

**STATE**

# **Budget Highlights: 2005-06**



**Arnold Schwarzenegger, Governor  
State of California**

**July 2005**

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# Overview

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 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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# The Economy

The national and California economies grew quickly in 2004, fueled by resurging business investment, strong housing markets, renewed confidence in California's business climate, and continued strong consumer spending. The first five months of 2005 brought some signs of slower growth and additional risks to the outlooks for both economies. Recent economic data are generally consistent with the May Revision forecast.

**Figure ECO-01**  
**Key Economic Indicators**  
**From the May Revision FY 2005-06 Forecast**  
(Annual Percent Change, except for New Housing)

|  | 2004 | Forecast |      |
|--|------|----------|------|
|  |      | 2005     | 2006 |
| U.S. Real Gross Domestic Product                           | 4.4  | 3.6      | 3.0  |
| California Nonfarm Employment                              | 1.0  | 1.7      | 1.7  |
| California Personal Income                                 | 6.1  | 5.7      | 5.8  |
| California Consumer Price Index                            | 2.6  | 2.9      | 2.4  |
| California New Housing Units<br>(Thousands of Total Units) | 213  | 190      | 186  |

Forecast based on data available as of April 2005.

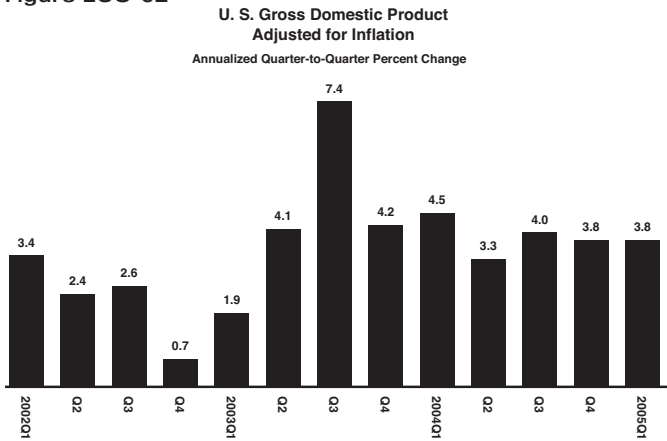
## The Nation

After growing briskly in 2004, output of the national economy grew at a slower pace in the first quarter of 2005.

- Inflation-adjusted gross domestic product (real GDP) grew by an annualized 3.8 percent in the first quarter of 2005, the same rate of growth as in the fourth quarter of 2004, but lower than the 4.4 percent pace for 2004 as a whole. The chief contributors to first quarter growth were consumption expenditures, exports, home building, and business investment in inventory, equipment, and software. Higher gasoline prices did not appear to deter consumers from spending. Consumers have been concerned, however: consumer sentiment fell in each of the first five months of the year before rebounding in June.
- Nonfarm payroll employment increased for the twenty-fourth consecutive month in May. The average monthly gain in the first five months of this year was smaller than that in the fourth quarter of 2004 and May's gain was weak. Job gains continued to be widespread across major industry sectors. The national unemployment rate has trended downward for almost two years and was 5.1 percent in May.
- Housing markets remained strong in the first quarter of the year, although re-sales were not quite as strong as they were in the fourth quarter of 2004. New home sales reached a record high in April, on a seasonally adjusted basis.
- Higher inflation is the chief risk to sustained growth going forward. Sharply higher oil prices have driven up general inflation measures considerably in the last year. But a greater concern is that other prices are also increasing. Inflation, excluding food and energy prices, is still quite low compared to historical averages, but it is

trending up. The Federal Reserve has been concerned enough to raise its target for the federal funds rate by one-quarter percentage point in each of its last nine meetings and it is generally expected to continue raising it throughout the remainder of this year. This tightening has not yet led to higher long-term interest rates, but it likely will in time. Then, interest rate-sensitive spending, like home and durable goods purchases, will begin to slow, restraining growth in the economy.

