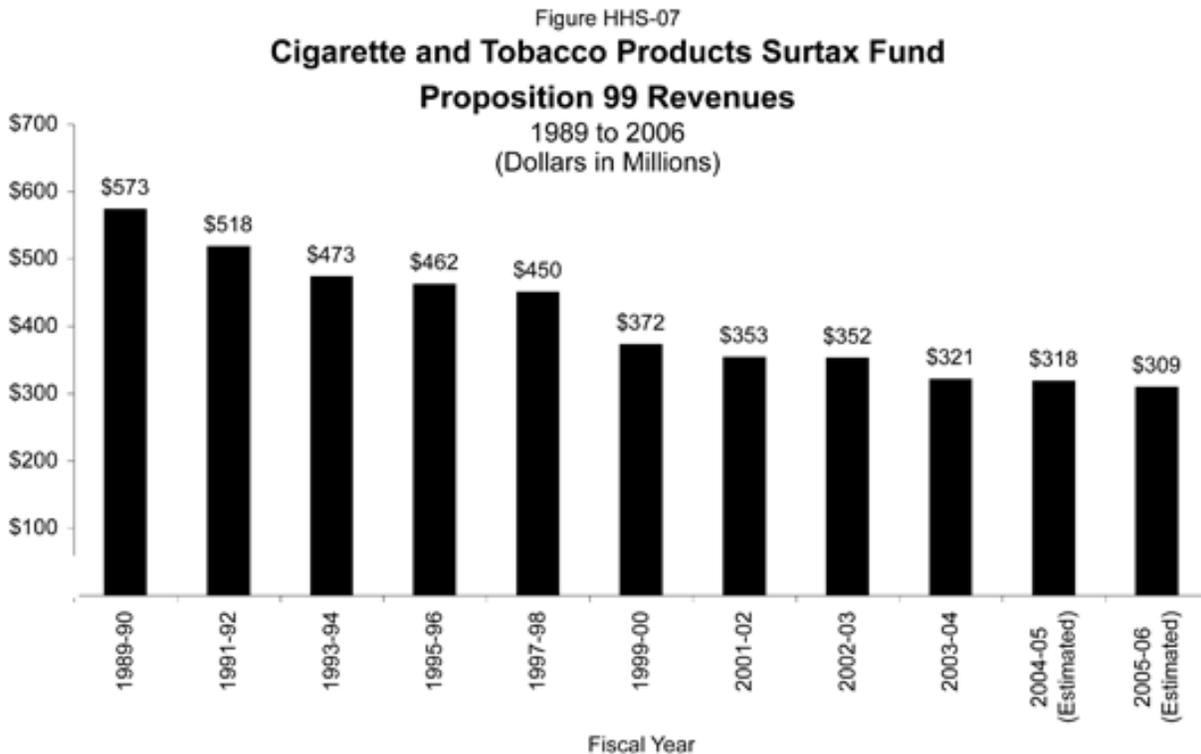
Funding in 2005-06 will allow the DHS and local public health systems to continue planning and assessment functions and to developing operational plans for the Strategic National Stockpile (a national repository of pharmaceuticals and medical supplies designed to supplement and resupply State and local health agencies in the event of a national emergency). The funding also will strengthen hospital, emergency medical system, and poison control center capacity to respond to bioterrorism events.

Children's Medical Services

The Governor's Budget includes \$243.7 million (\$155.7 million General Fund) for the Department's Children's Medical Services programs (CMS), which reflects an increase of \$22.7 million (\$11.6 million General Fund) above the revised 2004-05 Budget. The CMS includes the California Children's Services, the Child Health and Disability Prevention, and the Genetically Handicapped Persons programs, which provide medical services; case management; and medical, physical, and occupational therapy to persons with extraordinary medical needs who are not eligible for Medi-Cal because of their income status.

Proposition 99 Expenditures

Smoking rates in California continue to decline, due in part to the effectiveness of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99), the California Children and Families First Initiative (Proposition 10), and California's tobacco control programs. As of December 2004, revenue estimates for fiscal year 2005-06 are approximately \$9 million less than the revised 2004-05 Budget, continuing the decline in this revenue source. Figure HHS-07 reflects the historical declining trend of revenue in this program.



The Governor's Budget proposes total expenditures of \$315.0 million for all programs supported by Proposition 99 revenues (see Figure HHS-08). The Administration's proposal to maximize available federal funding for prenatal care in the Access for Infants and Mothers Program will generate current year and budget year Proposition 99 savings of \$71.4 million and \$80.7 million, respectively. The Administration intends to sponsor urgency legislation to implement the current year changes. The Governor's Budget proposes the following changes to Proposition 99 expenditures:

Figure HHS-08

**Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2005-06**
(Dollars in Thousands)

	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
REVENUES:								
Beginning Balance	-	\$5,032	\$3,459	\$648	\$693	\$1,729	\$4,648	\$16,209
Projected Revenues	4,703	60,917	106,605	30,459	15,229	15,229	76,147	\$309,289
Prop 10 Backfill	-	13,100	0	0	3,300	0	0	\$16,400
Interest	-	1,085	90	28	657	7	284	\$2,151
Totals, Revenues		80,134	110,154	31,135	19,879	16,965	81,079	\$344,049
Transfers:								
Hab Cons Fund/Prop 117	-	-	-	-	-	-	-\$7,643	-\$7,643
Net Resources	\$4,703	\$80,134	\$110,154	\$31,135	\$19,879	\$16,965	\$73,436	\$336,406
EXPENDITURES:								
Department of Health Services	-	\$53,602	\$49,583	\$12,749	\$5,213	-	\$65,909	\$187,056
Department of Education	-	23,091	-	-	-	-	-	23,091
University of California	-	-	-	-	14,253	-	-	14,253
California Conservation Corps	-	-	-	-	-	\$292	-	292
Department of Forestry	-	-	-	-	-	396	-	396
Department of Fish and Game	-	-	-	-	-	2,542	-	2,542
Secretary for Environmental Protection	-	-	-	-	-	50	-	50
Department of Parks and Recreation	-	-	-	-	-	9,858	-	9,858
Water Resources Control Board	-	-	-	-	-	2,166	-	2,166
Board of Equalization	4,703	-	-	-	-	-	-	4,703
Access for Infants and Mothers	-	-	10,842	2,828	-	-	-	13,670
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Rural Health Demonstration Project	-	-	-	-	-	-	1,047	1,047
Department of Mental Health	-	-	20,491	-	-	-	-	20,491
State Controller's Office	-	12	-	-	2	26	8	48
Direct Pro Rata Charges	-	39	-	-	6	-	34	79
Total Expenditures	\$4,703	\$76,744	\$105,309	\$30,184	\$19,474	\$15,330	\$67,998	\$319,742
Reserves	\$0	\$3,390	\$4,845	\$951	\$405	\$1,635	\$5,438	\$16,664

- Provide Proposition 99 support to the Medi-Cal Recent Immigrants Program (\$54.4 million in 2004-05 and \$32.8 million in 2005-06).
- Fund increased hospital service costs within the Department of Mental Health (\$9.8 million in 2004-05 and \$13.6 million in 2005-06).
- Increase funding for the Every Woman Counts Program by \$9 million in 2004-05 and \$12.8 million in 2005-06 to fund increased demand for breast and cervical cancer screening services.
- Augment Proposition 99 funding for the Expanded Access to Primary Care program by \$10 million to maintain program funding at the 2004-05 funding level.
- Restore program funding omitted when the 2003-04 realignment proposal was deferred (\$1.1 million in both 2004-05 and 2005-06).

HIV/AIDS Treatment and Prevention

The Office of AIDS administers the HIV/AIDS Treatment and Prevention program, which provides local assistance funding to support programs that provide HIV education and prevention services, HIV counseling and testing, early intervention to prevent transmission, epidemiological studies, therapeutic monitoring, housing, home and community-based care, and HIV/AIDS drug assistance to low-income

persons statewide.

The Governor's Budget includes approximately \$381 million (\$159.5 million General Fund) for the Office of AIDS' Treatment and Prevention program. This is a total increase of \$20.1 million, or 5.6 percent above the revised 2004-05 Budget. Nearly 70 percent of total Treatment and Prevention program expenditures (\$263.6 million) are in the AIDS Drug Assistance Program (ADAP), which provides life-saving medications to low-income persons living with HIV/AIDS. Drugs provided by the ADAP have been shown to prolong quality of life and to delay the deterioration of health among individuals living with HIV. It is estimated that this program will provide treatment to nearly 30,446 clients in 2005-06.

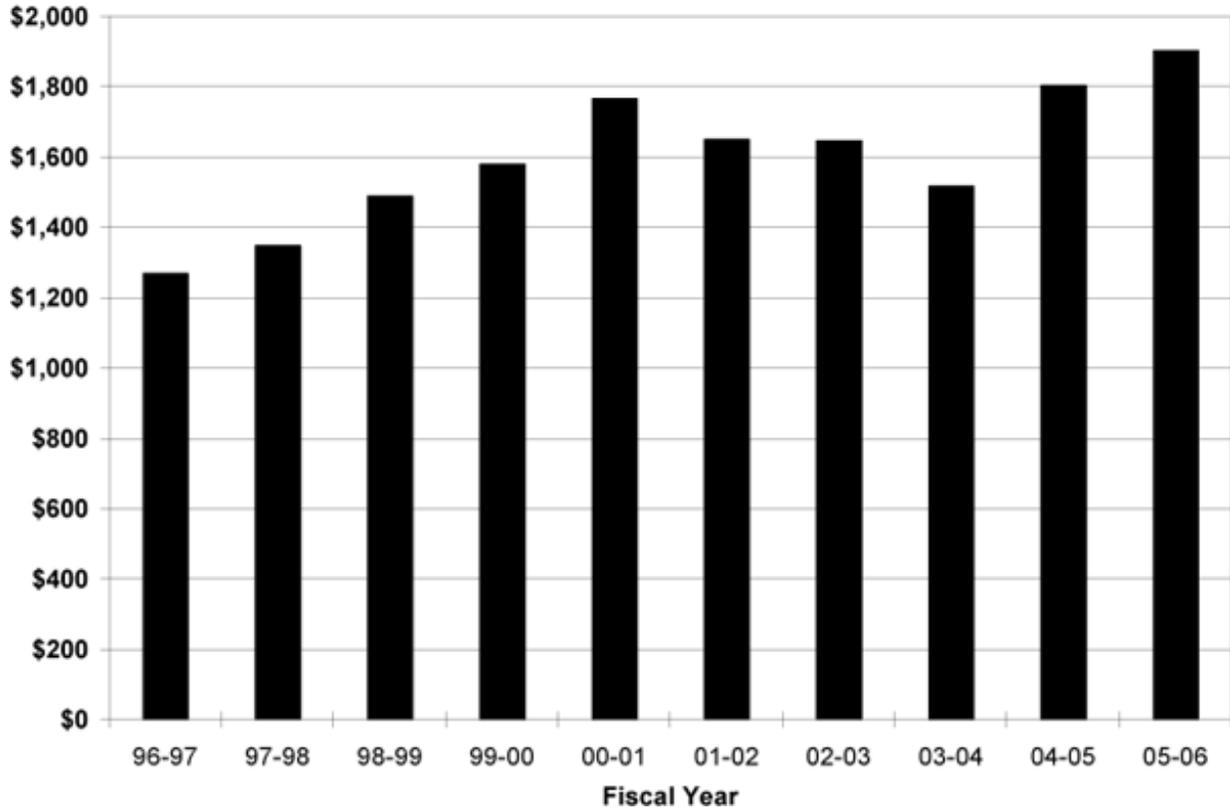
Medi-Cal

Medi-Cal, California's Medicaid program, is a health care entitlement for low-income individuals and families who receive public assistance or lack health care coverage. Federal law requires Medi-Cal to provide a set of basic services such as doctor visits, laboratory tests, x-rays, hospital inpatient and outpatient care, and skilled nursing care. In addition, federal matching funds are available if states choose to provide any of numerous optional benefits. A wide range of public and private providers and facilities delivers these services. Providers are reimbursed by the traditional fee-for-service method or by specific monthly payments under managed care. Medi-Cal serves just under one in six Californians.

2004-05 Expenditures

Medi-Cal expenditures are estimated to be \$33.8 billion (\$12 billion General Fund), a General Fund increase of 16.9 percent above 2003-04 expenditures. This increase was primarily due to the loss of one-time budget savings from shifting from accrual to cash accounting, and the loss of enhanced federal matching funds available from April 2003 through June 2004. General Fund expenditures for 2004-05 are estimated to be \$57.5 million less than the 2004 Budget Act and other 2004-05 appropriations, primarily because of decreased costs for dental services, decreased managed care costs, and a delay in the implementation of the managed quality improvement fee. Figure HHS-09 displays annual General Fund costs per average monthly eligible beneficiary.

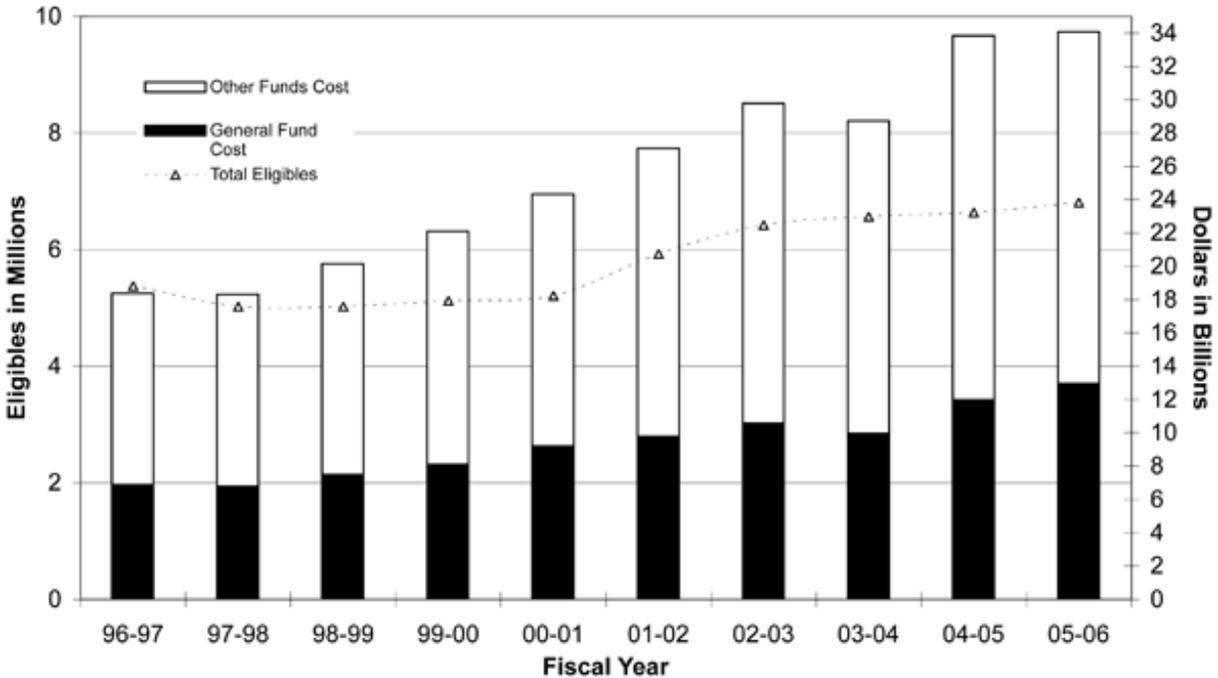
Figure HHS-09
Annual Medi-Cal General Fund Cost per Average Monthly Eligible Beneficiary



2005-06 Expenditures

Medi-Cal spending is projected to be \$34.1 billion (\$12.9 billion General Fund), a General Fund increase of \$981.7 million, or 8.2 percent above the revised 2004-05 Budget. The General Fund increase primarily reflects increases in caseload and cost per eligible person, increased Medicare premiums, the elimination of 2004-05 one-time savings, changing assumptions of estimated anti-fraud savings, and the implementation of quality improvement fees. Average monthly caseload is expected to increase in 2005-06 by approximately 170,500, or 2.6 percent, to 6.8 million eligibles. Figure HHS-10 displays year-to-year comparisons of Medi-Cal caseload and costs.

Figure HHS-10
Medi-Cal Caseload and Costs, 1996-97 through 2005-06
 (Eligibles in Millions, Dollars in Billions)



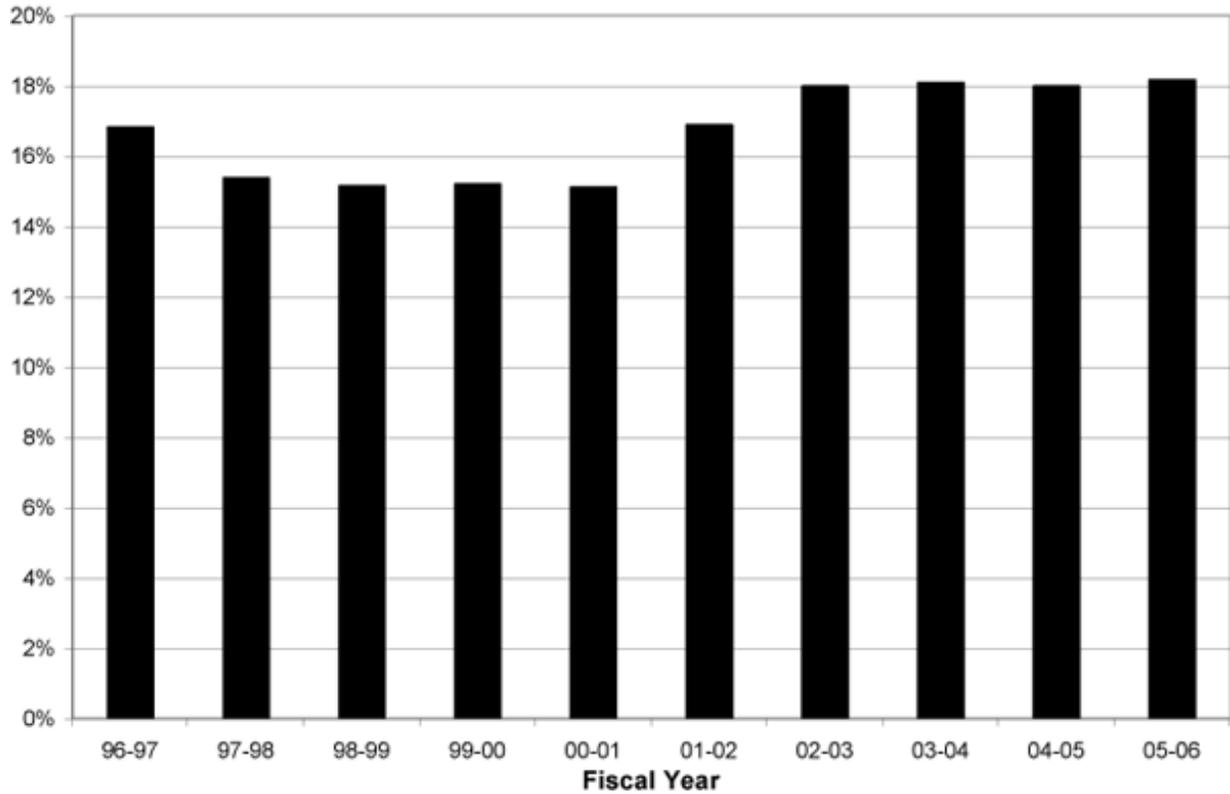
Note: The large non-General Fund portion of total expenditures reflects disproportionate share and voluntary governmental transfers for hospitals, as well as federal Medicaid funds that flow through the DHS budget to other departments.

Some programs, such as mental health services, in departments other than the Department of Health Services, are also eligible for federal Medicaid reimbursement. The federal funding for these programs is included in Medi-Cal expenditure totals, but State and local matching funds typically appear in the budgets for the other State agencies or local governments. Consequently, nonfederal matching funds of over \$2.6 billion for those programs are not included in the Medi-Cal program costs.

Caseload

Currently, about 6.6 million people, or just under one in six Californians, qualify for Medi-Cal in any given month (see Figure HHS-11). The number of people eligible for Medi-Cal in 2004-05 is now estimated to be about 1.1 percent above the actual 2003-04 caseload. An increase of 2.6 percent above the 2004-05 caseload is expected to occur in 2005-06. This overall increase compares to an expected 3.3 percent increase in the state's population for the same two-year period.

Figure HHS-11
**Average Monthly Medi-Cal Eligibles as a Percentage of
California Population**



The number of people made eligible for Medi-Cal through their eligibility for Public Assistance cash grants has been declining since 1995. These eligible persons will represent 38.7 percent of all Medi-Cal eligibles in 2005-06. Overall caseload is increasing, and the portion comprised of aged, blind, and disabled beneficiaries is expected to increase by 3.2 percent, to approximately 1.7 million beneficiaries in 2005-06. Figure HHS-12 reflects Medi-Cal caseload by eligibility category.

Figure HHS-12
Medi-Cal Caseload by Eligibility Category

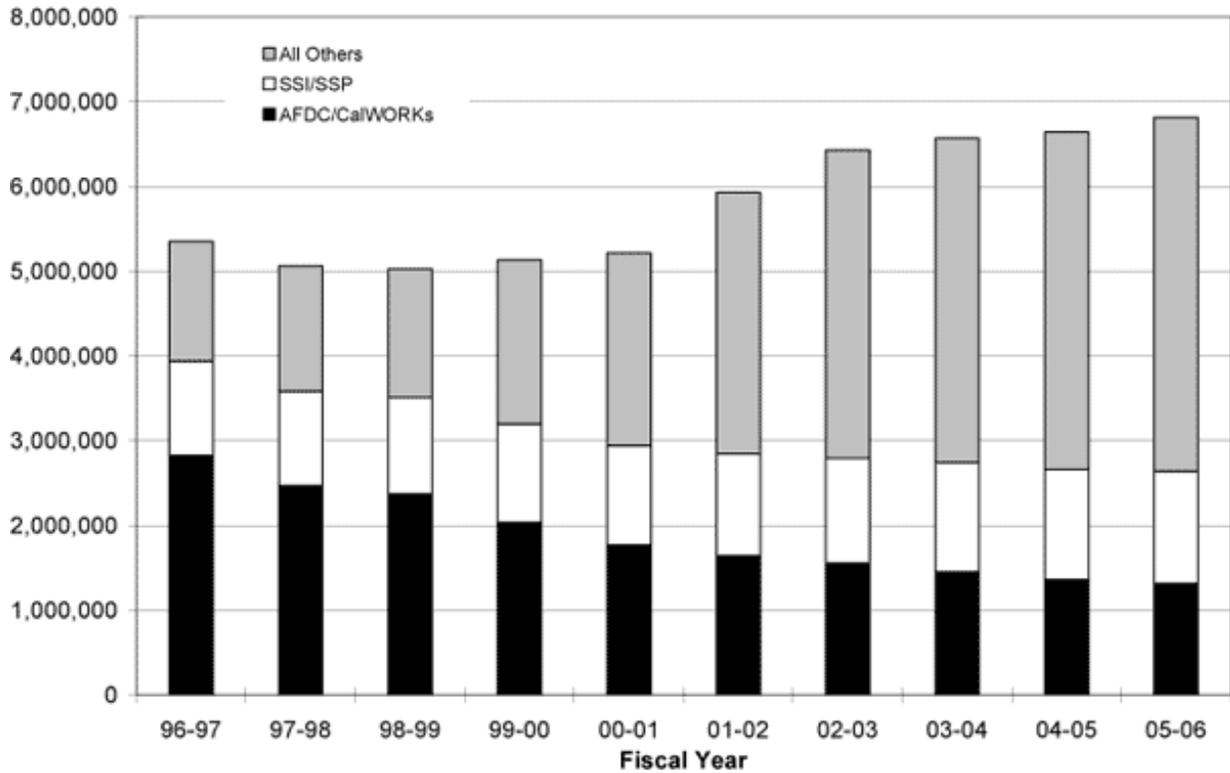


Figure HHS-13 shows federal data from 2003-04 (the most recent information available) for the ten most populous states. By percentage of state population, California served about 18.2 percent of state residents, exceeded only by New York. California also has one of the lowest average cost-per-recipient rates in the nation: \$4,605 per beneficiary, versus a national average of \$5,869 per beneficiary in 2003-04.

**Figure HHS-13
Federal Medicaid Program - Interstate Comparisons
Ten Most Populous States
Fiscal Year 2003-2004**

	Medicaid as a Percentage of State's Budget	Average Monthly Eligibles as a Percentage of Total Population	Expenditures, Total Funds (Dollars in Millions)	Average Monthly Eligibles	Expenditures Per Eligible	Federal Sharing Ratio (FMAP)
All States	21.4	14.3	\$243,623	41,507,511	\$5,869	
California	18.5	18.2	\$29,816	6,474,624	\$4,605	50.0
Texas	23.0	12.0	\$13,565	2,646,893	\$5,125	60.0
New York	28.4	20.3	\$25,316	3,895,990	\$6,498	50.0
Florida	22.3	12.0	\$10,821	2,047,781	\$5,284	58.8
Illinois	25.4	12.6	\$9,567	1,596,828	\$5,991	50.0
Pennsylvania	28.8	12.9	\$13,623	1,599,837	\$8,515	54.7
Ohio	23.1	14.3	\$10,819	1,632,551	\$6,627	58.8
Michigan	20.0	13.3	\$7,955	1,343,257	\$5,922	55.4
Georgia	17.6	15.1	\$4,932	1,312,888	\$3,757	59.6
New Jersey	20.6	8.8	\$7,458	762,885	\$9,776	50.0

Sources: National Association of State Budget Officers, the US Census Bureau, and the Kaiser Commission on Medicaid and the Uninsured.

California has achieved this rate primarily through negotiated hospital and drug rebate contracts, a high-level of utilization review, extensive prepayment controls, extensive anti-fraud efforts, and conservative provider rate reimbursements. Further, some program expansion populations, such as working parents and children, have resulted in a lower cost per eligible person.

Benefits

All states are federally required to provide specific, basic medical services to Medicaid beneficiaries, including physician, nurse practitioner, and nurse-midwife services; hospital inpatient and outpatient services; specified nursing home care; laboratory and x-ray services; home health care; and early and periodic screening, diagnosis, and treatment services for children until age 21. In addition, federal matching funds are available for numerous optional services. These services include outpatient drugs, adult dental services, optometry, hospice, and occupational therapy. Currently, California offers virtually all optional benefits.

California provides more optional services than any other large state to both categorically eligible and to medically needy persons. Also, at this time, Medi-Cal provides more comprehensive benefits than most employer-funded comprehensive health care programs.

Pharmaceuticals

During the last few years, the cost of drugs has increased dramatically, and pharmaceutical costs have become a significant component of all health care costs. Technological advances in the development of new drugs, increased advertising of new and more expensive drugs, and expedited federal approval of new drugs have contributed to rising costs. As cost-control strategies, the Medi-Cal program utilizes a

Medi-Cal list of contract drugs and a State supplemental rebate program that secures approximately \$1.5 billion in drug savings to the program.

New Federal Outpatient Drug Program For Californians Eligible For Medicare And Medi-Cal

The Federal Medicare Modernization Act (MMA) of 2003 established an outpatient prescription drug program for almost 40 million Medicare beneficiaries, including 1 million Californians eligible for both Medicare and Medi-Cal ("dual eligibles"). Effective January 1, 2006, dual eligibles with incomes at or below 100 percent of poverty will be responsible for a copayment of \$1 for generic drugs and \$3 for brand name drugs. Those with incomes above 100 percent of poverty will pay \$3 and \$5, respectively. Under the MMA, the federal government will no longer provide Medicaid matching funds for drug categories covered by Medicare. In addition, states will no longer get Medicaid or supplemental rebates for drug categories covered by Medicare. This is a significant problem for California, because Medi-Cal leads the nation in negotiating supplemental rebates from drug manufacturers. The MMA requires states to pay to the federal government a general fund contribution to assist Medicare in the cost of covering the dual eligibles. Because of a variety of factors, this methodology will force California to pay approximately \$200 million General Fund more per year than the State would have otherwise paid for the cost of dual eligibles had it retained the program. The Governor's Budget assumes that, consistent with MMA, Medicare will be responsible for all drug coverage for dual eligibles effective January 1, 2006, and no Medi-Cal drug benefit will be available to any Medi-Cal beneficiary enrolled in Medicare.

Managed Care

Currently, approximately 3.2 million Medi-Cal beneficiaries (almost half of the people receiving Medi-Cal benefits and services) are enrolled in managed care plans. Managed care enrollment has increased from 2.4 million enrollees in 1999-00 to a projected total of 3.4 million enrollees in 2005-06. The funding for managed care plans has increased from \$3.4 billion (\$1.7 billion General Fund) in 1999-00 to \$5.6 billion (\$2.8 billion General Fund) in 2005-06.

The Medi-Cal Managed Care program is a comprehensive, coordinated approach to health care delivery designed to improve access to preventive primary care, improve health outcomes, and control the cost of medical care. Managed care includes three major health care delivery systems: the two-plan model, Geographic Managed Care (GMC), and County Organized Health Systems (COHS). Approximately 2.3 million, or 72 percent of Medi-Cal managed care beneficiaries, are enrolled in the two-plan model, first implemented in January 1996. Twelve counties were initially selected to offer beneficiaries a choice between two managed care plans. Each two-plan county offers the choice between a commercial plan selected through a competitive bidding process or the county-sponsored "local initiative." The commercial plan consists mainly of providers who have traditionally served the Medi-Cal population. The model assures continued participation by the "traditional" providers and maximizes the types of providers caring for beneficiaries.

The GMC model allows the State to contract with multiple managed care plans in a single county. The first GMC system was implemented in Sacramento in 1994. A second GMC system began operation in San Diego County in 1998-99. Approximately 336,000 beneficiaries are enrolled in GMCs.

The third model, the COHS, administers a prepaid, comprehensive case-managed health care delivery system. This system provides utilization controls, claims administration, and health care services to all Medi-Cal beneficiaries residing in the county. Five COHSs serving eight counties are currently in operation. Approximately 570,000 beneficiaries are enrolled in COHSs.

Program Enhancements and Other Budget Adjustments

Maximizing Federal Funding for Prenatal Care - The Governor's Budget proposes to take advantage of federal regulations that allow the State to receive federal funding for prenatal care provided in the Medi-Cal and the Access for Infants and Mothers programs. This proposal will result in an additional \$242 million in federal funds and corresponding General Fund savings.

Third Party Liability Reform - The Governor's Budget provides additional staff and funding to increase recoveries from liable third parties for their share of Medi-Cal costs. Potential liable third parties include insurance companies that cover Medi-Cal beneficiaries, workers' compensation insurers, Medicare, and estate recoveries. This proposal will provide a net savings of \$19.7 million General Fund in 2005-06.

Easing Provider Enrollment for Medi-Cal - Reducing the backlog of provider enrollments can help increase access to care for Medi-Cal beneficiaries and avoid financial hardship for providers who render services to beneficiaries while awaiting approval of their enrollment application. The DHS is reviewing options to improve the application process by which providers enroll in Medi-Cal with the intent of reducing the processing time of applications received to no more than 60 to 90 days.

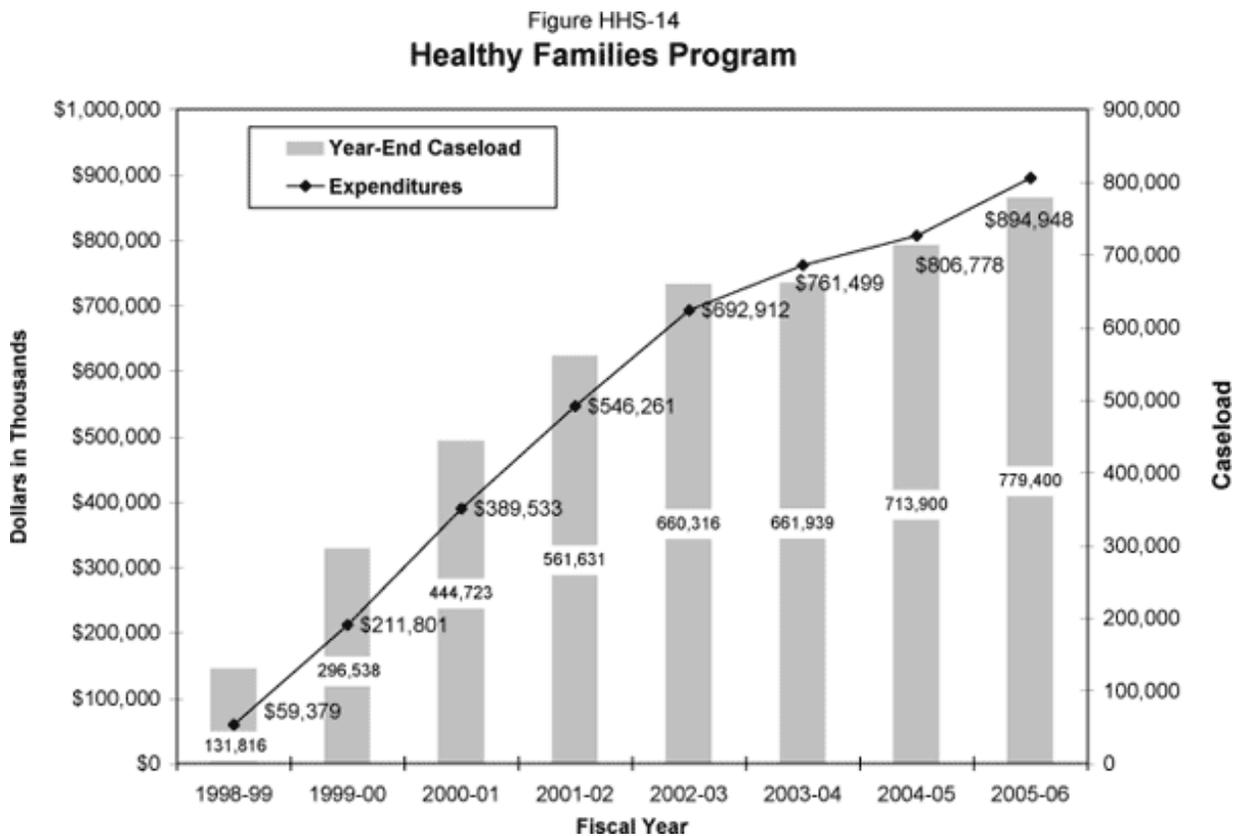
Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) administers programs that provide health care coverage through private health plans to certain groups without health insurance and develops policy and recommendations on providing health care insurance to the 6.7 million Californians who are estimated to go without health care coverage at some point in a given year. The three programs administered by the MRMIB are the Healthy Families Program, the Access for Infants and Mothers (AIM) program, and the Major Risk Medical Insurance Program. The Governor's Budget proposes \$1.05 billion (\$355.9 million General Fund and \$691.9 million other funds) and 92.0 positions for MRMIB. This represents an increase of \$65.6 million (\$29.6 million General Fund) and 27.5 positions above the revised 2004-05 Budget. This increase is primarily due to enrollment growth in the Healthy Families Program (HFP).

Healthy Families Program (HFP)

This Program is a subsidized health insurance program for children in families with low-to-moderate income who are ineligible for no-cost Medi-Cal. This program, established in 1998, provides low-cost health, dental, and vision coverage to eligible children from birth to age 19. The Governor's Budget includes \$2.5 million for 27.5 positions to process application appeals, reestablish the application assistance payments process, and monitor the administration vendor contract as a means to facilitate enrollment and retention of children. This increase advances the Administration's goal that every child in California have health insurance.

HFP expenditures are projected to grow from \$806.8 million (\$291.9 million General Fund) in 2004-05 to \$894.9 million (\$325.2 million General Fund) in 2005-06, an increase of \$33.3 million General Fund, or 11.4 percent. This increase is primarily the result of enrollment that is projected to grow from 713,900 by year-end 2004-05 to 779,400 in 2005-06 for a total increase of 65,500 children, or 9.2 percent. Figure HHS-14 displays historical caseload and funding growth for the HFP.



Access for Infants and Mothers (AIM)

This program provides low-cost, comprehensive health insurance coverage to uninsured pregnant women with family incomes between 200 percent and 300 percent of the federal poverty level. This coverage extends from pregnancy to 60 days postpartum, and covers infants up to two years of age. The expenditures for this program are projected to decrease from \$123.2 million (\$32.8 million General

Fund) in 2004-05 to \$99.8 million (\$28.5 million General Fund) in 2005-06, for a total decrease of \$23.4 million, or 19 percent. The Governor's Budget also reflects a policy change to take advantage of federal regulations that allow the State to receive federal funding for prenatal care provided in the program.

The decrease in funding for 2005-06 is primarily the result of the enrollment of infants born to AIM mothers directly into HFP, which began in 2004-05. As a result, the number of infants in the AIM program will decrease nearly 88 percent from an average monthly enrollment of 5,930 in 2004-05 to less than 800 in 2005-06. During this period enrollment of women is projected to increase from 8,500 in 2004-05 to 9,350 in 2005-06 for a total increase of 850 women, or 10 percent.

Major Risk Medical Insurance Program (MRMIP)

The Governor's Budget includes \$40 million for this program, which provides health care coverage to medically high-risk individuals and the medically uninsurable who are refused coverage through the individual health insurance market. Program enrollment is "capped" at the level of annual funding provided. The program currently provides benefits to a total of 9,356 persons, with 44 persons on the waiting list. The waiting list has declined due to the recent implementation of Chapter 794, Statutes of 2002, which uses a market-based solution to reduce the waiting list of applicants. Pursuant to Chapter 794, effective September 1, 2003, subscribers who have been in the program for 36 months are transitioned into guaranteed-issue coverage offered by health plans in the individual insurance market.

Department of Mental Health

The Department of Mental Health (DMH) ensures that a continuum of care exists throughout the state for children and adults who are mentally ill, by providing oversight of community mental health programs and direct services through the State hospitals. The Governor's Budget includes \$2.7 billion (\$1 billion General Fund) and 9,346.5 positions for mental health services, a net increase of \$171.8 million (\$78.1 million General Fund) and 601.7 positions above the revised 2004-05 Budget. This net increase primarily reflects population growth in the State hospitals, activation of Coalinga State Hospital, and employee compensation adjustments.

Proposition 63 - Mental Health Services Act

Proposition 63, the Mental Health Services Act (MHSA), went into effect on January 1, 2005. The MHSA provides the unique opportunity to change how mental health care is conceptualized and delivered in California. Consistent with the intent of the MHSA, the DMH will provide leadership and oversight to ensure that county mental health departments expend funds made available through this initiative to help transform California's current mental health system. The Administration's desire is to move the current system toward a state-of-the-art system that promotes recovery and wellness through independence, hope, personal empowerment, and resiliency for adults and senior citizens with severe mental illness, as well as children with serious emotional disorders and their families. This transformed system will also further the ability of individuals with mental illness to live and receive treatment in integrated settings in their own communities.

As outlined in the MHSA, the Administration will pursue the following goals:

- Reduce the long-term adverse impact on individuals, families, and State and local entities resulting from untreated serious mental illness.
- Expand models of successful, innovative service programs for children, adults and seniors previously begun in California to provide outreach and integrated services, including culturally and linguistically competent approaches for underserved populations.
- Ensure that funds are expended in the most cost-effective manner and services are provided in terms of recommended best practices.
- Reduce the stigma associated either with being diagnosed with a mental illness or seeking mental health services.

Although these goals will be implemented over several years, work on several specific objectives is being initiated in the current year including:

- Assessment of each county's unmet mental health workforce and service needs.
- Assessment of State and county information technology (IT) infrastructures and county capital facility needs.
- Establishment of requirements for and assistance to counties in the development of each county's three-year plan for local implementation of the MHSA.
- Establishment of the Mental Health Services Oversight and Accountability Commission created by the MHSA.
- Distribution of funds to counties to develop their local plans and to begin phased implementation of MHSA provisions pursuant to their State-approved local plans.

The DMH will present a detailed resource needs assessment for implementation of the MHSA for both 2004-05 and 2005-06 as part of the spring budget process.

State Hospitals

The State hospitals operated by the DMH provide long-term care and services to the mentally ill. The General Fund supports judicially committed, Penal Code and Sexually Violent Predator (SVP) patients, while counties fund other civil commitments. In 2004-05, there is a net increase of \$42 million (\$28.7 million General Fund) and 257.8 positions for the State hospitals primarily due to a projected population increase of 263 patients and employee compensation adjustments. The Governor's Budget includes \$837.5 million (\$670.1 million General Fund) and 9,088.9 positions for 2005-06, a net increase of \$72.3 million (\$64.0 million General Fund) from the revised 2004-05 Budget primarily due to a projected net increase of 188 patients, activation of Coalinga State Hospital, and changes in the supervision and treatment of SVPs. The patient population is projected to reach a total of 5,454 patients in 2005-06.

Activation of Coalinga State Hospital

The Governor's Budget includes \$74.2 million (\$65.7 million General Fund) and 708.7 level-of-care and non-level-of care positions to serve 683 patients in 2005-06 in Coalinga State Hospital (CSH) beginning September 2005. The CSH, a 1,500-bed high-security state mental hospital, will treat all SVP patients currently housed at Atascadero State Hospital and inmates referred from the Department of Corrections. Activation of the remaining 800 beds will continue over the next four fiscal years. Licensure, staffing, and training activities are underway in 2004-05.

The new facility, the first in over 50 years, is intended to accommodate the growing number of forensic patients committed to the State hospitals through the judicial system. Forensic patients, who include those in the SVP and Mentally Disordered Offenders programs, as well as individuals judged to be not guilty by reason of insanity and incompetent to stand trial, must be housed and treated in secure treatment settings in accordance with state law.

Restructure Treatment of SVPs

The Governor's Budget proposes to restructure SVP residential and treatment settings to more efficiently and effectively provide for the varying custody and supervision of committed SVPs who are participating in treatment and those who refuse treatment. All SVPs will reside in appropriately secured areas but will only be provided 24-hour nursing care as necessary and appropriate. Those SVPs with severe mental illnesses needing other treatment will continue to be housed in a traditional State hospital setting with 24-hour nursing care. The Governor's Budget reflects \$6 million General Fund savings due to this restructuring of supervision and treatment services. These savings will grow to \$11 million in 2006-07.

Local Custody of Precommitment SVPs

The Administration proposes to require that all precommitted SVPs remain in local custody until the courts commit them as SVPs. In addition, precommitted SVPs currently residing at Atascadero State Hospital awaiting trial who have not yet been committed as SVPs will be returned to local custody under this proposal. These individuals would otherwise be transferred to Coalinga State Hospital. The Governor's Budget includes \$9.2 million General Fund savings due to this proposal.

Community Mental Health Services

The Administration believes that mental health services should be provided in communities, in order to prevent commitment to a State hospital or incarceration. The Governor's Budget includes \$1.8 billion (\$304.6 million General Fund), a net increase of \$86.3 million (\$717,000 General Fund) compared to the revised 2004-05 Budget, for community mental health services.

Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT)

The EPSDT program is an entitlement program for children and adults under the age of 21. Under the EPSDT program, approximately 170,000 Medi-Cal eligible children and young adults receive services that ameliorate a diagnosed mental illness. In 2004-05, there is a decrease of \$29.2 million (\$15.8 million General Fund in the DHS budget) from the 2004 Budget Act due to an updated projection in the number of claims. The Governor's Budget includes \$801.2 million (\$392.5 million General Fund in the Department of Health Services budget) for EPSDT, an increase of \$76.7 million (\$43 million General Fund) from the revised 2004-05 Budget due to an increased number of projected claims.

Department of Developmental Services

The Governor's Budget includes \$3.7 billion (\$2.3 billion General Fund), a net increase of \$166.4 million (\$129.9 million General Fund) and a decrease of 393.0 positions from the revised 2004-05 Budget, for programs serving more than 200,000 persons with developmental disabilities.

Developmental Centers

The developmental centers are licensed and certified 24-hour, direct-care facilities that provide services to persons with developmental disabilities. In 2004-05, there is an increase of \$16.3 million (\$8.4 million General Fund) from the 2004 Budget Act primarily due to increased employee compensation costs for 8,314.1 positions. There is no anticipated change in the caseload of 3,307 consumers in 2004-05.

The Governor's Budget proposes \$699.2 million (\$373.1 million General Fund) and 7,912.1 positions, a net decrease of \$22.3 million (\$13.9 million General Fund) and 402.0 positions from the revised 2004-05 Budget. The developmental center population is projected to decline by 236 consumers from 3,307 to 3,071 in 2005-06.

Agnews Developmental Center Closure

The Governor's Budget is adjusted by a net increase of \$36.9 million (\$27.1 million General Fund) for the planned July 2007 closure of the Agnews Developmental Center (Agnews). The developmental center and the regional center budgets reflect these costs. The goals of the closure plan are to transition residents to safe and stable homes in the community and to ensure ongoing quality of care. This goal of keeping clients out of developmental centers and in the community is also consistent with California's Olmstead Plan. To achieve these goals, the plan proposes to:

- Develop permanent housing for developmentally disabled clients.
- Create new innovative program models to provide appropriate services and support to Agnews' clients.
- Temporarily use existing Agnews' staff to provide continuity of care and support to new community service providers.
- Implement a comprehensive quality management system to monitor consumer outcomes and satisfaction, provider performance, and regional center oversight.

The Administration is committed to a successful implementation of this closure plan not only to benefit existing Agnews' residents, but also to provide a blueprint for the future transition to safe and healthy community living for other developmental center clients.

Regional Centers

The 21 regional centers throughout California are nonprofit corporations contracted by the DDS to purchase and coordinate services mandated under the Lanterman Act for persons with developmental disabilities. Services provided include assessment of needs, coordination of services, resource development, residential placement and monitoring, quality assurance, and individual program planning assistance. In 2004-05, there is a net increase of \$10.6 million overall and a decrease of \$25.6 million General Fund for regional centers primarily due to increased federal funding for case management services and consumers enrolled on the Medicaid waiver. There is no change in the community caseload of 199,255 consumers in 2004-05.

The Governor's Budget proposes \$3 billion (\$1.9 billion General Fund) to support the regional centers, a net increase of \$187.6 million (\$143.1 million General Fund) from the revised 2004-05 Budget. The regional center community population is projected to increase by 8,765 consumers to 208,020 consumers in 2005-06.

Self-Directed Services

The Administration is committed to developing innovative strategies to help developmentally disabled clients live fully in a community setting whenever possible. In the coming year, the DDS intends to apply for a federal Independence Plus waiver in order to expand the existing Self-Directed Services Program to five additional regional centers. The program will expand statewide in 2006-07. This program will allow consumers and their families to purchase services and support mechanisms through an individual budget "account" based upon the individual's needs. The program will feature a comprehensive array of services from which the participating consumer can choose based upon a set budget established in a fair, transparent, and equitable manner. Consumers will be supported by community-based entities that will assist in securing needed services, as well as help determine if prospective service providers have proper qualifications. This new approach will assist the State in providing more community-oriented services as directed in California's Olmstead Plan.

For the DDS headquarters and the regional centers to implement the program, the Governor's Budget includes \$1.2 million General Fund. The resulting General Fund savings to regional center purchase of services are estimated to be \$2.2 million in 2005-06, \$14.3 million in 2006-07, and \$29 million in 2007-08.

Long-Term Cost Containment

This community-based system of care grew from about \$1.9 billion to more than \$2.8 billion during the last four years, a 47 percent increase. During the past two fiscal years, this growth was slowed by various strategies focused primarily on freezing rates paid to providers. Although rate freezes have been effective at containing costs in the short term, they cannot be sustained over the long term if sufficient services are to be provided in the future.

Therefore, the Administration identified a number of reasonable, common sense structural reforms that will contain long-term growth within sustainable limits. The proposed changes will not compromise the Lanterman Act entitlement, result in waiting lists, or impose categorical reductions or enrollment caps. Regional centers will use these sensible guidelines when developing individual service plans for consumers, purchasing services, and ensuring that consumers have support when developing their own self-directed treatment options.

For regional centers to implement these structural changes, the Governor's Budget includes \$6.2 million General Fund. The resulting General Fund cost reductions to regional center purchase of services are expected to be \$10.5 million in 2005-06, \$20.9 million in 2006-07, and \$31.4 million in 2007-08 and each year thereafter.

Department of Child Support Services

The Child Support Program promotes the well-being of children and the self-sufficiency of families by delivering child support establishment and collection services that assist parents in meeting the financial, medical, and emotional needs of their children. To provide enhanced fiscal and programmatic direction and oversight of child support enforcement activities, Chapters 478 and 480, Statutes of 1999, established the Department of Child Support Services (DCSS). These measures authorized the implementation of a single, statewide child support system comprised of local child support agencies under the supervision of the new department. The DCSS assumed responsibility for child support enforcement activities in January 2000.

The DCSS is designated as the single State agency to administer the statewide program to secure child, spousal, and medical support, and determine paternity. The primary purpose is the collection of child support payments for custodial parents and their children. The Governor's Budget proposes approximately \$1.4 billion (\$508.2 million General Fund) and 328.6 positions for this purpose.

Program Administration

State Administration

The Governor's Budget proposes total expenditures of \$38 million General Fund for state administration of the program. Departmental staff ensure a more effective program through expanded State-level direction and supervision of local child support agencies. Specific mandates require increased oversight of local program and fiscal operations.

County Administration

The Governor's Budget proposes \$194.1 million General Fund to fund local agency administrative costs, which is approximately the same level of funding for local program expenditures that was provided in 2004-05.

Child Support Collections

The Child Support Program establishes and enforces court orders for child, spousal, and medical support from absent parents on behalf of dependent children and their caretakers. For display purposes only, the Governor's Budget reflects the total collections received, including payments to families and collections made in California on behalf of other states. The General Fund share of assistance collections is included in statewide revenue projections.

Child support collections for 2005-06 are projected to be \$2.4 billion (\$322.4 million General Fund). The collections for 2004-05 are estimated also to be \$2.4 billion (\$320.7 million General Fund).

Child Support Automation

Chapter 479, Statutes of 1999, designated the Franchise Tax Board as the agent of the DCSS for the procurement, development, implementation, and maintenance and operation of the California Child Support Automation System (CCSAS). The State is responsible for developing and implementing the CCSAS and transitioning all counties onto this new system. The State expects to have the new system completed by 2008-09.

The CCSAS project consists of two components: the Child Support Enforcement (CSE) component that will provide the core automated functionality to manage child support cases and the State Disbursement Unit (SDU) that will interface with the CSE and process payments to custodial parties.

In July 2003, the State entered into a contract with IBM Global Services to develop and implement the CSE component. The State is currently in the process of procuring a vendor for the SDU component of the project.

As a result of California's delay in implementing a single, statewide-automated child support system, the federal government has annually levied federal penalties against the State. The Governor's Budget includes \$218 million General Fund for payment of the federal fiscal year (FFY) 2005 penalty. The Governor's Budget also assumes that the federal government will allow the State to defer payment of the FFY 2006 penalty, if any, to September 30, 2006, as this would be consistent with the federal government's practice in the past.

Department of Social Services

The Department of Social Services (DSS) provides aid, service, and protection to children and adults in need of assistance. All DSS programs are aimed at promoting the well-being of children, strengthening families, and helping adults and parents achieve their potential for economic self-sufficiency. The Governor's Budget includes \$16.8 billion (\$8.5 billion General Fund) and 3,944.1 positions for the department. This represents a decrease of \$869.9 million (\$307.4 million General Fund) from the revised 2004-05 Budget. This reduction is compelled by the need to save funds in the budget.

California Work Opportunity and Responsibility to Kids (CalWORKs)

CalWORKs program is California's version of the federal TANF program, and replaced the Aid to Families with Dependent Children program on January 1, 1998. The CalWORKs program is California's largest cash-aid program for children and families, and is designed to provide temporary assistance to meet basic needs (shelter, food, and clothing) in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work requirements and encouraging personal accountability. The program recognizes the differences among counties and affords them maximum program design and funding flexibility to ensure successful implementation at the local level.

Total CalWORKs expenditures of \$6.7 billion are proposed for 2005-06, including TANF and maintenance-of-effort countable expenditures. The amount budgeted includes \$4.9 billion for CalWORKs program expenditures within the DSS budget, \$1.5 billion in other programs, and \$196.4 million for a CalWORKs program reserve. Other programs include the Statewide Automated Welfare System, Child Welfare Services, California Food Assistance Program, State Supplemental Payment, Foster Care, State Department of Education child care, California Community Colleges child care and education services, Department of Child Support Services disregard payments, Department of Developmental Services programs, and county expenditures (see Figure HHS-15). Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 495,000 cases in 2004-05, and 473,000 cases in 2005-06.

Figure HHS-15
2005-06 CalWORKs Program Expenditures¹
(Dollars in Millions)

CalWORKs Program Components	2005-06
<u>In DSS Budget:</u>	
Assistance Payments	\$2,772
Employment Services	1,036
County Administration	271
DSS Child Care	468
Kin-GAP	83
Juvenile Probation	201
Tribal TANF	69
DSS Administration	26
Subtotal	\$4,927
<u>Other CalWORKs Expenditures:</u>	
Statewide Automated Welfare System	90
Child Welfare Services	241
California Food Assistance Program	8
State Supplementary Payment Program	13
Foster Care	55
State Department of Education Child Care	852
California Community Colleges Child Care	15
CCC Education Services	20
DCSS Disregard Payments	31
Department of Developmental Services	60
County Expenditures	155
Subtotal	\$1,538
General TANF Reserve	196
Total CalWORKs Expenditures	\$6,662

¹ Detail may not add to totals due to rounding.

Improving Accountability and Service Delivery

Since the inception of the CalWORKs program in January 1998, caseload has declined by nearly 33 percent and the number of working recipients has increased from less than 20 percent in 1996 to nearly 50 percent in 2003. While success has been achieved in moving recipients to employment and reducing caseloads, enhanced efforts are needed to improve participation in work, as statewide levels for the

federal work participation rate declined from a high of 42.2 percent in 1999 to a low of 22.4 percent in 2003. The Governor's Budget builds upon the reforms included in 2004-05, fully implementing enhanced work requirements and creating additional incentives for county welfare departments to achieve the goal of moving people from welfare to work. Despite California's success in moving individuals off this program, our State has done less well in doing so than the other ten largest states, so we look for more progress to be made in this area. While California currently meets federal work participation requirements, more effort is necessary to meet increased work requirements expected under TANF reauthorization.

The Governor's Budget proposes reforms that reduce program costs and improve county performance while continuing to place a greater emphasis on work participation and personal responsibility. The following key policy objectives serve as a foundation for the Administration's CalWORKs program budget:

- Continued focus on employment to maximize participation in the workforce and decrease dependence on aid.
- Incentives for counties to utilize available resources in the most effective and efficient manner and reward the achievement of welfare to work goals.
- Maintenance of services necessary to transition recipients to the workforce.
- Maximization of available federal block grant funds and the federally required level of State funds.

Key revisions to the CalWORKs program budget include:

- Full Implementation of Enhanced Work Requirements - Reforms included in the 2004 Budget Act to strengthen the work focus of the CalWORKs program will be fully implemented in 2005-06 and are expected to result in a cost avoidance of \$8.5 million in 2005-06. These reforms require recipients to be enrolled in welfare-to-work activities sooner after aid is approved and require that more hours be dedicated to direct work activities. This will promote earlier employment, reduce reliance on public assistance, and enhance California's ability to meet increased federal work participation requirements. In addition, the Administration proposes to build on these reforms after completing an evaluation of current CalWORKs sanction policies. Savings resulting from providing further incentives to work are targeted at \$12 million in 2005-06.
- Pay for Performance - The Governor's Budget includes a new incentive system that bases a portion of the counties' single allocation for administration and employment services on specific outcomes of CalWORKs clients in each county. The Pay for Performance model will help to ensure that counties invest resources in activities that are most effective and efficient in achieving the desired outcomes. For 2005-06, the measured outcomes will be improved rates of employment and higher work participation rates among CalWORKs recipients. County allocations for 2006-07 will be adjusted based upon achievement of the measured outcomes in 2005-06. By offering pay for performance incentive payments to counties for improvement in CalWORKs program outcomes, grant savings will be achieved and federal penalties avoided as participants successfully gain employment and increase earnings. This proposal is estimated to result in savings of \$22.2 million

in 2005-06 through lower grant costs as participants increase both the number of hours worked and their earnings.

- Align CalWORKs Benefits with Other States - CalWORKs program benefits are among the most generous of the ten most populous states. Program reforms that align benefit levels with TANF programs in other states are necessary to ensure the long-term viability of the program.
 - o Reduce CalWORKs Grants - CalWORKs grant levels are currently highest among the ten most populous states. This proposal will reduce grants by 6.5 percent for savings of \$208.5 million. As reflected in Figure HHS-06, even with this reduction, California's grant levels will be the fourth highest of all 50 states and second highest of the 10 most populous states.
 - o Eliminate the Statutory Requirement to Provide a Cost-of-Living Adjustment (COLA) - CalWORKs grant COLAs are statutorily required each year without consideration of whether sufficient resources are available to support them. No other large state has automatic cost-of-living adjustments in law. The requirement will be amended in order to address cost pressures inherent to the CalWORKs program and to allow the Administration and the Legislature to annually evaluate how best to invest available resources to help recipients move into the workforce under this proposal. Savings of \$163.8 million will be achieved annually by eliminating the July 2005 COLA.
 - o Reduce the Income Disregard - California has one of the most generous income disregard policies in the nation. A modest adjustment to the formula will maintain a significant incentive for individuals to work and earn income. This proposal will allow CalWORKs families to keep \$200 and 40 percent of remaining earned income rather than the current \$225 and 50 percent of remaining earned income. This change will result in savings of \$79.5 million in 2005-06 and \$109.3 million annually thereafter. It will more closely align California's policies with other large states while continuing to provide benefits above the level provided in many states.
- Maximize the Use of Available Funds - California has consistently maintained a policy of utilizing only the available federal block grant funds and federally required level of state funds for the CalWORKs program. In order to maintain this policy, \$650 million in program reductions will be required to maintain expenditures within this level. In addition to the adjustments noted above, significant adjustments include:
 - o Eliminate 2004-05 Employment Services Augmentation in 2005-06 - Savings of \$50 million will be achieved by deleting this one-time augmentation for CalWORKs employment services. The Governor's Budget maintains \$191.9 million for employment services in both 2004-05 and 2005-06. This funding is sufficient to enable counties to provide services tailored to their individual needs to move CalWORKs recipients from public aid to employment, which is the core of the CalWORKs program.
 - o Offset Changes in 2004-05 Expenditures with Savings - Savings of \$42.9 million will be achieved by modifying the past practice of not adjusting current year funding when updated estimates result in lower costs. Significant savings will be achieved while still allowing counties the full value of caseload growth for employment services and administration.

Supplemental Security Income/State Supplementary

Payment

The federal Supplemental Security Income (SSI) program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment (SSP) grant. These cash grants assist recipients with basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determinations and grant computations and issuing combined monthly checks to recipients.

The Governor's Budget proposes \$3.5 billion General Fund for the SSI/SSP program in 2005-06. This represents a 1.1 percent increase from the 2004 Budget Act. The caseload in this program is estimated to be 1.2 million recipients in 2005-06, a 2.3 percent increase over the 2004-05 projected level. The SSI/SSP caseload consists of 30 percent aged, 2 percent blind, and 68 percent disabled persons. While not implementing the State COLA or passing along the federal COLA (see immediately following section), the overall General Fund contribution to SSI/SSP will nevertheless grow in 2005-06 by \$79.1 million from the revised 2004-05 expenditure level.

Suspension of Cost-of-Living Increases

The SSI/SSP caseload grew by 14.5 percent from 1998-99 to the 2004 Budget Act compared to the growth in General Fund program expenditures of over 55 percent during the same period. Cost growth in this program is primarily due to the provision of statutory COLAs.

Beginning in April 2005, monthly grant payment levels will be increased to \$812 for an aged or disabled individual and \$1,437 for a couple. These levels reflect the pass-through of a 2.7 percent federal COLA effective January 1, 2005 and provision of a 2.75 percent State COLA effective April 1, 2005.

Given the State's severe fiscal constraints, the Administration proposes that the January 2006 State COLA (4.6 percent) be suspended, and the pass-through of the January 2006 federal COLA (2.3 percent) be withheld for General Fund savings of \$258.9 million in 2005-06 and \$517.8 million annually thereafter. As reflected in Figure HHS-16, even with these actions, California continues to provide the highest level of cash grants to SSI/SSP recipients among the ten most populous states.

