



Governor's Budget Summary

2006-07



Submitted by Arnold Schwarzenegger
Governor, State of California

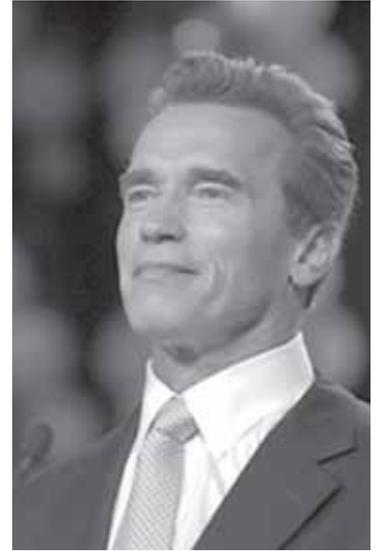
to the California Legislature
Regular Session, 2005-06

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GOVERNOR
ARNOLD SCHWARZENEGGER

January 10, 2006



To the Senate and Assembly of the Legislature of California:

In accordance with Article IV, Section 12 of the California Constitution, I submit to you the Governor's Budget for 2006-2007.

Two years ago, California faced a \$22 billion fiscal crisis—a magnitude of inherited debt that, if we ever wanted our state to recover, required us to commit ourselves to fundamentally changing the way we did business in Sacramento.

So we joined together, in a bipartisan manner, to take action. And thanks to that action, California is now on the road to both economic recovery and fiscal stability. We balanced the budget without raising taxes and record revenues are flowing into our treasury. We still have work to do to eliminate the structural budget deficit. But thanks to our renewed fiscal strength we can address today's needs as well as plan for the kind of California we want to leave for our children.

Half a century ago, our predecessors faced huge challenges much like we face today, yet they had the vision and the will to build the critical infrastructure that is the foundation of California's prosperity today. Now it is our turn.

In my budget for 2006-2007, I propose we build upon the fiscal responsibility of the two previous years while making significant investments in education, transportation, healthcare, public safety and the environment. My Strategic Growth Plan is built on a 20-year vision for California's future, and proposes an investment plan for the first 10 years.

All of this I propose can and must be done while continuing to hold the line on taxes; being disciplined on spending; depositing the full amount into the Budget Stabilization Account; and making further progress on repayment of outstanding loans.

California is stronger and better positioned than most nations on Earth to lead in the global economy of this new century. To do so we must strategically invest in our future and in our children's future. By working together, I know we will achieve great things for our people.

Sincerely,

Arnold Schwarzenegger

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



January 10, 2006

Dear Governor:

This budget continues our progress toward fiscal stability and economic recovery while beginning the work of building California for a new generation. When you took office you inherited over \$22 billion in accumulated debt and an estimated structural budget deficit of \$14 billion in 2004-05, which was anticipated to grow to \$16.5 billion by 2006-07 unless steps were taken to reduce it.

Since that time, we have refinanced the accumulated debt and grown the economy by avoiding new taxes, reforming workers' compensation and burnishing the California Dream. As a result state revenue growth has returned to historically high rates. This budget continues to reflect your priorities of investment in education, transportation, health care, and public safety.

The budget does not entirely solve the state's structural budget problem, but we have taken major steps toward completing that goal. With this budget, the operating deficit is reduced to \$6.3 billion. Since the budget includes \$1.6 billion for repayment of debt, including \$460 million to pre-pay the Economic Recovery Bonds, the effective operating debt is \$4.7 billion, which is 72 percent less than it was projected to be for 2006-07 when you took office. While there is still work to be done to put the state on solid financial footing, we are much closer today than we were only two years ago. The work-out plan is working.

You are now proposing to build California's critical infrastructure so that we will be prepared for a population that is expected to reach nearly 46 million in 20 years. Our state's critical infrastructure of transportation systems, waterways, flood control systems, schools, colleges and universities, courts, jails and prisons are the foundation for California's economic prosperity. Your Strategic Growth Plan will provide the first 10 years of investment needed to prepare the state for its future while protecting and improving our economy, environment, and quality of life.

This is a visionary proposal and one that will have major costs. While the Strategic Growth Plan will increase the budgetary costs of debt service from the current level of just under 5 percent of General Fund revenues to nearly 6 percent, it does so in a fiscally prudent manner. Given the long time frames inherent in major capital programs, this increase will not occur for several years. Long before that time arrives, the state will have eliminated its remaining structural deficit and be well able to assume this additional debt. The track record of the last two years indicates that we are well on our way to doing so, probably in 2007-08.

Please join me in expressing heartfelt thanks to the women and men of the California Department of Finance and their families. They represent the very best that state government has to offer. Without their dedication and professionalism, this budget would not have been possible.

Sincerely,

Michael C. Genest
Director of Finance

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2006-07 Budget Summary

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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 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 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.

Introduction

- 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.
- 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 under Proposed Budget Detail.

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.

Overview of General Fund Revenues and Expenditures

- 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.

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

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. 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:

Overview of General Fund Revenues and Expenditures

- 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:

- 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:

- 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:

- 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.

Overview of General Fund Revenues and Expenditures

- 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.

Overview of General Fund Revenues and Expenditures

- 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.
- Alternate Retirement Program savings of \$91.8 million are anticipated.

Overview of General Fund Revenues and Expenditures

- 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.

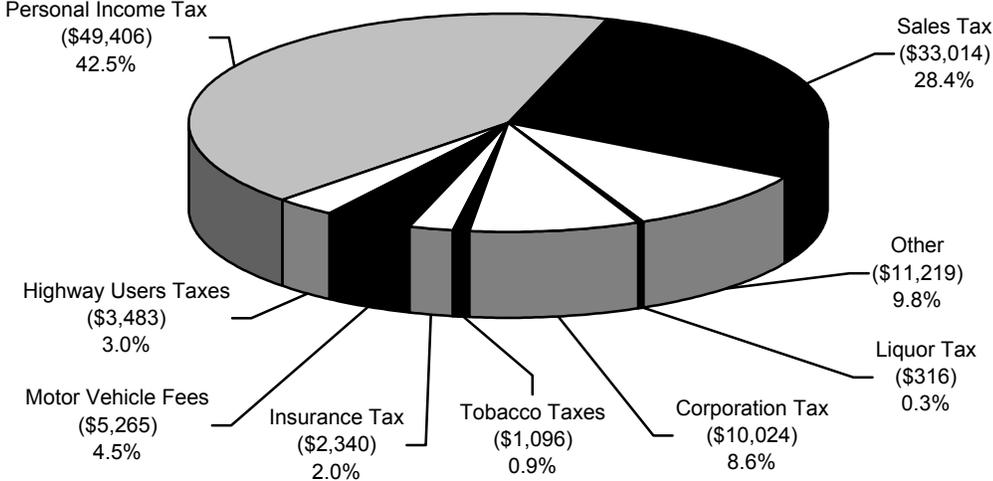
Proposition 98

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.

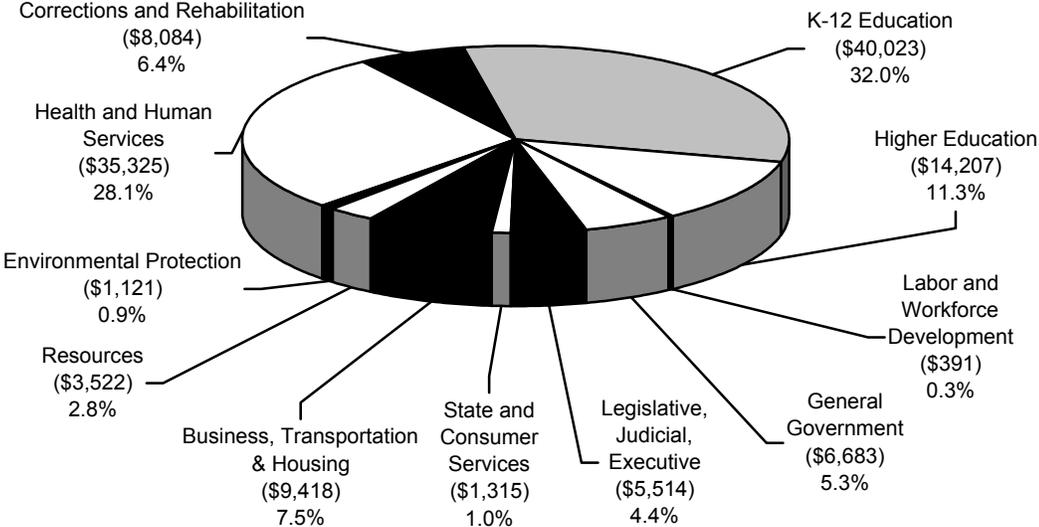
Summary Charts

Summary Charts

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



**2006-07
Total Expenditures
(Including Selected Bond Funds)
(Dollars in Millions)**

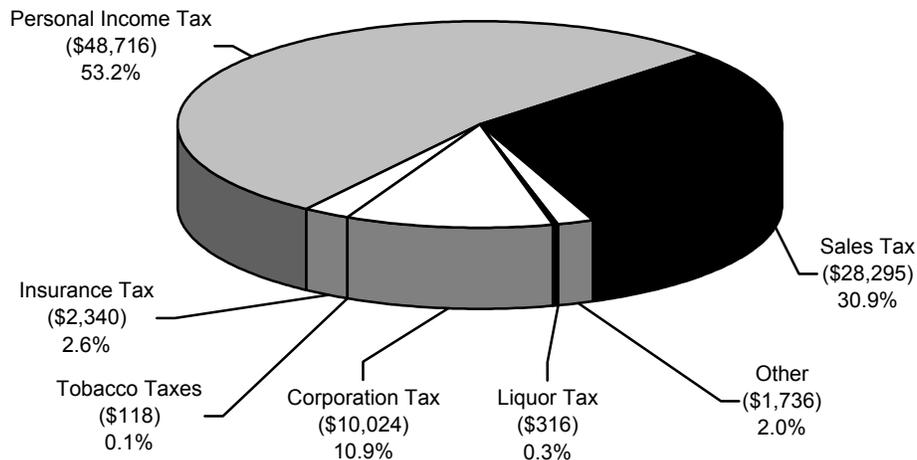


**2006-07 Governor's Budget
General Fund Budget Summary**
(Dollars in Millions)

	<u>2005-06</u>	<u>2006-07</u>
Prior Year Balance	\$9,634	\$7,031
Revenues and Transfers	\$87,691	\$91,545 ^{1/}
Total Resources Available	\$97,325	\$98,576
Non-Proposition 98 Expenditures	\$53,983	\$57,446 ^{1/}
Proposition 98 Expenditures	\$36,311	\$40,456
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).

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



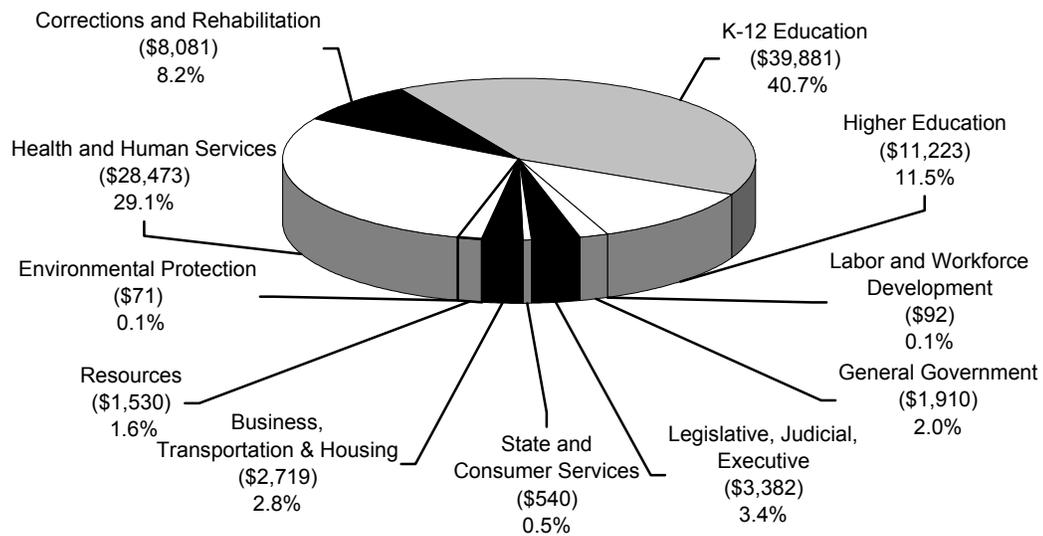
Summary Charts

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.

2006-07 General Fund Expenditures (Dollars in Millions)



General Fund Expenditures by Agency
(Dollars in Millions)

	<u>2005-06</u>	<u>2006-07</u>	<u>Change</u>	<u>%</u>
Legislative, Judicial, Executive	\$3,147	\$3,382	\$235	7.5%
State and Consumer Services	578	540	-38	-6.6%
Business, Transportation & Housing Resources	1,714	2,719	1,005	58.6%
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.

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Bond Funds</u>	<u>Totals</u>
Legislative, Judicial, Executive	\$3,382	\$1,920	\$212	\$5,514
State and Consumer Services	540	763	12	1,315
Business, Transportation & Housing Resources	2,719	6,651	48	9,418
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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Economic Outlook

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. Growth of national economic output slipped a bit, but job growth picked up, and personal income growth remained almost unchanged. The California economy tracked the national economy, with job growth picking up, but personal income growth edged lower.

Both economies will likely decelerate in 2006 and 2007, as consumers retrench and homebuilding slows. Consumer debt burden is at a near-record high. In the last two quarters, consumers spent more than their disposable income, and an increase in mortgage rates stifled mortgage refinancings. Going forward, energy costs will likely make up a bigger part of consumers' budgets.

Housing markets are cooling in much of the nation. Existing home sales slowed in late 2005, and price increases moderated. When sales slow down, home building usually is not far behind. The biggest risk to the outlook, particularly for the California economy, is a sharp slowdown in home building. Residential construction has accounted for a disproportionately large share of the job gains in the nation in the last four years, especially in California.

The Nation—Continued Growth

With energy prices soaring, the Gulf coast reeling, and interest rates moving up, output of the national economy in the first three quarters of 2005 was a sound 3.6 percent above its year-earlier level (Figure ECO-01). Seemingly unflappable, consumers upped their spending by \$282 billion, or 3.7 percent, easily the biggest contribution to the gain in economic

output. Increased spending on medical care, food, and furniture and household equipment were instrumental.

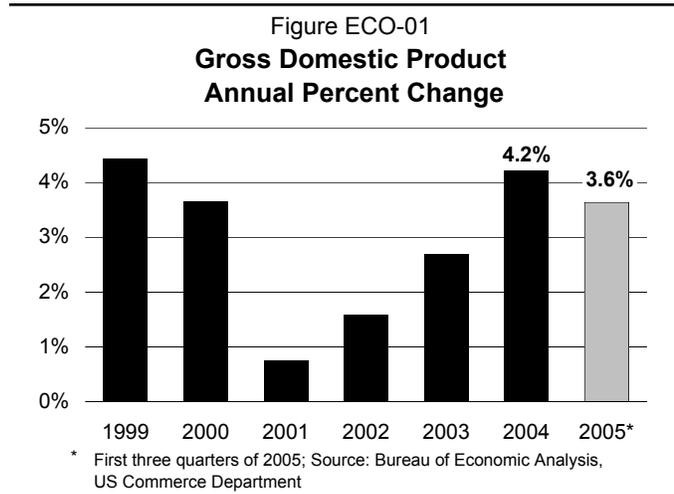
Gross private business investment was the second largest contributor to economic output growth with a gain of \$107 billion, or 6 percent. The rebound in business investment in the last two years has reinforced the expansion as consumer spending has

slowed. Investment in equipment and software grew by almost 12 percent and residential construction by 7 percent in the first three quarters of 2005. The robust spending on equipment was reflected in strong nondefense capital goods shipments in the last 12 months. New orders for nondefense capital goods grew even faster, suggesting that capital spending will remain strong in 2006. While homebuilding remains at high levels, its rate of growth has slowed, with year-over-year gains in the single digits in the last five quarters.

Government spending also picked up, contributing \$36 billion to the gain in national output. Increases in state and local government spending and national defense spending accounted for almost all of the gain.

However, the nation's trade deficit continued to worsen, practically ensuring a record annual deficit. In that vein, October brought a record monthly trade deficit. Both exports and imports rose in the first three quarters, but the gain in imports was \$35 billion higher than the gain in exports, in inflation-adjusted dollars. About the only good news on this front was that the increase in the deficit in 2005 was smaller than the increase in 2004.

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.

In the aftermath of Hurricanes Katrina and Rita and the rapid run-up in energy prices, concern about the strength of holiday spending rose considerably. Measures of consumer confidence plunged for two to three months before rebounding in November. Reports on sales during the Thanksgiving weekend were wildly variable. The general consensus was that sales were fair, but that it took a lot of discounting to get that. Consequently, profits were likely pretty thin. The U.S. Bureau of the Census report on retail sales in November showed that sales at general merchandise and apparel stores barely rose and sales at sporting goods stores and nonstore retailers—Internet retailers and mail order catalogues—fell slightly during the month. This suggested that holiday shopping got off to a slow start.

Looking forward, the national economy will continue to grow, but somewhat slower, as consumer spending and residential construction throttle back a bit but capital spending continues to grow strongly. Consumers have a lot to overcome if they want to continue spending as freely as they have in recent years. They cannot do it by saving less of their current disposable income: the personal saving rate was below zero in the last two quarters—the only two instances of a negative quarterly saving rate since the beginning of the quarterly data in 1947. New mortgage refinancing will not do it either. Mortgage refinancing has dropped off sharply since mortgage rates began to increase again last summer. While profits from sales of homes will continue to reflect the last several years of double-digit price gains, this source of consumer income will also decline as prices flatten. Furthermore, consumers' debt loads are near record highs, and if energy costs are higher on average going forward, consumers will have less income left for spending on other things.

Sales of existing homes—while still high—were just slightly above their 12-month average in October, and the inventory of homes available for sale was 14 percent higher than a year ago. New home sales had not slowed yet, but only because builders offered buyer incentives to keep sales up. Higher mortgage rates can cause a spurt in sales as potential buyers try not to be left out of the market, but before long, higher mortgage rates will slow housing markets. If home sales continue to slow, residential construction will not be far

behind. While residential construction is currently at very high levels, gains in homebuilding have slowed in the last year.

Business fixed investment expanded quickly in the last two years and should continue to be brisk in 2006 and 2007. Investment in equipment and software led the way with double-digit gains in 2004 and the first three quarters of 2005 and is expected to be robust in 2006 before decelerating in 2007. Investment in nonresidential structures increased only slowly in the last two years but should get a boost from reconstruction in the Gulf Coast in the first half of 2006. The soaring corporate profits of the last four years have put business in good shape to increase capital spending in the next few years.

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.

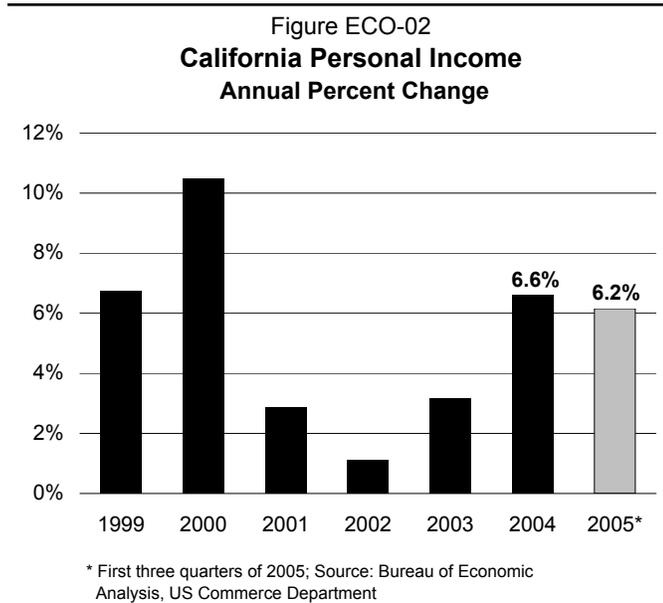
Job growth will slow as the economy decelerates. Nonfarm payroll employment grew by about 2.1 million jobs, or 1.6 percent, in 2005 and is projected to expand by 2 million jobs, or 1.5 percent, in 2006 and 1.8 million jobs, or 1.3 percent, in 2007. These gains are modest compared to those in most other post-World War II economic recoveries. Productivity gains continue to be large in the economy, allowing employers to expand production without adding many jobs. Those productivity gains also were instrumental in the healthy gains in after-tax corporate profits in the last four years. Gains in profits are expected to be more modest in 2006 and 2007.

Rising energy prices pushed up measures of general inflation in 2005. For example, 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 of the index, the resulting index—the CPI core index—grew by 2.2 percent in the first 11 months of 2005 and 1.8 percent in 2004 as a whole. Outside of food and energy, the increase in inflation was modest in 2005.

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.

Still, the Federal Reserve is widely expected to tighten monetary policy at least two more times in early 2006, pushing their target for the federal funds rate to 4.75 percent. That will take some steam out of the economic expansion.

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.



Another risk is a continued slide in the exchange value of the dollar. The nation’s growing trade deficit exerts downward pressure on the exchange rate of the dollar. A falling dollar would likely drive up inflation by increasing import prices which, in turn, could motivate the Federal Reserve to tighten monetary policy even further. This risk, however, does not seem as imminent as the risk of a large drop in residential construction.

California—Broad-based Growth

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 a little better than the nation, where personal income grew by 6 percent in the first three quarters of 2005.

Economic Outlook

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.

Made-in-California merchandise exports were 5 percent higher than a year earlier in the first three quarters of 2005. Although a good gain, it paled next to the 20-percent gain of a year ago. The export destinations with the biggest gains were Canada, Germany, and Mexico. Sharp drops in exports to Japan and Singapore limited the total gain in exports to Asia considerably. One bad sign—high-tech exports fell by 2 percent after growing by 15 percent in 2004 as a whole.

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, 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.

Not only was the state's job growth better distributed across major industries in 2005, it was also better distributed across major regions. From November 2004 to November 2005, percentage job growth in the San Francisco Bay Area was just shy of that in Southern California. The last time they were that close was over four years ago. While nonfarm payroll employment remains considerably below pre-recession peak levels in the Bay Area, the region is definitely contributing to job growth in the state now.

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.

Commercial real estate markets generally improved. Of the metropolitan areas surveyed by CB Richard Ellis, Orange and Ventura counties were among the six in the nation with the lowest office vacancy rates in the third quarter of 2005. San Jose and San Francisco continued to have above-average vacancy rates, but both saw vacancy decline considerably over the last year. Industrial vacancy was well below the national average in Los Angeles, Orange, and San Diego counties but above average in San Francisco and Sacramento in the third quarter.

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.

As the fourth year of economic expansion comes to a close, the national and California economies are fundamentally sound. Hurricane damage to the Gulf Coast oil industry infrastructure and cooling housing markets in California and other areas of the nation have created new risks to the outlook for the two economies. Each should be able to weather the expected higher energy prices and reduced homebuilding and continue to expand for several years.

Figure ECO-03 provides selected economic data and forecasts for 2005, 2006, and 2007.

Figure ECO-03			
Selected Economic Data for 2005, 2006, and 2007			
United States	2005	2006	2007
	(Est.)	(Projected)	(Projected)
Real gross domestic product (2000 CW* \$, percent change)	3.6	3.2	3.0
Personal consumption expenditures	3.5	2.7	3.2
Gross private domestic investment	5.8	5.5	1.3
Government purchases of goods and services	2.2	2.3	1.7
GDP deflator (2000=100, percent change)	2.8	2.6	2.0
GDP (current dollar, percent change)	6.4	6.0	5.0
Federal funds rate (percent)	3.2	4.7	4.7
Personal income (percent change)	5.7	6.4	5.8
Corporate profits before taxes (percent change)	34.7	5.2	(0.7)
Nonfarm wage and salary employment (millions)	133.6	135.6	137.4
(percent change)	1.6	1.5	1.3
Unemployment rate (percent)	5.1	4.9	5.0
Housing starts (millions)	2.1	1.8	1.8
(percent change)	5.7	(11.1)	(2.8)
New car sales (millions)	7.7	7.2	7.2
(percent change)	2.6	(6.6)	0.2
Consumer price index (1982-84=100)	195.6	201.9	206.7
(percent change)	3.5	3.2	2.4
California			
Civilian labor force (thousands)	17,798	18,033	18,295
(percent change)	1.4	1.3	1.5
Civilian employment (thousands)	16,847	17,105	17,347
(percent change)	2.4	1.5	1.4
Unemployment (thousands)	951	928	948
(percent change)	(12.9)	(2.4)	2.2
Unemployment rate (percent)	5.3	5.1	5.2
Nonfarm wage and salary employment (thousands)	14,730	14,914	15,104
(percent change)	1.6	1.3	1.3
Personal income (billions)	\$1,337.6	\$1,415.2	\$1,493.0
(percent change)	6.0	5.8	5.5
Housing units authorized (thousands)	218.5	197.0	182.6
(percent change)	2.7	(9.8)	(7.3)
Corporate profits before taxes (billions)	\$136.3	\$150.5	\$150.8
(percent change)	10.8	10.4	0.2
New auto registrations (thousands)	1,752	1,809	1,818
(percent change)	(3.4)	3.2	0.5
Total taxable sales (billions)	\$525.5	\$551.5	\$579.0
(percent change)	5.3	4.9	5.0
Consumer price index (1982-84=100)	202.9	210.3	216.6
(percent change)	3.9	3.6	3.0

* CW: Chain Weighted

Note: Percentage changes calculated from unrounded data.

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.

Figure REV-01 provides a summary of the revenue forecast for 2005-06 and 2006-07, as well as a preliminary report of actual receipts for 2004-05. Figure REV-02 outlines the state's tax rates. Tax collections per capita and per \$100 of personal income are displayed in Schedule 2, located in the Appendix. Data on the comparative yield of state taxes from 1970-71 through 2006-07 are in Schedule 3, which is also in the Appendix.

Figure REV-01

General Fund Revenue (Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
Personal income tax	\$42,738	\$45,493	\$48,716
Sales and use tax	25,759	27,184	28,295
Corporation tax	8,670	9,621	10,024
All other	<u>5,042</u>	<u>5,393</u>	<u>4,970</u>
Total revenues and transfers¹	\$82,209	\$87,691	\$92,005
Annual percent change	6.9%	6.7%	4.9%

¹ Does not include transfer to Budget Stabilization Account

Revenue Estimates

Figure REV-02
**Outline of State Tax System
as of January 1, 2006**

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	\$0.20	Equalization	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% ¹	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65% ¹	Franchise	General
Tobacco:				
Cigarette	Package	\$0.87 ²	Equalization	See below ²
Other Tobacco Products	Wholesale price	46.76% ³	Equalization	See below ³
Energy Res. Surcharge	Kilowatt hours	\$0.0002	Equalization	Energy Res. Sur. Fnd
Horse Racing License	Amount wagered	0.4%-2.0%	Horse Racing Bd.	See below ⁴
Estate	Taxable Fed. Estate	0% ⁵	State Controller	General
Insurance	Gross Premiums	2.35% ⁶	Insurance Dept.	General
Liquor License Fees	Type of license	Various	Alc. Bev. Control	General
Motor Vehicle:				
Vehicle License Fees	Market value	0.65% ⁷	DMV	Motor VLF, Local Rev ⁸
Fuel—Gasoline	Gallon	\$0.18	Equalization	Motor Vehicle Fuel ⁹
Fuel—Diesel	Gallon	\$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$40.00	DMV	Motor Vehicle ¹⁰
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway ¹¹
Personal Income	Taxable income	1.0% - 9.3% ¹²	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Private Railroad Car	Valuation	¹³	Equalization	General
Retail Sales and Use	Sales/lease of taxable items	5.75% ¹⁴	Equalization	See below ¹⁴

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

2/ This tax is levied at the combined rate of 10 cents per pack of 20 cigarettes for the General Fund, 25 cents per pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents per pack for the Breast Cancer Fund, and 50 cents per pack for the California Children and Families First Trust Fund.

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

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

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

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

7/ Department of Motor Vehicles. Effective January 1, 2005, the VLF rate is 0.65 percent.

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

9/ For administrative expenses and apportionment to state, counties and cities for highways, airports and small craft harbors.

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

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

12/ An additional one percent surcharge is imposed on taxable incomes above \$1 million, with the proceeds funding mental health programs.

13/ Average property tax rate in the state during preceding year.

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

General Fund Revenue

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: \$48,716 Million

The personal income tax, the state's largest revenue source, is expected to contribute 53 percent of all General Fund revenues and transfers in 2006-07. Personal income tax revenues are forecast to increase by 6.4 percent for 2005-06 and 7.1 percent for 2006-07. The estimate includes the effects of conforming with federal treatment of Health Savings Accounts, which reduces revenue by \$3 million in 2005-06 and \$8 million in 2006-07, and extending the suspension of the teacher tax credit for 2006, which increases revenue by \$210 million.

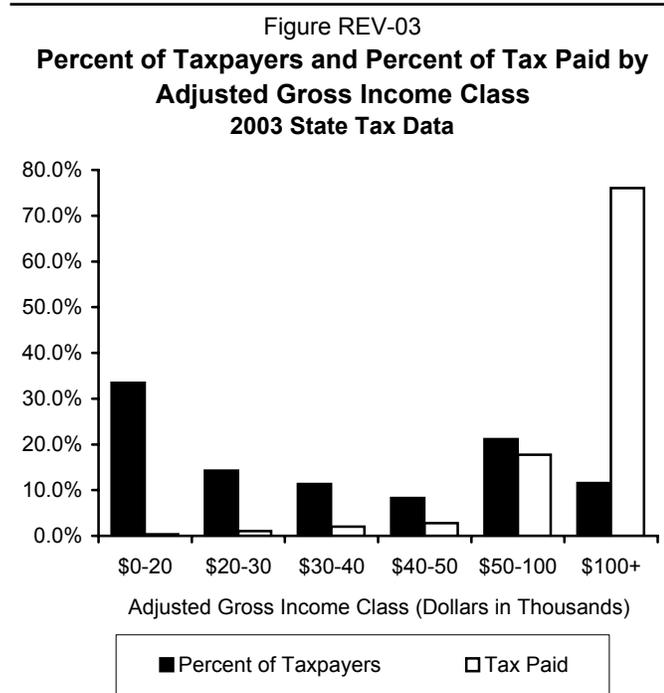
Proposition 63, passed by voters in November 2004, imposed a personal income tax surcharge of 1 percent on taxpayers' taxable income above \$1 million, effective January 1, 2005. Revenue resulting from the surcharge is transferred to a special fund, the Mental Health Services Fund, for county mental health services. The Proposition requires transfers of \$254 million in 2004-05, \$683 million in 2005-06, and \$690 million in 2006-07. These are estimates of revenue from the additional tax. The actual amount collected will not be known until spring 2007, when 2005 tax return data are available. (See the Health and Human Services section for a discussion on the expenditure adjustments from the Mental Health Services Fund.)

The challenge in forecasting personal income tax receipts is increased by the progressive nature of the tax, because one dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income tax return. This is demonstrated in Figure REV-03, which shows the percent of total returns and tax paid by adjusted gross income class. In 2003, the top 12 percent of state taxpayers, those with adjusted gross incomes over \$100,000, paid 76 percent of the personal income tax.

Realization of capital gains and stock options can also have a substantial impact on state revenues. It is projected that capital gains will increase by 20 percent in 2005 and 5 percent in 2006 after increasing an estimated 59 percent in 2004 and 34 percent in

Revenue Estimates

2003. Figure REV-04 shows the portion of General Fund revenues from capital gains and stock options.



Personal income tax revenues forecasted for 2005-06 and 2006-07, as compared with preliminary numbers for 2004-05 collections, are shown in Figure REV-05.

Sales and Use Tax: \$28,295 Million

Receipts from sales and use taxes, which are the state's second largest revenue source, are expected to contribute nearly 31 percent of all General Fund revenues and transfers in 2006-07. Sales and use taxes are imposed on the retail sale or use of tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions are provided for certain necessities such as food for home consumption, prescription drugs, and electricity, making the tax more progressive than it would be otherwise. Additional exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to goods used in space flight.

Figure REV-04

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004 p</u>	<u>2005 e</u>	<u>2006 e</u>
Capital Gains	\$57.7	\$91.0	\$117.6	\$50.7	\$35.5	\$47.6	\$75.7	\$90.9	\$95.4
Stock Options	<u>\$25.6</u>	<u>\$50.0</u>	<u>\$78.5</u>	<u>\$44.6</u>	<u>\$22.2</u>	<u>\$24.9</u>	<u>\$32.7</u>	<u>\$35.0</u>	<u>\$38.1</u>
Total	\$83.3	\$141.0	\$196.1	\$95.3	\$57.7	\$72.5	\$108.4	\$125.9	\$133.5
Tax at 9%	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital Gains	\$5.2	\$8.2	\$10.6	\$4.6	\$3.2	\$4.3	\$6.8	\$8.2	\$8.6
Stock Options	<u>\$2.3</u>	<u>\$4.5</u>	<u>\$7.1</u>	<u>\$4.0</u>	<u>\$2.0</u>	<u>\$2.2</u>	<u>\$2.9</u>	<u>\$3.2</u>	<u>\$3.4</u>
Total	\$7.5	\$12.7	\$17.6	\$8.6	\$5.2	\$6.5	\$9.8	\$11.3	\$12.0
Total General Fund Revenues & Transfers	\$58.6	\$71.9	\$71.4	\$72.3	\$71.3	\$74.8	\$82.2	\$87.7	\$92.0
Capital Gains and Stock Options as % of General Fund									
	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>	<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>
Capital Gains	8.9%	11.4%	14.8%	6.3%	4.5%	5.7%	8.3%	9.3%	9.3%
Stock Options	<u>3.9%</u>	<u>6.3%</u>	<u>9.9%</u>	<u>5.6%</u>	<u>2.8%</u>	<u>3.0%</u>	<u>3.6%</u>	<u>3.6%</u>	<u>3.7%</u>
Combined	12.8%	17.6%	24.7%	11.9%	7.3%	8.7%	11.9%	12.9%	13.1%

^p Preliminary

^e Estimated

Note: Totals may not add due to rounding

2002-03 revenues do not include \$9.242 billion in Economic Recovery Bonds.

2003-04 revenues do not include \$2.012 billion in Economic Recovery Bonds.

2006-07 revenues include \$460 million in funds transferred to the Budget Stabilization Account.

Figure REV-05

Personal Income Tax Revenue
(Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
General Fund	\$42,738	\$45,493	\$48,716
Mental Health Services Fund	<u>254</u>	<u>683</u>	<u>690</u>
Total	\$42,992	\$46,176	\$49,406

Revenue Estimates

Taxable sales grew by 8.5 percent in 2004. Preliminary data received for the first three quarters of 2005 indicate that growth in taxable sales continues to increase at a reduced rate, with sales for 2005 expected to be up by 5.3 percent. Taxable sales are anticipated to continue increasing at similar year-over-year rates for 2006 and 2007 due to a strong overall economy, increasing by 4.9 percent and 5 percent, respectively. The sales and use tax revenue forecast is prepared by relating taxable sales to economic factors such as income, employment, housing starts, new vehicle sales, and inflation. The estimate reflects \$35 million in additional revenues from extending through July 1, 2007, the collection of use tax on vessels, vehicles, and aircraft brought into the state less than one year from purchase, and \$14 million from additional enforcement activities by the Board of Equalization (BOE).

Current law generally specifies that certain state revenues from the sales tax on gasoline and diesel fuel sales, designated as "spillover," be transferred to the Public Transportation Account. Total spillover is expected to be \$318 million in 2006-07. Chapter 76, Statutes of 2005, provides that the first \$200 million of any excess sales tax revenues on gasoline be credited to the General Fund for 2006-07. Chapter 71, Statutes of 2005, provides that the next \$118 million be transferred to the Bay Area Toll Account.

Chapter 85, Statutes of 1991, created the Local Revenue Fund to finance state-local program realignment. Revenue attributable to a 0.50-percent rate is transferred to this special fund.

Beginning July 1, 2004, a temporary 0.25-percent state sales tax rate was imposed, with a corresponding reduction in the local sales tax rate from 1 percent to 0.75 percent. Revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this state tax will end and the local government general purpose sales tax rate will return to 1 percent.

Revenues from state-imposed sales tax rates are shown in Figure REV-06.

Figure REV-06

Sales Tax Revenue

(Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
General Fund	\$25,759	\$27,184	\$28,295
Sales and Use Tax-Realignment	2,625	2,758	2,862
Public Transportation Account	280	329	324
TCRF/BATA	140	0	118
Economic Recovery Fund	<u>1,163</u>	<u>1,378</u>	<u>1,415</u>
Total	\$29,967	\$31,648	\$33,014

Note: Totals may not add due to rounding.

Corporation Tax: \$10,024 Million

Corporation tax revenues are expected to contribute 11 percent of all General Fund revenues and transfers in 2006-07.

In forecasting the corporation tax, the relationship of California taxable profits to national corporate profits is important. The forecast also involves analysis of the trend in California's nonfarm employment level, California's unemployment rate relative to that of the nation's, as well as recent actual cash experience for this tax.

From 1943 through 1985, corporation tax liability as a percentage of profits closely tracked the corporation tax rate. Beginning in 1986, the tax liability as a percentage of profits has dropped below the expected level of 8.84 percent. Increasing S-corporation activity and use of credits were the primary factors contributing to a divergence between profit and tax-liability growth. The election of S-corporation status results in a reduced corporate rate, with the income and tax liability on that income shifted to the personal income tax. Consistent with the economic outlook and reflecting a strong forecast for corporation taxable profits in 2005, corporation tax revenues are expected to increase by 11 percent in 2005-06 and 4.2 percent in 2006-07.

Revenue Estimates

Revenues forecasted for 2005-06 and 2006-07, compared with preliminary numbers for 2004-05 collections, are as follows:

Corporation Tax Revenue

(Dollars in Millions)

- 2004-05 (Preliminary) \$ 8,670
- 2005-06 (Forecast) \$ 9,621
- 2006-07 (Forecast) \$10,024

Insurance Tax: \$2,340 Million

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

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from a sample representing more than 10 percent of the taxable premiums written in California.

In 2004, \$99.8 billion in taxable premiums written were reported, an increase of 1.3 percent over 2003. The most recent survey indicates that taxable premiums (excluding those pertaining to workers’ compensation) will increase by 5.8 percent in 2005 and by 5 percent in 2006. Double-digit growth in the workers’ compensation line from 2001 through 2003 slowed to about 9 percent in 2004. As reforms in workers’ compensation insurance continue to take shape, taxable premiums from workers’ compensation line are expected to decrease significantly—23 percent and 13 percent in 2005 and 2006, respectively. Long-term, it is generally expected that the demand for annuity products will increase with the aging population. However, due to factors such as tax deferrals, averaging, and various applied tax rates, revenues are expected to grow at rates different than those premiums written.

Revenues forecasted for 2005-06 and 2006-07, compared with preliminary numbers for 2004-05 collections, are as follows:

Insurance Tax Revenue

(Dollars in Millions)

- 2004-05 (Preliminary) \$2,233
- 2005-06 (Forecast) \$2,246
- 2006-07 (Forecast) \$2,340

Estate/Inheritance/Gift Taxes: \$0

Proposition 6, adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as “the pick-up tax,” because it is designed to pick up the maximum state credit allowed against the federal estate tax without increasing total taxes paid by the estate. The pick-up tax is computed on the basis of the federal “taxable estate,” with tax rates ranging from 0.8 percent to 16 percent.

The Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax by 2010. The Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminated it beginning in 2005. The provisions of the federal Act sunset after 2010; at that time, the federal estate tax will be reinstated along with the state’s estate tax, unless future federal legislation is enacted to make the elimination permanent.

Revenues forecasted for 2005-06 and 2006-07, compared with preliminary numbers for 2004-05 collections, are as follows:

Estate, Inheritance, and Gift Tax Revenue

(Dollars in Millions)

- 2004-05 (Preliminary) \$213
- 2005-06 (Forecast) \$0
- 2006-07 (Forecast) \$0

Alcoholic Beverage Taxes: \$316 Million

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The tax rate per gallon for beer, dry wine, and sweet wine is \$0.20. The tax rates per gallon for sparkling wine and distilled spirits are \$0.30 and \$3.30, respectively.

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

Revenues forecasted for 2005-06 and 2006-07, as compared with preliminary 2004-05 collections, are shown in Figure REV-07.

Figure REV-07
Beer, Wine, and Distilled Spirits Revenue
(Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
Beer and Wine	\$156.6	\$162.0	\$162.5
Distilled Spirits	<u>157.6</u>	<u>153.0</u>	<u>153.5</u>
Total	\$314.2	\$315.0	\$316.0

Cigarette Tax: \$118 Million

An excise tax of 87 cents per pack of 20 cigarettes is imposed on distributors selling cigarettes in California. The General Fund receives revenue from 10 cents of the per-pack tax; the remainder is allocated to three special funds.

An excise tax is also imposed on distribution of cigars, chewing tobacco, pipe tobacco, and snuff. This rate is calculated annually by the BOE and is based on the wholesale price of cigarettes.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and state anti-smoking campaigns funded by

Proposition 99 revenues and revenues from the Master Tobacco Settlement have all considerably reduced cigarette consumption.

Annual per capita consumption (based on population ages 18-64) declined from 121 packs in 1989-90 to 83 packs in 1997-98 and 51 packs in 2004-05. The long-term downward trend in taxable consumption should continue to reduce cigarette sales.

Wholesale price data provide the basis for the revenue estimate for other tobacco products. Historically, these taxes have generally contributed less than 5 percent to the total of all the tobacco revenues collected on an annual basis. The long-term use of other tobacco products is expected to decrease at a rate similar to cigarettes.

Chapter 890, Statutes of 2003 (AB 71), established licensing provisions for cigarette and tobacco products' manufacturers, wholesalers, distributors, and retailers. Chapter 881, Statutes of 2002 (SB 1701), required the existing cigarette stamp to be replaced by an encrypted stamp in 2005. According to recent reports by the BOE, proper licensing and increased enforcement efforts, combined with a "smart" stamp, have significantly improved compliance and reduced tax evasion. In addition, the Governor's Budget proposes additional resources to the BOE to improve collection of state tax revenues from cigarette and tobacco sales on the Internet and mail orders that is expected to result in \$1.3 million in additional General Fund revenues and \$29.9 million in new special fund revenues.

Revenues forecasted for 2005-06 and 2006-07, compared with preliminary numbers for 2004-05 collections, are shown in Figure REV-08.

Figure REV-08

Tobacco Tax Revenue
(Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
General Fund	\$119.1	\$117.0	\$118.0
Cigarette and Tobacco Products Surtax Fund	330.3	325.0	335.0
Breast Cancer Fund	23.9	23.0	24.0
California Children and Families First Trust Fund	620.0	598.0	617.0
Cigarette and Tobacco Products Compliance Fund	<u>2.9</u>	<u>2.1</u>	<u>2.1</u>
Total	\$1,096.2	\$1,065.1	\$1,096.1

Special Fund Revenue

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

- Receipts from tax levies that are allocated to specified functions, such as motor vehicle taxes and fees.
- Charges for special services provided for specific functions, including such items as business and professional license fees.
- Rental royalties and other receipts designated for particular purposes, such as oil and gas royalties.

Taxes and fees related to motor vehicles comprise about 35 percent of all special fund revenue. Principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2005-06, \$8.5 billion in revenues will be derived from the ownership or operation of motor vehicles, a 3-percent increase from the 2004-05 level. About 40 percent of all taxes and fees collected on motor vehicles will be returned to local governments. The remaining portion is available for various state programs related to transportation and services to vehicle owners.

Motor Vehicle Fees: \$5,243 Million

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

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

Allowing for scrappage and for vehicles entering and leaving California, the total number of vehicles (autos, trucks, trailers, and motorcycles), including multi-state vehicles, is estimated at 30,272,000 for 2005-06 and 30,424,000 for 2006-07, a 0.5-percent increase. The forecast assumes 2.53 million new vehicles in 2006-07.

Motor vehicle fees revenue is shown in Figure REV-09.

Figure REV-09

Motor Vehicle Fees Revenue
(Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
Vehicle License Fees	\$529	\$553	\$575
Realignment	1,605	1,666	1,730
Registration, Weight, and Other Fees	<u>2,718</u>	<u>2,850</u>	<u>2,937</u>
Total	\$4,852	\$5,069	\$5,243

Note: Totals may not add due to rounding.

Motor Vehicle Fuel Taxes: \$3,484 Million

The motor vehicle fuel tax, diesel fuel tax, and the use fuel tax provide the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

Gasoline consumption fell by 0.4 percent during 2004-05, due primarily to substantially higher pump prices. Falling gas prices during the second half of 2005-06 are expected to contribute to a 0.4-percent increase in consumption in 2005-06. Growth of 2.3 percent is forecast for 2006-07.

Because the majority of diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel consumption grew by 6.9 percent in 2004-05, and is expected to rise by 1.8 percent in 2005-06 and 3.3 percent in 2006-07.

Motor vehicle fuel revenue is shown in Figure REV-10.

Figure REV-10
Motor Vehicle Fuel Tax Revenue
 (Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
Gasoline ¹	\$2,836	\$2,869	\$2,936
Diesel	<u>532</u>	<u>531</u>	<u>548</u>
Total	\$3,368	\$3,400	\$3,484

¹ Excludes jet fuel; includes aviation gasoline.

Background on State Taxes

Personal Income Tax

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

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

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

Sales and Use Tax

A summary of the sales and use tax rates currently imposed at the state and local levels is presented in Figure REV-11. Combined state and local tax rates currently imposed in each county are shown in Figure REV-12.

Figure REV-11

State and Local Sales and Use Tax Rates

State Rates

General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75%, and during 2002 and thereafter, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of the 1991 State-local realignment.
Economic Recovery Fund	0.25%	Beginning on July 1, 2004, a new temporary 0.25% state sales tax rate was imposed, with a corresponding decrease in the Bradley-Burns rate. These revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%.

Local Uniform Rates¹

Bradley-Burns	0.75% ² or 1.00%	Imposed by city and county ordinance for general purpose use. ³
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.

Local Add-on Rates⁴

Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments ⁵ up to a combined maximum of 2.00% in any county. ⁶ Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.
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¹ These locally-imposed taxes are collected by the state for each city and county and are not included in the state's revenue totals.

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

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

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

⁵ Increments imposed at 0.125 percent are only allowed when revenues are dedicated for library purposes.

⁶ An exception to the 2 percent maximum is Los Angeles County, which may impose up to 2.5 percent.

Figure REV-12
**Combined State and Local Sales and Use Tax
 Rates by County**
 (Rates in Effect on January 1, 2006)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.75%	Madera	7.25%	San Joaquin ^{15/}	7.75%
Alpine	7.25%	Marin	7.75%	San Luis Obispo	7.25%
Amador	7.25%	Mariposa	7.75%	San Mateo	8.25%
Butte	7.25%	Mendocino ^{8/}	7.25%	Santa Barbara	7.75%
Calaveras	7.25%	Merced ^{9/}	7.25%	Santa Clara	8.25%
Colusa	7.25%	Modoc	7.25%	Santa Cruz ^{16/}	8.00%
Contra Costa ^{1/}	8.25%	Mono	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey ^{10/}	7.25%	Sierra	7.25%
El Dorado ^{2/}	7.25%	Napa	7.75%	Siskiyou	7.25%
Fresno ^{3/}	7.975%	Nevada ^{11/}	7.375%	Solano	7.375%
Glenn	7.25%	Orange	7.75%	Sonoma ^{17/}	7.75%
Humboldt ^{4/}	7.25%	Placer	7.25%	Stanislaus	7.375%
Imperial ^{5/}	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito ^{12/}	7.25%	Tulare ^{18/}	7.25%
Lake ^{6/}	7.25%	San Bernardino ^{13/}	7.75%	Tuolumne ^{19/}	7.25%
Lassen	7.25%	San Diego ^{14/}	7.75%	Ventura	7.25%
Los Angeles ^{7/}	8.25%	San Francisco	8.50%	Yolo ^{20/}	7.25%
				Yuba	7.25%

1/ 8.75% for sales in the City of Richmond.
 2/ 7.50% for sales in the City of Placerville and 7.75% for sales in the City of South Lake Tahoe.
 3/ 8.275% for sales in the City of Clovis.
 4/ 8.25% for sales in the City of Trinidad.
 5/ 8.25% for sales in the City of Calexico.
 6/ 7.75% for sales in the City of Clearlake and the City of Lakeport.
 7/ 8.75% for sales in the City of Avalon.
 8/ 7.75% for sales in the City of Willits, Point Arena, and Fort Bragg.
 9/ 7.75% for sales in the City of Los Banos.
 10/ 7.75% for sales in the City of Sand.
 11/ 7.875% for sales in the Town of Truckee.
 12/ 8.00% for sales in the City of San Juan Bautista.
 13/ 8.00% for sales in the City of Montclair.
 14/ 8.25% for sales in the City of El Cajon.
 15/ 8.00% for sales in the City of Stockton.
 16/ 8.25% for sales in the City of Santa Cruz and the City of Capitola.
 17/ 8.00% for sales in the City of Sebastopol and the City of Santa Rosa.
 18/ 7.50% for sales in the City of Visalia and 7.75% for sales in the City of Farmersville.
 19/ 7.75% for the City of Sonora.
 20/ 7.75% for sales in the City of Woodland, the City of West Sacramento, and the City of Davis.

Corporation Tax

Corporation tax revenues are derived from the following sources:

- The franchise tax and the corporate income tax are levied at an 8.84-percent rate on profits. The former is imposed on corporations that do business in California, while the latter is imposed on corporations that do not do business in the state but derive income from California sources. An example of this type of out-of-state company would be a corporation that maintains a stock of goods in California to fill orders taken by independent dealers or brokers.
- Corporations that have a limited number of shareholders and meet other requirements to qualify for state Subchapter S status are taxed at a 1.5-percent rate rather than the 8.84 percent imposed on other corporations.
- Banks and other financial corporations pay an additional 2 percent tax (i.e., "bank tax") on their net income. This tax is in lieu of local personal property taxes and business license taxes, but in addition to the franchise tax.
- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that high-income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- A minimum franchise tax of \$800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax.
- A fee is imposed on limited liability companies (LLC) that is based on total income. The fee ranges from \$900 for LLCs with income between \$250,000 and \$499,000, to \$11,790 for LLCs with income of \$5 million or more. LLCs with total income of less than \$250,000 do not pay this fee.

Cigarette Tax

Revenues from the tax on cigarettes and other tobacco products are allocated as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution as specified in Proposition 10 of 1998.

Revenue Estimates

- Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Ten cents of the per-pack tax is allocated to the state's General Fund.
- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Motor Vehicle Fees

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

Chapter 87, Statutes of 1991, revised the VLF depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. Revenue from this base change is transferred to the Local Revenue Fund for state-local program realignment.

Chapter 322, Statutes of 1998, established a program to offset a portion of the VLF paid by vehicle owners at the 2 percent rate. The state paid or "offset" a portion of the amount due and taxpayers paid the remaining balance. Taxpayers received significant tax relief and local governments were compensated by the General Fund offset. A permanent offset of 25 percent of the amount of the VLF owed became operative in 1999. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent offset through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF was reduced by 67.5 percent. As the amount paid by taxpayers decreased, the amount backfilled by the General Fund increased.

The VLF reduction was suspended for a 141-day period beginning July 1, 2003. Executive Order S-1-03, issued November 17, 2003, rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

Although vehicle owners received refunds that restored the VLF tax relief, there was a lag, or gap, in local government payments. This \$1.186 billion loss to local governments was repaid in the 2005 Budget Act.

Chapter 211, Statutes of 2004, eliminated the VLF offset and reduced the VLF tax rate to 0.65 percent so that taxpayers continue to receive the same tax relief that they previously received. Local governments are receiving property tax revenues to compensate them for the loss of VLF revenue. For 2004-05 and 2005-06 only, that replacement revenue will be reduced by \$1.3 billion to assist the state.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF. All trailer coach license fees are deposited in the General Fund.

Chapter 861, Statutes of 2000, replaced the current weight fee schedule for commercial trucks, which was based on unladen weight, with a gross vehicle weight schedule to conform to the federal International Registration Plan. Although this change was intended to be revenue neutral, the new fee schedule resulted in a substantial reduction in weight fee revenues. Chapter 719, Statutes of 2003, was enacted to adjust the fee schedule to achieve revenue neutrality and improve enforcement.

Motor Vehicle Fuel Taxes

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

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

Chapter 912, Statutes of 1994, provided for the taxation of diesel fuel under a new Diesel Fuel Tax Law instead of the Use Fuel Tax Law. The diesel fuel tax is collected from

Revenue Estimates

distributors at the terminal rack level and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax-exempt uses, is not taxed.

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

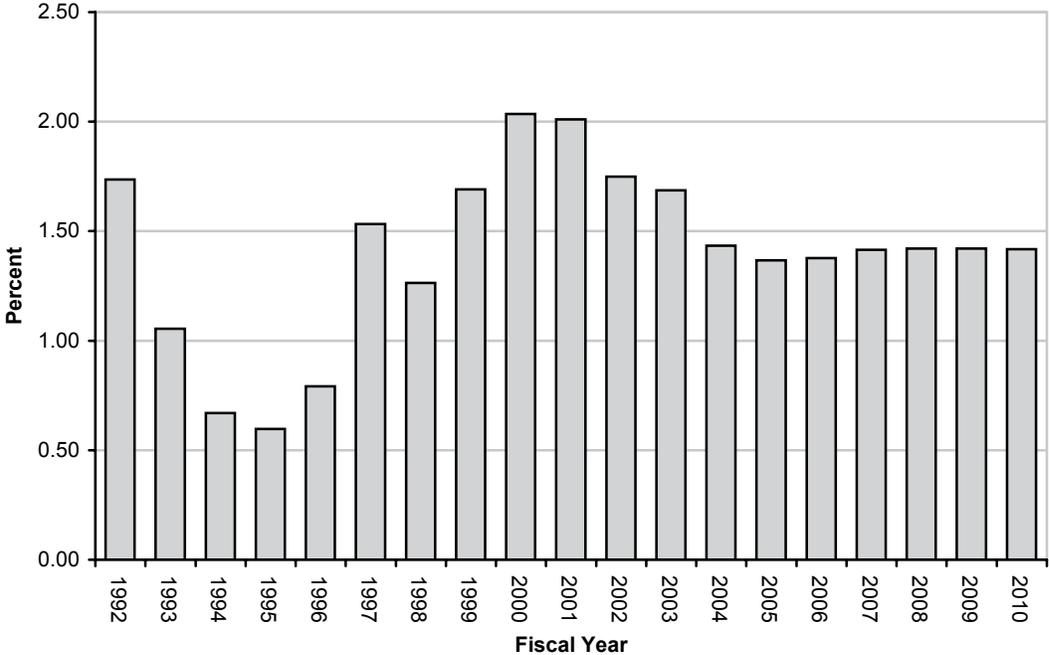
The Mills-Hayes Act specifies that, in lieu of the other fuel taxes described above, a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain common carriers.

Demographic Information

Population Overview

With more than 37 million people as of mid-2005, California's population continues to experience strong growth. Despite a slowdown in the mid-1990s, the state has experienced population growth in excess of 1 percent per year since 1997 (see Figure DEM-01).

Figure DEM-01
California's Annual Population Growth Rate



Demographic Information

- The July 1, 2005, estimate of the population is 37,005,000.
- It is forecast to be 37,514,000 in 2006 and just over 38 million in 2007. This reflects a short-term annual growth rate of just over 1.4 percent.

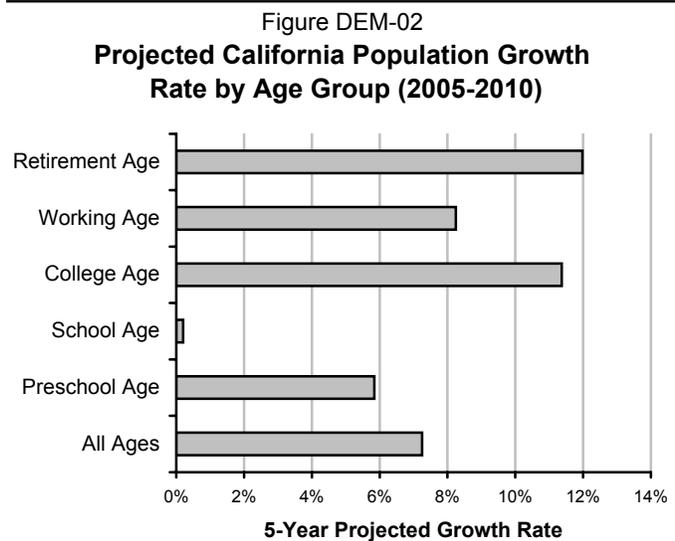
Through the next five years, the state will grow by an average of 536,700 people each year. The state's growth in the first decade of this century is about equally due to natural increase (more children being born than people dying) and net migration (people moving to California from other states and other countries, less those moving out). Natural increase accounts for 56 percent and net migration for 44 percent of the population increase.

- By July 2010, California will add nearly 2.7 million people to reach 39,688,000, a five-year growth rate of 7.3 percent. This compares to the 8.5 percent overall population growth over the five-year period since 2000.

- Population growth rates vary significantly by age group. The state's projected total five-year population growth of 7.3 percent is slightly higher than the 5.8 percent growth in the preschool age group. By far, the slowest growing age group over the next five years is the school-age group with a growth rate of 0.2 percent. On the other hand, the college-age group will grow 11.4 percent.

The working population will grow by 1.6 million, or in excess of 8 percent and retirement-age group will grow nearly 12 percent (see Figure DEM-02).

- In fall 2004, K-12 public school enrollment was more than 6.2 million students. Starting in 2003 and continuing through the decade, school enrollment growth will be slower than that of the general population because the number of births in the state declined



in the 1990s. However, it should be noted that births increased again in 2004 for the third year in a row.

- Beginning in 2003 and continuing in 2004, K-12 public school enrollment growth was below 1 percent. Prior to these years, enrollment growth had not been less than 1 percent since 1983— more than 20 years ago. Growth rates are expected to continue to decline, dropping to 0.1 percent in 2008. Subsequently, growth begins to increase, but never exceeds 1 percent in any year.

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Strategic Growth Plan: Building California for Future Generations

In the 1950s and 1960s, Californians made a phenomenal investment in the state's highways, ports, water supply systems, schools, and universities. The leaders of the time had the foresight and commitment to build the infrastructure that is now the foundation of the sixth largest economy in the world. By the late 1960s, California had the most extensive and efficient highway system in the country, a higher education system that was the largest and one of the finest in the world, and a water supply system that was capable of accommodating the state's population growth well into the future. In the face of massive change and huge challenges, they built the foundation of California's prosperity.

Now it is this generation's turn to build a prosperous future for our children and grandchildren.

In 1955, the state's population was about 13 million. The state's population is now about 37 million. By 2025 it will be 46 million. The infrastructure investments of a half century ago are showing their age and straining to support a vibrant economy and a population much larger than they were designed to accommodate. Our highways and ports too often are choked by the volume of people and goods moving through them; demands on our water supply system are inching ever closer to the system's maximum capacity; and our communities need improved protection from natural disasters like floods and wildfires.

The Governor is proposing a comprehensive Strategic Growth Plan, which 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. The plan balances the necessity of meeting infrastructure needs with prudent and fair approaches to funding those needs. It charts

Strategic Growth Plan: Building California for Future Generations

a course for the first 10 years of this 20-year vision and assumes future legislators and governors will continue the investment in California.

Phase One: Ten-Year Financing Plan

Phase one of the Strategic Growth Plan will ensure California's quality of life and foster the state's continued economic growth through significant investments in infrastructure over the next ten years. Specifically, 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

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	\$0.8	\$100.8	\$53.0

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

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as a single package; however, the GO bonds would be put before the people of California over a series of elections between 2006 and 2014 (see Figure INF-02).

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

Program	2006	2008	2010	2012	2014	Ten-Year 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.

This plan balances the necessity of meeting the state’s infrastructure needs with a prudent and fair funding approach. This approach:

- **Does Not Increase Taxes.**

Sufficient funds have been identified to meet the projected funding needs without raising taxes. The Strategic Growth Plan leverages all federal, state, and local revenue sources to the extent practicable.

- **Is Consistent with the Users-Pay Principle.**

While recognizing that taxpayers have paid for existing infrastructure, and should not be asked to pay for it again through fees, the Strategic Growth Plan, where feasible, will require beneficiaries of new infrastructure improvements to pay the costs of these improvements.

- **Utilizes Innovative Financing Mechanisms.**

To ensure that all available resources are brought to bear to address California's infrastructure needs, innovative funding mechanisms will be utilized. Specifically, the Strategic Growth Plan requires expanded authority to fund and deliver projects through a variety of public-private partnerships.

The Strategic Growth Plan is Fiscally Responsible

One commonly accepted measure for determining debt affordability is to compare a state's annual costs for debt service as a percentage of its General Fund revenue in a given year—known as the "debt service ratio." As a general and prudent rule, the state's debt service ratio should not exceed 6 percent.

In fiscal year 2006-07, the state is estimated to pay \$4.35 billion in debt service for bonds approved by voters for a variety of infrastructure projects—including K-12 schools, college facilities, parks, water projects, and prisons. Given projected revenues of \$92 billion, the state's estimated debt service ratio will be 4.73 percent.

Using conservative projections, the increase in debt service costs associated with the Strategic Growth Plan will amount to a change of approximately one percentage point in the state's debt service ratio and will keep the debt service ratio below six percent over the next 20 years (see Figure INF-03).

In addition, the Governor is proposing a constitutional amendment to prohibit the state from issuing debt that would exceed the 6 percent debt service ratio. This debt limit will ensure that as the state continues to move forward on its investments in the future, it will do so in a way that will protect taxpayers from imprudent debt levels.

As described in the Introduction section, the state faces a continuing structural budget deficit. While the Governor's Budget continues to make progress in reducing this deficit, more work remains to be done. This plan assumes that the state will eliminate the remainder of the structural deficit within the next one to two years.

As the previous figure shows, additional debt service resulting from the Strategic Growth Plan will not become significant for several years. In addition to eliminating the remainder of the structural deficit, the Economic Recovery Bonds approved by voters in 2004 are projected to be fully retired by 2010, which will free up a significant amount of General Fund

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Figure INF-03

Strategic Growth Plan Financing Debt Ratio

Base plus Proposed Strategic Growth Plan *				
(dollars in thousands)				
Year	Authorization	Debt Service	GF Revenue	Debt Service Ratio
2004-05		\$3,673,041	\$79,935,000	4.60%
2005-06		3,950,285	87,691,000	4.50%
2006-07	\$25,200,000	4,351,482	92,005,000	4.73%
2007-08		4,652,100	96,645,000	4.81%
2008-09	10,200,000	5,385,000	101,659,000	5.30%
2009-10		6,040,800	108,005,000	5.59%
2010-11	18,900,000	6,592,600	115,586,000	5.70%
2011-12		6,811,300	123,726,000	5.51%
2012-13	8,700,000	7,375,900	131,351,000	5.62%
2013-14		8,044,700	137,918,550	5.83%
2014-15	5,000,000	8,559,000	144,814,478	5.91%
2015-16		8,941,600	152,055,201	5.88%
2016-17		9,284,700	159,657,961	5.82%
2017-18		9,425,500	167,640,860	5.62%
2018-19		9,494,400	176,022,902	5.39%
2019-20		9,592,700	184,824,048	5.19%
2020-21		9,533,600	194,065,250	4.91%
2021-22		9,559,900	203,768,512	4.69%
2022-23		9,503,000	213,956,938	4.44%
2023-24		9,443,000	224,654,785	4.20%
2024-25		9,424,200	235,887,524	4.00%
2025-26		9,425,800	247,681,900	3.81%
Total	\$68,000,000			

* Base Assumes: 1) all currently authorized but unissued bonds are sold over the next six years, 2) Voters approve \$0.6 billion Library bonds already approved for the 2006 ballot and 3) the proposed High Speed Rail bond is withdrawn.

resources that could serve as a revenue stream for payment of debt service obligations associated with the Strategic Growth Plan.

In addition, the budget proposes to restore mid-year correction authority similar to that which existed prior to 1983. The mid-year correction authority will allow the Director of Finance to reduce General Fund appropriations, if necessary, to protect the financial interests of the state. Reductions would be limited to 25 percent of an affected appropriation.

The Strategic Growth Plan consists of five major elements:

- Transportation and Air Quality
- Education
- California's Water Future
- Public Safety
- Courts and Other Public Service Infrastructure

These elements are described in more detail below.

Transportation and Air Quality

The goal of the Strategic Growth Plan for transportation and air quality is to reduce congestion delays below current levels and substantially improve air quality while providing sufficient transportation capacity to serve a population of over 46 million by 2026. It is clear that this goal cannot be accomplished without some innovative approaches, new accountability mechanisms, and funding.

Transportation Investment Has Lagged Behind Use

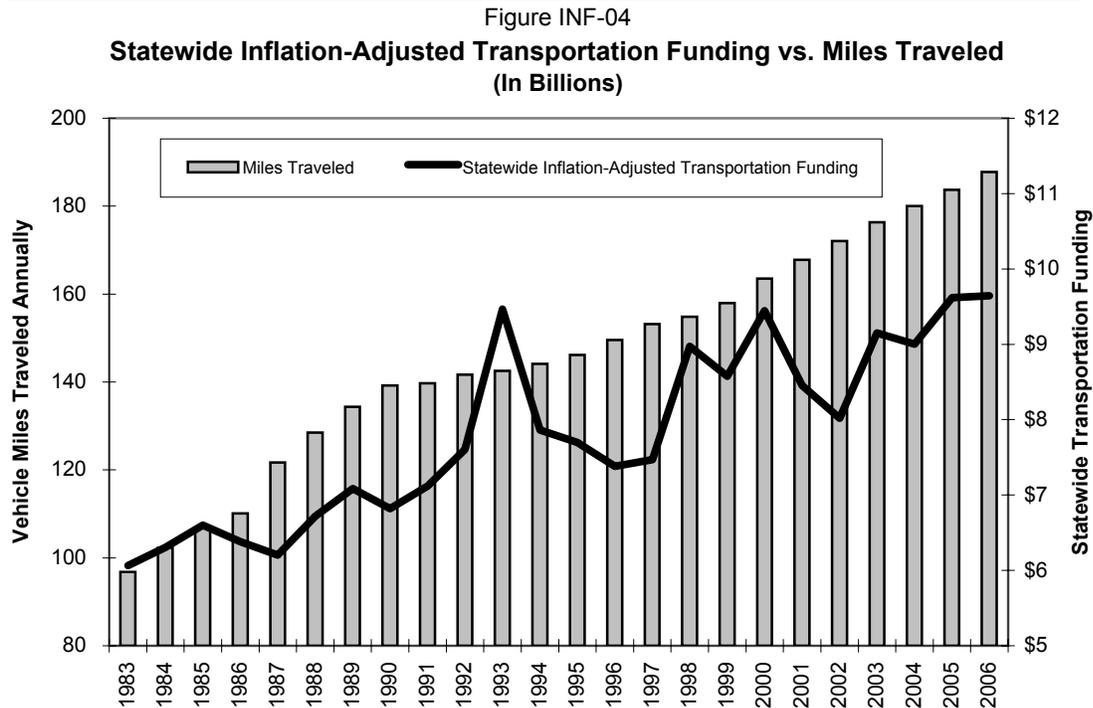
Since the 1960s, the usage of the state highway system has dramatically changed. For example:

- Total registered vehicles increased from approximately 9 million in 1960 to over 30 million in 2005.

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- Vehicle miles traveled in 1960 totaled 33.3 billion, now the total is 183.7 billion.
- Over the next ten years, daily vehicle hours of delay are projected to increase from over 550,000 hours to 750,000 hours, assuming the recent pace of investment.

While Proposition 42 has added significantly to the resources available for transportation in the last two years, those resources are not sufficient to address all of the needs. Existing transportation funding is provided primarily by federal and state fuel taxes, truck weight fees, local sales taxes, sales tax on gasoline (Proposition 42), and operating fares. As can be seen in Figure INF-04, even with a growing contribution during the last 20 years of local sales taxes, transportation funding has risen only modestly in the last 20 years compared to the increase in miles traveled.



Projects have become more expensive due to material and labor cost increases and because we expect safer, cleaner transportation than we did during the 1960s and 1970s.

Aging infrastructure requires more funding for maintenance and rehabilitation, which diverts funding that might otherwise have been available for capacity enhancement.

The current approach to transportation planning has a five-year horizon, which makes it difficult to fund large projects from either regional or state allocations.

Project selection is not currently outcome-based. The State Transportation Improvement Program (STIP) does not require plans or projects to meet specific goals, such as reducing the growth in congestion; instead, the STIP simply plans to spend the available funds.

Ten-Year Plan

In the absence of this plan, the Department of Transportation projects that congestion will increase by over 35 percent in ten years. With the plan, congestion delay will be reduced by as much as 18 percent.

Ten-Year Overall Spending Plan

The ten-year plan consists of the following components:

- \$21.2 billion for major projects on state interregional routes and to expand and complete the High Occupancy Vehicle lane system.
- \$18.9 billion to expand trade corridors and regional priorities.
- \$18.9 billion for capacity expansion on major corridors of the highway system by using strategies such as adding auxiliary lanes, using technology to assist drivers, and improving interchanges.
- \$4.5 billion to expand existing transit rail and to add new urban commuter rail and intercity passenger rail.
- \$28.9 billion for rehabilitation and preservation of the state highway system.
- \$7.9 billion for safety and operational improvements on the state highway system.
- \$3 billion for transportation technology and Intelligent Transportation Systems.
- \$943 million to expand park and ride opportunities and bicycle and pedestrian routes.
- \$471 million to improve transit and rail services.
- \$297 million to expand the Freeway Service Patrol.

The proposal does not include a high-speed rail system. The Administration proposes to study other approaches to north-south long distance travel.

Ten-Year Funding Sources

Funding includes \$47 billion in existing transportation funding sources such as the gas tax, Proposition 42, and federal funds. A total of \$48 billion in new funding is proposed from leveraging existing funds and new bond funds to attract increased federal, private, and local funding, as well as using revenue bonds repaid from state gas tax and federal funds.

The remaining \$12 billion of need is proposed to be derived from GO bonds. It is proposed that the bonds will be authorized in two tranches in 2006 and 2008.

2006 bond (2006-07 through 2010-11)—\$6 billion

- \$1.7 billion to increase highway capacity.
- \$1.3 billion for safety and preservation improvements to the state highway system.
- \$1 billion for port improvements, mitigation related to programs and projects that reduce diesel emissions, and mitigation of other community impacts.
- \$1 billion for goods movement infrastructure, which will reduce related road congestion.
- \$400 million for intercity rail expansion.
- \$300 million for corridor mobility improvements.
- \$200 million for Intelligent Transportation Systems.
- \$100 million to expand park and ride opportunities and bicycle and pedestrian improvements.

2008 bond (2011-12 through 2016-17)—\$6 billion

- \$3.6 billion for highway projects that provide congestion relief and meet or exceed performance measures for improved corridor performance.
- \$2 billion for goods movement infrastructure, which will reduce related road congestion
- \$200 million for highway safety and preservation projects.

- \$100 million for additional intercity rail expansion.
- \$100 million to expand park and ride opportunities and bicycle and pedestrian improvements.

Reforms

Funding that would flow into the STIP under current law will continue to do so. The California Transportation Commission is expected to continue to emphasize performance outcomes in all programming guidelines. The proposed bond bills provide for allocation of funding based on projects' performance in meeting the overall goals of reduced congestion and cleaner air.

Proposition 42 Protection

The Administration proposes a constitutional amendment to permanently protect Proposition 42 funds for transportation and eliminate the option for future governors and legislatures to suspend the allocation. Given the magnitude of the need that has been identified, the funding provided by the sales tax on gasoline is essential. With the certainty that this provides, as well as the other funding proposed in this plan, the construction industry can make commitments to increase their capacity and deliver the substantial increase in infrastructure called for in the Strategic Growth Plan.

Project Delivery Improvements

Construction costs have been increasing dramatically in the last few years, making project delivery reforms to reduce the time and cost to taxpayers critical. The Administration is again proposing legislation to provide authority to deliver projects more quickly and efficiently through the use of design-build contracting, where the main contractor performs most design as well as construction services under one contract. Similarly, the Administration is proposing legislation authorizing design-sequencing, where some construction can begin while design of other elements is being finished. Both of these techniques are standard practice in the private-sector construction industry, and save time, therefore money in the project delivery process. Savings over ten years from these reforms is estimated to be almost \$1 billion.

The Administration is also proposing expanded authority to fund and deliver projects through a variety of public-private partnerships. This approach is intended to be used where a predictable stream of revenue can be generated to repay private capital investments.

This approach can be used to build High Occupancy Toll lanes, regular toll lanes, dedicated truck lanes, and freight movement facilities.

These streamlining and cost-saving reforms are integral to financing the overall proposal.

Air Quality and Trade

The Strategic Growth Plan reflects \$18.9 billion for major goods movement projects. Bond funds totaling \$4 billion are proposed for the state contribution to this overall effort. Most, if not all, of the projects are to be accomplished through a variety of public-private partnerships to provide significant matching funds to the bonds. Of this total, \$1 billion matched by at least \$1 billion from other sources, is proposed for reducing current goods movement-related air pollution in and around major ports and port-related facilities through such means as cleaning up and replacing diesel engines in trucks and equipment. The other \$3 billion in bonds, matched by at least \$12 billion, will be available for goods movement projects that also have a positive impact on the environment.

Education

In the next ten years, over 600,000 more students will be attending our colleges and universities. Additionally, our K-12 schools will experience net increases in student enrollment approaching a quarter of a million students. While many schools are experiencing declining enrollments, many other high growth areas lack the schools necessary to accommodate growth so the need for new schools far exceeds the net student growth projected. Moreover, as our system of over 8,000 school sites continues to age, the need for modernization funds will continue to increase during this period.

K-12 School Facilities

Since its inception in the late 1940s when the first significant wave of student enrollment growth began, the State Allocation Board has been administering funding mechanisms to school districts for the construction of school facilities.

In 1998, the construction funding system was reformed and the School Facility Program (SFP) was created. The SFP is a significant change from previous state facilities programs. State funding is provided in the form of per-pupil grants, with supplemental grants for site development, site acquisition, and other project-specific costs when warranted.

This process makes the calculation of the state participation quicker and less complicated. In addition to a streamlined application process, the SFP provides greater independence and flexibility to the school district to determine the scope of the new construction or modernization project. In return, the program requires the school district to accept more responsibility for the outcome of the project, while allowing the district to receive the rewards of a well-managed project.

From 1998 to 2004, more than \$28 billion was approved by the voters for K-12 school construction. A total of \$22.3 billion has been apportioned to date to school districts in a timely and efficient manner. Of these funds, \$17.6 billion has been released or contracted for school facility projects. There is currently \$4.2 billion remaining for new construction; however, modernization funds have all been allocated. The remaining funds are expected to house more than 338,000 students in over 13,000 new classrooms, but will not fulfill the long-term projected need for California.

Total K-12 Program Proposes \$26.3 Billion Over Ten Years

In recognition of the infrastructure needs of primary and secondary schools, the Ten-Year Strategic Growth Plan includes a series of GO bond measures totaling \$26.3 billion for K-12 education facilities needs through 2016-17. Of this amount, the Governor's proposal would authorize the placement of an initial \$7 billion GO bond measure on the June 2006 primary election ballot, with the remaining \$19.3 million spread over election cycles through year 2014.

The plan includes funds for the traditional needs for new construction and modernization projects, provides greatly needed funds for charter schools and career technical education facilities, and encourages development and renovation for small high schools of no more than 500 students in areas where much larger schools are the norm.

It is estimated that total program funds proposed will construct approximately 40,000 new classrooms and 141,000 renovated classrooms serving more than 4.7 million students statewide in new or remodeled facilities.