Figure ECO-02



## California

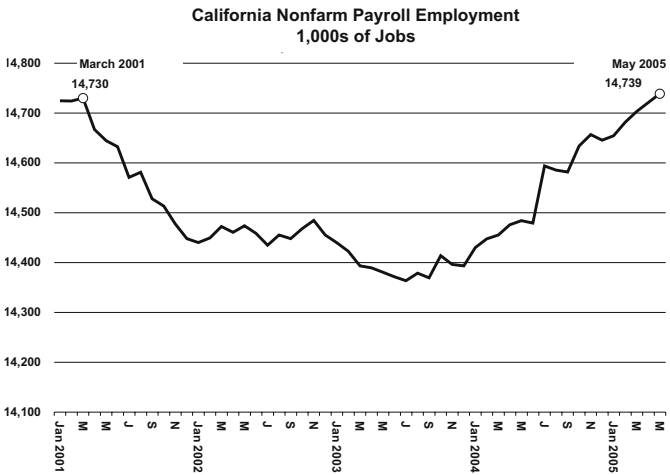
Recent evidence points to the substantial improvement in the California economy during 2004. Growth of inflation-adjusted gross state product, personal income, and jobs accelerated sharply, which contributed to a sharp rise in taxable sales.

- Adjusted for inflation, California economic output grew by 5.1 percent in 2004, the 11<sup>th</sup> best performance of the 50 states.

- California personal income growth picked up considerably in 2004. For the year as a whole, income expanded 6.3 percent, double the pace set in 2003. Even without the boost from an unprecedented dividend payment in the fourth quarter, personal income growth accelerated sharply in 2004. In addition, California's personal income growth has outstripped the nation's as a whole since the fourth quarter of 2003.
- Another welcomed development in 2004 was a step up in employment growth. Over 252,000 new nonfarm payroll jobs were created during 2004—the first good gain since 2000—and more than 93,000 in the first five months of 2005. Nonfarm payroll employment set a new record high in May 2005. On a percentage basis, job gains in 2004 were highest in the San Joaquin Valley. Southern California was a close second. The San Francisco Bay Area trailed considerably but has posted year-over-year job gains since July 2004.
- Statewide taxable sales were 7.3 percent higher in 2004 than a year earlier. The strongest growth, however, came in the first half of the year. The year-over-year gain in 2003 was 4.3 percent.
- Made-in-California exports expanded substantially in 2004, reaching their highest level since 2000. Building on solid growth in the final months of 2003, exports surged by 17 percent during 2004. High-tech exports expanded by more than 15 percent, and exports of both nonelectrical machinery and transportation equipment each grew by more than 30 percent. California deliveries to mainland China grew by over 25 percent in 2004, the fastest pace among the state's major trading partners. The rate of growth in state exports was considerably slower, however, in the first quarter of 2005.
- California's residential real estate markets made impressive gains in 2004, but cooled somewhat during

the early months of 2005. Buoyed by job market gains, improved personal income gains, and low mortgage rates, home sales were robust throughout 2004, and the median single-family home price appreciated by over 21 percent from 2003. The first five months of 2005, however, yielded signs that this performance would not likely be repeated as both the inventory of homes for sale and the time it took to sell a home rose substantially from a year earlier.

Figure ECO-03





# Revenue Estimates

General Fund revenues are estimated to be \$79.9 billion for 2004-05 and \$84.5 billion for 2005-06. The 2005-06 May Revision, which included the following proposals, was the starting point for these estimates:

- Maintaining the base level of transfers to the Public Transportation Account (PTA), but specifying that any excess sales tax revenues on gasoline, which would otherwise be designated as PTA spillover, shall remain in the General Fund. This increased General Fund revenue by an estimated \$380 million.
- Providing the Franchise Tax Board with additional resources to staff the Abusive Tax Shelter Task Force to generate \$43 million in revenue.
- Giving the Franchise Tax Board new reporting tools and resources to help close the tax gap. This is expected to generate \$34 million in revenue in 2005-06.