Figure HHS-16

**Comparison of 2004-2005 SSI/SSP Maximum Payments
for the Ten Most Populous States¹**

State	Monthly Grants for Independent Living Arrangement			
	Aged and Disabled		Blind	
	Individuals	Couples	Individuals	Couples
California ²	\$812	\$1,437	\$877	\$1,664
New York	666	973	666	973
New Jersey	610	894	610	894
Pennsylvania	606	913	606	913
Michigan	593	897	593	897
Florida ³	579	869	579	869
Georgia ³	579	869	579	869
Texas ³	579	869	579	869
Illinois ⁴	579	869	579	869
Ohio ³	579	869	579	869

¹ The January 2005 federal maximum payments are \$579 per individual, and \$869 for a couple.

² The 2004-05 SSP COLA was delayed until April, 2005. The grant levels for California reflect provision of this COLA.

³ Reflects the federal SSI maximum payment only, as these states do not provide supplemental payments for an independent living arrangement.

⁴ Illinois does not have a standard SSP allowance. Any supplements are based upon individual needs and circumstances.

In-Home Supportive Services

The In-Home Supportive Services (IHSS) program provides support services, such as house cleaning, transportation, personal care services, and respite care to eligible, low-income aged, blind, and disabled persons. These services are provided in an effort to allow individuals to remain safely in their homes and prevent premature institutionalization.

The Governor's Budget proposes \$1 billion General Fund for the IHSS program in 2005-06. This represents an 11.6 percent decrease from the 2004 Budget Act. The caseload in this program is estimated to be 382,000 recipients in 2005-06.

Improving Accountability and Service Delivery

General Fund expenditures for the IHSS program grew 120 percent over the period from the 1998-89 to the 2004 Budget Act, even though the caseload grew by only 65.3 percent. The primary reason for this disproportionate cost growth has been an increase in costs per case due to increases negotiated by

local government entities in IHSS provider wage and benefit costs. Given the State's severe fiscal constraints and significant relief afforded counties by the recent IHSS waiver, the Administration proposes to reduce the State's cost of providing services in the IHSS program to avoid more significant reductions to services. Specifically, the Administration proposes to limit State participation in IHSS worker wages and health benefits to the minimum wage (\$6.75 per hour). Counties have the option of reinvesting local savings (\$112 million from 2004-05 and \$93 million from 2005-06) obtained by the Administration under the IHSS waiver.

The 2004-05 Budget established an IHSS Quality Assurance and Fraud Prevention Program. This program, comprised of both State and county quality assurance units, improves the quality of IHSS need assessments and reduces over-authorization of service hours. This program is expected to result in General Fund savings of \$59.2 million in 2005-06.

In addition, the DSS will release a Request for Proposal in 2005-06 to procure an IHSS worker telephone tracking system. This system will be developed in 2006-07 and implemented in each county as a means to minimize fraud and abuse. The savings resulting from reducing fraud and abuse are expected to outweigh the investment necessary to develop the system.

Child Welfare Services

California provides a comprehensive system of services and out-of-home care for children who are either at risk of or have suffered abuse and neglect. The Child Welfare Services (CWS) Program includes services to protect children and reunite families when possible, or to find alternate permanent families for children when they cannot return home safely. The Governor's Budget includes \$2 billion (\$645.1 million General Fund) for county social workers to provide case management, coordinate treatment services for children and their families, and monitor progress.

The Governor's Budget proposes to continue and expand important systemic program changes begun in 2004-05. Specifically, the Administration proposes to expand the implementation of a Standardized Safety Assessment System, a differential response system for responding to child welfare referrals, and enhanced permanency and youth transition standards to additional counties. These program improvements are critical to improving outcomes and ensuring the safety of children.

CWS has evolved into an outcome-focused program with the successful implementation of the new Outcome and Accountability System. Success is measured in terms of improving the safety, permanence, and well-being of the children and families served. The State has begun to publish regular reports on State and county performance, bringing public scrutiny and accountability to CWS. Additionally, all counties have completed self-assessments of their performance and identified areas needing improvement. Counties have developed plans that outline specific actions needed to improve performance, and these plans are being reviewed to determine how to invest available resources. Over the course of the next several months, the Administration will continue to work with counties and other stakeholders in assessing these proposals, and in developing an approach that balances the State's

fiscal challenges with the need to improve outcomes for children.

The Governor's Budget proposes legislation to allow the State to pass on to counties a portion of future federal penalties associated with California being out of compliance in CWS. As the counties implement this program, the proposed legislation will help ensure that counties are making progress towards federal compliance.

State-Local Program Realignment

In 1991-92, State-Local Program Realignment restructured the state-county partnership by giving counties increased responsibilities for a number of health, mental health, and social services programs. Realignment also provided an ongoing revenue source for counties to pay for these increased responsibilities by establishing a new one-half cent sales tax and an increase in the motor vehicle license fee (VLF). The one-half cent sales tax is a dedicated funding stream for realignment. Chapter 322, Statutes of 1998, established a program to offset a portion of the vehicle license fees paid by vehicle owners. The amount of the offset has increased from the original 25 percent reduction in 1999 to the current 67.5 percent reduction that resulted from Chapter 5, Statutes of 2001. The amount of VLF revenue available for realignment is not affected by the 67.5 percent reduction in VLF, because the amount of total VLF collections dedicated to realignment was increased from 24.3 percent to 74.9 percent effective July 1, 2004 (Chapter 211, Statutes of 2004), to backfill this reduction. From January 1999 to June 30, 2004, General Fund was provided to backfill these lost VLF revenues.

During 2001-02, the amount of sales tax growth required to be deposited into the Caseload Subaccount was deficient by \$123.6 million. This shortfall was fully restored with \$44.7 million of 2002-03 sales tax growth revenue and \$78.9 million of 2003-04 sales tax growth revenue. For 2002-03, the amount of sales tax growth required to be deposited into the Caseload Subaccount was deficient by \$183.2 million. This shortfall was partially restored with \$55.2 million of 2003-04 sales tax growth revenue after the 2001-02 caseload growth was fully funded. The remaining shortfall of \$128 million will be funded from future growth in sales tax revenue pursuant to current State law.

Realignment revenues in 2004-05 are estimated to total \$4.1 billion, which represents an increase of \$113 million compared to 2003-04. The \$4.1 billion is comprised of \$2.5 billion in sales tax revenues and \$1.6 billion in VLF. The projected \$82.3 million in sales tax growth will be distributed to the Caseload Subaccount to reduce the 2002-03 shortfall. The \$30.7 million in projected VLF growth will be distributed pursuant to current statute.

For 2005-06, Realignment revenues are estimated to total \$4.3 billion, which represents an increase of \$227.3 million above 2004-05. The \$4.3 billion total includes \$2.7 billion in sales tax revenues and \$1.6 billion in VLF. The projected \$173.9 million in sales tax growth will be distributed to the Caseload Subaccount to pay the balance of unfunded 2002-03 caseload growth (\$45.7 million) and the remainder (\$128.2 million) will be applied toward a portion of the unfunded 2003-04 caseload growth. The \$53.4 million in projected VLF growth will be distributed pursuant to current statute (see Figure HHS-17,

Figure HHS-18, and Figure HHS-19).

Figure HHS-17
1991-92 State-Local Realignment
2003-04 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$835,285	\$410,413	\$1,029,475	\$2,275,173
Vehicle License Fee Account	273,270	1,025,867	44,749	1,343,886
Total Base	\$1,108,555	\$1,436,280	\$1,074,224	\$3,619,059
Growth Funding				
Sales Tax Growth Account:				
2001-02 Base Restoration ¹	—	—	167,096	167,096
Caseload Subaccount	—	—	(27,343)	(27,343)
County Medical Services Subaccount	—	—	(139,752)	(139,752)
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	81,193	126,484	14,803	222,480
Total Growth	\$81,193	\$126,484	\$181,899	\$389,576
Total Realignment²	\$1,189,748	\$1,562,764	\$1,256,123	\$4,008,635

¹ 2001-02 Social Services Base Restoration, per Chapter 450, Statutes of 2003.

² Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources. Includes \$1.1 billion General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.

Figure HHS-18
1991-92 State-Local Realignment
2004-05 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$835,285	\$410,413	\$1,196,571	\$2,442,269
Vehicle License Fee Account	354,463	1,152,351	59,552	1,566,366
Total Base	\$1,189,748	\$1,562,764	\$1,256,123	\$4,008,635
Growth Funding				
Sales Tax Growth Account:			82,269	82,269
Caseload Subaccount	—	—	(82,269)	(82,269)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	11,216	17,473	2,045	30,734
Total Growth	\$11,216	\$17,473	\$84,314	\$113,003
Total Realignment¹	\$1,200,964	\$1,580,237	\$1,340,437	\$4,121,638

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

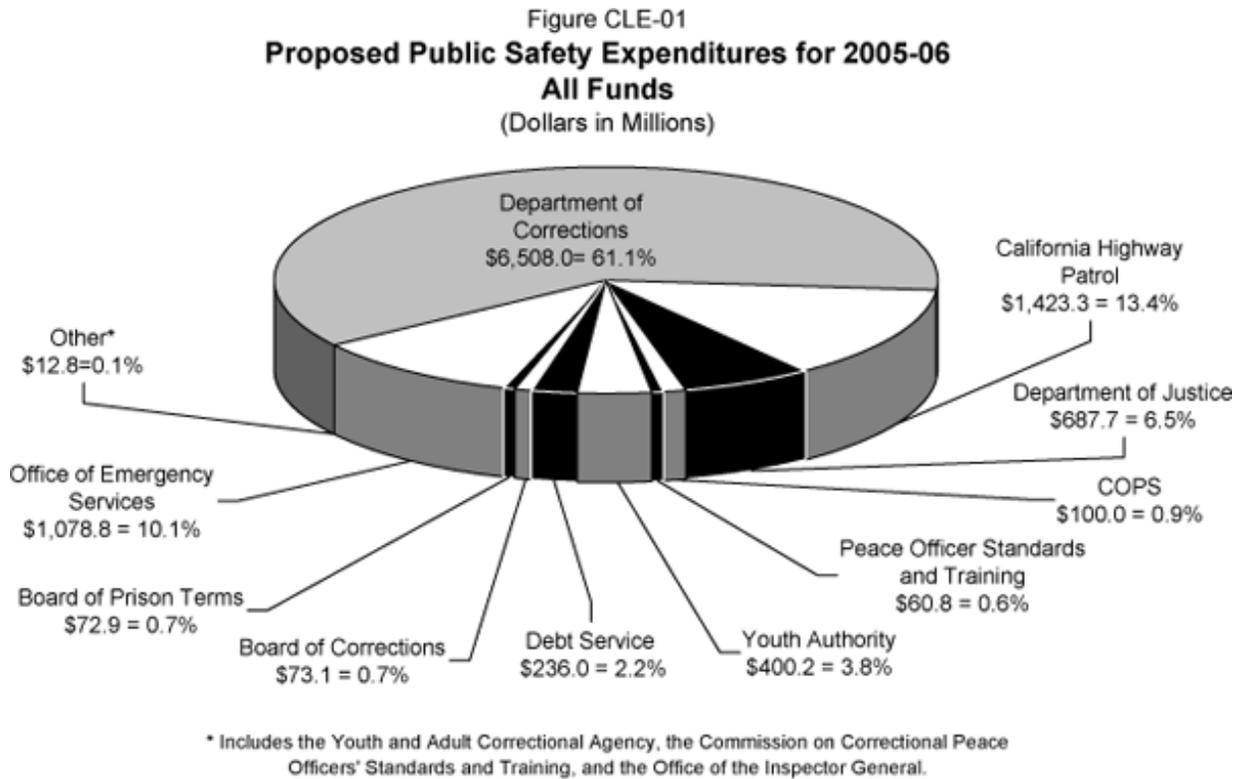
Figure HHS-19
1991-92 State-Local Realignment
2005-06 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$835,285	\$410,413	\$1,278,840	\$2,524,538
Vehicle License Fee Account	365,679	1,169,824	61,597	1,597,100
Total Base	\$1,200,964	\$1,580,237	\$1,340,437	\$4,121,638
Growth Funding				
Sales Tax Growth Account:			173,896	173,896
Caseload Subaccount	—	—	(173,896)	(173,896)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	19,474	30,337	3,551	53,362
Total Growth	\$19,474	\$30,337	\$177,447	\$227,258
Total Realignment¹	\$1,220,438	\$1,610,574	\$1,517,884	\$4,348,896

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

Corrections and Law Enforcement

The Governor's Budget includes funding to support the various programs within the Youth and Adult Correctional Agency, Department of Justice, Office of Emergency Services, Commission on Peace Officer Standards and Training, Office of the Inspector General, and the California Highway Patrol. Funding for these programs will be approximately \$10.7 billion in total funds (\$7.5 billion General Fund and \$3.2 billion other funds), and reflects an increase of \$14.8 million (\$65.8 million General Fund), or 0.1 percent over the revised 2004-05 Budget. The level of funding proposed for each of these agencies is shown in Figure CLE-01. More notable funding changes included in the Budget for these programs are further described in More Highlights below.



Youth and Adult Correctional Agency

The Youth and Adult Correctional Agency is composed of the following entities: the Secretary for the Youth and Adult Correctional Agency, the Department of Corrections, the Department of the Youth Authority, the Board of Prison Terms, the Board of Corrections, and the Commission on Correctional Peace Officers' Standards and Training.

Secretary for the Youth and Adult Correctional Agency

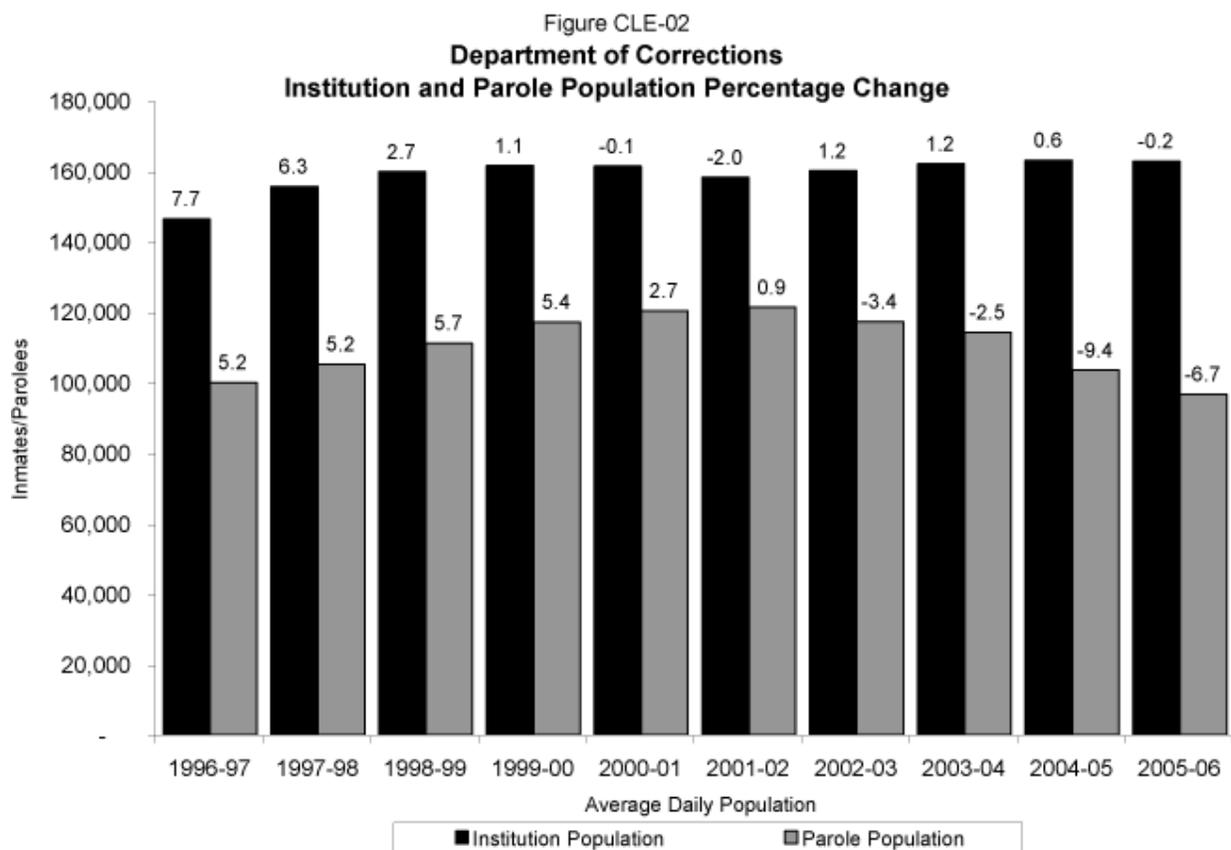
The Secretary for the Youth and Adult Correctional Agency is responsible for providing day-to-day policy direction and broad administrative guidance to the departments and boards relating to youth and adult detention services. The Secretary also provides oversight for the Narcotic Addict Evaluation Authority. The Governor's Budget proposes \$2.8 million General Fund and 20.8 positions for the Agency. This represents a decrease of \$28,000 from the 2004-05 revised Budget. This decrease is due to budget reductions.

The Agency will be reorganizing its operations to increase its efficiency and effectiveness, in keeping with the Governor's goal to reform State government. In addition, during the budget year, the Agency will focus its efforts on implementing several key goals and objectives as outlined in its Strategic Plan, which was released in December 2004.

Department of Corrections

The Department of Corrections (CDC) is responsible for the incarceration of convicted felons and the supervision of these felons after their release on parole. The CDC is responsible for providing safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic and vocational training, and health care. The Governor's Budget proposes \$6.5 billion (\$6.4 billion General Fund and \$138.3 million other funds) and 51,848.2 positions for the Department. This represents an increase of \$247.5 million (\$250 million General Fund) and 1,575.1 positions above the revised 2004-05 Budget. In 2005-06, incarceration and parole services will be provided through 33 institutions (which include 11 reception centers), 40 camps, and 12 community correctional facilities.

The CDC's average daily inmate population is projected to decrease from 163,019 in 2004-05 to 162,755 in 2005-06, a decrease of 264 inmates, or 0.2 percent. The difference is due to the increasing impact of the parole reforms included in the 2003 and 2004 Budget Acts. However, the current projections are higher than the 2004 Budget Act projected average daily inmate population due to increased new admissions from court and parole violators returned with new terms, as well as delays in implementation of the parole reforms from the 2003 and 2004 Budget Acts. The average daily parole population is projected to decrease from 103,492 in 2004-05, to 96,602 in 2005-06, a decrease of 6,890 parolees, or 6.7 percent. The parole population is projected to be lower due to ongoing implementation of parole policies and practices designed to ensure public safety and to be consistent with current law. (See Figure CLE-02.)



Fiscal Accountability

The CDC has had a history of significant fiscal deficiencies in recent years. It had become apparent that there was little fiscal accountability among CDC institutions, part of which was related to the institutions having little incentive to expend within the limits of a budget allotment that contained a shortfall from the outset. Another part, however, was the CDC's running of unauthorized position equivalents without budget authority.

Since November 2003, this Administration has made a concerted effort in promoting truth in budgeting at the CDC. The focus of this effort has been to provide adequate funding for required activities, create institutional allotments that tie to the approved budget, and hold the institutions accountable to that allotment.

The first step in this process was to reconcile the Post Assignment Schedule to the budgeted level of positions. From this reconciliation, it became evident that required activities were not properly funded, and also that CDC was running unauthorized position equivalents without budget authority. During 2003-04, the Secretary of the Youth and Adult Correctional Agency immediately put a halt to the use of unauthorized, non-required positions, and while additional population related funding was necessary in that fiscal year, CDC did not have an operational deficiency at the end of 2003-04.

Despite this success, the creation of a new allotment methodology and the analysis of those allotments directly pointed to various problems in the CDC budget that could not continue to be met year after year through keeping high levels of vacancies for non-custodial staff and reducing spending for essential operating expenses, such as facility maintenance. To begin addressing this problem, the 2004 Budget Act provided funding to increase the budgeted relief factors for posted positions to allow employees in posted positions the opportunity to receive training, take accrued time off in a timely manner, reduce the liability for excess leave balances, and reduce staff overtime. Funding was also provided to establish Administrative Segregation units at those institutions that show an ongoing need for additional beds. Additionally, funding was provided to ensure proper staffing and funding for guarding and transporting inmates in need of medical attention outside of the prisons.

In an ongoing effort to provide allotments that are fair and manageable, the Budget includes various workload budget adjustments related to structural operating costs in a continued effort to align institutional budgets with actual expenditures. These adjustments include \$35 million to reflect personnel costs to avoid CDC needing to operate at unacceptable vacancy levels, along with \$9.8 million to increase the budgeted relief for non-custody posted positions to recognize the required training hours mandated by labor contracts and health care litigation and the actual amount of sick leave usage.

The Department still faces considerable problems in areas such as case records, facility maintenance, health care funding, and equipment replacement; and the Administration is still committed to examining these needs and determining strategies to address the operational needs of the Department. In the meantime, however, with the funding that has been provided for required activities, along with allotments that tie to budgeted levels, the tools are in place to hold institutions accountable.

Finally, in addition to looking at fair budgeting for department operations, the Administration is focusing on fair budgeting for local reimbursements. The Governor's Budget includes an augmentation of \$5.3 million in 2004-05 and \$7.5 million in 2005-06 to reimburse local entities for the prosecution of crimes committed by inmates in the State correctional system. This augmentation is part of an ongoing effort to track local assistance expenditures in order to make future adjustments. The Administration is committed to working with local law enforcement to review the current reimbursement rates for local jail beds used by the Department for parole violators. Given the ongoing implementation of the remedial plan associated with the Valdivia class action lawsuit, the actual funding level needed is unknown at this time. The data collected over the next year will allow the Administration to adjust the Budget accordingly.

Employee Discipline

Since the arrival of the new Administration under Governor Schwarzenegger, one of the primary issues that became the focus of attention from the Administration, Legislature, media, and others is the need for improvement in the employee disciplinary process. As a result of that focus, the 2004 Budget Act

included \$1.9 million as the first step in achieving this goal. In a continuing effort to provide better attention to improving its disciplinary process, the Administration is proposing funding to allow disciplinary and labor issues to be addressed in a more timely fashion.

The Employee Relations Office throughout the CDC institutions consists of two functions: discipline and labor relations. Many of the institutions are insufficiently staffed to provide timely and effective action. When conflicts among disciplinary and labor relations scheduling occurs, it is usually to the detriment of the discipline function. The long-term effect of this arrangement is that the discipline process becomes backlogged, which affects the timeliness and quality of the decisions. This proposal will help prevent issues from becoming bigger and more costly problems. The CDC is working on a new discipline matrix, which will provide standard guidelines for specific offenses. This proposal in the amount of \$2.1 million would help improve the integrity, quality, and timeliness of investigations, while fostering employee confidence in the process.

DNA Fingerprint, Unsolved Crime and Innocence Protection Act (Proposition 69)

In November 2004, the public voted to enhance the State's ability to provide law enforcement officers and agencies with the latest scientific technology available for accurately and expeditiously identifying, apprehending, arresting, and convicting criminal offenders and exonerating persons wrongly suspected or accused of a crime with the passage of Proposition 69 - the DNA Fingerprint, Unsolved Crime and Innocence Protection Act. This significantly expands the current California Convicted Offender DNA Data Bank Program to include adults convicted of any felony; all registered sex and arson offenders; juveniles adjudicated for or convicted of any felony; adults and juveniles housed in mental health/sex offender treatment programs for felony offenses; any person required to provide DNA samples as a condition of a plea; and adults arrested for a murder, voluntary manslaughter, any Penal Code Section 290 felony sex offense, or an attempt to commit any of these crimes. Beginning in 2009, any adult arrested for a felony offense would be required to submit a DNA sample.

This program expansion will result in costs to the State. Specifically for CDC, there are approximately 150,000 inmates and parolees whose DNA identifiers are not contained in the DNA Data Bank. To ensure that no inmate or parolee is released from prison or discharged from parole without providing a DNA sample, the Administration is committed to obtaining the DNA samples for all of the 150,000 inmates and parolees over the next 18 months on a priority basis. To meet this commitment, the Budget includes \$4 million in 2004-05 and \$3.6 million in 2005-06 to obtain the necessary samples from parolees and inmates.

Other Budget Adjustments

In light of the significant imbalance between General Fund expenditures and revenues, the Budget proposes a \$95.3 million General Fund reduction to CDC. For 2005-06, this reduction will be allocated to the Department's Inmate and Parolee Programs. It is the Administration's expectation that this

reduction will eventually be replaced with savings generated through revisions to the labor agreement with the California Correctional Peace Officers Association that expires at the end of fiscal year 2005-06.

The Administration is committed to providing quality inmate medical services and continued compliance with the requirements of the Plata class action lawsuit. As such, the Administration proposes an increase of \$30.1 million General Fund to the CDC's budget. This increase is designed to improve the delivery of medical care to inmates and to ensure compliance with the recently stipulated court order.

Incarceration of Undocumented Felons

The Department of Corrections and the Youth Authority expect to spend approximately \$729.7 million in 2005-06 for the incarceration of undocumented persons. For 2005-06, it is estimated that California will receive approximately \$78.5 million in federal State Criminal Alien Assistance Program funding. At this level of funding, the State will be reimbursed for only 10.8 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with \$651.2 million in costs in excess of the level of federal reimbursements.

During the current fiscal year the Administration will continue to aggressively pursue all strategies designed to maximize federal funding for incarceration of undocumented felons.

Board of Prison Terms

The Board of Prison Terms considers parole release and establishes the length and conditions of parole for all persons sentenced to the Department of Corrections under the indeterminate sentencing law, persons sentenced to prison for a term of less than life under Penal Code Section 1168(b), and those serving a sentence of life with the possibility of parole. The Board may suspend or revoke the parole of any prisoner who has violated the conditions of their parole. This population currently stands at approximately 26,000 inmates. The Board also determines the necessity for rescission or postponement of parole dates for persons sentenced to prison for life, persons sentenced under Penal Code Section 1168(b), and persons sentenced under the indeterminate sentencing law. The Governor's Budget proposes \$72.9 million (\$72.8 million General Fund and \$81,000 other funds) and 370.6 positions for the Board. This represents an increase of \$1.8 million General Fund and 54.3 positions above the revised 2004-05 Budget.

Valdivia Remedial Plan Implementation

In November 2003, the State reached a settlement agreement in the Valdivia federal class action lawsuit, which asserted that California's parole revocation process violates the due process guaranteed under the Fourteenth Amendment of the United States Constitution. The terms of this settlement required the Board to develop a remedial plan that outlines the actions that will be taken to ensure that parolees receive a probable cause hearing within ten calendar days after a parolee is taken into custody for an alleged parole violation and affords the parolee with specific rights, including notice of the alleged

violations, the opportunity to appear and present evidence, and a written report of the hearing. In order to ensure the continued implementation of this plan and enhance the provision of due process to parolees, the Budget includes a current year increase of \$9 million General Fund, of which \$6.5 million is for attorney fees the State has been ordered to pay and \$2.5 million is to provide sufficient staffing to address a higher number of revocation hearings than previously anticipated in the current year, and a budget year increase of \$6.9 million General Fund to provide sufficient staffing and resources to address a higher number of revocation hearings than anticipated in the 2004 Budget Act.

Department of the Youth Authority

The Department of the Youth Authority (CYA) protects the public from criminal activity of youthful offenders by housing wards committed to the CYA by juvenile courts. In order to help these youthful offenders become productive California citizens, the CYA provides education, training, and treatment services to the wards.

The CYA projects an institution population of 3,430 youthful offenders by June 30, 2005, which is a decrease of 465 from the level anticipated in the 2004 Budget Act. The 2005-06 year-end institution population is expected to decrease by 100 wards, resulting in a June 30, 2006, population of 3,330.

The CYA operates eight institutions, including two reception center/clinics, and two conservation camps, one of which is an institution-based camp. The total CYA design capacity is 6,532 beds, which includes the institutions, camps, and contracted beds.

The CYA supervises parolees through 16 offices located throughout the state. The parole population is projected to be 3,790 by June 30, 2005, and to decrease by 340 cases, to 3,450 by June 30, 2006.

The Governor's Budget proposes \$400.2 million (\$350 million General Fund and \$50.2 million other funds) and 3,860.4 positions for the CYA. This represents a decrease of \$8.1 million (\$6 million General Fund) and 105 positions below the revised 2004-05 Budget. This decrease is primarily due to declining population.

Conditions of Confinement and Treatment

The Administration continues its efforts to address issues related to the conditions of confinement and treatment of wards at the Youth Authority, resulting from the *Farrell v. Allen* lawsuit. The final Remedial Plan and implementation schedule are currently in the negotiation and approval process. Details of this plan and associated funding needs will be provided as part of the May Revision.

Juvenile Justice Reform

Over the past decade, California's juvenile justice system has experienced significant changes in how and where juvenile offenders are housed and treated. The number of wards housed by the CYA has decreased from record levels in 1996, when the number of wards exceeded 10,000, to a current

population of less than 3,600 wards. In addition to the population changes, CYA services have been affected by policy changes, funding constraints, and implementation of court-ordered mandates. Rather than sending juvenile offenders to the CYA, counties are choosing to house more juvenile offenders at local facilities and provide treatment services within the local community, which makes it easier for these youth to maintain family and community ties when they transition out of the juvenile justice system. As a result of these changes, the Administration is in the process of reevaluating policies, and the role of the CYA in providing juvenile justice services and programming throughout the state.

Part of the reevaluation will include the appropriate roles that State and local governments play in providing comprehensive juvenile justice services and programming for juvenile offenders throughout California to ensure that these services are provided in the most appropriate setting for all types of juvenile offenders and in the most cost-effective manner.

Declining Population at the California Youth Authority

The high number of wards housed at the CYA in the early 1990s coincided with a period of budget reductions. During that time, a series of incidents, including an increase in ward suicides, incidents of inappropriate conduct between wards and staff, and incidents of inappropriate use of force by staff against wards, occurred at CYA facilities. Further, wards were not provided with adequate special education services, mental health treatment, sex offender treatment, and drug treatment. Most stakeholders in the juvenile justice system linked these problems to the serious overcrowding at CYA, lack of staff resources necessary to provide wards with required treatment and education, and lack of staff oversight.

In addition to various changes in the juvenile population, in 1996, two pieces of legislation designed to reduce the population at the CYA were enacted. Chapter 6, Statutes of 1996 (Senate Bill 681) required counties to pay the State for each juvenile court commitment to the CYA based on a "sliding scale" percentage of CYA's annual per ward cost for wards committed for nonviolent, nonserious offenses, depending on the "category" of the crime committed. Counties pay \$180 per month for serious and/or violent offenders. Chapter 195, Statutes of 1996 (Assembly Bill 3369), limited the number of California Department of Corrections inmates who could be housed within CYA facilities to those under 18 years old unless they will finish their sentence before their 21st birthday. These inmates are youth convicted as adults who are housed at CYA facilities to ensure that they receive the appropriate educational and treatment services. Prior to enactment of this law, these inmates could be housed at CYA until age 21, regardless of when their sentence would be completed.

After passage of these bills, the CYA's ward population began to decline significantly. As a result of the declining population and in an effort to reduce spending, the CYA closed four facilities in 2003 and 2004.

State Support for Local Juvenile Justice Programs

During the past ten years, counties have also received State resources for juvenile justice activities. Beginning in fiscal year 1996-97, the California Department of Social Services provided approximately \$30 million annually in local assistance funding from the federal Temporary Assistance for Needy Families (TANF) program to counties to support county camps for youthful offenders and approximately \$168 million annually for Juvenile Assessment and Treatment Facilities and Probation Administration. Beginning in October 2004, the federal TANF funds were no longer budgeted for this purpose. The 2004 Budget Act included \$134.3 million General Fund to provide counties with continued funding at this level during the 2004-05 fiscal year.

Beginning in fiscal year 1999-00, counties also received approximately \$100 million annually in General Fund for the Juvenile Justice Crime Prevention Act program. This program provides discretionary funding for juvenile justice activities to counties on a per capita basis.

Local Assistance Funding Provided in the Governor's Budget

The proposed 2005-06 Budget for the Department of Social Services includes restoration of \$201.4 million in federal TANF funding for county youth probation programs. The Budget also proposes that the funding associated with the Juvenile Justice Crime Prevention Act program be reduced by \$75 million and that the remaining \$25 million be shifted to the Board of Corrections for distribution to local government. This will result in a total of \$226.4 million in State funding to local government for juvenile justice activities, an overall reduction of 25 percent over previous years. It is expected that the May Revision will include changes to the funding levels and distribution based on the outcome of the negotiations between the Administration and local government on the proposed policy changes in the juvenile justice system statewide.

Developing a New Vision for Juvenile Justice in California

During the next several months, the Administration will work with local government and other stakeholders in the juvenile justice system to develop a comprehensive plan to reform California's juvenile justice system and redefine the role of the CYA in this system. Potential policy changes to be evaluated and negotiated include the following:

Shift Responsibility for Supervising Youthful Offenders on Parole from the Youth Authority to Counties

Consistent with the trend in the population of youthful offenders housed in CYA facilities, the number of parolees from CYA has decreased significantly in recent years. Currently, the parole population is projected to be 3,790 by June 30, 2005, and to decrease by 340 cases, to 3,450 by June 30, 2006, a decline of approximately 54 percent since fiscal year 1996-97. As the parolee population continues to decline, the CYA is finding it increasingly difficult to provide the optimum services to parolees statewide in a cost-effective manner. The CYA currently operates 16 parole offices statewide. Although these offices are generally located within easily accessible urban areas, not all parolees live near the offices,

which makes it difficult for parolees to visit offices as often as required and results in parole agents in less populated areas of the state being responsible for large geographical areas.

Local government and probation departments already supervise large numbers of juvenile offenders as part of local probation programs and would likely have the capability to provide a higher level of supervision to CYA parolees. Details of the plan and associated funding needs will be provided as part of the May Revision.

Evaluate the Type of Wards Housed at Youth Authority Facilities

Currently, counties and juvenile courts make recommendations on which wards are sent to the CYA and which are housed in local facilities. Juvenile sentencing practices vary widely throughout the state, with some counties sending a significant percentage of juvenile offenders to the CYA and others only a small number. Existing law also provides some parameters for what type of wards the CYA must accept. These include individuals who can be materially benefited by the CYA's reformatory and educational discipline and individuals who have mental health needs, are sex offenders, or suffer from a primary behavior disorder.

In evaluating the role of the CYA in the juvenile justice system, the Administration plans to explore incentives for county governments to limit the type of offenders that they send to the CYA to be housed. Details of the plan and associated funding needs will be provided as part of the May Revision.

A New Direction for the California Youth Authority

Implementing these statewide juvenile justice reforms will allow the Youth and Adult Correctional Agency to establish a new direction for the CYA that focuses State-level efforts on the most serious juvenile offenders and those most in need of mental health and sex offender treatment. Implementing this new direction will also require an evaluation of the CYA facility needs. These reforms, in combination with the changes being made to improve the conditions of confinement at CYA facilities, will allow for improved services to all juvenile offenders in California whether they are served at the State or county level.

Office of the Inspector General

The Office of the Inspector General has the responsibility for oversight of the State's correctional system through audits and investigations of the boards and departments within the Youth and Adult Correctional Agency. The Office of the Inspector General promotes accountability through objective, independent investigations, reviews, and audits of California's correctional system, providing impartial analysis and policy recommendations to the Governor, the Legislature, correctional administrators, and the public. The Governor's Budget proposes \$8.8 million General Fund and 52 positions for the Office of the Inspector General. This represents a decrease of \$16,000 from the 2004-05 revised Budget. This decrease is due to budget reductions.

Development of Workload Budget

Governor Schwarzenegger signed Chapter 733, Statutes of 2004 (SB 1342), which established specific requirements and protocols for the Office of the Inspector General (OIG) to follow when conducting investigations. In order to implement this legislation and ensure that the OIG has the appropriate level of resources, the OIG in consultation with the Department of Finance, is in the process of developing a methodology for producing a workload budget consistent with the legislative requirements. Details of this methodology and associated funding needs will be provided as part of the May Revision.

Department of Justice

The Attorney General serves as the State's primary legal representative and chief law enforcement officer, and is responsible for ensuring that California's laws are uniformly enforced. The Governor's Budget proposes \$687.7 million (\$322.5 million General Fund and \$365.2 million other funds) and 5,049.4 positions, including \$174.4 million for law enforcement programs, \$300.2 million for legal service programs, \$171 million for the Criminal Justice Information Services program, \$15.3 million for the Gambling Control Division, and \$12.3 million for the Firearms Division. This represents an increase of \$10.9 million (\$3.6 million General Fund) and 65.2 positions above the revised 2004-05 Budget.

DNA Fingerprint, Unsolved Crime and Innocence Protection Act (Proposition 69)

With the passage of Proposition 69, DNA information for every felon, including those currently incarcerated or on probation or parole, will be contained in the State's DNA Data Bank, which will greatly enhance law enforcement's ability to solve crimes. To begin implementation, the Budget proposes a current year augmentation of \$11 million from the DNA Identification Fund, which includes a \$7 million General Fund loan to the DNA Identification Fund as authorized in the Proposition, and proposes \$11.2 million from the DNA Identification Fund and 45.6 positions in 2005-06 for the Department of Justice to address workload resulting from expanded collections of DNA, palm prints, and thumbprints.

Criminal Justice Information System Redesign

The Budget includes an augmentation of \$4 million General Fund and eight positions to redesign the Wanted Persons, Stolen Vehicles, Supervised Release File, Firearms Eligibility Applicants, and Domestic Violence Restraining Order automated database systems. These current systems are at risk of failure, and with the migration to an open systems environment, the ability to exchange data and interface with State, local, and federal agencies will be greatly improved.

Enhancement of Sex Offender Programs

The Budget includes a total of \$2.4 million and nine positions to ensure effective storage, access, and distribution of information regarding sex offenders. Specifically, the Budget includes \$1.8 million

General Fund and four positions for renovation and ongoing technical support of the Violent Crime Information Network (VCIN). Repeated system modifications have jeopardized the functionality of VCIN, which is the State's central database of registered sex offenders. The Budget also includes \$604,000 from the Sexual Predator Public Information Account and five positions for Megan's Law, which provides the public with certain information on the whereabouts of sex offenders. The Megan's Law program enhancements include a statewide training program to improve collection of data from local law enforcement agencies, correction of data in the current database, and access to Megan's Law data on the internet, as required by Chapter 745, Statutes of 2004 (Assembly Bill 488).

California Highway Patrol

The California Highway Patrol is the state's largest law enforcement agency. It patrols over 105,000 miles of state highways and county roads, ensures the safe operation of commercial trucks through inspection at weigh stations, and protects state facilities and the people who work and conduct business in them. The Governor's Budget includes \$1.4 billion (primarily from the Motor Vehicle Account) to fund 7,285 officers and 3,278 support staff, an increase of \$44.1 million and 5.5 positions above the revised 2004-05 Budget.

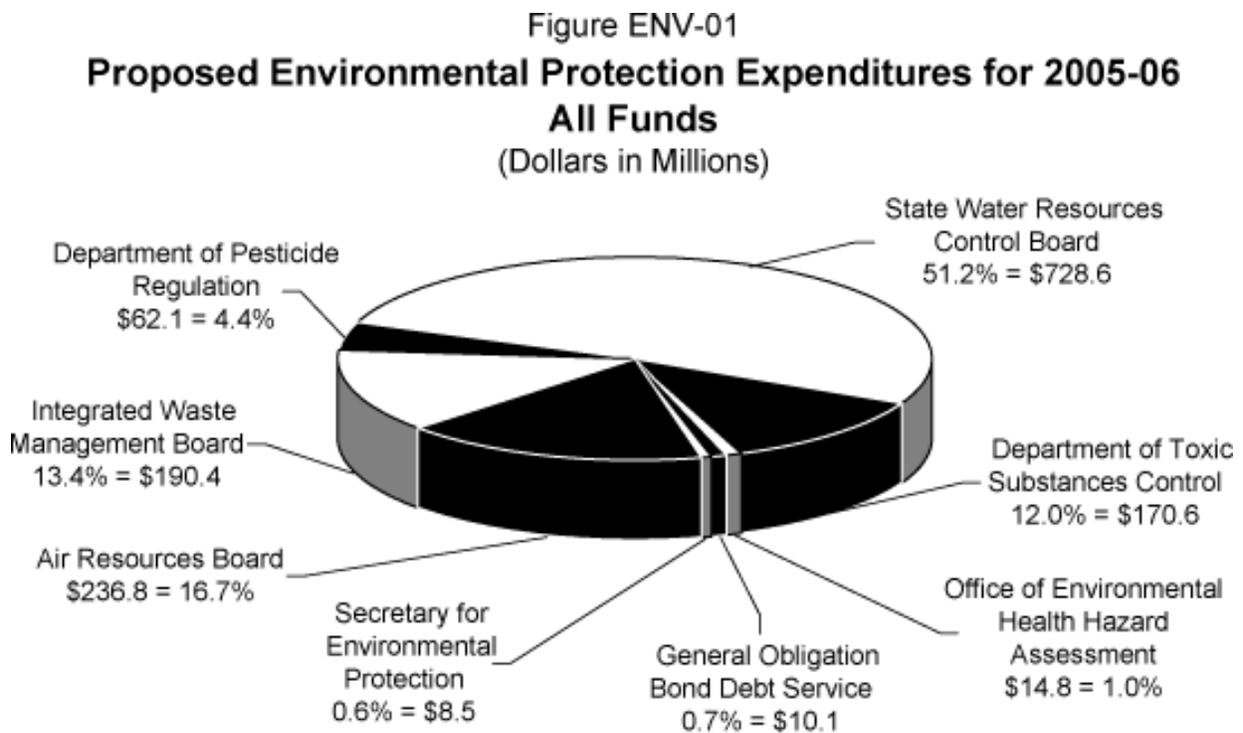
Costs of Memorandum of Understanding for Uniformed Positions

The Governor's Budget includes an increase of \$65.1 million for the 2005-06 costs of implementing the current memorandum of understanding (MOU) with the California Association of Highway Patrolmen concerning the pay of uniformed personnel. This MOU, which was enacted in 2001-02, expires after 2005-06.

Environmental Protection

The California Environmental Protection Agency (CalEPA) coordinates and supervises the State's environmental protection programs, which focus on restoring, preserving, and enhancing California's environmental quality.

The Secretary for Environmental Protection oversees the Air Resources Board, the Integrated Waste Management Board, the Department of Pesticide Regulation, the State Water Resources Control Board (which includes the nine Regional Water Quality Control Boards), the Department of Toxic Substances Control, and the Office of Environmental Health Hazard Assessment (shown in Figure ENV-01).



The Governor's Budget proposes \$1.4 billion (\$68.9 million General Fund and \$1.3 billion other funds) and 4,442.4 positions for CalEPA. This represents an increase of 121 positions and a decrease of \$192 million (\$3.8 million General Fund) from the revised 2004-05 Budget. Most of the decrease in funds is attributable to less bond money being available for expenditure in 2005-06. Agency funding provides ongoing support of efforts to address environmental health risks to children and other sensitive populations, transboundary and coastal pollution, ecological and human health risks from fuels and toxic substances, and water quality improvement.

Air Resources Board

The Air Resources Board (Air Board) is responsible for protecting and improving California's air quality. The Air Board adopts and enforces regulations for motor vehicles, fuels, and consumer products, and oversees the activities of 35 local air pollution control and air quality management districts (local districts). These local districts have primary responsibility for regulating emissions from stationary sources.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$236.8 million (\$2.2 million General Fund and \$234.6 million other funds) and 986.5 positions for the Air Board. This represents an increase of \$69.6 million other funds and 59.7 positions above the revised 2004-05 Budget, including \$30.5 million for full-year funding for the Carl Moyer Program authorized in 2004-05, and \$25 million to expand the program pursuant to Chapter 707, Statutes of 2004 (AB 923), to provide additional mobile source emissions mitigation grants to local air districts. Chapter 707 also expanded the Carl Moyer Program to target additional pollutants such as particulate matter and reactive organic gases.

The Governor's Budget also includes \$3.7 million (\$2.4 million Motor Vehicle Account and \$1.3 million Air Pollution Control Fund) for additional field inspections and equipment, and for contracts with the California Highway Patrol and Department of Transportation to address rapidly expanding workload in the Heavy Duty Vehicle Inspection Program along the California-Mexico border. The Air Board also plans to expend \$8.6 million (\$3 million Motor Vehicle Account and \$5.6 million Air Pollution Control Fund) to meet workload growth in monitoring, assessing, and mitigating fine and ultrafine particulate matter, and \$3.5 million (\$1.4 million Motor Vehicle Account, \$1.7 million Air Pollution Control Fund, and \$444,000 reimbursements) to meet workload growth associated with ensuring that mobile sources of air pollution meet State and federal air quality laws and regulations. These activities include mobile source certification and testing upgrades, small off-road engine certification, portable equipment registration and vapor recovery rule development, and certification of control measures for cargo tanks.

State Water Resources Control Board

The State Water Resources Control Board (Water Board) and the nine Regional Water Quality Control Boards are responsible for the preservation, enhancement, and restoration of the quality of California's water resources. State activities include regulatory oversight of surface, ground, and coastal waters, allocation of unappropriated water, control of unauthorized water diversions, and protection of water quality in watersheds and coastal waters from point and nonpoint sources of pollution.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$728.6 million (\$29.2 million General Fund and \$699.4 million other funds) and 1,541.4 positions for the Water Board. This represents an increase of 36.3 positions and a decrease of \$305 million (an increase of \$1.4 million General Fund) from the revised 2004-05 Budget. Most of the decrease in funds is attributable to less bond money being available for expenditure in

2005-06.

The Governor's Budget includes \$164.7 million in local assistance funding from Proposition 50 and Proposition 13 bond funds to fund projects that improve water quality in the following categories: CALFED watershed protection, clean beaches, water recycling, groundwater monitoring, and integrated regional water management. The Budget also reflects additional funding of \$1.6 million to remediate contaminated brownfield sites, which will encourage the reuse and development of these sites. There is a companion augmentation in the Department of Toxic Substances Control budget for site remediation.

Toxic Substances Control

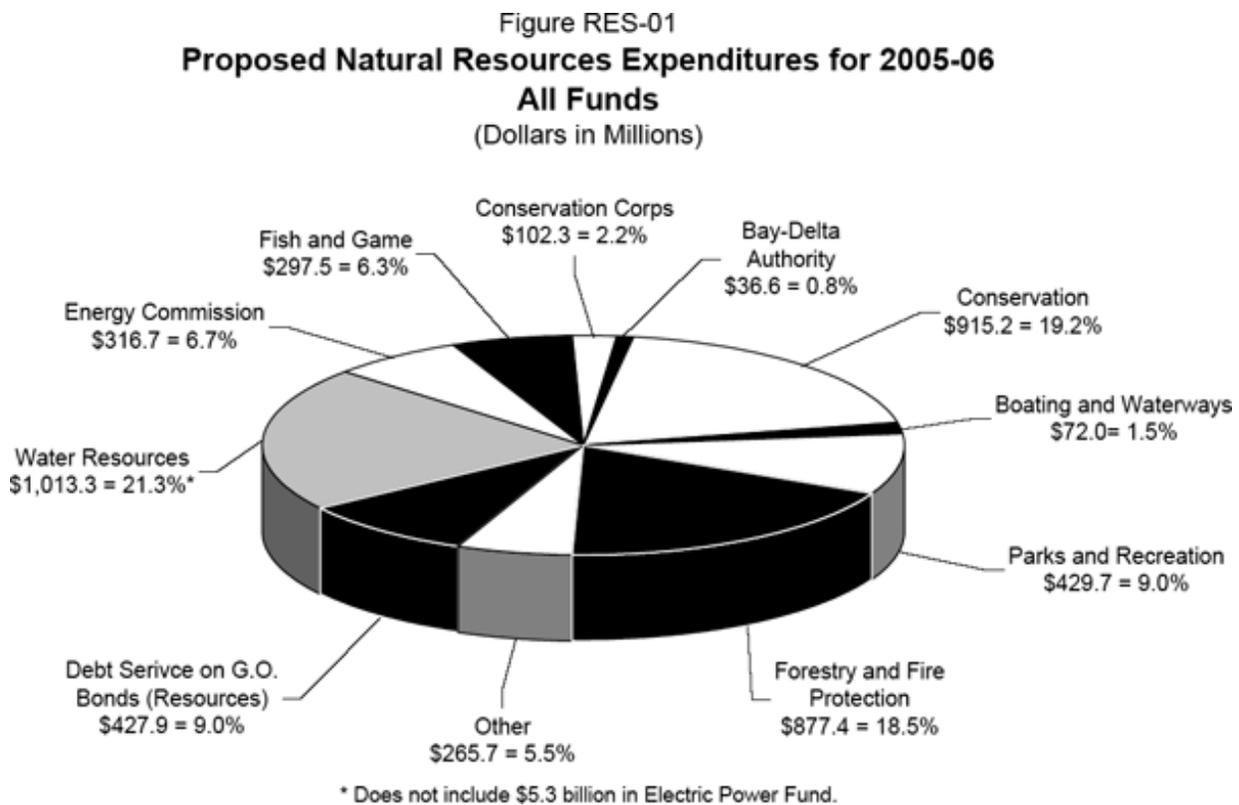
The Department of Toxic Substances Control (Toxics) is responsible for the prevention and remediation of environmental damage caused by hazardous materials. The Department regulates hazardous waste transportation, treatment, storage, and disposal in California. It also oversees cleanup of contaminated sites and promotes pollution prevention. Specific programs include site mitigation and brownfields reuse, hazardous waste management, pollution prevention, and waste minimization.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$170.6 million (\$18.2 million General Fund and \$152.4 million other funds) and 990 positions for Toxics. This represents an increase of \$3.9 million (a decrease of \$2 million General Fund) and an increase of 21.7 positions above the revised 2004-05 Budget. The Governor's Budget includes an additional \$1.1 million in reimbursements to oversee the cleanup of hazardous sites and promote redevelopment. There is a companion augmentation in the Water Resources Control Board budget for site remediation. The Governor's Budget also proposes \$1.3 million from the State Certified Unified Program Account for the Department to assume responsibility as the Certified Unified Program Agency in Trinity and Imperial counties to coordinate six environmental and emergency management programs. The funding will be derived from fees on the regulated businesses in these two counties.

Resources

The Resources Agency oversees the activities of 25 departments, boards, commissions, and conservancies responsible for the protection and enhancement of California's diverse and spectacular cultural, historical, and natural resources. The Governor's Budget proposes \$4.8 billion (\$1.3 billion General Fund) and over 15,000 positions for state operations, local assistance, and capital outlay for the various entities within the Resources Agency (shown in Figure RES-01). This represents a reduction of \$1.8 billion from 2004-05 (an increase of \$200.6 million General Fund and a decrease of \$2 billion in other funds) and a reduction of 73 positions. The decrease is attributable to a reduction in bond funding available for expenditure in 2005-06.



The Governor's Budget continues the Administration's commitment to protect the state's natural resources:

- The Budget implements many of the priorities included in the California Fire Prevention and Suppression Action Plan of September 2004, improving year-round fire protection for Southern California.
- The Budget also implements the California Ocean Protection Act and the Ocean Protection Council, and continues support for the Marine Life Protection Act.

- The Budget continues the Administration's commitment to the Lake Tahoe Environmental Improvement Program.
 - The newly created Sierra Nevada Conservancy will aid in the protection of this majestic and scenic mountain range.
 - The Department of Water Resources will continue the process of comprehensively assessing the condition of Central Valley levees and will develop alternatives to improve flood protection.
-

Department of Forestry and Fire Protection

The Department of Forestry and Fire Protection (CDF) provides fire protection and suppression on 31 million acres of nonfederal wildlands, responds to nonfire emergencies, and protects and enhances forests, range lands, and watersheds. The CDF also has more than 140 agreements with counties, cities, and special districts to provide fully reimbursed fire protection services to local jurisdictions.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$877 million (\$531 million General Fund and \$346 million other funds) and 5,314 positions for the Department. This represents an increase of \$6 million (an increase of \$17 million General Fund and decrease of \$11 million in special funds) and 54 positions above the 2004-05 level. Significant adjustments include:

- \$25 million for emergency firefighting costs.
 - \$10.8 million for ongoing replacement of obsolete and outdated fire engines and helicopters.
 - \$9 million and 48.8 positions to provide year-round wildland fire fighting capacity in Riverside, San Bernardino, and San Diego counties.
 - \$2.9 million to update telecommunications equipment for common cross-jurisdictional use.
-

Department of Water Resources

The Department of Water Resources (DWR) protects, conserves, and develops the state's water supply. The DWR forecasts future water needs, evaluates and inventories existing water supplies, and explores conservation and storage options to meet the needs of the state's growing population. The DWR is also responsible for maintaining and repairing levees in the Central Valley and responding to emergency flood situations.

In addition to its water resource-related mission, the DWR also played a vital role in helping the state weather the energy crisis of 2001. The Department purchased vast quantities of electricity on behalf of utilities when they were unable to do so. Although the state's investor-owned utilities have resumed the responsibility for purchasing electric power for their customers, the DWR will expend \$5.3 billion from the Electric Power Fund for the purchase of electric power through long-term contracts entered into during the crisis. These costs are borne by electricity ratepayers.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$1 billion and 2,565 positions to carry out the Department's programs in 2005-06. This represents an increase of \$64 million (an increase of \$70 million General Fund and a reduction of \$6 million in other funds) and 26 positions above the 2004-05 level. Of the total funds proposed, \$262 million from special funds will be expended for the operation of the State Water Project, which provides irrigation water for thousands of acres in the San Joaquin Valley and drinking water for millions of individuals in Southern California. Additionally, \$93 million will be spent on flood control and dam safety activities that protect billions of dollars of land and buildings throughout California. Lastly, the Department will expend \$336 million to provide technical and financial assistance to local water agencies and support CALFED programs.

As a result of a recent court decision, *Paterno v. State of California*, the State is facing increased liability for the structural integrity of 1,600 miles of aging levees in the Sacramento and San Joaquin Valley flood control system. To address this new challenge, the Governor's Budget includes an additional \$9.7 million General Fund and 27 new positions to develop and implement a more comprehensive flood protection plan. This funding is the first installment of a three-year plan to improve and maintain the Sacramento and San Joaquin Valley flood control system. In addition, the Administration is exploring statutory reforms to place liability for damages caused by flooding where it appropriately should reside.

The improved Flood Management program will also develop and evaluate alternatives to provide sustainable funding for the State's flood protection role, including the potential formation of a Central Valley Flood Control Assessment District with the authority to assess fees to provide adequate flood control protection in the region. The plan also will look at the potential for mandatory insurance requirements for all people who reside behind flood control levees.

The Governor's Budget also proposes bond funds to continue the Department's work on CALFED-related programs and various other water management activities. Among the CALFED activities for 2005-06 will be projects to improve water storage, water use efficiency, and water conveyance.

California Bay-Delta Authority

The CALFED Bay-Delta Program is an unprecedented effort by the State and the federal government to coordinate the management of water, California's most precious natural resource, and restore the ecosystem. The Governor's Budget includes \$150.3 million for the State's share of the CALFED Program (\$12.1 million General Fund, \$125.1 million bond funds, and \$13.1 million other funds). This represents an overall reduction in program funding of \$258 million in bond and federal funds. The Bay-Delta Authority will have 60.8 positions to coordinate the CALFED program (no change from 2004-05).

Program objectives are set forth in a 30-year comprehensive plan to address the ecosystem health and water supply reliability problems in the Bay-Delta. The plan identifies projects and strategies to address 11 major program elements, including ecosystem restoration, drinking water quality, levee system

integrity, watershed management, water storage, water transfers, water use efficiency, delta water conveyance, a strong science element, water management, and an environmental water account for water purchases.

The California Bay-Delta Authority coordinates 24 State and federal agencies involved in implementing a long-term comprehensive plan.

Program Financing

Implementation of the CALFED Program began in 2000 with the signing of the CALFED Record of Decision (ROD). Funding over the first four years has been primarily from the General Fund and State bond funds. Federal authorization of the CALFED Program was signed in 2004, and is expected to increase federal funding for the program. Since the ROD was signed, approximately \$2.7 billion has been invested in water supply, water quality, and ecosystem restoration programs and projects in the 51 counties that depend on the Bay-Delta system for all or part of their water needs. Of the \$2.7 billion, approximately 60 percent, or \$1.6 billion, has been contributed by the State. This is almost twice the share anticipated for the State in the ROD.

The California Bay-Delta Authority has developed a Finance Plan as a framework to guide the financing of the CALFED Bay-Delta Program through 2014. This plan reduces dependency on the General Fund and calls for new revenue sources to support the program. In summary, the plan:

- Establishes a set of principles to guide future funding decisions.
- Identifies program priorities, funding needs, and beneficiaries across all CALFED activities.
- Reduces the average annual cost of the program from \$1.3 billion to \$807 million per year.
- Proposes cost sharing for all program activities.
- Reduces the State's overall contribution from 59 percent over the last four years to 30 percent over the next ten years.
- Increases the federal contribution from 7 percent over the last four years to 21 percent over the next ten years. The recent federal authorization of the CALFED Program is a significant step towards this goal.
- Increases water user and local contributions from 33 percent over the last four years to 49 percent over the next ten years and identifies new potential water user fees for specific programs.

Figure RES-02 summarizes the financing plan highlighted above.

Figure RES-02

CALFED Bay-Delta Program
10-Year Funding Allocations by Beneficiary
(Dollars in millions)

Program Element	State	Federal	Water Users	Local Match	Total Funding
Ecosystem Restoration	\$542	\$408	\$400	\$150	\$1,500
Environmental Water Account	180	135	123		438
Water Use Efficiency	575	530		2,048	3,153
Water Transfers	6				6
Watershed	196	161		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		186
Science	167	151	109	10	437
Oversight & Coordination	74	47			121
TOTAL Dollars	\$2,408	\$1,721	\$761	\$3,183	\$8,073
TOTAL Percentage	30%	21%	9%	40%	100%

Consistent with the premise of the "beneficiary pays" identified in the CALFED Record of Decision, the Finance Plan identifies who will benefit from the programs and projects of the CALFED plan, and who should pay for them. State and federal funds are recommended only for projects that provide broad public benefits. Water users should pay for projects and programs that result in specific benefits to them. Local governments and water districts will be expected to provide a local match for projects with local benefits.

The Bay-Delta Authority will work with water users, local water agencies, environmental advocates, and other stakeholders to develop a plan for how the non-State and federal share will be financed. The plan will be incorporated in the Governor's May Revision.

Department of Parks and Recreation

The Department of Parks and Recreation is responsible for preserving the state's extraordinary biological diversity, natural and cultural resources, and providing high-quality outdoor recreational opportunities. The State Park System consists of 278 units including parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$429.7 million (\$101 million General Fund) and 3,012 positions for state operations, local assistance, and capital outlay. This represents an increase of \$14 million General Fund and a reduction of \$650 million in other funds compared to 2004-05. The reduction in other funds reflects the fact that less bond funding will be available for expenditure in 2005-06. The Budget

includes seven positions and \$1.3 million for the management and operation of an additional 13 miles of pristine coastline acquired through the purchase of the Hearst Ranch. In addition, the Department will dedicate \$11.8 million to continue park improvements to make more facilities accessible to persons with disabilities.

Park fee increases also are proposed to help fund repairs and improvements to State Park water, wastewater, and sewer systems in order to achieve compliance with State and federal legal mandates for drinking water and waste discharge.

Department of Fish and Game

The Department of Fish and Game maintains native fish, wildlife, plant species, and natural communities for their intrinsic and ecologic values and their benefits to people.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$297.5 million (\$37.3 million General Fund) and 2,057 positions for the Department. This represents an increase of 15 positions and a reduction of \$68 million (\$1 million General Fund and \$67 million other funds). The reduction of funds is primarily attributable to less tidelands oil revenue being available to the Department in 2005-06 than in 2004-05. The proposed Budget includes continued support of state fish hatcheries with tidelands oil revenue appropriated in 2004-05 to offset prior year reductions. A portion of this funding will carry over into 2005-06 to help maintain a level of hatchery-produced fish consistent with prior years, thereby ensuring continued opportunities for the sport and commercial fishing public. An augmentation of \$2.2 million from Proposition 12 and reimbursements will provide for development, enhancement, and restoration of wildlife areas, ecological reserves, and donated lands managed by the Department, including eradication or control of noxious weeds on Department lands in San Diego County. An augmentation of \$500,000 will continue efforts to implement provisions of the Marine Life Protection Act of 1999 by conducting work on the design and management of marine protected areas.