Initial 2006 Education Bond Measure Proposes \$7 Billion for K-12

The initial \$7 billion bond measure is estimated to fund construction of approximately 9,700 new classrooms housing 252,000 students and 38,800 modernized classrooms providing state-of-the-art capacity for over one million students. The bonds would be allocated as follows:

- **\$1 Billion for Charter Schools.** To date, the relative lack of funds for new charter school construction has constrained expansion of successful and innovative programs. In order to provide equitable opportunities for their development, the Governor places a high priority on continuing the availability of construction funds for this purpose. In addition, the Governor proposes incentives for applications that leverage existing school facilities and, therefore, proposes to authorize modernization funds for school districts at sites that are currently unused if they are at least 15 years old and will be dedicated to Charter School use.
- **\$1 Billion for Career Technical Education Facilities.** For a variety of reasons, high schools have steadily cut back on career technical education courses in recent years, resulting in fewer opportunities to prepare students for high-paying technical careers in industries that lack a sufficiently skilled workforce. In the 2005 Budget, the Governor initiated the expansion and improvement of industry-driven Career Technical Education opportunities in high schools and community colleges through an initiative that allows students to progress from basic skill development in high schools to higher-order skill development in the community colleges without repeating efforts in the higher education segments and result in a degree or certificate recognized by industry. In order to facilitate the expansion of these programs, the Governor proposes a facility program that will allow all high schools to develop state-of-the-art facilities to ensure instruction meets the requirements for today's jobs and those of the future. This program is proposed to be a competitive matching grant program that will be based on specific career technical education plans that are linked with industry partners and community colleges. The matching portion may be paid over time should sufficient local funds not be available.
- **\$1.7 Billion for New Construction.** This amount recognizes the large amount of new construction funds remaining from Proposition 55 that is currently available.

The proposal will continue to allocate funds under the current School Facilities Program based on unhoused student eligibility projected over a five-year period.

- **\$3.3 Billion for Modernization.** This amount will be administered under the parameters of the existing School Facility Program on a per-pupil basis with matching requirements as currently specified in law.
- **\$500 Million for Small High Schools.** From the funds allocated for New Construction and Modernization, 10 percent, or \$500 million, will be earmarked for development of small school environments in high schools. Research has shown that smaller learning environments are beneficial to student learning, allowing for more direct interaction with teachers and administrators and minimizing the possibility that students will get “lost in the crowd”. In order to complement the significant investments the state has made in curricula reform and accountability, it is important to encourage smaller learning environments in our high school districts that normally house students in large schools. The program will be modeled similar to Chapter 894, Statutes of 2004, which authorized higher amounts per-pupil for development of smaller schools to address the higher construction costs associated with this facility reform.

2008-2014 Bond Measures Propose \$19.3 Billion for K-12

Subsequent bond measures will be proposed for general election ballots every two years beginning in 2008 and ending in 2014. The remaining \$19.3 billion will provide for the same purposes as those in the initial bond proposal and are estimated to fund construction of approximately 30,100 new classrooms housing 784,000 students and 103,000 modernized classrooms providing state-of-the-art capacity for over 2.7 million students.

The bond measures are proposed in aggregate amounts for the following purposes:

- \$7.7 billion for new construction.
- \$8.8 billion for modernization
- \$1.4 billion for charter schools
- \$1.4 billion for career technical education facilities

Of the amounts allocated for new construction and modernization, 10 percent would be earmarked for small school development

Higher Education

California's system of colleges and universities is an enormous asset that fuels our innovation economy. Since 1960, the number of students attending college has grown from approximately 274,000 to 2.3 million. In response to the projected growth in California, the Higher Education system was expanded during the 1960s and 1970s. During the 1960s, three campuses were added to the University of California (UC) system, and the California State University (CSU) system was formed. In the 1970s, the California Community Colleges (CCC) was separated from the Department of Education, and the CCC Chancellor's Office was formed. The expansion of the Higher Education segments has enabled the CCC system to become the largest post-secondary educational system in the world and the UC to become the premier public research institute in the world.

As the employment market has become more sophisticated, the need for Californians to obtain advanced degrees in education has grown. However, for many years the capital investment in our higher education system was inadequate to properly address this demand. As a step toward re-balancing the system to meet the demands of the public, the Governor signed a compact with UC and CSU continuing the guaranteed specified amount of funding for infrastructure development. This plan continues to support the compact and provides a similar amount of funding for the CCC by proposing \$5.2 billion GO bonds for the next five years. In addition, the plan proposes \$6.1 billion GO bonds for fiscal years 2011-12 through 2015-16. Finally, as part of the vision for higher education development to meet future demand, this proposal contains \$400 million GO bonds for the expansion of the UC telemedicine programs.

Medical School Expansion

The proposed \$400 million for telemedicine will be used to provide facilities and state-of-the-art equipment needed to expand UC's medical education programs, so that more physicians are trained and better qualified to meet health care needs in underserved areas, including rural and inner-city areas. As this expansion occurs, one focus will be on developing high-tech approaches to health care. Telemedicine is a growing field and will permit consultation with experts in specific fields, long distance analysis of medical test results and diagnostic aids, and rapid communication of treatment methods and

state-of-the-art approaches to curing disease. For example, an expert on a UC campus will be able to guide local physicians in surgical and other medical procedures that have not been possible in underserved areas.

Expansion of the medical school programs will require additional instruction and research space that will support growth of about 10 percent in medical school enrollment (250-300 medical students plus an equal number of medical residents). The bond funding provided for this purpose will be used over the next eight to ten years to provide additional space, the infrastructure for rapidly expanding medical technology, and state-of-the-art equipment to permit the training of high-quality physicians to meet California's medically underserved population needs. This investment could also help with planned expansion of UC's nursing programs.

A summary of the funding proposed in the Governor's Budget for each segment of higher education is detailed below.

University of California

The Governor's Budget proposes \$315.4 million from the proposed bonds for the construction and renovation of 29 buildings on UC campuses. These buildings are needed for critical infrastructure deficiencies and to meet enrollment and facility renewal needs at UC campuses. New projects include seismic and life safety corrections at the Arts Building at Santa Barbara, and the Structural and Materials Engineering Building at San Diego, and the Social Sciences and Management Facility at Merced to address enrollment growth. Finally, the Veterinary Medicine 3B project at Davis will address facility modernization issues.

California State University

The Governor's Budget proposes \$234 million from the proposed bonds for the construction and renovation of 15 buildings on CSU campuses. These buildings are needed for critical infrastructure deficiencies and to meet enrollment and facility renewal needs at CSU campuses. CSU projects include a new Center for Science Facility at San Luis Obispo and a Nursing Facility renovation at Bakersfield to accommodate enrollment growth. The School of the Arts land acquisition at San Francisco will create space for new campus instruction facilities, while the improvements at Channel Islands will help to modernize the campus' infrastructure.

California Community Colleges

The Governor's Budget proposes \$491.7 million from the proposed bonds for the construction and renovation of 58 buildings in 38 districts. In addition, 30 districts have committed to use \$261 million in locally approved Proposition 39 funds to support their projects. The proposed projects will correct seismic deficiencies, provide programmatic upgrades in instructional and library facilities, and construct new classrooms and laboratories to help meet the needs of increased enrollment. Examples of new projects include a new allied health building at Merced College, a learning resource center at Napa College, a science and math building modernization project at West Valley College, a theater arts facility at Antelope Valley College, and a child development center at Los Angeles Valley College.

California's Water Future

Water is the single resource that has defined the growth of modern California. Its supply and availability has determined where our cities have been built, what industries we have created, and what goods and services we have produced for ourselves, for the nation, and for the world.

The Strategic Growth Plan will increase California's water supply to serve an additional 8.5 million people, support the state's agriculture industry, and double the amount of flood protection in the Sacramento area—providing a strong shield against a disaster of the magnitude of Hurricane Katrina. These results will be achieved by the sale of \$9 billion in GO bonds, including \$3 billion in 2006 and \$6 billion in 2010.

Water Supply and Storage

The twentieth century saw great advances in Californians' ability to meet the demands for water in a growing state. The first water supply projects were local or regional. In the 1930s, the federal government authorized the Central Valley Project, which brought additional supplies to the San Joaquin Valley and other areas. Finally, in 1960, the California State Water Project (SWP) was authorized by passage of the 1960 California Water Resources Development Bond Act, which provided \$1.75 billion for construction costs (equal to \$11.5 billion in current dollars). Today, the SWP provides drinking water for 23 million Californians and irrigation for 750,000 acres of prime agricultural land.

The water projects of the last century were developed by visionary Californians who were willing to carry out the projects that others dismissed as impossible. Major construction projects included Shasta, Oroville, and Folsom dams, which remain today the largest surface storage facilities in the state. These projects were built because early Californians recognized the need to invest in infrastructure to support our economy. However, at the time the SWP was authorized, California's population was 15.7 million— less than half its current 37 million. It is now time to build upon the achievements of previous generations of Californians, and establish new sources of water storage and supply that will ensure reliable water supplies and a healthy economy in the twenty-first century.

In addition to developing new surface storage capacity, the Administration recognizes that additional strategies can be employed to meet our water demands. For example, today water districts are collaborating with their neighbors in developing regional water supplies from multiple sources, improving water quality, protecting watersheds, conserving water, and restoring the environment. This approach, called integrated regional water management, is essential to preserving and enhancing California's water resources. In addition, desalination technologies are being developed that can provide yet another option for meeting our water demands. All of these options will be important elements in California's future water infrastructure.

In recognition of these challenges, the Administration is proposing \$6.5 billion in bonds to support water supply development and integrated regional water management. The bonds will be used as follows:

- \$4.5 billion to complete surface water storage planning, develop water efficiency measures, improve drinking water quality, implement an Integrated Regional Water Management Program, and pursue key elements of the CALFED Bay-Delta Program. These actions are expected to increase water supply by 2.5 million acre-feet annually, reduce water demand by 2.1 million acre-feet annually, and improve system reliability by protecting water quality and ecosystem health.
- \$1.5 billion to fund public investment in new surface storage reservoirs, restore fisheries, and improve water quality.
- \$0.5 billion for research and development of desalination. This effort is expected to result in an additional 250,000 acre-feet of new water desalination capacity over the next ten years.

Flood Control

In recent decades, the impacts of flooding in the Central Valley have become more pronounced as population has grown throughout Valley cities. Levees that now protect developed areas were typically built long ago with the intent of protecting farms; levee failures in those days imposed localized and modest costs. Today, these costs can be dramatic. In 1986, flooding on the Yuba River caused an estimated \$2 billion in damage; in 1997, flooding drove 100,000 Californians from their homes. In addition to the residential damages and other direct costs of levee failures, floods cause valuable farm crops to be destroyed, business and manufacturing activity to be interrupted, key transportation corridors to be shut down, and oil and gas pipelines to be damaged. In short, the economic impact of major floods in California is now a statewide concern.

Similarly, the levees in the Sacramento-San Joaquin Delta have aged tremendously in the past century. Now, levee failures may even occur in calm and clear weather, as happened at the Jones Tract in San Joaquin County in June 2004. Such failures in the Delta impose significant costs not only on island farms, but on the Delta channels that are critical to much of our current water supply. The Delta, after all, is the source from which both the Central Valley Project and the SWP obtain the water that is pumped south.

In recognition of these challenges, the Administration is proposing \$2.5 billion in bonds for the following flood management activities:

- Map more than 1 million acres of Central Valley flood plains to guide development.
- Repair Central Valley levees and upgrade other flood protection facilities such as Folsom Dam.
- Upgrade Delta levees and begin seismically fortifying critical levees to ensure their long-term reliability.
- Fund current and future flood control projects in other regions of the state.

Beyond the funds provided by GO bonds, the foregoing activities will be supported by \$26 billion in other nonstate funding resources. The benefits noted above reflect the contribution of these resources. Additionally, the Administration intends to pursue a package of reforms that include the following:

- Establishment of a Water Resources Investment Fund for additional sustained water management efforts. Resources to this fund will include non-General Fund-based revenue sources and will be used for projects of regional and statewide benefit.
- The enactment of AB 1665, a measure to reform flood management and the financing of flood control improvements.
- Enactment of ACA 13 to allow flood management projects to proceed as other necessities such as water and sewer service.

Public Safety

Local jails and state prisons are so overcrowded that criminals are being let out or left on the street because the state and counties have no room to lock them up. The Strategic Growth Plan proposes \$14.8 billion (\$6.8 billion GO bonds) to enhance public safety. Of this amount, \$12 billion (\$4 billion GO bonds) is for local jail construction, \$1.1 billion is for prison or juvenile detention facility construction, and the remaining \$1.7 billion is for significant infrastructure needs of other state public safety departments, including the Department of Forestry and Fire Protection, the Department of Justice, and the Military Department.

State and Local Detention Facility Construction

Significant overcrowding is occurring at local detention facilities statewide. As a result, it has become common practice for local jurisdictions to provide early release of felons housed in those facilities, and it has become very difficult to book serious misdemeanants. This situation places felons and serious misdemeanants back into the community earlier than is appropriate, putting the public at risk. Additionally, the state's inmate population continues to reach all-time highs, soon expected to surpass 170,000 inmates. To accommodate as many offenders as possible, the California Department of Corrections and Rehabilitation (CDCR) is utilizing nontraditional overcrowding beds in gyms and dayrooms, as well as triple-bunking in certain gyms and dorms. These areas were never intended for inmate housing. They create major safety and security concerns for staff and inmates. In addition, using these non-traditional beds dramatically decrease the space available for inmate programs and treatment, which are crucial to CDCR's rehabilitation goals and ensuring adequate provision of mental health services.

To address this problem, the Governor is proposing a groundbreaking partnership between the state and local agencies to help manage inmate population at all levels of government. Whether it is state population growth causing a backlog at local jails, or local population growth forcing the counties to release offenders, state and local agencies need to have an appropriate working relationship and flexibility to address population surges at both levels.

The initial step of this partnership is a ten-year bond program to address capacity needs at state and local correctional facilities statewide. For the first five years of the infrastructure proposal, the Governor is proposing a \$6 billion program for local jail construction. The \$6 billion will provide beds for approximately 45,000 offenders, with two-thirds being used by the counties, and one-third available for the state inmates, primarily parole violators and inmates within 90 days of release. This program will consist of the following components:

- \$2 billion of state GO bonds to provide jail construction grants to local agencies.
- \$2 billion in matching funds from local governments, required by the grant program.
- \$2 billion from local bonds secured by the portion of revenues received by local agencies from the state as payment to use jail beds in these new facilities.

This proposal will result in an increase in the number of available local jail beds that will alleviate overcrowding in both state and local facilities, enhance the safety for correctional staff and inmates, and enhance the safety of the local communities by keeping offenders locked up for the appropriate time as prescribed by the court.

The \$6 billion proposal is the initial five-year plan to address state and local detention facility needs. In the second five years, the Governor proposes another \$6 billion for local jail construction (\$2 billion GO bonds); along with \$1.1 billion additional GO bonds to build new prisons or juvenile detention facilities at CDCR.

Other Public Safety Needs

In addition, the Governor proposes \$600 million in GO bonds to fund critical public safety projects for other departments over the next five years and an additional \$1.1 billion GO bonds to continue this effort in the second five years. These projects include the replacement or relocation of old and deteriorated emergency response facilities for the

Department of Forestry and Fire protection (Forestry), such as forest fire stations, air attack bases, and conservation camps. More than 70 percent (209) of Forestry's emergency response facilities were constructed prior to 1960 and now require updating. In addition, the multiyear funding proposal includes funding for the Department of Justice to provide for the permanent replacement of the current DNA lab. Finally, funding will be provided to address the Military Department's aging facilities. All these programs support the essential efforts of the state's public safety employees.

Courts and Other Public Service Infrastructure

Since the beginning of California's statehood, county courthouses have served as the center of civic life and a symbol to the democratic ideals and the rule of law. The primary constitutional duty of the courts is to provide an accessible, fair, and impartial forum for the resolution of disputes. Over the years, trial courts evolved as county-level institutions and developed to meet the needs of specific local judiciary and local government. To ensure the adequate distribution of court resources among the 58 counties, the courts have been transformed into state-funded institutions.

The Lockyer-Isenberg Trial Court Funding Act of 1997 transferred responsibility for funding trial court operations from the counties to the state and established the State of California Task Force on Court Facilities to identify facility needs and possible funding alternatives. In October 2001, the Task Force submitted its final report, which recommended that the state assume financial responsibility for court facilities. This recommendation was enacted in the Trial Court Facilities Act of 2002, which required counties and the state to pursue a process that ultimately will result in full state assumption of the financial responsibility and equity ownership of all trial court facilities. It is anticipated that approximately 451 facilities could transfer to the state.

In accordance with the Trial Courts Facilities Act, the Administrative Office of the Courts completed development of facility master plans for each of the 58 superior courts. These plans were based on Judicial workload standards in relation to population demographics and historic caseload data, judgeship projections, staffing, space requirements, building condition, and capacity. A significant number of the current facilities do not meet current security standards, working conditions or accessibility standards. To ensure the continued provision of justice and provide for staff and public safety there will be a need for considerable improvement of these facilities.

Strategic Growth Plan: Building California for Future Generations

In order to accommodate the facility needs for the trial courts, the Governor proposes GO bonds totaling \$1.8 billion over a ten-year period; \$800 million for fiscal years 2006-07 through 2010-11 and \$1 billion for years 2011-12 through 2015-16.

In addition, the Strategic Growth Plan proposes \$400 million in GO bonds over the next five years to address the state's most critical needs for the infrastructure of other public services, including seismically retrofitting high-risk state buildings and addressing health and safety issues at state parks facilities. This investment is needed to keep facilities safe and able to handle public demands. While additional funding will be needed for the five years following this proposal, the level of funding will not be known until this time frame is closer.

Chapter 606, Statutes of 1999, requires the Governor to publish a five-year infrastructure plan. It is the stated intent of the statute that the Legislature consider the Governor's plan, and ultimately adopt a final five-year infrastructure plan for the state. The Governor's 2006 plan is currently being modified to be consistent with the Governor's larger vision for California's infrastructure future and will be published not later than March of 2006.

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Preparing for Natural and Intentional Disasters

California has never been a stranger to natural and intentional disasters. Over the years, floods, earthquakes, fires, freezes, outbreaks of infectious diseases, droughts, pestilence, civil unrest, and mudslides have caused billions of dollars in damage and extracted an incalculable toll in the loss of lives. In each of these events, though, the state, local governments, businesses, and nonprofit organizations have risen to the challenge of quickly and competently aiding those in need and starting down the road to recovery.

California has demonstrated great ability to come together in response to major disasters such as flood, fire, and earthquake. Global events, including terrorist attacks on September 11, 2001, bombings in Madrid and London, natural disasters in Indonesia, Pakistan, and the Gulf Coast, and outbreaks of diseases such as “Mad Cow” in Europe and Avian Influenza in Asia, serve as powerful reminders of the need for prevention and response strategies to address emergencies, even ones unimaginable 50 years ago.

Californians must have confidence that state government is pursuing all available measures to mitigate preventable disasters and to prepare a rapid and concerted response when disaster strikes. This Administration is committed to developing the nation’s most thorough disaster mitigation strategy.

Commitment to disaster prevention, preparedness, and response must also be mirrored at the local government level. California’s comprehensive approach to emergency management is nationally recognized and the strength of our response system is based on a mutual aid partnership among all levels of government. The Administration is committed to ensuring that state employees are prepared for all natural and intentional disasters and to

working with local jurisdictions to ensure that the response at the regional, county, and city level is equally strong.

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 our 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

A disaster or disease outbreak cannot always be prevented. However, its impact can be limited and lives can be saved through effective emergency preparedness, response, recovery, and mitigation. Protecting public health in a disaster event or disease outbreak requires prevention efforts, planning, exercises, strong surveillance and early detection, and a flexible health care delivery system that can meet increased demand for services.

National and state experts, including the federal Centers for Disease Control, The Trust for America's Health, and the Little Hoover Commission, have examined California's emergency preparedness efforts and readiness to respond to a public health disaster. California has been recognized for having many of the essential tools to respond to natural or intentional disasters, or to disease outbreaks, including: renowned state laboratories, a new state-of-the-art public health Emergency Operations Center, an emergency communications system that can immediately contact public health officials statewide, a model risk communications program, and comprehensive laws to prevent or control the spread of disease. However, continued improvements are needed in the areas of laboratory staffing and resources, infrastructure to respond to a radiological or chemical disaster, surge capacity throughout the health care delivery system, disease surveillance and reporting, and preparation for a possible influenza pandemic.

Emergency preparedness is a top priority for this Administration, which is committed to ensuring California is as safe and prepared as possible. The Governor's Budget includes new funding of \$49 million (\$47.3 million General Fund) for Health and Human Services Agency (HHS) departments to bolster state and local public health capacity to prevent and

respond to disease outbreaks and natural or man-made 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. Proposed investments focus on key components of public health emergency preparedness and response, including planning, disease surveillance, prevention and response, risk communication, and building surge capacity. 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. In addition to making California better prepared to address pandemic influenza, the proposed resources will have lasting benefits for public health and California's ability to prevent or respond to other types of disasters or disease outbreaks.

Increasing Preparedness for Chemical and Radiological Disasters and Terrorist Attacks

The federal Department of Homeland Security and other experts advise that the threat of terrorist attacks involving the use of radiological or chemical agents is more likely than terrorist attacks involving biologic agents. However, federal bioterrorism funding historically has been focused on preparing for an attack that involves biologic agents. 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 through improved coordination, maximized use of surveillance data, and oversight, support, training, and outreach to strengthen the surveillance program. An additional \$4.2 million will improve California's laboratory capacity by providing resources for more efficient laboratory testing and surge capacity, addressing loss of staff resources, supporting retention of existing staff, purchasing laboratory supplies, and establishing training programs to provide qualified candidates to replace retiring local laboratory directors. 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 includes three proposals to build California's surge capacity and address gaps in the three key areas of surge—equipment, personnel, and adequate facilities. The 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. Each team will have sufficient trained health care personnel and equipment to treat 250 victims per day for up to three days and will be available for deployment anywhere in the state immediately following a disaster. 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. In addition to these proposals, 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, and develop spring budget process proposals to continue to build the capacity of California's health care system to respond to a major disaster.

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. The funding will support community outreach and education, development and dissemination of public

health prevention messages, and completion of advertisements to be aired if a pandemic occurs. In coordination with the Office of Emergency Services and the Office of Homeland Security, resources will be dedicated to an emergency preparedness public information campaign that includes general market and ethnic media, and focuses on emergency preparedness and general prevention messages. This campaign will build on the success of the First Lady to promote disaster preparedness among Californians.

Partnerships for Emergency Supplies and Services

Most emergencies require rapid distribution of critical supplies, such as water, food, and construction materials. Private-sector firms have the infrastructure (i.e., supply chain, personnel, and experience) and large volumes of products available statewide in the event of an emergency. 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. High-priority partnerships will include:

- Agreements with medical product and pharmaceutical providers to supply medical products such as ventilators, inhalers, and basic pharmaceuticals (such as insulin and penicillin) when called upon in an emergency.
- Agreements with large statewide retailers to provide water, blankets, food, and basic medical supplies at prespecified prices.
- Agreements with large rental car companies to dedicate their fleets for use by emergency workers when called upon.
- Agreements with large transportation and equipment providers who can provide planes, buses, trucks, and heavy equipment to provide needed personnel and equipment in an emergency.

Preparing for Threats to California's Food and Agricultural Industry

The California Department of Food and Agriculture (CDFA) has responsibility for providing the state's response to incidents threatening people, property, and the environment, such as foot-and-mouth disease and Avian Influenza. Studies have shown that such diseases can pose a significant threat to California's economy and potentially to the public's

Preparing for Natural and Intentional Disasters

health. The Administration is committed to providing CDFA with resources to safeguard the state's economy and natural resources and effectively respond to plant or animal disease threats.

The Governor's Budget includes \$7.2 million General Fund and 37 positions to support several CDFA 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.
- 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.

Together, these initiatives will provide CDFA with the necessary staffing, equipment, training, testing capacity, and local and industry outreach to protect the state's economy and natural resources, and rapidly detect and respond in the event of a disease outbreak or infestation.

Disaster Response Scenario Planning

California must employ best practices to ensure that local, state, and federal governments can respond to any disaster that may occur. 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.

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

Office of Homeland Security Programs

The Office of Homeland Security (OHS) develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate any recovery efforts. The Governor's Budget includes several new programs in OHS to further enhance California's security.

California Mass Transportation Security Grant Program

The London subway and bus bombings in July 2005, combined with other incidents in Madrid and New York, demonstrated the appeal of mass-transit infrastructure as targets for terrorist attacks. 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 California State Warning Center, operated by the Office of Emergency Services, provides emergency notification and communication to local, state, and federal agencies of any natural or intentional disaster, including tsunami events, earthquakes, hazardous

Preparing for Natural and Intentional Disasters

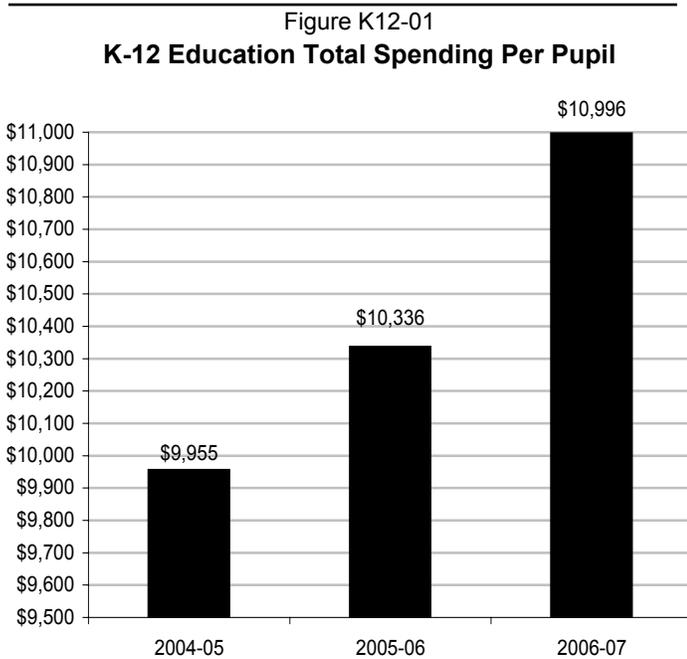
material spills, fires, floods, dam failures, and nuclear events. In addition, the Center provides support to state agencies that do not have 24-hour centers. The Governor's Budget includes an increase of \$617,000 General Fund and 8 positions to ensure that the Center has sufficient staff for 24-hour coverage and can adequately perform notifications when emergencies arise.

K thru 12 Education

To ensure that every student has the opportunity to meet 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).

As indicated in Figure K12-02, the Governor’s Budget devotes \$66.2 billion to California’s 985 school districts and 58 county offices of education in 2006-07. Figure K12-03 displays the various sources of revenues for schools.

Total 2006-07 Proposition 98 support for K-12 education will increase by 8.7 percent over the revised 2005 Budget Act level, as adjusted for changes in local revenues, average daily attendance (ADA) growth and forecasted economic factors. K-12 Proposition 98 per-pupil expenditures in the Governor’s Budget are \$8,052 in 2006-07, up from \$7,428 in 2005-06



**Figure K12-02
Total Revenue for K-12 Education
2006-07 Governor's Budget
(Dollars in Thousands)**

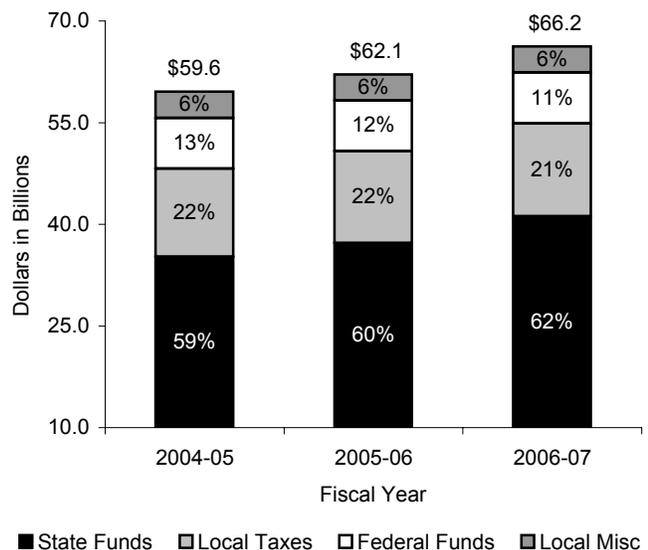
	2004-05	2005-06	2006-07	Percent Change, 05-06 to 06-07
<u>K-12 Education</u>¹				
General Fund	34,299,500	36,071,900	40,014,200	10.9%
Local Property Taxes	11,496,700	12,092,000	12,223,600	1.1%
Lottery	810,200	1,021,800	1,021,800	0.0%
Other State Funds	110,000	125,100	145,800	16.5%
State School Fund (Non-Add)	(-3,008)	(-3,008)	(-3,008)	
Federal Funds	7,483,100	7,456,000	7,469,200	0.2%
Local Debt Service Taxes	1,499,900	1,499,900	1,499,900	0.0%
Local Miscellaneous	3,855,400	3,855,400	3,855,400	0.0%
Total Funds	59,554,800	62,122,100	66,229,900	6.6%

¹ 2004-05, 2005-06, and 2006-07 are estimates and include funds provided for prior year settle-up obligations.

(including funds provided for prior year settle-up obligations).

The Governor's Budget for 2006-07 includes an increase of \$2.3 billion to fully fund increases in growth and cost-of-living adjustments (COLAs) for K-12 revenue limits (general purpose funding for schools) and categorical programs, as well as \$200 million to repay most of the

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

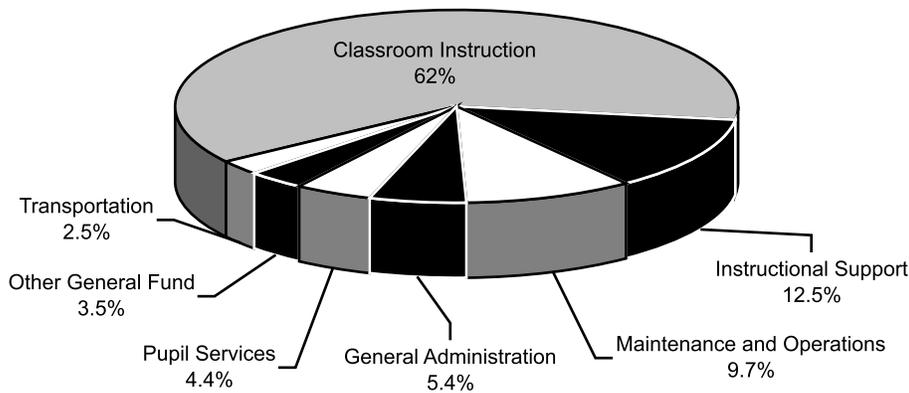


outstanding school district deficit factor owed as a result of reductions to school revenue limits made in prior years. The Governor’s Budget also includes \$200 million to equalize the revenue limits of school districts.

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

Figure K12-04

Where Schools Spend Their Money¹



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

¹ Based on 2003-04 expenditure data reported by schools for their general purpose funding.

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.

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 K12-05). These totals include funding for K-12 and community colleges.

Figure K12-05
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

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.

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. The following education initiatives are proposed for 2006-07:

Ensuring that Every Student has Access to a Quality Principal in the School and Quality Teachers in the Classroom

- Providing low-performing schools with additional resources to address teacher and principal staffing needs through a Teacher Recruitment and Retention Block Grant.
- Expanding professional development opportunities for teachers by expanding the Beginning Teacher Support and Assessment System.
- Increasing the number of science and math teachers by expanding the Governor's Science and Math Teachers Initiative.
- Increasing the supply of quality teachers by streamlining the credentialing process and reducing backlogs in the process.

Investing in Opportunities for Students

- Providing a significant increase in general purpose funding to allow school districts to initiate new and expand successful programs to meet local needs and priorities.
- Opening multiple pathways to rewarding and productive careers by expanding and improving career technical education courses offered at high schools, regional occupational centers and programs, and community colleges.
- Supporting students in preparing for the California High School Exit Exam.
- Establishing a new Digital Classroom Block Grant to provide schools with investment support for classroom technology.

Restoring Music, Art, and Physical Education to Support a Well Rounded Education

- Creating a new Art and Music Block Grant to support standards-aligned art and music instruction.
- Providing resources to support physical education to promote healthy lifestyles for students.
- Increasing funding for the After-School Education and Safety Program to provide students with safe activities such as computer training, fine arts, and physical fitness.

\$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 COLA and 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 is one of the 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.

Funds will be allocated at a rate of approximately \$50 per pupil with a district minimum of \$5,000 per school site.

The block grant can be used to fund efforts such as:

- Student loan forgiveness for teachers and principals.
- Targeted improvement in school environments.
- Differential pay for teachers and principals in hard-to-staff subjects or schools.
- Signing bonuses.
- Recognition pay.
- Human resources recruitment training.
- Professional development/leadership training, including Advancement Via Individual Determination.
- Housing incentives, including relocation costs and mortgage assistance.

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. As discussed in the Higher Education section of the Budget Summary, 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. Funding will be allocated at a rate of \$20 per pupil, with a minimum of \$3,000 for school sites with ten or fewer students, and a minimum of \$5,000 per site with more than ten students. This will ensure that grants are functional at smaller schools.

This proposal will be built upon in subsequent budgets to extend the grant program to high schools.

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. These grants will be distributed to school districts and be available for uses such as hiring qualified staff, professional development, reducing class size, purchasing equipment, and developing and purchasing curricula. Funding will be allocated at a minimum of \$3,000 for school sites with 10 or fewer students and a minimum of \$5,000 per site with 11 to 420 students, with remaining funds being allocated to school sites with more than 420 students at an equal per-pupil rate. This will ensure that grants are functional at smaller schools.

The proposal also includes \$25 million for incentive grants to school districts to hire more credentialed PE teachers in elementary and middle schools. Grants of \$25,000 will be made available to 1,000 schools serving any of grades K-8.

This proposal will be built upon in subsequent budgets to extend the grant program to high 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. Funds may be used to purchase hardware, software, staff development, or any other one-time expenditure that advances the use of information technology to improve classroom instruction.

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" programs. These programs offer an articulated series of courses beginning in high schools which continue into the community colleges. Students first complete two years of secondary-level education in core proficiency areas and technical knowledge related to specified career fields that are articulated with, and meet the prerequisites of, a two-year institution; thus ensuring students do not have to repeat coursework that they completed in high school. After completing these core requirements, students progress to a two-year postsecondary institution for more rigorous, course-specific, and worksite-based training that culminates with the completion of an associate of arts degree or certificate in a career field. These programs have successfully improved student outcomes and expanded career opportunities.

The Governor's Budget proposes \$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. These funds are to be allocated with priority given to comprehensive high schools with the highest percentage of pupils who have failed the exam. Funding may be used for, but is not limited to, the following: hiring additional teachers; purchasing, scoring, and reviewing diagnostic assessments; designing instruction to meet specific needs of eligible pupils; teacher training; individual or small group instruction; tutoring programs; and contracting with supplemental educational service providers.

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. Quality after-school programs can increase student achievement, school attendance, and positive behavior. They also support working

families and communities by providing California's children with a safe and nurturing environment between the hours of 3 p.m. and 6 p.m.; the peak hours for juvenile crime and risk-taking behaviors.

Beginning in 2006-07, Proposition 49 will provide ASES with an increase of \$428 million over current-year funding levels. Representatives of the Governor's Office, the California Department of Education, the Office of the Secretary for Education, and the Department of Finance have established a temporary Proposition 49 Steering Committee to develop a statewide master plan to ensure that these funds are distributed in a timely and effective manner. Ongoing oversight and guidance of ASES will be overseen by the After-School Advisory Committee created in statute last year.

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 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. Significant adjustments include:

- A one-time increase of \$4.5 million General Fund in 2005-06 to fund transition of the Special Education administrative hearings contract from a private vendor to the Office of Administrative Hearings.
- A General Fund augmentation of \$449,000 to support an additional 4.5 teacher positions at the California School for the Deaf, Riverside and \$196,000 to meet critical data management and building operation needs at the State Special Schools in 2006-07.
- A General Fund augmentation of \$859,000 to support 9 new positions and \$300,000 for program evaluation activities associated with implementation of Proposition 49 after-school programs in 2006-07.
- An augmentation of \$288,000 federal funds to support 3 information technology positions in 2006-07 to meet critical federal special education program reporting requirements.
- An augmentation of \$78,000 General Fund in 2006-07 to administer the Chief Business Officer Training Program.
- An increase of \$400,000 General Fund and reimbursements to support 2 positions for workload associated with the California Fresh Start Pilot Program and school nutrition standards in schools and an increase of \$3.2 million federal funds to implement the Child Nutrition Information Payment System in 2006-07.
- Additional General Fund resources of \$940,000 to support 1 position in 2006-07 for workload associated with the next phase of the California Longitudinal Pupil Achievement Data System.
- An augmentation of \$170,000 federal Carl Perkins funds and reimbursements to support 2 positions in 2006-07 to carry out state and federally mandated career technical education reporting requirements.
- Elimination of 13.5 positions and \$1,627,000 General Fund in 2006-07 to reflect the phasing out of the Immediate Intervention/Underperforming Schools Program.

California Commission on Teacher Credentialing

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

The CTC's revenues are derived from credentialing and examination fees paid by K-12 teachers, administrators, and professional services personnel. The Governor's Budget 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 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.

To ensure proper oversight and accountability in addressing this problem, the Administration proposes that CTC submit quarterly status reports on the backlog to the Legislature, the Office of the Secretary for Education, and the Department of Finance. These reports will include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

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

Higher Education

California's continued economic prosperity will require a highly skilled and educated workforce. California's public institutions of higher education, including the University of California (UC), the California State University (CSU), Hastings College of the Law, and the California Community Colleges (CCC), play a critical role in training the workforce of today and tomorrow. Additionally, the California Student Aid Commission (CSAC) provides grants and loans to assist financially needy California students realize their potential by providing access to higher education.

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 UC and 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.

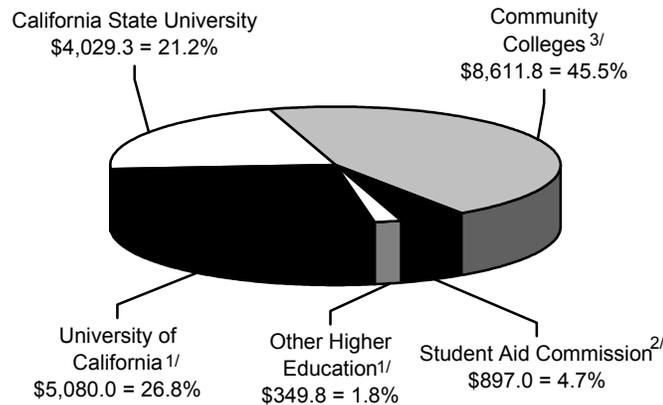
Given the continued improvement in the state's economy, the Governor's Budget proposes to fully fund the Higher Education Compact and to relieve the financial impact of proposed student fee increases on students and families by buying out the student fee increases approved by the UC Regents and the CSU Trustees for the fall of 2006. Additionally, the Governor's Budget continues to make historic additional investments in the CCC and

Higher Education

significant increases in the CSAC budgets to ensure that access to quality higher education and training is available for all qualified students.

As shown in Figure HED-01 and Figure HED-02, the Budget contains \$19 billion total funds and \$13.1 billion General Fund and Proposition 98 sources for all segments of Higher Education. These amounts represent a 6.4 percent increase in total funds and 9.4 percent increase in General Fund and Proposition 98 sources over the revised 2005-06 Budget.

Figure HED-01
Proposed Higher Education 2006-07 Expenditures
All Funds
(Dollars in Millions)



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

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

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

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

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

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Change from	
							2005-06	
							Dollar	Percent
University of California ^{1/}								
Total Funds	\$4,482.6	\$4,418.5	\$4,516.1	\$4,514.7	\$4,831.0	\$5,080.0	\$249.0	5.2%
General Fund	3,322.7	3,150.0	2,868.1	2,698.7	2,842.4	3,049.2	\$206.8	7.3%
California State University ^{1/}								
Total Funds	3,433.2	3,525.9	3,651.4	3,586.3	3,848.2	4,029.3	\$181.1	4.7%
General Fund	2,680.7	2,697.1	2,625.7	2,475.8	2,597.5	2,775.8	\$178.3	6.9%
Community Colleges								
Total Funds	6,457.1	6,588.5	6,697.8	7,300.8	8,005.3	8,611.8	\$606.5	7.6%
General Fund & P98 ^{3/}	4,701.1	4,869.9	4,505.3	5,033.2	5,508.0	6,103.9	\$596.0	10.8%
Student Aid Commission (GF)								
Total Funds	558.5	594.0	689.3	776.5	838.9	897.0	\$58.1	6.9%
General Fund	544.0	569.0	658.8	595.4	752.4	861.6	\$109.2	14.5%
Other Higher Education ^{2/}								
Total Funds	207.5	180.6	199.4	301.1	309.1	349.8	\$40.7	13.2%
General Fund	192.3	165.0	179.6	274.9	281.7	322.5	\$40.8	14.5%
Total Funds	\$15,138.9	\$15,307.5	\$15,754.0	\$16,479.4	\$17,832.5	\$18,967.9	\$1,135.4	6.4%
General Fund	\$11,440.8	\$11,451.0	\$10,837.5	\$11,078.0	\$11,982.0	\$13,113.0	\$1,131.1	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/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

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

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 for 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 Community College funding levels are determined, in a large part, in context of the growth 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.

Reinvigorating the relevance and availability of career technical education will ensure that additional pathways for success exist for all students. To that end, the Administration remains committed to expanding opportunities for students to take high-quality career technical education courses.

Additionally, expanding the supply of highly qualified math and science teachers will help ensure that California is able to maintain its position as a global innovation leader.

Access to Higher Education

Access remains a high priority for the Administration. UC and CSU enrollment plans project average enrollment increases of 2.5 percent per year through the end of the decade. For the budget year, this growth rate represents an increase of 5,149 students for UC and 8,490 students for CSU, which is funded at a revised marginal cost rate that has been calculated to recognize cost pressures associated with growth that have previously been excluded, such as instructional equipment replacement based on depreciation schedules and operation and maintenance and plant. Total funded Full-Time Equivalent Students (FTES) for 2006-07 at UC and CSU are respectively proposed at 211,255 and 348,262.

Access to education in the CCC system is funded to grow by 3 percent, an increase sufficient to fund services for an additional 35,000 students. This increase is in excess of the statutory adult population growth factor change of 1.74 percent. Altogether, the Community Colleges are funded for a total of over 1,203,000 FTES in 2006-07. Figure HED-03 displays past, current, and projected budget year FTES levels for the institutions of higher education.

Student Fees

UC and CSU 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 credential candidates and 10 percent for other graduate students.

Figure HED-03
Higher Education
Full-Time Equivalent Students

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Change from	
							2005-06	
							FTES	Percent
University of California	185,304	196,188	201,896	200,976	205,976 1/	211,255	5,279	2.6%
Undergraduate	(144,091)	(152,527)	(155,754)	(155,647)	(159,730)	(163,534)	(3,804)	2.4%
Graduate	(28,487)	(30,531)	(32,874)	(32,963)	(33,860)	(35,005)	(1,145)	3.4%
Health Sciences	(12,726)	(13,130)	(13,268)	(12,366)	(12,386)	(12,716)	(330)	2.7%
California State University	316,395	331,353	331,705	321,338	332,223	348,262 3/	16,039	4.8%
Undergraduate	(267,100)	(276,607)	(278,774)	(274,940)	(284,252)	(291,359)	(7,107)	2.5%
Graduate/Post-baccalaureate	(49,295)	(54,746)	(52,931)	(46,398)	(47,971)	(56,903)	(8,932)	18.6%
Community Colleges	1,099,343	1,129,645	1,106,437	1,123,910 2/	1,168,417 2/	1,203,469	35,052	3.0%
Hastings	1,200	1,262	1,250	1,268	1,250	1,250	0	0.0%
Total Students	1,602,242	1,658,448	1,641,288	1,647,492	1,707,866	1,764,236	56,370	3.3%

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

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

3/ CSU recalculated its 2005-06 current year enrollment estimates to reflect full-time graduate students as taking 12 units per term, rather than 15 units as in the past, to be consistent with national higher education reporting standards. This adjustment increases the full-time equivalent enrollment estimated for 2005-06 to 339,609 FTES.

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 of new fee revenue for UC with additional funding of \$75 million and for CSU with additional funding of \$54.4 million. As a result of this proposal, student fees in 2006-07 will remain at current 2005-06 levels.

CCC Fees

The Governor’s Budget proposes no additional increase in fees for CCC students for the 2006-07 fiscal year. While Community College fees in California remain the lowest in the nation and more than 66-percent lower than the national average, the Budget recognizes the need to minimize barriers and maintain the low student fees to encourage increased enrollments. See Figure HED-04 for proposed fee levels and comparisons with other public institutions for all higher education segments.

Promoting Economic Development through Career Technical Education

As discussed in the K-12 program summary, the Administration remains committed to expanding opportunities for students to take high-quality career technical education (CTE)

Higher Education

Figure HED-04
Higher Education Fees

• 2005-06 Fee Comparison

	<u>UC^{a/}</u>				<u>Other Public Institutions (2005-06)</u>		
	<u>2005-06</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2006-07</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
	<u>Ed/Reg Fee</u>	<u>Total Fee</u>	<u>Ed/Reg Fee</u>	<u>Total Fee</u>			
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
<u>CSU^{b/}</u>							
Undergraduate	\$2,520	\$3,164	\$2,520	\$3,164	\$6,132	\$9,221	\$3,270
Graduate (non-teacher prep.)	\$3,102	\$3,746	\$3,102	\$3,746	na	na	na
Graduate (teacher prep)	\$2,922	\$3,566	\$2,922	\$3,566	na	na	na
<u>CCC^{c/}</u>							
Full-Time Undergraduate Student	\$780		\$780		\$2,324	\$5,283	\$896
Bachelor-Degree Holders	\$780		\$780		na	na	na

^{a/} UC's 2006-07 fees are expected to remain at the 2005-06 level due to the buy out proposed by the Governor's Budget of the fee increase adopted by UC. 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 proposed by the Governor's Budget of the fee increase adopted by CSU. 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.

• 2005-06 Professional School Fee Comparison:

	<u>UC^{d/}</u>	<u>Other Public/Private Institutions</u>		
		<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
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.

• Percent of Instruction Paid by Students:

	<u>2005-06</u>	<u>2006-07</u>
UC	33.8%	32.8%
CSU	21.8%	21.8%
CCC	15.5%	14.5%

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 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 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.

This year, the Governor's Budget proposes to increase funding for this initiative at UC by \$375,000, sufficient to provide \$125,000 for each of the three remaining UC campuses to implement the initiative systemwide. In addition, the Governor's Budget proposes a \$1.1 million increase for CSU to expand the program statewide.

University of California

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

Total Funding

The Governor's Budget includes \$5.08 billion (\$3.05 billion General Fund) for UC, which reflects an increase of \$249 million (\$206.8 million General Fund) above the revised 2005-06 budget and \$262.3 million (\$206 million General Fund) above the 2005 Budget Act.

UC Merced

The UC Merced campus officially opened its doors on September 6, 2005. In its first year, the campus enrolled 867 FTES (706 freshmen, 124 transfers, and 37 graduate students). The campus was the first new UC campus to open in four decades. Development of UC Merced is part of the University's strategy to increase enrollment capacity that will serve the entire state, enhance access to students in an area that has been traditionally underserved, and provide the benefits of an additional research university to all Californians. As a powerful source for economic prosperity, UC Merced will make valuable contributions to a region that suffers from high unemployment. One-time funding of \$14 million is continued in the Budget for start-up costs needed to open the campus, including support for faculty salaries and recruitment, instructional technology, library materials, student services, and expanded general operational support.

Program Enhancements and Budget Adjustments

In accordance with the Compact, the Governor's Budget includes General Fund increases for UC of 3 percent for basic budget support needs, such as faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases; and 2.5 percent for enrollment growth. The Governor's Budget includes the following significant 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 making UC Merced operational 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 (SB 73).
- \$375,000 increase to expand the Science and Math Teacher Initiative initiated in the 2005 Budget to the remaining three campuses.
- \$180,000 increase for a new cohort of 12 students for the PRIME Program which targets 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

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

Total Funding

The Governor's Budget includes \$4 billion (\$2.78 billion General Fund) for CSU, which reflects an increase of \$181.1 million (\$178.3 million General Fund) above the revised

2005-06 budget and \$182.6 million (\$160.7 million General Fund) above the 2005 Budget Act.

Program Enhancements and Budget Adjustments

In accordance with the Compact, the Governor's Budget includes General Fund increases for CSU of 3 percent for basic budget support, such as faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases; and 2.5 percent for enrollment growth. The Governor's Budget includes the following significant 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 (SB 73).
- \$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.
- \$84,000 increase (3-percent Compact funding) for the Capital Fellows Program.
- \$22.5 million reduction for retirement costs.
- \$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 SMIF 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

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

Total Funding

The Governor's Budget includes \$37.4 million (\$10.1 million General Fund) for Hastings, which reflects an increase of \$1.6 million (\$1.7 million General Fund) above the revised 2005-06 budget and \$2 million (\$1.7 million General Fund) above the 2005 Budget Act.

Program Enhancements and Budget Adjustments

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

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

California Community Colleges

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

Total Funding

The Governor's Budget includes \$8.6 billion (\$6.1 billion from General Fund and Proposition 98 sources), which reflects an increase of \$606.5 million (\$596 million General Fund and Proposition 98 sources) above the revised 2005-06 budget and \$643 million (\$631.1 million General Fund and Proposition 98 sources) above the 2005

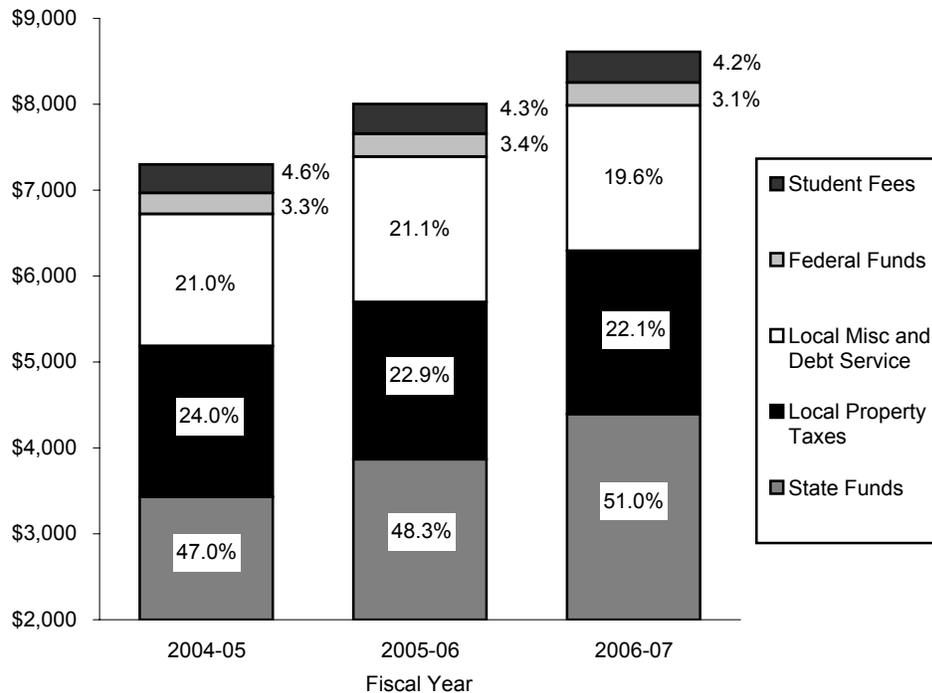
Higher Education

Budget Act. Figure HED-05 shows total funding for the CCC from 2001-02 through 2006-07. Figure HED-06 shows the major funding sources and their proportions of total funding, from 2004-05 through 2006-07.

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

Source of Funds	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Change From 2005-06	
							Dollars	Percent
State General Fund	\$2,847.0	\$2,879.5	\$2,404.8	\$3,277.5	\$3,678.2	\$4,204.6	\$526.4	14.3%
Lottery Fund	138.1	141.2	140.9	143.3	177.9	177.9	\$0.0	0.0%
Local Property Taxes	1,854.1	1,990.4	2,100.4	1,755.7	1,829.7	1,899.3	\$69.6	3.8%
Student Fees	164.1	169.2	243.5	334.7	347.9	358.4	\$10.3	3.0%
Other State Funds	10.5	11.3	8.6	9.3	11.1	11.2	\$0.1	0.6%
Federal Funds	225.9	250.9	249.2	244.1	268.5	268.5	\$0.0	0.0%
Local Miscellaneous	1,186.8	1,038.8	1,392.2	1,287.8	1,416.5	1,416.5	\$0.0	0.0%
Local Debt Service	<u>30.7</u>	<u>107.1</u>	<u>158.0</u>	<u>248.4</u>	<u>275.4</u>	<u>275.4</u>	<u>\$0.0</u>	<u>0.0%</u>
TOTAL REVENUE	\$6,457.1	\$6,588.5	\$6,697.8	\$7,300.8	\$8,005.3	\$8,611.8	\$606.6	7.6%

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



Equalization Funding

Fulfilling the Administration's commitment to equalize funding rates for the Community Colleges, the Budget proposes a \$130 million augmentation for the final increment of funding necessary to fully equalize disparities in credit instruction funding levels among colleges pursuant to the statutory formula. This additional funding builds upon \$80 million provided in the Budget Act of 2004 and \$30 provided in the Budget Act of 2005, and collectively provides the funding to fully equalize credit instruction rates to the 90th percentile for all colleges.

Program Enhancements and Budget Adjustments

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 FTE students, for a total of over 1,203,000 FTE students in 2006-07. This level of funded growth exceeds the 1.74-percent change in adult population, the current statutory index for system growth.
- \$130 million for Equalization as discussed above.
- \$264.6 million for cost-of-living (COLA) for Apportionments 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 Higher Education Initiatives section for details.
- \$20.8 million for Categorical Program Growth and COLA to provide 1.74 percent growth and a 5.18 percent COLA for categorical programs providing 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 support additional sign language interpretive services as well as real-time captioning equipment for deaf and learning disabled students.

- \$500,000 for CalPASS. This augmentation builds upon \$1 million provided in the Budget Act of 2005 for the California Partnership for Achieving Student Success (CalPASS) to expand the program's implementation statewide, providing 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). This augmentation proposes funds for one-time grants of \$50,000 to two colleges 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.

Financial Aid Programs

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

Total Financial Aid Funding

The Governor's Budget includes \$897 million (\$861.6 million General Fund) in local assistance funding, which reflects an increase of \$58.1 million (\$109.2 million General Fund) above the revised 2005-06 budget and \$58.8 million (\$109.2 million General Fund) above the 2005 Budget Act. (See Figure HED-07 and Figure HED-08 for total financial aid and growth in Cal Grants, respectively).

Program Enhancements and Budget Adjustments

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.

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

Institution/Fund Source	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Change from 2005-06	
							Dollars	Percent
University of California ^{1/}	\$259,700	\$287,761	\$355,654	\$371,944	\$374,026	\$384,974	\$10,948	2.9%
General Fund	69,199	52,199	52,199	93,417	52,199	52,199	\$0	0.0%
Fee Revenue ^{3/}	190,501	235,562	303,455	278,527	321,827	332,775	\$10,948	3.4%
California State University ^{1/, 2/}	135,563	132,716	242,206	229,553	253,898	259,542	\$5,644	2.2%
General Fund	65,647	51,147	51,147	51,147	51,147	51,147	\$0	0.0%
Fee Revenue	69,916	81,569	191,059	178,406	202,751	208,395	\$5,644	2.8%
Community Colleges ^{1/}								
General Fund	91,853	102,723	168,138	252,131	262,115	269,979	\$7,864	3.0%
Student Aid Commission ^{1/, 4/}								
General Fund	543,962	569,024	658,751	595,410	752,449	861,615	\$109,166	14.5%
Total	\$1,031,078	\$1,092,224	\$1,424,749	\$1,449,038	\$1,642,488	\$1,776,110	\$327,072	22.6%
General Fund	770,661	775,093	930,235	992,105	1,117,910	1,234,940	\$242,835	24.5%
Fee Revenues	260,417	317,131	494,514	456,933	524,578	541,170	\$84,237	18.4%

^{1/} Reflects budgeted amounts for 2005-06 and 2006-07.

^{2/} Includes \$14 million GF for EOP grants through 1998-99 and \$17 million from 1999-00 to 2006-07.

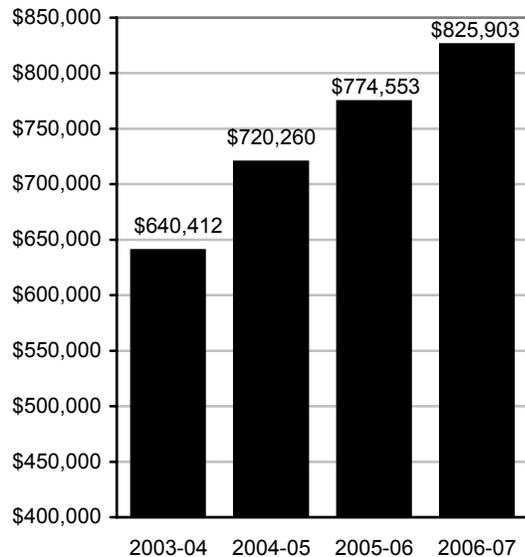
^{3/} Beginning in 2004-05, UC augmented its student fee revenues for financial aid by \$8.140 million by increasing fees to non-resident students.

^{4/} Includes one-time fund shift from General Fund to Student Loan Operating Fund in 2004-05 (\$146.5 million) and 2005-06 (\$51.0 million).

The Governor's Budget proposes the following General Fund base and program adjustments for CSAC financial aid programs:

- \$51 million backfill to replace the use of one-time surplus monies from the Student Loan Operating Fund (SLOF) that were used to support financial aid programs in 2005-06.

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



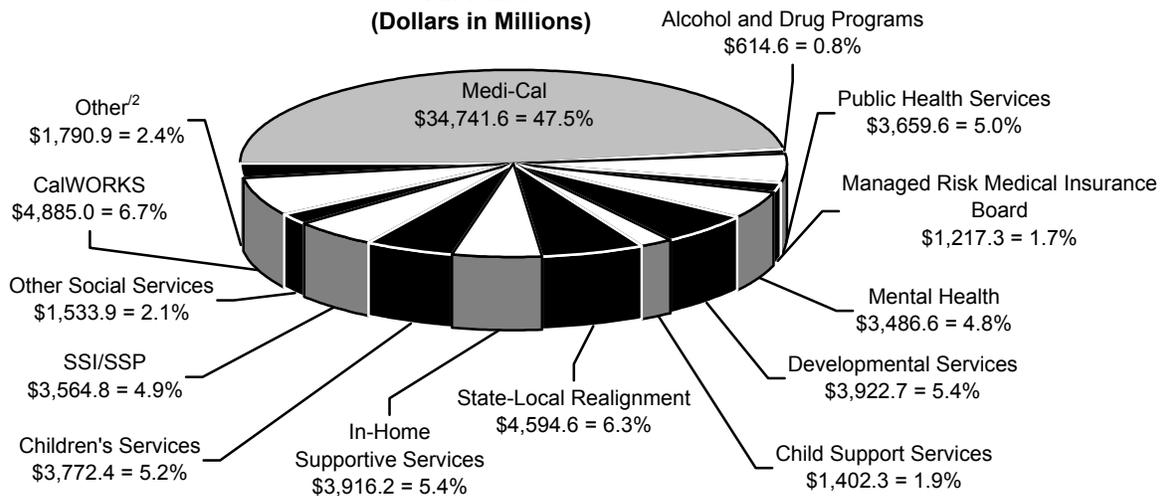
Higher Education

- \$39.5 million increase for anticipated growth in costs in the Cal Grant Program (reflects 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 estimated to begin no sooner than 2007-08 fiscal year).

Health and Human Services

Health and Human Services Agency (HHS) programs provide medical, dental, mental health, and social services to California's most needy residents. For the 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

Figure HHS-01
**Health and Human Services
 Proposed 2006-07 Funding¹
 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

Figure HHS-02
Major Health and Human Services Program Caseloads

	2005-06 Revised	2006-07 Estimate	Change
California Children's Services (CCS) ^a (treatment of physical handicaps)	37,617	38,797	1,180
Medi-Cal Eligible	6,680,200	6,806,800	126,600
CalWORKs			
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 DCR 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.

displays program caseloads. The 2006-07 totals exceed the total revised 2005-06 budget by \$1.8 billion, 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.

The HHSA oversees an array of departments and boards that provide essential services to many of California's most at-risk residents. HHSA departments accomplish their missions by administering state and federal programs for health care, social services, public assistance, and rehabilitation including Medi-Cal, California Work Opportunity and Responsibility to Kids (CalWORKs), and the regional centers. These programs promote health, well-being, and ability to function in society. The Administration is committed to

striking a balance between maintaining access to essential health and human services for our state's most disadvantaged and at-risk residents while pursuing ways to better manage and control costs.

Health and Human Services Initiatives

Few areas of state government touch the lives of California residents so directly and personally as the programs, services, and activities of the HHS. HHS programs provide access to short- and long-term services and supports that promote the health, well-being, and independent living of our state's most vulnerable children, adults, and families. As our state population continues to grow and diversify, we must maintain a strong and responsible safety net that is responsive to the needs of our state's at-risk residents. At the same time, we must ensure that programs and services are structured and delivered to promote improved outcomes as cost-effectively and efficiently as possible.

In its development of the 2006-07 Governor's Budget for the HHS, the Administration was guided by an overall vision for health and human services:

- Residents are protected against and prepared for natural and intentional disasters.
- Californians have access to affordable health care coverage.
- Children are raised in safer, more stable, and permanent homes.
- Californians make healthier food choices and live active lives.
- Seniors and persons with disabilities live in the most integrated, appropriate community setting.

While this broad vision will not be achieved overnight, progress can be made through targeted strategies that reflect important priorities. Toward that end, the Administration is proposing policy and budget recommendations that will support improved outcomes for foster care children, ensure more children are enrolled in no- and low-cost health coverage programs, continue our nation-leading efforts to reverse obesity trends, better link the needs of seniors and persons with disabilities with appropriate services, and strengthen the state's capacity to prepare for and respond to emergencies. In addition, to protect the health and safety of residents served by facilities licensed by HHS departments,

the Governor's Budget proposes the initial activities of a comprehensive multiyear licensing reform effort.

Residents are Protected Against and Prepared for Natural and Intentional Disasters

The Governor's Budget includes an increase of \$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 (\$11.0 million General Fund) in the current year to address related costs. Proposed investments focus on key components of public health emergency preparedness and response, including planning, disease surveillance, prevention and response, risk communication, and building surge capacity. Specifically, the Governor's Budget includes the following proposals:

- Bolstering state and local preparedness for pandemic influenza and disease outbreaks (\$21.8 million General Fund in 2006-07 and \$5.8 million General Fund in 2005-06).
- Increasing preparedness for chemical and radiological disasters and terrorist attacks (\$4.2 million General Fund in 2006-07).
- Expanding disease surveillance and strengthening California's laboratory infrastructure (\$5.5 million General Fund in 2006-07 and \$470,000 General Fund in 2005-06).
- Building health care capacity to meet increased demand for services in disasters [\$3.2 million (\$1.5 million General Fund) in 2006-07 and \$2.3 million (\$1.6 million General Fund) in 2005-06].
- Supporting emergency preparedness through public awareness efforts (\$14.3 million General Fund in 2006-07 and \$3 million General Fund in 2005-06).

Additional details regarding these emergency response and preparedness proposals, as well as other proposals under the purview of the Department of Food and Agriculture and the Offices of Emergency Services and Homeland Security are included in a separate section entitled "Preparing for Natural and Intentional Disasters."

Californians Have Access to Affordable Health Care Coverage

Access to appropriate health care services is essential to a child's success in school and in life. Ensuring children in California have health insurance remains a high priority for the Administration. Reflecting the priority placed on this objective, the 2005 Budget Act protected Medi-Cal and Healthy Families Program (HFP) expansions and reforms enacted earlier in the decade that have increased health coverage for low-income children. In addition, the 2005 Budget Act included \$15 million for the enrollment and retention of uninsured children eligible for Medi-Cal and the HFP. Taken together, these efforts have helped insure hundreds of thousands of children in Medi-Cal and HFP and decreased the number of uninsured children in California by more than 400,000 since 2001.

California has done a remarkable job of covering uninsured children—95 percent of eligible children are enrolled in Medi-Cal and 90 percent of eligible children are enrolled in HFP. While this is a considerable achievement, nearly 800,000 children remain uninsured, according to 2003 figures. Of particular note, an estimated 428,000 children are already eligible for Medi-Cal or HFP, but are not enrolled. In addition, administrative processes pose challenges for some families, resulting in enrolled children leaving the programs.

The Administration is committed to ensuring that children have access to affordable health insurance coverage. Toward that end, the Budget places priority attention on the 55 percent of uninsured children who are eligible for Medi-Cal or 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. Specifically, the Budget proposes strategies to promote and maximize enrollment in Medi-Cal and HFP, improve the retention of children already enrolled, and support county-based efforts to enroll eligible children in existing public programs. Taken together, these proposals will help California make significant progress toward covering the majority of uninsured children in our state. The Governor's Budget includes the following program changes to increase, retain, and return eligible children in these programs.

Increasing Enrollment

- Provide up to \$20 million in grants to counties for outreach and enrollment activities. In recent years, counties have invested significant financial resources and time to develop strong relationships with schools, community groups, providers,

and charitable organizations in an effort to encourage children to enroll in Medi-Cal, HFP, or county-based Healthy-Kids programs. These grants will build upon those local efforts to reach underserved communities and maximize enrollment in a culturally and linguistically appropriate manner.

- Make the electronic application, Health-e-App, widely available and encourage application assistants and others to enroll children using state-of-the-art technology. The Health-e-App is easy to use and has increased the number of completed Medi-Cal and HFP applications, which saves administrative time and costs and will increase enrollment.
- Provide incentive payments to encourage Certified Applicant Assistants (CAAs) to enroll more children in Medi-Cal and HFP. For the first time in two years, the 2005 Budget Act provided funding for payments to CAAs who help parents successfully complete applications in order to increase enrollment. This year, the Governor's Budget includes incentive payments to CAAs who increase their productivity from quarter to quarter, thereby encouraging CAAs to continually enroll more children.
- Initiate a public education campaign to promote awareness of Medi-Cal and HFP, emphasize the importance of health care coverage to a child's health, and encourage parents to enroll their children.

Retaining Children in the Programs

The Administration proposes to simplify the Medi-Cal redetermination form, the annual process to determine if beneficiaries remain eligible for services, to decrease turnover and increase program retention to ensure health care coverage. Medi-Cal has worked with counties and stakeholders to make the annual redetermination form simpler and easier to use. The simplified form will increase retention and help ensure that children already enrolled in Medi-Cal stay in the program.

Children Are Raised in Safer, More Stable, and Permanent Homes

California has implemented significant changes in the state's child welfare system to promote the safety of children, sustain permanence for children, and promote the well-being of children and families. These efforts are responsive to findings that young adults leaving foster care ("emancipated youth") are often homeless, incarcerated,

and/or physically and sexually assaulted. Research also indicates that prevention and early intervention services stabilize and strengthen families, keep children safe and with their families, and prevent the need for extensive and expensive treatment, such as out-of-home care.

While progress has been made, more work remains. 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. Consistent with this goal, the Governor signed a comprehensive package of bipartisan legislation designed to improve the health and well-being of children entrusted to the state's care. Toward that end, 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). These investments will help to implement key pieces of last year's legislation signed by the Governor, expand programs that help children thrive by promoting placement in permanent stable homes with nurturing families, and provide the support youth need as they transition from foster care into adulthood.

Implementing Strategies to Improve Services to Children and Families

Building upon key reforms, California's CWS program is undergoing a fundamental restructuring of program management and the delivery of critical services. For the first time, state and county leaders have the authority to localize the CWS program and assess our success in achieving the program goals of safety, permanence, and well-being for vulnerable children and families. The Governor's Budget continues \$12.9 million (\$7.6 million General Fund) in support of county efforts to improve outcomes for these vulnerable children, an increase of \$3.9 million General Fund from the revised 2005-06 budget.

Promoting Permanent Homes and Family Connections

- **Uniting Teen Mothers and Babies:** Legislation signed last year offers foster parents higher rates and a \$200 incentive to teach parenting skills to teen moms in foster care, so young mothers will stay with their babies. To implement Chapter 630, Statutes of 2005, the Budget provides \$385,000 (\$156,000 General Fund) in 2005-06 and \$771,000 (\$313,000 General Fund) in 2006-07.

- **Keeping Families Together and Supporting Permanent Homes:** An additional \$15 million (\$9.6 million General Fund) will be used to expand permanent homes for children who cannot be reunified with their parents. Resources for the Kinship Support Services Program will be increased to offer incentives for relatives to assume guardianship of children, as appropriate, and to support increasing adoptions statewide by 1,000 per year. Adoptions offer youth who cannot safely return to their families or other relatives a permanent home and lead to improved outcomes and reduced need for foster care.
- **Encouraging Adult Role Models:** Beginning in 2006-07, \$14.4 million (\$7.8 million General Fund) is targeted to implement Chapter 640, Statutes of 2005, which requires social workers to identify adult mentors to promote life-long supportive relationships to help children in foster care succeed.

Supporting Older Foster Kids and Emancipated Youth

Promoting Foster Youth Independence: The Governor's Budget provides \$2.6 million (\$1.4 million General Fund) to expand Transitional Housing services that help the 4,000 kids transitioning out of foster care each year achieve self-sufficiency.

Californians Have Healthier Food Choices and Live Active Lives

Over 50 percent of California's adults are overweight or obese, approximately one in three children in California are overweight or at risk of being overweight, and almost 40 percent of school-aged children are unfit. Fueled by environmental forces and individual choices that lead to unhealthy eating and physical inactivity, obesity has become a public health crisis that threatens to surpass tobacco as the leading cause of preventable death.

The Administration is committed to shifting the tide in this epidemic through concrete and groundbreaking action. In the last year, the Administration has:

- Signed landmark legislation giving California's public schools the strongest nutrition standards in the nation by getting sodas and junk food out of schools and adding more fresh fruits and vegetables to school meal programs.
- Announced an ambitious, forward-reaching vision to challenge government, business, community organizations, and individuals to make California a national model for

healthy living, and called upon the Cabinet to develop and implement policies to encourage the health and fitness of Californians.

- Convened the first-of-its-kind Governor's Summit on Health, Nutrition and Obesity, which brought together leaders and experts from the business, education, government, and public health communities. At the Summit, heads of public and private sector organizations made commitments to change core business practices to prevent obesity by providing healthier food options and more opportunities for physical activity, increasing access to obesity prevention and weight management services, and building communities that encourage physical activity. A multisectoral "sustainability workgroup" has been established to garner additional commitments from other California businesses and organizations.

The Governor's Budget will build upon the momentum from the Summit by providing a 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 a reduced focus on physical education in schools.

In addition, informed by the Summit sustainability workgroup's effort, the Cabinet review, and a legislatively directed Department of Health Services strategic plan for obesity prevention efforts, the Administration is developing proposals for the spring budget process. These proposals will advance a healthy California, including opportunities to improve access to affordable fruits and vegetables in low-income communities and leverage publicly funded health insurance programs to promote improvements in obesity prevention and treatment services.

Seniors and Persons With Disabilities Live in the Most Integrated, Appropriate Community Setting

The 1999 United States Supreme Court decision in *Olmstead v. L.C.* ordered federal, state, and local governments to ensure seniors and persons with disabilities live in the least restrictive appropriate community setting. The objectives of the *Olmstead* decision complement the Administration's goal to support independence for seniors and persons with disabilities to prevent, delay, or curtail institutionalization. Consistent with this priority, the Governor established the *Olmstead* Advisory Committee to inform the

Administration on appropriate policies and programs that will ensure access to and choices of community-based services and placement options.

The Administration has worked on several initiatives that reflect its commitment to the principles of the Olmstead decision and the belief that Californians with disabilities and seniors have the ability to live and participate in their communities. Accomplishments include: (1) secured federal approval to allow thousands of In-Home Supportive Services recipients to be cared for in their homes and avoid unnecessary institutionalization; (2) continued aggressive implementation of Proposition 63 (Mental Health Services Act) to create a state-of-the-art, culturally competent mental health system; (3) advanced, in collaboration with the Bay Area regional centers, innovative efforts to place a majority of clients at Agnews Developmental Center into the community prior to the closure of Agnews; and (4) continued to protect the Lanterman Act, which entitles individuals with developmental disabilities to services that support their ability to live independently in the community.

The 2006-07 Governor's Budget provides nearly \$6.9 million (\$4.4 million General Fund) to implement additional initiatives that will advance key objectives associated with Olmstead, including promoting appropriate services to meet consumer needs and supporting less costly community-based alternatives to institutionalization.

Promoting Community-Based Alternatives to Institutionalization

- **Advance Community Options through Integration:** This proposal provides \$1.2 million (\$525,000 General Fund) to expand community-based alternatives to nursing home care for the Medi-Cal/Medicare (dual eligible) population of seniors and persons with disabilities who enroll in Special Needs Plans, newly created by the federal government. The proposal will create continuity of care across both Medicare and Medi-Cal, enhance access to both home- and community-based services, improve the overall health of dual eligibles, and reduce costs by integrating the financing and delivery of services.
- **Support Assisted Living Options for Medi-Cal Beneficiaries:** This proposal provides \$1.2 million (\$467,000 General Fund) to implement pilot programs to test assisted living as a Medi-Cal benefit in two settings: residential care facilities for the elderly and publicly subsidized housing.

- **Expand Access to Nursing Services:** This proposal provides \$1.2 million (\$355,000 General Fund) to expand nursing services in a home- or community-based setting for individuals who would otherwise live in an institution.
- **Adult Residential Facilities for Persons with Special Health Care Needs:** This proposal provides \$90,000 General Fund to license and regulate adult residential facilities in the Bay Area for the 120 consumers with special health care needs who will be moved out of Agnews Developmental Center.

Coordinating Consumer Needs With Appropriate Services

- **Develop a Coordinated Assessment System:** This proposal provides \$595,000 (\$297,000 General Fund) to develop and test a coordinated assessment tool that identifies individual consumer needs across programs for seniors and persons with disabilities to ensure necessary services and supports are provided. This proposal will help individuals access services in the community and divert or delay nursing home placement.
- **Expand the Autism Spectrum Disorders Initiative:** During the past ten years, the number of individuals with autism has increased dramatically. Over 50 percent of new consumers requesting regional center services have been diagnosed with Autism Spectrum Disorder. Research demonstrates that the earlier autism is diagnosed and treated, the better the condition can be mitigated, allowing individuals to be more functional in school and the community. Toward that end, the 2006-07 Budget includes \$2.7 million (\$2.6 million General Fund) to develop best practices treatment guidelines and to connect autistic individuals with evidence-based treatment to improve outcomes.

Licensing Reform

HHSA departments license almost half a million facilities and professionals, including child care providers, foster care homes, nursing homes, alcohol and drug treatment providers, hospitals, mental health facilities, laboratory technicians, certified nurse assistants, x-ray technologists, and paramedics. Each licensing and certification program within HHSA is critical to protecting the health and safety of Californians. Service demands have outpaced available resources, structural systems have become outdated, and statutory changes have contributed to inconsistencies, duplication, and confusion.

To better protect California's citizens and improve access to necessary services, the Administration is undertaking a multiyear, comprehensive reform effort to increase health and safety protections, modernize licensing business systems, maximize use of program resources through more efficient practices, and support activities through fees when appropriate.

Protecting Health and Safety of Californians and Ensuring Compliance With the Law

Protecting the health and safety of patients and other consumers served by licensed facilities is the highest priority of all HHSA licensing programs. The Governor's Budget provides necessary resources to ensure licensees are in compliance with state and federal law, address backlogs including delays in complaint investigations, and conduct required facility visits. Specifically, the Governor's Budget establishes 147.7 new positions to support Department of Health Services' (DHS) licensing activities, including timely investigation of complaints about nursing home care, and creates 75.8 new positions at the Department of Social Services (DSS) to complete required workload, including increased visits to facilities caring for children.

The Governor's Budget proposes reforms to hold noncompliant facilities accountable and build on a DSS initiative to increase sharing of adverse licensing information across HHSA departments. The proposal enhances public safety protections by preventing violent criminals from working with our most vulnerable populations and improving criminal background check requirements and investigations. Increased resources will allow HHSA departments to investigate more than 20,000 arrest records received by both the DHS and the DSS for persons already employed in care facilities. Lastly, reforms such as suspending state funding for habitually noncompliant facilities, instituting probationary periods, and increasing penalties for facilities with repeated violations will improve accountability when providers fail to deliver quality services and protect client safety.

