



Governor's Budget Highlights

2006-07



*Arnold Schwarzenegger, Governor
State of California*

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Introduction

Since Governor Schwarzenegger took office in November of 2003, California has made significant strides in both economic recovery and fiscal stability. Key economic indicators demonstrate this progress, specifically:

- California employers have added more than 440,000 jobs.
- The state's unemployment rate has fallen from 6.7 percent to the low 5-percent range—rates not seen since before the September 11, 2001, terrorist attacks.
- The number of unemployed persons has fallen below 1,000,000 for the first time in nearly four years.
- Total personal income is growing at more than a 6-percent annual rate today, compared to a 4.5-percent annual rate in November 2003.

By implementing reforms in workers' compensation, providing more than \$4 billion in annual tax relief to vehicle

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owners, curbing frivolous litigation, and holding the line on tax increases, the Administration has helped to improve California's business climate and stimulate the private economy. This is evidenced by the strong growth in corporate profits tax receipts and substantial capital gains and stock options performance.

The state has also made great strides in improving the state's fiscal condition. Just prior to taking office, an independent assessment of state government finances projected that without changes in the state's economic, revenue, or spending patterns, the state's operating deficit for the fiscal year beginning July 2006 would be more than \$16.5 billion. Under the 2006-07 Governor's Budget proposal, the estimated operating deficit in 2006-07 is approximately \$6.4 billion—marking \$10 billion of progress in just over two years. After adjusting for prepayments or repayments of prior obligations, the 2006-07 operating deficit is approximately \$4.7 billion or nearly \$12 billion of improvement.

The Work that Remains

While the progress in reducing the operating deficit is significant, the fact that a \$6.4 billion operating deficit remains means there is further work to be done. California must continue to take steps to narrow the difference between ongoing spending and revenues.

The 2005-06 Budget that the Governor signed last July made significant progress in narrowing that deficit, by:

- Spending one-time revenues on one-time state programs.

- Using a portion of those one-time revenues to make a \$1.2 billion payment owed to local governments one year earlier than required by law—which reduced the 2006-07 operating deficit by a like amount.
- Not using any of the remaining \$3.7 billion of the Economic Recovery Bonds.

The Governor's 2006-07 proposed Budget builds upon these efforts and makes further progress in closing the operating deficit and restoring the state's fiscal condition, by:

- Continuing to hold the line against tax increases.
- Not using the remaining \$3.7 billion in Economic Recovery Bonds.
- Depositing the full amount of \$920 million into the Budget Stabilization Account approved by voters in 2004 under Proposition 58. Half of this amount—\$460 million—is dedicated to early retirement of the Economic Recovery Bonds approved by voters under Proposition 57.
- Making further progress on paying down the state's out-year debt by using \$920 million of one-time revenues to pay down past loans from Proposition 42 earlier than required by law.
- Repaying \$149 million in prior loans from 12 separate special funds.

Investment in Infrastructure

As California continues to make progress in addressing its structural deficit, it can—and must—also begin to address

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another critical need—renewing investment in the state’s system of infrastructure. There are demonstrated needs in areas such as roads and highways, schools and colleges, public safety, and water supply and levee systems. With the state’s population projected to increase by an average of 450,000 per year over the next 20 years, California’s infrastructure system currently is inadequate to support future generations. The choices that California makes on infrastructure will have a direct effect on the state’s economic health, public safety, and quality of life.

The Governor is proposing a comprehensive rebuilding of the state’s infrastructure system, combining a broad-based mix of investments in infrastructure programs with a diverse source of funds to finance this proposal. A more detailed description of the proposal can be found in the “Strategic Growth Plan: Building California for Future Generations” section of the Governor’s Budget Summary.

Governor’s Budget Priorities

While continuing to take steps to reduce the operating deficit, this proposed Budget provides funds for the following high priorities, which are described in greater detail throughout the Governor’s Budget Summary. They include:

- Building on last year’s \$3 billion increase in education spending under Proposition 98 with an additional Proposition 98 increase of \$4 billion, reflecting the Governor’s priorities of fully funding enrollment growth and inflation in K-12 schools, professional technical education, community college support, and new funding for music, art, and physical education programs

in K-12 schools. The \$4 billion increase includes \$1.7 billion to offset the amount in excess of \$2 billion that was suspended in 2004-05. When combined with the additional \$428 million for Proposition 49 and the \$265 million current year over-appropriation, the maintenance factor obligation at the end of 2006-07 is projected to be \$1.33 billion.

- Providing the first year of additional funding for after-school programs under Proposition 49, making California the first state in the country to offer after-school programs to elementary, middle and junior high schools statewide.
- Providing sufficient funding to prevent any student fee increase at the University of California, Hastings School of Law, and the California State University. In addition, the budget reflects no fee increases at California Community Colleges, and increases Cal Grant resources for students attending private institutions.
- Fully funding the second year of the Governor's Compact with Higher Education.
- Fully funding Proposition 42, and making early repayment on a prior-year loan from Proposition 42, a total of more than \$2 billion for improvements to California roads, bridges, and highways.
- Expanding resources to enroll more uninsured children in the Healthy Families and Medi-Cal health insurance programs.
- Providing \$20 million in public safety initiatives to combat gang violence, methamphetamine production, sexual assault, and financial and identity crimes.

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- Establishing a Statewide Emergency Preparedness Initiative to enhance the state's ability to respond rapidly to a natural or man-made disaster.
- Addressing climate change, air pollution, and other environmental priorities.

Overview of General Fund Revenues and Expenditures

The Budget anticipates that General Fund revenues will increase by 4.4 percent in 2006-07 compared to the revised 2005-06, and General Fund expenditures are proposed to increase by 8.4 percent compared to the revised 2005-06. The budget gap between the anticipated revenues and proposed expenditures is addressed by the estimated ending 2005-06 fund balance of \$7 billion.

Figure GRE-01 compares General Fund revenues and expenditures in 2006-07 to the revised 2005-06. The General Fund expenditure changes are highlighted below. For information regarding changes since the 2005 Budget Act, please view specific departmental information in the Governor's Budget.

Overview of General Fund Revenues and Expenditures

Figure GRE-01

General Fund Revenues and Expenditures 2005-06 Revised vs. 2006-07 Proposed

(Dollars in Millions)

| <u>REVENUES</u> | Revised 2005-06 | Proposed 2006-07 | Dollar Change | Percent Change |
|---------------------------------------|--------------------|---------------------|------------------|-------------------|
| Revenues and Transfers | \$87,691.4 | \$91,544.9 | \$3,853.5 | 4.4 |
| <u>EXPENDITURES</u> | | | | |
| NON-PROPOSITION 98: | | | | |
| Executive | \$928.1 | \$918.5 | -\$9.6 | -1.0 |
| Legislature | 313.8 | 323.6 | 9.8 | 3.1 |
| Judicial | 1,905.5 | 2,140.3 | 234.8 | 12.3 |
| State and Consumer Services | 577.7 | 539.8 | -37.9 | -6.6 |
| Business, Transportation, and Housing | 1,714.2 | 2,718.6 | 1,004.4 | 58.6 |
| Resources/Environmental Protection | 1,466.2 | 1,601.2 | 135.0 | 9.2 |
| Health and Human Services | 27,236.8 | 28,449.5 | 1,212.7 | 4.5 |
| Corrections and Rehabilitation | 7,612.2 | 8,038.4 | 426.2 | 5.6 |
| Non-Proposition 98 Education | 9,516.9 | 10,413.1 | 896.2 | 9.4 |
| Labor and Workforce Development | 89.0 | 92.2 | 3.2 | 3.6 |
| General Government | 2,622.4 | 2,211.1 | -411.3 | -15.7 |
| Total -- Non-Proposition 98 | \$53,982.8 | \$57,446.3 | \$3,463.5 | 6.4 |
| PROPOSITION 98 | \$36,310.9 | \$40,455.5 | \$4,144.6 | 11.4 |
| TOTAL -- ALL EXPENDITURES | \$90,293.7 | \$97,901.8 | \$7,608.1 | 8.4 |

Overview of General Fund Revenues and Expenditures

Executive

Expenditures are proposed to decrease by \$9.6 million, or 1 percent. The most notable adjustments contributing to the net decrease are as follows:

- An increase of \$42.6 million for various Department of Justice programs, including \$13.8 million for Gang Suppression Enforcement Teams, the California Methamphetamine Strategy Program, and the Special Crimes Unit.
- An increase of \$6 million for grants to local agencies for Sexual Assault Felony Enforcement teams.
- An increase of \$20.1 million to fund the State Controller's Office Human Resources Management System.
- A reduction of \$17.4 million to reflect updated disaster assistance payments.
- The removal of \$12.9 million of one-time funding for the replacement of windows in the Board of Equalization headquarters building.
- The removal of \$54 million of one-time funding for the statewide special election.

Legislature

Expenditures are proposed to increase by \$9.8 million, or 3.1 percent, primarily due to an adjustment based on the growth in the State Appropriations Limit.

Overview of General Fund Revenues and Expenditures

Judicial

Expenditures are proposed to increase by \$234.8 million, or 12.3 percent. This increase is primarily attributable to:

- Application of the State Appropriations Limit growth factor to the budget of the Judicial Branch, at a cost of \$123 million.
- Restoration of one-time reductions totaling \$57.5 million.
- An augmentation of \$18.7 million for trial court security.
- An augmentation of \$15.6 million for information technology services.
- An augmentation of \$5.5 million for new judgeships.

State and Consumer Services

Expenditures are proposed to decrease by \$37.9 million, or 6.6 percent. The major adjustments contributing to this decrease are as follows:

- An increase of \$1.5 million for the Department of Fair Employment and Housing to automate its appointment scheduling system, reduce employment discrimination investigator caseload, and print mandated publications.
- A net reduction of \$23.1 million for the Department of General Services attributable to the removal of one-time support and capital outlay expenditures for 2005-06.
- A reduction of \$10.2 million for the Franchise Tax Board due to changes in the project implementation timeline for the California Child Support Automation System Project.

Overview of General Fund Revenues and Expenditures

Though the implementation timeline has changed, the overall costs have not.

- A reduction of \$6.3 million for the Franchise Tax Board to reflect the removal of one-time expenditures for 2005-06.

Business, Transportation, and Housing

Expenditures are proposed to increase by \$1 billion, or 58.6 percent. This increase is due to the following significant adjustments:

- Proposition 42 transfer from the General Fund is fully funded in 2006-07 at \$1.4 billion. This is an increase of \$61 million over the current year amount of \$1.34 billion.
- Advance payment of Proposition 42 loan due in 2007-08 (including interest) of \$920 million. Approximately \$430 million (including interest) remains to be paid in 2007-08.
- Debt service for housing projects and seismic work on bridges has increased by \$17.6 million.

Resources and Environmental Protection

Expenditures are proposed to increase by \$135 million, or 9.2 percent. This increase results from several expenditure changes, the most significant of which are as follows:

Overview of General Fund Revenues and Expenditures

- Employee compensation costs for the Department of Forestry and Fire Protection will increase by \$37 million.
- Funding of \$35 million to the Department of Water Resources to implement a Central Valley flood management plan.
- 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. Of this amount, \$84 million will be expended in 2006-07 to line the canal, which represents an increase of \$25 million.
- Debt service for Resources land acquisitions and capital improvement projects approved in prior years has increased by \$51 million.
- Augmentations to the Department of Fish and Game budget totaling \$14 million to provide funding related to enacted legislation, continue salmon and steelhead habitat restoration grants, and prevent program reductions due to a shortfall in the Fish and Game Preservation Fund.
- A decrease of \$36 million due to removal of one-time costs associated with the *Paterno* flood damage settlement.

Health and Human Services

Expenditures are proposed to increase by \$1.2 billion, or 4.5 percent. This net increase includes the following major adjustments:

Overview of General Fund Revenues and Expenditures

- An increase of \$47.3 million to bolster state and local capacity to prevent and respond to disease outbreaks and natural or intentional disasters.
- An increase of \$34.2 million to promote and maximize enrollment in Medi-Cal and the Healthy Families Program, improve the retention of children already enrolled, and support county-based efforts to enroll eligible children in existing public programs.
- Caseload and other workload increases totaling \$1.3 billion.
- CalWORKs reductions of \$198.9 million to maintain expenditures at the federally required level of state funding. These reductions include \$114.6 million from recovering child care funding associated with welfare reform and \$30 million from delaying payment of the Pay for Performance incentives.
- Savings of \$48.1 million in 2006-07 and over \$185 million in 2007-08 by continuing to suspend the pass-through of the January 2007 federal Supplementary Security Income cost-of-living adjustment until July 2008.

Corrections and Rehabilitation

Expenditures are proposed to increase by \$426.2 million, or 5.6 percent. This increase consists primarily of population and other workload increases totaling \$335.3 million, or 4.4 percent, as well as \$44.3 million in policy adjustments, \$78.9 million in increased capital outlay, and a decrease in general obligation bond payments of \$24.8 million.

The following major changes are included in this increase:

Overview of General Fund Revenues and Expenditures

- An increase of \$22.8 million to implement a comprehensive approach to inmate and parolee programming through evidence-based programs that improve public safety and reduce victimization by reducing recidivism and preparing inmates to transition back into the community. Funding is included for inmate education programs, community partnerships, parolee services, institutions rehabilitative and treatment programs, and research and support services.
- An increase of \$23.3 million in population adjustments for adult inmates, juvenile offenders, and conducting parole hearings, including expansion of the cadet academy and local assistance to pay for the cost of housing parole violators in local jails.
- An increase of \$71.9 million in costs related to court mandates in the areas of conditions of confinement of juvenile offenders (*Farrell v. Hickman*), provision of dental services to adult inmates (*Perez v. Hickman*), and ensuring due process for parole violators (*Valdivia v. Schwarzenegger*).
- An increase of \$63.6 million in employee compensation adjustments, primarily related to Unit 6 contract costs.
- An increase of \$174.6 million in non-discretionary base costs including adjustments in the areas of adult healthcare services, records processing, security system repairs, price increases, and lease revenue debt service adjustments.

Non-Proposition 98 Education

Expenditures are proposed to increase by \$896.2 million, or 9.4 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. Additionally, due to refinancing emergency loans for insolvent school districts in the current year, reductions in current year loans and repayments exceeding \$82 million increases the year-to-year change in 2006-07. Significant increases include:

- An increase of \$266.3 million for the Higher Education Compact.
- An increase of \$130.8 million to buy-out student fee increases approved by the CSU and UC governing boards.
- An increase of \$58 million for the Student Aid Commission due to increased CalGrant and other financial aid program costs, including an increase in the maximum CalGrant award for students attending private institutions totaling \$11.9 million.
- An increase of \$51 million to backfill one-time current year cost shifts from General Fund to the Student Loan Operating Fund in the Student Aid Commission budget.
- An increase of \$268 million in General Obligation Bond debt service for the K-12 and Higher Education segments.

Labor and Workforce Development

Expenditures are proposed to increase by \$3.2 million, or 3.6 percent. The major adjustments contributing to this increase are as follows:

- An increase of \$2.7 million for the Employment Development Department's (EDD) Automated Collection Enhancement System (ACES), which will improve the EDD's ability to track, collect, and audit the payment of specified employer payroll taxes, including the personal income tax.
- A reduction of \$0.8 million in the EDD related to the removal of one-time expenditures for 2005-06.
- A net increase of \$1.4 million for various baseline adjustments in the Department of Industrial Relations.

General Government

Expenditures are proposed to decrease by \$411.3 million, or 15.7 percent. The major adjustments contributing to this decrease are as follows:

- Vehicle License Fee (VLF) Gap Loan Repayment—
The 2005 Budget Act provided \$1.2 billion General Fund in one-time monies to repay the VLF Gap Loan. The Gap Loan represents monies that local governments did not receive when the VLF offset program was temporarily suspended between July and October of 2003. Because the Gap Loan was repaid in 2005, these monies are not included in the 2006-07 Governor's Budget.

Overview of General Fund Revenues and Expenditures

- Alternate Retirement Program savings of \$91.8 million are anticipated.
- Juvenile Justice Crime Prevention Act (JJCPA)—The 2005 Budget Act reduced JJCPA funding by \$73.9 million, due to the availability of a like amount of carryover monies at the local level. The 2006-07 Governor’s Budget restores the \$73.9 million, because the carryover monies will be exhausted by the end of the current fiscal year.
- Minimum Wage—The Budget includes \$10.3 million to be allocated in a Control Section pending the enactment of legislation increasing the state minimum wage by \$0.50 per hour.
- Employee Compensation Costs—The Budget includes funding for existing Memoranda of Understanding obligations, which result in increased General Fund costs of \$203.3 million.
- State-Mandated Programs—The Budget includes \$98.1 million for the first year of the required 15-year repayment to local government for reimbursable state-mandated programs for which payments were deferred in years prior to 2004-05.
- Booking Fee Subventions—\$40 million is provided to offset counties’ costs to book suspects into county jails.
- Budget Stabilization Account—The Budget includes \$460 million for transfer to the Budget Stabilization Account for early retirement of the Economic Recovery Bonds.

Proposition 98

General Fund expenditures are proposed to increase by \$4.1 billion, or 11.4 percent. When property taxes are taken into account, the total Proposition 98 guarantee will increase by \$4.3 billion, or 8.7 percent. This funding level reflects increases in the Proposition 98 guaranteed funding level resulting from increases in General Fund revenues, adjusted for changes in local revenues. The increase also reflects a proposal to appropriate \$1.7 billion in 2006-07 in excess of the amount that otherwise would have been required by Proposition 98 for that year.

The Economy

Key Economic Indicators
(Annual Percent Change, Except for New Housing)

| | 2005 | Forecast | |
|--|------|----------|------|
| | | 2006 | 2007 |
| U.S. Real Gross Domestic Product | 3.6 | 3.2 | 3.0 |
| California Nonfarm Employment | 1.6 | 1.3 | 1.3 |
| California Personal Income | 6.0 | 5.8 | 5.5 |
| California Consumer Price Index | 3.9 | 3.6 | 3.0 |
| California New Housing Units (Thousands of Total Units) | 219 | 197 | 183 |

Forecast based on data available as of November 2005.

Both the national and California economies grew at a solid pace in 2005, overcoming surging energy prices, tighter monetary policy, rising mortgage rates, and in the case of the national economy, three hurricanes. Both economies will likely decelerate in 2006 and 2007, as consumers retrench and homebuilding slows. The biggest risk to the outlook,

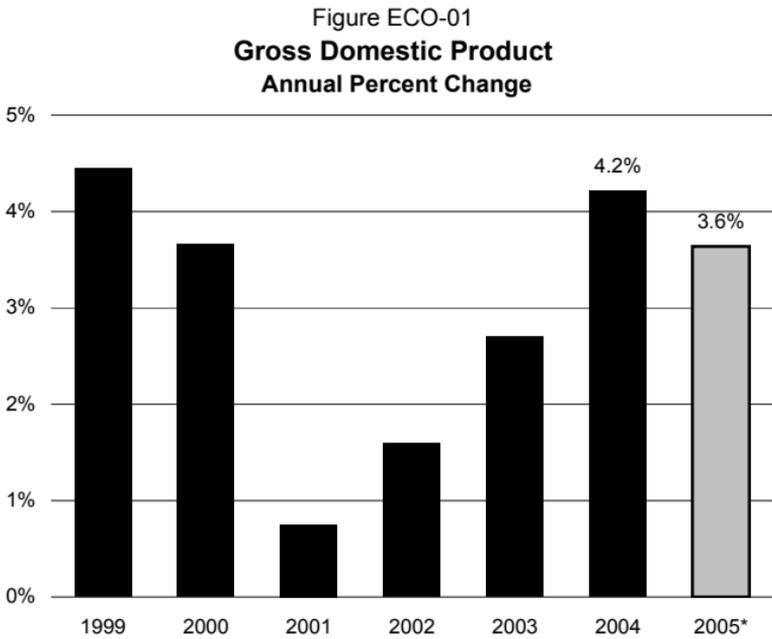
The Economy

particularly for the California economy, is a sharp slowdown in home building.

The Nation

Growth of national economic output slipped a bit in the first three quarters of 2005, but job growth picked up, and personal income growth was about unchanged. The national economy will continue to decelerate in 2006 and 2007, as consumer spending and residential construction throttle back a bit, but capital spending continues to be brisk.

- National economic output was 3.6 percent above its year-earlier level in the first three quarters of 2005 (Figure ECO-01). Despite natural disasters, soaring energy prices, and rising mortgage rates, consumer



*First three quarters of 2005; Source: Bureau of Economic Analysis, US Commerce Department

spending rose a brisk 3.7 percent. Business capital spending—especially spending on equipment and software—accelerated slightly in its second year of a robust rebound. Residential investment posted another good gain, but not as big as the one in 2004. A pickup in state and local government and national defense spending fueled an increase in government spending, but again, the increase was not as big as the one in 2004. The nation's trade deficit continued to worsen, as imports grew more quickly than exports.