The Budget Act revenue forecast was increased by \$440 million in 2004-05, primarily due to higher-than-expected revenues during the month of May. The budget year forecast is \$604 million higher than the May Revision and includes the following provisions:

- Tobacco bond refinancing is expected to provide an additional \$525 million in one-time General Fund moneys in 2005-06.
- A \$36 million increase in revenues is estimated for tidelands oil revenue. This increase is attributable to the state receiving additional revenues that otherwise would have been retained by the City of Long Beach.
- An additional \$19 million in revenues because of additional settlements with insurance companies related to the Stringfellow site is expected.
- A two-year extension of existing revenue collections positions at the Franchise Tax Board is expected to increase General Fund revenues by \$13 million in 2005-06.
- A two-year extension of existing tax settlement positions at the Franchise Tax Board is expected to increase General Fund revenues by \$6 million in 2005-06.
- Adding tax auditors at the Employment Development Department is expected to increase General Fund revenues by \$2 million in 2005-06.

# 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 a cost-of-living adjustment (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 pay-

**Figure K12-01**

**Proposition 98**  
**(Dollars in Thousands)**

|                        | <b>2003-04</b> | <b>2004-05</b> | <b>2005-06</b> |
|------------------------|----------------|----------------|----------------|
| 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     |
| <br>                   |                |                |                |
| Base Guarantee Level   | 46,875,655     | 50,768,633     | 49,226,734     |
| <br>                   |                |                |                |
| Savings                | 583,859        | 3,827,301      | (740,886)      |

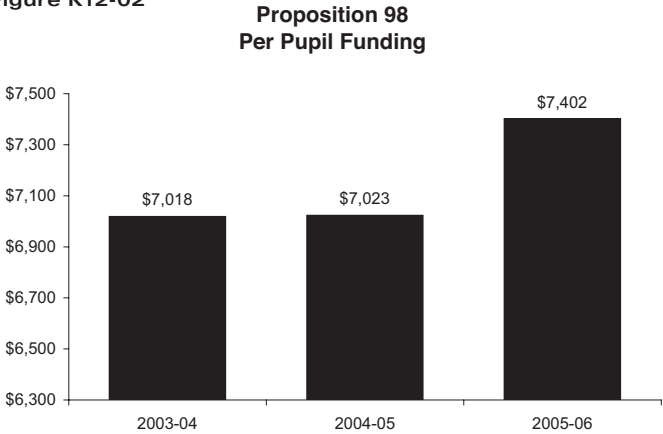
ments toward prior year Proposition 98 obligations dating back to 1995-96, which will be supplemented beginning in 2006-07 with a payment of \$133.2 million and payments of \$150 million annually thereafter until the estimated \$1.3 billion in such obligations are fully repaid.

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.

Figure K12-02



## 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.

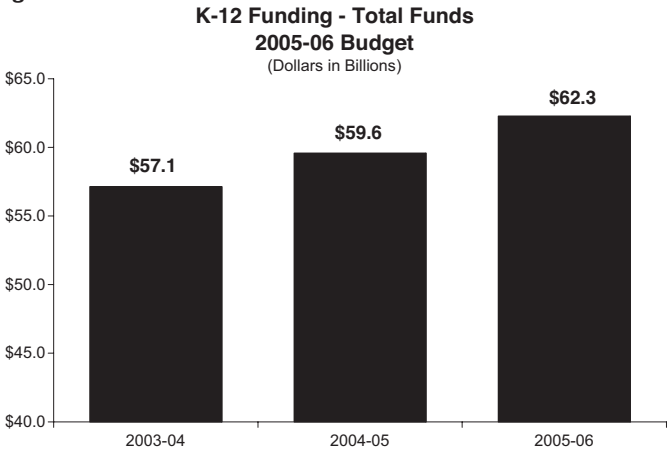
From 2004-05 to 2005-06, General Fund increases \$2.3 billion, while local property taxes increase by \$380 million and federal funds grow by \$48.6 million. Major General Fund changes include the following:

- 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

**Figure K12-03**



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 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 \$406 million or over 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.

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

**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 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 the General Fund and Proposition 98 for CCC is 9.7 percent above the 2004 Budget Act.