Modernizing Business Practices and Improving Customer Service

HHSA licensing programs' business practices have become outdated, and in some cases, obsolete. Proposed reforms seek to develop a more efficient, effective, and consumer-friendly administrative system through electronic fee collections, more extensive use of the Internet and automated processes, and streamlined licensing requirements for facilities and professionals in good standing. The Governor's Budget

provides resources to the DSS to collect fees electronically and integrate fee payments with other online processes such as initial applications for licensure. It provides needed staffing to the DHS, the DSS, and the Department of Mental Health (DMH) to license and certify new applicants, eliminate backlogs, and provide Californians greater access to needed health and human services and employment.

In addition to providing needed resources, the Governor's Budget proposes reforms to streamline licensing practices and realize administrative efficiencies. HHS licensing programs will establish multi year licensing periods, unless doing so would jeopardize health and safety. When appropriate, programs will collect fees biennially. In addition, HHS licensing programs will provide orientations for new applicants and establish a waiting period for applicants who are denied licensure. This will help reduce errors in applications and eliminate the need to repeatedly process applications from unqualified persons or entities.

Maximize the Use of Available Resources

The Governor's Budget proposes to maximize the use of available resources by implementing targeted monitoring, using appropriate staff to perform program functions, and supporting program activities with fee revenue when appropriate. For example, the DHS will implement targeted monitoring of large water systems, thereby prioritizing oversight and investigation of higher risk facilities. The DHS Licensing and Certification Program will pilot-test the use of licensed vocational nurses to participate in facility surveys, perform clinical assessments, and investigate complaints, as appropriate. The DHS will also adjust fees to make many of the licensing programs fully fee supported.

Future Efforts

This year's Budget initiates the HHS's multiyear, comprehensive licensing reform effort that begins with proposals, efficiencies, and investments for some of the more critical departments. This effort is just the beginning and will continue over time to include additional departments and reforms:

- The Department of Alcohol and Drug Programs (DADP) is reviewing program certification and licensing standards and will propose changes in the upcoming year that will better protect public safety and ensure the delivery of quality services.

- The Laboratory Services Division of the DHS has begun to implement electronic fee collection and an online system to process new applications and renewals.
- HHS departments are working to develop standardized websites and expand their use of automation to increase consumer access to licensing information, improve customer service, and realize administrative efficiencies. Licensing programs will expand access to the centralized database developed by the DSS that captures administrative legal actions, which result in revocation, denial, or exclusion from a facility, making it easier for other departments and programs to identify and exclude persons that may be a risk to the health and safety of Californians.

Coordinating Care for Medi-Cal's Most Frequent Users

Since 1966, Medi-Cal has provided health care for low-income children, their parents, pregnant women, seniors, and persons with disabilities. In addition to providing the benefits required by federal law, California is one of eight states that provide a wide range of optional benefits. Medi-Cal provides health care services to 6.8 million individuals, or just over one in six Californians.

While Medi-Cal provides critical services for millions of the most medically fragile Californians, those services frequently are fragmented and uncoordinated. More than 90 percent of seniors and persons with disabilities on Medi-Cal receive care through the fee-for-service (FFS) model. Some beneficiaries prefer FFS because they believe it enhances choice of providers, but for too many Medi-Cal participants the FFS model results in care that is unmanaged, inefficient, and far less effective than a coordinated care system that emphasizes primary and preventive care.

By better coordinating care for Medi-Cal's most frequent users, California can improve health outcomes and control the future growth in costs. To reach this goal, the Governor's Budget proposes to invest resources in two proposals to expand the coordination of care for seniors and persons with disabilities on Medi-Cal:

Increasing Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care

This proposal aligns with the 2005 Medi-Cal Redesign objectives of increasing access to care and improving health outcomes through managed care expansion, but builds on recommendations from legislators and advocates that DHS take a more cautious and deliberate approach to achieving this end. The proposal builds upon current efforts to work with consumers, advocates, providers, and health plans to further develop the infrastructure, policies, procedures, and performance standards necessary to serve seniors and persons with disabilities in managed care. It also includes funds to expand outreach and education efforts in Medi-Cal managed care counties as a way to increase voluntary enrollment by seniors and persons with disabilities. Finally, the proposal includes a pilot project to require enrollment of seniors and persons with disabilities in Medi-Cal managed care in two additional counties beginning in April 2008.

Implementing Care Management Demonstration Projects for High-End Users

The 2006-07 Governor's Budget includes resources to create demonstration projects to coordinate care for Medi-Cal beneficiaries who have serious mental illness (SMI) and those with chronic conditions who are seriously ill and may be nearing the end of their lives. Medi-Cal beneficiaries with SMI typically receive disjointed and unorganized physical health care through the FFS model, and depend on county mental health departments for their mental health care. The result is a fragmented system of care that does not coordinate critical mental and physical health services, thereby decreasing health outcomes and unnecessarily increasing costs. The DHS will work with counties, the DMH, and the DADP to develop a demonstration project to manage all the elements of care for this population. In addition, DHS will develop a demonstration project to coordinate care for chronically ill beneficiaries who may be nearing the end of life. The project will focus on care coordination by primary caregivers, disease management, enhanced use of data and treatment protocols, and greater communication with beneficiaries and caregivers to ensure that services are delivered timely and efficiently.

Reforming Addiction Treatment for Drug Offenders (Proposition 36)

Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA), was approved by the voters on November 7, 2000. Under the SACPA, first or second time nonviolent adult drug offenders who use, possess, or transport illegal drugs for personal use receive drug treatment rather than prison time. The SACPA is intended to preserve jail and prison cells for serious and violent offenders, enhance public safety by reducing drug-related crime, and improve public health by reducing drug abuse through treatment. The SACPA provided an annual \$120 million General Fund transfer to the Substance Abuse Treatment Trust Fund from 2001-02 through 2005-06 to support state-level and local SACPA-related activities.

The Governor's Budget proposes to maintain the General Fund transfer to the Substance Abuse Treatment Trust Fund at \$120 million on a one-time basis for 2006-07 conditioned upon the Legislature passing reforms to the program. This will provide approximately \$116.5 million to counties for local SACPA-related activities and \$3.5 million to support state-level activities, including 29.7 positions and an annual evaluation of the SACPA.

Although funding for drug treatment under voter-approved Proposition 36 sunsets June 30, 2006, the law allowing drug offenders to obtain addiction treatment in lieu of incarceration remains in effect. Evaluations have shown that Proposition 36 participants have lower revocation rates than non-SACPA participants and are more likely to remain sober and experience higher rates of employment. However, only 34 percent of those entering treatment complete their programs. Along with recommending \$120 million in funding for drug treatment in the 2006-07 Governor's Budget, the Administration will seek significant reforms to Proposition 36 to improve outcomes and accountability.

The Administration looks forward to partnering with the Legislature and stakeholders to improve completion rates and, ultimately, reduce the number of drug offenders recommitting crimes and ensure more people lead successful, drug-free lives. Proposed improvements include:

Accountability

- Jail Sanctions—Proposition 36 provides drug offenders with the opportunity to avoid incarceration by seeking treatment. However, Proposition 36 needs to be

strengthened by giving judges the authority to hold offenders accountable for attending and completing treatment through short jail terms in order to ensure a drug offender's actual participation.

- **Drug Testing**— Drug testing is integral to drug treatment and occurs regularly as part of a participant's treatment program. Courts should be required to impose drug testing as a condition of probation in order to ensure compliance with treatment programs.
- **Judicial Monitoring**—Counties should dedicate court calendars and use "drug court" models to improve collaboration between treatment providers and law enforcement.

Reform Treatment Services

- **Cultural Competency**—Assure the availability of culturally and linguistically appropriate services.
- **Tailored Treatment**—Offer treatment based on client assessment and placement criteria, so offenders receive appropriate treatment to overcome addiction.

Health and Human Services Savings Proposals

Notwithstanding the value and importance of the services provided by departments under the purview of the HHSA, many of the Agency's major programs continue to be contributors to the overall growth in state expenditures. The Governor's Budget proposes reforms, reductions, and savings for a number of HHSA programs, including Medi-Cal and CalWORKs. Those proposals are also addressed further as part of individual departmental highlights.

Department of Health Services Savings Proposals

Savings proposals for the Department of Health Services include:

- **Reform Adult Day Health Care Program**— The Governor's Budget proposes reforms to combat fraud and maximize resources in this program by 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.
- Transfer the remaining unencumbered fund balance of \$1.1 million from the Tobacco Settlement Fund to the General Fund.

Department of Social Services Savings Proposals

Savings proposals for the Department of Social Services include:

- Revise Welfare Reform Methodology and Implementation— The Administration has revised the estimated savings from reforms initiated in 2004-05 due to implementation delays and implementation of Chapter 78, Statutes of 2005, which reduced the core work requirements for CalWORKs welfare-to-work participants relative to Chapter 229, Statutes of 2004. The revised net savings are \$2.5 million in 2005-06 and \$27.9 million in 2006-07, which are expected to be achieved through increased training and instruction provided by the state to counties.
- Recover CalWORKs Child Care Expenditures Associated with Welfare Reform— The Governor’s Budget reduces the 2005-06 allocation to counties for child care expenditures by \$114.6 million and the child care holdback reserve by \$5.4 million. Due to a number of circumstances, it is expected that counties will not have increased child care costs as assumed in the 2005 Budget Act.
- Delay CalWORKs Pay for Performance Allocation— The Administration proposes to delay incentive payments to counties for the Pay for Performance Program while the department works with counties to fully implement the “work-first” approach and core work requirements included as part of welfare reform. Delaying incentive payments results in savings of \$30 million in 2006-07.
- Reduce County Single Allocation for CalWORKs— This proposal reduces the amount of 2006-07 CalWORKs single allocation funds to be provided to counties by \$40 million for a like amount of General Fund savings. Counties have sufficient unspent performance incentive funds available to offset this reduction.

- **Limit Child Care Expenditures Counted Toward the Maintenance-of-Effort (MOE)**— The Governor’s Budget includes \$80 million in savings resulting from not counting all eligible Department of Education General Fund expenditures toward the federally required CalWORKs MOE.
- **Continue Sponsor Deeming Period for the Cash Assistance Program for Immigrants**— This proposal continues the current statutory sponsor deeming period for another five years. During the deeming period, the income and resources of the person sponsoring the noncitizen is taken into account when determining benefit eligibility. Continuing the sponsor deeming period will result in a General Fund cost avoidance of \$12.5 million in 2006-07 and over \$40 million in 2007-08.
- **Continue federal Supplemental Security Income Cost-of-Living Adjustment (SSI COLA) General Fund Savings Adjustment**— The Administration proposes that the pass-through of the January 2007 federal SSI COLA, scheduled under current law to be provided in April 2007, be suspended until July 2008. This proposal is estimated to result in General Fund savings of \$48.1 million in 2006-07 and over \$185 million in 2007-08.
- **Suspend the Fee-Exempt Live Scan Program**— This proposal would suspend the Fee-Exempt Live Scan Program for two additional years, for a General Fund savings of \$1.2 million in both 2006-07 and 2007-08. This program, which pays the one-time \$40 FBI fingerprinting fee for small licensed family child care homes, has been suspended for the past three fiscal years due to the state’s ongoing structural deficit.

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.

Natural and Intentional Disaster Prevention and Preparedness

The Governor's Budget includes an increase of \$45.8 million General Fund and 55.1 new positions to support California's public health system's capacity to respond to natural and intentional disasters, including bioterrorism, outbreaks of infectious diseases, and other public health threats.

Funding in 2006-07 will allow the DHS and local public health systems to strengthen their responses to public health emergencies, including pandemic influenza, strengthen laboratory infrastructure and staffing, and expand disease surveillance. While these efforts in many instances are targeted toward an influenza pandemic, the infrastructure being developed will be capable of responding to other natural and intentional disasters that jeopardize public health. The Governor's Budget includes funding in 2006-07 for the following:

- \$17.9 million General Fund for local health departments to support local activities related to the prevention of a pandemic influenza outbreak.
- \$14.3 million General Fund to develop and publicize a statewide pandemic influenza public education and information campaign and develop a general emergency preparedness communications campaign. This will occur in coordination with the Governor's Office of Emergency Services and the Office of Homeland Security.

- \$4.2 million General Fund to strengthen the state laboratory infrastructure and staffing resources to conduct more efficient testing, increase laboratory surge capacity, conduct influenza-specific testing, and establish predoctoral and postdoctoral training programs to provide a qualified pool of candidates to backfill local public health laboratory directors as they retire.
- \$4.2 million General Fund to expand state efforts and assist local agencies in how to plan, respond, train, and recover from disasters and terrorist incidents that could result from chemical and radiological contamination of food, water, and the environment.
- \$1.5 million General Fund to purchase Tamiflu and manage the antiviral, vaccines, and medical supplies that California will need during a pandemic.
- \$1.4 million General Fund to develop and maintain an ongoing program for prevention and control of healthcare and community infections through provider education, surveillance, and laboratory testing. This proposal would address hospital and health care-associated infections and community infections for which infection control measures are the primary method of control.
- \$1.3 million General Fund to expand and maintain state and local capacity to conduct communicable disease surveillance, which is the basis for disease detection and response to outbreaks or bioterrorism events.
- \$1 million General Fund to strengthen DHS' pandemic influenza planning effort, conduct epidemiologic investigations of influenza and respiratory disease outbreaks, and provide epidemiologic and statistical support to the infectious disease laboratories. The DHS will train existing frontline public health field investigators to more effectively respond to anticipated infectious disease events.

The 2006-07 Governor's Budget also includes \$109.5 million federal funds, as it continues to receive grant awards from the Centers for Disease Control and Prevention and the Health Resources and Services Administration, under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002.

In addition to the 2006-07 resources identified in the Governor's Budget, the following 2005-06 expenditure needs are also identified:

Health and Human Services

- \$4.8 million General Fund for allocation to local health departments to support local activities related to the prevention of a pandemic influenza outbreak.
- \$3 million General Fund to develop and publicize a statewide pandemic influenza public education and information campaign.
- \$500,000 General Fund to strengthen the state laboratory infrastructure and staffing resources to conduct more efficient testing, increase laboratory surge capacity, and conduct influenza-specific testing.
- \$460,000 General Fund to purchase Tamiflu and to manage the antiviral, vaccines, and medical supplies that California will need to obtain during a pandemic.
- \$500,000 General Fund to strengthen pandemic influenza planning efforts, conduct epidemiologic investigations of influenza and respiratory disease outbreaks, and provide epidemiologic and statistical support to the infectious disease laboratories. The DHS will also use these funds to train existing frontline public health field investigation staff to more effectively respond to anticipated infectious disease event.

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 (CMS) Programs, 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 funds, available under the hospital financing legislation (Chapter 560, Statutes of 2005[SB 1100]), in lieu of General Fund.

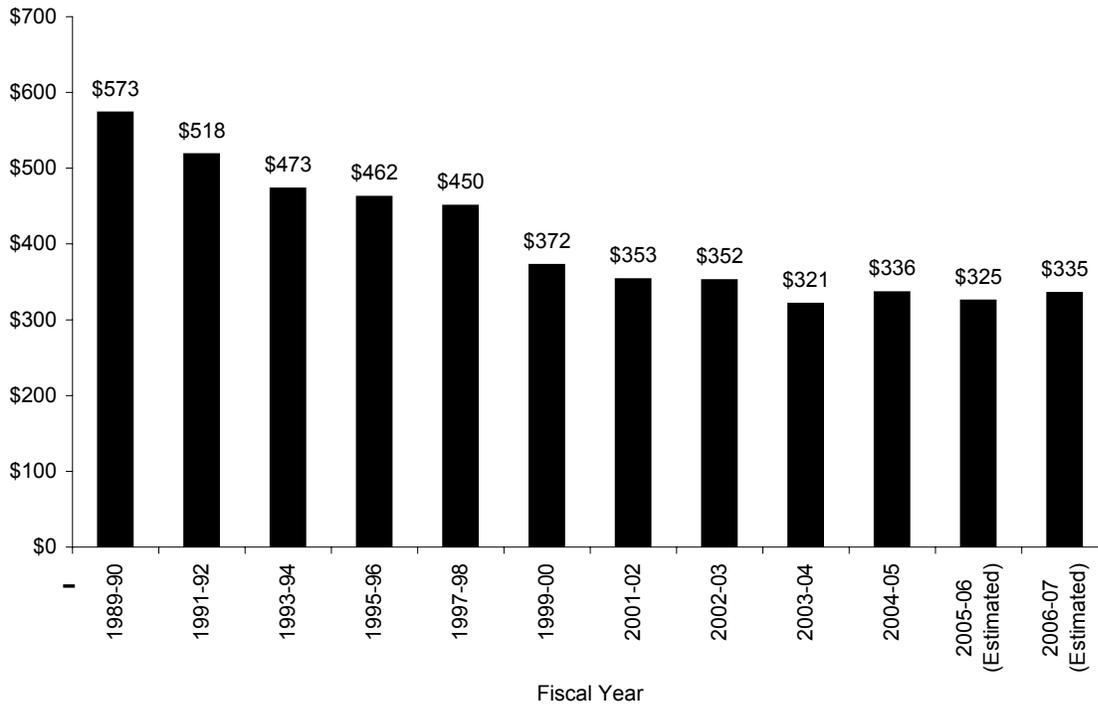
The CMS includes the California Children's Services, the Child Health and Disability Prevention, and the Genetically Handicapped Persons Programs, which provide medical services, case management, and medical, physical, and occupational therapy to persons with extraordinary medical needs who are not eligible for Medi-Cal because of their income status.

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 Board of Equalization proposal to better recover state tax revenues from Internet and mail order cigarette and tobacco sales. Historically, Proposition 99 revenues have declined annually as a result of declining smoking rates. Figure HHS-03 reflects the declining trend of revenue in this program.

Figure HHS-03
Cigarette and Tobacco Products Surtax Fund
Proposition 99 Revenues
1989 to 2007
(Dollars in Millions)



The Governor’s Budget proposes total expenditures of \$355.2 million for all programs supported by Proposition 99 revenues (see Figure HHS-04). This represents an increase

Health and Human Services

Figure HHS-04
Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2006-07
(Dollars in Thousands)

REVENUES:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	\$8,821	\$4,359	\$1,775	\$2,298	\$2,397	\$7,905	\$27,555
Projected Revenues	4,812	66,096	115,668	33,048	16,524	16,524	82,620	\$335,292
Prop 10 Backfill	-	12,600	0	0	3,100	0	0	\$15,700
Interest	-	1,166	361	79	657	39	496	\$2,798
Totals, Revenues		88,683	120,388	34,902	22,579	18,960	91,021	\$381,345
Transfers:								
Hab Cons Fund/Prop 117	-	-	-	-	-	-	-\$8,312	-\$8,312
Net Resources	\$4,812	\$88,683	\$120,388	\$34,902	\$22,579	\$18,960	\$82,709	\$373,033
EXPENDITURES:								
Department of Health Services	-	\$61,235	\$62,377	\$5,564	\$5,372	-	\$75,215	\$209,763
Department of Education	-	23,003	-	-	-	-	-	23,003
University of California	-	-	-	-	14,253	-	-	14,253
California Conservation Corps	-	-	-	-	-	\$306	-	306
Department of Forestry	-	-	-	-	-	400	-	400
Department of Fish and Game	-	-	-	-	-	2,665	-	2,665
Dept. of Fish and Game-Capital Outlay	-	-	-	-	-	1,094	-	1,094
Secretary for Environmental Protection	-	-	-	-	-	60	-	60
Department of Parks and Recreation	-	-	-	-	-	10,078	-	10,078
Water Resources Control Board	-	-	-	-	-	2,202	-	2,202
Board of Equalization	4,812	-	-	-	-	-	-	4,812
Managed Risk Medical Ins. Board	-	-	54,605	28,641	-	-	3,257	86,503
State Controller's Office	-	5	-	-	4	34	4	47
Direct Pro Rata Charges	-	-	56	27	-	-	-	83
Total Expenditures	\$4,812	\$84,243	\$117,038	\$34,232	\$19,629	\$16,839	\$78,476	\$355,269
Reserves	\$0	\$4,440	\$3,350	\$670	\$2,950	\$2,121	\$4,233	\$17,764

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 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 \$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. Nearly 72 percent of total HIV/AIDS program expenditures (\$296.4 million) are in the AIDS Drug Assistance Program (ADAP), which provides life-saving medications to low-income persons living with HIV/AIDS. Drugs provided by the ADAP have been shown to prolong quality of life and to delay the deterioration of health among individuals living with HIV. It is estimated that this program will provide treatment to nearly 31,586 clients in 2006-07, an increase of 1,434 clients over 2005-06.

The Office of AIDS estimates 5,600 existing ADAP clients will be eligible for Medicare Part D drug benefits beginning January 1, 2006, resulting in approximately \$1.5 million General Fund savings in 2005-06 and approximately \$10.8 million savings in 2006-07. The ADAP will continue to provide coverage to clients needing assistance by paying deductibles, co-payments, and drug dispensing and transaction fees. The ADAP estimates that approximately 10,000 new clients may utilize ADAP to pay for co-payments and drug dispensing and transaction fees under Medicare Part D.

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 Treatment for Californians with Prostate Cancer (IMPACT) Program, provides free prostate cancer treatment services to low-income, uninsured men. The measure expanded existing statutes related to the IMPACT Program and requires the DHS to report its evaluation of the program to the Legislature by July 1, 2006. This level of funding will provide a full year of direct patient care, while the results of the pending evaluation are reviewed for funding consideration in 2007-08. It is estimated that this program will provide treatment to nearly 376 patients in 2006-07.

Licensing and Certification

The Governor's Budget includes \$64.1 million (\$652,000 General Fund), which reflects a net increase of \$18.9 million (a decrease of \$45.9 million General Fund) above 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 meet current statutory requirements.

Medi-Cal

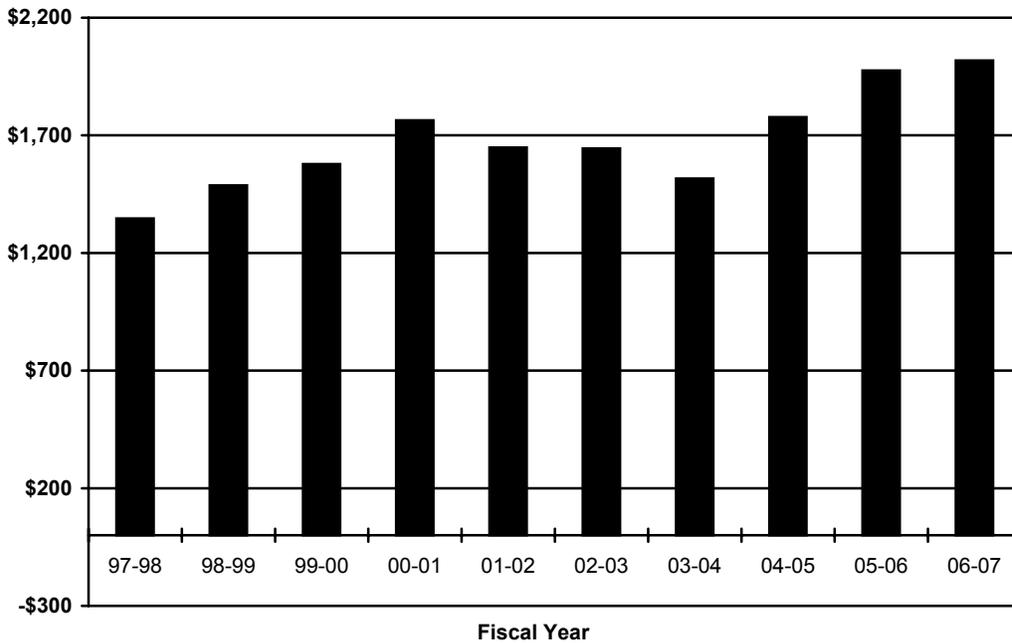
Medi-Cal, California's Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or lack health care coverage. Federal law requires Medi-Cal to provide a set of basic services such as doctor

visits, laboratory tests, x-rays, hospital inpatient and outpatient care, and skilled nursing care. In addition, federal matching funds are available if states choose to provide any of numerous optional benefits. A wide range of public and private providers and facilities delivers these services. Providers are reimbursed by the traditional fee-for-service method or by payments from managed care plans. Medi-Cal serves just over one in six Californians.

2005-06 Expenditures

Medi-Cal expenditures are estimated to be \$33.8 billion (\$13.2 billion General Fund), a General Fund increase of 12.8 percent above 2004-05 expenditures. This increase is due primarily to increases in caseload, utilization, and costs for services. General Fund expenditures for 2005-06 are estimated to be \$213.2 million more than the 2005 Budget Act, primarily because of one-time costs associated with the new hospital financing federal waiver (Chapter 560, Statutes of 2005) and increased costs for the impact of the new federal Medicare Part D drug benefit. Figure HHS-05 displays annual General Fund costs per average monthly eligible beneficiary.

Figure HHS-05
Annual Medi-Cal General Fund Cost per Average Monthly Eligible Beneficiary



2006-07 Expenditures

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.

Other departments have programs that are also eligible for federal Medicaid reimbursement, such as the Department of Developmental Services. The federal funding for these programs is included in Medi-Cal expenditure totals, but state and local matching funds of over \$3.3 billion typically appear in the budgets for the other state agencies or local governments. Consistent with this practice, 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 a 2006-07 Medi-Cal increase of \$339.9 million less than it would have been otherwise.

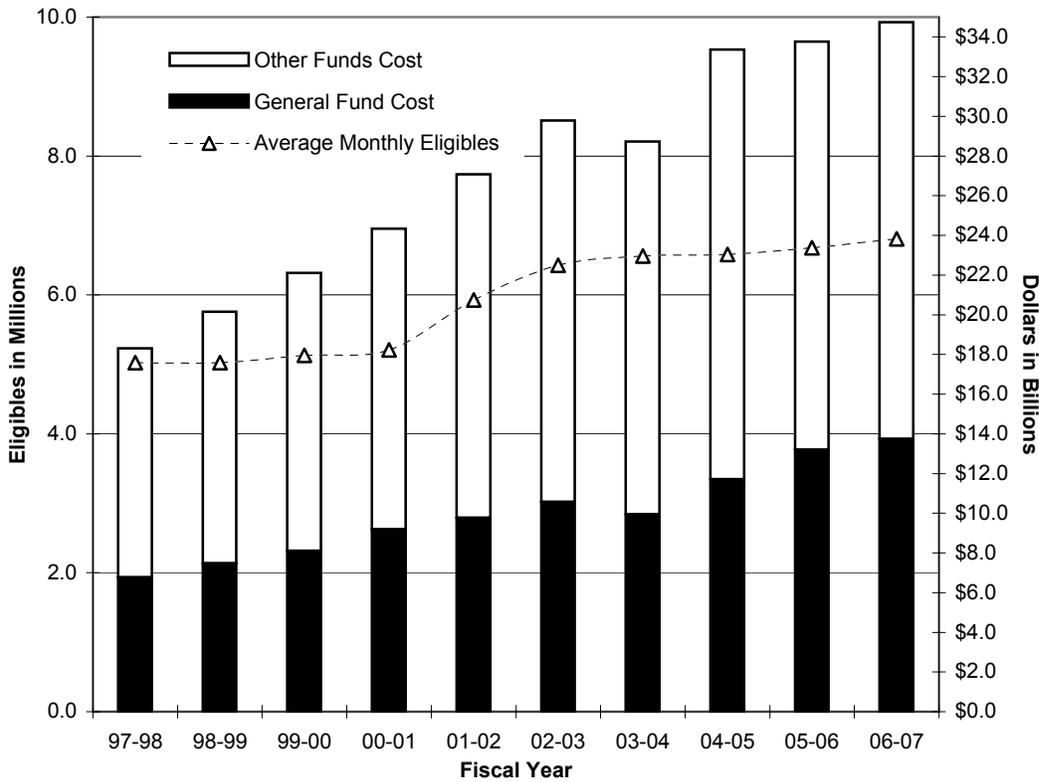
Caseload

Average monthly caseload is expected to increase in 2006-07 by approximately 126,600, or 1.9 percent, to 6.8 million eligibles from 6.7 million eligibles in 2005-06. The number of people eligible for Medi-Cal in 2005-06 is now estimated to be about 1.5 percent above the actual 2004-05 caseload. This overall increase compares to an expected 2.8 percent increase in the state's population for the same two-year period. Figure HHS-06 displays year-to-year comparisons of Medi-Cal caseload and costs. Currently, just over one in six Californians qualify for Medi-Cal in any given month (see Figure HHS-07).

The number of people eligible for Medi-Cal through their public assistance cash grant eligibility has been declining since 1995. These eligible persons will represent 38.9 percent of all Medi-Cal eligibles in 2006-07. Overall caseload is increasing, and the portion comprised of seniors and persons with disabilities is expected to increase by 3.3 percent, to approximately 1.7 million beneficiaries in 2006-07. Figure HHS-08 reflects Medi-Cal caseload by eligibility category.

Figure HHS-09 shows federal data from 2004-05 (the most recent information available) for the ten most populous states. By percentage of state population, California served

Figure HHS-06
Medi-Cal Caseload and Costs, 1997-98 through 2006-07



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

about 17.8 percent of state residents, exceeded only by New York. California also has one of the lowest average cost-per-recipient rates in the nation: \$5,509 per beneficiary, versus a national average of \$6,895 per beneficiary.

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

Figure HHS-07
Average Monthly Medi-Cal Eligibles as a Percentage of California Population

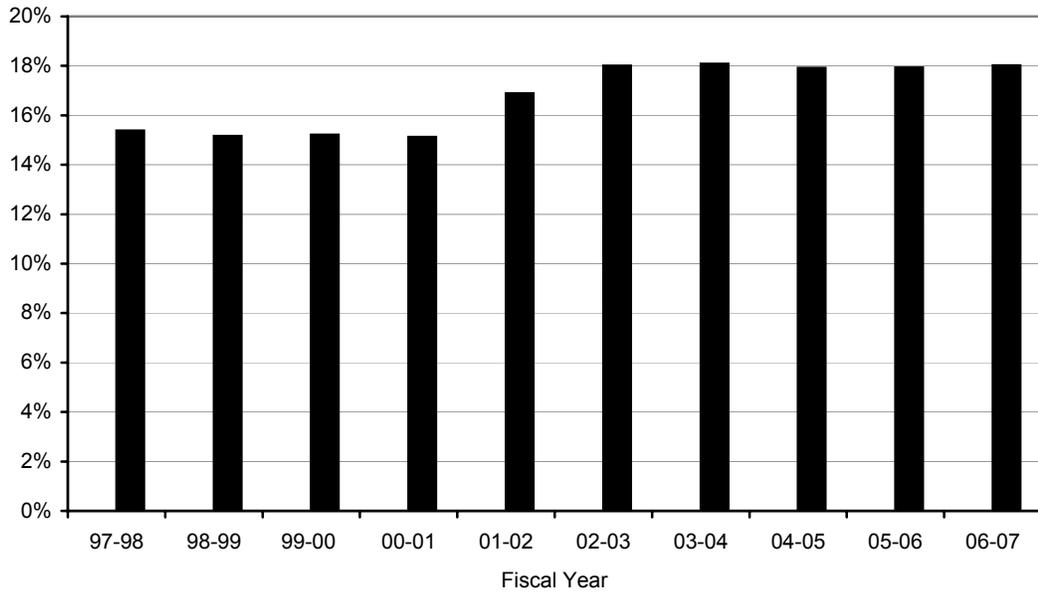


Figure HHS-08
Medi-Cal Caseload by Eligibility Category

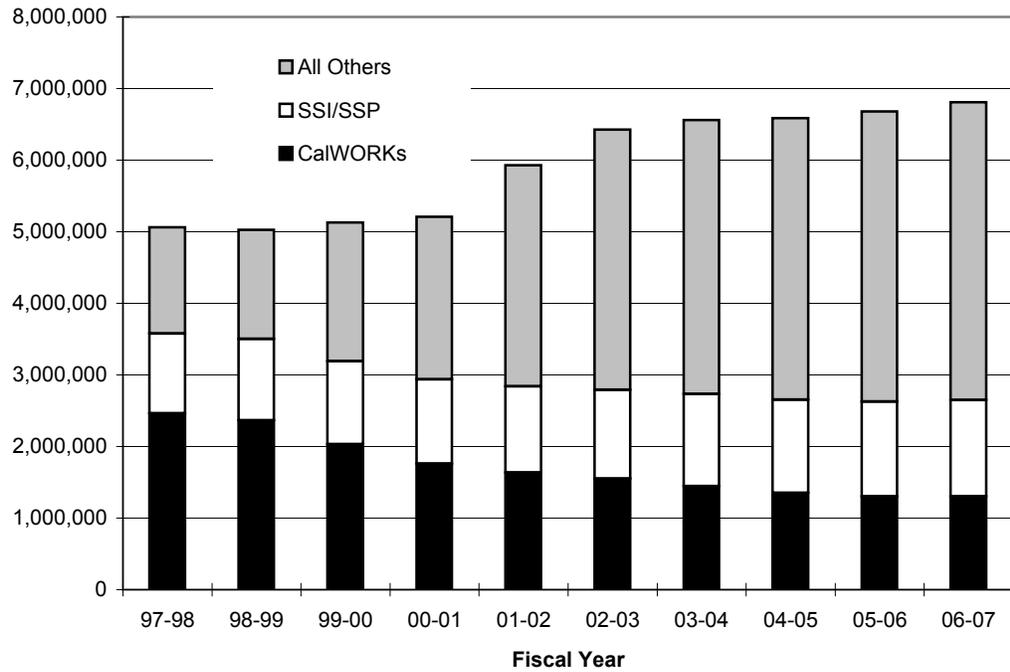


Figure HHS-09
Federal Medicaid Program - Interstate Comparisons
Ten Most Populous States
Fiscal Year 2004-2005

	Medicaid as a Percentage of State's Budget	Average Monthly Eligibles as a Percentage of Total Population	Expenditures, Total Funds (Dollars in Millions)	Medicaid Enrollment, June 2004 (Thousands)	Expenditures Per Eligible	Federal Sharing Ratio (FMAP)
All States	22.3	14.0	\$283,716	41,146	\$6,895	
California	18.8	17.8	\$35,193	6,388	\$5,509	50.0
Texas	24.3	12.1	\$15,257	2,708	\$5,634	60.9
New York	28.3	20.5	\$29,355	3,952	\$7,428	50.0
Florida	25.2	12.0	\$14,338	2,092	\$6,855	58.9
Illinois	20.9	12.7	\$11,960	1,612	\$7,420	50.0
Pennsylvania	31.3	13.4	\$16,866	1,658	\$10,174	53.8
Ohio	25.9	13.3	\$12,735	1,522	\$8,365	59.7
Michigan	20.8	13.5	\$8,482	1,366	\$6,208	56.7
Georgia	19.0	14.9	\$5,815	1,326	\$4,387	60.4
New Jersey	20.6	8.9	\$7,889	777	\$10,158	50.0

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

Benefits

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

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

New Federal Outpatient Drug Program for Californians Eligible for Medicare and Medi-Cal

The federal Medicare Modernization Act (MMA) of 2003 established an outpatient prescription drug program for approximately 43 million Medicare beneficiaries, including one million Californians eligible for both Medicare and Medi-Cal ("dual eligibles"). Effective January 1, 2006, dual eligibles with incomes at or below 100 percent of the federal poverty level are now responsible for a maximum co-payment of \$1 for generic drugs and \$3 for brand name drugs. Those with incomes above 100 percent of the federal poverty level will pay a maximum of \$2 and \$5, respectively. Under the MMA, the federal government no longer provides Medicaid matching funds for drug categories covered by Medicare. In addition, states no longer get Medicaid or supplemental rebates for drugs covered by Medicare. This is a significant problem for California because Medi-Cal leads the nation in negotiating supplemental rebates from drug manufacturers. The MMA requires states to pay to the federal government a General Fund contribution to assist Medicare in the cost of covering the dual eligibles. Because of a variety of factors, this new methodology forces California to pay approximately \$72.3 million General Fund more in 2005-06 than the state would have otherwise paid for drugs for dual eligibles. In 2006-07, the state will pay, on an accrual basis of accounting, \$59.1 million more than would have otherwise been spent. Accounting for costs on a cash basis, the MMA will save the state money but only on a temporary basis. Annually, the rate of inflation in the payment to the federal government for this coverage will be greater than the rate of cost inflation under the Medi-Cal program, eliminating any potential savings that Congress had envisioned for California.

Pharmaceuticals

During the last few years, the cost of drugs has increased dramatically and pharmaceutical costs have become a significant component of all health care costs. Technological advances in the development of new drugs, increased advertising of new and more expensive drugs, and expedited federal approval of new drugs have contributed to rising costs. To control costs, the Medi-Cal program utilizes contracts for drugs and has a state rebate program that is projected to secure approximately \$552.2 million in drug savings in 2005-06. However, since the federal government assumed responsibility for approximately half of the prescriptions currently filled by Medi-Cal under Medicare Part D, the state is projected to secure only approximately \$209.8 million in supplemental rebates in 2006-07. This change will also reduce total drug costs by \$665.4 million General Fund in 2005-06 and \$1.7 billion General Fund in 2006-07.

Managed Care

Approximately 3.3 million Medi-Cal beneficiaries (almost half of the people receiving Medi-Cal benefits and services) are currently enrolled in managed care plans. Managed care enrollment has increased from 2.5 million enrollees in 1999-00 to a projected total of 3.4 million enrollees in 2006-07. The funding for managed care plans has increased from \$3.4 billion (\$1.7 billion General Fund) in 1999-00 to \$5.8 billion (\$3 billion General Fund) in 2006-07.

The Medi-Cal Managed Care Program is a comprehensive, coordinated approach to health care delivery designed to improve access to preventive primary care, improve health outcomes, and control the cost of medical care. Managed care includes three major health care delivery systems: the Two-Plan Model, Geographic Managed Care (GMC), and County Organized Health Systems (COHS).

Approximately 2.4 million, or 73 percent of Medi-Cal managed care beneficiaries, are enrolled in the Two-Plan Model, first implemented in January 1996. Each Two-Plan county offers the choice between a commercial plan selected through a competitive bidding process or the county-sponsored "local initiative." The local initiative plan consists mainly of providers who have traditionally served the Medi-Cal population. The model assures continued participation by the "traditional" providers and maximizes the types of providers caring for beneficiaries.

The GMC model allows the state to contract with multiple managed care plans in a single county. The first GMC system was implemented in Sacramento in 1994. A second GMC system began operation in San Diego County in 1998-99. Approximately 345,000 beneficiaries are expected to be enrolled in GMCs in 2006-07.

The third model, the COHS, administers a prepaid, comprehensive case-managed health care delivery system. This system provides utilization controls, claims administration, and health care services to all Medi-Cal beneficiaries residing in the county. Five COHS serving eight counties are currently in operation. Approximately 585,000 beneficiaries are expected to be enrolled in COHS in 2006-07.

As approved in the 2005 Budget Act, the state is scheduled to transition the first 2 of 13 additional counties to managed care in 2008.

Enrolling Eligible Children in Health Care Programs

According to 2003 figures, approximately 428,000 children are eligible for Medi-Cal or the Healthy Families Program, but are not enrolled. The Governor's Budget proposes the following activities to encourage the enrollment of these children into Medi-Cal:

- Provide Counties with Funding for Outreach Activities—\$20.8 million (\$9.1 million General Fund) for service contracts to perform outreach and enrollment activities.
- Medi-Cal Redetermination Form Simplification—\$45.5 million (\$22.7 million General Fund) for caseload growth as a result of simplifying the Medi-Cal redetermination form to decrease turnover within the program.
- Media Campaign—\$3.4 million (\$1.4 million General Fund) for a media campaign to encourage the enrollment of all eligible children into a state health care program.

High-Cost Medi-Cal Recipients

While Medi-Cal provides critical services for millions of seniors and persons with disabilities, for the most medically fragile Californians, those services are often uncoordinated, resulting in lapses in care or duplicative health care services. Of the 3.3 million Medi-Cal beneficiaries enrolled in managed care plans, only 9.5 percent are seniors and persons with disabilities. Seniors and persons with disabilities represent 25 percent of Medi-Cal beneficiaries, but consume 65 percent of the expenditures. The Governor's Budget proposes the following two initiatives to increase enrollment of seniors and persons with disabilities in managed care plans and coordinate the care for this vulnerable segment of the state's population:

- Increase Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care— 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.
- Establish a Coordinated Care Management Pilot Project— 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 and chronic health conditions.

Program Enhancements and Other Budget Adjustments

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.

Emergency Medical Services Authority

The Governor’s Budget includes \$26 million (\$12.2 million General Fund) and 57.3 positions for the Emergency Medical Services Authority (EMSA), which reflects a decrease of \$10.5 million (\$10.1 million General Fund) from the revised 2005-06 budget and a decrease of \$6.2 million (\$8.5 million General Fund) from the 2005 Budget Act. This decrease represents the removal of one-time funding of \$10 million.

The EMSA’s mission is to coordinate emergency medical services statewide; develop guidelines for local emergency medical service (EMS) systems; regulate the education, training, and certification of EMS personnel; and coordinate the state’s medical response to any disaster.

Natural and Intentional Disaster Preparedness

The Governor’s Budget includes \$2.3 million (\$1.6 million General Fund) in 2005-06, \$1.8 million in reimbursements, and 1.9 positions in 2006-07 to strengthen California’s response to public health emergencies. This funding is for the following activities:

- \$2.3 million in 2005-06 to purchase protective equipment for 1,500 ambulance units.
- \$1.8 million in 2006-07 for the development, implementation, and administration of three emergency medical disaster response teams to be known as the California Medical Assistance Teams (CalMATs). The CalMATs will consist of volunteer

medical personnel on a contingency basis who will provide immediate emergency medical response to catastrophic disasters.

The Governor's Budget also includes \$1.6 million (\$1.5 million General Fund loan authority) and 7.4 positions for the EMSA to consolidate the licensing and investigation of Emergency Medical Technicians (EMTs) at the state level and provide additional state resources for paramedic investigations. Currently, the licensing and investigation of EMTs occurs primarily at the local level. Once the EMSA assumes these functions, the department will establish consistent, statewide standards for licensing and investigating the state's 70,000 EMTs who play an integral role in responding to emergencies.

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 (MRMIB), 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 (HFP).

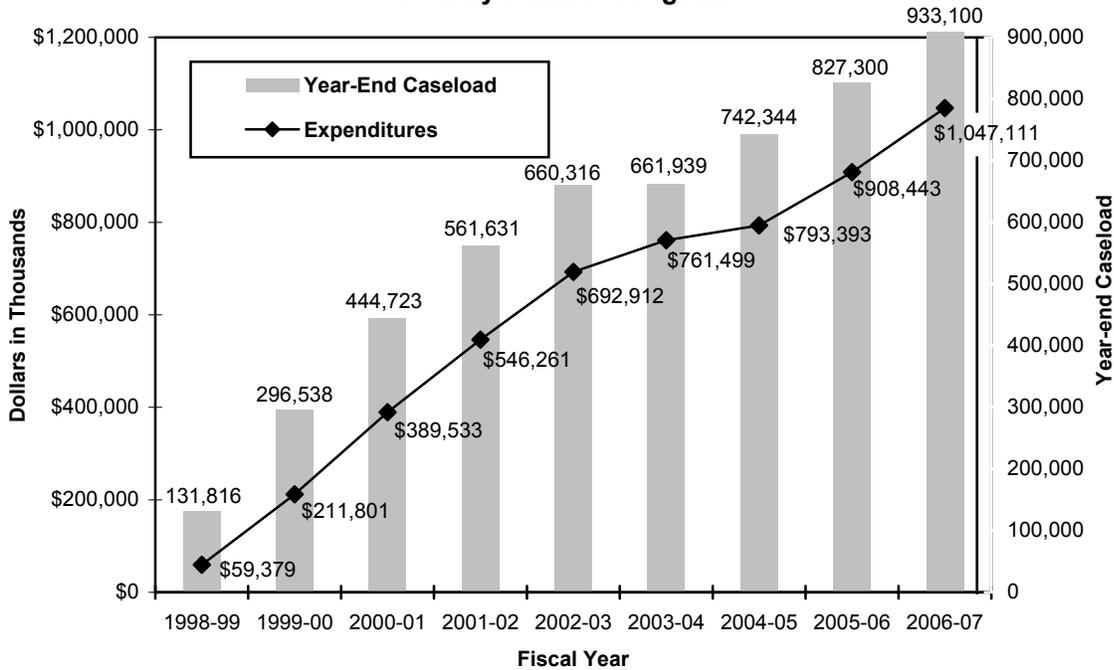
The MRMIB administers four programs that provide health care coverage through private health plans to certain groups without health insurance and develops policy and recommendations on providing health care insurance to the approximately 6.6 million Californians who are estimated to go without health care coverage at some point in a given year. MRMIB administers the HFP, the Access for Infants and Mothers (AIM) Program, the Major Risk Medical Insurance Program (MRMIP), and the County Health Initiative Matching Fund Program. The Governor's Budget proposes 88.7 positions for MRMIB. This represents an increase of 9.2 positions above the revised 2005-06 budget for increased workload demands.

Healthy Families Program

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 \$1.1 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. Figure HHS-10 displays historical caseload and funding growth for the HFP.

Figure HHS-10
Healthy Families Program



Enrolling Eligible Children in Health Care Programs

According to 2003 figures, approximately 428,000 children are eligible for Medi-Cal or HFP, but are not enrolled. The Governor’s Budget proposes the following activities to encourage the enrollment of eligible children into HFP:

- Streamline Enrollment Processes for Children’s Health Programs—The Governor’s Budget includes \$9.6 million (\$3.5 million General Fund) to simplify the enrollment process of children into the HFP. This program change will encourage the use of the electronic application (known as “Health-e-App”), enhance enrollment, retain current eligible children, and ease administrative duties.

- Increase the Number of Successful Applicants for Children's Health Programs—
The Governor's Budget includes \$2.5 million (\$1 million General Fund) to provide incentive payments to Certified Application Assistants to encourage enrolling more children in Medi-Cal and HFP.

Access for Infants and Mothers

The 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 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 Mental Health

The Governor's Budget includes \$3.5 billion (\$1.6 billion General Fund) for the Department of Mental Health (DMH), which reflects a net decrease of \$167.9 million (an increase of \$311.5 million General Fund) from the revised 2005-06 budget and a net decrease of \$109.7 million (an increase of \$313.9 million General Fund) from the 2005 Budget Act.

This net change primarily reflects a permanent transfer of General Fund for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program from the DHS budget to the DMH and a corresponding reduction in reimbursements from the DHS, removal of funding from the DMH budget for reimbursement to counties for costs of implementing the AB 3632 state mandate in 2004-05 and 2005-06, resources for implementing a new recovery treatment model in the state hospitals, which complies with the Civil Rights for Institutionalized Persons Act (CRIPA), and removal of one-time funding provided in 2005-06 for settlement of 2002-03 county claims for the EPSDT Program.

The DMH ensures that a continuum of care exists throughout the state for children and adults who are mentally ill, by providing oversight of community mental health programs and direct services through the state hospitals.

State Hospitals

The state hospitals operated by the DMH provide long-term care and services to the mentally ill. The General Fund supports judicially committed, Penal Code, and Sexually Violent Predator (SVP) patients, while counties fund other civil commitments. In 2005-06, there is a net decrease of \$1.7 million (\$2.5 million General Fund) and 214.2 positions for the state hospitals due primarily to a decline of 150 patients from the population projected in the 2005 Budget Act. This population decline is temporary, due to slower-than-anticipated activation of beds at Coalinga State Hospital, which is discussed further in this section. The Governor's Budget includes \$958.4 million (\$876.4 million General Fund) and 9,714.2 positions for 2006-07, a net increase of \$72.2 million (\$77 million General Fund) and 468.1 positions from the revised 2005-06 budget, due primarily to a projected net increase of 239 patients and resources to comply with the CRIPA. The patient population is projected to reach a total of 5,830 patients in 2006-07.

Civil Rights for Institutionalized Persons Act

The State of California is actively working with the United States Department of Justice (U.S. DOJ) to bring all five state hospitals into compliance with U.S. DOJ requirements pursuant to the CRIPA. These efforts will reflect a fundamental shift in the DMH's treatment philosophy to one focusing on recovery rather than on the disease, disability, or disorder. Under the proposed recovery-oriented treatment system, 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 patient's psychiatric and psychological problems. Although enhancements are currently underway at all state hospitals within existing resources, significant additional resources are necessary to accomplish these changes. The Governor's Budget includes \$43.5 million (\$37.8 million General Fund) and 432 additional positions for this purpose. The Administration is working on documenting the business requirements and business rules for a Wellness and Recovery Model Support System, an electronic system for collecting and reporting patient treatment information throughout state hospitals. A proposal for meeting these information system needs will be addressed in the spring budget process.

Activation of Coalinga State Hospital

Coalinga State Hospital opened in September 2005 and began admitting SVP patients transferred from Atascadero State Hospital. Patient transfers to Coalinga have been slower than anticipated due to delayed hiring of level-of-care staff at Coalinga necessary for bed activation. The DMH has been working to address the staffing needs by continuing aggressive recruitment efforts throughout California and the United States, by use of recruitment and retention differentials where appropriate, and by contracting for nursing registry services as needed. As patient transfers to Coalinga increase, additional patients currently awaiting transfer from local jails will be admitted into the state hospital system. The Administration anticipates that the population at Coalinga and hospital-wide will increase during the current year, requiring an update of population estimates and continued activation of Coalinga in the May Revision.

Community Mental Health Services

The Administration believes that mental health services should be provided in communities, in order to prevent commitment to a state hospital or incarceration. The Governor's

Budget includes \$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 EPSDT Program is an entitlement program for children and adults under the age of 21. Under the EPSDT Program, approximately 185,000 Medi-Cal eligible children and young adults receive services to ameliorate a diagnosed mental illness. In 2005-06, there is an increase of \$22.9 million (\$11.5 million General Fund in the DHS budget) from the 2005 Budget Act due to an updated projection in the number of claims. The Governor's Budget includes \$714.4 million (\$352.3 million General Fund in the DMH budget) for EPSDT, a net decrease of \$100.6 million from the revised 2005-06 budget. Key adjustments include an increase of \$57.9 million (\$27.2 million General Fund) for an increased number of projected claims, and a reduction of \$19.1 million (\$8.4 million General Fund) for audit disallowances and county self-corrected claims.

Other adjustments are for a permanent transfer of General Fund for EPSDT from the DHS budget to the DMH (an increase of \$333.5 million General Fund and a corresponding decrease of \$333.5 million in reimbursements), and for the removal of \$139.4 million in one-time reimbursements from the DHS provided in 2005-06 for settlement of 2002-03 county claims.

Mental Health Services to Special Education Pupils (AB 3632)

With the signing of the 2005 Budget Act, the Governor expressed intent that the AB 3632 mental health services program be shifted from a state-mandated program to a categorical program effective in 2006-07. This shift would ensure that mental health services to pupils continue but with new accountability and greater efficiency not present in the current mandate reimbursement system. The Administration has begun consultations with mental health and education stakeholders about the need for a more effective way of delivering these services, but there is much more work to be done with stakeholders and the Legislature to develop a comprehensive plan for the new categorical program. The Administration will continue these discussions during the next few months so that a refined AB 3632 proposal may be introduced in the May Revision.

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. Of this funding, \$69 million in federal funds is for counties to provide these services under contract with local education agencies, and \$31 million is Proposition 98 General Fund for local education agencies for pre-referral mental health services pursuant to SB 1895. In addition, the Budget includes \$50 million non-Proposition 98 General Fund as a set-aside in the Commission on State Mandates budget for funding mental health services to pupils under the new categorical program. The Administration will partner with stakeholders and the Legislature to determine how the categorical program should be structured, budgeted, and administered in order to ensure continued services and to maximize federal funding for services.

Mental Health Services Act (Proposition 63)

In 2005-06, there is a net increase of \$166,000 from the Mental Health Services Fund (MHSF) to the DMH primarily to fund an interagency agreement with the DHS for the California Mental Health Disease Management Program. The Governor's Budget includes \$8.4 million from the MHSF and 87.4 positions for the DMH's implementation of the Mental Health Services Act (MHSA) in 2006-07. The need for continued contracts funding for 2006-07 will be addressed in the spring budget process when more up-to-date information on current contract expenditures and future needs is available. The budget also reflects funding continuously appropriated to the DMH for county implementation of the MHSA. Funding available from the MHSF for county expenditures is \$648.9 million in 2005-06 and \$655.5 million in 2006-07. (See the Revenues Section for a discussion of the revenues deposited into the MHSF.)

Department of Developmental Services

The Governor's Budget includes \$3.9 billion (\$2.4 billion General Fund) for the Department of Developmental Services (DDS), which reflects a net increase of \$286.7 million (\$156.7 million General Fund) above the revised 2005-06 budget and \$243.4 million (\$123 million General Fund) above the 2005 Budget Act.

The DDS is responsible under the Lanterman Developmental Disabilities Services Act to ensure that more than 200,000 persons with developmental disabilities receive the services

and supports they need to lead more independent, productive and normal lives and to make choices and decisions about their own lives.

Developmental Centers

The developmental centers are licensed and certified 24-hour, direct-care facilities that provide services to persons with developmental disabilities. In 2005-06, there is an increase of \$4.8 million (\$7.9 million General Fund) from the 2005 Budget Act primarily due to increased employee compensation costs, a population increase of 10 residents from 3,016 to 3,026 residents, and an update of federal Title XIX (Medi-Cal) reimbursements for the developmental centers. The increase in the developmental center population reflects a reduction in projected transition of Agnews Developmental Center residents into the community from 90 to 80 residents during the current year. Available savings in the regional centers budget are transferred to fund the developmental centers costs excluding employee compensation.

The Governor's Budget proposes \$706.6 million (\$383.4 million General Fund) and 7,738.1 positions, a net decrease of \$6.7 million (\$3.6 million General Fund) and 156 positions from the revised 2005-06 Budget. The change primarily reflects a reduction in the developmental center population, an increase for the full-year costs of implementing Medicare Part D reforms, an adjustment for price increases, an update of federal Title XIX (Medi-Cal) reimbursements, and an augmentation for an intensive behavioral treatment pilot program at Porterville Developmental Center. The developmental center population is projected to decline by 229 consumers from 3,026 to 2,797 in 2006-07.

Agnews Developmental Center Closure

In 2005-06, there is a net decrease of \$3.9 million (\$1 million General Fund) from the 2005 Budget Act for the planned June 30, 2007 closure of the Agnews Developmental Center (Agnews). The developmental center budget is adjusted by a net increase of \$340,000 (\$791,000 General Fund). This change includes a \$1.2 million decrease in reimbursements from the regional centers due to a revised date for utilizing 50 Agnews state employees in the community from October 1, 2005, to January 1, 2006, consistent with current law. The regional center budget is decreased by \$4.3 million (\$1.8 million General Fund) for updated community placement plan costs, ten fewer consumers transitioning into the community than projected at the 2005 Budget Act, and the new date for using Agnews staff in the community.

The Governor's Budget is adjusted by a net \$19.6 million (\$14.9 million General Fund) compared to the 2005 Budget Act for Agnews' closure activities. The developmental center budget is adjusted by a net decrease of \$5.6 million (\$3.4 million General Fund). This change includes a \$10.5 million (\$5.2 million General Fund) increase for costs to relocate Agnews residents, transition and train staff, prepare Sonoma Developmental Center for transferring residents, and use 100 Agnews state employees to provide services in the community during 2006-07. 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 21 regional centers throughout California are nonprofit corporations contracted by the DDS to purchase and coordinate services mandated under the Lanterman Act for persons with developmental disabilities. Services include assessment of needs, coordination of services, resource development, residential placement and monitoring, quality assurance, and individual program planning assistance. In 2005-06, there is a net decrease of \$49.6 million (\$40.9 million General Fund) for regional centers primarily due to updated caseload, utilization, and costs for community placement plans and placement continuation. There is an increase of ten consumers in the community caseload in 2005-06, bringing the community caseload from 205,155 to 205,165.

The Governor's Budget proposes \$3.1 billion (\$2 billion General Fund) to support the regional centers, a net increase of \$215.7 million (\$159.8 million General Fund) from the revised 2005-06 Budget. The change primarily reflects updated caseload, utilization, and costs for community placement plan and placement continuation, expansion of the Autistic Spectrum Disorder Initiative, and implementation of proposed regional center contract provisions related to purchasing services. The regional center community population is projected to increase by 8,575 consumers to 213,740 consumers in 2006-07, which includes 177 Agnews residents who will be moved into the community.

Autistic Spectrum Disorder Initiative

The Governor's Budget includes \$2.6 million General Fund for expansion of the Autistic Spectrum Disorder (ASD) Initiative. This includes \$1.9 million for regional centers to provide a new ASD program coordinator and clinical specialist in each regional center. It also provides funding for the DDS headquarters to establish and coordinate new state

and regional ASD Resource Centers at the 38 community Family Resource Centers or similar community agencies throughout the state. Funding of \$680,000 is 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. The budget also includes resources for the DDS headquarters to implement and monitor this effort.

As proposed, the expanded ASD Initiative will provide a vital service framework to meet major challenges in serving Californians with ASD, will provide more effective outcomes for thousands of Californians, will guide the service delivery system in the implementation of research-based interventions, and will provide families with the information they need to make informed decisions when weighing service options.

Provider Rate Increase

The Governor's Budget includes \$67.8 million (\$46.1 million General Fund) to provide a 3 percent cost-of-living increase to programs that have been subject to the provider rate freezes that have been necessary during the last three years. These include programs for which the DDS sets rates (community care facilities, community-based day programs, habilitation service programs, respite agencies, and vouchered respite) and to specified contract-services programs (supported living, transportation, and look-alike day programs). This rate increase will promote provider stability and maintain continuity of services to consumers and families in the community.

Rates will be held to the 3 percent increase for cost containment. The continuation of the existing rate freezes is necessary due to the ongoing structural budget deficit; however, 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) 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

The community-based system of care grew from about \$1.9 billion to \$3.1 billion during the last five years, a 63 percent increase. During the past three fiscal years, this growth was slowed by various strategies focused primarily on freezing rates paid to providers. The Governor's Budget continues these temporary cost containment measures into

2006-07, while permanent measures, such as rate standardization, continue to be developed to contain long-term growth within sustainable limits and relieve stress in the system associated with the temporary measures.

The Administration plans to administratively implement one of these permanent measures in 2006-07. Beginning in January 2006, DDS will initiate contract negotiations with regional centers to provide the regional centers with additional responsibilities and tools to control the growth in expenditures. Regional centers will use specified guidelines when planning and purchasing services for consumers and their families.

For regional centers to implement the additional contract requirements, the Governor's Budget includes \$7.6 million General Fund. The resulting General Fund cost reductions to regional center purchase of services are estimated to be \$10.6 million in 2006-07, \$21.1 million in 2007-08, and \$31.7 million in 2008-09 and each year thereafter.

Department of Child Support Services

The Governor's Budget includes \$1.4 billion (\$517.3 million General Fund), which reflects 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 Child Support Program promotes the well-being of children and the self-sufficiency of families by delivering child support establishment and collection services that assist parents in meeting the financial, medical, and emotional needs of their children. To provide enhanced fiscal and programmatic direction and oversight of child support enforcement activities, Chapters 478 and 480, Statutes of 1999, established the Department of Child Support Services (DCSS). These measures authorized the implementation of a single, statewide child support system comprised of local child support agencies under the supervision of the new department. The DCSS assumed responsibility for child support enforcement activities in January 2000.

The DCSS is designated as the single state agency to administer the statewide program to secure child, spousal, and medical support, and determine paternity. The primary purpose of the DCSS is the collection of child support payments for custodial parents and their children.

Program Administration

State Administration

The Governor's Budget proposes total expenditures of \$44.4 million General Fund and 507.5 positions for state administration of the program. Departmental staff ensure a more effective program through expanded state-level direction and supervision of local child support agencies. Specific mandates require increased oversight of local program and fiscal operations.

County Administration

The Governor's Budget proposes \$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 \$10 million in voluntary county funding for the support of local child support agency staff and program services.

Child Support Collections

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

Child support collections for 2006-07 are projected to be \$2.4 billion (\$297.5 million General Fund). The collections for 2005-06 also are estimated to be \$2.4 billion (\$301.1 million General Fund).

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, maintenance, and operation of the California Child Support Automation System (CCSAS). The state is responsible for developing and implementing the CCSAS and transitioning all counties onto this new system. The state expects to have the new system completed by 2008-09.

The CCSAS project consists of two components: the Child Support Enforcement (CSE) component that will provide the core automated functionality to manage child support cases, and the State Disbursement Unit (SDU), which will interface with the CSE and process payments to custodial parties. The state entered into a contract with IBM Global Services in July 2003 to develop and implement the CSE component of the project, and it entered into a service contract with the Bank of America in December 2004 to provide the SDU component of the project.

As a result of California's delay in implementing a single, statewide automated child support system, the federal government has annually levied penalties against the state. The Governor's Budget includes \$220 million General Fund for payment of the federal fiscal year (FFY) 2006 penalty. The Governor's Budget assumes there will not be a penalty for FFY 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.

Department of Social Services

The Governor's Budget includes \$17.7 billion (\$8.8 billion General Fund), which reflects 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. The Department of Social Services (DSS) provides aid, service, and protection to children and adults in need of assistance. All DSS programs are aimed at promoting the well-being of children, strengthening families, and helping adults and parents achieve their potential for economic self-sufficiency.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, and replaced the Aid to Families with Dependent Children program on January 1, 1998. The CalWORKs program is California's largest cash-aid program for children and families, and is designed to provide temporary assistance to meet basic needs (shelter, food, and clothing) in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work

requirements and encouraging personal accountability. The program recognizes the differences among counties and affords them maximum program design and funding flexibility to ensure successful implementation at the local level.

Total CalWORKs expenditures of \$6.7 billion (state, local, and federal funds) are proposed for 2006-07, including TANF and Maintenance-of-Effort (MOE) countable expenditures. The amount budgeted includes \$4.9 billion for CalWORKs program expenditures within the DSS budget, \$1.6 billion in other programs, and \$181.4 million for a CalWORKs program reserve. Other programs include expenditures for the Statewide Automated Welfare System, Child Welfare Services, California Food Assistance Program, State Supplemental Payment, Foster Care, State Department of Education child care, California Community Colleges child care and education services, Department of Child Support Services disregard payments, Department of Developmental Services programs, and counties (see Figure HHS-11).

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.

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.

Figure HHS-11
2006-07 CalWORKs Program Expenditures ¹
(Dollars in Millions)

CalWORKs Components	Expenditures
<u>DSS:</u>	
Assistance Payments	\$3,023
Employment Services	977
County Administration	232
DSS Child Care	487
Kin-GAP	84
Tribal TANF	56
DSS Administration	26
Subtotal	\$4,884
<u>Other CalWORKs Programs:</u>	
Statewide Automated Welfare System	\$73
Child Welfare Services	274
California Food Assistance Program	6
State Supplementary Payment Program	9
Foster Care	54
State Department of Education Child Care	934
California Community Colleges Child Care	15
CCC Education Services	20
DCSS Disregard Payments	33
Department of Developmental Services	56
County Expenditures	149
Subtotal	\$1,623
General TANF Reserve	181
Total CalWORKs Expenditures	\$6,688

¹ Detail may not add to totals due to rounding.

Improving Accountability and Service Delivery

Since the inception of the CalWORKs program in January 1998, caseload has declined by nearly 34 percent and the number of working recipients has increased from less than 20 percent in 1996 to nearly 40 percent in 2004. While success has been achieved in moving recipients to employment and reducing caseloads, enhanced efforts are needed to improve participation in work. As many recipients are not working sufficient hours to meet the federal work participation requirements, the statewide levels for the federal work participation rate declined from 42.2 percent in 1999 to 23.1 percent in 2004. The Governor's Budget builds upon the reforms included in 2004-05, fully implementing enhanced work requirements to achieve the goal of moving people from welfare to work. While California currently meets federal work participation requirements, significant improvement is necessary to meet increased work requirements expected under TANF reauthorization.

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. The following key policy objectives continue to serve as a foundation for the Administration's CalWORKs program budget:

- Emphasis on employment to maximize participation in the workforce and decrease dependence on aid.
- Maintenance of services necessary to transition recipients to the workforce.
- Maximization of available federal block grant funds and the federally required level of state funds.

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— The 2005 Budget Act assumed full implementation of reforms initiated in 2004-05 to strengthen the work focus of the CalWORKs program, resulting in grant savings partially offset by additional employment services and child care costs, a net savings of \$18.8 million. Due to

implementation delays and changes in work requirements contained in Chapter 78, Statutes of 2005, these savings are not expected to materialize. 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 lower number of recipients moving into work, and 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. Therefore, the Governor's Budget reduces 2005-06 child care expenditures by \$114.6 million. The Governor's Budget sets aside \$11.5 million in the event that funding is necessary (see associated expenditure proposal in the section that follows).
- **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 \$30 million were set aside in the TANF reserve for allocation to counties in 2006-07. However, due to a number of circumstances, the counties are not expected to achieve the expected savings. 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**— The Administration has maintained a policy of counting all eligible State Department of Education (SDE) General Fund child care expenditures toward the TANF MOE requirement, resulting in corresponding General Fund savings in the DSS budget. Revised estimates of 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 include \$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

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

program, making eligibility determinations, performing grant computations, and issuing combined monthly checks to recipients.

The Governor's Budget proposes \$3.6 billion General Fund for the 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 SSI/SSP caseload consists of 30 percent aged, 2 percent blind, and 68 percent disabled persons.

Controlling Program Growth

Chapter 78, Statutes of 2005, suspends the pass-through provision of the January 2006 and January 2007 federal SSI COLAs 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 are 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. Reflective of this policy, supplemental checks are scheduled to be issued to individuals whose grants will be adversely affected by a suspension of the pass-through of the January 2006 SSI COLA. As reflected in Figure HHS-12, 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. During the deeming period, the income and resources of the person sponsoring the noncitizen will be taken into account when determining benefit eligibility. Another extension would result in cost avoidance of \$12.5 million General Fund in 2006-07, growing to over \$40 million General Fund in 2007-08.

Even with these proposals to contain costs, the overall General Fund contribution to SSI/SSP will grow in 2006-07 by \$58.2 million from the revised 2005-06 expenditure level of \$3.5 billion.

Figure HHS-12

**Comparison of 2005-06 SSI/SSP Maximum Payments
for the Ten Most Populous States¹**

State	Monthly Grants for Independent Living Arrangement			
	Aged and Disabled		Blind	
	Individuals	Couples	Individuals	Couples
California ²	\$836	\$1,472	\$901	\$1,699
New York	690	1,008	690	1,008
New Jersey	634	929	634	929
Pennsylvania	630	948	630	948
Michigan	617	932	617	932
Florida ³	603	904	603	904
Georgia ³	603	904	603	904
Texas ³	603	904	603	904
Illinois ⁴	603	904	603	904
Ohio ³	603	904	603	904

¹ The January 2006 federal maximum payments are \$603 per individual, and \$904 for a couple.

² The 2006 SSI COLA will be delayed until April, 2006. The grant levels for California reflect provision of this COLA.

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

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

In-Home Supportive Services

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

The Governor’s Budget proposes \$1.3 billion General Fund for the IHSS program in 2006-07. This represents a 4.1 percent increase from the revised 2005-06 budget. The average monthly caseload in this program is estimated to be 396,000 recipients in 2006-07, a 6.4 percent increase over the 2005-06 projected level.

Child Welfare Services

The child welfare system in California provides a continuum of services through various programs, including Child Welfare Services (CWS), 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 increase of \$89.1 million (\$29.5 million General Fund), or 2.4 percent, from the revised 2005-06 budget.

CWS has evolved into an outcome-focused program with the implementation of the federal Child and Family Services Review and the new California Outcome and Accountability System. Together, these protocols have established a comprehensive process to measure program performance and track improvement in California's child welfare services delivery system. Program success is measured in terms of improving the safety, permanence, and well-being of the children and families served. The Governor's Budget includes \$385,000 (\$156,000 General Fund) in 2005-06 and \$32.9 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. Specifically, these proposals include:

- \$12.5 million (\$7.1 million General Fund) to improve permanency outcomes for children via adoption and increase foster care exits by increasing the number and timeliness of finalized adoptions. A key component of this proposal will target resources on older, hard-to-place foster youth to improve permanency options and assist the state in meeting federal performance targets for timely adoptions.
- \$385,000 (\$156,000 General Fund) in 2005-06 and \$15.2 million (\$8.1 million General Fund) in 2006-07 to implement critical child welfare legislation that promotes safe and healthy families and strong communities. Chapter 640, Statutes of 2005, requires that child welfare agencies and courts ensure that an expanded population of older foster youth establish significant and supportive relationships prior to their transition to independent adulthood. Chapter 630, Statutes of 2005, establishes a new category of licensed placement called "Whole Family Foster Care" to provide care and supervision for dependent teen parents and their children in foster care.

- \$2.5 million General Fund to augment the Kinship Support Services Program which provides services to caregivers who provide for their relative children within their familiar family settings to ensure safe, stable, and permanent placements for at-risk children. This funding will be allocated on a competitive basis to counties that are able to demonstrate the cost-effectiveness of this program and generate out-year savings.
- \$2.6 million (\$1.4 million General Fund) to augment the Transitional Housing for Foster Youth Program, which provides transitional housing placement services to youth who have emancipated from the foster care system and provides supervised independent living arrangements that prepare foster youth to live on their own. This proposal will enable additional counties to provide services to former foster youth who are at risk of homelessness, unemployment, or incarceration.

Community Care Licensing

The Community Care Licensing program directly licenses and monitors approximately 80,000 community care facilities, and provides oversight, direction, and training to counties that license approximately 11,000 additional facilities. These facilities include child day care, children's residential, and elderly residential and day support facilities, and serve approximately 1.4 million clients statewide. The Governor's Budget includes \$91.5 million (\$19.4 million General Fund) for licensing activities that promote the health, safety, and quality of life of each person in community care facilities. This is a \$7.6 million General Fund, or 64.5 percent increase from the revised 2005-06 budget.

The Governor's Budget includes \$6.7 million (\$6 million General Fund) 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. Specifically, this reform initiative includes the following major components:

- \$5.2 million (\$4.8 million General Fund) to increase the number of random sample licensing visits from 10 percent to 20 percent annually to comply with the statutory requirement that all community care facilities be visited at least once every five years, and to eliminate the existing backlog in random sample licensing inspections.
- \$596,000 (\$561,000 General Fund) to establish a comprehensive Licensing Program Analyst Training Academy to ensure appropriate training and enhance the efficiency of field staff to better safeguard facility clients.

- \$956,000 (\$654,000 General Fund) to implement a series of administrative proposals to improve the operational efficiency of the licensing program and to further enhance client protections.

The Governor's Budget proposes to continue the suspension of the Fee-Exempt Live Scan Program for two additional years. This program, which pays the one-time \$40 FBI fingerprinting fee for small licensed family child care homes, has been suspended for the past three fiscal years due to the state's ongoing structural deficit. This proposal will result in General Fund savings of \$1.2 million in both 2006-07 and 2007-08.

State-Local Program Realignment

The Governor's Budget includes \$4.6 billion, which reflects an increase of \$169.3 million above the revised 2005-06 budget and \$231.7 million above the 2005 Budget Act.

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

For 2002-03, the amount of sales tax growth required to be deposited into the Caseload Subaccount was deficient by \$183.2 million. This shortfall was fully restored with \$55.2 million of 2003-04 sales tax growth revenue after the 2001-02 caseload growth was fully funded, and \$128 million of 2004-05 sales tax growth revenue. For 2003-04, the amount of sales tax growth required to be deposited in the Caseload Subaccount was deficient by \$147.6 million. This shortfall was partially restored with \$60.1 million of 2004-05 sales tax growth after the 2002-03 caseload growth was fully funded.

Health and Human Services

The remaining shortfall of \$87.5 million will be funded from future growth in sales tax revenue pursuant to current state law.

Realignment revenues in 2005-06 are estimated to total \$4.4 billion, which represents an increase of \$193 million compared to 2004-05. The \$4.4 billion is comprised of \$2.8 billion in sales tax revenues and \$1.6 billion in VLF. The projected \$132.2 million in sales tax growth will be distributed to the Caseload Subaccount to pay the remaining balance of the 2003-04 shortfall and any future shortfall for 2004-05. The \$60.7 million in projected VLF growth will be distributed pursuant to current statute.

For 2006-07, realignment revenues are estimated to total \$4.6 billion, which represents an increase of \$169.3 million above 2005-06. The \$4.6 billion total includes \$2.9 billion in sales tax revenues and \$1.7 billion in VLF. The projected \$104.5 million in sales tax growth will be distributed to the Caseload Subaccount to pay the balance, if any, of unfunded 2004-05 caseload growth and any remainder will be applied toward future 2005-06 caseload growth. The \$64.8 million in projected VLF growth will be distributed pursuant to current statute (see Figure HHS-13, Figure HHS-14, and Figure HHS-15).

Figure HHS-13
1991-92 State-Local Realignment
2004-05 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$835,285	\$410,413	\$1,190,920	\$2,436,618
Vehicle License Fee Account	309,995	1,147,582	52,213	1,509,790
Total Base	\$1,145,280	\$1,557,995	\$1,243,133	\$3,946,408
Growth Funding				
Sales Tax Growth Account:	—	—	188,082	188,082
Caseload Subaccount	—	—	(188,082)	(188,082)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	30,583	47,642	5,576	83,801
Total Growth	\$30,583	\$47,642	\$193,658	\$271,883
Total Realignment¹	\$1,175,863	\$1,605,637	\$1,436,791	\$4,218,291

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

Figure HHS-14
1991-92 State-Local Realignment
2005-06 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$835,285	\$410,413	\$1,379,002	\$2,624,700
Vehicle License Fee Account	340,578	1,195,224	57,789	1,593,591
Total Base	\$1,175,863	\$1,605,637	\$1,436,791	\$4,218,291
Growth Funding				
Sales Tax Growth Account:	—	—	132,249	132,249
Caseload Subaccount	—	—	(132,249)	(132,249)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	22,160	34,520	4,040	60,720
Total Growth	\$22,160	\$34,520	\$136,289	\$192,969
Total Realignment¹	\$1,198,023	\$1,640,157	\$1,573,080	\$4,411,260

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

Health and Human Services

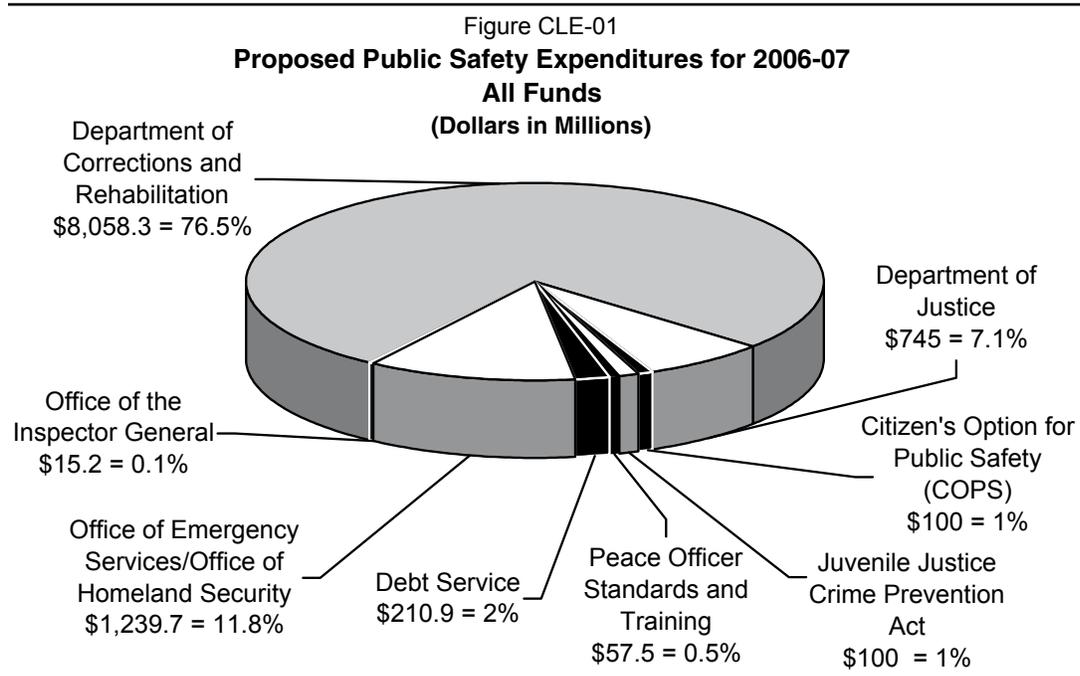
Figure HHS-15
1991-92 State-Local Realignment
2006-07 Estimated Revenues and Expenditures
(Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$835,285	\$410,413	\$1,511,251	\$2,756,949
Vehicle License Fee Account	362,737	1,229,744	61,830	1,654,311
Total Base	\$1,198,022	\$1,640,157	\$1,573,081	\$4,411,260
Growth Funding				
Sales Tax Growth Account:	—	—	104,492	104,492
Caseload Subaccount	—	—	(104,492)	(104,492)
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	23,649	36,841	4,312	64,802
Total Growth	\$23,649	\$36,841	\$108,804	\$169,294
Total Realignment¹	\$1,221,671	\$1,676,998	\$1,681,885	\$4,580,554

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

Corrections and Law Enforcement

The Governor's Budget includes funding to support the various programs within the 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. Funding for these programs will be approximately \$10.5 billion (\$8.8 billion General Fund and \$1.7 billion other funds), and reflects an increase of \$328.8 million (\$380.1 million General Fund), or 3.2 percent over the revised 2005-06 budget. The level of funding proposed for each of these agencies is shown in Figure CLE-01. More notable funding changes included in the Budget for these programs are further described below.