Sierra Nevada Conservancy

The Sierra Nevada Conservancy was recently created to preserve and restore significant natural, cultural, archaeological, and recreational resources in the Sierra Nevada Mountains.

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$3.6 million and 13.5 positions to provide services in a 22-county area within the Sierra Nevada Mountains. This is the first year of operation for the Sierra Nevada Conservancy and thus these amounts reflect net increases. The Conservancy also will develop and implement program objectives and guidelines including preserving and restoring physical and historical resources, protecting water quality, maintaining working landscapes, and providing increased recreation and tourism opportunities.

California Tahoe Conservancy

In an effort to preserve, restore, and sustain the unique natural resources and recreational opportunities in the Lake Tahoe Basin, California entered into agreements with the State of Nevada and the federal government in 1997 and 1998. These agreements commit the State, the federal government, the State of Nevada, the Tahoe Regional Planning Agency and the affected local government entities to the Lake Tahoe Environmental Improvement Program (EIP). Of its \$275.1 million share, California has committed \$175.7 million (64 percent) for acquisition and site improvement projects. In addition, the State has also funded \$5.6 million for EIP research, monitoring, and program activities.

Program Enhancements and Other Budget Adjustments

The Governor's Budget continues California's commitment to the EIP and to planning and related efforts at Lake Tahoe by providing \$20.7 million in bond funds and special funds to the Tahoe Conservancy, and \$13.9 million in other departmental budgets, for a total of \$34.6 million.

Coastal Conservancy

The State Coastal Conservancy develops and implements programs to protect, restore, and enhance natural, recreational, and economic resources along California's coast, coastal watersheds, the ocean, and within the San Francisco Bay area.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$69 million and 66 positions for the Conservancy in 2005-06. This represents an increase of one position and a decrease of \$217 million in other funds. The reduction in funding is attributable to less bond money being available for expenditure in 2005-06. The Budget includes \$1 million from tidelands oil revenue to implement the Ocean Protection Council. The Council will coordinate statewide activities related to protecting coastal waters, coastal watersheds, and ocean ecosystems. The Council also will develop and recommend strategies to ensure the sustainability of ocean resources and habitats.

The Governor's Budget also includes \$18.8 million from Proposition 12 and Proposition 40 for the San Francisco Bay Area Conservancy Program and the Santa Monica Bay Restoration Project, and to acquire and restore properties and build public access, waterfront, and educational facilities.

The Budget further includes \$31.5 million in bond funds to plan, design, and implement watershed protection projects. Activities include acquisition and restoration of watershed lands, removal of barriers to fish passage, eradication of invasive plants, installation of facilities to improve water quality, and enhancement of ocean habitats.

Energy

The California energy crisis of 2000-01 had a severe economic impact on the state. Four years after the crisis, State government is still addressing some of the fundamental flaws in the energy market. The Administration is committed to fixing the electricity market and establishing a regulatory environment that attracts investment in new power plants and transmission lines.

Addressing these issues is even more critical as the state's economy continues to grow. Last summer, California broke the record for all-time electricity demand seven times, due to unexpectedly strong economic growth. Unless action is taken now, forecasters predict that energy shortages could return as soon as the summer of 2005, depending on the growth of the economy, the weather, and California's hydroelectric power situation. The Administration is pursuing the following actions to ensure stable supplies of energy at affordable prices:

- **Promote Long-Term Energy Contracts** - Part of the energy crisis was caused by over-reliance on short-term power purchases, which proved to be highly volatile and extremely costly. Encouraging utilities to enter into long-term contracts stabilizes energy supplies, reduces long-term prices, and leads to the construction of new power plants. The Public Utilities Commission (PUC) has adopted rules that will result in utilities entering into competitive, cost-effective long-term contracts with energy providers by this summer. This will ensure that Californians will get the best possible deal in terms of price, risk, reliability, and environmental impact.
- **Adequate Planning Reserves** - The PUC adopted the Administration's recommendation to require 15 percent electricity reserve margins by 2006. Utilities are now in the process of signing contracts and securing those supplies. In addition, new rules are being developed to ensure that the power can be delivered when and where it is needed most.
- **The Loading Order** - The Administration values a balanced approach to meeting the state's energy demand. The Administration has worked with the PUC to ensure that as utilities establish their energy portfolio, they first make all cost-effective investments in energy efficiency, demand response, and conservation programs. Next, they fulfill their renewable energy requirements in accordance with the existing renewable portfolio standard rules. Only after pursuing these efforts should utilities look to fossil fuel generated power plants. The loading order ensures that Californians enjoy a cost-effective and environmentally friendly power portfolio.
- **Competitive Procurement** - The Administration supports establishing a competitive and transparent procurement process that gives utilities the ability to purchase power at the lowest possible price. Competitive purchasing will attract new energy investment into the state and shift the risk of power plant construction and operation from ratepayers to power suppliers.
- **Retail Choice** - The Administration supports allowing large customers a choice in selecting their power suppliers. The Administration recognizes that retail competition rules must be implemented carefully to avoid the creation of stranded costs and ensure no cost-shifting occurs as a result of customers switching from one power company to another.

- **Renewable Energy** - The Administration supports an acceleration of the Renewable Portfolio Standard mandate of 20 percent renewable by 2010, rather than 2017, and 33 percent by 2020. The Administration has engaged with the Western Governor's Association on a Clean Energy Resolution to identify strategies that would produce 30,000 megawatts (MW) of clean energy in the West by 2015. Recognizing the benefits of renewable power generation across the West, the Administration supports a renewable energy trading regime that promotes renewable power development throughout the region. The PUC has adopted this policy by requiring power companies to meet the accelerated date in their procurement plans currently being submitted for approval.
- **Million Solar Roofs Initiative** - The Administration will continue to pursue its initiative to increase the use of solar energy across the state. The goal of the initiative is to promote the development of one million solar roofs (up to 3,000 MW) on residential and commercial buildings. Solar power will help California reduce its peak electricity demand, reduce congestion on an overly burdened transmission and distribution system, produce clean energy, and reduce the state's dependence on fossil fuels.
- **Green Buildings** - On December 14, 2004, the Governor signed an executive order that calls on the State to increase the energy efficiency in its buildings 20 percent by 2015. The order also is part of a Green Building initiative that encourages the private sector to set the same goals for commercial buildings. Taxpayers can expect to save up to \$100 million per year in reduced energy and resource costs.
- **Conservation/Demand Response** - On July 27, 2004, the Governor signed an executive order that instructs State agencies to take measures to reduce power use, especially during peak periods in the day. The executive order also urged State agencies to participate in utility-based demand response programs, where appropriate. Demand response programs provide financial incentives to individuals and companies that agree to reduce their power use during system emergencies. The Administration is also working with the PUC to aggressively expand the demand response programs for the summer of 2005. The Administration urges all Californians to use power wisely. Conservation and participation in demand response programs provide businesses and residences the opportunity to save money on their power bills and help keep the lights on.
- **Interval Meters/Critical Peak Pricing** - The Administration supports the deployment of advanced interval meters and the development of dynamic pricing tariffs in order to allow customers to make more intelligent decisions on how to use energy.
- **Reduce Electric Rates** - The Administration will continue to identify ways to reduce electricity costs by pursuing opportunities to renegotiate the long-term contracts held by the State Department of Water Resources on behalf of ratepayers. In addition, the Administration also will push vigorously for the maximum refunds through the Federal Energy Regulatory Commission, as a result of the market abuses that occurred during the height of the energy crisis.
- **Expand Transmission Infrastructure** - The Administration is seeking all opportunities to enhance and expand the transmission grid as a way to reduce congestion costs, improve reliability, and provide a path to accessing cleaner, more cost-effective energy sources.
- **Delay Retirement and Encourage Repowering of Key Power Plants** - The Administration recognizes that certain power plants are located in key geographic areas around the state. Many

of these plants have run well past their expected life and are scheduled to retire in the coming months and years. The Administration will work with the California Independent System Operator, the California Energy Commission, and the PUC to manage the retirement process so that it does not result in unforeseen problems, while also encouraging the retrofitting of key power plants where appropriate to increase clean energy production at less cost.

California Energy Commission

The California Energy Commission is responsible for ensuring a reliable supply of energy that meets California's needs and complies with environmental, safety, and land use goals. The Commission processes applications to site new power facilities, encourages measures to reduce the inefficient use of energy, monitors alternative ways to supply energy, and oversees State-funded energy research and development projects.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$316.7 million special funds and 470.6 positions for the Energy Commission. This represents an increase of 15.9 positions and a decrease of \$62.7 million from the revised 2004-05 Budget. The reduction is largely due to less funding being available from the Renewable Resource Trust Fund. Significant adjustments include the following:

- Energy Research and Development - The Budget proposes \$10.6 million Public Interest Research, Development and Demonstration Fund to bring environmentally safe, affordable, and reliable electricity services and products to the marketplace. In addition, the Budget includes \$15 million from the Gas Consumption Surcharge Fund to initiate a natural gas research program that will improve energy efficiency in consumer gas appliances and manufacturing processes.
- Analytical Resources - The Budget includes \$796,000 Energy Resources Programs Account to enhance the Commission's analytical capabilities in the electricity, transportation, and petroleum fuel areas and provide critical support to the Public Utilities Commission's energy procurement process.

Public Utilities Commission

The PUC is responsible for the regulation of investor-owned natural gas and electricity utilities, telecommunications services, water companies, railroads, and certain passenger and household goods carriers. Specific activities include enforcement of safety regulations, regulation of rates for services, and promotion of energy and resource conservation.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$1.2 billion special funds and 835.7 positions for state operations, including \$848 million for various telecommunications subsidy programs and \$258 million for energy efficiency, research, and subsidy programs. This represents an increase of 6.2 positions and a

decrease of \$26.9 million special funds from the revised 2004-05 Budget. The increase in positions is attributable to program enhancements funded from the Energy Resources Programs Account and the Public Interest Research, Development, and Demonstration Fund to improve the Commission's data collection and modeling capabilities and to expand energy research and development projects.

Electricity Oversight Board

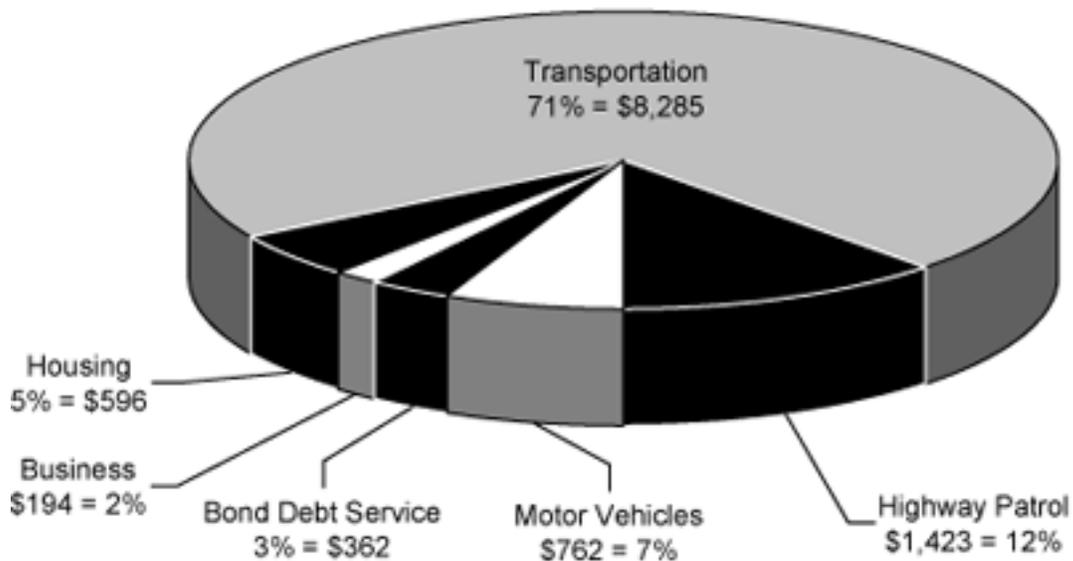
The Electricity Oversight Board (Board) is responsible for overseeing the operation and reliability of the electricity transmission system, as well as the operation, efficiency, and competitiveness of markets for bulk energy, transmission, ancillary services, and all activities of the California Independent System Operator. The Board has been actively pursuing litigation against power suppliers accused of manipulating market prices during the electricity crisis, and continues to monitor market operations to prevent a recurrence of similar problems. The Budget proposes \$3.9 million special funds and 21.9 positions for state operations. This represents an increase of \$122,000 special funds from the revised 2004-05 Budget.

Business, Transportation, and Housing

The Business, Transportation, and Housing Agency includes programs that: plan, build, and maintain California's state transportation systems; ensure efficient and fair markets for the real estate industry, health care plans, and certain financial businesses; and assist community efforts to expand the availability of affordable housing for a growing workforce. The Agency also contains programs that assist the state's infrastructure, small business finance, and economic development by encouraging and promoting economic activity and investment within the state. In addition, the Agency contributes to public safety through the law enforcement activities of the California Highway Patrol and the Department of Alcoholic Beverage Control. The California Highway Patrol in coordination with the California Department of Transportation also has a significant role in traffic safety. Information on the Highway Patrol's budget can be found in the Corrections and Law Enforcement section.

Figure BTH-01 displays the funding proposed in the Business, Transportation, and Housing portion of the Governor's Budget from all fund sources. The majority of the funding is provided from special fund revenues and federal funds. General Fund expenditures are primarily made for general obligation bond debt service for transportation projects, bridge seismic retrofit, and housing bonds.

Figure BTH-01
Business, Transportation, and Housing Agency
2005-06 Expenditures
(Dollars in Millions)



Housing Affordability

California's median home price has reduced the percentage of Californians who can afford to purchase a home. The state's lack of housing supply has created inefficient land uses and has forced housing development further from jobs and population centers.

In pursuit of the common-sense concept that each local government should "take care of their own," the Administration will seek to reform onerous regulatory and planning laws to promote home building and accountability for housing production while requiring less paperwork between local governments and the State. Every local jurisdiction should plan for and be prepared to accommodate their own natural population increase and workforce, and to do so on the most efficient land use pattern possible, minimizing impacts on valuable habitat and productive farmland.

Office of the Secretary of Business, Transportation, and Housing

The Governor's Budget proposes \$18.4 million (\$5.3 million General Fund and \$13.1 million other funds) and 60 positions to support the activities of the Office of the Secretary. This represents a decrease of \$2.7 million (\$1.2 million General Fund) and 4.5 positions below the revised 2004-05 Budget. In addition to the policy direction provided over its traditional complement of department programs, the Office of the Secretary also includes the following economic development programs: the California Tourism Commission, the California Film Commission, the California Infrastructure and Economic Development Bank, the Office of Military and Aerospace Support, the Small Business Loan Guarantee Program, and the Manufacturing Technology Program. The above amount does not include expenditure of proceeds from bonding out existing projects by the California Infrastructure and Economic Development Bank.

General Fund Reductions

The Agency has been instructed to reduce its state operations budget by \$83,000 with the flexibility to implement through layoffs, hiring freeze, procurement reductions, or other administrative means as it may choose. For the Office of the Secretary, the General Fund supports the Small Business Loan Guarantee Program, California Film Commission, and Office of Military and Aerospace Support.

Emergency Apportionments and Lease Financing Program

The Governor's Budget reflects staffing for the California Infrastructure and Economic Development Bank that was provided in Chapter 263, Statutes of 2004, that establishes a new financing program for emergency apportionments to school districts. Under Chapter 263, the State would expedite the repayment to the General Fund of emergency loan appropriations through lease-revenue financing administered by the California Infrastructure and Economic Development Bank, which would issue bonds for this purpose.

Transportation

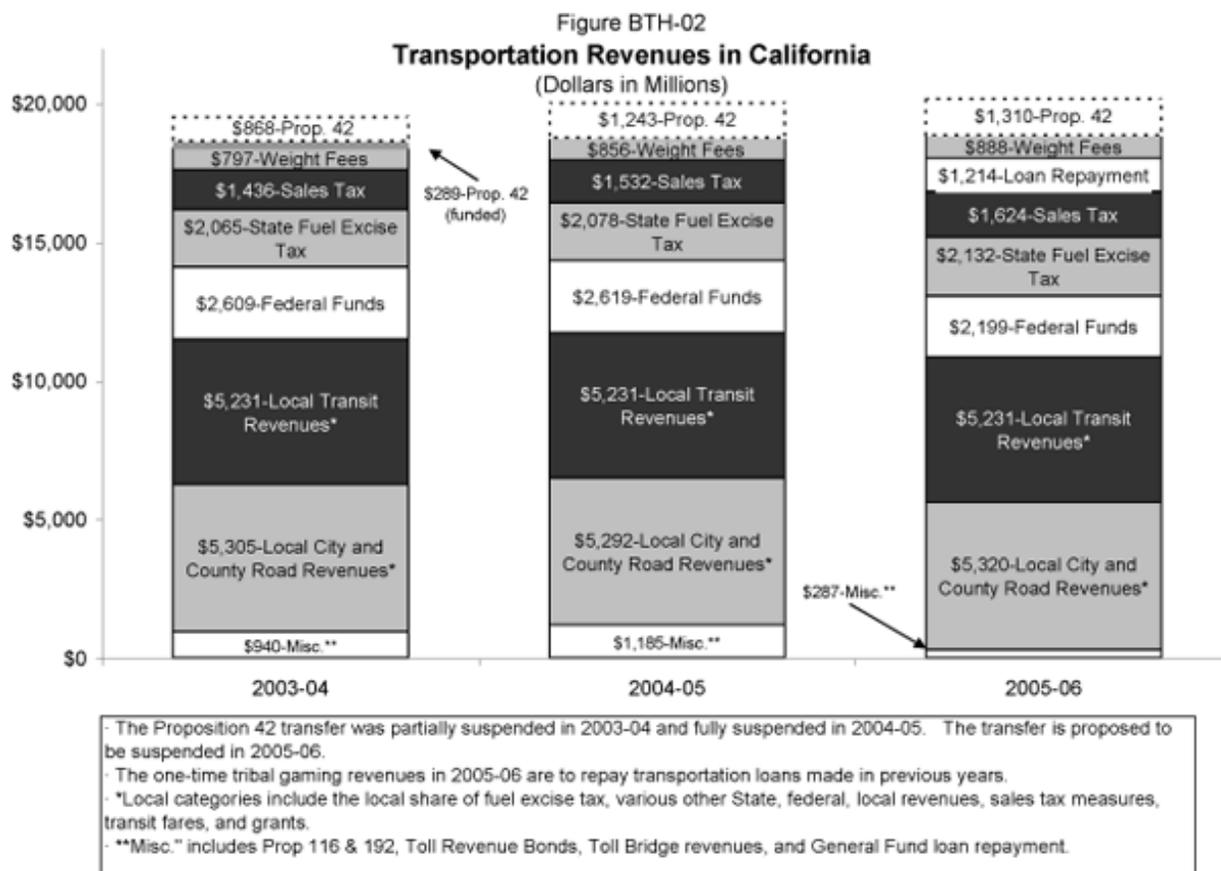
The Department of Transportation, the California Transportation Commission, the California Highway Patrol, the Department of Motor Vehicles, the Office of Traffic Safety, and local government agencies administer transportation and related public safety programs. Transportation funding comes from State and federal fuel taxes, the sales and use tax on fuel, motor vehicle licensing and registration fees, weight fees for trucks, and local sales taxes. The Governor's Budget proposes total expenditures of \$10.5 billion in 2005-06 for roads, highways, mass transit and intercity rail, vehicle licensing and registration, and highway law enforcement.

Resources for Transportation

Through borders, ports, rail, and highway corridors, California's transportation system supports the mobility of goods and people, creates jobs directly and throughout the economy, and leverages local and federal resources for critical mobility and air quality projects.

Transportation Funding

Figure BTH-02 outlines current total statewide transportation resources, which are estimated to be approximately \$18.9 billion in 2005-06, a slight increase from \$18.8 billion in the current year. Although the main State revenue sources such as fuel excise tax and truck weight fees continue to grow, overall transportation revenues have been relatively stable. The 2004 State Transportation Improvement Program (STIP) Fund Estimate assumed that \$5.4 billion in STIP projects would be carried over from the 2002 Fund Estimate, resulting in no new programming being added to the 2004 STIP. Over the course of the 2002 Fund Estimate period, the California Transportation Commission (CTC) programmed transportation projects assuming the 2002 Fund Estimate projection of available resources would materialize. This programming level, when combined with the lower-than-anticipated resource levels, is reflected in the 2004 STIP Fund Estimate. The reduction of anticipated resources also required the CTC to slow allocations for projects significantly.



California cannot continue to sustain its competitiveness, economy, and quality of life without maintaining and expanding its transportation infrastructure. Only through major, predictable investments in all aspects of the State's transportation system - monitoring, maintenance and rehabilitation, traffic operations, traffic management, and road and transit capacity enhancement - can California protect its position in the national marketplace and global economy.

Transportation policy and investment also must be linked to responsible land use policy. Poor coordination of job generation and housing production has led to more vehicle miles traveled and growth in single-occupant vehicle trips. Community planning should foster more accessibility to services by alternative transportation systems, including pedestrian and bike traffic. The congestion that results from disconnected policy and planning threatens Californians' health, economy, and environment. Better community design will reduce vehicle trips and decrease demand on the transportation system, helping relieve congestion and lowering pollution emissions. Needed investments in road construction can then have the greatest impact on mobility and economic prosperity.

GoCalifornia

The continuing budget crisis forces fiscal actions in the short term that limit the availability of traditional transportation resources. However, the Administration proposes a comprehensive initiative, "GoCalifornia," to enhance the impact of transportation investments now and in the future. As part of this effort, new performance measures for both the transportation system and State management have been developed in partnership with statewide transportation stakeholders and are being implemented.

Rising levels of traffic congestion are intolerable both for quality of life and economic competitiveness. California must build a 21st century transportation system for future prosperity, and every tool must be used to achieve a higher return on investment of transportation dollars in the form of improved mobility. Faster completion of transportation projects will save money and public-private partnerships will attract new money to improve mobility. In addition, the Administration will focus on improving and facilitating the movement of goods into ports and across the state, both to support growing industries, as well as to relieve congestion on freeways.

Professional management, close collaboration with transportation partners, and responsible land use planning are important first steps in ensuring that transportation dollars are used most efficiently. Still, California lags behind other states and competitor nations in transportation funding and the use of innovative project delivery and financing techniques. The Governor signed bills during the 2004 legislative session extending design sequencing and expanding High Occupancy Toll (HOT) Lanes authority to provide more flexibility in project delivery and financing. However, the best use of transportation resources demands that the full range of delivery tools including design-build contracting, public-private partnerships, and other innovative methods be fully explored. The Administration will propose a comprehensive package of management and project delivery proposals for the 2005-06 legislative session.

Proposition 42

Beginning in 2007-08, the Administration is committed to restoring the dedication of Proposition 42 funds to transportation as the voters intended. As part of the Administration's budget control proposals, the suspension of Proposition 42 transfers would be Constitutionally prohibited after 2006-07. Proposition 42 transfers that are suspended will be treated as loans and will be repaid within a 15-year period, in even increments, unless early repayment is made.

Approved by voters in March 2002, Proposition 42 amended the State Constitution to dedicate State sales taxes on gasoline to transportation purposes beginning in 2003-04. That proposition included a provision that allows the Administration and the Legislature to suspend the sales tax transfer in a fiscal year for which the transfer would result in a significant negative fiscal impact on government functions funded by the General Fund. The Proposition 42 transfer was partially suspended in 2003-04 and fully suspended in 2004-05 due to the inability of the General Fund to support the full transfer.

The Governor is committed to solving both the current fiscal crisis and the long-term structural deficit in the State Budget. The ongoing crisis has forced the Administration to propose a suspension of the Proposition 42 transfer of \$1.310 billion for the 2005-06 fiscal year. This suspension will be considered

a loan that will begin to be repaid over a 15-year period. The transfer would have been distributed in the following manner: \$678 million to the Traffic Congestion Relief Fund, \$253 million to the State Transportation Improvement Program, \$253 million to cities and counties, and \$126 million to the Public Transportation Account. The transfer was originally enacted with the 2000 Budget Act, during the period of a revenue peak. No new revenue was provided for the program at that time; instead, it was funded out of existing General Fund revenues. To fund the Proposition 42 transfer in 2005-06 would require severe reductions in other General Fund program areas.

Tribal Gaming Bonds

The 2004-05 Budget Act assumed repayment of \$1.4 billion in transportation loans that were due to be repaid no later than June 30, 2005. This repayment was to be accomplished by dedicating \$1.214 billion in bond proceeds derived from certain Indian gaming revenues, as well as transferring \$140 million of "spillover" revenues and providing \$43 million in General Fund for early loan repayments. This transportation funding package will provide \$453 million to the Transportation Congestion Relief Program, \$477 million to the State Highway Account and \$275 million to the Public Transportation Account for projects and \$192 million to be allocated on a formula basis to cities and counties for local streets and roads rehabilitation and restoration projects. Due to litigation that has been filed against the State, the timing of the bond sale is unknown. The Budget proposes a trailer bill to make repayment of the above loans explicitly contingent upon receipt of the tribal gaming moneys dedicated to transportation purposes.

Public Transportation Account "Spillover" Revenues

The Budget proposes to suspend transfer of sales tax moneys to the Public Transportation Account in 2005-06. These revenues are estimated to be \$216 million. The "spillover" revenues are available only when revenues from the gasoline sales tax at the 4.75 percent rate exceed revenues from all taxable sales at the 0.25 percent rate and dates back to the establishment of sales tax on gasoline in 1972. In most years, no "spillover" transfer occurs; however there has been spillover the last three fiscal years. Other sales tax revenues deposited in the Public Transportation Account are \$275 million in 2005-06, a modest increase of \$9 million over the current year.

Federal Transportation Reauthorization

Reauthorization of the federal transportation act continues to be a critical priority. The Administration continues to work on this priority issue in partnership with California's Congressional Delegation and the Bush Administration to ensure that California receives its fair share of federal transportation funding. The shortfall in federal funding due to the special treatment of federally mandated oxygenated fuels that contain ethanol, which was projected to result in a shortfall in transportation resources over the next five years, has been resolved via House Resolution 4520. As a result, California's share of federal funds should permanently increase beginning in 2006-07 by approximately \$500 million.

Department of Transportation

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.

The Governor's Budget proposes \$8 billion, all from non-General Fund sources and 22,445.5 positions to support the activities of the Department of Transportation. This reflects a decrease of \$119.3 million but an increase of 87.2 positions from the revised 2004-05 Budget. Overall spending declines primarily because federal funds expected in 2003-04 were withheld and then released in 2004-05 creating a one-time peak, while staffing is increased for the culvert inspection program and storm water management proposals described below.

Transportation projects and operations generally are supported from dedicated special funds and federal funds. This approach guarantees funding for multi-year planning processes that need sustained revenues to fund large projects. The major transportation funding sources are:

- State and federal fuel taxes deposited in the State Highway Account.
- Truck weight fees deposited in the State Highway Account.
- Certain sales taxes on fuel deposited directly into the Public Transportation Account, which fund transit and intercity rail capital projects as well as transit operations.

Capital Outlay

A 2005-06 authorization level of \$3.2 billion is proposed for transportation capital outlay programs as compared to \$2.8 billion in the current fiscal year.

Local Assistance Programs

Caltrans provides State and federal transportation funds to local agencies through its local assistance budget. Funds are used primarily for local capital improvement projects of the State highway system, mass transit capital improvement projects, and bridge improvement projects. Funds are also used to provide discretionary assistance to local transportation agencies. The Governor's Budget proposes \$1.4 billion in local assistance funding for transportation in 2005-06, including \$128.5 million from the State Highway Account, \$988.4 million in federal funds, and \$312.6 million from other special funds.

State Operations Budget

The Governor's Budget proposes \$3.3 billion in state operations funding supporting transportation in 2005-06, including \$2.1 billion from the State Highway Account, \$584.9 million in federal funds, and \$618.7 million from other special funds. This funding level represents an increase of \$79.6 million compared to currently estimated 2004-05 expenditures. This increase is primarily the result of budget change proposals and price increases.

Major Maintenance and Culvert Inspection Program

The Budget includes \$45.8 million and 40 positions to restore funding for major maintenance contracts to the 2000-01 level of \$90.6 million and to establish a new Culvert Inspection Program that will establish a statewide inventory of all drainage facilities including location, geographic information system (GIS) data, design information, and structural deficiencies.

Storm Water Best Management Practices

In response to a court mandate to employ structural storm water treatment Best Management Practices, as well as to comply with Total Maximum Daily Loads regulations set by local and regional water quality control boards, the Budget includes an augmentation of \$11.7 million and 43.2 positions.

High-Speed Rail Authority

The High-Speed Rail Authority (Authority) is planning the development and implementation of an intercity high-speed rail service. Chapter 697, Statutes of 2002, placed a \$9.95 billion general obligation bond measure before voters in 2004 (the Safe, Reliable, High-Speed Train Bond Act for the 21st Century) to fund the planning and construction of the system. Chapter 71, Statutes of 2004 (SB 1169), deferred the vote until November 2006. The Governor's Budget proposes \$3.9 million, all from non-General Fund sources and 3.5 positions for the Authority. This represents an increase of \$2.1 million above the revised 2004-05 Budget.

Environmental Review and Business Plan

The Governor's Budget proposes a one-time augmentation of \$2.7 million for 3 purposes: legal defense of the Environmental Impact Report (EIR); additional environmental work on the San Jose-to-Merced route alignment; and completion of a business plan. In the signing message for Chapter 71, the Governor urged that the Authority complete "...a business and finance plan that substantiates the viability of the project" and that such a plan should be able to "sustain an independent rigorous review." The Authority has essentially completed the draft EIR documentation, as well as the period for public comment on the documentation. Due to concerns raised about certain suggested route alignments, however, it will be necessary to do additional environmental documentation work on the Merced-to-San Jose route segment.

Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. The Governor's Budget proposes \$762.3 million, all from non-General Fund sources and 8,256 positions for support of the DMV. This represents an increase of \$7.3 million and 2.8 positions above the revised 2004-05 Budget

The 2005-06 Governor's Budget includes \$782,000 for the relocation of field offices to continue services in Poway (\$196,000), Riverside-East (\$253,000), and Rocklin (\$333,000). The DMV is currently reviewing its methods of providing service to the public and developing alternatives to visiting the field offices. For example, the DMV recently eliminated the convenience fee it charged its customers for using credit cards for online transactions. This is expected to result in more customers using the Internet for their DMV-provided services. Another example is that DMV is developing a kiosk that will allow customers to complete transactions without waiting in lines (and these kiosks could potentially be placed throughout the community, like ATMs, without necessarily being placed in DMV field offices). The use of these new technologies is expected to result in a significantly lower number of customers needing to visit DMV's field offices. Until those technologies can be widely launched, DMV still must provide adequate locations for its customers' transactions.

Department of Corporations

The Department of Corporations administers and enforces State laws governing the offer and sale of securities and franchise investments, the licensing and regulation of securities broker-dealers and investment advisers, and the licensing and examination of mortgage brokers, finance lenders, and escrow companies. Through these activities, the Department protects the public and helps promote the integrity of California's financial services marketplace. The Governor's Budget proposes total expenditures of \$31 million, all from non-General Fund sources and 280.8 positions to support the Department. This represents an increase of \$1.8 million and 18.9 positions above the revised 2004-05 Budget. The Department is funded by annual assessment fees and securities fees.

California Electronic Access to Securities Information (Cal-EASI) Program

The Governor's Budget proposes to add \$668,000 to expand and permanently fund the Cal-EASI document management system. This was a four-year pilot project which achieved efficiencies in online filings of licensees by allowing credit card payments, imaging hard-copy submissions, electronically routing work to staff, and providing public access to imaged filings.

Seniors Against Investment Fraud (SAIF)

The Governor's Budget proposes to add \$400,000 and 1.0 position to the SAIF Program, which is designed to educate senior citizens about investment fraud and ways to protect their finances from predatory investment schemes.

Abusive Lending Practices

The Governor's Budget proposes to add \$287,000 and 2.8 positions so that the Department can implement Chapter 940, Statutes of 2004. Chapter 940 prohibits a licensee from intentionally delaying the closing of a loan for the sole purpose of increasing interest, costs, fees, or charges payable by the borrower.

Additional Examiners

The Governor's Budget proposes to add \$1.489 million and 15.2 positions, including seven limited-term positions, in 2005-06 to meet statutorily-mandated exam cycles and provide adequate levels of industry regulation and consumer protection against lending and financing fraud in California.

Department of Housing and Community Development

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees the state's housing planning and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor's Budget proposes \$563.2 million (\$13.3 million General Fund and \$549.9 million other funds) and 492.6 personnel years for the HCD's activities. This represents a decrease of \$34.9 million but an increase of 5.9 positions from the revised 2004-05 Budget. Staffing is increased for mobile and manufactured home titling and overall funding declines primarily due to timing of major project approvals from housing bond funds.

General Fund Reductions

The Department has been instructed to reduce its state operations budget by \$76,000 with the flexibility to implement through layoffs, hiring freeze, procurement reductions, or other administrative means as it may choose.

The General Fund supports the following HCD state operations: State Housing Law and Employee Housing Law enforcement; administration of the California Indian Assistance, Community Development Block Grant, Emergency Shelter, Housing Assistance, and Migrant Services programs; Housing Element, and Redevelopment Agency oversight, reporting, and audits. In addition, the Governor's Budget reduces the General Fund support for the Emergency Housing Assistance Program, which provides State grants (averaging about 10 percent of costs) for local agency-operated homeless shelters, by \$864,000, for a total of \$3.1 million in funding for 2005-06.

Office of Migrant Services (OMS) Reconstruction Plan

The 2005-06 Budget includes \$9.5 million from Proposition 46 (housing bond) funds to continue the OMS reconstruction plan to address health and safety standards deficiencies at the State-built OMS centers, which provide housing for farmworkers throughout California. Operations for the centers are fully funded in 2005-06.

Department of Real Estate

The Department of Real Estate (DRE) protects the public interest in regard to the offering of subdivided lands and the handling of real estate transactions by licensees. The DRE is also responsible for the issuance of real estate licenses in California. The 2005-06 Governor's Budget proposes \$34.6 million,

all from non-General Fund sources and 306.5 positions for support of the DRE. This represents an increase of \$1.6 million and 16 positions above the revised 2004-05 Budget.

Licensing Staff Augmentation

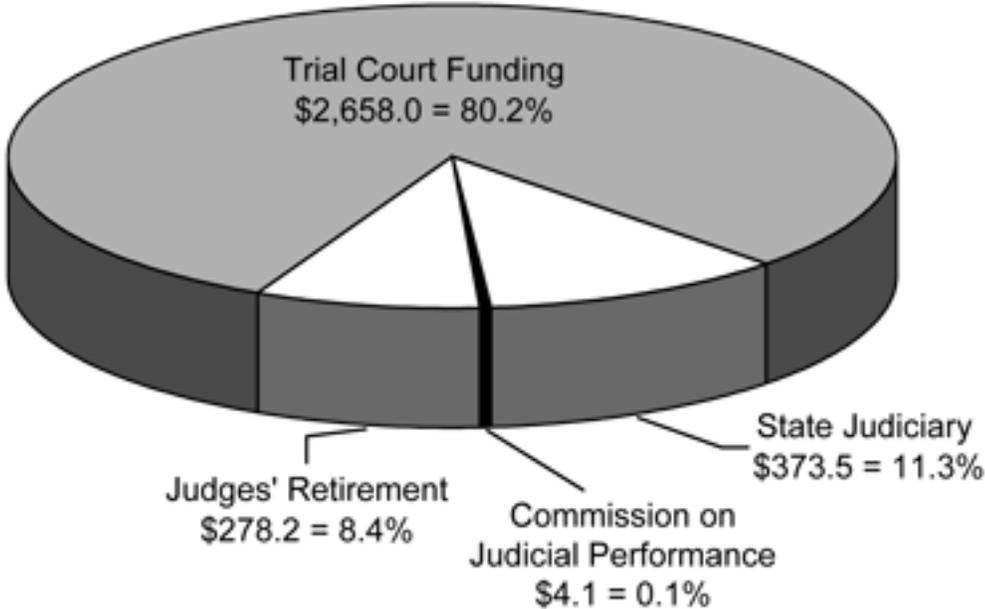
To address the growth in licensing requests due to sharp increases in real estate activity in California in recent years, the Governor's Budget includes an ongoing augmentation of \$455,000 and 16 temporary help positions from the DRE's fee-supported fund. This augmentation is expected to allow the Department to continue to minimize licensing backlogs.

Judicial Branch

The State Constitution vests California's judicial authority in a tripartite court system composed of the Supreme Court, the Courts of Appeal, and the trial courts. The Administrative Office of the Courts (AOC) provides support to the Supreme Court, the Courts of Appeal, the trial courts, and the Judicial Council. The Commission on Judicial Performance administers judicial discipline.

The Governor's Budget proposes \$3.4 billion (\$1.9 billion General Fund and \$1.5 billion other funds) and 1,878.9 positions for the Judicial Branch. This represents an increase of \$176.9 million (\$164.5 million General Fund) and 100.3 positions above the 2004-05 revised Budget. The Governor's Budget includes \$373.5 million (\$308.9 million General Fund) for the Judiciary, \$4.1 million General Fund for the Commission on Judicial Performance, \$2.7 billion (\$1.5 billion General Fund) for the trial courts, and \$278.2 million (\$143.7 million General Fund) for judges' retirement costs. In 2005-06, for the first time, the budgets of the Judiciary and State Trial Court Funding are being combined (see Figure JUD-01).

Figure JUD-01
Total Judicial Branch Expenditures for 2005-06
All Funds
(Dollars in Millions)



State Judiciary

The State Judiciary encompasses the activities of the Supreme Court, the Courts of Appeal, the Judicial Council/Administrative Office of the Courts, the Judicial Branch Facility Program, and the Habeas Corpus Resource Center. The Supreme Court is the highest court in the State judicial system, which reviews legal questions of statewide importance and appeals of all death penalty judgments. The six District Courts of Appeal hear appeals in all areas of civil and criminal law. The Judicial Council is the policy-making body for the State Judicial Branch, and the Administrative Office of the Courts is the administrative arm of the Council. The Habeas Corpus Resource Center provides legal representation in death penalty habeas corpus proceedings in the Supreme Court and in the federal courts.

Program Enhancements and Other Budget Adjustments

The 2005-06 Judicial funding totals \$373.5 million, which includes the assumption of additional administrative duties for the trial courts as indicated below. It also reflects the effect of moving funds that were related to trial court operations from the Judiciary to State Trial Court Funding. This transfer was made because these expenditures are more appropriately shown in the Trial Court Funding program.

Trial Court Administrative Services Support

The Judicial budget includes an increase of \$13.1 million in reimbursements and 91.5 positions to provide administrative services support (such as accounting, human resources, and treasury) solely to the Trial Courts. This is a redirection of resources, as this is not a new activity but merely a shift in responsibilities from local courts to the Administrative Office of the Courts (AOC). With this proposal, administrative services for approximately one-third of the trial courts will have been assumed by the AOC, with the remaining courts transitioning by 2008-09.

Growth Factor Increase

Due to the unique standing of the Judicial budget as part of an independent and separate branch of government, and in order to address concerns of the Administration and Legislature that increased costs not erode court services, it is the intention of the Administration to provide an annual adjustment to the Judicial budget equal to the change in the State Appropriations Limit. This will grant budgetary independence as is appropriate for a separate branch of government, and is consistent with the statute providing a similar adjustment to the Trial Courts. This annual adjustment will not take place until fiscal year 2007-08.

Trial Court Funding

The State Trial Court Funding budget provides local assistance funding to support the operations of California's 58 Superior Courts. The State Trial Court budget consists of the following four programs: Support for the Operations of the Trial Courts, Salaries for Superior Court Judges, Assigned Judges, and Court Interpreters. Prior to 1997, the superior courts were operated and funded by each county.

Program Enhancements and Other Budget Adjustments

The 2005-06 Trial Court Funding budget includes \$1.5 billion General Fund and \$1.2 billion in non-General Fund resources, for a total of \$2.7 billion. This represents an overall increase of \$220.4 million, including a General Fund increase of \$174.7 million, compared to the revised 2004-05 Budget. This General Fund increase is primarily due to the restoration of a one-time reduction, a baseline budget adjustment, and a growth factor augmentation. In addition, \$14 million was transferred from Judicial to State Trial Court Funding. This transfer was made to display these expenditures, which are related to trial court operations, in a more appropriate fashion.

Increased Trial Court Costs

Due to concerns that increased costs would erode Trial Court services, budget trailer bill language accompanying the 2004 Budget Act required an annual budget increase for operational costs equal to the increase in the State Appropriations Limit. Prior to the application of the growth factor, various baseline cost issues needed to be addressed to provide a fair and reasonable baseline budget for the Trial Courts. As a result, an increase of \$88.4 million has been included for fiscal year 2004-05, along with an ongoing baseline adjustment of \$92.6 million beginning in 2005-06. These costs are related to court employee salary and benefits, court employee retirement, court security, and county-provided services.

Growth Factor Increase

Consistent with the statutory requirement, an increase of \$97.4 million has been included in the Governor's Budget. This is the first year the trial court budget has been increased by the growth factor as opposed to submission of individual Budget Change Proposals. This new methodology grants budgetary independence, as is appropriate for a separate branch of government.

General Government

The General Government Section of the Budget Summary includes multiple departments, commissions, and offices responsible for oversight and specific activities not included in other areas. The Governor's Budget Summary highlights several significant issues addressed in the Governor's Budget.

Department of General Services

The Department of General Services provides control and support for State agencies related to procurement, fleet administration, business services, and administrative hearings. It is responsible for managing State-owned buildings and other property, and the 911 Emergency Telephone Services program. The Department is a fee-for-service agency, and receives its funding support from rates, fees, and other charges paid by client departments. The Governor's Budget proposes \$970.2 million and 3,519.5 positions for the Department. This represents an increase of \$39.1 million (reduction of \$14.8 million General Fund and 131.4 positions) over the revised 2004-05 Budget.

Restructure the Office of State Publishing

The Governor's Budget proposes the reduction of 114 positions and \$6.2 million to reflect operational changes at the Office of State Publishing (OSP). Changes within the printing industry, including increased demands for digital technology printing and Internet publishing have reduced the demand for OSP services. As a result, the OSP has operated at a loss for several fiscal years. Under this proposal, the OSP would continue providing core services for the Legislature and other State agency clients, but would look to enhance its digital printing operations and broker certain printing services to private industry to help reduce costs.

Asset Management and Surplus Property Program

To improve the identification and marketing of surplus properties through an expanded, web-based outreach, the Department of General Services will find the highest possible returns on its sale of surplus properties by creating an Internet marketing plan that increases the exposure of available properties. Additionally, all of the State's real property assets will be presented online, allowing interested parties to identify other, non-surplus, properties. The State could then determine whether it is in the taxpayers' interest to declare properties surplus, proceed to sale, and move the State forward with investment in and management of real property assets.

Department of Consumer Affairs

The Department of Consumer Affairs provides protection to consumer interests through licensing and regulation of specific professions, occupations, and businesses. The Department is directed by statute to facilitate a free-enterprise market economy by educating consumers, fostering competition, guarding against fraudulent practices, and promoting consumer representation throughout all levels of

government. The Governor's Budget proposes total expenditures of \$386.7 million and 2,583.8 positions to support the operations of the Department's various programs, boards, and bureaus. This represents an increase of \$34.3 million (reduction of \$4,000 General Fund) and 74.3 positions over the revised 2004-05 Budget.

Bureau of Automotive Repair Consumer Assistance Programs

The Governor's Budget includes \$13.6 million and 19.9 positions for the Vehicle Retirement Program and \$4.8 million and 16.2 positions for the Repair Assistance Program operated by the Bureau of Automotive Repair. Chapters 703 and 230, Statutes of 2004, provided increased revenue for these programs. The funding included in the Budget will allow more individuals to take advantage of these programs, resulting in cleaner air for all Californians. The Repair Assistance Program provides a repair subsidy to eligible low-income individuals and to consumers whose vehicles meet specified emissions criteria. The Vehicle Retirement Program provides a cash incentive to consumers who voluntarily scrap their vehicles after failing an emissions test.

High polluting vehicles represent between 10 percent and 15 percent of all vehicles on the road. Yet, they are responsible for more than half of California's vehicle-produced smog. The impact of smog affects children and is a serious public health issue. Through these efforts to remove gross polluting vehicles from California roads, the Consumer Assistance Programs help our citizens to breathe easier.

Underground Economy Statewide Investigative Fraud Team

The Governor's Budget includes \$1 million and 10.5 positions for the Contractors State License Board (Board) to increase enforcement activities in an effort to reign in the underground economy. In coordination with departments under the Labor and Workforce Development Agency, the Board will target unlicensed contractors through sweep and sting operations and will increase the number of investigations opened as a result of consumer complaints against unlicensed contractors. This effort is part of the Administration's "Economic and Employment Enforcement Coalition" initiative focused on reigning in the underground economy. For more information, please see the "Labor and Workforce Development" section in Major Program Areas.

Increased Resources for the Board of Registered Nursing

Building upon 2004 efforts to eliminate licensing backlogs at the Board of Registered Nursing (Board), the Governor's Budget provides an additional \$1.4 million for the Board to continue its licensing and enforcement activities in 2005-06. The Administration has proactively sought to restore the Board's funding and personnel resources to a level that is consistent with the massive challenges faced by the Board during this statewide nursing shortage. In addition to providing an 8 percent increase to the Board's operating budget for 2005-06, the Governor's Budget reflects partial repayment of a loan from the Board's licensing fund to the General Fund authorized by the previous Administration.

Governor's Office

The 2005-06 Governor's Budget proposes \$18.3 million General Fund and 185 positions for the Governor and the Governor's Office staff to carry out the Governor's mission as the head of the Executive Branch of California's state government. This represents a decrease of \$24,000 General Fund and three positions compared to the revised 2004-05 Budget.

Governor's Office Position and Funding Augmentation

Pursuant to Control Section 4.35, Budget Act of 2004, the Department of Finance has identified all positions on loan to the Governor's Office from various State departments and agencies. The Budget includes an augmentation of \$12.2 million General Fund for the Governor's Office to fund costs associated with the transfer of 116 loaned positions. The positions, prior to being transferred to the Governor's Office, were funded by approximately \$5.0 million General Fund and \$7.2 million non-General Fund. The Budget transfers current General Fund authority from department and agency budgets to the Governor's Office and augments the Governor's Office to replace current non-General Fund funding.

California Gambling Control Commission

The California Gambling Control Commission (Commission), under the Gambling Control Act, has jurisdiction over the operation and supervision of gambling establishments in the State of California. The 2005-06 Governor's Budget proposes \$139.7 million from non-General Fund sources and 88.7 positions for the Commission. This represents an increase of \$13,000 from non-General Fund sources and 21 positions above the revised 2004-05 Budget.

Tribal-State Gaming Compact Workload

The Budget includes a current year augmentation for workload resulting from new Tribal-State Gaming Compacts in 2004 of more than \$2.2 million (\$2.2 million from the Indian Gaming Special Distribution Fund; \$54,000 from the Gambling Control Fund) and 22.1 positions; and a budget year augmentation of \$4.8 million (\$4.7 million from the Indian Gaming Special Distribution Fund; \$124,000 from the Gambling Control Fund) and 43.1 positions. This augmentation will provide the Commission funding to develop and implement a State testing laboratory and field testing program; audit Indian gaming to ensure compliance with new and amended Compacts and gambling laws; meet new licensing workload required by the Compacts; provide additional legal support for Compact interpretation; handle sensitive and complex activities related to public affairs and outreach; account for and project Indian gaming revenues to the State; and coordinate with local and tribal law enforcement and other states concerning licensing status, gambling related issues, and tribal gaming areas identified as needing compliance reviews.

Franchise Tax Board

The Franchise Tax Board (FTB) administers the personal income tax and corporation tax, as well as the Homeowners and Renters Assistance Programs, child support collections, child support automation, Department of Motor Vehicles collections, courts collections, and Political Reform Act audits. The FTB's tax collection activities result in over 60 percent of General Fund revenue. The Governor's Budget proposes total expenditures of \$699.6 million and 5,285.1 positions in 2005-06 to support the FTB. This represents an increase of \$81.4 million and a decline of 41.7 positions over 2004-05. Included in these totals are \$237 million for the Child Support Automation Project and \$16.8 million for Child Support Collections. The overall budget is increased due to additional vendor payments for the California Child Support Automation Project, while the reduction in positions is attributable to the expiration of limited-term positions, primarily for the tax amnesty program.

Abusive Tax Shelters

The Governor's Budget is proposing \$1.8 million and 17.1 positions to increase staffing for the Abusive Tax Shelter Taskforce. Abusive tax shelters are considered one of the most significant areas of tax evasion at both the State and federal levels. These tax shelters lack any economic purpose other than reducing taxes and often involve multiple layers of domestic and foreign corporations. The additional funding to combat abusive tax shelters is conservatively estimated to generate \$43 million in revenue in 2005-06 and \$60 million in 2006-07.

Tax Gap Enforcement

The tax gap is the difference between what taxpayers owe and what they voluntarily pay. It is estimated that approximately 14 percent of income taxes owed are not paid. The Governor's Budget proposes a package of five measures to reduce the tax gap at a cost of \$8.6 million annually and 99.2 positions. This proposal includes: enhanced detection of tax preparers filing fraudulent returns, audit staff augmentations, underground economy criminal investigations, use of additional information sources to identify nonfilers, and an informant reward program. These measures are expected to generate an estimated \$34 million in 2005-06, increasing to nearly \$44 million in 2006-07.

Child Support Enforcement

Federal law requires the State to have a single, statewide, automated child support collection system. Chapter 479, Statutes of 1999, required the FTB to develop this system on behalf of the Department of Child Support Services. This system, the California Child Support Automation System (CCSAS), is designed to improve the collection of child support payments and will track child support cases, collect payments from delinquent parents, and distribute payments to the appropriate family. There are two components to CCSAS, the Child Support Enforcement System and the State Disbursement Unit. The first phase of this major project is targeted for completion in September 2006, when both components are implemented. This should eliminate the financial penalties currently imposed by the federal government of over \$200 million per year. The FTB's budget includes an augmentation of \$26.1 million

General Fund, \$52.9 million reimbursements, and 15.5 positions to continue the child support enforcement system development effort in 2005-06. It also includes an augmentation of \$170,000 General Fund and \$330,000 reimbursements for activities related to the State Disbursement Unit.

Changes in the Senior Citizens' Tax Assistance Programs

The Governor's Budget proposes to replace the current Senior Citizens' Property Tax Assistance Program with an expansion in the Senior Citizens' Property Tax Deferral Program. In addition, the benefits and eligibility for the Senior Citizen Renters' Tax Assistance are being scaled back (see the Tax Relief section for more detail). The changes in these programs will result in savings of \$575,000 and 12 positions in the FTB's budget for 2005-06. An additional savings of \$290,000 and three positions will be realized in 2006-07 once the administrative tasks to implement these changes are completed.

Tax Relief

The Governor's Budget proposes \$539.4 million for Tax Relief programs, which is \$128.8 million less than the 2004 Budget Act. As recommended by the California Performance Review, the Governor's Budget proposes replacing the Senior Citizens' Property Tax Assistance Program with expansion of the Senior Citizens' Property Tax Deferral Program. Currently, the Senior Citizens' Property Tax Assistance Program allows a once-a-year payment from the State to qualified individuals based on a portion of the property taxes paid on their homes. Instead of this grant, eligible individuals will be able to defer their property tax payment under the Senior Citizens' Property Tax Deferral Program. The Governor's Budget proposes an increase in the income limit on that program, so that all individuals who were previously eligible for the grant program would now be eligible for deferral. For most taxpayers, this program will provide more financial assistance than the grant program did. Also, due to the need to bring the Budget into structural balance, the Senior Citizen Renters' Tax Assistance program benefits are proposed to be scaled back to reduce program costs. Benefits will be returned to levels slightly above the 1998 level.

Department of Veterans Affairs

The Department of Veterans Affairs is responsible for providing services to California veterans and their dependents. The Department, in a close partnership with the U.S. Department of Veterans Affairs, provides services and benefits to 2.3 million veterans living in California. The Department operates veterans' homes in Yountville, Barstow, and Chula Vista, administers the Cal-Vet Farm and Home Purchase Program, and assists veterans in obtaining State and federal benefits to which they are entitled. The Governor's Budget proposes \$301.5 million and 1,495.2 positions for the Department. This represents an increase of \$3 million (reduction of \$899,000 General Fund) and 11.8 positions over the revised 2004-05 Budget.

The Governor's Budget includes adjustments to enable the Department to maximize federal funds, to make structural changes in the Veterans' Homes, to purchase equipment, and to provide services to veterans.

Convert Chula Vista Residential Care Beds to Intermediate Care Beds

The Governor's Budget includes funds to convert Residential Care for the Elderly beds to Intermediate Care Facility beds at the Chula Vista Home. Included are an increase of \$2 million federal funds and 8.4 positions and a decrease of \$940,000 General Fund for the conversion, which will increase the federal funding share of cost.

New Air Conditioning for Yountville Veterans Home

The Governor's Budget includes \$832,000 (\$200,000 General Fund and \$632,000 federal funds) for new air conditioning for the Yountville Veterans Home. The current air conditioning was installed in 1985 with a maximum expectation of 15 years of usage.

Northern California Veterans Cemetery

The Governor's Budget includes \$446,000 (\$327,000 General Fund, \$62,000 federal funds, and \$57,000 other funds) and 1.0 position for federally required operation and maintenance of the new Northern California Veterans' Cemetery.

Department of Food and Agriculture

The Department of Food and Agriculture (DFA) is responsible for protecting and promoting California's environmental resources, agricultural industry, and commerce; providing leadership in the development of agricultural and environmental policy; and enforcing weights and measures standards. The DFA's activities include prevention and eradication of harmful plant and animal pests and disease, marketing and export assistance to the agriculture industry, and assistance to county agricultural commissioners and local fairs. The Governor's Budget proposes \$302.8 million (\$100.1 million General Fund and \$202.7 million other funds) and 1,821.0 positions for the Department. This represents an increase of \$6.4 million (\$4.1 million General Fund) and 26.7 positions over the revised 2004-05 Budget.

Mediterranean Fruit Fly Preventative Release Program

The Governor's Budget continues \$8 million General Fund and 137 positions to reduce the growing threat to California's environment and economy from invasive pests. This funding supports the Mediterranean Fruit Fly Preventative Release Program and related public outreach activities.

Funds to Address Emerging Threats to Food Production

The Governor's Budget includes \$2.7 million General Fund and 17.0 positions to address emerging threats to California's food supply through animal disease such as Avian Influenza and Mad Cow Disease as well as from the threat of bioterrorism.

Replace Veterinary Lab Equipment

The Governor's Budget includes \$1.3 million General Fund to replace old and outdated laboratory equipment in the Department's Veterinary Labs. Additionally, some of the funds will be used to make improvements to the laboratory facilities to enable the Department to maintain its federal accreditation.

Milk and Dairy Food Safety Compliance

The Governor's Budget includes \$1.1 million Agriculture Funds and 5.0 positions to inspect dairy farms for sanitation and food safety compliance, and for training and evaluation of licensed bulk milk samplers and weighers. Funds are derived from an assessment applied to the quantities of milk produced by the dairy industry.

Los Angeles County Detection and Trapping

The Governor's Budget includes an augmentation of \$760,000 General Fund for full year funding for positions in Los Angeles County for the Detection and Trapping Program enacted in Chapter 631, Statutes of 2004 (AB 1896), for activities associated with containment and eradication of various fruit flies and pests.

Department of Insurance

The Department of Insurance regulates the largest insurance market in the United States with over \$115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially able to meet their obligations to policyholders and claimants.

The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and is a major contributor in combating insurance fraud. The Governor's Budget proposes \$193.8 million special funds and 1,260.9 positions. This represents an increase of \$6.1 million and 15.6 positions over the revised 2004-05 Budget.

Information Technology

The Governor's Budget includes an increase of \$6.8 million Insurance Fund and 7.1 positions to support information technology projects to assist the Department in meeting its mission by upgrading the data cabling (\$361,000), replacing older computers (\$729,000), creating an internal portal to improve the sharing of databases and other information within the Department (\$2 million and 1.9 positions), upgrading the Department telecommunications system (\$3.5 million and 1.4 positions), and adding positions to address increased information technology workload (\$335,000 and 1.9 positions).

Insurance Enforcement Activities

The Governor's Budget includes \$647,000 and 3.8 Administrative Law Judge positions to address increased workload to hear cases such as those concerning workers' compensation, insurance company insolvencies, and rate increases.

Credit Card Convenience Fees

In order to encourage the public to use the Internet to conduct business with State agencies, the Governor's Budget includes \$200,000 Insurance Fund to pay credit card convenience fees for those making payments to the Department of Insurance online using credit cards.

Secretary of State

The Secretary of State, 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 documents and records having historical significance. All documents filed are a matter of public record and of historical importance. They are available through prescribed procedures for public review and certification as to authenticity.

The executive staff determines policy associated with the administration of the office through the programs of Elections, Political Reform, Business Programs, Archives, Information Technology, and Management Services Division. The Governor's Budget proposes \$76.4 million and 447.3 positions for the Secretary of State. The expiration of a one-time augmentation provided in 2004-05 has resulted in a decrease of \$272.3 million (reduction of \$10.2 million General Fund) and 0.6 positions over the revised 2004-05 Budget.

Help America Vote Act Implementation

In 2003-04 the State received \$84.5 million federal funds to support activities required by the federal Help America Vote Act (HAVA) of 2002. In the spring of 2004, \$264.4 million in additional federal HAVA funds were provided to the State. Some funds were approved for expenditure in 2004-05; however, the Legislature restricted the release of a portion of the original grant and the subsequent HAVA funding pending the receipt of a plan for the use of HAVA funds and approval by the Department of Finance and the Legislature. The plan is currently under administrative review.

Special Items of Expense

The State historically has depended on the deficiency process to pay actual costs of elections by including a base amount in the Secretary of State budget and adding election costs in excess of this base amount through the deficiency process. If the actual cost of an election is less than the base

amount included in the Budget, excess funds revert to the General Fund at the end of the fiscal year. The Secretary of State has had election related deficiencies in seven of the last ten years and in each of the last three years. As a result of eliminating Control Section 27.00, related to deficiencies, from the Budget Act commencing with the 2004 Budget Act, the State may no longer depend on receiving election funds through a deficiency bill. Therefore, the Governor's Budget includes an increase of \$3,023,000 for election costs to diminish the likelihood of future deficiencies and to fund the full cost of statewide elections.

Department of Technology Services

The Governor is proposing to consolidate the State's general-purpose data centers to "substantially improve the performance of the Executive Branch in managing its information technology infrastructure with particular focus on (1) receiving best value in the acquisition, management and operation of its information technology infrastructure and resources, (2) realizing with its information technology infrastructure the most appropriate levels of security, quality and risk management, and (3) ensuring that agency core competencies are reinforced and respected." The creation of the Department of Technology Services will be proposed through a Governor's Reorganization Plan. It will be the general-purpose technology service provider for the Executive Branch, accountable to its customers for providing secure, responsive, and cost-effective information and telecommunications services. The Department will include the activities previously performed by the Stephen P. Teale Data Center, the Health and Human Services Agency Data Center (excluding the Systems Integration Division, which will be transferred to the Health and Human Services Agency) and the voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services.

Technology Services Board

The Technology Services Board will serve as the governing body for the Department. The Board will consist of the State Chief Information Officer (Chair), the Director of Finance (Vice-Chair), the State Controller, and the Secretaries of the Cabinet agencies and departments. This membership will ensure appropriate oversight and customer orientation.

