

S T A T E O F C A L I F O R N I A



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**CALIFORNIA**

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# State Budget

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## 2005-06

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### **Budget Highlights**

With the signing of the 2005 Budget Act, Governor Schwarzenegger has approved a state spending plan that maintains and restores investments in key areas—while at the same time continuing to move the state toward structural balance. The budget was enacted at the earliest date in the last five years.

When he submitted his revised budget to the Legislature in May, the Governor put forward five principles that were essential for the state's next budget:

- No new taxes.
- No new borrowing.
- Providing the largest single increase in the Budget for education.
- Improving roads and bridges throughout California by fully funding Proposition 42.
- Paying down the state's future debt by providing cities and counties funds that are owed to them one year earlier than state law requires.

The 2005 Budget Act fulfills each of these five principles.

In addition to having no new taxes or new borrowing and fully funding Proposition 42, the Budget Act provides a year-over-year increase of



## Budget Highlights

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more than \$3 billion for K-14 education for a total of nearly \$50 billion. For the six million students in California's K-12 schools, per-pupil spending from all sources will exceed \$10,000 for the first time.

In addition, as a result of the Governor's agreement with legislative leaders, the Budget Act goes beyond the May Revision and fully repays local governments \$1.2 billion owed to them—one year earlier than required under state law. In addition to providing early financial relief for city and county governments, this full repayment makes progress on next year's budget by taking this \$1.2 billion off of next year's books.

The Governor's signature on the 2005 Budget Act comes at a time when California's economy continues to improve, as seen in several key indicators:

- Industry employment reached a new record high in May 2005 by surpassing the previous peak employment level reached in March 2001—just before the 2001 national recession. More than 252,000 new jobs were created in 2004 and another 93,000 in the first five months of 2005.
- The state's unemployment rate fell to 5.3 percent in May 2005, a full percentage point lower than at the same time a year ago, and the lowest rate since June 2001.
- Inflation-adjusted Gross State Product grew by 5.1 percent in 2004, the strongest pace since 2000, and the 11<sup>th</sup> fastest among the 50 states.
- California personal income was 7.1 percent higher in the first quarter of 2005 than a year earlier, a rate of growth that exceeded the nation's growth rate.
- Statewide taxable sales were 7 percent higher in the fourth quarter of 2004 than a year earlier.

While the 2005 Budget Act marks substantial and continuing progress toward structural balance, the state's budget system is still projected to produce deficits in future years—if left unchecked. Governor Schwarzenegger will continue his efforts to secure approval of fundamental structural budget reforms at the November 2005 special election that is essential to keep California living within its means.

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## Education

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### K-12 Education

California is making a greater investment in the education of its children than ever before. The Budget agreement for 2005-06 reached by the Legislature and the Administration increases Proposition 98 K-14 education funding by over \$3 billion, to nearly \$50 billion, including set-asides. This exceeds the minimum funding requirement of Proposition 98 by over \$740.9 million, and the General Fund contribution is over 40 percent of the state's General Fund budget. From all sources, total per pupil spending in 2005-06 will exceed \$10,000 for the first time, at \$10,325. The Budget fully funds cost-of-living (COLA) and student growth for K-14 education, restores approximately half of the general purpose revenue limit funding reductions reflected in prior budgets, and provides over \$70 million for the repayment of prior-year mandated costs for school districts and community colleges.

As shown in Figure K-12-1, the Budget reflects a calculation that the Proposition 98 settle-up obligation for 2003-04 should be measured at \$584 million. It also reflects savings of \$3.8 billion in 2004-05, which will be restored to the Proposition 98 budget in future years as General Fund revenue growth exceeds personal income growth. The Budget also includes \$16.8 million in payments toward prior year Proposition 98 obligations dating back to 1995-96, which will be supplemented beginning in 2006-07 by annual payments of \$150 million per year until the estimated \$1.3 billion in such obligations are fully repaid.

**Figure K-12-1**

### Proposition 98 (Dollars in Thousands)

	2003-04	2004-05	2005-06
General Fund	30,529,463	34,009,289	36,590,833
Local Revenue	15,762,333	12,932,043	13,376,787
Total Funded Guarantee	46,291,796	46,941,332	49,967,620
Base Guarantee Level	46,875,655	50,768,633	49,226,734
Savings	583,859	3,827,301	(740,886)

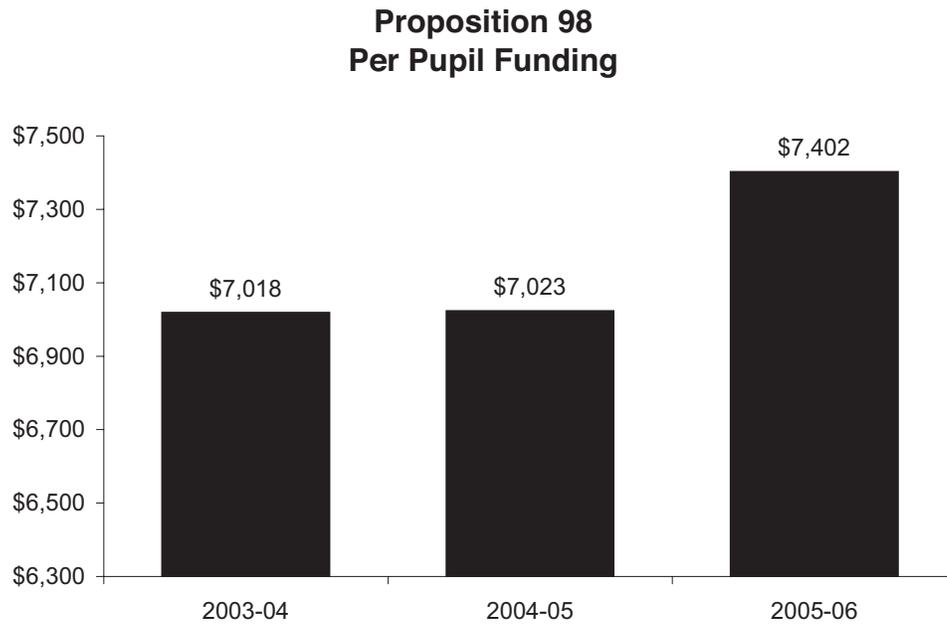
The General Fund contribution to the Proposition 98 guarantee increases by \$2.6 billion from 2004-05 to 2005-06, while the local property tax revenue contribution increases by \$445 million. This large General Fund share of the guarantee's increase reflects the second year of the agreement with California's local governments to reduce Vehicle License Fee revenues, replace those revenues with additional property tax allocations, and hold schools harmless by providing additional General Fund moneys and reallocating local property taxes.

### **K-12 Proposition 98 Per Pupil Funding**

Estimated Proposition 98 funding per pupil, as shown in Figure K-12-2, rises to \$7,402 in 2005-06, representing an increase of \$379 per pupil from the revised 2004-05 level. Compared to the 2004 Budget Act level of \$7,007 per pupil, 2005-06 per pupil expenditures have increased \$395. Total General Fund allocations of \$33.1 billion for K-12 education now represent 40.2 percent of the General Fund budget subject to the state appropriations limit.

# Budget Highlights

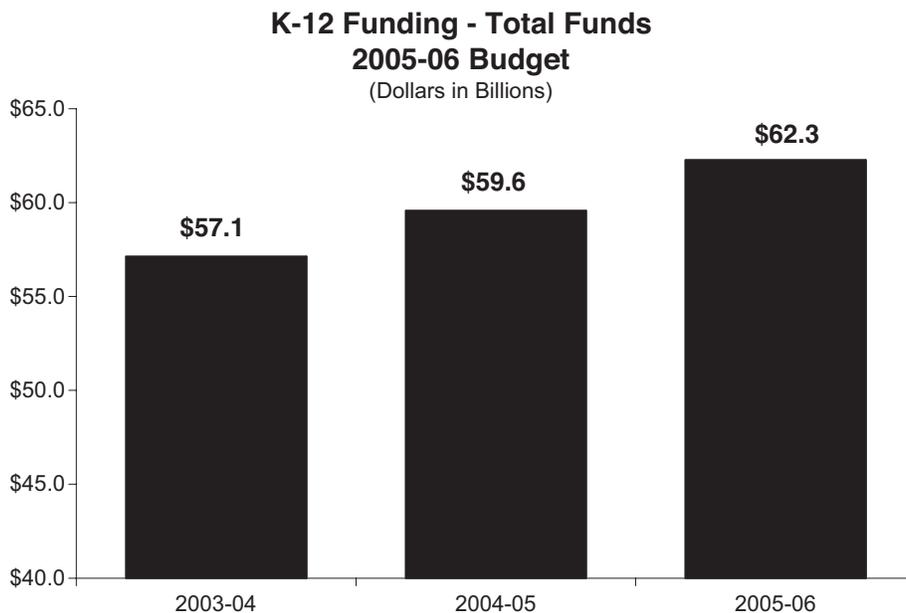
Figure K-12-2



## Total K-12 Funding

Total funding from all sources is increasing, as shown in figure K-12-3. An increase of \$2.7 billion over 2004-05 brings total funding to \$62.3 billion. Total funding per pupil increases by \$380, from \$9,945 in 2004-05 to \$10,325 in 2005-06. This represents a 3.8 percent increase over the adjusted estimate for 2004-05.

Figure K-12-3



From 2004-05 to 2005-06, General Fund increases \$2.3 billion, while local property taxes increase by \$380 million and federal funds grow by \$48.6 million. Major General Fund changes include the following:

- An increase of \$2.2 billion to Proposition 98 General Fund.
- An increase of \$190.2 million in bond debt service.
- A net decrease of \$49.2 million in contributions to the State Teachers' Retirement System.

**Low-Performing School Enrichment Block Grant**—The Budget includes \$49.5 million for the Low-Performing School Enrichment Block Grant, a one-time block grant for low-performing schools. These funds will be available to schools in the bottom three deciles of the Academic Performance Index. The funds will be available to improve the educational environment and culture through activities including: (1) assuring a safe, clean school environment for teaching and learning; (2) providing support services for students, and teachers; (3) activities, including differential pay, focused on the recruitment and retention of teachers who meet the definition of a highly qualified teacher, and of highly skilled principals; (4) small group instruction; and (5) providing time for teachers and principals to collaborate regarding improving academic outcomes for students.

**Governor's Fruits and Vegetables Breakfast Initiative**—The Budget includes \$18.2 million from the Proposition 98 Reversion Account to help ensure that pupils receive additional healthy meal alternatives by increasing the amount of fresh or dried fruits and vegetables served in the school breakfast program.

**Supplemental Instruction High School Exit Exam Program**—The Budget provides on a one-time basis, \$47.9 million Special Education Program funding and \$20 million under the Pupil Retention Block Grant to provide additional supplemental instruction to pupils who have failed one or both parts of the High School Exit Exam. The \$47.9 million will be made available to fund one-time activities for students with disabilities to assist them in passing the California High School Exit Examination. The \$20 million will be made available to schools for the purpose of providing intensive instruction and services that may include, but are not limited to, individual or small group instruction; hiring additional teachers; purchasing, scoring, and reviewing diagnostic assessments; counseling; designing instruction to meet specific needs of eligible pupils; and appropriate teacher training to meet the needs of eligible pupils.

**Chief Business Officer Training**—The Budget provides \$1.1 million from the Proposition 98 Reversion Account to support the first year of funding for the Chief Business Officer Training Program. Over the next three years, this program will provide training to over 1,000 school district and county office of education chief business officers in key elements of school fiscal management.

**Charter Schools Facilities Grants**—The Budget provides a total of \$28.5 million for charter school facility needs, of which \$9 million is from the Proposition 98 Reversion Account for the Charter Schools Facilities Grant Program to reimburse charter schools for facility costs incurred in the 2004-05 year. A new federal Charter Schools Facilities Incentive Grants program administered by the California School Financing Authority will provide an additional \$19.5 million to support both the

## Budget Highlights

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construction of new facilities and lease payments on existing facilities for the 2004-05 and 2005-06 fiscal years.

**Enrollment Growth**—The Budget provides \$193.6 million to fund enrollment growth increases for school apportionments (\$53.3 million), Special Education (\$20.3 million), and other categorical programs (\$120 million). This amount includes \$4.4 million deferred to 2006-07 and reflects the Administration’s goal of preserving core K-12 services despite difficult fiscal times.

**Cost of Living Adjustments**—The Budget includes over \$1.7 billion to provide a 4.23 percent COLA increase to K-12 programs. Included in this amount are funding for school apportionments (\$1.3 billion), Special Education (\$125 million), and other categorical programs (\$295 million). Of this amount, \$15.7 million is deferred to 2006-07. The 4.23 percent calculation substantially exceeds the expected growth of the consumer price index (CPI) in California.

**Revenue Limits**—Revenue limit funding constitutes the basic funding source for classroom instruction. The Budget provides a net increase of \$1.6 billion to school district and county office of education revenue limits, which includes funding for enrollment growth, a cost-of-living adjustment, and the repayment of \$328 million or approximately half of the outstanding deficit factor owed as a result of reductions made by the prior Administration.

**K-12 Education Mandates**—The Budget provides \$60.6 million (\$53.8 million from the Proposition 98 Reversion Account and \$6.8 million in Proposition 98 settle-up funds) to pay prior year K-12 education mandate claims. These one-time funds are intended to pay for claims on the basis of oldest claims first.

**Special Education**—In addition to the \$20.2 million to fund enrollment growth and \$124.4 million to fund the 4.23 percent COLA (which exceeds the expected growth in CPI), the Budget provides a variety of adjustments for Special Education. The Budget includes an additional \$18.2 million to increase funding for the revised formula for allocating funds to pupils with exceptional needs who reside in licensed children’s institutions. The Budget continues to provide \$31 million in General Fund in addition to the \$69 million in federal funds provided in the 2003-04 and 2004-05 fiscal years for the provision of mental health services for children with exceptional needs. Further, \$58.7 million in federal funds is passed through as an augmentation. In total, the Budget provides over \$2.8 billion in General Fund and \$1.1 billion in federal funds for Special Education.

**Accountability**—The Budget provides \$348.4 million for programs to assist and promote academic performance including the following:

- \$228.7 million Proposition 98 General Fund to assist low-performing schools through the High Priority Schools Grant Program, which provides grants of \$400 per pupil, including \$168.7 million for the fourth year of funding for existing grantees and up to \$60 million to start a second cohort of schools.
- \$53 million (\$13 million Proposition 98 General Fund) to assist schools subject to sanctions pursuant to state and federal accountability programs, including \$10 million for schools sanctioned

under the High Priority Schools Grant Program for the first time this year. These funds also include \$10 million for the Statewide System of School Support, which provides assistance to schools, districts, and county offices of education in need of improvement.

- \$30 million for federal Comprehensive School Reform Program grants at \$200 per pupil for low-performing schools, based upon a prescribed priority order.
- \$7.5 million Proposition 98 General Fund in deferred funding from 2004-05 for the final year of implementation for schools participating in the Immediate Intervention/Underperforming Schools Program, which provides grants of \$200 per pupil.
- \$29.2 million in federal Title I School Improvement funds to fund district accountability activities. The federal No Child Left Behind Act of 2001 requires states to ensure that all schools and districts are making adequate yearly progress benchmarks. If a Title I school or district fails to make adequate yearly progress for two consecutive years, it is identified as Program Improvement and becomes subject to interventions.

**Pupil Testing**—The Budget provides \$118.9 million, including federal funds, for various statewide exams. These assessments provide valuable information to parents, teachers, schools, and the state regarding pupil performance and are the foundation of California’s state and federal accountability systems. The Budget also provides \$650,000 for the development of an alternative assessment for moderately disabled students who presently do not test at grade level, pursuant to federal guidelines.

**Development of the California Longitudinal Pupil Achievement Database**—The Budget includes \$844,000 for state operations for the Department of Education for the development of a Request for Proposals in the next phase of the development of the California Longitudinal Pupil Achievement Database to allow for the longitudinal collection of student data.

**Williams Litigation**—The Budget provides \$183.5 million from the Proposition 98 Reversion Account for school facility emergency repairs, consistent with the *Williams* settlement agreement.

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### Commission on Teacher Credentialing

The Budget contains \$51 million (\$34.5 million General Fund and \$16.1 million other funds) and 161.5 positions for the Commission on Teacher Credentialing (CTC) in 2005-06. This represents a reduction of \$9.6 million and 4.9 positions from the revised 2004-05 Budget. The funding includes \$7 million in expenditure reductions and \$2.7 million from the General Fund on a one-time basis to address structural imbalances in the CTC’s Teacher Credentialing Fund (TCF) and the Test Development and Administration Account (TDAA). The adjustments include the following:

- A reduction of \$600,000 and 4.9 positions to reflect automation-related efficiencies in the TCF.
- A reduction of \$580,000 in printing and equipment costs in the TCF.
- A reduction of \$5.8 million reflecting a technical adjustment to transition to revenue-only contracts and minor operations savings in the TDAA.
- An increase of \$2.7 million General Fund for operating expenses.

## Budget Highlights

The cost saving reductions and General Fund augmentation will enable the CTC to perform its essential functions while it continues to work on a more comprehensive solution to its budget imbalance.

### Higher Education

Figure HIED-1

#### Higher Education Funding Total and General Funds (Dollars in millions)

	2003-04	2004-05	2005-06	One-Year Change	
				Amount	Percent
<b>University of California<sup>1/</sup></b>					
Total Funds	\$4,516.1	\$4,533.3	\$4,817.7	\$284.4	6.3%
General Fund	2,868.1	2,708.7	2,843.2	134.5	5.0%
<b>California State University<sup>1/</sup></b>					
Total Funds	3,651.4	3,634.3	3,846.7	212.4	5.8%
General Fund	2,625.7	2,481.1	2,615.1	134.0	5.4%
<b>Community Colleges</b>					
Total Funds	6,697.8	7,510.7	8,006.0	495.3	6.6%
General Fund & P98 <sup>2/</sup>	4,505.3	5,021.0	5,508.8	487.8	9.7%
<b>Student Aid Commission</b>					
Total Funds	689.3	779.3	838.2	58.9	7.6%
General Fund	658.8	598.4	752.4	154.0	25.7%
<b>Other Higher Education</b>					
Total Funds	199.4	301.8	328.1	26.4	8.7%
General Fund	179.6	274.9	301.1	26.1	9.5%
<b>Total Funds</b>	<b>\$15,754</b>	<b>\$16,759.4</b>	<b>\$17,836.7</b>	<b>\$1,077.4</b>	<b>6.4%</b>
<b>General Fund &amp; P98<sup>2/</sup></b>	<b>\$10,837.5</b>	<b>\$11,084.1</b>	<b>\$12,020.6</b>	<b>\$936.5</b>	<b>8.4%</b>

<sup>1/</sup> For purposes of this table, expenditures for the University of California (UC) and California State University (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.