- Job creation improved in 2005. Average nonfarm payroll employment was 1.6 percent higher in the first 11 months of the year than in the corresponding period in 2004, which in turn, was 1.1 percent higher than in the first 11 months of 2003. Most of the new jobs in 2005 were in construction; trade, transportation, and utilities; professional and business services; private educational and health services; and leisure and hospitality. The improvement in 2005 was due to better job growth in trade, transportation, and utilities; financial activities; professional and business services; private educational and health services; and government; plus much smaller job losses in manufacturing.
- Rising energy prices pushed up measures of general inflation in 2005. In the first 11 months of 2005, the consumer price index (CPI) was 3.4 percent higher than in the same months of 2004. In 2004 as a whole, the index rose by 2.7 percent. With energy and food prices taken out, the index grew by only 2.2 percent in the first 11 months of 2005 and 1.8 percent in 2004 as a

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whole. Outside of energy, the increase in inflation was modest in 2005.

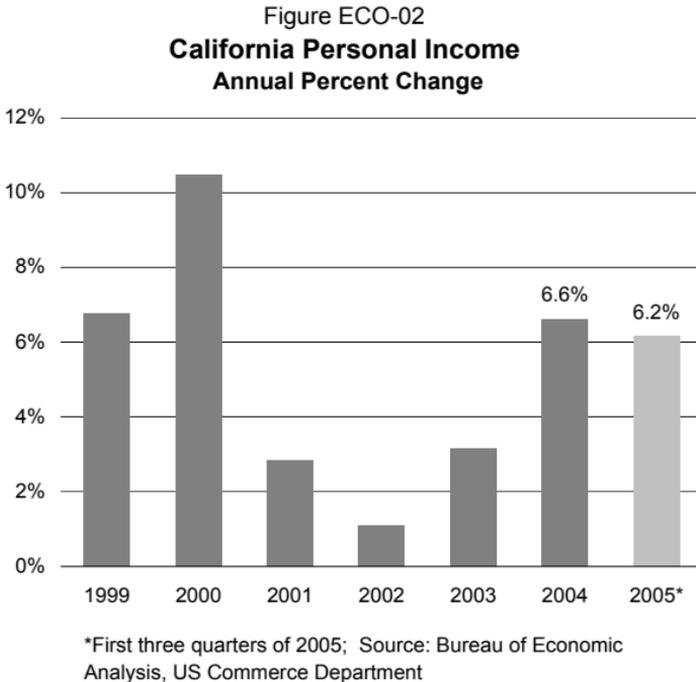
- In late 2005, real Gross Domestic Product growth was on track to grow by about 3.6 percent for the year as a whole. It is expected to slow to 3.2 percent in 2006 and 3 percent in 2007, as consumer spending decelerates modestly, residential investment declines, and investment spending grows less quickly in 2007.
- Energy prices are expected to increase much more slowly in 2006 and decline slightly in 2007, and largely because of that, consumer price inflation, including food and energy, should fall slightly to 3.2 percent in 2006 and then to 2.4 percent in 2007.
- The risks to this outlook appear to be mostly on the downside. The most serious is a sharp cooling of housing markets resulting in a sizable drop in residential construction and output of related industries. Something safely short of that is expected—an 11 percent drop in housing starts in 2006 and another 3 percent in 2007.

California

The California economy also strengthened in 2005. Broad economic measures like personal income and taxable sales made good gains. Exports of made-in-California merchandise continued to increase, but not as quickly as in 2004.

Residential construction expanded again. But perhaps the most important development was that job growth resumed in the San Francisco Bay Area.

- Personal income — income received by California residents from all sources — was up 6.2 percent from a year earlier in the first three quarters of 2005, slightly slower than its 6.6-percent growth in 2004 as a whole (Figure ECO-02). On this broad measure, the state



continues to do better than the nation, where personal income grew by 6 percent in the first three quarters of 2005. Statewide taxable sales were up more than 6 percent from their year-ago level in the first half of 2005 — an impressive gain given that they grew by 9.1 percent in the first half of 2004.

- Like the nation, California enjoyed better job gains in 2005. California nonfarm payroll employment was 1.5 percent higher than a year earlier in the first 11 months of 2005. In the first 11 months of 2004,

The Economy

in contrast, nonfarm payroll employment was only 1 percent higher than a year earlier. The improvement was due primarily to a swing from large job losses to small job gains in government and manufacturing and bigger job gains in professional and business services. In general, job gains were more widely distributed across major industries in 2005.

- In addition, the state's unemployment rate dropped from an average of 6.3 percent in the first 11 months of 2004 to 5.4 percent in the first 11 months of 2005, as the number of unemployed persons fell below 1,000,000 for the first time in nearly four years.
- Job growth picked up in the San Francisco Bay Area in 2005. From November 2004 to November 2005, percentage job growth in the Bay Area was just shy of that in Southern California.
- Made-in-California merchandise exports were 5 percent higher than a year earlier in the first three quarters of 2005.
- Construction was up in the first ten months of 2005. Housing permit issuances (number of units) rose by 2.1 percent from the first ten months of 2004. Single-family permits were up about 5 percent, while multi-family permits were down about 6 percent. The San Joaquin Valley experienced the biggest gain, both on a unit basis and a percentage basis. Statewide, the dollar value of private nonresidential construction permits rose by 13 percent.
- Home sales slowed in California in the first 11 months of 2005. Sales were down by 5.3 percent from year-ago

levels in the nine-county San Francisco Bay Area and flat in Southern California, according to DataQuick Information Systems. Annual price increases were smaller than a year ago — in the mid teens in Southern California and the upper teens in the Bay Area.

- The state's economic fate is closely tied to the nation's. Personal income is estimated to have grown by 6 percent in California in 2005 and is forecasted to expand by 5.8 percent in 2006 and 5.5 percent in 2007. This slight slowing reflects slower job growth. Nonfarm employment growth, which is on track to grow by 1.6 percent in 2005, is projected to grow by 1.3 percent in both 2006 and 2007. The strongest growth in 2006 is expected in professional and business services, leisure and hospitality, and private educational and health services. Construction employment is expected to fall. The state's unemployment rate is forecast to average 5.1 percent in 2006, down slightly from 2005. Home building will slow in each of the next three years.
- The major risk for the outlook of the California economy is a sharp slowdown in residential construction. A disproportionate share of the state's job gains in the first half of the 2000s was in construction and related industries. Construction alone accounted for 35 percent of the total gain in nonfarm payroll employment in 2004. In the first 11 months of 2005, the share fell to 25 percent — smaller, yet still significant.

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Revenue Estimates

California revenues showed solid growth in 2004 and even stronger growth in 2005. The outlook for 2006 and 2007 is for continued gains. Revenue expectations have improved from what was projected at the time the 2005 Budget Act was enacted. Since that time, General Fund revenues have increased by \$5.5 billion for the past and current years combined, with total 2005-06 revenues and transfers estimated at \$87.7 billion. For 2006-07, revenues are expected to grow by \$4.3 billion, to \$92 billion, a 4.9-percent increase year-over-year.

Major Revenue Sources

Overall, General Fund revenues and transfers represent 79 percent of total revenues. The remaining 21 percent are special fund revenues dedicated to specific programs.

Personal income tax revenues are projected to be \$45.5 billion in 2005-06 and \$48.7 billion in 2006-07. The key factor

Revenue Estimates

underlying this forecast is strong economic growth in 2004 and 2005 that is expected to continue into 2006 and 2007. Once again, capital gains and stock options revenues are above previous estimates. Increases in gains of 59 percent in 2004 are expected to be followed by 20 percent in 2005 and 5 percent in 2006. The estimates include the effects of proposals to adopt federal treatment of Health Savings Accounts (\$3 million revenue loss in 2005-06 and \$8 million loss in 2006-07) and to suspend the teacher tax credit an additional year (\$210 million gain in 2006-07).

Sales and use tax revenue is forecast at \$27.2 billion in 2005-06 and \$28.3 billion in 2006-07. Taxable sales grew by 8.5 percent in 2004, and are expected to increase by 5.3 percent in 2005 and 4.9 percent in 2006. The 2006-07 estimates include the effects of proposals to extend collection of use tax on vehicles, vessels, and aircraft brought into the state within one year of purchase (\$35 million) and additional enforcement activities by the Board of Equalization (\$14 million).

Current law specifies that certain state revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account. Chapters 71 and 76, Statutes of 2005, provide that for 2006-07, the first \$200 million of any revenues that would otherwise be designated as "spillover" be deposited in the General Fund and the next \$125 million be deposited in the Bay Area Toll Account (BATA). Because total spillover revenues are estimated to be \$318 million, \$118 million is the estimated transfer to BATA.

Corporation tax revenues are expected to total \$9.6 billion in 2005-06 and \$10 billion in 2006-07. Taxable profits are

estimated to increase by 10.8 percent in 2005-06 and 10.4 percent in 2006-07. The resolution of amnesty-related corporate tax issues is expected to require longer than previously expected. Although this increases the revenues booked through 2004-05 by \$610 million, it will result in \$920 million of refunds and tax determinations remaining after the budget year, thus increasing the state's out-year liability. For this reason, the Budget includes a one-time Proposition 42 loan repayment of \$920 million in 2006-07, thereby effectively offsetting the future liability.

Strategic Growth Plan: Building California for Future Generations

The Governor's comprehensive Strategic Growth Plan is the first installment of a 20-year investment on a future that will ensure California's quality of life and foster continued economic growth. This plan lays out more than \$222 billion in infrastructure investments, of which \$68 billion will be financed with General Obligation (GO) bonds. (see Figure INF-01). The Governor proposes that the Legislature approve the entire ten-year plan as a single package; however, the GO bonds will be put before the people of California over a series of elections between 2006 and 2014 (see Figure INF-02).

The Strategic Growth Plan consists of five elements: Transportation and Air Quality, Education, Flood Control and Water Supply, Public Safety and Courts and Other Public Services. More details about each element follow.

Strategic Growth Plan

Figure INF-01
Strategic Growth Plan Five and Ten Year Financing
(Dollars in Billions)

| Program | First Five Years | | | | |
|--|------------------|--|--------------|--------------------------|---------------------|
| | Total | General Obligation and Lease Revenue Bonds | | Existing Funding Sources | New Funding Sources |
| | | GO | LR | | |
| Transportation/Air Quality | \$42.0 | \$6.0 | - | \$25.0 | \$11.0 |
| K-12* | 17.5 | 7.0 | - | 10.5 | - |
| Higher Education* | 5.4 | 5.4 | - | - | - |
| Flood Control and Water Supply | 11.0 | 3.0 | - | 8.0 | - |
| Public Safety | 8.1 | 2.6 | 0.4 | 5.1 | - |
| Courts & Other Public Service Infrastructure | 2.3 | 1.2 | 0.4 | 0.7 | - |
| Totals - First Five Years | \$86.3 | \$25.2 | \$0.8 | \$49.3 | \$11.0 |

| Program | Second Five Years | | | | |
|-----------------------------------|-------------------|--|----------|--------------------------|---------------------|
| | Total | General Obligation and Lease Revenue Bonds | | Existing Funding Sources | New Funding Sources |
| | | GO | LR | | |
| Transportation/Air Quality | \$65.0 | \$6.0 | - | \$22.0 | \$37.0 |
| K-12* | 30.7 | 19.3 | - | 11.4 | - |
| Higher Education* | 6.3 | 6.3 | - | - | - |
| Flood Control and Water Supply | 24.0 | 6.0 | - | 13.0 | 5.0 |
| Public Safety | 9.3 | 4.2 | - | 5.1 | - |
| Courts | 1.0 | 1.0 | - | - | - |
| Totals - Second Five Years | \$136.3 | \$42.8 | - | \$51.5 | \$42.0 |

| | | | | | |
|-------------------------------|----------------|---------------|----------|----------------|---------------|
| GRAND TOTALS TEN YEARS | \$222.6 | \$68.0 | - | \$100.8 | \$53.0 |
|-------------------------------|----------------|---------------|----------|----------------|---------------|

*K-12 and Higher Education will be combined in the bond proposals.

Figure INF-02
General Obligation Bonds
Election Year Proposals
(Dollars in Billions)

| Program | | | | | | Ten-Year |
|--|---------------|---------------|---------------|--------------|--------------|---------------|
| | 2006 | 2008 | 2010 | 2012 | 2014 | Totals |
| Transportation/Air Quality | \$6.0 | \$6.0 | - | - | - | \$12.0 |
| Education* | 12.4 | 4.2 | \$7.7 | \$8.7 | \$5.0 | 38.0 |
| Flood Control and Water Supply | 3.0 | - | 6.0 | - | - | 9.0 |
| Public Safety | 2.6 | - | 4.2 | - | - | 6.8 |
| Courts & Other Public Service Infrastructure | 1.2 | - | 1.0 | - | - | 2.2 |
| Total | \$25.2 | \$10.2 | \$18.9 | \$8.7 | \$5.0 | \$68.0 |

*Education Bonds include K-12 and Higher Education.

Preparing for Natural and Intentional Disasters

The Governor's Budget includes \$62.3 million (\$55.1 million General Fund and \$7.2 million other funds) and 108.3 positions to enhance systemwide emergency preparedness, mitigation, and response activities. The state will also leverage available federal funds to increase security. This commitment will enable the creation of rapid response medical forces, improvements in disease detection and pandemic influenza response capabilities, enhanced security for critical infrastructure (such as mass transit, ports, and airports), and increased safeguards for California's food supply and agricultural industries.

Public Health Response

The Governor's Budget includes new funding of \$49 million (\$47.3 million General Fund) for Health and Human Services Agency (HHSA) departments to bolster state and local public health capacity to prevent and respond to disease outbreaks

Preparing for Natural and Intentional Disasters

and natural or man-made disasters. The Governor’s Budget also identifies the need for \$11.7 million (\$11.0 million General Fund) in the current year to address related costs. Specifically, the Governor’s Budget includes the following proposals:

Bolstering State and Local Preparedness for Pandemic Influenza and Disease Outbreaks

The Governor’s Budget provides \$21.8 million for the Department of Health Services (DHS) to strengthen state and local pandemic influenza planning efforts, investigate disease outbreaks, purchase antiviral medications, conduct and evaluate exercises, expand outreach and education efforts to employers, schools, state facilities and community organizations, establish a pandemic influenza hotline, and expand state and local capacity to respond to a pandemic. The Governor’s Budget also identifies the need for \$5.8 million General Fund in the current year for related costs.

Increasing Preparedness for Chemical and Radiological Disasters and Terrorist Attacks

The Governor’s Budget provides funding to address a critical gap in state and local bioterrorism preparedness. It provides \$4.2 million for DHS to support state and local efforts to plan, train, respond, and recover from disasters and terrorist attacks involving chemical or radiological contamination of food, water, and the environment.

Expanding Disease Surveillance and Strengthening California's Laboratory Infrastructure

The Governor's Budget includes \$5.5 million for DHS to expand disease surveillance, strengthen the state's laboratory infrastructure, and build surge capacity, thereby improving early detection and response to disease outbreaks. Of this amount, \$1.3 million will expand state and local capacity to conduct communicable disease surveillance. An additional \$4.2 million will improve California's laboratory capacity. The Governor's Budget also identifies the need for \$470,000 General Fund in the current year for laboratory facility upgrades.

Building Health Care Capacity to Meet Increased Demand for Services in Disasters

The Governor's Budget provides one-time funding of \$2.3 million (\$1.6 million General Fund) for the Emergency Medical Services Authority (EMSA) to purchase personal protective equipment for ambulance personnel. The Budget allocates \$1.8 million in federal funds to establish three California Medical Assistance Teams, which will be strategically stationed throughout the state. Lastly, the Budget and proposed legislation will improve public safety and facilitate creation of a centralized list of first responders by consolidating licensure of emergency services personnel at the state level.

The HHSA will work with DHS and EMSA to conduct an assessment of California's current hospital bed capacity and ability to "surge" in an emergency.

Preparing for Natural and Intentional Disasters

Supporting Emergency Preparedness through Public Awareness Efforts

The Governor’s Budget proposes \$14.3 million for DHS to conduct an emergency preparedness public information campaign to encourage individuals, families, and communities to be better prepared for a disaster and take action to prevent the spread of disease in the face of a possible pandemic.

The Governor’s Budget also identifies the need for \$3 million General Fund in the current year for related costs.

Partnerships for Emergency Supplies and Services

- The Administration will develop agreements with private firms to provide basic supplies, rental vehicles, and delivery services, at fair prices, in the event of a disaster. Most of these partnerships will not entail any upfront costs or additional staff.

Preparing for Threats to California’s Food and Agricultural Industry

The Governor’s Budget includes \$7.2 million General Fund and 37 positions to support several California Department of Food and Agriculture activities, including:

- Personal protection program to design, implement, and maintain protections for first responders to plant and animal disease outbreaks.
- Dairy food safety and security shield program that will assess, review, and evaluate food security measures.

Preparing for Natural and Intentional Disasters

- Biosecurity and emergency management assessment program to develop performance standards for biosecurity measures at animal facilities.
- Rural-urban community outreach and disease surveillance program to provide education to localities regarding risks and prevention.
- Expanded laboratory capacity for rapid testing and technical expertise.

Disaster Response Scenario Planning

To ensure a quick and effective emergency response, the Administration will commission a series of studies to test the effectiveness of state, local, and federal responses to specific emergency scenarios. These studies will include evaluations of:

- Supplies, core personnel, and surge personnel available by site.
- Deployment capabilities of each level of government.
- Key strengths and deficiencies in disaster response.
- Immediate short-term, and long-term response capabilities.

Studies will offer recommendations for improvement and provide a playbook outlining the appropriate roles and responsibilities for state, local, and federal responders.

Preparing for Natural and Intentional Disasters

In order to begin these studies, the Governor's Budget includes \$45,000 federal funds in the Office of Homeland Security (OHS) budget for this purpose.

Office of Homeland Security Programs

The Governor's Budget includes several new programs in the OHS to further enhance California's security.

California Mass Transportation Security Grant Program

To improve security for California's mass transit infrastructure, the Governor's Budget proposes to establish the California Mass Transportation Security Grant Program, which will provide grants from the Antiterrorism Fund to regional mass transit agencies throughout the state. For fiscal year 2006-07, \$5 million is available for these grants; in future years, \$1 million will be available.

Science and Technology Unit

The Governor's Budget proposes \$465,000 Federal Trust Fund and 4.8 positions to establish a Science and Technology Unit within OHS. This unit will identify technology-based solutions to provide state and local officials with the resources to protect the citizens of California from terrorist threats.

Warning Center Staffing

The Governor's Budget includes an increase of \$617,000 General Fund and 8 positions for the California State Warning Center, Operated by the Office of Emergency Services, to ensure that the Center has sufficient staff for 24-hour

Preparing for Natural and Intentional Disasters

coverage and can adequately perform notifications when emergencies arise.

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K-12 Education— Proposition 98

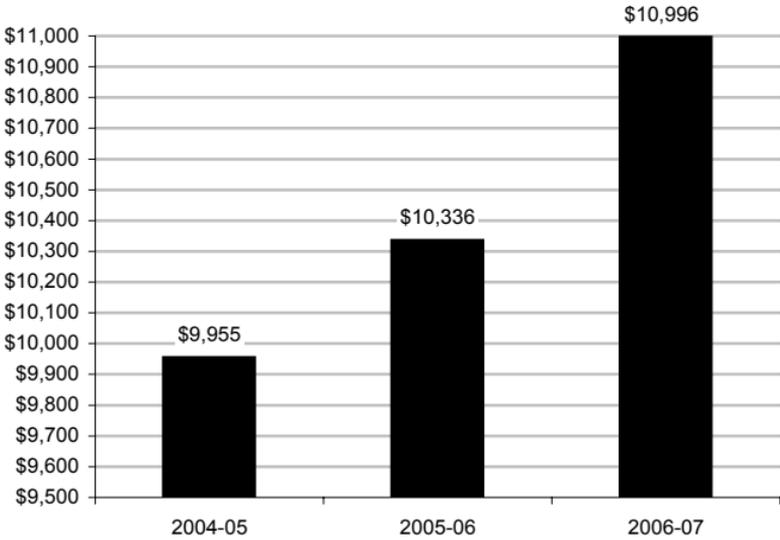
To ensure that every student has the opportunity to meet his or her potential, the Governor’s Budget augments core instructional programs for kindergarten through 12th grade (K–12) education through an increase of approximately \$4 billion in total revenues to public schools. Total per-pupil expenditures from all sources are projected to be \$10,336 in 2005-06 and \$10,996 in 2006-07, including funds provided for prior year settle-up obligations (see Figure K12-01).

Proposition 98 Guarantee

Total 2004-05 Proposition 98 funding was \$47 billion, of which the General Fund share was \$34 billion. Total 2005-06 Proposition 98 funding is now estimated to be \$50 billion, which reflects a 6.3 percent increase over 2004-05. The General Fund share is \$36.3 billion in 2005-06. These funding levels have been adjusted for changes in attendance and costs for apportionment programs.

K-12 Education—Proposition 98

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



Total 2006-07 Proposition 98 funding is proposed at \$54.3 billion, which reflects an 8.7 percent increase over the revised estimate for 2005-06. This level of funding also reflects \$1.7 billion in Proposition 98 spending above the level that otherwise would have been required by the Proposition 98 guarantee for 2006-07. The General Fund comprises approximately 74 percent, or \$40.5 billion of total proposed Proposition 98 funding (see Figure K12-02). These totals include funding for K-12 and community colleges.