Consolidation Management Office

The Consolidation Management Office will provide a coordinated, objective approach to managing data center consolidation. The Office will leverage both consultant services and State resources to form an interdisciplinary program office with the capability and capacity to plan and carry out the consolidation.

Funding

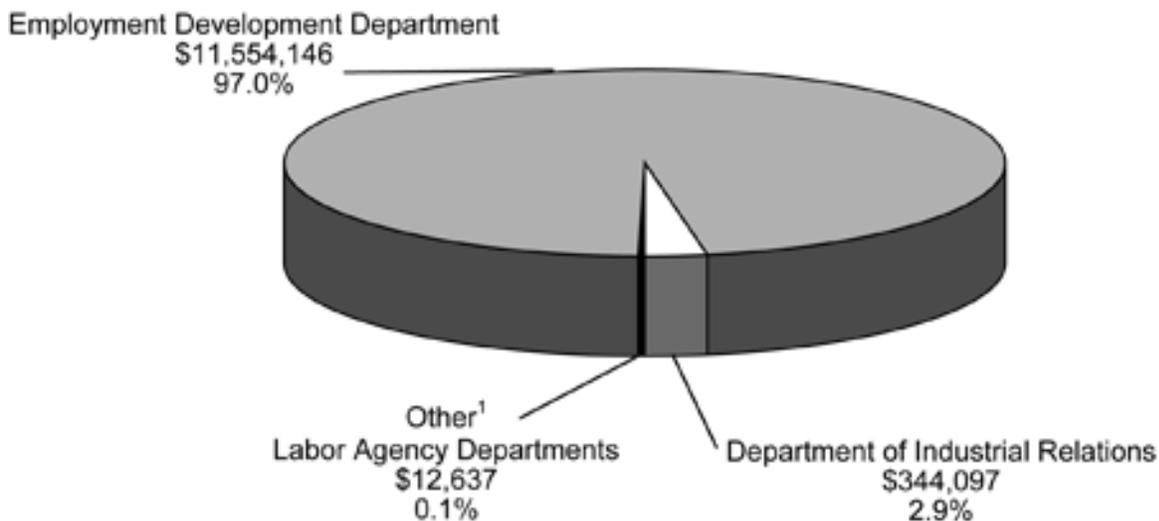
The Technology Services Board, in consultation with the Department of Finance, will establish the annual expenditures by and rates charged to the customers of the Department of Technology Services. The expenditures will be made from the proposed continuously appropriated Department of Technology Services Revolving Fund. It is anticipated that the Board will adopt a 2005-06 budget and associated rates that will not result in any net changes to those amounts that would be expended or collected by

the organizations that have been consolidated into the Department of Technology Services. For 2005-06, the budget for the Department of Technology Services is projected to be \$235.4 million and 776 positions. Future savings are anticipated as consolidation efforts are completed (e.g., when the Consolidation Management Office activities are accomplished).

Labor and Workforce Development

The Governor's Budget includes funding to support the various programs within the Labor and Workforce Development Agency, as well as initiatives that represent collaborations with other Administration entities and the state's institutions of higher education. Funding for these programs will be approximately \$11.9 billion in total funds, and reflects a 4.3 percent decrease over the revised 2004-05 Budget. The more notable funding changes included in the Budget for these programs are further described below. See Figure LWD-01.

Figure LWD-01
Labor and Workforce Development Agency 2005-06 Expenditures
(Dollars in Thousands)



¹ Other Labor Agency Departments include: Secretary for Labor and Workforce Development (\$2,177), California Workforce Investment Board (\$5,556), and Agricultural Labor Relations Board (\$4,904).

Labor and Workforce Development Agency

The Labor and Workforce Development Agency is composed of the following entities: the Secretary for the Labor and Workforce Development Agency, the Employment Development Department, the California Workforce Investment Board, the Department of Industrial Relations, and the Agricultural Labor Relations Board.

Secretary for the Labor and Workforce Development Agency

The Labor and Workforce Development Agency oversees programs designed to foster job creation; promote business development; and ensure profitable, safe, and healthful working conditions through education and enforcement efforts. The Governor's Budget includes \$2.2 million and 13.2 positions for the Agency. This represents an increase of \$19,000 over the revised 2004-05 Budget.

Economic and Employment Enforcement Coalition

The underground economy hurts California businesses and workers. The "Triple E Coalition" will aggressively enforce California's labor, employment tax, and licensing laws so that legitimate employers and their employees can compete on a level playing field.

Reining in the Underground Economy

California's small businesses are the backbone of our state's economy. They provide the largest percentage of jobs to our people and are able to adapt quickly to the changing demands of the marketplace. They are both the symbol and culmination of California's great entrepreneurial spirit and they form the basis of our free-market economy. The services provided by these businesses are known throughout the world, and their products - California products - are sought after around the globe.

While all California businesses are threatened by low wage competition from other countries, a greater danger to the ability of these businesses to provide decent jobs and working conditions for Californians exists much closer to home. The "underground economy" undercuts the ability of legitimate businesses to compete fairly in the statewide marketplace. These operators willfully disregard California's tax, labor, and licensing laws, and in doing so harm businesses, place employees at risk, and weaken the state's progress toward economic stability.

By avoiding legal requirements, these underground operations carry much lower overhead costs giving them an unfair competitive advantage at the expense of businesses that play by the rules. Workers also pay a high price for the existence of these illegal operations. Finally, consumers are exposed to potential financial losses and even physical danger when they obtain services from unlicensed contractors and other service providers.

The Administration has made significant progress toward enhancing California's business climate. During 2004, the Governor signed legislation reforming the state's workers' compensation system and mitigating the business-unfriendly "sue your boss" law. The Governor vetoed several bills that would have added new labor laws, citing repeatedly his strong belief that, instead of new laws, California needs to enforce the laws it already has - laws that provide the strongest worker protections in the nation. Aggressive enforcement, coupled with focused efforts to curtail illegal operators, will benefit employees, employers who comply with the law, and the California economy.

To combat the underground economy, the Administration proposes the creation of the Economic and Employment Enforcement ("Triple E") Coalition, a partnership of enforcement agencies that will identify the worst offenders for targeted workplace enforcement actions throughout the state. Members of the

coalition will build from their individual expertise to create a team of enforcement officials with better information, access, and ability than previous efforts have produced. The team will consist of investigators and auditors from the Department of Industrial Relations, the Employment Development Department, and the Department of Consumer Affairs.

Addressing California's Nursing Shortage

Addressing California's nursing shortage is a high priority for the Administration. The Employment Development Department (EDD) forecast a need for 109,600 more registered nurses (RNs) between 2000 and 2010. This equates to almost 11,000 new RNs annually. The demand for nurses can be met through a variety of means, including increasing the number of nurses educated in the California Community Colleges, institutions of higher education, and nontraditional educational environments. However, capacity must be built in the State's education system to meet regional demands for nursing care. The Governor is committed to addressing the State's increasing nursing shortage through the following measures:

- Expanding the nursing capacity outside of the current framework
 - o Some public/private nursing education partnerships are proving highly successful. These proven models need to be expanded to create new capacity for educational opportunities outside of the traditional educational environment.
- Expanding the nursing capacity inside the existing framework
 - o Many community college nursing programs are operating at maximum capacity. Investments must be made to expand the capacity within the existing traditional educational environment.
- Maximizing the success of students in the nursing education system
 - o Current dropout rates of nursing students can reach as high as 20 percent. Education reforms and investments must be made to stem the dropout rate so valuable nursing education slots are not lost. Community colleges and universities should work together to improve course articulation when transferring academic credits between nursing programs.
- Expanding the faculty who provide nursing education
 - o The shortage of nursing faculty is universally cited as one of the biggest barriers to increasing the number of nursing graduates. Nursing faculty recruitment initiatives must be undertaken so that more nurses can be trained.

The Governor proposes using funds from the Workforce Investment Act (WIA) to support policies that decrease the nursing shortage. These funds are allocated each year from the U.S. Department of Labor for the support of workforce development and training initiatives. Under WIA, 85 percent of these funds are sent directly to California's 50 Local Workforce Investment Boards to operate programs at the local level. The Governor uses the remaining 15 percent at the state level primarily for administration of the program and for discretionary workforce initiatives. In its first two budgets, the Administration has proposed allocating a total of \$35.8 million of WIA 15 percent discretionary funds for the training of nurses and other healthcare workers.

Employment Development Department

The Employment Development Department (EDD) administers the Unemployment Insurance and Disability Insurance programs and collects personal income tax from employers. In addition, EDD administers a variety of labor exchange and job training programs, including the Job Services and Workforce Investment Act programs. The Governor's Budget proposes \$11.6 billion (\$19.2 million General Fund) and 10,114.4 positions for the Department. This represents a decrease of \$0.6 billion (\$0.1 million General Fund) and an increase of 63.2 positions over the revised 2004-05 Budget.

Benefit Audit Backlog

The Budget provides \$9.1 million and 147 positions to liquidate EDD's Benefit Audit Backlog. Unemployment Insurance (UI) overpayments to individuals occur periodically. Using a variety of methods, EDD conducts benefit audits to help recover overpayments. Due to a variety of factors, the EDD has had to redirect audit staff in recent years to other activities. Current audit staff is focused on the most recent inventory of claims. The EDD will eliminate the backlog that has been built up in recent years by temporarily adding staff.

Economic and Employment Enforcement Coalition

The Budget includes \$2.5 million and 23.7 positions for EDD to conduct enforcement activities against employers who illegally convert acknowledged employees to independent contractors. This practice enables employers to avoid paying mandated employment taxes. This effort is part of the Administration's initiative designed to rein in the underground economy.

State Unemployment Tax Act

The Budget includes \$0.9 million and 11.4 positions to implement the provisions of Chapter 827, Statutes of 2004, which conforms to recently enacted federal legislation, and will ensure that California employers remain eligible for federal UI tax credits, and that the State will continue to receive federal funding for administration of the UI program.

Department of Industrial Relations

The primary functions of the Department of Industrial Relations (DIR) are to foster, promote, and develop the welfare of the wage earners of California, to improve their working conditions, and to advance their opportunities for profitable employment. The Governor's Budget proposes \$344.1 million (\$63.1 million General Fund) and 2,679.2 positions for the Department. This represents an increase of \$25.1 million (\$176,000 General Fund) and 126.2 positions over the revised 2004-05 Budget.

Economic and Employment Enforcement Coalition

Labor and Workforce Development

The Budget includes \$3 million and 27.5 positions for DIR to conduct enforcement activities against employers who do not comply with California's wage and working conditions laws. These violators often fail to comply with licensing and employment tax laws, and undercut the ability of legitimate businesses to compete fairly in the marketplace.

Infrastructure

The State owns various types of infrastructure to support the delivery of its numerous programs. A partial listing of these facilities includes 142 higher education campuses with over 11,000 buildings, 41 public safety facilities to incarcerate over 168,000 offenders, comprised of 32 adult prisons and 9 institutions for youths, 141 highway patrol offices, 5 facilities for the mentally ill, and 5 centers for the developmentally disabled. In addition, there are 278 park units covering 1.4 million acres and 231 wildlife and ecological reserves covering a million acres. Finally, the State manages 28.8 million square feet of office space, of which nearly one-half is owned and the remainder leased.

Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$1.2 billion for capital outlay, not including funding for transportation, K-12 schools, and State conservancies (the Business, Transportation, and Housing; Education; and Resources sections describe the funding provided for those programs). Of this amount, \$930.2 million is for continuing phases of 131 existing projects, and \$256.5 million is for 58 new projects. Funding for capital outlay comes from a number of sources including the General Fund, various special funds, general obligation bonds, lease-revenue bonds, and federal funds. Of the \$1.2 billion total, the General Fund contributes \$73.7 million, which represents 6.2 percent of total capital outlay expenditures. Figure INF-01 summarizes the proposed capital outlay program by agency, and Figure INF-02 summarizes the program by funding source.

Figure INF-01
Total Capital Outlay Proposed Funding for 2005-06 by
Agency
(Dollars in Thousands)

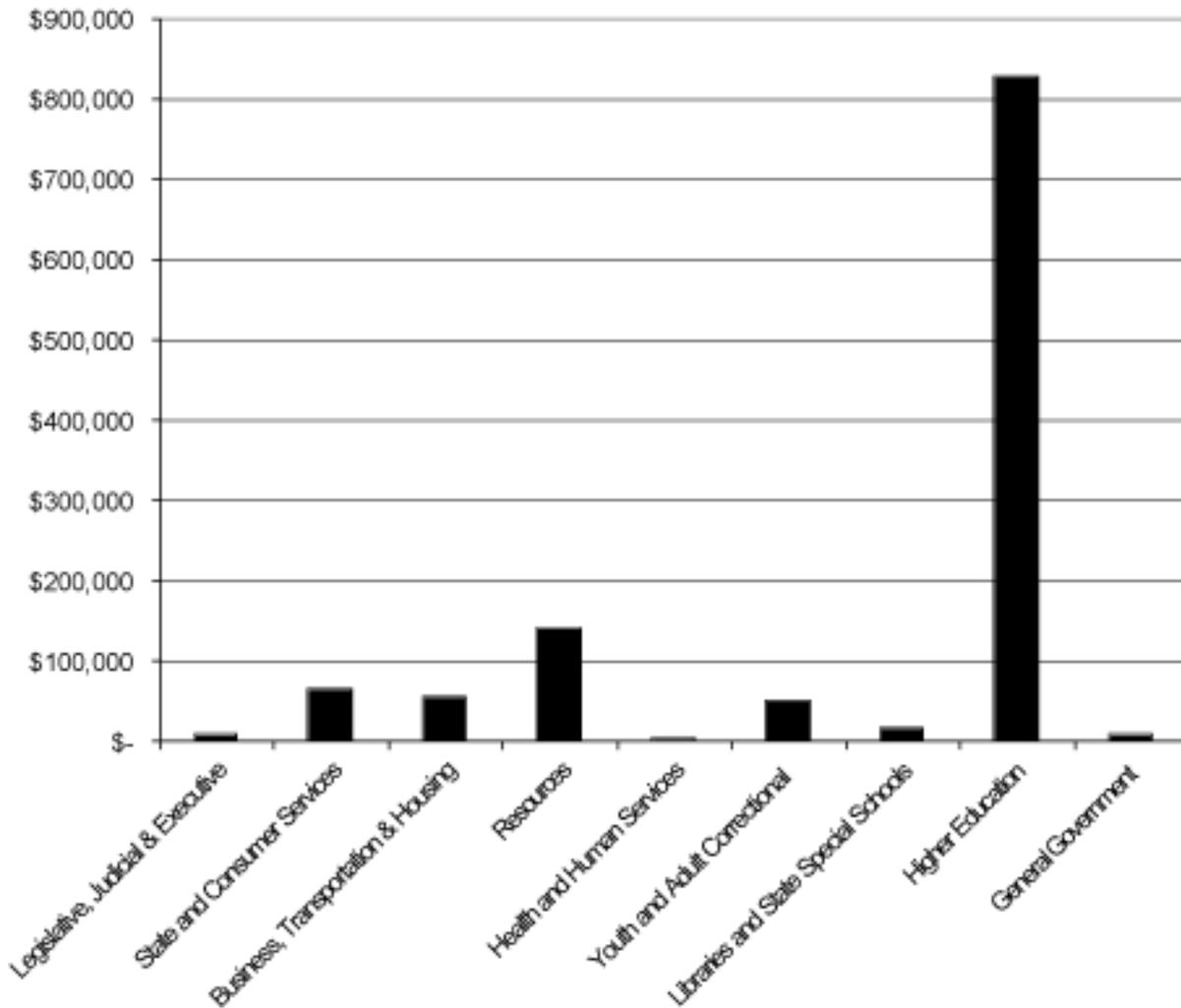
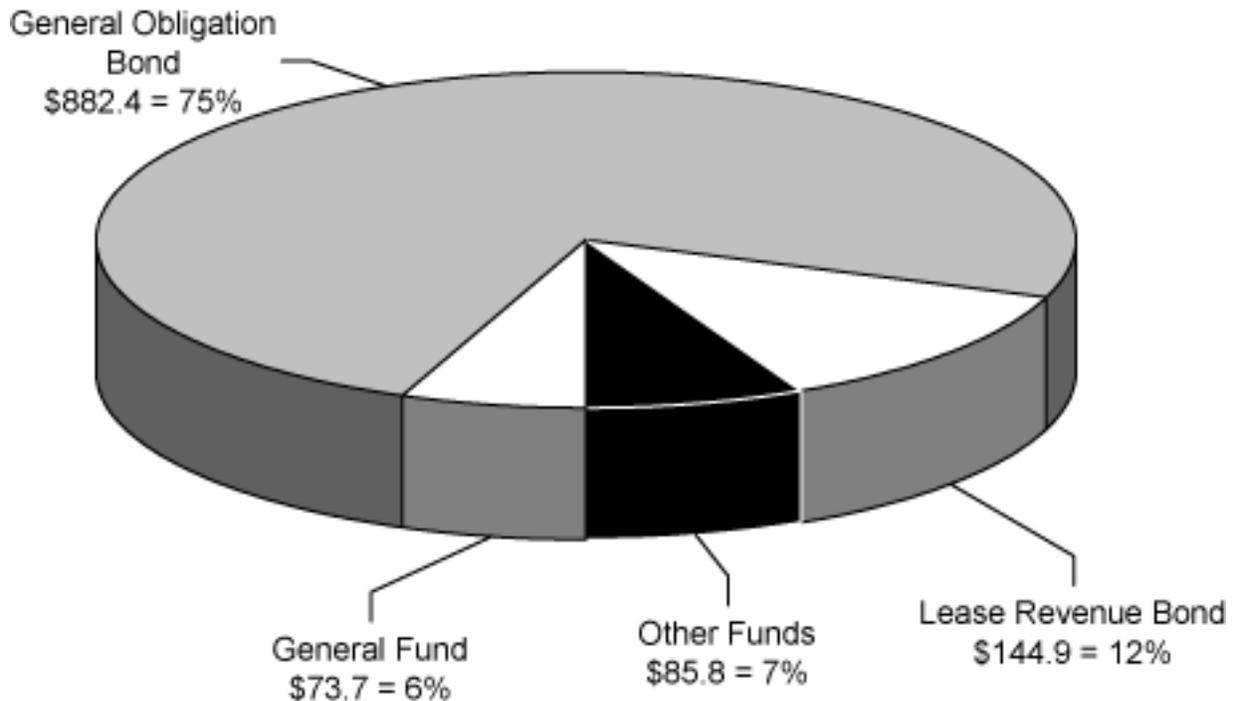


Figure INF-02
**Capital Outlay Proposed for 2005-06
 by Funding Source**
 (Dollars in Millions)



Education

The proposed 2005-06 capital outlay program for education totals \$846.2 million, which is comprised of \$829.1 million from Proposition 55 for higher education and \$17.1 million lease revenue funds and General Fund for K-12 education. Proposition 55 authorizes a \$12.3 billion K-12 and higher education facilities bond and was approved by the voters in the March 2004 election. The total amount of the Proposition 55 funding for higher education facilities, proposed to be allocated over two fiscal years (2004-05 and 2005-06), is \$2.3 billion. Of this total, \$690 million over two years will be allocated each to the University of California (UC) and the California State University (CSU), and \$920 million will be allocated to the California Community Colleges (CCC). The funding allocation is consistent with the Higher Education Compact that Governor Schwarzenegger and the UC and the CSU segments agreed upon in May 2004 to address the State's financial support for higher education.

University of California

The Governor's Budget proposes \$305.1 million Proposition 55 funds in the budget year for the construction and renovation of buildings on UC campuses. This is comprised of \$276.1 million for continuing 16 existing projects and \$29 million for eight new projects at six campuses. These buildings are needed for critical infrastructure deficiencies and to meet enrollment, and facility renewal needs at

UC campuses. New projects include seismic and life safety corrections at the Doe Library at Berkeley to address critical infrastructure deficiencies, the Steam Expansion Phase 1 and Electrical Improvements Phase 3 projects at Davis, and the Student Academic Support Services Building at Riverside to address enrollment growth, and the Infrastructure Improvements Phase 1 project at Santa Cruz to address facility modernization.

California State University

The Governor's Budget proposes \$261.5 million Proposition 55 funds in the budget year for the construction and renovation of buildings on CSU campuses. This is comprised of \$220.8 million for continuing 14 existing projects, \$24.7 million for 4 new projects, and \$16 million for minor projects for the construction and renovation of buildings on CSU's 23 campuses. These buildings are needed for critical infrastructure deficiencies and to meet enrollment, and facility renewal needs at CSU campuses. CSU projects include new music and performing arts facilities at Northridge and Sonoma State to accommodate enrollment growth; the Mai Kai land acquisition at Humboldt State to create space for new campus instruction facilities; and the Liberal Arts 2, 3, and 4 seismic upgrades at Long Beach to meet enrollment growth.

California Community Colleges

The Governor's Budget proposes \$262.5 million Proposition 55 funds in the budget year comprised of \$76.3 million for 23 new projects in 19 districts and \$186.2 million for 27 continuing projects in 20 districts. Many projects are supported by \$87.4 million in locally approved Proposition 39 funds available in 33 districts. These projects will correct seismic deficiencies, provide programmatic upgrades in instructional and library facilities, and construct new classrooms and laboratories to help meet the needs of increased enrollment. Examples of new projects include a fine and performing arts center at Folsom Lake College, a science modernization project at Taft College, a child services modernization project at Barstow College, infrastructure replacement at the College of the Desert, and a child development center at Los Angeles Harbor College.

Department of Education, State Special Schools

The Governor's Budget proposes \$16.6 million lease revenue bonds to replace the career and technical education building at the California School for the Deaf in Riverside with a new complex that will address critical infrastructure needs on the campus and provide a modern learning environment.

Resources Agency

The proposed 2005-06 capital outlay program for this agency totals \$142.4 million. Over the past two years, voters have approved two bond measures, Proposition 40 (\$2.6 billion) and Proposition 50 (\$3.4 billion) to address California's water supply needs and protect the state's parks and wildlife habitats.

Department of Parks and Recreation

The Governor's Budget proposes \$42.7 million from various funds to continue six projects, begin five projects, and fund various small projects, acquisitions, and budget planning. The new projects consist of the replacement of a deteriorating water treatment system needed to provide reliable and adequate water supplies for the Big Basin Redwoods State Park, a drainage improvement project at the Columbia State Historic Park, a structural improvement project at the Antelope Valley Indian Museum, the replacement of a main lifeguard tower at the San Elijo State Beach, and the improvement of deteriorated day-use facilities at Millerton Lake.

Department of Forestry and Fire Protection

The Governor's Budget proposes \$47 million, including \$41.7 million lease-revenue bonds, for three continuing projects and one new project to replace six deteriorated forest fire stations statewide. Additionally, \$5.3 million General Fund is proposed for the renovation of ten critical telecommunications facilities, the relocation of an air attack base, the replacement of an unreliable and unsafe water system at an emergency response facility, and various critical minor projects to replace deteriorated water treatment facilities that are needed to maintain operations at five conservation camps.

Department of Water Resources

The Governor's Budget proposes \$16.7 million General Fund and \$4.4 million local reimbursements for six flood control projects in the Central Valley currently under construction. In addition, \$26.6 million of Proposition 13 bond funds is proposed for construction of fish barriers, a fishscreen, and a new intake at Clifton Court Forebay, as part of the CALFED Conveyance South Delta Improvements Program.

Youth and Adult Correctional Agency

The proposed 2005-06 capital outlay program for this agency totals \$50.8 million.

California Department of Corrections

The Governor's Budget proposes \$18.3 million General Fund including six continuing and seven new projects (\$12.3 million), statewide critical small projects (\$5 million), and statewide budget packages and studies (\$1 million). The proposed new projects address wastewater treatment issues at California Correctional Center, Deuel Vocational Institution, California State Prison-Corcoran, and Centinela State Prison, and provide a hemodialysis clinic at the California Institution for Men. Additionally, the Budget proposes \$28.9 million lease-revenue bonds for one continuing project.

Department of the Youth Authority

The Governor's Budget proposes \$3.6 million General Fund for two new projects (\$854,000), critical small projects (\$2.5 million), and statewide budget packages and studies (\$250,000). The proposed new projects provide fire sprinkler protection to various Youth Authority facilities consistent with building code requirements and replacement of a blast chiller and its eroding foundation at the Northern

California Youth Correctional Facility.

Business, Transportation, and Housing Agency

The proposed 2005-06 capital outlay program for this agency totals \$56.2 million.

Department of Transportation

The Governor's Budget proposes \$34.5 million State Highway Account to continue support of the seismic retrofit project for the Oakland area district office building.

California Highway Patrol

The Governor's Budget proposes \$10.2 million from the Motor Vehicle Account, which includes \$3.3 million to replace the Santa Fe Springs office, \$2.4 million to exercise the lease-purchase option for the Central Los Angeles area office, and \$4.3 million to finish construction on the Williams area office. It also allocates \$215,000 to renovate the San Diego area office.

Department of Motor Vehicles

The Governor's Budget proposes \$11.2 million from various special funds to complete the Sacramento Headquarters third floor asbestos removal and seismic retrofit project.

Other Departments

Department of General Services

The Governor's Budget proposes \$16.9 million General Fund to continue support of the seismic retrofit project for the historic Building 22 at San Quentin State Prison. In addition, \$49.1 million lease revenue bonds are proposed for a new project to renovate the State Library and Courts Building for critical infrastructure deficiencies and to preserve the historic character of this state landmark built in 1928.

Military Department

The Governor's Budget proposes \$5.4 million (\$3.1 million General Fund) to complete the construction of the Roseville Armory renovation and expansion in order to alleviate overcrowding at the existing site and to provide necessary classroom and storage space. In addition, \$422,000 federal funds are proposed for continuing projects at Camp San Luis Obispo that will provide a new dining hall and maintenance shop. Finally, \$1.3 million (\$432,000 General Fund) is provided for kitchen and latrine improvements at six armories statewide.

Department of Mental Health

The Governor's Budget proposes \$5.4 million General Fund, which includes \$5 million for the construction phase of a project to renovate six residential kitchens at Metropolitan State Hospital as a component of the main kitchen project that will replace outdated and inefficient kitchens. The remaining

\$392,000 is for a security project at Napa State Hospital.

Department of Veterans Affairs

The Governor's Budget proposes \$862,000 General Fund, which includes \$659,000 to improve parking lots at Yountville to remove hazards for elderly residents with disabilities. The remaining \$203,000 will fund the construction of six additional bus shelters at Yountville to provide protection from inclement weather.

Pay-As-You-Go vs. Long-Term Financing

The State employs two approaches to funding infrastructure: direct appropriations, also called "pay-as-you-go" funding, and long-term financing. Long-term financing includes general obligation bonds, lease-revenue bonds, leases with purchase option, or installment purchase agreements. The General Fund, special funds, and federal funds all support infrastructure either as a source of direct appropriations or, for long-term financings, by paying debt service or lease costs.

General Obligation Bonds

California owes \$33.8 billion in principal on outstanding non-self liquidating general obligation (GO) bonds as of November 1, 2004. The General Fund cost for the payment of interest and redemption on these bonds is \$3.1 billion in 2004-05, and is estimated to be \$3.3 billion in 2005-06. This amount could vary depending on the actual amount of bonds sold during the year.

Lease-Revenue Bonds

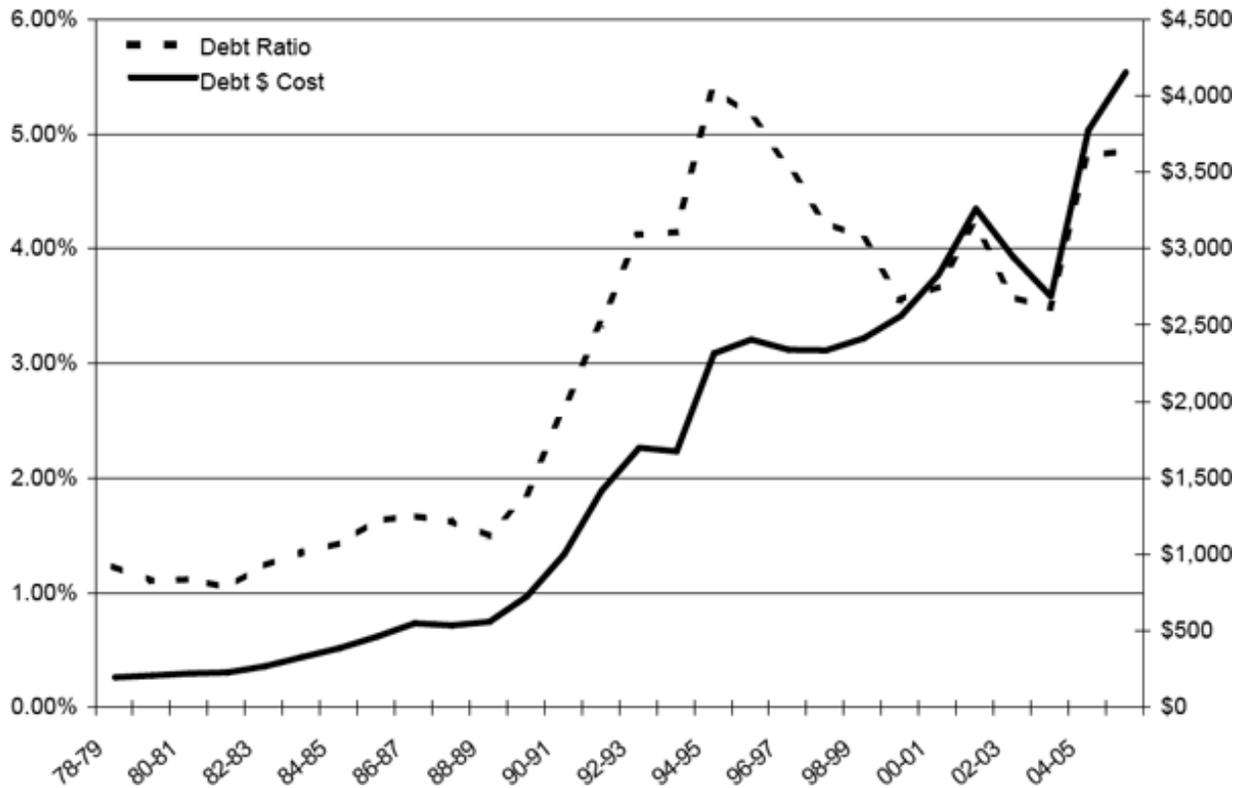
The lease-revenue method of financing projects has been used for higher education facilities, State prison construction, general-purpose office buildings, and other types of projects when a lease can be created that provides a marketable security for the issuance of the bonds.

As of November 1, 2004, outstanding lease-revenue bonds totaled \$7.2 billion. The estimated outstanding lease-revenue bonds as of June 30, 2005, and June 30, 2006, are \$7.8 billion and \$7.9 billion, respectively. The cost for lease payments, including principal, interest, administration, and insurance are estimated to be \$707 million in 2004-05 and \$811 million in 2005-06.

Debt Service

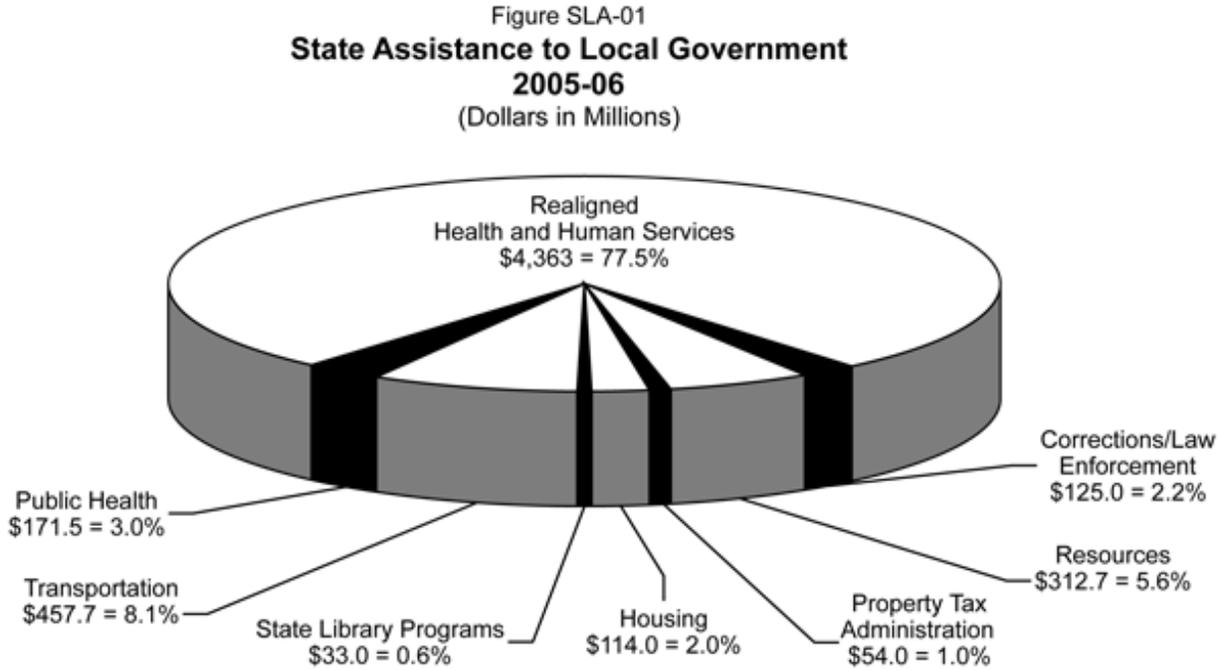
A common measure of bonded indebtedness is the ratio of net tax-supported debt to General Fund revenues. Using this measure, California's debt ratio for 2004-05 is 4.8 percent and will remain at 4.8 percent in 2005-06. Figure INF-03 displays the historical debt service ratio as well the debt service costs for California from 1978-79 through 2005-06.

Figure INF-03
General Fund Debt Service Cost and Percentage of General Fund Revenues Dedicated to Debt Service
 (Dollars in Millions)



Assistance to Local Government

The Governor's Budget includes funding in various budgets that support activities by local government agencies where the local agencies have significant discretion over the use of the funds. Such programs include law enforcement, realigned health and mental health services, public health, property tax administration, Williamson Act open space preservation contracts, libraries, recreational facilities, flood control, and housing. Funding for these programs will be approximately \$5.6 billion in 2005-06. This represents a reduction of \$368 million from the revised 2004-05 level. The level of funding proposed for each of these agencies is shown in Figure SLA-01.



Funding for local governments to make up the difference between the 0.65-percent rate of the Vehicle License Fee (VLF) and the previous 2 percent rate is provided through a reallocation of property tax from schools and community colleges to cities and counties. State General Fund expenditures for Proposition 98 are increased to offset this reduction in property taxes for schools.

Funding for VLF offsets were formerly shown as a General Fund expenditure in the Tax Relief budget item. In 2004-05 and 2005-06, the amount of VLF backfill funding provided to cities and counties has been reduced by \$700 million, and \$600 million has been reduced from property tax allocations to special districts and redevelopment agencies. The Administration intends to eliminate these reductions in local revenues in 2006-07 and future years, consistent with the constitutional provisions enacted in Proposition 1A from the November 2004 ballot.

State-Local Fiscal Relationship

With the passage of Proposition 1A, local governments can now rely on a much more stable funding relationship with state government. State government can no longer shift costs or fail to provide timely mandate reimbursements. State government cannot reallocate local revenues to benefit State priorities.

The Administration will be proposing additional fiscal reform measures for state government, which will further protect local funding by eliminating the possibility of suspending Proposition 42, from which local governments will derive significant additional funds for transportation.

With the shift of property tax to local governments that occurred when the VLF rates were reduced, the Educational Revenue Augmentation Fund (ERAF) will be effectively eliminated in most counties by 2006-07. This restoration of a tax base responsive to local land use decisions and with the potential for substantial growth, should aid in restoring balance to local development choices.

The Administration's package of State fiscal reforms in the Budget and ballot measures will enable the State to bring its long-term obligations in line with revenues and implement the provisions of Proposition 58 that require the building of a prudent reserve.

Given the State's focus on bringing order to its own fiscal affairs, in the future, local governments must look to their own resources and financial management to solve local problems and meet local priorities.

Local Government Fiscal Conditions

Generally, the economic outlook is positive for all regions of the state, with signs of recovery - even in the hardest-hit parts of the state, like the Bay Area. As a result, local revenues are expected to show solid growth over the next few years. Due to recent legislation, the share of the property tax going to local governments has increased from roughly 48 percent to about 60 percent. Historically, this has been a very stable source of revenue, and in the current environment it is rapidly growing. In 2005-06, property taxes are expected to be up by 9 percent from the prior year, due to the strength in the housing market coupled with a pick-up in nonresidential real estate. In the budget year, property taxes to local governments are expected to total about \$22.4 billion.

The sales tax, local governments' other major source of discretionary revenue, is also expected to show solid growth in the 6 percent range in the budget year. The sales tax should provide over \$4 billion for discretionary purposes, in addition to \$2.7 billion for public safety, \$2.7 billion for health programs, and \$1.3 billion for county transportation purposes. Vehicle license fees which provide partial funding for local health programs and discretionary revenue for cities were up almost 10 percent in 2003-04 and are expected to show gains in the 3.4 percent to 4.5 percent range over the next two years. Over \$1.6 billion in vehicle license fees will be directed to county health programs, with another \$0.2 billion in

general purpose revenues for cities.

While there is generally a positive outlook for local government revenues over the next several years, some downside risks exist. While local investments have likely recovered much of their losses incurred after 2002, double-digit gains are unlikely in the future. It is unlikely that the very substantial stock market and options gains seen in 1999-2002 will be experienced again in the foreseeable future.

Many local entities experienced revenue surges during the 1999-2002 period similar to the State and may have believed that the increases would be maintained. Like the State, some local governments committed to ongoing expenditures for programs and increased prices for resources, including compensation for employees that current revenues do not support. The Administration encourages each local government agency to review its long-term fiscal projections, including those related to retirement systems, health benefits, and other local operations and to take appropriate measures to bring long-term costs in line with long-term resources as soon as possible.

Changes in State Aid to Local Government

Citizens' Option for Public Safety/Juvenile Justice Realignment

Funding for the Citizens' Option for Public Safety, which supports front-line local law enforcement, sheriffs' departments for jail construction and operations, and district attorneys for prosecution, is maintained at \$100 million for 2005-06. The Governor's Budget also proposes that the \$100 million in funding associated with the Juvenile Justice Crime Prevention Act program be reduced by \$75 million and the remaining \$25 million be shifted to the Board of Corrections for distribution to local governments.

Small and Rural Sheriffs

Funding for this program, which provides grants of \$500,000 each to 37 sheriff's departments in the smaller counties of the state is eliminated in the 2005-06 Governor's Budget, for a savings of \$18.5 million.

Property Tax Administration Grants

Grants to counties for property tax administration are funded at \$54.3 million, reflecting a reduction of \$5.7 million from the 2004-05 level.

Other

For additional information about changes in other program areas, please refer to the specific program section of interest.

Statewide Issues

Even though the State's current fiscal shortfall has persisted for several years, employee salaries and benefits paid by the State have been largely spared from reductions. The magnitude and longevity of the continuing shortfall now require that the State reduce its exposure to escalating costs for direct compensation and benefits. A wide variety of reforms ranging from a major restructuring of who will be responsible for future pension costs to enabling the State to furlough State employees in order to achieve temporary savings are proposed to begin in 2005-06. These changes will reduce General Fund expenditures by \$877 million in 2005-06.

The State will also be improving procurement practices to leverage California's massive buying power, embracing competition, and simplifying the purchasing process for both vendors and State agencies.

Restructuring the Responsibility for Future Pension Costs

There are generally two types of pension programs that are provided by employers for their employees, defined contribution pensions and defined benefit pensions. Defined contribution pension programs permit employees to contribute a portion of their salaries to a special account for their future retirement. In some cases these employee contributions are matched by employer contributions. Defined benefit programs provide employees with clearly stated retirement benefits that may vary depending on the employee's age at retirement and length of service to that employer. These benefits are paid to the retired employee from the time of retirement as long as the employee, or in some cases the employee's surviving spouse, lives.

Defined contribution pension programs offer employees the opportunity to enjoy the rewards of a successful investment strategy, but employees bear the entire risk of any investment strategies that are not as successful as planned, as some people discovered over the past several years. Defined benefit plans do not offer the potential for the employees to enjoy the extra benefits of an investment strategy that outperforms expectations, but employees covered by defined benefit programs do not bear any risk from an investment strategy that does not perform as expected. All employee contributions to either defined contribution or defined benefit retirement programs are paid on a pretax basis.

Both State employees and teachers in public schools enjoy the security of defined benefit pension plans. Not only do these pension plans provide generous benefits for each employee throughout retirement, and the option of extending these benefits to a spouse who outlives the employee, these plans provide protection against future inflation that can erode the value of a pension over time.

For decades, the State, and therefore the taxpayers of California, have borne the entire risk of any funding shortfall (unfunded pension liability) for these defined benefit programs. When the investments

of the retirement systems performed better than was projected over an extended period of time, the State's contribution could be temporarily reduced, but when the investments did not perform as well as expected, the State's contributions were increased. Until the late 1990s, both the California State Teacher's Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) had a modest unfunded liability, but were generally making progress to full funding. Like many other public retirement systems by the late 1990s, both retirement systems were projecting that they would have actuarial surpluses in the near future.

Since the State has borne the full risk of any unfunded liabilities for the two retirement systems, the State and its taxpayers should have enjoyed the full benefit of these retirement programs being actuarially funded (or superfunded). This was not the case. At the urging of State employee organizations, the State improved the pension benefits for its employees with the promise that the new benefits could be funded by using "excess funds in the system" with no cost to the taxpayers. Meanwhile, the teachers through their unions successfully argued that the State should not terminate its contributions to CalSTRS as was due to occur in the year 2000; rather, the system permitted teachers to divert a portion of their contributions to CalSTRS in order to establish a new annuity program. These actions represented a fundamental change in the funding scheme of retirement benefits for State employees and teachers.

By seeking a share of temporarily extraordinary investment returns, State employee organizations and teachers' unions departed from simply enjoying the security of a defined benefit program where the employer assumes all the risk of underfunding and enjoys the temporary benefits of superfunding. The Administration is now proposing that all State employees pay one-half of the actuarial cost, including any accumulated unfunded liability, of the enhanced defined benefit program. In addition, the Administration is proposing that the State shift the full responsibility for funding the CalSTRS defined benefit program to the school districts and the teachers. These changes will better align the allocation of risk with the recent actions of the Legislature that permitted employees to share in the temporary benefits of a successful investment strategy.

The Governor is also proposing a constitutional amendment to prohibit the State and any of its political subdivisions from offering defined benefit retirement programs to new employees. The combined effect of these revisions to public retirement systems in California is expected to save its taxpayers billions of dollars in the future. Moreover, these changes will protect the State, its political subdivisions, and the taxpayers whose taxes support those governments from future threats of runaway pension costs.

State Employee Retirement Programs

Each year the Board of Administration for CalPERS determines the total amount that must be paid by the State and by State employees in each retirement category. When CalPERS makes these determinations, the "normal cost" (actuarial cost of future benefits), as well as the unfunded liability charges for each retirement category are projected. The Board of Administration determines the combined rate (as a percentage of salaries) employees and the State will pay for each retirement

category. The employees' contributions to CalPERS are based on fixed percentages that do not vary when the total amount due to CalPERS increases or decreases. On the other hand, the rate paid by the State, and ultimately the taxpayers, changes each year after the Board of Administration determines the normal cost and unfunded liability costs. The magnitude of the variance in the State's contribution can be quite large; in five years from 2000-01 to 2005-06, the State's contribution to CalPERS will have increased almost 1,600 percent. Under the existing funding scheme, the employees enjoy the security of a guaranteed benefit package without any risk that they will need to pay more for the benefits if costs increase or investment returns lag.

Starting in the budget year, employees will be expected to pay one-half of the total charges approved by the CalPERS Board of Administration, including both the charges for normal costs and the charges for any unfunded liability. This will cause both the employees and the taxpayers (through the State as the employer) to share the future benefits and risks associated with variances in future benefit costs, and future investment returns. This new method of funding the State's defined benefit pension plans will be phased in as collective bargaining agreements are renegotiated. The State is also proposing to permit State employees to opt out of CalPERS, in which case the State will share the savings by paying the employee an extra stipend equal to 50 percent of the normal retirement cost for that employee. The two options being proposed for State employees will permit employees to decide how valuable a defined benefit retirement program is as they look to the future, and spread the risks associated with defined benefit programs across all employees who determine that it is a valuable benefit. The combined General Fund savings from the changes is estimated to be \$296 million in 2005-06.

Public School Teacher Retirement Programs

Contributions to CalSTRS for the Defined Benefit Program are established in statute (Education Code Sections 22901, 22954, and 22955). Currently, the school districts pay an amount equal to 8.25 percent of current payroll, and teachers pay an amount equal to 6 percent of current pay. Since 2001, teachers have also contributed an amount equal to 2 percent of pay to a new annuity program; but before this new annuity program was established in 2001, teacher contributions to the CalSTRS Defined Benefit Program were 8 percent of pay.

Prior to 1970, CalSTRS' Defined Benefit Program was on a "pay as you go" basis, with the State appropriating whatever was necessary to pay the difference between the combined contributions from teachers and school districts, and the cost of benefits paid during the year. In the early 1970s, the State decided that CalSTRS should be an actuarially sound pension program, so a 30-year program to make CalSTRS actuarially sound was initiated. As part of the effort to make CalSTRS actuarially sound, the State's contributions to CalSTRS have varied over the years while the contributions from teachers and school districts have remained constant until a portion of the teachers' contributions were diverted to the new annuity program noted above. In the early 1970s, the State's contribution was a fixed dollar amount ranging from \$135 million to \$144 million annually. In the 1980s the State's contribution was made "permanent," and was changed to a percentage of teacher payroll. By the 1990s, the State's contribution to CalSTRS had increased to 4.3 percent of teacher payroll.

The State's contributions to CalSTRS were to end in 2000 because the program was projected to be fully funded, but the new annuity program was started and the State's contributions were continued at 2.54 percent of teacher payroll in 2001, then declined to 1.975 percent of teacher payroll in 2002, and then stabilized at the current rate of 2.017 percent of teacher payroll. The State's contribution for CalSTRS' Defined Benefit Program in 2005-06 will be \$469 million under current law. Because the State has been the "make-up-the-difference contributor" to CalSTRS, with only State contributions fluctuating as the actuarial costs of future benefits are revised, the relationship between the compensation value of new benefits and the responsibility to pay for new benefits has been inappropriate.

The Budget reflects that the full responsibility for annual payments to CalSTRS for the Defined Benefit Program will be shifted to school districts and/or covered employees. Initially, school districts will be expected to pay an additional 2 percent of payroll, but they will be provided authority to shift this cost through collective bargaining agreements. This shift in financial responsibility will reduce General Fund expenditures by \$469 million in 2005-06. Recognizing that this shift could ultimately result in less take-home pay for teachers, this proposal is coupled with a proposal to permit teachers to opt out of the newly created Defined Benefit Supplement Program. Those teachers who choose to opt out of the Defined Benefit Supplement Program will realize an immediate increase in take-home pay equal to a 2 percent raise. These revisions to the funding scheme for CalSTRS' programs will correctly align the compensation value of new benefits with the responsibility to pay the costs of those benefits.

Other Employee Compensation Reforms

In addition to restructuring the responsibility for future pension costs, the State is also proposing several other reforms that would reduce employee compensation costs. These proposals are intended to give the Governor and the Legislature more flexibility to address budget shortfalls, provide cost containment for the rising costs of health care, and bring the State's civil service compensation more in line with other public and private entities. These proposals must be negotiated with the various collective bargaining units. Of the State's 21 bargaining units, 14 have contracts that have expired or will have expired by the beginning of the 2005-06 fiscal year. These proposals apply to those 14 bargaining units, and will apply to the other units as their respective contracts expire.

Furlough of State Employees

This proposal would give the Governor authority to furlough State employees, other than employees in public safety or level-of-care positions, for up to 5 days in a year in which a fiscal crisis exists. A fiscal crisis would be deemed to exist if any of the following occurs: (1) the Director of Finance determines that the General Fund reserve is less than 3 percent of revenues excluding the revenues derived from the one-quarter cent sales and use tax rate; (2) actual General Fund revenues for the period May 1 through September 30 are less than the May Revision forecast; or (3) the Governor notifies the Legislature by June 30 that there will not be a transfer of funds to the Budget Stabilization Account pursuant to Proposition 58.

This proposal would provide more flexibility than the current civil service laws, regulations, and bargaining unit contracts allow. Currently, the only option available to the Governor to reduce or limit expenditures for civil service employees is to lay them off. The layoff process takes a minimum of four months, and usually as long as six to eight months from the first notification until the time the State can book any savings. Since more senior employees can demote instead of being laid off, the least senior employees are the ones who eventually lose their jobs. This "bumping down" creates tension and turmoil in any department faced with layoffs. Because of the bumping, there may be three to four times as many employees impacted as are being laid off. A five-day furlough for all State employees not working in public safety or providing level-of-care services would allow the State to reduce employee compensation expenditures annually by up to \$109 million (\$60 million General Fund).

Exclude Leave Time from "Time Worked" for Calculating Overtime

This proposal would eliminate leave from the calculation of overtime. Currently, for the purpose of computing the number of hours worked, time when an employee is excused from work because of holidays, sick leave, vacation, annual leave, or compensating time off, is considered as time worked by the employee. Under this proposal, time when an employee is excused from work because of holidays, sick leave, vacation, annual leave, compensating time off, or any other paid leave time shall not be considered as "time worked" for purposes of determining premium overtime compensation. It is estimated that this will result in at least a 5 percent reduction in overtime, which will save \$36.4 million (\$20 million General Fund) annually.

Health Benefits

The State currently provides health care for State employees in several ways. Employees in 7 of the State's 21 bargaining units receive a fixed dollar amount each month depending on the number of people covered (in the family unit). Employees in eight of the bargaining units and employees excluded from collective bargaining receive an amount equal to 80 percent of the average HMO premium. Employees in the remaining six bargaining units have contracts that will require the State to contribute 85 percent of the average HMO premium monthly beginning January 1, 2006. The State proposes to eliminate the percentage formulas and contribute a fixed dollar amount to each employee based on the number of people covered in the family unit.

The State is also proposing to eliminate contributions toward health care premiums for new employees until they have passed their probationary period so as to be sure they are employees the State plans to retain. This proposal would bring the State's health care policies more in line with private industry where employees must work a period of time before being provided with health care benefits. These changes will reduce the State's General Fund costs for employee health benefits by \$30 million.

Elimination of Two State Holidays

The State currently provides State employees with 14 paid holidays each year. The average is 12 in other public agencies in California and 11 in private companies. The State proposes to eliminate two holidays that are provided to each State employee to bring paid leave more in line with the average number of paid holidays provided by other public agencies. As with other proposed changes, these terms are not assumed to provide a basis for budget savings until contracts expire. It is estimated that this will save \$3.1 million (\$1.7 million General Fund) for the next two years. In 2007-08, the savings would increase to \$17.6 million (\$9.7 million General Fund) when the existing collective bargaining agreements with Firefighters, Correctional Officers, and Highway Patrol have expired.

No Additional Accrual of Leave After Reaching the Cap

The State proposes to modify the way unused leave is accrued by State employees. This proposal would limit leave accrual to a total of 640 hours. Employees would not receive credit for any additional hours of leave at any time that the total leave credits are not less than 640 hours. This proposal will save the State from future liabilities because employees will be unable to accrue more than 640 hours, which can be "cashed out" when an employee leaves State service. The fiscal impact of this proposal cannot be determined, so no savings are reflected in current budget projections.

California Procurement Initiative for the 21st Century

Building a 21st Century procurement organization requires leveraging California's massive buying power, embracing competition, and simplifying the purchasing process for State agencies and vendors offering goods and services. Making more intelligent choices about how California purchases goods and services has the potential to result in significant savings to the State. Building a modern procurement system is essential to achieving the Governor's goal of creating a true 21st Century government for the people of California.

Building a 21st Century Procurement Organization

Staff skills, professionalism, and creative approaches to its business functions are critical components of a successful procurement program. The State will build a modern day e-procurement system capable of reducing costs of operation, while also reducing the cost of merchandise and services purchased. Moreover, timeliness of procurements will be enhanced through modernization of existing procurement systems and business practices. The backbone of this world-class procurement system will be an upgraded CalBuy system, newly implemented online reverse auctions, and enhanced skills within the procurement community that will enable the use of new technologies and the management of complex procurements in a cost-effective manner.

The State will expand the scope and availability of the California Procurement and Contracting Academy to assure that these necessary skills exist in all areas of state government where savings opportunities are available through smarter purchasing practices.

Leveraging the Buying Power of the State

California will use creative procurement strategies to leverage its enormous buying power. The State will continue to expand the use of its Strategic Sourcing model to re-engineer the procurement process and reflect industry best practices. Strategic Sourcing analyzes what the State is buying, what the market conditions are, and who can supply those goods or services. Then the State uses that information-plus innovative contracting techniques-to find the best values available in the marketplace. The Governor's initiative will further expand the current sourcing categories to include more goods and services. The expansion of this initiative is expected to generate over \$95 million in General Fund savings in 2005-06.

Making the State More Open to Potential Contractors

Greater competition generally drives prices down and pushes quality up. The State will work to ensure that more businesses are able to compete for State contracts by working to streamline the process by which these firms are invited to do business with the State. We will conduct outreach to bring new businesses into this market by forming alliances with other governmental entities that qualify firms to bid on government contracts, and will invigorate participation in small business and the Disabled Veteran Business Enterprise program by moving toward business self-certification and removing the barriers that keep many firms from seeking certification to do business with the State.

Streamlining the Procurement Process

The ultimate goal is to create a procurement system that reduces the cost of the system currently in place. To achieve this, it is necessary to develop a simplified procurement process that will allow departments to adapt quickly to changing needs. The State will streamline procurement procedures, implement integrated computerized procurement systems that provide the data to make informed decisions, develop clear and concise policies and practices, train customers to be knowledgeable procurement professionals, reduce the number of steps and transactions, and simplify reporting methods.

\$150 Million General Fund Reduction to State Operations

In addition to specific reductions in major program areas, state operations budgets for departments within the Administration are proposed to be reduced by a total of \$150 million General Fund. The departments have the flexibility to use lay-offs, hiring freezes, procurement reductions, or other administrative means to achieve these reductions, at the departments' discretion.

These reductions do not apply to entities outside of the Administration. However, in light of the existing State fiscal situation, the Administration invites Constitutional Officers and the other co-equal branches of State government to participate in the endeavor to reduce their General Fund budgets.

Appendices and Schedules

Budget Process Overview

The Governor's Budget is the result of a process that begins more than one year before the budget becomes law. When presented to the Legislature on January 10 of each year, the Governor's Budget incorporates revenues and expenditure estimates based upon the most current information available through late December. In the event that the Governor wants to change the budget presented to the Legislature, including adjustments resulting from changes in population, caseload, or enrollment estimates, the Department of Finance (Finance) proposes adjustments to the Legislature during budget hearings through Finance Letters. During late spring, usually May, Finance submits revised revenue and expenditure estimates for both the current and budget years to the Legislature. This update process is referred to as the May Revision. Finance also prepares monthly economic and cash revenue updates during the fiscal year. Listed below are the key documents used in the budget process.

Title	Purpose	Prepared/Issued by	When
Budget Letters and Management Memos	Convey Administration guidelines for budget preparation to agencies and departments.	Governor/Finance	January through December
Budget Change Proposals	Documents that propose to modify or change the existing level of service, propose new programs or delete existing programs.	Agencies and departments submit to Finance analysts	July through September
Governor's Budget	Governor's proposed budget for the upcoming fiscal year.	Governor/Finance	January 10
Governor's Budget Summary	A summary of the Governor's Budget.	Governor/Finance	January 10
Budget Bill	Requests spending authorization to carry out Governor's expenditure plan (legislative budget decision document).	Finance/Legislature	January 10
Budget Analysis	Analysis of the budget, including recommendations for changes to the Governor's Budget.	Legislative Analyst	February
May Revision of General Fund Revenues and Expenditures	Update of General Fund revenues, expenditures, and reserve estimates based on the latest economic forecast.	Finance	Mid-May
Budget Act	The primary annual expenditure authorization as approved by the Governor and Legislature, including a listing of Governor's vetoes.	Legislature/Governor	Late June, or enactment of the Budget
Final Budget Summary	Update of the individual Budget Act items with changes by the Governor's vetoes, including certain budget summary schedules.	Finance	Late July - August or 1-2 months after Budget enactment
Final Change Book	Update of changes to the detailed fiscal information in the Governor's Budget.	Finance	Late July - August or 1-2 months after Budget enactment

Statewide Financial Information

Provides various statewide displays of financial information included in the budget that may be the most useful to the public, private sector, or other levels of government. Each statewide display includes a description of the information included.

Schedule 1 General Budget Summary - Total statewide revenues and expenditures for the General Fund and special funds and expenditure totals for selected bond funds.

Schedule 2 Total State Spending Plan - Not Available

Schedule 3 Generally Accepted Accounting Principles (GAAP) Fund Classification Comparisons - Not Available

Schedule 4 Personnel Years and Salary Cost Estimates - Personnel year data and corresponding dollar amounts by functional breakdown and position classifications. This schedule reflects net data after salary savings.

Schedule 5A Statement of Estimated Accounts Payable and Accounts Receivable - Actual payable and receivable amounts as of June 30, 2004, and estimated amounts for June 30, 2005 and June 30, 2006.

Schedule 5B Actual 2003-04 Fiscal Year Cashflow General Fund - Actual receipts, disbursements, borrowable resources, and cashflow loan balances for the 2003-04 fiscal year.

Schedule 5C Estimated 2004-05 Fiscal Year Cashflow - Projected receipts, disbursements, borrowable resources, and cashflow loan balances for the 2004-05 fiscal year.

Schedule 5D Estimated 2005-06 Fiscal Year Cashflow - Projected receipts, disbursements, borrowable resources, and cashflow loan balances for the 2005-06 fiscal year.

Schedule 6 Summary of State Population, Employees, and Expenditures - Provides historical data of state population, employees, and expenditures.

Schedule 7 General Fund Statement of Fund Balance - Available upon request, contact the Department of Finance, Budget Operations Support Unit at (916) 445-5332.

Schedule 8 Comparative Statement of Revenues - Detail of General Fund and special fund revenue within three main breakdowns: (1) major taxes and licenses (2) other revenues, and (3) transfers.

Schedule 9 Comparative Statement of Expenditures - List of expenditures for the General Fund, special funds, selected bond funds, and federal funds for State Operations, Local Assistance, Capital Outlay, and Unclassified, generally included within each Agency budgets included in the Governor's Budget.

Schedule 10 Summary of Fund Condition Statements - For the General Fund and each special fund, provides the beginning reserve, income, expenditures, transfers, and ending reserve for each of the three fiscal years displayed in the Governor's Budget

Schedule 11 Statement of General Obligation Bond and Commercial Paper Debt of the State of California - List of all general obligation bonds including: maturity dates, authorized amount of bond issues, amounts of unissued bonds, redemptions, and outstanding issues, as well as authorized and outstanding commercial paper issued in-lieu of general obligation bonds.

Schedule 12A State Appropriations Limit Summary - Summary of Schedules 12B through 12E: Calculates the State Appropriations Limit appropriations, displays the Limit, and the Limit Room or Surplus.

Schedule 12B Revenues to Excluded Funds - List of revenues to special funds NOT included in the calculation of total appropriations subject to the State Appropriations Limit.

Schedule 12C Non-tax Revenues in Funds Subject to Limit - Total of non-tax revenues for General and special funds deposited in funds that are otherwise included in the calculation of total appropriations subject to the State Appropriations Limit.

Schedule 12D State Appropriations Limit Transfer from Excluded Funds to Included Funds - Detail of transfers between funds that are used in calculating the appropriations subject to the State Appropriations Limit.

Schedule 12E State Appropriations Limit Excluded Appropriations - Exclusions from appropriations subject to the State Appropriations Limit.