<sup>2/</sup> For purposes of comparing with UC and CSU General Fund, California Community Colleges includes property tax revenue, as a component of the state's obligation under Proposition 98.

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

**Total Funding**—The Budget continues to recognize the significant contributions and benefits to society from broad access to higher education at the University of California (UC), the California State University (CSU), and California’s Community Colleges (CCC). The 2005-06 Budget marks the first year of funding for UC and CSU under the terms of the Higher Education Compact with the Administration.

The Budget provides for total Higher Education funding of \$17.8 billion from all revenue sources. UC funding totals \$4.8 billion, including \$2.8 billion from General Fund. The amount budgeted from the General Fund reflects a 5 percent increase from the 2004 Budget Act. CSU funding totals approximately \$3.8 billion, including over \$2.6 billion General Fund. The amount budgeted from General Fund for CSU is 5.4 percent above the 2004-05 budget. Total funding for the CCC totals over \$8 billion, including more than \$5.5 billion from General Fund and Proposition 98 sources, of which more than \$3.7 billion is from the General Fund alone. The amount budgeted from General Fund and Proposition 98 for CCC is 9.7 percent above the 2004 Budget Act.

**Higher Education Compact Funding Levels**—In accordance with the Higher Education Compact, the Budget provides stable funding to UC and CSU for enrollment growth and basic support. In addition, both segments have adopted modest fee increases and devote significant portions of the revenue for institutional financial aid adjustments consistent with the Compact agreement. In particular, the Budget reflects the following:

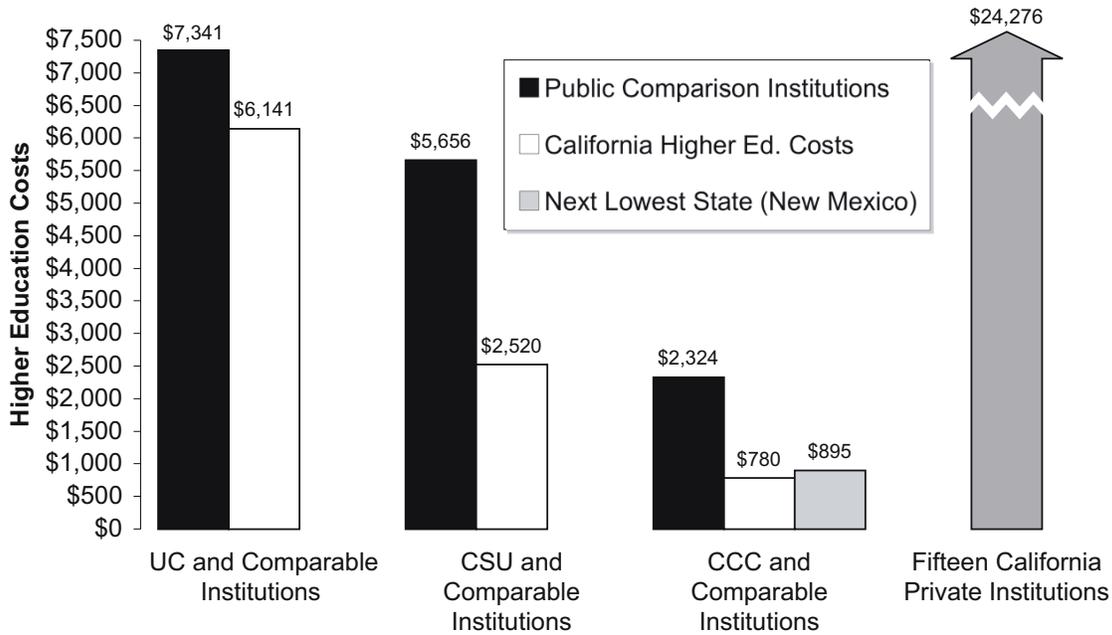
- **Fee Levels**—For 2005-06, both the UC and CSU governing boards approved 8-percent increases in systemwide undergraduate fees. Undergraduate fees for UC will increase from \$5,684 in the fall of 2004 to \$6,141 in the fall of 2005. Undergraduate fees for CSU will increase from \$2,332 in the fall of 2004 to \$2,520 in the fall of 2005. Graduate student fees will also increase at UC and CSU. In the fall of 2005, the fees will increase a moderate 10 percent from \$6,269 to \$6,897 for UC academic graduates and from \$2,707 to \$2,922 for CSU teacher preparation graduate students. All other CSU graduate student fees will increase 10 percent from \$2,820 to \$3,102. Under the Compact, UC and CSU commit to phase in progress toward a policy goal that graduate fees be 50 percent higher than undergraduate fees in the long run. This goal more accurately reflects the higher cost associated with instructing graduate students. Professional school fees will increase in the fall of 2005 by varying amounts. The UC retains flexibility to determine specific fee increases based on competitive factors, state need for particular professions, current subsidy level, and earnings potential for each profession.

In-state UC fees remain quite favorable to students, in comparison with its peer research universities. CSU fees still reflect the most affordable university system of its kind in the nation.

# Budget Highlights

Figure HIED-2

## Fee Levels Remain Low at California's Public Higher Education Institutions Compared to Tuition Levels in Other States and California's Private Institutions



Fees for UC and CSU include the 2005-06 8 percent increase. CCC fees remained constant at \$26 per unit. Comparable institution data for UC, CSU and CCC reflect 2004-05 fee levels. The fees for UC and CSU include systemwide fees, only, and do not include campus-based fees of \$735 and \$582, respectively, because it is unknown whether similar fees are included in the comparable institution fee levels.

- Institutional Financial Aid**—Both segments will set aside 25 percent of additional revenues generated by fee increases for undergraduate students for additional student financial aid to ensure access for needy students. Whereas CSU will set aside a similar 25 percent of additional graduate fees for additional graduate student financial aid, UC will set aside 50 percent of its additional graduate fees for this purpose.
- Enrollment Growth**—The Budget provides funding for enrollment growth of 2.5 percent per year at the marginal cost of instruction. For UC, this growth rate represents an increase of about 5,000 students. For CSU, the increase would be about 8,000 students.
- Basic Budget Support**—To help preserve and enhance the quality of university instruction by addressing competitive faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases, the Budget provides a 3-percent general increase to the 2004-05 base.

**Science and Math Teacher Initiative**—The 2004 Higher Education Compact identified a critical need for science and mathematics teachers in our public school system if California were to realize full economic recovery and growth. The Compact called for UC to work in partnership with CSU, the state, K-12 constituencies, and California business and industry leaders to develop a major initiative to improve both the supply and quality of science and math teachers in California. One year later,

in May 2005, the Governor joined with UC, CSU, and business leaders to unveil a major initiative to bolster California's science and math teacher workforce.

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. In addition, the CSU system will double the production of science and math teachers by expanding its teacher preparation programs for science and math majors and increasing efforts to recruit students to the profession. This effort is aimed at bolstering California's long-term economic prospects, which are largely dependent on the availability of a workforce that has the scientific and mathematics skills to help California's knowledge-based industries thrive.

The Budget includes \$750,000 for UC, to be matched by a similar amount by the university, to establish Science and Math Resource Centers at six UC campuses to provide student advising and school placement, to monitor student progress, and for other related activities. The Budget also provides \$250,000 to CSU, which will be matched by the university, to coordinate the development of curriculum and services for four-year blended credential programs for math and science majors. Moreover, emphasizing the importance of this initiative to the business sector, corporate leaders from across California have pledged to contribute an initial \$4 million over a five-year period.

**State Nursing Initiative/Expansion**—As part of a larger initiative affecting other agencies, the Budget provides the following augmentations:

- \$10 million in ongoing Proposition 98 General Fund for community colleges to expand nursing slots and invest in equipment and infrastructure on local campuses. Community colleges play a very significant role in the training of registered nurses, with 69 current programs in operation that are geographically dispersed throughout the state in a manner that will allow the state to reduce the nursing shortage across California. In addition to this funding, the Budget includes \$4 million on a one-time basis for start-up matching grants, encouraging both existing and new programs to make initial investments in high-cost equipment and infrastructure necessary to support or expand nursing programs.
- \$560,000 to CSU for the development of entry-level master's degree programs in nursing pursuant to Chapter 718, Statutes of 2004 (SB 1245), to support 20 full-time equivalent students (FTES) at 14 campuses in combination with budgeted growth funding and graduate fees to cover the costs of the new entry-level master's degree programs as anticipated by the Legislature.
- Authority for the Student Aid Commission to issue 100 State Nursing Assumption Program of Loans for Education (SNAPLE) warrants, pursuant to a trailer bill establishing the program, to encourage nurses to complete their graduate education and serve as nursing faculty at a California college or university. Applicants who meet specified eligibility criteria will be required to teach nursing on a full-time basis at one or more accredited California colleges or universities for at least three consecutive years, or five part-time academic years, immediately after obtaining their graduate degree. Program participants will be eligible to receive up to \$25,000 in loan forgiveness benefits following completion of their required teaching service.

## Budget Highlights

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**Community Colleges**—While the Higher Education Compact is not applicable to the community colleges because CCC funding levels are already protected under the state’s Proposition 98 guarantee, the Budget provides community colleges with a \$136.7 million increase for additional enrollment growth, enough to fund approximately 34,000 new FTES in 2005-06. For the second consecutive year, some CCC’s will experience significant declining enrollment in the current year; however, the funding associated with those declines is retained in the Budget to allow the system to accommodate an additional 13,000 FTES in 2005-06.

Student fees at CCC remain unchanged at \$26/unit. At this tuition level, CCC students will continue to have the opportunity to qualify for the maximum federal Pell Grant award and CCC fees will remain the lowest in the nation by more than \$100 annually, at only 34 percent of the national average.

**CCC Accountability**—The Budget provides an augmentation of \$31.4 million General Fund to base general apportionments in keeping the agreement pursuant to Chapter 581, Statutes of 2004 (AB 1417), in exchange for implementation of a rigorous district-specific accountability framework. The Administration and the Chancellor’s Office have agreed on a specific framework, to be included in a trailer bill. This framework outlines the areas for annual performance measurement, evaluation and reporting that will allow the Administration, the Legislature, and the public to review and annually assess individual district performance in meeting statewide priority student outcome objectives.

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### University of California

The Budget provides total funding from all sources of \$4.8 billion for UC, an increase of \$284.4 million or 6.3 percent above the 2004-05 level. This funding includes \$2.8 billion in General Fund resources, reflecting an increase of \$134.5 million or 5 percent above 2004-05.

The Budget includes the following significant General Fund augmentations for UC:

- \$76.1 million increase (3 percent) for basic budget support.
- \$37.9 million increase (2.5 percent) for enrollment growth.
- \$18.9 million increase for revised lease-revenue payments.
- \$14 million one-time funds for costs associated with making UC Merced operational in fall 2005 for a total funding level of \$24 million.
- \$750,000 increase for the Governor’s Science and Math Teacher Initiative to establish six Science and Math Resource Centers on UC campuses.

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### California State University

The Budget provides total funding of \$3.8 billion for CSU, an increase of \$212.4 million or 5.8 percent above the 2004-05 level. The funding level includes \$2.6 billion in General Fund resources, an increase of \$134 million or 5.4 percent above the 2004-05 level.

The Budget includes the following significant General Fund augmentations for CSU:

- \$71.7 million increase (3 percent) for basic budget support.
- \$50.8 million increase (2.5 percent) for enrollment growth.
- \$44.4 million increase for baseline retirement contribution increases.
- \$560,000 increase to support the establishment of entry-level master's degree programs in Nursing at 14 CSU campuses as part of an initiative to meet the state's critical nursing shortage.
- \$250,000 increase for CSU's participation in the Governor's Science and Math Teacher Initiative to address the critical need for highly qualified math and science teachers in the public school system.

The Budget also includes a \$26 million increase from General Obligation bonds to fund capital renewal projects for CSU.

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### California Community Colleges

The Budget provides over \$8 billion from all sources for the CCC, an increase of 6.6 percent over the 2004 Budget Act level. This includes more than \$5.5 billion in Proposition 98 resources, of which more than \$3.7 billion is from the General Fund.

The Budget includes the following significant Proposition 98 General Fund augmentations for CCC:

- \$136.7 million to fund an additional 34,000 FTES in 2005-06, bringing the system-wide total to approximately 1,168,000 FTES. Base resources sufficient to fund more than 13,000 FTES in districts with declining enrollment in the current year will provide added capacity for the CCC system in 2005-06.
- \$198.5 million to provide a COLA of 4.23 percent for general-purpose apportionments for all districts. This percentage increase is significantly above the consumer price index.
- A \$31.4 million increase to general apportionment funding to reflect the enactment of a district-specific accountability system pursuant to Chapter 581, Statutes of 2004. This system will allow the Administration, the Legislature, and the public to annually assess individual college performance in meeting statewide student outcome priority areas.
- \$10 million in ongoing funding as part of an initiative to address the state's shortage in trained nurses through the expansion of nursing enrollments and investments in nursing equipment and infrastructure upgrades. Additionally, the Budget makes \$4 million available on a one-time basis to assist with infrastructure needs for nursing programs. This will help leverage private funding partnerships.
- \$37.4 million has been set aside to fund the Governor's Career Technical Education Initiative in separate legislation, which would increase the availability of and align K-12 career technical education programs with local community college industry-driven technical instruction programs to offer sequenced instructional opportunities to more K-12 students. This initiative

## Budget Highlights

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will ensure greater opportunities for all students to enter high-paying careers in emerging technology-dependent industries as well as to strengthen existing programs.

- \$30 million to continue equalizing disparities in per-student credit instruction funding levels among colleges. This additional funding will build upon the \$80 million included in the Budget Act of 2004, providing in total almost half of the resources required to fully equalize per-student credit instruction rates at the 90<sup>th</sup> percentile of the statewide funding level.
- \$16.8 million to provide growth and COLA for essential categorical programs historically receiving these adjustments including Basic Skills, Matriculation, Disabled Students Programs and Services, and Extended Opportunity Programs and Services.
- \$1 million to expand statewide and institutionalize the Cal-Pass database project to allow outcome-based research for improving articulation between K-12, community colleges and the university systems.

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### Student Aid Commission

The Budget provides \$838.2 million in total funds—an increase of \$58.9 million above the revised 2004-05 level. The General Fund level of \$752.4 million reflects an increase of \$154 million for a 25.7-percent increase above the revised 2004-05 level.

The Budget includes the following significant adjustments for the Student Aid Commission:

- \$95.5 million net General Fund increase resulting from a \$146.5 million backfill to replace the use of one-time surplus moneys from the Student Loan Operating Fund (SLOF) to support the financial aid program in 2004-05 offset by another \$51 million one-time shift from General Fund to SLOF to support financial aid programs in 2005-06.
- \$51.3 million General Fund caseload increase for Cal Grant awards for 2005-06 over the revised 2004-05 budget.
- \$6.8 million General Fund caseload increase for the Assumption Program of Loans for Education (APLE), which provides loan assumption grants for teachers agreeing to teach certain subjects or in low performing schools.
- \$7.6 million increase in local assistance reimbursement authority and \$200,000 increase in state operations reimbursement authority for the operations of the Chafee Foster Youth Program provided through federal funds to the Department of Social Services.
- Authorization for 300 additional APLE warrants, with priority for teachers in specified shortage areas.
- Authorization for 100 loan assumption warrants for individuals who obtain a graduate degree and teach in nursing programs subject to trailer bill legislation as part of the state's nursing initiative.

The Budget also recognizes \$35.6 million in 2004-05 savings in Cal Grant awards based on revised estimates.

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### Health and Human Services

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#### Medicare Modernization Act

Under the terms of the federal Medicare Modernization Act (MMA), on January 1, 2006, approximately one million Californians who are eligible for both Medicare and Medi-Cal will begin receiving prescription drug coverage from the new federal prescription drug benefit, Medicare Part D. These individuals, known as “dual eligibles,” currently receive drug coverage through the Medi-Cal program. This population includes many of the most vulnerable people in California; any break in prescription coverage during this transitional period could have significant negative healthcare outcomes for them. While the transition of drug coverage for dual eligibles is a federal responsibility, the Budget invests significant resources to ease this transition for California’s dual eligible population. This investment crosses several departments as follows:

**Department of Aging**—\$1.8 million federal funds, \$2 million in special funds for the Health Insurance Counseling and Advocacy Program (HICAP). The funds will be used primarily for training and recruitment of counselors. HICAP counselors will assist Medicare beneficiaries and applicants in selecting and enrolling in Medicare Part D prescription drug programs.

**Department of Health Services**—\$3.9 million (\$1.6 million General Fund) for outreach activities for Medicare Part D. In addition, the Budget includes \$93.6 million (\$46.8 million General Fund) to continue providing beneficiaries enrolled in both Medi-Cal and Medicare with certain drugs that will not be covered by Medicare.

**Department of Developmental Services**—\$11.4 million General Fund to ease the transition of the population served by the developmental and regional centers. The funds will be used for outreach, enrollment, appeals assistance to consumers, enhanced medication reviews by physicians and clinical pharmacists, training for developmental and regional center staff and providers, and modification and maintenance of billing and accounting systems. In addition, funding will be used to provide transitional drug coverage.

**Department of Mental Health**—\$788,000 (\$569,000 General Fund) for outreach and support to patients in the state hospitals, development of new billing systems and software, and funding transitional drug coverage.