The \$54.3 billion Proposition 98 funding level for 2006-07 also includes a \$428 million increase, reflecting implementation of Proposition 49. Beginning in 2006-07, Proposition 49 will increase state funding for the After-School Education and Safety Program to \$550 million per year.

K-12 Education—Proposition 98

Figure K12-02
Proposition 98 Appropriations
 (Dollars in Thousands)

| | 2004-05 | 2005-06 | 2006-07 |
|--|---------------------|---------------------|---------------------|
| State General Fund | \$33,994,860 | \$36,310,868 | \$40,455,466 |
| Local Revenue | 13,020,849 | 13,675,107 | 13,862,487 |
| Total | \$47,015,709 | \$49,985,975 | \$54,317,953 |
| Distribution: | | | |
| Department of Education | \$42,122,787 | \$44,627,177 | \$48,356,408 |
| California Community Colleges | 4,792,007 | 5,242,136 | 5,848,062 |
| State Special Schools | 41,509 | 42,567 | 43,177 |
| Department of Youth Authority | 35,858 | 45,780 | 42,589 |
| Department of Developmental Services | 10,672 | 10,217 | 9,995 |
| Department of Mental Health | 8,400 | 13,400 | 13,400 |
| American Indian Education Centers | 4,476 | 4,698 | 4,322 |
| Total | \$47,015,709 | \$49,985,975 | \$54,317,953 |
| Percentage Share of State General Fund SAL ¹ Revenues and Transfers | 42.3% | 42.5% | 44.8% |

¹ State Appropriations Limit, Article XIII B

Building a Strong Education Infrastructure

A strong education infrastructure provides students with the opportunity to become successful, productive citizens. The Administration is committed to ensuring that every student is given the tools to meet his or her potential. To that end, the Governor's Budget proposes major investments in K-12 schools to expand their capacity to provide every student with a high quality, well-rounded education.

\$2.7 Billion in Discretionary Funding

The Administration understands that many school districts are wrestling with difficult budget choices. Giving local educators discretionary funding and then holding them accountable for results is the key to any educational reform. For these reasons, the Governor's Budget prioritizes school district discretionary funding. Taken together, the cost-of-living adjustment (COLA) and average daily attendance (ADA) growth adjustments to revenue limit funding, equalization funding, and deficit reduction funding total more than \$2.7 billion. This major investment in education will provide local school boards, teachers, parents, and communities with an historic opportunity to make smart choices in allocating these funds to improve local educational programs and spur additional progress in student academic achievement.

Equalization

The Governor's Budget includes \$200 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels across school districts. These funding disparities are rooted in historical changes to property tax law and result in less funding being provided to some districts than is provided to other, equally situated school districts. Correcting this situation has been a priority for the Administration, which provided \$109.9 million for equalization in the 2004-05 Budget. The \$200 million proposed for 2006-07 will erase approximately one-half of the remaining disparity.

Deficit Reduction

The Governor's Budget includes \$205 million for school district and county offices of education revenue limit deficit

reduction funding. This funding compensates these local education agencies for reduced COLAs provided in prior years. This funding will address nearly two-thirds of the current revenue limit deficit.

Recruiting and Retaining Highly Qualified Teachers and Principals

Research shows that teacher quality and experience are critical elements in raising student achievement. Meeting the need for highly qualified teachers is complicated by the fact that public schools in California will need 100,000 new teachers in the next five years. The shortage of highly qualified teachers is most serious in the fields of math, science, and special education. This shortage is particularly acute in the state's lowest performing schools.

The state's shortage of qualified principals is equally as pressing. Effective school site leadership is critical to creating an educational environment conducive to student learning and positive employee morale. In recent years, as expectations have risen for principals to provide curricular leadership and engage in budget decisions, school districts have had increasing difficulty in recruiting, training, and retaining qualified principals.

To address the need for school districts to recruit and retain highly qualified teachers and principals, the Administration proposes investments to attract new teachers and principals to the profession and improve the work environment in our most challenging schools.

School Enrichment Block Grant

The Administration proposes giving school districts more flexibility to address teacher and principal staffing needs by establishing the School Enrichment Block Grant. Specifically, the Governor’s Budget proposes that \$100 million be made available to school districts, based on the number of pupils in the schools whose Academic Performance Index has placed them in the bottom three deciles, to support local strategies to recruit and retain teachers and principals, focused on hard-to-staff subjects and low-performing schools.

Expanding the Beginning Teacher Support and Assessment System

The Beginning Teacher Support and Assessment System (BTSA) provides an effective induction into the teaching profession for first-year and second-year teachers through professional development, counseling, and mentoring. The BTSA is nationally recognized as an effective retention and support tool, and studies show that beginning teachers who participate in BTSA are 30 percent more likely to stay in the profession beyond five years compared to the national average.

Recognizing the value of targeted support and mentoring for new teachers, the Governor’s Budget proposes \$65 million to support a required third year of induction for beginning teachers in deciles 1-3 schools and, at district discretion, a voluntary year for experienced teachers who are new to deciles 1-3 school sites. BTSA providers would expand program components to focus on issues such as classroom management, parental involvement, and assessment analysis to shape differentiated instructional strategies for students.

Governor’s Science and Math Teacher Initiative

The 2005-06 Budget included the Governor’s Science and Math Teacher Initiative to increase the number of science and math teachers trained at the University of California (UC) and the California State University (CSU) systems. The UC system will quadruple its annual production of credentialed math and science teachers and CSU will double its production by 2010. The Governor’s Budget proposes the final increment of funding in the amount of \$1.5 million to extend the program to all relevant campuses in both systems.

Art and Music Grants

In recent years, many California school districts have reduced course offerings in art and music. Educators indicate that this trend has been driven by local budget decisions as well as an increased focus on student achievement in core curricular areas. This trend ignores research that indicates that exposing students to art and music, especially at a young age, has beneficial effects on cognitive development and educational outcomes.

To reverse this trend and expand diverse educational opportunities for students, the Governor’s Budget proposes \$100 million to create a new Art and Music Block Grant to support standards-aligned art and music instruction in kindergarten and grades one through eight. These grants will be distributed to school districts and county offices of education and will be available for uses that include hiring additional staff; purchasing materials, books, supplies, and equipment; and staff development.

Physical Education Grants

With the rising incidence of obesity and all its negative effects, the Administration has targeted resources and efforts on ensuring that students are offered proper nutrition in school settings. To combat obesity, it is important that proper nutrition be coupled with physical activity. While school districts are required to provide a specified number of instructional minutes in physical education (PE), some schools struggle to meet these requirements and have limited resources to implement a comprehensive, standards-based quality instructional program.

To address this negative trend, the Governor’s Budget proposes \$85 million to provide resources to support PE instruction, improve student health, and expand curricular opportunities for students. The proposal includes \$60 million to establish a new Physical Education Grant Program to support standards-aligned PE instruction in elementary and middle schools. The proposal also includes \$25 million for incentive grants to school districts to hire more credentialed PE teachers in elementary and middle schools.

Digital Classroom Grants

Advances in information technology have revolutionized the way businesses operate and students learn; however, more needs to be done to incorporate technology into public school classrooms. In recent years, an impressive array of new applications has been developed, including presentation tools for teachers, research tools for students, instructional and supplemental materials, student tutorial programs and diagnostic tools to analyze student achievement data. While

a number of districts and schools throughout the state have incorporated such innovations to improve instructional delivery, California still has much need for improvement in this area.

Continued technological innovations, combined with the prevalence of affordable hardware and software, make this the time to expand the use of educational applications in California classrooms. To encourage this expansion, the Governor's Budget proposes establishing a Digital Classroom Block Grant. This \$25 million Block Grant will provide participating schools with \$3,000 per classroom to support additional investments in classroom technology.

Proposed funding for 2006-07 is sufficient to provide grants to approximately 8,300 classrooms. It is the intention of the Administration that subsequent budgets will continue the program until all California classrooms have received the one-time grants.

Expanding Career Technical Education Courses

California students deserve access to multiple pathways to achieve rewarding and productive careers. For this reason, the Administration remains committed to expanding opportunities for students to take high-quality career technical education (CTE) courses.

The 2005 Budget Act included \$20 million to expand and improve CTE courses offered at high schools, regional occupational centers and programs, and the California Community Colleges (CCCs). Specifically, these funds were provided to support what are known as "Tech Prep" or "2+2"

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programs. These programs offer an articulated series of courses beginning in high schools which continue into the community colleges, resulting in a degree or certificate recognized by industry.

The Governor’s Budget proposes a \$30 million augmentation, increasing total funding from last year’s \$20 million to \$50 million, to expand on last year’s CTE course offerings. These funds will be provided through the CCC budget and be allocated through a grant process to CCC districts.

Expansion of Supplemental Instruction for the California High School Exit Exam

The Administration remains committed to rigorous academic standards for all students in California. The California High School Exit Exam (CAHSEE) is a cornerstone of the state’s school accountability system and has succeeded in focusing our schools on world-class academic standards. California students have risen to the challenge and made steady progress in academic achievement.

To support continued progress in meeting the challenges presented by the CAHSEE, the Governor’s Budget proposes providing an additional \$20 million, for a total of \$40 million, to assist eligible pupils in passing the CAHSEE. This block grant will support supplemental instruction to pupils who are required to pass the CAHSEE in 2006 and 2007, and who have failed, or are at risk of failing, one or both parts of the exam.

Expanding After-School Programs

In 2002, California voters approved Proposition 49, significantly expanding access to before- and after-school programs. Proposition 49 also established funding priorities and expanded program activities to include computer training, fine arts, and physical fitness.

In 2005-06, the state After-School Education and Safety (ASES) Program was funded at \$121.6 million, serving more than 100,000 children annually. After-school programs provide tutoring, homework assistance, and educational enrichment to help students succeed academically and socially. Beginning in 2006-07, Proposition 49 will provide ASES with an increase of \$428 million over current-year funding levels.

State and Federal Accountability Programs

California's academic standards are widely recognized as among the most rigorous in the nation. Aligned with these standards are California's assessments of academic achievement, the Standardized Testing and Reporting Program tests. These assessments support an accountability system that is geared toward ensuring that every student has the opportunity to learn and demonstrate his or her mastery of California's world-class curriculum.

Recognizing the importance of this system, the Governor's Budget provides \$400.4 million in Proposition 98 General Fund and federal funds for school accountability programs.

Other Major Budget Adjustments

Cost-of-Living Adjustment Increases

The Governor's Budget proposes a \$2.3 billion augmentation to provide a 5.18 percent statutory COLA adjustment: \$1.7 billion for revenue limits, \$70.2 million for child care and development, \$78.4 million for class size reduction, \$161.6 million for special education, and \$313.6 million for various categorical programs.

Funding for Average Daily Attendance Growth

The Governor's Budget proposes a \$156 million augmentation to fully fund statutory ADA growth: \$67.4 million for revenue limit apportionments (general purpose funding for schools), \$14.8 million for child care and development, \$4.7 million for class size reduction, \$6.5 million for special education and \$62.6 million for other categorical programs.

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools continues to be low. For the current year, total K-12 ADA is estimated to be 6,010,000, which is an increase of 28,000 ADA or 0.47 percent over the 2004-05 fiscal year, and is 21,000 ADA less than the 2005-06 May Revision estimate. For the budget year, the Administration estimates the total K-12 ADA to be 6,023,000. This total reflects ADA growth of 13,000 or 0.21 percent over the current year.

Augmentation for Mandated Local Programs

The Administration proposes \$133.6 million to fund the ongoing cost of K-12 and Community College locally mandated programs. To the extent this funding is insufficient to cover all eligible claims from local education agencies for the

year, the State Controller is authorized to prorate payments proportionately. Additionally, \$18.7 million is provided from the Proposition 98 Reversion Account to fund prior year mandate claims.

Apportionment Adjustments

For the current year, the Governor's Budget reflects a decrease of \$252 million General Fund for revised estimates related to school district and county office of education revenue limit apportionments. This adjustment is due primarily to an increase in local revenue estimates of \$280 million, offset by an increase in costs associated with declining enrollment funding.

For the budget year, the Governor's Budget substantially increases general-purpose funding for schools by fully funding statutory growth and COLA. Furthermore, the Governor's Budget provides \$200 million for school district revenue limit equalization to partially address disparities in base general-purpose funding levels. An additional \$206 million is also included to repay over half of the outstanding deficit factor owed due to reductions made in prior years to revenue limits and basic aid district categorical funding.

Charter School Categorical Block Grant

Pursuant to Chapter 359, Statutes of 2005, the Governor's Budget provides nearly \$36 million to increase the funding level of the Charter School Categorical Block Grant. This amount reflects an increase of over \$100 in the base Block Grant per-pupil amount.

Special Education

The Governor's Budget provides an additional \$156.3 million General Fund for special education programs. A local property

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tax increase of \$17.4 million and an increase of \$16 million in federal funds also are reflected in the Budget. These increases include \$161.6 million for a 5.18 percent COLA and \$6.5 million for growth.

Proposition 98 Reversion Account

The Governor’s Budget proposes one-time Proposition 98 Reversion Account funding totaling \$213.2 million appropriated as follows:

- \$106.6 million for school facility emergency repairs, consistent with the *Williams* agreement.
- \$63.7 million for CalWORKs Stage 3 Child Care.
- \$18.7 million for mandates.
- \$9.6 million for teacher credentialing.
- \$9 million for charter school facilities.
- \$3 million for teacher recruitment.
- \$1.1 million for school business officer training.
- \$1 million for principal training.
- \$500,000 for coaches training.
- \$39,000 for attendance accounting.

State Department of Education

The State Department of Education administers state and federal education programs and operates the State Special Schools and Diagnostic Centers. The Governor’s Budget includes \$313.3 million (\$123.7 million General Fund) for state operations, which reflects a decrease of \$2 million (\$3 million General Fund) below the revised 2005-06 budget and an

increase of \$4.9 million (\$1.3 million General Fund) above the 2005 Budget Act. This reflects increases in both 2005-06 and 2006-07.

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 includes \$51.2 million (\$31.8 million Proposition 98 General Fund and \$19.4 million other funds), which reflects an increase of \$600,000 above the revised 2005-06 budget, and a decrease of \$2.7 million General Fund and an increase of \$3.4 million other funds compared to the 2005 Budget Act.

Streamlining the Credentialing Process

The current credentialing process is cumbersome and restrictive, and the school accreditation process does not clearly reflect the quality of teacher preparation programs. The Administration proposes to work with the Legislature to establish a standards-based credentialing system, and a performance-based accountability system for teacher preparation programs. The Administration proposes to develop

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a system that supports multiple routes into the profession, and requires that every teacher demonstrate subject matter knowledge as well as pedagogical competence through a streamlined examination process.

Reducing Credential Processing Backlog

In recent years, the CTC has been plagued by a backlog in credential processing. This backlog has resulted in significant delays in candidates receiving their credential. Based on the most recent data, processing time for a credential averages 137 days, which is well beyond the regulatory time limit of 75 days. Delays in processing time result in unnecessary complications and frustration for prospective teachers and school districts as they make employment decisions and process employment-related paperwork.

To remedy this problem, the Administration proposes that the CTC redirect and reclassify four existing high-level positions to create seven new technical positions in the Credentialing, Assignments, and Waivers Division, the unit responsible for processing credentials, to address the credential processing backlog. This will bring total staff in the division to 69 positions.

Other Major Budget Adjustments

The Governor's Budget eliminates the \$2.7 million one-time General Fund provided in the Budget Act of 2005 to help address the CTC's shortfall in special fund revenues. For 2006-07, the Test Development and Administration Account is projected to have a fund balance of \$2.6 million, after providing for a transfer of \$139,000 to the Teacher Credentials Fund. With this transfer, both special funds will

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have sufficient balances to meet anticipated expenditures without the need for additional General Fund in 2006-07.

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Higher Education

Overview

Recognizing the vital role that California's public institutions for higher education serve, the Administration remains committed to fulfilling the Higher Education Compact that was agreed to in spring 2004 with both UC and CSU. The Compact provides a six-year resource plan for the University of California (UC) and the California State University (CSU) that addresses base budget allocations, enrollment growth, student fees, and other key program elements through 2010-11. In exchange for long-term fiscal stability, UC and CSU 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 2006-07 Governor's Budget marks the second year of funding under the Compact.

Given the continued improvement in the state's economy, the Governor's Budget proposes to fully fund the Higher

Higher Education

Education Compact and to relieve the financial impact of proposed student fee increases on students and families by buying out the student fee increases approved by the UC Regents and the CSU Trustees for the Fall of 2006. Additionally, the Governor’s Budget continues to make historic additional investments in the California Community Colleges (CCC) and significant increases in the Student Aid Commission (CSAC) budgets to ensure that access to quality

Figure HED-01
Higher Education Funding
Total and General Funds
(Dollars in Millions)

| | 2004-05 | 2005-06 | 2006-07 | One-Year Change | |
|--|-------------------|-------------------|-------------------|------------------|-------------|
| | | | | Amount | Percent |
| University of California¹ | | | | | |
| Total Funds | \$4,514.7 | \$4,831.0 | \$5,080.0 | \$249.0 | 5.2% |
| General Fund | \$2,698.7 | \$2,842.4 | \$3,049.2 | \$206.8 | 7.3% |
| California State University¹ | | | | | |
| Total Funds | \$3,586.3 | \$3,848.2 | \$4,029.3 | \$181.1 | 4.7% |
| General Fund | \$2,475.8 | \$2,597.5 | \$2,775.8 | \$178.3 | 6.9% |
| Community Colleges | | | | | |
| Total Funds | \$7,300.8 | \$8,005.3 | \$8,611.8 | \$606.5 | 7.6% |
| General Fund & P98 ² | \$5,033.2 | \$5,508.0 | \$6,103.9 | \$595.9 | 10.8% |
| Student Aid Commission | | | | | |
| Total Funds | \$776.5 | \$838.9 | \$897.0 | \$58.1 | 6.9% |
| General Fund | \$595.4 | \$752.4 | \$861.6 | \$109.2 | 14.5% |
| Other Higher Education³ | | | | | |
| Total Funds | \$301.1 | \$309.1 | \$349.8 | \$40.7 | 13.2% |
| General Fund | \$274.9 | \$281.7 | \$322.5 | \$40.8 | 14.5% |
| Total Funds | \$16,479.4 | \$17,832.5 | \$18,967.9 | \$1,135.4 | 6.4% |
| General Fund | \$11,078.0 | \$11,982.0 | \$13,113.0 | \$1,131.0 | 9.4% |

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 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.

³ Other Higher Education includes the California Postsecondary Education Commission, Hastings College of the Law, and General Obligation Bond Interest, and Redemptions for UC, CSU, and Hastings.

higher education and training is available for all qualified students. As shown in Figure HED-01, the Budget contains \$19 billion total funds and \$13.1 billion General Fund for all segments of Higher Education. These amounts represent a 6.4-percent increase in total funds and a 9.4-percent increase in General Fund over the revised 2005-06 budget.

Access

Pursuant to the Compact, the Budget includes a 2.5-percent growth for UC and CSU, providing increases of 5,149 students for UC and 8,490 students for CSU. Total funded Full-Time Equivalent Students (FTES) for 2006-07 at UC and CSU are proposed at 211,255 and 348,262, respectively.

For the CCC, the Budget provides 3-percent growth in credit and non-credit instruction. This provides an increase of over 35,000 additional students for a total of approximately 1,203,500 FTES.

Student Fees

When preparing their annual 2006-07 budgets, both the Regents of the UC and the Trustees of the CSU approved student fee increases that were consistent with the Compact. UC proposed to increase undergraduate fees by 8-percent, graduate fees by 10 percent, and professional school fees by an average of 5-percent. CSU proposed fee increases of 8-percent for undergraduates and teacher credential candidates and 10-percent for other graduate students.

However, given the improved revenue picture, the Governor's Budget proposes to buy out the scheduled fee increases to ease the financial burden on students and their families. Accordingly, the Budget proposes to backfill the potential loss

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of new fee revenue to the public higher education segments by including \$75 million in additional funding for UC, \$54.4 million for CSU, and \$1.4 million for Hastings College of the Law. As a result of this proposal, student fees in 2006-07 will remain at the current 2005-06 levels.

Figure HED-02
Higher Education Fees

2005-06 Fee Comparison (Full-Time Student)

| | California | | | | Other States | | |
|------------------------|--------------------|-------------------|--------------------|-------------------|-------------------|-------------------|------------------|
| | 2005-06 Ed/Reg Fee | 2005-06 Total Fee | 2006-07 Ed/Reg Fee | 2006-07 Total Fee | Average Total Fee | Highest Total Fee | Lowest Total Fee |
| UC^a | | | | | | | |
| Undergraduate | \$6,141 | \$6,802 | \$6,141 | \$6,802 | \$7,821 | \$9,213 | \$6,068 |
| Graduate | \$6,897 | \$8,708 | \$6,897 | \$8,708 | \$10,594 | \$14,271 | \$8,878 |
| CSU^b | | | | | | | |
| Undergraduate | \$2,520 | \$3,164 | \$2,520 | \$3,164 | \$6,132 | \$9,221 | \$3,270 |
| Graduate | \$3,102 | \$3,746 | \$3,102 | \$3,746 | na | na | na |
| Teacher Prep. | \$2,922 | \$3,566 | \$2,922 | \$3,566 | na | na | na |
| CCC^c | | | | | | | |
| Lower Division | | \$780 | | \$780 | \$2,324 | \$5,283 | \$896 |

^a UC's 2006-07 fees are expected to remain at the 2005-06 level due to the buy out of the fee increase adopted by UC proposed by the Governor's Budget. Thus, the undergraduate education fee will remain at \$6,141 (\$6,897 for graduate students), which includes a registration fee of \$735, plus an average campus-based fee of \$661 for undergraduate students and \$1,811 for graduate students.