**SCHEDULE 1
GENERAL BUDGET SUMMARY^{1/}**

(In Thousands)

	Reference to Schedule	General Fund	Special Funds	Selected Bond Fund Expenditures	Expenditure Totals
2003-04					
Prior year resources available	10	\$5,059,975	\$4,491,828		
Revenues and transfers ²	8	74,762,080	19,591,125		
Expenditures ²	9	<u>76,333,231</u>	<u>18,891,936</u>	\$6,986,094	\$102,211,261
Fund Balance ³	10	\$3,488,824	\$5,191,017		
<i>Reserve for Liquidation of Encumbrances ⁴</i>					
		641,453	--		
<i>Reserves for Economic Uncertainties ⁵</i>					
		--	5,191,017		
<i>Special Fund for Economic Uncertainties ⁵</i>					
		2,847,371	--		
2004-05					
Prior year resources available	10	\$3,488,824	\$5,191,017		
Revenues and transfers	8	78,219,099	22,031,230		
Economic Recovery Bonds ²	8	2,012,000	--		
Expenditures ²	9	<u>82,294,991</u>	<u>22,090,842</u>	\$15,115,502	\$119,501,335
Fund Balance ³	10	\$1,424,932	\$5,131,405		
<i>Reserve for Liquidation of Encumbrances ⁴</i>					
		641,453	--		
<i>Reserves for Economic Uncertainties ⁵</i>					
		--	5,131,405		
<i>Special Fund for Economic Uncertainties ⁵</i>					
		783,479	--		
2005-06					
Prior year resources available	10	\$1,424,932	\$5,131,405		
Revenues and transfers	8	83,771,547	23,838,910		
Economic Recovery Bonds	8	1,682,800	--		
Expenditures	9	<u>85,737,826</u>	<u>23,269,764</u>	\$2,716,388	\$111,723,978
Fund Balance ³	10	\$1,141,453	\$5,700,551		
<i>Reserve for Liquidation of Encumbrances ⁴</i>					
		641,453	--		
<i>Reserves for Economic Uncertainties ⁵</i>					
		--	5,700,551		
<i>Special Fund for Economic Uncertainties ⁵</i>					
		500,000	--		

^{1/} The General Budget Summary includes the revenues and expenditures of all State funds that reflect the cost of State government and selected bond fund expenditures. The transactions involving nongovernmental cost funds are excluded. The amounts included in this schedule for expenditures and revenues may not agree with those shown in Schedules 8, 9 and 10 due to rounding.

² The Economic Recovery Bonds proceeds and transfer to the Deficit Recovery Fund are not shown in this schedule in the 2003-04 fiscal year. They are reflected in the 2004-05 fiscal year separately to provide better comparability between years. It was budgeted as a reduction in expenditures in the 2004 Budget Act. Due to this display, the totals for 2003-04 and 2004-05 do not agree with the Summary Schedules 8 and 9.

³ The Fund Balance for the General Fund includes amounts for unencumbered balances of continuing appropriations at the end of the 2003-04, 2004-05, and 2005-06 fiscal years of \$1,051,997; \$451,461; and \$112,900 (in thousands) respectively.

⁴ The Reserve for Liquidation of Encumbrances represents an amount which will be expended in the future for State obligations for which goods and services have not been received at the end of the fiscal year. This Reserve treatment is consistent with accounting methodology prescribed by Generally Accepted Accounting Principles (GAAP) and Government Code Section 13306.

⁵ The Special Fund for Economic Uncertainties and the Reserves for Economic Uncertainties are reserve accounts for the General and special funds as provided by Section 5 of Article XIII B of the California Constitution.

SCHEDULE 4
PERSONNEL YEARS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(Dollars in Thousands)

	Personnel Years			Dollars		
	Authorized 2003-04	Estimated 2004-05	Proposed 2005-06	Authorized 2003-04	Estimated 2004-05	Proposed 2005-06
Under Administration Control						
Executive	12,391.5	12,866.1	13,158.0	\$708,545	\$769,667	\$797,417
State and Consumer Services	11,710.8	12,298.8	12,972.9	576,903	629,677	685,911
Business, Transportation and Housing						
Business and Housing	1,929.8	1,986.1	2,029.4	109,537	113,459	118,398
Transportation	39,480.5	40,375.1	40,098.8	2,324,300	2,477,825	2,494,119
Technology, Trade and Commerce	21.2	-	-	4,270	-	-
Resources	13,118.4	13,071.5	13,214.0	730,497	793,667	831,447
California Environmental Protection	4,260.7	4,288.5	4,409.5	255,047	272,349	285,383
Health and Human Services	30,089.6	30,722.3	30,621.1	1,576,922	1,677,833	1,684,608
Youth and Adult Correctional	50,937.4	54,621.6	56,149.5	3,165,585	3,414,816	3,614,730
Education						
K thru 12 Education	2,853.1	2,835.0	2,830.0	155,038	158,806	161,804
Higher Education-Community Colleges/Other	372.4	379.0	401.8	21,569	22,620	24,451
Labor and Workforce Development	2,400.0	2,622.5	2,748.7	135,589	154,764	161,358
General Government	6,264.7	5,856.6	5,920.9	329,611	319,262	327,603
NET TOTALS, SALARIES AND WAGES	175,830.1	181,923.1	184,554.6	\$10,093,413	\$10,804,745	\$11,187,229
Not Under Administration Control						
Legislative	749.1	736.5	736.5	\$50,474	\$53,657	\$55,183
Judicial	1,632.6	1,778.6	1,878.9	143,835	155,740	167,752
Public Employees' Retirement System	1,743.1	1,759.3	1,759.3	92,765	96,448	103,587
State Teachers' Retirement System	634.1	645.4	677.8	31,343	34,290	36,746
California Housing Finance Agency	264.1	264.1	264.1	15,422	16,488	16,488
Forestry and Fire Protection	1,759.2	1,794.8	1,794.8	96,307	93,160	94,778
University of California	72,584.6	71,007.6	71,607.6	3,776,485	3,761,513	3,895,137
Hastings	221.9	222.9	228.9	17,752	17,706	19,397
California State University	43,049.3	42,369.4	42,369.4	2,248,736	2,220,874	2,220,874
Employment Development Department	9,968.1	10,051.2	10,114.4	481,778	492,295	507,052
Workers' Compensation Benefits	9,195.0	10,064.0	10,811.0	339,872	481,097	521,501
Bureau of State Audits	142.0	139.5	139.5	8,501	8,855	9,008
TOTALS	141,943.1	140,833.3	142,382.2	\$7,303,270	\$7,432,123	\$7,647,503

SCHEDULE 4 - Continued
PERSONNEL YEARS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(Dollars in Thousands)

	<u>Personnel Years</u>	<u>Dollars</u>
	Actuals 2003-04	Actuals 2003-04
Under Administration Control		
Executive	12,431.4	\$711,903
State and Consumer Services	12,900.5	612,524
Business, Transportation and Housing		
Business and Housing	1,940.5	107,184
Transportation	39,216.2	2,271,255
Technology, Trade and Commerce	53.3	4,128
Resources	13,411.4	794,137
California Environmental Protection	4,251.7	261,098
Health and Human Services	28,970.2	1,563,049
Youth and Adult Correctional	48,461.0	3,144,194
Education		
K thru 12 Education	2,693.0	148,390
Higher Education-Community Colleges/Other	354.0	21,199
Labor and Workforce Development	2,302.2	134,881
General Government	5,920.7	317,180
NET TOTALS, SALARIES AND WAGES	<u>172,906.1</u>	<u>\$10,091,122</u>
Not Under Administration Control		
Legislative	695.2	\$48,397
Judicial	1,487.1	134,880
Public Employees' Retirement System	1,571.4	87,154
State Teachers' Retirement System	566.7	30,174
California Housing Finance Agency	238.3	13,709
Forestry and Fire Protection	1,679.8	104,453
University of California	74,278.9	3,944,112
Hastings	220.6	17,525
California State University	44,492.7	2,322,162
Employment Development Department	9,348.0	451,017
Workers' Compensation Benefits	9,248.0	397,279
Bureau of State Audits	127.0	7,399
TOTALS	<u>143,953.7</u>	<u>\$7,558,261</u>
	<u>Personnel Years</u>	<u>Dollars</u>
	Proposed 2005-06	Proposed 2005-06
Position Classification		
Civil Service	208,685.3	\$12,347,249
Constitutional	255.0	36,410
Statutory	170.0	20,055
Exempt		
Various Departments	3,620.6	295,610
Higher Education		
University of California	71,607.6	3,895,137
Hastings College of the Law	228.9	19,397
California State University	42,369.4	2,220,874
NET TOTALS, SALARIES AND WAGES	<u>326,936.8</u>	<u>\$18,834,732</u>

Please note: Total Personnel Years of 326,936.8 is 138.9 higher than the 326,797.9 appearing on the State Agency Budgets web screen. This total includes 120 positions for state legislators and 18.9 positions for financing authorities under the State Treasurers Office that do not appear on the web screen total.

SCHEDULE 5A
STATEMENT OF ESTIMATED ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE
GENERAL FUND
(Dollars In Thousands)

	Actual 2003-04 Fiscal Year Accruals 1/		Estimated 2004-05 Fiscal Year Accruals		Estimated 2005-06 Fiscal Year Accruals		Net accruals June 30, 2006
	Accounts payable June 30, 2004	Net accruals June 30, 2004	Accounts payable June 30, 2005	Net accruals June 30, 2005	Accounts payable June 30, 2006	Net accruals June 30, 2006	
STATE OPERATIONS							
Legislative/Judicial/Executive	\$365,725	\$198,493	\$376,697	\$172,249	\$387,998	\$177,416	\$210,582
State and Consumer Services	76,326	1,456	78,616	77,116	80,974	79,429	1,545
Business, Transportation and Housing	2,929	119	7,125	2,894	7,339	2,981	4,358
Technology, Trade and Commerce 2/	3,988	-34,633	0	0	0	0	0
Resources	421,068	119,115	433,700	311,012	446,711	320,342	126,369
California Environmental Protector	31,910	2,046	32,867	70,540	33,853	72,656	-38,803
Health and Human Services:							
Health Services	12,638	-176,113	13,017	194,414	13,408	200,246	-186,838
Developmental Services	15,372	-29,248	15,833	45,959	16,308	47,338	-31,030
Mental Health	147,429	-123,493	151,852	279,050	156,408	287,422	-131,014
Other Health Services	250,184	80,752	257,690	174,515	265,421	179,750	85,671
Youth and Adult Correctional	1,284,160	279,458	1,322,685	1,034,843	1,362,366	1,065,888	296,478
Education:							
Department of Education	154,536	130,154	159,172	25,113	163,947	25,866	138,081
University of California	92,629	92,629	95,408	0	98,270	0	98,270
California State University	422,758	234,587	435,441	193,816	448,504	199,630	248,874
Other Education	41,339	30,163	42,579	11,511	43,856	11,856	32,000
General Government/Labor	2,190,347	1,969,358	183,697	227,619	189,208	234,448	-45,240
Totals, State Operations	\$5,513,338	\$2,774,843	\$3,606,379	\$2,820,651	\$3,714,571	\$2,905,268	\$809,303
LOCAL ASSISTANCE							
Public Schools K-12	\$875,704	\$737,537	\$901,975	\$142,312	\$929,034	\$146,581	\$782,453
California Community Colleges	52,539	841	54,115	53,249	55,738	54,846	892
Other Education	12,956	8,109	13,345	4,992	13,745	5,142	8,603
Alcohol and Drug Abuse	34,171	5,950	35,196	6,129	36,252	6,313	29,939
Health Services	240,122	114,288	247,326	129,609	254,746	133,497	121,249
Developmental Services	114,708	-118,149	118,149	280,926	121,693	289,354	-167,661
Mental Health	27,178	-398,399	27,993	438,344	28,833	451,494	-422,661
Social Services	269,014	34,253	277,084	241,804	285,397	249,058	36,339
Other Health and Human Services	59,578	29,039	61,365	31,455	63,206	32,399	30,807
Tax Relief	4,153	3,787	4,278	377	4,406	388	4,018
Other Local Assistance	119,878	50,374	123,474	71,589	127,178	73,737	53,441
Totals, Local Assistance	\$1,810,001	\$450,014	\$1,864,300	\$1,400,786	\$1,920,228	\$1,442,809	\$477,419
TOTALS, ALL CHARACTERS	\$7,323,339	\$3,224,857	\$5,470,679	\$4,221,437	\$5,634,799	\$4,348,077	\$1,286,722

1/ Information per the State Controller's Office.

2/ Agency abolished effective January 1, 2004.

Note: Numbers may not add due to rounding

**SCHEDULE 5B
ACTUAL 2003-04 FISCAL YEAR CASHFLOW
GENERAL FUND**
(Dollars in Millions)

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2003-04 FISCAL CASHFLOW													
BEGINNING CASH BALANCE	\$438						\$236					\$6,965	\$438
RECEIPTS:													
Alcoholic Beverage Excise Tax	\$32	\$25	\$25	\$28	\$29	\$25	\$32	\$19	\$21	\$26	\$26	\$24	\$312
Corporation Tax	252	117	1,325	261	66	977	161	114	1,153	1,854	197	1,487	7,964
Cigarette Tax	10	13	8	8	7	14	8	8	11	8	13	9	117
Inheritance, Gift and Estate Taxes	60	42	50	59	53	62	39	30	47	45	42	46	575
Insurance Tax	18	14	424	17	13	417	15	16	51	701	3	425	2,114
Personal Income Tax	2,326	2,246	3,689	2,458	1,823	3,883	5,340	1,413	1,246	6,959	1,536	3,833	36,752
Retail Sales and Use Tax	899	2,817	1,790	924	2,868	2,018	891	3,303	2,144	714	2,510	2,821	23,699
Income from Pooled Money Investments	11	10	16	2	17	5	7	10	3	7	17	15	120
Transfer from Special Fund for Economic Uncertainties	0	0	0	0	0	0	0	2,524	0	0	0	0	2,524
Economic Recovery Bond Proceeds	0	0	0	0	0	0	0	0	0	0	8,339	2,915	11,254
Other	123	74	2,457	99	586	407	102	284	193	226	323	334	5,209
TOTAL, Receipts	\$3,731	\$5,358	\$9,784	\$3,856	\$5,462	\$7,808	\$6,595	\$7,721	\$4,869	\$10,540	\$13,006	\$11,909	\$90,640
DISBURSEMENTS:													
State Operations:													
University of California	\$300	\$227	\$305	\$295	\$292	\$323	\$289	\$275	\$281	\$280	\$43	\$9	\$2,919
Debt Service	11	235	203	234	150	83	0	284	172	219	160	109	1,860
Other State Operations	1,332	1,528	634	1,034	1,249	794	1,278	933	925	1,254	898	1,160	13,019
Social Services	863	854	1,323	891	823	597	914	655	-364	661	614	498	8,329
Medi-Cal Assistance	1,143	824	755	942	576	1,131	846	928	982	977	826	922	10,852
Other Health Services	-4	44	69	21	47	18	38	44	43	14	28	84	446
Schools	3,284	3,580	2,886	2,213	1,840	3,309	2,300	4,481	2,047	2,041	1,703	411	30,095
Teachers' Retirement	171	0	0	113	0	0	113	0	0	113	0	0	510
Transfer to Special Fund for Economic Uncertainties	0	0	0	0	0	0	0	2,216	0	0	0	0	2,216
Other	1,017	499	49	846	570	1,203	502	687	1,174	802	802	1,178	9,329
TOTAL, Disbursements	\$8,117	\$7,791	\$6,224	\$6,589	\$5,547	\$7,458	\$6,280	\$10,503	\$5,260	\$6,361	\$5,074	\$4,371	\$79,575
EXCESS RECEIPTS/(DEFICIT)	-\$4,386	-\$2,432	\$3,560	-\$2,733	-\$85	\$350	\$315	-\$2,782	-\$391	\$4,179	\$7,933	\$7,539	\$11,065
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties	\$2,525	\$0	\$0	\$0	\$0	\$0	-\$550	\$242	\$0	-\$1,248	-\$968	\$0	\$0
Other Internal Sources	1,424	2,432	-3,560	-267	85	-114	0	2,540	391	-2,931	0	0	0
2003 Revenue Anticipation Warrants	0	0	0	0	0	0	0	0	0	0	0	-10,965	-10,965
2003 Revenue Anticipation Notes	0	0	0	3,000	0	0	0	0	0	0	0	-3,000	0
TOTAL, Net Temporary Loans	\$3,949	\$2,432	-\$3,560	\$2,733	\$85	-\$114	-\$550	\$2,782	\$391	-\$4,179	-\$968	-\$13,965	-\$10,965
ENDING CASH BALANCE	\$0	\$0	\$0	\$0	\$0	\$236	\$0	\$0	\$0	\$0	\$6,965	\$538	\$538
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216
Other Internal Sources	8,125	8,065	8,216	7,978	8,023	8,115	8,027	7,916	7,465	7,766	8,476	7,735	7,735
2003 Revenue Anticipation Warrants	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	0	0
2003 Revenue Anticipation Notes	0	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Available/Borrowable Resources	\$21,614	\$21,554	\$21,706	\$24,467	\$24,513	\$24,604	\$24,516	\$24,097	\$23,646	\$23,947	\$24,657	\$9,951	\$9,951
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$1,974	\$2,216	\$2,216	\$968	\$0	\$0	\$0
Other Internal Sources	1,424	3,856	296	29	114	0	0	2,540	2,931	0	0	0	0
2003 Revenue Anticipation Warrants	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	0	0
2003 Revenue Anticipation Notes	0	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Cumulative Loan Balances	\$14,913	\$17,346	\$13,786	\$16,519	\$16,604	\$16,490	\$15,939	\$18,721	\$19,112	\$14,933	\$13,965	\$0	\$0
UNUSED BORROWABLE RESOURCES	\$6,701	\$4,209	\$7,920	\$7,949	\$7,909	\$8,115	\$8,577	\$5,376	\$4,534	\$9,014	\$10,692	\$9,951	\$9,951
Cash and Unused Borrowable Resources	\$6,701	\$4,209	\$7,920	\$7,949	\$7,909	\$8,351	\$8,577	\$5,376	\$4,534	\$9,014	\$17,657	\$10,489	\$10,489

Note: Numbers may not add due to rounding.

SCHEDULE 5C
ESTIMATED 2004-05 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
	\$538	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$538
2004-05 FISCAL CASHFLOW													
BEGINNING CASH BALANCE	\$31	\$26	\$26	\$26	\$21	\$26	\$29	\$20	\$22	\$25	\$25	\$25	\$302
Alcoholic Beverage Excise Tax	330	157	1,736	366	33	1,306	196	129	1,661	1,304	236	1,476	8,930
Corporation Tax	16	7	8	11	8	10	9	9	9	10	9	10	117
Cigarette Tax	70	48	57	41	36	22	22	21	22	22	22	21	404
Inheritance, Gift and Estate Taxes	20	15	470	21	14	460	13	21	339	377	26	456	2,232
Insurance Tax	2,502	2,470	4,060	2,658	2,351	4,134	5,856	1,785	1,347	7,275	1,773	4,053	40,264
Personal Income Tax	984	2,829	2,012	850	3,343	2,037	5,444	3,571	1,886	544	3,703	2,488	25,169
Retail Sales and Use Tax	11	13	0	7	20	13	20	22	26	17	15	30	194
Income from Pooled Money Investments	0	0	0	0	0	0	2,216	0	0	0	0	0	2,216
Transfer from Special Fund for Economic Uncertainties	160	166	207	287	598	162	365	167	69	80	187	135	2,583
Other													
TOTAL, Receipts	\$4,124	\$5,731	\$8,576	\$4,267	\$6,424	\$8,170	\$9,649	\$5,745	\$5,381	\$9,654	\$5,996	\$8,694	\$82,411
DISBURSEMENTS:													
State Operations:													
University of California	\$263	\$203	\$298	\$236	\$315	\$256	\$231	\$245	\$262	\$286	\$93	\$18	\$2,706
Debt Service	1	389	378	514	213	175	2	429	257	340	157	220	3,075
Other State Operations	1,441	1,441	1,053	1,437	1,100	1,054	1,374	953	1,009	1,279	1,000	1,077	14,226
Social Services	979	1,444	923	905	351	786	714	570	568	823	198	754	9,015
Medi-Cal Assistance	638	1,056	1,015	1,020	909	1,192	1,011	928	1,041	1,152	1,070	888	11,920
Other Health Services	14	50	74	54	0	26	24	45	10	37	28	42	404
Schools	2,984	4,274	3,156	2,830	2,749	3,601	3,761	4,537	2,438	2,829	2,099	512	35,770
Teachers' Retirement	703	0	0	149	0	0	149	0	0	149	0	-1	1,149
Transfer to Special Fund for Economic Uncertainties	0	0	0	0	0	0	768	0	0	0	0	0	768
Other	808	619	131	717	513	609	547	342	452	457	510	771	6,477
TOTAL, Disbursements	\$7,831	\$9,484	\$7,028	\$7,862	\$6,150	\$7,699	\$8,581	\$8,049	\$6,037	\$7,352	\$5,155	\$4,281	\$85,510
EXCESS RECEIPTS/(DEFICIT)	-\$3,707	-\$3,753	\$1,547	-\$3,596	\$274	\$471	\$1,068	-\$2,305	-\$656	\$2,302	\$841	\$4,414	-\$3,100
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties	\$2,216	\$0	\$0	\$0	\$0	\$0	-\$1,448	\$0	\$0	\$0	\$0	\$0	\$768
Other Internal Sources	953	3,753	-1,547	-2,404	-274	-471	380	2,305	656	-2,302	-841	1,586	1,793
Revenue Anticipation Notes	0	0	0	6,000	0	0	0	0	0	0	0	0	0
TOTAL, Net Temporary Loans	\$3,169	\$3,753	-\$1,547	\$3,596	-\$274	-\$471	-\$1,068	\$2,305	\$656	-\$2,302	-\$841	-\$4,414	\$2,561
ENDING CASH BALANCE	\$0												
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$768	\$768	\$768	\$768	\$768	\$768	\$768
Other Internal Sources	8,731	9,295	9,003	8,829	8,955	7,331	7,216	7,238	6,985	7,598	7,720	7,222	7,222
Revenue Anticipation Notes	0	0	0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0	0
TOTAL, Available/Borrowable Resources	\$10,947	\$11,511	\$11,219	\$17,045	\$17,171	\$15,547	\$13,984	\$14,006	\$13,753	\$14,366	\$14,488	\$7,990	\$7,990
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$768	\$768	\$768	\$768	\$768	\$768	\$768
Other Internal Sources	953	4,706	3,158	754	480	10	389	2,694	3,350	1,048	207	1,793	1,793
Revenue Anticipation Notes	0	0	0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0	0
TOTAL, Cumulative Loan Balances	\$3,169	\$6,922	\$5,374	\$8,970	\$8,696	\$8,226	\$7,157	\$9,462	\$10,118	\$7,816	\$6,975	\$2,561	\$2,561
UNUSED BORROWABLE RESOURCES	\$7,778	\$4,589	\$5,845	\$8,075	\$8,475	\$7,322	\$6,826	\$4,544	\$3,635	\$6,550	\$7,513	\$5,429	\$5,429
Cash and Unused Borrowable Resources	\$7,778	\$4,589	\$5,845	\$8,075	\$8,475	\$7,322	\$6,826	\$4,544	\$3,635	\$6,550	\$7,513	\$5,429	\$5,429

Note: Numbers may not add due to rounding.

**SCHEDULE 5D
ESTIMATED 2005-06 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)**

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2005-06 FISCAL CASHFLOW													
BEGINNING CASH BALANCE	\$30	\$26	\$27	\$27	\$27	\$27	\$30	\$20	\$22	\$26	\$26	\$26	\$314
Alcoholic Beverage Excise Tax	285	206	1,662	398	-28	1,171	133	198	1,686	1,486	262	1,654	9,113
Corporation Tax	10	10	10	10	10	10	10	9	9	10	9	10	117
Cigarette Tax	23	23	23	0	0	0	0	0	0	0	0	0	69
Inheritance, Gift and Estate Taxes	15	29	505	18	22	509	13	21	341	327	26	474	2,300
Insurance Tax	2,521	2,697	4,439	2,781	2,474	4,293	6,369	1,829	1,339	7,818	2,024	4,112	42,696
Personal Income Tax	782	3,439	2,031	1,015	3,479	2,047	1,065	3,822	2,003	577	3,924	2,708	26,892
Retail Sales and Use Tax	18	20	19	18	27	20	23	26	31	28	25	49	304
Income from Pooled Money Investments	0	0	0	0	0	0	768	0	69	0	195	0	768
Transfer from Special Fund for Economic Uncertainties	1,775	107	170	81	433	121	333	183	69	381	409	409	4,257
Other	\$5,459	\$6,557	\$8,886	\$4,348	\$6,444	\$8,198	\$8,744	\$6,708	\$5,500	\$10,653	\$6,491	\$9,440	\$86,830
TOTAL, Receipts													
DISBURSEMENTS:													
State Operations:													
University of California	\$248	\$219	\$257	\$298	\$261	\$277	\$252	\$266	\$284	\$309	\$108	\$24	\$2,803
Debt Service	5	397	391	559	199	211	9	496	246	408	206	214	3,341
Other State Operations	1,457	1,330	1,260	1,441	1,332	1,071	1,424	988	1,044	1,160	1,038	908	14,453
Social Services	1,581	746	700	900	437	780	771	435	579	757	148	726	8,560
Medi-Cal Assistance	1,134	1,253	911	1,252	836	1,239	1,049	961	1,080	1,197	1,110	843	12,865
Other Health Services	15	39	62	32	33	32	30	53	15	44	34	46	435
Schools	4,073	3,931	3,176	3,406	2,531	3,228	2,602	4,976	2,924	3,103	2,434	1,114	37,498
Teachers' Retirement	581	0	0	0	0	0	0	0	0	0	0	0	581
Transfer to Special Fund for Economic Uncertainties	664	671	634	585	382	626	405	348	440	460	486	721	6,422
Other	\$9,758	\$8,586	\$7,391	\$8,473	\$6,011	\$7,464	\$7,042	\$6,523	\$6,612	\$7,438	\$5,564	\$4,596	\$87,458
TOTAL, Disbursements													
EXCESS RECEIPTS/(DEFICIT)	-\$4,299	-\$2,029	\$1,495	-\$4,125	\$433	\$734	\$1,702	-\$2,415	-\$1,112	\$3,215	\$927	\$4,845	-\$628
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties	\$0	\$0	\$0	\$0	\$0	\$0	-\$268	\$0	\$0	\$0	\$0	\$0	-\$268
Other Internal Sources	4,299	-3,971	-1,495	4,125	-433	-734	-1,434	2,415	1,112	-3,215	-927	1,155	896
Revenue Anticipation Notes	0	6,000	0	0	0	0	0	0	0	0	0	-6,000	0
TOTAL, Net Temporary Loans	\$4,299	\$2,029	-\$1,495	\$4,125	-\$433	-\$734	-\$1,702	\$2,415	\$1,112	-\$3,215	-\$927	-\$4,845	\$628
ENDING CASH BALANCE	\$0	\$0											
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties	\$768	\$768	\$768	\$768	\$768	\$768	\$500	\$500	\$500	\$500	\$500	\$500	\$500
Other Internal Sources	7,379	8,366	8,270	8,119	8,165	7,149	7,204	7,199	6,946	7,531	7,602	7,301	7,301
Revenue Anticipation Notes	0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0
TOTAL, Available/Borrowable Resources	\$8,147	\$15,134	\$15,038	\$14,887	\$14,933	\$13,917	\$13,704	\$13,699	\$13,446	\$14,031	\$14,102	\$7,801	\$7,801
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties	\$768	\$768	\$768	\$768	\$768	\$768	\$500	\$500	\$500	\$500	\$500	\$500	\$500
Other Internal Sources	6,092	2,121	626	4,751	4,318	3,584	2,150	4,565	5,677	2,462	1,534	2,690	2,690
Revenue Anticipation Notes	0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0
TOTAL, Cumulative Loan Balances	\$6,860	\$8,889	\$7,394	\$11,519	\$11,086	\$10,352	\$8,650	\$11,065	\$12,177	\$8,962	\$8,034	\$3,190	\$3,190
UNUSED BORROWABLE RESOURCES	\$1,287	\$6,244	\$7,644	\$3,368	\$3,847	\$3,565	\$5,053	\$2,634	\$1,270	\$5,070	\$6,068	\$4,612	\$4,612
Cash and Unused Borrowable Resources	\$1,287	\$6,244	\$7,644	\$3,368	\$3,847	\$3,565	\$5,053	\$2,634	\$1,270	\$5,070	\$6,068	\$4,612	\$4,612

Note: Numbers may not add due to rounding.

**SCHEDULE 6
SUMMARY OF STATE POPULATION, EMPLOYEES, AND EXPENDITURES**

Year	Population ¹ (Thousands)	Employees ⁴ per 1,000 Population	Employees per 1,000 Population	Personal Income (Billions)	Revenue		Expenditures		Expenditures per Capita		Expenditures per \$100 of Personal Income	
					General Fund	Total (Millions)	General Fund ²	Total ³	General Fund ²	Total ³	General Fund ²	Total ³
					(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)		
1950-51	10,643	61,000	5.7	\$20.0	\$672	\$994	\$587	\$1,006	\$55.15	\$94.52	\$2.94	\$5.03
1951-52	11,130	63,860	5.7	23.2	734	1,086	635	1,068	57.05	95.96	2.74	4.60
1952-53	11,638	65,720	5.6	25.7	774	1,151	714	1,177	61.35	101.13	2.78	4.58
1953-54	12,101	69,928	5.8	27.6	798	1,271	809	1,381	66.85	114.12	2.93	5.00
1954-55	12,517	74,099	5.9	28.4	879	1,434	852	1,422	68.07	113.61	3.00	5.01
1955-56	13,004	77,676	6.0	31.2	1,005	1,578	923	1,533	70.98	117.89	2.96	4.91
1956-57	13,581	88,299	6.5	34.2	1,079	1,834	1,030	1,732	75.84	127.53	3.01	5.06
1957-58	14,177	98,015	6.9	36.8	1,111	1,751	1,147	1,891	80.91	133.39	3.12	5.14
1958-59	14,741	101,982	6.9	38.6	1,210	1,925	1,246	1,932	84.53	131.06	3.23	5.01
1959-60	15,288	108,423	7.1	42.4	1,491	2,198	1,435	2,086	93.86	136.45	3.38	4.92
1960-61	15,863	115,737	7.3	44.8	1,598	2,338	1,678	2,525	105.78	159.18	3.75	5.64
1961-62	16,412	122,339	7.5	47.5	1,728	2,451	1,697	2,406	103.40	146.60	3.57	5.07
1962-63	16,951	128,981	7.6	51.3	1,866	2,668	1,881	2,703	110.97	159.46	3.67	5.27
1963-64	17,530	134,721	7.7	54.8	2,137	3,057	2,064	3,182	117.74	181.52	3.77	5.81
1964-65	18,026	143,896	8.0	59.4	2,245	3,295	2,345	3,652	130.09	202.60	3.95	6.15
1965-66	18,464	151,199	8.2	63.5	2,509	3,581	2,580	4,059	139.73	219.83	4.06	6.39
1966-67	18,831	158,404	8.4	69.1	2,895	4,073	3,017	4,659	160.21	247.41	4.37	6.74
1967-68	19,175	162,677	8.5	74.4	3,682	4,927	3,273	5,014	170.69	261.49	4.40	6.74
1968-69	19,432	171,655	8.8	81.6	4,136	5,450	3,909	5,673	201.16	291.94	4.79	6.95
1969-70	19,745	179,583	9.1	89.3	4,330	5,743	4,456	6,302	225.68	319.17	4.99	7.06
1970-71	20,039	181,581	9.1	96.3	4,534	5,919	4,854	6,556	242.23	327.16	5.04	6.81
1971-72	20,346	181,912	8.9	102.4	5,395	6,897	5,027	6,684	247.08	328.52	4.91	6.53
1972-73	20,585	188,460	9.2	112.3	5,780	7,366	5,616	7,422	272.82	360.55	5.00	6.61
1973-74	20,869	192,918	9.2	124.0	6,978	8,715	7,299	9,311	349.75	446.16	5.89	7.51
1974-75	21,174	203,548	9.6	138.7	8,630	10,405	8,349	10,276	394.30	485.31	6.02	7.41
1975-76	21,538	206,361	9.6	153.5	9,639	11,567	9,518	11,452	441.92	531.71	6.20	7.46
1976-77	21,936	213,795	9.7	171.6	11,381	13,463	10,467	12,632	477.16	575.86	6.10	7.36
1977-78	22,352	221,251	9.9	191.5	13,695	15,962	11,686	14,003	522.82	626.48	6.10	7.31
1978-79	22,836	218,530	9.6	218.8	15,219	17,711	16,251	18,745	711.64	820.85	7.43	8.57
1979-80	23,257	220,193	9.5	250.1	17,985	20,919	18,534	21,488	796.92	923.94	7.41	8.59
1980-81	23,782	225,567	9.5	284.5	19,023	22,104	21,105	24,511	887.44	1,030.65	7.42	8.62
1981-82	24,278	228,813	9.4	320.0	20,960	23,601	21,693	25,022	893.53	1,030.65	6.78	7.82
1982-83	24,805	228,489	9.2	341.6	21,233	24,291	21,751	25,330	876.88	1,021.17	6.37	7.42
1983-84	25,337	226,695	8.9	369.1	23,809	27,626	22,869	26,797	902.59	1,057.62	6.20	7.26
1984-85	25,816	229,845	8.9	413.4	26,536	31,570	25,722	30,961	996.36	1,199.30	6.22	7.49
1985-86	26,403	229,641	8.7	448.3	28,072	33,558	28,841	34,977	1,092.34	1,324.74	6.43	7.80
1986-87	27,052	232,927	8.6	478.8	32,519	37,767	31,469	38,079	1,163.28	1,407.62	6.57	7.95
1987-88	27,717	237,761	8.6	515.3	32,534	38,773	33,021	40,452	1,191.36	1,459.47	6.41	7.85
1988-89	28,393	248,173	8.7	557.9	36,953	43,322	35,897	44,634	1,264.29	1,572.01	6.43	8.00
1989-90	29,142	254,589	8.7	601.5	38,750	46,453	39,456	48,594	1,353.92	1,667.49	6.56	8.08
1990-91	29,828	260,622	8.7	648.3	38,214	47,024	40,264	51,446	1,349.87	1,724.76	6.21	7.94
1991-92	30,459	261,713	8.6	662.7	42,026	53,117	43,327	56,280	1,422.47	1,847.73	6.54	8.49
1992-93	30,987	260,939	8.4	696.7	40,946	52,526	40,948	56,480	1,321.46	1,822.70	5.88	8.11
1993-94	31,314	265,035	8.5	707.9	40,095	52,384	38,958	53,083	1,244.11	1,695.18	5.50	7.50
1994-95	31,524	269,004	8.5	730.5	42,710	54,942	41,961	54,613	1,331.08	1,732.43	5.74	7.48
1995-96	31,712	271,076	8.5	765.8	46,296	59,266	45,393	59,870	1,431.41	1,887.93	5.93	7.82
1996-97	31,963	271,966	8.5	810.4	49,220	62,831	49,088	64,523	1,535.78	2,018.68	6.06	7.96
1997-98	32,453	271,254	8.4	860.5	54,973	69,424	52,874	68,528	1,629.25	2,111.61	6.14	7.96
1998-99	32,863	282,860	8.6	936.0	58,615	74,281	57,827	75,260	1,759.64	2,290.11	6.18	8.04
1999-00	33,419	296,076	8.9	999.2	71,931	87,536	66,494	84,864	1,989.71	2,539.39	6.65	8.49
2000-01	34,099	311,239	9.1	1,103.8	71,428	88,419	78,053	96,382	2,289.01	2,826.53	7.07	8.73
2001-02	34,784	323,603	9.3	1,134.9	72,263	89,804	76,752	99,220	2,206.53	2,852.46	6.76	8.74
2002-03	35,393	321,394	9.1	1,149.1	80,564	95,794	77,482	106,779	2,189.19	3,016.95	6.74	9.29
2003-04	35,991	316,860	8.8	1,185.3	76,774	96,365	78,345	104,223	2,176.79	2,895.81	6.61	8.79
2004-05	36,591	322,756	8.8	1,252.1	78,219	100,250	80,283	117,489	2,194.06	3,210.87	6.41	9.38
2005-06	37,183	326,937	8.8	1,324.1	85,454	109,293	85,738	111,724	2,305.84	3,004.71	6.48	8.44

¹ Population as of July 1, the beginning of the fiscal year.

² Includes Special Accounts in General Fund from 1973-74 to 1976-77.

³ Expenditures include payments from General Fund, Special Funds and Selected Bond Funds beginning in 1963-64.

⁴ Please see footnote regarding total positions on Schedule 4.

**SCHEDULE 8
COMPARATIVE STATEMENT OF REVENUES
(Dollars In Thousands)**

Sources	Actual 2003-04			Estimated 2004-05			Proposed 2005-06		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
MAJOR TAXES AND LICENSES									
Alcoholic Beverage Taxes and Fees	\$312,826	-	\$312,826	\$312,000	-	\$312,000	\$315,000	-	\$315,000
Corporation Tax	6,925,916	-	6,925,916	8,678,000	-	8,678,000	9,015,000	-	9,015,000
Cigarette Tax	117,137	964,451	1,081,588	119,000	945,700	1,064,700	115,000	919,700	1,034,700
Horse Racing (Parimutuel) License Fees	2,429	39,714	42,143	2,335	40,464	42,799	2,335	40,464	42,799
Estate, Inheritance and Gift Tax	397,848	-	397,848	209,000	-	209,000	-	-	-
Insurance Gross Premiums Tax	2,114,980	-	2,114,980	2,230,000	-	2,230,000	2,300,000	-	2,300,000
Trailer Coach License (In-Lieu) Fees	18,678	2,388	21,066	19,972	2,388	22,360	21,312	2,388	23,700
Motor Vehicle License (In-Lieu) Fees	-	2,051,623	2,051,623	-	2,143,558	2,143,558	-	2,214,930	2,214,930
Motor Vehicle License (Gasoline)	-	2,824,076	2,824,076	-	2,841,392	2,841,392	-	2,907,961	2,907,961
Motor Vehicle Fuel Tax (Diesel)	-	500,807	500,807	-	515,921	515,921	-	533,012	533,012
Motor Vehicle Registration	-	2,342,437	2,342,437	-	2,672,438	2,672,438	-	2,775,476	2,775,476
Personal Income Tax	36,398,983	-	36,398,983	39,527,000	-	39,781,000	42,895,000	-	43,578,000
Retail Sales and Use Tax-Realignment	-	2,442,620	2,442,620	-	2,524,900	2,524,900	-	2,699,000	2,699,000
Retail Sales and Use Taxes	23,847,329	216,962	24,064,291	25,168,000	405,691	25,573,691	26,947,000	274,514	27,221,514
Retail Sales and Use Tax-Fiscal Recovery	-	-	-	-	1,167,000	1,167,000	-	1,358,000	1,358,000
TOTALS, MAJOR TAXES AND LICENSES	\$70,136,126	\$11,385,078	\$81,521,204	\$76,265,307	\$13,513,452	\$89,778,759	\$81,610,647	\$14,408,445	\$96,019,092
MINOR REVENUES									
REGULATORY TAXES AND LICENSES									
General Fish and Game Taxes	-	1,479	1,479	-	1,498	1,498	-	1,498	1,498
Energy Resource Surcharge	-	520,589	520,589	-	526,446	526,446	-	519,639	519,639
Quarterly Public Utility Commission Fees	-	124,000	124,000	-	84,190	84,190	-	44,962	44,962
Hwy Carrier Uniform Business License Tax	324	-	324	320	-	320	320	-	320
Off-Highway Vehicle Fees	-	8,415	8,415	-	8,500	8,500	-	9,000	9,000
Liquor License Fees	-	43,841	43,841	-	42,768	42,768	-	42,768	42,768
Genetic Disease Testing Fees	-	64,684	64,684	-	71,673	71,673	-	76,356	76,356
Other Regulatory Taxes	-	80,268	80,268	-	94,790	94,790	-	97,278	97,278
New Motor Vehicle Dealer License Fee	-	1,449	1,449	-	1,435	1,435	-	1,445	1,445
General Fish and Game Lic Tags Permits	-	81,478	81,478	-	85,002	85,002	-	85,505	85,505
Duck Stamps	-	56	56	-	70	70	-	70	70
Elevator and Boiler Inspection Fees	223	12,453	12,676	223	15,746	15,969	223	16,402	16,625
Industrial Homework Fees	2	-	2	2	-	2	2	-	2
Employment Agency License Fees	685	5,203	5,888	685	4,401	5,086	685	4,431	5,116
Employment Agency Filing Fees	90	-	90	90	-	90	90	-	90
Teacher Credential Fees	-	13,088	13,088	-	13,048	13,048	-	13,038	13,038
Teacher Examination Fees	-	11,414	11,414	-	9,764	9,764	-	9,713	9,713
Insurance Co License Fees & Penalties	-	33,306	33,306	-	34,495	34,495	-	36,075	36,075
Insurance Company Examination Fees	-	20,852	20,852	-	18,658	18,658	-	18,658	18,658
Real Estate Examination Fees	-	7,559	7,559	-	7,220	7,220	-	7,480	7,480
Real Estate License Fees	-	20,583	20,583	-	20,712	20,712	-	23,351	23,351
Subdivision Filing Fees	-	9,930	9,930	-	9,211	9,211	-	9,211	9,211
Building Construction Filing Fees	-	3,911	3,911	-	4,103	4,103	-	4,103	4,103
Domestic Corporation Fees	-	11,750	11,750	-	11,965	11,965	-	11,965	11,965
Foreign Corporation Fees	-	1,085	1,085	-	1,119	1,119	-	1,119	1,119
Notary Public License Fees	-	1,596	1,596	-	1,722	1,722	-	1,722	1,722
Filing Financing Statements	-	4,147	4,147	-	4,084	4,084	-	4,084	4,084
Candidate Filing Fee	1,291	-	1,291	94	-	94	658	-	658
Beverage Container Redemption Fees	-	750,842	750,842	-	916,419	916,419	-	953,609	953,609

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars In Thousands)**

Proposed 2005-06

Estimated 2004-05

Actual 2003-04

Sources	Actual 2003-04			Estimated 2004-05			Proposed 2005-06		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Explosive Permit Fees	-	1	1	-	1	1	-	1	1
Environmental and Hazardous Waste Fees	-	62,166	62,166	-	61,357	61,357	-	62,478	62,478
Other Regulatory Fees	9,330	1,471,518	1,480,848	1,055	1,774,080	1,775,135	1,155	1,894,844	1,895,999
Other Regulatory Licenses and Permits	42,659	371,056	413,715	42,605	377,784	420,389	42,988	399,075	442,063
Renewal Fees	146	154,080	154,226	82	157,931	157,913	146	158,657	158,803
Delinquent Fees	-	5,167	5,167	-	4,157	4,157	-	4,173	4,173
Private Rail Car Tax	6,637	-	6,637	6,637	-	6,637	6,637	-	6,637
Insurance Department Fees, Prop 103	-	27,678	27,678	-	25,427	25,427	-	24,723	24,723
Insurance Department Fees, General	-	30,067	30,067	-	19,808	19,808	-	20,754	20,754
Insurance Fraud Assessment, Workers Comp	-	32,821	32,821	-	34,411	34,411	-	34,411	34,411
Insurance Fraud Assessment, Auto	-	37,613	37,613	-	38,335	38,335	-	39,293	39,293
Insurance Fraud Assessment, General	-	1,728	1,728	-	4,347	4,347	-	4,347	4,347
Totals, REGULATORY TAXES AND LICENSES	\$61,387	\$4,027,873	\$4,089,260	\$51,818	\$4,486,577	\$4,538,395	\$52,929	\$4,636,238	\$4,689,167
REVENUE FROM LOCAL AGENCIES									
Architecture Public Building Fees	-	29,181	29,181	-	32,000	32,000	-	32,000	32,000
Penalties on Traffic Violations	-	78,842	78,842	-	86,956	86,956	-	88,274	88,274
Penalties on Felony Convictions	-	57,148	57,148	-	58,991	58,991	-	60,671	60,671
Fines-Crimes of Public Offense	-	4,543	4,543	-	4,543	4,543	-	4,543	4,543
Fish and Game Violation Fines	-	572	572	-	570	570	-	570	570
Penalty Assessments on Fish & Game Fines	-	625	625	-	700	700	-	707	707
Interest on Loans to Local Agencies	2,270	2,071	4,341	2,270	1,228	3,498	2,270	1,228	3,498
Add'l Assmnts on Fish & Game Fines	-	66	66	-	100	100	-	100	100
Narcotic Fines	3,464	-	3,464	1,000	-	1,000	1,000	-	1,000
Fingerprint ID Card Fees	-	53,719	53,719	-	63,950	63,950	-	68,572	68,572
Misc Revenue From Local Agencies	355,406	485,992	841,398	320,597	486,224	806,821	322,338	486,224	808,562
Open Space Cancellation Fee Deferral Taxes	7,719	1,350	9,069	2,524	2,076	4,600	2,524	2,076	4,600
Rev Local Govt Agencies-Cost Recoveries	2,347	9,521	11,868	2,500	9,700	12,200	2,500	9,900	12,400
Totals, REVENUE FROM LOCAL AGENCIES	\$371,206	\$723,630	\$1,094,836	\$328,891	\$747,038	\$1,075,929	\$330,632	\$754,865	\$1,085,497
SERVICES TO THE PUBLIC									
Pay Patients Board Charges	17,456	-	17,456	16,894	-	16,894	16,710	-	16,710
State Beach and Park Service Fees	-	52,424	52,424	-	71,700	71,700	-	77,700	77,700
Parking Lot Revenues	-	8,078	8,078	-	8,792	8,792	-	9,155	9,155
Fire Prevention and Suppression	-	-	-	100	-	100	100	-	100
Emergency Telephone Users Surcharge	-	139,510	139,510	-	125,486	125,486	-	130,506	130,506
Sales of Documents	267	1,614	1,881	263	2,055	2,318	283	2,041	2,324
General Fees--Secretary of State	16	23,877	23,893	20	24,682	24,702	20	24,682	24,702
Parental Fees	-	1,800	1,800	-	1,800	1,800	-	1,800	1,800
Guardianship Fees	6	6	6	6	-	6	6	-	6
Miscellaneous Services to the Public	1,949	231,287	233,236	1,756	231,803	233,559	1,753	231,897	233,650
Receipts From Health Care Deposit Fund	8,000	-	8,000	8,000	-	8,000	8,000	-	8,000
Medicare Receipts From Federal Government	5,005	-	5,005	5,370	-	5,370	5,370	-	5,370
California State University Fees	-	1,012,233	1,012,233	-	1,111,298	1,111,298	-	1,212,546	1,212,546
Personalized License Plates	-	41,840	41,840	-	44,086	44,086	-	46,272	46,272
Totals, SERVICES TO THE PUBLIC	\$32,699	\$1,512,663	\$1,545,362	\$32,409	\$1,621,702	\$1,654,111	\$32,242	\$1,736,599	\$1,768,841
USE OF PROPERTY AND MONEY									
Income From Pooled Money Investments	123,312	111	123,423	200,000	111	200,111	304,000	111	304,111
Income From Surplus Money Investments	5,919	73,508	79,427	6,000	82,586	88,586	6,000	92,562	98,562
Interest Income From Loans	6,475	3,266	9,741	6,286	2,138	8,424	6,286	1,730	8,016

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars In Thousands)**

Sources	Actual 2003-04			Estimated 2004-05			Proposed 2005-06		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Interest Income From Interfund Loans	319	2,040	2,359	319	14,172	14,491	319	4,669	4,988
Income From Other Investments	-	16,304	16,304	-	14,341	14,341	-	10,477	10,477
Income From Condemnation Deposits Fund	-	1,324	1,324	-	1,390	1,390	-	1,200	1,200
Federal Lands Royalties	-	23,477	23,477	-	19,377	19,377	-	18,588	18,588
Oil & Gas Lease-1% Revenue City/County	279	-	279	327	-	327	253	-	253
Rentals of State Property	8,272	38,583	46,855	8,810	33,890	42,700	8,975	32,577	41,552
Misc Revenue Firm Use of Property & Money	25,878	30,268	56,146	29,603	38,582	68,185	29,603	29,524	59,127
School Lands Royalties	-	157	157	-	97	97	-	97	97
State Lands Royalties	113,763	7,900	121,663	139,308	25,200	164,508	121,600	50,105	171,705
	\$284,217	\$196,938	\$481,155	\$390,653	\$231,884	\$622,537	\$477,036	\$191,535	\$668,571
Totals, USE OF PROPERTY AND MONEY									
MISCELLANEOUS									
Attorney General Proceeds of Anti-Trust	-	2,574	2,574	-	1,149	1,149	-	1,149	1,149
Penalties & Interest on UI & DI Contrib	-	86,304	86,304	-	87,552	87,552	-	89,582	89,582
Sale of Fixed Assets	95,320	32	95,352	20,741	6	20,747	82	6	88
Sale of Confiscated Property	5,993	-	5,993	6,034	-	6,034	6,034	-	6,034
Sale of State's Public Lands	-	672	672	-	420	420	-	6,638	6,638
Proceeds From Estates of Deceased Person	151	-	151	188	-	188	188	-	188
Revenue-Abandoned Property	669,319	-	669,319	392,090	-	392,090	204,753	-	204,753
Escheat of Unclaimed Checks & Warrants	30,172	3,153	33,325	25,147	2,764	27,911	25,040	2,769	27,809
Miscellaneous Revenue	2,324,318	200,406	2,524,724	2,75,010	755,342	1,030,352	347,365	256,773	604,138
Bond Proceeds	2,012,000	-	2,012,000	1,155,444	-	1,155,444	1,682,800	1,214,000	2,896,800
Penalties & Intrst on Personal Income Tx	-	13,152	13,152	-	13,139	13,139	-	13,497	13,497
Other Revenue - Cost Recoveries	44	58,386	58,430	25	80,513	80,538	35	75,424	75,459
Settlements/Judgments(not Anti-trust)	4,011	762	4,773	77,741	522	78,263	105,150	5,203	110,353
Uninsured Motorist Fees	2,482	598	3,080	2,400	600	3,000	2,400	600	3,000
Traffic Violations	-	2,298	2,298	-	2,298	2,298	-	2,298	2,298
Parking Violations	8,511	1,258	9,769	8,001	460	8,461	8,001	460	8,461
Penalty Assessments	22,614	114,295	136,909	27,018	80,488	107,506	24,512	86,642	111,154
Civil & Criminal Violation Assessment	481	11,053	11,534	463	10,737	11,200	463	10,987	11,450
Fines and Forfeitures	-	307,616	307,616	-	313,322	313,322	-	313,322	313,322
Court Filing Fees and Surcharges	-	329,621	329,621	-	365,495	365,495	-	365,496	365,496
Penalty Assessments on Criminal Fines	-	50,105	50,105	-	50,105	50,105	-	50,105	50,105
Pending New Revenue	-	-	-	-	-	-	-	5,476	5,476
Totals, MISCELLANEOUS	\$5,175,416	\$2,337,729	\$7,513,145	\$834,858	\$1,764,912	\$2,599,770	\$2,406,823	\$2,500,427	\$4,907,250
TOTALS, MINOR REVENUES	\$5,924,925	\$8,798,833	\$14,723,758	\$1,638,629	\$8,852,113	\$10,490,742	\$3,299,662	\$9,819,664	\$13,119,326
TOTALS, REVENUES	\$76,061,051	\$20,183,911	\$96,244,962	\$77,903,936	\$22,365,565	\$100,269,501	\$84,910,309	\$24,228,109	\$109,138,418
TRANSFERS AND LOANS									
General Fund	-288,054	248,554	-39,500	-115,175	112,038	-3,137	-184,313	176,165	-8,148
Subsequent Injuries Benefits Trust Fund	3,000	-	3,000	-	-	-	-	-	-
Fingerprint Fees Account	2,000	-2,000	-	-	-	-	-	-	-
Emergency Telephone Number Acct, State	-	-	-	17	-17	-	-	-	-
Energy Conservation Assistance Ac, State	-	-9,761	-9,761	-	-5,208	-5,208	-	-4,991	-4,991
Aeronautics Account STF	4,762	-4,762	-	-	-	-	-	-	-
Highway Account, State, STF	-	-	-	107,634	-107,634	-	-	-	-
Motor Vehicle Account, STF	4,588	-4,589	-1	2,028	-2,030	-2	52	-54	-2
Colorado River Management Account	38,766	-38,766	-	-	-	-	-	-	-
Motor Vehicle Fuel Account, TTF	-	-20,864	-20,864	-	-21,761	-21,761	-	-22,680	-22,680
Corporations Fund, State	44,907	-44,907	-	1,500	-1,500	-	-	-	-

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars In Thousands)**

Proposed 2005-06

Estimated 2004-05

Actual 2003-04

Sources	Actual 2003-04			Estimated 2004-05			Proposed 2005-06		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Alcohol Beverage Control Fund	2,267	-2,267	-	3,638	-3,638	-	3,638	-3,638	-
Cal- OSHA Targeted Inspection & Consult	2,000	-2,000	-	-	-	-	-	-	-
Health Statistics Special Fund	1,000	-1,000	-	-	-	-	-	-	-
School Facilities Fee Assistance Fund	-	-	-	7,117	-7,117	-	-	-	-
Acupuncture Fund	1,500	-1,500	-	-	-	-	-	-	-
Rural Economic Development Fund	2,014	-2,015	-1	-	-	-	-	-	-
Workers' Compensation Managed Care Fund	405	-405	-	253	-253	-	-	-	-
Beverage Container Recycling Fund, CA	98,300	-98,300	-	-	-	-	-	-	-
Commerce Marketing Fund	136	-136	-	-	-	-	-	-	-
Chiropractic Examiners Fund	4,000	-4,000	-	-	-	-	-	-	-
Trial Court Improvement Fund	10,000	-10,000	-	-	-	-	-	-	-
Debt Limit Allocation Committee Fund,Cal	-	-	-	3,500	-3,500	-	-	-	-
Corrections Training Fund	9,606	-9,606	-	10,257	-10,257	-	9,650	-9,650	-
Debt & Investment Advisory Comm Fund,Cal	5,500	-5,500	-	-	-	-	-	-	-
Driver Training Penalty Assessment Fund	11,335	-11,335	-	19,151	-19,151	-	19,733	-19,733	-
Employment Development Dept Benefit Audit	12,643	-12,643	-	386	-386	-	282	-282	-
Employment Development Contingent Fund	76,144	-76,144	-	33,179	-33,179	-	21,202	-21,202	-
Energy and Resources Fund	844	-844	-	300	-300	-	300	-300	-
Fair and Exposition Fund	246	-246	-	246	-246	-	246	-246	-
Genetic Disease Testing Fund	1,000	-1,000	-	2,660	-2,660	-	2,660	-2,660	-
Restitution Fund	-	-	-	42	-42	-	-	-	-
Rural Development Fund	53	-53	-	-	-	-	-	-	-
Workers' Comp Administration Revolv Fund	37,588	-37,588	-	47,938	-47,938	-	-	-	-
Tire Recycling Management Fund, Calif	17,097	-17,097	-	-	-	-	-	-	-
Business Fees Fund, Secty of State's	9,843	-9,843	-	14,531	-14,531	-	15,264	-15,264	-
Private Security Services Fund	4,000	-4,000	-	-	-	-	-	-	-
Glass Processing Fee Account	39,000	-39,000	-	-	-	-	-	-	-
Technical Assistance Fund	3,946	-3,946	-	-	-	-	1,500	-1,500	-
Infant Botulism Treatment & Prevention	-	-	-	-	-	-	-	-	-
Business Reinvestment Fund	193	-193	-	-	-	-	-	-	-
PET Processing Fee Acct, Bev Cont Rec Fd	27,000	-27,000	-	-	-	-	-	-	-
Recycling Market Development Rev Loan	1,853	-1,853	-	-	-	-	-	-	-
Residential Earthquake Recovery Fund, CA	-	-	-	2,900	-2,900	-	-	-	-
Credit Union Fund	1,800	-1,800	-	-	-	-	-	-	-
Mandates Claims Fund, State	-	-	-	461	-461	-	-	-	-
Indian Gaming Special Distribution Fund	-	-50,569	-50,569	-	-45,267	-45,267	-	-50,000	-50,000
False Claims Act Fund	3,500	-3,500	-	-	-	-	-	-	-
Public Int Res, Dev & Demonstratn Progrm	20,000	-20,000	-	-	-	-	-	-	-
Integrated Waste Management Account	4,768	-4,768	-	-	-	-	-	-	-
Job Creation Investment Fund	4	-4	-	-	-	-	-	-	-
Real Estate Appraisers Regulation Fund	2,000	-2,000	-	-	-	-	-	-	-
Vehicle Inspection and Repair Fund	14,000	-14,000	-	-	-	-	-	-	-
Underground Storage Tank Cleanup Fund	3,200	-3,200	-	-	-	-	-	-	-
Petro Undergrnd Storage Tank Financ Acct	38,621	-38,621	-	-	-11,500	-11,500	-	-	-
Olympic Training Account,California	98	-98	-	100	-100	-	100	-100	-
Occupancy Compliance Monitoring Account	-	-	-	35,000	-35,000	-	-	-	-
Tax Credit Allocation Fee Account	3,000	-3,000	-	31,000	-31,000	-	-	-	-
Publ Utilities Comm Utilities Reimb Acct	15,000	-15,000	-	-	-	-	-	-	-

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars In Thousands)**

Sources	Actual 2003-04			Estimated 2004-05			Proposed 2005-06		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Energy Resources Programs Account	9,365	-15,530	-6,165	12,000	-12,000	-	-	-	-
Child Care & Devlpmt Fac Direct Ln Fd	-	-	-	629	-	629	-	-	-
Child Care & Dev Fac Ln Guaranty Fd	-	-	-	65	-	65	-	-	-
Energy Tech Research, Dev, & Demo Acct	1,288	-1,288	-	-	-	-	-	-	-
Financial Responsibility Penalty Account	2,661	-2,661	-	2,298	-2,298	-	2,298	-2,298	-
Teleconnect Fd Admin Comm Fd, Cal	150,000	-150,000	-	-	-	-	-	-	-
Other Unallocated Special Funds	3,409	-3,409	-	4,693	-4,693	-	402,640	-402,640	-
Local Govt Geothermal Resource Subacct	1,594	-1,594	-	-	-	-	-	-	-
Water Resources Development Bond Fund	-	-	-	11,500	-	11,500	-	-	-
Harbors and Watercraft Revolving Fund	-	4,600	4,600	-	-	-	-	-	200
Rural Econ Dev Infrastructure Rev Bd Fd	2,980	-	2,980	-	-	-	-	-	-
Main Street Program Fund, CA	9	-	9	-	-	-	-	-	-
Toxic Substances Control Account	-	-	-	970	-970	-	-	-	-
Scholarshare Administrative Fund	200	-	200	450	-	450	600	-	600
Uninsured Employers Benefits Trust Fund	8,000	-	8,000	-	-	-	-	-	-
Vincent Thomas Bridge Toll Revenue Fund	-	-	-	-	6,876	6,876	-	-	-
Agriculture Building Fund	-	901	901	-	525	525	-	-	525
Architecture Revolving Fund	2,712	-	2,712	-	-	-	-	-	-
Equipment Service Fund	-	14,916	14,916	-	-	-	-	-	-
Drinking Water Treatment & Research Fund	1,000	-1,000	-	-	-	-	-	-	-
Public Buildings Construction Fund	16,025	-	16,025	-	-	-	-	-	-
Stephen P Teale Data Center Revolv Fd	-	-	-	3,500	-	3,500	-	-	-
Petroleum Financing Collection Account	127	-	127	-	-	-	-	-	-
Grant and Loan Collection Account	867	-	867	-	-	-	-	-	-
Accountancy Fund	270	-270	-	-	-	-	-	-	-
Architects Board Fund, California	1,800	-1,800	-	-	-	-	-	-	-
Contractors' License Fund	8,700	-8,700	-	-	-	-	-	-	-
School Building Aid Fund, State	24,434	-	24,434	24,434	-	24,434	24,434	-	24,434
Dentistry Fund, State	5,000	-5,000	-	-	-	-	-	-	-
Landscape Architects Fd, CA Bd/Arch Exam	1,225	-1,225	-	-	-	-	-	-	-
Court Reporters Fund	1,250	-1,250	-	-	-	-	-	-	-
Vocational Nurse Examiners Fund	2,000	-2,000	-	-	-	-	-	-	-
Psychiatric Technicians Account	1,000	-1,000	-	-	-	-	-	-	-
Export Finance Fund	2,679	-	2,679	-	-	-	-	-	-
Self-Help Housing Fund	23,507	-	23,507	206	-	206	-	-	206
Superfund Bond Trust Fund	-	2,640	2,640	-	2,500	2,500	-	2,100	2,100
Housing Trust Fund, Cal	2,085	-	2,085	-	-	-	2,000	-	2,000
Small Business Expansion Fund	-	-	-	248	-	248	-	-	-
Litigation Deposit Fund	546	-	546	-	-	-	-	-	-
Economic Development Grant & Loan Fd, CA	2,578	-	2,578	-	-	-	-	-	-
Joe Serna, Jr. Farmworker Housing Grant	27,143	-	27,143	-	-	-	-	-	-
Forest Resources Improvement Fund	-	-	-	-	-	-	3,000	-	3,000
Housing Rehabilitation Loan Fund	41,380	-	41,380	1,870	-	1,870	-	-	1,300
Renewable Resources Investment Fund	652	-	652	-	-	-	-	-	-
Special Deposit Fund	58,831	-	58,831	2,000	-	2,000	2,000	-	2,000
Foster Children and Parent Train Fund	-	-	-	5,383	-	5,383	3,000	-	3,000
World Trade Commission Fd, Cal St	120	-	120	-	-	-	-	-	-
Emergency Housing and Assistance Fund	-	-	-	1,125	-	1,125	-	-	-