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#### Emergency Medical Services Authority

**Trauma Care Funding**—Recognizing the critical role trauma centers play in providing access to essential medical services, the Budget includes \$10 million to assist these facilities in expanding hospital surge capacity, especially during a terrorist event or natural disaster; ensuring 24-hour availability of specialty physicians and surgeons; acquiring essential equipment and coordinating ambulance transportation services.

## Budget Highlights

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### Department of Health Services

#### Medi-Cal

The Budget includes total Medi-Cal expenditures of \$34.9 billion (\$13 billion General Fund), an increase of \$1.6 billion (\$1.3 billion General Fund) over the revised 2004 Budget Act. The average monthly Medi-Cal caseload is expected to be 6,735,000 beneficiaries in 2005-06. This represents an increase of 1.7 percent above the revised 2004 Budget Act level.

**Expansion of Managed Care**—The Budget includes \$5.1 million (\$2.2 million General Fund) to expand the use of managed care for families and children into up to 13 additional counties. This action is the first step towards implementing the managed care expansion that is the cornerstone of the Governor's Medi-Cal Redesign proposal. As California's experience has shown over the last two decades, expanding managed care will increase beneficiaries' access to services, improve patient outcomes, provide greater accountability for health care dollars, and be less costly than the unmanaged fee-for-service program. The managed care expansion in the selected counties will be phased-in commencing in 2007.

**Modifying the Medi-Cal Dental Benefit Package**—The Budget includes \$2 million (\$500,000 General Fund) to implement a \$1,800 annual cap on dental services provided to adults. The annual limitation on dental benefits will cover the dental needs of the affected individuals, including the cost of dentures. Virtually all commercial dental plans, including those offered to state employees, include annual limits on dental benefits.

**Maximizing Federal Funding for Prenatal Care**—The Budget includes an additional \$191.7 million in federal funds and corresponding General Fund savings by taking advantage of federal regulations that allow the state to receive federal funding for prenatal care provided in Medi-Cal. Additional federal funds and corresponding General Fund savings are reflected in the Managed Risk Medical Insurance Board budget for the Access for Infants and Mothers program.

**Third-Party Liability**—The Budget includes a net savings of \$33.1 million (\$17.5 million General Fund) for increased recoveries from liable third parties for their share of Medi-Cal costs. Potential liable third parties include insurance companies that cover Medi-Cal beneficiaries, workers' compensation insurers, Medicare, and estate recoveries. The Department of Health Services was provided 53 positions for increased administrative activities.

**Easing Provider Enrollment for Medi-Cal**—The Budget includes \$1.5 million (\$379,000 General Fund) to reduce the backlog of provider enrollments, which will increase access to care for Medi-Cal beneficiaries and avoid financial hardship for providers.

**Long-Term Care Rate Increase**—The Budget includes \$60 million (\$29.9 million General Fund) to provide a rate increase to certain long-term care facilities to ensure continued access to quality long-term care services.

**Adult Day Health Care Rate Increase**—The Budget includes \$21.9 million (\$11 million General Fund) to provide a 5.8 percent rate increase to Adult Day Health Care providers.

### Public Health Programs

**Cigarette and Tobacco Products Surtax Fund-Proposition 99**—The Budget includes \$210.8 million Proposition 99 funds for DHS, an increase of \$21.3 million over the revised 2004 Budget Act. This increase is due to one-time increases in Proposition 99 revenues and one-time savings made available from the fund balance in the Major Risk Medical Insurance Fund. In addition, Chapter 14, Statutes of 2005, modified Proposition 99 to allow the state to use certain Proposition 99 funds to meet matching requirements for federal funds. This legislation will allow California to maximize federal funding for health services programs, while providing the state with increased flexibility in administering Proposition 99 funds.

The availability of additional one-time Proposition 99 funds makes it possible for California to expand support on a one-time basis for important public health programs as follows:

- **California Healthcare for Indigents Program**—\$66.2 million, an increase of \$21 million over the revised 2004 Budget Act, to provide funding to large counties to reimburse private physicians, emergency physicians, and hospitals for uncompensated care.
- **Rural Health Services Program**—\$7.2 million, an increase of \$2.6 million over the revised 2004 Budget Act, to provide funding to smaller counties to reimburse private physicians, emergency physicians, and hospitals for uncompensated care.
- **Rural Health Demonstration Projects**—\$2.9 million to increase funding for additional Rural Health Demonstration Projects administered by the Healthy Families Program. These projects provide much needed access to health care in rural areas for underserved populations such as migrant seasonal workers, American Indians, and fishing and forestry workers.
- **Asthma Public Health Initiative**—\$3 million to provide local grants to community health centers to address asthma in children up to age 18. Current private, federal, and state funding for this initiative expires June 30, 2005.
- **Breast Cancer Early Detection: Every Woman Counts**—\$25.2 million, an increase of \$2.6 million over the revised 2004 Budget Act, to provide free breast cancer screenings to low-income women 40 and older and free cervical cancer screenings to low-income women 25 and older.
- **Tobacco Control and Smoking Prevention**—\$34.1 million, an increase of \$3 million over the revised 2004 Budget Act, to expand current tobacco control and smoking prevention activities, including local grants to community-based organizations, and data collection and evaluation.

**West Nile Virus**—The Budget includes \$12 million General Fund to enhance and expand mosquito control efforts across the state. This funding will be directed to West Nile Virus (WNV) high-risk areas, provide emergency mosquito control response in WNV “hot spots,” and purchase mosquito control products and application equipment.

## Budget Highlights

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**AIDS Drug Assistance Program**—The Budget includes total funding of approximately \$268.3 million (\$91.1 million General Fund) to fully fund the projected caseload for the AIDS Drug Assistance Program (ADAP) in 2005-06. ADAP provides life-saving medications to low-income persons living with HIV/AIDS. Drugs provided by ADAP have been shown to prolong quality of life and delay the deterioration of health among individuals living with HIV. A total of more than 30,000 cases will be served in 2005-06.

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### Managed Risk Medical Insurance Board

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#### Healthy Families Program

The Budget includes Healthy Families Program (HFP) expenditures of \$957.6 million (\$346.8 million General Fund), an increase of \$147.7 million (\$54.1 million General Fund) above the revised 2004 Budget Act level. Year-end caseload is expected to reach 867,400 children, an increase of 126,600 children compared to 740,800 in 2004-05.

#### Improve Outreach and Enrollment by Restoring HFP / Medi-Cal Application

**Assistance**—Recognizing the importance of facilitating the enrollment of children eligible but unenrolled in the HFP and Medi-Cal, the Budget includes \$14.5 million (\$5.9 million General Fund) for the restoration of certified applicant assistants (CAA) to assist in the enrollment of eligible children. Because of the state's fiscal crisis, funding for HFP/Medi-Cal education, outreach, and application assistance was eliminated in the 2003 Budget Act. During the two years without payment for application assistance, enrollment in the HFP leveled off, the quality of the applications submitted to the program deteriorated significantly, and there was a higher rate of disenrollment at the annual eligibility review. The restoration of the CAA program and other measures to increase outreach and simplify the enrollment process are projected to increase enrollment by over 100,000 children in the HFP by the end of 2005-06. These targeted investments are part of the Governor's efforts to expand access to health insurance for California's children.

**HFP Rate Increase**—To continue strong health plan participation in the HFP, the Budget includes \$14.1 million (\$5.1 million General Fund) for an average 1.6 percent rate increase for managed care plans participating in the HFP.

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#### Access for Infants and Mothers Program

The Budget includes Access for Infants and Mothers (AIM) program expenditures of \$115.7 million (\$1.1 million General Fund), a decrease of \$16.2 million (\$7.5 million General Fund) below the revised 2004 Budget Act level.

**Maximizing Federal Funding for Prenatal Care**—The Budget includes an additional \$61.9 million in federal funds and corresponding General Fund savings by taking advantage of federal regulations that allow the state to receive federal funding for prenatal care provided in AIM. Additional federal funds

and corresponding General Fund savings are reflected in the Department of Health Services budget for Medi-Cal.

**AIM Rate Increase**—The Budget includes \$6.4 million (\$2.2 million General Fund) for an average 6.5-percent rate increase for plans participating in the program.

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### Department of Developmental Services

The Budget continues the Administration's commitment to implement the *Olmstead* federal court decision by making changes in state policies and programs necessary to ensure that persons with disabilities have appropriate access to and choices of community-based services and placement options. The Budget protects the Lanterman Act, which entitles disabled individuals to services that support their ability to live independently in the community, notwithstanding the state's continued fiscal challenges; and continues efforts to close the Agnews Developmental Center and integrate developmentally disabled residents into the community.

The Budget includes \$3.7 billion (\$2.3 billion General Fund) for the Department of Developmental Services, an increase of \$232.2 million (\$151.7 million General Fund) above the revised 2004 Budget Act level. Total caseload is expected to reach 208,000 consumers in 2005-06, compared to 201,000 in 2004-05.

**Developmental Centers**—The Budget provides \$708.5 million (\$379.1 million General Fund) for the developmental centers, a net decrease of \$10.9 million (\$7.4 million General Fund) from the revised 2004 Budget Act level, primarily due to a decreasing population. The Budget supports a population of 3,000, a decrease of approximately 200 consumers from 2004-05.

**Agnews Developmental Center Closure**—The Budget reflects a net increase of \$33.7 million (\$25.9 million General Fund) compared to the revised 2004 Budget Act level for the planned July 2007 closure of Agnews Developmental Center. The developmental center budget reflects a net increase of \$2.8 million (decrease of \$368,000 General Fund) for staffing needed to ensure the health and safety of Agnews residents during closure and the transition to community living. The regional center budget reflects an increase of \$30.9 million (\$26.3 million General Fund) for the consumer placements and necessary services and supports in the community. This includes a reappropriation of \$11.1 million General Fund to develop community-based living options for individuals transitioning into the community.

**Regional Centers**—The Budget includes \$2.9 billion (\$1.9 billion General Fund) for regional centers, a net increase of \$240.1 million (\$156.5 million General Fund) above the revised 2004 Budget Act level. The Budget supports a population of 205,000, an increase of 7,800 consumers above 2004-05. The Budget reflects an increase of \$9.2 million (\$4 million General Fund) for regional centers operations to comply with federal Home and Community-Based Services Waiver requirements.

## Budget Highlights

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**Self-Directed Services**—The Budget reflects a phase-in of a statewide Self-Directed Services Program, subject to receipt of a federal waiver. This voluntary program will allow consumers and their families to purchase services through individual budget accounts based upon the individual's needs. The Budget includes \$1.7 million for regional centers to implement the program and reflects net General Fund savings of \$2.2 million in the regional centers' purchase of services budget.

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### Department of Mental Health

The Budget includes \$2.9 billion (\$1.3 billion General Fund) for the Department of Mental Health (DMH), an increase of \$442.9 million (\$305.7 million General Fund) from the revised 2004 Budget Act level.

**State Hospitals**—The Budget includes \$857.6 million (\$771.6 million General Fund) for state hospitals, a net increase of \$90.4 million (\$146.9 million General Fund). This funding will support a total population of 5,742 patients, an increase of approximately 500 patients from the revised 2004-05 population level. The state hospital budget also reflects the activation of Coalinga State Hospital and \$6 million General Fund savings for restructuring the treatment of Sexually Violent Predators (SVP). The savings from the SVP reform is \$11 million in 2006-07.

**Mental Health Services to Special Education Pupils (AB 3632)**—The Budget includes \$220 million for special education mental health services. This reflects \$120 million one-time General Fund in the DMH budget to fund counties for providing services under the AB 3632 state mandate (\$60 million for 2004-05 costs and \$60 million for 2005-06 costs). It also reflects \$100 million in special education funding in the Department of Education budget for services as required by the Federal Individuals with Disabilities Education Act (IDEA). Of this funding, \$69 million in federal funds is for counties to provide services under contract with local education agencies. Funds will be allocated consistent with the county allocations for 2004-05. \$31 million Proposition 98 General Fund is for local education agencies for pre-referral mental health services pursuant to SB 1895. These funds will ensure continued services while the state pursues transitioning from a state-mandated program to a categorical program for the next fiscal year. The Department of Mental Health will collaborate with the Department of Education and consult with stakeholders in development of a plan for providing federally required mental health services through a categorical program.

**Mental Health Services Act (Proposition 63)**—The Budget includes \$16.6 million from the Mental Health Services Fund (MHSF) and 89.5 positions for the DMH's implementation of the Mental Health Services Act. Pursuant to the Act, the estimated revenue in the MHSF will be \$683 million in 2005-06. The actual revenue will not be known, however, until spring 2007 when 2005 personal income tax return data are available. This funding will also further the goals of the federal court's *Olmstead* decision by expanding programs that assist Californians with severe mental health needs to remain in the community.

**Early Mental Health Initiative**—The Budget provides \$5 million in Proposition 98 funds for the Early Mental Health Initiative (EMHI). This program provides matching grants to Local Education Agencies

(LEAs) for services to students in kindergarten through third grade who are experiencing mild to moderate school adjustment difficulties. EMHI school-based interventions are directed at promoting positive behavior changes for children and reducing the incidence of mental health problems. The \$5 million augmentation would fund approximately 52 new grants that will provide services to approximately 3,400 additional students.

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### Department of Social Services

**California Work Opportunity and Responsibility to Kids**—The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$6.8 billion, which includes \$5 billion for CalWORKs program expenditures within the Department of Social Services budget, \$1.7 billion in other programs, and \$163 million to fund a CalWORKs program reserve. Other programs include the Statewide Automated Welfare System, Child Welfare Services, California Food Assistance Program, State Supplementary Payment, Foster Care, California Department of Education child care, California Community Colleges child care and education services, Department of Child Support Services disregard payments, Department of Developmental Services, and county expenditures. Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 492,000 cases in 2004-05, and 487,000 cases in 2005-06.

- **Suspension of Grant COLAs**—The Budget reflects \$135.5 million in savings resulting from suspending the July 2005 CalWORKs grant cost-of-living adjustment. Given the need to address the structural deficit between revenues and expenditures, the Budget also suspends the July 2006 CalWORKs COLA, for estimated additional savings of \$138.8 million in 2006-07. Even with the COLA suspension, California's grant levels remain the highest among the ten most populous states and second highest in the nation.
- **Pay-for-Performance**—The Budget reflects CalWORKs grant savings of \$22.2 million from implementation of a three-year incentive program that rewards counties that meet specific CalWORKs program outcomes. Pay-for-Performance will enhance the program's focus on work and support targeting of county efforts to assist recipients in securing and retaining employment as a pathway to self-sufficiency. The program is expected to generate greater savings in 2006-07 and 2007-08. Funding for incentive payments, which would begin in 2006-07, is initially to be provided with \$30 million set aside in the CalWORKs reserve.

**Supplemental Security Income / State Supplementary Payment Program**—Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are projected to be \$3.5 billion in 2005-06, an increase of \$107.6 million from the revised 2004 Budget Act. Program caseload is estimated to increase to 1.2 million recipients, a 2.4-percent increase over the 2004-05 projected level.

Effective January 1, 2006, the federal SSI payment is estimated to increase by 2.6 percent. The Budget will delay the provision of a federal SSI increase until April, 1, 2006, generating an estimated one-time General Fund savings of \$48 million in 2005-06. Similarly, pass-through of the

## Budget Highlights

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January 2007 federal COLA, estimated to be 2.1 percent, will be withheld until April 1, 2007. This is projected to result in additional General Fund savings of \$41.6 million in 2006-07.

Given the state's fiscal constraints, the January 2006 state COLA of 4.1 percent for SSI/SSP recipients will also be suspended for estimated General Fund savings of \$131.9 million in 2005-06 and \$270.3 million in 2006-07. In addition, the January 2007 state COLA, estimated to be 4.2 percent, will be suspended. This is projected to result in additional General Fund savings of \$137.2 million in 2006-07 and \$281.3 million in 2007-08.

The Budget will maintain monthly SSI/SSP grant payments at the current level of \$812 for an aged or disabled individual and \$1,437 for a couple until April 1, 2006, at which time monthly payments would increase to an estimated \$827 for an individual and \$1,459 for a couple. These amounts will then remain in effect until increasing April 1, 2007, to a projected \$840 for an individual and \$1,478 for a couple. California's SSI/SSP payment standards for individuals continue to be the highest among the nation's 10 most populous states and second highest in the nation, while the payment standards for couples are the highest of all 50 states.

**In-Home Supportive Services**—General Fund expenditures in the In-Home Supportive Services (IHSS) program are projected to be \$1.2 billion in 2005-06, an increase of \$56.5 million or 4.8 percent from the revised 2004 Budget Act. Effective July 1, 2005, state participation in IHSS provider wages and health benefits increased from \$10.10 per hour to \$11.10 per hour based on the projected growth of General Fund revenues.

**Child Welfare Services Outcome Improvement Project**—The Budget includes \$2.2 billion (\$629.5 million General Fund) for Child Welfare Services (CWS) to provide a comprehensive system of services for children who are either at risk or have suffered abuse and neglect. The CWS program includes services to protect children and reunite families when possible, or to find alternative permanent families for children when they cannot return home safely.

CWS is evolving into an outcome-focused program with the implementation of the new California Outcome and Accountability System (Chapter 678, Statutes of 2001 [AB 636]). The Budget includes \$26.6 million (\$11.5 million General Fund) for a series of CWS Program Improvement initiatives in 2005-06 that will facilitate compliance with state and federal performance requirements, avoid federal penalties, and improve results for children and their families. Specifically, these projects include the following:

- The continued implementation and evaluation of CWS Program Improvement Plan initiatives that focus on improved safety assessments, provide increased opportunities for early intervention, and promote permanent connections for youth and improved transitions to adulthood. These activities are currently underway in 11 pilot counties.
- Implementation of county specific action plans to improve AB 636 performance and federal improvement measures.

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### Department of Child Support Services

**Child Support Alternative Federal Penalty Deferral**—The Budget includes federal fiscal relief of \$223 million due to progress in implementing a single, statewide automated child support system. The federal government approved a penalty deferral until state fiscal year 2006-07. The state is aggressively pursuing development and certification of a statewide child support automation system in an attempt to meet federal requirements for state child support automation. California expects to ask the federal government to certify its statewide automated child support system in September 2006.