**Figure HED-01**

**Higher Education Expenditures  
Total and General Funds  
(Dollars in Millions)**

|   | 2003-04           | 2004-05           | 2005-06           | Change from<br>2004-05 |             |
|---|-------------------|-------------------|-------------------|------------------------|-------------|
|   |                   |                   |                   | Dollar                 | Percent     |
| University of California <sup>1/</sup>    |                   |                   |                   |                        |             |
| 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%        |
| California State University <sup>1/</sup> |                   |                   |                   |                        |             |
| 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%        |
| Community Colleges                        |                   |                   |                   |                        |             |
| Total Funds                               | 6,697.8           | 7,510.7           | 8,006.0           | \$495.3                | 6.6%        |
| General Fund & P98 <sup>3/</sup>          | 4,505.3           | 5,021.0           | 5,508.8           | \$487.8                | 9.7%        |
| Student Aid Commission (GF)               |                   |                   |                   |                        |             |
| Total Funds                               | 689.3             | 779.3             | 838.2             | \$58.9                 | 7.6%        |
| General Fund                              | 658.8             | 598.4             | 752.4             | \$154.0                | 25.7%       |
| Other Higher Education <sup>2/</sup>      |                   |                   |                   |                        |             |
| 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>\$15,754.0</b> | <b>\$16,759.4</b> | <b>\$17,836.7</b> | <b>\$1,077.4</b>       | <b>6.4%</b> |
| <b>General Fund</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 UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

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

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

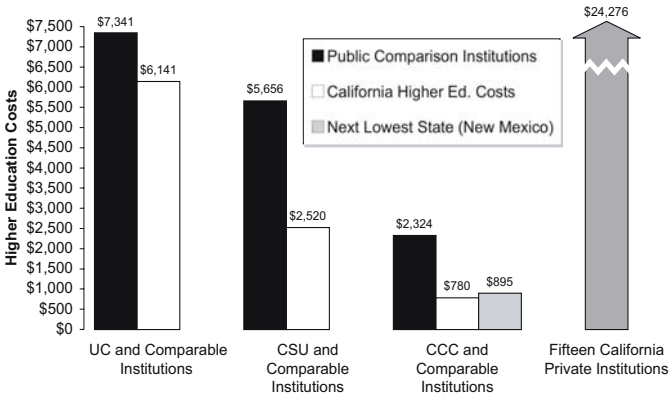
**Higher Education Compact Funding Levels**— In accordance with the Higher Education Compact, the Budget provides stable funding to UC and CSU for enrollment growth and basic support. In addition, both segments have adopted modest fee increases and devote significant portions of the revenue for institutional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

**Figure HED-02**

**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.

- 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.
- **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.

**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 cost-of-living adjustment (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 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 in-

crease 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.



# Health and Human Services

The Budget maintains a strong and responsible safety net for our state's most vulnerable residents. These programs are carried out by an array of departments and boards overseen by the California Health and Human Services Agency. Highlights of funding in the Budget for Health and Human Services programs include:

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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.

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### Department of Health Services

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#### 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.

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## **Public Health Programs**

**Cigarette and Tobacco Products Surtax Fund-Proposition 99** —The Budget includes \$210.8 million Proposi-

tion 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.
- **Asthma Public Health Initiative**—\$3 million to provide local grants to community health centers to address asthma in children up to age 18.

- **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 and cervical cancer screenings to low-income women.
- **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.

**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.

**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 in 2005-06. A total of more than 30,000 clients 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 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.

**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.

**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). 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.

**Early Mental Health Initiative**—The Budget provides \$10 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.

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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. 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 Janu-

ary 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.

California's SSI/SSP payment standards for individuals continue to be the highest among the nation's ten 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.

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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.