^b CSU's 2006-07 fees are expected to remain at the 2005-06 level due to the buy out of the fee increase adopted by CSU proposed by the Governor's Budget. Thus, the undergraduate education fee will remain at \$2,520 (\$3,102 for non-teacher preparation graduates and \$2,922 for teacher preparation graduates) plus a campus-based fee of \$644 for both undergraduate and graduate students.

^c Comparison data for other states reflect 2004-05 data. Fees are \$26/credit unit. Example reflects 30 units/academic year. Individual colleges may charge other campus based fees in addition to statewide fee per unit.

2005-06 Professional School Fee Comparison

| | UC ^d | Other States | | |
|-------------------------|-----------------|--------------|----------|----------|
| | | Average | Highest | Lowest |
| Law | \$24,149 | \$23,362 | \$32,919 | \$14,741 |
| Medicine | \$22,211 | \$24,680 | \$28,700 | \$21,356 |
| Business Administration | \$23,668 | \$23,497 | \$33,989 | \$9,581 |

^d Professional fees reflect the average among campuses. Only three of eleven professions are shown in this display.

Average Percent of Instruction Paid by Students

| | 2005-06 | 2006-07 |
|-----|---------|---------|
| UC | 33.8% | 32.8% |
| CSU | 21.8% | 21.8% |
| CCC | 15.5% | 14.5% |

Fees at California's four year segments remain low in comparison to other public institutions. Figure HED-02 shows that UC's 2005-06 undergraduate fees are nearly 13-percent lower than the average of other national comparative institutions, while CSU's 2005-06 undergraduate fees are nearly 48-percent lower, and these calculations exclude the further benefit of Cal Grants that are used by many students in these systems.

For the CCC, the Budget proposes no increase in fees for the 2006-07 fiscal year. While California's fees remain the lowest in the nation and more than 66-percent lower than the national average (see Figure HED-02), the Budget recognizes the need to minimize barriers and maintain the low student fees to encourage increased enrollments.

Higher Education Initiatives

California is blessed with a world-class system of higher education. Each segment has distinguished itself among its peer institutions across the country and around the globe. Further, each segment plays a unique and vital role in fueling California's economic prosperity. The Governor's Budget proposes investments in all segments to enable them to continue this world-class work. In addition, the Budget fully supports student aid programs in order to make college available to Californians by ensuring affordability and accessibility for all students.

While the basic funding needs for the four-year higher education segments have been addressed through the Higher Education Compact signed in 2004 and the CCC funding levels are determined, in a large part, in context of the growth

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in the Proposition 98 Guarantee, the Administration believes all segments need to continue to work closely together to advance the best interests of all students and California's economic future. In this regard, the following initiatives that were initiated in the 2005 Budget Act are expanded in this budget:

Promoting Economic Development Through Career Technical Education

The Administration is committed to expanding opportunities for students to take high-quality career technical education (CTE) courses. The availability of such courses not only enhances the educational opportunities for students, but ensures that California is developing the workforce necessary to remain competitive in the global economy.

The 2005-06 Budget Act included \$20 million provided through the CCC Economic Development Program to implement a Governor's initiative to expand and improve the relevance of CTE courses offered at high schools, regional occupational centers and programs, and CCCs. Specifically, these resources were provided to support what are known as "Tech Prep" or "2+2" programs. These programs offer an articulated series of courses beginning in high schools and continuing in the community colleges. These programs have been proven successful at improving student outcomes and expanding career options.

The Governor's 2006-07 Budget proposes to expand the CTE initiative by providing \$50 million to support "2+2" courses through the CCC budget.

Governor's Science and Math Teacher Initiative

The Governor's Science and Math Teacher Initiative, announced in May 2005 with leaders from UC, CSU and the business community, is a plan to significantly increase the number of science and math teachers trained at the UC and the CSU. Under the initiative, the UC system will increase its annual production of credentialed science and math teachers from the current level of 250 per year to 1,000 per year by 2010. The CSU system will double its production of science and math teachers from 748 to 1,496 during this same time period by expanding its teacher preparation programs and increasing its efforts to recruit talented students into these teaching disciplines. These efforts will help address California's critical shortage of teachers in the subjects of science and math and, thus will help ensure that California is able to maintain its position as a global innovation leader.

This year, the Governor's Budget proposes to increase funding for this initiative by providing:

- \$375,000 to UC, sufficient to provide \$125,000 for each of the three remaining UC campuses to implement the initiative systemwide.
- \$1.1 million increase for CSU to expand the program statewide.

University of California

The Governor's Budget provides total funding of \$5.1 billion for the UC, including \$3 billion General Fund. These amounts reflect an increase of 5.2-percent in total funds and 7.3-percent

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in General Fund over the revised 2005-06 budget levels of \$4.8 billion in total funds and \$2.8 billion General Fund.

In accordance with the Compact, the Governor's Budget proposes the following General Fund adjustments:

- \$80.5 million increase (3-percent) for basic budget support consistent with the Compact.
- \$52 million increase (2.5-percent) for enrollment growth consistent with the Compact.
- \$75 million increase to backfill UC's proposed student fee increases of 8-percent for undergraduate, 10-percent for graduate, and an average of 5-percent for professional students.
- \$14 million continuation of one-time funds for costs associated with sustaining UC Merced operations in 2006-07 for a total funding level of \$24 million.
- \$1.7 million increase to continue funding for expansion of entry-level master's nursing programs pursuant to Chapter 592, Statutes of 2005.
- \$375,000 increase to expand the Science and Math Teacher Initiative initiated in the 2005 Budget Act to the remaining three campuses.
- \$180,000 increase for a new cohort of 12 students for the PRIME Program, which targets the preparation of prospective medical doctors for underserved populations.
- \$17.3 million reduction by eliminating the one-time General Fund legislative augmentation for Student Academic Preparation and Education Programs.

California State University

The Governor's Budget provides total funding of \$4 billion for the CSU, including \$2.8 billion General Fund. These amounts reflect an increase of 4.7-percent in total funds and 6.9-percent in General Fund over the revised 2005-06 budget levels of \$3.8 billion in total funds and \$2.6 billion General Fund.

In accordance with the Compact, the Governor's Budget proposes the following General Fund adjustments:

- \$75.7 million increase (3-percent) for basic budget support consistent with the Compact.
- \$57.7 million increase (2.5-percent) for enrollment growth consistent with the Compact.
- \$54.4 million increase to backfill CSU's proposed student fee increases of 8-percent for undergraduates and credential candidates, and 10-percent for graduate students.
- \$1.7 million increase to continue funding for expansion of entry-level master's nursing programs pursuant to Chapter 592, Statutes of 2005.
- \$1.1 million increase, including \$652,000 one-time General Fund, for the Science and Math Teacher Initiative that was initiated through the 2005 Budget Act.
- \$84,000 increase (3-percent Compact funding) for the Capital Fellows Program.
- \$22.5 million reduction to reflect revised retirement cost rates.

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- \$7 million reduction by eliminating the one-time General Fund legislative augmentation for Student Academic Preparation and Education Programs.
- \$5 million reduction to offset the estimated loss of General Fund interest earnings as a result of a proposed shift of CSU student fees from deposit in the General Fund to the CSU Trust Fund. This technical proposal is revenue neutral to the state and will put CSU on an equal footing with UC and the CCCs with respect to financial management of fee revenues.

Hastings College of the Law

The Governor's Budget provides total funding of \$37.4 million for Hastings in 2006-07, including \$10.1 million General Fund. These amounts reflect an increase of 4.6-percent in total funds and 21.3-percent in General Fund over the revised 2005-06 budget levels of \$35.8 million in total funds and \$8.4 million General Fund.

Consistent with the Compact for UC, the following General Fund adjustments are included:

- \$1.4 million increase to backfill the proposed student fee increase of 8-percent approved by Hastings' governing board.
- \$253,000 increase for basic budget support.

California Community Colleges

The Governor's Budget proposes over \$8.6 billion for the CCC through a combination of General Fund, local property tax revenues, student fees, federal funds, and other local miscellaneous revenues. Of this amount, \$6.1 billion is from the General Fund and Proposition 98 sources, which includes local property taxes. These figures reflect a 7.6-percent increase in total funds and a \$596 million, or a 10.8-percent, increase from General Fund and Proposition 98 sources.

Significant Proposition 98 General Fund augmentations and other changes to the CCC budget include:

- \$148.8 million for Enrollment Growth for Apportionments. This augmentation provides 3-percent overall growth in apportionments to provide access for approximately 35,000 additional full-time equivalent (FTE) students, for a total of over 1,203,000 FTE students in 2006-07.
- \$130 million for Equalization. This increment of funding, combined with \$110 million provided for this purpose over the two preceding budgets, will fully equalize per-student funding levels to the 90th percentile in accordance with the statutory formula.
- \$264.6 million for cost-of-living (COLA) to provide a 5.18-percent adjustment for general-purpose apportionments for all districts.
- \$30 million increase for Career Technical Education for a total of \$50 million. Refer to the Higher Education Initiatives section for details.

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- \$20.8 million for Categorical Program Growth and COLA to provide a 1.74-percent growth and a 5.18-percent COLA for categorical programs that provide essential services to special populations including Basic Skills, Matriculation, Disabled Students Programs and Services, Campus Childcare Tax Bailout, and Extended Opportunity Programs and Services.
- \$9.6 million for Disabled Students Program Support to provide additional sign language interpretive services as well as real-time captioning equipment for deaf and learning-disabled students.
- \$500,000 for CalPASS to expand the program's implementation statewide, which provides community colleges, K-12 schools, and universities with critical data on student performance and transition between education segments that helps improve curriculum in all segments of the education system.
- \$100,000 for Baccalaureate Pilot Programs pursuant to Chapter 515, Statutes of 2005 (AB 1280), to facilitate collaborative partnerships between community colleges and four-year institutions to provide baccalaureate degrees at community colleges in geographic areas with low four-year institution participation rates.

Financial Aid Programs

The Governor's Budget provides total local assistance funding of \$897 million for the California Student Aid Commission (CSAC) in 2006-07, including \$861.6 million General Fund. These amounts reflect an increase of 6.9-percent in total

funds and 14.5-percent in General Fund over the revised 2005-06 budget levels of \$838.9 million in total funds and \$752.4 million General Fund.

Consistent with the Administration's commitment to expanding access to higher education, the Governor's Budget includes \$11.9 million General Fund to increase the maximum Cal Grant for new recipients at non-public colleges and universities from \$8,322 to \$9,708.

In addition, the Budget proposes the following General Fund base and policy adjustments for CSAC financial aid programs:

- \$51 million increase to backfill the use of one-time surplus monies from the Student Loan Operating Fund that helped support financial aid programs in 2005-06.
- \$39.5 million increase for anticipated growth in costs in the Cal Grant Program. This adjustment is net of a reduction of \$28.7 million associated with the proposed buy-out of segmentally approved 8-percent undergraduate fee increases at the UC and CSU.
- \$6.8 million increase for anticipated growth in costs in the Assumption Program of Loans for Education (APLE).
- Authorization for 100 new warrants for the National Guard APLE program. Payments are estimated to begin no sooner than the 2007-08 fiscal year.

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Health and Human Services

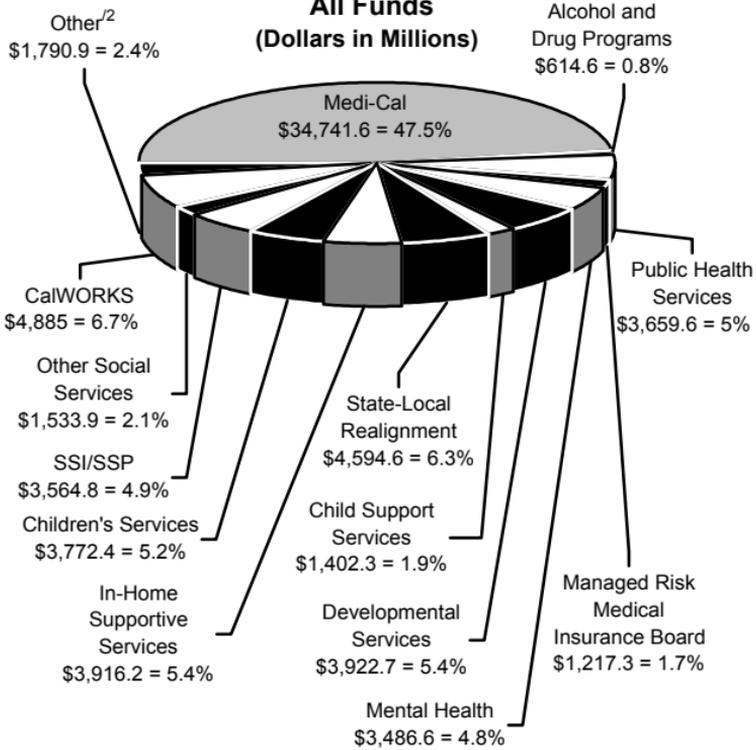
The Health and Human Services Agency (HHS) oversees an array of departments and boards that provide essential services to many of California's most at-risk residents.

For the 2006-07 fiscal year, expenditures for all HHS budgets total \$73.1 billion in combined state and federal funds. This includes expenditures for approximately 33,674 state employees.

Figure HHS-01 displays expenditures for each major program area and Figure HHS-02 displays program caseload information. The 2006-07 totals exceed the total revised 2005-06 budget by \$1.8 billion (\$1.2 billion General Fund), which is an increase of less than 3 percent. Of the \$1.2 billion General Fund increase, \$117.4 million General Fund is proposed for critical policy initiatives.

Health and Human Services

Figure HHS-01
**Health and Human Services
 Proposed 2006-07 Funding^{/1}
 All Funds
 (Dollars in Millions)**



^{/1} Totals \$73,102.4 for support and local assistance. This figure includes reimbursements of \$5,565.2 and excludes enhanced federal funding and county funds that do not flow through the state budget.

^{/2} Includes the Health and Human Services Agency, Department and Commission on Aging, Departments of Rehabilitation and Community Services and Development, Office of Statewide Health Planning and Development, State Independent Living Council, Emergency Medical Services Authority, California Children and Families Commission, State Council and Area Boards on Developmental Disabilities, California Medical Assistance Commission, and General Obligation bonds.

Health and Human Services Initiatives

The Administration is proposing policy and budget recommendations that will strengthen the state's capacity to

Health and Human Services

Figure HHS-02

Major Health and Human Services Program Caseloads

| | 2005-06 Revised | 2006-07 Estimate | Change |
|---|--------------------|---------------------|---------|
| California Children's Services ^{a/} (treatment of physical handicaps) | 37,617 | 38,797 | 1,180 |
| Medi-Cal Eligible CalWORKs | 6,680,200 | 6,806,800 | 126,600 |
| Average Monthly Individuals Served | 1,224,000 | 1,233,000 | 9,000 |
| Average Monthly Cases (Families) | 484,000 | 487,000 | 3,000 |
| Foster Care | 74,800 | 74,900 | 100 |
| SSI/SSP (support for aged, blind, and disabled) | 1,212,000 | 1,241,000 | 29,000 |
| In-Home Supportive Services | 372,000 | 396,000 | 24,000 |
| Child Welfare Services ^{b/} | 164,400 | 161,900 | -2,500 |
| Non-Assistance Food Stamps | 519,900 | 565,500 | 45,600 |
| State Hospitals | | | |
| Mental health clients ^{c/} | 5,591 | 5,830 | 239 |
| Developmentally disabled clients ^{d/} | 3,026 | 2,797 | -229 |
| Community Developmentally Disabled Services | | | |
| Regional Centers | 205,165 | 213,740 | 8,575 |
| Vocational Rehabilitation | 81,802 | 80,921 | -881 |
| Alcohol and Drug Programs ^{e/} | 212,009 | 226,839 | 14,830 |
| Healthy Families Program ^{f/} Children | 827,300 | 933,100 | 105,800 |

a/ Represents unduplicated quarterly caseload in the CCS Program.

Does not include Medi-Cal Eligible CCS clients.

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.

prepare for and respond to emergencies, ensure more children are enrolled in no- and low-cost health coverage programs, support improved outcomes for foster care children, continue our nation-leading efforts to reverse obesity trends, and better link the needs of seniors and persons with disabilities with appropriate services. In addition, to protect the health and

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safety of residents served by facilities licensed by HHS departments, the Governor's Budget proposes the initial activities of a comprehensive multi-year licensing reform effort.

- **Residents are Protected Against and Prepared for Natural and Intentional Disasters**— The Governor's Budget includes \$49 million (\$47.3 million General Fund) to bolster state and local public health capacity to prevent and respond to disease outbreaks and natural or intentional disasters. The Governor's Budget also identifies the need for \$11.7 million (\$11 million General Fund) in the current year to address related costs.
- **Californians Have Access to Affordable Health Care Coverage**— The Administration is committed to ensuring that children have access to affordable health insurance coverage. Toward that end, the Governor's Budget places priority attention on the 55 percent of uninsured children who are eligible for Medi-Cal or the Healthy Families Program (HFP). The 2006-07 Governor's Budget includes \$72.2 million (\$34.2 million General Fund) to reconstitute a more comprehensive strategy to identify, educate, and enroll children eligible for public programs.
- **Children are Raised in Safer, More Stable, and Permanent Homes**— The 2006-07 Governor's Budget builds upon existing foster care reforms to advance the Administration's goal for child welfare: that every child will live in a safe, stable, permanent home, nurtured by healthy families and strong communities. The proposed Children's Services (Child Welfare Services [CWS], Foster Care, Adoptions, Adoption Assistance, and Child Abuse Prevention) budget for 2006-07 is \$3.8 billion (\$1.4 billion General Fund)

to improve the health and well-being of children entrusted to the state's care.

- **Californians Have Healthier Food Choices and Live Active Lives**— The Governor's Budget will build upon the momentum from last year's Governor's Summit on Health, Nutrition and Obesity by providing an historic increase in funding for physical education in schools. This proposal will address critical gaps identified at the Summit – a significant decline in the level of physical activity and reduced focus on physical education in schools.
- **Seniors and Persons with Disabilities Live in the Most Integrated Appropriate Community Setting**— The 2006-07 Governor's Budget provides nearly \$6.9 million (\$4.4 million General Fund) to implement additional initiatives that will ensure seniors and persons with disabilities live in the least restrictive community setting appropriate.
- **Licensing Reform**— The Governor's Budget establishes 155.5 positions to support DHS licensing activities, including timely investigation of complaints about nursing home care, and creates 75.8 positions at the Department of Social Services (DSS) to complete required workload, including increased visits to facilities caring for children. In addition, the Governor's Budget proposes reforms to hold non compliant facilities accountable and to build on a DSS initiative to increase sharing of adverse licensing information across HHSA departments. The Governor's Budget also proposes reforms to streamline licensing practices and realize administrative efficiencies.

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- **Coordinating Care for Medi-Cal's Most Frequent Users**— The Governor's Budget includes \$2 million (\$936,000 General Fund) for DHS to phase in expanded enrollment of seniors and persons with disabilities by: developing and implementing statewide managed care performance standards and requirements to serve this medically fragile population; designing specific education and outreach efforts aimed at increasing voluntary enrollment in managed care counties; and initiating mandatory enrollment of seniors and persons with disabilities not eligible for Medicare in two counties. In addition, the Governor's Budget includes \$473,000 (\$208,000 General Fund) for a pilot project to coordinate the provision of health care to beneficiaries with chronic health conditions who may be seriously ill or near the end of life, and persons with serious mental illness.

Department of Health Services

The Governor's Budget includes \$38.4 billion (\$14.4 billion General Fund), which reflects an increase of \$1.1 billion (\$533.5 million General Fund) above the revised 2005-06 budget and \$14.6 million (an increase of \$727.4 million General Fund) below the 2005 Budget Act. The mission of the Department of Health Services (DHS) is to protect and improve the health of Californians.

Public Health

State expenditures for all public health programs and state administration total \$3.7 billion (\$645.9 million General Fund)

in 2006-07. This represents an increase of \$120.5 million, or 3.4 percent above General Fund expenditures in the revised 2005-06 budget.

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. 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.

Children’s Medical Services— The 2006-07 Governor’s Budget includes \$255.5 million (\$79.2 million General Fund) for the Children’s Medical Services Programs (CMS), which reflects an increase of \$30.9 million (a decrease of \$6.5 million General Fund) above the revised 2005-06 budget and \$38.7 million (decrease of \$44.8 million General Fund) above the 2005 Budget Act. The General Fund decrease compared to the 2005 Budget Act is attributable to using federal Safety Net Care Pool (SNCP) funds, available under the hospital financing legislation (Chapter 560, Statutes of 2005 [SB 1100]), in lieu of General Fund. 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.