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### Business, Transportation, and Housing

**Travel and Tourism**—The Budget Act of 2005 includes a \$7.3 million General Fund augmentation for the California Travel and Tourism Commission in the Business, Transportation and Housing Agency to promote California as a destination of choice for potential visitors to this state. Travel and Tourism is a highly successful public-private partnership program. This augmentation will enable the commission to generate private-sector contributions of \$11 million, bringing the total program to \$18.25 million.

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### Department of Housing and Community Development

**Housing Grants**—The Department of Housing and Community Development estimates that it will provide housing grants in the amount of \$390 million to local governments, non-profit organizations, and other qualified organizations to develop additional housing throughout the state. This includes disbursements of the Proposition 46 Housing and Emergency Shelter Trust Fund Act of 2002 bonds.

**Homelessness Initiative**—The Budget Act includes \$125,000 General Fund to create the Governor's Council to Address Chronic Homelessness. The Council will assist in the coordination and development of strategies between the state, local governments, and non-profits to address the issue of homelessness. The 2005 Budget Act also includes \$750,000 in Proposition 63 Mental Health Services Act funds which will be administered by the Department of Housing and Community Development to provide predevelopment loans for the construction of, addition to, and renovation of homeless shelters. Additionally, up to \$35 million in Proposition 46 funds are estimated to be available from loan repayments for supportive housing projects targeted to the chronic homeless.

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### Department of Motor Vehicles

**Electronic Reporting of Vehicle Insurance**—The Budget Act includes \$4.1 million and 9.5 positions to develop the information technology systems necessary to implement mandatory electronic reporting of vehicle insurance and to make that information available to law enforcement, as required by Chapter 920, Statutes of 2004 (SB 1500), and Chapter 948, Statutes of 2004 (AB 2709). A Budget Trailer Bill postpones the implementation of registration suspensions until October 1, 2006, to provide the Department of Motor Vehicles with sufficient time to implement the mandates imposed by this legislation.

## Budget Highlights

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### Department of Transportation (CalTrans)

Of the estimated \$18 billion statewide that will be spent on transportation in 2005-06, \$9 billion is reflected in the transportation budget in the Business, Transportation, and Housing Agency. Overall, state transportation revenues have increased by \$1.9 billion over 2004-05.

The Proposition 42 transfer is fully funded at an estimated \$1.3 billion. Tribal gaming bond revenues are estimated at \$1 billion. In total, these two funding sources will provide additional resources for the following programs: \$808 million for the Traffic Congestion Relief Plan, \$719 million for the State Transportation Improvement Program, and \$402 million for transit. Additionally, Caltrans shifted \$50 million per year from support to capital outlay projects.

In addition to the funding included in the Business, Transportation, and Housing section of the Budget, \$1.520 billion in funding for local streets and roads is included in the General Government section. This includes \$384 million from Proposition 42 and Indian Gaming.

In comparison to 2004-05, transportation funding in the Business, Transportation, and Housing Agency is up a net of \$536 million, reflecting \$514 million less in federal funding and \$420 million less in seismic retrofit expenditures. Because the federal funding originally provided in the federal Transportation Equity Act has expired and has only been extended for short periods, Caltrans estimated federal revenues only through the end of the most recent extension period. When Congress reauthorizes or extends funding for a longer period, these revenues are expected to increase significantly.

Significant funding increases include the following:

- The Budget includes \$5 million in federal funding for grants to be matched by metropolitan planning organizations for the development of regional blueprint plans that study future land use patterns and their potential effects on the region's transportation system, air quality, housing, open space, and other resources and develop comprehensive scenario plans. The regional blueprints will guide future development and land use decisions to promote economic development, protect the environment, promote healthy cities, and reduce unnecessary travel demand by providing mobility and access to schools, services, and recreation.
- The Budget Act includes \$3.5 million and 38 positions to establish a new culvert inspection program that will provide a statewide inventory of all drainage facilities including location, geographic information system data, design information, and structural deficiencies.
- In response to a court mandate to employ structural storm water treatment Best Management Practices, as well as to comply with Total Maximum Daily Loads regulations set by local and regional water quality control boards, the Budget includes an augmentation of \$26 million and 82 positions for the storm water program.

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### Local Government

The 2005 Budget Act provides significant assistance for local governments, as described below:

**Vehicle License Fee Gap Loan Repayment**—The Budget Act fully repays the \$1.2 billion that local governments lost between July and October of 2003, when the Vehicle License Fee offset program was temporarily suspended. The state is not required to repay the gap loan until August of 2006. It is fiscally prudent to use a portion of the additional onetime increase in the state's tax revenues to reduce this statutory obligation, as opposed to using those revenues for ongoing purposes. These are discretionary moneys which local governments may use to address their most pressing needs, such as public safety or fire protection.

**Small and Rural Sheriffs' Grant Program**—The Budget Act provides \$18.5 million for this program, which provides sheriffs' departments in 37 counties with statutorily specified grants of \$500,000. This funding gives the flexibility at the local level to allow county sheriffs to direct moneys to improve public safety in their jurisdiction. County sheriffs may use these moneys for whichever law enforcement activities best meet their individual needs.

**Rural Crime Prevention**—The Budget Act provides \$3.6 million for the rural crime prevention activities throughout the state. Of this amount, \$3.3 million will fund the existing Central Valley Rural Crime Prevention Program and \$300,000 will be provided to Monterey County planning activities to implement the Central Coast Rural Crime Prevention Program.

**Property Tax Administration Program Grants**—In light of the substantial amounts of other funding provided in the Budget for local governments and the additional \$350 million in property tax they will receive in 2005-06 as a one-time settle-up for the tax swaps that have occurred over the last two years, the Property Tax Administration Grant Program will be suspended for two years.

**Citizens' Option for Public Safety / Juvenile Justice grants**—\$100 million is provided to cities and counties for front-line law enforcement, county jail operations, and district attorneys. An additional \$26 million is authorized for county juvenile justice programs. The juvenile justice funding reflects a \$74 million one-time reduction to the annual allocation for these grants based on actual 2005-06 cash needs of the April to March cycle of this program, thereby achieving savings without affecting program services.

**Funding for Non-Proposition 98 Reimbursable State Mandates**—The Budget includes \$239.4 million General Fund for non-Proposition 98 reimbursable state mandated local programs. This amount includes \$120 million General Fund for services to Severely Emotionally Disturbed Students. Proposition 1A, passed by the voters in November 2004, requires funding 2004-05 mandate costs. This funding is for mandate costs occurring in 2004-05 and 2005-06.

## Budget Highlights

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### Department of Corrections and Rehabilitation

**Reorganization Plan**—The Budget reflects the Governor’s Reorganization Plan for the consolidation of the departments and boards under the Youth and Adult Correctional Agency into the new Department of Corrections and Rehabilitation (DCR). This is reflected through the deletion of the current appropriations for the Youth and Adult Correctional Agency, Department of Corrections, Board of Corrections, Board of Prison Terms, Department of the Youth Authority, and the Commission on Correctional Peace Officer’s Standards and Training and the addition of appropriations for the DCR.

Restructuring will establish a unified management design that facilitates clear lines of reporting, improves accountability and responsibility, eliminates duplication, centralizes services, and shares best practices across the entire organization. The reorganization will deliver a safer society in a more efficient manner to the people of California.

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### Resources and Environmental Protection

The Budget provides significant funding for programs that protect and preserve California’s natural resources and environment. These programs are carried out by the Department of Fish and Game, Department of Parks and Recreation, Department of Forestry and Fire Protection, Department of Water Resources, Water Resources Control Board, Air Resources Board, Department of Toxic Substances Control, and more than two dozen other departments, boards, commissions, and conservancies. The Budget includes funding for the following new programs:

**River Parkways Program**—The Budget includes \$38.35 million (\$30.5 million Proposition 50 and \$7.85 million Proposition 40 bond funds) to provide grants for the development and protection of river parkways. These grants fund various projects such as park development, habitat restoration, and the development of public access trails along state rivers.

**Sierra Nevada Cascade Program**—The Budget includes \$11.65 million from Proposition 50 to provide grants for the acquisition of land and water resources to protect lakes, reservoirs, rivers, streams, and wetlands in the Sierra Nevada region. The Secretary for Resources will coordinate with the newly created Sierra Nevada Conservancy to ensure the environmental preservation of the Sierra Nevada region.

**Sierra Nevada Conservancy**—The Budget includes \$3.5 million in funding and resources for the newly created Sierra Nevada Conservancy. Established pursuant to Chapter 726, Statutes of 2004 (AB 2600), the Conservancy will be responsible for acquiring and managing public lands within the 22-county Sierra Nevada-Cascade Mountains regions. The Conservancy will also develop and implement several program objectives and guidelines including, preserving and restoring physical and historical resources, protecting water quality, and providing increased recreation and tourism opportunities.

**Timber Harvest Plan Review**—The Budget includes \$1.7 million and 15 positions in the Department of Fish and Game to perform reviews of timber harvest plans in the central Sierra Nevada region. These resources will allow the Department to more thoroughly review timber harvest plans for their effects on fish and wildlife.

**Forestry and Fire Protection**—Consistent with the recommendations of the Blue Ribbon Fire Commission, the Budget provides a total of \$22.7 million General Fund for fire engine and helicopter replacement (\$10.8 million), year-round staffing in Southern California (\$9 million and 48.8 positions), and conversion and replacement of radio equipment (\$2.9 million). The Budget also includes \$3.8 million in federal funds and 19 positions to address the severe fire conditions in Southern California. Five years of severe drought have left Southern California forests vulnerable to bark beetle infestation, which has resulted in a significant number of dead and dying trees and has created extreme fire conditions, as evidenced by the 2003 Southern California wildfires. The U.S. Forest Service has provided grant funding for various forest health enhancement projects, including the removal of dead trees and forest restoration.

**Ocean Protection Act**—The Budget proposes \$1.2 million in Environmental License Plate Funds to establish the Ocean Protection Council. Pursuant to Chapter 719, Statutes of 2004 (SB 1319), the Council will coordinate the state's coastal waters and ocean ecosystem protection and conservation efforts. The Council also will develop strategies to ensure the sustainability of ocean resources and habitats.

**Hearst Ranch**—The Budget proposes \$1.3 million General Fund to operate the Hearst Ranch Conservation Easement. Two million individuals are expected to visit the property annually. The funding will provide for public access planning and maintenance, coastal trail design, development and management, and natural resource management and monitoring.

**Flood Control Strategic Improvements**—In *Paterno v. State of California*, the state was found to be liable for damages from the 1986 floods. To protect property and prevent future floods, the Budget provides \$9.7 million General Fund for levee maintenance activities, engineering evaluations of the structural integrity and capacity of levees, improved emergency response capabilities, and floodplain mapping activities to identify areas vulnerable to floods.

**All-American Canal**—The Budget provides \$59.1 million General Fund for the lining of the All-American and Coachella canals. This funding is consistent with the Quantification Settlement Agreement, which is a comprehensive agreement among the federal government, state, and various water agencies to reduce California's use of Colorado River water. These canal lining projects are estimated to save approximately 100,000 acre-feet of Colorado River water.

**CALFED Bay-Delta Program**—The Budget contains \$225.9 million total state funding for the CALFED Bay-Delta Program. The CALFED Program is an unprecedented effort to build a framework for managing California's most precious natural resource, water. Along with the state, the federal

## Budget Highlights

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government, water users, environmentalists, business leaders, and representatives of local governments and tribal communities participate in the CALFED Program.

**Air Quality Initiatives**—The Budget provides \$6.5 million for the Hydrogen Highway Initiative, which will encourage a transition to a clean, hydrogen-based transportation system in California. The use of hydrogen technologies has the potential to reduce significantly air pollution from fossil fuel emissions. These funds will support leases for 12 hydrogen fuel cell cars for use in state fleets, the purchase of 2 hydrogen shuttle buses, and co-funding for 3 publicly accessible, renewable hydrogen stations.

The Budget also provides \$88.5 million of state funding for the Carl Moyer Program, which provides incentive grants to reduce emissions from heavy-duty, diesel-powered vehicles and equipment. This funding will reduce smog-forming oxides of nitrogen emissions by approximately 4,400 tons, which is the equivalent of taking over 400,000 cars off of the road.

The Budget also provides an additional \$25 million to replace and retrofit diesel school buses. Of this amount, \$12.5 million will be used to replace pre-1977 school buses, which generate a significant amount of diesel emissions and were built prior to federal safety standards. The remaining funds will be used to retrofit other diesel school buses that generate significant emissions. This funding will reduce children's exposure to diesel exhaust.

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## Capital Outlay

The 2005 Budget Act provides \$1.58 billion for new and continuing projects for the statewide capital outlay program. In addition, this Budget reappropriates \$1.63 billion, for a total capital outlay program of \$3.21 billion. Of the \$1.58 billion total authorized for new and continuing projects, the General Fund contributes \$104.2 million, Lease Revenue bonds provide \$441 million, and General Obligation bonds provide \$965 million. This total also includes capital outlay funding received by departments from reimbursements, federal funds, and special funds. This total does not include funding for the state highway system, the State Water Project, K-12 schools, and the state conservancies. The following chart summarizes the new and continuing capital outlay projects authorized by the 2005 Budget Act.

**Figure CO-1**

**Capital Outlay Program  
New/Continuing Projects**

	<b>General Funds</b>	<b>Other Funds</b>	<b>Total</b>
	(\$ in thousands)		
<b>Continuing Projects</b>	<b>\$94,153</b>	<b>\$1,231,755</b>	<b>\$1,325,908</b>
<b>New Projects</b>	<b>10,094</b>	<b>245,300</b>	<b>255,394</b>
<b>TOTAL</b>	<b>\$104,247</b>	<b>\$1,477,055</b>	<b>\$1,581,302</b>

<b>TOTAL FUNDING BY AGENCY</b>	<b>General Funds</b>	<b>Other Funds</b>	<b>Total</b>
Legislative, Judicial, and Executive	\$1,493	\$24,556	\$26,049
State and Consumer Services	11,937	90,258	102,195
Business, Transportation, and Housing Resources	0	23,833	23,833
Environmental Protection	31,551	238,539	270,090
Health and Human Services	3,063	103	3,166
Corrections and Rehabilitation	5,674	58,196	63,870
Education	44,713	86,302	131,015
Higher Education	470	17,866	18,336
General Government	0	909,986	909,986
Capital Outlay Planning	4,346	27,416	31,762
	1,000	0	1,000
<b>TOTALS - New/Continuing Projects</b>	<b>\$104,247</b>	<b>\$1,477,055</b>	<b>\$1,581,302</b>

**Retirement and Employee Compensation**

**Pension Reform**—The Budget reflects a reform to the state’s employee retirement system estimated to save approximately \$37 million (\$18.2 million General Fund) in 2005-06. State miscellaneous and industrial retirement category employees will be permitted to choose whether or not to continue membership in the Public Employees Retirement System (PERS). Employees who elect to opt out of PERS will be provided additional compensation equal to one-half the employer’s normal cost of retirement. Employees will be able to determine the most appropriate savings/retirement plan depending upon their personal situation.

**Employee Compensation**—The Budget reflects an augmentation of \$355 million (\$162.8 million General Fund) for salary increases and dental and vision premium increases. The Budget includes scheduled salary increases for Bargaining Units 5 (Highway Patrol), 6 (Corrections), 8 (Firefighters), 9 (Engineers), 12 (Trades and Crafts), and 18 (Psychiatric Technicians).

**Employee Compensation Reforms**—The Budget includes savings identified from anticipated reductions in employee compensation resulting from negotiations with the various collective bargaining units whose contracts have expired. A savings of \$39.5 million (\$21.7 million General Fund) is anticipated from reducing the number of state holidays from 14 to 12 and from eliminating leave in the calculation of “time worked” when computing overtime.

## Budget Highlights

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**State Teachers' Retirement System**—The Budget provides for full funding of the state's statutory obligations to State Teachers' Retirement System (STRS). The June 30, 2003, valuation of the STRS Defined Benefit Program identified a \$118 million liability in the funding for the 1990 level of benefits. Pursuant to Education Code Section 22955(b), the state made an additional contribution of \$92 million in 2004-05 and will make another \$31 million contribution in 2005-06 to offset the unfunded liability.

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### Financial Instruments

**Pension Obligation Bonds**—The Budget reflects the state's issuance of pension obligation bonds to fund approximately \$525 million of the state's 2005-06 retirement obligation to the California Public Employees' Retirement System. This will free up an equal amount of General Fund money and the General Fund will be responsible for all future bond redemption costs. The state will make interest-only payments of approximately \$33.6 million from 2006-07 through 2010-11 and \$56.5 million in each fiscal year from 2011-12 through 2026-27.

**Refunding of the Tobacco Securitization Bonds**—A portion of the Golden State Tobacco Securitization Bonds will be refunded this fiscal year. In exchange for its continued backing of these bonds, and anticipated lower interest rates, the General Fund will receive an estimated \$525 million.

**General Fund  
Budget Summary**  
(Dollars in Millions)

	<u>2004-05</u>	<u>2005-06</u>
<b>Prior Year Balance</b>	\$7,279	\$7,498
Revenues	\$79,696	\$84,262
Transfers	\$239	\$209
Economic Recovery Bonds	<u>\$2,012</u> <sup>1/</sup>	<u>-</u>
<b>Total Resources Available</b>	<b>\$89,226</b>	<b>\$91,969</b>
Non-Proposition 98 Expenditures	\$47,719	\$53,435
Proposition 98 Expenditures	<u>\$34,009</u>	<u>\$36,591</u>
<b>Total Expenditures</b>	<b>\$81,728</b>	<b>\$90,026</b>
<b>Fund Balance</b>	<b>\$7,498</b>	<b>\$1,943</b>
<b>Budget Reserves:</b>		
Reserve for Liquidation of Encumbrances	\$641	\$641
Special Fund for Economic Uncertainties	\$6,857	\$1,302 <sup>2/</sup>

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

<sup>2/</sup> Includes \$900 million set aside for refunds/accelerations of amnesty related revenue in 2006-07.