# Public Safety

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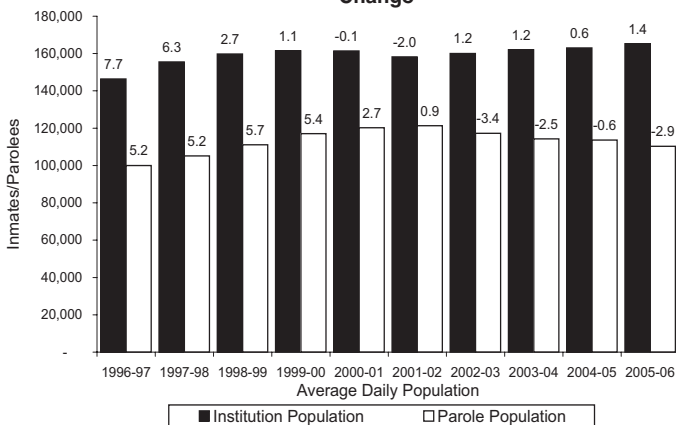
## Department of Corrections and Rehabilitation

**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 Officers’ 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.

**Figure PUB-01**

**Department of Corrections and Rehabilitation  
Adult Institution and Parole Population Percentage  
Change**



**Adult Prison Population** — Adult prison inmate average daily population is projected to increase from 163,025 in 2004-05 to 165,249 in 2005-06, an increase of 2,224 inmates, or 1.4 percent. In 2005-06, incarceration services will be provided through 33 institutions, 11 reception centers, 40 camps, and 12 community correctional facilities.

**Adult Parole Population** — Adult parolee average daily parole population is projected to decrease from 113,600 in 2004-05 to 110,335 in 2005-06, a decrease of 3,265 or 2.9 percent. The parole population is projected to be lower due to ongoing implementation of parole policies and practices designed to ensure public safety and be consistent with current law.

**Local Assistance** — The Budget provides \$7.5 million to fairly reimburse local jurisdictions for the cost of prosecuting crimes committed in state prisons by adult inmates. Also, the Budget provides a revised methodology for the calculation of a daily reimbursement rate for the detention of adult state parolees.

**Adult Parolee and Inmate Programming Expansion —**

The Budget includes \$7.5 million for the expansion of evidence-based programs that are designed to improve public safety and reduce victimization by reducing parolee recidivism and preparing inmates to transition back into the community.

**Juvenile Institution and Parole Population —** The projected ward institution population will be 2,615 on June 30, 2005, which is a decrease of 425 wards from the population of 3,040 on June 30, 2004. The juvenile parolee caseload is projected to be 3,375 by June 30, 2005, which is a decrease of 400 cases from an estimated caseload of 3,775 on June 30, 2004.

**Farrell v. Allen Remedial Plans —** In 2002, the Prison Law Office sued the State of California over the conditions of confinement at facilities statewide. The lawsuit, *Farrell v. Allen*, sought a comprehensive overhaul of juvenile programs. In July 2004, the state entered into a consent decree to settle this lawsuit. The consent decree requires the state to develop and implement remedial plans that address various deficiencies in the department's education programs, medical care, mental health services, sex offender treatment, accessibility for wards with disabilities, and general ward safety and welfare.

The Budget includes \$6.8 million to implement remedial plans submitted to the court in April and May 2005. These plans address the areas of mental health, sex offender treatment, and disabilities. The Budget also includes funding of \$17.1 million to implement the education remedial plan that was submitted to the court in March 2005. Final remedial plans in the areas of medical care, mental health, and general ward safety and welfare are currently being developed and are not due to the court until fall of 2005.

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## **Incarceration of Undocumented Felons**

The Department of Corrections and Rehabilitation expects to spend approximately \$734.3 million in 2005-06 for the incarceration of undocumented persons. For 2005-06, it is estimated that California will receive approximately \$79.4 million in federal State Criminal Alien Assistance Program funding. At this level of funding, the state will be reimbursed for only 10.8 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with \$654.9 million in costs in excess of the level of federal reimbursements.

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## **Office of Homeland Security**

**Federal Homeland Security Funding** — The Budget includes \$361.4 million federal funds for homeland security purposes. Of this amount, \$33.4 million is provided for support to the Office of Homeland Security and other state agencies. \$328 million is allocated for local assistance grants to provide training, equipment, and planning to local entities.

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## **Office of Emergency Services**

**Southern California Winter Storms** — The Budget includes \$35 million for the estimated costs of response and recovery efforts related to recent federally declared disasters in Southern California. Two heavy storms caused flooding, debris flows, and building and infrastructure damage to seven counties in Southern California in late 2004 and early 2005. This increase will fund the state's share of the costs associated with these disasters.