Enhancing Public Safety in California

The safety of its citizens must be a top priority for any level of government. This Administration is strongly committed to protecting the safety of the public and has demonstrated this commitment by providing additional resources for state and local law enforcement agencies. In an effort to continue to reduce crime and enhance the safety of its citizens, California must recognize today's challenges facing law enforcement agencies. The Budget includes \$25.1 million General Fund, phased in over the next two years, to begin meeting these challenges.

Sexual Assault Felony Enforcement Task Forces

Sexual predators represent one of the greatest threats to the safety and security of the citizens of California. Consequently, all convicted sex offenders are required to register with local law enforcement, and because of Megan's Law, the public has access to descriptive information on sex offenders living in their communities. Under existing law, local agencies have established regional Sexual Assault Felony Enforcement (SAFE) teams throughout the state. The mission of these teams is to reduce violent sexual assault offenses through proactive surveillance and arrest of habitual sexual offenders.

The Governor's Budget includes \$6 million local assistance grant funding in the Office of Emergency Services to support the activities of SAFE teams statewide. This funding will increase by \$2 million beginning in 2007-08, for an ongoing program of \$8 million.

Gang Suppression Enforcement Teams

Today's gangs are financed with drug money, have formed regional alliances, and can communicate instantly and across great distances utilizing technologies such as cell phones and the Internet. Statewide, gang-related homicides alone result in approximately 800 deaths, and the Department of Justice (DOJ) estimates the cost to the state is \$1.4 billion annually. Gangs are no longer a "neighborhood problem," and must be challenged using a statewide, multijurisdictional approach. As gangs modify their behavior to avoid detection and prosecution, local law enforcement agencies with limited resources cannot single-handedly curtail the threat and spread of gangs.

The Budget includes an increase of \$9.8 million and 47.9 positions, phased in over two years (\$6.5 million and 31.9 positions in 2006-07, increasing to \$9.8 million and 47.9 positions in 2007-08), to allow the DOJ to add six new Gang Suppression Enforcement

Teams (GSETs) to the one team already in place. These teams provide a dedicated force with specialized knowledge of gang activities across multiple jurisdictions. Through innovative investigative techniques, the GSETs will assist and coordinate with local law enforcement agencies and target higher-level gang leaders. Once fully implemented, the GSETs are expected to arrest as many as 600 higher-level gang leaders, and assist local law enforcement agencies with as many as 2,000 arrests of gang members annually.

California Methamphetamine Strategy Program

Methamphetamine is the leading drug-related law enforcement problem facing California. Distribution networks are growing nationally, and California is no exception. This drug is a threat not only to public safety, but to public health as well. Therefore, the state must enhance efforts of suppressing methamphetamine use, production, and distribution by dedicating additional resources to investigate and eliminate the means by which methamphetamine is produced and distributed.

The Budget includes \$6 million and 29.6 positions to create three new teams within the DOJ to augment the existing three California Methamphetamine Strategy (CALMS) Program teams currently in place. These teams have specialized training which, coupled with multijurisdictional law enforcement partnerships, uniquely qualify them to coordinate investigations and lab seizures. This augmentation will provide necessary resources to work cooperatively across the state with local and federal agencies in combating the methamphetamine epidemic. The increased resources will be focused on the less-populated, rural areas in California, where methamphetamine production has become increasingly difficult to control. Since the inception of the program, significant quantities of illegal drugs and manufacturing agents have been recovered and destroyed by CALMS agents. Expansion of the CALMS Program is expected to result in seizure of approximately 425 clandestine labs, 1,250 pounds of methamphetamine, 500 weapons, \$5 million in assets, and 175 arrests annually.

Special Crimes Unit

Complex financial crimes and identity theft cases result in the loss of millions of dollars to the citizens of California. In addition to the tangible dollars lost, these crimes result in losses and trauma to victims that cannot be measured.

The Budget includes \$1.3 million and 12.6 positions to increase investigation activities within the DOJ Special Crimes Unit to aggressively investigate and prosecute individuals

and businesses that participate in complex financial and identity theft crimes. The DOJ currently has \$2.2 million and 19 positions budgeted to carry out these investigations. This augmentation is necessary to maintain a consistent multijurisdictional presence in the prosecution of these cases. The scope and complexity of these cases often exceed the investigative and prosecutorial resources of local law enforcement and state agencies. In cases in which the DOJ is not directly involved, staff within the Special Crimes Unit advise, assist, and cooperate with local district attorneys and local, state, and federal law enforcement agencies to avoid procedural errors in conducting financial and identity theft investigations, leading to successful investigations and trials. The activities of the Special Crimes Unit result in a disincentive for individuals and businesses to participate in such crimes.

California Department of Corrections and Rehabilitation

The mission of the California Department of Corrections and Rehabilitation (CDCR) is to improve public safety through evidence-based crime prevention and recidivism reduction strategies. These strategies include providing safe and secure detention facilities for adults and juveniles, educational opportunities, services such as providing food, clothing, and health care, and direct supervision, surveillance, and necessary apprehension of the state's parolee population.

The Governor's Budget includes \$8.1 billion (\$7.9 billion General Fund), which reflects an increase of \$363.5 million (\$378.9 million General Fund) above the revised 2005-06 budget and \$643.7 million (\$644.8 million General Fund) above the 2005 Budget Act. This represents an 8.9 percent increase in General Fund expenditures, as compared to the 2005 Budget Act.

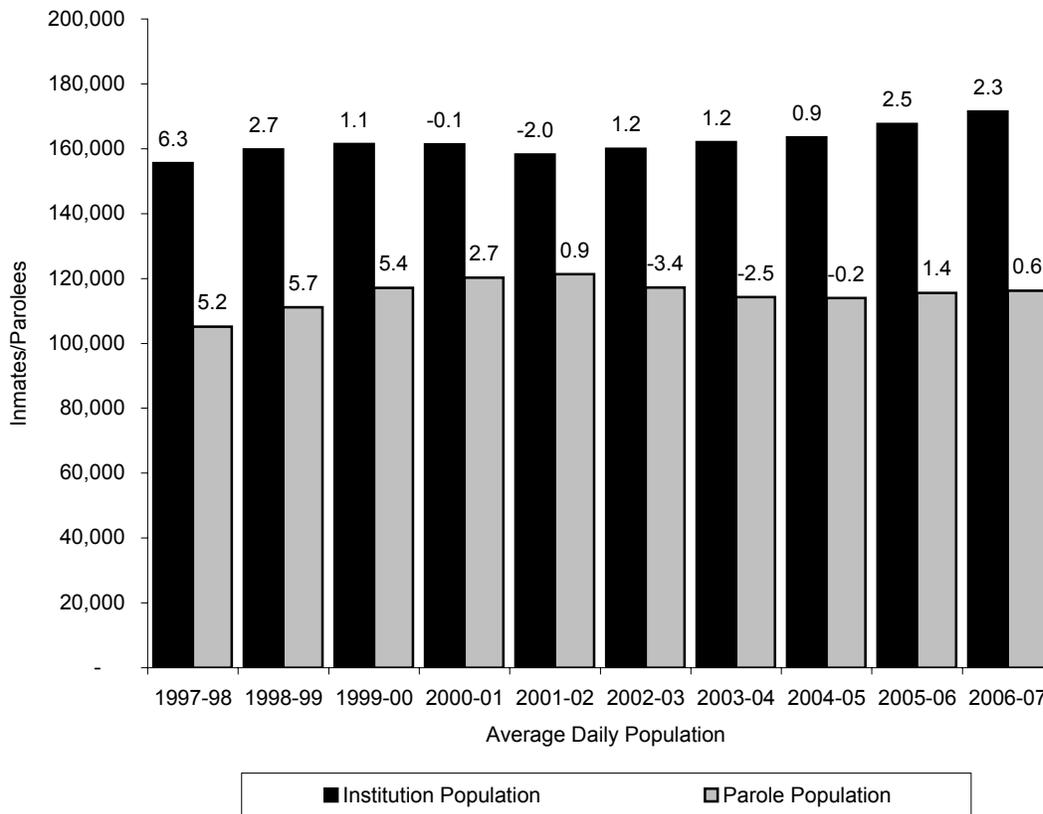
In 2006-07, the CDCR will consist of 41 institutions, 33 adult operating correctional institutions (which include 11 reception centers), and 8 juvenile operating institutions. The CDCR is also responsible for 12 community correctional facilities, and 45 conservation camps, 43 adult camps and 2 juvenile camps, which perform public conservation projects including, but not limited to, forest fire prevention, watershed management, and soil conservation.

Population Adjustments

Adult Inmate and Parolee Population

The average daily inmate 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 to new admissions from court and parole violators returned with new terms (PV-WNT). The PV-WNT category of offenders experienced an increase of 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. (See Figure CLE-02.)

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



Corrections and Law Enforcement

The fiscal impact of these population increases in 2005-06 is \$26.9 million General Fund, \$144,000 Inmate Welfare Fund, and \$759,000 Reimbursements. In 2006-07, the fiscal impact is \$73.4 million General Fund, \$914,000 Inmate Welfare Fund, and \$391,000 Reimbursements.

With the population reaching maximum inmate capacity, the CDCR has made every effort to house inmates in all possible areas, including gyms, day rooms, and programming spaces. In an effort to determine the appropriate placement of inmates and use existing capacity in the safest and most efficient manner, the CDCR has undertaken an effort to align institutions' missions with operational and programmatic needs. What has become apparent during this process is the CDCR continues to face serious challenges to meet public safety and rehabilitation needs given its current housing capacity. In an attempt to develop options for future inmate and program placement, as well as realign capacity for existing inmates and programs, the Administration is proposing to pursue authority to secure additional inmate capacity through contracts with other providers. In addition, the Administration is proposing a Strategic Growth Plan, which includes a \$6 billion local jail construction program that will create increased inmate housing options and relieve population pressures in CDCR institutions. This program is comprised of \$2 billion of state General Obligation bonds to provide jail construction grants to local agencies, \$2 billion in matching funds from the local governments (required by the grant program), and \$2 billion from local bonds secured by the portion of revenues received by local agencies from the state as payment to use jail beds in these new facilities (for further discussion of this issue, please see the Strategic Growth Plan section). Finally, during the spring budget process, the Administration expects to request authorization for projects that will address housing for inmates in mental health programs, consistent with the court-approved plans submitted by the CDCR in *Coleman v. Schwarzenegger*.

Juvenile Offender and Parolee Population

The CDCR projects a juvenile institution population of 2,920 youthful 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 and 54.6 positions in 2005-06 and an increase of \$3.4 million General Fund and 34 positions in 2006-07. The total General Fund expenditures for juvenile institutions are partially offset by General Fund revenues from the sliding scale fees paid by counties. In 2005-06, these revenues are estimated to be \$19.4 million,

an increase of \$695,000 over the revenue expected at the time of the 2005 Budget Act. In 2006-07, these revenues are estimated to be \$17.8 million.

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 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 and 2.9 positions in 2005-06, and a decrease of \$135,000 and 1.5 positions in 2006-07, for the Juvenile Parole program.

The 2005 Budget Act established new staffing ratios for the Juvenile Education Program consistent with the requirements of the remedial plan developed in response to the *Farrell v. Hickman* lawsuit. The population adjustment proposed in the Governor's Budget for the Juvenile Education Program reflects the application of these new ratios 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, which has created an additional need for Correctional Officers (COs). The recent activation of Kern Valley State Prison has also resulted in the need for additional COs. These factors, as well as a significant reduction in the number of cadets generated by the Basic Correctional Officer Academy (BCOA) in 2004, have resulted in a projection of approximately 2,000 CO vacancies in 2005-06. Additionally, with the population expected to increase to over 171,000 inmates and the enhanced retirement benefits for Bargaining Unit 6 employees effective January 2006, vacancies are projected to increase to approximately 4,000 in 2006-07. Clearly, the BCOA must be expanded to meet the future needs for COs in the CDCR. The Administration is proposing to increase the capacity of the Correctional Training Center from 1,920 cadets per year to 2,120 in 2005-06 and to 2,520 in 2006-07, and establish a temporary offsite academy at the former Northern California Women's Facility (NCWF) to accommodate additional cadet training needs. Activation of the NCWF Academy will train approximately 300 additional cadets in 2005-06 and 1,200 cadets in 2006-07. The Budget also proposes to expand the number of juvenile COs and counselors and parole agent cadets to be trained due to increasing vacancies. As such, to address all of these needs, 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 staff necessary to meet its public safety mission. Under this proposal, the CDCR will adjust the size of the BCOA on an annual basis, as necessary, and explore options to establish a permanent academy in Southern California to replace the temporary academy at NCWF.

Parole Hearing Workload

The Board of Parole Hearings (Board) considers parole releases and establishes the length and conditions of parole for all persons sentenced to the CDCR under the indeterminate sentencing law, persons sentenced to prison for a term of less than life under Penal Code Section 1168(b), and those serving a sentence of life with the possibility of parole. The Board also determines the necessity for rescission or postponement of parole dates for persons sentenced to prison for life, persons sentenced under Penal Code Section 1168(b), and persons sentenced under the indeterminate sentencing law.

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. By fully staffing the lifer hearing panels, the CDCR projects that these panels will eliminate the current hearing backlog within 18 months. The Budget includes \$752,000 General Fund in 2005-06 and \$1.3 million General Fund in 2006-07 to address this workload. In addition, the Governor's Budget includes \$640,000 General Fund to reestablish the Appeals Unit within the Board.

Compliance with the *Valdivia v. Schwarzenegger* Remedial Plan

In November 2003, the state reached a settlement agreement in the *Valdivia v. Schwarzenegger* federal class action lawsuit, which asserted that California's parole revocation process violated the due process guaranteed under the Fourteenth Amendment of the United States Constitution. The terms of this settlement required the Board to develop a remedial plan that outlines the actions that will be taken to ensure that parolees receive a probable cause hearing within ten calendar days after being taken into custody for an alleged parole violation. In order to ensure the continued implementation of this plan, the Budget includes a current year increase of \$9.6 million General Fund, 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 the housing and nonroutine medical costs of parolees who are detained 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 inmates. The increased local assistance costs have resulted primarily from offenders staying at local facilities for longer periods. Despite a decrease in the time parolees are held prior to their revocation hearings, the time that parolees are housed in local facilities has increased due to an inability of reception centers to process inmates as quickly as needed.

Recidivism Reduction Strategies

The Administration is committed to improve public safety, as outlined in the CDCR Strategic Plan, through the implementation of evidence-based programs that improve public safety and reduce victimization by lowering recidivism rates 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 in 2005-06 and \$52.8 million General Fund in 2006-07, growing to approximately \$95.3 million by 2008-09, and includes funding for the following areas:

Corrections and Law Enforcement

- Inmate Education Programs— The overarching goals and expected outcomes of the education master plan include decreasing the amount of disruptive behavior within institutions, increasing employability, and creating an accountability system that tracks responsibility and outcomes. The Budget proposes \$21.1 million in 2006-07 to fund enhancements such as a comprehensive needs assessment for inmates, expansion of the existing vocational and life skills education program, and providing alternative education models based on independent study, half-time educational assignments, and distance learning to facilitate access to educational services for all inmates.
- Community Partnerships—Expansion in this area will encourage community investment inside correctional facilities, increase the coordination of resources available to prisoners, and develop unique and innovative reentry programs that will improve an inmate's transition back into the community. The Budget includes \$7.7 million in 2006-07 to foster intergovernmental partnerships, conduct a grant program for pilot projects that will seek innovative solutions for inmates preparing to transition back into the community, and provide regional community managers who will coordinate volunteer and not-for-profit efforts that are available for inmates and parolees.
- Parolee Services— The programs will assist parolees as they return to the community and provide enhanced transitional housing and services in collaboration with local community resources. The Budget includes \$7.8 million in 2006-07 to expand programs such as the Residential Multi-Service Centers, housing for eligible sex-offenders, and community-based coalitions that will explore options for intergovernmental and private entity collaboration for supportive reentry services.
- Institutions Rehabilitative and Treatment Programs—These programs will address the need for other types of institution-based programs, designed to improve inmates' ability to successfully reintegrate into society. The Budget includes \$9.9 million in 2006-07 for various rehabilitative and treatment programs, including increasing the number of visitation days for disciplinary-free inmates, female offender housing and rehabilitation services, and opening a substance abuse program at Kern Valley State Prison.
- Research and Support—Successful implementation of the Recidivism Reduction Strategies is linked to the CDCR's ability to conduct research, project future needs, and support the initial and ongoing programmatic implementation. The plan includes \$6.2 million in 2006-07 to assess the effectiveness of correctional programs and

initiatives, evaluate program implementation to ensure that they will result in the intended outcomes, improve the population projections process, evaluate the training program, and provide administrative support.

These strategies represent a comprehensive approach to provide program enhancements to male and female inmates and parolees, and community services. However, this is only the initial effort of an ongoing process to provide rehabilitative programs to inmates and parolees. As such, the CDCR will explore opportunities for additional rehabilitative programs such as gender-specific parolee programs that have proven effective for male parolees as well as treatment and residential services for parolees.

Ensuring Public Safety

In addition to the inmate and parolee evidence-based program expansion discussed above, the Administration is committed to improving and ensuring public safety throughout the state through various programs that are designed to more efficiently supervise and track parolees who pose the greatest risk to local communities and to ensure that parolees who reoffend are held accountable for their crimes.

Global Positioning System Expansion

The Administration is highly concerned with the threat posed by parolees who have been convicted of sexual or violent offenses and are assessed to be a high-risk to reoffend. Therefore, the Budget proposes \$5.1 million General Fund in 2006-07 to add 500 Global Positioning System (GPS) devices to track and monitor the parolees who pose the highest risk to public safety. This is part of a four-year plan to add 2,000 GPS units (500 units per year), bringing the total number of GPS units available for parolee monitoring up to 2,500 by 2009-10. Additionally, the caseload for parole agents supervising these offenders will be reduced from 40:1 to 20:1, consistent with caseloads used by other states for similar parolees. Increasing the number of parolees tracked by GPS and reducing the caseload for parole agents will increase public safety by reducing victimization.

Electronic In-home Detention

In order to enhance parole agents' ability to supervise specific violators and improve public safety, the Administration proposes \$601,000 General Fund in 2005-06 and \$1.2 million General Fund in 2006-07 to add 500 electronic monitoring devices. This will provide parole staff with an additional supervision tool for eligible parole violators for up to 45-day periods.

Implementation of *Farrell v. Hickman* Remedial Plans

In 2002, the Prison Law Office sued the State of California over the conditions of confinement at youth facilities statewide. The lawsuit, *Farrell v. Hickman* (formerly *Farrell v. Allen*), sought a comprehensive overhaul of what was then the Department of the Youth Authority. Under the CDCR reorganization, these programs are now a part of the Division of Juvenile Justice. In July 2004, the state entered into a consent decree to settle this lawsuit. The consent decree required the CDCR to develop and implement six remedial plans that address various deficiencies in the CDCR's youth education programs, medical care, mental health services, sex offender treatment, accessibility for youth with disabilities, and general safety and welfare. The 2005 Budget Act included funding to specifically address the issues of education, sex offender treatment, and accessibility for wards with disabilities, consistent with the remedial plans that were submitted to the court during 2004-05. The Governor's Budget includes an increase of \$5.1 million General Fund in 2005-06 and \$55 million General Fund in 2006-07 to implement both the Safety and Welfare Remedial Plan and the Medical Care Remedial Plan, which were submitted to the court after the enactment of the 2005 Budget Act.

Safety and Welfare Remedial Plan

The CDCR submitted the Safety and Welfare Remedial Plan to the court in November 2005. The plan addresses the most fundamental deficiencies identified in the operation of the housing units and treatment programs for youthful offenders. The CDCR's response to addressing these deficiencies is based on the following principles for comprehensive reform: providing safe, secure facilities; affording effective rehabilitative treatment to reduce recidivism; preparing youthful offenders for reentry into the community; guaranteeing that victims are adequately served in the justice system; and continuously evaluating program quality, outcomes, and effectiveness.

The Safety and Welfare Remedial Plan describes the core program model that will be used to provide rehabilitative programs to every youthful offender committed to the state's jurisdiction and sets forth strategies to reduce living unit size, enhance custody staffing, add dedicated counseling and treatment staff, augment case management resources, and utilize a more refined classification system to better match wards with appropriate housing and treatment programs in existing facilities. These strategies will be implemented on a phased-in basis over five years. In order to implement this plan, the Governor's

Budget proposes \$5.1 million General Fund and 24.3 positions in 2005-06 and \$47.5 million General Fund and 369.4 positions in 2006-07.

Healthcare Remedial Plan

The Governor's Budget proposes \$7.5 million General Fund and 89.7 positions in 2006-07 to implement the Healthcare Remedial Plan submitted to the court in September 2005. This plan outlines various changes needed in the delivery of health care to youthful offenders. These changes include improvement of the management of medical care within youth facilities, access to care, quality of care, and standardized policies and procedures. This proposal ensures that the healthcare program for the state's youth offenders has sufficient staffing coverage and equipment.

Mental Health Remedial Plan

This remedial plan was submitted to the court in November 2005. The plan outlines changes needed in the juvenile mental health program to improve the competence of psychiatric staff, medication assessment, observation therapy, program and quality management, and standardized policies and procedures. These changes also will ensure appropriate disciplinary responses with meaningful mental health treatments for the juvenile offenders. Funding needed to implement this plan will be requested during the spring budget process when better information on the number of positions and level of funding needed is known. We expect the significant cost drivers in this plan will be providing competent and adequate psychiatric staff, ensuring standardization of the program, and providing direct observation therapy.

Education Remedial Plan

The Education Remedial Plan submitted to the court in March 2004 requires lower student to teacher ratios as well as changes to address teacher recruitment and retention. The 2005 Budget Act included funding and positions to implement lower student-to-teacher ratios; however, it did not address specific proposals for teacher recruitment and retention, because they are subject to labor negotiations. While it continues to be the intent of the Administration to address those issues, the labor negotiations in this area are still ongoing. The Administration expects to request funding related to the outcome of these negotiations in the spring.

Ongoing Operational Needs

The Administration made a commitment last year to examine considerable problems in areas such as case records, facility maintenance, health care funding, and equipment replacement. In an effort to honor that commitment, the Budget includes additional resources for case records, facility maintenance, and healthcare funding. While these resources do not fund all the needs in these areas, given the critical role these areas play in the operation of the CDCR, some initial investment is necessary to begin to meet these needs.

Case Records

Over time, proper maintenance and accuracy of inmate and parolee records is essential for the CDCR to perform its mission. This becomes an important security concern when the reception centers do not receive the required files on a timely basis and are forced to house the inmates at inappropriate security levels for longer periods of time. Case records offices have experienced a change in the type of inmate files that have to be processed due to changes in the felon population received by the CDCR. Increasing numbers of violent and life prisoners present more complex cases requiring longer processing times. Furthermore, health care issues have affected the workload. Problems associated with the expanding workload of the case records staff include increased overtime, backlogs, litigation costs, and errors in release times. In this type of environment, the vacancy rates and turnover rates for the clerical workers are unacceptably high. In an effort to reduce these high vacancy and turnover rates, the Administration is proposing that the Department work with the Department of Personnel Administration to create an appropriate classification for the work being performed by case records staff. We expect that this will broaden the classification for this staff, resulting in a deeper class with more opportunities to promote. This could potentially reduce the vacancy and turnover rates, resulting in a more consistent, stable, and skilled workforce that would be more productive and require less training. The Budget includes an increase of \$14.6 million to create an appropriate classification structure for the work being performed by case record staff, provide funding to help digitize discharged offender records, and provide funding to undertake a statewide health records staffing study.

Facility Maintenance

While the Budget does not fully address the CDCR's facility maintenance needs, there is a critical need for additional resources to begin to address critical repairs. This need is

exacerbated with the population at an all-time high, and the loss of capacity from failing to maintain the facilities will increase overcrowding in other areas. The Administration is proposing an additional \$10.3 million to fund specified critical projects for fire, life, and safety, and \$700,000 to assess overall repair and maintenance needs. The CDCR also will develop a more comprehensive plan for the establishment of a true repair and maintenance baseline budget in future years. In addition, the Budget proposes a total of \$10.3 million over two years (\$3 million in 2006-07 and \$7.3 million in 2007-08) to repair electromechanical locking cell doors. The CDCR implemented emergency repairs when it became apparent that inmates were able to manipulate certain doors and exit their cells. These fixes were only temporary until more permanent and lasting fixes could be implemented. These repairs will help ensure the safety and security of the staff, public, and inmates as well as ensuring the CDCR does not lose critical housing options.

Increased Funding For Healthcare Services

The Governor's Budget proposes \$68.1 million General Fund to mend the ongoing budgetary shortfall in the CDCR's healthcare program. Over the past several years, the CDCR's expenditures in contract medical services, pharmaceuticals, and medical guarding have exceeded the level of funding available for these functions. These costs are largely unavoidable if the CDCR is to continue compliance with the *Plata v. Schwarzenegger* court order, which mandates provision of adequate medical care to all inmates. As a result, the Department has historically redirected funding from other critical programs to cover the shortfall in the health care program. This practice has impeded the implementation and accountability of other departmental programs. This funding will address this ongoing base shortfall, restore accountability in the CDCR's health care budget, and protect other critical programs from further reduction.

Incarceration of Undocumented Felons

The California Department of Corrections and Rehabilitation (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 the incarceration of undocumented felons.

Department of Justice

The Governor's Budget includes \$745 million (\$387.2 million General Fund), which reflects an increase of \$40.8 million (\$42.6 million General Fund) above the revised 2005-06 budget and \$49 million (\$54.2 million General Fund) above the 2005 Budget Act. The Attorney General serves as the state's primary legal representative and chief law enforcement officer, and is responsible for ensuring that California's laws are uniformly enforced. The Governor's Budget proposes 5,386.2 positions and includes \$213.3 million for law enforcement programs, \$304.3 million for legal service programs, \$175.6 million for the Criminal Justice Information Services program, \$19 million for the Division of Gambling Control, \$17.3 million for the Firearms Division, and \$15.5 million for Executive Programs.

Firearms Database Workload

The Budget includes an augmentation of \$5 million General Fund and 32.3 positions for workload associated with the Department of Justice (DOJ) Armed Prohibited Persons System (APPS) database. The APPS database was developed pursuant to Chapter 944, Statutes of 2001, which required the DOJ to establish and maintain a database that cross-references persons who possess or own a firearm, and have been subsequently prohibited from owning or possessing a firearm, including persons convicted of a felony or violent misdemeanor, persons who have been committed to a mental health treatment facility, and persons with active restraining orders against them. This augmentation will allow the DOJ to review and analyze records in the database to identify such persons and organize and lead state and local task forces to investigate, arrest, and prosecute these armed prohibited criminals.

Enhancement of California Law Enforcement Telecommunications System

The Budget includes \$2.3 million and 5.6 positions to enhance and support the California Law Enforcement Telecommunications Systems (CLETS), which is a statewide telecommunications network available to all California law enforcement and criminal justice agencies. CLETS routes all criminal justice information between federal, state, and local law enforcement agencies, and provides them with instant access to information such as wanted persons, missing and unidentified persons, criminal offenders, parolees, stolen vehicles, stolen firearms, vehicle registration, driver records, and registered sex offenders. Specifically, the Budget includes \$903,000 General Fund and \$1.1 million Motor Vehicle Account and 2.8 positions to develop and implement network encryption for CLETS. This will ensure that data is protected as it transmits through public telecommunications lines and that the state is in compliance with network encryption standards as required by federal security policy, thus avoiding federal sanctions. The Budget also includes \$327,000 General Fund and 2.8 positions to maintain, improve, and manage CLETS. This augmentation will allow the DOJ to complete an analysis of all changes to the current network and existing security systems to bring DOJ into federal compliance, and to develop policy governing the operation and security of network equipment and related systems. Additionally, this will allow DOJ to address the growth in new service and upgrade applications, and the increase in the number of users and direct connections.

Office of Homeland Security

Consistent with the National Strategy on Homeland Security, the Office of Homeland Security (OHS) develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate the recovery effort. The Governor's Budget proposes \$367.4 million (\$362.2 million Federal Trust Fund and \$5.2 million Antiterrorism Fund) for the OHS. This represents an increase of \$6.1 million (\$5.1 million Antiterrorism Fund and \$1 million Federal Trust Fund) over the revised 2005-06 budget.

In 2005-06, the costs of the OHS are reflected in the budget of Office of Emergency Services. The 2006-07 Governor's Budget reflects technical adjustments necessary for

the OHS to be budgeted as an independent entity, effective January 1, 2007, if legislation is passed to establish the OHS in statute.

Mass Transportation Security Grant Program

The Mass Transportation Security Grant Program will provide resources to regional mass transit agencies throughout the state to enhance the security of California's mass transportation infrastructure. The Governor's Budget includes \$5 million from the Antiterrorism Fund to establish this program.

Science and Technology Unit

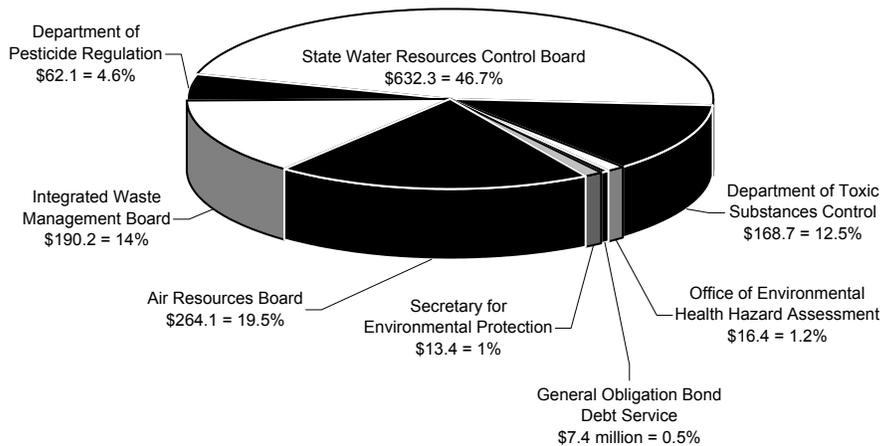
The Governor's Budget proposes \$465,000 Federal Trust Fund and 4.8 positions to establish a Science and Technology Unit within the OHS. This unit will identify technology-based solutions to provide state and local officials with the resources to protect the citizens of California from terrorist threats.

Environmental Protection

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

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

Figure ENV-01
Proposed Environmental Protection Expenditures for 2006-07
All Funds
(Dollars in Millions)



Environmental Protection

The Governor's Budget includes \$1.4 billion (\$71.4 million General Fund and \$1.3 billion other funds) and 4,547.2 positions for CalEPA, which reflects a decrease of \$436.4 million (\$6.7 million General Fund and \$429.7 million other funds) below the revised 2005-06 Budget and \$106.9 million (\$7.5 million General Fund and \$99.4 million other funds) below the 2005 Budget Act. Most of the decrease in funding is attributable to less bond money being available for expenditure in 2006-07. Agency funding provides ongoing support of the following efforts to reduce greenhouse gas emissions that cause climate change, protect California's environment through rigorous enforcement of existing laws, promote a transition to a clean, hydrogen-based transportation system, and improve water quality.

Climate Change Initiative

Greenhouse gas emissions, which trap heat in the earth's atmosphere, create global warming and threaten public health, water supply, and natural ecosystems in California. In response to this threat, the Governor issued an executive order that established bold greenhouse gas reduction targets. Achievement of these targets will reduce emissions to 2000 levels by 2010, 1990 levels by 2020, and to 80 percent below 1990 levels by 2050. The executive order also directed CalEPA to lead a multi-agency Climate Action Team to identify strategies to meet the emission reduction targets.

The Governor's Budget proposes \$7.2 million (\$135,000 General Fund and \$7.0 million other funds) and 23.4 positions to implement greenhouse gas emission reduction strategies, including:

- \$5.2 million (\$3.3 million Air Pollution Control Fund and \$1.9 million Motor Vehicle Account) and 14.8 positions for the Air Resources Board to develop measures that require the use of biodiesel fuel, reduce hydrofluorocarbon emissions, and reduce emissions from heavy-duty vehicles.
- \$900,000 (\$135,000 General Fund, \$405,000 Air Pollution Control Fund, and \$360,000 Motor Vehicle Account) and 1.9 positions for the Secretary of Environmental Protection to lead a coordinated statewide effort to meet the emission reduction targets, including economic analysis and inventory improvement.
- \$612,000 (\$506,000 Energy Resources Programs Account and \$106,000 Public Interest Research, Development, and Demonstration Fund) and 3.8 positions for the

Energy Commission to update the statewide greenhouse gas emissions inventory and accelerate the Renewable Portfolio Standard.

- Twelve redirected positions for the Public Utilities Commission to promote solar energy, expand energy efficiency programs, and examine options for implementing new electric sector carbon policies.
- \$466,000 Integrated Waste Management Account and 2.9 positions for the Integrated Waste Management Board to expand existing efforts to capture methane from landfills and enhance recycling efforts.

Environmental Enforcement

Enforcement of environmental laws helps protect Californians from the adverse effects of environmental pollution. Furthermore, strict environmental enforcement prevents polluters from achieving an unfair competitive advantage over competitors that comply with environmental laws.

The Governor's Budget proposes \$6.2 million special funds and 39.5 positions to strengthen environmental enforcement efforts, including:

- \$4.0 million (\$2.7 million Motor Vehicle Account and \$1.3 million Air Pollution Control Fund) and 19 positions for the Air Resources Board to enforce heavy-duty diesel regulations, evaluate on-board diagnostic systems in vehicles, and replace older testing and diagnostic equipment.
- \$1.5 million Electronic Waste Recovery and Recycling Account and 13.8 positions for the Department of Toxic Substances Control to enhance existing enforcement efforts related to the electronic waste recycling program.
- \$425,000 Pesticide Regulation Fund and 3.8 positions for the Department of Pesticide Regulation to conduct additional pesticide mill assessment audits.
- \$223,000 Electronic Waste Recovery and Recycling Account and 2.9 positions for the Integrated Waste Management Board to investigate fraud in the electronic waste program.

Hydrogen Highways

The use of hydrogen technologies has the potential to significantly reduce air pollution generated from motor vehicles, as well as to reduce energy dependence on fossil fuels. The Governor's Hydrogen Highway Blueprint Plan includes a goal of establishing 50 to 100 hydrogen fueling stations in California. The Budget proposes \$6.5 million Motor Vehicle Account for the Air Resources Board to continue development of the Hydrogen Highway. This funding 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.

Air Quality

The state's economy and quality of life depend upon the efficient and safe delivery of goods to and from our ports and borders. However, transportation activities invariably result in air pollution, which affects the health of children and other vulnerable individuals, increases the costs of health care, and reduces Californians' quality of life. It is time that air quality be proactively integrated into the state's infrastructure plans, rather than simply considered an unavoidable by-product of growth. To this end, 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 for pollution created by ships, locomotives, trucks, and heavy-duty equipment. The Air Board anticipates implementing both regulatory and non-regulatory strategies in this effort.

Water Quality Monitoring

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. According to a recent U.S. EPA report, the state has the ability to report on the water quality of 22 percent of the coastal shoreline, 34 percent of the lakes and reservoirs, and 15 percent of the rivers and streams. The Governor's Budget proposes an additional \$8.5 million (\$4.5 million federal funds and \$4 million Waste Discharge Permit Fund) to enhance existing water monitoring efforts. These funds will be

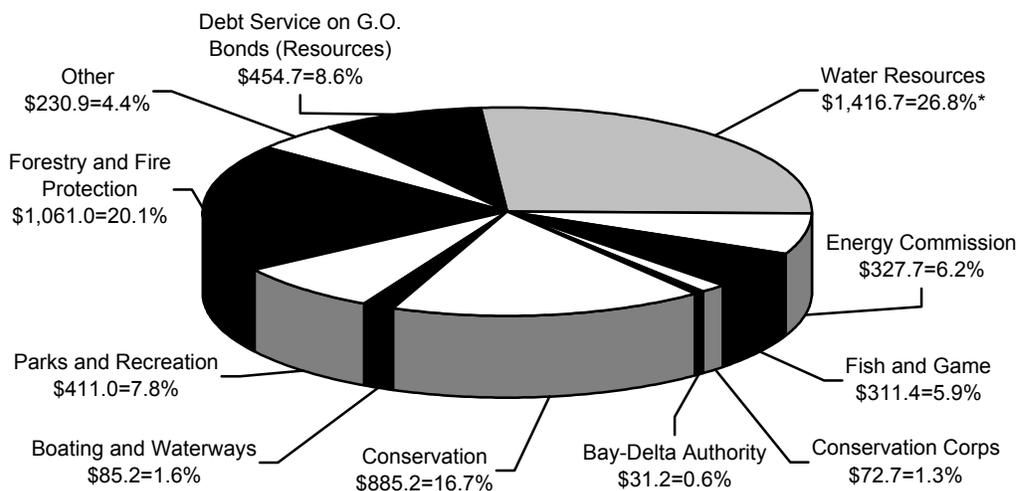
used to expand the Water Board's own monitoring activities, as well as to integrate existing monitoring data collected by various state and local agencies into the Water Board's Surface Water Ambient Monitoring Program.

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Resources

The Resources Agency oversees the activities of 25 departments, boards, commissions, and conservancies responsible for the protection and enhancement of California's diverse and spectacular cultural, historical, and natural resources. The Governor's Budget proposes \$10.3 billion (\$1.5 billion General Fund) and 16,134 positions for state operations, local assistance, and capital outlay for the various entities within the Resources Agency (shown in Figure RES-01). This represents a decrease of \$1.6 billion from 2005-06 (an

Figure RES-01
Proposed Resources Expenditures for 2006-07
All Funds
 (Dollars in Millions)



* Does not include \$5.0 billion in Electric Power Fund.

Resources

increase of \$141 million General Fund and a decrease of \$1.8 billion in other funds) and an increase of 206 positions. The decrease in other funds is largely attributable to a reduction in bond funding available for expenditure in 2006-07.

The Governor's Budget recognizes extraordinary revenues from the state's tidelands oil leases and has invested significant portions of this funding in one-time programs while also identifying priorities for reliable funding from this General Fund revenue source. The Administration continues its commitment to protect the state's natural resources through the following efforts:

- A multi-year flood management program in the Central Valley administered by the Department of Water Resources (\$35 million).
- Lining of the All-American and Coachella canals, consistent with the Quantification Settlement Agreement (\$84 million).
- Continued funding for the CALFED program to ensure water supplies and improve sensitive Delta ecosystems (\$244 million).
- Additional funding for fish hatcheries, the Wild and Heritage Trout program, and the Coho Salmon Recovery Plan, all coordinated by the Department of Fish and Game (\$10 million).
- Water and soil remediation measures at the Empire Mine State Historical Park (\$5 million).

Department of Water Resources

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

In addition to its water resource related mission, the DWR played a vital role in helping the state weather the energy crisis of 2001. The DWR purchased vast quantities of electricity on behalf of utilities when they were unable to do so. Although the state's investor-owned utilities have resumed the responsibility for purchasing electric power for their customers,

the DWR will expend \$5 billion from the Electric Power Fund for the purchase of electric power through long-term contracts entered into during the crisis. These costs are borne by electricity ratepayers.

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$1.4 billion (\$247 million General Fund) for the DWR, which reflects an increase of \$17 million General Fund and a decrease of \$101 million in other funds compared to the revised 2005-06 budget, and an increase of \$682 million (including \$45 million General Fund) above the 2005 Budget Act. The decrease in other funds compared to the revised 2005-06 budget is primarily due to expiring bond funding, while the increase in other funds compared to the 2005 Budget Act is mainly due to technical changes in the way State Water Project energy purchases are accounted. Of the total funds proposed, \$801 million from special funds will be expended for the operation of the State Water Project, which provides irrigation water for thousands of acres in the San Joaquin Valley and drinking water for millions of individuals in Southern California. This amount represents a decrease of \$9 million compared to the 2005 Budget Act. In addition, \$152 million will be spent on flood control and dam safety activities that protect billions of dollars of land, buildings, and infrastructure.

As the result of a court decision, *Paterno v. State of California*, the state is facing increased liability for the structural integrity of 1,600 miles of aging levees in the Sacramento and San Joaquin Valley flood control system. To 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 six new or continuing flood control capital projects: Folsom Dam Modifications, American River Common Features, Sacramento River Bank Protection, Folsom Dam Raise, American River Natomas Features, and Upper Sacramento River Levee Restoration.

Funding of \$84 million is provided to continue lining the All-American and Coachella canals in accordance with the Quantification Settlement Agreement, under which California has agreed to reduce its use of Colorado River water. The canal lining projects are expected to save approximately 100,000 acre-feet of water annually. This funding represents the expenditure of monies originally appropriated for this purpose in Chapter 813, Statutes of 1998.

The Governor's Budget also includes funds to continue the DWR's work on CALFED-related programs and various other water management activities, including projects to improve water storage, water use efficiency, and water conveyance.

Consistent with its interest in restoring and improving California's infrastructure, the Administration will propose the sale of \$9 billion in General Obligation bonds for new water projects. Of this total, \$6.5 billion will be dedicated to Integrated Regional Water Management, as called for in the California Water Plan, for projects to improve drinking water quality and protect public health, and for research and development efforts that will address the energy requirements, costs, and environmental issues related to desalination. Additional detail on these bonds can be found in the Strategic Growth Plan section of the Budget Summary.

California Bay-Delta Authority

The CALFED Bay-Delta Program is a multi-agency effort by the state and the federal government to coordinate the management of water, California's most precious natural resource, and restore the ecosystem of the San Francisco Bay-Delta region. The Governor's Budget includes \$244 million for the state's share of the CALFED Program (\$26 million General Fund and \$218 million other funds). This represents an overall reduction in program funding of \$80 million compared to the revised 2005-06 budget, and an increase of \$11 million compared to the 2005 Budget Act. The revised 2005-06 amount includes significant carryovers of funding from 2004-05. The California Bay-Delta Authority will have 71 positions to coordinate the CALFED program (no change from 2005-06).

Program objectives are set forth in a 30-year comprehensive plan to address the ecosystem health and water supply reliability problems in the Bay-Delta region. The plan identifies projects and strategies to address 11 major program elements, including ecosystem restoration, drinking water quality, levee system integrity, watershed management, water storage, water transfers, water use efficiency, delta water conveyance, a strong science element, water management, and an environmental water account for water purchases.

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

Program Improvement

A firm belief in the promise of CALFED and concern over its future prompted Governor Schwarzenegger in May to request the following actions to allow the CALFED Program to move forward and focus on addressing the highest priority issues associated with the conflicts in the Delta:

- An independent management and fiscal review.
- A refocusing of the efforts of the California Bay-Delta Authority and the other CALFED state agencies on solving conflicts associated with Delta water supply, water quality, levee stability, and the environment.
- A plan that focuses on solving the highest priority Delta issues, links future water user payments to specific program actions, and includes funding from the state, federal, and local levels consistent with the beneficiaries-pay principle.

In response to the Governor's direction, a 10-Year Action Plan has been prepared. The 10-Year Action Plan incorporates the results and findings from the Department of Finance's fiscal and program reviews and the independent review of CALFED governance conducted by the Little Hoover Commission. The Plan defines specific implementation actions to be taken over the next three years and lays out possible program directions based on various critical decisions to be made. It 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. In addition, it includes recommendations for improvements to program and fiscal management for the implementing agencies and the California Bay-Delta Authority. The following are the key components included in the 10-Year Action Plan:

- Changes in Governance.
- Program and Fiscal Management Improvements.
- Refocused CALFED Program Priorities.
- Create a 100-Year Delta Vision.
- Develop a Near-Term Funding Plan.
- Develop a Conservation Plan for the Sacramento River, San Joaquin River, and the Delta.

Department of Fish and Game

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

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$316 million (\$54 million General Fund), which reflects an overall decrease of \$63 million (including an increase of \$11 million General Fund) compared to the revised 2005-06 budget and a decrease of \$7 million (including an increase of \$14 million General Fund) compared to the 2005 Budget Act. The reduction in non-General Fund resources is primarily attributable to a decline in available bond funding.

The Budget includes the following funding for programs administered by the Department of Fish and Game:

- \$6 million General Fund to prevent reductions to programs previously funded from the Fish and Game Preservation Fund. Recently enacted legislation, Chapter 689, Statutes of 2005 (AB 7), requires one-third of all sport-fishing license fees to be dedicated to achieving fish hatchery production goals and supporting trout restoration programs. The proposed funding will backfill the resources redirected by the legislation and thereby prevent adverse effects to other critical programs in the Department.
- \$4 million General Fund to prevent program reductions due to insufficient licensing fee revenues in the Fish and Game Preservation Fund.
- \$4 million General Fund to continue local grants to restore habitat for Coho salmon and steelhead trout.
- \$1.5 million from Bay-Delta angling fee revenue to improve sport fishing in the region.

Department of Parks and Recreation

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

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$411 million (\$113 million General Fund), which reflects an overall decrease of \$426 million (including an increase of \$12 million General Fund) compared to the revised 2005-06 budget and a decrease of \$57 million (with an increase of \$12 million General Fund) compared to the 2005 Budget Act. The reduction in non-General Fund resources reflects the fact that less bond and capital project funding will be available for expenditure in 2006-07. The Budget includes \$5 million General Fund for contamination remediation measures at the Empire Mine State Historic Park and \$1.4 million General Fund to augment current efforts to ensure safe drinking water and wastewater systems at park facilities. The Budget also includes \$11.8 million (\$11.2 million General Fund) to continue bringing the state parks into compliance with the Americans with Disabilities Act.

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Energy

An ample and reliable energy supply is essential for a vigorous economy. The state plays a central role in encouraging energy supply, transmission, and efficiency investments by:

- Supporting the development of renewable energy.
- Encouraging energy efficiency and demand response programs that reduce energy use.
- Establishing an energy market structure based on choice and competition.
- Representing state interests at the federal level.
- Coordinating regional energy policy with nearby states.
- Providing energy information to Californians.
- Promoting long-term energy contracts and adequate planning reserves.

The California energy crisis of 2000-01 was caused by a number of factors, including faulty market design, energy supply shortages, and transmission line bottlenecks.

The Administration has pursued a number of policies to encourage the development of renewable energy and establish competitive wholesale and retail electricity markets.

In addition, the Administration has proposed a comprehensive reorganization of the state's energy departments.

Under the current organizational structure, the state's energy policies are established by eight separate state organizations. This fractured and overlapping set of agencies leads to inefficiency, confusion, and an incoherent state energy policy. In 2002, the Bay Area Economic Forum, a public-private partnership of business, government, university, labor and community leaders, made the following comments about the state's energy organizational structure:

"Despite the wake-up call delivered by the energy crisis of 2000-2001, the state still does not have a clear and well-integrated power policy in place. Instead, the state has a complex patchwork of different agencies—each making critical decisions regarding the power industry—without a common vision or philosophy. The state's energy infrastructure is critical to its economy and the well-being of Californians, yet the current low level of investment in generation and transmission facilities—caused at least partly by the lack of a coherent, long-term strategy for managing the power system and lack of retail demand responsiveness—could lead to another power crisis."

California clearly needs a more comprehensive approach for energy policy development to reduce regulatory uncertainty in the marketplace and attract additional investment in new resources and energy infrastructure necessary to meet future demand.

The Administration is sponsoring legislation to create the Department of Energy. This Department will enable the state to set a strategic direction for California's future energy needs, sharpen policy development and program implementation, and eliminate duplication of effort. Specifically, the reorganization will consolidate the state's authority for energy policy and all related functions into the Department of Energy, which will provide a single point of accountability. The reorganization vests authority for a unified, integrated state energy policy with a Cabinet-level Secretary of Energy.

Specific functions of the Department of Energy will include:

- Transmission line siting.
- Representation before the Federal Energy Regulatory Commission.
- Development of public interest energy research on renewable energy technology.
- Petroleum fuels supply and demand analysis.

- Natural gas supply and electricity demand forecasting.
- Renewable energy portfolio standards program.
- Energy efficiency standards.

California Energy Commission

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

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$327.7 million special funds and 492.4 positions for the Energy Commission, which reflects a decrease of \$105.9 million below the revised 2005-06 budget. This decrease reflects the fact that current year expenditures for continuously appropriated subsidies paid through the Renewable Energy Program will include carryovers from prior years, while the budget year will not include such funds. However, the Budget proposes an increase of \$11.0 million above the 2005 Budget Act. Significant adjustments include the following:

- **Climate Change Initiative**— As described in the Environmental Protection section, the Budget proposes \$7.2 million (\$135,000 General Fund and \$7.0 million other funds) and 23.4 positions to implement greenhouse gas emission reduction strategies. This funding includes \$612,000 (\$506,000 Energy Resources Programs Account and \$106,000 Public Interest Research, Development, and Demonstration Fund) and 3.8 positions for the Energy Commission to update the statewide greenhouse gas emissions inventory and accelerate the Renewable Portfolio Standard.
- **Alternative Fuels**— The Budget proposes \$500,000 Energy Resources Programs Account to implement AB 1007, which requires the development of recommendations to increase the use of alternative fuels. Specifically, the Energy Commission will evaluate fuel-cycle emissions and the in-state production of alternative fuels, and will encourage consumer use of alternative fuels.

Public Utilities Commission

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

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$1.2 billion special funds and 884.5 positions for the PUC, which reflects an increase of \$18.7 million above the revised 2005-06 budget and \$19.1 million above the 2005 Budget Act. Significant adjustments include the following:

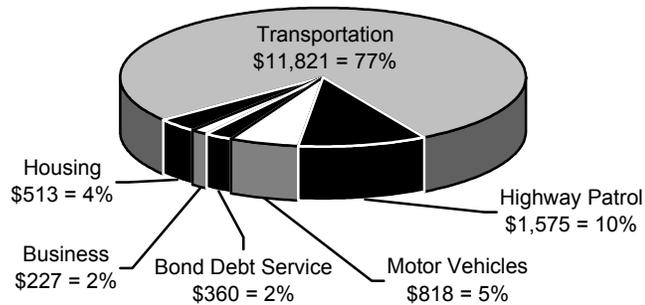
- **Climate Change Initiative**— As described in the Environmental Protection section, the Budget proposes \$7.2 million (\$135,000 General Fund and \$7.0 million other funds) and 23.4 positions to implement greenhouse gas emission reduction strategies. The Budget proposes to redirect 12 positions within the PUC to promote solar energy, expand energy efficiency programs, examine options for implementing new electric sector carbon policies, and carry out other activities in support of the Governor's Climate Change Initiative.
- **Telecommunications Bill of Rights**— The Budget proposes \$9.9 million PUC Utilities Reimbursement Account and 28 positions to support the Telecommunications Bill of Rights. This funding will be used to inform consumers of their rights through a public outreach campaign and enhance consumer complaint and enforcement activities.
- **Rail Safety**— The Budget proposes \$1.4 million (\$946,000 PUC Transportation Reimbursement Account, \$252,000 State Highway Account, and \$180,000 Public Transportation Account) and 14.2 positions to enhance rail safety through additional accident investigations, evaluations of quiet zone notices, railroad inspections, and oversight of rail transit agencies' homeland security programs.

Business, Transportation, and Housing

The Business, Transportation, and Housing Agency includes programs that: plan, build, and maintain California's state transportation systems; ensure efficient and fair markets for the real estate industry, health care plans, and certain financial businesses; and assist community efforts to expand the availability of affordable housing. The Agency also contains programs that assist financing the state's infrastructure, small business expansion, and economic development by encouraging and

promoting economic activity and investment within the state. In addition, the Agency contributes to public safety through the law enforcement activities of the California Highway Patrol and the Department of Alcoholic Beverage Control. Figure BTH-01 displays the funding proposed in the Business, Transportation, and Housing portion of the Governor's Budget from all fund sources. The majority of the funding is provided by special fund revenues and federal funds. General Fund expenditures are primarily for transportation projects and operations pursuant to Proposition 42, and general obligation bond debt service for transportation projects, bridge seismic retrofit, and housing.

Figure BTH-01
**Business, Transportation, and Housing Agency
2006-07 Expenditures
(Dollars in Millions)**



Transportation Overview

The Department of Transportation, the California Transportation Commission, the California Highway Patrol, the Department of Motor Vehicles, the Office of Traffic Safety, and local government agencies administer transportation and related public safety programs.

Transportation funding comes from state and federal fuel taxes, the sales and use tax on fuel, motor vehicle licensing and registration fees, weight fees for trucks, and local sales taxes. The Governor's Budget proposes total expenditures of \$14 billion in 2006-07 for roads, highways, mass transit and intercity rail, vehicle licensing and registration, and highway law enforcement. This is an increase of \$2.9 billion from the 2005 Budget Act and a decrease of \$770 million from the revised 2005-06 expenditure estimates.

Strategic Growth Plan

Since the 1960s, the usage of the state highway system has dramatically changed.

For example:

- Total registered vehicles increased from approximately 9 million in 1960 to over 30 million in 2005.
- Vehicle miles traveled in 1960 were 33.3 billion; today the total is 183.7 billion.
- Over the next ten years, daily vehicle hours of delay are projected to increase from over 550,000 hours to 750,000 hours, assuming the recent pace of investment.

In response to these conditions, Governor Schwarzenegger has proposed the Strategic Growth Plan, part of which is a historic comprehensive transportation package that incorporates GoCalifornia, a ten-year mobility action plan launched by the Administration last year. The plan is designed to decrease congestion, improve travel times, and preserve and enhance the state's existing transportation networks. This will be done by both deploying demand-management strategies and building new capacity to increase "throughput" in the transportation system. This plan will accommodate the transportation needs from growth in the population and the economy while reducing congestion below today's levels. The plan also proposes reforms to accelerate project delivery (design-build and design sequencing) and to authorize public-private partnerships for joint ventures with the private sector to leverage public resources.

Goods movement and trade infrastructure is an important component of the Strategic Growth Plan and a major focus for the Administration. At the same time, the environmental impacts from goods movement activities must be reduced to ensure protection of public health. Improving the essential infrastructure needed to move goods from California's ports throughout California with a focus on the entire "coast to border" system of facilities, including seaports, airports, railways, dedicated truck lanes, logistics centers, and border crossings, is important to the future of California.

The ten-year plan consists of the following components:

- \$21.2 billion to expand and complete the High Occupancy Vehicle lane system and major projects on state interregional routes.
- \$18.9 billion to expand trade corridors and regional priorities.
- \$18.9 billion for a capacity expansion on major corridors of the highway system by strategies such as adding auxiliary lanes, using technology to assist drivers and improving interchanges.
- \$4.5 billion to expand existing transit rail, and to add new urban commuter rail and intercity passenger rail.
- \$28.9 billion for rehabilitation and preservation of the state highway system.
- \$7.9 billion for safety and operational improvements on the state highway system.
- \$3.0 billion for transportation technology and intelligent transport systems.
- \$943 million to expand park and ride opportunities and bicycle and pedestrian routes.
- \$471 million to improve transit and rail services.
- \$297 million to expand the Freeway Service Patrol.

Funding is proposed from \$47 billion in existing transportation funding sources such as the gas tax, Proposition 42, and federal funds. Full Constitutional protection for Proposition 42 will also be proposed. New funding sources such as revenue bonds against the gas tax and federal funds, public-private partnerships, expanded and new local measures, and additional federal funds comprise an additional \$48 billion.

1st bond (2006-07 through 2010-11)—\$6 billion

- \$1.7 billion to increase highway capacity.
- \$1.3 billion for safety and preservation improvements to the state highway system.
- \$1 billion for port improvements mitigation related to programs and projects that reduce diesel emissions and mitigate other community impacts.
- \$1 billion for goods movement infrastructure, to reduce congestion, and enhance port productivity.
- \$400 million for transit and intercity rail improvements.
- \$300 million for corridor mobility improvements.
- \$200 million for Intelligent Transportation Systems.
- \$100 million for park and ride opportunities and bicycle and pedestrian improvements.

2nd bond (2011-12 through 2016-17)—\$6 billion

- \$3.6 billion for highway projects that provide congestion relief and meet or exceed performance measures.
- \$2 billion for goods movement improvements.
- \$200 million for safety and preservation projects.
- \$100 million for additional intercity rail expansion.
- \$100 million for park and ride opportunities and bicycle and pedestrian improvements.

Other Significant Transportation Funding Proposals

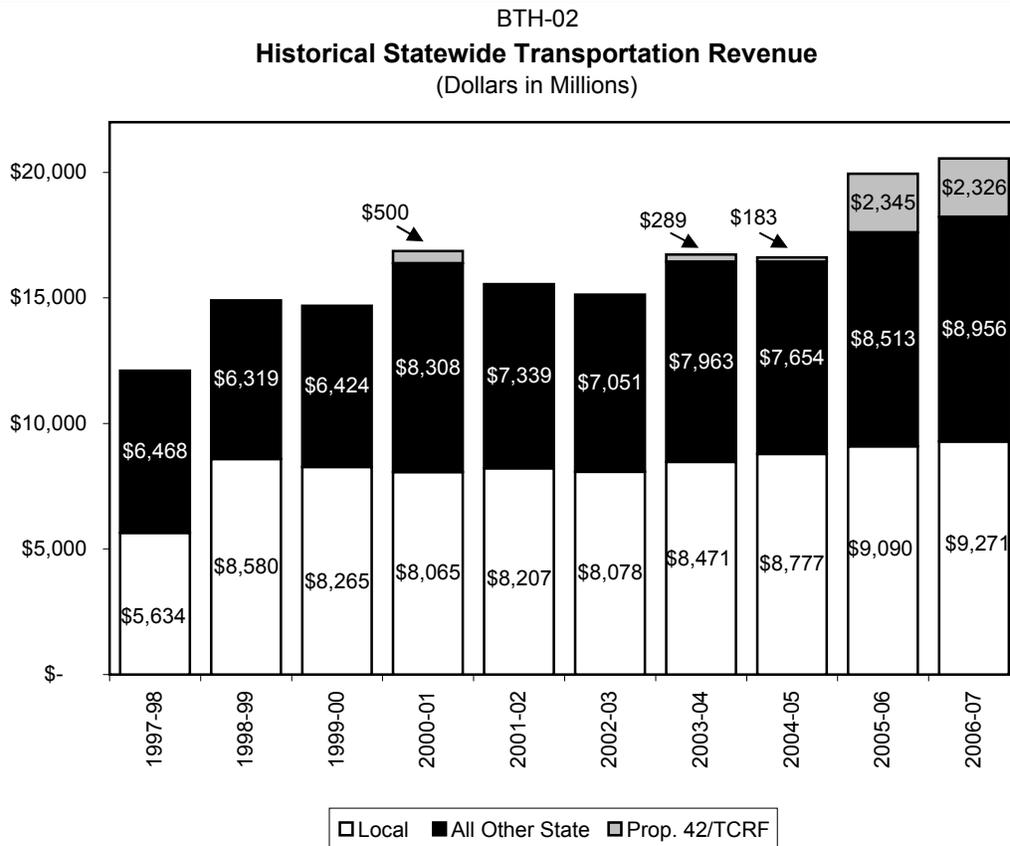
- \$1.4 billion for full funding of Proposition 42 in 2006-07.
- \$920 million for advance payment of a portion of the Proposition 42 loan due in 2007-08 (including interest). Approximately \$430 million (including interest) remains to be paid in 2007-08.
- \$975 million of increased federal funding in both 2005-06 and 2006-07.

- \$36.7 million for 240 more California Highway Patrol (CHP) officers.
- \$56.2 million as part of a five-year plan to upgrade and replace the CHP radio system, contributing significantly to communications reliability in everyday work and in emergencies.
- \$6.5 million for additional CHP staff to handle increased cellular 9-1-1 call volume.

Resources for Transportation

Through ports, rail, and highway corridors, California’s transportation system supports the mobility of goods and people, creates jobs, and leverages local and federal resources for critical mobility and air quality projects.

Figure BTH-02 outlines current total statewide transportation resources, which are estimated to be approximately \$20.6 billion in 2006-07, a 3.5-percent increase from



\$19.9 billion in the current year. Local gas tax distributions are shown in the General Government section of the Budget in Item 9350 (Shared Revenues). Similarly, Proposition 42 distributions for local streets and roads are shown in Item 9350.

Proposition 42

Approved by voters in March 2002, Proposition 42 amended the State Constitution to transfer state sales taxes on gasoline from the General Fund to transportation purposes beginning in 2003-04. The initiative replaced the similar Traffic Congestion Relief Fund (TCRF) that began in 2000-01. That proposition included a provision that allows the Governor and the Legislature to suspend the sales tax transfer in a fiscal year when the transfer would result in a significant negative fiscal impact on government functions funded by the General Fund. The Proposition 42 transfer was partially suspended in 2003-04 and fully suspended in 2004-05 due to the inability of the General Fund to support the full transfer. However, the transfer was fully funded in 2005-06. 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 \$1.4 billion for the 2006-07 fiscal year. The transfer will be distributed in the following manner: \$678 million to the TCRF, \$582 million to the State Transportation Improvement Program, and \$146 million to the Public Transportation Account. Pursuant to current law, cities and counties are not scheduled to receive any local streets and roads maintenance funds from Proposition 42 in both 2006-07 and 2007-08. The state provided what would have been their share in 2001-02 and 2002-03, even though no General Fund transfer occurred in those years due to fiscal constraints.

In addition, the Budget also proposes to prepay a portion of the 2004-05 Proposition 42 loan that is due to be repaid in 2007-08. \$920 million will be allocated in the following manner: \$410 million to the TCRF, \$255 million to the State Transportation Improvement Program, and \$255 million to cities and counties. These amounts include all accrued interest, which is estimated to be \$46 million. This prepayment, combined with the full funding of the base transfer, will provide an additional \$2.3 billion for transportation in 2006-07. Approximately \$430 million (including interest) is scheduled to be repaid in 2007-08.

Tribal Gaming Bonds

The 2005 Budget Act assumed repayment of a portion of outstanding transportation loans with \$1 billion in bond proceeds derived from certain Indian gaming revenues to specified transportation programs. This transportation funding package will eventually provide \$465 million to the State Highway Account, \$290 million to the Traffic Congestion Relief Program, \$122 million to the Public Transportation Account, and \$122 million to be allocated on a formula basis to cities and counties for local streets and roads rehabilitation and restoration projects.

There have been several lawsuits that have prevented the bonds from being sold in the 2004-05 fiscal year. At this time, one pending lawsuit has the potential to delay the issuance of the bonds, and another case that challenged the bonds, though recently dismissed, may be appealed. However, in anticipation of being able to proceed with the sale, the California Infrastructure and Economic Development Bank authorized, in mid-November 2005, the sale of the compact revenues, which is the first step in the process. The Budget assumes the bond sale will occur in the spring of 2006. That date will continue to be adjusted as the legal issues are evaluated.

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 transit for the five-year period of 2005-2009.

California highway apportionments increased from an annual average of \$2.6 billion, to an annual average of \$3.3 billion. This is an approximate 28-percent increase in average annual funding levels over provisions of the previous transportation authorization bill, which expired in September 2003.

The Budget includes approximately \$2 billion in 2005-06 and 2006-07 due to the increased apportionments included in SAFETEA-LU.

Traditional State Transportation Revenues

The Governor's Budget forecasts gas and diesel excise tax revenues to increase by approximately 2.4 percent in 2006-07, from \$3.4 billion to \$3.5 billion. These funds are distributed to the State Highway Account and cities and counties for transportation purposes.

The Budget suspends the transfer of sales tax revenues to the Public Transportation Account in 2006-07. The 2005 Budget and subsequent legislation suspended the transfer for two years, and for 2006-07, specified that the first \$200 million of spillover be retained in the General Fund, the next \$125 million go toward the Bay Bridge seismic retrofit project, and any remaining revenues be transferred to the Public Transportation Account. These revenues, which total approximately \$325 million, are expected to be sufficient to fund only the transfers to the General Fund and Bay Bridge project. The spillover revenues are available only when revenues from the gasoline sales tax at the 4.75 percent rate exceed revenues from all taxable sales at the 0.25 percent rate and dates back to the establishment of sales tax on gasoline in 1972. In most years, no spillover transfer occurs; however, there has been spillover the last four fiscal years and additional spillover is expected to continue, given high gasoline prices. Other sales tax revenues deposited in the Public Transportation Account are \$324 million in 2006-07, a modest decrease of \$3 million over the current year.

California imposes weight fees on commercial vehicles and heavy pickup trucks based on the vehicle's laden weight, i.e., the heavier the vehicle, the greater the fee. The Budget anticipates weight fee revenues to be \$915 million in 2005-06 and \$961 million in 2006-07. These fees are deposited into the State Highway Account.

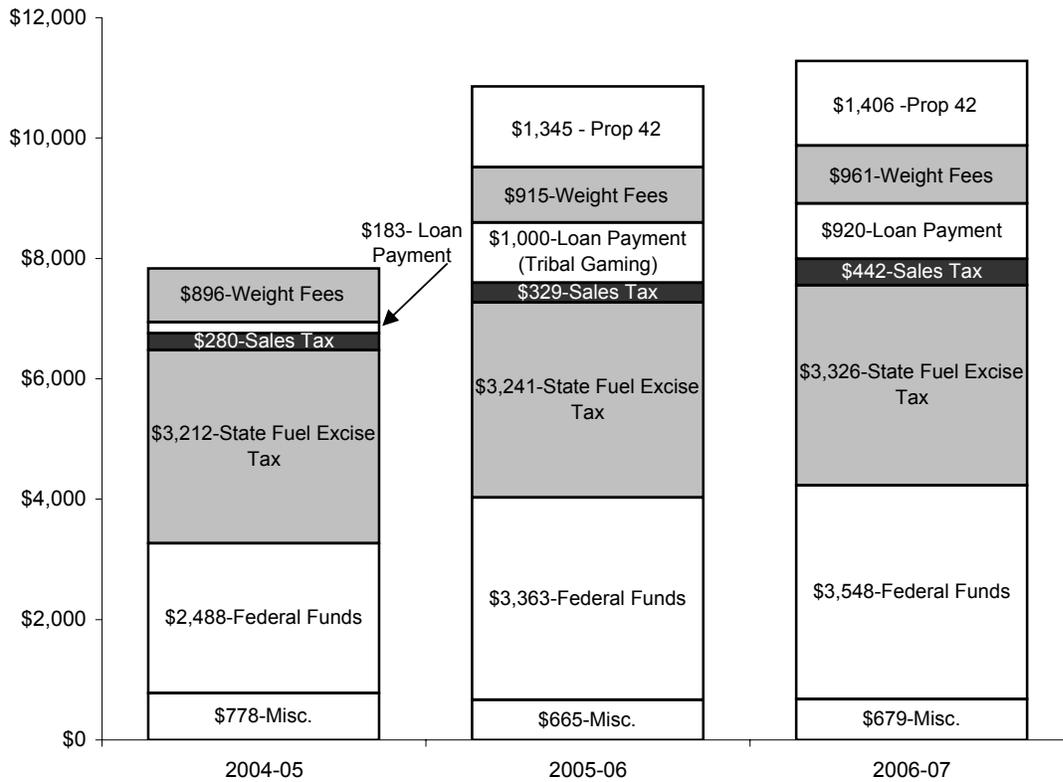
Department of Transportation

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects.

The Governor's Budget proposes \$11.5 billion, \$9.2 billion from non-General Fund sources, for the Department of Transportation. This reflects a decrease of \$898.8 million but an increase of 234 positions from the revised 2005-06 budget and \$2.8 billion above the 2005 Budget Act. While funding in the budget year is \$890 million less than in the current year, this is due largely to 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 projected to be 30 percent higher than it was in 2004-05, and overall transportation spending is increasing by 39 percent during this same period.

Transportation projects and operations generally are supported by dedicated special funds and federal funds. This approach guarantees funding for multiyear planning processes that need sustained revenues to fund large projects. Figure BTH-03 shows total state revenues over the last three fiscal years.

Figure BTH-03
State-Only Transportation Revenues
 (Dollars in Millions)



- The Proposition 42 transfer was fully suspended in 2004-05. The transfer was fully funded in 2005-06 and is proposed to be fully funded in 2006-07.
- The one-time tribal gaming revenues in 2005-06 are to repay transportation loans made in previous years. The one-time General Fund loan repayment in 2006-07 is to prepay a portion of the \$1.258 billion 2004-05 Proposition 42 loan that is due in 2007-08.
- "Misc." includes Prop 116 & 192, Toll Revenue Bonds, and Toll Bridge revenues.

Capital Outlay

A 2006-07 authorization level of \$4.8 billion is proposed for transportation capital outlay programs as compared to \$6.2 billion in the current fiscal year. The 2006-07 total includes \$2.3 billion from the General Fund, \$1.2 billion from the State Highway Account, \$1.1 billion in federal funds, and \$90 million from other special funds.

2006 State Transportation Improvement Program Fund Estimate

The California Transportation Commission adopted the 2006 State Transportation Improvement Program (STIP) Fund Estimate in September 2005. The Fund Estimate is an approximation of all resources available for transportation over a five-year period. The 2006 STIP covers a five-year period from 2006-07 through 2010-11. The adopted plan assumes total programming capacity of approximately \$5.6 billion. Of this amount, \$3.8 billion is carried over from the 2004 STIP, which was constrained by inadequate resources. The 2006 STIP fully funds what would have been addressed by the 2004 STIP, and also adds \$1.8 billion in new programming capacity. This STIP programming level is possible due to Governor Schwarzenegger's funding the Proposition 42 transfer and repaying transportation loans. The STIP Fund Estimate assumes current law including full Proposition 42 distributions and repayment of Proposition 42 loans. The Governor's Budget reflects an acceleration of \$920 million in loan repayments, and the recent reauthorization of federal transportation funding has also produced over \$550 million more in both 2005-06 and 2006-07 than was assumed in the STIP Fund Estimate. Consequently, significantly more funding is proposed to be available than assumed in September. The California Transportation Commission will reflect the amounts finally included in the Budget in the 2006 STIP.

State Highway Operation and Protection Program

The State Highway Operation and Protection Program (SHOPP) is comprised of projects that reduce collisions and hazards to motorists, preserve bridges and roadways, enhance and protect roadsides, and improve operation of the state highway system.

The 2006 Fund Estimate assumes \$12.9 billion in SHOPP funding from 2006-07 through 2010-11. For 2006-07, \$1.7 billion is included in the Budget.

Toll Bridge Seismic Retrofit Program Funding Shift

Chapter 71, Statutes of 2005, provided an additional \$3.6 billion in funding to complete the East Span and other seismic projects, and to transfer all financial project oversight responsibility to the Bay Area Toll Authority (BATA). Chapter 71 also shifted financial responsibility for the maintenance of all seven state-owned toll bridges to BATA. Caltrans will continue to perform certain bridge-related activities, including construction work, design and engineering, as well as bridge maintenance. These activities will be funded on a reimbursement basis. The Budget reflects the transfer of those responsibilities to BATA and a shift of \$1.1 billion from direct funding from state sources to reimbursements. The net effect of this transfer on the Caltrans budget is a reduction of \$1.5 million and 11 positions.

Capital Outlay Support

Caltrans will submit its traditional zero-based Capital Outlay Support request as part of the May Revision. Caltrans estimates its capital outlay workload needs in the spring because it has a better idea of which projects will be allocated by the California Transportation Commission in the upcoming year and what the appropriate resource level is to deliver those projects.

Local Assistance Programs

Caltrans provides state and federal transportation funds to local agencies through its local assistance budget. Funds are used primarily for local capital improvement projects on the state highway system, mass transit capital improvement projects, and local bridge improvement projects. Funds are also used to provide discretionary assistance to local transportation agencies. The Governor's Budget proposes \$3.3 billion in local assistance funding for transportation in 2006-07, including \$978 million for local mass transportation projects. The total is comprised of \$191 million from the State Highway Account, \$1.8 billion in federal funds, and \$1.3 billion from other special funds.

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

State Operations Budget

The Governor's Budget proposes \$3.4 billion in state operations funding to support transportation in 2006-07, including \$2.3 billion from the State Highway Account, \$576 million in federal funds, and \$530 million from other special funds. This funding level represents a decrease of \$308 million compared to currently estimated 2005-06 expenditures. While funding for state operations in the budget year is \$308 million less than in the current year, this is due largely to an increase of \$122 million in current year reimbursements associated with the San Francisco-Oakland Bay Bridge seismic retrofit project.

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.

Included in this total are \$588,000 and 9 positions to maintain the new Route 125 private toll road in San Diego County when it opens in October 2006. Caltrans will be reimbursed for these costs by California Transportation Ventures, Inc., the entity that operates the toll road.

Rail Operations

The Budget includes \$112 million and 148 positions to manage and coordinate intercity rail passenger services 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.

Stormwater Implementation

In response to an April, 2004 court mandate to employ structural storm water treatment best management practices, as well as total maximum daily load regulations set by local and regional water quality control boards, Caltrans will request additional resources in the spring. This is a continuation of a commitment by Caltrans to curtail the level of pollution and sediments that enter the streams, rivers, and ocean waters of the state as runoff from the state highway system.

Integrated Financial Management System

The Budget proposes \$3.1 million and 12 three-year limited-term positions for the first year of the procurement and implementation of the Integrated Financial Management System. Total project costs are estimated to be \$20.8 million and 12 positions over three years.

This proposal would begin to implement the findings of Caltrans' Information Technology Integration Study by replacing Caltrans' general ledger, accounts payable, and accounts receivable systems with a commercial off-the-shelf application. The Integrated Financial Management System will replace approximately 70 existing financial systems, will result in personnel savings of approximately 35 positions, and will serve as the basis for other improvements that were identified as necessary in the Information Technology Integration Study.

Construction Management System

The Budget proposes \$950,000 and 3 positions to begin the replacement of Caltrans' antiquated construction management system. Total project costs are estimated to be \$21.2 million and 9 limited-term positions over four years. The new system will improve Caltrans' project management capabilities by providing timely and complete project information and will minimize costs associated with the late payment of contractors. This new system was also recommended by the Information Technology Integration Study.

Alternative Fuel Vehicles

The Budget includes \$4 million to continue replacing part of the Caltrans fleet in order to comply with new clean-air regulations imposed by the South Coast Air Quality Management District.

Fuel Costs

The Budget includes \$5.2 million to cover the increased cost of fuel.

Owner Controlled Insurance Program

The Budget includes \$1.4 million and 1 position, on a three-year limited term basis, to implement an Owner Controlled Insurance Program. Currently, contractors include insurance costs in their bids including an overhead cost, which is calculated as a percentage of the insurance cost. When projects are completed, any rebates from insurance carriers resulting from lower-than-expected claims are retained by the contractor. Under this

proposal, insurance for a project is purchased by the state instead of by the contractor, and can result in an immediate savings by eliminating the need for the state to pay a premium to the contractor for purchasing insurance. Caltrans proposes to use this approach for 82 projects, each with an estimated cost of \$25 million or more and a combined total cost of \$5.2 billion.