## Summary Charts

### 2005-06 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2004-05
Personal Income Tax	\$43,231	\$683	\$43,914	\$1,627
Sales Tax	26,951	4,368	31,319	1,942
Corporation Tax	8,822	-	8,822	1,148
Highway Users Taxes	-	3,441	3,441	84
Motor Vehicle Fees	21	5,039	5,060	192
Insurance Tax	2,300	-	2,300	88
Liquor Tax	315	-	315	3
Tobacco Taxes	116	931	1,047	-28
Other	2,715	9,616	12,331	1,319
<b>Total</b>	<b>\$84,471</b>	<b>\$24,078</b>	<b>\$108,549</b>	<b>\$6,375</b>

Note: Numbers may not add due to rounding.

### General Fund Expenditures by Agency

(Dollars in Millions)

	2004-05	2005-06	Change	%
Legislative, Judicial, Executive	\$2,906	\$3,057	\$151	5.2%
State and Consumer Services	541	562	21	3.9%
Business, Transportation & Housing Resources	374	1,702	1,328	355.1%
Environmental Protection	1,064	1,356	292	27.4%
Health and Human Services	78	79	1	1.3%
Corrections and Rehabilitation	24,998	27,115	2,117	8.5%
K-12 Education	6,999	7,422	423	6.0%
Higher Education	34,299	36,583	2,284	6.7%
Labor and Workforce Development	9,352	10,217	865	9.2%
General Government	87	88	1	1.1%
<b>Total</b>	<b>1,030</b>	<b>1,845</b>	<b>815</b>	<b>79.1%</b>
<b>Total</b>	<b>\$81,728</b> <sup>1/</sup>	<b>\$90,026</b>	<b>\$8,298</b>	<b>10.2%</b>

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

Note: Numbers may not add due to rounding.

**2005-06 Expenditures by Agency**  
(Dollars in Millions)

<b>Agency</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Bond Funds</b>	<b>Totals</b>
Legislative, Judicial, Executive	\$3,057	\$1,740	\$751	\$5,548
State and Consumer Services	562	716	28	1,306
Business, Transportation & Housing	1,702	6,348	126	8,176
Resources	1,356	1,649	688	3,693
Environmental Protection	79	984	172	1,235
Health and Human Services	27,115	5,618	111	32,844
Corrections and Rehabilitation	7,422	3	2	7,427
K-12 Education	36,583	56	96	36,735
Higher Education	10,217	1,246	2,007	13,470
Labor and Workforce Development	88	293	-	381
General Government	1,845	4,680	23	6,548
<b>Total</b>	<b>\$90,026</b>	<b>\$23,333</b>	<b>\$4,004</b>	<b>\$117,363</b>

Note: Numbers may not add due to rounding.

**General, Special, and Bond Funds**  
(Dollars in Millions)

<b>Agency</b>	<b>Legislative Spending Plan</b>	<b>Governor's Vetoes</b>		<b>Enacted Budget</b>
		<b>General Fund</b>	<b>Special and Bond Funds</b>	
Legislative, Judicial, Executive	\$5,660	-\$68	-\$44	\$5,548
State and Consumer Services	1,308	-1	-1	1,306
Business, Transportation & Housing	8,186	-	-10	8,176
Resources	3,717	-7	-17	3,693
Environmental Protection	1,237	-1	-1	1,235
Health and Human Services	32,869	-25	-	32,844
Corrections and Rehabilitation	7,427	-	-	7,427
K-12 Education	36,735	- <sup>1/</sup>	-	36,735
Higher Education	13,512	-42 <sup>1/</sup>	-	13,470
Labor and Workforce Development	385	-3	-1	381
General Government	6,517	32 <sup>2/</sup>	-1	6,548
<b>Total</b>	<b>\$117,553</b>	<b>-\$115</b>	<b>-\$75</b>	<b>\$117,363</b>

Note: Numbers may not add due to rounding.

<sup>1/</sup> Net of set-aside of \$102.3 million (\$98,875,000 Proposition 98 and \$3,440,000 for nursing programs).

<sup>2/</sup> Includes a technical adjustment to accurately account for prior years' Proposition 98 funds.

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**State of California**  
Governor's Office

I object to the following appropriations contained in Senate Bill 77.

Item 0250-111-0001—For transfer by the Controller to the Trial Court Trust Fund. I reduce this item from \$1,453,866,000 to \$1,386,566,000.

I am reducing this item by \$57,500,000 as a one-time base veto of a portion of the General Fund transfer to the Trial Court Trust Fund. This veto decreases the reserve in the Trial Court Trust Fund from \$67,500,000 to \$10,000,000, leaving a sufficient reserve in case revenues fall short of expected levels. The Trial Court Trust Fund does not need a large reserve since, pursuant to recent legislation, its primary fund sources now receive a statutory annual adjustment based on the increase in the State Appropriations Limit.

I am also reducing this item by \$9,800,000. The Legislature adopted Uniform Civil Filing Fees trailer bill language that would bring in increased revenue of \$14,750,000 in 2005-06 to the Trial Court Trust Fund. Of this amount, \$4,950,000 will be available as additional expenditure authority to the Trial Court Trust Fund for the facilities program and the remaining \$9,800,000 will offset the General Fund transfer. Since the Uniform Civil Filing Fee will not be implemented until January 1, 2006, the above amounts are for a half-year only and will be annualized in 2006-07. As such, the ongoing offset to the General Fund transfer will be \$19,600,000.

Item 0520-001-9329—For support of Secretary for Business, Transportation and Housing. I delete this item.

I am deleting the \$2,000,000 legislative augmentation that would provide loans to chrome plating businesses. This augmentation is associated with pending legislation and I am opposed to the appropriation of funds for legislation that has not yet been approved by the Legislature and the Administration.

Item 0540-001-0140—For support of Secretary for Resources. I revise this item by reducing:

(1) 10-Administration of Resources Agency from \$8,378,000 to \$8,362,000,

and by deleting:

(5.5) Amount payable from the River Protection Subaccount (Item 0540-001-6015) (-\$16,000).

I am revising this item to conform to the action I have taken in Items 0540-490 and 0540-001-6015.

Item 0540-001-6015—For support of Secretary for Resources. I delete this item.

I am deleting this item to conform to the action I have taken in Items 0540-490 and 0540-001-0140.

Item 0540-490—Reappropriation, Secretary for Resources. I revise this item as follows:

"Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations are extended to June 30, 2006:

0001—General Fund

- (1) Item 0540-101-0001, Budget Act of 1999 (Ch. 50, Stats. 1999)
- (2) Item 0540-101-0001, Budget Act of 2000 (Ch. 52, Stats. 2000)
- (3) Item 0540-101-0001, Budget Act of 2001 (Ch. 106, Stats. 2001)

0890—Federal Trust Fund

- (1) Item 0540-001-0890, Budget Act of 2002 (Ch. 379, Stats. 2002)

~~6015—River Protection Subaccount~~

- ~~(1) Item 0540-101-6015, Budget Act of 2000 (Ch. 52, Stats. 2000)~~
  - ~~(a) Los Angeles River Parkways"~~

I am eliminating the availability of funding provided to the City of Maywood for the Maywood Riverfront Park. Funds for this project have been available since 2000 and the City has not yet purchased the land as required by the grant agreement. Several obstacles remain, making this purchase unlikely in the near future. Consequently, it would not be prudent to continue earmarking these funds for the Maywood project.

I am revising this item to conform to the action I have taken in Items 0540-001-0140 and 0540-001-6015.

Item 0555-001-0044—For support of Secretary for Environmental Protection. I revise this item by reducing:

- (1) 30-Support from \$9,703,000 to \$9,203,000, and
- (11.5) Amount payable from the Public Interest Research, Development and Demonstration Fund (Item 0555-001-0381) (-\$500,000).

I am revising this item to conform to the action I have taken in Item 0555-001-0381.

Item 0555-001-0381—For support of Secretary for Environmental Protection. I delete this item and Provision 1.

I am deleting the \$500,000 legislative augmentation to support the California Climate Action Registry. The work of the Registry is important to accomplishing the goals of the state's greenhouse gas reduction targets, but the Energy Commission already provided \$200,000 in 2004-05 for this purpose. Furthermore, I believe that awards under the Public Interest Energy Research Program should be funded through the existing competitive grant process.

I am deleting Provision 1 to conform to this action.

Item 0855-101-0367—For local assistance, California Gambling Control Commission. I reduce this item from \$50,000,000 to \$30,000,000.

I am deleting the \$20,000,000 legislative augmentation to provide additional grant funds to mitigate the impacts of tribal gaming on local government agencies. I am supportive of these mitigation efforts and understand their importance, especially to areas with significant concentrations of tribal casinos. Because local government agencies have not provided

required annual reports that detail the specific projects funded in their jurisdictions in the past two years, I do not have sufficient information to justify this augmentation.

Item 0860-001-0001—For support of the State Board of Equalization. I reduce this item from \$211,158,000 to \$210,843,000 by reducing:

- (1) 100000-Personal Services from \$275,822,880 to \$275,506,880;
- (2) 300000-Operating Expenses and Equipment from \$89,199,120 to \$89,030,120; and
- (3) Reimbursements from -\$104,504,000 to -\$104,334,000.

I am deleting the \$485,000 legislative augmentation for eight Consumer Use Tax collection positions. My Budget proposed, and the Legislature approved, seven new positions for this purpose. These positions are adequate to address workload needs.

Item 1111-002-0239—For support of the Bureau of Security and Investigative Services. I reduce this item from \$7,241,000 to \$6,958,000 by reducing:

- (1) 25.10.010-Bureau of Security and Investigative Services, Private Security Services Program from \$9,695,000 to \$9,412,000.

I am vetoing this legislative augmentation of \$283,000 and 3.0 positions for the Bureau of Security and Investigative Services. This augmentation is not based on a justified programmatic need, but rather was made because there is a growing fund reserve in the Private Security Services Fund. The growing fund balance reflects a need for the Bureau to reduce fees paid by registrants and is not a reason to increase staffing.

Item 1730-001-0001—For support of Franchise Tax Board. I reduce this item from \$508,091,000 to \$506,865,000, by reducing:

- (1) 10-Tax Programs from \$432,283,000 to \$431,057,000,

and by deleting Provision 8.

I am deleting the \$1,226,000 legislative augmentation that provides 14 additional positions to establish a Misdemeanor Program within the Franchise Tax Board. I am concerned that this program might result in charges against persons who innocently failed to recognize that they had taxable income. There is no indication that local prosecutors would be willing to pursue these cases. Consequently, the revenue projections associated with this augmentation are questionable.

I am deleting Provision 8 of this item. The provisional language would allow the Board to divert up to \$200,000 that is appropriated for activities designed to narrow the tax gap. Specifically, the language would allow the Board to hire outside consultants to study independent contractor withholding and tax compliance issues. I do not believe that funds appropriated for the tax gap proposals should be redirected for other purposes. Furthermore, the Board has studied this issue in the past, and it concluded that California should not take action on this issue unless the federal government takes similar action.

Item 1760-001-0666—For support of Department of General Services. I reduce this item from \$590,238,000 to \$584,086,000 by reducing:

(1) Program support from \$802,572,000 to \$796,420,000,

and by deleting Provision 12.

I am reducing \$6,152,000 and 114.0 personnel years from the Office of State Publishing (OSP) to realign expenditures and revenues. For the last several years, the OSP has not generated sufficient revenues to support its current operations.

I am deleting Provision 12, which would require the Department to provide a report that could lead to disclosure of confidential or proprietary information related to negotiated pharmaceutical contracts. Since trailer bill language also requires the Department to report on these contracts, and does so in a way that would not jeopardize the confidentiality of the negotiated pricing, this Provision is unnecessary.

Item 2150-001-0298—For support of Department of Financial Institutions. I reduce this item from \$18,882,000 to \$18,881,000, by reducing:

(5) 60-Credit Unions from \$3,827,000 to \$3,826,000.

I am reducing this item by \$1,000 to reflect the elimination of the Credit Union Advisory Committee. This is consistent with my commitment to eliminate unnecessary boards and commissions.

Item 2240-105-0001—For transfer to the Emergency Housing and Assistance Fund.

I am sustaining \$864,000 General Fund for the Emergency Housing Assistance Program in this item, on a one-time basis, to continue shelter beds during a transition period while new beds are developed under my proposal to create permanent housing with supportive services for the chronically homeless.

Item 2660-022-0042—For transfer by the Controller from the State Highway Account, State Transportation Fund, to the Environmental Enhancement and Mitigation Program Fund. I delete this item.

I am deleting the \$10,000,000 legislative augmentation for the discretionary Environmental Enhancement and Mitigation Demonstration Program that provides grants to local entities for highway landscaping, urban forestry, the purchase of resource lands, and roadside recreation such as the construction of hiking and biking trails. While preserving open space is an extremely important function in maintaining our environment, improving mobility and increasing maintenance for our state highways is critical. This augmentation is not the best use of scarce transportation funds.

Item 2660-101-0183—For local assistance, Department of Transportation. I delete this item.

I am deleting this item to conform to the action I have taken in Item 2660-022-0042.

Item 2660-102-0890—For local assistance, Department of Transportation. I revise this item by revising Provision 4 as follows:

"4. Of the amount appropriated in this item, \$5,000,000 is for regional blueprint planning grants. ~~Of the \$5,000,000, at least 20 percent of the funds shall be allocated by the Department of Transportation, in consultation with the Department of Housing and Community Development, for grants to those regional councils of governments that have Regional Housing Needs Assessment tasks scheduled for the 2005-06 fiscal year to assist with preparation of their Regional Housing Needs Assessment in order to coordinate and integrate housing and transportation planning to the extent allowable under federal law. If the Regional Housing Needs Assessment is determined to be a reimbursable state mandate pursuant to Section 6 of Article XIII B of the California Constitution, then any grants received by councils of governments to prepare the assessment under this item shall be considered an offsetting revenue for the purposes of claiming state reimbursement.~~"

I am revising Provision 4, because it would require the use of transportation funds for non-transportation purposes, which is not consistent with the intent of the regional blueprint planning program and may not be consistent with federal law.

Item 2665-001-0046—For support of the High-Speed Rail Authority. I reduce this item from \$4,251,000 to \$3,926,000 by reducing:

(1) 10-High-Speed Rail Authority from \$4,576,000 to \$3,926,000;

and by deleting:

(2) Reimbursements (-\$325,000);

and by deleting Provision 2.

I am deleting the legislative augmentation of \$650,000 and 0.5 positions to conduct a study of route alternatives and potential station locations along the Fresno-to-Bakersfield corridor. The High-Speed Rail Authority has already completed a study of this corridor and has not designated any station locations other than Fresno and Bakersfield.

I am deleting Provision 2 to conform to this action.

Item 3360-011-0381—For transfer by the Controller from the Public Interest Research, Development, and Demonstration Fund to the General Fund. I delete this item.

I am deleting the transfer of \$4,000,000 in interest earnings from the Public Interest Research, Development, and Demonstration Fund (PIER Fund) to the General Fund. The PIER Fund is a trust fund to be used for projects that benefit the ratepayers paying the surcharge. Consequently, interest earnings should remain in the fund to be used for projects that promote electricity efficiency and environmentally sustainable energy development.

Item 3480-001-0001—For support of Department of Conservation. I revise this item by reducing:

(3) 30-Land Resource Protection from \$4,256,000 to \$3,911,000, and

- (13) Amount payable from the Soil Conservation Fund (Item 3480-001-0141) from -\$2,599,000 to -\$2,254,000.

I am revising this item to conform to the action I have taken in Item 3480-001-0141.

Item 3480-001-0141—For support of Department of Conservation. I reduce this item from \$2,599,000 to \$2,254,000.

I am deleting the \$345,000 legislative augmentation to increase staffing for Williamson Act enforcement activities. The need for additional staff for enforcement of the Williamson Act has not been clearly demonstrated. Consequently, I am unable to support this augmentation from the limited resources in the Soil Conservation Fund.

Item 3600-001-0384—For support of Department of Fish and Game. I reduce this item from \$8,000,000 to \$4,000,000.

I am revising this item to conform to the action taken in Item 3640-401.

Item 3640-401—Wildlife Conservation Board. I revise this item as follows:

"Notwithstanding any other provision of law, the balance of revenues that would have been deposited in the California Housing Trust Fund and the Resources Trust Fund, pursuant to Section 6217 of the Public Resources Code, shall be allocated in the following order:

Provisions:

1. ~~\$8,000,000~~ \$2,000,000 shall be deposited into the State Parks and Recreation Fund for the Department of Parks and Recreation Maintenance and Park Ranger staff and deferred maintenance. It is the intent of the Legislature that this augmentation be used to establish up to 40 new parks positions. These funds are intended to be ongoing.
2. ~~\$8,000,000~~ \$4,000,000 shall be deposited into the Salmon and Steelhead Trout Restoration Account for salmon and steelhead trout restoration projects authorized by Section 62171 of the Public Resources Code, including, but not limited to, projects that implement the Coho Salmon Recovery Plan.
3. \$48,000,000 shall be deposited in the General Fund.
4. ~~\$3,000,000 shall be deposited into the Fish and Game Preservation Fund to continue operation of state fish hatcheries located in various regions of the state.~~
5. ~~\$3,000,000 shall be deposited into the State Parks and Recreation Fund for deferred maintenance.~~
6. Any revenues remaining after expenditure for the purposes specified in Provisions 1, 2, 3, 4, and 5, shall be deposited in the General Fund."

I am reducing Provisions 1 and 2, which would transfer Tidelands Oil Revenue to specified funds within the Department of Parks and Recreation for staffing and deferred maintenance projects, and the Department of Fish and Game for salmon and steelhead restoration and fish hatcheries. I am also deleting Provisions 4 and 5. Although the augmentations contained in these provisions may have merit, these reductions and deletions are necessary in light of our current fiscal situation and to ensure a prudent General Fund reserve.