Health and Human Services

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 2005, revenue estimates for 2006-07 are approximately \$335.3 million, \$10 million more than the revised 2005-06 budget. This estimated increase is attributable to a State Board of Equalization proposal to better recover state tax revenues from Internet and mail order cigarette and tobacco sales. The Governor’s Budget proposes total expenditures of \$355.2 million for all programs supported by Proposition 99 revenues; this represents an increase of \$10.4 million over revised 2005-06 expenditures. The Governor’s Budget proposes the following changes to Proposition 99 expenditures in 2006-07:

- Increase funding for the Orthopedic Hospital Settlement by \$17.7 million to offset a like amount of General Fund costs.
- Increase funding by \$4.3 million on a one-time basis for the tobacco cessation media campaign.
- Provide funding of \$4 million for statewide asthma programs to maintain community-based clinical management funding at the 2005-06 level and expand asthma surveillance activities.
- Provide \$1.8 million in one-time funding for research to address the disproportionate impact of tobacco use and secondhand smoke exposure on specific California populations.

- Increase funding by \$1.3 million on a one-time basis for competitive grants to provide training and technical assistance on cessation services and to develop educational materials focused on disproportionately impacted populations.
- Extend one-time Proposition 99 funding of \$1 million for the Rural Health Demonstration Project for an additional fiscal year to maintain program funding at the 2005-06 level.
- Extend one-time Proposition 99 funding of \$175,000 for the Healthy Families Consumer Assessment for an additional fiscal year to maintain program funding at the 2005-06 level.

HIV/AIDS Treatment and Prevention— The Office of AIDS administers programs that provide local assistance funding for 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 \$409.4 million (\$174.9 million General Fund) for the Office of AIDS' Treatment and Prevention program. This is a total increase of \$24 million, or 6.2 percent above the revised 2005-06 budget.

Prostate Cancer— The Governor's Budget includes \$3.5 million General Fund on a one-time basis to continue the Prostate Cancer Treatment Program in 2006-07 pursuant to the provisions of Chapter 442, Statutes of 2005. The program, also known as the Improving Access, Counseling and

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Treatment for Californians with Prostate Cancer (IMPACT) program, provides free prostate cancer treatment services to low-income and uninsured men.

Licensing and Certification

The Governor's Budget includes \$64.1 million (\$652,000 General Fund), which reflects an increase of \$18.9 million (a decrease of \$45.9 million General Fund) from the 2005 Budget Act. Currently, Licensing and Certification Program fees and expenditures are budgeted in the General Fund. The Governor's Budget proposes the creation of a special fund for all Licensing and Certification Program activities so that fees and expenditures related to the program can be better tracked. In addition, the Governor's Budget provides an additional \$19.6 million and 147.7 positions for the DHS to better protect California's citizens, improve access to necessary services, and to meet current statutory requirements.

Medi-Cal

The Governor's Budget includes \$34.7 billion (\$13.7 billion General Fund), which reflects an increase of \$974.7 million (\$542.3 million General Fund) above the revised 2005-06 budget and a net decrease of \$181.6 million (an increase of \$755.6 million General Fund) from the 2005 Budget Act. The General Fund increase primarily reflects increases in caseload and cost per eligible person, the elimination of one-time Medicare Part D savings that occurred in 2005-06, increased Medicare Part A (inpatient hospital) and Part B (physician) premiums, and the growth in the number of aged, blind, and disabled persons eligible for Medi-Cal.

The General Fund for mental health programs has been transferred from the DHS budget to the Department of Mental Health's budget. This change resulted in the 2006-07 Medi-Cal increase appearing \$339.9 million less than it otherwise would have.

Implementation of the Hospital Financing Waiver—

The Governor's Budget includes an additional \$246 million in federal funding for hospitals under the new federal Hospital Financing Waiver in 2005-06 and \$570.7 million in 2006-07.

Increase Rate Reimbursements for Long-Term Care Facilities— The Governor's Budget includes \$172 million (\$86 million General Fund) for a 5.4 percent rate increase to freestanding level B nursing homes and adult sub-acute facilities that provide long-term care to Medi-Cal beneficiaries.

Reform Adult Day Health Care Program— The Governor's Budget proposes reforms to combat fraud and maximize resources in this program, including hiring nurses to inspect facilities and eliminating the use of a flat rate. These reforms should result in savings of approximately \$19.3 million (\$9.8 million General Fund) in 2006-07.

Freeze County Administration Salary and Overhead Reimbursements— The Governor's Budget freezes the state's contribution to county overhead and salaries at the 2005-06 level, which will save \$42.4 million (\$21.2 million General Fund) in 2006-07.

Managed Risk Medical Insurance Board

The Governor’s Budget includes \$1.2 billion (\$379.7 million General Fund) for the Managed Risk Medical Insurance Board, which reflects an increase of \$125.8 million (\$49.2 million General Fund) above the revised 2005-06 budget and \$235.2 million (\$30.3 million) above the 2005 Budget Act. This increase is due primarily to enrollment growth in the Healthy Families Program.

Healthy Families Program (HFP)

The HFP 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. HFP expenditures are projected to grow from revised expenditures of \$908.4 million (\$327 million General Fund) in 2005-06 to \$1 billion (\$377 million General Fund) in 2006-07, an increase of \$50 million General Fund, or 15.3 percent. This increase is primarily the result of enrollment that is projected to grow from 827,300 by year-end 2005-06 to 933,100 in 2006-07 for a total increase of 105,800 children, or 12.8 percent.

Access for Infants and Mothers (AIM)

The Access for Infants and Mothers (AIM) 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 \$117.4 million (\$56.2 million from the Perinatal Insurance Fund) in 2005-06 to \$114.5 million (\$50.5 million from the Perinatal Insurance Fund) in 2006-07, for a total decrease of \$2.9 million, or 2.5 percent.

The decrease in funding for 2006-07 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 from an average monthly enrollment of 6,300 in 2005-06 to less than 700 in 2006-07 with the last child aging out by mid-year. During this period, enrollment of women is projected to increase from 10,700 in 2005-06 to 12,100 in 2006-07 for a total increase of 1,400 women, or 13 percent.

Major Risk Medical Insurance Program

The Governor's Budget includes \$40 million for the Major Risk Medical Insurance Program (MRMIP), which provides health care coverage to medically high-risk individuals and the medically uninsurable who are denied 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 8,700 persons, with 80 persons on the waiting list primarily serving their post enrollment waiting period. The waiting list has declined due to the implementation of Chapter 794, Statutes of 2002, which uses a market-based solution to reduce the waiting list of applicants. Pursuant to Chapter 794, 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 Developmental Services

The Governor’s Budget includes \$3.8 billion (\$2.4 billion General Fund) for the Department of Developmental Services (DDS), an increase of \$208.7 million (\$155.6 million General Fund) above the revised 2005-06 budget. Total caseload is expected to reach 216,537 consumers in 2006-07, compared to 208,191 in 2005-06.

Developmental Centers

The Governor’s Budget provides \$706.6 million (\$383.4 million General Fund) for the developmental centers, a net decrease of \$6.7 million (\$3.6 million General Fund) from the revised 2005-06 budget, primarily due to a decreasing population and updated Medi-Cal reimbursement levels. The Governor’s Budget supports a population of 2,797, a decrease of 229 consumers from 2005-06.

Agnews Developmental Center Closure— The Governor’s Budget reflects a net increase of \$19.6 million (\$14.9 million General Fund) compared to the 2005 Budget Act for the planned July 2007 closure of Agnews Developmental Center. The developmental center budget reflects a net decrease of \$5.6 million (\$3.4 million General Fund), including an increase of \$10.5 million (\$5.2 Million General Fund) for costs to relocate Agnews residents to the community or Sonoma Developmental Center. The regional center budget is increased by \$25.2 million (\$18.4 million General Fund) for the costs of placing 177 Agnews residents into the community in 2006-07.

Regional Centers

The Governor's Budget includes \$3.1 billion (\$2 billion General Fund) for regional centers, a net increase of \$215.7 million (\$159.8 million General Fund) above the revised 2005-06 budget, primarily due to updated population information and the provision of a 3 percent cost-of-living adjustment for specified providers. The Governor's Budget supports a population of 213,740, an increase of 8,575 consumers above 2005-06.

Autistic Spectrum Disorders Initiative— The Governor's Budget includes \$2.6 million General Fund for expansion of the Autistic Spectrum Disorders (ASD) Initiative. This includes funding for regional centers to provide a new ASD program coordinator and clinical specialist in each regional center and for the DDS headquarters to establish and coordinate new state and regional ASD Resource Centers. Funding is also provided for training clinicians and other professionals to implement existing best practice guidelines on the screening, diagnosis and assessment of autism and for the development of new best practice guidelines on the treatment and intervention for autism, and interagency collaboration.

Rate Increase— The Governor's Budget includes \$67.8 million (\$46.1 million General Fund) to provide a 3 percent cost-of-living adjustment to programs that have been subject to the provider rate freezes. Although continuation of the existing rate freezes beyond this increase is necessary due to the ongoing structural budget deficit, the Administration recognizes that there is increasing stress on the provider system and relief is needed to help prevent program closures. The Budget also includes \$824,000 (\$176,000 General Fund)

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to provide a 3 percent rate increase to habilitation service programs administered by the Department of Rehabilitation (DOR) that serve DOR clients.

Long-Term Cost Containment— To contain long-term growth within sustainable limits, the Governor’s Budget maintains temporary cost containment measures while permanent measures continue to be developed. The Administration plans to administratively implement one of these permanent measures in 2006-07. Beginning in January 2006, the DDS will negotiate regional center contract language to give regional centers additional responsibilities and tools to control the growth in expenditures. The Governor’s Budget includes \$7.6 million General Fund for regional centers to implement these structural changes with resulting General Fund cost reductions estimated to be \$10.6 million in 2006-07, \$21.1 million in 2007-08, and \$31.7 annually thereafter.

Department of Mental Health

The Governor’s Budget includes \$3.4 billion (\$1.6 billion General Fund) and 10,079.5 positions for mental health services, a net decrease of \$172.7 million (an increase of \$316.4 million General Fund) and an increase of 475.8 positions from the revised 2005-06 budget. This net change primarily reflects a permanent transfer of General Fund from the DHS for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program, removal of AB 3632 state mandate funding, implementation of a new recovery treatment model in the state hospitals, and removal of one-time funding for settlement of 2002-03 county claims for the EPSDT program.

State Hospitals

The Governor's Budget includes \$958.4 million (\$876.4 million General Fund) and 9,714.2 positions for state hospitals in 2006-07, a net increase of \$72.2 million (\$77 million General Fund) and 468.1 positions from the revised 2005-06 budget. This increase is due primarily to a projected net increase of 239 patients and resources to comply with the Civil Rights of Institutionalized Persons Act (CRIPA). The patient population is projected to reach a total of 5,830 patients in 2006-07.

Civil Rights of Institutionalized Persons Act—

The Governor's Budget includes \$43.5 million (\$37.8 million General Fund) and 432 additional positions to meet the requirements of the CRIPA. Under the proposed recovery-oriented treatment system, the state hospitals will focus on the functional skills desired and necessary to live successfully after discharge, provide treatment, rehabilitation, and supports to develop these skills as well as address the psychiatric and psychological problems presented.

Community Mental Health Services

The Governor's Budget includes \$2.4 billion (\$672.1 million General Fund), a net decrease of \$107.2 million (an increase of \$363.5 million General Fund) compared to the revised 2005-06 budget, for community mental health services.

Early and Periodic Screening, Diagnosis and Treatment Program—

The Governor's Budget includes \$714.4 million (\$352.3 million General Fund) for EPSDT, a net decrease of \$100.6 million from the revised 2005-06 budget. This net decrease is due to (1) an increase of \$57.9 million (\$27.2 million

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General Fund) for an increased number of projected claims, (2) a reduction of \$19.1 million (\$8.4 million General Fund) for audit disallowances and county self-corrected claims, (3) a permanent transfer of \$333.5 million General Fund for the EPSDT program from the DHS budget, and (4) the removal of \$139.4 million in one-time reimbursements for settlement of 2002-03 county claims. Under this program, approximately 185,000 Medi-Cal eligible children and young adults receive services to ameliorate a diagnosed mental illness.

Mental Health Services to Special Education Pupils

(AB 3632)— The Governor’s Budget continues to provide \$100 million in special education funding in the Department of Education budget for mental health services to special education pupils as required by the federal Individuals with Disabilities Education Act (IDEA). In addition, the budget includes \$50 million non-Proposition 98 General Fund as a set-aside in the Commission on State Mandates budget for categorical program funding for mental health services to pupils beyond those that are federally required under the IDEA. The Administration will consult stakeholders and the Legislature to determine how the new categorical program should be structured, budgeted, and administered in order to ensure continued services and to maximize federal funding for services.

Department of Child Support Services

The Governor’s Budget includes \$1.4 billion (\$517.3 million General Fund) and 507.5 positions for the Department of Child Support Services (DCSS). This funding level represents

an increase of \$9 million (\$4 million General Fund) above the revised 2005-06 budget and \$0.4 million (\$3.6 million General Fund) above the 2005 Budget Act. The increase is due primarily to costs for the California Child Support Automation System (CCSAS) project.

Child Support Automation—Chapter 479, Statutes of 1999, designated the Franchise Tax Board (FTB) as the agent of the DCSS for the procurement, development, implementation, and maintenance and operation of a new statewide automated child support system, the CCSAS. The state is responsible for developing and implementing the CCSAS and transitioning all counties onto this new system.

As a result of California's delay in implementing a single, statewide automated system, the federal government has levied significant federal penalties against the state. The Governor's Budget includes \$220 million General Fund to pay the federal fiscal year 2006 federal penalty due in September 2006. The Governor's Budget assumes there will not be a penalty for federal fiscal year 2007, as the DCSS and FTB plan to submit a request for federal certification of the CCSAS as an Alternate System Configuration by September 2006. Pursuant to federal child support regulations, additional automation penalties will be held in abeyance while federal certification review is in progress.

Child Support Local Administration— The Governor's Budget proposes \$192.2 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 2005-06. The Governor's Budget also continues to provide \$20 million in federal funds to be matched by

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\$10 million in voluntary county funding for the support of local child support agency staff and program services.

Department of Social Services

The Governor's Budget includes \$17.7 billion (\$8.8 billion General Fund) and 4,134 positions for the Department of Social Services (DSS). This represents an increase of \$217.7 million (\$146.6 million General Fund) above the revised 2005-06 budget and \$131.5 million (\$154.9 million General Fund) above the 2005 Budget Act.

California Work Opportunity and Responsibility to Kids

The Governor's Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$6.7 billion. Caseload is projected to increase by a modest amount in 2006-07 after many consecutive years of decline. The average monthly caseload in this program is estimated to be 487,000 families in 2006-07, a 0.7 percent increase over the 2005-06 projection.

Chapter 78, Statutes of 2005, suspended both the July 1, 2005 and July 1, 2006 CalWORKs grant cost-of-living adjustments (COLAs), resulting in cost avoidance of \$121.8 million in 2005-06 and \$307.2 million in 2006-07.

The Governor's Budget proposes to increase efforts to ensure implementation of reforms that reduce program costs and improve county performance while continuing to place a greater emphasis on work participation and personal responsibility. In addition, 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 continue this policy, \$198.9 million in net program reductions are required to maintain expenditures within this level:

- **Revised Welfare Reform Methodology/ Implementation**— Due to implementation delays and changes in work requirements contained in Chapter 78, Statutes of 2005, the assumed savings of \$18.8 million from welfare reform is not expected to materialize in 2005-06. Beginning February 2006, the DSS will provide technical assistance and training to ensure that counties engage CalWORKs clients in work activities. Full implementation of reforms is expected by the end of 2006-07. Based on the revised implementation schedule and welfare reform methodology, the Governor's Budget includes net savings of \$2.5 million in 2005-06 and \$27.9 million in 2006-07.
- **Recover Child Care Expenditures Associated with Welfare Reform**—Based on the reduced number of recipients moving into work, the Governor's Budget reduces 2005-06 child care expenditures by \$114.6 million. Based on county expenditures to date, the funding for child care included in the Budget Act of 2005 associated with increased work is not anticipated to be needed.
- **Pay for Performance Delayed Implementation**— The Budget Act of 2005 assumed \$22.2 million in grant savings from implementation of a new incentive system that rewards counties for improvements in specific CalWORKs program outcomes. Incentive funds totaling

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\$30 million were set aside in the CalWORKS reserve for allocation to counties in 2006-07. Grant savings are currently estimated to be \$2.8 million in 2005-06, and the Governor's Budget includes savings of \$6.3 million in 2006-07 to reflect ongoing implementation efforts. As welfare reform implementation is expected to continue through 2006-07, the Administration proposes to delay the payment of incentive funds to counties.

- **Maintain Department of Education Child Care Expenditures Counted Toward the TANF MOE at Current Levels**—Revised estimates of State Department of Education (SDE) General Fund child care expenditures indicate that an additional \$40 million could be counted toward the MOE in both 2005-06 and 2006-07. However, because the SDE has not spent the entire General Fund amount budgeted for its child care programs in recent years, the Administration proposes to maintain the SDE MOE-eligible child care expenditures at the 2005 Budget Act level in 2005-06 and 2006-07.

The reductions identified above are partially offset by additional CalWORKs expenditures proposed in the Governor's Budget:

- **Set Aside for Potential 2005-06 Child Care Costs Associated with Welfare Reform**—Rather than including \$5.4 million in the child care holdback associated with welfare reform, the Governor's Budget retains \$11.5 million in the 2005-06 TANF reserve, to be available to counties if they incur additional child care costs resulting from implementation of welfare reform.
- **Prospective Budgeting**— The Administration is currently reviewing time study and county survey data

to estimate the impact of prospective budgeting on county administration. The Governor's Budget sets aside \$25 million in the 2005-06 TANF reserve and includes a placeholder of \$25 million in 2006-07 to account for potential additional expenditures based on a revised estimate for prospective budgeting. This reduces total CalWORKs administrative savings associated with prospective budgeting from \$127.7 million to \$102.7 million in 2006-07.

The Governor's Budget includes an additional proposal to reduce the 2006-07 CalWORKs single allocation to counties by \$40 million and utilize these federal TANF funds to offset General Fund costs in Child Welfare Services by \$39.1 million and Foster Care by \$0.9 million. The single allocation supports CalWORKs employment services, child care services, and county administration expenditures. Counties can backfill the reduction in the single allocation with county performance incentive funds previously earned and allocated to counties but not spent.

Supplemental Security Income/State Supplementary Payment Program

The Governor's Budget proposes \$3.6 billion General Fund for the Supplemental Security Income/State Supplementary Payment Program (SSI/SSP) program in 2006-07.

This represents a 1.7 percent increase from the revised 2005-06 budget. The average monthly caseload in this program is estimated to be 1.2 million recipients in 2006-07, a 2.4 percent increase over the 2005-06 projected level.

The 2005 Budget Act suspends the pass-through provision of the January 2006 and January 2007 federal SSI COLAs

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until April 2006 and April 2007, respectively. Beginning in April 2006, monthly grant payment levels will be increased to \$836 for an aged or disabled individual and \$1,472 for a couple. Given the state's continuing fiscal challenges, the Administration proposes to extend withholding the pass-through of the January 2007 federal COLA until July 2008. The resulting General Fund savings is projected to be \$48.1 million in 2006-07 and over \$185 million in 2007-08. It is the Administration's intent that this proposal will not reduce the amount of the monthly grants received by SSI/SSP recipients. Even with this proposal, California continues to provide the highest level of cash grants to SSI/SSP recipients among the ten most populous states.

Additionally, the Administration proposes to continue the current statutory sponsor deeming period for the Cash Assistance Program for Immigrants another five years, resulting in savings of \$12.5 million in 2006-07 and over \$40 million in 2007-08. During the deeming period, the income and resources of the person sponsoring the noncitizen will be taken into account when determining benefit eligibility.

Child Welfare Services

The child welfare system in California provides a continuum of services through various programs, including Child Welfare Services, Child Abuse Prevention, Foster Care, Adoption Assistance, and Adoptions to children who are either at risk of or have suffered abuse and neglect. The Governor's Budget includes \$3.8 billion (\$1.4 billion General Fund) to provide assistance payments and services to children and families under these programs. This is an \$89.1 million (\$29.5 million

General Fund), or 2.4 percent, increase from the revised 2005-06 budget.

Children’s Services Initiative— The federal Child and Family Services Review and the new California Outcome and Accountability System have established a comprehensive process to measure program performance and track improvement in California’s child welfare services delivery system. The Governor’s Budget includes \$385,000 (\$156,000 General Fund) in 2005-06 and \$32.8 million (\$19.1 million General Fund) in 2006-07 for a series of Children’s Services initiatives and programmatic investments designed to ensure the safety of children and improve outcomes such as permanency and the well-being of the children and families served.