High-Speed Rail Authority

The High-Speed Rail Authority is charged with planning the development and implementation of an intercity high-speed rail service. Chapter 697, Statutes of 2002, proposed placing a \$9.95 billion general obligation bond measure before voters in 2004 to fund the planning and construction of the system. Chapter 71, Statutes of 2004, deferred the vote until November 2006. The Administration is proposing to postpone the vote indefinitely. The Governor's Budget proposes \$1.3 million, all from non-General Fund sources, and 3.5 positions for the Authority. This represents a decrease of \$2.6 million from the revised 2005-06 budget and the 2005 Budget Act. This reduction is due to the removal of one-time augmentations in 2005-06 for the Authority to develop a business plan and for work related to the Environmental Impact Report. The remaining funding will be redirected to work on developing new high-speed transportation alternatives.

Highway Safety

Maintaining and promoting safety on California's highways and roads is a critical function of state government. This is accomplished by:

- Patrol and enforcement.
- Ensuring the competency of drivers through licensing and testing and by evaluating unsafe drivers.
- Maintaining accurate and secure records concerning identification and driver performance.
- Protecting property through the registration and titling of vehicles and vessels.
- Licensing and regulating occupations and businesses related to the manufacture, transport, sale, and disposal of vehicles and the instruction of drivers.

- Administering financial responsibility laws such as verification of vehicle insurance coverage.
- Dispensing grants that are focused on traffic safety to local and state law enforcement agencies.

Motor Vehicle Account

Vehicle registration fees and driver license fees are deposited into the Motor Vehicle Account to be used for the administration and enforcement of laws regulating the use, operation, and registration of vehicles used on California public streets and highways, including the enforcement of traffic and vehicle laws by state agencies and the mitigation of the negative environmental effects of motor vehicles.

The Governor's Budget projects the 2006-07 year-end fund balance will be approximately \$650 million, or 33 percent of expenditures. This is an unusually large balance, but is necessitated by numerous cost pressures on the fund and the out-year costs of proposed budget augmentations, which are outlined below. The long-term outlook of the fund is for a reduction to the balance while retaining solvency without a need to authorize fee increases for many years.

Major Motor Vehicle Account Expenditure Proposals:

- California Highway Patrol staffing: The Budget proposes a permanent augmentation of \$33.7 million and 235 positions to expand the road patrolling efforts of the Highway Patrol. The full year cost of this proposal is \$41.9 million.
- California Highway Patrol radios: The Budget begins the replacement of the Highway Patrol's antiquated radio system. This project is estimated to cost \$491 million over five years. Upgraded equipment will substantially increase CHP's ability to communicate with other state and local emergency personnel.
- Wireless 9-1-1 staffing: The Budget includes \$6.4 million and 94 positions for additional dispatchers to answer 9-1-1 calls. The full year cost of this proposal is \$10.5 million.
- Hydrogen Highway: The Budget includes \$6.5 million to continue to promote the development of hydrogen technologies. The Governor's Hydrogen Highway Blueprint

Plan identifies a total cost of \$53.5 million spread out over five years to establish 50 to 100 hydrogen fueling stations in California.

Future Major Motor Vehicle Account Expenditures

There are numerous potential pressures on the fund. Some of the major demands are highlighted below. The combined cost of these highlighted issues could exceed \$500 million.

- **Real ID:** The federal government passed the Real ID Act, which requires states to issue federally approved driver licenses or identification cards.
- **Department of Motor Vehicles (DMV) Information Technology Modernization:** The DMV's mainframe systems are antiquated, are written in archaic programming languages, and require replacement. A spring finance letter will be submitted to begin the process of replacing these systems with commercially available software. It is estimated this project will cost approximately \$133 million.
- **Credit Card Transaction Fees:** As the DMV continues to promote use of the Internet to process transactions and provide better field office service, the number of transactions is expected to increase. Because credit card companies charge the state a per-transaction fee, the DMV will incur additional costs to process such transactions.
- **DMV facilities:** The DMV is in the process of determining its future facilities needs and how they fit in with doing business in the 21st century. Until the facilities study is completed, the costs to implement it are unknown, but could easily be in the tens of millions.

Real ID Act Planning

California faces significant challenges as it begins the process of conforming its driver licensing and identification card programs to standards established under the federal Real ID Act. The Act is intended to improve the systems and processes that states use to verify a person's identity before issuing a driver license or identification card. Meeting the new federal mandates likely will impose substantial verification and communication requirements on the DMV that must be in place no later than May 2008. Meanwhile, representatives of the Office of Homeland Security and the DMV are working closely with the National Governors Association, the American Association of Motor Vehicle Administrators, the National Conference of State Legislatures, and others to ensure state concerns are given full consideration, as the federal law is implemented.

California Highway Patrol

The Department of California Highway Patrol (CHP) is responsible for patrolling over 105,000 miles of freeways, state highways, and county roads. The CHP's primary focus is traffic management and public safety, which includes traffic law enforcement, investigation of vehicle collisions, homeland security, Capitol and dignitary protection, air operations and support, services to motorists, and protection of state facilities and their personnel. This year the CHP, the Office of Traffic Safety, Caltrans, the Department of Alcoholic Beverage Control and the Department of Motor Vehicles developed a partnership now known as the Statewide Traffic Action Response Program (STAR). STAR will focus on enforcing laws related to speed, driving under the influence of alcohol or drugs, and occupant restraint violations. This program has contributed to having occupant restraint compliance goals exceeded and to reaching an all time high of 92.5 percent in June, 2005. This is significantly higher than the national average of 82 percent. In addition, the CHP completed a major reorganization to reduce the number of headquarters officers. Also reviewed were all non-patrol activities conducted by uniformed officers. As a result of this review, 147 positions have been re-directed to patrol responsibilities. The Governor's Budget proposes \$1.6 billion and 10,913 positions for support of the CHP. This represents an increase of \$123.8 million and 346 positions above the revised 2005-06 budget and \$153 million above the 2005 Budget Act.

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. The full year cost of this request is \$41.9 million. These positions (both uniformed and nonuniformed) are provided to support the CHP's mission while they face increasing workload associated with the recent and future substantial growth in population; increasing number of licensed drivers; increasing development of new communities; and the resulting increased traffic congestion and collisions.

The CHP projects this statewide staffing augmentation could increase proactive patrol hours by approximately 136,320 hours, which equates to approximately 17,000 work shifts. Proactive road patrol provides a significant deterrent to motorists who violate the law while driving and enhances state security through increased officer presence. Moreover, the increased staffing reduces response times to major collisions and persons needing assistance on state highways.

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, was not designed for tactical operations, special events, emergency incidents, or expanded responsibilities, and is no longer supported by the manufacturer. Along with items purchased with funds from the U.S. Department of Homeland Security, the new system is envisioned to:

- Increase the range of communication so officers can communicate with one another as opposed to having the CHP communication centers be the intermediaries.
- 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 to provide flexibility.

Wireless 9-1-1 Staffing

The Budget proposes to increase staffing in the CHP communication centers by 94 positions and \$6.4 million to answer 9-1-1 calls more expeditiously. By the end of the year, 173 staff will be added. The full-year cost of this proposal is \$10.5 million. Due to exponential growth in the number of wireless 9-1-1 calls, which comprise approximately 80 percent of the calls handled, CHP needs additional staff to answer 9-1-1 calls within their ten-second goal.

In addition to the increased state staff, approximately 100 local public safety agencies have committed to take wireless calls within their jurisdictional boundaries under the auspices of Chapter 981, Statutes of 2000, which provides that a wireless 9-1-1 call be routed to a local public safety answering point as opposed to the CHP, under specified conditions. The state 9-1-1 program office is currently working with the CHP to develop rules and procedures for implementing this program. The state pays for all the local agencies' costs of this project except for facilities and personnel costs. As the project progresses, more local agencies will be able to take these calls and reduce workload at the CHP. This is expected to slow the future growth of CHP call volume somewhat.

Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. Over the past two years, the DMV reduced field office wait times in the largest offices from nearly one hour to 21 minutes, reduced customer telephone wait times by more than 50 percent, and reduced the time required to schedule a driver safety hearing from 70 days to 30 days. The Governor's Budget proposes \$817.9 million, all from non-General Fund sources, and 8,481 positions for support of the DMV. This represents an increase of \$47.3 million above the revised 2005-06 budget and \$43 million above the 2005 Budget Act. In addition to the projects proposed below, the Budget will provide additional funds for customer-friendly improvements including the expansion of self-service terminals, additional ATM capabilities in more DMV field offices, and an increase in Internet-available information and transactions. This year, a Motor Carrier Services web site was developed as well as Internet capability added to allow DUI treatment program providers to report important information electronically. Over the next year, DMV customers will have Internet access to information regarding the status of occupational licenses and be able to report the sale of their vehicles online.

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. The DMV determined that contracting for services was the only method by which it would be able to meet the statutory implementation deadline of October 1, 2006.

Remittance System Replacement

The Budget proposes \$5.4 million to replace the DMV's existing remittance system, which annually processes approximately 19 million transactions, including vehicle registration and driver license renewals by mail. The system must be replaced because it is beyond its useful life, and the current maintenance contractor indicates it may not be able to maintain it after the current contract expires in August 2006. The new system will improve productivity and turnaround times, increase the volume of items processed per day from 25,000 to 75,000, and result in personnel savings.

Organ Donor

The Budget includes \$1.1 million and 13 positions to implement and administer Chapter 665, Statutes of 2005. This bill requires the DMV to collect and transmit donor designation information from driver license or identification card applicants, print the word "DONOR" on the driver license, and collect voluntary \$2 donations made by individuals.

Office of Traffic Safety

The Office of Traffic Safety (OTS) administers traffic safety grant funds in California for the purpose of reducing deaths, injuries, and property damage that result from traffic collisions. The OTS will distribute approximately \$61 million in federal grant funds in 2006-07 to local and state agencies. The grants provided by OTS focus on eight priority areas of traffic safety: (1) alcohol and other drugs, (2) occupant protection, (3) pedestrian and bicycle safety, (4) community-based organizations, (5) emergency medical services, (6) traffic records, (7) roadway safety, and (8) police traffic services.

Business and Housing

The Business, Transportation, and Housing Agency includes the departments of Real Estate, Real Estate Appraisers, Managed Health Care, Financial Institutions, Corporations, and Alcoholic Beverage Control which ensure efficient and fair markets for the real estate industry, health care plans, alcoholic beverages, and certain financial businesses. The Department of Housing and Community Development and the California Housing Finance Agency assist community efforts to expand the availability of affordable housing. The Agency also administers programs that assist the state's infrastructure, small business finance, and economic development by encouraging and promoting economic activity and investment within the state.

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. This represents a decrease of \$176.4 million but an increase of 21 positions from the revised 2005-06 budget and \$98.2 million below the 2005 Budget Act. Staffing is increased for mobile and manufactured home titling, and overall funding is projected to decline primarily due to timing of major project approvals from Proposition 46 housing bond funds.

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

Proposition 46 Update

Proposition 46 is the Housing and Emergency Shelter Trust Fund Act passed by voters in November 2002. It is the largest housing bond in the nation's history, providing \$2.1 billion for affordable homes for California's neediest citizens. As of June 30, 2005, the state had awarded approximately \$1.1 billion to create or provide incentives for more than 76,300 affordable rental or owner-occupied homes and shelter spaces. During the past two years, the HCD has implemented operational and efficiency improvements that have improved the overall performance of the department. Specifically, as part of the Governor's Initiative on Homelessness, HCD has directed approximately \$30 million in Proposition 46 funds together with Proposition 63 funds to provide homes with supportive services for seriously mentally ill homeless individuals and their families; also, HCD programs have assisted more than 9,055 homeless families and individuals, including veterans, utilizing \$98.7 million in Proposition 46 funds to create homeless shelter and transitional housing facilities. Allocations are projected to decline in 2006-07, as HCD has been able to accelerate the award of funds and some categories of funding are fully allocated.

Department of Managed Health Care

The Department of Managed Health Care (DMHC) assures the accessibility and availability of medically necessary health care delivered to the public through health care service plan licensure, financial and medical surveys, and a consumer services toll-free complaint

line. This year, the DMHC implemented improvements that will reduce from one year to six months the average time it takes to license a new health plan applicant. The 2006-07 Governor's Budget proposes \$41.5 million and 302 positions for support of the DMHC. This represents an increase of \$5.5 million and 6 positions above the revised 2005-06 budget and \$5.7 million above the 2005 Budget Act.

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 Real Estate

The Department of Real Estate (DRE) protects the public interest regarding the offering of subdivided lands and the handling of real estate transactions by licensees. The DRE is also responsible for the issuance of real estate licenses in California. During the past two years, the DRE has implemented operational and efficiency improvements that have improved the overall performance of the department. Specifically, the DRE reduced real estate examination and licensing process time by 95 days (54 percent), from 175 days to 80 days and continued to reduce the timeframe to complete an enforcement investigation in spite of a 22-percent increase in cases. The 2006-07 Governor's Budget proposes \$43.3 million, all from non-General Fund sources, and 364 positions for support of the DRE. This represents an increase of \$8.8 million and 40 positions above the revised 2005-06 budget and \$8.7 million above the 2005 Budget Act.

Electronic Licensing Exam

The Budget includes \$1.3 million and 1 position to replace the current manual real estate salesperson and broker examinations with an automated system. This project will improve services to fee-paying customers of the DRE by reducing the license application process time up to three months.

Enforcement Staffing

The Budget proposes \$2.7 million and 33 positions to respond to increasing workloads related to processing, investigating, and enforcing complaints against real estate agents.

Subdivision Processing Staff

The Budget includes \$406,000 and 4 positions to address the DRE's growing and complex subdivision filing workload, and to reduce processing of subdivision filings overall by an estimated three to five days. Given daily carrying costs to industry of between \$5,000 and \$10,000 per project, and the current inventory of 6,682 active applications, the impact of processing time reductions to the California homebuilding economy could be significant.

Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) enforces state laws governing the licensure and regulation of persons and businesses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in California. During the past two years, the ABC has implemented operational and efficiency improvements that have improved the overall performance of the department. Specifically, by implementing a "fast-track" licensing process, the ABC completed license application appointments within five days of request in all offices. In addition, 1,567 accusations for alcohol violations were filed against California businesses as a result of ABC Minor Decoy Operations, which is a 60-percent increase compared to the prior year. The ABC is wholly funded by licensing fees. The Governor's Budget includes \$49.1 million, 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, which enable them to work with ABC enforcement personnel to investigate alcohol retailers who threaten public safety by violating licensing laws, or by allowing illegal activities on their premises. With the additional funding, the number of law enforcement agencies participating in the GAP will increase from 20 to approximately 40. Since 1997-98, leads generated by the GAP have allowed the ABC to take action against over 800 alcohol retailers per year, with the punishments ranging from fines to license suspensions and revocations.

Department of Corporations

The Department of Corporations (DOC) licenses and regulates a variety of businesses including securities brokers and dealers, investment advisers and financial planners, and certain fiduciaries and lenders. The DOC also regulates the offer and sales of securities, franchises and off-exchange commodities. During the past two years, the DOC has implemented operational and efficiency improvements that have improved its overall performance. Specifically, the DOC has implemented procedures to reduce the processing time to license branch offices of finance companies from an average of 120 days to 10 days. In addition, through an examination process, the DOC identified unauthorized and illegal charges by mortgage bankers and financial lenders, resulting in required refunds exceeding \$18 million to more than 20,000 consumers. The Governor's Budget includes \$31.7 million, which reflects an increase of \$1 million above the 2005 Budget Act.

Audit of Departmental Activities

The DOC will be the subject of an extensive audit by the Bureau of State Audits in 2006 due to various consumer complaints that originated during prior administrations. The Administration will monitor the audit's progress, and at its conclusion, the Administration will work with the Business, Transportation, and Housing Agency and with the DOC on ways to ensure the DOC is able to fulfill its mission of enforcing financial services laws, and protecting the public from fraud.

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. This represents an increase of \$3.4 million above the revised 2005-06 budget and \$3.3 million above the 2005 Budget Act. In addition to the policy direction provided over its traditional complement of department programs, the Office of the Secretary also includes the following economic development programs: the California Tourism Commission, the California Film Commission, the California Infrastructure and Economic Development Bank, the Office of Military and Aerospace Support, the Small Business Loan Guarantee Program, and the Manufacturing Technology Program. The above amount does not include expenditure of proceeds from bonding out existing projects by the California Infrastructure and Economic Development Bank.

California Small Business Loan Guarantee Loan Repayment

The Budget proposes to repay a \$10.7 million General Fund loan to the Small Business Loan Reserve Fund. This repayment, including interest, will enable the program to guarantee approximately 200 more small business loans. This program provides guarantees for loans issued to small businesses by private financial institutions whose loan criteria would ordinarily exclude those businesses from consideration. Loans completed last year were 25 percent higher than any one-year high for the program, and minority-owned businesses assisted were at an all-time high of 64 percent. This was accomplished while increasing the productivity of staff in the program as demonstrated by the cost to the General Fund for each guarantee completed declining by 33 percent since the 2002-03 fiscal year.

California Travel and Tourism Commission Expanded Marketing Program

The Budget proposes to expend an additional \$2.7 million General Fund (for a total of \$10 million) to promote California. These funds will be matched by approximately \$15 million from the private sector, for a total promotional marketing program of \$25 million.

California Film Commission

The Governor continues to support bipartisan legislative efforts to address the economic impact of run-away film production. Long-term revenue projections assume \$75 million in annual tax credits available to production companies to encourage and retain filming in California beginning in 2007-08. This year, the Commission developed and launched a first-of-its-kind online permitting system that reduces paperwork and streamlines the permitting process for filmmakers.

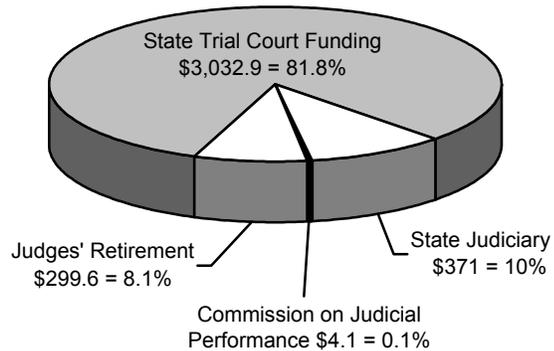
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Judicial Branch

The State Constitution vests California’s judicial authority in a tripartite court system composed of the Supreme Court, the Courts of Appeal, and the trial courts. The Administrative Office of the Courts provides support to the Supreme Court, the Courts of Appeal, the trial courts, and the Judicial Council. The Commission on Judicial Performance administers judicial discipline.

The Governor’s Budget proposes \$3.7 billion (\$2.1 billion General Fund and \$1.6 billion other funds) and 1,889.2 positions for the Judicial Branch. The Governor’s Budget includes \$371 million (\$317.7 million General Fund) for the State Judiciary, \$4.1 million General Fund for the Commission on Judicial Performance, \$3 billion (\$1.6 billion General Fund) for State Trial Court Funding, and \$299.6 million (\$155.3 million General Fund) for judges’ retirement costs (see Figure JUD-01).

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



State Judiciary

The State Judiciary encompasses the activities of the Supreme Court, the Courts of Appeal, the Judicial Council (Council)/Administrative Office of the Courts (AOC), the Judicial

Branch Facility Program, and the Habeas Corpus Resource Center. The Supreme Court, which reviews legal questions of statewide importance and appeals of all death penalty judgments, is the highest court in the state judicial system. The six District Courts of Appeal hear appeals in all areas of civil and criminal law. The Council is the policy-making body for the state Judicial Branch, and the AOC is the administrative arm of the Council. The Habeas Corpus Resource Center provides legal representation in death penalty habeas corpus proceedings in the Supreme Court and in the federal courts.

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$371 million (\$317.7 million General Fund), which reflects a decrease of \$3.4 million (an increase of \$9.3 million General Fund) below the revised 2005-06 budget and \$17.7 million (\$8.8 million General Fund) below the 2005 Budget Act. This net decrease is primarily due to a decrease in reimbursement authority.

Habeas Corpus Resource Center

The State Judiciary budget includes an increase of \$1.3 million General Fund and 13 positions to allow the Habeas Corpus Resource Center to accept additional capital habeas corpus appointments from the California Supreme Court.

Information Technology Support and Maintenance

The State Judiciary budget 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 AOC, the Supreme Court, and the Courts of Appeal.

Growth Factor Increase

The State Judiciary budget includes \$1.2 million General Fund for a growth factor increase for the State Judiciary beginning June 1, 2007. The 2005 Budget Act included an increase to the State Trial Court Funding budget equal to the change in the State Appropriations Limit. The application of this adjustment to the State Judiciary will provide budgetary independence appropriate for a separate branch of government.

State Trial Court Funding

The State Trial Court Funding budget provides local assistance funding to support the operations of California's 58 Superior Courts. The State Trial Court budget consists of the following nine programs: Support for the Operations of the Trial Courts, Salaries for Superior Court Judges, Assigned Judges, Court Interpreters, Court Appointed Special Advocate Program, Model Self-Help Program, Equal Access Fund Program, Family Law Information Centers, and Civil Case Coordination. Prior to 1997, the superior courts were operated and funded by each county.

Program Enhancements and Other Budget Adjustments

The Governor's Budget includes \$3 billion (\$1.6 billion General Fund), which reflects an increase of \$143 million (an increase of \$214.8 million General Fund) above the revised 2005-06 Budget, and \$489.1 million (\$225.7 million General Fund) above the 2005 Budget Act. Last year, in an effort to recognize the unique standing of the State Trial Court Funding budget as part of an independent and separate branch of government, the 2005 Budget Act provided an adjustment to the State Trial Court budget equal to the State Appropriations Limit. This year, the Budget ensures sufficient funding for the trial courts by proposing changes to the methodology used to calculate the growth factor adjustment and addressing the last remaining underfunded areas of the State Trial Court base budget.

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.

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.

Growth Factor Increase

Consistent with the statutory requirement, an increase of \$105.2 million has been included in the Governor's Budget for State Trial Court Funding. This is the second year the State Trial Court budget has been increased by the growth factor, as opposed to submission of individual Budget Change Proposals. This year, 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. This new methodology grants budgetary independence, as is appropriate for a separate branch of government.

Civil Case Interpreters

For non-English speaking defendants and witnesses in criminal cases, existing law provides for interpreters. No such requirement exists for non-English speaking civil litigants. These litigants are generally unable to use professional interpreters unless they can pay for the costs of the interpreter services. The issues at stake in child custody, child support, and other civil cases can be equally critical, and involve the well-being and safety of parents and children. Therefore, it is essential to provide interpreters for civil cases, including family law and domestic violence cases. This will enable litigants to have meaningful access to the courts. Using existing resources, the Judicial Council will identify efficiencies and best practices, and will, to the extent possible, expand the use of interpreters in civil cases.

General Government

The General Government Section of the Governor's Budget Summary includes multiple departments, commissions, and offices responsible for oversight and specific activities not included in other areas. This section of the Governor's Budget Summary highlights several significant issues addressed in the Governor's Budget.

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 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 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 at the Department will ensure a consistency of approach for the entire state. Finally, the budget also includes an increase of \$100,000 General Fund for the costs associated with the implementation 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

The Department of Consumer Affairs protects consumer interests through licensing and regulation of specific professions, occupations, and businesses. The Department is directed by statute to facilitate a free-enterprise market economy by educating consumers, fostering competition, guarding against fraudulent practices, and promoting consumer representation throughout all levels of government. The Governor's Budget includes \$398.5 million (\$0.8 million General Fund), which reflects an increase of \$13.4 million (decrease of \$32,000 General Fund) above the revised 2005-06 Budget and \$8.1 million (decrease of \$37,000 General Fund) above the 2005 Budget Act.

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.

Medical Board of California

The Governor's Budget includes \$3.9 million and 8 positions for the Medical Board of California to implement SB 231 (Chapter 674, Statutes of 2005), 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 the licensees.

Bureau of Automotive Repair

The Governor's Budget includes \$3.8 million for the Bureau of Automotive Repair to implement AB 383 (Chapter 565, Statutes of 2005), 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 AB 194 (Chapter 655, Statutes of 2005), 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.

Department of Fair Employment and Housing

The mission of the Department of Fair Employment and Housing is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations and from the perpetration of acts of hate violence.

The Governor's Budget includes \$20.7 million (\$15.2 million General Fund), which reflects an increase of \$1.6 million General Fund above the revised 2005-06 Budget and the 2005 Budget Act.

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 Budget provides \$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 allowing them to perform appointment scheduling online.

Employment Development Department

The Employment Development Department (EDD) administers the Unemployment Insurance and Disability Insurance Programs and collects Personal income taxes from employers. In addition, EDD administers a variety of labor exchange and job training programs, including the Job Services and Workforce Investment Act Programs.

The Governor's Budget includes \$10.8 billion (\$24.7 million General Fund), which reflects a decrease of \$307 million (increase of \$2.6 million General Fund) from the revised 2005-06 budget and a decrease of \$579.7 million (increase of \$2.5 million General Fund) from the 2005 Budget Act. The decrease is the result of revised unemployment and disability insurance benefit payment estimates.

Automated Collection Enhancement System

The Governor's Budget provides \$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 provides \$40.3 million for the Employment Training Panel, which includes a \$5 million augmentation for its employment training contract program. The Panel supports California's 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.

Department of Industrial Relations

The primary functions of the Department of Industrial Relations are to foster, promote, and develop the welfare of the wage earners of California; to improve their working conditions; and to advance their opportunities for profitable employment. The Governor's Budget includes \$346.8 million (\$62.6 million General Fund), which reflects an increase of \$2.8 million (\$0.7 million General Fund) above the revised 2005-06 budget and \$3.6 million (\$1.4 million General Fund) above the 2005 Budget Act.

Division of Labor Standards Enforcement Collections Unit

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

Commission on State Mandates

The objective of the Commission on State Mandates is to fairly and impartially hear and determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The Commission was created as a quasi-judicial body to determine state-mandated costs. The Commission consists of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county supervisor, or school district governing board member, appointed by the Governor and approved by the Senate.

The Governor's Budget includes \$243.4 million (\$241.6 million General Fund), which reflects an increase of \$120.7 million General Fund above the revised 2005-06 budget and \$120.7 million (\$120.6 million General Fund) above the 2005 Budget Act.

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.

Mental Health Services to Special Education Pupils (AB 3632)

The Governor's Budget includes \$50 million non-Proposition 98 General Fund as a set-aside in the Commission on State Mandates budget for funding mental health services to pupils. Please refer to the Health and Human Services, Department of Mental Health section of the Governor's Budget Summary for further information regarding these services.

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

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974, as amended by the voters and Legislature. The objectives of the Political Reform Act are to:

- Ensure that election campaign expenditure data is fully and accurately disclosed so that the voters may be fully informed, and to inhibit improper financial practices.
- Regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.
- Provide for the disclosure of assets and income of public officials, which may affect their official actions, to avoid any conflicts of interest.
- Ensure that the state ballot pamphlet contains useful and adequate information so that the voters will not be entirely dependent upon paid advertising for information concerning state measures.
- Eliminate laws and practices that unfairly favor incumbents to provide for fair elections.
- Provide adequate mechanisms to public officials and private citizens to ensure vigorous enforcement of the Acts.

The Governor's Budget includes \$7 million General Fund, which reflects an increase of \$0.9 million General Fund above the revised 2005-06 budget and \$0.9 million General Fund above the 2005 Budget Act.

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.

Department of Insurance

The Insurance Commissioner enforces the California Insurance Code, regulates the insurance industry, and oversees the Department of Insurance.

The Department of Insurance regulates the largest insurance market in the United States with over \$115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and is a major contributor in combating insurance fraud.

The Governor's Budget includes \$197.6 million Insurance Fund, which reflects a decrease of \$4.7 million Insurance Fund from the revised 2005-06 budget and a decrease of \$3.6 million Insurance Fund from the 2005 Budget Act.

Study to Measure Extent of Workers' Compensation Fraud

The Governor's Budget includes \$1 million from the 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 (\$1.1 million ongoing) Insurance Fund and 9.5 positions to establish a program to receive and investigate healthcare provider complaints against health insurers and to prosecute unfair claims practices pursuant to Chapter 723, Statutes of 2005. Such a program already exists for healthcare providers under health maintenance organizations.

Investigation of Automobile Insurance Fraud

The Governor's Budget includes \$330,000 Insurance Fund and 2.8 limited-term positions for increased caseload for auto insurance fraud investigations.

Department of Food and Agriculture

The objectives of the Department of Food and Agriculture are to:

- Serve the diverse citizens of California by maintaining an abundant, affordable, safe, and nutritious food supply.
- Prevent or eradicate animal diseases and exotic and invasive species harmful to people, commerce, and the environment.
- Develop and enforce weights and measures standards for all types of products in California and at all levels of commerce.
- Support a network of fairs and expositions in the state for their societal and economic service values.
- Provide leadership, innovation, and oversight in the production and marketing of agricultural products.

The Governor's Budget includes \$285.3 million (\$91.6 million General Fund), which reflects an increase of \$12.6 million (\$8.3 million General Fund) above the revised 2005-06 budget and a net decrease of \$1 million (\$8 million General Fund increase) from the 2005 Budget Act.

Emerging Threats to Food Production

The Governor's Budget includes \$7.2 million (\$5.5 million ongoing) General Fund, 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. Please refer to the section of the Governor's Budget Summary entitled "Preparing the State for Natural and Intentional Disasters" for further information.

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 of Food and Agriculture will assist the Board of Equalization by obtaining copies of bills of lading from commercial vehicles entering California through the Needles Agriculture Station. Please refer to the General Government Chapter, Board of Equalization section of the Governor's Budget Summary for further information regarding this pilot program.

Secretary of State

The Secretary of State, a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary laws, and preservation of documents and records having historical significance. All documents filed are a matter of public record and of historical importance. They are available through prescribed procedures for public review and certification as to authenticity.

The Governor's Budget includes \$77.2 million (\$32 million General Fund), which reflects a decrease of \$306.4 million (\$54.1 General Fund) from the revised 2005-06 budget and a \$240.6 million decrease (\$0.7 million General Fund increase) from the 2005 Budget Act. These decreases result from removing expended one-time federal Help America Vote Act funds.

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 approved positions, 12 positions are converting

from limited-term to permanent and 7 positions of the increase 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 elections 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.

The Department of Veterans Affairs

The California Department of Veterans Affairs promotes and delivers benefits to California veterans and their families. More specifically, the department provides:

- The state's aged or disabled veterans with rehabilitative, residential, and medical care and services in a homelike environment at the California Veterans' Homes.
- California veterans and their families with aid and assistance in presenting their claims for veterans' benefits under the laws of the United States.
- California veterans with beneficial opportunities through direct low-cost loans to acquire farms and homes.

The Governor's Budget includes \$314.7 million (\$78.9 million General Fund), which reflects an increase of \$10.8 million (\$10.2 million General Fund) above the revised 2005-06 budget and \$12.2 million (\$11.8 million General Fund) above the 2005 Budget Act.

Open the 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.

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.

Military Department

The Military Department is responsible for the command, leadership, and management of the California Army and Air National Guard and related programs. The purpose of the California National Guard is to provide military service in support of the state and the nation. The Governor's Budget includes \$111.5 million (\$38.1 million General Fund), which reflects a decrease of \$1.1 million (an increase of \$4.2 million General Fund) below the revised 2005-06 budget and an increase of \$6.9 million (\$4.2 million General Fund) above the 2005 Budget Act.

Armory Maintenance and Repairs

It is estimated that the Military Department has deferred maintenance needs at armories totaling approximately \$35 million statewide. In order to begin addressing this issue, the Governor's Budget includes \$3.5 million (\$3 million General Fund and \$500,000 Federal Trust Fund) on a one-time basis. The proposed funding will allow the Department to address its most critical facility needs by making needed repairs, modernizing its armory infrastructure, and ensuring compliance with environmental laws and building codes on a priority basis.

Comprehensive Approach to Indian Gaming Regulatory Responsibilities

The first priority of the Indian Gaming Special Distribution Fund (SDF) is to fund any shortfalls that may occur in the Indian Gaming Revenue Sharing Trust Fund (RSTF) to ensure that each Non-Compact Tribe receives \$1.1 million annually. Chapter 720, Statutes of 2005, addressed the first priority of the SDF by appropriating \$50 million in 2005-06 to provide equal quarterly payments of \$275,000 from the RSTF to Non-Compact Tribes as envisioned in the original Compacts, instead of making a lump-sum payment in arrears. In signing this legislation, the Governor expressed the Administration's commitment to explore the other priorities of the SDF, which include funding for the regulatory functions of

the Division of Gambling Control within the Department of Justice (DOJ) and the California Gambling Control Commission (Commission), and funding to support local government agencies impacted by tribal gaming. In order to better meet state regulatory requirements pursuant to the Gambling Control Act and all Tribal-State Gaming Compacts, and to ensure a comprehensive approach to the regulation of gaming, the Budget includes an augmentation of \$5.3 million, comprised of \$1.1 million General Fund and \$4.2 million Indian Gaming Special Distribution Fund, and 32.7 positions. This comprehensive approach provides resources to both the Division of Gambling Control within the DOJ and the Commission.

California Gambling Control Commission

The Governor's Budget includes \$137.4 million (\$725,000 General Fund), which reflects a decrease of \$48.5 million (an increase of \$725,000 General Fund) below the revised 2005-06 budget which is primarily due to a one-time appropriation of \$50 million provided in 2005-06 pursuant to Chapter 720, Statutes of 2005, and an increase of \$2.5 million (\$725,000 General Fund) above the 2005 Budget Act. The \$137.4 million is comprised of \$10.9 million state operations and \$126.5 million local assistance. The Commission oversees gambling establishments and all persons or activities involved with the operations of gambling establishments in the state. The Budget also proposes 68.4 positions for the Commission.

Licensing, Audit, and Field Inspection Workload

The Governor's Budget includes an augmentation of \$1.3 million (\$359,000 General Fund and \$911,000 Indian Gaming SDF) and 9.9 positions to address ongoing licensing and audit workload, and to implement a new field inspection program. Specifically, the Budget includes \$132,000 and 1.3 positions for ongoing licensing activities, \$803,000 and 5.7 positions for ongoing audit workload related to all Tribal-State Gaming Compacts, and \$335,000 and 2.9 positions to develop a new field testing and inspection program related to Tribal-State Gaming Compacts of 2004.

Technical Services Program

The Governor's Budget includes \$732,000 (\$366,000 General Fund and \$366,000 Indian Gaming SDF) and 4.8 positions to establish a Technical Services Program within the Commission. The Technical Services Program 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 DOJ Division of Gambling Control.

Local Assistance Funding

The Budget includes \$30 million for allocation to local government agencies impacted by tribal gaming. However, prior to supporting any funding for local government agencies, we must ensure that the funding is being distributed fairly, and better reporting requirements are in place to ensure that funding is being spent appropriately.

Division of Gambling Control, Department of Justice

The Division of Gambling Control within the DOJ investigates the qualifications of individuals who apply for state gambling licenses and monitors the conduct of these licensees to ensure compliance with the Gambling Control Act. The Division of Gambling Control also ensures that each tribe is in compliance with all aspects of their Compact, and that all tribal gaming activities are protected from criminal and other undesirable elements by making sure that licenses are issued only to suitable individuals. The Budget proposes \$19 million (\$367,000 General Fund and \$18.6 million other funds) and 149.8 positions for the Division of Gambling Control. This represents an increase of \$3.5 million (\$367,000 General Fund) and 19.9 positions over the revised 2005-06 Budget.

Tribal Gaming Compliance and Enforcement Workload

The Governor's Budget includes \$3.3 million (\$367,000 General Fund and \$3 million Indian Gaming SDF) and 18 positions to address tribal gaming compliance and enforcement workload within the Division of Gambling Control. This augmentation will ensure that the Division of Gambling Control has resources to address the increased inspection and investigative workload related to all Tribal-State Gaming Compacts.

Board of Equalization

The Governor's Budget includes \$370.6 million (\$212.8 million General Fund), which reflects a decrease of \$8 million from the revised 2005-06 budget, and an increase of \$6.1 million (\$2 million General Fund) above the 2005 Budget Act.

The Board of Equalization (BOE) administers the sales and use taxes, insurance tax, excise taxes, and various other taxes and fees. The BOE is also responsible for valuing and assessing inter-county pipelines, and for valuing and assessing properties owned by railroads, regulated telephone companies, and gas and electricity sellers. The BOE also adjudicates appeals on property tax assessments, and on the various other taxes that the BOE administers. The Governor's Budget proposes 3,802.9 positions in 2006-07 to support the BOE's activities.

Property Tax Valuation Factors

The Governor's Budget proposes \$263,000 General Fund and 1.9 positions for the BOE to develop more accurate property tax valuation factors for biopharmaceutical and non-production computer equipment. Valuation factors are used by county assessors to determine the value of commercial business equipment for property tax purposes.

Retail Licensing Enforcement

The Governor's Budget proposes \$1.6 million (\$1.1 million General Fund) and 13.8 positions for the BOE to identify and register businesses that fail to pay sales and use taxes on the goods and services these businesses provide. In addition to being in violation of the law, these businesses are exercising an unfair advantage over their competitors, and are increasing the tax burden on other businesses and consumers.

The BOE estimates these enforcement efforts will generate \$12.6 million in additional sales and use tax revenues in 2006-07, of which \$7.9 million will go to the General Fund.

Agricultural Inspection Station Leads

The Governor's Budget proposes \$1.4 million (\$811,000 General Fund) and 15.1 positions for the BOE to identify property brought into the state without the payment of applicable sales and use taxes. The program will be run from California Department of Food and Agriculture (CDFA) border inspection stations, through which all commercial vehicle traffic must pass. Under the program, CDFA staff will send to the BOE copies of bills of lading and registration documents from motor carriers who transport alcoholic beverages, tobacco products, fuel products, or personal property that is subject to sales or use tax. The BOE will then review the documents to determine whether the entities shipping or receiving the goods are registered with the BOE, and whether those entities have paid the applicable sales and use taxes on the products.

The BOE estimates the program will generate \$7.4 million in additional sales and use taxes in 2006-07, of which \$4.2 million will go to the General Fund.

Out-of-State Tobacco Purchases

The Governor's Budget includes \$1.9 million (\$216,000 General Fund) and 19.5 positions for the BOE to identify entities that purchase tobacco products from out-of-state retailers without paying applicable California sales and use taxes. The program will focus primarily on large retailers who purchase tobacco products for resale over the Internet or via the mail.

The BOE estimates the program will generate \$33.8 million in additional revenues in 2006-07, of which \$3.9 million will go to the General Fund.

International Fuel Tax Agreement Interim Program

The Governor's Budget proposes \$1.1 million in federal funds and 11.5 positions for BOE to temporarily maintain the International Fuel Tax Agreement (IFTA) accounts for Mexican motor carriers who will begin operating in the state pursuant to the North American Free Trade Agreement. IFTA is an agreement among the contiguous 48 states and several Canadian provinces that simplifies the payment of taxes on fuel that is used in more than one state or province. Under this proposal, the BOE will use federal funds to maintain IFTA records for Mexican carriers until Mexico is able to perform this service itself.

Department of Technology Services

The Budget reflects the new Department of Technology Services, which includes the activities previously performed by the Stephen P. Teale Data Center, the Health and Human Services Data Center (excluding the Systems Integration Division, which was transferred to the Health and Human Services Agency) and the voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services.

The Governor's Budget includes \$238.2 million Department of Technology Services Revolving Fund and 775 positions. This represents a decrease of \$1.3 million from the revised 2005-06 budget and an increase of \$12.6 million above the 2005 Budget Act. The increase reflects the addition of capacity to handle client workload growth.

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 (as part of the proposed \$920 million partial repayment of the 2004-05 Proposition 42 suspension), \$96 million for Proposition 36 substance abuse treatment programs (the remainder of the \$120 million in total funding provided for Proposition 36 is spent at the state level), \$93 million for local law enforcement, \$46 million for emergency preparedness, \$40 million for county jail booking fee subventions, \$20 million for children's health care, \$18 million in additional sales tax revenue from enhanced Board of Equalization collection efforts, and \$1.6 million in disaster relief funds.

State-Local Fiscal Relationship

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.

In addition to prohibiting the state from reallocating local revenues, Proposition 1A shifted additional property tax revenue to local governments to offset a reduced vehicle license fee (VLF). Local governments are also receiving additional property taxes to compensate for a loss of sales tax revenue that was dedicated to the repayment of economic recovery bonds. As a consequence, the ERAF is effectively eliminated in most counties in 2006-07.

The restoration of this tax base, which is responsive to local land use decisions, should aid in restoring balance to local development choices and provide local governments with the resources necessary to solve local problems and meet local priorities.

Cities and Counties—Before and After Proposition 13

With the passage of Proposition 13 in 1978, cities and counties were required to cap taxes on real property at 1 percent of assessed value, as that value was calculated on the latest of the following two dates: the 1975-76 fiscal year, or the date that the property last changed ownership. Proposition 13 also prohibited the assessed value of real property from increasing at more than 2 percent per year.

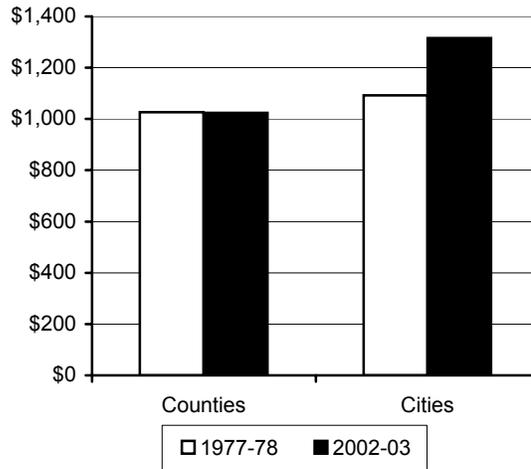
To mitigate the impact of the property tax revenue reductions, the state passed legislation in 1978 (Chapter 292, Statutes of 1978) and 1979 (Chapter 282, Statutes of 1979) that provided cities, counties, and K-14 schools with state funding to partially backfill their lost property tax revenues.

City revenues in 2002-03 were \$46.9 billion, after deducting the amount they were required to contribute to the ERAF. This represents an increase of almost \$22 billion over what cities collected in 1977-78, when that amount is adjusted to 2002-03 dollars. (Note: 1977-78 was chosen for comparison purposes, because it represents the last fiscal year before Proposition 13 was implemented.) County revenues in 2002-03 were \$36.5 billion, after deducting the amount they were required to contribute to the ERAF. This is an increase of \$13 billion over what counties collected in 1977-78, when adjusted to 2002-03 dollars.

Figure SLA-01 shows that per-capita revenues for cities were \$1,315 in 2002-03. This is an increase of \$223 over their 1977-78 per-capita revenue level of \$1,092, when adjusted to 2002-03 dollars. Per-capita revenues for counties were \$1,024 in 2002-03, which is only \$3 less than their adjusted per-capita revenue level in 1977-78.

Based strictly on this revenue data, the fiscal condition of cities is markedly better today than it was before the passage of Proposition 13. The fiscal condition of counties, meanwhile, is virtually identical to what it was prior to Proposition 13.

Figure SLA-01
County and City Per-Capita Revenue
1977-78 and 2002-03
Adjusted for Inflation



Local Government Fiscal Conditions

Generally, the economic outlook is positive for all regions of the state, with continuing signs of recovery. As a result, local revenues are expected to continue showing solid growth. Due to recent legislation, the share of the property tax going to local governments has increased from approximately 48 percent to over 63 percent. Historically, this has been a very stable source of revenue, and in the current environment it is rapidly growing. In 2006-07, property taxes are expected to be up 11 percent from the prior year due to continuing strength in the housing market and in nonresidential real estate. In the budget year, property taxes to local governments are expected to total approximately \$26.7 billion.

The sales tax, local governments' other major source of discretionary revenue, is also expected to show solid growth in the 5 percent range in the budget year. The sales tax should provide over \$4.26 billion for discretionary purposes, in addition to \$2.9 billion for public safety, \$2.9 billion for health programs, and \$1.4 billion for county transportation purposes. Vehicle license fees, which provide partial funding for local health programs and discretionary revenue for cities, were up 4 percent in 2004-05 and are expected to show gains of 4 percent and 3.9 percent over the next two years. Over \$1.6 billion in vehicle

license fees will be directed to county health programs and another \$0.5 billion will go to cities for general purpose uses.

While the outlook for local government revenues over the next several years is generally positive, some downside risks remain. While local investments for pensions and other liabilities likely have recovered much of their losses incurred since 2002, double-digit gains are unlikely in the future. It will be incumbent upon local governments to ensure the liquidity of their pension funds to meet the future needs of retirees. Furthermore, the state expects local governments to adhere to the new reporting standards for supplemental retirement benefits, as specified in Governmental Accounting Standards Board Statement 45.

State Aid to Local Government

Elimination of ERAF Payments

Chapter 211, Statutes of 2004, required local governments to shift an additional \$1.3 billion in property tax revenues to the ERAF in both 2004-05 and 2005-06. The elimination of these shifts in 2006-07 will mean additional property tax revenues of \$350 million for both cities and counties, \$350 million for special districts, and \$250 million for redevelopment agencies.

Furthermore, the ERAF I and II payments are also eliminated for most local governments in 2006-07. This is due to the continuing shift of additional property taxes to local governments to offset the loss of VLF due to Proposition 1A, and to offset the loss of sales tax revenues as a result of the Economic Recovery Bonds.

Law Enforcement and Public Safety

The Governor's Budget proposes the following General Fund expenditures:

- \$96 million (one-time) to continue to provide substance abuse treatment services to persons convicted of drug-related crimes, in accordance with Proposition 36. (The Proposition provided \$120 million per year, of which \$96 million was allocated to local governments.) While the funding provided by Proposition 36 sunsets on June 30, 2006, the associated requirements are ongoing, but are not a state mandate. As such, the Budget proposes a one-time grant to continue the state's allocation. The Administration will consider reforms to this program during the upcoming legislative session.

- \$73.9 million for Juvenile Justice Crime Prevention Act (JJCPA) grants. The 2005 Budget Act reduced JJCPA funding by \$73.9 million, due to the availability to local governments of a like amount of carryover monies.
- \$40 million in booking fee subventions, to offset counties' costs to book suspects into county jails.
- \$46 million in local emergency preparedness funding, to handle scenarios such as an influenza pandemic.
- \$12 million in reimbursement for counties that are housing parolees who are detained for parole violations.
- \$6 million for Sexual Assault Felony Enforcement teams to investigate, monitor, and prosecute habitual sex offenders.
- \$1.1 million from the Victim-Witness Assistance Fund for grants to victim-witness service assistance centers to coordinate victim and witness attendance in parole revocation hearings, provide counseling referrals to victims, and assist them in obtaining benefits.

Infrastructure

The Governor's Budget proposes \$255 million for local streets and roads maintenance. These monies are part of the proposed \$920 million partial repayment of the 2004-05 Proposition 42 suspension. In addition, a substantial portion of the Governor's Strategic Growth proposal will go to local governments for streets, roads, jails, and for other projects that serve the public interest.

Health and Human Services

The Governor's Budget proposes the following adjustments:

- A \$20 million augmentation for grants to counties to conduct outreach activities to encourage eligible children to enroll in either Medi-Cal or the Healthy Families Program.
- A \$40 million reduction in the CalWORKs county single allocation. Counties can backfill this reduction with performance incentive funding previously earned but not yet spent.

Assistance to Local Government

- A \$30 million reduction associated with delayed implementation of the CalWORKs Pay for Performance Incentive Program.
- The 2005 Budget Act provides \$120 million to reimburse counties for costs associated with the AB 3632 mental health mandate. The Governor's Budget provides \$50 million as set-aside funding for these services in 2006-07, while the Administration works with stakeholder groups and the Legislature to develop a categorical program for services currently funded through the mandate. The Administration's proposal will be updated in the May Revision.

The following current-year adjustment also is proposed:

- A \$114.6 million current-year reduction in CalWORKs funding is proposed to recover monies that were allocated to counties in 2005-06 for additional child care services that were expected as a result of welfare reform. Due to implementation delays and implementation of Chapter 78, Statutes of 2005, which reduced the core work requirements for CalWORKs welfare-to-work participants relative to Chapter 229, Statutes of 2004, these child care costs are not expected to materialize. The Governor's Budget sets aside \$11.5 million in the event that funding is necessary.

Sales Tax Revenue

It is estimated that cities will receive an additional \$13 million in sales tax revenues, and that counties will receive an additional \$5 million in such revenues, due to the enhanced sales tax collection efforts proposed in the Board of Equalization's budget.

Disaster Relief Funding

The Governor's Budget proposes \$1.6 million in disaster relief funding to backfill property tax revenues lost by local governments due to various natural disasters. The funds are provided in accordance with Chapters 622, 623, and 624, Statutes of 2005.

Property Tax Administration Program Grants

In accordance with an agreement reached with the Legislature as part of the 2005 Budget Act, the Governor's Budget proposes to continue the suspension of the Property Tax Administration Program (PTAP) grants through 2006-07, for a General Fund savings of \$60 million. The PTAP grants are used by county assessors to enhance their property tax collection efforts.

The Administration is willing to work with the Legislature and with local government representatives on alternatives for creating a new PTAP program for implementation in 2007-08.

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Employee Compensation and Retirement

The state civil service workforce is comprised of approximately 205,000 full-time and part-time employees for which the Department of Personnel Administration has responsibility for setting salaries and benefits. Approximately 170,000 rank and file employees have collective bargaining rights under the Ralph C. Dills Act and are organized into 21 bargaining units. The remaining 35,000 employees are managerial, supervisory, confidential, or otherwise excluded from collective bargaining. The state's workforce is enrolled in a defined benefit retirement plan administered by the California Public Employees' Retirement System.

Employee Compensation

The Budget includes funding for contractual obligations in accordance with the Memoranda of Understanding with the five collective bargaining units scheduled to receive salary increases in 2006-07 and employees who are excluded from collective bargaining associated with those bargaining units. Additionally, the Budget includes funding for medical staff in the California Department of Corrections and Rehabilitation as a result of a federal court order in the *Plata v. Schwarzenegger* lawsuit.

Compensation Surveys

The Administration will continue or enter into negotiations with the 18 collective bargaining units whose agreements have expired or are expiring. The Administration intends to use a total compensation approach in those negotiations. The total compensation approach recognizes the cash value of compensation (wages, salary differentials, longevity pay,

etc.), the employer's contribution for benefits (health, dental, vision, etc.), and the employer's cost of retirement benefits in evaluating labor market comparisons. In the past, the Administration has had limited market-based employee compensation information to guide its negotiations with employee organizations.

The budget for the Department of Personnel Administration was augmented last spring to fund comprehensive employee compensation surveys. The Department has contracted with Cooperative Personnel Services to obtain the data and expects the surveys to be completed in March 2006. For future negotiations, the Department will have comprehensive data regarding salaries and benefits provided by a variety of public and private sector employers in the state. With the results of the new compensation comparisons, the state will be positioned to engage in good-faith bargaining with a data-driven, labor market-based strategy for ensuring that a competent and professional workforce can be recruited and retained within the limits of available fiscal resources.

California Public Employees' Retirement System

The California Public Employees' Retirement System (CalPERS) provides defined benefit retirement plans for approximately 200,000 state employees and 42,000 employees of the California State University. State contributions to CalPERS are estimated to be \$2.483 billion (\$1.358 billion General Fund) in 2006-07. This is an increase of \$54 million over the state's contributions in 2005-06. The state's retirement plan is currently actuarially funded at 84.1 percent, a small increase over the previous year. This increase is a result of higher than anticipated investment returns. Funded status represents the value of current assets plus expected market gains compared to the future cost of retirement benefits for current employees.

On April 19, 2005, the Board of Directors for CalPERS adopted new "asset smoothing and amortization" policies. As a result of these new policies, the state should be able to avoid the dramatic changes in contribution rates experienced from 2000-01 to 2005-06 when state contributions increased by 1,600 percent. The effect of this new "smoothing" policy will be to reduce the state's 2005-06 General Fund contributions to CalPERS by \$251.5 million (\$152.7 million General Fund). In future years, CalPERS estimates that these new policies will reduce employer rate volatility by 52 percent. This will help state and local agencies budget for the costs of retirement from year to year.

Health and Dental Benefits for Annuitants

The California Public Employees' Retirement System also administers the state's Health and Dental Benefits for Annuitants program, through which the state provides health and dental benefits to retirees and their dependents. This program is funded by the state's General Fund on a "pay-as-you-go" basis, meaning that all contributions are used to pay the costs of current retiree benefits and no funds are invested for the future costs of current or future employees (see 9650 in the Governor's Budget). In June 2004, the Governmental Accounting Standards Board approved Statement 45 accounting standards for other (than pensions) post-employment benefits. This new rule states that all government employers must report the unfunded liabilities associated with their other post-employment benefits, such as retiree health and dental benefits, when these benefits are not provided through the pension plan.

Because this is currently a pay-as-you-go program, the state's unfunded liability is the amount that is required to provide future benefits for all current and future retirees. The new reporting requirement must be included in California's 2007-08 financial statements. In order to comply with this requirement, the State Controller's Office will contract with a private actuarial firm to calculate the state's liability for these benefits. Although the state is permitted to fund these benefits on a pay-as-you-go basis, the state will have to report its liability as determined by the actuaries. This could negatively affect the state's financial reports and impact its credit rating if the state does not reduce or manage the unfunded liability.

California State Teachers' Retirement System

The California State Teachers' Retirement System provides retirement related benefits and services to teachers in public schools from kindergarten through community college. The contributions to the State Teachers' Retirement System for the Defined Benefit Program are established in statute (Education Code Sections 22901, 22954, and 22955). Currently, school districts pay an amount equal to 8.25 percent of current payroll, and teachers pay an amount equal to 6 percent of current pay. The state's contributions are set at 2.017 percent of teacher salary. The state's contribution to the Defined Benefit Program for 2006-07 is estimated to be \$482.3 million General Fund. Presently, the Defined Benefit Program is actuarially funded at 83 percent, a slight increase over the previous year as a result of higher than anticipated investment returns.

Employee Compensation and Retirement

The state also contributes 2.5 percent of teachers' salary into the Supplemental Benefit Maintenance Account (Education Code Section 22954) to provide for purchasing power protection for retiree benefits. The state's contribution for 2006-07 is estimated to be \$597.8 million General Fund.

Statewide Issues

The Statewide Issues Section of the Budget Summary 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 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. 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.

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Appendices and Schedules

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Budget Process Overview

The Governor's Budget is the result of a process that begins more than one year before the Budget becomes law. When presented to the Legislature on January 10 of each year, the Governor's Budget incorporates revenue and expenditure estimates based upon the most current information available through mid December. In the event that the Governor wants to change the Budget presented to the Legislature, including adjustments resulting from changes in population, caseload, or enrollment estimates, the Department of Finance (Finance) proposes adjustments to the Legislature during budget hearings through Finance Letters. During late spring, usually in May, Finance submits revised revenue and expenditure estimates for both the current and budget years to the Legislature. This update process is referred to as the May Revision. Finance also prepares monthly economic and cash revenue updates during the fiscal year. Listed below are the key documents used in the budget process.

Title	Purpose	Prepared/Issued by	When
Budget Letters and Management Memos	Convey the Administration's guidelines for budget preparation to agencies and departments.	Governor/Finance	January through December
Budget Change Proposals	Documents that propose to modify or change the existing level of service, propose new programs, or delete existing programs.	Agencies and departments submit to Finance analysts	July through September
Governor's Budget	Governor's proposed budget for the upcoming fiscal year.	Governor/Finance	January 10
Governor's Budget Summary	A summary of the Governor's Budget.	Governor/Finance	January 10
Budget Bill	Requests spending authorization to carry out the Governor's expenditure plan (legislative budget decision document).	Finance/Legislature	January 10
Analysis of the Budget	Analysis of the Budget, including recommendations for changes to the Governor's Budget.	Legislative Analyst	February
May Revision	Update of General Fund revenues, expenditures, and reserve estimates based on the latest economic forecast and changes in population, caseload, or enrollment estimates.	Finance	Mid-May
Budget Act	The primary annual expenditure authorization as approved by the Governor and Legislature, including a listing of the Governor's vetoes.	Legislature/Governor	Late June or enactment of the Budget
Final Budget Summary	Update of the individual Budget Act items with changes by the Governor's vetoes, including certain budget summary schedules.	Finance	Late July - August or 1-2 months after Budget enactment
Final Change Book	Update of changes to the detailed fiscal information in the Governor's Budget.	Finance	Late July - August or 1-2 months after Budget enactment

Statewide Financial Information

Provides various statewide displays of financial information included in the Budget that may be the most useful to the public, private sector, or other levels of government. Each statewide display includes a description of the information included.

Schedule 1 *General Budget Summary* - Total statewide revenues and expenditures for the General Fund and special funds and expenditure totals for selected bond funds.

Schedule 2 *Summary of State Tax Collections* - State Tax Collections per capita and per \$100 of personal income.

Schedule 3 *Comparative Yield of State Taxes* - Revenues for Major State Taxes from 1970-71 through 2006-07.

Schedule 4 *Personnel Years and Salary Cost Estimates* - Personnel year data and corresponding dollar amounts by functional breakdown and position classifications. This schedule reflects net data after salary savings.

Schedule 5A *Statement of Estimated Accounts Payable and Accounts Receivable* - Actual payable and receivable amounts as of June 30, 2005, and estimated amounts for June 30, 2006, and June 30, 2007.

Schedule 5B *Actual 2004-05 Fiscal Year Cashflow* - Actual receipts, disbursements, borrowable resources, and cashflow loan balances for the 2004-05 fiscal year.

Schedule 5C *Estimated 2005-06 Fiscal Year Cashflow* - Projected receipts, disbursements, borrowable resources, and cashflow loan balances for the 2005-06 fiscal year.

Schedule 5D *Estimated 2006-07 Fiscal Year Cashflow* - Projected receipts, disbursements, borrowable resources, and cashflow loan balances for the 2006-07 fiscal year.

Schedule 6 *Summary of State Population, Employees, and Expenditures* - Historical data of state population, employees, personal income, revenues, and expenditures.

Schedule 7 *General Fund Statement of Fund Balance* - Available upon request. Contact the Department of Finance, Budget Operations Support Unit at (916) 445-5332.

Schedule 8 *Comparative Statement of Revenues* - Detail of General and special fund revenues by source for the past, current, and budget years within the following categories: (1) major taxes and licenses, (2) minor revenues, and (3) transfers and loans.

Schedule 9 *Comparative Statement of Expenditures* - Detail of General Fund, special fund, selected bond fund, and federal fund expenditures included in the Governor's Budget by the following categories: (1) State Operations, (2) Local Assistance, (3) Capital Outlay, and (4) Unclassified.

Schedule 10 *Summary of Fund Condition Statements* - A listing in alphabetical order of the beginning reserve, revenues, expenditures, and ending reserve for the General Fund and each special fund for the past, current, and budget years.

Schedule 11 *Statement of General Obligation Bond and Commercial Paper Debt of the State of California* - List of all general obligation bonds including: maturity dates, authorized amount of bond issues, amounts of unissued bonds, redemptions, and outstanding issues, as well as authorized and outstanding commercial paper issued in-lieu of general obligation bonds.

Schedule 12A *State Appropriations Limit Summary* - Summary of Schedules 12B through 12E: Provides a calculation of the appropriations subject to the State Appropriations Limit and the Limit Room or Surplus.

Schedule 12B *Revenues to Excluded Funds* - List of revenues to special funds NOT included in the calculation of total appropriations subject to the State Appropriations Limit.

Schedule 12C *Non-Tax Revenues in Funds Subject to Limit* - Total of non-tax General and special fund revenues deposited in funds that are otherwise included in the calculation of total appropriations subject to the State Appropriations Limit.

Schedule 12D *State Appropriations Limit Transfer from Excluded Funds to Included Funds* - Detail of transfers between funds that are used in calculating the appropriations subject to the State Appropriations Limit.

Schedule 12E *State Appropriations Limit Excluded Appropriations* - Exclusions from appropriations subject to the State Appropriations Limit.

SCHEDULE 1
GENERAL BUDGET SUMMARY^{1/}
(In Thousands)

	Reference to Schedule	General Fund	Special Funds	Selected Bond Fund Expenditures	Expenditure Totals
2004-05					
Prior year resources available	10	\$7,228,074	\$4,782,258		
Revenues and transfers	8	82,209,489	22,252,296		
Expenditures	9	<u>79,803,987</u>	<u>22,191,729</u>	\$5,595,468	\$107,591,184
Fund Balance ²	10	\$9,633,576	\$4,842,825		
<i>Reserve for Liquidation of Encumbrances ³</i>					
		521,274	--		
<i>Reserves for Economic Uncertainties ⁴</i>					
		--	4,842,825		
<i>Special Fund for Economic Uncertainties ⁴</i>					
		9,112,302	--		
2005-06					
Prior year resources available	10	\$9,633,576	\$4,842,825		
Revenues and transfers	8	87,691,357	24,479,221		
Expenditures	9	<u>90,293,704</u>	<u>25,399,650</u>	\$11,789,866	\$127,483,220
Fund Balance ²	10	\$7,031,229	\$3,922,396		
<i>Reserve for Liquidation of Encumbrances ³</i>					
		521,274	--		
<i>Reserves for Economic Uncertainties ⁴</i>					
		--	3,922,396		
<i>Special Fund for Economic Uncertainties ⁴</i>					
		6,509,955	--		
2006-07					
Prior year resources available	10	\$7,031,229	\$3,922,396		
Revenues and transfers	8	91,544,864	24,618,371		
Expenditures	9	<u>97,901,837</u>	<u>25,023,542</u>	\$2,677,952	\$125,603,331
Fund Balance ²	10	\$674,256	\$3,517,225		
<i>Reserve for Liquidation of Encumbrances ³</i>					
		521,274	--		
<i>Reserves for Economic Uncertainties ⁴</i>					
		--	3,517,225		
<i>Special Fund for Economic Uncertainties ⁴</i>					
		152,982	--		

^{1/} The General Budget Summary includes the revenues and expenditures of all state funds that reflect the cost of state government and selected bond fund expenditures. The transactions involving nongovernmental cost funds are excluded. The amounts included in this schedule for expenditures and revenues may not agree with those shown in Schedules 8, 9 and 10 due to rounding.

² The Fund Balance for the General Fund includes amounts for unencumbered balances of continuing appropriations at the end of the 2004-05, 2005-06, and 2006-07 fiscal years of \$880,671; \$423,602; and \$28,766 (in thousands), respectively.

³ The Reserve for Liquidation of Encumbrances represents an amount which will be expended in the future for state obligations for which goods and services have not been received at the end of the fiscal year. This Reserve treatment is consistent with accounting methodology prescribed by Generally Accepted Accounting Principles (GAAP) and Government Code Section 13306.

⁴ The Special Fund for Economic Uncertainties and the Reserves for Economic Uncertainties are reserve accounts for the General and special funds as provided by Section 5 of Article XIII B of the California Constitution.

SCHEDULE 2
SUMMARY OF STATE TAX COLLECTIONS
(Excludes Departmental, Interest, and Miscellaneous Revenue)

	Per Capita Personal Income ^{1,2}	State Tax Collections (Dollars in Millions)		Taxes per Capita ¹		Taxes per \$100 of Personal Income ³	
		General		General		General	
		Fund	Total	Fund	Total	Fund	Total
1967-68	\$3,878	\$3,558	\$4,676	\$185.55	\$243.86	\$4.78	\$6.29
1968-69	4,199	3,963	5,173	203.94	266.21	4.86	6.34
1969-70	4,521	4,126	5,409	208.96	273.94	4.62	6.06
1970-71	4,806	4,290	5,598	214.08	279.36	4.45	5.81
1971-72	5,034	5,213	6,597	256.22	324.24	5.09	6.44
1972-73	5,454	5,758	7,231	279.72	351.28	5.13	6.44
1973-74	5,944	6,377	7,877	305.57	377.45	5.14	6.35
1974-75	6,551	8,043	9,572	379.85	452.06	5.80	6.90
1975-76	7,128	9,050	10,680	420.19	495.87	5.89	6.96
1976-77	7,824	10,781	12,525	491.48	570.98	6.28	7.30
1977-78	8,569	12,951	14,825	579.41	663.25	6.76	7.74
1978-79	9,581	14,188	16,201	621.30	709.45	6.48	7.40
1979-80	10,752	16,904	19,057	726.83	819.41	6.76	7.62
1980-81	11,961	17,808	20,000	748.80	840.97	6.26	7.03
1981-82	13,179	19,053	21,501	784.78	885.62	5.95	6.72
1982-83	13,771	19,567	22,359	788.83	901.39	5.73	6.55
1983-84	14,569	22,300	25,674	880.14	1,013.30	6.04	6.96
1984-85	16,012	25,515	29,039	988.34	1,124.85	6.17	7.03
1985-86	16,980	26,974	30,898	1,021.63	1,170.25	6.02	6.89
1986-87	17,700	31,331	35,368	1,158.18	1,307.41	6.54	7.39
1987-88	18,590	31,228	35,611	1,126.67	1,284.81	6.06	6.91
1988-89	19,648	35,647	40,613	1,255.49	1,430.39	6.39	7.28
1989-90	20,639	37,248	43,052	1,278.16	1,477.32	6.19	7.16
1990-91	21,733	36,828	43,556	1,234.66	1,460.21	5.68	6.72
1991-92	21,758	40,072	48,856	1,315.62	1,604.01	6.05	7.37
1992-93	22,482	39,197	48,230	1,264.93	1,556.44	5.63	6.92
1993-94	22,607	38,351	48,941	1,224.72	1,562.90	5.42	6.91
1994-95	23,174	41,099	50,648	1,303.75	1,606.67	5.63	6.93
1995-96	24,149	44,825	54,805	1,413.51	1,728.20	5.85	7.16
1996-97	25,356	47,955	58,400	1,500.33	1,827.10	5.92	7.21
1997-98	26,517	53,859	64,826	1,659.61	1,997.56	6.26	7.53
1998-99	28,482	58,199	69,724	1,770.96	2,121.65	6.22	7.45
1999-00	29,900	70,027	81,773	2,095.45	2,446.93	7.01	8.18
2000-01	32,372	75,668	88,147	2,219.08	2,585.05	6.85	7.99
2001-02	32,638	62,654	73,237	1,801.21	2,105.46	5.52	6.45
2002-03	32,432	64,879	75,498	1,833.10	2,133.14	5.65	6.58
2003-04	32,900	70,229	81,629	1,951.35	2,268.10	5.93	6.89
2004-05 ^P	34,582	80,070	93,764	2,193.35	2,568.47	6.34	7.43
2005-06 ^e	36,147	85,000	99,599	2,297.01	2,691.53	6.35	7.45
2006-07 ^e	37,723	89,834	104,983	2,394.67	2,798.49	6.35	7.42

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

² Personal income data are on a calendar year basis (e.g., 2004 for 2004-05).

³ Taxes per \$100 personal income computed using calendar year personal income (e.g. 2004 income related to 2004-05 tax collections).

^P Preliminary.

^e Estimated.

SCHEDULE 3
COMPARATIVE YIELD OF STATE TAXES, 1970-71 THROUGH 2006-07
Includes both General and Special Funds

(Dollars in Thousands)

Fiscal Year Ending	Sales and Use (a)	Personal Income (b)	Corporation (c)	Tobacco (d)	Estate Inheritance and Gift (e)	Insurance (f)	Alcoholic Beverage (g)	Motor Vehicle Fuel (h)	Vehicle Fees (i)
1971	\$1,808,052	\$1,264,383	\$532,091	\$239,721	\$185,699	\$158,423	\$106,556	\$674,635	\$513,202
1972	2,015,993	1,785,618	662,522	247,424	220,192	170,179	112,091	712,426	547,845
1973	2,198,523	1,884,058	866,117	253,602	260,119	179,674	114,884	746,196	596,922
1974	2,675,738	1,829,385	1,057,191	258,921	231,934	201,697	119,312	742,702	644,448
1975	3,376,078	2,579,676	1,253,673	261,975	242,627	202,991	120,749	752,234	664,453
1976	3,742,524	3,086,611	1,286,515	268,610	316,648	241,224	125,313	766,555	749,936
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	127,485	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	132,060	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	140,059	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	138,940	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	142,860	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	139,523	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	136,209	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	137,433	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	135,786	1,159,637	2,137,326
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	132,262	1,194,172	2,515,295
1987	10,904,022	13,924,527	4,800,843	255,076	273,089	1,008,804	131,288	1,245,881	2,692,835
1988	11,650,531	12,950,346	4,776,388	250,572	304,148	1,158,321	128,734	1,293,254	2,966,334
1989	12,650,893	15,889,179	5,138,009	559,617	335,091	1,317,630	128,264	1,320,512	3,142,484
1990	13,917,771	16,906,568	4,965,389	787,076	388,527	1,167,684	128,524	1,349,146	3,305,711
1991	13,839,573	16,852,079	4,544,783	745,074	498,774	1,287,152	129,640	1,999,771	3,513,159
1992	17,458,521	17,242,816	4,538,451	726,064	446,696	1,167,307	321,352	2,457,229	4,369,862
1993	16,598,863	17,358,751	4,659,950	677,846	458,433	1,188,181	292,107	2,412,574	4,470,321
1994	16,857,369	17,402,976	4,809,273	664,322	552,139	1,196,921	275,797	2,547,633	4,518,795
1995	16,273,800	18,608,181	5,685,618	674,727	595,238	998,868	268,957	2,685,731	4,749,594
1996	17,466,584	20,877,687	5,862,420	666,779	659,338	1,131,737	269,227	2,757,289	5,009,319
1997	18,424,355	23,275,990	5,788,414	665,415	599,255	1,199,554	271,065	2,824,589	5,260,355
1998	19,548,574	27,927,940	5,836,881	644,297	780,197	1,221,285	270,947	2,853,846	5,660,574
1999	21,013,674	30,894,865	5,724,237	976,513	890,489	1,253,972	273,112	3,025,226	5,610,374
2000	23,451,570	39,578,237	6,638,898	1,216,651	928,146	1,299,777	282,166	3,069,694	5,263,245
2001	24,287,928	44,618,532	6,899,322	1,150,869	934,709	1,496,556	288,450	3,142,142	5,286,542
2002	23,795,936	33,051,107	5,333,030	1,102,806	890,627	1,595,846	292,627	3,295,903	3,836,795
2003	24,898,676	32,713,830	6,803,583	1,055,505	647,372	1,879,784	290,564	3,202,512	3,965,410
2004	26,506,911	36,398,983	6,925,916	1,081,588	397,848	2,114,980	312,826	3,318,176	4,415,126
2005	29,967,136	42,992,007	8,670,065	1,096,224	213,036	2,232,955	314,252	3,366,141	4,873,705
2006 *	31,648,464	46,176,000	9,621,000	1,065,100	0	2,246,000	315,000	3,397,987	5,090,728
2007 *	33,014,278	49,406,000	10,024,000	1,096,115	0	2,340,000	316,000	3,482,636	5,265,113

(a) Includes the 0.5 percent Local Revenue Fund and the 0.25 percent sales tax, effective July 1, 2004, for repayment of economic recovery bonds.

(b) Includes the revenue for a 1 percent surcharge on taxable incomes over \$1 million, with proceeds funding mental health programs.

(c) Includes the corporation income tax and, from 1989 through 1997, the unitary election fee.

(d) Proposition 99 (November 1988) increased the cigarette tax to \$0.35 per pack and added an equivalent tax to other tobacco products. The Breast Cancer Act added \$0.02 per pack effective 1/1/94. Proposition 10 (November 1998) increased the cigarette tax to \$0.87 per pack and added the equivalent of \$1.10 tax to other tobacco products.

(e) Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. The Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminated it beginning in 2005.

(f) The conclusion of litigation resulted in additional revenue of \$51 million in 1987-88, \$178 million in 1988-89, \$7 million in 1990-91, and \$5 million in 1991-92. It also resulted in refunds of \$46 million in 1993-94, \$127 million in 1994-95, \$39 million in 1995-96, \$15 million in 1996-97, and \$30 million in 1997-98.

(g) Alcoholic beverage excise taxes were increased effective July 15, 1991.

(h) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.

(i) Registration and weight fees, motor vehicle license fees, and other fees. Beginning January 1, 1999, vehicle owners paid only 75 percent of the calculated tax, and the remaining 25 percent (offset) was paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided for an additional 32.5-percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF offset was set at 67.5 percent. From June 30, 2003, through November 18, 2003, the VLF reduction was suspended. On November 17, 2003, Governor Schwarzenegger rescinded the suspension, thereby reinstating the offset. Effective January 1, 2005, the VLF rate is 0.65 percent. 2004-05 figures exclude a gap loss estimated at \$1.2 billion that was paid in the 2005 Budget Act.

* Estimated.

SCHEDULE 4
PERSONNEL YEARS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(Dollars in Thousands)

	Personnel Years			Dollars		
	Authorized 2004-05	Estimated 2005-06	Proposed 2006-07	Authorized 2004-05	Estimated 2005-06	Proposed 2006-07
Under Administration Control						
Executive	12,850.6	13,511.3	13,785.0	\$768,712	\$798,958	\$822,950
State and Consumer Services	12,298.8	12,933.1	13,037.8	629,677	683,118	695,451
Business, Transportation and Housing						
Business and Housing	1,988.8	2,049.3	2,118.0	113,459	116,587	122,484
Transportation	40,375.1	40,300.9	40,856.2	2,477,825	2,506,558	2,562,461
Resources	13,071.5	13,269.5	13,467.5	793,667	789,188	831,820
California Environmental Protection	4,288.5	4,409.0	4,483.3	272,349	285,184	292,916
Health and Human Services	30,619.1	31,141.4	31,944.8	1,673,145	1,723,407	1,791,051
Corrections and Rehabilitation	54,818.8	58,608.8	60,966.2	3,425,149	3,903,703	4,199,263
Education						
K thru 12 Education	2,835.0	2,866.9	2,883.9	158,806	162,055	165,118
Higher Education-Community Colleges/Other	379.0	382.1	385.9	22,620	23,927	24,507
Labor and Workforce Development	2,622.5	2,738.4	2,757.4	154,764	157,095	161,064
General Government	5,856.6	5,880.8	6,134.2	319,262	323,405	335,453
NET TOTALS, SALARIES AND WAGES	182,004.3	188,091.5	192,820.2	\$10,809,435	\$11,473,185	\$12,004,538
Not Under Administration Control						
Legislative	736.5	743.0	743.0	\$53,657	\$55,730	\$57,480
Judicial	1,778.6	1,893.1	1,916.2	155,740	170,589	174,728
Public Employees' Retirement System	1,759.3	1,851.2	1,851.2	96,448	109,422	111,040
State Teachers' Retirement System	645.4	671.2	710.7	34,290	36,215	39,155
California Housing Finance Agency	261.4	274.7	274.7	16,488	17,486	17,486
Forestry and Fire Protection	1,794.8	1,799.2	1,799.2	93,160	139,905	141,477
University of California	71,007.6	71,935.9	72,535.6	3,761,513	3,852,746	4,000,591
Hastings	222.9	222.9	225.9	17,706	18,046	19,716
California State University	42,369.4	43,579.4	43,579.4	2,220,874	2,297,908	2,297,908
Employment Development Department	9,665.5	9,491.8	9,429.6	478,045	488,910	491,839
Workers' Compensation Benefits	10,064.0	9,448.0	9,448.0	481,097	591,408	591,408
Bureau of State Audits	139.5	139.5	139.5	8,855	9,023	8,955
TOTALS	140,444.9	142,049.9	142,653.0	\$7,417,873	\$7,787,388	\$7,951,783

SCHEDULE 4 - Continued
PERSONNEL YEARS AND SALARY COST ESTIMATES
(Excludes Staff Benefits)
(Dollars in Thousands)

	<u>Personnel Years</u>	<u>Dollars</u>
	<u>Actuals</u>	<u>Actuals</u>
	<u>2004-05</u>	<u>2004-05</u>
Under Administration Control		
Executive	11,971.8	\$722,544
State and Consumer Services	12,732.1	617,906
Business, Transportation and Housing		
Business and Housing	1,969.6	111,610
Transportation	39,226.6	2,357,773
Resources	13,032.4	788,842
California Environmental Protection	4,153.1	265,377
Health and Human Services	28,794.2	1,632,838
Corrections and Rehabilitation	48,740.0	3,452,189
Education		
K thru 12 Education	2,634.9	151,330
Higher Education-Community Colleges/Other	333.9	20,944
Labor and Workforce Development	2,306.0	137,117
General Government	5,584.3	308,242
NET TOTALS, SALARIES AND WAGES	<u>171,478.9</u>	<u>\$10,566,712</u>
Not Under Administration Control		
Legislative	647.4	\$46,196
Judicial	1,561.3	145,276
Public Employees' Retirement System	1,603.8	94,957
State Teachers' Retirement System	686.6	33,561
California Housing Finance Agency	253.9	14,868
Forestry and Fire Protection	1,750.1	126,268
University of California	73,373.9	3,948,479
Hastings	220.2	17,350
California State University	42,598.7	2,261,791
Employment Development Department	9,847.8	487,565
Workers' Compensation Benefits	9,542.0	591,101
Bureau of State Audits	119.5	7,498
TOTALS	<u>142,205.2</u>	<u>\$7,774,910</u>
	<u>Personnel Years</u>	<u>Dollars</u>
	<u>Proposed</u>	<u>Proposed</u>
	<u>2006-07</u>	<u>2006-07</u>
Position Classification		
Civil Service	214,817.3	\$13,268,781
Constitutional	456.0	41,244
Statutory	175.0	20,383
Exempt		
Various Departments	3,684.0	307,698
Higher Education		
University of California	72,535.6	4,000,591
Hastings College of the Law	225.9	19,716
California State University	43,579.4	2,297,908
NET TOTALS, SALARIES AND WAGES	<u>335,473.2</u>	<u>\$19,956,321</u>

Please note: Total Personnel Years of 335,473.2 is 18.8 higher than the 335,454.4 appearing on the State Agency Budgets web screen. This total includes 18.8 positions for financing authorities under the State Treasurer's Office that do not appear on the web screen total.