I am revising this item to conform to the action I have taken in Items 3600-001-0200, 3600-001-0384, 3790-001-0001, and 3790-001-0392.

Item 3720-001-0001—For support of California Coastal Commission. I reduce this item from \$10,751,000 to \$9,801,000 by reducing:

- (1) 10-Coastal Management Program from \$14,573,000 to \$13,973,000, and
- (2) 20-Coastal Energy Program from \$1,147,000 to \$797,000.

I am reducing this item by \$950,000 and eight positions for administration of Offers-to-Dedicate and review of Liquefied Natural Gas (LNG) applications and federal offshore oil leases. This augmentation may have merit; however, as presently proposed it would result in a General Fund cost. The Coastal Commission has sufficient resources to perform critical, high priority work such as the review of LNG applications. The Commission also has the authority to adjust its fees in order to fund its activities, and can address this issue and meet its workload obligations without impacting the General Fund.

Item 3760-301-0593—For capital outlay, State Coastal Conservancy. I reduce this item from \$950,000 to \$450,000 to make a technical correction to the Budget Bill by reducing:

- (1) 80.00.020-Public Access from \$950,000 to \$450,000.

I am deleting the \$500,000 legislative augmentation because there are insufficient funds in the Coastal Access Account to support this augmentation. With this technical correction, \$450,000 remains to support the Conservancy's efforts to accept and open Offers-to-Dedicate easements.

Item 3790-001-0001—For support of Department of Parks and Recreation. I revise this item by reducing:

- (1) For support of the Department of Parks and Recreation from \$353,003,000 to \$344,003,000, and
- (9) Amount payable from the State Parks and Recreation Fund (Item 3790-001-0392) from -\$134,779,000 to -\$125,779,000.

I am revising this item to conform to the actions taken in Items 3640-401 and 3790-001-0392.

Item 3790-001-0392—For support of Department of Parks and Recreation. I reduce this item from \$134,779,000 to \$125,779,000.

I am revising this item to conform to the actions taken in Items 3640-401 and 3790-001-0001.

Item 3900-001-0044—For support of Air Resources Board.

I am sustaining this legislative augmentation of \$12,500,000 to replace pre-1977 school buses. To ensure that this augmentation is spent most appropriately, I am directing the Air Resources Board to develop a plan by September 15, 2005, for allocation of these resources, and to submit this plan to the California Environmental Protection Agency for review and approval. The allocation plan must consider the overall financial capacity of the applicant to reasonably replace these buses without state assistance, the exposure to children, and the age of the buses slated for replacement.

Item 3900-001-0115—For support of Air Resources Board.

I am sustaining the redirection of \$10,000,000 from the Carl Moyer Program to fund the retrofitting of diesel school buses. The allocation criteria for Carl Moyer Program make it difficult for school bus projects to qualify for award and thus our children continue to be at risk. To ensure that these redirected funds are spent most appropriately, I am directing the Air Resources Board to develop a plan by September 15, 2005, for allocation of these resources, and to submit this plan to the California Environmental Protection Agency for review and approval. The allocation plan must consider the overall financial capacity of the applicant to reasonably replace these buses without state assistance, the exposure to children, and the age of the buses slated for replacement.

This redirection, along with the augmentation of Item 3900-001-0044 and the \$4,500,000 of Proposition 98 funding is a significant and important advancement in our protection of our children.

Item 3980-001-0001—For support of Office of Environmental Health Hazard Assessment. I reduce this item from \$8,852,000 to \$8,352,000 by reducing:

- (1) 10-Health Risk Assessment from \$16,924,000 to \$15,924,000;
- (6) Amount payable from the Department of Pesticide Regulation Fund (Item 3980-001-0106) from -\$1,120,000 to -\$870,000;

and by deleting:

- (7.5) Amount payable from the Waste Discharge Permit Fund (Item 3980-001-0193) (-\$250,000)

The Legislature augmented the Office of Environmental Health Hazard Assessment's (OEHHA's) budget by \$1,500,000. I am sustaining a \$500,000 General Fund augmentation to support OEHHA's scientific efforts to evaluate environmental risks. However, I am vetoing \$1,000,000 of the augmentation to support a prudent General Fund reserve and because there are insufficient funds available in the Department of Pesticide Regulation Fund.

Item 3980-001-0106—For support of Office of Environmental Health Hazard Assessment. I reduce this item from \$1,120,000 to \$870,000.

I am reducing this item by \$250,000 to conform to the actions I have taken in Item 3980-001-0001.

Item 3980-001-0193—For support of Office of Environmental Health Hazard Assessment. I delete this item.

I am deleting this item to conform to the actions I have taken in Item 3980-001-0001.

Item 4120-115-0001—For transfer by the Controller to the Trauma Care Fund. I am sustaining this item.

I am sustaining the \$10,000,000 legislative augmentation for trauma care services on a one-time basis because I am concerned about the financial stress experienced by many of our state's trauma centers. I recognize the critical role these health care facilities play in providing

access to essential medical services and the importance of addressing priority concerns such as securing on-call physicians and promoting hospital surge capacity for times of emergency. I am therefore sustaining this funding and directing the Emergency Medical Services Authority to work closely with local Emergency Medical Services Authorities to ensure these funds target priority needs and do not supplant existing funding.

Item 4260-001-0001—For support of Department of Health Services. I reduce this item from \$244,093,000 to \$241,093,000 by reducing:

(1) 10-Public and Environmental Health from \$313,379,000 to \$310,379,000,

and by deleting Provision 11.

I am deleting the \$3,000,000 legislative augmentation to continue the Improved Access, Counseling and Treatment for Californians with Prostate Cancer (IMPACT) program, as it is not prudent to expand programs in light of the projected structural deficit in 2006-07, and because of the absence of an evaluation of the effectiveness of the IMPACT program, especially given the 45 percent non-clinical overhead costs of the program. Without restructuring program operations, it is not clear that the benefits of this program for the small number of beneficiaries (341 in 2004-05) outweigh the costs. My Budget places a high priority on protecting health care services and maintains eligibility for health insurance for millions of low-income Californians. It increases funding for indigent health care services providing \$73,500,000 to support indigent healthcare in the California Healthcare for Indigents and Rural Health Services programs.

The IMPACT program was established as a pilot program in 2000-01 using one-time Tobacco Settlement Funds. It last received new funding by the Legislature in 2002-03. Since then, the program has used previously unspent funds to continue program services. These funds are exhausted. Given concerns that less than 60 percent of the appropriated funds are spent on direct patient care and the lack of an evaluation of the program's effectiveness, I am directing the department to evaluate the IMPACT program for programmatic and cost effectiveness. Any contractual funding for a prostate cancer treatment program must go to maximize services to the patients and minimize contractual costs and overhead. Continuing this program prior to the evaluation is imprudent.

I am deleting Provision 11 to conform to this action.

Item 4260-001-0626—For support of Department of Health Services. I delete Provision 1.

I am deleting Provision 1, which would require the Department of Health Services to use the interagency agreement process to conduct work related to small water systems. This Budget Bill language would limit the Department's flexibility to seek an external contract for these services if an interagency agreement is not a viable option if geographic restrictions preclude use of state staff or if there are other operational alternatives that would be beneficial to and less costly for the state.

Item 4260-101-0001—For local assistance, Department of Health Services. I reduce this item from \$12,670,181,000 to \$12,665,819,000 by reducing:

(3) 20.10.030-Benefits (Medical Care and Services) from \$29,401,653,000 to \$29,392,929,000;

(9) Amount payable from the Federal Trust Fund (4260-101-0890) from -\$19,282,571,000 to -\$19,278,209,000;

and by deleting Provision 14.

I am deleting the legislative augmentation of \$3,362,000 for the Alameda Alliance for Health and Partnership HealthPlan of California. I believe California must expand its use of managed care for Medi-Cal beneficiaries in order to improve outcomes for this critical population and control growth of the program's costs. But before the state considers funding a rate increase to providers, which this augmentation would do, a thorough review of these managed care providers' financial records is necessary to determine the underlying causes of the financial status of the providers. The Department of Health Services will change the Partnership's contract date to allow time for a thorough review of the Partnership's reimbursement rate during the next budget cycle. There is an indication that past discretionary actions of the Alameda Alliance for Health are largely responsible for their current fiscal stress. It would be unwise for the state to provide fiscal relief to Alameda Alliance for Health until the Alameda Alliance for Health implements cost-saving strategies.

However, in the case of the San Diego Community Health Group, I have determined that vetoing \$2,000,000 million (\$1,000,000 General Fund) and sustaining \$3,000,000 (\$1,500,000 General Fund) is appropriate. Community Health Group has worked closely with the Department of Managed Health Care to restructure their finances and implement program efficiencies. In addition, this increase will partially compensate the Group for a Medi-Cal rate increase in 2000 that is not reflected in the Group's current rate. This action, combined with the significant rate reductions the Group has already negotiated with its key providers, will allow the Group to implement a sound fiscal plan to assure that the Group will be able to continue to provide services to a vulnerable population without additional rate increases next year.

I am also deleting the legislative augmentation of \$4,362,000 in Item 4260-101-0890 to conform to this action.

I am deleting Provision 14 because requiring the Administration to notify the Legislature whenever actual expenditures for a specific part of the Medi-Cal program are not consistent with the Medi-Cal Estimate would be unnecessarily burdensome. The Department of Health Services already provides the Legislature with a monthly report which compares components of the Medi-Cal Estimate to actual expenditures. Any information beyond this report would require an unreasonable expenditure of staff resources given that it would result in duplicative information, and the additive value of the information that it would provide is uncertain.

Item 4260-101-0890—For local assistance, Department of Health Services. I reduce this item from \$19,282,571,000 to \$19,278,209,000.

I am reducing this item by \$4,362,000 to conform to my action in Item 4260-101-0001.

Item 4260-111-0001—For local assistance, Department of Health Services.

I am sustaining, on a one-time basis, the \$5,639,000 legislative augmentation which would restore Human Immunodeficiency Virus (HIV) Prevention and Education funding for various local health jurisdictions to 2001-02 funding levels. This Budget includes base General Fund support of approximately \$24.9 million, which is currently allocated to local health jurisdictions based on the California HIV Planning Group's formula to direct funds to those jurisdictions that have the highest prevalence of the disease. Supplemental program funding in 2006-07 beyond

the base funding of \$24.9 million should be reviewed in the context of competing priorities for limited General Fund resources.

Item 4270-001-0001—For support of California Medical Assistance Commission. I reduce this item from \$1,207,000 to \$1,126,000 by reducing:

- (1) 10-California Medical Assistance Commission from \$2,622,000 to \$2,460,000, and
- (2) Reimbursements from -\$1,307,000 to-\$1,226,000.

I am reducing this item by \$162,000 to disassociate commissioner salaries from the salaries provided to legislators. Instead, commissioner annual compensation will be \$50,000. This action more properly aligns commissioner salaries with the amount of work required to faithfully perform the duties required of commissioners.

Item 4280-104-0236—For local assistance, Managed Risk Medical Insurance Board, for the Healthy Families Program Rural Health Demonstration Project.

I am sustaining the \$1,000,000 legislative augmentation for the Rural Health Demonstration Project (RHDP) on a one-time basis. The RHDP provides a valuable service to explore how to improve access to health care services for the medically underserved and uninsured populations in rural areas, as well as for special populations.

Item 4440-295-0001—For local assistance, Department of Mental Health.

I am sustaining on a one-time basis the legislative augmentation of \$120,000,000 to fund counties for providing special education mental health services under the AB 3632 state mandate. These funds will ensure continued services while the state pursues transitioning from a state-mandated program to a categorical program.

To this end, I am directing the Department of Mental Health, in collaboration with the State Department of Education, to develop a plan to shift the program from a state-mandated program to a categorical program effective fiscal year 2006-07. This plan is to be developed in consultation with counties, school authorities, community mental health providers, and other private and public groups with an interest in mental health and special education issues. The plan will address the roles and responsibilities of local education agencies and counties in the provision of federally required mental health services, the type and scope of services to be provided, recommended changes in statute, regulations and practices necessary to implement the program, appropriate mechanisms to encourage and improve collaboration among education and mental health systems, and appropriate funding levels, fiscal controls, and auditing efforts. I am also directing the Department of Finance to provide consultation and assistance to ensure that the plan is fiscally sound.

A more effective system of delivery of this service must be found; sustaining this augmentation on a one-time basis only is to allow for a transition to such an alternative by 2006-07.

Item 4700-001-0001—For support of Department of Community Services and Development. I reduce this item from \$125,000 to \$75,000 by reducing:

- (1) 47-Naturalization Services from \$125,000 to \$75,000.

I am reducing the \$2,500,000 legislative augmentation for the Naturalization Services Program to the \$1,500,000 included in the 2004 Budget Act. This is a valuable program and I am therefore sustaining funding at last year's level to support services that assist immigrants in completing their citizenship application, citizenship testing, and in preparing for the interview. The Naturalization Services Program funds faith-based institutions, community-based organizations, and non-profit entities to provide these and many other important activities for immigrants.

I am also taking conforming action to reduce Item 4700-101-0001.

Item 4700-101-0001—For local assistance, Department of Community Services and Development. I reduce this item from \$2,375,000 to \$1,425,000 by reducing:

(1) 47-Naturalization Services from \$2,375,000 to \$1,425,000.

I am reducing this item by \$950,000 to conform to the action taken in Item 4700-001-0001.

Item 5175-101-0890—For local assistance, Department of Child Support Services. I delete Provision 4.

I am deleting Provision 4, which would limit local child support agencies (LCSAs) to a 10 percent share of any federal penalty increases that may result from the expenditure of an additional \$20,000,000 federal funds to match voluntary county contributions to the Child Support Program. In 2004-05, the LCSAs agreed to provide for the full cost of any penalty increases that would result from these types of expenditures. Therefore, I am vetoing this provision because it contradicts the existing agreement that the state has with the LCSAs, and because it could result in General Fund expenditure increases without any regard to the availability of revenues. Should the state obtain relief from federal penalties, I am committed to proportionally sharing any penalty relief with LCSAs that choose to draw down additional federal funds.

Item 5180-001-0001—For support of Department of Social Services. I reduce this item from \$78,630,000 to \$77,155,000 by reducing:

(2) 25-Social Services and Licensing from \$139,798,000 to \$138,248,000, and

(11) Amount payable from the Federal Trust Fund (Item 5180-001-0890) from -\$337,180,000 to -\$337,105,000.

I am deleting the \$1,400,000 legislative augmentation that would restore a portion of the Department of Social Services' (DSS) General Fund unallocated reduction. The Legislature calculated that this amount of funding is equal to the Community Care Licensing Division's share of the Department's unallocated reduction. I share the Legislature's concerns with protecting the health and safety of vulnerable clients cared for in community care facilities as evidenced by my recent increase of \$1,140,000 General Fund to address additional workload resulting from caseload growth in the Community Care Licensing Division.

The DSS is currently making a substantial effort to identify and implement efficiencies within the Community Care Licensing Division, thereby prioritizing existing resources on monitoring and oversight responsibilities. In addition, the DSS has recently undertaken an aggressive hiring campaign to fill longstanding vacancies within this division that resulted from hiring freezes during the previous Administration and prior unallocated reductions passed by the Legislature.

However, such a significant hiring process takes time and the Department will still realize savings from positions not filled for the entire fiscal year. These savings will help the Department achieve its full unallocated reduction without adversely impacting the critical services the department provides to our children and families.

To maximize protection of our state's most vulnerable populations, I am directing the Health and Human Services Agency to conduct a thorough review of licensing activities in all Agency Departments. This review will identify needed programmatic and fiscal changes in the licensing programs.

I also am deleting \$150,000 (\$75,000 General Fund) and one position added by the Legislature to assist counties in complying with the federal Indian Child Welfare Act (ICWA). The DSS has a number of positions involved in oversight and management functions to support tribal issues and ICWA compliance, including one ICWA specialist position dedicated to advocate and facilitate compliance with ICWA laws, regulations, and policies in California. Given the ongoing structural deficit and the existing resources devoted to ICWA compliance, I cannot support this augmentation. However, recognizing the Legislature's desire to have an ICWA coordinator in the DSS Executive Office, I am directing the DSS to redirect the existing ICWA specialist position to the Office of the Director.

Item 5180-001-0890—For support of Department of Social Services. I reduce this item from \$337,180,000 to \$337,105,000.

I am revising this item to conform to the action I have taken in Item 5180-001-0001.

Item 5180-101-0001—For local assistance, Department of Social Services. I revise this item by reducing:

- (1) 16.30-CalWORKs from \$4,979,156,000 to \$4,954,156,000, and
- (6) Amount payable from the Federal Trust Fund (Item 5180-101-0890) from -\$3,846,720,000 to -\$3,821,720,000.

I am revising this item to conform to the action I have taken in Item 5180-101-0890.

Item 5180-101-0890—For local assistance, Department of Social Services. I reduce this item from \$3,846,720,000 to \$3,821,720,000.

I am reducing \$25,000,000 in federal Temporary Assistance for Needy Families (TANF) Block Grant funds for CalWORKs administration to modify the effect of language included in the trailer bill to provide up to \$50,000,000 in unspent 2004-05 CalWORKs single allocation funds to counties in 2005-06. The Legislature increased funding for the administration of this program based on an alternate projection of savings associated with shifting from retrospective budgeting/monthly reporting for eligibility determination to prospective budgeting/quarterly reporting. I am sustaining \$25,000,000 of the allocation on a one-time basis to ensure the counties have adequate resources to support work participation activities. I am also directing the Department of Social Services to work with the counties to determine the true impact of quarterly reporting requirements for CalWORKs recipients, to reflect the appropriate level of savings in my January Budget.

Item 5180-141-0001—For local assistance, Department of Social Services. I reduce this item from \$424,392,000 to \$413,401,000 by reducing:

- (1) 16.75-County Administration and Automation Projects from \$1,050,018,000 to \$1,023,732,000, and
- (3) Amount payable from the Federal Trust Fund (Item 5180-141-0890) from -\$569,817,000 to -\$554,522,000.