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars In Thousands)**

Sources	Actual 2003-04			Estimated 2004-05			Proposed 2005-06		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Various Other Unallocated NGC Funds	1,917	-	1,917	2,640	-	2,640	201,501	-	201,501
Electrician Certification Fund	217	-217	-	-	-	-	251	-251	-
Permanent Amusement Ride Safety Insp Fd	475	-475	-	400	-400	-	-	-	-
Garment Industry Regulations Fund	1,229	-1,229	-	-	-	-	-	-	-
Film California First Fund	-	-	-	1,089	-1,089	-	-	-	-
Occupational Therapy Fund	881	-881	-	-	-	-	-	-	-
Tobacco Settlement Fund	6,000	-6,000	-	-	-	-	12,000	-12,000	-
Apprenticeship Training Contribution Fd	1,400	-1,400	-	-	-	-	-	-	-
State Court Facilities Construction Fund	-	-	-	30,000	-30,000	-	-	-	-
Fiscal Recovery Fund	-	-	-	1,000	-1,000	-	-	-	-
CA Consumer Pwr & Conservation Fin Auth	-	4,255	4,255	-	3,752	3,752	-	-	-
TOTALS, TRANSFERS AND LOANS	\$713,029	\$-592,786	\$120,243	\$315,163	\$-334,335	\$-19,172	\$544,038	\$-389,199	\$154,839
TOTALS, REVENUES AND TRANSFERS	\$76,774,080	\$19,591,125	\$96,365,205	\$78,219,099	\$22,031,230	\$100,250,329	\$85,454,347	\$23,838,910	\$109,293,257

**SCHEDULE 9
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
LEGISLATIVE, JUDICIAL, AND EXECUTIVE															
Legislative															
Legislature															
Senate															
State Operations	\$87,293	-	-	\$87,293	-	\$91,308	-	\$91,308	-	\$96,330	-	-	\$96,330	-	-
Assembly															
State Operations	118,455	-	-	118,455	-	123,904	-	123,904	-	130,719	-	-	130,719	-	-
Joint Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	-	21	-	21	-	-	-	-	-	-	-	-	-	-	-
Totals, Legislature	\$205,748	\$21	-	\$205,769	-	\$215,212	-	\$215,212	-	\$227,049	-	-	\$227,049	-	-
Legislative Counsel Bureau															
State Operations	80,010	-	-	80,010	-	82,499	-	82,499	-	82,813	-	-	82,813	-	-
Totals, Legislative	\$285,758	\$21	-	\$285,779	-	\$297,711	-	\$297,711	-	\$309,862	-	-	\$309,862	-	-
Judicial															
Judicial Branch															
State Operations	290,013	14,263	-	304,276	1,543	301,161	41,555	342,716	2,535	308,887	44,820	-	353,707	2,560	
Local Assistance	13,555	14	-	13,569	785	13,556	150	13,706	2,275	1,471,488	1,136,713	-	2,608,201	2,275	
Capital Outlay	2,830	-	-	2,830	-	-	619	619	-	-	-	-	-	-	-
Totals, Judicial Branch	\$306,398	\$14,277	-	\$320,675	\$2,328	\$314,717	\$42,324	\$357,041	\$4,810	\$1,780,375	\$1,181,533	-	\$2,961,908	\$4,835	
Commission on Judicial Performance															
State Operations	3,617	-	-	3,617	-	4,099	-	4,099	-	4,111	-	-	4,111	-	-
Contributions to Judges' Retirement Sys															
State Operations	2,868	-	-	2,868	-	2,950	-	2,950	-	3,150	-	-	3,150	-	-
Local Assistance	122,602	-	-	122,602	-	145,183	-	145,183	-	140,591	-	-	140,591	-	-
Totals, Contributions to Judges' Retirement Sys	\$125,470	-	-	\$125,470	-	\$148,133	-	\$148,133	-	\$143,741	-	-	\$143,741	-	-
State Trial Court Funding															
Local Assistance	1,083,257	1,126,834	-	2,210,091	-	1,296,758	1,140,780	2,437,538	-	-	-	-	-	-	-
Totals, Judicial	\$1,518,742	\$1,141,111	-	\$2,659,853	\$2,328	\$1,763,707	\$1,183,104	\$2,946,811	\$4,810	\$1,928,227	\$1,181,533	-	\$3,109,760	\$4,835	
Executive/Governor															
Governor's Office															
State Operations	6,110	-	-	6,110	-	18,371	-	18,371	-	18,347	-	-	18,347	-	-
Ofc Inspector General Veterans Affairs															
State Operations	167	-	-	167	-	-	-	-	-	-	-	-	-	-	-
Office of Planning and Research															
State Operations	4,201	505	-	4,706	1,918	2,878	521	3,399	2,761	4,076	-	-	4,076	2,779	
Local Assistance	-	-	-	-	14,818	-	-	-	40,000	-	-	-	-	40,000	-
Totals, Office of Planning and Research	\$4,201	\$505	-	\$4,706	\$16,736	\$2,878	\$521	\$3,399	\$42,761	\$4,076	-	-	\$4,076	\$42,779	
Office of Emergency Services															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
State Operations	36,853	1,999	-	38,852	27,553	38,984	3,107	-	42,091	31,031	39,428	3,046	-	42,474	32,112
Local Assistance	70,559	10,300	-	80,859	858,270	101,462	18,575	-	120,037	915,969	60,707	18,545	-	79,252	915,709
Capital Outlay	99	-	-	99	-	145	-	-	145	-	1,493	-	-	1,493	-
Totals, Office of Emergency Services	\$107,511	\$12,299	-	\$119,810	\$885,823	\$140,591	\$21,682	-	\$162,273	\$947,000	\$101,628	\$21,591	-	\$123,219	\$947,821
Totals, Executive/Governor	\$117,989	\$12,804	-	\$130,793	\$902,559	\$161,840	\$22,203	-	\$184,043	\$989,761	\$124,051	\$21,591	-	\$145,642	\$990,600
Executive/Constitutional Offices															
Office of the Lieutenant Governor															
State Operations	2,458	-	-	2,458	-	2,778	-	-	2,778	-	2,787	-	-	2,787	-
Department of Justice															
State Operations	302,783	126,256	-	429,039	33,346	315,651	149,533	-	465,184	43,963	319,106	162,646	-	481,752	36,643
Local Assistance	6,121	357	-	6,478	-	3,271	2,960	-	6,231	-	3,407	2,965	-	6,372	-
Totals, Department of Justice	\$308,904	\$126,613	-	\$435,517	\$33,346	\$318,922	\$152,493	-	\$471,415	\$43,963	\$322,513	\$165,611	-	\$488,124	\$36,643
State Controller															
State Operations	70,167	5,482	185	75,834	1,088	72,493	8,163	185	80,841	1,253	74,158	12,818	611	87,587	1,258
Local Assistance	-836	-	-	-836	-	-1,524	-	-	-1,524	-	-1,463	-	-	-1,463	-
Totals, State Controller	\$69,331	\$5,482	\$185	\$74,998	\$1,088	\$70,969	\$8,163	\$185	\$79,317	\$1,253	\$72,695	\$12,818	\$611	\$86,124	\$1,258
Department of Insurance															
State Operations	-	133,486	-	133,486	-	-	143,304	-	143,304	-	-	155,063	-	155,063	-
Local Assistance	-	34,184	-	34,184	-	-	44,165	-	44,165	-	-	38,473	-	38,473	-
Totals, Department of Insurance	-	\$167,670	-	\$167,670	-	\$187,469	-	-	\$187,469	-	-	\$193,536	-	\$193,536	-
California Gambling Control Commission															
State Operations	-	5,164	-	5,164	-	-	10,107	-	10,107	-	-	13,196	-	13,196	-
Local Assistance	-	23,515	-	23,515	-	-	31,485	-	31,485	-	-	30,000	-	30,000	-
Totals, California Gambling Control Commission	-	\$28,679	-	\$28,679	-	\$41,592	-	-	\$41,592	-	-	\$43,196	-	\$43,196	-
State Board of Equalization															
State Operations	192,330	33,064	-	225,394	1	207,889	42,510	-	250,399	32	209,481	51,842	-	261,323	-
Capital Outlay	16	-	-	16	-	-	-	-	-	-	-	-	-	-	-
Totals, State Board of Equalization	\$192,346	\$33,064	-	\$225,410	\$1	\$207,889	\$42,510	-	\$250,399	\$32	\$209,481	\$51,842	-	\$261,323	-
Secretary of State															
State Operations	43,405	36,661	-	80,066	6,700	40,462	32,635	-	73,097	223,500	30,299	34,919	-	65,218	1,700
Local Assistance	2	-	-	2	39,724	4	-	-	4	42,600	-	-	-	-	-
Totals, Secretary of State	\$43,407	\$36,661	-	\$80,068	\$46,424	\$40,466	\$32,635	-	\$73,101	\$266,100	\$30,299	\$34,919	-	\$65,218	\$1,700
State Treasurer															
State Operations	5,073	-	-	5,073	-	6,028	-	-	6,028	-	6,068	-	-	6,068	-
CA Debt & Investment Advisory Commission															
State Operations	-	1,648	-	1,648	-	-	1,930	-	1,930	-	-	2,035	-	2,035	-
CA Debt Limit Allocation Committee															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
State Operations	-	999	-	999	-	-	1,118	-	1,118	-	-	1,128	-	1,128	-
CA Industrial Dev Financing Advisory Com															
State Operations	-	314	-	314	-	-	478	-	478	-	-	484	-	484	-
CA Tax Credit Allocation Committee															
State Operations	-	2,486	-	2,486	-	-	2,797	-	2,797	-	-	3,100	-	3,100	-
Local Assistance	-	186	-	186	-	-	136	-	136	-	-	136	-	136	-
Totals, CA Tax Credit Allocation Committee															
	-	\$2,672	-	\$2,672	-	-	\$2,933	-	\$2,933	-	-	\$3,236	-	\$3,236	-
CA Health Facilities Financing Authority															
State Operations	-	-	-	-	-	-	137	-	137	-	-	289	-	289	-
Totals, Executive/Constitutional Offices															
	\$621,519	\$403,802	\$185	\$1,025,506	\$80,859	\$647,052	\$471,321	\$322	\$1,118,695	\$311,338	\$643,843	\$508,805	\$900	\$1,153,548	\$39,601
Statewide Distributed Costs															
General Obligation Bonds-LJE	418	-	-	418	-	2,736	-	-	2,736	-	10,188	-	-	10,188	-
State Operations	\$418	-	-	\$418	-	\$2,736	-	-	\$2,736	-	\$10,188	-	-	\$10,188	-
Totals, Statewide Distributed Costs															
	\$2,544,426	\$1,557,738	\$185	\$4,102,349	\$985,746	\$2,873,046	\$1,676,628	\$322	\$4,549,996	\$1,305,909	\$3,016,171	\$1,711,929	\$900	\$4,729,000	\$1,035,036
State Operations	1,246,221	362,348	185	1,608,754	72,149	1,314,191	437,758	322	1,752,271	305,065	1,339,948	485,097	900	1,825,945	77,052
Local Assistance	1,295,260	1,195,390	-	2,490,650	913,597	1,568,710	1,238,251	-	2,796,961	1,000,844	1,674,730	1,228,832	-	2,901,562	957,984
Capital Outlay	2,945	-	-	2,945	-	145	619	-	764	-	1,493	-	-	1,493	-
STATE AND CONSUMER SERVICES															
Secretary for State and Consumer Service	746	-	-	746	-	789	-	-	789	-	769	-	-	769	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
California Science Center															
State Operations	12,754	2,971	-	15,725	-	14,552	3,613	-	18,165	-	14,532	3,761	-	18,293	-
Consumer Affairs-Regulatory Boards															
State Operations	628	173,128	-	173,756	-	-	194,721	-	194,721	-	-	206,312	-	206,312	-
Local Assistance	-	-	-	-	-	-	239	-	239	-	-	239	-	239	-
Totals, Consumer Affairs-Regulatory Boards															
	\$628	\$173,128	-	\$173,756	-	-	\$194,960	-	\$194,960	-	-	\$206,551	-	\$206,551	-
Consumer Affairs-Bureaus, Programs, Divs															
State Operations	482	129,444	-	129,926	1,105	380	143,963	-	144,343	1,193	376	167,128	-	167,504	1,209
Dept of Fair Employment and Housing															
State Operations	13,333	-	-	13,333	6,346	13,230	-	-	13,230	5,423	13,278	-	-	13,278	5,484
Fair Employment and Housing Commission															
State Operations	1,089	-	-	1,089	-	1,113	-	-	1,113	-	1,087	-	-	1,087	-
Franchise Tax Board															
State Operations	425,780	9,225	-	435,005	-	485,930	11,349	-	497,279	-	512,273	11,632	-	523,905	-
Capital Outlay	142	-	-	142	-	-	-	-	-	-	-	-	-	-	-
Totals, Franchise Tax Board															
	\$425,922	\$9,225	-	\$435,147	-	\$485,930	\$11,349	-	\$497,279	-	\$512,273	\$11,632	-	\$523,905	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04					Estimated 2004-05					Proposed 2005-06				
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Department of General Services															
State Operations	2,500	69,908	11,324	83,732	-	15,000	83,303	12,754	111,057	-	250	82,467	12,588	95,305	
Local Assistance	-	103,784	-	103,784	-	-	147,925	1,891	149,816	-	-	139,601	-	139,601	
Capital Outlay	-	-	9,913	9,913	-	-	-	7,948	7,948	-	16,937	-	5,967	22,904	
Totals, Department of General Services	\$2,500	\$173,692	\$21,237	\$197,429	-	\$15,000	\$231,228	\$22,593	\$268,821	-	\$17,187	\$222,068	\$18,555	\$257,810	
CA Victim Compensation/Government Claim Bd															
State Operations	783	111,514	-	112,297	1,568	-	88,942	-	88,942	39,374	-	101,376	-	101,376	
State Personnel Board															
State Operations	3,862	-	-	3,862	-	3,910	-	-	3,910	-	3,878	-	-	3,878	
Local Assistance	1	-	-	1	-	1	-	-	1	-	1	-	-	1	
Totals, State Personnel Board	\$3,863	-	-	\$3,863	-	\$3,911	-	-	\$3,911	-	\$3,879	-	-	\$3,879	
TOTALS, STATE AND CONSUMER SERVICES	\$462,100	\$599,974	\$21,237	\$1,083,311	\$9,019	\$534,905	\$674,055	\$22,593	\$1,231,553	\$45,990	\$563,381	\$712,516	\$18,555	\$1,294,452	
State Operations	461,957	496,190	11,324	969,471	9,019	534,904	525,891	12,754	1,073,549	45,990	546,443	572,676	12,588	1,131,707	
Local Assistance	1	103,784	-	103,785	-	1	148,164	1,891	150,056	-	1	139,840	-	139,841	
Capital Outlay	142	-	9,913	10,055	-	-	-	7,948	7,948	-	16,937	-	5,967	22,904	
BUSINESS, TRANSPORTATION, AND HOUSING															
Business and Housing															
Sec for Business, Transport and Housing															
State Operations	439	1,372	-	1,811	-	6,550	1,442	-	7,972	978	5,305	1,189	-	6,494	
Dept of Alcoholic Beverage Control															
State Operations	-	37,697	-	37,697	-	-	42,187	-	42,187	-	-	42,263	-	42,263	
Local Assistance	-	1,500	-	1,500	-	-	1,500	-	1,500	-	-	1,500	-	1,500	
Totals, Dept of Alcoholic Beverage Control	-	\$39,197	-	\$39,197	-	-	\$43,687	-	\$43,687	-	-	\$43,763	-	\$43,763	
Alcoholic Beverage Control Appeals Board															
State Operations	-	813	-	813	-	-	916	-	916	-	-	968	-	968	
Department of Financial Institutions															
State Operations	-	20,366	-	20,366	-	-	23,017	-	23,017	-	-	23,074	-	23,074	
Dept of Corporations															
State Operations	-	26,077	-	26,077	-	-	28,855	-	28,855	-	-	31,079	-	31,079	
Dept of Housing & Community Development															
State Operations	4,669	20,341	153	25,163	7,107	4,929	22,383	349	27,661	7,803	4,889	22,786	366	28,041	
Local Assistance	10,732	75,000	58,396	144,128	133,779	9,291	25,000	24,325	58,616	173,450	8,427	25,000	24,325	158,600	
Totals, Dept of Housing & Community Development	\$15,401	\$95,341	\$58,549	\$169,291	\$140,886	\$14,220	\$47,383	\$24,674	\$86,277	\$181,253	\$13,316	\$47,786	\$24,691	\$85,793	
Office of Real Estate Appraisers															
State Operations	-	3,041	-	3,041	-	-	3,979	-	3,979	-	-	4,069	-	4,069	
Department of Real Estate															
State Operations	-	31,263	-	31,263	-	-	32,683	-	32,683	-	-	34,327	-	34,327	

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Department of Managed Health Care															
State Operations	-	35,001	-	35,001	-	-	36,252	-	36,252	-	-	35,920	-	35,920	-
Totals, Business and Housing	\$15,840	\$252,471	\$58,549	\$326,860	\$140,886	\$20,750	\$218,214	\$24,674	\$263,638	\$182,231	\$18,621	\$222,175	\$24,691	\$265,487	\$166,655
Transportation															
California Transportation Commission															
State Operations	-	2,189	9	2,198	-	-	1,617	83	1,700	-	-	2,051	88	2,139	-
Local Assistance	-	-	64,891	64,891	-	-	-	75,000	75,000	-	-	-	75,000	75,000	-
Totals, California Transportation Commission	-	\$2,189	\$64,900	\$67,089	-	-	\$1,617	\$75,083	\$76,700	-	-	\$2,051	\$75,088	\$77,139	-
Special Transportation Programs															
Local Assistance	-	104,606	-	104,606	-	-	117,365	-	117,365	-	-	137,257	-	137,257	-
Department of Transportation															
State Operations	-	2,079,689	12,823	2,092,512	443,544	-	2,388,497	21,688	2,410,185	564,478	-	2,431,877	16,380	2,448,257	584,859
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Aeronautics Program	-	2,012	-	2,012	-	-	4,308	-	4,308	-	-	9,350	-	9,350	-
Highway Transportation Program	-	228,727	-	228,727	875,674	-	190,879	-	190,879	1,656,573	-	150,323	-	150,323	904,689
Mass Transportation Program	-	310,212	-	310,212	26,300	-	15,185	-	15,185	60,421	-	273,320	-	273,320	37,690
Transportation Planning Program	-	15,710	-	15,710	43,700	-	7,000	-	7,000	46,000	-	8,000	-	8,000	46,000
State-Mandated Local Programs	-	-	-	-	-	-	1	-	1	-	-	-	-	-	-
Totals, Local Assistance	-	556,661	-	556,661	945,674	-	217,373	-	217,373	1,762,994	-	440,993	-	440,993	988,389
Capital Outlay	289,000	830,439	29,779	1,149,218	876,527	-	1,063,775	11,000	1,074,775	570,470	-	1,480,194	10,000	1,490,194	798,389
Unclassified	-	-	-	-	12,295	-	-	-	-	23,985	-	-	-	-	31,000
Totals, Department of Transportation	\$289,000	\$3,466,789	\$42,602	\$3,798,391	\$2,278,040	-	\$3,669,645	\$32,688	\$3,702,333	\$2,921,927	-	\$4,353,064	\$26,380	\$4,379,444	\$2,402,637
High-Speed Rail Authority															
State Operations	-	2,560	-	2,560	882	-	1,151	-	1,151	360	-	3,926	-	3,926	-
Office of Traffic Safety															
State Operations	-	319	-	319	68,457	-	405	-	405	58,103	-	409	-	409	58,134
Local Assistance	-	-	-	-	40,561	-	-	-	-	26,384	-	-	-	-	26,384
Totals, Office of Traffic Safety	-	\$319	-	\$319	\$109,018	-	\$405	-	\$405	\$84,487	-	\$409	-	\$409	\$84,518
Dept of the California Highway Patrol															
State Operations	-	1,169,900	-	1,169,900	10,318	-	1,284,000	-	1,284,000	13,585	-	1,338,844	-	1,338,844	13,859
Capital Outlay	-	8	-	8	-	-	3,249	-	3,249	-	-	10,237	-	10,237	-
Totals, Dept of the California Highway Patrol	-	\$1,169,908	-	\$1,169,908	\$10,318	-	\$1,287,249	-	\$1,287,249	\$13,585	-	\$1,349,081	-	\$1,349,081	\$13,859
Department of Motor Vehicles															
State Operations	462	697,986	-	698,448	33	-	729,643	-	729,643	-	-	742,280	-	742,280	-
Local Assistance	-	-	-	-	-	-	9,976	-	9,976	-	-	1,506	-	1,506	-
Capital Outlay	-	12,080	-	12,080	-	-	1,352	-	1,352	-	-	11,286	-	11,286	-
Totals, Department of Motor Vehicles	\$462	\$710,066	-	\$710,528	\$33	-	\$740,971	-	\$740,971	-	-	\$755,072	-	\$755,072	-
Totals, Transportation	\$289,462	\$5,456,437	\$107,502	\$5,853,401	\$2,398,291	-	\$5,818,403	\$107,771	\$5,926,174	\$3,020,359	-	\$6,800,860	\$101,468	\$6,702,328	\$2,501,014

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Statewide Distributed Costs															
General Obligation Bonds-BT&H	193,435	-	-	193,435	-	355,819	-	355,819	-	361,656	-	-	361,656	-	-
Totals, Statewide Distributed Costs	\$193,435	-	-	\$193,435	-	\$355,819	-	\$355,819	-	\$361,656	-	-	\$361,656	-	-
TOTALS, BUSINESS, TRANSPORTATION, AND HOUSING	\$498,737	\$5,708,908	\$166,051	\$6,373,696	\$2,539,177	\$376,569	\$6,036,617	\$132,445	\$6,545,631	\$380,277	\$6,823,035	\$126,159	\$7,329,471	\$2,667,669	-
State Operations	199,005	4,128,614	12,985	4,340,604	530,341	367,278	4,597,027	22,120	4,986,425	645,307	4,715,062	16,834	5,103,746	664,907	-
Local Assistance	10,732	737,767	123,287	871,786	1,120,014	9,291	371,214	99,325	479,630	1,962,828	606,256	99,325	714,008	1,173,373	-
Capital Outlay	289,000	842,527	29,779	1,161,306	876,527	-	1,068,376	11,000	1,079,376	570,470	1,501,717	10,000	1,511,717	798,389	-
Unclassified	-	-	-	-	12,295	-	-	-	-	23,985	-	-	-	31,000	-
TECHNOLOGY, TRADE, AND COMMERCE AGENCY															
Technology, Trade, and Commerce Agency															
State Operations	5,718	306	-	6,024	-	-	-	-	-	-	-	-	-	-	-
Local Assistance	-	-3,465	-	-3,465	18	-	-	-	-	-	-	-	-	-	-
Totals, Technology, Trade, and Commerce Agency	\$5,718	\$-3,159	-	\$2,559	\$18	-	-	-	-	-	-	-	-	-	-
TOTALS, TECHNOLOGY, TRADE, AND COMMERCE AGENCY	\$5,718	\$-3,159	-	\$2,559	\$18	-	-	-	-	-	-	-	-	-	-
State Operations	5,718	306	-	6,024	-	-	-	-	-	-	-	-	-	-	-
Local Assistance	-	-3,465	-	-3,465	18	-	-	-	-	-	-	-	-	-	-
RESOURCES															
Secretary for Resources															
State Operations	-	2,302	95,351	97,653	56	-	12,750	8,564	21,314	269	-	3,069	4,288	7,357	184
Local Assistance	-	-	50,178	50,178	-	-	-	50,326	50,326	-	-	-	50,000	50,000	-
Totals, Secretary for Resources	-	\$2,302	\$145,529	\$147,831	\$56	-	\$12,750	\$58,890	\$71,640	\$269	-	\$3,069	\$54,288	\$57,357	\$184
Special Resources Program															
State Operations	-	200	-	200	-	-	200	-	200	-	205	-	-	205	-
Local Assistance	-	4,168	-	4,168	-	-	4,071	-	4,071	-	4,354	-	-	4,354	-
Totals, Special Resources Program	-	\$4,368	-	\$4,368	-	-	\$4,271	-	\$4,271	-	\$4,559	-	-	\$4,559	-
California Tahoe Conservancy															
State Operations	-	2,802	828	3,630	-	-	3,130	1,136	4,266	-	3,388	1,155	4,543	-	-
Local Assistance	-	-	9,365	9,365	-	-	713	13,655	14,368	-	-	12,000	12,000	-	-
Capital Outlay	63	1,244	11,115	12,422	-	-	1,305	17,716	19,021	-	1,154	7,123	8,277	-	-
Totals, California Tahoe Conservancy	\$63	\$4,046	\$21,308	\$25,417	-	-	\$5,148	\$32,507	\$37,655	-	\$4,542	\$20,278	\$24,820	-	-
California Conservation Corps															
State Operations	35,402	24,889	1,728	62,019	-	23,749	30,027	1,857	55,633	-	32,343	1,229	57,702	-	-
Local Assistance	-	-	6,382	6,382	-	-	-	6,553	6,553	-	-	-	2,169	-	-
Capital Outlay	481	-	-	481	-	-	-	-	-	-	-	-	-	-	-
Totals, California Conservation Corps	\$35,883	\$24,889	\$8,110	\$68,882	-	\$23,749	\$30,027	\$8,410	\$62,186	-	\$32,343	\$3,398	\$59,871	-	-
Energy Resources Conservation & Dev Com															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04						Estimated 2004-05						Proposed 2005-06					
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds			
State Operations	-4,253	273,503	-	269,250	7,925	-	358,554	-	358,554	9,108	-	298,207	-	298,207	8,911			
Local Assistance	-	6,892	-	6,892	-	-	4,198	-	4,198	-	-	3,819	-	3,819	-			
Totals, Energy Resources Conservation & Dev Co	\$-4,253	\$280,395	-	\$276,142	\$7,925	-	\$362,752	-	\$362,752	\$9,108	-	\$302,026	-	\$302,026	\$8,911			
Renewable Resources Investment Program																		
State Operations	-	3,248	-	3,248	-	-	2,000	-	2,000	-	-	2,000	-	2,000	-			
Colorado River Board of California	-	-	14	-	-	-	-	-	-	-	-	-	-	-	-			
State Operations	-	-	14	-	-	-	-	-	-	-	-	-	-	-	-			
Department of Conservation																		
State Operations	4,920	660,382	626	665,928	1,074	3,969	914,744	1,717	920,430	1,713	4,865	879,467	1,637	885,969	1,730			
Local Assistance	30	-	7,275	7,305	-	-	-	33,967	33,967	-	-	-	17,944	17,944	-			
Totals, Department of Conservation	\$4,950	\$660,382	\$7,901	\$673,233	\$1,074	\$3,969	\$914,744	\$35,684	\$954,397	\$1,713	\$4,865	\$879,467	\$19,581	\$903,913	\$1,730			
Dept of Forestry and Fire Protection																		
State Operations	457,265	60,509	1,265	519,039	71,862	510,975	8,780	8,204	527,959	33,030	524,835	8,683	8,121	541,639	31,309			
Local Assistance	-	-	1,168	1,168	-	-	-	1,175	1,175	-	-	-	1,175	1,175	-			
Capital Outlay	951	-	-	951	-	2,890	-	-	2,890	1,709	5,804	-	-	5,804	-			
Totals, Dept of Forestry and Fire Protection	\$458,216	\$60,509	\$2,433	\$521,158	\$71,862	\$513,865	\$8,780	\$9,379	\$532,024	\$34,739	\$530,639	\$8,683	\$9,296	\$548,618	\$31,309			
State Lands Commission																		
State Operations	8,095	8,827	-	16,922	-	9,094	10,186	-	19,280	-	8,801	10,897	-	19,698	-			
Department of Fish and Game																		
State Operations	35,222	125,458	9,482	170,162	43,273	37,206	150,857	73,621	261,684	64,032	36,748	142,102	9,252	188,102	66,656			
Local Assistance	427	769	-	1,196	-	618	933	-	1,551	-	559	957	-	1,516	-			
Capital Outlay	-	775	465	1,240	14	15	1,300	203	1,518	1,230	-	-	-	-	-			
Totals, Department of Fish and Game	\$35,649	\$127,002	\$9,947	\$172,598	\$43,287	\$37,839	\$153,090	\$73,824	\$264,753	\$65,262	\$37,307	\$143,059	\$9,252	\$189,618	\$66,656			
Wildlife Conservation Board																		
State Operations	137	1,154	1,638	2,929	-	200	1,691	4,153	6,044	-	197	1,769	4,153	6,119	-			
Capital Outlay	7,900	-18,255	476,880	466,525	-	-	33,309	693,964	727,273	-	-	4,451	17,645	22,096	-			
Totals, Wildlife Conservation Board	\$8,037	\$-17,101	\$478,518	\$469,454	-	\$200	\$35,000	\$698,117	\$733,317	-	\$197	\$6,220	\$21,798	\$28,215	-			
Department of Boating & Waterways																		
State Operations	-	-	-	-	3,827	-	-	-	-	6,350	-	-	-	-	5,893			
Local Assistance	-	4,999	-	4,999	2,555	-	500	-	500	3,077	-	500	-	500	2,218			
Totals, Department of Boating & Waterways	-	\$4,999	-	\$4,999	\$6,382	-	\$500	-	\$500	\$9,427	-	\$500	-	\$500	\$8,111			
California Coastal Commission																		
State Operations	9,546	394	-	9,940	3,084	9,797	573	-	10,370	3,020	9,801	582	-	10,383	3,032			
Local Assistance	-87	740	-	653	-	789	-	-	789	-	-	778	-	778	-			
Totals, California Coastal Commission	\$9,459	\$1,134	-	\$10,593	\$3,084	\$9,797	\$1,362	-	\$11,159	\$3,020	\$9,801	\$1,360	-	\$11,161	\$3,032			
State Coastal Conservancy																		
State Operations	-	-	3,692	3,692	18	-	-	2,933	2,933	123	-	1,200	2,971	4,171	125			

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04					Estimated 2004-05					Proposed 2005-06				
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Capital Outlay	-	1,076	90,238	91,314	2,076	-	12,925	233,981	246,886	4,292	-	850	54,277	55,127	2,000
Totals, State Coastal Conservancy	-	\$1,076	\$93,930	\$95,006	\$2,094	-	\$12,925	\$236,894	\$249,819	\$4,415	-	\$2,050	\$57,248	\$59,298	\$2,125
Native American Heritage Commission															
State Operations	429	-	-	429	-	536	-	-	536	-	-	-	-	532	-
Department of Parks and Recreation															
State Operations	97,291	135,723	19,348	252,362	3,520	86,768	166,447	26,721	279,936	3,613	100,976	173,372	22,672	297,020	3,652
Local Assistance	-	27,693	490,387	518,080	7,826	-	23,892	377,412	401,304	59,862	-	22,592	835	23,427	20,400
Capital Outlay	33	6,214	78,135	84,382	2,025	-	65,087	208,815	273,902	7,477	-	12,345	29,298	41,643	5,000
Totals, Department of Parks and Recreation	\$97,324	\$169,630	\$587,870	\$854,824	\$13,371	\$86,768	\$255,426	\$612,948	\$955,142	\$70,952	\$100,976	\$208,309	\$52,805	\$362,090	\$29,052
Santa Monica Mountains Conservancy															
State Operations	-	267	400	667	-	-	206	447	653	-	-	267	450	717	-
Capital Outlay	-	-	16,301	16,301	-	-	-	29,014	29,014	-	-	-	9,500	9,500	-
Totals, Santa Monica Mountains Conservancy	-	\$267	\$16,701	\$16,968	-	-	\$206	\$29,461	\$29,667	-	-	\$267	\$9,950	\$10,217	-
San Francisco Bay Conserv & Develop Comm															
State Operations	3,030	-	-	3,030	-	3,206	-	-	3,206	-	-	-	-	3,204	-
San Gabriel/Lower LA Rivers/Mnts Consv															
State Operations	-	263	367	630	-	-	33	752	785	-	-	283	232	515	-
Capital Outlay	-	-	34,325	34,325	-	-	-	12,400	12,400	-	-	-	4,500	4,500	-
Totals, San Gabriel/Lower LA Rivers/Mnts Consv	-	\$263	\$34,692	\$34,955	-	-	\$33	\$13,152	\$13,185	-	-	\$283	\$4,732	\$5,015	-
San Joaquin River Conservancy															
State Operations	-	193	-	193	-	-	250	109	359	-	-	264	110	374	-
Baldwin Hills Conservancy															
State Operations	-	245	-	245	-	-	302	104	406	-	-	311	106	417	-
Capital Outlay	-	-	3,774	3,774	-	-	-	25,406	25,406	-	-	-	8,648	8,648	-
Totals, Baldwin Hills Conservancy	-	\$245	\$3,774	\$4,019	-	-	\$302	\$25,510	\$25,812	-	-	\$311	\$8,754	\$9,065	-
Delta Protection Commission															
State Operations	-	134	-	134	-	-	145	-	145	-	-	151	-	151	-
San Diego River Conservancy															
State Operations	-	44	-	44	-	-	490	-	490	-	-	274	-	274	-
Coachella Valley Mountains Conservancy															
State Operations	-	230	-	230	-	-	300	103	403	-	-	287	-	287	-
Capital Outlay	-	-	7,688	7,688	-	-	-	10,487	10,487	-	-	-	218	218	-
Totals, Coachella Valley Mountains Conservancy	-	\$230	\$7,688	\$7,918	-	-	\$300	\$10,590	\$10,890	-	-	\$287	\$218	\$505	-
Sierra Nevada Conservancy															
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	3,357	-
Department of Water Resources															
State Operations	46,037	8,938	80,263	135,238	3,634	29,993	9,785	115,609	155,387	11,430	37,151	9,857	135,879	182,887	11,900

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04						Estimated 2004-05						Proposed 2005-06					
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds			
Local Assistance	-	38,766	79,659	118,425	-	-	-	191,527	191,527	59,100	-	-	151,262	210,362				
Capital Outlay	14,469	-	14	14,483	-	13,036	-	12,885	25,921	16,700	-	-	26,600	43,300				
Totals, Department of Water Resources	\$60,506	\$47,704	\$159,936	\$268,146	\$3,634	\$43,029	\$9,785	\$320,021	\$372,835	\$11,430	\$9,857	\$313,741	\$436,549	\$11,900				
California Bay-Delta Authority																		
State Operations	8,195	-	22,751	30,946	-	8,437	-	135,136	143,573	5,000	-	11,151	19,673	-				
General Obligation Bonds-Resources																		
State Operations	224,806	-	-	224,806	-	326,763	-	-	326,763	427,903	-	-	427,903	-				
TOTALS, RESOURCES	\$950,389	\$1,384,800	\$1,601,088	\$3,936,277	\$152,769	\$1,067,272	\$1,820,472	\$2,300,632	\$5,188,376	\$215,335	\$1,624,135	\$596,600	\$3,490,563	\$163,010				
State Operations	926,122	1,309,719	237,739	2,473,580	138,273	1,050,713	1,671,450	381,166	3,103,329	137,688	1,572,335	203,406	2,963,406	133,392				
Local Assistance	370	84,027	644,414	728,811	10,381	618	35,096	674,615	710,329	62,939	33,000	235,385	328,044	22,618				
Capital Outlay	23,897	-8,946	718,935	733,886	4,115	15,941	113,926	1,244,851	1,374,718	14,708	18,800	157,809	199,113	7,000				
CALIF ENVIRONMENTAL PROTECTION AGENCY																		
Secretary for Environmental Protection																		
State Operations	1,325	2,804	-	4,129	-	1,325	2,740	-	4,065	-	3,816	-	5,137	-				
State Air Resources Board																		
State Operations	4,412	104,028	23,000	131,440	5,443	2,224	139,090	-	141,314	11,826	208,022	-	210,233	12,006				
Local Assistance	-	10,636	-	10,636	-	-	10,111	-	10,111	-	10,111	-	10,111	-				
Totals, State Air Resources Board	\$4,412	\$114,664	\$23,000	\$142,076	\$5,443	\$2,224	\$149,201	-	\$151,425	\$11,826	\$218,133	-	\$220,344	\$12,006				
CA Integrated Waste Management Board																		
State Operations	-	79,153	78	79,231	15	-	120,162	140	120,302	-	165,332	142	165,474	-				
Local Assistance	-	25,944	-	25,944	-	-	25,799	-	25,799	-	24,379	-	24,379	-				
Totals, CA Integrated Waste Management Board	-	\$105,097	\$78	\$105,175	\$15	-	\$145,961	\$140	\$146,101	-	\$189,711	\$142	\$189,853	-				
Department of Pesticide Regulation																		
State Operations	1,813	35,696	-	37,509	2,206	-	41,466	-	41,466	2,167	42,603	-	42,603	2,194				
Local Assistance	2,881	12,095	-	14,976	-	1	16,006	-	16,007	-	16,778	-	16,778	-				
Totals, Department of Pesticide Regulation	\$4,694	\$47,791	-	\$52,485	\$2,206	\$1	\$57,472	-	\$57,473	\$2,167	\$59,381	-	\$59,381	\$2,194				
State Water Resources Control Board																		
State Operations	34,992	304,273	6,812	346,077	29,584	27,883	320,470	12,942	361,295	37,163	351,177	13,565	393,978	38,532				
Local Assistance	-	-	160,365	160,365	42,451	-	504,781	504,781	504,781	90,000	-	164,727	164,727	90,000				
Totals, State Water Resources Control Board	\$34,992	\$304,273	\$167,177	\$506,442	\$72,035	\$27,883	\$320,470	\$517,723	\$866,076	\$127,163	\$351,177	\$178,292	\$559,705	\$128,532				
Department of Toxic Substances Control																		
State Operations	14,395	99,803	545	114,743	20,443	20,172	118,679	-	138,851	21,691	119,865	-	138,051	24,948				
Capital Outlay	-	-	-	-	-	900	-	-	900	-	-	-	-	-				
Totals, Department of Toxic Substances Control	\$14,395	\$99,803	\$545	\$114,743	\$20,443	\$21,072	\$118,679	-	\$139,751	\$21,691	\$119,865	-	\$138,051	\$24,948				
Ofc of Environmental Health Hazard Asmt																		
State Operations	8,189	2,680	-	10,869	12	7,692	5,117	-	12,809	345	5,308	-	13,160	-				
General Obligation Bonds-Environmental																		

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
State Operations	13,378	-	-	13,378	-	13,365	-	-	13,365	-	10,097	-	-	10,097	-
TOTALS, CALIF ENVIRONMENTAL PROTECTION AGENCY	\$81,385	\$677,112	\$190,800	\$949,297	\$100,154	\$73,562	\$799,640	\$517,863	\$1,391,065	\$163,192	\$68,903	\$947,391	\$178,434	\$1,194,728	\$167,680
State Operations	78,504	628,437	30,435	737,376	57,703	72,661	747,724	13,082	833,467	73,192	68,903	896,123	13,707	978,733	77,680
Local Assistance	2,881	48,675	160,365	211,921	42,451	1	51,916	504,781	556,698	90,000	-	51,268	164,727	215,995	90,000
Capital Outlay	-	-	-	-	-	900	-	-	900	-	-	-	-	-	-
HEALTH AND HUMAN SERVICES															
Secretary for Cal Health & Human Serv Ag															
State Operations	1,796	-	-	1,796	-	4,884	364	-	5,248	-	4,933	364	-	5,297	-
State Council Developmental Disabilities															
State Operations	-	-	-	-	7,608	-	-	-	-	6,888	-	-	-	-	6,995
Emergency Medical Services Authority															
State Operations	952	1,348	-	2,300	1,726	992	1,475	-	2,467	1,805	991	1,594	-	2,585	1,730
Local Assistance	9,784	-	-	9,784	796	9,786	-	-	9,786	2,004	9,786	-	-	9,786	1,004
Totals, Emergency Medical Services Authority	\$10,736	\$1,348	-	\$12,084	\$2,522	\$10,778	\$1,475	-	\$12,253	\$3,809	\$10,777	\$1,594	-	\$12,371	\$2,734
Ofc Statewide Health Planning-Developmnt															
State Operations	361	40,463	-	40,824	226	-	47,586	-	47,586	285	117	47,868	-	47,985	241
Local Assistance	4,345	991	-	5,336	989	131	3,931	-	4,062	1,060	1,965	1,966	-	3,931	1,000
Totals, Ofc Statewide Health Planning-Developmn	\$4,706	\$41,454	-	\$46,160	\$1,215	\$131	\$51,517	-	\$51,648	\$1,345	\$2,082	\$49,834	-	\$51,916	\$1,241
Department of Aging															
State Operations	3,103	154	-	3,257	6,285	3,703	199	-	3,902	7,444	3,755	200	-	3,955	7,625
Local Assistance	31,439	1,417	-	32,856	133,010	31,452	1,580	-	33,032	135,878	31,452	1,580	-	33,032	135,171
Totals, Department of Aging	\$34,542	\$1,571	-	\$36,113	\$139,295	\$35,155	\$1,779	-	\$36,934	\$143,322	\$35,207	\$1,780	-	\$36,987	\$142,796
Commission on Aging															
State Operations	-	-	-	-	231	-	-	-	-	421	-	-	-	-	325
Department of Alcohol and Drug Programs															
State Operations	5,288	4,081	-	9,369	18,405	5,403	7,549	-	12,952	25,012	5,195	7,822	-	13,017	24,931
Local Assistance	227,894	-3,281	-	224,613	254,648	233,375	-3,586	-	229,789	265,583	237,435	-3,486	-	233,949	265,667
Totals, Department of Alcohol and Drug Program	\$233,182	\$800	-	\$233,982	\$273,053	\$238,778	\$3,963	-	\$242,741	\$290,595	\$242,630	\$4,336	-	\$246,966	\$290,598
CA Children & Families Commission															
State Operations	-	3,805	-	3,805	-	-	5,761	-	5,761	-	-	5,574	-	5,574	-
Local Assistance	-	605,601	-	605,601	-	-	730,475	-	730,475	-	-	557,858	-	557,858	-
Totals, CA Children & Families Commission	-	\$609,406	-	\$609,406	-	-	\$736,236	-	\$736,236	-	-	\$563,432	-	\$563,432	-
Department of Health Services															
State Operations	230,224	161,817	197	392,238	349,566	260,655	191,812	2,301	454,768	472,004	284,213	190,705	2,468	457,386	479,580
Local Assistance															
Public Health Services	166,284	87,068	21,000	274,352	359,680	169,060	169,217	107,951	446,228	338,094	195,811	167,631	107,951	471,393	337,800

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Medical Assistance Program	10,128,995	61,675	-	10,190,570	16,876,121	12,201,687	119,119	-	12,320,806	20,614,983	13,187,472	106,743	-	13,294,215	20,170,307
State Mandated Local Programs	4	-	-	4	-	4	-	-	4	-	3,761	-	-	3,761	-
Totals, Local Assistance	10,295,183	148,743	21,000	10,464,926	17,235,801	12,370,751	288,336	107,951	12,767,038	20,953,077	13,387,044	274,374	107,951	13,769,369	20,508,107
Totals, Department of Health Services	\$1,525,407	\$310,560	\$21,197	\$10,857,164	\$17,585,387	\$12,631,406	\$480,148	\$110,252	\$13,221,806	\$21,425,081	\$13,651,257	\$465,079	\$110,419	\$14,226,755	\$20,987,687
California Medical Assistance Commission	1,034	-	-	1,034	-	1,195	-	-	1,195	-	1,207	-	-	1,207	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Managed Risk Medical Insurance Board															
State Operations	1,495	1,951	-	3,446	3,104	1,650	1,805	-	3,455	3,878	2,235	1,759	-	3,994	4,995
Local Assistance	283,517	123,105	-	406,622	488,444	324,650	69,684	-	394,334	570,965	353,674	58,492	-	412,166	615,034
Totals, Managed Risk Medical Insurance Board	\$285,012	\$125,056	-	\$410,068	\$491,548	\$326,300	\$71,489	-	\$397,789	\$574,843	\$355,909	\$60,251	-	\$416,160	\$620,029
Department of Developmental Services	372,904	331	-	373,235	2,758	410,570	297	-	410,867	2,797	397,298	268	-	397,566	2,810
State Operations	1,582,052	1,100	-	1,583,152	49,155	1,804,000	1,500	-	1,805,500	51,111	1,947,126	2,000	-	1,949,126	52,920
Local Assistance	\$1,954,956	\$1,431	-	\$1,956,387	\$51,913	\$2,214,570	\$1,797	-	\$2,216,367	\$53,908	\$2,344,424	\$2,268	-	\$2,346,692	\$55,730
Department of Mental Health	587,777	270	-	588,047	3,464	661,144	16,936	-	678,080	3,602	725,977	20,659	-	746,636	3,532
State Operations	306,071	1,219	-	307,290	62,360	303,896	1,219	-	305,115	58,270	317,115	892	-	318,007	58,404
Local Assistance	325	-	-	325	-	429	-	-	429	-	5,437	-	-	5,437	-
Capital Outlay	\$894,173	\$1,489	-	\$895,662	\$65,824	\$965,469	\$18,155	-	\$963,624	\$61,872	\$1,048,529	\$21,551	-	\$1,070,080	\$61,936
Totals, Department of Mental Health															
Dept of Community Services & Development	114	-	-	114	8,376	75	-	-	75	10,661	-	-	-	9,914	-
State Operations	103	-	-	103	148,371	1,425	-	-	1,425	160,698	-	-	-	158,383	-
Local Assistance	\$217	-	-	\$217	\$156,747	\$1,500	-	-	\$1,500	\$171,359	-	-	-	\$168,297	-
Department of Rehabilitation	45,625	-	-	45,625	260,633	43,348	-	-	43,348	271,886	44,198	-	-	44,198	273,836
State Operations	98,421	-	-	98,421	16,921	-	-	-	-	15,736	-	-	-	-	15,736
Local Assistance	\$144,046	-	-	\$144,046	\$277,554	\$43,348	-	-	\$43,348	\$287,622	\$44,198	-	-	\$44,198	\$289,572
Department of Child Support Services	30,375	-	-	30,375	70,613	36,267	-	-	36,267	88,192	37,506	-	-	37,506	90,820
State Operations	432,646	-	-	432,646	392,477	266,375	-	-	266,375	416,373	470,649	-	-	470,649	478,152
Local Assistance	\$463,021	-	-	\$463,021	\$463,090	\$302,642	-	-	\$302,642	\$504,565	\$508,155	-	-	\$508,155	\$568,972
Totals, Department of Child Support Services															
Department of Social Services	88,146	2,965	-	91,111	300,856	81,355	27,053	-	108,408	333,934	74,947	27,586	-	102,533	337,532
State Operations	2,063,632	-	-	2,063,632	3,083,504	2,145,521	-	-	2,145,521	3,091,823	1,940,257	-	-	1,940,257	2,916,366
Local Assistance	695,737	494	-	696,231	686,024	738,624	351	-	738,975	820,586	715,819	442	-	716,261	870,430
CalWorks	3,123,465	-	-	3,123,465	238,123	3,444,020	-	-	3,444,020	-	3,523,082	-	-	3,523,082	-
Other Assistance Payments															
SSI/SSP															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
County Admin and Automation Projects	414,969	-	-	414,969	576,588	408,398	-	-	408,398	580,011	402,803	-	-	402,803	550,107
IHSS	1,090,926	-	-	1,090,926	102,490	1,183,561	-	-	1,183,561	-	1,023,691	-	-	1,023,691	-
Children & Adult Services and Licensing	664,676	683	-	665,359	1,225,171	758,653	990	-	759,643	1,267,926	772,134	1,161	-	773,295	1,345,874
Other Programs	64,851	-	-	64,851	18,121	3,273	-	-	3,273	18,526	3,304	-	-	3,304	18,526
Totals, Local Assistance	8,118,256	1,177	-	8,119,433	5,830,021	8,682,050	1,341	-	8,683,391	5,778,872	8,381,090	1,603	-	8,382,693	5,701,303
Totals, Department of Social Services	\$8,206,402	\$4,142	-	\$8,210,544	\$6,230,877	\$8,763,405	\$28,394	-	\$8,791,799	\$6,112,806	\$8,456,037	\$29,189	-	\$8,485,226	\$6,038,835
State-Local Realignment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance	-	2,964,188	-	2,964,188	-	-	4,135,638	-	4,135,638	-	-	4,362,896	-	4,362,896	-
General Obligation Bonds-H&HS	3,005	-	-	3,005	-	2,825	-	-	2,825	-	2,648	-	-	2,648	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Adjustments-H&HS	-	-	-	-	-	241	-	-	241	-	-	-	-	-	-
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTALS, HEALTH AND HUMAN SERVICES	\$22,762,235	\$4,061,445	\$21,197	\$26,844,877	\$25,746,864	\$25,542,627	\$5,530,955	\$110,252	\$31,183,834	\$29,638,436	\$26,707,993	\$5,562,574	\$110,419	\$32,380,986	\$29,235,747
State Operations	1,372,199	217,185	197	1,589,581	1,033,871	1,514,066	300,837	2,301	1,817,204	1,228,809	1,565,220	304,399	2,468	1,872,087	1,244,866
Local Assistance	21,389,711	3,844,280	21,000	25,254,971	24,712,993	24,028,132	5,230,118	107,951	29,366,201	28,409,627	25,137,336	5,258,175	107,951	30,503,462	27,990,881
Capital Outlay	325	-	-	325	-	429	-	-	429	-	5,437	-	-	5,437	-
YOUTH AND ADULT CORRECTIONAL AGENCY															
Sec for Youth and Adult Corrections															
State Operations	873	-	-	873	-	2,801	-	-	2,801	-	2,773	-	-	2,773	-
Office of the Inspector General	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	4,698	-	-	4,698	-	8,859	-	-	8,859	-	8,843	-	-	8,843	-
CA Department of Corrections															
State Operations	4,782,340	-	-	4,782,340	792,182	6,069,742	-	-	6,069,742	2,619	6,317,587	-	-	6,317,587	2,658
Local Assistance															
Transportation of Prisoners	152	-	-	152	-	278	-	-	278	-	278	-	-	278	-
Returning Fugitives	2,593	-	-	2,593	-	2,593	-	-	2,593	-	2,593	-	-	2,593	-
Court Costs	2,556	-	-	2,556	-	-	-	-	-	-	-	-	-	-	-
County Charges	9,705	-	-	9,705	-	20,247	-	-	20,247	-	17,172	-	-	17,172	-
Asst to Counties for Detentin of Parolees	32,138	-	-	32,138	62,300	26,931	-	-	26,931	-	32,138	-	-	32,138	-
State Mandated Local Programs	1	-	-	1	-	1	-	-	1	-	-	-	-	-	-
Totals, Local Assistance	47,145	-	-	47,145	62,300	50,050	-	-	50,050	-	52,181	-	-	52,181	-
Capital Outlay	2,501	-	9,271	11,772	-	36,661	-	1,791	38,452	-	18,325	-	-	18,325	-
Totals, CA Department of Corrections	\$4,831,986	-	\$9,271	\$4,841,257	\$654,482	\$6,156,453	-	\$1,791	\$6,158,244	\$2,619	\$6,388,093	-	-	\$6,388,093	\$2,658
Board of Corrections															
State Operations	3,648	2,241	-	5,889	877	2,875	2,496	-	5,371	1,881	2,968	2,486	-	5,454	3,050
Local Assistance	17,370	-	-	17,370	148,231	135,023	-	-	135,023	39,554	26,584	-	-	26,584	37,669
Totals, Board of Corrections	\$21,018	\$2,241	-	\$23,259	\$149,108	\$137,898	\$2,496	-	\$140,394	\$41,435	\$29,552	\$2,486	-	\$32,038	\$40,719

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04						Estimated 2004-05						Proposed 2005-06					
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds		General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds		General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	
Board of Prison Terms																		
State Operations	24,886	-	-	24,886	-	70,926	-	-	70,926	-	-	-	72,771	-	-	72,771	-	
Youthful Offender Parole Board																		
State Operations	1,585	-	-	1,585	-	-	-	-	-	-	-	-	-	-	-	-	-	
Department of the Youth Authority																		
State Operations	358,119	-	-	358,119	1,074	351,377	-	-	351,377	2,233	-	347,639	-	-	-	347,639	1,568	
Local Assistance																		
Transportation of Wards	8	-	-	8	-	78	-	-	78	-	-	78	-	-	-	78	-	
Asst to Counties for Detenn of Parolees	795	-	-	795	-	1,403	-	-	1,403	-	-	1,403	-	-	-	1,403	-	
County Assistance for Youth Shelters	52	-	-	52	-	2,230	-	-	2,230	-	-	-	-	-	-	-	-	
Proud Parenting Program	-	-	-	-	-	850	-	-	850	-	-	850	-	-	-	850	-	
Totals, Local Assistance	855	-	-	855	-	4,561	-	-	4,561	-	-	2,331	-	-	-	2,331	-	
Capital Outlay	4,338	-	-	4,338	-	2,750	-	2,000	4,750	-	-	3,604	-	-	-	3,604	-	
Totals, Department of the Youth Authority	\$363,312	-	-	\$363,312	\$1,074	\$356,688	-	\$2,000	\$360,688	\$2,233	-	\$353,574	-	-	-	\$353,574	\$1,568	
Correctional Peace Officer Standards/Trg																		
State Operations	1,023	-	-	1,023	-	1,132	-	-	1,132	-	-	1,138	-	-	-	1,138	-	
Federal Immigration Funding-Incarceratn																		
State Operations	-74,563	-	-	-74,563	74,563	-78,919	-	-	-78,919	78,919	-	-78,510	-	-	-	-78,510	78,510	
General Obligation Bonds-YAC																		
State Operations	214,213	-	-	214,213	-	275,365	-	-	275,365	-	-	235,953	-	-	-	235,953	-	
TOTALS, YOUTH AND ADULT CORRECTIONAL AGENCY	\$5,389,031	\$2,241	\$9,271	\$5,400,543	\$1,079,227	\$6,933,203	\$2,496	\$3,791	\$6,939,490	\$125,206	\$2,486	\$7,014,187	\$2,486	\$7,016,673	\$123,455	\$7,016,673	\$123,455	
State Operations	5,316,822	2,241	-	5,319,063	868,696	6,704,158	2,496	-	6,706,654	85,652	2,486	6,911,162	2,486	6,913,648	85,786	6,913,648	85,786	
Local Assistance	65,370	-	-	65,370	210,531	189,634	-	-	189,634	39,554	-	81,096	-	81,096	37,669	81,096	37,669	
Capital Outlay	6,839	-	9,271	16,110	-	39,411	-	3,791	43,202	-	-	21,929	-	21,929	-	21,929	-	
EDUCATION																		
K thru 12 Education																		
Office of the Secretary for Education																		
State Operations	1,684	-	-	1,684	-	1,636	-	-	1,636	-	-	1,627	-	-	-	1,627	-	
Local Assistance	-248	-	-	-248	-	-	-	-	-	-	-	-	-	-	-	-	-	
Totals, Office of the Secretary for Education	\$1,436	-	-	\$1,436	-	\$1,636	-	-	\$1,636	-	-	\$1,627	-	-	-	\$1,627	-	
Scholarshare Investment Board																		
State Operations	1,053	-	-	1,053	-	1,092	-	-	1,092	-	-	1,100	-	-	-	1,100	-	
Department of Education																		
Department of Education																		
State Operations	113,109	1,909	1,922	116,940	104,157	118,647	2,159	2,482	123,288	145,047	119,888	124,575	2,177	2,510	124,575	146,050	146,050	
Local Assistance																		
Adult Education	536,850	-	-	536,850	80,573	563,533	-	-	563,533	81,715	600,322	600,322	-	-	600,322	81,715	81,715	