Community Care Licensing

The Governor’s Budget includes \$6.7 million (\$6 million General Fund) and 75.8 positions for a comprehensive licensing reform initiative designed to increase protections for clients in licensed facilities and improve the efficiency and effectiveness of the Community Care Licensing program. This initiative would increase the number of random sample licensing visits from 10 percent to 20 percent annually, formalize training for critical field staff, and implement a series of administrative proposals to improve the operational efficiency of the licensing program.

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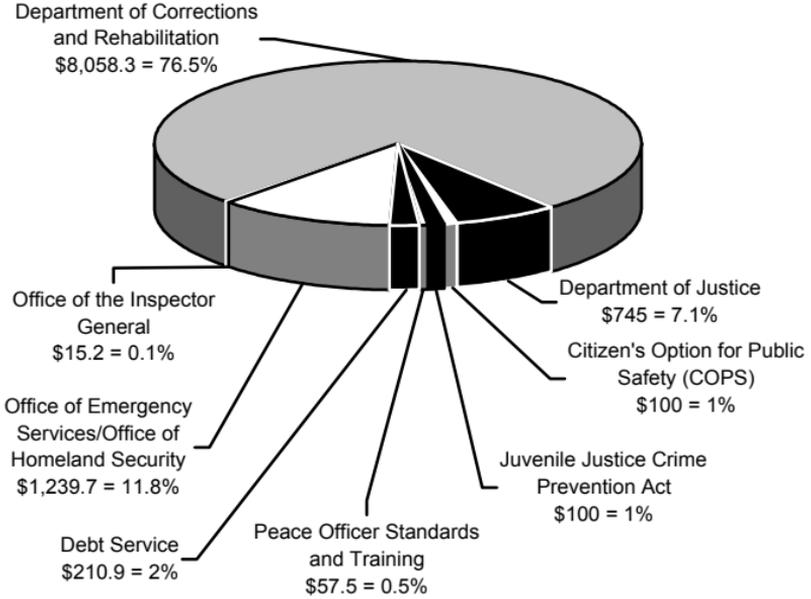
Public Safety

The 2006-07 Governor's Budget proposes total funding of approximately \$10.5 billion for various programs within the California Department of Corrections and Rehabilitation, Department of Justice, Office of Emergency Services/ Office of Homeland Security, Commission on Peace Officer Standards and Training, and the Office of the Inspector General. The amount proposed is a 3.2 percent increase over the revised 2005-06 Budget. The more significant funding changes for these programs include the following:

Department of Corrections and Rehabilitation

Adult Inmate and Parolee Population—The California Department of Corrections and Rehabilitation (CDCR) adult inmate average daily population is projected to increase from 167,630 in 2005-06 to 171,497 in 2006-07, an increase of 3,867 inmates, or 2.3 percent. This increase is due primarily

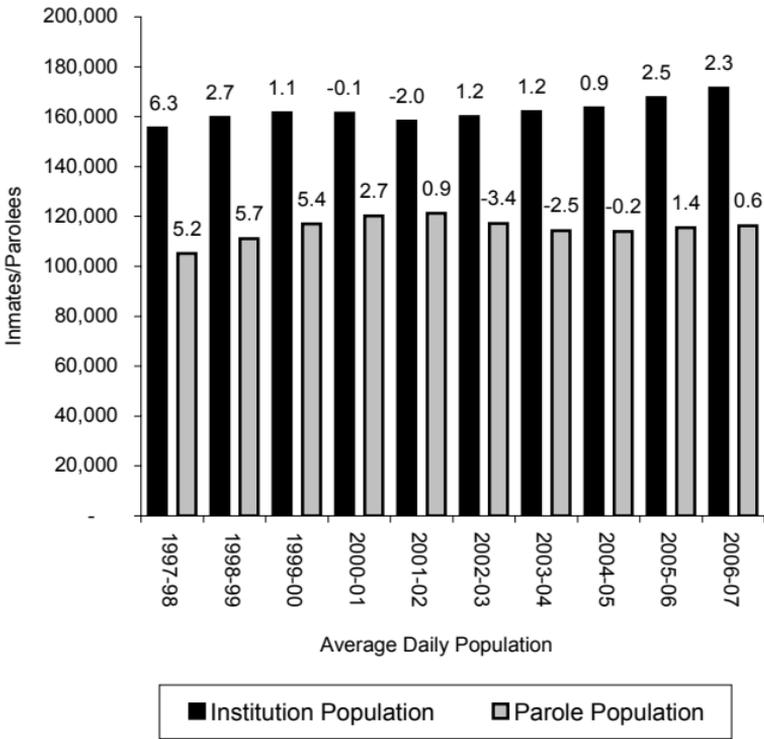
Figure PUB-01
Proposed Public Safety Expenditures for 2006-07
All Funds
(Dollars in Millions)



to new admissions and parole violators returned with new terms (PV-WNT). The PV-WNT category of offenders grew by 10.7 percent from January to June 2005. The average daily parole population is projected to increase from 115,524 in 2005-06 to 116,220 in 2006-07, an increase of 696 parolees, or 0.6 percent. The parole population is projected to increase due to fewer discharges from parole and more releases to parole. The costs associated with these population changes are \$26.9 million General Fund in 2005-06 and \$73.4 million General Fund in 2006-07. In 2006-07, incarceration services will be provided through 33 institutions, 11 reception centers, 43 camps, and 12 community correctional facilities.

Juvenile Offender and Parolee Population—The CDCR projects a juvenile institution population of 2,920 youthful

Figure PUB-02
**Department of Corrections and Rehabilitation
 Institution and Parole Population Percentage Change**



offenders by June 30, 2006, which is an increase of 305 from the level anticipated in the 2005 Budget Act. The 2006-07 year-end institution population is expected to decrease by 240 wards, resulting in a June 30, 2007 population of 2,680. The Governor’s Budget proposes an increase of \$5.4 million General Fund in 2005-06 and an increase of \$3.4 million General Fund in 2006-07.

The CDCR supervises juvenile parolees in 15 offices located throughout the state. The juvenile parole population is projected to be 3,420 by June 30, 2006, an increase of 45

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over the 2005 Budget Act. By June 30, 2007, it is expected to decrease by 245 cases, to a total of 3,175 parolees. To address this change, the Governor's Budget proposes an increase of \$276,000 General Fund in 2005-06 and a decrease of \$135,000 in 2006-07 for the Juvenile Parole program.

The population adjustment proposed in the Governor's Budget for the Juvenile Education Program reflects the application of new ratios consistent with the *Farrell v. Hickman* lawsuit to the estimated population that will receive education services in 2005-06 and 2006-07. As a result, the General Fund Proposition 98 funding is projected to increase by \$224,000 in 2005-06. In 2006-07, the General Fund Proposition 98 funding will decrease by \$7.8 million.

Cadet Needs—The inmate population is running at all-time-high levels, creating a need for additional adult Correctional Officers (COs). The current number of cadets graduating from the Basic Correctional Officer Academy is insufficient to address the increasing needs for COs due to the increasing population and the anticipated increase in retirements resulting from the enhanced retirement benefits for Bargaining Unit 6 employees effective January 2006. Additionally, the Budget also proposes to expand the number of juvenile COs and counselors, and parole agent cadets to be trained. The Budget includes \$25.4 million General Fund in 2005-06 and \$54.5 million General Fund in 2006-07 to help the CDCR hire and train the number of cadets necessary to safely operate its institutions.

Parole Hearings Workload—As a result of the Governor's Reorganization Plan, which consolidated the various departments and boards under the Youth and Adult

Correctional Agency into the CDCR, additional Commissioners are available to conduct lifer hearings. The Governor's Budget proposes additional Deputy Commissioners and the associated support staff to have 12 active life prisoner parole hearing panels operating by February 2006. The Budget includes \$752,000 General Fund in 2005-06 and \$1.3 million General Fund in 2006-07 to fully staff these panels.

The Budget projects 92,576 parole revocation assessments in 2005-06, an increase of 2,920 from the May Revision projections. As such, the Budget includes \$9.6 million General Fund to ensure the continued implementation of the *Valdivia v. Schwarzenegger* Remedial Plan, primarily for attorney costs and to provide sufficient staffing to address a higher number of revocation hearings than previously anticipated in the current year. Additionally, the Governor's Budget includes a budget year increase of \$12.7 million General Fund for attorney costs and to provide sufficient staffing and resources to address a higher number of revocation hearings than anticipated in the 2005 Budget Act.

Adult Local Assistance—The Governor's Budget includes an augmentation of \$85.1 million General Fund in 2005-06 and \$11.9 million General Fund in 2006-07 to reimburse local entities for housing and nonroutine medical costs of parolees who are arrested for parole violations. This funding includes a one-time, lump-sum payment to local entities of \$55.4 million General Fund for outstanding claims from prior years and \$29.7 million General Fund for a projected shortfall in the Local Assistance budget in 2005-06. The need in the budget year is projected to decrease to \$11.9 million as a result of adding staff to audit the claims received from local entities and expanding reception center capacity which will relieve some of the burden on local entities to house state parolees.

Public Safety

Recidivism Reduction Strategies—The Administration is committed to improve public safety, as outlined in the CDCR’s Strategic Plan, through the implementation of expanded evidence-based programs that improve public safety and reduce victimization by reducing recidivism and preparing inmates to transition back into the community. The 2005 Budget Act included \$7.5 million General Fund in 2005-06, growing to \$30 million General Fund in 2006-07 for evidence-based inmate and parolee programming enhancements.

The CDCR has outlined a plan that represents a comprehensive approach to inmate and parolee programming that is expected to demonstrate success at reducing recidivism and preparing inmates to transition back into the community. The plan proposes to spend \$7.5 million General Fund in 2005-06 and \$52.8 million General Fund in 2006-07 (an increase of \$22.8 million in 2006-07) and includes funding for inmate education programs, community partnerships, parolee services, rehabilitative and treatment programs, and research and support services. These strategies represent a comprehensive approach to provide program enhancements to male and female inmates, parolees, and community services. However, this is only the initial effort of an ongoing process to provide rehabilitative programs to inmates and parolees, as the CDCR is exploring additional opportunities for program expansion.

Juvenile Safety and Welfare Remedial Plan—

In November 2005, the CDCR submitted the Safety and Welfare Remedial Plan to the court in response to the *Farrell v. Hickman* lawsuit. The plan addresses the most fundamental

deficiencies identified in the operation of the housing units and treatment programs in the state's juvenile institutions. The plan will be implemented on a phased-in basis over five years. In order to implement this plan, the Governor's Budget proposes \$5.2 million General Fund in 2005-06 and \$47.5 million General Fund in 2006-07.

Juvenile Healthcare Remedial Plan—The Administration is committed to implementing the Healthcare Remedial Plan submitted to the court in September 2005 under the *Farrell v. Hickman* lawsuit. This plan will improve the delivery of healthcare services to youthful offenders in the CDCR's juvenile institutions. As such, the Budget includes an increase of \$7.5 million General Fund to fund the staffing and activities needed to implement this plan.

Increased Funding for Adult Healthcare Services—The Administration proposes \$68.1 million General Fund to mend the ongoing budgetary shortfall in the correctional healthcare program. The expenditures for providing contract medical services, pharmaceuticals, and medical guarding to inmates have exceeded the funding allocated in recent years. Historically, funding has been redirected from other critical programs to cover this shortfall, which has impeded the implementation of these programs.

Global Positioning System Expansion—The Administration proposes \$5.1 million General Fund in 2006-07 to add 500 Global Positioning System (GPS) devices used to track and monitor parolees who pose the highest risk to public safety and reduce the caseload for parole agents supervising these offenders, consistent with caseload ratios used by other states for similar parolees. This is the first phase in a four-year plan

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to increase the number of GPS devices available to monitor eligible parolees by 2,000 units, bringing the total number of GPS units available for parolee monitoring up to 2,500 by 2009-10.

Case Records—The Administration is committed to providing appropriate staffing to process case records files in a timely and efficient manner. This becomes an important security concern when the reception centers do not receive the required files timely and are forced to house the inmates at inappropriate security levels and for longer periods of time. As such, the Budget includes an increase of \$14.6 million General Fund, which is designed to create an appropriate classification structure for the work being performed by case records staff, provide funding to help digitize discharged offender records, and provide funding to undertake a statewide health records staffing study.

Facility Maintenance—The Budget includes \$10.3 million for critical special repair needs that if left unfunded could result in lost housing capacity, and \$700,000 to assess the overall CDCR repair and maintenance needs. In addition, the Administration is proposing \$10.3 million over two years (\$3 million in 2006-07 and \$7.3 million in 2007-08) to fix electromechanical locking cell doors.

Incarceration of Undocumented Felons

The CDCR expects to spend approximately \$662.4 million in 2005-06 for the incarceration of undocumented persons. During 2004-05, the Administration worked closely with the federal government to increase the reimbursements

that the state receives for incarcerating undocumented felons. As a result, the state will receive \$107.1 million in federal State Criminal Alien Assistance Program funding for 2005-06. This is \$28.6 million more than projected for 2005-06. Undocumented persons are expected to comprise 10.9 percent of inmates in the state prison system. The CDCR's costs in 2006-07 are estimated to increase to \$722.7 million, an increase of 9.1 percent. For 2006-07, it is estimated that California will receive approximately \$114.1 million in federal State Criminal Alien Assistance Program funding. At this level of funding, the state will be reimbursed for only 15.8 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with \$608.6 million in costs in excess of the level of federal reimbursements.

The Administration will continue to aggressively pursue all strategies designed to maximize federal funding for incarceration of undocumented felons.

Department of Justice

The 2006-07 Governor's Budget includes total expenditures of \$745 million for the Department of Justice (DOJ), which includes the following augmentations:

Gang Suppression Enforcement Teams — An increase of \$6.5 million General Fund to develop four new Gang Suppression Enforcement Teams in 2006-07, increasing to six teams in 2007-08, to provide a statewide and multijurisdictional approach to curtail the threat of gangs.

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California Methamphetamine Strategy Program—

An increase of \$6 million General Fund to better equip the DOJ to fight California’s number one drug problem by developing three new teams focused on the less-populated, rural areas in California, where methamphetamine production has become increasingly difficult to control.

Firearms Database Workload—An increase of \$5 million General Fund to review and analyze records in the DOJ Armed Prohibited Persons System database to identify persons prohibited from possessing a firearm or dangerous weapon, and organize and lead state and local task forces to investigate, arrest, and prosecute armed prohibited criminals.

Tribal Gaming Compliance and Enforcement—An increase of \$3.3 million, comprised of \$367,000 General Fund and \$3 million Indian Gaming Special Distribution Fund, to address the DOJ Division of Gambling Control compliance and enforcement workload related to all Tribal-State Gaming Compacts, as part of the Administration’s comprehensive approach to Indian gaming regulatory responsibilities.

Office of Homeland Security

Mass Transportation Security Grant Program—To begin addressing the threat of terrorist acts against California’s mass transportation systems, the Governor’s Budget proposes \$5 million from the Antiterrorism Fund to assist local mass transit entities in improving the security of their infrastructure.

Science and Technology Unit—The Governor’s Budget includes \$465,000 Federal Trust Fund to establish a Science and Technology Unit within the Office of Homeland Security.

This unit will begin identifying technology-based solutions to provide state and local officials with the resources to better protect the citizens of California from terrorist threats.

Office of Emergency Services

Sexual Assault Felony Enforcement—The Governor’s Budget proposes \$6 million General Fund for Sexual Assault Felony Enforcement teams throughout the state. These funds will allow the Office of Emergency Services to support local law enforcement agencies in their effort to investigate, monitor, and prosecute habitual sex offenders.

Assistance for Victims of Crimes Committed by Parolees—The Governor’s Budget includes \$1.1 million from the Victim-Witness Assistance Fund for grants to victim-witness service assistance centers. With these additional resources, the assistance centers will coordinate victim and witness attendance in parole revocation hearings, provide counseling referrals to victims, and assist them in obtaining benefits.

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Resources and Environmental Protection

Resources

- **Flood Control**—Billions of dollars of Central Valley homes, businesses, and infrastructure depend upon 1,600 miles of aging levees. To diminish threats from levee failure and flooding, the Governor’s Budget includes \$35 million General Fund and 30 new positions to improve and maintain the flood control system. The Budget also includes \$41.3 million (\$31.4 million General Fund) for the construction of six flood control capital projects on the Sacramento and American rivers.
- **Water Infrastructure Bond**—The Administration will propose the sale of \$9 billion in General Obligation bonds for new flood control and water supply projects. Of the total bond funds to be made available, \$6.5 billion will be used for Integrated Regional Water Management, including programs to increase water storage and supply, reduce water demand by promoting water efficiency

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measures, improve water quality and restore ecosystems, and develop desalination facilities. The balance of the bond funds, \$2.5 billion, will be used for flood protection in the Central Valley and elsewhere in California, including river levee repair and improvement, Delta levee strengthening, habitat restoration, floodplain mapping, local flood control subventions, and other environmentally beneficial improvements to the Sacramento-San Joaquin Flood Control Project levees.

- **CALFED Bay-Delta Program**—The Budget includes \$244 million in continued funding for the CALFED Program to ensure water supplies and improve sensitive Delta ecosystems. In addition, a 10-Year Action Plan has been prepared in response to the Governor’s direction to develop a plan that focuses on solving the highest priority Delta issues. The Plan resets the schedules and milestones identified in the CALFED Record of Decision and identifies near-term priority actions that will balance implementation of the Program’s four primary objectives: ecosystem restoration, water supply reliability, water quality and levee system integrity.
- **All-American Canal**—The Budget provides \$84 million General Fund for the lining of the All-American and Coachella canals. This funding is consistent with the Quantification Settlement Agreement, which is a comprehensive agreement among the federal government, the state, and various local water agencies to reduce California’s use of Colorado River water. These canal lining projects are expected to save approximately 100,000 acre feet of Colorado River water.

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- **Fish and Game Programs**—The Budget provides \$15.5 million for the following activities: (1) \$6 million General Fund to backfill for a redirection of sport fishing license fee revenue to fish hatchery operations and trout restoration, as required by AB 7, (2) \$4 million General Fund to prevent program reductions due to insufficient licensing fee revenues in the Fish and Game Preservation Fund, (3) \$4 million General Fund to continue local grants to restore habitat for coho salmon and steelhead trout, and (4) \$1.5 million from Bay-Delta angling fee revenue to improve sport fishing in the region.
- **Empire Mine State Historical Park**—The Budget includes \$5 million General Fund for the implementation of contamination remediation measures at the Empire Mine State Historic Park.
- **Americans with Disabilities Act Transition Plan: Year Five**—The Budget provides \$11.8 million (\$11.2 million General Fund) to continue bringing the state’s parks into compliance with the Americans with Disabilities Act.

California Environmental Protection Agency

- **Climate Change Initiative**—Greenhouse gas emissions, which trap heat in the earth’s atmosphere, create global warming and threaten public health, water supplies, and natural ecosystems in California. In response to this threat, the Budget proposes \$7.2 million (\$135,000 General Fund and \$7.0 million other funds) and 23.4 positions to implement greenhouse

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gas emission reduction strategies that will enable the state to meet the emission reduction targets established by the Governor's executive order.

- **Environmental Enforcement**—The Budget proposes \$6.2 million special funds and 39.5 positions to strengthen enforcement efforts in various environmental programs, including heavy-duty diesel regulations and the electronic waste recycling program. Enforcement of environmental laws helps protect California's citizens from the adverse effects of environmental pollution and prevents polluters from achieving an unfair competitive advantage over competitors that comply with environmental laws.
- **Hydrogen Highways**—The Budget proposes \$6.5 million Motor Vehicle Account for the Air Resources Board to continue the Hydrogen Highway Initiative. This appropriation will provide matching funds for three publicly accessible hydrogen fueling stations and will enable the state to leverage federal matching funds for five fuel cell buses to be used in public transit fleets. The use of hydrogen technologies has the potential to significantly reduce air pollution generated by motor vehicles, as well as to reduce energy dependence on fossil fuels.
- **Air Quality**—The Administration's Strategic Growth Plan includes \$2 billion for actions that will directly reduce air pollution resulting from the movement of goods and people. In addition, the Governor's Budget proposes \$1.67 million Motor Vehicle Account and 7.7 positions for the Air Resources Board to demonstrate new technologies and develop mitigation measures

Resources and Environmental Protection

for pollution created by ships, locomotives, trucks, and heavy-duty equipment.

- **Water Quality Monitoring**—The Budget proposes an additional \$8.5 million to enhance existing water monitoring efforts. Water monitoring provides the necessary information that enables the State Water Resources Control Board to develop water quality standards and effectively administer various water quality programs.

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Business, Transportation, and Housing

The Governor's Budget proposes total expenditures of \$14 billion in 2006-07 for roads, highways, mass transit and intercity rail, vehicle licensing and registration, highway law enforcement, housing, and regulation of businesses.

Strategic Growth Plan

Part of the Governor's Strategic Growth Plan is GoCalifornia, a ten-year mobility action plan designed to decrease congestion, improve travel times, and preserve and enhance the state's existing transportation networks. The total cost of this plan is approximately \$107 billion, with \$12 billion coming from General Obligation bonds. The Plan will accommodate the transportation needs from growth in the population and the economy while reducing congestion below today's levels.

Transportation Resources

Total state and local transportation resources are estimated to be approximately \$20.6 billion in 2006-07, a slight increase from \$19.9 billion in the current year.