**Fire Engines for Mutual Aid Support** — The Budget provides \$5 million to purchase new fire engines for mutual aid support, consistent with the recommendations of the Governor's Blue Ribbon Fire Commission which was formed

following the 2003 Southern California wildfires. These engines will be housed at local fire departments and staffed by local personnel. Additional engines placed in communities throughout the state will improve the ability of state and local agencies to respond to wildfires, particularly those in Wildland/Urban Interface areas where fires can have a devastating effect on people, property, and communities.

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### Department of Justice

The Budget includes total expenditures of \$696 million for the Department of Justice (DOJ) which includes the following augmentation:

**DNA Fingerprint, Unsolved Crime and Innocence Protection Act (Proposition 69)** — An increase of \$17.9 million, comprised of \$2 million General Fund and \$15.9 million DNA Identification Fund, to implement the voter approved DNA Fingerprint, Unsolved Crime and Innocence Protection Act. This level of resources will allow DOJ to process approximately 245,000 DNA samples and purchase collection kits and laboratory supplies.



# 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. Highlights of funding in the Budget for natural resources and environmental protection include:

**River Parkways Program**—The Budget includes \$38.4 million in 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 \$11.7 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 coordi-

nate 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. 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 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.

## Resources and Environmental Protection

**Ocean Protection Act**—The Budget provides \$1.2 million in Environmental License Plate Funds to establish the Ocean Protection Council. 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 includes \$1.3 million General Fund to operate the Hearst Ranch conservation easement and acquisition. Two million individuals are expected to visit the property annually. The funding will provide for public access planning and maintenance, coastal trail design, 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 annually.

**CALFED Bay-Delta Program**—The Budget contains \$145.8 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 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.

# **Business, Transportation, and Housing**

The 2005 Budget includes expenditures of nearly \$12.6 billion for roads, highways, mass transit, vehicle licensing and registration, highway law enforcement, business regulation, and housing programs.

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## **Department of Transportation**

Of the estimated \$18 billion statewide that will be spent on transportation in 2005-06, \$9 billion is reflected in the transportation budgets 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 Program, \$719 million for the State Transportation Improvement Program, and \$402 million for transit. Additionally, California Department of Transportation (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 bil-

lion in funding for local streets and roads is included in the General Government section of the Budget. 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.

Other significant funding increases include the following:

- The Budget includes an additional 316 state staff positions and 675 contract position equivalents to administer transportation capital outlay projects.
- 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

## Business, Transportation, and Housing

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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### Business, Transportation, and Housing Agency

**Travel and Tourism**—The Budget includes a \$7.3 million General Fund augmentation for the California Travel and Tourism Commission 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**—Up to \$35 million in Proposition 46 funds are made available from loan repayments for supportive housing projects targeted to the chronic homeless. The Budget includes \$125,000 from the 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 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.

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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). Accompanying legislation 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.

# Judicial Branch

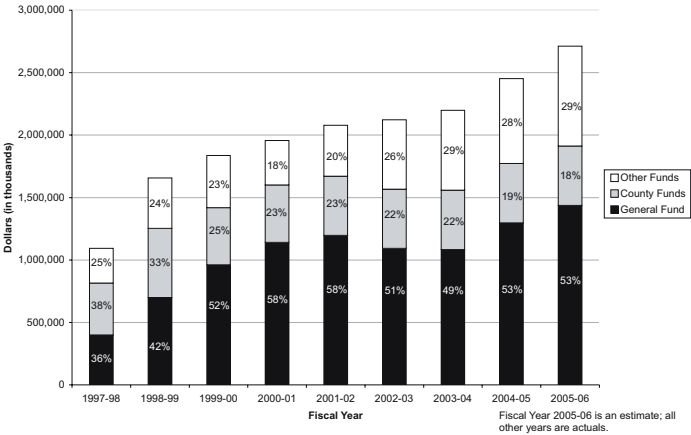
## State Judiciary

State Judiciary expenditures for 2005-06 total approximately \$373.5 million.