SCHEDULE 5A
STATEMENT OF ESTIMATED ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE
GENERAL FUND
(Dollars in Thousands)

	Actual 2004-05 Fiscal Year Accruals ^{1/}			Estimated 2005-06 Fiscal Year Accruals			Estimated 2006-07 Fiscal Year Accruals		
	Accounts payable June 30, 2005	Accounts receivable June 30, 2005	Net accruals June 30, 2005	Accounts payable June 30, 2006	Accounts receivable June 30, 2006	Net accruals June 30, 2006	Accounts payable June 30, 2007	Accounts receivable June 30, 2007	Net accruals June 30, 2007
STATE OPERATIONS									
Legislative/Judicial/Executive State and Consumer Services	\$316,115	\$133,247	\$182,868	\$325,598	\$137,244	\$188,354	\$335,366	\$141,361	\$194,005
Business, Transportation and Housing Resources	109,451	97,029	12,422	112,735	99,940	12,795	116,117	102,938	13,179
California Environmental Protection Health and Human Services:	17,378	3,984	13,394	17,899	4,104	13,795	18,436	4,227	14,209
Health Services	359,192	296,501	62,691	369,968	305,396	64,572	381,067	314,558	66,509
Developmental Services	32,271	10,510	21,761	33,239	10,825	22,414	34,236	11,150	23,086
Mental Health	13,346	191,717	-178,371	13,746	197,469	-183,723	14,158	203,393	-189,235
Other Health and Human Services	27,311	57,202	-29,891	28,130	58,918	-30,788	28,974	60,686	-31,712
Corrections and Rehabilitation Education:	156,055	244,837	-88,782	160,737	252,182	-91,445	165,559	259,747	-94,188
Department of Education	131,541	189,857	-58,316	135,487	195,553	-60,066	139,552	201,420	-61,868
University of California	1,357,638	1,005,411	352,227	1,398,367	1,035,573	362,794	1,440,318	1,066,640	373,678
California State University	179,724	48,922	130,802	185,116	50,390	134,726	190,669	51,902	138,767
Other Education	81,362	0	81,362	83,803	0	83,803	86,317	0	86,317
General Government/Labor	420,132	161,697	258,435	432,736	166,548	266,188	445,718	171,544	274,174
Totals, State Operations	46,764	34,140	12,624	48,167	35,164	13,003	49,612	36,219	13,393
	158,605	163,186	-4,581	163,363	168,082	-4,719	168,264	173,124	-4,860
	\$3,406,885	\$2,638,240	\$768,645	\$3,509,091	\$2,717,388	\$791,703	\$3,614,363	\$2,798,909	\$815,454
LOCAL ASSISTANCE									
Public Schools K-12	\$1,018,437	\$277,227	\$741,210	\$1,048,990	\$285,544	\$763,446	\$1,080,460	\$294,110	\$786,350
California Community Colleges	127,647	54,175	73,472	131,476	55,800	75,676	135,420	57,474	77,946
Other Education	8,498	2,464	6,034	8,753	2,538	6,215	9,016	2,614	6,402
Alcohol and Drug Abuse	15,031	8,151	6,880	15,482	8,396	7,086	15,946	8,648	7,298
Health Services	253,566	127,811	125,755	261,173	131,645	129,528	269,008	135,594	133,414
Developmental Services	158,133	302,722	-144,589	162,877	311,804	-148,927	167,763	321,158	-153,395
Mental Health	46,834	379,931	-333,097	48,239	391,329	-343,090	49,686	403,069	-353,383
Social Services	106,799	283,374	-176,575	110,003	291,875	-181,872	113,303	300,631	-187,328
Other Health and Human Services	56,137	21,838	34,299	57,821	22,493	35,328	59,556	23,168	36,388
Tax Relief	90,097	286	2,914	92,800	295	3,001	95,584	304	3,091
Other Local Assistance	90,097	73,913	16,184	92,800	76,130	16,670	95,584	78,414	17,170
Totals, Local Assistance	\$1,884,379	\$1,531,892	\$352,487	\$1,940,910	\$1,577,849	\$363,061	\$1,999,137	\$1,625,184	\$373,953
TOTALS, ALL CHARACTERS	\$5,291,264	\$4,170,132	\$1,121,132	\$5,450,001	\$4,295,237	\$1,154,764	\$5,613,500	\$4,424,093	\$1,189,407

^{1/} Information per the State Controller's Office.
Note: Numbers may not add due to rounding.

SCHEDULE 5B
ACTUAL 2004-05 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)

2004-05 FISCAL CASHFLOW RECEIPTS:	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
	\$538	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,462	\$6,519	\$538
Alcoholic Beverage Excise Tax	\$31	\$26	\$26	\$26	\$21	\$32	\$30	\$17	\$25	\$24	\$29	\$26	\$313
Corporation Tax	330	157	1,736	366	33	1,223	430	171	1,792	4,351	193	1,715	12,497
Cigarette Tax	16	7	8	11	8	14	8	6	8	15	8	13	122
Inheritance, Gift and Estate Taxes	70	48	57	41	36	39	19	32	26	27	35	23	453
Insurance Tax	20	15	470	21	14	472	16	17	72	630	7	474	2,228
Personal Income Tax	2,502	2,470	4,060	2,658	2,351	4,170	6,278	1,491	1,491	7,725	2,871	4,409	42,476
Retail Sales and Use Tax	984	2,829	2,012	850	3,343	2,035	885	3,370	1,973	946	3,484	2,796	25,507
Income from Pooled Money Investments	11	13	0	7	20	9	13	16	15	15	23	25	167
Transfer from Special Fund for Economic Uncertainties	0	0	0	0	0	0	0	1,448	0	0	0	0	1,448
Other	160	166	207	287	598	228	58	218	102	177	293	232	2,726
TOTAL, Receipts	\$4,124	\$5,731	\$8,576	\$4,267	\$6,424	\$8,222	\$7,737	\$6,786	\$5,504	\$13,910	\$6,943	\$9,713	\$87,937
DISBURSEMENTS:													
State Operations:													
University of California	\$263	\$203	\$298	\$236	\$315	\$268	\$257	\$233	\$272	\$284	\$33	\$8	\$2,670
Debt Service	1	389	378	514	213	171	4	423	246	320	152	222	3,033
Other State Operations	1,441	1,449	1,053	1,437	1,100	1,079	1,312	878	944	1,426	1,030	1,184	14,333
Social Services	979	1,444	923	905	351	607	682	694	408	376	268	376	8,398
Medi-Cal Assistance	638	1,056	1,015	1,020	909	1,198	893	795	1,258	1,082	633	987	11,484
Other Health Services	14	50	74	54	0	99	8	40	56	30	33	37	495
Schools	2,984	4,274	3,156	2,830	2,749	3,039	3,595	4,862	2,311	2,178	2,350	469	34,797
Teachers' Retirement	703	0	0	149	0	0	149	0	0	149	0	-1	1,149
Other	808	619	131	717	513	502	594	359	350	186	387	514	5,680
TOTAL, Disbursements	\$7,831	\$9,484	\$7,028	\$7,862	\$6,150	\$6,963	\$7,494	\$8,284	\$5,845	\$6,416	\$4,886	\$3,796	\$82,039
EXCESS RECEIPTS/(DEFICIT)	-\$3,707	-\$3,753	\$1,547	-\$3,596	\$274	\$1,260	\$243	-\$1,497	-\$340	\$7,494	\$2,057	\$5,917	\$5,898
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties	\$2,216	\$0	\$0	\$0	\$0	-\$780	-\$243	-\$427	\$0	-\$767	\$0	\$0	\$0
Other Internal Sources	953	3,753	-1,547	-2,404	-274	-480	0	1,924	340	-2,265	0	0	0
Revenue Anticipation Notes	0	0	0	6,000	0	0	0	0	0	0	0	-6,000	0
TOTAL, Net Temporary Loans	\$3,169	\$3,753	-\$1,547	\$3,596	-\$274	-\$1,260	-\$243	\$1,497	\$340	-\$3,032	\$0	-\$6,000	\$0
ENDING CASH BALANCE	\$0	\$4,462	\$6,519	\$6,437	\$6,437								
AVAILABLE/BORROWABLE RESOURCES													
Special Fund for Economic Uncertainties	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$768	\$768	\$768	\$745	\$745	\$745
Other Internal Sources	8,731	9,295	9,003	8,829	8,955	8,921	9,459	9,119	8,991	10,353	9,740	9,261	9,261
Revenue Anticipation Notes	0	0	0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0	0
TOTAL, Available/Borrowable Resources	\$10,947	\$11,511	\$11,219	\$17,045	\$17,171	\$17,137	\$17,675	\$15,887	\$15,759	\$17,121	\$16,485	\$10,005	\$10,005
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$1,436	\$1,194	\$767	\$767	\$0	\$0	\$0	\$0
Other Internal Sources	953	4,706	3,158	754	480	0	0	1,924	2,265	0	0	0	0
Revenue Anticipation Notes	0	0	0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0	0
TOTAL, Cumulative Loan Balances	\$3,169	\$6,922	\$5,374	\$8,970	\$8,696	\$7,436	\$7,194	\$8,691	\$9,031	\$6,000	\$6,000	\$0	\$0
UNUSED BORROWABLE RESOURCES	\$7,778	\$4,589	\$5,845	\$8,075	\$8,475	\$9,701	\$10,482	\$7,196	\$6,727	\$11,121	\$10,485	\$10,005	\$10,005
Cash and Unused Borrowable Resources	\$7,778	\$4,589	\$5,845	\$8,075	\$8,475	\$9,701	\$10,482	\$7,196	\$6,727	\$15,583	\$17,004	\$16,442	\$16,442

Note: Numbers may not add due to rounding.

SCHEDULE 5C
ESTIMATED 2005-06 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
	\$6,437	\$0	\$0	\$0	\$0	\$1	\$0	\$948	\$0	\$0	\$0	\$127	\$6,437
2005-06 FISCAL CASHFLOW													
BEGINNING CASH BALANCE													
RECEIPTS:													
Alcoholic Beverage Excise Tax	\$28	\$29	\$28	\$17	\$36	\$27	\$30	\$20	\$22	\$26	\$26	\$26	\$315
Corporation Tax	265	119	2,192	329	41	1,628	283	201	1,193	1,516	264	1,804	9,835
Cigarette Tax	12	3	13	15	4	10	10	8	9	10	9	10	113
Inheritance, Gift and Estate Taxes	20	26	43	11	2	0	0	0	0	0	0	0	102
Insurance Tax	15	30	513	16	17	509	15	22	314	287	12	489	2,239
Personal Income Tax	2,505	2,816	4,732	2,805	2,486	4,384	8,006	1,456	1,303	7,997	2,115	4,699	45,294
Retail Sales and Use Tax	878	3,537	2,071	901	3,215	2,457	1,098	3,593	2,037	797	3,641	2,822	27,047
Income from Pooled Money Investments	35	28	30	34	28	27	28	30	37	36	32	61	406
Other	100	626	240	190	517	365	173	216	100	122	247	117	3,013
TOTAL RECEIPTS	\$3,858	\$7,214	\$9,862	\$4,318	\$6,346	\$9,407	\$9,643	\$5,546	\$5,015	\$10,781	\$6,346	\$10,028	\$88,364
DISBURSEMENTS:													
State Operations:													
University of California	\$298	\$213	\$276	\$262	\$311	\$279	\$231	\$220	\$260	\$290	\$123	\$77	\$2,840
Debt Service	8	352	367	478	209	203	14	465	257	313	171	313	3,170
Other State Operations	1,875	1,307	1,279	1,375	1,279	1,186	1,448	1,058	1,080	1,428	1,134	1,187	15,636
Social Services	1,640	921	697	852	737	722	737	543	552	790	164	489	8,844
Medi-Cal Assistance	1,144	782	1,393	970	766	1,472	1,052	1,057	1,062	1,256	925	1,238	13,117
Other Health Services	40	88	71	30	41	44	22	40	23	34	24	-79	378
Schools	3,932	4,361	3,224	2,954	2,490	3,720	3,238	5,147	2,971	2,597	2,544	183	37,361
Teachers' Retirement	729	0	0	117	0	0	117	0	0	0	0	1	1,081
Transfer to Special Fund for Economic Uncertainties	1,758	415	840	1,201	552	1,010	431	408	835	343	278	1,211	9,282
Other	\$11,424	\$8,439	\$8,167	\$8,239	\$6,385	\$8,636	\$7,847	\$8,938	\$7,040	\$7,168	\$5,363	\$4,620	\$92,266
TOTAL DISBURSEMENTS	\$11,424	\$8,439	\$8,167	\$8,239	\$6,385	\$8,636	\$7,847	\$8,938	\$7,040	\$7,168	\$5,363	\$4,620	\$92,266
EXCESS RECEIPTS/(DEFICIT)	-\$7,565	-\$1,225	\$1,695	-\$3,921	-\$39	\$771	\$1,797	-\$3,391	-\$2,025	\$3,613	\$983	\$5,408	-\$3,902
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties	\$745	\$0	-\$86	\$86	\$0	\$0	-\$745	\$1,302	\$0	-\$447	-\$855	\$0	\$0
Other Internal Sources	384	1,225	-1,609	3,836	-2,960	-772	-104	1,141	2,025	-3,166	0	0	0
Revenue Anticipation Notes	0	0	0	0	3,000	0	0	0	0	0	0	-3,000	0
TOTAL, Net Temporary Loans	\$1,129	\$1,225	-\$1,695	\$3,922	\$40	-\$772	-\$849	\$2,443	\$2,025	-\$3,613	-\$855	-\$3,000	\$0
ENDING CASH BALANCE	\$0	\$0	\$0	\$0	\$1	\$0	\$948	\$0	\$0	\$0	\$127	\$2,535	\$2,535
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties	\$745	\$745	\$745	\$745	\$745	\$745	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302
Other Internal Sources	9,782	10,513	10,496	10,732	11,608	9,411	9,187	9,658	9,562	9,500	9,674	9,851	9,851
Revenue Anticipation Notes	0	0	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Available/Borrowable Resources	\$10,526	\$11,258	\$11,240	\$11,477	\$15,353	\$13,155	\$13,489	\$13,960	\$13,864	\$13,803	\$13,976	\$11,153	\$11,153
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties	\$745	\$745	\$659	\$745	\$745	\$745	\$0	\$1,302	\$1,302	\$855	\$0	\$0	\$0
Other Internal Sources	384	1,609	0	3,836	876	104	0	1,141	3,166	0	0	0	0
Revenue Anticipation Notes	0	0	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Cumulative Loan Balances	\$1,129	\$2,354	\$659	\$4,580	\$4,620	\$3,848	\$3,000	\$5,443	\$7,468	\$3,855	\$3,000	\$0	\$0
UNUSED BORROWABLE RESOURCES	\$9,398	\$8,904	\$10,582	\$6,897	\$10,733	\$9,307	\$10,489	\$8,517	\$6,396	\$9,947	\$10,976	\$11,153	\$11,153
Cash and Unused Borrowable Resources	\$9,398	\$8,904	\$10,582	\$6,897	\$10,734	\$9,307	\$11,437	\$8,517	\$6,396	\$9,947	\$11,103	\$13,688	\$13,688

Note: Numbers may not add due to rounding.

**SCHEDULE 5D
ESTIMATED 2006-07 FISCAL YEAR CASHFLOW
GENERAL FUND
(Dollars in Millions)**

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2006-07 FISCAL CASHFLOW													
BEGINNING CASH BALANCE	\$2,535												\$2,535
RECEIPTS:													
Alcoholic Beverage Excise Tax	\$32	\$27	\$29	\$29	\$28	\$26	\$29	\$19	\$21	\$25	\$25	\$25	\$315
Corporation Tax	250	192	2,077	299	110	1,616	230	232	1,258	1,574	235	1,835	9,908
Cigarette Tax	10	11	11	10	10	10	10	9	9	10	9	10	119
Inheritance, Gift and Estate Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance Tax	18	32	511	19	23	516	15	23	334	330	21	498	2,340
Personal Income Tax	2,919	2,894	5,459	3,339	2,653	5,028	7,775	1,427	1,163	8,441	2,257	4,986	48,351
Retail Sales and Use Tax	910	3,632	2,154	1,097	3,680	2,275	1,131	3,737	2,119	773	3,793	2,873	28,174
Income from Pooled Money Investments	33	35	33	33	48	36	35	39	47	43	39	74	495
Transfer from Special Fund for Economic Uncertainties	0	0	0	0	0	0	1,149	0	0	0	0	0	1,149
Other	96	146	-223	113	572	179	115	251	111	133	279	236	2,008
TOTAL, Receipts	\$4,268	\$6,969	\$10,051	\$4,939	\$7,124	\$9,686	\$10,489	\$5,737	\$5,062	\$11,329	\$6,658	\$10,548	\$92,859
DISBURSEMENTS:													
State Operations:													
University of California	\$310	\$252	\$259	\$309	\$276	\$300	\$248	\$236	\$279	\$311	\$132	\$135	\$3,047
Debt Service	15	419	875	487	275	234	15	535	326	317	227	289	4,014
Other State Operations	1,624	1,585	1,341	1,419	1,385	1,265	1,520	1,180	1,048	1,509	1,213	1,517	16,606
Social Services	1,507	955	699	789	641	671	730	557	584	787	254	555	8,729
Medi-Cal Assistance	1,256	1,140	1,030	1,367	882	1,431	1,105	1,055	1,314	1,318	973	787	13,658
Other Health Services	14	29	58	37	16	46	22	42	24	35	25	41	389
Schools	3,715	4,754	3,919	3,253	2,928	3,941	3,558	5,663	3,351	2,869	2,905	682	41,538
Teachers' Retirement	718	0	0	121	0	121	0	0	0	0	0	-1	1,080
Other	679	1,001	1,252	893	540	1,170	394	467	885	402	312	1,915	9,910
TOTAL, Disbursements	\$9,838	\$10,135	\$9,433	\$8,675	\$6,943	\$9,058	\$7,713	\$9,735	\$7,811	\$7,669	\$6,041	\$5,920	\$88,971
EXCESS RECEIPTS/(DEFICIT)	-\$5,570	-\$3,166	\$618	-\$3,737	\$182	\$627	\$2,776	-\$3,998	-\$2,749	\$3,661	\$617	\$4,628	-\$6,112
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties and Budget Stabilization Account	\$1,302	\$0	\$460	\$0	\$0	\$0	-\$1,149	\$0	\$0	\$0	\$0	\$0	\$613
Other Internal Sources	1,733	3,166	-1,078	3,737	-3,682	-627	-1,627	3,998	2,749	-3,661	-617	-1,128	2,964
Revenue Anticipation Notes	0	0	0	0	3,500	0	0	0	0	0	0	-3,500	0
TOTAL, Net Temporary Loans	\$3,035	\$3,166	-\$618	\$3,737	-\$182	-\$627	-\$2,776	\$3,998	\$2,749	-\$3,661	-\$617	-\$4,628	\$3,577
ENDING CASH BALANCE	\$0												
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties and Budget Stabilization Account	\$1,302	\$1,302	\$1,762	\$1,762	\$1,762	\$1,762	\$613	\$613	\$613	\$613	\$613	\$613	\$613
Other Internal Sources	9,683	10,565	10,513	9,720	10,994	9,910	9,400	9,859	9,715	9,572	9,920	10,134	10,134
Revenue Anticipation Notes	0	0	0	0	3,500	3,500	3,500	3,500	3,500	3,500	3,500	0	0
TOTAL, Available/Borrowable Resources	\$10,985	\$11,867	\$12,275	\$11,482	\$16,256	\$15,172	\$13,513	\$13,973	\$12,828	\$13,685	\$14,034	\$10,747	\$10,747
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties and Budget Stabilization Account	\$1,302	\$1,302	\$1,762	\$1,762	\$1,762	\$1,762	\$613	\$613	\$613	\$613	\$613	\$613	\$613
Other Internal Sources	1,733	4,899	3,821	7,558	3,876	3,248	1,621	5,619	8,368	4,708	4,091	2,964	2,964
Revenue Anticipation Notes	0	0	0	0	3,500	3,500	3,500	3,500	3,500	3,500	3,500	0	0
TOTAL, Cumulative Loan Balances	\$3,035	\$6,201	\$5,563	\$9,320	\$9,138	\$8,511	\$5,734	\$9,732	\$12,482	\$8,821	\$8,204	\$3,577	\$3,577
UNUSED BORROWABLE RESOURCES	\$7,950	\$5,666	\$6,692	\$2,162	\$7,118	\$6,662	\$7,779	\$4,240	\$1,346	\$4,864	\$5,829	\$7,170	\$7,170
Cash and Unused Borrowable Resources	\$7,950	\$5,666	\$6,692	\$2,162	\$7,118	\$6,662	\$7,779	\$4,240	\$1,346	\$4,864	\$5,829	\$7,170	\$7,170

Note: Numbers may not add due to rounding.

**SCHEDULE 6
SUMMARY OF STATE POPULATION, EMPLOYEES, AND EXPENDITURES**

Year	Population ¹ (Thousands)	Employees ⁴ per 1,000 Population	Employees per 1,000 Population	Personal Income (Billions)	Revenue		Expenditures		Expenditures per Capita		Expenditures per \$100 of Personal Income	
					General Fund	Total (Millions)	General Fund ²	Total ³	General Fund ²	Total ³	General Fund ²	Total ³
					(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)
1950-51	10,643	61,000	5.7	\$20.0	\$672	\$994	\$587	\$1,006	\$55.15	\$94.52	\$2.94	\$5.03
1951-52	11,130	63,860	5.7	23.2	734	1,086	635	1,068	57.05	95.96	2.74	4.60
1952-53	11,638	65,720	5.6	25.7	774	1,151	714	1,177	61.35	101.13	2.78	4.58
1953-54	12,101	69,928	5.8	27.6	798	1,271	809	1,381	66.85	114.12	2.93	5.00
1954-55	12,517	74,099	5.9	28.4	879	1,434	852	1,422	68.07	113.61	3.00	5.01
1955-56	13,004	77,676	6.0	31.2	1,005	1,578	923	1,533	70.98	117.89	2.96	4.91
1956-57	13,581	88,299	6.5	34.2	1,079	1,834	1,030	1,732	75.84	127.53	3.01	5.06
1957-58	14,177	98,015	6.9	36.8	1,111	1,751	1,147	1,891	80.91	133.39	3.12	5.14
1958-59	14,741	101,982	6.9	38.6	1,210	1,925	1,246	1,932	84.53	131.06	3.23	5.01
1959-60	15,288	108,423	7.1	42.4	1,491	2,198	1,435	2,086	93.86	136.45	3.38	4.92
1960-61	15,863	115,737	7.3	44.8	1,598	2,338	1,678	2,525	105.78	159.18	3.75	5.64
1961-62	16,412	122,339	7.5	47.5	1,728	2,451	1,697	2,406	103.40	146.60	3.57	5.07
1962-63	16,951	128,981	7.6	51.3	1,866	2,668	1,881	2,703	110.97	159.46	3.67	5.27
1963-64	17,530	134,721	7.7	54.8	2,137	3,057	2,064	3,182	117.74	181.52	3.77	5.81
1964-65	18,026	143,896	8.0	59.5	2,245	3,295	2,345	3,652	130.09	202.60	3.94	6.14
1965-66	18,464	151,199	8.2	63.4	2,509	3,581	2,580	4,059	139.73	219.83	4.07	6.40
1966-67	18,831	158,404	8.4	68.9	2,895	4,073	3,017	4,659	160.21	247.41	4.38	6.76
1967-68	19,175	162,677	8.5	74.3	3,682	4,927	3,273	5,014	170.69	261.49	4.41	6.75
1968-69	19,432	171,655	8.8	81.5	4,136	5,450	3,909	5,673	201.16	291.94	4.80	6.96
1969-70	19,745	179,583	9.1	89.3	4,330	5,743	4,456	6,302	225.68	319.17	4.99	7.06
1970-71	20,039	181,581	9.1	96.3	4,534	5,919	4,854	6,556	242.23	327.16	5.04	6.81
1971-72	20,346	181,912	8.9	102.4	5,395	6,897	5,027	6,684	247.08	328.52	4.91	6.53
1972-73	20,585	188,460	9.2	112.3	5,780	7,366	5,616	7,422	272.82	360.55	5.00	6.61
1973-74	20,869	192,918	9.2	124.0	6,978	8,715	7,299	9,311	349.75	446.16	5.89	7.51
1974-75	21,174	203,548	9.6	138.7	8,630	10,405	8,349	10,276	394.30	485.31	6.02	7.41
1975-76	21,538	206,361	9.6	153.5	9,639	11,567	9,518	11,452	441.92	531.71	6.20	7.46
1976-77	21,936	213,795	9.7	171.6	11,381	13,463	10,467	12,632	477.16	575.86	6.10	7.36
1977-78	22,352	221,251	9.9	191.5	13,695	15,962	11,686	14,003	522.82	626.48	6.10	7.31
1978-79	22,836	218,530	9.6	218.8	15,219	17,711	16,251	18,745	711.64	820.85	7.43	8.57
1979-80	23,257	220,193	9.5	250.1	17,985	20,919	18,534	21,488	796.92	923.94	7.41	8.59
1980-81	23,782	225,567	9.5	284.5	19,023	22,104	21,105	24,511	887.44	1,030.65	7.42	8.62
1981-82	24,278	228,813	9.4	320.0	20,960	23,601	21,693	25,022	893.53	1,030.65	6.78	7.82
1982-83	24,805	228,489	9.2	341.6	21,233	24,291	21,751	25,330	876.88	1,021.17	6.37	7.42
1983-84	25,337	226,695	8.9	369.1	23,809	27,626	22,869	26,797	902.59	1,057.62	6.20	7.26
1984-85	25,816	229,845	8.9	413.4	26,536	31,570	25,722	30,961	996.36	1,199.30	6.22	7.49
1985-86	26,403	229,641	8.7	448.3	28,072	33,558	28,841	34,977	1,092.34	1,324.74	6.43	7.80
1986-87	27,052	232,927	8.6	478.8	32,519	37,767	31,469	38,079	1,163.28	1,407.62	6.57	7.95
1987-88	27,717	237,761	8.6	515.3	32,534	38,773	33,021	40,452	1,191.36	1,459.47	6.41	7.85
1988-89	28,393	248,173	8.7	557.9	36,953	43,322	35,897	44,634	1,264.29	1,572.01	6.43	8.00
1989-90	29,142	254,589	8.7	601.5	38,750	46,453	39,456	48,594	1,353.92	1,667.49	6.56	8.08
1990-91	29,828	260,622	8.7	648.3	38,214	47,024	40,264	51,446	1,349.87	1,724.76	6.21	7.94
1991-92	30,459	261,713	8.6	662.7	42,026	53,117	43,327	56,280	1,422.47	1,847.73	6.54	8.49
1992-93	30,987	260,939	8.4	696.7	40,946	52,526	40,948	56,480	1,321.46	1,822.70	5.88	8.11
1993-94	31,314	265,035	8.5	707.9	40,095	52,384	38,958	53,083	1,244.11	1,695.18	5.50	7.50
1994-95	31,524	269,004	8.5	730.5	42,710	54,942	41,961	54,613	1,331.08	1,732.43	5.74	7.48
1995-96	31,712	271,076	8.5	765.8	46,296	59,266	45,393	59,870	1,431.41	1,887.93	5.93	7.82
1996-97	31,963	271,966	8.5	810.4	49,220	62,831	49,088	64,523	1,535.78	2,018.68	6.06	7.96
1997-98	32,453	271,254	8.4	860.5	54,973	69,424	52,874	68,528	1,629.25	2,111.61	6.14	7.96
1998-99	32,863	282,860	8.6	936.0	58,615	74,281	57,827	75,260	1,759.64	2,290.11	6.18	8.04
1999-00	33,419	296,076	8.9	999.2	71,931	87,536	66,494	84,864	1,989.71	2,539.39	6.65	8.49
2000-01	34,099	311,239	9.1	1,103.8	71,428	88,419	78,053	96,382	2,289.01	2,826.53	7.07	8.73
2001-02	34,784	323,603	9.3	1,135.3	72,263	89,804	76,752	99,220	2,206.53	2,852.46	6.76	8.74
2002-03	35,393	321,394	9.1	1,147.9	80,564	95,794	77,482	106,779	2,189.19	3,016.95	6.75	9.30
2003-04	35,990	316,860	8.8	1,184.1	76,774	96,365	78,345	104,223	2,176.85	2,895.89	6.62	8.80
2004-05	36,506	313,684	8.6	1,262.5	82,209	104,462	79,804	107,591	2,186.05	2,947.21	6.32	8.52
2005-06	37,005	330,141	8.9	1,337.6	87,691	112,171	90,294	127,483	2,440.05	3,445.02	6.75	9.53
2006-07	37,514	335,473	8.9	1,415.2	91,545	116,163	97,902	125,603	2,609.75	3,348.16	6.92	8.88

¹ Population as of July 1, the beginning of the fiscal year.

² Includes Special Accounts in General Fund from 1973-74 to 1976-77.

³ Expenditures include payments from General Fund, Special Funds and Selected Bond Funds beginning in 1963-64.

⁴ Please see footnote regarding total positions on Schedule 4.

**SCHEDULE 8
COMPARATIVE STATEMENT OF REVENUES
(Dollars in Thousands)**

Sources	Actual 2004-05			Estimated 2005-06			Proposed 2006-07		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
MAJOR TAXES AND LICENSES									
Alcoholic Beverage Taxes and Fees	\$314,252	-	\$314,252	\$315,000	-	\$315,000	\$316,000	-	\$316,000
Corporation Tax	8,670,065	-	8,670,065	9,621,000	-	9,621,000	10,024,000	-	10,024,000
Cigarette Tax	119,055	977,169	1,096,224	117,000	948,100	1,065,100	118,000	978,115	1,096,115
Horse Racing (Parimutuel) License Fees	2,655	35,836	38,491	2,335	36,650	38,985	2,335	36,650	38,985
Estate, Inheritance and Gift Tax	213,036	-	213,036	-	-	-	-	-	-
Insurance Gross Premiums Tax	2,232,955	-	2,232,955	2,246,000	-	2,246,000	2,340,000	-	2,340,000
Trailer Coach License (In-Lieu) Fees	21,586	2,388	23,974	21,996	2,388	24,384	22,415	2,388	24,803
Motor Vehicle License (In-Lieu) Fees	-	2,133,709	2,133,709	-	2,218,977	2,218,977	-	2,305,410	2,305,410
Motor Vehicle License (In-Lieu) Fees	-	2,834,532	2,834,532	-	2,867,011	2,867,011	-	2,934,241	2,934,241
Motor Vehicle Fuel Tax (Gasoline)	-	531,609	531,609	-	530,976	530,976	-	548,395	548,395
Motor Vehicle Fuel Tax (Diesel)	-	2,716,022	2,716,022	-	2,847,367	2,847,367	-	2,934,900	2,934,900
Motor Vehicle Registration	42,738,007	254,000	42,992,007	45,493,000	683,000	46,176,000	48,716,000	690,000	49,406,000
Personal Income Tax	-	2,625,007	2,625,007	-	2,757,600	2,757,600	-	2,861,900	2,861,900
Retail Sales and Use Tax-Realignment	25,758,635	420,469	26,179,104	27,184,000	328,864	27,512,864	28,295,000	442,378	28,737,378
Retail Sales and Use Taxes	-	1,163,025	1,163,025	-	1,378,000	1,378,000	-	1,415,000	1,415,000
Retail Sales and Use Tax-Fiscal Recovery	-	-	-	-	-	-	-	-	-
TOTALS, MAJOR TAXES AND LICENSES	\$80,070,246	\$13,693,766	\$93,764,012	\$85,000,331	\$14,598,933	\$99,599,264	\$89,833,750	\$15,149,377	\$104,983,127
MINOR REVENUES									
REGULATORY TAXES AND LICENSES									
General Fish and Game Taxes	-	1,409	1,409	-	1,397	1,397	-	1,396	1,396
Energy Resource Surcharge	-	569,116	569,116	-	558,809	558,809	-	564,727	564,727
Quarterly Public Utility Commission Fees	-	76,216	76,216	-	47,544	47,544	-	86,016	86,016
Hwy Carrier Uniform Business License Tax	315	-	315	5,435	-	5,435	5,690	-	5,690
Off-Highway Vehicle Fees	-	10,014	10,014	-	9,500	9,500	-	10,500	10,500
Liquor License Fees	-	45,363	45,363	-	45,363	45,363	-	46,000	46,000
Genetic Disease Testing Fees	-	69,868	69,868	-	78,538	78,538	-	79,556	79,556
Other Regulatory Taxes	-	88,812	88,812	-	95,775	95,775	-	99,190	99,190
New Motor Vehicle Dealer License Fee	-	1,461	1,461	-	1,674	1,674	-	1,686	1,686
General Fish and Game Lic Tags Permits	-	76,285	76,285	-	81,489	81,489	-	83,964	83,964
Duck Stamps	-	23	23	-	20	20	-	19	19
Elevator and Boiler Inspection Fees	212	12,313	12,525	223	15,010	15,233	223	16,196	16,419
Industrial Homework Fees	2	-	2	2	-	2	2	-	2
Employment Agency License Fees	718	5,136	5,854	685	4,762	5,447	685	4,793	5,478
Employment Agency Filing Fees	83	-	83	90	-	90	90	-	90
Teacher Examination Fees	-	12,746	12,746	-	12,134	12,134	-	12,134	12,134
Insurance Co License Fees & Penalties	-	3,913	3,913	-	4,181	4,181	-	4,129	4,129
Insurance Company Examination Fees	-	33,189	33,189	-	34,557	34,557	-	35,370	35,370
Real Estate Examination Fees	-	20,597	20,597	-	18,047	18,047	-	18,846	18,846
Real Estate License Fees	-	9,428	9,428	-	9,027	9,027	-	9,100	9,100
Subdivision Filing Fees	-	24,472	24,472	-	25,361	25,361	-	26,900	26,900
Building Construction Filing Fees	-	11,037	11,037	-	10,319	10,319	-	10,100	10,100
Domestic Corporation Fees	-	4,813	4,813	-	4,561	4,561	-	4,664	4,664
Foreign Corporation Fees	-	12,519	12,519	-	12,519	12,519	-	12,519	12,519
Notary Public License Fees	-	1,111	1,111	-	1,111	1,111	-	1,111	1,111
Filing Financing Statements	-	2,485	2,485	-	2,485	2,485	-	3,500	3,500
Candidate Filing Fee	24	3,207	3,231	24	3,207	3,231	24	3,207	3,231
Beverage Container Redemption Fees	-	895,219	895,219	-	941,296	941,296	-	974,998	974,998

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars in Thousands)**

Sources	Actual 2004-05			Estimated 2005-06			Proposed 2006-07		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Explosive Permit Fees	-	1	1	1	25	26	25	1	26
Processing Fees	-	1	1	1	-	1	-	1	1
Environmental and Hazardous Waste Fees	-	64,720	64,720	-	63,299	63,299	-	-	64,288
Other Regulatory Fees	145,907	1,833,543	1,979,450	482,587	1,928,372	2,410,959	499,246	1,942,431	2,441,677
Other Regulatory Licenses and Permits	39,915	374,042	413,957	40,202	426,926	467,128	1,631	515,728	517,359
Renewal Fees	114	160,129	160,243	135	164,614	164,749	114	176,241	176,355
Delinquent Fees	20	4,593	4,613	10	4,805	4,815	10	4,925	4,935
Private Rail Car Tax	6,576	-	6,576	6,576	-	6,576	6,576	-	6,576
Insurance Department Fees, Prop 103	-	24,853	24,853	-	26,452	26,452	-	24,593	24,593
Insurance Department Fees, General	-	25,273	25,273	-	21,547	21,547	-	20,679	20,679
Insurance Fraud Assessment, Workers Comp	-	33,916	33,916	-	37,672	37,672	-	36,672	36,672
Insurance Fraud Assessment, Auto	-	38,850	38,850	-	39,855	39,855	-	40,652	40,652
Insurance Fraud Assessment, General	-	3,819	3,819	-	4,333	4,333	-	4,333	4,333
Totals, REGULATORY TAXES AND LICENSES	\$193,886	\$4,554,492	\$4,748,378	\$535,994	\$4,736,563	\$5,272,557	\$514,316	\$4,941,165	\$5,455,481
REVENUE FROM LOCAL AGENCIES									
Architecture Public Building Fees	-	38,217	38,217	-	38,496	38,496	-	40,777	40,777
Penalties on Traffic Violations	-	92,964	92,964	-	93,796	93,796	-	95,219	95,219
Penalties on Felony Convictions	-	59,141	59,141	-	60,915	60,915	-	63,443	63,443
Fines-Crimes of Public Offense	-	4,397	4,397	-	4,470	4,470	-	5,048	5,048
Fish and Game Violation Fines	-	570	570	-	570	570	-	570	570
Penalty Assessments on Fish & Game Fines	-	540	540	-	648	648	-	650	650
Interest on Loans to Local Agencies	6	1,770	1,776	6	1,565	1,571	6	1,593	1,599
Add'l Assmnts on Fish & Game Fines	-	73	73	-	77	77	-	77	77
Narcotic Fines	7,537	-	7,537	2,500	-	2,500	2,500	-	2,500
Fingerprint ID Card Fees	-	57,802	57,802	-	60,802	60,802	-	68,402	68,402
Misc Revenue From Local Agencies	291,278	487,493	778,771	300,702	487,531	788,233	297,050	487,467	784,517
Open Space Cancellation Fee Deferrd Taxes	7,141	2,193	9,334	5,746	2,254	8,000	6,746	2,254	9,000
Rev Local Govt Agencies-Cost Recoveries	1,792	9,733	11,525	22,745	9,800	32,545	21,070	9,850	30,920
Totals, REVENUE FROM LOCAL AGENCIES	\$307,754	\$754,893	\$1,062,647	\$331,699	\$760,924	\$1,092,623	\$327,372	\$775,350	\$1,102,722
SERVICES TO THE PUBLIC									
Pay Patients Board Charges	19,165	-	19,165	15,583	-	15,583	14,166	-	14,166
State Beach and Park Service Fees	-	72,081	72,081	-	77,700	77,700	-	77,700	77,700
Parking Lot Revenues	-	9,481	9,481	-	8,031	8,031	-	7,437	7,437
Fire Prevention and Suppression	-	-	-	100	-	100	100	-	100
Emergency Telephone Users Surcharge	-	128,463	128,463	-	124,901	124,901	-	124,901	124,901
Sales of Documents	260	9,447	9,707	316	6,010	6,326	316	6,129	6,445
General Fees--Secretary of State	28	25,470	25,498	28	25,470	25,498	28	25,159	25,187
Parental Fees	-	1,801	1,801	-	1,800	1,800	-	1,800	1,800
Guardianship Fees	4	-	4	5	-	5	5	-	5
Miscellaneous Services to the Public	2,432	228,878	231,310	2,831	176,793	179,624	2,830	106,728	109,558
Receipts From Health Care Deposit Fund	8,000	-	8,000	8,000	-	8,000	8,000	-	8,000
Medicare Receipts Frm Federal Government	5,927	-	5,927	8,427	-	8,427	11,483	-	11,483
California State University Fees	-	1,098,122	1,098,122	-	1,205,292	1,205,292	-	1,231,304	1,231,304
Personalized License Plates	-	46,237	46,237	-	48,945	48,945	-	49,928	49,928
Totals, SERVICES TO THE PUBLIC	\$35,816	\$1,619,980	\$1,655,796	\$35,290	\$1,674,942	\$1,710,232	\$36,928	\$1,631,086	\$1,668,014
USE OF PROPERTY AND MONEY									
Income From Pooled Money Investments	232,012	153	232,165	390,000	153	390,153	495,000	153	495,153
Income From Surplus Money Investments	4,791	126,120	130,911	5,000	108,577	113,577	5,000	109,132	114,132

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars in Thousands)**

Sources	Actual 2004-05			Estimated 2005-06			Proposed 2006-07		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Interest Income From Loans	7,395	1,574	8,969	7,316	904	8,220	7,236	705	7,941
Interest Income From Interfund Loans	-	290	290	319	26,603	26,922	319	3,812	4,131
Income From Other Investments	-	12,434	12,434	-	5,353	5,353	-	1,883	1,883
Income From Condemnation Deposits Fund	-	1,436	1,436	-	1,200	1,200	-	1,010	1,010
Federal Lands Royalties	-	16,867	16,867	-	16,962	16,962	-	17,619	17,619
Oil & Gas Lease-1% Revenue City/County	384	-	384	400	-	400	400	-	400
Rentals of State Property	8,720	40,998	49,718	9,250	35,162	44,412	11,174	34,355	45,529
Misc Revenue Firm Use of Property & Money	30,735	75,203	105,938	28,522	37,732	66,254	28,522	28,669	57,191
School Lands Royalties	-	47	47	-	48	48	-	58	58
State Lands Royalties	174,919	13,200	188,119	230,105	10,195	240,300	228,505	-	228,505
Totals, USE OF PROPERTY AND MONEY	\$458,956	\$288,322	\$747,278	\$670,912	\$242,889	\$913,801	\$776,156	\$197,396	\$973,552
MISCELLANEOUS									
Attorney General Proceeds of Anti-Trust	-	10	10	-	1,224	1,224	-	1,224	1,224
Penalties & Interest on UI & DI Contrib	-	98,044	98,044	-	98,817	98,817	-	98,813	98,813
Sale of Fixed Assets	21,666	92,996	114,662	2,248	55,486	57,734	14	50	64
Sale of Confiscated Property	5,496	-	5,496	5,585	-	5,585	5,585	-	5,585
Sale of State's Public Lands	-	746	746	-	1,638	1,638	-	6,599	6,599
Proceeds From Estates of Deceased Person	-	-	-	320	-	320	70	-	70
Revenue-Abandoned Property	657,759	-	657,759	324,970	-	324,970	309,515	-	309,515
Escheat of Unclaimed Checks & Warrants	29,260	9,896	39,156	27,645	2,775	30,420	27,645	2,765	30,410
Sales of Forest Products	-	3	3	-	-	-	-	-	-
Miscellaneous Revenue	137,278	421,557	558,835	103,632	286,073	389,705	89,162	293,665	382,827
Bond Proceeds	-	-	-	525,000	1,000,000	1,525,000	-	-	-
Penalties & Intrst on Personal Income Tx	-	14,083	14,083	-	13,664	13,664	-	13,628	13,628
Other Revenue - Cost Recoveries	332	84,926	85,258	35	87,257	87,292	35	101,622	101,657
Settlements/Judgments(not Anti-trust)	5,068	496	5,564	102,746	5,307	108,053	20,001	5,307	25,308
Uninsured Motorist Fees	2,493	637	3,130	2,400	612	3,012	2,400	624	3,024
Traffic Violations	-	2,510	2,510	-	2,510	2,510	-	2,510	2,510
Parking Violations	8,118	1,182	9,300	8,001	460	8,461	8,001	435	8,436
Penalty Assessments	39,779	86,652	126,431	28,050	88,624	116,674	26,046	90,503	116,549
Civil & Criminal Violation Assessment	548	15,159	15,707	537	162,341	162,878	537	214,231	214,768
Fines and Forfeitures	-	310,585	310,585	-	262,728	262,728	-	255,894	255,894
Court Filing Fees and Surcharges	-	376,454	376,454	-	393,438	393,438	-	408,970	408,970
Penalty Assessments on Criminal Fines	-	68,514	68,514	-	69,029	69,029	-	69,029	69,029
Totals, MISCELLANEOUS	\$907,797	\$1,584,450	\$2,492,247	\$1,131,169	\$2,531,983	\$3,663,152	\$489,011	\$1,565,869	\$2,054,880
TOTALS, MINOR REVENUES	\$1,904,209	\$8,802,137	\$10,706,346	\$2,705,064	\$9,947,301	\$12,652,365	\$2,143,783	\$9,110,866	\$11,254,649
TOTALS, REVENUES	\$81,974,455	\$22,495,903	\$104,470,358	\$87,705,395	\$24,546,234	\$112,251,629	\$91,977,533	\$24,260,243	\$116,237,776
TRANSFERS AND LOANS									
General Fund	-128,622	114,168	-14,454	-179,992	176,165	-3,827	-612,778	572,228	-40,550
Property Acquisition Law Money Account	-	-	-	-	-	-	13,633	-13,633	-
Emergency Telephone Number Acct, State	17	-17	-	-	-	-	-	-	-
Energy Conservation Assistance Ac, State	-	-3,336	-3,336	-	-	-	-	-	-
Highway Account, State, STF	19,222	-19,222	-	-	-	-	9,287	-9,287	-
Motor Vehicle Account, STF	2,394	-2,398	-4	60	-62	-2	60	-62	-2
Motor Vehicle Fuel Account, TTF	-	-18,089	-18,089	-	-18,089	-18,089	-	-18,089	-18,089
Corporations Fund, State	1,500	-1,500	-	-	-	-	-	-	-
Alcohol Beverage Control Fund	3,432	-3,432	-	3,638	-3,638	-	3,638	-3,638	-
School Facilities Fee Assistance Fund	7,322	-7,322	-	-	-	-	-	-	-

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars in Thousands)**

Sources	Actual 2004-05			Estimated 2005-06			Proposed 2006-07		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Workers' Compensation Managed Care Fund	626	-626	-	1,000	-1,000	-	731	-731	-
Beverage Container Recycling Fund, CA	1,300	-1,300	-	-	-	-	-	-	-
Debt Limit Allocation Committee Fund, Cal	3,500	-3,500	-	-	-	-	-	-	-
Corrections Training Fund	10,257	-10,257	-	9,650	-9,650	-	9,650	-9,650	-
Driver Training Penalty Assessment Fund	22,010	-22,010	-	22,170	-22,170	-	22,798	-22,798	-
Employment Development Dept Benefit Audit	2,589	-2,589	-	5,757	-5,757	-	4,898	-4,898	-
Employment Development Contingent Fund	36,454	-36,454	-	25,689	-25,689	-	23,904	-23,904	-
Energy and Resources Fund	998	-998	-	-	-	-	-	-	-
Fair and Exposition Fund	246	-246	-	246	-246	-	246	-246	-
Genetic Disease Testing Fund	2,060	-2,060	-	7,240	-7,240	-	-	-	-
Restitution Fund	42	-42	-	-	-	-	-	-	-
Workers' Comp Administration Revolv Fund	47,938	-47,938	-	-	-	-	-	-	-
Business Fees Fund, Secty of State's	17,619	-17,619	-	15,113	-15,113	-	15,187	-15,187	-
Work and Family Fund	-	-	-	349	-349	-	-	-	-
Technical Assistance Fund	11	-11	-	11	-11	-	11	-11	-
Infant Botulism Treatment & Prevention	-	-	-	1,500	-1,500	-	374	-374	-
Residential Earthquake Recovery Fund, CA	2,900	-2,900	-	-	-	-	-	-	-
Collins-Dugan Calif Conserv Corps Reimb	-	-	-	-	-	-	-	-	-
Mandates Claims Fund, State	834	-834	-	2,700	-2,700	-	-	-	-
Indian Gaming Special Distribution Fund	-	-	-	-	-	-	-	-	-
False Claims Act Fund	-	-	-45,267	-	-98,484	-98,484	-	-50,500	-50,500
Underground Storage Tank Cleanup Fund	138	-11,638	-11,500	-	-3,500	-3,500	33,000	-33,000	-3,500
Olympic Training Account, California	-	-	-	100	-100	-	100	-100	-
Occupancy Compliance Monitoring Account	35,000	-35,000	-	-	-	-	-	-	-
Tax Credit Allocation Fee Account	31,000	-31,000	-	-	-	-	-	-	-
Energy Resources Programs Account	12,000	-12,000	-	-	-	-	-	-	-
Child Care & Devipmt Fac Direct Ln Fd	629	-	629	-	-	-	-	-	-
Child Care & Dev Fac Ln Guaranty Fd	65	-	65	-	-	-	-	-	-
Financial Responsibility Penalty Account	2,298	-2,298	-	2,504	-2,504	-	2,504	-2,504	-
Other Unallocated Special Funds	4,100	-4,100	-	3,923	-3,923	-	3,779	-3,779	-
Water Resources Development Bond Fund	11,500	-	11,500	-	-	-	-	-	-
Harbors and Watercraft Revolving Fund	-	-	-	-	200	200	-	1,137	1,137
Toxic Substances Control Account	970	-970	-	-	-	-	-	-	-
Scholarshare Administrative Fund	611	-	611	600	-	600	240	-	240
Vincent Thomas Bridge Toll Revenue Fund	-	6,886	6,886	-	-	-	-	-	-
Agriculture Building Fund	-	948	948	-	704	704	-	-	-
Public Buildings Construction Fund	-	-	-	6,713	-	6,713	-	-	-
Service Revolving Fund	-	-	-	1,186	-	1,186	-	-	-
Stephen P. Teale Data Center Revolv Fd	3,500	6,968	10,468	-	-	-	1,186	1,772	2,958
School Building Aid Fund, State	24,729	-	24,729	24,134	-	24,134	17,639	-	17,639
Licensed Midwifery Fund	40	-40	-	-	-	-	-	-	-
Self-Help Housing Fund	206	-	206	1,670	-	1,670	-	-	-
Superfund Bond Trust Fund	-	2,084	2,084	-	-	-	-	-	-
Housing Trust Fund, Cal	-	-	-	2,000	-	2,000	4,000	-	4,000
Industrial Relations Unpaid Wage Fund	4,000	-	4,000	-	-	-	-	-	-
Forest Resources Improvement Fund	-	-	-	-	-	-	-	-	-
Housing Rehabilitation Loan Fund	1,870	-	1,870	-	-	-	5,000	-	5,000
Renewable Resources Investment Fund	-	-	-	-	1,300	1,300	-	-	-

**SCHEDULE 8 -- Continued
COMPARATIVE STATEMENT OF REVENUES
(Dollars In Thousands)**

Sources	Actual 2004-05			Estimated 2005-06			Proposed 2006-07		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Special Deposit Fund	1,373	5,000	6,373	2,000	-	2,000	2,000	-	2,000
Foster Children and Parent Train Fund	3,000	-	3,000	-	-	-	-	-	-
Emergency Housing and Assistance Fund	1,125	-	1,125	-	-	-	-	-	-
Various Other Unallocated NGC Funds	2,307	-	2,307	2,207	-	2,207	2,126	-	2,126
Electrician Certification Fund	487	-487	-	-	-	-	-	-	-
Permanent Amusement Ride Safety Insp Fd	475	-475	-	647	-647	-	-	-	-
Garment Industry Regulations Fund	1,337	-1,337	-	-	-	-	-	-	-
Film California First Fund	1,081	-1,081	-	-	-	-	-	-	-
Tobacco Settlement Fund	-	-	-	12,000	-12,000	-	1,118	-1,118	-
State Court Facilities Construction Fund	30,000	-30,000	-	-	-	-	-	-	-
Fiscal Recovery Fund	-	-	-	1,000	-1,000	-	-	-	-
Electronic Waste Recovery & Recycling	-	-	-	10,000	-10,000	-	-	-	-
Children's Hospital Fund	-	-	-	137	-	137	-	-	-
Stem Cell Research and Cures Fund, CA	-	-	-	-	-	-	3,000	-	3,000
CA Consumer Pwr & Conservation Fin Auth	-	732	732	-	-	-	-	-	-
TOTALS, TRANSFERS AND LOANS	\$228,490	\$-243,607	\$-15,117	\$-14,038	\$-67,013	\$-81,051	\$-432,669	\$358,128	\$-74,541
Adjustment to Reconcile to Controller	6,544	-	6,544	-	-	-	-	-	-
TOTALS, REVENUES AND TRANSFERS	\$82,209,489	\$22,252,296	\$104,461,785	\$87,691,357	\$24,479,221	\$112,170,578	\$91,544,864	\$24,618,371	\$116,163,235

**SCHEDULE 9
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

Proposed 2006-07

Estimated 2005-06

Actual 2004-05

	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
LEGISLATIVE, JUDICIAL, AND EXECUTIVE															
Legislative															
Legislature															
Senate															
State Operations	\$91,308	-	-	\$91,308	-	\$97,371	-	-	\$97,371	-	\$102,240	-	-	\$102,240	-
Assembly															
State Operations	123,904	-	-	123,904	-	132,131	-	-	132,131	-	138,738	-	-	138,738	-
Totals, Legislature	\$215,212	-	-	\$215,212	-	\$229,502	-	-	\$229,502	-	\$240,978	-	-	\$240,978	-
Legislative Counsel Bureau															
State Operations	82,499	-	-	82,499	-	84,290	-	-	84,290	-	82,590	-	-	82,590	-
Totals, Legislative	\$297,711	-	-	\$297,711	-	\$313,792	-	-	\$313,792	-	\$323,568	-	-	\$323,568	-
Judicial															
Judicial Branch															
State Operations	300,962	24,974	-	325,936	1,398	308,468	45,387	-	353,855	2,982	317,742	45,940	-	363,682	3,045
Local Assistance	13,554	-	-	13,554	780	1,448,303	1,390,675	-	2,838,978	2,275	1,663,116	1,319,128	-	2,982,244	2,275
Capital Outlay	424	-	-	424	-	273	10,277	-	10,550	-	-	2,446	-	2,446	-
Totals, Judicial Branch	\$314,940	\$24,974	-	\$339,914	\$2,178	\$1,757,044	\$1,446,339	-	\$3,203,383	\$5,257	\$1,980,858	\$1,367,514	-	\$3,348,372	\$5,320
Commission on Judicial Performance															
State Operations	3,876	-	-	3,876	-	4,094	-	-	4,094	-	4,094	-	-	4,094	-
Judges' Retirement System Contributions															
State Operations	2,947	-	-	2,947	-	2,950	-	-	2,950	-	3,050	-	-	3,050	-
Local Assistance	145,127	-	-	145,127	-	141,371	-	-	141,371	-	152,251	-	-	152,251	-
Totals, Judges' Retirement System Contribution	\$148,074	-	-	\$148,074	-	\$144,321	-	-	\$144,321	-	\$155,301	-	-	\$155,301	-
State Trial Court Funding															
Local Assistance	1,299,627	1,091,478	-	2,391,105	-	-	-	-	-	-	-	-	-	-	-
Totals, Judicial Executive/Governor	\$1,766,517	\$1,116,452	-	\$2,882,969	\$2,178	\$1,905,459	\$1,446,339	-	\$3,351,798	\$5,257	\$2,140,253	\$1,367,514	-	\$3,507,767	\$5,320
Governor's Office															
State Operations	17,993	-	-	17,993	-	18,272	-	-	18,272	-	18,402	-	-	18,402	-
Office of the Inspector General															
State Operations	-	-	-	-	-	15,361	-	-	15,361	-	15,225	-	-	15,225	-
Office of Planning & Research															
State Operations	2,777	520	-	3,297	1,585	3,843	-	-	3,843	3,748	8,887	-	-	8,887	2,802
Local Assistance	-	-	-	-	32,277	-	-	-	-	35,000	-	-	-	-	35,000
Totals, Office of Planning & Research	\$2,777	\$520	-	\$3,297	\$33,862	\$3,843	-	-	\$3,843	\$38,748	\$8,887	-	-	\$68,887	\$37,802
Office of Homeland Security															
State Operations	-	-	-	-	-	-	-	-	-	-	-	101	-	101	17,117
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	2,500	-	2,500	164,000

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Totals, Office of Homeland Security	-	-	-	-	-	-	-	-	-	-	-	\$2,601	-	\$2,601	\$181,117
Office of Emergency Services															
State Operations	41,820	1,948	-	43,768	27,739	46,200	3,240	-	49,440	63,280	40,771	3,302	-	44,073	47,774
Local Assistance	118,739	18,492	-	137,231	732,032	95,493	18,647	-	114,140	1,066,961	83,804	22,102	-	105,906	849,961
Capital Outlay	145	-	-	145	-	1,493	-	-	1,493	-	-	-	-	-	-
Totals, Office of Emergency Services	\$160,704	\$20,440	-	\$181,144	\$759,771	\$143,186	\$21,887	-	\$165,073	\$1,130,241	\$124,575	\$25,404	-	\$149,979	\$897,735
Totals, Executive/Governor	\$181,474	\$20,960	-	\$202,434	\$793,633	\$180,662	\$21,887	-	\$202,549	\$1,168,989	\$167,089	\$28,005	-	\$195,094	\$1,116,654
Executive/Constitutional Offices															
Office of the Lieutenant Governor															
State Operations	2,689	-	-	2,689	-	2,769	-	-	2,769	-	2,784	-	-	2,784	-
Department of Justice															
State Operations	323,657	125,618	-	449,275	35,700	341,683	155,201	-	496,884	44,666	384,483	175,172	-	559,655	38,850
Local Assistance	3,271	2,871	-	6,142	-	2,987	2,878	-	5,865	-	2,762	2,965	-	5,727	-
Totals, Department of Justice	\$326,928	\$128,489	-	\$455,417	\$35,700	\$344,670	\$158,079	-	\$502,749	\$44,666	\$387,245	\$178,137	-	\$565,382	\$38,850
State Controller															
State Operations	72,682	7,475	185	80,342	1,107	76,117	12,873	608	89,598	1,252	96,884	16,190	1,212	114,286	1,281
Local Assistance	-2,956	-	-	-2,956	-	-1,383	-	-	-1,383	-	-1,021	-	-	-1,021	-
Totals, State Controller	\$70,126	\$7,475	\$185	\$77,786	\$1,107	\$74,734	\$12,873	\$608	\$88,215	\$1,252	\$95,863	\$16,190	\$1,212	\$113,265	\$1,281
Department of Insurance															
State Operations	-	135,175	-	135,175	-	-	157,270	-	157,270	-	-	157,029	-	157,029	-
Local Assistance	-	42,851	-	42,851	-	-	44,757	-	44,757	-	-	40,319	-	40,319	-
Totals, Department of Insurance	-	\$178,026	-	\$178,026	-	-	\$202,027	-	\$202,027	-	-	\$197,348	-	\$197,348	-
Gambling Control Commission															
State Operations	-	6,610	-	6,610	-	-	8,366	-	8,366	-	725	10,211	-	10,936	-
Local Assistance	-	31,114	-	31,114	-	-	80,146	-	80,146	-	-	30,000	-	30,000	-
Totals, Gambling Control Commission	-	\$37,724	-	\$37,724	-	-	\$88,512	-	\$88,512	-	\$725	\$40,211	-	\$40,936	-
State Board of Equalization															
State Operations	194,000	37,853	-	231,853	18	222,822	49,057	-	271,879	700	212,815	49,702	-	262,517	1,167
Secretary of State															
State Operations	37,557	31,001	-	68,558	1,563	41,117	35,385	-	76,502	223,741	32,040	36,070	-	68,110	1,745
Local Assistance	2	-	-	2	1,633	45,000	-	-	45,000	30,967	-	-	-	-	-
Totals, Secretary of State	\$37,559	\$31,001	-	\$68,560	\$13,196	\$86,117	\$35,385	-	\$121,502	\$254,708	\$32,040	\$36,070	-	\$68,110	\$1,745
State Treasurer															
State Operations	3,913	-	-	3,913	-	6,068	-	-	6,068	-	6,132	-	-	6,132	-
Debt & Investment Advisory Commission															
State Operations	-	1,800	-	1,800	-	-	2,027	-	2,027	-	-	2,088	-	2,088	-
Debt Limit Allocation Committee															
State Operations	-	1,019	-	1,019	-	-	1,125	-	1,125	-	-	1,147	-	1,147	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Industrial Dvltm Financing Advisory Comm															
State Operations	-	177	-	177	-	-	482	-	482	-	-	482	-	482	-
Tax Credit Allocation Committee															
State Operations	-	2,562	-	2,562	-	-	3,088	-	3,088	-	-	3,136	-	3,136	-
Local Assistance	-	138	-	138	-	-	136	-	136	-	-	136	-	136	-
Totals, Tax Credit Allocation Committee	-	\$2,700	-	\$2,700	-	-	\$3,224	-	\$3,224	-	-	\$3,272	-	\$3,272	-
Health Facilities Financing Authority															
State Operations	-	-	14	14	-	-	-	289	289	-	-	-	289	289	-
Local Assistance	-	-	-	-	-	-	-	360,000	360,000	-	-	-	210,000	210,000	-
Totals, Health Facilities Financing Authority	-	-	\$14	\$14	-	-	-	\$360,289	\$360,289	-	-	-	\$210,289	\$210,289	-
School Finance Authority															
State Operations	-	-	-	-	-	-	-	-	-	225	-	-	-	-	125
Local Assistance	-	-	-	-	-	-	-	-	-	19,475	-	-	-	-	9,725
Totals, School Finance Authority	-	-	-	-	-	-	-	-	-	\$19,700	-	-	-	-	\$9,850
Totals, Executive/Constitutional Offices	\$635,215	\$426,264	\$199	\$1,061,678	\$50,021	\$737,180	\$552,791	\$360,897	\$1,650,868	\$321,026	\$737,604	\$524,647	\$211,501	\$1,473,752	\$52,893
Statewide Distributed Costs															
General Obligation Bonds-LJE															
State Operations	18,462	-	-	18,462	-	10,289	-	-	10,289	-	13,923	-	-	13,923	-
Totals, Statewide Distributed Costs	\$18,462	-	-	\$18,462	-	\$10,289	-	-	\$10,289	-	\$13,923	-	-	\$13,923	-
TOTALS, LEGISLATIVE, JUDICIAL, AND EXECUTIVE	\$2,899,379	\$1,563,676	\$199	\$4,463,254	\$845,832	\$3,147,382	\$2,021,017	\$360,897	\$5,529,296	\$1,495,272	\$3,382,437	\$1,920,166	\$211,501	\$5,514,104	\$1,174,867
State Operations	1,321,046	376,732	199	1,697,977	69,110	1,413,845	473,501	897	1,888,243	340,594	1,481,525	500,570	1,501	1,983,596	113,906
Local Assistance	1,577,764	1,186,944	-	2,764,708	776,722	1,731,771	1,537,239	360,000	3,629,010	1,154,678	1,900,912	1,417,150	210,000	3,528,062	1,060,961
Capital Outlay	569	-	-	569	-	1,766	10,277	-	12,043	-	-	2,446	-	2,446	-
STATE AND CONSUMER SERVICES															
State and Consumer Services, Secy															
State Operations	696	-	-	696	-	767	-	-	767	-	769	-	-	769	-
Science Center															
State Operations	14,441	3,549	-	17,990	-	14,523	3,909	-	18,432	-	14,672	3,996	-	18,668	-
Department of Consumer Affairs, Boards															
State Operations	-	182,928	-	182,928	-	-	206,431	-	206,431	-	-	213,951	-	213,951	-
Local Assistance	-	197	-	197	-	-	239	-	239	-	-	-	-	-	-
Totals, Department of Consumer Affairs, Boards	-	\$183,125	-	\$183,125	-	-	\$206,670	-	\$206,670	-	-	\$213,951	-	\$213,951	-
Department of Consumer Affairs, Bureaus															
State Operations	377	137,473	-	137,850	1,116	817	166,223	-	167,040	1,389	785	171,449	-	172,234	1,400
Department of Fair Employment & Housing															
State Operations	13,618	-	-	13,618	4,939	13,634	-	-	13,634	5,470	15,237	-	-	15,237	5,508
Fair Employment & Housing Commission															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
State Operations	1,079	-	-	1,079	-	1,081	-	-	1,081	-	1,091	-	-	1,091	-
Franchise Tax Board															
State Operations	474,719	10,945	-	485,664	-	514,147	11,786	-	525,933	-	499,271	15,765	-	515,026	-
Department of General Services															
State Operations	14,640	76,609	12,317	103,566	-	1,078	81,760	12,770	95,608	-	331	83,355	11,157	94,843	-
Local Assistance	-	92,399	1	92,400	-	14,068	139,601	2,334	156,003	-	-	171,573	-	171,573	-
Capital Outlay	-	-	6,281	6,281	-	11,937	-	10,937	22,874	-	3,667	-	500	4,167	-
Totals, Department of General Services	\$14,640	\$169,008	\$18,599	\$202,247	-	\$27,083	\$221,361	\$26,041	\$274,485	-	\$3,998	\$254,928	\$11,657	\$270,583	-
Victim Compensation/Government Claims Bd															
State Operations	-	81,311	-	81,311	25,405	-	101,264	-	101,264	33,796	-	102,740	-	102,740	32,224
Local Assistance	-	-	-	-	-	1,841	-	-	1,841	-	-	-	-	-	-
Totals, Victim Compensation/Government Claims	-	\$81,311	-	\$81,311	\$25,405	\$1,841	\$101,264	-	\$103,105	\$33,796	-	\$102,740	-	\$102,740	\$32,224
State Personnel Board															
State Operations	3,901	-	-	3,901	-	3,851	-	-	3,851	-	3,998	-	-	3,998	-
Local Assistance	1	-	-	1	-	-	-	-	-	-	-	-	-	-	-
Totals, State Personnel Board	\$3,902	-	-	\$3,902	-	\$3,851	-	-	\$3,851	-	\$3,998	-	-	\$3,998	-
TOTALS, STATE AND CONSUMER SERVICES	\$523,472	\$585,411	\$18,599	\$1,127,482	\$31,460	\$577,744	\$711,213	\$26,041	\$1,314,998	\$40,655	\$539,821	\$762,819	\$11,657	\$1,314,297	\$39,132
State Operations	523,471	492,815	12,317	1,028,603	31,460	549,898	571,373	12,770	1,134,041	40,655	536,154	591,246	11,157	1,138,557	39,132
Local Assistance	1	92,596	1	92,598	-	15,909	139,840	2,334	158,083	-	-	171,573	-	171,573	-
Capital Outlay	-	-	6,281	6,281	-	11,937	-	10,937	22,874	-	3,667	-	500	4,167	-
BUSINESS, TRANSPORTATION & HOUSING															
Business and Housing															
Business, Transportation & Housing, Secy															
State Operations	5,874	1,407	-	7,281	644	12,592	1,183	-	13,775	-	15,628	1,237	-	16,865	-
Department of Alcoholic Beverage Control															
State Operations	-	39,419	-	39,419	-	42,833	-	-	42,833	-	-	47,776	-	47,776	-
Local Assistance	-	1,496	-	1,496	-	1,500	-	-	1,500	-	-	3,000	-	3,000	-
Totals, Department of Alcoholic Beverage Contr	-	\$40,915	-	\$40,915	644	\$44,333	-	-	\$44,333	-	\$15,628	\$50,776	-	\$50,776	-
Alcoholic Beverage Control Appeals Board															
State Operations	-	887	-	887	-	963	-	-	963	-	-	987	-	987	-
Department of Financial Institutions															
State Operations	-	22,341	-	22,341	-	22,955	-	-	22,955	-	24,118	-	-	24,118	-
Department of Corporations															
State Operations	-	27,190	-	27,190	-	30,554	-	-	30,554	-	31,548	-	-	31,548	-
Dept of Housing & Community Development															
State Operations	4,664	20,933	245	25,842	7,186	4,989	23,691	1,458	30,138	8,231	5,031	25,349	1,443	31,823	7,925
Local Assistance	9,292	23,000	15,362	47,654	166,501	9,291	25,000	24,325	58,616	205,100	11,802	23,000	24,325	59,127	165,000

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Totals, Dept of Housing & Community Development	\$13,956	\$43,933	\$15,607	\$73,496	\$173,687	\$14,280	\$48,691	\$25,783	\$88,754	\$213,331	\$16,833	\$49,349	\$25,768	\$90,950	\$172,925
Office of Real Estate Appraisers	-	2,999	-	2,999	-	-	4,056	-	4,056	-	-	4,194	-	4,194	-
State Operations	-	31,726	-	31,726	-	-	34,176	-	34,176	-	-	42,979	-	42,979	-
Department of Real Estate	-	35,785	-	35,785	-	-	35,817	-	35,817	-	-	41,315	-	41,315	-
State Operations	-	\$207,183	\$15,607	\$242,620	\$174,331	\$26,872	\$222,728	\$25,783	\$275,383	\$213,331	\$32,461	\$245,503	\$25,768	\$303,732	\$172,925
Totals, Business and Housing Transportation	\$19,930	\$207,183	\$15,607	\$242,620	\$174,331	\$26,872	\$222,728	\$25,783	\$275,383	\$213,331	\$32,461	\$245,503	\$25,768	\$303,732	\$172,925
California Transportation Commission	-	1,588	82	1,670	-	-	2,024	72	2,096	-	-	1,851	18	1,869	-
State Operations	-	-	5,429	5,429	-	-	-	2,000	2,000	-	-	-	-	-	-
Local Assistance	-	\$1,588	\$5,511	\$7,099	-	-	\$2,024	\$2,072	\$4,096	-	-	\$1,851	\$18	\$1,869	-
Totals, California Transportation Commission	-	117,365	-	117,365	-	-	200,757	-	200,757	-	-	235,044	-	235,044	-
Special Transportation Programs	-	2,251,545	12,303	2,263,848	511,164	-	2,624,741	15,807	2,640,548	581,230	-	2,461,336	22,220	2,483,556	575,691
State Operations	-	3,588	-	3,588	-	-	5,030	-	5,030	-	-	5,130	-	5,130	-
Aeronautics Program	-	316,910	-	316,910	936,841	-	900,640	-	900,640	1,034,007	-	575,930	-	575,930	1,655,108
Highway Transportation Program	-	154,826	-	154,826	19,371	-	470,681	-	470,681	65,592	-	920,707	-	920,707	57,485
Mass Transportation Program	-	12,876	-	12,876	44,639	-	9,565	-	9,565	51,000	-	14,874	-	14,874	82,000
Transportation Planning Program	-	1	-	1	-	-	-	-	-	-	-	-	-	-	-
State-Mandated Local Programs	-	488,201	-	488,201	1,000,851	-	1,385,916	-	1,385,916	1,150,599	-	1,516,641	-	1,516,641	1,794,593
Totals, Local Assistance	-	1,906,676	100	1,906,776	966,234	1,345,148	516,745	42,000	1,903,893	1,588,713	2,326,287	-98,936	-	2,227,351	1,146,636
Capital Outlay	-	-	-	-	9,336	-	-	-	-	42,339	-	-	-	-	31,000
Unclassified	-	\$4,646,422	\$12,403	\$4,658,825	\$2,487,585	\$1,345,148	\$4,527,402	\$57,807	\$5,930,357	\$3,362,881	\$2,326,287	\$3,879,041	\$22,220	\$6,227,548	\$3,547,920
Totals, Department of Transportation High-Speed Rail Authority	-	1,122	-	1,122	-	-	3,923	-	3,923	1,242	-	1,298	-	1,298	-
State Operations	-	396	-	396	55,326	-	407	-	407	58,129	-	410	-	410	58,368
Office of Traffic Safety	-	-	-	-	55,813	-	-	-	-	26,384	-	-	-	-	26,384
State Operations	-	\$396	-	\$396	\$111,139	-	\$407	-	\$407	\$84,513	-	\$410	-	\$410	\$84,752
Totals, Office of Traffic Safety	-	1,279,240	-	1,279,240	11,298	-	1,341,026	-	1,341,026	13,859	-	1,463,340	-	1,463,340	14,085
Dept of the California Highway Patrol	-	1,370	-	1,370	-	-	11,767	-	11,767	-	-	5,731	-	5,731	-
State Operations	-	\$1,280,610	-	\$1,280,610	\$11,298	-	\$1,352,793	-	\$1,352,793	\$13,859	-	\$1,469,071	-	\$1,469,071	\$14,085
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals, Dept of the California Highway Patrol	-	1,280,610	-	1,280,610	11,298	-	1,352,793	-	1,352,793	13,859	-	1,469,071	-	1,469,071	14,085