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04					Estimated 2004-05					Proposed 2005-06				
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Appointments - District and County	15,920,453	9,186	-	15,929,639	-	19,545,949	9,186	-	19,555,135	-	20,912,845	9,186	-	20,922,031	-
Child Development	1,159,841	-	-	1,159,841	1,127,662	1,477,011	-	-	1,477,011	1,037,216	1,450,126	-	-	1,450,126	1,088,865
Child Nutrition	84,734	-	-	84,734	1,399,389	90,838	-	-	90,838	1,616,804	96,990	-	-	96,990	1,616,804
Categorical Programs	7,295,142	19,199	-	7,314,341	2,805,462	7,026,002	22,655	-	7,048,657	3,102,418	7,317,901	26,668	-	7,344,569	2,951,835
Pupil Assessment	85,852	-	-	85,852	28,851	81,645	-	-	81,645	43,389	85,864	-	-	85,864	31,278
Special Education	2,686,728	-	-	2,686,728	950,750	2,718,608	-	-	2,718,608	1,090,974	2,891,271	-	-	2,891,271	1,153,212
State-Mandated Local Programs	36	-	-	36	-	39	-	-	39	-	36	-	-	36	-
Totals, Local Assistance	27,769,636	28,385	-	27,798,021	6,392,687	31,503,625	31,841	-	31,535,466	6,972,516	33,355,355	35,854	-	33,391,209	6,923,709
Capital Outlay	-	-	-	-	-	-	-	-	-	-	470	-	-	470	-
Totals, Department of Education	\$27,882,745	\$30,294	\$1,922	\$27,914,961	\$6,496,844	\$31,622,272	\$34,000	\$2,482	\$31,658,754	\$7,117,563	\$33,475,713	\$38,031	\$2,510	\$33,516,254	\$7,089,759
California State Library															
State Operations	11,940	383	4,527	16,860	5,969	12,937	615	4,469	18,021	6,336	13,057	551	4,532	18,140	6,545
Local Assistance	37,003	40	126,670	163,713	12,518	35,610	441	-	36,051	12,518	32,298	441	-	32,739	12,518
Totals, California State Library	\$48,943	\$433	\$131,197	\$180,573	\$18,487	\$48,547	\$1,056	\$4,469	\$54,072	\$18,854	\$45,355	\$992	\$4,532	\$50,879	\$19,063
Education Audit Appeals Panel															
State Operations	587	-	-	587	-	1,372	-	-	1,372	-	1,285	-	-	1,285	-
CA State Summer School for the Arts															
State Operations	756	-	-	756	-	764	-	-	764	-	793	-	-	793	-
Contributions to Teachers Retirement Sys															
Local Assistance	509,763	-	-	509,763	-	1,148,792	-	-	1,148,792	-	581,367	-	-	581,367	-
Retirement Costs for Community Colleges															
Local Assistance	-40,271	-	-	-40,271	-	-98,337	-	-	-98,337	-	-79,831	-	-	-79,831	-
CA Occupational Info Coordinating Comm															
State Operations	-	-	-	-	326	-	-	-	-	322	-	-	-	-	325
School Facilities Aid Program															
Local Assistance	-	-801	4,018,849	4,018,048	-	-	-837	10,619,464	10,618,627	-	-	-428	89,084	88,656	-
Commission on Teacher Credentialing															
State Operations	-	26,225	-	26,225	70	-	24,496	-	24,496	147	-	25,196	-	25,196	-
Local Assistance	37,640	-	-	37,640	378	35,314	-	-	35,314	-	31,814	-	-	31,814	-
Totals, Commission on Teacher Credentialing	\$37,640	\$26,225	-	\$63,865	\$448	\$35,314	\$24,496	-	\$59,810	\$147	\$31,814	\$25,196	-	\$57,010	-
General Obligation Bonds-K-12															
State Operations	890,093	-	-	890,093	-	1,674,073	-	-	1,674,073	-	1,825,171	-	-	1,825,171	-
Totals, K thru 12 Education	\$29,332,745	\$56,151	\$4,151,968	\$33,540,864	\$6,516,105	\$34,435,525	\$58,715	\$10,626,415	\$45,120,655	\$7,136,886	\$35,884,394	\$63,791	\$96,126	\$36,044,311	\$7,089,147
Higher Education-Community Colleges															
Bd of Governors of Calif Comm Colleges															
State Operations	8,647	-	1,170	9,817	-	8,917	-	1,408	10,325	-	8,814	-	1,434	10,248	-
Local Assistance															
Appointments for Community Colleges	1,766,230	1,496	-	1,767,726	-	2,549,461	1,496	-	2,550,957	-	2,786,168	1,621	-	2,787,789	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04					Estimated 2004-05					Proposed 2005-06				
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Extended Opportunity Program + CARE	94,892	-	-	94,892	-	98,791	-	-	98,791	-	104,614	-	-	104,614	-
Student Financial Aid Administration	46,447	-	-	46,447	-	47,338	-	-	47,338	-	46,206	-	-	46,206	-
Disabled Students	82,583	-	-	82,583	-	85,977	-	-	85,977	-	91,045	-	-	91,045	-
Teacher and Reading Development	3,700	-	-	3,700	-	-	-	-	-	-	-	-	-	-	-
Matriculation	54,307	-	-	54,307	-	62,539	-	-	62,539	-	66,225	-	-	66,225	-
Support for Academic Senate	467	-	-	467	-	467	-	-	467	-	467	-	-	467	-
Faculty and Staff Diversity/EEO	3,157	-	-	3,157	-	1,747	-	-	1,747	-	1,747	-	-	1,747	-
Instructional Improvement	312	-	-	312	-	-	-	-	-	-	-	-	-	-	-
Economic Development	35,790	-	-	35,790	-	35,790	-	-	35,790	-	35,790	-	-	35,790	-
Transfer Education and Articulation	1,974	-	-	1,974	-	1,974	-	-	1,974	-	1,974	-	-	1,974	-
Hazardous Substances	4,404	-	-	4,404	-	-	-	-	-	-	-	-	-	-	-
Foster Parent Training Programs	1,754	-	-	1,754	-	1,754	-	-	1,754	-	4,754	-	-	4,754	-
Instructional Equipment	12,470	-	-	12,470	-	-	-	-	-	-	-	-	-	-	-
Telecommunications & Technology	22,050	-	-	22,050	-	-	-	-	-	-	-	-	-	-	-
Virtual University	1,347	-	-	1,347	-	-	-	-	-	-	-	-	-	-	-
Scheduled Maintenance	12,471	-	-	12,471	-	-	-	-	-	-	-	-	-	-	-
Part-Time Faculty Compensation	50,828	-	-	50,828	-	50,828	-	-	50,828	-	50,828	-	-	50,828	-
Fund for Student Success	6,158	-	-	6,158	-	6,158	-	-	6,158	-	6,158	-	-	6,158	-
Welfare Reform	34,580	-	-	34,580	-	34,580	-	-	34,580	-	34,580	-	-	34,580	-
Part-Time Faculty Health Insurance	1,000	-	-	1,000	-	1,000	-	-	1,000	-	1,000	-	-	1,000	-
Part-Time Faculty Office Hours Program	7,172	-	-	7,172	-	7,172	-	-	7,172	-	7,172	-	-	7,172	-
State-Mandated Local Programs	-	-	-	-	-	2	-	-	2	-	4	-	-	4	-
Instructional Improvement (Reapp)	104	-	-	104	-	-	-	-	-	-	-	-	-	-	-
Physical Plant & Instructional Services	-	-	-	-	-	27,345	-	-	27,345	-	27,345	-	-	27,345	-
Telecommunications & Technology Services	-	-	-	-	-	23,397	-	-	23,397	-	23,397	-	-	23,397	-
Foster Parent (reapprop)	-	-	-	-	-	5,383	-	-	5,383	-	-	-	-	-	-
Physical Plat (reapprop)	28,376	-	-	28,376	-	-	-	-	-	-	-	-	-	-	-
Economic Development (reapprop)	-	-	-	-	-	-	-	-	-	-	20,000	-	-	20,000	-
Apporntment Set-Aside	-	-	-	-	-	-	-	-	-	-	31,409	-	-	31,409	-
Totals, Local Assistance	2,272,573	1,496	-	2,274,069	-	3,041,703	1,496	-	3,043,199	-	3,340,883	1,621	-	3,342,504	-
Capital Outlay	-	-	427,853	427,853	-	-	-	742,219	742,219	-	-	-	343,047	343,047	-
Totals, Bd of Governors of Calif Comm Colleges	\$2,281,220	\$1,496	\$429,023	\$2,711,739	-	\$3,050,620	\$1,496	\$743,627	\$3,795,743	-	\$3,349,697	\$1,621	\$344,481	\$3,695,799	-
General Obligation Bonds-HI Ed-CC															
State Operations	82,217	-	-	82,217	-	135,072	-	-	135,072	-	151,289	-	-	151,289	-
Retirement Costs-HI Ed-CC															
Local Assistance	40,271	-	-	40,271	-	98,337	-	-	98,337	-	79,831	-	-	79,831	-
Totals, Higher Education-Community Colleges	\$2,403,708	\$1,496	\$429,023	\$2,834,227	-	\$3,284,029	\$1,496	\$743,627	\$4,029,152	-	\$3,580,817	\$1,621	\$344,481	\$3,926,919	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Higher Education-UC, CSU and Other															
CA Postsecondary Education Commission															
State Operations	1,972	-	-	1,972	435	2,063	-	2,063	439	2,059	-	-	-	2,059	438
Local Assistance	-	-	-	-	8,444	-	-	-	8,579	-	-	-	-	-	8,579
Totals, CA Postsecondary Education Commission	\$1,972	-	-	\$1,972	\$8,879	\$2,063	-	\$2,063	\$9,018	\$2,059	-	-	-	\$2,059	\$9,017
University of California															
State Operations	2,868,069	39,664	-	2,907,733	6,180,828	2,708,802	34,855	2,743,657	6,218,525	2,806,287	32,061	-	-	2,838,348	6,280,814
Capital Outlay	33,188	-	267,405	300,593	-	6,403	439,382	445,785	-	-	-	305,161	-	305,161	-
Totals, University of California	\$2,901,257	\$39,664	\$267,405	\$3,208,326	\$6,180,828	\$2,715,205	\$34,855	\$439,382	\$6,218,525	\$2,806,287	\$32,061	\$305,161	-	\$3,143,509	\$6,280,814
CA Institute for Regenerative Medicine															
State Operations	-	-	-	-	-	-	3,000	3,000	-	-	-	33,000	-	33,000	-
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	188,000	-	188,000	-
Totals, CA Institute for Regenerative Medicine	-	-	-	-	-	-	\$3,000	\$3,000	-	-	-	\$221,000	-	\$221,000	-
Hastings College of the Law															
State Operations	11,081	-	-	11,081	-	8,119	-	8,119	-	8,363	-	-	-	8,363	-
Capital Outlay	-	-	1,044	1,044	-	-	18,758	18,758	-	-	-	-	-	-	-
Totals, Hastings College of the Law	\$11,081	-	\$1,044	\$12,125	-	\$8,119	\$18,758	\$26,877	-	\$8,363	-	-	-	\$8,363	-
California State University															
State Operations	2,625,699	1,012,233	-	3,637,932	627,616	2,496,694	1,111,298	-	3,607,992	696,133	2,607,179	1,212,546	-	3,819,725	696,133
Capital Outlay	-	-	121,242	121,242	-	-	176,097	176,097	-	-	-	694,765	-	694,765	-
Totals, California State University	\$2,625,699	\$1,012,233	\$121,242	\$3,759,174	\$627,616	\$2,496,694	\$1,111,298	\$176,097	\$3,784,089	\$696,133	\$2,607,179	\$1,212,546	\$694,765	\$4,514,490	\$696,133
California Student Aid Commission															
State Operations	64	-	-	64	440,438	18	-	18	468,401	-	-	-	-	468,401	-
Local Assistance	671,994	-	-	671,994	10,915	589,401	-	589,401	12,582	745,525	-	-	-	745,525	12,583
Totals, California Student Aid Commission	\$672,058	-	-	\$672,058	\$451,353	\$589,419	-	\$589,419	\$480,983	\$745,525	-	-	-	\$745,525	\$480,984
General Obligation Bonds-Hi Ed															
State Operations	164,446	-	-	164,446	-	267,553	-	267,553	-	292,196	-	-	-	292,196	-
Totals, Higher Education-UC, CSU and Other	\$6,376,513	\$1,051,897	\$389,691	\$7,818,101	\$7,268,676	\$6,079,053	\$1,146,153	\$637,237	\$7,862,443	\$6,461,609	\$1,244,607	\$1,220,926	\$1,244,607	\$8,927,142	\$7,446,948
TOTALS, EDUCATION	\$38,112,966	\$1,109,544	\$4,970,682	\$44,193,192	\$13,784,781	\$43,798,607	\$1,206,364	\$12,007,279	\$57,012,250	\$45,926,820	\$1,310,019	\$1,661,533	\$48,898,372	\$14,536,095	\$14,536,095
State Operations	6,781,417	1,080,424	7,619	7,869,460	7,359,839	7,437,759	1,173,423	11,359	8,622,541	7,535,350	1,272,531	41,476	9,153,115	7,578,706	
Local Assistance	31,298,361	29,120	4,145,519	35,473,000	6,424,942	36,354,445	32,941	10,619,464	47,006,850	7,006,195	37,488	277,084	38,401,814	6,957,389	
Capital Outlay	33,188	-	817,544	850,732	-	6,403	-	1,376,456	1,382,859	470	-	1,342,973	1,343,443	-	
LABOR AND WORKFORCE DEVELOPMENT AGENCY															
Employment Development Department															
State Operations	18,794	17,558	-	36,352	789,515	19,304	73,994	-	93,298	19,242	88,381	-	107,623	764,676	
Local Assistance	-	-	-	-	6,895,958	-	-	-	6,416,894	-	-	-	-	6,027,674	
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-325	

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Totals, Employment Development Department	\$18,794	\$17,558	-	\$36,352	\$7,685,473	\$19,304	\$73,994	-	\$93,298	\$7,198,680	\$19,242	\$88,381	-	\$107,623	\$6,792,025
California Workforce Investment Board	-	-	-	-	4,384	-	-	-	-	4,406	-	-	-	-	4,691
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural Labor Relations Board	4,650	-	-	4,650	-	4,966	-	-	4,966	-	4,904	-	-	4,904	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Department of Industrial Relations	90,039	108,345	-	198,384	30,660	62,924	183,229	-	246,153	31,469	61,249	203,521	-	264,770	31,563
State Operations	-	-	-	-	-	2	-	-	2	-	1,852	-	-	1,852	-
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Department of Industrial Relations	\$90,039	\$108,345	-	\$198,384	\$30,660	\$62,926	\$183,229	-	\$246,155	\$31,469	\$63,101	\$203,521	-	\$266,622	\$31,563
TOTALS, LABOR AND WORKFORCE DEVELOPMENT AGENCY	\$113,483	\$125,903	-	\$239,386	\$7,720,517	\$87,196	\$257,223	-	\$344,419	\$7,234,555	\$87,247	\$291,902	-	\$379,149	\$6,828,299
State Operations	113,483	125,903	-	239,386	824,559	87,194	257,223	-	344,417	817,661	85,395	291,902	-	377,297	800,950
Local Assistance	-	-	-	-	6,895,958	2	-	-	2	6,416,894	1,852	-	-	1,852	6,027,674
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-325
GENERAL GOVERNMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Administration	5,014	818	-	5,832	3,582	-	-	-	-	-	-	-	-	-	-
Office of Criminal Justice Planning	22,477	8,156	-	30,633	85,104	-	-	-	-	-	-	-	-	-	-
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Office of Criminal Justice Planning	\$27,491	\$8,974	-	\$36,465	\$88,686	-	-	-	-	-	-	-	-	-	-
Comm on Peace Officer Standards & Train	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	-	31,425	-	31,425	-	-	32,067	-	32,067	-	-	33,190	-	33,190	-
Local Assistance	-	15,106	-	15,106	-	1	21,404	-	21,405	-	4,509	21,826	-	26,335	-
Totals, Comm on Peace Officer Standards & Train	-	\$46,531	-	\$46,531	-	\$1	\$53,471	-	\$53,472	-	\$4,509	\$55,016	-	\$59,525	-
State Public Defender	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	11,175	-	-	11,175	-	11,426	-	-	11,426	-	11,330	-	-	11,330	-
Pay to Count for Cost of Homicide Trial	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Local Assistance	1,484	-	-	1,484	-	4,746	-	-	4,746	-	4,305	-	-	4,305	-
California Arts Council	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	1,075	865	-	1,940	960	1,145	902	-	2,047	987	1,153	968	-	2,121	938
State Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Public Employment Relations Board	4,420	-	-	4,420	-	5,132	-	-	5,132	-	5,558	-	-	5,558	-
Department of Personnel Administration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	43,353	2,281	-	45,634	-	51,893	3,053	-	54,946	-	31,333	-	-	31,333	-
CA Citizens Compensation Commission	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
State Operations	7	-	-	7	-	14	-	-	14	-	14	-	-	14	-
Board of Chiropractic Examiners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
State Operations	-	2,151	-	2,151	-	-	2,472	-	2,472	-	-	2,636	-	2,636	-
Board of Pilot Commissioners															
State Operations	-	1,178	-	1,178	-	-	1,218	-	1,218	-	-	1,233	-	1,233	-
California Horse Racing Board															
State Operations	-	8,061	-	8,061	-	-	8,398	-	8,398	-	-	8,477	-	8,477	-
Department of Food and Agriculture															
State Operations	72,811	77,943	586	151,340	58,732	76,042	94,737	1,000	171,779	35,295	80,344	98,430	1,178	179,952	33,648
Local Assistance	10,428	54,442	-	64,870	-	19,935	59,026	-	78,961	-	19,718	59,026	-	78,744	-
Capital Outlay	-	-	-	-	-	-	6,828	-	6,828	-	-	3,599	-	3,599	-
Totals, Department of Food and Agriculture	\$83,239	\$132,385	\$586	\$216,210	\$58,732	\$95,977	\$160,591	\$1,000	\$257,568	\$35,295	\$100,062	\$161,055	\$1,178	\$262,295	\$33,648
Fair Political Practices Commission															
State Operations	6,461	-	-	6,461	-	6,163	-	-	6,163	-	6,124	-	-	6,124	-
Political Reform Act of 1974															
State Operations	-	-	-	-	-	-	-	-	-	-	2,520	-	-	2,520	-
Public Utilities Commission															
State Operations	-	1,084,678	-	1,084,678	944	-	1,230,449	-	1,230,449	1,034	-	1,203,430	-	1,203,430	1,052
Seismic Safety Commission															
State Operations	-	874	-	874	-	-	1,014	-	1,014	-	-	1,022	-	1,022	-
Electricity Oversight Board															
State Operations	-	2,539	-	2,539	-	-	3,728	-	3,728	-	-	3,850	-	3,850	-
Milton Marks "Little Hoover" Commission															
State Operations	789	-	-	789	-	943	-	-	943	-	941	-	-	941	-
Commission on the Status of Women															
State Operations	407	-	-	407	-	423	-	-	423	-	420	-	-	420	-
California Law Revision Commission															
State Operations	508	-	-	508	-	531	-	-	531	-	535	-	-	535	-
Commission on Uniform State Laws															
State Operations	122	-	-	122	-	99	-	-	99	-	100	-	-	100	-
Bureau of State Audits															
State Operations	11,488	-224	-	11,264	-	13,004	-	-	13,004	-	13,282	-	-	13,282	-
Department of Finance															
State Operations	29,788	-	-	29,788	-	31,685	-	-	31,685	-	33,549	-	-	33,549	-
Commission on State Mandates															
State Operations	1,210	-	-	1,210	-	1,217	-	-	1,217	-	1,629	-	-	1,629	-
Office of Administrative Law															
State Operations	1,906	-	-	1,906	-	2,066	-	-	2,066	-	2,205	-	-	2,205	-
Military Department															
State Operations	35,164	29	-	35,193	54,417	31,872	150	-	32,022	56,310	33,020	150	-	33,170	59,334

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Local Assistance	-	-	-	-	-	-	-	-	-	-	190	-	-	190	-
Capital Outlay	14,293	-	-	14,293	13,120	12,773	-	-	12,773	13,568	3,484	-	-	3,484	3,593
Totals, Military Department	\$49,457	\$29	-	\$49,486	\$67,537	\$44,645	\$150	-	\$44,795	\$71,878	\$36,694	\$150	-	\$36,844	\$62,927
Department of Veterans Affairs															
State Operations	-	-	-	-	-	-	-	-	-	-	65,355	105	178	65,638	21,874
Local Assistance	-	-	-	-	-	-	-	-	-	-	2,350	554	-	2,904	-
Capital Outlay	-	-	-	-	-	-	-	-	-	-	862	-	22,432	23,294	62,455
Totals, Department of Veterans Affairs	-	-	-	-	-	-	-	-	-	-	\$68,567	\$659	\$22,610	\$91,836	\$84,329
Department of Veterans Affairs															
State Operations	2,410	25	132	2,567	-	5,698	54	176	5,928	-	-	-	-	-	-
Local Assistance	2,350	470	-	2,820	-	2,350	470	-	2,820	-	-	-	-	-	-
Capital Outlay	-	-	3,023	3,023	-	-	-	9,763	9,763	8,522	-	-	-	-	-
Totals, Department of Veterans Affairs	\$4,760	\$495	\$3,155	\$8,410	-	\$8,048	\$524	\$9,939	\$18,511	\$8,522	-	-	-	-	-
Veterans' Home of California-Yountville															
State Operations	38,268	-	-	38,268	13,526	38,169	-	-	38,169	13,455	-	-	-	-	-
Capital Outlay	412	-	1,668	2,080	-	-	-	9,104	9,104	11,034	-	-	-	-	-
Totals, Veterans' Home of California-Yountville	\$38,680	-	\$1,668	\$40,348	\$13,526	\$38,169	-	\$9,104	\$47,273	\$24,489	-	-	-	-	-
Veterans' Home of California-Barstow															
State Operations	12,273	-	-	12,273	1,733	9,202	-	-	9,202	1,838	-	-	-	-	-
Veterans' Home of Calif-Chula Vista															
State Operations	12,336	-	-	12,336	4,677	13,185	-	-	13,185	5,099	-	-	-	-	-
Totals, Department of Veterans Affairs	\$68,049	\$495	\$4,823	\$73,367	\$19,936	\$68,604	\$524	\$19,043	\$88,171	\$39,948	\$68,567	\$659	\$22,610	\$91,836	\$84,329
General Obligation Bonds-Gen Govt															
State Operations	11,624	-	-	11,624	-	21,795	-	-	21,795	-	23,719	-	-	23,719	-
Totals, General Administration	\$354,053	\$1,290,817	\$5,409	\$1,650,279	\$236,795	\$361,509	\$1,465,970	\$20,043	\$1,847,522	\$149,142	\$348,549	\$1,438,496	\$23,788	\$1,810,833	\$182,894
Tax Relief															
Tax Relief															
Local Assistance															
Senior Citizens Property Tax Assistance	39,062	-	-	39,062	-	40,494	-	-	40,494	-	-	-	-	-	-
Senior Citizens Property Tax Deferral	11,714	-	-	11,714	-	11,900	-	-	11,900	-	16,600	-	-	16,600	-
Senior Citizens Renters Tax Assistance	143,702	-	-	143,702	-	142,636	-	-	142,636	-	42,507	-	-	42,507	-
Homeowners' Property Tax Relief	424,786	-	-	424,786	-	433,200	-	-	433,200	-	440,000	-	-	440,000	-
Subventions for Open Space	38,425	-	-	38,425	-	39,388	-	-	39,388	-	39,661	-	-	39,661	-
Substandard Housing	44	-	-	44	-	-	-	-	-	-	-	-	-	-	-
Vehicle License Fee Offset	3,124,764	-	-	3,124,764	-	-	-	-	-	-	-	-	-	-	-
State-Mandated Local Programs	-	-	-	-	-	-	-	-	-	-	658	-	-	658	-
Totals, Local Assistance	3,782,497	-	-	3,782,497	-	667,618	-	-	667,618	-	539,426	-	-	539,426	-
Totals, Tax Relief	\$3,782,497	-	-	\$3,782,497	-	\$667,618	-	-	\$667,618	-	\$539,426	-	-	\$539,426	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Local Government Subventions															
Local Government Financing															
Local Assistance	297,596	-	-	297,596	-	318,946	-	318,946	-	157,392	-	-	157,392	-	-
Shared Revenues															
Shared Rev/Apprt-Off-Hwy License Fees															
Local Assistance	-	1,922	-	1,922	-	-	1,950	-	1,950	-	1,950	-	-	1,950	-
Shared Rev/Apprt-Fed Rcpts Fld Cntl Lnds															
Local Assistance	-	-	-	-	384	-	-	-	200	-	-	-	-	-	200
Shared Rev/Apprt-Fed Rcpts Forest Rsrvs															
Local Assistance	-	-	-	-	62,078	-	-	-	62,000	-	-	-	-	62,000	-
Shared Rev/Apprt-Fed Rcpts Grazing Land															
Local Assistance	-	-	-	-	61	-	-	-	60	-	-	-	-	60	-
Shared Rev/Apprt-Fed Potash Lease Rntls															
Local Assistance	-	-	-	-	2,067	-	-	-	2,000	-	-	-	-	2,000	-
Shared Rev/Apprt-MV License Fees															
Local Assistance	11,862	1,197,237	-	1,209,099	-	11,862	256,685	-	268,547	11,862	267,030	-	278,892	-	-
Shared Rev/Apprt-Tideland Revenues															
Local Assistance	279	-	-	279	-	327	-	-	327	253	-	-	253	-	-
Shared Rev/Apprt-MV Fuel Tx County Rds															
Local Assistance	-	351,219	-	351,219	-	-	344,204	-	344,204	-	353,506	-	-	353,506	-
Shared Rev/Apprt-MV Fuel Tx City Streets															
Local Assistance	-	250,666	-	250,666	-	-	245,639	-	245,639	-	252,281	-	-	252,281	-
Shared Rev/Apprt-MV Fuel Tx Co Rd/Cty St															
Local Assistance	-	149,096	-	149,096	-	-	144,416	-	144,416	-	148,294	-	-	148,294	-
Shared Rev/Apprt-MV Fuel Co&Cty/St&Hwy															
Local Assistance	-	368,720	-	368,720	-	-	372,878	-	372,878	-	382,412	-	-	382,412	-
Shared Rev/Apprt-Geothermal Rsrvs Dvlp															
Local Assistance	-	4,628	-	4,628	-	-	2,667	-	2,667	-	2,667	-	-	2,667	-
Shared Rev/Apprt-Traffic Crigstm Rlf Fd															
Local Assistance	-	-	-	-	-	-	-	-	-	-	192,000	-	-	192,000	-
Totals, Shared Revenues	\$12,141	\$2,323,488	-	\$2,335,629	\$64,590	\$12,189	\$1,368,439	-	\$1,380,628	\$12,115	\$1,600,140	-	\$1,612,255	\$64,260	\$64,260
Totals, Local Government Subventions	\$309,737	\$2,323,488	-	\$2,633,225	\$64,590	\$331,135	\$1,368,439	-	\$1,699,574	\$169,507	\$1,600,140	-	\$1,769,647	\$64,260	\$64,260
Debt Service															
Payment of Interest on PMIA Loans															
State Operations	1,964	-	-	1,964	-	2,900	-	-	2,900	4,100	-	-	-	4,100	-
Tobacco Settlement Revenue Shortfall															
State Operations	-	-	-	-	-	-	-	-	-	1	-	-	-	1	-
Economic Recovery Financing Committee															
State Operations	-	1,000	-	1,000	-	-	1,660	-	1,660	-	13,580	-	-	13,580	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Unclassified	-	-	-	-	-	-	1,154,340	-	1,154,340	-	-	1,344,420	-	1,344,420	-
Totals, Economic Recovery Financing Committee	-	\$1,000	-	\$1,000	-	-	\$1,166,000	-	\$1,166,000	-	-	\$1,358,000	-	\$1,358,000	-
Payment of Interest on Gen Fund Loans															
State Operations	236,690	-	-	236,690	-	111,345	-	111,345	-	176,325	-	-	-	176,325	-
Interest Payments to the Federal Govt															
State Operations	5,721	214	-	5,935	-	6,500	501	7,001	-	6,500	501	-	-	7,001	-
Totals, Debt Service	\$244,375	\$1,214	-	\$245,589	-	\$120,745	\$1,166,501	\$1,287,246	-	\$186,926	\$1,358,501	-	-	\$1,545,427	-
Statewide Expenditures															
Health & Dental Benefits for Annuitants															
State Operations	694,559	-	-	694,559	-	795,554	-	795,554	-	860,697	-	-	-	860,697	-
Eqty Cim Vct Comp Gov Cims, Stimmts DOJ															
State Operations	10,985	11,184	-	22,169	282	13,240	481	282	14,003	45,000	-	-	-	45,000	-
Augmentation for Contingencies or Emerg															
State Operations	-	-	-	-	-	38,603	10,724	-	49,327	49,236	15,000	-	-	64,236	-
Capital Outlay Planning and Studies Fdng															
Capital Outlay	1,000	-	-	1,000	-	1,000	-	1,000	-	1,000	-	-	-	1,000	-
General Fund Deficit Recovery Payments															
Unclassified	2,012,000	-	-	2,012,000	-	-2,012,000	-	-2,012,000	-	-	-	-	-	-	-
Reserve for Liquidation of Encumbrances															
Unclassified	287,208	-	-	287,208	-	-	-	-	-	-	-	-	-	-	-
Brown v. US Dept of Health and Human Svcs															
State Operations	48,000	-	-	48,000	-	48,000	-	48,000	-	-	-	-	-	-	-
Statewide Proposition 98 Reconciliation															
State Operations	871	-	-	871	-	-440	-	-440	-	-	-	-	-	-	-
Local Assistance	382,234	-	-	382,234	-	-674,106	-	-674,106	-	-277,032	-	-	-	-277,032	-
Totals, Statewide Proposition 98 Reconciliation	\$383,105	-	-	\$383,105	-	-\$674,546	-	-\$674,546	-	-\$277,032	-	-	-	-\$277,032	-
Section 3.60 Rate Adjustments															
State Operations	-	-	-	-	-	-	-	-	-	87,612	30,300	-	-	117,912	-
PERS General Fund Payment															
State Operations	-	-	-	-	-	304,221	-	304,221	-	352,550	-	-	-	352,550	-
Statewide Gen. Adm Exp (Pro Rate)															
State Operations	-339,455	10,676	174	-328,605	-	-348,523	6,376	-342,147	-	-405,494	2,008	-	-	-403,486	-
Various Departments															
State Operations	-	-	-	-	-	-49,501	1	-49,500	-	-96,000	-	-	-	-96,000	-
Local Assistance	-	30,051	-	30,051	-	-	47,900	47,900	-	-	47,900	-	-	47,900	-
Totals, Various Departments	\$30,051	\$30,051	-	\$30,051	-	-\$49,501	\$47,901	-\$1,600	-	-\$96,000	\$47,900	-	-	-\$48,100	-
Totals, Statewide Expenditures	\$3,097,402	\$51,911	\$174	\$3,149,487	\$282	-\$1,883,952	\$65,482	\$282	-\$1,818,188	\$617,569	\$95,208	-	-	\$712,777	-
Augmentation for Employee Compensation															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Augmentation for Employee Compensation															
State Operations	-	-	-	-	-	20,448	20,000	-	40,448	-	197,906	55,949	-	253,855	-
Totals, Augmentation for Employee Compensation						\$20,448	\$20,000		\$40,448		\$197,906	\$55,949		\$253,855	
Statewide Savings															
General Fund Credits from Federal Funds															
State Operations	-59,081	-	-	-59,081	-	-88,949	-	-	-88,949	-	-89,047	-	-	-89,047	-
PERS Payment Recovery															
State Operations	-	-	-	-	-	-	-	-	-	-	-165,375	-	-	-165,375	-
PERS Deferral															
State Operations	-304,221	-	-	-304,221	-	-352,550	-	-	-352,550	-	-366,438	-	-	-366,438	-
Estimated Unidentifiable Savings															
State Operations	-	-	-	-	-	-72,000	-	-	-72,000	-	-136,000	-	-	-136,000	-
Local Assistance	-	-	-	-	-	-108,000	-	-	-108,000	-	-204,000	-	-	-204,000	-
Totals, Estimated Unidentifiable Savings						-\$180,000			-\$180,000		-\$340,000			-\$340,000	
Employee Compensation Reform															
State Operations	-	-	-	-	-	-	-	-	-	-	-493,213	-268,988	-	-762,201	-
Section 4.30 Debt Service Adjustments															
State Operations	-	-	-	-	-	-	-	-	-	-	97,239	4,471	-	101,710	8
Totals, Statewide Savings						-\$621,499			-\$621,499		-\$1,356,834	-\$264,517		-\$1,621,351	\$8
TOTALS, GENERAL GOVERNMENT	\$7,424,762	\$3,667,430	\$5,563	\$11,097,775	\$301,667	\$-1,003,996	\$4,086,392	\$20,325	\$3,102,721	\$213,427	\$703,049	\$4,283,777	\$23,788	\$5,010,614	\$247,162
State Operations	598,642	1,235,717	892	1,835,251	138,853	750,552	1,427,985	1,458	2,179,995	116,043	438,730	1,206,312	1,356	1,646,398	116,854
Local Assistance	4,511,207	2,431,713	-	6,942,920	149,694	243,679	1,497,239	-	1,740,918	64,260	258,973	1,729,446	-	1,988,419	64,260
Capital Outlay	15,705	-	4,691	20,396	13,120	13,773	6,828	18,867	39,468	33,124	5,346	3,599	22,432	31,377	66,048
Unclassified	2,299,208	-	-	2,299,208	-	-2,012,000	1,154,340	-	-	-	-	1,344,420	-	1,344,420	-
GRAND TOTAL	\$78,345,232	\$18,891,936	\$6,986,094	\$104,223,262	\$52,419,939	\$80,282,991	\$22,090,842	\$15,115,502	\$117,489,335	\$56,686,185	\$65,737,856	\$23,269,764	\$2,716,388	\$111,724,008	\$55,041,862
State Operations	\$17,100,090	\$9,587,084	\$301,376	\$26,988,550	\$11,033,303	\$19,833,476	\$11,141,814	\$444,562	\$31,419,852	\$10,990,757	\$20,354,424	\$11,318,923	\$292,735	\$31,966,082	\$10,817,902
Local Assistance	\$58,573,893	\$8,471,271	\$5,094,585	\$72,139,749	\$40,480,579	\$62,384,513	\$8,604,939	\$12,008,027	\$82,997,479	\$45,053,141	\$65,309,316	\$9,082,305	\$884,472	\$75,276,093	\$43,321,848
Capital Outlay	\$372,041	\$833,581	\$1,590,133	\$2,795,755	\$893,762	\$77,002	\$1,189,749	\$2,662,913	\$3,929,664	\$618,302	\$74,116	\$1,524,116	\$1,539,181	\$3,137,413	\$871,112
Unclassified	\$2,299,208	-	-	\$2,299,208	\$12,295	\$-2,012,000	\$1,154,340	-	\$-857,660	\$23,985	-	\$1,344,420	-	\$1,344,420	\$31,000
BUDGET ACT TOTALS	\$53,212,205	\$9,784,047	\$1,542,644	\$64,538,896	\$43,780,966	\$57,286,276	\$11,265,781	\$1,980,868	\$70,532,925	\$47,706,301	\$60,190,066	\$11,896,362	\$1,751,946	\$73,838,374	\$46,458,330
State Operations	15,803,261	8,099,674	189,942	24,092,877	3,742,224	17,191,672	9,439,488	297,546	26,928,706	3,553,030	17,571,350	9,750,887	239,262	27,561,499	3,272,643
Local Assistance	37,384,819	1,626,412	657,763	39,668,994	39,536,538	40,056,956	1,721,384	487,787	42,266,127	43,865,261	42,545,066	1,665,850	528,381	44,739,297	42,869,219
Capital Outlay	24,125	57,961	694,939	777,025	489,909	37,648	104,909	1,195,535	1,338,092	264,025	73,650	479,625	984,303	1,537,578	285,468
Unclassified	-	-	-	-	12,295	-	-	-	-	23,985	-	-	-	-	31,000
STATUTORY APPROPRIATIONS	\$19,538,288	\$6,257,243	\$198,222	\$25,993,753	\$491,592	\$20,689,240	\$6,950,882	\$487,926	\$28,128,048	\$580,605	\$21,630,212	\$7,347,077	\$386,601	\$29,345,890	\$632,117
State Operations	-161,061	1,420,772	13,825	1,273,536	449,140	-346,683	1,624,552	25,965	1,303,834	479,571	-348,279	1,565,036	50,835	1,267,592	479,662

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2003-04				Estimated 2004-05				Proposed 2005-06						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Local Assistance	19,699,349	4,227,134	154,618	24,081,101	42,452	21,035,923	3,463,053	114,896	24,613,872	90,000	21,978,491	3,902,807	305,766	26,187,064	90,000
Capital Outlay	-	609,337	29,779	639,116	-	-	708,937	347,065	1,056,002	11,034	-	534,814	10,000	544,814	62,455
Unclassified	-	-	-	-	-	-	1,154,340	-	1,154,340	-	-	1,344,420	-	1,344,420	-
CONSTITUTIONAL APPROPRIATIONS	\$2,086,635	\$2,031,344	-	\$4,117,979	-	\$3,075,386	\$3,124,018	-	\$6,199,404	-	\$3,340,820	\$3,345,884	-	\$6,686,704	-
State Operations	1,797,635	-	-	1,797,635	-	3,075,386	-	-	3,075,386	-	3,340,820	-	-	3,340,820	-
Local Assistance	-	2,320,344	-	2,320,344	-	-	3,124,018	-	3,124,018	-	-	3,345,884	-	3,345,884	-
Capital Outlay	289,000	-289,000	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER APPROPRIATIONS	\$3,508,104	\$819,302	\$5,245,228	\$9,572,634	\$8,147,381	\$-767,911	\$750,161	\$12,646,708	\$12,628,958	\$8,399,279	\$576,758	\$680,441	\$597,841	\$1,855,040	\$7,951,415
State Operations	-339,745	66,638	97,609	-175,498	6,841,939	-86,899	77,774	121,051	111,926	6,958,156	-209,467	3,000	2,638	-203,829	7,065,597
Local Assistance	1,489,725	297,381	4,282,204	6,069,310	901,589	1,291,634	296,484	11,405,344	12,993,462	1,097,880	785,759	167,764	50,325	1,003,848	362,629
Capital Outlay	58,916	455,283	865,415	1,379,614	403,853	39,354	375,903	1,120,313	1,535,570	343,243	466	509,677	544,878	1,055,021	523,189
Unclassified	2,299,208	-	-	2,299,208	-	-2,012,000	-	-	-2,012,000	-	-	-	-	-	-

**SCHEDULE 10
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
GENERAL FUND	5,059,975	76,774,080	78,345,216	3,488,839	78,219,099	80,282,986	1,424,952	85,454,347	85,737,856	1,141,443
SPECIAL FUNDS										
Abandoned Mine Reclamation & Minerals Fd	-	45	-	45	283	199	129	300	409	20
Abandoned Watercraft Abatement Fund	1,252	100	499	853	-	506	347	200	505	42
Accountancy Fund	6,763	9,960	7,798	8,925	8,892	9,211	8,606	8,955	9,836	7,725
Acupuncture Fund	2,463	325	2,040	748	2,217	2,243	722	2,097	2,274	545
Administration Acct, Child & Families	16,646	5,968	3,805	18,809	6,060	5,762	19,107	5,874	5,576	19,405
Aeronautics Account STF	12,118	1,705	6,238	7,585	6,604	4,504	9,685	6,535	9,553	6,667
Agricultural Biomass Utilization Account	625	-	317	308	-	17	291	-	-	291
Agricultural Export Promotion Acct, CA	234	127	-	361	127	238	127	127	250	115
Agricultural Pest Control Research Acct	80	1	-	81	1	-	82	1	-	83
Air Pollution Control Fund	17,640	28,809	30,915	15,534	58,995	61,728	12,801	114,632	122,984	4,449
Air Toxics Inventory and Assessment Acct	80	789	567	302	791	890	203	791	876	118
Alcohol Beverage Control Fund	5,313	-3,710	-	1,603	-1,510	93	93	-93	-	-
Alcohol Beverages Control Fund	24	44,946	39,198	5,772	43,919	43,697	5,994	42,502	43,796	4,700
Alcoholic Beverage Control Appeals Fund	496	872	813	555	905	916	544	905	969	480
Antiterrorism Fund	904	950	-	1,854	950	-	2,804	950	100	3,654
Appellate Court Trust Fund	-	4,512	3,544	968	5,006	3,621	2,353	5,006	4,596	2,763
Apprenticeship Training Contribution Fd	4,059	2,154	709	5,504	2,854	3,296	5,062	2,854	4,097	3,819
Architects Board Fund, California	2,455	1,216	2,442	1,229	2,077	2,821	485	2,884	2,864	505
Army Discretionary Improvement Account	120	44	29	135	150	150	135	150	150	135
Asbestos Consultant Certification Acct	82	450	315	217	399	318	298	399	328	369
Asbestos Training Approval Account	-	99	97	2	90	91	120	120	120	1
Assembly and Senate, Operating Funds Of	21	-	21	-	-	-	-	-	-	-
Assistance for Fire Equipment Acct,State	442	46	100	388	60	100	348	60	100	308
Athletic Commission Fund	-	-	-	-	1,381	757	624	709	785	548
Attorney General Antitrust Account	-	2,579	1,177	1,402	1,170	1,220	1,352	1,170	1,225	1,297
Audit Fund, State	1,725	1	-224	1,950	-	-	1,950	-	-	1,950
AIDS Drug Assistance Program Rebate Fund	-	10,864	11,510	3,332	80,063	77,040	3,023	70,259	72,391	891
Barbering/Cosmetology Fd, St Bd of	3,978	27,343	27,343	-	11,718	12,800	2,250	17,906	14,326	5,830
Base Restoration Subaccount, STGA	-	-	-	-	-	-	-	-	-	-
Beach and Coastal Enhancement Acct,Calif	939	1,409	1,526	822	1,630	2,358	94	1,779	1,780	93
Behavioral Science Examiners Fund	1,853	5,366	4,211	3,008	5,149	4,738	3,419	5,218	4,809	3,828
Beverage Container Recycling Fund, CA	83,538	530,678	544,960	69,256	761,846	710,874	120,228	850,350	754,757	215,821
Bicycle Transportation Account, STF	2,083	7,509	7,240	2,352	7,533	7,233	2,652	7,570	7,212	3,010
Bimetal Processing Fee Acct, Bev Cont Re	361	1,663	235	1,789	1,393	887	2,295	1,393	888	2,800
Boxer's Neurological Examination Account	105	90	70	125	82	106	101	82	107	76
Breast Cancer Control Account	5,243	13,514	14,428	4,329	16,075	16,651	3,753	13,946	16,649	1,050
Breast Cancer Fund	1,555	1,754	148	3,161	-2,895	266	-	363	363	-
Breast Cancer Research Account	4,048	13,763	16,500	1,311	16,324	16,577	1,058	14,195	14,196	1,057
Business Fees Fund, Secty of State's	850	35,811	36,661	-	32,547	31,040	1,507	31,814	33,321	-
Business Reinvestment Fund	195	-193	-	2	-	-	2	-	-	2
Cal- OSHA Targeted Inspection & Consult	7,386	10,049	10,895	6,540	14,000	14,169	6,371	12,000	15,285	3,086
Cancer Research Fund	796	-	-777	1,573	-	1,573	-	-	-	-
Cannery Inspection Fund	-	-	-	-	875	-	875	1,750	1,570	1,055
Car Wash Worker Fund	-	-	-	-	-	-	-	300	160	140
Car Wash Worker Restitution Fund	-	-	-	-	-	-	-	160	80	80
Caseload Subacct, Sales Tax Growth Acct	-	139,752	139,752	-	82,269	82,269	-	173,896	173,896	-

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Cemetery Fund	2,572	2,166	1,566	3,172	2,075	2,069	3,178	2,098	2,085	3,191	
Certification Acct, Consumer Affairs Fd	347	818	781	384	878	904	358	878	875	361	
Certification Fund	1,010	1,362	935	1,437	1,373	1,178	1,632	1,373	1,188	1,817	
Certified Unified Program Account, State	-	-	-	-	1,060	-	1,060	1,060	1,318	802	
Child Abuse Fund, DOJ	549	423	323	649	425	341	733	426	336	823	
Child Care Acct, Child & Families Trust	21,454	18,088	7,727	31,815	18,282	50,097	-	17,723	17,723	-	
Child Health and Safety Fund	958	2,732	1,802	1,888	2,800	1,859	2,829	2,800	2,733	2,896	
Childhood Lead Poisoning Prevention Fund	15,094	13,770	17,649	11,215	21,432	24,954	7,693	21,432	24,261	4,864	
Children & Families First Trust Fd, Cal	-5,975	8,322	2,347	-	4,643	4,643	-	7,268	7,268	-	
Children's Medical Services Rebate Fund	-	-	-	-	2,000	2,000	-	2,000	2,000	-	
Chiropractic Examiners Fund	5,019	-1,765	2,151	1,103	2,224	2,472	855	2,286	2,637	504	
Cigarette & Tobacco Products Compliance	-	18,479	2,504	15,975	2,700	8,368	10,307	2,700	8,968	4,039	
Cigarette & Tobacco Products Surtax Fund	-9,315	11,702	2,387	-	3,504	3,504	-	4,704	4,703	1	
Clinical Laboratory Improvement Fund	-174	4,063	3,592	297	4,776	3,695	1,378	4,942	3,654	2,666	
Clunp Loans Envrnmntl Asst Neighborhood Act	1,170	16	71	1,115	-359	50	706	-392	-	314	
Coachella Valley Mountains Conservancy	1	1	1	1	32	32	1	32	32	1	
Coastal Access Account, SCCF	1,291	504	471	1,324	500	1,453	371	500	482	389	
Collins-Dugan Calif Conserv Corps Reimb	15,191	24,799	24,296	15,694	30,915	29,440	17,169	30,393	31,803	15,759	
Colorado River Management Account	39,005	-	38,999	6	-	-	6	-	-	6	
Commerce Marketing Fund	141	-109	32	-	-	-	-	-	-	-	
Community Revitalization Fee Fund	184	25	180	29	242	258	13	252	264	1	
Conservatorship Registry Fund	37	151	48	140	47	49	138	47	50	135	
Construction Management Education Acct	418	66	-	484	55	254	285	55	254	86	
Contingent Fd of the Medical Board of CA	12,369	36,445	36,477	11,337	36,742	41,024	7,055	36,643	42,568	1,130	
Continuing Care Provider Fee Fund	1,000	880	919	961	876	1,001	836	876	1,011	701	
Contractors' License Fund	10,680	57,693	45,282	23,091	47,096	48,412	21,775	44,793	51,075	15,493	
Corporations Fund, State	14,448	21,386	26,077	9,757	26,869	28,860	7,766	26,778	31,093	3,451	
Corrections Training Fund	1,435	2,052	2,296	1,191	1,510	2,496	205	2,296	2,488	13	
Counties Children & Families Acct	82,655	458,299	532,481	8,473	461,446	469,919	-	446,546	446,546	-	
Court Collection Account	2,253	35,629	34,342	3,540	54,002	53,662	3,880	54,002	53,871	4,011	
Court Facilities Trust Fund	-	-	-	-	1	1	-	1	1	-	
Court Interpreters' Fund	120	152	84	188	155	319	24	155	142	37	
Court Reporters Fund	1,790	-574	620	596	563	655	504	562	727	339	
Credit Union Fund	1,065	3,090	3,202	953	4,553	3,807	1,699	4,799	3,829	2,669	
Dam Safety Fund	-	7,544	6,890	654	7,800	7,800	654	7,800	7,833	621	
Deaf & Disabled Telecomm Prg Admin Comm	917	67,711	56,693	11,935	67,700	69,607	10,028	67,700	70,031	7,697	
Dealers' Record of Sale Special Account	1,962	6,425	8,238	149	8,149	8,198	100	8,695	8,673	122	
Debt & Investment Advisory Comm Fund,Cal	5,856	-3,266	1,648	942	2,119	1,931	1,130	7,850	2,036	6,944	
Debt Limit Allocation Committee Fund,Cal	1,734	3,374	999	4,109	-2,149	1,118	842	1,312	1,129	1,025	
Delta Flood Protection Fund	784	2	-	786	70	-	856	70	-	926	
Dental Auxiliary Fund, State	980	1,337	1,339	978	1,378	1,710	646	1,397	1,917	126	
Dentally Underserved Account	-	1,001	935	66	1,000	935	131	1,000	995	136	
Dentistry Fund, State	5,554	1,616	6,809	361	7,603	7,432	532	9,784	8,430	1,886	
Department of Agriculture Account, Ag Fd	24,238	86,193	96,331	14,100	100,760	112,984	1,876	115,928	115,823	1,981	
Developmental Disabilities Prog Dev Fund	111	1,808	1,431	488	1,808	1,497	799	1,808	2,268	339	
Developmental Disabilities Services Acct	401	9	43	367	2	300	69	2	-	71	
Diesel Emission Reduction Fund	166	205	-	371	205	-	576	205	-	781	
Disability Access Account	-316	3,911	-	-1,109	9,103	6,984	1,010	9,103	7,211	2,902	
Disaster Relief Fund	11	-	-	11	-	-	11	-	-	11	

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Dispensing Opticians Fund	174	156	117	213	153	250	116	151	265	2
Domestic Violence Trng & Education Fund	2,334	881	1,766	1,449	984	1,866	567	984	1,065	486
Drinking Water Operator Cert Special Act	1,586	1,426	1,017	1,995	1,100	1,264	1,831	1,200	1,287	1,744
Drinking Water Treatment & Research Fund	6,041	-1,000	447	4,594	5,000	4,983	4,611	5,000	4,998	4,613
Driver Training Penalty Assessment Fund	934	1,106	952	1,088	1,106	1,135	1,059	1,106	1,159	1,006
Driving Under-the-Influence Prog Lic Trs	1,279	1,270	1,233	1,316	1,340	1,586	1,070	1,340	1,602	808
Drug and Device Safety Fund	2,526	2,225	938	3,813	2,270	1,116	4,967	2,350	1,127	6,190
DNA Identification Fund	-	-	-	-	12,250	11,000	1,250	10,500	11,200	550
DNA Testing Fund, Department of Justice	505	10	315	200	3	-	203	3	24	182
Earthquake Emergency Invest Acct-NDA Fd	100	-	-	100	-	100	-	-	-	-
Earthquake Risk Reduction Fund of 1996	-	1,000	1,000	-	1,000	1,000	-	1,000	-	-
Education Acct, Child & Families TrustFd	29,654	30,050	10,187	49,517	30,303	79,820	-	29,371	29,371	-
Educational Telecommunication Fund	1,602	-	-6,509	8,111	-	-	8,111	-	4,204	3,907
Electrician Certification Fund	420	1,409	958	871	2,000	1,966	905	1,749	2,653	1
Electronic and Appliance Repair Fund	1,664	1,761	1,952	1,473	1,836	2,007	1,302	1,835	2,014	1,123
Electronic Waste Recovery & Recycling	-	-	-	-	34,749	31,780	2,969	78,000	78,629	2,340
Elevator Safety Account	4,200	10,211	8,887	5,524	13,446	13,034	5,936	13,446	13,465	5,917
Emerg Medical Svcs Trng Prog Approvl Fd	372	278	250	400	289	283	406	297	366	337
Emergency Food Assistance Program Fund	442	416	501	357	449	357	449	485	448	486
Emergency Medical Services Personnel Fnd	297	1,173	1,097	373	1,219	1,193	399	1,268	1,230	437
Emergency Telephone Number Acct, State	59,635	139,523	111,500	87,658	125,469	155,122	58,005	130,506	146,555	41,956
Employment Development Contingent Fund	-2,046	19,633	17,586	1	61,246	61,247	-	75,611	75,611	-
Employment Developmnt Dept Benefit Audit Energy and Resources Fund	850	12	-	862	12,799	12,799	862	12,903	12,903	-
Energy Conservation Assistance Ac, State	32,438	-7,698	17,315	7,425	-2,858	4,567	-	-2,591	-2,610	19
Energy Facility License and Compliance	-	886	615	271	1,226	615	882	1,030	623	1,289
Energy Resources Programs Account	18,508	43,755	48,722	13,541	48,866	52,143	10,264	52,571	53,815	9,020
Energy Tech Research, Dev, & Demo Acct	3,532	-1,191	-72	2,413	32	968	1,477	22	88	1,411
Environmental Enhancement Fund	1,316	21	4	1,333	315	307	1,341	311	381	1,271
Environmental Laboratory Improvement Fnd	15	2,820	2,834	1	2,882	2,882	1	3,018	3,018	1
Environmental License Plate Fund, Calif	4,263	29,467	28,736	4,994	31,906	31,379	5,521	31,845	37,274	92
Environmental Protection Trust Fund	2,031	1,069	-	3,100	946	-	4,046	946	-	4,992
Environmental Quality Assessment Fund	-	636	377	259	567	577	249	636	678	207
Environmental Water Fund	1,595	116	-	1,711	400	-	2,111	400	-	2,511
Environmnt Enhanc & Mitigat Demo Prigm Fd	10,526	226	5,042	5,710	181	5,091	800	156	101	855
Expedited Site Remediation Trust Fund	1,969	481	3	2,447	485	1,900	1,032	499	750	781
Export Document Program Fund	804	318	147	975	322	158	1,139	322	159	1,302
Exposition Park Improvement Fund	1,120	3,339	2,970	1,489	3,660	3,614	1,535	3,705	3,763	1,477
Fair and Exposition Fund	793	26,921	25,601	2,113	26,921	27,173	1,861	26,921	27,235	1,547
False Claims Act Fund	17,832	3,904	9,611	12,125	6,783	11,593	7,315	7,331	11,694	2,952
Family Law Trust Fund	5,382	1,843	1,919	5,306	1,868	3,105	4,069	1,868	3,131	2,806
Farm & Ranch Solid Waste Cleanup & Abate	1,151	346	995	502	1,020	1,025	497	1,020	1,064	453
Farmworker Remedial Account	544	67	2	609	64	102	571	64	102	533
Film California First Fund	1,124	-	35	1,089	-1,089	-	-	-	-	-
Financial Institutions Fund	4,839	16,824	16,898	4,765	18,868	18,848	4,785	17,409	18,892	3,302
Financial Responsibility Penalty Account	2,697	-363	-	2,334	-	-	2,334	-	-	2,334
Fingerprint Fees Account	7,718	51,724	57,828	1,614	63,990	64,420	1,184	68,612	68,745	1,051
Fire and Arson Training Fund, Calif	238	1,231	1,315	154	1,600	1,616	138	1,600	1,630	108
Fire Marshal Licensing & Cert Fund, St	505	1,903	1,781	627	1,903	1,931	599	1,903	1,962	540

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Fire Safety Subaccount	1,225	-	1,086	139	-	-	-	139	-	-	139
Firearm Safety Account	441	304	320	425	304	319	410	304	304	322	392
Firearms Safety and Enforcement Spec Fd	1,142	2,623	2,474	1,291	2,549	2,925	915	2,549	2,549	2,959	505
Firearms Safety Training Fund Special Ac	74	-74	-	-	-	-	-	-	-	-	-
Fiscal Recovery Fund	-	1,000	1,000	-	1,166,000	1,166,000	-	-	1,358,000	1,358,000	-
Fish and Game Preservation Fund	6,420	88,562	87,441	7,541	98,602	101,813	4,330	94,479	98,144	98,144	665
Fish and Wildlife Pollution Account	9,392	1,510	2,147	8,755	651	2,594	6,812	626	626	2,612	4,826
Food Safety Acct, Pesticide Reg Fd, Dept	65	404	350	119	177	295	1	321	321	306	16
Food Safety Fund	877	3,960	4,301	536	4,198	4,334	400	4,389	4,389	4,362	427
Foster and Small Family Insurance Fund	3,187	-	-1,078	4,265	4,265	-	4,265	4,265	-	-	4,265
Funeral Directors and Embalmers Fund, St	2,538	1,394	1,317	2,615	1,324	1,548	2,391	1,324	1,324	1,516	2,199
Gambling Control Fines & Penalties Acct	525	22	283	264	4	43	225	54	54	46	233
Gambling Control Fund	1,508	5,288	6,059	737	8,203	8,840	100	8,818	8,818	8,806	112
Garment Industry Regulations Fund	455	2,405	1,951	909	3,000	2,605	1,304	3,000	3,000	3,363	941
Garment Manufacturers Special Account	1,370	603	9	1,964	468	200	2,232	468	468	200	2,500
Gas Consumption Surcharge Fund	73,898	263,888	289,416	48,370	263,904	271,944	40,330	263,904	274,569	274,569	29,665
Genetic Disease Testing Fund	18,032	69,201	66,495	20,738	72,087	75,427	17,398	73,770	81,221	81,221	9,947
Geology and Geophysics Fund	560	731	707	584	941	786	739	972	969	969	742
Geothermal Resources Development Account	343	7,579	7,876	46	4,667	4,667	46	4,667	4,667	4,667	46
Glass Processing Fee Account	25,998	13,657	39,352	303	72,918	69,480	3,741	48,656	45,917	45,917	6,480
Golden Bear State Pharmacy Asst Program	641	-	1	640	-	-	640	-	-	-	640
Graphic Design License Plate Account	1,246	1,056	865	1,437	931	902	1,466	931	931	969	1,428
Guide Dogs for the Blind Fund	143	143	115	171	137	152	156	156	137	153	140
Habitat Conservation Fund	38,638	7,764	-4,601	51,003	7,898	49,835	9,066	8,943	8,943	10,178	7,831
Hazardous & Idle-Deserted Well Abate Fnd	115	98	153	60	104	100	64	104	104	100	68
Hazardous Liquid Pipeline Safety Calif	2,050	1,112	1,087	2,075	1,253	2,293	1,035	1,753	1,753	2,747	41
Hazardous Subst Clearing Account	132	2,874	2,939	67	3,052	2,737	382	2,202	2,202	2,568	16
Hazardous Substance Subaccount	2,959	1,139	2,576	1,522	1,331	2,561	2,92	1,831	2,109	2,109	14
Hazardous Waste Control Account	18,685	42,943	47,954	13,674	41,056	49,536	5,194	57,820	53,478	53,478	9,536
Health Care Benefits Fund	-	1,958	-	1,958	944	2,402	500	1,752	1,752	1,752	500
Health Data & Planning Fund, CA	5,936	16,757	15,327	7,366	14,279	21,157	488	19,416	18,790	18,790	1,114
Health Ed Acct, Cig & Tob Pr Surtax	14,104	76,370	84,984	5,490	77,142	77,600	5,032	75,102	76,744	76,744	3,390
Health Statistics Special Fund	4,261	21,923	16,791	9,393	20,317	18,311	11,399	19,810	19,810	16,943	14,266
Health Subaccount, Sales Tax Account	-	410,413	410,413	-	410,413	410,413	-	410,413	410,413	410,413	-
Hearing Aid Dispensers Fund	928	572	394	1,106	576	667	1,015	575	686	686	904
High Polluter Repair or Removal Account	8,202	23,337	16,380	15,159	37,133	21,011	31,281	51,590	39,832	39,832	43,039
High-Cost Fund-A Admin Committee Fd, Cal	27,087	49,067	40,598	29,556	43,070	59,270	13,356	43,070	42,698	42,698	13,728
High-Cost Fund-B Admin Committee Fd, Cal	92,517	494,063	358,700	227,880	494,065	482,391	239,554	494,065	447,141	447,141	286,478
Higher Education Earthquake Account 1987	22	-	-	22	-	-	22	-	-	-	22
Higher Education Fees and Income-CSU	100	1,012,233	1,012,233	100	1,111,298	1,111,298	100	1,212,546	1,212,546	1,212,546	100
Highway Account, State, STF	786,332	2,961,415	2,608,701	1,139,046	2,941,816	2,697,026	1,383,836	3,136,267	2,998,667	2,998,667	1,521,436
Highway Users Tax Account, TTF	-	1,127,713	1,120,629	7,084	1,108,327	1,108,325	7,086	1,137,952	1,137,952	1,137,952	7,086
Historic Property Maintenance Fund	2,975	1,019	1,507	2,487	1,038	1,507	2,018	1,031	1,500	1,500	1,549
Home Furnish & Thermal Insulat Fd, Burea	2,256	3,631	3,554	2,333	3,680	3,754	2,259	3,680	3,680	3,745	2,194
Hospital Building Fund	41,706	31,613	24,270	49,049	36,630	28,326	57,353	27,630	29,501	29,501	55,482
Hospital Svc Acct, Cig & Tob Pr Surtax	1,955	33,335	33,620	1,670	67,583	65,794	3,459	71,460	70,074	70,074	4,845
HICAP Fund, State	1,785	1,650	1,571	1,864	1,779	1,779	1,864	1,780	1,780	1,780	1,864
Illegal Drug Lab Cleanup Account	6,780	64	1,470	5,374	62	2,072	3,364	63	63	2,073	1,354
Indian Gaming Special Distribution Fund	67,135	59,551	37,992	88,694	55,378	52,273	91,799	50,645	50,645	53,764	88,680