## State Trial Court Funding

Trial court expenditures for 2005-06 total approximately \$2.7 billion, with 53 percent comprised of state General Fund dollars, 18 percent from county funds, and 29 percent from other funds including fines, penalties, and

**Figure JUD-01** Trial Court Expenditures



fees remitted to the Trial Court Trust Fund and Trial Court Improvement Fund.

**Increased Trial Court Costs** — The Budget includes General Fund augmentations of \$92.6 million to support the increased costs of contractual salary, benefit, and retirement costs and for court security and county services at the trial courts; \$130.7 million for a statutorily-required SAL expenditure adjustment; and \$55 million for the restoration of a one-time reduction. The Budget also includes \$15.4 million for increased expenditure authority to partially reverse a technical reduction included in the 2004-05 Budget Act and \$4.95 million in expenditure authority related to increased revenue from the Uniform Civil Filing Fee.

# Capital Outlay

The 2005 Budget Act provides \$1.58 billion for new and continuing projects for the statewide Capital Outlay Program. In addition, the Budget Act 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 2005 Budget Act includes:

- \$910 million in general obligation bonds for numerous construction projects within the University of California, the California State University, and the California Community Colleges that help meet the needs of increasing enrollment, replacement of aging facilities, and renovation of existing buildings.
- \$149.1 million (\$129.2 million lease-revenue bonds and \$14.9 million General Fund) for the Department of Forestry and Fire Protection to replace six forest

fire stations, relocate the Ukiah Air Attack Base, and increase funding for various projects to reflect updated construction costs. These projects will address significant health and safety issues as well as critical infrastructure deficiencies at key emergency response facilities.

- \$131 million (\$44.7 million General Fund, \$84.1 million lease-revenue bonds, and \$2.2 million general obligation bonds) for the Department of Corrections and Rehabilitation to construct waste-water and potable water treatment projects to meet licensing requirements, solid cell-fronts and small management yards to address staff safety issues, and 64 licensed beds to house and treat seriously mentally ill inmates.
- \$59.6 million in lease-revenue bonds for the Department of Mental Health to continue projects to provide food and educational services at Metropolitan State Hospital; and, improve admissions, receiving, and treatment services at Patton State Hospital.
- \$49.2 million in general obligation bonds, special funds, and reimbursements for the Department of Parks and Recreation to fund 31 critical health and safety issues that preserve and restore the state's cultural and historic resources; and to provide funding for high-priority acquisitions and several statewide critical minor capital outlay projects.
- \$36.1 million for six flood control projects in the Central Valley currently under construction (\$16.7 million General Fund and \$4.4 million in local matching funds); and, for the CALFED South Delta Improvements Program for the design of fish barriers, fish screens, and a new intake at Clifton Court Forebay (\$15.0 million Proposition 13 bond funds). In addition, these funds will enhance fish migration in the Delta and minimize the

## Capital Outlay

number of regulatory actions that reduce State Water Project deliveries to agricultural and urban water users.

- \$10.3 million in special funds for two new local trial court facilities in Contra Costa and Merced counties.



# 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 2006. It is fiscally prudent to use a portion of the additional one-time 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 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 for 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.

# Statewide Issues

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## 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.

**State Teachers’ Retirement System**—The Budget provides for full funding of the state’s statutory obligations to the 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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## Department of Finance

**Budget Information System Chart of Accounts and Procurement**—The Budget includes \$1.7 million to continue the development of a new statewide financial system, the Budget Information System (BIS). The activities funded in 2005-06 include the development of a statewide chart of accounts which will be followed by the procurement process for the budgeting component of BIS. The BIS represents an important step toward implementing the recommendations made by various studies of state business practices regarding the need to develop a comprehensive financial system to provide critical information required to make budget decisions and manage state resources.