I am deleting the legislative augmentation of \$2,545,000 (\$991,000 General Fund and \$1,554,000 Federal Trust Fund) for Foster Care Administration. The Legislature reinvested Foster Care Administration caseload savings back into Foster Care Administration. This veto would re-establish funding for this program at the level I proposed in the May Revision, which accurately reflects Foster Care Administration funding needs based on the projected foster care caseload in 2005-06.

I am deleting the legislative augmentation of \$23,741,000 (\$10,000,000 General Fund and \$13,741,000 Federal Trust Fund) for Food Stamp and California Food Assistance Program (CFAP) administration. The Legislature increased funding for the administration of these programs based on an alternate projection of savings associated with shifting from retrospective budgeting/monthly reporting for eligibility determination to prospective budgeting/quarterly reporting. This veto would re-establish funding for Food Stamp and CFAP administration at the level I included in the May Revision. I am directing the Department of Social Services to work with the counties to determine the true impact of quarterly reporting requirements for food stamps recipients to reflect the appropriate level of savings in my January Budget.

Item 5180-141-0890—For local assistance, Department of Social Services. I reduce this item from \$569,817,000 to \$554,522,000.

I am reducing this item to conform to the action I have taken in Item 5180-141-0001.

Item 5180-151-0001—For local assistance, Department of Social Services. I reduce this item from \$764,894,000 to \$761,294,000 by reducing:

- (1) 25.30-Children and Adult Services and Licensing from \$2,221,743,000 to \$2,215,914,000, and
- (6) Amount payable from the Federal Trust Fund (Item 5180-151-0890) from -\$1,382,198,000 to -\$1,379,969,000.

I am deleting the legislative augmentations of \$5,600,000 (\$3,500,000 General Fund) for the Child Welfare Services (CWS) Outcome Improvement Project and \$229,000 (\$100,000 General Fund) for Adoption Assistance Program (AAP) training. These reductions are necessary to limit program expansions and to help bring ongoing expenditures in line with existing resources due to the projected structural deficit in 2006-07.

The May Revision included a comprehensive funding package that provides sufficient resources to support ongoing CWS Program Improvement Plan initiatives, fund implementation of county System Improvement Plans, and improve outcomes for children in 2005-06. The legislative augmentation exceeds the level of funding that is necessary to implement approved CWS program improvement initiatives and strategies, achieve compliance with federal performance requirements, and avoid federal penalties.

With this reduction, \$26.6 million in total funds still remains to support ongoing Program Improvement Plan activities and the CWS Outcome Improvement Project in 2005-06. Of this amount, a new investment of \$12.8 million will be available for all counties to implement their System Improvement Plans. The Department of Social Services (DSS) will work with the County Welfare Directors Association to develop an application and approval process to allocate these funds.

Similarly, the legislative augmentation for AAP training is unnecessary as the DSS intends to increase efforts in 2005-06 to provide training and technical assistance to county social workers regarding the eligibility determination process for the AAP within existing resources.

Item 5180-151-0890—For local assistance, Department of Social Services. I reduce this item from \$1,382,198,000 to \$1,379,969,000.

I am reducing this item to conform to the action I have taken in Item 5180-151-0001.

Item 5225-001-0001—For support of the Department of Corrections and Rehabilitation. I revise this item from \$6,623,170,000 to \$6,623,060,000 by reducing:

(9) 35-Board of Parole Hearings from \$78,707,000 to \$78,597,000,

and by deleting Provision 25.

I am deleting the legislative augmentation of \$110,000, which would provide additional staff for the Foreign Prisoner Transfer Program to increase outreach and marketing efforts to encourage more foreign prisoners to volunteer to be transferred back to their country of origin. The Board of Parole Hearings has staff to operate this program and is already taking steps to increase inmate awareness of the program. Transfers are not due to a lack of staff but other factors, such as the willingness of prisoners to volunteer to transfer, the willingness of the other countries to accept the prisoner and agree to California sentencing requirements, and treaties with other nations. Therefore, this augmentation is not necessary.

I am deleting Provision 25 to make a technical correction to the Budget Bill. Provision 29 of this item includes similar language that correctly reflects the Legislature's action on this issue.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$42,674,000 to \$42,206,000 by reducing:

(3) 30-Special Programs from \$50,109,000 to \$49,141,000;

(9) Amount payable from Federal Trust Fund (Item 6110-001-0890) from -\$149,985,000 to -\$149,485,000;

and by deleting Provision 3.

I am reducing this item by \$468,000 and 4.6 positions to eliminate support for the Healthy Start program which conforms to my action taken in Item 6110-200-0001.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$149,985,000 to \$149,485,000.

I am deleting the \$500,000 augmentation to the Legislative Analyst's Office to study the distribution of federal and state supplementary funding targeted at the State's economically disadvantaged and English language learner students. The use of federal funds to study funding formulas for state programs is inappropriate and may constitute an audit exception. Further, this augmentation is unnecessary. The work group I have already directed, consisting of the Office of the Secretary for Education, the Legislative Analyst's Office, and the State Department of Education, could address this issue at an absorbable cost.

I am deleting Provision 18.5 to conform to this action.

Item 6110-123-0890—For local assistance, Department of Education (Proposition 98). I reduce this item from \$65,141,000 to \$51,329,000 by reducing:

- (2) 20.60.030.038-Comprehensive School Reform Program from \$43,839,000 to \$30,027,000.

I am deleting the \$13,812,000 legislative augmentation in carryover for this program. These funds were originally included in the No Child Left Behind Act flexibility proposal for carryover funds. Because the number of schools and districts identified as "program improvement" under the federal school accountability system has significantly increased, I believe it is a higher priority to target these carryover funds directly to low-achieving schools and districts to improve the academic performance of their pupils. Consequently, I will pursue future legislation appropriating these funds for that purpose and continue to work with the federal government through the State Board of Education to obtain approval of a No Child Left Behind Act flexibility proposal.

Item 6110-125-0890—For local assistance, Department of Education. I reduce this item from \$294,959,000 to \$275,759,000 by reducing:

- (2) 10.30.010-Title I, Migrant Education from \$144,461,000 to \$125,261,000.

I am deleting the \$19,200,000 legislative augmentation in carryover for this program. These funds were originally included in the No Child Left Behind Act flexibility proposal for carryover funds. Because the number of schools and districts identified as "program improvement" under the federal school accountability system has significantly increased, I believe it is a higher priority to target these carryover funds directly to the low-achieving schools and districts that have large populations of migrant students to improve the academic performance of these pupils. Consequently, I will pursue future legislation appropriating these funds, and I will continue to work with the federal government through the State Board of Education to obtain approval of a No Child Left Behind Act flexibility proposal.

Item 6110-136-0890—For local assistance, Department of Education. I reduce this item from \$1,846,724,000 to \$1,805,187,000 by reducing:

- (1) 10.30.060-Title I-ESEA from \$1,751,527,000 to \$1,727,227,000;
- (3) 10.30.080-Title I-School Improvement from \$86,477,000 to \$69,240,000;

and by revising Provision 5.

I am deleting the \$41,537,000 legislative augmentation in carryover for these programs. These funds were originally included in the No Child Left Behind Act flexibility proposal for carryover

funds. Because the number of schools and districts identified as "program improvement" under the federal school accountability system has significantly increased, I believe it is a higher priority to target these carryover funds directly to low-achieving schools and districts to improve the academic performance of their pupils. Consequently, I will pursue future legislation appropriating these funds and continue to work with the federal government through the State Board of Education to obtain approval of a No Child Left Behind Act flexibility proposal.

I am revising Provision 5 to conform to this action.

"5. Of the funds appropriated in Schedule (3), ~~\$46,477,000~~ \$29,240,000 shall be available pursuant to Article 3.1 (commencing with Section 52055.57) of Chapter 6.1 of Part 28 of the Education Code, for Title I district accountability."

Item 6110-161-0001—For local assistance, Department of Education, (Proposition 98) Special Education. I reduce this item from \$2,894,790,000 to \$2,890,022,000 by reducing:

(1) 10.60.050.003-Special education instruction from \$2,831,196,000 to \$2,826,428,000, and by revising Provision 24.

I am deleting \$4,768,000 from Provision 24 of this item to correct a technical over-appropriation which should have been offset by a corresponding increase in property tax estimates assumed as part of the final budget agreement. I am setting these funds aside for appropriation in subsequent legislation for other Proposition 98 priorities.

I am revising Provision 24 to conform to this action:

"24. Of the amount appropriated in Schedule (1), ~~\$52,620,000~~ \$47,852,000 is available for the 2005–06 fiscal year on a one-time basis. Local educational agencies shall use these funds for one-time purposes, including, but not limited to, the following: to assist students with disabilities pass the California High School Exit Examination, instructional materials, or other one-time expenditures for students with disabilities."

I am sustaining the remainder of this appropriation with the understanding that subsequent clean-up legislation will correct various technical issues in both this item and in Item 6110-161-0890 that concern funding for students with disabilities, including a correction that will identify the amount passed through to Special Education Local Plan Areas (SELPA) in Provision 21 as \$58.4 million rather than the lesser amount currently specified. I further expect that subsequent legislation will specify that the first priority for the use of the amount of funding remaining in Provision 24 for allocation to SELPA) will be to help students with disabilities pass the state's High School Exit Exam.

Item 6110-191-0001—For local assistance, Department of Education (Proposition 98). I delete this item.

I am deleting the \$20,000,000 for purchase of supplemental materials for English language learners that was shifted by the Legislature from Instructional Materials in Item 6110-189-0001. The action by the Legislature to link this funding to the funding appropriated for Career-Technical Education through Control Section 24.50 is unconstitutional and attempts to usurp the authority of the Governor to veto items of appropriation. Furthermore, the Budget Act of 2004 contained \$30,000,000 for supplemental materials for English language learners that has yet to

be allocated. Therefore, this additional appropriation is premature. I am setting these funds aside for appropriation in subsequent legislation for other Proposition 98 priorities.

Item 6110-200-0001—For local assistance, Department of Education. I delete this item.

I am deleting this \$2,000,000 legislative augmentation because the one-time funding included in the 2004 Budget Act for this program was intended to fully fund both the planning and operational grants for each grantee, thus not resulting in any future-year obligations for the State. I am therefore setting these funds aside for appropriation in subsequent legislation that ensures that any grants provided this year will eliminate any subsequent funding pressures or obligations on the state in the future. This action will have no effect on schools currently operating these programs, as full funding for their multi-year grant periods has been provided in past budgets.

Item 6110-243-0001—For local assistance, Department of Education. I am sustaining this item.

I am sustaining the \$20,000,000 legislative augmentation because it is a high priority of my Administration to provide the services necessary to help eligible pupils pass the California High School Exit Exam. It is my understanding that further legislation will be enacted to address some concerns I have with the language contained in this item. For instance, the language would allow the services to be provided during the regular school day, which would likely remove these pupils from other important instructional opportunities. In addition, this item only contains funding for two of the four currently funded supplemental instruction programs, which delays allocation of funds and inhibits flexibility. Therefore, it is my expectation that legislation will also restore the supplemental programs contained in this item back to the original supplemental instruction funding item to resolve these issues and maximize the level of funding available to serve students who have failed or are likely to fail the exit exam.

Item 6440-006-0001—For support of University of California. I delete this item and Provision 1.

I am deleting this item which reflects a legislative augmentation of \$108,000 to support California's membership in the Western Interstate Commission for Higher Education (WICHE). When acting on the 2004 Budget last year, the Legislature deleted funding for membership dues for WICHE, as well as other state membership dues because of the fiscal condition of the state. It is my understanding that the higher education segments have agreed to fund their share of the membership dues in this budget year as well.

Item 6610-002-0001—For support of California State University. I reduce this item from \$3,034,000 to \$2,807,000 by reducing:

- (1) Center for California Studies-Fellows Program from \$610,000 to \$602,653;
- (3) Assembly Fellows from \$597,851 to \$537,354;
- (4) Senate Fellows from \$597,851 to \$537,354;
- (5) Executive Fellows from \$597,351 to \$536,854;
- (6) Judicial Fellows from \$421,659 to \$386,647; and
- (7) LegiSchool Project from \$116,788 to \$113,638.

I am reducing the legislative augmentation for the Capital Fellows Programs from \$309,000 to \$82,000, reflecting an overall increase of three percent in base funding for these programs, consistent with the Compact for Higher Education.

Item 6870-101-0001—For local assistance, Board of Governors of the California Community Colleges (Proposition 98). I revise this item by deleting Provision 6.6 to conform to the action I have taken in Control Section 24.50.

Consistent with my action in Control Section 24.50, I am deleting Provision 6.6 which states legislative intent to fund Career Technical Education pursuant to the Legislature's addition of Control Section 24.50. Control Section 24.50 would require that \$20,000,000 for Career Technical Education be linked to providing an identical amount of funding for supplemental instructional materials for English learners. These two programs do not share any legal or programmatic relationship, thus the Control Section creates an inappropriate funding link between these distinct programs. Further, this action is unconstitutional and attempts to usurp the Governor's veto authority.

I have a strong commitment to career technical education reform in order to ensure that all students have the opportunity to prepare for high paying careers in the high demand job sectors of our economy. Therefore, I am setting aside \$20,000,000 from my veto of Control Section 24.50 to provide support for Career Technical Education in separate legislation.

I am deleting Provision 6.6 to conform.

Item 6870-486—Reappropriation (Proposition 98), Board of Governors of the California Community Colleges. I revise this item from \$33,000,000 to \$15,600,000 as follows:

~~"6870-486—Reappropriation (Proposition 98), Board of Governors of the California Community Colleges. The sum of \$33,000,000 \$15,600,000 is reappropriated from the Proposition 98 Reversion Account, for the purpose of backfilling a projected shortfall in 2004-05 local property tax revenues for community colleges. To the extent that the funding provided for this purpose exceeds the amount necessary to compensate community colleges for the shortfall in local property tax revenues, the remaining funding shall be reappropriated to community colleges to further support equalizing community college apportionment rates."~~

I am reducing the Legislature's augmentation to community colleges to backfill a projected shortfall in 2004-05 local property tax revenues from \$33,000,000 to \$15,600,000. I am advised that the community colleges will experience a shortfall not greater than \$21,000,000 in the current year. Furthermore, the community colleges are not likely to earn all growth funding for 2004-05, and as such the system would not incur the costs of instruction anticipated for the current year. Given the continuing structural deficit facing the state, a portion of these resources should therefore be utilized for higher priorities. Consistent with that approach, I am setting aside this \$17,400,000, in combination with the set aside of \$20,000,000 from my action on Control Section 24.50, to provide support for Career Technical Education pursuant to separate legislation.

Item 7980-001-0784—For support of Student Aid Commission. I delete Provision 4.

I am deleting Provision 4 because it would limit the Commission's authority to carry out its statutory authority by requiring advance notification of specified actions related to the governance structure and roles and responsibilities of the EdFUND Board of Directors. Additionally, this provision's expressed intent regarding the sale or transfer of the federal loan

guarantee to another entity is a policy matter that should be addressed only after thoughtful deliberation by the Legislature and the Administration.

Chapter 961, Statutes of 1996, authorizes the Student Aid Commission to establish an auxiliary organization for the purpose of providing operational and administrative services for the Commission's participation in the Federal Family Education Loan Program. Among other duties and responsibilities, the Commission is empowered to nominate and appoint a board of directors for the auxiliary organization. As such, Provision 4 infringes on the Executive Branch's ability to operate programs and establishes a substantive change in law.

Item 7980-101-0001—For local assistance, Student Aid Commission. I am sustaining this item.

I am sustaining the legislative authorization contained in subdivision (e) of Provision 1 for an augmentation of 300 additional APLE loan assumption warrants because loan assumptions are a critical incentive to encourage science and math majors to become teachers. However, given the budget agreement to fund the Science and Math Teacher Initiative in the University of California and California State University segments, it is necessary that this provision be modified in subsequent legislation to make these additional warrants available exclusively to candidates participating in the initiative, as determined by the segments. In this way, we can assure the success of the initiative to provide our students with the most proficient science and math teachers possible, which is critical to California's future economic well-being.

Item 7100-001-0001—For support of Employment Development Department. I reduce this item from \$22,679,000 to \$22,186,000.

I am reducing the legislative augmentation by \$493,000, which would provide funding for increasing the department's efforts to collect employment taxes owed to the state. In recognition of the potential merits associated with this effort, I am sustaining \$2,194,000 of the augmentation. This reduction is necessary to reflect a more realistic timeframe for the implementation of this effort.

Item 7100-001-0514—For support of Employment Development Department. I delete Provision 3.

Provision 3 sets aside \$2,500,000 from this item to fund a health care training program to be adopted in legislation during the 2005-06 session. I am concerned about restricting the use of this funding for legislation that has not yet been passed by the Legislature.

California has a real and growing nursing shortage. California will have a shortage of 47,600 nurses by 2010. This means that California will need an additional 9,500 nurses every year for the next five years just to meet demand. California is currently ill-equipped to meet that demand. That is why my Administration has recently developed a multifaceted, comprehensive program of more than \$100,000,000 to build California's capacity to train nurses. Provision 3 would unnecessarily hamper the efforts my Administration has embarked upon in this regard.

Item 7100-001-0588—For support of Employment Development Department. I reduce this item from \$214,699,000 to \$214,488,000.

I am reducing the legislative augmentation by \$211,000 which would provide funding for increasing the department's efforts to collect employment taxes owed to the state. In recognition of the potential merits associated with this effort, I am sustaining \$940,000 of the augmentation. This reduction reflects the anticipated timeframe for the implementation of this effort.

Item 7100-001-0870—For support of Employment Development Department. I revise this item by reducing:

- (2) 21-Tax Collections and Benefit Payments from \$647,908,000 to \$647,204,000;
- (9) Amount payable from the General Fund (Item 7100-001-0001) from -\$22,679,000 to -\$22,186,000; and
- (13) Amount payable from the Unemployment Compensation Disability Fund (Item 7100-001-0588) from -\$214,699,000 to -\$214,488,000.