Proposition 42

The Governor’s Strategic Growth Plan proposes a Constitutional amendment to eliminate the option for future governors and legislatures to suspend the Proposition 42 allocation. Consistent with that philosophy, the Governor’s Budget proposes to fully fund the Proposition 42 transfer of \$1.406 billion for the 2006-07 fiscal year and prepay a portion of the 2004-05 Proposition 42 loan. The transfers will be distributed in the following manner:

2006-07 Proposition 42 Funding
(Dollars in Millions)

| | Traffic Congestion Relief Fund | State Transportation Improvement Program | Public Transportation Account | Cities and Counties | Total |
|---------------------|--------------------------------------|---|-------------------------------------|------------------------|----------------|
| 2006-07 Transfer | \$678 | \$582 | \$146 | - | \$1,406 |
| Loan Prepayment | \$410 | \$255 | - | \$255 | \$920 |
| Total | \$1,088 | \$837 | \$146 | \$255 | \$2,326 |

Federal Transportation Reauthorization

The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA LU) was enacted August 10, 2005. SAFETEA LU authorizes the federal surface transportation programs for highways, highway safety, and

Business, Transportation, and Housing

transit for the five year period 2005-2009. The Budget includes a total of approximately \$2 billion in 2005-06 and 2006-07 due to the increased apportionments included in SAFETEA LU.

Department of Transportation

The Governor's Budget proposes \$11.5 billion, \$9.2 billion from non-General Fund sources, for the Department of Transportation. While funding in the budget year is \$890 million less than in the current year, this is due largely to one time increases in the current year, which include \$2.4 billion for the increased costs associated with the San Francisco Oakland Bay Bridge seismic retrofit project. However, capital outlay spending in 2006-07 is 30 percent higher than it was in 2004-05, and overall transportation spending is increasing by 39 percent during this same period.

State Highway Operation and Protection Program

The State Highway Operation and Protection Program consists of projects that reduce collisions and hazards to motorists, preserve and rehabilitate bridges and roadways, enhance and protect roadsides, and improve operation of the state highway system. \$1.7 billion is included in the Budget.

Local Assistance Programs

The Governor's Budget proposes \$3.3 billion in local assistance funding for transportation in 2006-07, including \$978 million in local assistance for Mass Transportation. This amount is comprised of \$191 million from the State Highway

Business, Transportation, and Housing

Account, \$1.8 billion in federal funds, and \$1.3 billion from other special funds.

The assistance provided to transit agencies in the State Transit Assistance Program for operations increased from \$117 million in 2004-05 to \$201 million in 2005-06 and \$235 million in 2006-07, primarily due to Proposition 42 funding.

State Operations Budget

The Governor's Budget proposes \$3.4 billion in state operations funding for transportation in 2006-07.

Maintenance

The Budget includes \$882 million and 5,638 positions to maintain approximately 15,000 centerline miles of highway, over 230,000 right-of-way acres, and over 12,000 state highway bridges. Caltrans also inspects over 12,000 local bridges.

Rail Operations

The Budget includes \$112 million and 148 positions to manage and coordinate intercity rail passenger services and local transit projects that provide commuters with a range of transportation options, help to improve the state's air quality and reduce highway congestion and fuel consumption. Caltrans manages two state supported routes operated by Amtrak, and financially supports a third.

Integrated Financial Management System

The Governor's Budget proposes \$3.1 million to begin the development of the \$20.8 million Integrated Financial Management System. When fully implemented in four years,

Business, Transportation, and Housing

this system will replace 70 different financial tracking systems that currently exist within Caltrans.

Construction Management System

The Governor's Budget proposes \$1.0 million and 3 positions to begin the development of the \$21.2 million Construction Management System. The new system will streamline and consolidate the number of systems that Caltrans uses annually to administer more than \$2 billion worth of contracts. Once implemented in four years, Caltrans estimates savings of up to \$15 million annually from not paying charges associated with late contract payments.

Alternative Fuel Vehicles

In order to comply with the regulations of the South Coast Air Quality Management District, the Governor's Budget proposes \$4.0 million to fund the scheduled replacement of depreciated street sweepers and trucks with alternative fuel vehicles.

California Highway Patrol

The Governor's Budget proposes \$1.575 billion and 10,913 positions for support of the California Highway Patrol (CHP).

Patrol Staffing Expansion

The Budget proposes to add 197 uniformed positions and 38 nonuniformed positions (\$33.7 million Motor Vehicle Account) to address workload growth associated with population growth. By the end of the year, 240 officers, 32 supervising officers, and 38 support staff will be added.

Replacement of the CHP Radio System

The Budget proposes \$57.1 million (Motor Vehicle Account) and 10 positions to begin the replacement of the existing CHP radio system. The project will take five years and will cost \$491 million. The CHP's current radio system is antiquated and is no longer supported by the manufacturer. The new system is envisioned to:

- Increase the range of communication.
- Provide the ability to "piggyback" onto other state departments' (Justice, Forestry, Corrections, and Caltrans) frequencies.
- Enhance interoperability with many local public safety agencies.
- Increase the number of tactical channels.

Wireless 9-1-1 Staffing

The Budget proposes to increase staffing in the CHP communication centers by 94 positions and \$6.4 million in order to answer 9-1-1 calls more expeditiously. By the end of the year, 173 staff will be added.

Department of Motor Vehicles

The Governor's Budget proposes \$817.9 million, all from non-General Fund sources and 8,481 positions for support of the Department of Motor Vehicles.

Business, Transportation, and Housing

Electronic Insurance Verification System

The Budget proposes \$9.3 million and a reduction of one position to continue the implementation of the electronic insurance verification system required by Chapter 920, Statutes of 2004.

Remittance System Replacement

The Budget includes \$5.4 million to replace the existing remittance system which processes vehicle registration and driver license renewals by mail.

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 \$477.5 million (\$16.8 million General Fund and \$460.7 million other funds) and 525 positions for the HCD's activities.

Office of Migrant Services Augmentation

The 2006-07 Budget includes a \$3.4 million General Fund augmentation to continue the Office of Migrant Services (OMS) reconstruction plan to address health and safety standard deficiencies at the state built OMS centers, which provide housing for farm workers throughout California. The funding will be used to reconstruct two child care

Business, Transportation, and Housing

buildings (\$2.4 million), and fully fund the ongoing operations, maintenance, and repair (\$1.0 million) of the centers.

Department of Managed Health Care

The 2006-07 Governor's Budget proposes \$41.5 million and 302 positions for support of the Department of Managed Health Care.

Risk-Bearing Organization Oversight

The Budget includes \$3.8 million and 17 positions to conduct oversight of the financial solvency of risk-bearing organizations and to verify the prompt and accurate payment of provider claims.

Department of Alcoholic Beverage Control

The Governor's Budget includes \$49.1 million special fund, which reflects an increase of \$3.7 million above the 2005 Budget Act.

Grant Assistance Program

The Governor's Budget proposes an additional \$1.5 million for the Grant Assistance Program (GAP), which would increase GAP funding to \$3 million in 2006-07. The GAP provides grants to local law enforcement agencies.

Office of the Secretary of Business, Transportation, and Housing

The Governor's Budget proposes \$29 million (\$15.6 million General Fund and \$13.4 million other funds) and 62 positions to support the activities of the Office of the Secretary.

California Small Business Loan Guarantee Program Loan Repayment

The Budget includes a General Fund loan repayment of \$10.7 million that will augment the trust fund of the Small Business Loan Guarantee Program and enable the program to originate approximately 200 additional guarantees per year.

California Travel and Tourism Commission Expanded Marketing Program

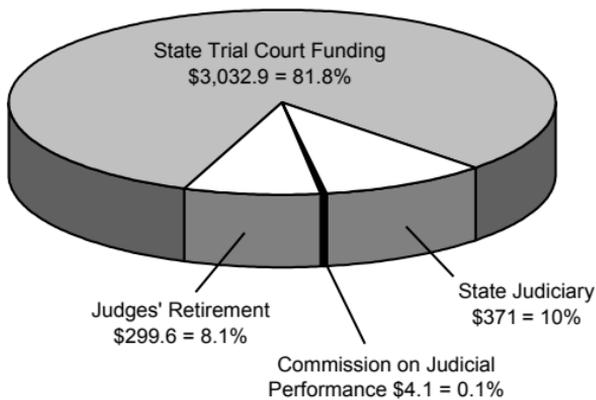
The Budget includes a \$2.7 million General Fund augmentation to advertise and market California as a travel and tourism destination. Total state funding of \$10 million will be matched by \$15 million in private contributions. Combined, these monies will fund a \$25 million advertising and marketing campaign which will generate an estimated \$3.8 billion in additional travel expenditures, \$85 million in additional tax revenues, and support 41,000 jobs.

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Judicial Branch

The 2006-07 Governor's Budget includes a total of \$3.7 billion (\$2.1 billion General Fund) for the Judicial Branch (See Figure JUD-01).

Figure JUD-01
Total Judicial Branch Expenditures for 2006-07
All Funds
(Dollars in Millions)



For the Judicial Branch, the 2006-07 Governor's Budget reflects total expenditures of \$3.4 billion.

Judicial Branch

Specifically, the Judicial Branch's budget includes the following adjustments:

Growth Factor Increase—Consistent with the statutory requirement, an increase of \$105.2 million has been included in the Governor's Budget for the trial courts. This is the second year the State Trial Court Funding budget has been increased by the State Appropriations Limit growth factor as opposed to submission of individual Budget Change Proposals. The Budget includes an additional \$16.7 million for the inclusion of judicial compensation, the assigned judges program, the Judicial Administration Efficiency and Modernization Fund, the Equal Access Fund, and the operational costs included in the Trial Court Improvement Fund (\$31.6 million) to the base upon which the growth factor adjustment is calculated. The Budget also includes \$1.2 million General Fund for a growth factor increase for the State Judiciary beginning June 1, 2007. This new methodology grants budgetary independence appropriate for a separate branch of government.

Information Technology Baseline Funding—The Budget includes \$12.3 million to fully fund ongoing information technology maintenance and operations for new administrative infrastructure systems to support the trial courts. These resources will provide support for applications that will streamline processes in a number of programs, including human resources, accounting, budgeting, and case management. The Budget also includes an increase of \$3.3 million General Fund and 9 positions to upgrade current systems and equipment and provide sufficient information technology support services for the Administrative Office of the Courts, the Supreme Court, and the Courts of Appeal.

Security Baseline Funding—The Budget includes \$18.7 million to address deficiencies in court security. These resources will allow the Trial Courts to add 97 new entrance screening stations and will establish a five-year replacement schedule for entrance screening equipment.

New Judgeships and Conversion of Subordinate

Judicial Officers—The Budget includes \$5.5 million to support facilities, staff, salaries, and benefits for up to 150 new judgeships phased in over a three-year period beginning in April 2007. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted. Using existing resources, this proposal also supports the conversion of up to 161 judicial officers to judgeships as the positions become vacant.

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General Government

Department of Personnel Administration

The Department of Personnel Administration and the State Personnel Board are working cooperatively to address overarching human resources issues within state government. The Governor's Budget includes \$1 million General Fund for the Department of Personnel Administration, in cooperation with the State Personnel Board, to begin the process of reforming the state's more than 4,000 classifications and determine appropriate testing instruments for the revised classification structure. The Governor's Budget also includes an increase of \$140,000 General Fund and 1 position to coordinate department and agency efforts for workforce planning. Departments and agencies will contract for consultant services as required and the position will ensure a consistency of approach for the entire state. Finally, the Governor's Budget includes an increase of \$100,000 General Fund for the costs associated with the implementation

General Government

of a single Internet portal through which the public can access all human resources information for the state currently available through the Department of Personnel Administration and State Personnel Board websites.

Department of Consumer Affairs

iLicensing System—The Governor’s Budget includes \$3.7 million and 8.6 positions to establish an iLicensing System that will make online services available to the consumers of all programs overseen by the Department. This system will provide increased consumer accessibility and convenience to the 2.3 million licensees and applicants of the Department.

Consumer Assistance Program—The Governor’s Budget includes \$3.8 million for the Bureau of Automotive Repair to implement Chapter 565, Statutes of 2005 (AB 383), which increased the income eligibility criteria for participation in the Smog Check Repair Assistance Program from 185 percent of the federal poverty level to 225 percent of the federal poverty level. The Program is funded through smog abatement fees paid by motorists.

Bureau of Security and Investigative Services—

The Governor’s Budget includes \$1.4 million and 19 positions for the Bureau of Security and Investigative Services (BSIS) to implement Chapter 655, Statutes of 2005 (AB 194), which requires proprietary private security officers to register with BSIS and submit to a background check by the California Department of Justice. BSIS is funded through fees paid by licensees.

Medical Board of California—The Governor’s Budget includes \$3.9 million and 8 positions for the Medical Board of California to implement Chapter 674, Statutes of 2005 (SB 231), which increased license and renewal fees for physicians, and implements a number of recommendations made by the Enforcement Monitor. The Board is funded through fees paid by licensees.

Department of Fair Employment and Housing

Employment Discrimination Caseload—The Governor’s Budget includes \$1 million and 12 positions for additional employment discrimination enforcement. This augmentation will reduce the average caseload of enforcement consultants to between 60 and 70 cases, which will shorten waiting time for appointments and enhance the ability of the Department to fulfill its mission.

Web-Based Appointment Scheduling—The Governor’s Budget includes \$0.5 million and 1.9 positions for the Department to automate its appointment intake scheduling and “Right to Sue” applications. This will increase efficiency and reduce telephone wait times for complainants by enabling them to schedule appointments online.

Department of Industrial Relations

Collections Unit—The Governor’s Budget includes \$0.6 million and 4.8 positions to establish a collections unit within the Division of Labor Standards Enforcement. This unit

General Government

will actively pursue the collection of fines and penalties against employers found to be in violation of California’s labor laws. These collection efforts are estimated to result in additional revenues to the Unpaid Wage Fund and the General Fund.

Employment Development Department

Automated Collection Enhancement System—

The Governor’s Budget includes \$3.1 million (\$2.7 million General Fund) and 14.3 positions to implement the Automated Collection Enhancement System (ACES). The ACES project will enhance the Department’s ability to collect state payroll taxes, including the personal income tax, by modernizing and automating its revenue collection process.

Employment Training Panel

The Governor’s Budget includes \$40.3 million for the Employment Training Panel, which includes a \$5 million augmentation for its employment training contract program. The Panel supports the California economy by ensuring that employers, primarily small businesses, have the trained workers they need to compete in the global economy while providing workers with reasonable wages and secure employment. The Panel prioritizes special economic development initiatives with the objective of retaining and creating high-skilled, high-paying jobs throughout the state.

Military Department

Armory Maintenance and Repair Augmentation—

The Governor's Budget includes \$3.5 million (\$3 million General Fund and \$500,000 federal funds) for maintenance and repairs at armories statewide. The proposed funding will allow the Department to make needed repairs, modernize its armory infrastructure, and ensure compliance with environmental laws and building codes at various armories on a priority basis.

Department of Veterans' Affairs

New Alzheimer's/Dementia Unit at Yountville—

The Governor's Budget includes \$3.8 million (\$3.4 million General Fund and \$474,000 federal funds) and 73.9 positions to operate the new Yountville Alzheimer's/Dementia Unit. This facility will serve 75 patients and was designed to address the unique needs of Alzheimer's and Dementia patients. Phase one will consist of the 40 patients with Alzheimer's/Dementia already at Yountville. An additional 35 beds will be phased in with patients from throughout the state in the spring of 2007.

Behavioral Wellness Program—The Governor's Budget includes \$1 million General Fund and 10.4 positions for a program at all California Veterans' Homes to treat veterans having combat-related mental and behavioral problems, such as post-traumatic stress disorder. Treatment strategies include psychiatry, psychology, and substance abuse treatment.

General Government

Veterans Benefits Outreach Program—The Governor’s Budget includes \$250,000 General Fund and 0.9 positions for an outreach campaign to increase the number of veterans receiving compensation and pensions from the United States Department of Veterans’ Affairs. This program will help California veterans sign up for federal benefits that they are entitled to receive.

Salary Savings Exemption—The Governor’s Budget includes \$1.7 million General Fund and 27.8 positions for the costs of exempting nurses and other 24-hour care staff at the Veterans’ Homes from the salary savings requirement. Exempting these positions from the salary savings requirement is consistent with the existing practice for other 24-hour care state facilities.

Quality Assurance Program—The Governor’s Budget includes \$129,000 General Fund (\$117,000 ongoing) and 0.9 positions to conduct quality assurance activities related to ensuring the appropriate care of veterans residing in the Veterans’ Homes. The position would conduct activities related to achieving and maintaining the licensing and certification of each Home, assuring compliance with the standards of quality care.

Yountville Skilled Nursing Facility—The Governor’s Budget includes \$1.3 million (\$371,000 General Fund, and \$891,000 federal funds and reimbursements) and 33.5 positions to staff and back fill this 40-bed unit vacated with the opening of the Alzheimer’s/Dementia Unit.

Barstow Intermediate Care Facility—The Governor’s Budget includes \$1.3 million (\$906,000 General Fund and \$438,000 federal funds) and 10.6 positions for an additional 20

beds to operate the Barstow Intermediate Care Facility at its full capacity.

Department of Food and Agriculture

Emerging Threats to Food Production—The Governor’s Budget includes \$7.2 million General Fund (\$5.5 million ongoing) and 37 positions for programs to address emerging threats to California’s food supply, economy, natural resources, and the public health, including avian influenza and bioterrorism.

Private Vehicle Inspections—The Governor’s Budget includes \$380,000 General Fund and 4.8 positions for a two-year pilot project of inspecting private vehicles at the Needles Agriculture Station. The Department will collect data related to the frequency of private vehicles carrying pests into California.

Hydrogen Fuel Standards—The Governor’s Budget includes \$174,000 and 0.9 positions to continue development of hydrogen fuel standards for an additional year.

Tax Enforcement Pilot Program—The Governor’s Budget includes \$250,000 in reimbursements from the Board of Equalization and 2.8 positions for a pilot program relating to interstate commerce. The Department will assist the Board of Equalization by obtaining copies of bills of lading from commercial vehicles entering California through the Needles Agriculture Station.

Department of Insurance

Study to Measure Extent of Workers' Compensation

Fraud—The Governor's Budget includes \$1 million Insurance Fund for a one-time Workers' Compensation Fraud study to identify current and emerging trends in fraud activities.

Patient and Provider Protection Act—The Governor's Budget includes \$1.2 million Insurance Fund (\$1.1 million ongoing) and 9.5 positions to establish a program to receive and investigate health care provider complaints against health insurers and to prosecute unfair claims practices pursuant to Chapter 723, Statutes of 2005. Such a program already exists for health care providers under health maintenance organizations.

Secretary of State

Notary Public Application Workload—The Governor's Budget includes \$3.1 million Business Fees Fund (\$2.9 million ongoing) and 28.5 positions to address increasing workload in the Notary Public Section of the Business Programs Division. Of the positions, 12 positions are converting from limited-term to permanent and 7 positions are two-year limited-term positions. The functions augmented include investigations and enforcement, application processing, and application fee processing.

Facility Repairs and New Security System—

The Governor's Budget includes \$625,000 Business Fees Fund to upgrade the security system and to conduct a water leak assessment and repairs in the Secretary of State headquarters building.

Current Year Funding for Elections—The Governor’s Budget includes \$54 million in the current year for special election costs. Of this amount, \$45 million is for county costs of the special election and \$9 million is for the state costs of the special election. The 2005 Budget Act provided funds for one statewide election; therefore, this funding is necessary to ensure sufficient resources are available for the special election and the June statewide primary election.

Commission on State Mandates

Initial Year of 15-Year Local Government Mandate

Repayment—The Governor’s Budget includes \$98.1 million for the first year of a 15-year payment plan to reimburse counties for mandated costs for which funding was deferred in years prior to 2004-05. Claims have been submitted for mandated activities performed by local government, which have been held awaiting funding.

Creation of Mandates Unit within the Department

of Finance—The Governor’s Budget includes \$537,000 reimbursements from mandate savings and 3.8 positions for a unit devoted to addressing issues related to reimbursable state-mandated local programs. The purpose of this unit is to perform policy and legislative analyses, develop policy and processes to improve the mandates system, and ensure fair and equitable payment of costs associated with mandated local programs.

Fair Political Practices Commission

Funding for Workload—The Governor’s Budget includes \$864,000 General Fund and 13.3 positions to address increasing workload related to the activities of the Fair Political Practices Commission. The funding includes \$700,000 General Fund and 11.6 positions for workload associated with enacted legislation and to begin addressing the funding shortfall addressed in the Commission’s recently adopted Strategic Plan. Additionally, \$164,000 General Fund and 1.7 positions are included for workload resulting from recently enacted legislation that places restrictions on lobbying by local government officials after leaving office.

Board of Equalization

Retail Licensing Enforcement—The Governor’s Budget includes \$1.7 million and 13.8 positions for the Board of Equalization (BOE) to identify and register businesses that operate without paying applicable sales and use taxes. The BOE estimates this initiative will generate \$12.6 million in additional revenue in 2006-07, of which \$7.9 million will go to the General Fund.