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Department of Motor Vehicles															
State Operations	-	723,382	-	723,382	160	-	752,062	-	752,062	-	-	801,282	-	801,282	-
Capital Outlay	-	1,352	-	1,352	-	-	11,286	-	11,286	-	-	17,967	-	17,967	-
Totals, Department of Motor Vehicles	-	\$724,734	-	\$724,734	\$160	-	\$763,348	-	\$763,348	-	-	\$819,249	-	\$819,249	-
Totals, Transportation	-	\$6,772,237	\$17,914	\$6,790,151	\$2,610,182	\$1,345,148	\$6,850,654	\$59,879	\$8,255,681	\$3,462,495	\$2,326,287	\$6,405,964	\$22,238	\$8,754,489	\$3,646,757
Statewide Distributed Costs															
General Obligation Bonds-BT&H	348,751	-	-	348,751	-	342,224	-	-	342,224	-	359,838	-	-	359,838	-
State Operations	-	-	-	-	-	342,224	-	-	342,224	-	359,838	-	-	359,838	-
Totals, Statewide Distributed Costs	\$348,751	-	-	\$348,751	-	\$342,224	-	-	\$342,224	-	\$359,838	-	-	\$359,838	-
TOTALS, BUSINESS, TRANSPORTATION & HOUSING	\$368,581	\$6,979,420	\$33,521	\$7,381,522	\$2,784,513	\$1,714,244	\$7,073,382	\$85,662	\$8,873,288	\$3,675,826	\$2,718,586	\$6,651,467	\$48,006	\$9,418,059	\$3,819,682
State Operations	359,289	4,439,960	12,630	4,811,879	585,778	359,805	4,920,411	17,337	5,297,553	662,691	380,497	4,949,020	23,681	5,353,198	656,069
Local Assistance	9,292	630,062	20,791	660,145	1,223,165	9,291	1,613,173	26,325	1,648,789	1,382,083	11,802	1,777,685	24,325	1,813,812	1,985,977
Capital Outlay	-	1,909,388	100	1,909,488	966,234	1,345,148	539,798	42,000	1,926,946	1,588,713	2,326,287	-75,238	-	2,251,049	1,146,636
Unclassified	-	-	-	-	9,336	-	-	-	-	42,339	-	-	-	-	31,000
RESOURCES															
Secretary for Resources															
State Operations	-	12,652	7,025	19,677	92	-	3,057	4,586	7,643	184	-	3,072	4,393	7,465	236
Local Assistance	-	-	27,771	27,771	-	-	-	73,950	73,950	-	-	-	42,590	42,590	-
Totals, Secretary for Resources	-	\$12,652	\$34,796	\$47,448	\$92	-	\$3,057	\$78,536	\$81,593	\$184	-	\$3,072	\$46,983	\$50,055	\$236
Special Resources Programs															
State Operations	-	200	-	200	-	-	205	-	205	-	-	201	-	201	-
Local Assistance	-	4,183	-	4,183	-	-	4,354	-	4,354	-	-	4,354	-	4,354	-
Totals, Special Resources Programs	-	\$4,383	-	\$4,383	-	-	\$4,559	-	\$4,559	-	-	\$4,555	-	\$4,555	-
Tahoe Conservancy															
State Operations	-	2,967	1,067	4,034	-	-	3,374	1,149	4,523	-	180	3,677	1,162	5,019	-
Local Assistance	-	125	3,495	3,620	-	-	588	22,160	22,748	-	-	-	12,000	12,000	-
Capital Outlay	-	73	6,866	6,939	-	-	2,346	17,511	19,857	-	-	1,069	7,183	8,252	-
Totals, Tahoe Conservancy	-	\$3,165	\$11,428	\$14,593	-	-	\$6,308	\$40,820	\$47,128	-	\$180	\$4,746	\$20,345	\$25,271	-
California Conservation Corps															
State Operations	23,755	28,096	1,833	53,684	-	24,073	32,259	1,229	57,561	-	32,886	24,083	1,490	58,459	-
Local Assistance	-	-	3,910	3,910	-	-	-	4,759	4,759	-	-	-	406	406	-
Capital Outlay	-	-	-	-	-	-	-	-	-	-	927	-	-	927	-
Totals, California Conservation Corps	\$23,755	\$28,096	\$5,743	\$57,594	-	\$24,073	\$32,259	\$5,988	\$62,320	-	\$33,813	\$24,083	\$1,896	\$59,792	-
Energy Resource Conservation/DVmt Comm															
State Operations	-	214,579	-	214,579	5,804	-	414,073	-	414,073	10,211	-	308,861	-	308,861	11,978
Local Assistance	-	2,497	-	2,497	-	-	3,562	-	3,562	-	-	1,100	-	1,100	-
Totals, Energy Resource Conservation/DVmt Com	-	\$217,076	-	\$217,076	\$5,804	-	\$417,635	-	\$417,635	\$10,211	-	\$309,961	-	\$309,961	\$11,978
Renewable Resources Investment Program															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
State Operations	-	971	-	971	-	-	1,000	-	1,000	-	-	1,200	-	1,200	-
Department of Conservation															
State Operations	3,941	880,507	1,116	885,564	805	4,938	828,050	1,629	834,617	1,745	4,165	859,477	1,634	865,276	1,779
Local Assistance	-	-	10,988	10,988	-	-	-	40,916	40,916	-	-	-	8,330	8,330	-
Totals, Department of Conservation	\$3,941	\$880,507	\$12,104	\$896,552	\$805	\$4,938	\$828,050	\$42,545	\$875,533	\$1,745	\$4,165	\$859,477	\$9,964	\$873,606	\$1,779
Department of Forestry & Fire Protection															
State Operations	504,851	6,965	6,604	518,420	28,916	531,943	8,674	8,596	549,213	31,302	572,865	9,196	8,323	590,384	29,230
Local Assistance	-	-	1,080	1,080	-	-	-	1,175	1,175	-	-	-	1,175	1,175	-
Capital Outlay	114	-	-	114	-	18,093	-	-	18,093	-	18,392	-	-	18,392	-
Totals, Department of Forestry & Fire Protection	\$504,965	\$6,965	\$7,684	\$519,614	\$28,916	\$550,036	\$8,674	\$9,771	\$568,481	\$31,302	\$591,257	\$9,196	\$9,498	\$609,951	\$29,230
State Lands Commission															
State Operations	8,968	9,468	-	18,436	-	8,867	10,963	-	19,830	-	9,730	11,582	-	21,312	-
Department of Fish & Game															
State Operations	36,752	134,496	11,799	183,047	44,156	41,925	143,115	78,906	263,946	66,577	52,984	138,423	6,065	197,472	68,213
Local Assistance	509	898	-	1,407	-	559	957	-	1,516	-	576	987	-	1,563	-
Capital Outlay	-	862	188	1,050	-	15	370	-	385	1,865	1,094	75	75	1,169	130
Totals, Department of Fish & Game	\$37,261	\$136,256	\$11,987	\$185,504	\$44,156	\$42,499	\$144,442	\$78,906	\$265,847	\$68,442	\$53,560	\$140,504	\$6,140	\$200,204	\$68,343
Wildlife Conservation Board															
State Operations	100	1,270	1,221	2,591	-	195	1,758	4,149	6,102	-	195	1,611	1,849	3,655	-
Capital Outlay	-	17,519	185,151	202,670	-	-	19,056	508,193	527,249	-	-	3,511	32,912	36,423	-
Totals, Wildlife Conservation Board	\$100	\$18,789	\$186,372	\$205,261	-	\$195	\$20,814	\$512,342	\$533,351	-	\$195	\$5,122	\$34,761	\$40,078	-
Department of Boating & Waterways															
State Operations	-	-	-	-	5,829	-	-	-	-	5,893	-	-	-	-	5,893
Local Assistance	-	458	-	458	2,782	-	500	-	500	2,218	-	1,250	-	1,250	2,218
Totals, Department of Boating & Waterways	-	\$458	-	\$458	\$8,611	-	\$500	-	\$500	\$8,111	-	\$1,250	-	\$1,250	\$8,111
Coastal Commission															
State Operations	9,789	513	-	10,302	3,071	9,935	580	-	10,515	3,021	9,845	606	-	10,451	3,040
Local Assistance	-	788	-	788	-	778	778	-	778	-	708	-	-	708	-
Totals, Coastal Commission	\$9,789	\$1,301	-	\$11,090	\$3,071	\$9,935	\$1,358	-	\$11,293	\$3,021	\$9,845	\$1,314	-	\$11,159	\$3,040
State Coastal Conservancy															
State Operations	-	-	6,243	6,243	29	-	1,196	2,961	4,157	125	-	1,201	3,998	5,199	127
Capital Outlay	-	10,345	118,455	128,800	1,486	-	3,487	177,243	180,730	4,011	-	900	27,500	28,400	2,000
Totals, State Coastal Conservancy	-	\$10,345	\$124,698	\$135,043	\$1,515	-	\$4,683	\$180,204	\$184,887	\$4,136	-	\$2,101	\$31,498	\$33,599	\$2,127
Native American Heritage Commission															
State Operations	519	-	-	519	-	531	-	-	531	-	534	-	-	534	-
Department of Parks & Recreation															
State Operations	87,724	163,291	18,941	269,956	3,443	101,140	175,974	22,642	299,756	3,656	112,784	174,749	13,126	300,659	3,772
Local Assistance	-	19,112	243,947	263,059	4,822	-	27,005	134,279	161,284	62,175	-	22,209	-	22,209	22,900

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05					Estimated 2005-06					Proposed 2006-07				
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Capital Outlay	-	9,696	65,633	75,329	2,696	-	67,631	170,573	238,204	13,835	-	3,667	17,738	21,405	5,000
Totals, Department of Parks & Recreation	\$87,724	\$192,099	\$328,521	\$608,344	\$10,961	\$101,140	\$270,610	\$327,494	\$699,244	\$79,666	\$200,625	\$30,864	\$344,273	\$31,672	
Santa Monica Mountains Conservancy															
State Operations	-	158	416	574	-	-	266	450	716	-	-	287	454	741	-
Capital Outlay	-	-	16,643	16,643	-	-	-	21,897	21,897	-	-	-	8,500	8,500	-
Totals, Santa Monica Mountains Conservancy	-	\$158	\$17,059	\$17,217	-	-	\$266	\$22,347	\$22,613	-	\$287	\$8,954	\$9,241	-	
SF Bay Conservation & Development Comm															
State Operations	3,191	-	-	3,191	-	3,197	-	-	3,197	-	-	-	-	3,230	-
San Gabriel/Lower LA River/Mtns Consvcy															
State Operations	-	25	483	508	-	-	286	232	518	-	-	307	232	539	-
Capital Outlay	-	-	6,587	6,587	-	-	-	10,313	10,313	-	-	-	2,800	2,800	-
Totals, San Gabriel/Lower LA River/Mtns Consvcy	-	\$25	\$7,070	\$7,095	-	-	\$286	\$10,545	\$10,831	-	\$307	\$3,032	\$3,339	-	
San Joaquin River Conservancy															
State Operations	-	250	73	323	-	-	263	109	372	-	-	324	110	434	-
Baldwin Hills Conservancy															
State Operations	-	300	23	323	-	-	310	105	415	-	-	309	106	415	-
Capital Outlay	-	-	11,256	11,256	-	-	-	22,798	22,798	-	-	-	-	-	-
Totals, Baldwin Hills Conservancy	-	\$300	\$11,279	\$11,579	-	-	\$310	\$22,903	\$23,213	-	\$309	\$106	\$415	-	
Delta Protection Commission															
State Operations	-	144	-	144	-	-	150	-	150	-	-	154	-	154	-
San Diego River Conservancy															
State Operations	-	489	-	489	-	-	272	-	272	-	-	292	-	292	-
Coachella Valley Mountains Conservancy															
State Operations	-	265	-	265	-	-	285	-	285	-	-	272	-	272	-
Capital Outlay	-	-	5,772	5,772	-	-	-	4,878	4,878	-	-	-	-	-	-
Totals, Coachella Valley Mountains Conservancy	-	\$265	\$5,772	\$6,037	-	-	\$285	\$4,878	\$5,163	-	\$272	-	\$272	-	
Sierra Nevada Conservancy															
State Operations	-	-	-	-	-	-	3,381	-	3,381	-	-	3,462	-	3,462	-
Department of Water Resources															
State Operations	27,581	9,429	72,985	109,995	3,421	143,582	10,313	80,621	234,516	12,842	123,365	11,073	109,873	244,311	12,546
Local Assistance	-	-	146,137	146,137	-	59,100	-	169,696	228,796	-	92,504	995	31,255	124,754	-
Capital Outlay	4,512	-	2,393	6,905	-	27,551	-	24,493	52,044	-	31,383	-	44,400	75,783	-
Totals, Department of Water Resources	\$32,093	\$9,429	\$221,515	\$263,037	\$3,421	\$230,233	\$10,313	\$274,810	\$515,356	\$12,842	\$247,252	\$12,068	\$185,528	\$444,848	\$12,546
Bay-Delta Authority															
State Operations	8,403	-	19,983	28,386	-	8,518	-	117,969	126,487	-	8,517	-	5,830	14,347	-
General Obligation Bonds-Resources															
State Operations	310,468	-	-	310,468	-	403,941	-	-	403,941	-	-	-	-	454,720	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

Actual 2004-05

Estimated 2005-06

Proposed 2006-07

	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
TOTALS, RESOURCES	\$1,031,177	\$1,533,591	\$1,006,084	\$3,570,852	\$107,352	\$1,388,103	\$1,770,438	\$1,730,167	\$4,888,708	\$219,660	\$1,529,782	\$1,596,263	\$395,509	\$3,521,554	\$169,062
State Operations	1,026,042	1,467,035	149,812	2,642,889	95,566	1,282,785	1,639,804	325,333	3,247,922	135,556	1,386,000	1,554,419	158,645	3,099,064	136,814
Local Assistance	509	28,061	437,328	465,898	7,604	59,659	37,744	446,935	544,338	64,393	93,080	31,603	95,756	220,439	25,118
Capital Outlay	4,626	38,495	418,944	462,065	4,182	45,659	92,890	957,899	1,096,448	19,711	50,702	10,241	141,108	202,051	7,130
ENVIRONMENTAL PROTECTION															
Secretary for Environmental Protection															
State Operations	1,325	2,549	-	3,874	-	1,321	4,467	-	5,788	-	1,968	7,202	-	9,170	-
Air Resources Board															
State Operations	2,228	137,692	-	139,920	11,414	2,211	241,149	-	243,360	12,389	2,280	234,168	-	236,448	12,892
Local Assistance	-	10,111	-	10,111	-	-	10,111	-	10,111	-	-	10,111	-	10,111	-
Capital Outlay	-	-	-	-	-	-	103	-	103	-	-	1,120	-	1,120	-
Totals, Air Resources Board	\$2,228	\$147,803	-	\$150,031	\$11,414	\$2,211	\$251,363	-	\$253,574	\$12,389	\$2,280	\$245,399	-	\$247,679	\$12,892
Integrated Waste Management Board															
State Operations	-	97,506	114	97,620	14	-	164,908	141	165,049	91	-	160,466	141	160,607	91
Local Assistance	-	9,986	-	9,986	-	-	34,624	-	34,624	-	-	28,956	-	28,956	-
Totals, Integrated Waste Management Board	-	\$107,492	\$114	\$107,606	\$14	-	\$199,532	\$141	\$199,673	\$91	-	\$189,422	\$141	\$189,563	\$91
Department of Pesticide Regulation															
State Operations	-	38,096	-	38,096	2,112	-	42,417	-	42,417	2,194	-	43,170	-	43,170	2,202
Local Assistance	1	14,242	-	14,243	-	-	15,618	-	15,618	-	-	16,264	-	16,264	-
Totals, Department of Pesticide Regulation	\$1	\$52,338	-	\$52,339	\$2,112	-	\$58,035	-	\$58,035	\$2,194	-	\$59,434	-	\$59,434	\$2,202
State Water Resources Control Board															
State Operations	27,600	315,488	9,883	352,971	38,552	29,694	355,730	13,565	398,989	38,835	28,760	363,554	12,436	404,750	38,898
Local Assistance	4,263	-	189,319	193,582	60,825	-	470,655	470,655	941,310	90,000	-	80	56,623	56,703	90,000
Totals, State Water Resources Control Board	\$31,863	\$315,488	\$199,202	\$546,553	\$99,377	\$29,694	\$355,730	\$484,220	\$869,644	\$128,835	\$28,760	\$363,634	\$69,059	\$461,453	\$128,898
Department of Toxic Substances Control															
State Operations	21,626	98,560	-	120,186	20,276	22,511	119,113	-	141,624	25,536	22,689	109,691	-	132,380	26,258
Local Assistance	-	-53	-	-53	-	-	-26	-	-26	-	-	-28	-	-28	-
Capital Outlay	-	-	-	-	-	3,963	-	-	3,963	-	-	-	-	-	-
Totals, Department of Toxic Substances Control	\$21,626	\$98,507	-	\$120,133	\$20,276	\$26,474	\$119,087	-	\$145,561	\$25,536	\$22,689	\$109,663	-	\$132,352	\$26,258
Environmental Health Hazard Assessment															
State Operations	7,344	4,809	-	12,153	54	8,303	5,281	-	13,584	500	8,377	5,803	-	14,180	500
General Obligation Bonds-Environmental															
State Operations	13,365	-	-	13,365	-	10,097	-	-	10,097	-	7,350	-	-	7,350	-
TOTALS, ENVIRONMENTAL PROTECTION	\$77,752	\$728,986	\$199,316	\$1,006,054	\$133,247	\$78,100	\$993,495	\$484,361	\$1,555,956	\$169,545	\$71,424	\$980,557	\$69,200	\$1,121,181	\$170,841
State Operations	73,488	694,700	9,997	778,185	72,422	74,137	893,065	13,706	1,020,908	79,545	71,424	924,054	12,577	1,008,055	80,841
Local Assistance	4,264	34,286	189,319	227,869	60,825	-	60,327	470,655	530,982	90,000	-	55,383	56,623	112,006	90,000

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Capital Outlay	-	-	-	-	-	3,963	103	-	4,066	-	-	1,120	-	1,120	-
HEALTH AND HUMAN SERVICES															
Health & Human Services Agency, Secy															
State Operations	4,056	-	-	4,056	-	4,913	364	-	5,277	-	4,986	-	-	4,986	-
State Council-Developmental Disabilities															
State Operations	-	-	-	-	6,660	-	-	-	-	7,106	-	-	-	-	7,047
Emergency Medical Services Authority															
State Operations	895	1,379	-	2,274	1,855	985	1,868	-	2,853	2,034	2,459	1,808	-	4,267	1,684
Local Assistance	9,775	-	-	9,775	1,243	21,408	-280	-	21,128	1,004	9,786	-	-	9,786	1,004
Totals, Emergency Medical Services Authority	\$10,670	\$1,379	-	\$12,049	\$3,098	\$22,393	\$1,588	-	\$23,981	\$3,038	\$12,245	\$1,808	-	\$14,053	\$2,688
Statewide Health Planning & Development															
State Operations	-	43,876	-	43,876	213	391	49,052	-	49,443	239	398	57,661	-	58,059	235
Local Assistance	107	3,765	-	3,872	1,000	4,714	2,132	-	6,846	1,000	4,690	2,229	-	6,919	1,000
Totals, Statewide Health Planning & Development	\$107	\$47,641	-	\$47,748	\$1,213	\$5,105	\$51,184	-	\$56,289	\$1,239	\$5,088	\$59,890	-	\$64,978	\$1,235
Department of Aging															
State Operations	3,564	199	-	3,763	6,363	3,898	201	-	4,099	7,991	4,108	208	-	4,316	8,077
Local Assistance	31,440	1,579	-	33,019	135,821	31,452	2,246	-	33,698	138,540	31,452	2,246	-	33,698	138,540
Totals, Department of Aging	\$35,004	\$1,778	-	\$36,782	\$142,184	\$35,350	\$2,447	-	\$37,797	\$146,531	\$35,560	\$2,454	-	\$38,014	\$146,617
Commission on Aging															
State Operations	-	-	-	-	301	-	-	-	-	323	-	-	-	-	340
Department of Alcohol & Drug Programs															
State Operations	5,184	5,916	-	11,100	22,042	5,177	8,045	-	13,222	24,865	5,357	7,510	-	12,867	24,724
Local Assistance	231,909	-4,989	-	226,920	251,564	234,294	-4,051	-	230,243	265,667	237,830	-3,486	-	234,344	265,567
Totals, Department of Alcohol & Drug Programs	\$237,093	\$927	-	\$238,020	\$273,606	\$239,471	\$3,994	-	\$243,465	\$290,532	\$243,187	\$4,024	-	\$247,211	\$290,291
Children & Families Commission															
State Operations	-	3,941	-	3,941	-	-	16,599	-	16,599	-	-	16,889	-	16,889	-
Local Assistance	-	554,056	-	554,056	-	-	675,567	-	675,567	-	-	689,679	-	689,679	-
Totals, Children & Families Commission	-	\$557,997	-	\$557,997	-	-	\$692,166	-	\$692,166	-	-	\$706,568	-	\$706,568	-
Department of Health Services															
State Operations	253,583	176,501	1,241	431,325	372,976	273,791	200,122	3,259	477,172	473,749	253,811	276,347	2,797	532,955	490,112
Local Assistance															
Public Health Services	393,084	237,331	17,000	647,415	1,191,274	380,905	266,701	107,951	755,557	1,274,318	392,059	257,751	107,951	759,761	1,284,167
Medical Assistance Program	11,592,548	46,199	-	11,638,747	18,346,026	13,196,590	25,864	-	13,222,454	19,884,273	13,738,929	43,533	-	13,782,462	20,343,479
State Mandated Local Programs	4	-	-	4	-	-	-	-	-	-	-	-	-	-	-
Totals, Local Assistance	11,985,636	283,530	17,000	12,286,166	19,537,300	13,577,485	292,565	107,951	13,978,011	21,158,591	14,130,988	303,284	107,951	14,542,223	21,627,646
Capital Outlay	200	-	-	200	-	-	-	-	1,266	-	-	-	-	-	-
Totals, Department of Health Services	\$12,239,419	\$460,031	\$18,241	\$12,717,691	\$19,910,276	\$13,851,286	\$492,687	\$111,210	\$14,455,183	\$21,633,606	\$14,384,799	\$579,631	\$110,748	\$15,075,178	\$22,117,758

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
California Medical Assistance Commission															
State Operations	1,139	-	-	1,139	-	1,118	-	-	1,118	-	-	-	-	1,428	-
Managed Risk Medical Insurance Board															
State Operations	1,604	1,549	-	3,153	3,389	2,155	1,755	-	3,910	5,200	2,427	2,064	-	4,491	6,043
Local Assistance	296,835	72,546	-	369,381	558,290	327,817	103,348	-	431,165	638,428	377,235	93,799	-	471,034	725,916
Totals, Managed Risk Medical Insurance Board	\$298,439	\$74,095	-	\$372,534	\$561,679	\$329,972	\$105,103	-	\$435,075	\$643,628	\$379,662	\$95,863	-	\$475,525	\$731,959
Department of Developmental Services															
State Operations	405,753	297	-	406,050	2,559	412,367	268	-	412,635	2,778	408,120	271	-	408,391	2,804
Local Assistance	1,718,685	1,300	-	1,719,985	51,110	1,838,317	1,964	-	1,840,281	53,599	1,998,129	1,772	-	1,999,901	52,139
Capital Outlay	-	-	-	-	-	-	-	-	-	-	1,177	-	-	1,177	-
Totals, Department of Developmental Services	\$2,124,438	\$1,597	-	\$2,126,035	\$53,669	\$2,250,684	\$2,232	-	\$2,252,916	\$56,377	\$2,407,426	\$2,043	-	\$2,409,469	\$54,943
Department of Mental Health															
State Operations	678,906	4,480	-	683,386	3,735	857,288	16,913	-	874,201	3,683	930,254	8,933	-	939,187	3,742
Local Assistance	303,869	13,740	-	317,609	58,270	428,632	649,900	-	1,078,532	59,457	672,105	656,588	-	1,328,693	59,457
Capital Outlay	170	-	-	170	-	5,933	-	-	5,933	-	947	-	-	947	-
Totals, Department of Mental Health	\$982,945	\$18,220	-	\$1,001,165	\$62,005	\$1,291,853	\$666,813	-	\$1,958,666	\$63,140	\$1,603,306	\$665,521	-	\$2,268,827	\$63,199
Dept of Community Services & Development															
State Operations	75	-	-	75	8,434	75	-	-	75	9,871	75	-	-	75	9,574
Local Assistance	1,425	-	-	1,425	148,983	1,425	-	-	1,425	159,153	1,425	-	-	1,425	154,536
Totals, Dept of Community Services & Development	\$1,500	-	-	\$1,500	\$157,417	\$1,500	-	-	\$1,500	\$169,024	\$1,500	-	-	\$1,500	\$164,110
Department of Rehabilitation															
State Operations	45,252	-	-	45,252	266,676	44,899	195	-	45,094	276,515	46,991	195	-	47,186	285,751
Local Assistance	-	-	-	-	15,567	-	-	-	-	15,736	-	-	-	-	15,736
Totals, Department of Rehabilitation	\$45,252	-	-	\$45,252	\$282,243	\$44,899	\$195	-	\$45,094	\$292,251	\$46,991	\$195	-	\$47,186	\$301,487
Department of Child Support Services															
State Operations	33,269	-	-	33,269	75,955	42,990	-	-	42,990	90,697	44,398	-	-	44,398	94,065
Local Assistance	252,467	-	-	252,467	407,841	470,248	-	-	470,248	516,207	472,856	-	-	472,856	521,166
Totals, Department of Child Support Services	\$285,736	-	-	\$285,736	\$483,796	\$513,238	-	-	\$513,238	\$606,904	\$517,254	-	-	\$517,254	\$615,231
Department of Social Services															
State Operations	72,994	23,281	-	96,275	316,773	77,726	28,089	-	105,815	337,172	87,265	27,166	-	114,431	345,631
Local Assistance															
CallWorks	2,054,276	-	-	2,054,276	2,963,661	1,958,388	-	-	1,958,388	2,965,694	1,951,042	-	-	1,951,042	2,870,652
Other Assistance Payments	699,298	351	-	699,649	695,670	701,532	432	-	701,964	785,886	710,992	397	-	711,389	823,691
SSI/SSP	3,410,932	-	-	3,410,932	-	3,505,627	-	-	3,505,627	-	3,563,847	-	-	3,563,847	-
County Admin and Automation Projects	407,904	-	-	407,904	583,014	414,634	-	-	414,634	550,422	419,421	-	-	419,421	550,298
IHSS	1,197,984	-	-	1,197,984	-	1,258,576	-	-	1,258,576	-	1,310,469	-	-	1,310,469	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Licensing															
Children & Adult Services and	736,990	741	-	737,331	1,280,509	744,417	1,054	-	745,471	1,380,679	764,447	878	-	765,325	1,394,073
Other Programs	3,218	-	-	3,218	16,665	3,304	-	-	3,304	18,707	3,326	-	-	3,326	18,657
Totals, Local Assistance	8,510,202	1,092	-	8,511,294	5,539,519	8,586,478	1,486	-	8,587,964	5,701,388	8,723,544	1,275	-	8,724,819	5,657,371
Totals, Department of Social Services	\$8,583,196	\$24,373	-	\$8,607,569	\$5,856,292	\$8,664,204	\$29,575	-	\$8,693,779	\$6,038,560	\$8,810,809	\$28,441	-	\$8,839,250	\$6,003,002
State-Local Realignment															
Local Assistance	-	4,232,291	-	4,232,291	-	-	4,425,260	-	4,425,260	-	-	4,594,554	-	4,594,554	-
General Obligation Bonds-H&HS															
State Operations	2,825	-	-	2,825	-	4,389	-	-	4,389	-	18,653	-	-	18,653	-
TOTALS, HEALTH AND HUMAN SERVICES	\$24,851,819	\$5,420,329	\$18,241	\$30,290,389	\$27,794,439	\$27,260,375	\$6,473,608	\$111,210	\$33,845,193	\$29,952,259	\$28,472,894	\$6,740,992	\$110,748	\$35,324,634	\$30,499,907
State Operations	1,509,099	261,419	1,241	1,771,759	1,087,931	1,732,162	323,471	3,259	2,058,892	1,242,223	1,810,730	399,052	2,797	2,212,579	1,279,829
Local Assistance	23,342,350	5,158,910	17,000	28,518,260	26,706,508	25,522,280	6,150,137	107,951	31,780,368	28,708,770	26,660,040	6,341,940	107,951	33,109,931	29,220,078
Capital Outlay	370	-	-	370	-	5,933	-	-	5,933	1,266	2,124	-	-	2,124	-
CORRECTIONS AND REHABILITATION															
Corrections and Rehabilitation															
State Operations	-	-	-	-	-	7,137,566	2,486	-	7,140,052	6,454	7,600,692	2,671	-	7,603,363	6,488
Local Assistance															
Corrections Standards Authority	-	-	-	-	-	202,562	-	-	202,562	17,268	202,250	-	-	202,250	-
Juvenile Operation	-	-	-	-	-	78	-	-	78	-	78	-	-	78	-
Juvenile Paroles	-	-	-	-	-	3,633	-	-	3,633	-	1,403	-	-	1,403	-
Transportation of Inmates	-	-	-	-	-	278	-	-	278	-	278	-	-	278	-
Returning Fugitives from Justice	-	-	-	-	-	2,593	-	-	2,593	-	2,593	-	-	2,593	-
County Charges	-	-	-	-	-	17,172	-	-	17,172	-	9,705	-	-	9,705	-
Parolee Detention	-	-	-	-	-	116,896	-	-	116,896	-	43,355	-	-	43,355	-
Juvenile Justice/Delinquency Prevention	-	-	-	-	-	-	-	-	-	7,065	-	-	-	7,065	-
Community Delinquency Prevention Program	-	-	-	-	-	-	-	-	-	5,002	-	-	-	5,002	-
Juvenile Accountability Incentive	-	-	-	-	-	-	-	-	-	21,769	-	-	-	21,769	-
Juvenile Justice Project Challenge	-	-	-	-	-	-	-	-	-	1,114	-	-	-	1,114	-
Totals, Local Assistance	-	-	-	-	-	343,212	-	-	343,212	52,218	259,662	-	-	259,662	34,950
Capital Outlay	-	-	-	-	-	48,865	-	2,799	51,664	-	123,802	-	-	123,802	-
Totals, Corrections and Rehabilitation	-	-	-	-	-	\$7,529,643	\$2,486	\$2,799	\$7,534,928	\$58,672	\$7,984,156	\$2,671	-	\$7,986,827	\$41,438
Youth & Adult Correctional Agency, Secy															
State Operations	2,360	-	-	2,360	-	-	-	-	-	-	-	-	-	-	-
Office of the Inspector General															
State Operations	7,120	-	-	7,120	-	-	-	-	-	-	-	-	-	-	-
Department of Corrections															
State Operations	6,102,587	-	-	6,102,587	2,401	-	-	-	-	-	-	-	-	-	-
Local Assistance															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05					Estimated 2005-06					Proposed 2006-07				
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Transportation of Prisoners	125	-	-	125	-	-	-	-	-	-	-	-	-	-	-
Returning Fugitives	2,593	-	-	2,593	-	-	-	-	-	-	-	-	-	-	-
County Charges	20,247	-	-	20,247	-	-	-	-	-	-	-	-	-	-	-
Asst to Counties for Detentn of Parolees	26,931	-	-	26,931	-	-	-	-	-	-	-	-	-	-	-
Totals, Local Assistance	49,896	-	-	49,896	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	23,422	-	728	24,150	-	-	-	-	-	-	-	-	-	-	-
Totals, Department of Corrections	\$6,175,905	-	\$728	\$6,176,633	\$2,401	-	-	-	-	-	-	-	-	-	-
Board of Corrections															
State Operations	2,847	2,491	-	5,338	1,538	-	-	-	-	-	-	-	-	-	-
Local Assistance	135,018	-	-	135,018	28,935	-	-	-	-	-	-	-	-	-	-
Totals, Board of Corrections	\$137,865	\$2,491	-	\$140,356	\$30,473	-	-	-	-	-	-	-	-	-	-
Board of Prison Terms															
State Operations	63,822	-	-	63,822	-	-	-	-	-	-	-	-	-	-	-
Department of the Youth Authority															
State Operations	383,605	-	-	383,605	780	-	-	-	-	-	-	-	-	-	-
Local Assistance															
Transportation of Wards	7	-	-	7	-	-	-	-	-	-	-	-	-	-	-
Asst to Counties for Detentn of Parolees	1,164	-	-	1,164	-	-	-	-	-	-	-	-	-	-	-
Proud Parenting Program	877	-	-	877	-	-	-	-	-	-	-	-	-	-	-
Totals, Local Assistance	2,048	-	-	2,048	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	2,718	-	2,000	4,718	-	-	-	-	-	-	-	-	-	-	-
Totals, Department of the Youth Authority	\$388,371	-	\$2,000	\$390,371	\$780	-	-	-	-	-	-	-	-	-	-
Correctional Peace Ofcr Standards/Tmg															
State Operations	1,128	-	-	1,128	-	-	-	-	-	-	-	-	-	-	-
Federal Immigration Funding-Incarceratn															
State Operations	-83,804	-	-	-83,804	83,804	-107,089	-	-107,089	107,089	-114,135	-	-	-114,135	114,135	-
General Obligation Bonds-CR															
State Operations	275,418	-	-	275,418	-	235,698	-	235,698	-	210,936	-	-	210,936	-	-
TOTALS, CORRECTIONS AND REHABILITATION	\$6,968,185	\$2,491	\$2,728	\$6,973,404	\$117,458	\$7,658,252	\$2,486	\$2,799	\$7,663,537	\$165,761	\$8,080,957	\$2,671	\$8,083,628	\$155,573	
State Operations	6,755,083	2,491	-	6,757,574	88,523	7,266,175	2,486	-	7,268,661	113,543	7,697,493	2,671	7,700,164	120,623	
Local Assistance	186,962	-	-	186,962	28,935	343,212	-	-	343,212	52,218	259,662	-	259,662	34,950	
Capital Outlay	26,140	-	2,728	28,868	-	48,865	-	2,799	51,664	-	123,802	-	123,802	-	
EDUCATION															
K thru 12 Education															
Education, Secy	1,633	-	-	1,633	-	1,798	-	-	1,798	-	1,908	-	1,908	-	-
State Operations															
Scholarshare Investment Board															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05						Estimated 2005-06						Proposed 2006-07					
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds			
State Operations	1,010	-	-	1,010	-	1,099	30	-	1,129	-	1,124	-	-	1,124	-			
Local Assistance	8,418	-	-	8,418	-	3,684	100	-	3,784	-	2,000	-	-	2,000	-			
Totals, Scholarship Investment Board	\$9,428	-	-	\$9,428	-	\$4,783	\$130	-	\$4,913	-	\$3,124	-	-	\$3,124	-			
Department of Education																		
State Operations	118,105	1,946	2,176	122,227	111,804	126,689	2,801	2,496	131,986	149,215	123,651	2,493	2,516	128,660	151,945			
Local Assistance	578,129	-	-	578,129	81,415	660,335	-	-	660,335	79,212	714,921	-	-	714,921	75,587			
Appointments - District and County	19,417,689	9,925	-	19,427,614	-	20,539,736	9,925	-	20,549,661	-	22,469,051	9,925	-	22,478,976	-			
Child Development	1,097,825	-	-	1,097,825	875,480	1,390,881	-	-	1,390,881	963,276	1,413,419	-	-	1,413,419	911,982			
Child Nutrition	91,868	-	-	91,868	1,419,137	97,266	-	-	97,266	1,616,804	120,452	-	-	120,452	1,616,804			
Categorical Programs	7,291,670	11,994	-	7,303,664	3,159,702	7,451,597	28,901	-	7,480,498	3,104,527	8,700,754	30,417	-	8,731,171	3,155,113			
Pupil Assessment	79,360	-	-	79,360	42,867	80,376	-	-	80,376	32,678	83,765	-	-	83,765	32,678			
Special Education	2,718,608	-	-	2,718,608	1,090,974	2,890,022	-	-	2,890,022	1,149,044	3,046,336	-	-	3,046,336	1,162,810			
State-Mandated Local Programs	39	-	-	39	-	40	-	-	40	-	133,588	-	-	133,588	-			
Totals, Local Assistance	31,275,188	21,919	-	31,297,107	6,669,575	33,110,253	38,826	-	33,149,079	6,945,541	36,682,286	40,342	-	36,722,628	6,954,974			
Capital Outlay	-	-	-	-	-	470	-	-	470	-	-	-	-	-	-			
Totals, Department of Education	\$31,393,293	\$23,865	\$2,176	\$31,419,334	\$6,781,379	\$33,237,412	\$41,627	\$2,496	\$33,281,535	\$7,094,756	\$36,805,937	\$42,835	\$2,516	\$36,851,288	\$7,106,919			
State Library																		
State Operations	12,702	436	2,910	16,048	6,336	13,015	547	4,319	17,881	6,549	13,571	548	4,473	18,592	6,832			
Local Assistance	35,582	441	-	36,023	12,518	34,506	552	-	35,058	12,518	34,506	552	-	35,058	12,518			
Totals, State Library	\$48,284	\$877	\$2,910	\$52,071	\$18,854	\$47,521	\$1,099	\$4,319	\$52,939	\$19,067	\$48,077	\$1,100	\$4,473	\$53,650	\$19,350			
Education Audit Appeals Panel																		
State Operations	616	-	-	616	-	1,378	-	-	1,378	-	1,311	-	-	1,311	-			
Summer School for the Arts																		
State Operations	764	-	-	764	-	790	-	-	790	-	805	-	-	805	-			
Teachers Retirement System Contributions																		
Local Assistance	1,148,792	-	-	1,148,792	-	1,081,064	-	-	1,081,064	-	1,080,064	-	-	1,080,064	-			
Retirement Costs for Community Colleges																		
Local Assistance	-98,337	-	-	-98,337	-	-82,161	-	-	-82,161	-	-83,165	-	-	-83,165	-			
California Career Resource Network																		
State Operations	-	-	-	-	344	-	-	-	-	331	-	-	-	-	-			
School Facilities Aid Program																		
Local Assistance	-	-5,788	3,711,592	3,705,804	-	-	4,574	6,919,292	6,923,866	-	-	-	71,707	71,707	-			
Commission on Teacher Credentialing																		
State Operations	-	17,081	-	17,081	147	2,700	16,004	-	18,704	-	-	-	-	19,381	-			
Local Assistance	27,291	-	-	27,291	-	31,814	-	-	31,814	-	31,814	-	-	31,814	-			
Totals, Commission on Teacher Credentialing	\$27,291	\$17,081	-	\$44,372	\$147	\$34,514	\$16,004	-	\$50,518	-	\$31,814	\$19,381	-	\$51,195	-			

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
General Obligation Bonds-K-12															
State Operations	1,607,709	-	-	1,607,709	-	1,731,399	-	1,731,399	-	1,991,366	-	-	-	1,991,366	-
Totals, K thru 12 Education	\$34,139,473	\$36,035	\$3,716,678	\$37,892,186	\$6,800,724	\$36,058,498	\$63,434	\$6,926,107	\$43,048,039	\$7,114,154	\$39,881,241	\$63,316	\$78,696	\$40,023,253	\$7,126,269
Higher Education															
Board of Governors of Community Colleges															
State Operations	8,917	-	1,408	10,325	-	9,187	-	1,422	10,609	-	9,397	-	1,441	10,838	-
Local Assistance															
Appointments for Community Colleges	2,549,459	1,751	-	2,551,210	-	2,902,289	1,751	-	2,904,040	-	3,353,831	1,751	-	3,355,582	-
Student Financial Aid Administration	47,338	-	-	47,338	-	51,600	-	-	51,600	-	51,849	-	-	51,849	-
Extended Opportunity Program + CARE	98,791	-	-	98,791	-	104,782	-	-	104,782	-	112,127	-	-	112,127	-
Disabled Students	85,977	-	-	85,977	-	91,191	-	-	91,191	-	107,184	-	-	107,184	-
Welfare Reform	34,580	-	-	34,580	-	34,580	-	-	34,580	-	34,580	-	-	34,580	-
Foster Parent Training Programs	1,754	-	-	1,754	-	4,754	-	-	4,754	-	4,754	-	-	4,754	-
Matriculation	62,539	-	-	62,539	-	66,332	-	-	66,332	-	70,982	-	-	70,982	-
Support for Academic Senate	467	-	-	467	-	467	-	-	467	-	467	-	-	467	-
Faculty and Staff Diversity/EEO	1,747	-	-	1,747	-	1,747	-	-	1,747	-	1,747	-	-	1,747	-
Part-Time Faculty Health Insurance	1,000	-	-	1,000	-	1,000	-	-	1,000	-	1,000	-	-	1,000	-
Part-Time Faculty Compensation	50,828	-	-	50,828	-	50,828	-	-	50,828	-	50,828	-	-	50,828	-
Part-Time Faculty Office Hours Program	7,172	-	-	7,172	-	7,172	-	-	7,172	-	7,172	-	-	7,172	-
Telecommunications & Technology Services	23,397	-	-	23,397	-	24,397	-	-	24,397	-	24,897	-	-	24,897	-
Fund for Student Success	6,158	-	-	6,158	-	6,158	-	-	6,158	-	6,158	-	-	6,158	-
Economic Development	35,790	-	-	35,790	-	35,790	-	-	35,790	-	35,790	-	-	35,790	-
Transfer Education and Articulation	1,974	-	-	1,974	-	1,974	-	-	1,974	-	1,424	-	-	1,424	-
Physical Plant & Instructional Support	27,345	-	-	27,345	-	27,345	-	-	27,345	-	27,345	-	-	27,345	-
Career Technical Education	-	-	-	-	-	-	-	-	-	-	50,000	-	-	50,000	-
Campus Childcare Tax Bailout	-	-	-	-	-	-	-	-	-	-	6,494	-	-	6,494	-
AB 1280 Baccalaureate Pilot Program	-	-	-	-	-	-	-	-	-	-	100	-	-	100	-
2004-05 Foster Parent (Reappropriation)	5,383	-	-	5,383	-	-	-	-	-	-	-	-	-	-	-
2005-06 Career-Tech (Reappropriation)	-	-	-	-	-	20,000	-	-	20,000	-	-	-	-	-	-
2005-06 Property Tax Backfill (Reappropriation)	-	-	-	-	-	15,600	-	-	15,600	-	-	-	-	-	-
State Mandated Local Costs	2	-	-	2	-	4	-	-	4	-	4	-	-	4	-
Totals, Local Assistance	3,041,701	1,751	-	3,043,452	-	3,448,010	1,751	-	3,449,761	-	3,948,733	1,751	-	3,950,484	-
Capital Outlay	-	-	217,425	217,425	-	-	-	732,763	732,763	-	-	-	760,024	760,024	-
Totals, Board of Governors of Community College	\$3,050,618	\$1,751	\$218,833	\$3,271,202	-	\$3,457,197	\$1,751	\$734,185	\$4,193,133	-	\$3,958,130	\$1,751	\$761,465	\$4,721,346	-
General Obligation Bonds-HI Ed-CC															

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05						Estimated 2005-06						Proposed 2006-07					
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds		General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds		General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	
State Operations	128,592	-	-	128,592	-	138,870	-	-	-	138,870	-	163,298	-	-	-	163,298	-	
Retirement Costs-HI Ed-CC																		
Local Assistance	98,337	-	-	98,337	-	82,161	-	-	82,161	-	83,165	-	-	-	-	83,165	-	
Totals, Higher Education	\$2,277,547	\$1,175	\$218,833	\$3,498,131	-	\$3,678,228	\$1,751	\$734,185	\$4,414,164	-	\$4,204,593	\$1,751	\$761,465	\$4,967,809	-	\$4,967,809	-	
Higher Education-UC, CSU and Other																		
Postsecondary Education Commission	2,050	-	-	2,050	336	2,046	-	-	2,046	437	2,065	-	-	-	-	2,065	437	
State Operations	-	-	-	-	8,448	-	-	-	-	8,579	-	-	-	-	-	-	8,579	
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Totals, Postsecondary Education Commission	\$2,050	-	-	\$2,050	\$8,784	\$2,046	-	-	\$2,046	\$9,016	\$2,065	-	-	\$2,065	-	\$2,065	\$9,016	
University of California																		
State Operations	2,898,673	34,855	-	2,733,528	6,297,168	2,842,434	32,061	-	2,874,495	6,259,314	3,049,182	30,544	-	3,079,726	6,302,449	6,302,449	-	
Capital Outlay	375	-	104,660	105,035	-	6,028	-	680,314	686,342	-	9,073	-	315,339	324,412	-	324,412	-	
Totals, University of California	\$2,899,048	\$34,855	\$104,660	\$2,838,563	\$6,297,168	\$2,848,462	\$32,061	\$680,314	\$3,560,837	\$6,259,314	\$3,058,255	\$30,544	\$315,339	\$3,404,138	\$6,302,449	\$6,302,449	-	
Institute for Regenerative Medicine																		
State Operations	-	-	2,570	2,570	-	-	-	5,429	5,429	-	-	-	33,000	-	33,000	-	-	
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	-	276,300	-	276,300	-	-	
Totals, Institute for Regenerative Medicine	-	-	\$2,570	\$2,570	-	-	-	\$5,429	\$5,429	-	-	-	\$309,300	-	\$309,300	-	-	
Hastings College of the Law																		
State Operations	8,119	-	-	8,119	-	8,363	-	-	8,363	-	10,148	-	-	-	10,148	-	-	
Capital Outlay	-	-	-	-	-	-	-	20,800	20,800	-	-	-	-	-	-	-	-	
Totals, Hastings College of the Law	\$8,119	-	-	\$8,119	-	\$8,363	-	\$20,800	\$29,163	-	\$10,148	-	-	-	\$10,148	-	-	
California State University																		
State Operations	2,475,792	1,098,122	-	3,573,914	606,376	2,597,453	1,205,292	-	3,828,745	643,146	2,775,763	1,231,304	50,000	4,057,067	643,146	4,057,067	643,146	
Capital Outlay	-	-	267,149	267,149	-	-	-	588,470	588,470	-	-	-	283,413	283,413	-	283,413	-	
Totals, California State University	\$2,475,792	\$1,098,122	\$267,149	\$3,841,063	\$606,376	\$2,597,453	\$1,205,292	\$614,470	\$4,417,215	\$643,146	\$2,775,763	\$1,231,304	\$333,413	\$4,340,480	\$643,146	\$4,340,480	\$643,146	
Student Aid Commission																		
State Operations	21	-	-	21	550,885	1	-	-	1	608,600	-	-	-	-	608,600	-	-	
Local Assistance	595,389	-	-	595,389	12,717	752,449	-	-	752,449	12,583	861,615	-	-	861,615	12,583	-	-	
Totals, Student Aid Commission	\$595,410	-	-	\$595,410	\$563,602	\$752,450	-	-	\$752,450	\$621,183	\$861,615	-	-	\$861,615	\$621,183	-	-	
General Obligation Bonds-HI Ed																		
State Operations	256,350	-	-	256,350	-	271,306	-	-	271,306	-	310,307	-	-	310,307	-	310,307	-	
Totals, Higher Education-UC, CSU and Other	\$6,036,769	\$1,132,977	\$374,379	\$7,544,125	\$7,475,930	\$6,480,080	\$1,237,353	\$1,321,013	\$9,038,446	\$7,532,659	\$7,018,153	\$1,261,848	\$958,052	\$9,238,053	\$7,575,794	\$9,238,053	\$7,575,794	
TOTALS, EDUCATION	\$43,453,789	\$1,170,763	\$4,309,890	\$48,934,442	\$14,276,654	\$46,216,806	\$1,302,538	\$8,981,305	\$56,500,649	\$14,646,813	\$51,103,987	\$1,326,915	\$1,798,213	\$54,229,115	\$14,702,063	\$54,229,115	\$14,702,063	
State Operations	7,321,053	1,152,440	9,064	8,482,557	7,573,396	7,748,528	1,256,735	39,686	9,044,929	7,667,592	8,453,896	1,284,270	91,430	9,829,596	7,713,409	9,829,596	7,713,409	
Local Assistance	36,132,361	18,323	3,711,592	39,862,276	6,703,258	38,461,780	45,803	6,919,292	45,426,875	6,979,221	42,641,018	42,645	348,007	43,031,670	6,988,654	43,031,670	6,988,654	
Capital Outlay	375	-	589,234	589,609	-	6,498	-	2,022,347	2,028,845	-	9,073	-	1,358,776	1,367,849	-	1,367,849	-	
LABOR AND WORKFORCE DEVELOPMENT AGENCY																		

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Labor & Workforce Development, Secy															
State Operations	-	-	-	-	-	-	-	-	-	-	15	-	-	15	-
Employment Development Department															
State Operations	19,302	73,695	-	92,997	630,319	22,146	87,625	-	109,771	737,514	90,321	-	-	115,024	722,092
Local Assistance	-	-	-	-	5,158,416	-	-	-	-	5,606,096	-	-	-	-	5,563,042
Capital Outlay	-	-	-	-	-288	-	-	-	-	-325	-	-	-	-	-325
Totals, Employment Development Department	\$19,302	\$73,695	-	\$92,997	\$5,788,447	\$22,146	\$87,625	-	\$109,771	\$6,343,285	\$90,321	-	-	\$115,024	\$6,284,809
Workforce Investment Board															
State Operations	-	-	-	-	3,821	-	-	-	-	4,357	-	-	-	-	3,965
Agricultural Labor Relations Board															
State Operations	4,891	-	-	4,891	-	4,881	-	-	4,881	-	-	-	-	4,898	-
Department of Industrial Relations															
State Operations	61,275	160,818	-	222,093	31,050	61,934	204,790	-	266,724	31,460	208,885	-	-	271,488	31,468
TOTALS, LABOR AND WORKFORCE DEVELOPMENT AGENCY	\$85,468	\$234,513	-	\$319,981	\$5,823,318	\$88,961	\$292,415	-	\$381,376	\$6,379,102	\$299,221	-	-	\$391,425	\$6,320,242
State Operations	85,468	234,513	-	319,981	665,190	88,961	292,415	-	381,376	773,331	299,221	-	-	391,425	787,525
Local Assistance	-	-	-	-	5,158,416	-	-	-	-	5,606,096	-	-	-	-	5,563,042
Capital Outlay	-	-	-	-	-288	-	-	-	-	-325	-	-	-	-	-325
GENERAL GOVERNMENT															
General Administration															
Peace Officer Standards & Training Comm															
State Operations	-	31,525	-	31,525	-	-	33,121	-	33,121	-	34,395	-	-	34,395	-
Local Assistance	-	17,616	-	17,616	-	-	21,826	-	21,826	-	21,826	-	-	21,826	-
Totals, Peace Officer Standards & Training Com	-	\$49,141	-	\$49,141	-	-	\$54,947	-	\$54,947	-	\$56,221	-	-	\$56,221	-
State Public Defender															
State Operations	11,244	-	-	11,244	-	11,263	-	-	11,263	-	11,333	-	-	11,333	-
Payment to Counties for Homicide Trials															
Local Assistance	3,062	-	-	3,062	-	4,305	-	-	4,305	-	3,500	-	-	3,500	-
Arts Council															
State Operations	1,139	884	-	2,023	984	1,144	967	-	2,111	961	979	-	-	2,123	965
Local Assistance	-	-	-	-	-	-	-	-	-	-	1,825	-	-	1,825	-
Totals, Arts Council	\$1,139	\$884	-	\$2,023	\$984	\$1,144	\$967	-	\$2,111	\$961	\$2,804	-	-	\$3,948	\$965
Public Employment Relations Board															
State Operations	4,742	-	-	4,742	-	5,524	-	-	5,524	-	5,555	-	-	5,555	-
Department of Personnel Administration															
State Operations	37,949	2,377	-	39,726	-	33,232	327	-	33,559	-	34,199	-	-	34,199	-
Citizens' Compensation Commission															
State Operations	3	-	-	3	-	14	-	-	14	-	14	-	-	14	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Board of Chiropractic Examiners															
State Operations	-	2,330	-	2,330	-	-	2,631	-	2,631	-	-	2,916	-	2,916	-
Board of Pilot Commissioners															
State Operations	-	1,204	-	1,204	-	-	1,526	-	1,526	-	1,591	-	-	1,591	-
Horse Racing Board															
State Operations	-	8,388	-	8,388	-	-	8,463	-	8,463	-	8,685	-	-	8,685	-
Department of Food & Agriculture															
State Operations	76,575	78,492	654	155,721	44,843	76,921	83,045	1,178	161,144	37,012	85,173	80,874	1,178	167,225	42,480
Local Assistance	19,925	54,419	-	74,344	-	6,415	57,326	-	63,741	-	6,415	57,026	-	63,441	-
Capital Outlay	-	6,954	-	6,954	-	-	376	-	376	-	-	8,863	-	8,863	-
Totals, Department of Food & Agriculture	\$96,500	\$139,865	\$654	\$237,019	\$44,843	\$83,336	\$140,747	\$1,178	\$225,261	\$37,012	\$91,588	\$146,763	\$1,178	\$239,529	\$42,480
Fair Political Practices Commission															
State Operations	6,092	-	-	6,092	-	6,111	-	-	6,111	-	7,002	-	-	7,002	-
Political Reform Act of 1974															
State Operations	-	-	-	-	-	-	-	-	-	-	2,520	-	-	2,520	-
Public Utilities Commission															
State Operations	-	1,123,743	-	1,123,743	947	-	1,211,407	-	1,211,407	1,119	-	1,229,960	-	1,229,960	1,139
Seismic Safety Commission															
State Operations	-	918	-	918	-	-	1,132	-	1,132	-	-	1,069	-	1,069	-
Electricity Oversight Board															
State Operations	-	2,761	-	2,761	-	-	3,860	-	3,860	-	-	3,903	-	3,903	-
Milton Marks Little Hoover Commission															
State Operations	943	-	-	943	-	934	-	-	934	-	981	-	-	981	-
Commission on the Status of Women															
State Operations	426	-	-	426	-	458	-	-	458	-	436	-	-	436	-
Law Revision Commission															
State Operations	531	-	-	531	-	688	-	-	688	-	691	-	-	691	-
Commission on Uniform State Laws															
State Operations	99	-	-	99	-	149	-	-	149	-	149	-	-	149	-
Bureau of State Audits															
State Operations	12,205	2	-	12,207	-	13,219	-	-	13,219	-	13,019	-	-	13,019	-
Department of Finance															
State Operations	31,644	-	-	31,644	-	33,218	-	-	33,218	-	33,660	-	-	33,660	-
Commission on State Mandates															
State Operations	1,325	-	-	1,325	-	1,618	-	-	1,618	-	1,629	-	-	1,629	-
Local Assistance	-	9,976	-	9,976	-	119,364	1,663	-	121,027	-	240,008	1,713	-	241,721	-
Totals, Commission on State Mandates Office of Administrative Law	\$1,325	\$9,976	-	\$11,301	-	\$120,982	\$1,663	-	\$122,645	-	\$241,637	\$1,713	-	\$243,350	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05						Estimated 2005-06						Proposed 2006-07					
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds			
State Operations	1,823	-	-	1,823	-	2,413	-	-	2,413	-	2,428	-	-	2,428	-			
Military Department																		
State Operations	31,764	40	-	31,804	54,657	33,611	150	-	33,761	60,304	38,079	146	-	38,225	62,024			
Local Assistance	-	-	-	-	-	320	-	-	320	-	60	-	-	60	-			
Capital Outlay	12,198	-	-	12,198	11,509	4,059	-	-	4,059	4,220	1,919	-	-	1,919	9,901			
Totals, Military Department	\$43,962	\$40	-	\$44,002	\$66,166	\$37,990	\$150	-	\$38,140	\$64,524	\$40,058	\$146	-	\$40,204	\$71,925			
Department of Veterans Affairs																		
State Operations	5,464	21	176	5,661	-	6,348	105	177	6,630	64	6,982	113	248	7,343	66			
Local Assistance	2,350	470	-	2,820	-	2,350	554	-	2,904	-	2,350	554	-	2,904	-			
Capital Outlay	-	-	457	457	3,800	-	-	2,515	2,515	5,022	-	-	26,977	26,977	25,800			
Totals, Department of Veterans Affairs	\$7,814	\$491	\$633	\$8,938	\$3,800	\$8,698	\$659	\$2,692	\$12,049	\$5,086	\$9,332	\$667	\$27,225	\$37,224	\$25,866			
Veterans Home of California-Yountville																		
State Operations	38,203	-	-	38,203	13,455	39,042	-	-	39,042	14,388	44,740	-	-	44,740	14,780			
Capital Outlay	-	-	5,358	5,358	6,057	862	-	3,554	4,416	4,935	500	-	4,715	5,215	-			
Totals, Veterans Home of California-Yountville	\$38,203	-	\$5,358	\$43,561	\$19,512	\$39,904	-	\$3,554	\$43,458	\$19,323	\$45,240	-	\$4,715	\$49,955	\$14,780			
Veterans Home of California-Barstow																		
State Operations	9,637	-	-	9,637	1,664	9,882	-	-	9,882	1,838	11,125	-	-	11,125	2,093			
Veterans Home of California-Chula Vista																		
State Operations	13,148	-	-	13,148	5,099	11,145	-	-	11,145	5,584	13,745	-	-	13,745	5,628			
Totals, Department of Veterans Affairs	\$68,802	\$491	\$5,991	\$75,284	\$30,075	\$69,629	\$659	\$6,246	\$76,534	\$31,831	\$79,442	\$667	\$31,940	\$112,049	\$48,367			
General Obligation Bonds-Gen Govt																		
State Operations	21,649	-	-	21,649	-	22,267	-	-	22,267	-	23,892	-	-	23,892	-			
Totals, General Administration	\$343,540	\$1,342,130	\$6,645	\$1,692,315	\$143,015	\$446,876	\$1,428,479	\$7,424	\$1,882,779	\$135,447	\$593,248	\$1,456,438	\$33,118	\$2,082,804	\$164,876			
Tax Relief																		
Tax Relief																		
Local Assistance																		
Senior Citizens Property Tax Assistance	39,550	-	-	39,550	-	38,632	-	-	38,632	-	38,632	-	-	38,632	-			
Senior Citizens Property Tax Deferral	11,900	-	-	11,900	-	12,300	-	-	12,300	-	12,800	-	-	12,800	-			
Senior Citizens Renters Tax Assistance	143,685	-	-	143,685	-	137,842	-	-	137,842	-	137,842	-	-	137,842	-			
Homeowners' Property Tax Relief	431,065	-	-	431,065	-	436,000	-	-	436,000	-	442,540	-	-	442,540	-			
Subventions for Open Space	39,209	-	-	39,209	-	39,370	-	-	39,370	-	39,606	-	-	39,606	-			
Totals, Local Assistance	665,409	-	-	665,409	-	664,144	-	-	664,144	-	671,420	-	-	671,420	-			
Totals, Tax Relief	\$665,409	-	-	\$665,409	-	\$664,144	-	-	\$664,144	-	\$671,420	-	-	\$671,420	-			
Local Government Subventions																		
Local Government Financing																		
Local Assistance	320,946	-	-	320,946	-	1,333,865	-	-	1,333,865	-	262,857	-	-	262,857	-			
Shared Revenues																		

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Apportionment of Off-Hwy License Fees															
Local Assistance	-	2,217	-	2,217	-	-	2,214	-	2,214	-	-	2,214	-	2,214	-
Apportionment of Fed Rcpts Fld Cntl Lnds															
Local Assistance	-	-	-	-	109	-	-	-	109	-	-	-	-	-	109
Apportionment of Fed Rcpts Forest Rsrvs															
Local Assistance	-	-	-	-	63,144	-	-	-	63,100	-	-	-	-	-	63,100
Apportionment of Fed Rcpts Grazing Land															
Local Assistance	-	-	-	-	70	-	-	-	70	-	-	-	-	-	70
Apportionment of Fed Potash Lease Rntls															
Local Assistance	-	-	-	-	1,040	-	-	-	1,000	-	-	-	-	-	1,000
Apportionment of MV License Fees															
Local Assistance	11,862	250,208	-	262,070	-	11,862	250,200	-	262,062	-	11,862	250,200	-	262,062	-
Apportionment of Tideland Revenues															
Local Assistance	279	-	-	279	-	384	-	-	384	-	-	-	-	384	-
Apportionment of MV Fuel Tx County Rds															
Local Assistance	-	358,281	-	358,281	-	-	349,068	-	349,068	-	-	358,424	-	358,424	-
Apportionment of MV Fuel Tx City Streets															
Local Assistance	-	258,892	-	258,892	-	-	249,368	-	249,368	-	-	256,081	-	256,081	-
Apportionment of MV Fuel Tx Co Rd/City St															
Local Assistance	-	150,352	-	150,352	-	-	146,144	-	146,144	-	-	152,233	-	152,233	-
Apportionment of MV Fuel Co&City/St&Hwy															
Local Assistance	-	375,967	-	375,967	-	-	377,914	-	377,914	-	-	387,652	-	387,652	-
Apportionment of Geothermal Rsrcls Dvlp															
Local Assistance	-	1,295	-	1,295	-	-	1,333	-	1,333	-	-	1,600	-	1,600	-
Apportionment of Traffic Cngstn Rif Fd															
Local Assistance	-	-	-	-	-	-	389,359	-	389,359	-	-	-	-	-	-
Apportionment of Local Transportation Fd															
Local Assistance	-	-	-	-	-	-	-	-	-	-	-	255,000	-	255,000	-
Totals, Shared Revenues	\$12,141	\$1,397,212	-	\$1,409,353	\$64,363	\$12,246	\$1,765,600	-	\$1,777,846	\$64,279	\$12,246	\$1,663,404	-	\$1,675,650	\$64,279
Totals, Local Government Subventions	\$333,087	\$1,397,212	-	\$1,730,299	\$64,363	\$1,346,111	\$1,765,600	-	\$3,111,711	\$64,279	\$275,103	\$1,663,404	-	\$1,938,507	\$64,279
Debt Service															
Payment of Interest on PIMA Loans															
State Operations	1,547	-	-	1,547	-	1,752	-	-	1,752	-	-	-	-	3,557	-
Enhanced Tobacco Asset-Backed Bonds															
State Operations	-	-	-	-	-	-	-	-	-	-	1	-	-	1	-
Economic Recovery Financing Committee															
State Operations	-	11,719	-	11,719	-	-	13,770	-	13,770	-	-	14,150	-	14,150	-
Unclassified	-	1,160,197	-	1,160,197	-	-	1,511,622	-	1,511,622	-	-	1,860,913	-	1,860,913	-
Totals, Economic Recovery Financing Committee	-	\$1,171,916	-	\$1,171,916	-	-	\$1,525,392	-	\$1,525,392	-	-	\$1,875,063	-	\$1,875,063	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07					
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total
Interest Payments on General Fund Loans														
State Operations	84,414	-	-	84,414	-	89,791	-	-	89,791	-	105,799	-	-	105,799
Interest Payments to the Federal Govt														
State Operations	5,168	85	-	5,253	-	15,500	501	-	15,501	-	701	-	-	24,701
Totals, Debt Service	\$91,129	\$1,172,001	-	\$1,263,130	-	\$106,543	\$1,525,893	-	\$1,632,436	-	\$133,357	\$1,875,764	-	\$2,009,121
Statewide Expenditures														
Health & Dental Benefits for Annuitants														
State Operations	800,676	-	-	800,676	-	895,197	-	-	895,197	-	1,019,368	-	-	1,019,368
Budget Stabilization Account														
Unclassified	-	-	-	-	-	-	-	-	-	-	460,024	-	-	-
Victim Compensation/Government Claims Bd														
State Operations	58,153	528	245	58,926	39	7,622	204	-	7,826	438	-	-	-	-
Contingencies/Emergencies Augmentations														
State Operations	-	-	-	-	-	19,009	10,974	-	29,983	-	49,000	15,000	-	64,000
Capital Outlay Planning & Studies														
Capital Outlay	600	-	-	600	-	1,000	-	-	1,000	-	1,000	-	-	1,000
General Fund Deficit Recovery Payments														
Unclassified	-2,012,000	-	-	-2,012,000	-	-	-	-	-	-	-	-	-	-
Reserve for Liquidation of Encumbrances														
Unclassified	120,179	-	-	120,179	-	-	-	-	-	-	-	-	-	-
Brown v. US Dept of Health and Human Svs														
State Operations	48,000	-	-	48,000	-	-	-	-	-	-	-	-	-	-
Statewide Proposition 98 Reconciliation														
State Operations	1,272	-	-	1,272	-	-224	-	-	-224	-	-	-	-	-
Local Assistance	-446,567	-	-	-446,567	-	-464,786	-	-	-464,786	-	-301,429	-	-	-301,429
Totals, Statewide Proposition 98 Reconciliation	\$-445,295	-	-	\$-445,295	-	\$-465,010	-	-	\$-465,010	-	\$-301,429	-	-	\$-301,429
Section 3.60 Rate Adjustments														
State Operations	-	-	-	-	-	-	-	-	-	-	16,200	-	-	45,900
PERS General Fund Payment														
State Operations	304,221	-	-	304,221	-	352,550	-	-	352,550	-	333,988	-	-	333,988
Statewide General Admin Exp (Pro Rata)														
State Operations	-336,313	6,478	-	-329,835	-	-376,079	2,008	-	-374,071	-	-467,560	4,115	-	-463,445
Various Departments														
State Operations	110	1	-	111	-	-	-	-	-	-	-46,813	3,697	-	-43,116
Local Assistance	-	54,199	-	54,199	-	-	57,000	-	57,000	-	71,000	-	-	71,000
Unclassified	-	-	-	-	-	-50,000	-	-	-50,000	-	-170,704	-	-	-170,704
Totals, Various Departments	\$110	\$54,200	-	\$54,310	-	\$-50,000	\$57,000	-	\$7,000	-	\$-217,517	\$74,697	-	\$-142,820
Totals, Statewide Expenditures	\$-1,461,669	\$61,206	\$245	\$-1,400,218	\$39	\$384,289	\$70,186	-	\$454,475	\$438	\$906,574	\$-350,012	-	\$556,562
Augmentation for Employee Compensation														

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars in Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
Augmentation for Employee Compensation															
State Operations	-	-	-	-	-	58,559	12,400	-	70,959	-	203,243	146,977	-	350,220	-
Totals, Augmentation for Employee Compensation	-	-	-	-	-	\$58,559	\$12,400	-	\$70,959	-	\$203,243	\$146,977	-	\$350,220	-
Statewide Savings															
General Fund Credits from Federal Funds															
State Operations	-74,581	-	-	-74,581	-	-89,047	-	-	-89,047	-	-99,937	-	-	-99,937	-
PERS Deferral	-352,550	-	-	-352,550	-	-333,988	-	-	-333,988	-	-341,413	-	-	-341,413	-
State Operations	-	-	-	-	-	-136,000	-	-	-136,000	-	-136,000	-	-	-136,000	-
Local Assistance	-	-	-	-	-	-204,000	-	-	-204,000	-	-204,000	-	-	-204,000	-
Estimated Unidentifiable Savings	-	-	-	-	-	\$-340,000	-	-	\$-340,000	-	\$-340,000	-	-	\$-340,000	-
Totals, Estimated Unidentifiable Savings	-	-	-	-	-	-79,750	-43,500	-	-123,250	-	-91,850	-50,100	-	-141,950	-
Employee Compensation Reform															
State Operations	-427,131	-	-	-427,131	-	-842,785	-43,500	-	-886,285	-	-873,200	-50,100	-	-923,300	-
Totals, Statewide Savings	\$-427,131	-	-	\$-427,131	-	\$-842,785	\$-43,500	-	\$-886,285	-	\$-873,200	\$-50,100	-	\$-923,300	-
TOTALS, GENERAL GOVERNMENT	\$-455,635	\$3,972,549	\$6,890	\$3,523,804	\$207,417	\$2,163,737	\$4,759,058	\$7,424	\$6,930,219	\$200,164	\$1,909,745	\$4,742,471	\$33,118	\$6,685,334	\$229,155
State Operations	846,122	1,271,506	1,075	2,118,703	121,688	733,593	1,343,091	1,355	2,078,039	121,708	923,579	1,515,371	1,426	2,440,376	129,175
Local Assistance	577,266	1,533,892	-	2,111,158	64,363	1,474,223	1,903,969	-	3,378,192	64,279	693,427	1,817,348	-	2,510,775	64,279
Capital Outlay	12,798	6,954	5,815	25,567	21,366	5,921	376	6,069	12,366	14,177	3,419	8,863	31,692	43,974	35,701
Unclassified	-1,891,821	1,160,197	-	-731,624	-	-50,000	1,511,622	-	1,461,622	-	289,320	1,400,889	-	1,690,209	-
GRAND TOTAL	\$79,803,987	\$22,191,729	\$5,595,468	\$107,591,184	\$52,121,690	\$90,293,704	\$25,399,650	\$11,789,866	\$127,483,220	\$56,945,057	\$97,901,837	\$25,023,542	\$2,677,952	\$125,603,331	\$57,280,524
State Operations	\$19,820,161	\$10,393,611	\$196,335	\$30,410,107	\$10,391,064	\$21,249,889	\$11,756,352	\$414,323	\$33,420,564	\$11,177,438	\$22,833,502	\$12,019,894	\$303,214	\$35,156,610	\$11,027,323
Local Assistance	\$61,830,769	\$8,683,074	\$4,376,031	\$74,889,874	\$40,729,796	\$67,618,125	\$11,488,232	\$8,333,492	\$87,439,849	\$44,101,738	\$72,259,941	\$11,655,327	\$842,662	\$84,757,930	\$45,033,059
Capital Outlay	\$44,878	\$1,954,847	\$1,023,102	\$3,022,827	\$891,494	\$1,475,690	\$643,444	\$3,042,051	\$5,161,185	\$1,623,542	\$2,519,074	\$-52,568	\$1,532,076	\$3,998,582	\$1,188,142
Unclassified	\$-1,891,821	\$1,160,197	-	\$-731,624	\$9,336	\$-50,000	\$1,511,622	-	\$1,461,622	\$42,339	\$289,320	\$1,400,889	-	\$1,690,209	\$31,000
BUDGET ACT TOTALS	\$56,885,410	\$10,854,810	\$669,816	\$68,410,036	\$43,348,773	\$63,042,191	\$11,619,169	\$1,683,044	\$76,344,404	\$46,343,145	\$66,917,470	\$12,120,963	\$1,799,937	\$80,838,370	\$46,388,830
State Operations	17,217,078	8,873,038	155,728	26,245,844	2,880,424	18,536,444	10,111,062	195,535	28,843,041	3,289,780	19,875,856	9,236,068	244,004	29,355,928	3,317,107
Local Assistance	39,635,852	1,708,223	208,296	41,552,371	39,944,275	44,451,279	733,565	512,684	45,697,528	41,909,378	47,028,604	2,213,738	280,648	49,522,990	42,262,399
Capital Outlay	32,480	273,549	305,792	611,821	514,738	104,468	774,542	974,825	1,853,835	1,125,312	183,714	671,157	1,275,285	2,130,156	778,324
Unclassified	-	-	-	-	9,336	-50,000	-	-	-50,000	20,675	-170,704	-	-	-170,704	31,000
STATUTORY APPROPRIATIONS	\$20,599,747	\$7,613,068	\$55,444	\$28,268,259	\$626,966	\$21,534,307	\$10,865,610	\$677,671	\$33,077,588	\$2,075,815	\$23,737,355	\$9,546,165	\$569,603	\$33,843,123	\$2,354,467
State Operations	-321,640	1,484,291	15,771	1,178,422	560,084	-396,006	1,620,487	22,483	1,246,964	619,687	-480,377	2,774,078	56,467	2,350,168	620,087
Local Assistance	20,921,387	3,607,194	39,573	24,568,154	60,825	21,930,313	7,218,678	395,792	29,544,783	1,451,193	24,207,732	5,321,180	513,136	30,042,048	1,708,580
Capital Outlay	-	-	100	1,361,486	6,057	-	663,215	259,396	922,611	4,935	-	50,057	-	50,057	25,800
Unclassified	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CONSTITUTIONAL APPROPRIATIONS	\$2,983,589	\$3,092,862	-	\$6,076,451	-	\$4,515,628	\$2,276,717	-	\$6,792,345	-	\$6,340,594	\$2,549,477	-	\$8,890,071	-

**SCHEDULE 9 -- Continued
COMPARATIVE STATEMENT OF EXPENDITURES
(Dollars In Thousands)**

	Actual 2004-05				Estimated 2005-06				Proposed 2006-07						
	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds	General Fund	Special Fund	Selected Bond Funds	Budget Total	Federal Funds
State Operations	2,983,589	-	-	2,983,589	-	3,170,480	-	-	3,170,480	-	3,554,283	-	-	3,554,283	-
Local Assistance	-	3,092,862	-	3,092,862	-	3,473,473	3,473,473	-	3,473,473	-	3,955,725	3,955,725	-	3,955,725	-
Capital Outlay	-	-	-	-	-	1,345,148	-1,345,148	-	-	-	2,326,287	-1,406,287	-	920,000	-
Unclassified	-	-	-	-	-	-	148,392	-	148,392	-	460,024	39	-	460,063	-
OTHER APPROPRIATIONS	\$-664,759	\$630,989	\$4,870,208	\$4,836,438	\$8,145,951	\$1,201,578	\$638,154	\$9,429,151	\$11,268,883	\$8,526,097	\$916,418	\$806,937	\$308,412	\$2,031,767	\$8,537,227
State Operations	-58,866	36,282	24,836	2,252	6,950,556	-61,029	24,803	196,305	160,079	7,267,971	-116,260	9,748	2,743	-103,769	7,090,129
Local Assistance	1,273,530	274,795	4,128,162	5,676,487	724,696	1,236,533	62,516	7,425,016	8,724,065	741,167	1,023,605	164,684	48,878	1,237,167	1,062,080
Capital Outlay	12,398	319,912	717,210	1,049,520	470,699	26,074	550,835	1,807,830	2,384,739	495,295	9,073	632,505	256,791	898,369	385,018
Unclassified	-1,891,821	-	-	-1,891,821	-	-	-	-	-	21,664	-	-	-	-	-

**SCHEDULE 10
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
GENERAL FUND	7,228,074	82,209,489	79,803,984	9,633,579	87,691,357	90,293,702	7,031,234	91,544,864	97,901,837	674,261
SPECIAL FUNDS										
Abandoned Mine Reclamation & Minerals Fd	45	289	-	334	210	409	135	410	411	134
Abandoned Watercraft Abatement Fund	1,007	-	464	543	200	505	238	500	505	233
Accountancy Fund	9,030	9,596	6,593	12,033	9,372	9,809	11,596	9,329	9,885	11,040
Acupuncture Fund	760	2,177	1,870	1,067	2,110	2,271	906	2,405	2,435	876
Administration Acct, Child & Families	18,809	6,397	3,942	21,264	6,035	16,601	10,698	6,203	16,901	-
Aeronautics Account STF	2,655	7,115	7,832	1,938	7,036	7,764	1,210	6,957	7,912	255
Agricultural Biomass Utilization Account	72	-	17	55	-	-	55	-	-	55
Agricultural Export Promotion Acct, CA	90	25	18	97	10	55	52	9	55	6
Agricultural Pest Control Research Acct	81	2	-	83	2	-	85	-	-	85
Air Pollution Control Fund	16,042	86,453	61,728	40,767	114,626	136,674	18,719	114,626	133,003	342
Air Toxics Inventory and Assessment Acct	365	846	832	379	846	876	349	846	862	333
Alcohol Beverage Control Fund	1,576	-1,510	-	66	-66	-	-	-	-	-
Alcohol Beverages Control Appeals Fund	5,670	46,609	40,926	11,353	45,056	44,366	12,043	45,627	50,840	6,830
Anti-terrorism Fund	568	954	887	635	952	964	623	952	988	587
Appellate Court Trust Fund	1,854	1,238	-	3,092	1,238	100	4,230	1,238	5,202	266
Apprenticeship Training Contribution Fd	978	4,820	3,621	2,177	4,825	4,593	2,409	4,825	5,839	1,395
Architects Board Fund, California	6,077	4,984	2,809	8,252	5,000	4,090	9,162	5,000	4,311	9,851
Army Discretionary Improvement Account	1,274	2,394	2,653	1,015	2,807	2,858	964	3,842	2,877	1,929
Asbestos Consultant Certification Acct	135	60	40	155	75	150	80	75	146	9
Asbestos Training Approval Account	225	416	316	325	399	324	396	399	324	471
Assistance for Fire Equipment Acct, State	2	128	129	1	125	120	6	125	114	17
Athletic Commission Fund	388	32	15	405	50	100	355	50	100	305
Attorney General Antitrust Account	-	761	715	46	1,919	834	1,131	1,333	1,253	1,211
Audit Fund, State	1,402	24	1,220	206	1,227	1,220	213	1,227	1,236	204
AIDS Drug Assistance Program Rebate Fund	1,950	2	2	1,950	-	-	1,950	-	-	1,950
Barbering/Cosmetology Fd, St Bd of	-	99,727	85,930	13,797	77,977	72,388	19,386	87,632	84,161	22,857
Beach and Coastal Enhancement Acct, Calif	3,647	11,698	12,674	2,671	18,153	14,683	6,141	15,397	15,507	6,031
Behavioral Science Examiners Fund	867	1,560	2,159	268	1,662	1,916	14	1,739	1,738	15
Beverage Container Recycling Fund, CA	3,185	5,088	4,183	4,090	5,134	4,799	4,425	5,170	4,871	4,724
Bicycle Transportation Account, STF	73,008	754,115	692,445	134,678	849,719	704,006	280,391	876,775	728,228	428,938
Bimetal Processing Fee Acct, Bev Cont Re	2,773	7,750	6,532	3,991	7,585	7,212	4,364	5,415	9,244	535
Boxer's Neurological Examination Account	1,791	1,617	111	3,297	1,370	727	3,940	1,481	1,280	4,141
Breast Cancer Control Account	125	32	81	76	92	106	62	91	109	44
Breast Cancer Research Account	5,410	14,739	15,060	5,089	15,578	16,636	4,031	14,392	16,840	1,583
Breast Cancer Research Account	3,555	-76	202	3,277	-2,995	282	-	377	377	-
Budget Stabilization Account	2,168	15,079	16,577	670	15,918	14,196	2,392	14,732	14,240	2,884
Business Fees Fund, Secty of State's	-	31,546	31,007	539	33,796	33,787	548	34,417	34,452	513
Business Reinvestment Fund	2	-	-	2	-	-	2	-	-	2
Cal-OSHA Targeted Inspection & Consult	5,648	10,460	9,733	6,375	13,500	15,492	4,383	11,500	15,194	689
California Memorial Scholarship Fund	-	234	234	234	234	130	338	234	-	572
Cancer Research Fund	1,574	-	-1,242	2,816	-	2,311	505	-	-	505
Cannery Inspection Fund	-	-	-	-	1,750	1,565	185	1,750	1,591	344
Car Wash Worker Fund	-	-	-	-	300	160	140	300	160	280
Car Wash Worker Reconstitution Fund	-	-	-	-	160	80	80	160	80	160
Caseload Subacct, Sales Tax Growth Acct	-	188,082	188,082	-	132,249	132,249	-	104,492	104,492	-