In recognition of the potential merits associated with increasing the efforts to collect employment taxes owed to the state, I am sustaining \$3,134,000 of the \$3,838,000 augmentation to provide funding for 50 auditors and collectors in the Tax Collections and Benefits Payments Program. I am reducing the legislative augmentation by \$704,000 to reflect the anticipated timeframe within which these new personnel will be hired by the Department.

This action conforms to the reductions of Items 7100-001-0001 and 7100-001-0588.

Item 7350-001-0001—For support of Department of Industrial Relations. I reduce this item from \$64,249,000 to \$61,249,000 by reducing:

- (6) 50-Division of Labor Standards Enforcement from \$49,983,000 to \$46,983,000,

and by deleting Provision 2.

I am deleting the legislative augmentation that provided \$3,000,000 and 30.4 personnel years to expand enforcement efforts by the Labor Commissioner and the Bureau of Field Enforcement. In the years prior to my arrival in Sacramento, literally dozens of new laws were added to the California Labor Code. Unfortunately, while all these new laws were being added to the Labor Code, the number of labor law officials actually enforcing the laws was slashed dramatically. In fact, when my Administration began in November 2003, not a single enforcement official was based in the Central Valley. This disregard for the importance of vigorous labor law enforcement allowed the underground economy to flourish.

In January, I proposed, and this Budget creates, the Economic and Employment Enforcement Coalition (EEEC). The EEEEC will coordinate underground economy enforcement activities by the Department of Industrial Relations (DIR), the Employment Development Department, the Contractors State License Board, and others. The Budget provides the EEEEC with 63 positions, including \$3,026,000 and 27.5 personnel years for DIR. Also, a concerted effort was made to create these positions without using General Fund dollars, allowing those dollars to be used for other high-priority needs.

I am deleting Provision 2 to conform to this action.

Item 8660-001-0461—For support of Public Utilities Commission. I reduce this item from \$8,785,000 to \$8,502,000.

The Legislature augmented the Public Utilities Commission's (PUC's) rail safety program by \$1,242,000. Because rail safety is of paramount importance, I am sustaining \$959,000 of this augmentation on a one-time basis. I am reducing this augmentation by \$283,000 that was

intended for additional legal staff and governmental liaisons because they are unnecessary to increase railroad safety inspections and investigations. In addition, the State Auditor recently issued a report identifying deficiencies in the PUC's accounting practices in this program. Consequently, continuation of this augmentation will be dependent upon the PUC rectifying these deficiencies and ensuring that the fees which support this program are fully allocated to these activities.

Item 8660-001-0462—For support of Public Utilities Commission. I revise this item by reducing:

- (1) 10-Regulation of Utilities from \$88,887,000 to \$87,887,000;
- (3) 20-Regulation of Transportation from \$16,043,000 to \$15,760,000;
- (10) Amount payable from the Public Utilities Commission Transportation Reimbursement Account (Item 8660-001-0461) from -\$8,785,000 to -\$8,502,000;
- (18) Amount payable from the Public Utilities Commission Ratepayer Advocate Account (Item 8660-001-3089) from -\$19,379,000 to -\$18,379,000.

I am revising this item to conform to the actions I have taken in Items 8660-001-0461, 8660-001-3089, and 8660-011-0462.

Item 8660-001-3089—For support of the Public Utilities Commission. I reduce this item from \$19,379,000 to \$18,379,000.

I am deleting the \$1,000,000 legislative augmentation to fund an additional 10.0 positions in the Office of Ratepayer Advocates' (ORA) telecommunications division. The ORA already has 122 positions and did not provide sufficient workload detail to justify additional positions. If the ORA can identify critical work that is not being performed by the existing staff, it can be considered in next year's budget.

Item 8660-011-0462—For transfer by the Controller from the Public Utilities Commission Utilities Reimbursement Account to the Public Utilities Commission Ratepayer Advocate Account. I reduce this item from (\$19,379,000) to (\$18,379,000).

I am reducing this item by \$1,000,000 to conform to the actions I have taken in Items 8660-001-0462 and 8660-001-3089.

Item 8855-001-0001—For support of Bureau of State Audits. I reduce this item from \$14,232,000 to \$13,082,000 by reducing:

- (1) 10-State Auditor from \$14,232,000 to \$13,082,000.

I am deleting the \$1,150,000 legislative augmentation to the Bureau of State Audits. Augmenting this item is inconsistent with the creation of the Office of Inspector General since the Administration does not oversee or direct the activities of the Bureau of State Audits.

Item 8860-001-0001—For support of Department of Finance. I reduce this item from \$34,542,000 to \$33,392,000 by reducing:

- (2) 20-Program and Information System Assessments from \$15,361,000 to \$14,211,000.

I proposed a new Office of the State Inspector General, but the Legislature rejected my proposal and augmented this item by \$1,150,000 to provide funding for staffing and associated resources for additional audits by the Office of State Audits and Evaluations in the Department of Finance. These audits would assess and strengthen the internal accounting and administrative control systems to minimize fraud, errors, abuse, and waste of government funds within any department or agency reorganized in the 2005-06 Legislative Session.

I am deleting the legislative augmentation because it does not address the identified need. The Office of the State Inspector General would have a much broader purview than the Department of Finance, which conducts fiscal audits and provides accounting advice to departments. My proposal would require criminal investigations that the Department of Finance does not have the authority to conduct. Additionally, Department of Finance staff does not have the experience or training to work in an arena controlled by the rules of evidence for criminal proceedings. I will bring my proposal for a meaningful and effective Office of Inspector General back next year.

Item 8940-001-0604—For support of Military Department. I reduce this item from \$5,200,000 to \$2,200,000 by reducing:

- (1) 10-Army National Guard from \$5,200,000 to \$2,200,000.

I am reducing the legislative augmentation to make additional repairs to existing armories throughout the state from \$3,700,000 to \$700,000. With this action, the Military Department will have \$2,200,000 to begin addressing maintenance and repair needs at armories.

I am directing the Office of the Adjutant General to complete a comprehensive review of its facility needs, including an assessment of deferred maintenance needs for the armories.

Further, there is a substantial backlog of deferred maintenance at other buildings under the state's management, and this augmentation would have privileged armories over other needs for maintenance of higher priority.

I am also deleting Item 8940-002-0001 to conform to this action.

Item 8940-002-0001—For transfer by the Controller to the Armory Fund. I delete this item.

I am deleting \$3,000,000 in this item to conform to the action I have taken in Item 8940-001-0604.

Item SEC. 4.10—Reporting Requirements for Unallocated Reductions. I delete this Control Section.

I am deleting this control section that requires the Director of Finance to report to the Legislature by December 10, 2005, on the impact of the unallocated reductions included in the 2005 Budget Act. This language is an infringement on the Executive Branch's budget development process as the information necessary to produce this report may include budgetary decisions that would not be reached until the preparation of the 2006-07 Governor's Budget was complete.

SEC. 12.75—Basic Aid District Reduction. I revise this Control Section to delete the \$280,000 legislative augmentation to basic aid district categorical funding. The Budget still provides \$1,260,000 to reduce cuts made to basic aid district categorical funding in the 2003-04 Budget. However, I am setting aside these additional funds for appropriation in subsequent legislation

for other Proposition 98 priorities. The total reduction to basic aid district categorical funding in the 2005-06 fiscal year is \$1,406,000.

I am revising Control Section 12.75 as follows:

"SEC. 12.75. The Superintendent of Public Instruction shall reduce by ~~\$1,126,000~~ 1,406,000 funding for basic aid school districts from the Proposition 98 categorical funds appropriated in this act that would otherwise be allocated to basic aid school districts, in accordance with legislation that goes into effect on or before January 1, 2006."

Item SEC. 24.50—Career Technical Education. I delete this Control Section.

I am deleting the Legislature's addition of this Control Section to require that \$20,000,000 for Career Technical Education be linked to providing an identical amount of funding for supplemental instructional materials for English learners. These two programs do not share any legal or programmatic relationship, thus the Control Section creates an inappropriate funding link between these distinct programs. Further, this action is unconstitutional and attempts to usurp the Governor's veto authority.

I have a strong commitment to career technical education reform in order to ensure that all students have the opportunity to prepare for high paying careers in the high demand job sectors of our economy. Therefore, I am setting aside \$20,000,000 from this veto to provide support for the Career Technical Education proposal in separate legislation.

I am also deleting Provision 6.6 of Item 6870-101-0001 to conform to this action.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 77.

/s/ Arnold Schwarzenegger

ARNOLD SCHWARZENEGGER

**State of California**  
Governor's Office

I object to the following appropriations contained in Senate Bill 80.

Item 0250-101-0932—For local assistance, Judicial Branch. I revise this item from \$2,513,466,000 to \$2,488,916,000 by reducing:

- (1) 45.10-Support for operation of the Trial Courts from \$2,183,763,000 to \$2,159,213,000, and deleting Provision 8.

I am reducing this item by \$24,550,000. The Legislature adopted Uniform Civil Filing Fees trailer bill language that would result in increased revenue of \$14,750,000 in 2005-06 and \$29,500,000 beginning in 2006-07 to the Trial Court Trust Fund. The Legislature also increased appropriation authority in this item by \$29,500,000 beginning in 2005-06. I am vetoing \$14,750,000 to reduce the appropriation authority consistent with the increased level of revenue in 2005-06. In addition, a related veto in Item 0250-111-0001 is reducing the General Fund transfer to the Trial Court Trust Fund by \$9,800,000. Therefore, I am also vetoing \$9,800,000 in this item to conform to that action. The remaining \$4,950,000 will be available as additional expenditure authority to the Trial Court Trust Fund for the facilities program.

I am deleting Provision 8 which would specify the method of allocating additional funds received through a statutorily required adjustment based on the percentage change in the State Appropriations Limit. As a separate and co-equal branch of state government, the Judicial Branch should have the flexibility to allocate these funds based on the operational needs of the trial courts and not according to a methodology imposed by the Legislature.

Item 0520-001-0001—For support of Secretary for Business, Transportation and Housing. I reduce this item from \$8,828,000 to \$8,678,000.

I am deleting the \$150,000 legislative augmentation which provides funding for the Small Business Advocate within the Business, Transportation and Housing Agency. I am a strong proponent of keeping California's business climate positive and helping business development, and believe that small businesses would be best served with this interagency coordinating function remaining at the Governor's Office of Planning and Research. The Office of Planning and Research should perform this function within existing resources.

Item 0520-001-0044—For support of Secretary for Business, Transportation and Housing. I revise this item by reducing:

- (2) 25-Infrastructure Finance and Economic Development Program from \$15,700,000 to \$13,550,000;
- (5) Amount payable from the General Fund (Item 0520-001-0001) from -\$8,828,000 to -\$8,678,000;

and by deleting:

- (9) Amount payable from the Chrome Plating Pollution Prevention Account (Item 0520-001-9329) (-\$2,000,000).

I am reducing this item to conform to the actions I have taken in Items 0520-001-0001 of this bill and 0520-001-9329 of the Budget Act.

Item 3600-001-0001—For support of Department of Fish and Game. I reduce this item from \$44,431,000 to \$38,431,000 by reducing:

- (1) 20-Biodiversity Conservation Program from \$132,172,000 to \$128,172,000;
- (2) 25-Hunting, Fishing and Public Use from \$48,920,000 to \$44,920,000;
- (4) 40-Conservation Education and Enforcement from \$55,643,000 to \$50,643,000;
- (12) Amount payable from the Fish and Game Preservation Fund (Item 3600-001-0200) from-\$98,919,000 to -\$95,919,000;
- (18.5) Amount payable from the Salmon and Steelhead Trout Restoration Account (Item 3600-001-0384) from -\$8,000,000 to -\$4,000,000;

and by deleting Provisions 3 and 4 to conform to this action.

I am deleting the \$5,000,000 legislative augmentation to create 40 new game warden positions. The Department has 352 warden positions available to enforce California's Fish and Game laws. While I am supportive of enforcing California's Fish and Game Code, I am unable to concur in this specific augmentation because of the need to ensure a prudent reserve for economic uncertainties. I am deleting Provision 3 to conform to this action.

I am deleting the \$1,000,000 legislative augmentation to create 7.0 positions for the Wild and Heritage Trout Program. I am deleting Provision 4 to conform to this action.

I am also revising this item to conform to the action I have taken in Item 3600-001-0200 and Item 3600-001-0384.

These reductions are necessary to provide for a prudent General Fund reserve in light of the state's current fiscal condition. With these reductions, \$272,209,000 still remains to support these programs.

Item 3600-001-0200—For support of Department of Fish and Game. I reduce this item from \$98,919,000 to \$95,919,000.

I am deleting the \$3,000,000 legislative augmentation which would increase funding for fish hatchery operations to conform to the action I have taken in Items 3640-401 and 3600-001-0001.

Item 6440-001-0001—For support of University of California. I reduce this item from \$2,618,386,000 to \$2,614,585,000 by reducing:

(1) Support from \$2,534,890,000 to \$2,531,089,000,

and by revising Provisions 12 and 13 and by deleting Provision 25.

I am deleting the \$3,800,000 legislative augmentation for the Labor Institute. The Legislature's action restores funding that was provided on a one-time basis in the 2004 Budget Act and these reductions are needed to help bring ongoing expenditures in line with existing resources.

I am deleting Provision 25 to conform to this action.

I am also reducing this item by \$1,000 and revising Provision 12 to eliminate the Legislature's requirement that the California State Summer School for Math and Science (COSMOS) be evaluated consistent with the accountability framework for outreach programs that was developed by the University in April 2005. This program is not an outreach program focused on increasing the academic performance of disadvantaged students; therefore, an evaluation on that basis would not be productive. The \$1,000 reduction reflects savings by revising Provision 12, as follows, to eliminate the unproductive effort required by the Provision:

"12. It is the intent of the Legislature that the University of California report by April 1, 2006, on the outcomes and effectiveness of COSMOS, ~~consistent with the accountability framework developed by the University of California for student academic preparation and education programs in April 2005.~~"

I am revising Provision 13 to eliminate the Legislature's requirement that the Welfare Policy Research Project be located at the University of California at Berkeley campus. This is an internal issue to the University, and as such, both usurps the autonomy of the University and the authority of the Executive Branch to operate programs. I am revising Provision 13 to conform to this action as follows:

"13. The amount appropriated in Schedule (1) includes funding for the University of California ~~at Berkeley, Institute for Governmental Studies,~~ to support the Welfare Policy Research Project, per Article 9.7 (commencing with Section 11526) of Chapter 2 of Part 3 of the Welfare and Institutions Code."

Finally, I am sustaining the \$17.3 million legislative augmentation for Student Academic Preparation and Education Programs on a one-time basis, with the understanding that the University will work with the Administration to fully evaluate the cost-effectiveness of each program and eliminate those that cannot demonstrate an adequate return on investment.

Item 6610-001-0001—For support of the California State University. I reduce this item from \$2,554,085,250 to \$2,550,645,250 by reducing:

(1) Support from \$3,978,663,250 to \$3,975,223,250,

and by revising Provision 11.

I am reducing the legislative augmentation for a specific entry-level master's degree program in nursing from \$4,000,000 to \$560,000 because the level of funding provided exceeds the programmatic need in the budget year. However, I believe very strongly in increasing the number of nurses in California. Therefore, in order to ensure that all these dollars are not left unspent, and actually are used to address our nursing shortage, I am setting aside the vetoed amount, to address this critical need through different approaches, pursuant to subsequent legislation. For instance, I would consider signing legislation that would appropriate the remainder of the \$4,000,000 to the California State University, the University of California, or both, to work with some of California's independent colleges and universities to increase capacity for nursing programs with the objective to further increase the number of nursing faculty available in our state. The availability of increased nursing faculty will allow schools to offer more nursing classes and increase the State's capacity to train an even greater number of nurses.

I am revising Provision 11 to conform to this action as follows:

“11. Of the amount appropriated in Schedule (1), ~~\$4,000,000~~ \$560,000 is to support the development of entry-level master's degree programs in nursing, pursuant to Article 8 (commencing with Section 89270) of Chapter 2 of Part 55 of Title 3 of the Education Code.”

Finally, I am sustaining the \$7 million legislative augmentation for student academic preparation and student support services programs on a one-time basis, with the understanding that the University will work with the Administration to fully evaluate the cost-effectiveness of each program and eliminate those that cannot demonstrate an adequate return on investment.

Item 6870-101-0001—For local assistance, Board of Governors of the California Community Colleges. I am deleting Provision 6.6 of this item to conform to my action on that same Provision and Control Section 24.50 in the main budget bill, SB 77:

As stated in the veto message for SB 77, I am deleting Provision 6.6 which states legislative intent to fund Career Technical Education pursuant to the Legislature's new added Control Section 24.50. Control Section 24.50 would require that \$20,000,000 for Career Technical Education be linked to providing an identical amount of funding for supplemental instructional materials for English learners. These two programs do not share any legal or programmatic relationship; thus, the Control Section creates an inappropriate funding link between these distinct programs. Further, this action is unconstitutional and attempts to usurp the Governor's veto authority.

I have a strong commitment to career technical education reform in order to ensure that all students have the opportunity to prepare for high paying careers in the high-demand job sectors of our economy. Therefore, I am setting aside \$20,000,000 from my veto of Control Section 24.50 to provide support for Career Technical Education in separate legislation.

Item SEC. 29.50—Employee Compensation Savings. I delete this control section.

I am deleting Control Section 29.50 because this language is unnecessary and infringes on the Administration's prerogatives regarding collective bargaining. This section requires the Administration to notify the Legislature 10 days prior to any reductions in appropriations based on the results of collective bargaining. Control Section 4.01 provides the same authority to reduce appropriations but provides for legislative notification within 30 days of the reductions.

Notification prior to reductions would place the Legislature in the position of approving or disapproving specific employee compensation reforms that arise from collective bargaining negotiations, rather than ratifying memoranda of understanding that require expenditures of funding as provided for in Government Code Sections 3517.6 and 3517.61. This constitutes an infringement on the Governor's responsibilities under the Dills Act.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 80.

/s/ Arnold Schwarzenegger

ARNOLD SCHWARZENEGGER