Agricultural Inspection Stations—The Governor’s Budget includes \$1.4 million and 15.1 positions for the BOE to identify property that is brought into the state without the payment of applicable sales and use taxes. The program will run from California Department of Food and Agriculture-operated inspection stations. The BOE estimates the program will generate \$7.4 million in additional revenue in 2006-07, of which \$4.2 million will go to the General Fund.

International Fuel Tax Agreement Interim Program—

Interim Program—The Governor's Budget includes \$1.1 million in federal funds and 11.5 positions for the BOE to temporarily maintain International Fuel Tax Agreement (IFTA) accounts for Mexican carriers that will begin operating in the state pursuant to North American Free Trade Agreement. The IFTA is an agreement among the 48 continental states and several Canadian provinces that simplifies the payment of taxes on fuel that is used in more than one state or province.

Property Tax Valuation Factors—

The Governor's Budget includes \$263,000 and 1.9 positions for the BOE to develop more accurate property tax valuation factors for biopharmaceutical and nonproduction computer equipment. Valuation factors are used by county assessors to measure the value of commercial business property for property tax purposes.

California Gambling Control Commission

Licensing, Audit, and Field Inspection Workload—

The Governor's Budget includes an increase of \$1.7 million (\$359,000 General Fund and \$911,000 Indian Gaming Special Distribution Fund [SDF]) and \$396,000 Gambling Control Fund to implement a comprehensive approach to Indian gaming regulatory responsibilities including licensing, audits, and field inspections, and to address ongoing licensing workload related to cardrooms.

Technical Services Program—The Governor's Budget includes an increase of \$732,000 (\$366,000 General Fund

General Government

and \$366,000 Indian Gaming SDF) to establish a Technical Services Program that will test and inspect new game platforms, new gaming devices, gaming device modifications, and associated gaming equipment; develop and review technical standards; and provide technical support to the new field inspection program, the audit and compliance activities of the Commission, and the investigation activities of the Division of Gambling Control within the Department of Justice.

Assistance to Local Government

The Governor's Budget includes more than \$1.8 billion in additional funding for local governments. This includes \$1.3 billion in property tax revenues that local governments are no longer required to shift to the Educational Revenue Augmentation Fund (ERAF) pursuant to the provisions of Proposition 1A, \$255 million for local street and road maintenance, \$96 million for substance abuse treatment programs, \$46 million for emergency preparedness, \$40 million for county jail booking fee subventions, and \$1.6 million in disaster relief funds.

With the passage of Proposition 1A in 2004, local governments have a much more stable funding relationship with the state. State government can no longer shift costs or fail to provide timely mandate reimbursements. State government also cannot reallocate local revenues to benefit state priorities.

Elimination of ERAF Payments—The statutorily required termination of ERAF III payments will allow local governments

Assistance to Local Government

to retain an additional \$1.3 billion in 2006-07. Furthermore, ERAF I and II payments also end in most counties in 2006-07.

Streets and Roads Maintenance—The Governor’s Budget proposes \$255 million for local streets and roads maintenance. The funds are part of the proposed \$920 million partial repayment of the 2004-05 Proposition 42 suspension.

Substance Abuse Treatment—The Governor’s Budget proposes \$96 million in one-time funds to continue providing substance abuse treatment services in 2006-07 to persons convicted of drug-related crimes, the same amount as provided through Proposition 36. The funding provided by the Proposition itself sunsets on June 30, 2006.

Booking Fee Subventions—The Governor’s Budget proposes \$40 million in 2006-07 to backfill the fees that cities and special districts are required to pay when they book suspects into county jails. Counties are authorized to charge these fees to recover the costs they incur when processing and housing arrestees.

Juvenile Justice Crime Prevention Act—The Governor’s Budget increases funding for the Juvenile Justice Crime Prevention Act (JJCPA) grants by \$73.9 million in 2006-07, to \$100 million. The 2005 Budget Act reduced funding for JJCPA by \$73.9 million due to the availability of a like amount of carryover funds at the local level.

Disaster Relief—The amount of \$1.6 million is provided for disaster relief, in accordance with Chapters 622, 623, and 624, Statutes of 2005. These funds will backfill property tax revenues lost by local governments due to specified natural disasters.

Statewide Issues

The Statewide Issues Section includes issues that affect multiple departments in various major program areas.

Mid-Year Correction Authority

California is only one of twelve states where the Governor may not reduce enacted appropriations without legislative approval. Of the ten most populous states, only California and Michigan governors do not have such authority. Given California's reliance on volatile revenue sources such as personal income and capital gains, it is critical to the fiscal stability of the state that the Governor has the tools necessary to ensure spending stays within available resources during a fiscal year.

The Administration proposes to restore mid-year correction authority similar to that which existed prior to 1983.

The mid-year correction authority would allow the Director of Finance to reduce General Fund appropriations if necessary to protect the financial interests of the state. Reductions would

Statewide Issues

be limited to twenty-five percent of the affected appropriation and require notification to the Legislature within 30 days.

Increase Minimum Wage

The Administration will support legislation to increase the state's minimum wage from \$6.75 per hour to \$7.25 per hour, effective September 1, 2006. This proposal would have a minimal fiscal impact to the state's payroll as only a small number of temporary, seasonal, and contract employees earn less than \$7.25 per hour. It is estimated that a total of \$200,000 General Fund will be needed for the Departments of Forestry and Fire Protection and Parks and Recreation. The California Conservation Corps will have an increase of approximately \$1 million General Fund as a result of increasing the pay for corpsmembers.

Also benefitting from the minimum wage increase will be some non-state employees working in Health and Human Services programs whose compensation costs are directly funded through grants and other subventions to local service providers. The Department of Aging will have increased costs of \$500,000 General Fund for Senior Community Employment Service, a program that provides subsidized employment to low-income seniors. The Department of Social Services' In-Home Supportive Services Program will have increased costs of approximately \$9.2 million (\$3 million General Fund) and the Department of Developmental Services will require an additional \$8.3 million (\$5.5 million General Fund).

\$150 million General Fund Unallocated Reductions

The Governor's Budget proposes to reduce General Fund spending by a total of \$150 million, comprised of \$50 million in 2005-06 and \$100 million in 2006-07.

The Administration has been successful in reducing General Fund spending by \$100 million in 2005-06 as required by Control Section 4.05 of the 2005 Budget Act. The details of these reductions have been reported to the Legislature. To further reduce spending, the Department of Finance will continue to work with Agency Secretaries and other cabinet members to reduce General Fund spending by an additional \$50 million on a one-time basis in 2005-06.

Using the same approach, the Department of Finance will work with Agency Secretaries and other cabinet members to achieve one-time reductions in General Fund spending of \$100 million in 2006-07. This amount is in addition to the \$100 million General Fund reductions in 2006-07 as expressed in Control Section 4.05 of the 2005 Budget Act.

\$58 million General Fund Reductions to Salaries and Wages Budget

The Governor's Budget proposes to reduce 2006-07 General Fund spending by \$58 million, an amount equivalent to one percent of 2005-06 General Fund salaries and wages budget. The Administration is not proposing to reduce individual employee's salaries, but rather reduce departmental salaries and wages expenditures primarily through vacancies.

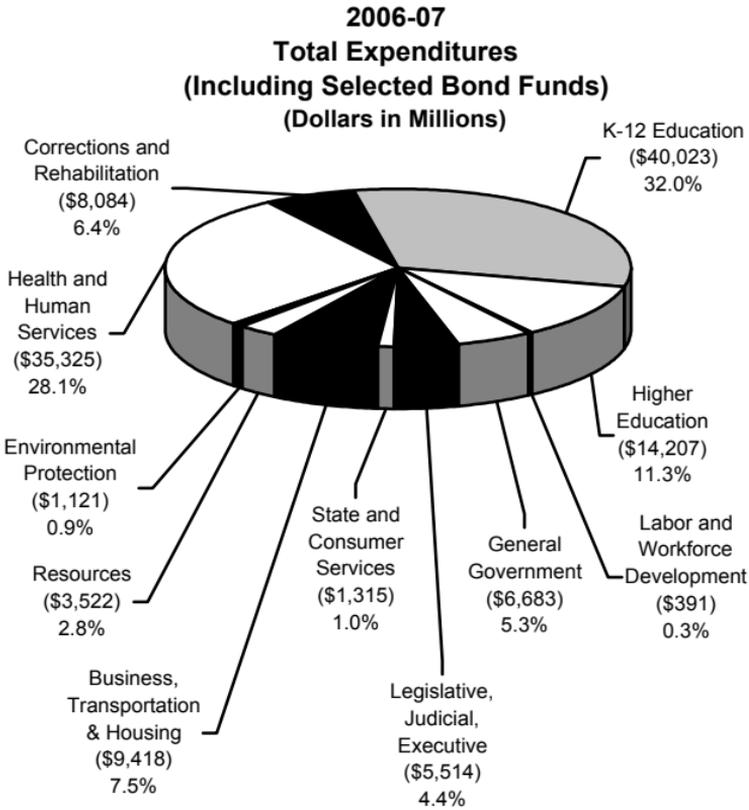
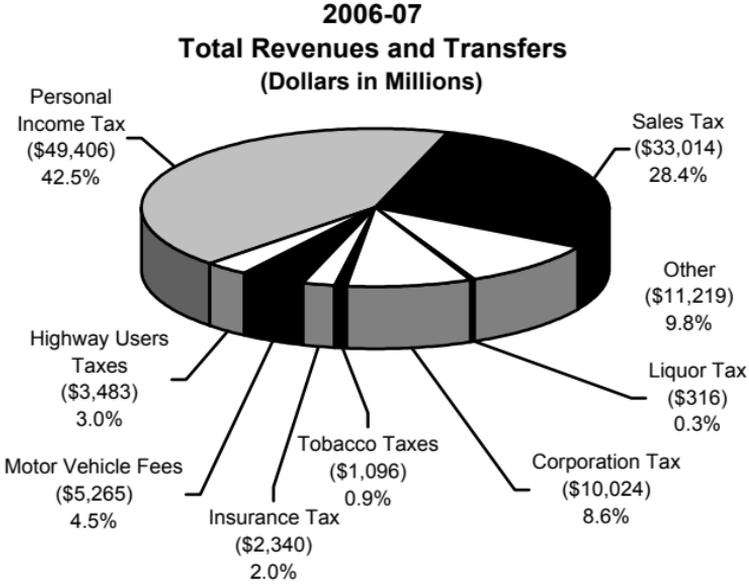
Statewide Issues

Reductions in expenditures on staff benefits and operating expenses and equipment associated with savings in salaries and wages expenditures may be applied towards this amount. A one-percent reduction should have minimal impact on departmental operations. To ensure the success of achieving these ongoing reductions, a target reduction amount will be provided to Agency Secretaries to allow the Agencies to manage the reductions amongst departments within the Agencies.

These reductions do not apply to the Legislature, the Judicial Branch, Higher Education, or the Governor's Office.

Summary Charts

Summary Charts



Summary Charts

2006-07 Governor's Budget General Fund Budget Summary

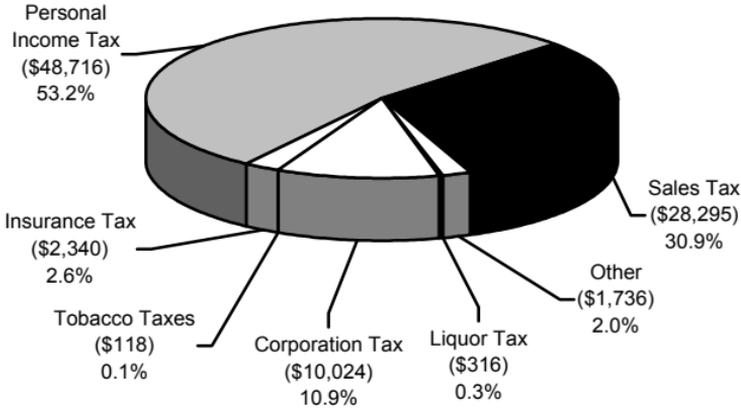
(Dollars in Millions)

| | <u>2005-06</u> | <u>2006-07</u> |
|---|-----------------|-------------------------------|
| Prior Year Balance | \$9,634 | \$7,031 |
| Revenues and Transfers | <u>\$87,691</u> | <u>\$91,545</u> ^{1/} |
| Total Resources Available | \$97,325 | \$98,576 |
| Non-Proposition 98 Expenditures | \$53,983 | \$57,446 ^{1/} |
| Proposition 98 Expenditures | <u>\$36,311</u> | <u>\$40,456</u> |
| Total Expenditures | \$90,294 | \$97,902 |
| Fund Balance | \$7,031 | \$674 |
| Reserve for Liquidation of Encumbrances | \$521 | \$521 |
| Special Fund for Economic Uncertainties | \$6,510 | \$153 |
| Budget Stabilization Account | | \$460 |
| Total Available Reserve | \$6,510 | \$613 |

^{1/} A total of \$920 million will be transferred to the Budget Stabilization Account pursuant to Proposition 58. Half will remain in the Account for future purposes (displayed as a reduction in revenues). The other half will be further transferred for the purpose of early retirement of Economic Recovery Bonds (displayed as an increase in expenditures).

Summary Charts

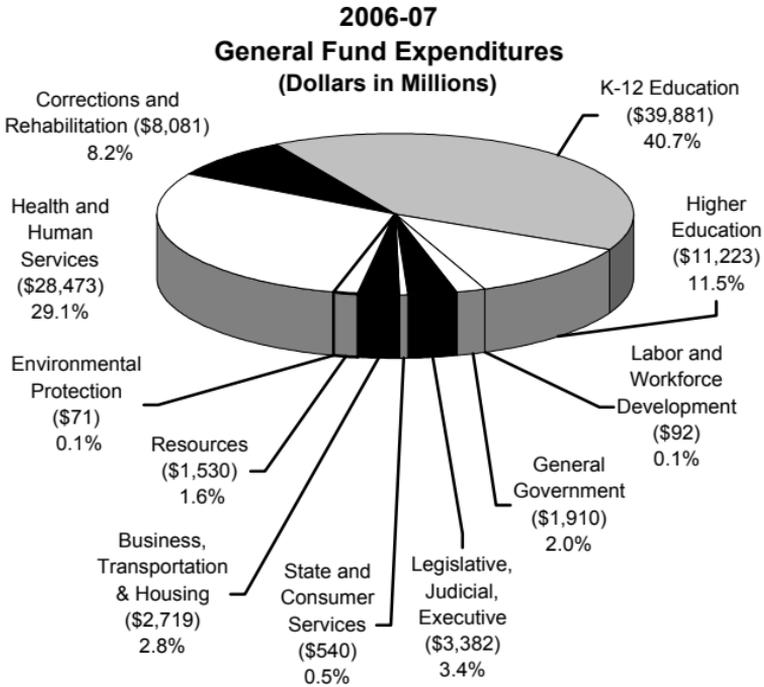
**2006-07
General Fund Revenues and Transfers
(Dollars in Millions)**



**2006-07 Revenue Sources
(Dollars in Millions)**

| | General Fund | Special Funds | Total | Change From 2005-06 |
|---------------------|-----------------|-----------------|------------------|---------------------|
| Personal Income Tax | \$48,716 | \$690 | \$49,406 | \$3,230 |
| Sales Tax | 28,295 | 4,719 | 33,014 | 1,366 |
| Corporation Tax | 10,024 | - | 10,024 | 403 |
| Highway Users Taxes | - | 3,483 | 3,483 | 85 |
| Motor Vehicle Fees | 22 | 5,243 | 5,265 | 174 |
| Insurance Tax | 2,340 | - | 2,340 | 94 |
| Liquor Tax | 316 | - | 316 | 1 |
| Tobacco Taxes | 118 | 978 | 1,096 | 31 |
| Other | 1,714 | 9,505 | 11,219 | -1,392 |
| Total | \$91,545 | \$24,618 | \$116,163 | \$3,992 |

Note: Numbers may not add due to rounding.



**General Fund Expenditures by Agency
(Dollars in Millions)**

| | 2005-06 | 2006-07 | Change | % |
|------------------------------------|-----------------|-----------------|----------------|-------------|
| Legislative, Judicial, Executive | \$3,147 | \$3,382 | \$235 | 7.5% |
| State and Consumer Services | 578 | 540 | -38 | -6.6% |
| Business, Transportation & Housing | 1,714 | 2,719 | 1,005 | 58.6% |
| Resources | 1,388 | 1,530 | 142 | 10.2% |
| Environmental Protection | 78 | 71 | -7 | -9.0% |
| Health and Human Services | 27,260 | 28,473 | 1,213 | 4.4% |
| Corrections and Rehabilitation | 7,658 | 8,081 | 423 | 5.5% |
| K-12 Education | 36,058 | 39,881 | 3,823 | 10.6% |
| Higher Education | 10,158 | 11,223 | 1,065 | 10.5% |
| Labor and Workforce Development | 89 | 92 | 3 | 3.4% |
| General Government | 2,166 | 1,910 | -256 | -11.8% |
| Total | \$90,294 | \$97,902 | \$7,608 | 8.4% |

Note: Numbers may not add due to rounding.

Summary Charts

2006-07 Total Expenditures by Agency (Dollars in Millions)

| | General Fund | Special Fund | Bond Funds | Totals |
|------------------------------------|-----------------|-----------------|----------------|------------------|
| Legislative, Judicial, Executive | \$3,382 | \$1,920 | \$212 | \$5,514 |
| State and Consumer Services | 540 | 763 | 12 | 1,315 |
| Business, Transportation & Housing | 2,719 | 6,651 | 48 | 9,418 |
| Resources | 1,530 | 1,596 | 396 | 3,522 |
| Environmental Protection | 71 | 981 | 69 | 1,121 |
| Health and Human Services | 28,473 | 6,741 | 111 | 35,325 |
| Corrections and Rehabilitation | 8,081 | 3 | 0 | 8,084 |
| K-12 Education | 39,881 | 63 | 79 | 40,023 |
| Higher Education | 11,223 | 1,264 | 1,720 | 14,207 |
| Labor and Workforce Development | 92 | 299 | 0 | 391 |
| General Government | 1,910 | 4,742 | 31 | 6,683 |
| Total | \$97,902 | \$25,023 | \$2,678 | \$125,603 |

Note: Numbers may not add due to rounding.

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The California Budget Web Site

The California Department of Finance
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California Budget 2006-07

- GOVERNOR'S PROPOSED BUDGET
GOVERNOR'S MESSAGE SUMMARY
DETAIL
- GOVERNOR'S REVISED BUDGET
AVAILABLE MID-MAY 2006
- ENACTED BUDGET
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The 2006-07 Governor's Proposed Budget and Budget Summary are available on the Internet at: www.ebudget.ca.gov.

This web site provides access to all 2006-07 Governor's Proposed Budget and Budget Summary data, as well as additional Budget reference information, through an easy-to-use point-and-click interface. The following two pages provide a brief overview of the web site's features and navigation.

From the web site's Home Page, you can directly access the following:

The California Budget Web Site

Governor's Message

Presents the Governor's Message to the members of California's Legislature in accordance with Article IV, Section 12 of the State Constitution.

Summary (Proposed Budget Summary)

Presents the Governor's goals and objectives for the forthcoming fiscal year, policy perspectives, and highlights of the changes. It also provides an overview of the proposed budget and highlights major changes for each program area included in the Budget.

Detail (Proposed Budget Detail)

Provides detailed budget information for state agencies and departments. By selecting an agency, you will be able to view summary information for the agency and detailed budget information (including detailed financial statements and charts) for each department included in the agency.

Department Index

Provides an alphabetical index of all departments included in the Budget by name and by organization code. This index can be used to quickly access information for a specific department.

Budget Contacts

Provides a listing of budget contacts in the California Department of Finance.

Help

Provides useful information regarding features of this web site including navigating the web site, printing, and technical requirements.

Quick On-Line Access to Data

Once within the web site, a variety of links provide quick access to data.

Left-Side Menu Items

The Left-Side Menu provides direct access to the major chapters of the Proposed Budget Summary and to the Proposed Budget Detail for each state agency in the Governor's Proposed Budget. In addition, access is provided to Budget References. The Budget References web page provides access to the most requested reference items related to the Budget and budget process.

Top Menu Items

The Top Menu provides quick access to select external web sites and useful web site information. Through the Top Menu, direct access is provided to the State of California web site, California Department of Finance web site, Governor's web site, Department Index, Printed Budget (How to purchase printed copies), Web Site Map (which provides descriptions and quick links to web pages), and Help.

Right-Side Menu Items

The Right-Side Menu is dynamic. Menu options will change based on the web page displayed. You will see a Right-Side Menu only if there is additional information available related to the Agency, Department, or Budget Summary section you are viewing. (Note: The Right-Side Menu options are not available on all web pages.)

Printing

Each Proposed Agency Budget, Department Budget, and Budget Summary Chapter is available as a .pdf file and can be printed using Adobe Acrobat software. The chapter's .pdf file is available from the Right-Side Menu Link titled "Printable Budget Documents" on the respective web page.

In addition, the Top Menu Link, "Printed Budget", provides information on how to purchase printed copies of the Proposed Budget Summary and Governor's Budget.