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Industrial Development Fund	392	59	315	136	404	478	62	424	484	2
Industrial Medicine Fund	3,897	-1,532	1,551	814	-814	-	-	-	-	-
Industrial Rel Construction Enforce Fd	44	81	44	81	95	55	121	95	56	160
Infant Botulism Treatment & Prevention	1	1,246	800	447	3,700	3,808	339	1,898	1,912	325
Inland Wetlands Cons Fd, Wildlife Rest	1,259	22	36	1,245	23	703	565	23	509	79
Insurance Fund	18,829	193,903	167,800	44,932	174,978	188,598	31,312	177,784	194,634	14,462
Integrated Waste Management Account	16,321	44,044	46,864	13,501	47,791	50,106	11,186	48,791	54,531	5,446
Internat Student Exch Visitor Plcmt Orig	36	6	-	42	-	-	42	-	-	42
Job Creation Investment Fund	4	-4	-	-	-	-	-	-	-	-
Jobs-Housing Balance Improvement Account	100,000	-	25,462	74,538	-	25,529	49,009	-	25,787	23,222
Judicial Admin Efficiency & Modernization	2,140	513	-442	3,095	697	2	3,790	697	-	4,487
Labor and Workforce Development Fund	-	-	-	-	1	-	1	2	-	3
Lake Tahoe Conservancy Account	855	1,017	206	1,666	1,050	1,818	898	1,050	1,130	818
Landscape Architects Fd, CA Bd/Arch Exam	1,555	-520	645	390	725	898	217	2,021	1,068	1,170
Law Library Special Account, Calif_State	467	492	393	566	550	615	501	550	551	500
Leaking Undergrnd Stor Tank Cost Recovery	1,019	10	-	1,029	10	-	1,039	10	-	1,049
Licensed Midwifery Fund	23	19	-	42	19	-	61	21	-	82
Lifetime License Trust Acct, Fish & Game	3,244	1,223	-	4,467	510	-	4,977	504	-	5,481
Loc Pub Prosecutors & Pub Defenders Trng	524	864	864	524	864	868	520	864	866	518
Local Agency Deposit Security Fund	199	294	267	226	321	366	181	321	365	137
Local Airport Loan Account	5,476	2,167	-1,851	9,494	1,340	2,854	7,980	1,327	2,855	6,452
Local Govt Geothermal Resource Subacct	2,100	1,715	285	3,530	2,075	3,559	2,046	2,075	3,807	314
Local Jurisdiction Energy Assistance	742	346	417	671	327	998	-	319	319	-
Local Revenue Fund	-	-1,057,977	-1,057,978	1	482	482	1	754	754	1
Local Transportation Loan Acct, SHA, STF	3,000	405	1,114	2,291	29	1,000	1,320	17	1,000	337
Loss Control Certification Fund	2	-	-	2	-	-	2	-	-	2
Low-Level Radioactive Waste Disposal Fnd	435	7	-	442	7	-	449	7	-	456
Main Street Program Fund, California	-	-	-	-	175	175	-	175	175	-
Major Risk Medical Insurance Fund	13,563	40,000	33,316	20,247	40,000	40,031	20,216	40,000	40,036	20,180
Managed Care Fund	4,839	32,938	35,001	2,776	35,055	36,620	1,211	36,522	36,301	1,432
Mandates Claims Fund, State	461	-	-461	461	-	-	-	-	-	-
Marine Invasive Species Control Fund	1,827	1,944	1,511	2,260	3,200	3,208	2,252	3,200	3,216	2,236
Marine Life & Marine Reserve Mgmt Acct	-	-	-	-	500	500	-	-	-	-
Mass Media Comm Acct, Child & Fam Trust	18,950	34,952	38,352	15,550	35,563	51,113	-	34,446	34,446	-
Medical Marijuana Program Fund	-	-	-	-	996	1,057	-61	1,000	719	220
Medical Waste Management Fund	1,183	919	997	1,105	931	1,291	745	931	1,294	382
Medically Underserved Account	-	1,151	1,000	151	1,150	1,000	301	1,150	1,064	387
Mental Health Practitioner Education Fd	119	22	-	141	233	207	167	233	213	187
Mental Health Services Fund	-	-	-	-	254,000	-	254,000	683,000	-	937,000
Mental Health Subaccount, Sales Tax Acct	-	835,285	835,285	-	835,285	835,285	-	835,285	835,285	-
Mexican Amer Vet's Memrl Beautif/Enhance	188	2	-	190	2	10	182	2	10	174
Mine Reclamation Account	618	1,270	1,399	489	2,420	2,427	482	2,420	2,855	47
Missing Children Reward Fund	20	-	-	20	-	-	20	-	-	20
Missing Persons DNA Data Base Fund	2,838	3,165	2,570	3,433	3,099	3,130	3,402	3,099	3,073	3,428
Mobilehome Manufactured Home Revolv Fd	166	16,651	15,516	1,301	16,748	17,218	831	16,748	17,337	242
Mobilehome Park Revolving Fund	112	4,400	4,363	149	4,546	4,646	49	4,636	4,676	9
Mosquitoborne Disease Surveillance Acct	132	30	37	125	49	44	130	49	43	136
Motor Carriers Safety Improvement Fund	2,018	1,549	1,251	2,316	1,309	1,343	2,282	1,289	1,448	2,123
Motor Vehicle Account, STF	151,106	1,655,689	1,620,235	186,560	1,931,662	1,752,960	365,262	2,006,701	1,825,688	546,275

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Motor Vehicle Fuel Account, TTF	34,043	-9,473	24,570	-	30,242	23,740	6,502	29,480	23,057	12,925
Motor Vehicle Insurance Account, State	10,469	17,514	21,853	6,130	33,008	28,458	10,680	25,000	29,257	6,423
Motor Vehicle License Fee Account, TTF	-108	1,537,552	1,480,854	56,590	541,985	545,838	52,737	561,072	568,780	45,029
Motor Vehicle Parking Facil Moneys Acct	-1,082	4,576	4,897	-1,403	5,067	4,594	-930	5,360	4,428	2
Narcotic Treatment Program Licensing Trt	83	1,170	1,253	-	1,131	1,131	-	1,322	1,322	-
Native Species Conserv & Enhancement Acc	147	-5	-	142	-132	-	10	-	-	10
Natural Resources Infrastructure Fund	3,354	7,900	382	10,872	12,700	12,700	10,872	-	1	10,871
Naturopathic Doctor's Fund	-	-	-	-	338	93	245	6	118	133
New Motor Vehicle Board Account	2,401	1,458	1,486	2,373	1,452	1,902	1,923	1,457	1,936	1,444
Nontoxic Dry Cleaning Incentive Trst Fd	-	-	-	-	1,500	1,500	-	1,500	1,500	-
Nuclear Planning Assessment Special Acct	542	3,291	3,421	412	4,131	4,145	398	3,886	3,903	381
Nursing Home Admin St Lic Exam Fund	628	370	436	562	364	479	447	364	484	327
Occupancy Compliance Monitoring Account	2,121	38,186	1,016	39,291	-28,921	1,081	9,289	5,388	1,347	13,330
Occupational Lead Poisoning Prev Account	2,436	2,701	2,640	2,497	2,753	3,125	2,125	2,803	3,379	1,549
Occupational Therapy Fund	730	429	542	617	1,449	706	1,360	1,526	741	2,145
Off Highway License Fee Fund	-	1,922	1,922	-	1,950	1,950	-	1,950	1,950	-
Off-Highway Vehicle Trust Fund	72,883	54,929	47,939	79,873	54,574	115,902	18,545	54,577	66,000	7,122
Oil Spill Prevention & Administration Fd	8,129	30,263	27,753	10,639	30,575	30,963	10,251	31,247	31,635	9,863
Oil Spill Response Trust Fund	55,988	3,307	1,622	57,673	2,558	1,300	58,931	1,964	1,300	59,595
Oil, Gas and Geothermal Administrative	-	13,303	13,107	196	14,512	14,121	587	14,512	14,643	456
Olympic Training Account, California	1	-	-	1	-	-	1	-	-	1
Optomtry Fund, State	886	1,026	1,001	911	1,075	1,378	608	1,101	1,465	244
Osteopathic Medical Bd of Calif Contn Fd	436	735	679	492	914	1,043	363	877	1,082	158
Other Unallocated Special Funds	-	-3,409	45	-3,454	-4,693	30,770	-38,917	-402,640	-163,219	-278,338
Outpatient Setting Fd of Medical Board	54	59	-	113	2	23	92	1	24	69
Parks and Recreation Fund, State	12,126	95,633	96,747	11,012	112,805	117,850	5,967	118,805	124,015	757
Payphone Service Providers Committee Fd	4,528	300	915	3,913	462	936	3,439	483	931	2,991
Peace Officers' Training Fund	11,200	50,141	46,548	14,793	50,345	53,471	11,667	50,887	55,016	7,538
Pedestrian Safety Account, STF	1,221	119	35	1,305	25	39	1,291	-	-	1,291
Penalty Act, Ca Bev Container Recyc Fd	982	211	-	1,193	168	-	1,361	169	-	1,530
Perinatal Insurance Fund	1,402	91,645	90,749	2,298	28,115	30,411	2	19,169	19,171	-
Permanent Amusement Ride Safety Insp Fd	121	392	492	21	430	450	1	1,001	1,001	1
Pesticide Regulation Fund, Dept of	7,344	46,452	47,950	5,846	55,926	57,713	4,059	57,475	59,937	1,597
Petro Undergrnd Storage Tank Financ Acct	34,633	-37,702	-3,069	-	-	-	-	-	-	-
Pharmacy Board Contingent Fund	4,787	6,651	6,564	4,874	5,623	7,740	2,757	8,769	7,982	3,544
Physical Therapy Fund	1,446	1,760	2,116	1,090	1,759	2,070	779	1,758	2,524	13
Physician Assistant Fund	1,492	871	791	1,572	839	891	1,520	874	943	1,451
Physician Svc Acct, Cig & Tob Pr Surtax	575	2,595	2,342	828	12,130	12,310	648	13,052	12,749	951
Pierce's Disease Management Account	8,820	3,872	6,090	6,602	6,903	9,935	3,570	6,903	10,472	1
Pilot Commissioners' Special Fd, Board	2,683	350	1,178	1,855	313	1,218	950	295	1,233	12
Podiatric Medicine Fund, Board of	890	892	786	996	862	747	747	808	1,150	405
Pressure Vessel Account	388	2,636	2,678	346	2,546	2,846	46	3,202	3,247	1
Private Investigator Fund	975	804	670	1,109	810	627	1,292	815	626	1,481
Private Postsec & Vocatin Ed Admin Fund	827	5,493	5,656	664	5,734	6,034	364	5,805	5,952	217
Private Security Services Fund	4,340	3,804	6,428	1,716	7,775	7,022	2,469	7,795	6,958	3,306
Professional Engineer & Land Surveyor Fd	1,723	6,529	6,968	1,284	6,500	7,545	239	7,668	7,765	142
Professional Forester Registration Fund	537	92	121	508	148	196	460	149	198	411
Propane Safety Insp/Enforcmt Prog Trust	447	-369	-	78	-78	-	-	-	-	-
Property Acquisition Law Money Account	-4,241	5,219	3,219	-2,241	11,352	6,255	2,856	3,629	2,943	3,542

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Psychiatric Technicians Account	1,435	326	1,105	656	1,322	1,165	813	1,346	1,251	908	
Psychology Fund	906	2,929	2,246	1,589	3,136	2,886	1,839	3,201	3,016	2,024	
Pub Sch Ping Desgn & Constr Rev Reviv Fd	4,361	29,534	30,120	3,775	32,567	31,090	5,252	67,567	31,849	40,970	
Publ Utilities Comm Utilities Reimb Acct	14,019	104,544	78,212	40,351	104,515	79,714	65,152	36,895	81,342	20,705	
Public Beach Restoration Fund	15	4,500	4,500	15	-	-	15	-	-	15	
Public Int Res, Dev & Demonstratn Progrm	30,608	66,192	71,368	25,432	67,007	69,874	22,565	68,761	80,086	11,240	
Public Res Acct, Cig & Tob Pr Surtax	1,241	15,478	15,499	1,220	15,746	15,237	1,729	15,236	15,330	1,635	
Public Rights Law Enforcement Special Fd	-	760	518	242	523	580	185	5,204	5,304	85	
Public Transportation Account, STF	61,809	304,715	248,603	117,921	239,499	298,661	58,759	600,970	593,984	65,745	
Public Util Comm Transport Reimb Acct	3,413	6,986	6,933	3,466	7,098	7,853	2,711	7,152	7,978	1,885	
PET Processing Fee Acct, Bev Cont Rec Fd	15,910	58,909	50,947	23,872	82,969	104,990	1,851	55,925	47,922	9,854	
Radiation Control Fund	5,833	13,004	14,882	3,955	13,109	16,454	610	19,093	19,600	103	
Rail Accident Prevention & Response Fund	21	-	-	21	-	-	21	-	-	21	
Real Estate Appraisers Regulation Fund	6,296	3,630	3,042	6,884	4,350	4,100	7,134	5,776	4,071	8,839	
Real Estate Fund	19,018	35,445	31,263	23,200	35,048	32,690	25,558	37,537	34,351	28,744	
Recycling Market Development Rev Loan	9,812	2,162	3,279	8,695	6,555	11,781	3,469	6,443	8,539	1,373	
Reg Environmental Health Specialist Fd	668	200	228	640	230	267	603	230	266	567	
Registered Nurse Education Fund	918	982	1,023	877	1,393	1,902	368	1,393	1,410	351	
Registered Nursing Fund, Board of	8,111	15,722	16,299	7,534	15,390	18,046	4,878	21,762	19,336	7,304	
Removal & Remedial Action Acct	983	1,303	-	2,286	6,689	6,666	2,309	3,088	5,295	102	
Renewable Resource Trust Fund	90,019	143,842	144,803	89,058	147,448	221,782	14,724	144,758	154,766	4,716	
Research & Devel Acct, Child & Fam Trust	29,357	18,232	10,263	37,326	18,482	55,808	-	17,923	17,923	-	
Research Acct, Cig & Tob Pr Surtax	7,276	19,428	26,363	341	19,696	19,344	693	19,186	19,474	405	
Residential Earthquake Recovery Fund, CA	3,796	35	810	3,021	-2,900	33	88	-	-	88	
Respiratory Care Fund	1,325	1,935	1,985	1,275	1,955	2,522	708	1,959	2,571	96	
Responsibility Area Fire Protection Fund	-	52,500	52,459	41	-	35	6	-	-	6	
Restitution Fund	44,724	111,462	111,727	44,459	113,602	91,989	66,072	116,066	104,376	77,762	
Rigid Container Account	-	-	-	-	200	200	-	200	-	-	
Rural CUPA Reimbursement Account	340	-	-169	509	-	-	509	-	-	509	
Rural Development Fund	53	-53	-	-	-	-	-	-	-	-	
Rural Economic Development Fund	1,828	-1,950	-122	-	-	-	-	-	-	-	
Safe Drinking Water and Toxic Enforcement	-	340	284	56	350	352	54	350	382	22	
Safe Drinking Water Account	4,990	7,985	7,901	5,074	9,085	8,835	5,324	9,591	8,917	5,998	
Sale of Tobacco to Minors Control Acct	448	200	-45	693	210	528	375	210	528	57	
Salmon & Steelhead Trout Restoration Acc	-	-	-	-	6,500	6,500	-	-	-	-	
San Fran Bay Area Conservancy Prog Acct	7	-	-	7	-	-	7	-	-	7	
Satellite Wagering Account	31	12,620	12,110	541	12,620	12,266	895	12,620	12,275	1,240	
School Facilities Fee Assistance Fund	54,959	85	50,000	5,044	-4,802	148	94	-	94	-	
School Fund, State	15,517	10,807	10,682	15,642	10,807	10,682	15,767	10,807	10,807	15,767	
School Land Bank Fund	47,094	1,223	100	48,217	994	-	49,211	7,251	-	56,462	
Seismic Gas Valve Cert Fee Acct	-	-	-	-	75	75	-	75	-	-	
Self-insurance Plans Fund	2,080	2,694	2,339	2,435	2,900	2,962	2,373	2,900	3,546	1,727	
Senate Operating Fund	308	-	-	308	-	-	308	-	-	308	
Sexual Harbital Offender, DOU	2,824	2,148	2,134	2,838	2,168	2,725	2,281	2,160	2,731	1,710	
Sexual Predator Public Information Acct	161	418	57	522	594	66	1,050	594	670	974	
Site Operation and Maintenance Account	2,497	24	106	2,415	21	51	2,385	22	51	2,356	
Site Remediation Account	2,818	7,862	9,233	1,447	7,987	8,380	1,054	8,085	8,418	721	
Social Services Subaccount, Sales Tx Acc	-	1,029,475	1,029,475	-	1,196,571	1,196,571	-	1,278,840	1,278,840	-	
Soil Conservation Fund	416	1,363	1,304	475	2,091	2,194	372	2,091	2,254	209	

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Solid Waste Disposal Site Cleanup Tr Fd	3,355	5,492	7,271	7,271	1,576	5,219	5,433	1,362	5,219	5,594	987
Speech-Language Pathology & Audiology	378	654	489	489	543	647	547	643	688	609	722
State Court Facilities Construction Fund	19,815	-6,071	8,609	8,609	5,135	37,385	35,124	7,396	142,046	36,950	112,492
Strong-Motion Instrumentation Spec Fund	10,213	4,451	4,496	4,496	10,168	-10,129	-	39	-	-	39
Strong-Motion Instrument & Seismic Mapping	1,655	2,046	3,347	3,347	354	16,679	8,274	8,759	6,550	8,475	6,834
Structural Pest Control Educ&Enforcemnt Fd	490	295	272	272	513	269	279	503	269	286	486
Structural Pest Control Fund	2,295	3,402	3,139	3,139	2,558	2,929	3,447	2,040	2,919	3,596	1,363
Structural Pest Control Research Fund	764	114	2	2	876	106	132	850	105	95	860
Substance Abuse Treatment Trust Fund	801	-	199	199	602	-	228	374	-	374	-
Surface Impoundment Assessment Account	1,108	10	178	178	940	10	189	761	10	198	573
Surface Mining and Reclamation Account	402	2,009	1,083	1,083	1,328	2,009	1,226	2,111	1,220	1,269	2,062
Tax Credit Allocation Fee Account	1,784	28,640	1,475	1,475	28,949	-26,803	1,594	552	7,305	1,626	6,231
Teacher Credentials Fund	444	16,179	15,355	15,355	1,268	13,504	14,766	6	15,080	15,055	31
Technical Assistance Fund	1,027	3,237	1,305	1,305	2,959	21,066	23,951	74	24,942	23,955	1,061
Teleconnect Fd Admin Comm Fd, Cal	185,149	-148,085	5,158	5,158	31,906	17,000	18,746	30,160	21,000	20,321	30,839
Telephone Medical Advice Services Fund	217	71	89	89	199	216	132	283	73	145	211
Test Development and Admin Acct, Tc Fd	4,862	8,519	10,869	10,869	2,512	9,509	9,734	2,287	7,873	10,151	9
Tire Recycling Management Fund, Calif	26,275	17,046	30,814	30,814	12,507	34,158	31,824	14,841	34,943	32,217	17,567
Tissue Bank License Fund	407	291	221	221	477	317	290	504	353	280	577
Tobacco Settlement Fund	31,664	-6,000	6,993	6,993	18,671	-	6,530	12,141	-12,000	-	141
Toll Bridge Seismic Retrofit Acct, STF	225,405	1,294,811	689,063	689,063	831,153	594,489	815,957	609,685	505,983	594,124	521,544
Toxic Substances Control Account	32,380	34,785	38,416	38,416	28,749	32,406	46,628	14,527	32,726	45,498	1,755
Traffic Congestion Relief Fund	375,854	190,421	391,033	391,033	175,242	183,000	62,113	296,129	478,208	583,681	190,656
Transcript Reimbursement Fund	63	201	174	174	90	302	309	83	302	310	75
Transitional Housing for Foster Youth Fd	1,359	-	238	238	1,121	-	547	574	-	547	27
Transportation Investment Fund	-	-289,000	-289,000	-289,000	-	-	-	-	-	-	-
Transportation Rate Fund	811	1,916	1,816	1,816	911	1,879	1,877	913	2,619	2,430	1,102
Trauma Care Fund	8	-	7	7	1	-	1	-	-	-	-
Traumatic Brain Injury Fund	998	996	1,489	1,489	505	986	1,432	59	1,001	1,060	-
Travel Seller Fund	983	3,165	890	890	3,258	1,036	1,024	3,270	1,037	1,243	3,064
Trial Court Improvement Fund	82,860	94,579	60,799	60,799	116,640	94,468	133,009	78,099	109,235	135,881	51,453
Trial Court Trust Fund	48,410	1,063,886	1,071,272	1,071,272	41,024	1,037,696	1,009,047	69,673	1,027,494	999,579	97,588
Unallocated Acct, Cig & Tob Pr Surtax	7,770	46,559	44,049	44,049	10,280	70,083	75,715	4,648	67,788	66,998	5,438
Unallocated Acct, Child & Families Trust	9,299	11,908	9,669	9,669	11,538	12,221	23,759	-	11,849	11,849	-
Underground Storage Tank Cleanup Fund	121,438	209,273	241,426	241,426	89,285	204,662	246,253	47,694	232,630	278,520	1,804
Underground Storage Tank Fund	768	13	559	559	222	13	200	35	13	-	48
Underground Storage Tank Tester Account	61	60	30	30	91	60	62	89	60	63	86
Unfair Competition Law Fund	-	-	-	-	-	-	-	-	5,300	2,300	3,000
Unified Program Account	1,766	2,953	3,102	3,102	1,617	3,210	3,505	1,322	3,210	3,486	1,046
Universal Lifeline Telpne Svc Trst Admin	98,669	156,471	244,552	244,552	10,588	261,099	251,622	20,065	262,520	271,408	11,177
Upper Newport Bay Ecological Maint&Presv	-	-	-200	-200	200	-	-200	400	-	-200	600
Used Oil Recycling Fund, California	7,448	21,859	22,968	22,968	6,339	20,477	22,085	4,731	20,172	22,998	1,905
Vehicle Inspection and Repair Fund	27,062	108,974	101,871	101,871	34,165	115,390	110,021	39,534	106,888	114,630	31,792
Vehicle License Collection Acct, LRF	-	14,000	14,000	14,000	-	14,000	14,000	-	14,000	14,000	-
Vehicle License Fee Account	-	1,343,886	1,343,886	1,343,886	-	1,566,366	1,566,366	-	1,597,100	1,597,100	-
Vehicle License Fee Growth Account	-	222,480	222,480	222,480	-	30,734	30,734	-	53,362	53,362	-
Veterans Cemetery Perpetual Maint Fd	-	-	-	-	-	-	-	-	-	-	-51
Veterans Service Office Fund	646	527	495	495	678	562	514	726	598	598	726
Veterinary Medical Board Contingent Fund	898	1,722	1,680	1,680	940	1,747	1,634	1,053	1,784	1,962	875

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2003	Actual Revenues 2003-04	Actual Expenditures 2003-04	Actual Expenditures 2003-04	Reserves June 30, 2004	Estimated Revenue 2004-05	Estimated Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenues 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006
Victim Witness Assistance Fund	-711	17,356	16,883	-	-238	17,230	16,764	228	17,426	16,726	928
Victims of Corporate Fraud Compensation	-	1,734	-	-	1,734	1,497	1,600	1,631	1,497	1,600	1,528
Vietnam Veterans Memorial Account	34	1	-	-	35	1	-	36	-	-	36
Vocational Nurse Education Fund	-	-	-	-	-	145	132	13	145	138	20
Vocational Nurse Examiners Fund	2,760	2,797	4,184	-	1,373	4,760	5,309	824	6,884	5,357	2,351
Waste Discharge Permit Fund	8,756	56,284	51,305	-	13,735	55,196	57,960	10,971	55,196	58,115	8,052
Water Device Certification Special Acct	383	210	174	-	419	215	204	430	215	204	441
Water Fund, California	14,791	224	-	-	15,015	25	-	15,040	25	-	15,065
Water Rights Fund	-	7,358	4,608	-	2,750	10,707	10,257	3,200	9,207	9,591	2,816
Waterfowl Habitat Preservation Acct, Cal	3,298	47	107	-	3,238	30	217	3,051	18	220	2,849
Welcome Center Fund	-	-	-	-	-	55	55	-	56	56	-
Wildlife Restoration Fund	1,466	3,138	1,168	-	3,436	1,421	1,590	3,267	1,451	1,601	3,117
Wine Safety Fund	283	-	29	-	254	-	54	200	-	55	145
Winter Recreation Fund	360	319	449	-	230	325	343	212	325	347	190
Work and Family Fund	4,936	-	2,233	-	2,703	-	2,703	-	-	-	-
Workers' Comp Administration Revolv Fund	6,728	96,296	76,177	-	26,847	150,751	139,500	38,098	153,134	154,291	36,941
Workers' Compensation Managed Care Fund	810	-11	367	-	432	127	551	8	380	387	1
Workers' Occupational Sity & Health Ed	1,089	1,186	877	-	1,398	1,200	1,106	1,492	1,200	1,213	1,479
Workplace Health & Safety Revolving Fund	500	7	-	-	507	-	-	507	-	-	507
Yosemite Foundation Acct, ELPF	37	927	948	-	16	943	843	116	943	840	219
Totals, Special Funds	\$4,491,828	\$19,591,125	\$18,891,925	\$5,191,028	\$22,031,230	\$22,090,850	\$5,131,408	\$23,838,910	\$23,269,763	\$5,700,555	
GRAND TOTALS	\$9,551,803	\$96,365,205	\$97,237,141	\$8,679,867	\$100,250,329	\$102,373,836	\$6,556,360	\$109,293,257	\$109,007,619	\$6,841,998	

**SCHEDULE 11
STATEMENT OF GENERAL OBLIGATION BOND & COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA**
(Dollars in Thousands)

(This statement does not include bonds issued under authority of State instrumentalities that are not general obligations of the State of California)

Fund	Bond Act	Maturity	General Obligation Bonds				Proposed Sales		Commercial Paper	
			Authorized	Unissued	Outstanding	Redeemed	Jan-Jun 2005	Jul-Dec 2005	as of December 31, 2004 Finance Cmte. Authorization	Total Outstanding
6032	LEGISLATIVE, JUDICIAL, EXECUTIVE Voting Modernization (2002) Total, Legislative, Judicial, Executive	2005-2010	\$200,000 \$200,000	\$138,870 \$138,870	\$61,130 \$61,130	- \$0	\$28,403 \$28,403	\$36,365 \$36,365	\$93,870 \$93,870	- \$0
0703	BUSINESS, TRANSPORTATION & HOUSING Clean Air & Transp Improv (1990)	1991-2033	\$1,990,000	\$214,505	\$1,319,040	\$456,455	\$55,259	\$49,699	\$198,875	-
0714	Housing & Homeless (1990)	1991-2023	150,000	-	5,975	144,025	-	-	-	-
6037	Housing and Emergency Shelter (2002)	2012-2013	2,100,000	2,085,125	14,875	-	3,640	1,678	965,125	-
0756	Passenger Rail & Clean Air (1990)	1991-2022	1,000,000	-	545,350	454,650	-	-	-	-
0653	Seismic Retrofit (1996)	1997-2033	2,000,000	185,530	1,650,470	164,000	72,606	77,472	185,530	-
	Total, Business, Transportation & Housing		\$7,240,000	\$2,485,160	\$3,535,710	\$1,219,130	\$131,505	\$128,849	\$1,348,530	\$0
0722	NATURAL RESOURCES Ca Park & Recreational Facil (1984)	1985-2027	\$370,000	\$1,100	\$102,640	\$266,260	-	-	-	-
0721	Ca Parklands (1980)	1982-2024	285,000	-	20,115	264,885	-	-	-	-
0707	Ca Safe Drinking Water (1976)	1981-2027	175,000	2,500	31,150	141,350	-	-	-	-
0707	Ca Safe Drinking Water (1984)	1986-2027	75,000	-	20,990	54,010	-	-	-	-
0707	Ca Safe Drinking Water (1986)	1991-2030	100,000	-	54,095	45,905	-	-	-	-
0793	Ca Safe Drinking Water (1988)	1991-2033	75,000	6,975	47,370	20,655	\$2,195	\$1,109	\$6,975	-
6001	Ca Safe Drinking Water (2000)	2001-2034	1,970,000	1,351,117	606,215	12,668	186,156	133,143	477,317	-
0786	Ca Wildlife, Coast, & Park Land Cons (1988)	1990-2032	776,000	7,330	363,205	405,465	-	-	-	-
0734	Clean Water (1970)	1972-2011	250,000	3,500	246,500	242,865	-	-	-	-
0734	Clean Water (1974)	1978-2011	250,000	-	7,135	242,865	-	-	-	-
0740	Clean Water (1984)	1986-2024	325,000	-	66,345	258,655	-	-	-	-
6029	Clean Water, Clean Air, and Parks (2002)	2008-2034	2,600,000	2,256,770	343,230	-	226,444	220,540	1,226,640	-
0716	Community Parklands (1986)	1990-2022	100,000	-	34,610	65,390	-	-	-	-
0748	Fish & Wildlife Habitat Enhance (1984)	1986-2033	85,000	-	23,180	61,820	-	-	-	-
0720	Lake Tahoe Acquisitions (1982)	1986-2017	85,000	-	21,335	63,665	-	-	-	-
0402	Safe, Clean, Reliable Water Supply (1996)	1998-2034	995,000	346,730	610,275	37,995	75,790	81,997	346,730	-
0005	Safe Neighborhood Parks (2000)	2001-2034	2,100,000	1,028,515	1,043,325	23,160	153,330	139,630	499,710	-
0742	State, Urban & Coastal Park (1976)	1978-2029	280,000	27,600	11,580	268,420	-	-	-	-
0744	Water Conserv & Water Quality (1986)	1993-2031	150,000	9,525	62,860	59,540	2,975	2,328	6,800	-
0790	Water Conserv (1988)	1991-2033	60,000	-	38,270	12,205	-	-	9,525	-
	Total, Natural Resources		\$11,106,000	\$5,038,162	\$3,516,425	\$2,551,413	\$646,890	\$76,747	\$2,573,697	\$0
0737	ENVIRONMENTAL PROTECTION Clean Water & Water Conserv (1976)	1981-2028	\$375,000	-	\$25,705	\$349,295	-	-	-	-
0764	Clean Water & Water Reclam (1988)	1991-2029	65,000	-	44,055	20,945	-	-	-	-
0710	Hazardous Substance Cleanup (1984)	1986-2005	100,000	-	2,500	97,500	-	-	-	-
6031	Water Security, Coastal & Beach Protection (2002)	2008-2034	3,440,000	\$2,935,700	504,300	-	\$158,251	\$143,349	\$827,800	-
	Total, Environmental Protection		\$3,980,000	\$2,935,700	\$576,560	\$467,740	\$158,251	\$143,349	\$827,800	\$0
6046	HEALTH AND HUMAN SERVICES Children's Hospital Projects (2004)	1986-2006	\$750,000	\$750,000	-	-	-	-	-	-
0729	Senior Center (1984)	1986-2006	50,000	-	\$4,750	\$45,250	-	-	-	-
	Total, Health and Human Services		\$800,000	\$750,000	\$4,750	\$45,250	\$0	\$0	\$0	\$0
0711	YOUTH AND ADULT CORRECTIONAL Co Corr Facil Cap Expend (1986)	1989-2022	\$495,000	-	\$178,180	\$316,820	-	-	-	-
0796	Co Corr Facil Cap Expend (1988)	1991-2030	500,000	-	275,295	224,705	-	-	-	-
0725	Co Jail Cap Expend (1981)	1984-2011	280,000	-	37,650	242,350	-	-	-	-
0723	Co Jail Cap Expend (1984)	1986-2009	250,000	-	34,500	215,500	-	-	-	-
0723	New Prison Construction (1981)	1983-2006	495,000	-	24,500	470,500	-	-	-	-
0724	New Prison Construction (1984)	1985-2006	300,000	-	17,500	282,500	-	-	-	-
0746	New Prison Construction (1986)	1990-2034	500,000	-	141,585	358,415	-	-	-	-
0747	New Prison Construction (1988)	1991-2021	817,000	\$8,570	386,460	421,970	\$2,377	\$1,089	\$8,570	-
0751	New Prison Construction (1990)	1991-2021	450,000	2,605	213,190	234,205	1,633	675	2,605	-
	Total, Youth and Adult Correctional		\$4,087,000	\$11,175	\$1,308,860	\$2,766,965	\$4,010	\$1,764	\$11,175	\$0

**SCHEDULE 11
STATEMENT OF GENERAL OBLIGATION BOND & COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA**
(Dollars in Thousands)

(This statement does not include bonds issued under authority of State instrumentalities that are not general obligations of the State of California)

Fund	Bond Act	Maturity	General Obligation Bonds					Proposed Sales		Commercial Paper	
			Authorized	Unissued	Outstanding	Redeemed	Jan-Jun 2005	Jul-Dec 2005	as of December 31, 2004	Finance Crite.	Total
			Sales through December 31, 2004						Authorization	Outstanding	
EDUCATION-K-12											
0794	Ca Library Constr & Renov (1988)	1991-2031	\$75,000	\$2,595	\$43,495	\$28,910	-	-	-	-	
6000	Ca Library Constr & Renov (2000)	2001-2033	350,000	321,375	28,585	40	\$25,779	\$22,795	85,425	-	
0119	Class Size Reduction K-U Pub. Ed. Facil (1998) K-12	1999-2034	6,700,000	11,860	6,289,685	398,455	4,307	1,780	11,860	-	
0657	Public Education Facil (1996) K-12	1997-2033	2,025,000	23,465	1,864,255	337,280	18,162	10,975	23,465	-	
6036	Public Education Facil (2002) K-12	2008-2034	11,400,000	2,701,365	8,698,635	-	892,213	1,096,068	2,701,365	-	
6044	Public Education Facil (2004) K-12	2010-2034	10,000,000	9,586,375	413,625	-	223,555	352,566	9,586,375	-	
0739	School Bldg & Earthquake (1974)	1997-2026	40,000	-	29,320	10,680	-	-	-	-	
0789	School Facilities (1988)	1990-2011	800,000	-	349,185	450,815	-	-	-	-	
0708	School Facilities (1990)	1992-2033	800,000	-	449,430	350,570	459	324	-	-	
0745	School Facilities (1992)	1993-2033	1,900,000	15,055	1,113,615	771,330	6,019	4,678	15,055	-	
0743	State Sch Bldg Lease-Purch (1982)	1984-2005	500,000	-	7,250	492,750	-	-	-	-	
0743	State Sch Bldg Lease-Purch (1984)	1987-2011	450,000	-	80,000	370,000	-	-	-	-	
0743	State Sch Bldg Lease-Purch (1986)	1990-2011	800,000	-	226,800	573,200	-	-	-	-	
0776	1988 School Facil Bond Act (Nov)	1991-2033	800,000	2,255	394,730	403,015	936	716	2,255	-	
0774	1990 School Facil Bond Act (Jun)	1991-2033	800,000	2,125	409,595	388,280	1,175	694	2,125	-	
0765	1992 School Facil Bond Act (Nov)	1994-2033	900,000	4,789	541,847	353,364	2,392	1,856	4,789	-	
	Total, Education-K-12		\$38,340,000	\$12,671,259	\$20,740,052	\$4,928,689	\$1,174,967	\$1,492,452	\$12,432,714	\$0	
HIGHER EDUCATION											
0574	Class Size Reduction K-U Pub. Ed. Facil (1998) HI-Ed	1999-2034	\$2,500,000	\$226,875	\$2,214,875	\$58,250	\$79,078	\$50,738	\$226,875	-	
0782	Higher Education Facil (1986)	1989-2011	400,000	-	103,500	286,500	-	-	-	-	
0785	Higher Education Facil (1988)	1990-2033	600,000	10,440	282,405	307,155	-	-	3,440	-	
0791	Higher Education Facil (Jun 1990)	1991-2033	450,000	2,110	231,620	216,270	53	22	980	-	
0705	Higher Education Facil (Jun 1992)	1993-2033	900,000	7,235	617,905	274,860	845	627	2,095	-	
0658	Public Education Facil (1996) HI-Ed	1997-2033	975,000	37,465	844,420	93,115	854	415	28,765	-	
6028	Public Education Facil (2002) HI-Ed	2008-2034	1,650,000	1,432,085	217,915	-	180,877	193,923	1,016,085	-	
6041	Public Education Facil (2004) HI-Ed		2,300,000	2,300,000	-	-	71,625	109,163	726,476	-	
6047	Stem Cell Research		3,000,000	3,000,000	-	-	-	-	-	-	
	Total, Higher Education		\$12,775,000	\$7,016,210	\$4,512,640	\$1,246,150	\$333,332	\$354,888	\$2,004,716	\$0	
GENERAL GOVERNMENT											
0768	Earthquake Safety & Public Bldg. Rehab (1990)	1991-2022	\$300,000	\$39,960	\$217,035	\$43,005	\$15,344	\$9,013	\$39,960	-	
0701	Veterans' Homes (2000)	2013	50,000	46,920	3,080	-	7,268	4,573	41,920	-	
	Total, General Government		\$350,000	\$86,880	\$220,115	\$43,005	\$22,612	\$13,586	\$81,880	\$0	
	Total, All Agencies		\$78,678,000	\$30,994,546	\$34,415,112	\$13,268,342	\$2,471,597	\$2,713,635	\$19,281,512	\$0	
SELF-LIQUIDATING BONDS¹											
	Ca Water Resources Dev (1959)	1973-2024	\$1,750,000	\$167,600	\$749,540	\$832,860	-	-	-	-	
	The Economic Recovery Bond Act	2005-2023	15,000,000	4,103,920	10,896,080	2,633,730	-	-	357,920	-	
	Veterans Bonds	1988-2032	4,510,000	605,585	1,270,685	-	-	-	105,585	-	
	Total, Self-Liquidating Bonds		\$21,260,000	\$4,877,105	\$12,916,305	\$3,466,590	\$0	\$0	\$463,505	\$0	
	Total		\$99,938,000	\$35,871,651	\$47,331,417	\$16,734,932	\$2,471,597	\$2,713,635	\$19,745,017	\$0	

¹ The California Water Resources Development Bond Act, The Economic Recovery Bond Act, and the Veterans Bond Acts are public service enterprises that have their own revenues to finance their respective debt service expenditures.
Source: State Treasurer's Office

SCHEDULE 12A
STATE APPROPRIATIONS LIMIT SUMMARY
(Dollars in Millions)

	2003-04			2004-05			2005-06		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Schedule 8									
Revenues and Transfers	\$76,774	\$19,591	\$96,365	\$78,219	\$22,031	\$100,250	\$85,454	\$23,839	\$109,293
Less/Add: Transfers	-713	593	-120	-315	334	19	-544	389	-155
Schedule 12B									
Less: Revenues to Excluded Funds	--	-9,580	-9,580	--	-9,732	-9,732	--	-10,544	-10,544
Schedule 12C									
Less: Non-Tax Revenues to Included Funds	-5,773	-404	-6,177	-1,415	-454	-1,869	-2,972	-456	-3,428
Schedule 12D									
Add: Transfers from Excluded to Included Funds	117	4	121	31	4	35	16	6	22
TOTAL, SAL REVENUES AND TRANSFERS	\$70,405	\$10,204	\$80,609	\$76,520	\$12,183	\$88,703	\$81,954	\$13,234	\$95,188
Schedule 12E									
Less: Exclusions	-28,535	-4,230	-32,765	-28,303	-5,188	-33,491	-30,510	-5,905	-36,415
TOTAL, SAL APPROPRIATIONS			\$47,844			\$55,212			\$58,773
CALCULATION OF LIMIT ROOM									
Appropriations Limit (Sec. 12.00)			\$61,702			\$64,588			\$68,479
Less: Total SAL Appropriations			-47,844			-55,212			-58,773
Appropriation Limit Room/(Surplus)			\$13,858			\$9,376			\$9,706

**SCHEDULE 12B
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)**

Source Code	Source	Actual 2003-04	Estimated 2004-05	Proposed 2005-06
MAJOR REVENUES:				
110500	Cigarette Tax	\$941,024	\$921,700	\$896,700
110900	Horse Racing Fees-Licenses	25,276	25,276	25,276
111100	Horse Racing Fines and Penalties	1,376	1,376	1,376
111300	Horse Racing Miscellaneous	13,062	13,062	13,062
114300	Other Motor Vehicle Fees	1,911	1,938	1,936
114900	Retail Sales and Use Taxes	-	140,000	-
115400	Mobilehome In-Lieu Tax	2,388	2,388	2,388
TOTAL, MAJOR TAXES AND LICENSES		\$985,037	\$1,105,740	\$940,738
MINOR REVENUES:				
REGULATORY TAXES AND LICENSES:				
120200	General Fish and Game Taxes	1,479	1,498	1,498
120300	Energy Resource Surcharge	520,589	526,446	519,639
120600	Quarterly Public Utility Commission Fees	124,000	84,190	44,962
120900	Off-Highway Vehicle Fees	3,835	3,500	3,500
121000	Liquor License Fees	43,467	42,394	42,394
121100	Genetic Disease Testing Fees	64,684	71,673	76,356
121200	Other Regulatory Taxes	80,268	94,790	97,278
121300	New Motor Vehicle Dealer License Fee	1,449	1,435	1,445
121500	General Fish and Game Lic Tags Permits	81,478	85,002	85,505
121600	Duck Stamps	56	70	70
122400	Elevator and Boiler Inspection Fees	12,453	15,746	16,402
122700	Employment Agency License Fees	5,203	4,401	4,431
122900	Teacher Credential Fees	13,088	13,048	13,038
123000	Teacher Examination Fees	11,414	9,764	9,713
123100	Insurance Co License Fees & Penalties	33,306	34,495	36,075
123200	Insurance Company Examination Fees	20,852	18,658	18,658
123400	Real Estate Examination Fees	7,559	7,220	7,480
123500	Real Estate License Fees	20,583	20,712	23,351
123600	Subdivision Filing Fees	9,930	9,211	9,211
123800	Building Construction Filing Fees	3,911	4,103	4,103
124100	Domestic Corporation Fees	11,750	11,965	11,965
124200	Foreign Corporation Fees	1,085	1,119	1,119
124300	Notary Public License Fees	1,596	1,722	1,722
124400	Filing Financing Statements	4,147	4,084	4,084
125100	Beverage Container Redemption Fees	750,842	916,419	953,609
125200	Explosive Permit Fees	1	1	1
125400	Environmental and Hazardous Waste Fees	62,166	61,357	62,478
125600	Other Regulatory Fees	1,471,518	1,773,352	1,894,116
125700	Other Regulatory Licenses and Permits	331,908	339,243	362,785
125800	Renewal Fees	154,080	157,831	158,657
125900	Delinquent Fees	5,167	4,157	4,173
127100	Insurance Department Fees, Prop 103	27,678	25,427	24,723
127200	Insurance Department Fees, General	30,067	19,808	20,754
127300	Insurance Fraud Assessment, Workers Comp	32,821	34,411	34,411
127400	Insurance Fraud Assessment, Auto	37,613	38,335	39,293
127500	Insurance Fraud Assessment, General	1,728	4,347	4,347
TOTAL, REGULATORY TAXES AND LICENSES		\$3,983,771	\$4,441,934	\$4,593,346
REVENUE FROM LOCAL AGENCIES:				
130600	Architecture Public Building Fees	29,181	32,000	32,000
130700	Penalties on Traffic Violations	78,842	86,956	88,274
130800	Penalties on Felony Convictions	57,148	58,991	60,671
130900	Fines-Crimes of Public Offense	4,543	4,543	4,543
131000	Fish and Game Violation Fines	572	570	570
131100	Penalty Assessments on Fish & Game Fines	625	700	707
131300	Add'l Assmnts on Fish & Game Fines	66	100	100
131600	Fingerprint ID Card Fees	53,719	63,950	68,572
131700	Misc Revenue From Local Agencies	485,470	485,644	485,644
TOTAL, REVENUE FROM LOCAL AGENCIES		\$710,166	\$733,454	\$741,081
SERVICES TO THE PUBLIC:				
140600	State Beach and Park Service Fees	52,424	71,700	77,700
140900	Parking Lot Revenues	7,603	8,302	8,665
141100	Emergency Telephone Users Surcharge	139,510	125,486	130,506
141200	Sales of Documents	942	964	965
142000	General Fees--Secretary of State	23,877	24,682	24,682
142200	Parental Fees	1,800	1,800	1,800
142500	Miscellaneous Services to the Public	166,818	166,803	166,897
142800	California State University Fees	1,012,233	1,111,298	1,212,546
143000	Personalized License Plates	41,832	44,076	46,262
TOTAL, SERVICES TO THE PUBLIC		\$1,447,039	\$1,555,111	\$1,670,023

**SCHEDULE 12B -- Continued
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)**

<i>Source Code</i>	<i>Source</i>	<i>Actual 2003-04</i>	<i>Estimated 2004-05</i>	<i>Proposed 2005-06</i>
USE OF PROPERTY AND MONEY:				
150200	Income From Pooled Money Investments	111	111	111
150300	Income From Surplus Money Investments	52,746	53,427	55,973
150400	Interest Income From Loans	3,266	2,138	1,730
150500	Interest Income From Interfund Loans	2,040	172	4,669
150600	Income From Other Investments	16,304	14,341	10,477
151200	Income From Condemnation Deposits Fund	1	1	1
151800	Federal Lands Royalties	23,477	19,377	18,588
152200	Rentals of State Property	3,739	3,275	3,289
152300	Misc Revenue Frm Use of Property & Money	15,065	22,146	12,751
152400	School Lands Royalties	157	97	97
152500	State Lands Royalties	7,900	25,200	-
TOTAL, USE OF PROPERTY AND MONEY		\$124,806	\$140,285	\$107,686
MISCELLANEOUS:				
160100	Attorney General Proceeds of Anti-Trust	2,574	1,149	1,149
160200	Penalties & Interest on UI & DI Contrib	86,304	87,552	89,582
160400	Sale of Fixed Assets	32	6	6
160600	Sale of State's Public Lands	500	316	6,563
161000	Escheat of Unclaimed Checks & Warrants	954	671	670
161400	Miscellaneous Revenue	194,478	749,404	250,812
161500	Bond Proceeds	1,155,444	-	1,214,000
161800	Penalties & Intrst on Personal Income Tx	13,152	13,139	13,497
161900	Other Revenue - Cost Recoveries	58,386	80,181	75,092
163000	Settlements/Judgments(not Anti-trust)	762	522	5,203
164100	Traffic Violations	2,298	2,298	2,298
164200	Parking Violations	1,258	460	460
164300	Penalty Assessments	114,295	80,488	86,642
164400	Civil & Criminal Violation Assessment	11,053	10,737	10,987
164600	Fines and Forfeitures	307,616	313,322	313,322
164700	Court Filing Fees and Surcharges	329,621	365,495	365,496
164800	Penalty Assessments on Criminal Fines	50,105	50,105	50,105
TOTAL, MISCELLANEOUS		\$2,328,832	\$1,755,845	\$2,485,884
MISCELLANEOUS:				
199900	Pending New Revenue	-	-	5,476
TOTAL, MISCELLANEOUS		-	-	\$5,476
TOTAL, MINOR REVENUES		\$8,594,614	\$8,626,629	\$9,603,496
TOTALS, Revenue to Excluded Funds (MAJOR and MINOR)		\$9,579,651	\$9,732,369	\$10,544,234

**SCHEDULE 12C
NON-TAX REVENUES IN FUNDS SUBJECT TO LIMIT
(Dollars In Thousands)**

Source Code	Source	Actual 2003-04		Estimated 2004-05		Proposed 2005-06	
		General Fund	Special Fund	General Fund	Special Fund	General Fund	Special Fund
MAJOR REVENUES:							
111100	Horse Racing Fines and Penalties	\$217	-	\$180	-	\$180	-
111200	Horse Racing Fees-Unclaimed P-M Tickets	355	-	320	-	320	-
111300	Horse Racing Miscellaneous	-	-	5	-	5	-
114200	Driver's License Fees	-	177,708	-	217,000	-	220,000
114300	Other Motor Vehicle Fees	-	31,818	-	34,000	-	35,000
114400	Identification Card Fees	-	14,001	-	23,000	-	23,500
114500	Lien Sale Application Fees	-	1,952	-	2,000	-	2,040
	Total, MAJOR TAXES AND LICENSES	\$572	\$225,479	\$505	\$276,000	\$505	\$280,540
MINOR REVENUES:							
REGULATORY TAXES AND LICENSES:							
120800	Hwy Carrier Uniform Business License Tax	324	-	320	-	320	-
120900	Off-Highway Vehicle Fees	-	4,580	-	5,000	-	5,500
121000	Liquor License Fees	-	374	-	374	-	374
122400	Elevator and Boiler Inspection Fees	223	-	223	-	223	-
122600	Industrial Homework Fees	2	-	2	-	2	-
122700	Employment Agency License Fees	685	-	685	-	685	-
122800	Employment Agency Filing Fees	90	-	90	-	90	-
124500	Candidate Filing Fee	1,291	-	94	-	658	-
125200	Explosive Permit Fees	-	-	25	-	25	-
125600	Other Regulatory Fees	9,330	-	1,055	728	1,155	728
125700	Other Regulatory Licenses and Permits	42,659	39,148	42,605	38,541	42,988	36,290
125800	Renewal Fees	146	-	82	-	146	-
	Total, REGULATORY TAXES AND LICENSES	\$54,750	\$44,102	\$45,181	\$44,643	\$46,292	\$42,892
REVENUE FROM LOCAL AGENCIES:							
131500	Narcotic Fines	3,464	-	1,000	-	1,000	-
131700	Misc Revenue From Local Agencies	355,406	522	320,597	580	322,338	580
131900	Rev Local Govt Agencies-Cost Recoveries	2,347	9,521	2,500	9,700	2,500	9,900
	Total, REVENUE FROM LOCAL AGENCIES	\$361,217	\$10,043	\$324,097	\$10,280	\$325,838	\$10,480
SERVICES TO THE PUBLIC:							
140100	Pay Patients Board Charges	17,456	-	16,894	-	16,710	-
140900	Parking Lot Revenues	-	475	-	490	-	490
141000	Fire Prevention and Suppression	-	-	100	-	100	-
141200	Sales of Documents	267	672	263	1,091	283	1,076
142000	General Fees--Secretary of State	16	-	20	-	20	-
142300	Guardianship Fees	6	-	6	-	6	-
142500	Miscellaneous Services to the Public	1,949	64,469	1,756	65,000	1,753	65,000
142600	Receipts From Health Care Deposit Fund	8,000	-	8,000	-	8,000	-
142700	Medicare Receipts Frm Federal Government	5,005	-	5,370	-	5,370	-
143000	Personalized License Plates	-	8	-	10	-	10
	Total, SERVICES TO THE PUBLIC	\$32,699	\$65,624	\$32,409	\$66,591	\$32,242	\$66,576
USE OF PROPERTY AND MONEY:							
152000	Oil & Gas Lease-1% Revenue City/County	279	-	327	-	253	-
152200	Rentals of State Property	8,272	34,844	8,810	30,615	8,975	29,288
152300	Misc Revenue Frm Use of Property & Money	25,878	15,203	29,603	16,436	29,603	16,773
152500	State Lands Royalties	113,763	-	139,308	-	121,600	-
	Total, USE OF PROPERTY AND MONEY	\$148,192	\$50,047	\$178,048	\$47,051	\$160,431	\$46,061
MISCELLANEOUS:							
160400	Sale of Fixed Assets	95,320	-	20,741	-	82	-
160500	Sale of Confiscated Property	5,993	-	6,034	-	6,034	-
160600	Sale of State's Public Lands	-	172	-	104	-	75
160700	Proceeds From Estates of Deceased Person	151	-	188	-	188	-
160900	Revenue-Abandoned Property	669,319	-	392,090	-	204,753	-
161000	Escheat of Unclaimed Checks & Warrants	30,172	2,199	25,147	2,093	25,040	2,099
161400	Miscellaneous Revenue	2,324,318	5,928	275,010	5,938	347,365	5,961
161500	Bond Proceeds	2,012,000	-	-	-	1,682,800	-
161900	Other Revenue - Cost Recoveries	44	-	25	332	35	332
163000	Settlements/Judgments(not Anti-trust)	4,011	-	77,741	-	105,150	-
164000	Uninsured Motorist Fees	2,482	598	2,400	600	2,400	600
164200	Parking Violations	8,511	-	8,001	-	8,001	-
164300	Penalty Assessments	22,614	-	27,018	-	24,512	-
164400	Civil & Criminal Violation Assessment	481	-	463	-	463	-
	Total, MISCELLANEOUS	\$5,175,416	\$8,897	\$834,858	\$9,067	\$2,406,823	\$9,067
	TOTAL, MINOR REVENUES	\$5,772,274	\$178,713	\$1,414,593	\$177,632	\$2,971,626	\$175,076
	TOTALS, Non-Tax Revenue (MAJOR and MINOR)	\$5,772,846	\$404,192	\$1,415,098	\$453,632	\$2,972,131	\$455,616

**SCHEDULE 12D
STATE APPROPRIATIONS LIMIT
TRANSFER FROM EXCLUDED FUNDS TO INCLUDED FUNDS
(Dollars in Thousands)**

	<i>Actual 2003-04</i>		<i>Estimated 2004-05</i>		<i>Proposed 2005-06</i>	
	<i>General Fund</i>	<i>Special Fund</i>	<i>General Fund</i>	<i>Special Fund</i>	<i>General Fund</i>	<i>Special Fund</i>
From Fingerprint Fees Account (0017) to General Fund (0001) per Item 0820-011-0017, Budget Act of 2003)	\$2,000	-	-	-	-	-
From Emergency Telephone Number Acct, State (0022) to General Fund (0001) (per Section 6.60, Budget Act of 2004)	-	-	\$17	-	-	-
From Corporations Fund, State (0067) to General Fund (0001) (per Chapter 23, Statutes of 2004)	\$500	-	-	-	-	-
From Corporations Fund, State (0067) to General Fund (0001) per Item 2180-011-0067, Budget Acts of 2003 and 2004)	\$44,407	-	\$1,500	-	-	-
From Health Statistics Special Fund (0099) to General Fund (0001) per Item 4260-012-0099, Budget Act of 2003)	\$1,000	-	-	-	-	-
From Rural Economic Development Fund (0123) to General Fund (0001) (per Chapter 229, Statutes of 2003)	\$2,014	-	-	-	-	-
From Commerce Marketing Fund (0145) to General Fund (0001) (per Chapter 229, Statutes of 2003)	\$136	-	-	-	-	-
From Energy and Resources Fund (0188) to General Fund (0001) per Public Resources Code Section 26042.4)	\$844	-	\$300	-	\$300	-
From Fair and Exposition Fund (0191) to General Fund (0001) per Item 8570-011-0191, Budget Acts of 2003, 2004 and 2005)	\$246	-	\$246	-	\$246	-
From Business Fees Fund, Secty of State's (0228) to General Fund (0001) (per Government Code Section 12176)	\$9,843	-	\$14,531	-	\$15,264	-
From Technical Assistance Fund (0270) to General Fund (0001) per Health and Safety Code Section 1523.2 (c))	\$3,946	-	-	-	-	-
From Business Reinvestment Fund (0274) to General Fund (0001) per Item 0890-011-0274, Budget Act of 2003)	\$193	-	-	-	-	-
From Residential Earthquake Recovery Fund, CA (0285) to General Fund (0001) per Item 0845-011-0285, Budget Act of 2004)	-	-	\$2,900	-	-	-
From Petro Undergrnd Storage Tank Financ Acct (0440) to General Fund (0001) (per Government Code Section 16346)	\$38,621	-	-	-	-	-
From Energy Resources Programs Account (0465) to General Fund (0001) per Item 3360-011-0465, Budget Act of 2004)	-	-	\$12,000	-	-	-
From Energy Resources Programs Account (0465) to General Fund (0001) per Item 3360-013-0465, Budget Act of 2003)	\$9,365	-	-	-	-	-
From Energy Tech Research, Dev, & Demo Acct (0479) to General Fund (0001) per Item 3360-011-0479, Budget Act of 2003)	\$1,288	-	-	-	-	-
From Drinking Water Treatment & Research Fund (0622) to General Fund (0001) per Item 4260-011-0622, Budget Act of 2003)	\$1,000	-	-	-	-	-
From Apprenticeship Training Contribution Fd (3022) to General Fund (0001)						

**SCHEDULE 12D -- Continued
STATE APPROPRIATIONS LIMIT
TRANSFER FROM EXCLUDED FUNDS TO INCLUDED FUNDS
(Dollars in Thousands)**

	<i>Actual 2003-04</i>		<i>Estimated 2004-05</i>		<i>Proposed 2005-06</i>	
	<i>General Fund</i>	<i>Special Fund</i>	<i>General Fund</i>	<i>Special Fund</i>	<i>General Fund</i>	<i>Special Fund</i>
per Item 7350-011-3022, Budget Act of 2003)	\$1,400	-	-	-	-	-
From Environmental License Plate Fund, Calif (0140) to Motor Vehicle Account, STF (0044) (per Public Resources Code Section 21191)	-	\$3,890	-	\$3,890	-	\$6,013
TOTALS	\$116,803	\$3,890	\$31,494	\$3,890	\$15,810	\$6,013

**SCHEDULE 12E
STATE APPROPRIATIONS LIMIT
EXCLUDED APPROPRIATIONS
(Dollars in Millions)**

<u>Budget</u>	<u>Fund</u>	<u>Actual 2003-04</u>	<u>Estimated 2004-05</u>	<u>Estimated 2005-06</u>
DEBT SERVICE:				
9600 Bond Interest and Redemption				
(9600-510-0001)	General	\$1,798	\$3,075	\$3,341
(9590-501-0001)	General	2	3	4
9618 Economic Recovery Bond Debt Service	Special	--	1,154	1,344
TOTAL -- DEBT SERVICE		<u>\$1,800</u>	<u>\$4,232</u>	<u>\$4,689</u>
QUALIFIED CAPITAL OUTLAY:				
Various (Ch. 3 Except DOT)	General	\$83	\$77	\$74
Various (Ch. 3 Except DOT)	Special	119	13	60
Various Qualified Capital Outlay	General	180	132	196
Various Qualified Capital Outlay	Special	--	--	331
Lease-Revenue Bonds (Capital Outlay)	General	520	553	655
Lease-Revenue Bonds (Capital Outlay)	Special	16	16	16
TOTAL -- CAPITAL OUTLAY		<u>\$918</u>	<u>\$791</u>	<u>\$1,332</u>
SUBVENTIONS:				
6110 K-12 Apportionments (6110-601-0001)	General	\$15,738	\$19,287	\$20,663
6110 K-12 Supplemental Instruction (6110-104, 204, 205-0001)	General	355	361	377
6110 K-12 Class Size Reduction (6110-234-0001)	General	1,608	1,652	1,672
6110 K-12 ROCP (6110-105-0001)	General	370	356	417
6110 K-12 Apprenticeships (6110-103-0001)	General	16	16	17
6110 Charter Sch Block Grant (6110-211-0001)	General	36	57	67
State Subventions Not Counted in Schools' Limit	General	-3,001	-5,735	-5,735
6110 County Offices (6110-608-0001)	General	183	259	285
6870 Community Colleges (6870-101-0001)	General	2,189	2,779	3,028
SUBVENTIONS -- EDUCATION		<u>\$17,494</u>	<u>\$19,032</u>	<u>\$20,791</u>
SUBVENTIONS -- OTHER:				
5195 State-Local Realignment				
Vehicle License Collection Account	Special	\$14	\$14	\$14
Vehicle License Fees	Special	505	1,594	1,648
(9100-602-0001) Vehicle License Fee GF Backfill (Realignment)	General	1,058	--	--
9100 Tax Relief (9100-101-0001, Programs 60, 90)	General	463	473	480
9210 Local Government Financing				
(9210-601-0001)	General	38	38	--
(9210-603-0001)	General	--	--	1
9350 Shared Revenues				
(9430-640-0064)	Special	1,480	283	287
(9100-603-0001) VLF GF backfill (Shared Rev.)	General	2,066	--	--
(9430-601-0001) Trailer VLF GF backfill (Shared Rev.)	General	6	--	--
SUBVENTIONS -- OTHER		<u>\$5,630</u>	<u>\$2,402</u>	<u>\$2,430</u>
COURT AND FEDERAL MANDATES:				
Various Court and Federal Mandates (HHS)	General	\$2,808	\$3,007	\$2,973
Various Court and Federal Mandates	General	1,836	1,730	1,952
Various Court and Federal Mandates	Special	145	148	180
TOTAL -- MANDATES		<u>\$4,789</u>	<u>\$4,885</u>	<u>\$5,105</u>
PROPOSITION 111:*				
PTA Gasoline (Including Spillover)	Special	\$66	\$68	\$68
Motor Vehicle Fuel Tax: Gasoline	Special	1,380	1,365	1,398
Motor Vehicle Fuel Tax: Diesel	Special	248	256	265
Weight Fee Revenue	Special	257	277	294
TOTAL -- PROPOSITION 111		<u>\$1,951</u>	<u>\$1,966</u>	<u>\$2,025</u>
TAX REFUND:				
9100 Tax Relief (9100-101-0001, Programs 10, 30, 50)	General	\$183	\$183	\$43
TOTAL -- TAX RELIEF		<u>\$183</u>	<u>\$183</u>	<u>\$43</u>
EMERGENCIES:				
TOTAL EXCLUSIONS:		<u>--</u>	<u>--</u>	<u>--</u>
General Fund		\$28,535	\$28,303	\$30,510
Special Funds		\$4,230	\$5,188	\$5,905