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Actual Expenditures June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
Cemetery Fund	3,203	2,185	1,860	3,528	2,146	2,074	3,600	2,147	2,123	3,624
Certification Acct, Consumer Affairs Fd	389	886	863	412	878	873	417	878	912	383
Certification Fund	1,429	1,521	1,178	1,772	1,542	1,183	2,131	1,542	1,376	2,297
Certified Unified Program Account, State	-	-	-	-	1,322	1,313	9	1,206	1,157	58
Child Abuse Fund, DOJ	716	419	341	794	419	335	878	419	336	961
Child Care Acct, Child & Families Trust	31,815	19,214	15,807	35,222	18,207	36,059	17,370	18,707	36,077	-
Child Health and Safety Fund	1,888	3,121	1,807	3,202	3,318	2,729	3,791	3,318	3,913	3,196
Childhood Lead Poisoning Prevention Fund	22,439	12,460	18,156	16,743	20,430	20,888	16,285	20,430	21,101	15,614
Children & Families First Trust Fd, Cal	9	3,519	3,528	-	5,143	5,143	-	7,457	7,457	-
Children's Medical Services Rebate Fund	-	1,425	-	1,425	2,000	3,000	425	3,000	3,005	420
Chiropractic Examiners Fund	1,010	2,268	2,330	948	2,286	2,632	602	6,286	2,918	3,970
Cigarette & Tobacco Products Compliance	15,975	2,939	7,114	11,800	2,100	8,941	4,959	2,115	7,074	-
Cigarette & Tobacco Products Surtax Fund	5,934	-3,271	2,662	1	3,716	3,716	1	4,811	4,812	-
Clinical Laboratory Improvement Fund	273	4,851	3,678	1,446	5,783	4,276	2,953	5,563	4,337	4,179
Clunp Loans Envrnmntl Asst Neighborhood Act	2,942	-36	-3	2,909	-322	-26	2,613	-322	-28	2,319
Coachella Valley Mountains Conservancy	1	-	-	1	32	32	1	32	32	1
Coastal Access Account, SCCF	1,324	515	702	1,137	500	1,233	404	500	532	372
Collins-Dugan Calif Conserv Corps Reimb	16,018	25,900	27,509	14,409	22,415	31,720	5,104	24,039	23,584	5,559
Colorado River Management Account	6	-	-	6	-	-	6	-	-	6
Community Revitalization Fee Fund	29	6	35	-	110	92	18	110	89	39
Conservatorship Registry Fund	140	327	49	418	-	50	368	-	368	-
Construction Management Education Acct	483	81	197	367	60	254	173	59	15	217
Contingent Fd of the Medical Board of CA	11,447	35,466	38,301	8,612	40,586	42,480	6,718	49,060	48,622	7,156
Continuing Care Provider Fee Fund	1,167	979	849	1,297	979	1,008	1,268	979	1,022	1,225
Contractors' License Fund	23,901	52,504	47,647	28,758	51,517	50,831	29,444	55,301	51,512	33,233
Corporations Fund, State	7,918	27,864	27,195	8,587	26,907	30,568	4,926	26,907	31,574	259
Corrections Training Fund	1,490	2,103	2,491	1,102	3,043	2,488	1,657	3,236	2,706	2,187
Counties Children & Families Acct	8,511	477,510	486,021	-	459,446	459,446	-	472,794	472,794	-
Court Collection Account	3,562	61,293	59,951	4,904	63,301	63,050	5,155	81,001	80,942	5,214
Court Facilities Trust Fund	-	112	89	23	702	702	23	778	778	23
Court Interpreters' Fund	195	157	319	33	157	142	48	157	155	50
Court Reporters Fund	581	779	602	758	573	724	607	570	783	394
Credit Union Fund	945	4,618	3,717	1,846	4,181	3,807	2,220	4,221	4,085	2,356
Dam Safety Fund	634	7,426	7,513	547	7,800	8,224	123	8,900	8,928	95
Deaf & Disabled Telecomm Prg Admin Comm	11,977	70,889	56,559	26,307	68,509	70,142	24,674	68,509	69,636	23,547
Dealers' Record of Sale Special Account	205	10,175	8,297	2,083	8,963	8,627	2,419	8,963	8,695	2,687
Debt & Investment Advisory Comm Fund, Cal	936	2,174	1,800	1,310	7,636	2,028	6,918	2,010	2,089	6,839
Debt Limit Allocation Committee Fund, Cal	3,964	-2,283	1,019	662	1,025	1,126	561	4,634	1,148	4,047
Deficit Recovery Bond Retirement Sinking	-	92,917	-	92,917	55,475	148,392	-	460,063	460,063	-
Delta Flood Protection Fund	993	2	-	995	2	-	997	2	995	4
Dental Auxiliary Fund, State	1,160	1,419	1,631	948	1,566	1,984	530	2,042	2,011	561
Dentally Underserved Account	1,001	1,044	1,870	175	1,004	995	184	4	188	-
Dentistry Fund, State	351	7,360	7,007	704	9,693	8,470	1,927	7,897	8,318	1,506
Department of Agriculture Account, Ag Fd	13,711	91,867	96,481	9,097	109,834	102,709	16,222	96,617	104,650	8,189
Developmental Disabilities Prog Dev Fund	488	1,813	1,497	804	1,810	2,000	614	1,810	2,003	421
Developmental Disabilities Services Acct	364	5	100	269	2	232	39	1	40	-
Diesel Emission Reduction Fund	369	314	683	683	265	-	948	270	-	1,218
Disability Access Account	-508	9,857	5,118	4,231	9,603	7,211	6,623	4,664	7,282	4,005
Disaster Relief Fund	11	-	-	11	-	-	11	-	-	11

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Actual Expenditures June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
Dispensing Opticians Fund	213	157	136	234	155	265	124	153	273	4
Domestic Violence Trng & Education Fund	1,644	982	1,685	941	991	1,064	868	991	1,088	771
Drinking Water Operator Cert Special Act	1,984	1,311	1,140	2,155	1,500	1,300	2,355	1,600	1,318	2,637
Drinking Water Treatment & Research Fund	5,237	5,000	3,945	6,292	5,000	5,002	6,290	5,000	5,011	6,279
Driver Training Penalty Assessment Fund	1,088	1,106	985	1,209	1,106	1,154	1,161	1,106	1,157	1,110
Driving Under-the-Influence Prog Lic Trs	1,407	1,014	1,216	1,205	1,315	1,596	924	1,315	1,608	631
Drug and Device Safety Fund	3,805	2,543	1,115	5,233	4,035	2,286	6,982	4,035	3,088	7,929
DNA Identification Fund	-	2,024	2,021	3	8,239	8,000	242	10,204	10,000	446
DNA Testing Fund, Department of Justice	200	5	-	205	3	24	184	-	-	184
Earthquake Emergency Invest Acct-NDA Fd	100	-	5	95	-	95	-	-	-	-
Earthquake Risk Reduction Fund of 1996	-	1,000	1,000	-	1,000	1,000	-	1,000	1,000	-
Education Acct, Child & Families TrustFd	49,517	36,156	9,996	75,677	30,178	67,894	37,961	31,012	68,973	-
Educational Telecommunication Fund	21,228	-	-9,429	30,657	-	5,204	25,453	-	7,953	17,500
Electrician Certification Fund	1,370	2,778	1,796	2,352	3,562	2,649	3,265	3,562	2,719	4,108
Electronic and Appliance Repair Fund	1,474	1,793	1,923	1,344	1,771	2,003	1,112	1,761	2,004	869
Electronic Waste Recovery & Recycling	-	41,029	16,221	24,808	58,490	78,085	5,213	69,855	74,769	299
Elevator Safety Account	5,802	10,540	11,877	4,465	12,246	13,793	2,918	12,246	14,133	1,031
Emerg Medical Svcs Trng Prog Approval Fd	396	244	252	388	249	366	271	258	378	151
Emergency Food Assistance Program Fund	365	383	357	391	403	438	356	424	403	377
Emergency Medical Services Personnel Fnd	381	1,114	1,128	367	1,187	1,224	330	1,264	1,434	160
Emergency Telephone Number Acct, State	88,547	128,457	99,509	117,495	124,901	146,578	95,818	124,901	178,819	41,900
Employment Development Contingent Fund	-7,628	68,576	60,948	-	75,051	75,051	-	76,599	76,599	-
Employment Developmnt Dept Benefit Audit	-	12,800	12,799	1	12,903	12,856	48	13,969	13,970	47
Energy and Resources Fund	-	-773	-	-773	-	-	-773	-	-	-773
Energy Conservation Assistance Ac, State	7,431	3,103	6,103	4,431	2,531	6,962	-	1,928	1,754	174
Energy Facility License and Compliance	271	995	615	651	898	623	926	940	623	1,243
Energy Resources Programs Account	13,513	48,590	50,762	11,341	52,258	54,010	9,589	54,721	56,539	7,771
Energy Tech Research, Dev, & Demo Acct	2,413	128	-55	2,596	50	-23	2,669	55	2,578	146
Environmental Enhancement and Mitigation	6,862	319	5,039	2,142	237	101	2,278	193	-	2,471
Environmental Enhancement Fund	1,333	46	4	1,375	334	381	1,328	345	338	1,335
Environmental Laboratory Improvement Fnd	77	2,535	2,604	8	2,956	3,003	-39	3,188	2,984	165
Environmental License Plate Fund, Calif	8,388	32,382	30,982	9,788	33,432	37,227	5,993	34,173	37,733	2,433
Environmental Protection Trust Fund	3,100	1,115	-	4,215	946	-	5,161	946	-	6,107
Environmental Quality Assessment Fund	256	375	484	147	636	675	108	575	681	2
Environmental Water Fund	2,111	47	-	2,158	47	-	2,205	47	-	2,252
Expedited Site Remediation Trust Fund	2,446	515	-	2,961	499	1,001	2,459	527	2,608	378
Export Document Program Fund	960	351	109	1,202	333	158	1,377	333	387	1,323
Exposition Park Improvement Fund	1,489	5,105	3,550	3,044	3,855	3,911	2,988	3,570	4,001	2,557
Fair and Exposition Fund	2,152	24,509	25,626	1,035	24,499	25,511	23	24,499	24,242	280
False Claims Act Fund	12,125	7,171	8,809	10,487	9,908	11,664	8,731	23,882	12,630	19,983
Family Law Trust Fund	5,495	1,981	2,607	4,869	2,057	3,122	3,804	2,057	3,103	2,758
Farm & Ranch Solid Waste Cleanup & Abate	575	1,018	1,021	572	1,020	1,063	529	1,020	1,083	466
Farmworker Remedial Account	402	73	101	374	69	440	3	100	102	1
Film California First Fund	1,081	-1,081	-	-	-	-	-	-	-	-
Film Promotion and Marketing Fund	-	-	-	-	-	-	-	11	10	1
Financial Institutions Fund	5,023	19,188	18,304	5,907	18,527	18,798	5,636	18,802	19,683	4,755
Financial Responsibility Penalty Account	2,339	212	-	2,551	6	-	2,557	6	-	2,563
Fingerprint Fees Account	3,164	57,836	54,098	6,902	60,836	61,705	6,033	68,436	72,103	2,366
Fire and Arson Training Fund, Calif	263	1,535	1,305	493	1,600	1,630	463	1,600	1,630	433

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
Fire Marshal Licensing & Cert Fund, St	673	1,888	1,836	725	1,923	1,959	689	2,003	2,424	268
Fire Safety Subaccount	139	-	-	139	-	-	139	-	-	139
Firearm Safety Account	426	339	319	446	348	323	471	348	326	493
Firearms Safety and Enforcement Spec Fd	1,300	2,737	2,833	1,204	2,694	2,953	945	2,694	2,934	705
Fiscal Recovery Fund	-	1,171,916	1,171,916	-	1,377,000	1,377,000	-	1,415,000	1,415,000	-
Fish and Game Preservation Fund	9,308	84,600	90,220	3,688	90,421	92,982	1,127	94,344	93,838	1,633
Fish and Wildlife Pollution Account	8,078	877	2,561	6,394	691	2,603	4,482	712	2,624	2,570
Food Safety Act, Pesticide Reg Fd, Dept	119	179	284	14	323	306	31	296	311	16
Food Safety Fund	580	4,345	4,263	662	5,051	4,345	1,368	6,129	5,710	1,787
Foster and Small Family Insurance Fund	3,897	-	-1,268	5,165	-	-	5,165	-	-	5,165
Funeral Directors and Embalmers Fund, St	2,677	1,297	1,369	2,605	1,278	1,512	2,371	1,271	1,559	2,083
Gambling Control Fines & Penalties Act	336	7	43	300	-	46	254	100	26	328
Gambling Control Fund	708	8,765	7,378	2,095	8,097	8,648	1,544	8,097	9,641	-
Garment Industry Regulations Fund	2,243	2,066	2,605	1,704	3,000	3,353	1,351	3,000	3,379	972
Garment Manufacturers Special Account	1,531	448	197	1,782	468	1,188	1,062	468	200	1,330
Gas Consumption Surcharge Fund	47,616	303,099	333,783	16,932	303,085	274,584	45,433	303,085	277,328	71,190
Genetic Disease Testing Fund	23,529	68,157	74,810	16,876	71,647	82,440	6,083	79,905	80,636	5,352
Geology and Geophysics Fund	591	827	769	649	1,015	969	695	1,225	1,186	734
Geothermal Resources Development Account	46	2,266	2,266	46	2,333	2,333	46	2,800	2,800	46
Glass Processing Fee Account	726	67,438	62,374	5,790	43,958	43,971	5,777	46,086	46,684	5,179
Golden Bear State Pharmacy Asst Program	640	-	-	640	-	-	640	-	-	640
Graphic Design License Plate Account	1,290	1,594	885	1,999	2,871	968	3,902	3,014	2,805	4,111
Guide Dogs for the Blind Fund	174	144	126	192	143	152	183	142	154	171
Habitat Conservation Fund	50,398	8,404	30,256	28,546	9,396	29,043	8,899	8,312	9,472	7,739
Hazardous & Idle-Deserted Well Abate Fnd	60	124	112	72	121	140	53	104	100	57
Hazardous Liquid Pipeline Safety Calif	2,056	977	1,006	2,027	1,753	2,744	1,036	1,753	2,747	42
Hazardous Subst Clearing Account	67	2,698	2,736	29	2,702	2,568	163	146	70	239
Hazardous Substance Subaccount	1,523	1,286	2,122	687	903	9	1,581	903	9	2,475
Hazardous Waste Control Account	16,017	44,621	46,482	14,156	59,188	53,607	19,737	42,913	51,917	10,733
Health Care Benefits Fund	1,958	918	2,402	474	1,513	1,752	235	-	235	-
Health Data & Planning Fund, CA	8,041	14,489	19,018	3,512	19,485	19,075	3,922	20,541	19,200	5,263
Health Ed Act, Cig & Tob Pr Surtax	6,072	81,100	75,299	11,873	78,081	81,212	8,742	79,862	84,243	4,361
Health Statistics Special Fund	9,774	21,212	17,297	13,689	20,124	16,893	16,920	20,411	27,811	9,520
Health Subaccount, Sales Tax Account	-	410,413	410,413	-	410,413	410,413	-	410,413	410,413	-
Hearing Aid Dispensers Fund	1,113	593	580	1,126	583	684	1,025	581	716	890
High Polluter Repair or Removal Account	15,248	34,256	20,740	28,764	50,940	39,783	39,921	52,180	43,636	48,465
High-Cost Fund-A Admin Committee Fd, Cal	29,556	36,984	36,710	31,830	38,985	42,698	28,117	38,985	44,508	22,594
High-Cost Fund-B Admin Committee Fd, Cal	181,588	523,158	343,983	360,763	523,158	447,141	436,780	523,158	435,167	524,771
Higher Education Fees and Income-CSU	100	1,098,122	1,098,122	100	1,205,292	1,205,292	100	1,231,304	1,231,304	100
Highway Account, State, STF	900,191	3,020,893	2,903,942	1,017,142	3,163,828	3,558,919	622,051	3,122,856	3,786,831	-41,924
Highway Users Tax Account, TTF	7,084	1,144,510	1,144,509	7,085	1,123,953	1,124,127	6,911	1,155,849	1,155,733	7,027
Historic Property Maintenance Fund	3,520	1,200	1,458	3,262	1,132	1,500	2,894	1,119	1,507	2,506
Home Furnish & Thermal Insulat Fd, Burea	2,347	3,899	3,680	2,566	3,894	3,734	2,726	3,896	3,950	2,672
Hospital Building Fund	47,007	36,213	27,432	55,788	30,905	30,566	56,127	30,905	33,902	53,130
Hospital Svc Act, Cig & Tob Pr Surtax	1,677	53,870	48,056	7,491	60,674	63,903	4,262	61,424	62,433	3,253
HICAP Fund, State	1,864	1,742	1,778	1,828	3,112	2,447	2,493	2,446	2,454	2,485
Illegal Drug Lab Cleanup Account	6,674	104	276	6,502	63	2,073	4,492	64	2,034	2,522
Indian Gaming Special Distribution Fund	87,272	77,542	47,355	117,459	25,109	99,701	42,867	73,093	53,049	62,911
Industrial Development Fund	136	91	176	51	482	482	51	482	482	51

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
Industrial Medicine Fund	839	-839	-	-	-	-	-	-	-	-
Industrial Rel Construction Enforce Fd	81	78	30	129	95	56	168	95	53	210
Infant Botulism Treatment & Prevention	-455	4,446	2,768	1,223	1,898	1,909	1,212	2,524	3,054	682
Inland Wetlands Cons Fd, Wildlife Rest	1,245	24	3	1,266	24	509	781	24	505	300
Insurance Fund	46,239	181,800	179,153	48,886	182,176	203,141	27,921	180,486	198,419	9,988
Integrated Waste Management Account	15,491	50,510	48,389	17,612	48,691	54,546	11,757	49,791	56,545	5,003
Internat Student Exch Visitor Plcmt Org	42	4	4	46	4	4	50	4	-	54
Jobs-Housing Balance Improvement Account	74,538	-	23,528	51,010	-	25,784	25,226	-	23,908	1,318
Judicial Admin Efficiency & Modernztn	4,575	1,078	-425	6,078	1,494	427	7,145	1,494	-	8,639
Labor and Workforce Development Fund	-	21	-	21	20	-	41	20	15	46
Lake Tahoe Conservancy Account	1,666	1,100	433	2,333	1,100	2,470	963	1,100	1,158	905
Landscape Architects Fd, CA Bd/Arch Exam	403	688	753	338	2,018	1,065	1,291	795	1,152	934
Law Library Special Account, Calif_State	566	456	436	586	550	547	589	550	549	590
Leaking Undergrnd Stor Tank Cost Recovery	1,029	16	-	1,045	16	-	1,061	16	-	1,077
Licensed Midwifery Fund	42	-23	-	19	19	-	38	20	-	58
Licensing & Certification Fd, Health Svc	-	-	-	-	-	-	-	67,707	63,435	4,272
Licensing & Certification Fd, Mental Hth	-	-	-	-	-	-	-	401	401	-
Lifetime License Trust Acct, Fish & Game	4,627	598	-	5,225	616	-	5,841	646	-	6,487
Loc Pub Prosecutors & Pub Defenders Trng	559	850	797	612	864	866	610	864	870	604
Local Agency Deposit Security Fund	228	328	323	233	315	362	186	319	372	133
Local Airport Loan Account	8,575	1,986	-1,497	12,058	1,860	345	13,573	1,931	354	15,150
Local Govt Geothermal Resource Subacct	3,750	1,102	2,916	1,936	1,125	2,807	254	1,325	1,308	271
Local Jurisdiction Energy Assistance	671	231	-60	962	100	1,062	-	100	100	-
Local Revenue Fund	-	409	409	-	868	868	-	612	612	-
Local Transportation Loan Acct, SHA, STF	2,302	63	-	2,365	70	1,000	1,435	53	1,000	488
Low-Level Radioactive Waste Disposal Fnd	442	10	-	452	10	-	462	10	-	472
Main Street Program Fund, California	-	-	-	-	175	175	-	175	175	-
Major Risk Medical Insurance Fund	9,867	40,000	22,056	27,811	20,000	45,814	1,997	40,007	42,004	-
Managed Care Fund	3,391	35,840	35,789	3,442	35,609	36,198	2,853	40,542	41,343	2,052
Mandates Claims Fund, State	834	-834	-	-	-	-	-	-	-	-
Marine Invasive Species Control Fund	2,085	3,522	2,905	2,702	3,400	3,209	2,893	3,400	3,544	2,749
Marine Life & Marine Reserve Mgmt Acct	-	500	500	-	-	-	-	-	-	-
Mass Media Comm Acct, Child & Fam Trust	15,550	36,597	22,863	29,284	35,413	50,510	14,187	36,415	50,602	-
Medical Marijuana Program Fund	-	983	605	378	1,180	1,205	353	1,217	883	687
Medical Waste Management Fund	1,105	962	1,211	856	968	1,289	535	1,895	1,944	486
Medically Underserved Account	1,150	1,524	642	2,032	4,424	1,296	5,160	-	5,160	-
Mental Health Practitioner Education Fd	118	277	25	370	281	213	438	281	213	506
Mental Health Services Fund	-	254,000	16,943	237,057	683,000	667,305	252,752	690,000	665,949	276,803
Mental Health Subaccount, Sales Tax Acct	-	835,285	835,285	-	835,285	835,285	-	835,285	835,285	-
Mexican Amer Vet's Memrl Beautif/Enhance	190	2	-	192	2	10	184	2	10	176
Mine Reclamation Account	485	2,911	2,250	1,146	2,386	2,858	674	2,690	2,955	409
Missing Persons DNA Data Base Fund	3,703	3,558	3,130	4,131	3,123	3,064	4,190	3,123	4,357	2,956
Mobilehome Manufactured Home Revolv Fd	1,274	17,078	16,025	2,327	17,688	17,835	2,180	18,908	19,030	2,058
Mobilehome Park Revolving Fund	164	4,347	4,390	121	4,999	5,086	34	5,532	5,434	132
Motor Carriers Safety Improvement Fund	2,308	1,711	1,350	2,669	1,696	1,462	2,903	1,696	1,559	3,040
Motor Vehicle Account, STF	202,941	1,951,920	1,741,000	413,861	1,986,238	1,851,422	548,677	2,105,844	2,000,793	653,728
Motor Vehicle Fuel Account, TTF	-	23,607	22,744	863	25,679	23,798	2,744	25,677	23,199	5,222
Motor Vehicle Insurance Account, State	6,112	33,102	21,934	17,280	26,000	29,250	14,030	26,000	29,909	10,121
Motor Vehicle License Fee Account, TTF	56,699	533,146	538,926	50,919	556,191	556,584	50,526	577,933	578,163	50,296

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
Motor Vehicle Parking Facil Moneys Acct	-1,488	4,222	4,568	-1,834	4,069	3,725	-1,490	5,482	3,992	-
Narcotic Treatment Program Licensing Trt	-166	1,093	927	-	1,129	1,122	7	1,134	1,125	16
Native Species Conserv & Enhancement Acc	185	-171	-	14	-	-	14	-	-	14
Natural Resources Infrastructure Fund	10,872	12,700	10,000	13,572	-	2,701	10,871	-	-	10,871
Naturopathic Doctor's Fund	-	224	82	142	-19	117	6	143	113	36
New Motor Vehicle Board Account	2,376	1,474	1,760	2,090	1,685	1,930	1,845	1,697	2,472	1,070
Non Designated Public Hospital Supplementl	-	-	-	-	-	-	-	54	-	54
Nontoxic Dry Cleaning Incentive Trst Fd	-	240	160	80	1,499	1,500	79	1,499	1,500	78
Nuclear Planning Assessment Special Acct	674	3,375	3,885	164	4,055	4,219	-	4,015	4,015	-
Nursing Home Admin St Lic Exam Fund	608	405	479	534	396	483	447	433	491	389
Occupancy Compliance Monitoring Account	39,294	-29,785	1,078	8,431	5,452	1,342	12,541	42,377	1,357	53,561
Occupational Lead Poisoning Prev Account	2,766	2,991	2,956	2,801	3,003	3,398	2,406	3,000	3,398	2,008
Occupational Therapy Fund	620	1,381	664	1,337	1,526	739	2,124	1,539	820	2,843
Off Highway License Fee Fund	-	2,217	2,217	-	2,214	2,214	-	2,214	2,214	-
Off-Highway Vehicle Trust Fund	79,873	59,682	57,853	81,702	57,759	121,022	18,439	57,759	61,063	15,135
Oil Spill Prevention & Administration Fd	10,639	32,928	30,345	13,222	33,681	31,643	15,260	33,665	32,853	16,072
Oil Spill Response Trust Fund	55,918	2,076	3,259	54,735	2,551	1,300	55,986	2,396	1,300	57,082
Oil, Gas and Geothermal Administrative	220	14,890	13,974	1,136	14,820	14,953	1,003	15,182	15,873	312
Olympic Training Account, California	1	-	-	1	-	-	1	-	-	1
Optometry Fund, State	918	1,076	1,278	716	1,083	1,460	339	1,097	1,175	261
Osteopathic Medical Bd of Calif Contn Fd	495	1,112	712	895	929	1,080	744	1,122	1,141	725
Other Unallocated Special Funds	-	-4,100	45	-4,145	-3,923	-20,077	12,009	-3,779	131,877	-123,647
Outpatient Setting Fd of Medical Board	113	3	-	116	2	24	94	52	24	122
Parks and Recreation Fund, State	12,217	113,862	117,734	8,345	120,805	126,015	3,135	118,805	121,411	529
Payphone Service Providers Committee Fd	3,920	-2,096	901	923	523	931	515	550	935	130
Peace Officers' Training Fund	17,348	53,161	49,141	21,368	53,483	54,947	19,904	54,069	56,222	17,751
Pedestrian Safety Account, STF	650	125	39	736	138	-	874	142	-	1,016
Penalty Act, Ca Bev Container Recyc Fd	1,193	552	552	1,745	266	-	2,011	256	-	2,267
Perinatal Insurance Fund	-3,651	56,041	51,047	1,343	55,728	57,070	1	51,452	51,453	-
Permanent Amusement Ride Safety Insp Fd	505	371	522	354	203	548	9	1,200	1,036	173
Pesticide Regulation Fund, Dept of	6,494	54,582	52,588	8,488	56,177	58,742	5,923	57,983	60,482	3,424
Pharmacy Board Contingent Fund	4,961	6,518	7,368	4,111	8,677	7,954	4,834	5,356	8,200	1,990
Physical Therapy Fund	1,105	1,700	2,209	596	1,922	2,298	220	2,124	2,342	2
Physician Assistant Fund	1,567	944	851	1,660	995	940	1,715	1,053	1,060	1,708
Physician Svc Acct, Cig & Tob Pr Surtax	828	8,773	5,564	4,037	13,109	15,399	1,747	4,486	5,591	642
Pierce's Disease Management Account	8,349	4,118	6,739	5,728	4,157	8,406	1,479	5,138	5,450	1,167
Pilot Commissioners' Special Fd, Board	2,079	362	1,205	1,236	646	1,526	356	1,314	1,591	79
Podiatric Medicine Fund, Board of	1,001	937	868	1,070	896	1,149	817	897	1,221	493
Pressure Vessel Account	152	2,262	2,508	-94	3,099	3,002	3	4,334	4,336	1
Private Hospital Supplemental Fund	-	-	-	-	-	-	-	1,000	-	1,000
Private Investigator Fund	1,123	750	583	1,290	747	625	1,412	749	592	1,569
Private Postsec & Vocatin Ed Admin Fund	744	5,351	5,827	268	5,300	5,566	2	5,370	4,839	533
Private Security Services Fund	1,725	7,550	6,981	2,294	7,431	6,931	2,794	12,438	8,970	6,262
Professional Engineer & Land Surveyor Fd	1,360	6,817	7,247	930	9,163	7,771	2,322	9,189	8,030	3,481
Professional Forester Registration Fund	510	162	157	515	149	197	467	145	198	414
Propane Safety Insp/Enforcmt Prog Trust	78	6	-	84	-84	-	-	-	-	-
Property Acquisition Law Money Account	-2,200	10,791	6,161	2,430	14,181	2,929	13,682	-10,336	3,052	294
Psychiatric Technicians Account	544	1,376	1,116	804	1,484	1,249	1,039	1,506	1,290	1,255
Psychology Fund	1,647	2,999	2,455	2,191	3,045	3,011	2,225	3,044	3,189	2,080

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
Pub Sch Ping Desgn & Constr Rev Reviv Fd	5,399	38,963	33,319	11,043	74,247	31,849	53,441	41,573	32,046	62,968
Pub Utilities Comm Utilities Reimb Acct	47,866	97,941	78,998	66,809	21,225	63,941	24,093	58,695	76,693	6,095
Public Beach Restoration Fund	179	-	-	179	-	-	179	637	750	66
Public Int Res, Dev & Demonstratn Progrm	35,908	68,924	66,201	38,631	69,954	83,655	24,930	70,604	69,908	25,626
Public Res Acct, Cig & Tob Pr Surtax	1,211	16,750	14,828	3,133	16,118	16,868	2,383	16,563	16,839	2,107
Public Rights Law Enforcement Special Fd	241	499	580	160	5,306	5,291	175	5,306	5,397	84
Public Transportation Account, STF	7,383	337,757	251,148	93,992	610,083	497,576	206,499	654,116	848,143	12,472
Public Util Comm Transport Reimb Acct	3,447	7,413	7,404	3,456	8,473	9,017	2,912	8,360	9,286	1,986
PET Processing Fee Acct, Bev Cont Rec Fd	24,427	73,511	97,867	71	49,551	48,909	713	52,734	51,068	2,379
PUC Ratepayer Advocate Account	-	-	-	-	18,379	18,280	99	18,836	18,837	98
Radiation Control Fund	4,443	13,597	14,835	3,205	17,561	19,540	1,226	20,760	19,833	2,153
Real Estate Appraisers Regulation Fund	6,805	7,263	3,120	10,948	5,586	4,058	12,476	7,500	4,197	15,779
Real Estate Fund	24,612	42,034	31,733	34,913	42,547	34,200	43,260	41,910	43,014	42,156
Recycling Market Development Rev Loan	8,702	3,659	-6,616	18,977	5,640	19,072	5,545	5,609	8,528	2,626
Reg Environmental Health Specialist Fd	642	195	263	574	216	265	525	388	399	514
Registered Nurse Education Fund	1,003	1,491	1,331	1,163	1,554	1,411	1,306	1,553	1,511	1,348
Registered Nursing Fund, Board of	7,730	16,370	17,055	7,045	22,418	19,410	10,053	16,230	20,346	5,937
Registry of Charitable Trusts Fund	-	-	-	-	2,871	2,098	773	2,884	2,495	1,162
Removal & Remedial Action Acct	2,550	1,435	1,392	2,593	3,350	5,295	648	3,350	2,011	1,987
Renewable Resource Trust Fund	89,353	150,473	93,258	146,568	147,247	257,476	36,339	150,052	163,169	23,222
Research & Devel Acct, Child & Fam Trust	37,326	19,406	10,558	46,174	18,407	41,736	22,845	18,907	41,752	-
Research Acct, Cig & Tob Pr Surtax	436	20,815	19,330	1,921	19,836	19,472	2,285	20,281	19,629	2,937
Residential Earthquake Recovery Fund, CA	3,021	-2,825	33	163	-	-	163	-	-	163
Respiratory Care Fund	1,279	1,969	1,985	1,263	2,003	2,565	701	2,018	2,639	80
Responsibility Area Fire Protection Fund	41	-	-	41	-	-	41	-	-	41
Restitution Fund	48,621	113,156	84,357	77,420	119,304	104,264	92,460	123,212	105,875	109,797
Rigid Container Account	-	-	-	-	200	200	-	200	162	38
Rural CUPA Reimbursement Account	754	-	-191	945	-	-	945	-	-	945
Safe Drinking Water and Toxic Enforcement	59	1,518	352	1,225	425	380	1,270	425	661	1,034
Safe Drinking Water Account	5,445	7,942	8,325	5,062	8,408	8,999	4,471	8,828	10,168	3,131
Sale of Tobacco to Minors Control Acct	644	170	160	654	300	301	653	300	302	651
Salmon & Steelhead Trout Restoration Acc	-	-	-	-	6,730	6,697	33	-	-	33
San Joaquin River Conservancy Fund	-	-	-	-	65	-	65	63	58	70
Satellite Wagering Account	541	12,639	12,885	295	12,660	12,275	680	12,660	12,354	986
School Facilities Emergency Repair Acct	-	-	-5,000	5,000	-	5,000	-	-	-	-
School Facilities Fee Assistance Fund	5,570	-4,866	148	556	15	94	477	5	-	482
School Fund, State	15,642	11,677	11,677	15,642	11,677	11,676	15,643	11,677	11,676	15,644
School Land Bank Fund	48,567	1,067	-	49,634	2,258	-	51,892	7,226	-	59,118
Seismic Gas Valve Cert Fee Acct	-	-	-	-	75	75	-	75	75	-
Self-insurance Plans Fund	2,390	2,420	2,685	2,125	3,300	3,538	1,887	3,800	3,549	2,138
Senate Operating Fund	308	-	-	308	-	-	308	-	-	308
Sexual Habitual Offender, DOJ	2,879	2,077	2,225	2,731	2,046	2,711	2,066	2,046	2,718	1,394
Sexual Predator Public Information Acct	522	478	66	934	478	668	744	478	649	573
Site Operation and Maintenance Account	2,415	38	327	2,126	22	51	2,097	30	50	2,077
Site Remediation Account	1,465	8,103	7,676	1,892	8,085	9,138	839	8,232	8,317	754
Social Services Subaccount, Sales Tx Acc	-	1,190,920	1,190,920	-	1,379,002	1,379,002	-	1,511,251	1,511,251	-
Soil Conservation Fund	514	2,223	2,119	618	2,269	2,254	633	2,269	2,775	127
Solid Waste Disposal Site Cleanup Tr Fd	1,649	5,506	5,294	1,861	5,219	5,601	1,479	5,219	5,579	1,119
Speech-Language Pathology & Audiology	551	667	538	680	695	606	769	733	715	787

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS
(Dollars in Thousands)**

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Actual Expenditures 2004-05	Reserves June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
State Court Facilities Construction Fund	4,539	55,464	18,195	41,808	166,385	47,106	161,087	128,447	38,579	250,955	
Strong-Motion Instrumentation Spec Fund	10,129	-10,129	8,216	9,717	7,140	8,585	8,272	7,000	8,785	6,487	
Strong-Motion Instrument & Seismic Mapping	349	17,584	262	552	274	286	540	273	353	460	
Structural Pest Cntrl Educ&Enforcemnt Fd	516	298	3,301	2,830	3,132	3,583	2,379	3,122	3,828	1,673	
Structural Pest Control Fund	2,566	3,565	40	967	123	95	995	123	92	1,026	
Structural Pest Control Research Fund	876	131	-1,175	1,777	-	-207	1,984	-	-	1,984	
Substance Abuse Treatment Trust Fund	602	-	189	765	14	198	581	14	198	397	
Surface Impoundment Assessment Account	940	14	1,115	2,305	2,045	1,791	2,581	2,045	1,368	3,258	
Surface Mining and Reclamation Account	1,376	2,044	1,588	174	6,800	1,791	5,183	36,362	1,828	39,717	
Tax Credit Allocation Fee Account	28,930	-27,168	14,127	2,340	12,278	12,259	2,359	12,417	14,766	10	
Teacher Credentials Fund	2,924	13,543	21,651	2,239	21,771	23,955	55	22,145	22,200	-	
Technical Assistance Fund	2,943	20,947	18,526	10,160	28,461	20,321	18,300	28,461	22,003	24,758	
Teleconnect Fd Admin Comm Fd, Cal	228	28,458	114	291	65	144	212	192	136	268	
Telephone Medical Advice Services Fund	203	202	2,957	2,665	4,231	3,755	3,141	4,040	4,631	2,550	
Test Development and Admin Acct, Tc Fd	2,318	3,304	31,235	23,028	33,757	32,248	24,537	34,062	38,007	20,592	
Tire Recycling Management Fund, Calif	17,776	36,487	267	560	385	279	666	425	282	809	
Tissue Bank License Fund	477	350	5,987	13,661	-12,000	543	1,118	-1,118	-	-	
Tobacco Settlement Fund	19,648	-	1,359,249	-419,680	520,419	867,080	-766,341	-	-	-766,341	
Toll Bridge Seismic Retrofit Acct, STF	720,893	218,676	39,731	25,247	33,037	45,738	12,546	32,764	41,779	3,531	
Toxic Substances Control Account	30,109	34,869	336,740	-8,468	1,114,608	1,097,262	8,878	1,088,000	1,067,021	29,857	
Traffic Congestion Relief Fund	164,897	163,375	148	43	302	310	35	302	310	27	
Transcript Reimbursement Fund	89	102	298	440	-	440	-	-	-	-	
Transitional Housing for Foster Youth Fd	738	-	-	-	-	-	-	-	-	-	
Transportation Deferred Investment Fund	-	-	-	-	-	-	-	-	-	-	
Transportation Investment Fund	-	-	-	-	-	-	-	-	-	-	
Transportation Rate Fund	923	2,033	1,875	1,081	2,234	2,428	887	-410,000	-823,657	-	
Trauma Care Fund	1	-	1	-	-	-	-	2,808	2,528	1,167	
Traumatic Brain Injury Fund	505	1,019	1,278	246	1,063	1,150	159	1,079	1,207	31	
Travel Seller Fund	3,257	769	724	3,302	746	1,240	2,808	738	1,246	2,300	
Trial Court Improvement Fund	120,437	92,949	69,768	143,618	108,377	184,832	67,163	108,377	149,963	25,577	
Trial Court Trust Fund	53,516	1,052,852	1,023,343	83,025	1,147,056	1,204,261	25,820	1,153,561	1,171,751	7,630	
Unallocated Acct, Cig & Tob Pr Surtax	10,411	74,648	77,113	7,946	71,794	71,900	7,840	73,805	77,476	4,169	
Unallocated Acct,Child & Families Trust	11,538	12,492	8,852	15,178	12,171	19,922	7,427	12,505	19,932	-	
Underground Storage Tank Cleanup Fund	113,092	206,149	243,786	75,455	244,174	279,010	40,619	241,854	275,193	7,280	
Underground Storage Tank Fund	227	8	213	22	8	8	30	8	8	38	
Underground Storage Tank Tester Account	91	48	15	124	80	63	141	80	63	158	
Unfair Competition Law Fund	-	-	-	-	3,213	3,201	12	3,213	3,104	121	
Unified Program Account	2,058	4,606	3,266	3,398	4,627	3,478	4,547	4,627	3,941	5,233	
Universal Lifeline Telpne Svc Trst Admin	15,138	266,984	246,532	35,590	266,982	277,408	25,164	266,982	289,784	2,362	
Unlawful Sales Reduction Fund	-	55	-	55	55	-	110	55	-	165	
Upper Newport Bay Ecological Maint&Presv	200	-	-200	400	-	-200	600	-	-200	800	
Used Oil Recycling Fund, California	3,843	20,402	19,720	4,525	19,636	22,346	1,815	19,439	19,973	1,281	
Vectorborne Disease Account	123	53	44	132	49	43	138	49	45	142	
Vehicle Inspection and Repair Fund	35,464	115,596	104,797	46,263	116,083	114,572	47,774	118,105	113,269	52,610	
Vehicle License Collection Acct, LRF	-	14,000	14,000	-	14,000	14,000	-	14,000	14,000	-	
Vehicle License Fee Account	-	1,509,790	1,509,790	-	1,593,591	1,593,591	-	1,654,311	1,654,311	-	
Vehicle License Fee Growth Account	-	83,801	83,801	-	60,720	60,720	-	64,802	64,802	-	
Veterans Cemetery Perpetual Maint Fd	-	-	-	-	-	51	-51	-	53	-104	
Veterans Service Office Fund	678	533	491	720	535	598	657	562	604	615	

**SCHEDULE 10 -- Continued
SUMMARY OF FUND CONDITION STATEMENTS**
(Dollars in Thousands)

Fund	Reserves June 30, 2004	Actual Revenues 2004-05	Actual Expenditures 2004-05	Actual Expenditures June 30, 2005	Reserves June 30, 2005	Estimated Revenue 2005-06	Estimated Expenditures 2005-06	Reserves June 30, 2006	Estimated Revenues 2006-07	Estimated Expenditures 2006-07	Reserves June 30, 2007
Veterinary Medical Board Contingent Fund	932	1,748	1,501	1,179	1,742	1,958	963	1,755	2,302	416	
Victim - Witness Assistance Fund	743	15,279	15,905	117	18,248	16,726	1,639	18,459	17,896	2,202	
Victims of Corporate Fraud Compensation	1,734	1,626	-	3,360	1,626	1,600	3,386	1,626	1,624	3,388	
Vietnam Veterans Memorial Account	35	1	-	36	-	-	36	-	-	36	
Vocational Nurse Education Fund	-	137	19	118	147	138	127	147	137	137	
Vocational Nursing & Psychiatric Tech Fd	1,383	4,950	5,081	1,252	7,249	5,340	3,161	5,272	5,205	3,228	
Waste Discharge Permit Fund	13,392	58,463	57,611	14,244	58,730	58,992	13,982	61,139	70,102	5,019	
Water Device Certification Special Acct	418	289	163	544	240	206	578	250	208	620	
Water Fund, California	15,015	336	-	15,351	336	-	15,687	336	-	16,023	
Water Rights Fund	2,860	7,698	8,805	1,753	10,331	11,239	845	13,775	13,525	1,095	
Waterfowl Habitat Preservation Acct, Cal	3,138	68	49	3,157	71	220	3,008	88	225	2,871	
Welcome Center Fund	-	55	24	31	56	56	31	56	56	31	
Wildlife Restoration Fund	3,432	1,671	1,359	3,744	1,977	1,593	4,128	1,678	1,095	4,711	
Wine Safety Fund	255	-	48	207	-	55	152	-	56	96	
Winter Recreation Fund	230	343	342	231	325	347	209	325	357	177	
Work and Family Fund	2,703	-	2,354	349	-349	-	-	-	-	-	
Workers' Comp Administration Revolv Fund	26,621	169,151	124,362	71,410	153,134	154,429	70,115	152,634	157,303	65,446	
Workers' Compensation Managed Care Fund	1,048	89	102	1,035	-285	386	364	-16	347	1	
Workers' Compensation Return-to-Work Fd	-	-	-	-	-	-	-	-	500	-	
Workers' Occupational Sfty & Health Ed	1,294	1,283	1,069	1,508	1,200	1,211	1,497	1,200	1,223	1,474	
Workplace Health & Safety Revolving Fund	507	-	-	507	-	-	507	-	-	507	
Yosemite Foundation Acct, ELPF	239	958	955	242	972	840	374	972	844	502	
Totals, Special Funds	\$4,782,258	\$22,252,296	\$22,191,738	\$4,842,816	\$24,479,221	\$25,399,652	\$3,922,385	\$24,618,371	\$25,023,542	\$3,517,214	
GRAND TOTALS	\$12,010,332	\$104,461,785	\$101,995,722	\$14,476,395	\$112,170,578	\$115,693,354	\$10,953,619	\$116,163,235	\$122,925,379	\$4,191,475	

SCHEDULE 11
STATEMENT OF GENERAL OBLIGATION BOND & COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA
(Dollars in Thousands)

(This statement does not include bonds issued under authority of state instrumentalities that are not general obligations of the State of California)

Fund	Bond Act	Final Maturity	General Obligation Bonds					Proposed Sales		Commercial Paper	
			As of December 31, 2005	Unissued	Outstanding	Redeemed	Jan-Jun 2006	Jul-Dec 2006	As of December 31, 2005	Finance Cmte. Authorization	Outstanding
LEGISLATIVE, JUDICIAL, EXECUTIVE											
6032	Voting Modernization (2002)	2035	\$200,000	\$137,370	\$43,880	\$18,750	\$40,198	\$23,196	\$137,370	-	\$0
Total, Legislative, Judicial, Executive											
BUSINESS, TRANSPORTATION & HOUSING											
0703	Clean Air & Transp Improv (1990)	2035	\$1,990,000	\$210,915	\$1,253,860	\$525,225	\$3,794	\$2,730	\$195,285	-	-
0714	Housing & Homeless (1990)	2023	150,000	-	5,540	144,460	-	-	-	-	-
6037	Housing and Emergency Shelter (2002)	2035	2,100,000	2,071,125	28,875	-	22,018	9,504	951,125	-	-
0756	Passenger Rail & Clean Air (1990)	2022	1,000,000	-	496,595	503,405	-	-	-	-	-
0653	Seismic Retrofit (1996)	2035	2,000,000	143,870	1,640,405	215,725	22,905	14,803	143,870	-	-
Total, Business, Transportation & Housing											
NATURAL RESOURCES											
0722	Ca Park & Recreational Facil (1984)	2027	\$370,000	\$1,100	\$86,215	\$282,685	-	-	-	-	-
0721	Ca Parklands (1980)	2024	285,000	-	15,640	269,360	-	-	-	-	-
0707	Ca Safe Drinking Water (1976)	2027	175,000	2,500	27,130	145,370	-	-	-	-	-
0707	Ca Safe Drinking Water (1984)	2027	75,000	-	17,335	57,665	-	-	-	-	-
0707	Ca Safe Drinking Water (1986)	2030	100,000	-	50,550	49,450	-	-	-	-	-
0793	Ca Safe Drinking Water (1988)	2033	75,000	6,975	45,090	22,935	\$9	\$5	\$6,975	-	-
6001	Ca Safe Drinking Water (2000)	2035	1,870,000	1,155,607	777,610	36,783	186,266	92,748	687,659	-	-
0796	Ca Wildlife, Coast, & Park Land Cons (1988)	2032	776,000	-	332,415	436,255	-	-	-	-	-
0734	Clean Water (1970)	2011	250,000	7,330	3,000	247,000	-	-	-	-	-
0734	Clean Water (1974)	2011	250,000	-	6,105	243,895	-	-	-	-	-
0740	Clean Water (1984)	2024	325,000	-	57,120	267,880	-	-	-	-	-
6029	Clean Water, Clean Air, and Parks (2002)	2035	2,600,000	2,106,770	491,125	2,105	269,468	167,055	1,033,360	-	-
0716	Community Parklands (1986)	2022	100,000	-	29,875	70,125	-	-	-	-	-
0748	Fish & Wildlife Habitat Enhance (1984)	2033	85,000	-	19,215	65,785	-	-	-	-	-
0720	Lake Tahoe Acquisitions (1982)	2017	85,000	-	17,130	67,870	-	-	-	-	-
0402	Safe, Clean, Reliable Water Supply (1996)	2035	995,000	336,430	606,755	51,815	126,439	72,082	336,430	-	\$30,000
0005	Safe Neighborhood Parks (2000)	2035	2,100,000	799,415	1,261,700	38,885	109,711	32,515	233,790	-	-
0742	State, Urban & Coastal Park (1976)	2029	280,000	-	10,390	269,610	-	-	-	-	-
0744	Water Conserv & Water Quality (1986)	2031	150,000	27,600	58,295	64,105	478	135	6,800	-	-
0790	Water Conserv (1988)	2033	60,000	9,525	36,855	13,620	-	-	-	-	-
Total, Natural Resources											
			\$11,106,000	\$4,453,252	\$3,949,550	\$2,703,198	\$692,371	\$364,540	\$2,294,539	\$30,000	-
ENVIRONMENTAL PROTECTION											
0737	Clean Water & Water Conserv (1976)	2028	\$375,000	-	\$18,730	\$356,270	-	-	-	-	-
0764	Clean Water & Water Reclam (1986)	2029	65,000	-	41,970	23,030	-	-	-	-	-
0710	Hazardous Substance Cleanup (1984)	2005	100,000	-	-	100,000	-	-	-	-	-
6031	Water Security, Coastal & Beach Protection (2002)	2035	3,440,000	\$2,800,700	633,145	6,155	\$186,086	\$109,770	\$692,800	\$9,000	-
Total, Environmental Protection											
			\$3,980,000	\$2,800,700	\$683,845	\$485,455	\$186,086	\$109,770	\$692,800	\$9,000	-
HEALTH AND HUMAN SERVICES											
6046	Children's Hospital Projects (2004)	2006	\$750,000	\$750,000	-	\$47,750	\$188,876	\$106,585	\$588,571	\$45,000	-
0729	Senior Center (1984)	2006	50,000	-	\$2,250	\$47,750	\$188,876	\$106,585	\$588,571	\$45,000	-
Total, Health and Human Services											
			\$800,000	\$750,000	\$2,250	\$47,750	\$188,876	\$106,585	\$588,571	\$45,000	-
CORRECTIONS AND REHABILITATION											
0711	Co Corr Facil Cap Expend (1986)	2022	\$495,000	-	\$154,930	\$340,070	-	-	-	-	-
0796	Co Corr Facil Cap Expend (1988)	2030	500,000	-	253,455	246,545	-	-	-	-	-
0725	Co Jail Cap Expend (1981)	2011	280,000	-	27,400	252,600	-	-	-	-	-
0727	Co Jail Cap Expend (1984)	2009	250,000	-	22,000	228,000	-	-	-	-	-
0723	New Prison Construction (1981)	2006	495,000	-	9,750	485,250	-	-	-	-	-
0724	New Prison Construction (1984)	2006	300,000	-	7,500	292,500	-	-	-	-	-
0746	New Prison Construction (1986)	2034	500,000	-	118,070	381,930	-	-	-	-	-
0747	New Prison Construction (1988)	2035	817,000	\$7,475	348,090	461,435	\$2,713	\$816	\$7,475	\$285	-
0751	New Prison Construction (1990)	2021	450,000	2,605	193,310	254,085	1,473	415	\$7,475	\$205	-
Total, Corrections and Rehabilitation											
			\$4,087,000	\$10,080	\$1,134,505	\$2,942,415	\$4,186	\$1,231	\$9,782	\$490	-

**SCHEDULE 11
STATEMENT OF GENERAL OBLIGATION BOND & COMMERCIAL PAPER DEBT OF THE STATE OF CALIFORNIA**
(Dollars in Thousands)

(This statement does not include bonds issued under authority of state instrumentalities that are not general obligations of the State of California)

Fund	Bond Act	Final Maturity	General Obligation Bonds					Proposed Sales		Commercial Paper	
			Authorized	Unissued	Outstanding	Redeemed	Jan-Jun 2006	Jul-Dec 2006	As of December 31, 2005 Finance Cmts. Authorization	As of December 31, 2005 Total Outstanding	
EDUCATION-K-12											
0794	Ca Library Const. & Renov (1988)	2031	\$75,000	\$2,595	\$40,475	\$31,930	-	-	-	-	
6000	Ca Library Const. & Renov (2000)	2035	350,000	304,240	45,700	60	\$25,704	\$16,369	\$68,290	\$11,000	
0119	Class Size Reduction K-U Pub. Ed. Facil (1998) K-12	2034	6,700,000	1,860	6,127,530	560,610	2,239	3,238	11,860	-	
0657	Public Education Faci (1986) K-12	2035	2,025,000	12,965	1,592,265	419,770	6,108	4,129	12,965	-	
6036	Public Education Faci (2002) K-12	2035	11,400,000	2,076,065	9,275,415	48,520	835,725	563,957	2,076,065	128,000	
6044	Public Education Faci (2004) K-12	2035	10,000,000	8,670,575	1,329,425	-	1,346,310	955,348	8,670,575	372,010	
0739	School Bldg & Earthquake (1974)	2026	40,000	-	27,965	-	-	-	-	-	
0789	School Facilities (1988)	2011	800,000	-	308,980	491,010	-	-	-	-	
0708	School Facilities (1990)	2033	800,000	-	419,000	381,000	-	-	-	-	
0745	School Facilities (1992)	2033	1,900,000	-	1,060,975	823,970	5,273	2,189	15,055	1,500	
0743	State Sch Bldg Lease-Purch (1982)	2005	500,000	-	-	500,000	-	-	-	-	
0743	State Sch Bldg Lease-Purch (1984)	2011	450,000	-	57,500	392,500	-	-	-	-	
0743	State Sch Bldg Lease-Purch (1986)	2011	800,000	-	186,800	613,200	-	-	-	-	
0776	1988 School Faci Bond Act (Nov)	2033	800,000	2,255	356,485	441,260	689	259	2,255	-	
0774	1990 School Faci Bond Act (Jun)	2033	900,000	2,125	375,535	422,340	955	380	2,125	-	
0765	1992 School Faci Bond Act (Nov)	2033	800,000	4,789	514,932	380,279	2,082	680	4,789	1,000	
	Total, Education-K-12		\$38,340,000	\$11,102,524	\$21,719,012	\$5,518,464	\$2,227,085	\$1,566,549	\$10,863,979	\$513,510	
HIGHER EDUCATION											
0574	Class Size Reduction K-U Pub. Ed. Facil (1998) HI-Ed	2035	\$2,500,000	\$134,600	\$2,276,115	\$89,285	-	-	\$134,600	-	
0782	Higher Education Faci (1986)	2011	400,000	-	83,500	316,500	-	\$31,513	-	-	
0785	Higher Education Faci (1988)	2033	600,000	10,440	253,915	335,645	-	-	-	-	
0791	Higher Education Faci (Jun 1990)	2033	450,000	2,110	210,630	237,260	-	-	980	-	
0705	Higher Education Faci (Jun 1992)	2033	900,000	7,235	592,235	300,530	-	-	-	-	
0658	Public Education Faci (1986) HI-Ed	2033	975,000	37,465	815,425	122,110	596	168	28,765	-	
6028	Public Education Faci (2002) HI-Ed	2035	1,650,000	1,200,375	447,130	2,495	345,107	159,585	784,375	-	
6041	Public Education Faci (2004) HI-Ed	2035	2,300,000	2,284,185	15,815	-	213,006	117,735	710,661	\$4,000	
6047	Stem Cell Research and Cures (2004)	2035	3,000,000	3,000,000	-	-	-	-	200,000	-	
	Total, Higher Education		\$12,775,000	\$6,676,410	\$4,694,765	\$1,403,825	\$590,222	\$292,407	\$1,859,381	\$4,000	
GENERAL GOVERNMENT											
0788	Earthquake Safety & Public Bldg. Rehab (1990)	2035	\$300,000	\$34,940	\$211,280	\$53,770	\$14,288	\$5,868	\$34,940	-	
0701	Veterans' Homes (2000)	2013	50,000	46,920	3,080	-	7,971	2,617	41,920	-	
	Total, General Government		\$350,000	\$81,860	\$214,370	\$53,770	\$22,259	\$8,685	\$76,860	\$0	
	Total, All Agencies		\$78,878,000	\$28,438,106	\$35,877,452	\$14,562,442	\$4,000,000	\$2,500,000	\$17,813,562	\$602,000	
SELF-LIQUIDATING BONDS¹											
	Ca Water Resources Dev (1959)	2024	\$1,750,000	\$167,600	\$702,555	\$879,845	-	-	-	-	
	The Economic Recovery Bond Act	2023	15,000,000	4,103,920	10,383,200	512,880	-	-	-	-	
	Veterans Bonds	2036	4,510,000	485,585	1,313,790	2,710,625	-	-	\$115,570	\$37,950	
	Total, Self-Liquidating Bonds		\$21,260,000	\$4,757,105	\$12,399,545	\$4,103,350	\$0	\$0	\$115,570	\$37,950	
	Total		\$100,138,000	\$33,195,211	\$48,276,997	\$18,665,792	\$4,000,000	\$2,500,000	\$17,929,132	\$639,950	

¹ The California Water Resource Development Bond Act, The Economic Recovery Bond Act, and the Veterans Bond Acts are public service enterprises that have their own revenues to finance their respective debt service expenditures.
Source: State Treasurer's Office

SCHEDULE 12A
STATE APPROPRIATIONS LIMIT SUMMARY
(Dollars in Millions)

	2004-05			2005-06			2006-07		
	General Fund	Special Funds	Total	General Fund	Special Funds	Total	General Fund	Special Funds	Total
Schedule 8									
Revenues and Transfers	\$82,209	\$22,252	\$104,461	\$87,691	\$24,480	\$112,171	\$91,545	\$24,618	\$116,163
Less/Add: Transfers	-234	243	9	14	67	81	433	-358	75
Schedule 12B									
Less: Revenues to Excluded Funds	--	-9,657	-9,657	--	-10,669	-10,669	--	-9,882	-9,882
Schedule 12C									
Less: Non-Tax Revenues to Included Funds	-1,647	-506	-2,153	-2,291	-481	-2,772	-1,623	-416	-2,039
Schedule 12D									
Add: Transfers from Excluded to Included Funds	35	4	39	15	4	19	15	4	19
TOTAL, SAL REVENUES AND TRANSFERS	\$80,363	\$12,336	\$92,699	\$85,429	\$13,401	\$98,830	\$90,370	\$13,966	\$104,336
Schedule 12E									
Less: Exclusions	-33,923	-5,270	-39,193	-39,398	-5,784	-45,182	-41,896	-6,205	-48,101
TOTAL, SAL APPROPRIATIONS			\$53,506			\$53,648			\$56,235
CALCULATION OF LIMIT ROOM									
Appropriations Limit (Sec. 12.00)			\$64,588			\$68,890			\$72,128
Less: Total SAL Appropriations			-53,506			-53,648			-56,235
Appropriation Limit Room/(Surplus)			\$11,082			\$15,242			\$15,893

**SCHEDULE 12B
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)**

<i>Source Code</i>	<i>Source</i>	<i>Actual 2004-05</i>	<i>Estimated 2005-06</i>	<i>Proposed 2006-07</i>
MAJOR REVENUES:				
110500	Cigarette Tax	\$953,229	\$925,100	\$954,115
110900	Horse Racing Fees-Licenses	22,557	22,600	22,600
111300	Horse Racing Miscellaneous	13,279	13,300	13,300
114300	Other Motor Vehicle Fees	2,193	2,200	2,200
114900	Retail Sales and Use Taxes	140,000	-	-
115400	Mobilehome In-Lieu Tax	2,388	2,388	2,388
TOTAL, MAJOR TAXES AND LICENSES		\$1,133,646	\$965,588	\$994,603
MINOR REVENUES:				
REGULATORY TAXES AND LICENSES:				
120200	General Fish and Game Taxes	1,409	1,397	1,396
120300	Energy Resource Surcharge	569,116	558,809	564,727
120600	Quarterly Public Utility Commission Fees	76,216	47,544	86,016
120900	Off-Highway Vehicle Fees	4,377	3,500	3,500
121000	Liquor License Fees	44,975	44,975	45,612
121100	Genetic Disease Testing Fees	69,868	78,538	79,556
121200	Other Regulatory Taxes	88,812	95,775	99,190
121300	New Motor Vehicle Dealer License Fee	1,461	1,674	1,686
121500	General Fish and Game Lic Tags Permits	76,285	81,489	83,964
121600	Duck Stamps	23	20	19
122400	Elevator and Boiler Inspection Fees	12,313	15,010	16,196
122700	Employment Agency License Fees	5,136	4,762	4,793
122900	Teacher Credential Fees	12,746	12,134	12,134
123000	Teacher Examination Fees	3,913	4,181	4,129
123100	Insurance Co License Fees & Penalties	33,189	34,557	35,370
123200	Insurance Company Examination Fees	20,597	18,047	18,846
123400	Real Estate Examination Fees	9,428	9,027	9,100
123500	Real Estate License Fees	24,472	25,361	26,900
123600	Subdivision Filing Fees	11,037	10,319	10,100
123800	Building Construction Filing Fees	4,813	4,561	4,664
124100	Domestic Corporation Fees	12,519	12,519	12,519
124200	Foreign Corporation Fees	1,111	1,111	1,111
124300	Notary Public License Fees	2,485	2,485	3,500
124400	Filing Financing Statements	3,207	3,207	3,207
125100	Beverage Container Redemption Fees	895,219	941,296	974,998
125200	Explosive Permit Fees	1	1	1
125300	Processing Fees	1	1	1
125400	Environmental and Hazardous Waste Fees	64,720	63,299	64,288
125600	Other Regulatory Fees	1,830,811	1,925,561	1,939,539
125700	Other Regulatory Licenses and Permits	342,230	394,943	482,832
125800	Renewal Fees	160,129	164,614	176,241
125900	Delinquent Fees	4,593	4,805	4,925
127100	Insurance Department Fees, Prop 103	24,853	26,452	24,593
127200	Insurance Department Fees, General	25,273	21,547	20,679
127300	Insurance Fraud Assessment, Workers Comp	33,916	37,672	36,672
127400	Insurance Fraud Assessment, Auto	38,850	39,855	40,652
127500	Insurance Fraud Assessment, General	3,819	4,333	4,333
TOTAL, REGULATORY TAXES AND LICENSES		\$4,513,923	\$4,695,381	\$4,897,989
REVENUE FROM LOCAL AGENCIES:				
130600	Architecture Public Building Fees	38,217	38,496	40,777
130700	Penalties on Traffic Violations	92,964	93,796	95,219
130800	Penalties on Felony Convictions	59,141	60,915	63,443
130900	Fines-Crimes of Public Offense	4,397	4,470	5,048
131000	Fish and Game Violation Fines	570	570	570
131100	Penalty Assessments on Fish & Game Fines	540	648	650
131200	Interest on Loans to Local Agencies	12	17	28
131300	Add'l Assmnts on Fish & Game Fines	73	77	77
131600	Fingerprint ID Card Fees	57,802	60,802	68,402
131700	Misc Revenue From Local Agencies	487,015	486,956	486,892
TOTAL, REVENUE FROM LOCAL AGENCIES		\$740,731	\$746,747	\$761,106
SERVICES TO THE PUBLIC:				
140600	State Beach and Park Service Fees	72,081	77,700	77,700
140900	Parking Lot Revenues	8,988	7,524	6,915
141100	Emergency Telephone Users Surcharge	128,463	124,901	124,901
141200	Sales of Documents	5,005	866	880
142000	General Fees--Secretary of State	25,470	25,470	25,159
142200	Parental Fees	1,801	1,800	1,800
142500	Miscellaneous Services to the Public	163,156	109,793	38,728
142800	California State University Fees	1,098,122	1,205,292	1,231,304
143000	Personalized License Plates	46,229	48,935	49,918

**SCHEDULE 12B -- Continued
REVENUES TO EXCLUDED FUNDS
(Dollars In Thousands)**

<i>Source Code</i>	<i>Source</i>	<i>Actual 2004-05</i>	<i>Estimated 2005-06</i>	<i>Proposed 2006-07</i>
	TOTAL, SERVICES TO THE PUBLIC	\$1,549,315	\$1,602,281	\$1,557,305
	USE OF PROPERTY AND MONEY:			
150200	Income From Pooled Money Investments	153	153	153
150300	Income From Surplus Money Investments	82,424	75,130	77,379
150400	Interest Income From Loans	1,574	904	705
150500	Interest Income From Interfund Loans	290	4,603	3,812
150600	Income From Other Investments	12,434	5,353	1,883
151200	Income From Condemnation Deposits Fund	1	1	1
151800	Federal Lands Royalties	16,867	16,962	17,619
152200	Rentals of State Property	5,817	5,836	4,014
152300	Misc Revenue Frm Use of Property & Money	19,637	20,959	12,409
152400	School Lands Royalties	47	48	58
152500	State Lands Royalties	13,200	10,195	-
	TOTAL, USE OF PROPERTY AND MONEY	\$152,444	\$140,144	\$118,033
	MISCELLANEOUS:			
160100	Attorney General Proceeds of Anti-Trust	10	1,224	1,224
160200	Penalties & Interest on UI & DI Contrib	98,044	98,817	98,813
160400	Sale of Fixed Assets	92,996	55,486	50
160600	Sale of State's Public Lands	333	1,563	6,520
161000	Escheat of Unclaimed Checks & Warrants	814	718	715
161200	Sales of Forest Products	3	-	-
161400	Miscellaneous Revenue	416,882	279,309	287,253
161500	Bond Proceeds	-	1,000,000	-
161800	Penalties & Intrst on Personal Income Tx	14,083	13,664	13,628
161900	Other Revenue - Cost Recoveries	84,926	87,257	101,622
163000	Settlements/Judgments(not Anti-trust)	496	5,307	5,307
164100	Traffic Violations	2,510	2,510	2,510
164200	Parking Violations	1,182	460	435
164300	Penalty Assessments	86,580	88,550	90,427
164400	Civil & Criminal Violation Assessment	12,123	159,217	211,017
164600	Fines and Forfeitures	310,585	262,728	255,894
164700	Court Filing Fees and Surcharges	376,454	393,438	408,970
164800	Penalty Assessments on Criminal Fines	68,514	69,029	69,029
	TOTAL, MISCELLANEOUS	\$1,566,535	\$2,519,277	\$1,553,414
	TOTAL, MINOR REVENUES	\$8,522,948	\$9,703,830	\$8,887,847
	TOTALS, Revenue to Excluded Funds (MAJOR and MINOR)	\$9,656,594	\$10,669,418	\$9,882,450

**SCHEDULE 12C
NON-TAX REVENUES IN FUNDS SUBJECT TO LIMIT
(Dollars In Thousands)**

Source Code	Source	Actual 2004-05		Estimated 2005-06		Proposed 2006-07	
		General Fund	Special Fund	General Fund	Special Fund	General Fund	Special Fund
MAJOR REVENUES:							
111100	Horse Racing Fines and Penalties	\$177	-	\$180	-	\$180	-
111200	Horse Racing Fees-Unclaimed P-M Tickets	390	-	320	-	320	-
111300	Horse Racing Miscellaneous	-	-	5	-	5	-
114200	Driver's License Fees	-	213,396	-	231,000	-	158,000
114300	Other Motor Vehicle Fees	-	38,923	-	40,026	-	41,026
114400	Identification Card Fees	-	22,012	-	25,000	-	29,000
114500	Lien Sale Application Fees	-	1,609	-	1,641	-	1,674
Total, MAJOR TAXES AND LICENSES		\$567	\$275,940	\$505	\$297,667	\$505	\$229,700
MINOR REVENUES:							
REGULATORY TAXES AND LICENSES:							
120800	Hwy Carrier Uniform Business License Tax	315	-	5,435	-	5,690	-
120900	Off-Highway Vehicle Fees	-	5,637	-	6,000	-	7,000
121000	Liquor License Fees	-	388	-	388	-	388
122400	Elevator and Boiler Inspection Fees	212	-	223	-	223	-
122600	Industrial Homework Fees	2	-	2	-	2	-
122700	Employment Agency License Fees	718	-	685	-	685	-
122800	Employment Agency Filing Fees	83	-	90	-	90	-
124500	Candidate Filing Fee	24	-	24	-	24	-
125200	Explosive Permit Fees	-	-	25	-	25	-
125600	Other Regulatory Fees	145,907	2,732	482,587	2,811	499,246	2,892
125700	Other Regulatory Licenses and Permits	39,915	31,812	40,202	31,983	1,631	32,896
125800	Renewal Fees	114	-	135	-	114	-
125900	Delinquent Fees	20	-	10	-	10	-
Total, REGULATORY TAXES AND LICENSES		\$187,310	\$40,569	\$529,418	\$41,182	\$507,740	\$43,176
REVENUE FROM LOCAL AGENCIES:							
131500	Narcotic Fines	7,537	-	2,500	-	2,500	-
131700	Misc Revenue From Local Agencies	291,278	478	300,702	575	297,050	575
131900	Rev Local Govt Agencies-Cost Recoveries	1,792	9,733	22,745	9,800	21,070	9,850
Total, REVENUE FROM LOCAL AGENCIES		\$300,607	\$10,211	\$325,947	\$10,375	\$320,620	\$10,425
SERVICES TO THE PUBLIC:							
140100	Pay Patients Board Charges	19,165	-	15,583	-	14,166	-
140900	Parking Lot Revenues	-	493	-	507	-	522
141000	Fire Prevention and Suppression	-	-	100	-	100	-
141200	Sales of Documents	260	4,442	316	5,144	316	5,249
142000	General Fees--Secretary of State	28	-	28	-	28	-
142300	Guardianship Fees	4	-	5	-	5	-
142500	Miscellaneous Services to the Public	2,432	65,722	2,831	67,000	2,830	68,000
142600	Receipts From Health Care Deposit Fund	8,000	-	8,000	-	8,000	-
142700	Medicare Receipts Frm Federal Government	5,927	-	8,427	-	11,483	-
143000	Personalized License Plates	-	8	-	10	-	10
Total, SERVICES TO THE PUBLIC		\$35,816	\$70,665	\$35,290	\$72,661	\$36,928	\$73,781
USE OF PROPERTY AND MONEY:							
152000	Oil & Gas Lease-1% Revenue City/County	384	-	400	-	400	-
152200	Rentals of State Property	8,720	35,181	9,250	29,326	11,174	30,341
152300	Misc Revenue Frm Use of Property & Money	30,735	55,566	28,522	16,773	28,522	16,260
152500	State Lands Royalties	174,919	-	230,105	-	228,505	-
Total, USE OF PROPERTY AND MONEY		\$214,758	\$90,747	\$268,277	\$46,099	\$268,601	\$46,601
MISCELLANEOUS:							
160400	Sale of Fixed Assets	21,666	-	2,248	-	14	-
160500	Sale of Confiscated Property	5,496	-	5,585	-	5,585	-
160600	Sale of State's Public Lands	-	413	-	75	-	79
160700	Proceeds From Estates of Deceased Person	-	-	320	-	70	-
160900	Revenue-Abandoned Property	657,759	-	324,970	-	309,515	-
161000	Escheat of Unclaimed Checks & Warrants	29,260	9,082	27,645	2,057	27,645	2,050
161400	Miscellaneous Revenue	137,278	4,675	103,632	6,764	89,162	6,412
161500	Bond Proceeds	-	-	525,000	-	-	-
161900	Other Revenue - Cost Recoveries	332	-	35	-	35	-
163000	Settlements/Judgments(not Anti-trust)	5,068	-	102,746	-	20,001	-
164000	Uninsured Motorist Fees	2,493	637	2,400	612	2,400	624
164200	Parking Violations	8,118	-	8,001	-	8,001	-
164300	Penalty Assessments	39,779	72	28,050	74	26,046	76
164400	Civil & Criminal Violation Assessment	548	3,036	537	3,124	537	3,214
Total, MISCELLANEOUS		\$907,797	\$17,915	\$1,131,169	\$12,706	\$489,011	\$12,455
TOTAL, MINOR REVENUES		\$1,646,288	\$230,107	\$2,290,101	\$183,023	\$1,622,900	\$186,438
TOTALS, Non-Tax Revenue (MAJOR and MINOR)		\$1,646,855	\$506,047	\$2,290,606	\$480,690	\$1,623,405	\$416,138

**SCHEDULE 12D
STATE APPROPRIATIONS LIMIT
TRANSFER FROM EXCLUDED FUNDS TO INCLUDED FUNDS
(Dollars in Thousands)**

	<i>Actual 2004-05</i>		<i>Estimated 2005-06</i>		<i>Proposed 2006-07</i>	
	<i>General Fund</i>	<i>Special Fund</i>	<i>General Fund</i>	<i>Special Fund</i>	<i>General Fund</i>	<i>Special Fund</i>
From Emergency Telephone Number Acct, State (0022) to General Fund (0001) (per Section 6.60, Budget Act of 2004)	\$17	-	-	-	-	-
From Corporations Fund, State (0067) to General Fund (0001) per Item 2180-011-0067, Budget Act of 2004)	\$1,500	-	-	-	-	-
From Energy and Resources Fund (0188) to General Fund (0001) per Public Resources Code Section 26042.4)	\$998	-	-	-	-	-
From Fair and Exposition Fund (0191) to General Fund (0001) per Item 8570-011-0191, Budget Acts of 2004, 2005 and 2006)	\$246	-	\$246	-	\$246	-
From Business Fees Fund, Secty of State's (0228) to General Fund (0001) (per Government Code Section 12176)	\$17,619	-	\$15,113	-	\$15,187	-
From Technical Assistance Fund (0270) to General Fund (0001) (per Government Code Section 22877(d)(5))	\$11	-	\$11	-	\$11	-
From Residential Earthquake Recovery Fund, CA (0285) to General Fund (0001) per Item 0845-011-0285, Budget Act of 2004)	\$2,900	-	-	-	-	-
From Energy Resources Programs Account (0465) to General Fund (0001) per Item 3360-011-0465, Budget Act of 2004)	\$12,000	-	-	-	-	-
From Environmental License Plate Fund, Calif (0140) to Motor Vehicle Account, STF (0044) (per Public Resources Code Section 21191)	-	\$3,890	-	\$3,890	-	\$3,890
TOTALS	\$35,291	\$3,890	\$15,370	\$3,890	\$15,444	\$3,890

**SCHEDULE 12E
STATE APPROPRIATIONS LIMIT
EXCLUDED APPROPRIATIONS
(Dollars in Millions)**

<u>Budget</u>	<u>Fund</u>	<u>Actual 2004-05</u>	<u>Estimated 2005-06</u>	<u>Estimated 2006-07</u>
DEBT SERVICE:				
9600 Bond Interest and Redemption				
(9600-510-0001)	General	\$2,984	\$3,170	\$3,554
(9590-501-0001)	General	2	2	4
9618 Economic Recovery Bond Debt Service	Special	1,172	1,526	1,875
TOTAL -- DEBT SERVICE		<u>\$4,158</u>	<u>\$4,698</u>	<u>\$5,433</u>
QUALIFIED CAPITAL OUTLAY:				
Various (Ch. 3 Except DOT)	General	\$45	\$131	\$193
Various (Ch. 3 Except DOT)	Special	12	26	77
Various Qualified Capital Outlay	General	333	1,925	2,150
Various Qualified Capital Outlay	Special	--	103	--
Lease-Revenue Bonds (Capital Outlay)	General	533	622	618
Lease-Revenue Bonds (Capital Outlay)	Special	28	16	16
TOTAL -- CAPITAL OUTLAY		<u>\$951</u>	<u>\$2,823</u>	<u>\$3,054</u>
SUBVENTIONS:				
6110 K-12 Apportionments (6110-601-0001)	General	\$19,179	\$20,288	\$22,198
6110 K-12 Supplemental Instruction (6110-104/664-0001)	General	361	377	401
6110 K-12 Class Size Reduction (6110-234-0001)	General	1,621	1,660	1,751
6110 K-12 ROCP (6110-105/633-0001)	General	356	418	454
6110 K-12 Apprenticeships (6110-103/663/620-0001)	General	16	17	18
6110 Charter Sch Block Grant (6110-211/621/613-0001)	General	57	67	104
State Subventions Not Counted in Schools' Limit	General	-174	-184	-191
6110 County Offices (6110-608-0001)	General	239	251	271
6870 Community Colleges (6870-101/103/295-0001)	General	3,043	3,450	3,950
SUBVENTIONS -- EDUCATION		<u>\$24,698</u>	<u>\$26,344</u>	<u>\$28,956</u>
5195 State-Local Realignment				
Vehicle License Collection Account	Special	\$14	\$14	\$14
Vehicle License Fees	Special	1,591	1,652	1,716
9100 Tax Relief (9100-101-0001, Programs 60, 90)	General	473	480	480
9210 Local Government Financing				
(9210-601-0001)	General	38	40	40
(9210-106-0001)	General	--	1,187	--
9350 Shared Revenues				
(9430-640-0064)	Special	283	250	250
(9430-601-0001) Trailer VLF GF backfill (Shared Rev.)	General	--	12	12
SUBVENTIONS -- OTHER		<u>\$2,399</u>	<u>\$3,635</u>	<u>\$2,512</u>
COURT AND FEDERAL MANDATES:				
Various Court and Federal Mandates (HHS)	General	\$2,904	\$3,006	\$3,142
Various Court and Federal Mandates	General	1,730	2,303	2,571
Various Court and Federal Mandates	Special	155	189	191
TOTAL -- MANDATES		<u>\$4,789</u>	<u>\$5,498</u>	<u>\$5,904</u>
PROPOSITION 111:				
PTA Gasoline (Including Spillover)	Special	\$67	\$67	\$68
Motor Vehicle Fuel Tax: Gasoline	Special	1,393	1,379	1,413
Motor Vehicle Fuel Tax: Diesel	Special	264	264	272
Weight Fee Revenue	Special	291	298	313
TOTAL -- PROPOSITION 111		<u>\$2,015</u>	<u>\$2,008</u>	<u>\$2,066</u>
TAX REFUND:				
9100 Tax Relief (9100-101-0001, Programs 10, 30, 50)	General	\$183	\$176	\$176
TOTAL -- TAX RELIEF		<u>\$183</u>	<u>\$176</u>	<u>\$176</u>
TOTAL EXCLUSIONS:				
		<u>\$39,193</u>	<u>\$45,182</u>	<u>\$48,101</u>
<i>General Fund</i>		\$33,923	\$39,398	\$41,896
<i>Special Funds</i>		\$5,270	\$5,784	\$6,205