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## Financial Instruments

**Pension Obligation Bonds**—The Budget reflects the state’s issuance of pension obligation bonds to fund ap-

proximately \$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—**

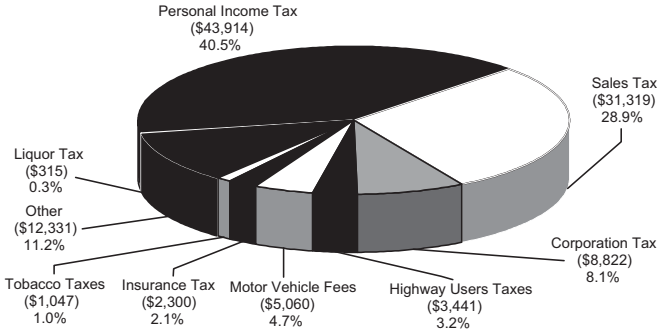
A portion of the Golden State Tobacco Securitization Bonds will be refunded this fiscal year. In exchange for its continued backing of these bonds, and anticipated lower interest rates, the General Fund will receive an estimated \$525 million.



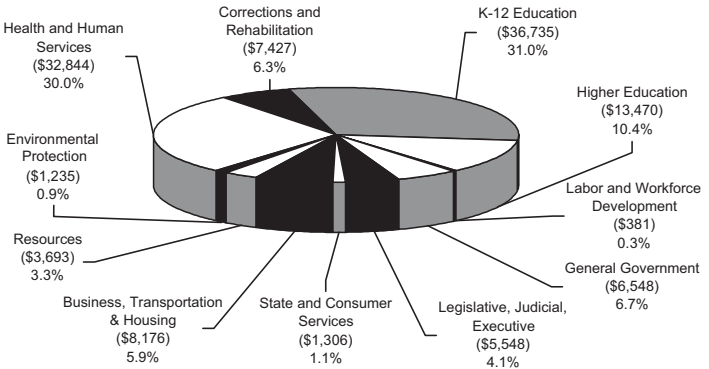
# Summary Charts



**2005-06  
Total Revenues and Transfers**  
(Dollars in Millions)



**2005-06  
Total Expenditures<sup>1/</sup>**  
(Dollars in Millions)



<sup>1/</sup> Includes General Fund, special funds, and selected bond funds.

## Summary Charts

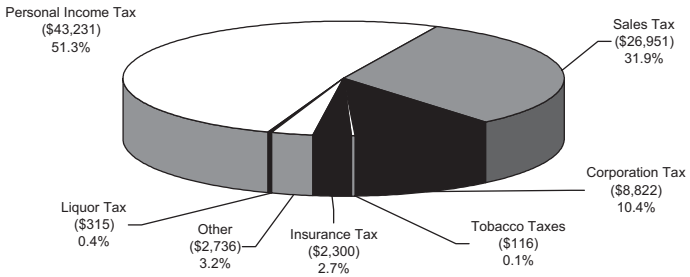
### General Fund Budget Summary (Dollars in Millions)

|   | <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                 | \$2,012 <sup>1/</sup> | -                     |
| <b>Total Resources Available</b>        | <b>\$89,226</b>       | <b>\$91,969</b>       |
| Non-Proposition 98 Expenditures         | \$47,719              | \$53,435              |
| Proposition 98 Expenditures             | \$34,009              | \$36,591              |
| <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.

**2005-06  
General Fund Revenues and Transfers**  
(Dollars in Millions)

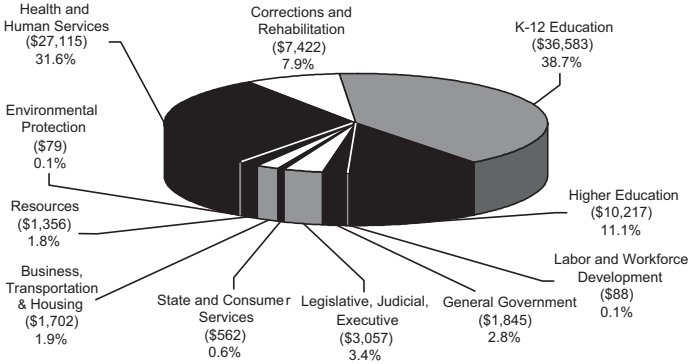


**2005-06 Revenue Sources**  
(Dollars in Millions)

|                     | General Fund    | Special Funds   | Total            | Change From 2004-05 |
|---------------------|-----------------|-----------------|------------------|---------------------|
| Personal Income Tax | \$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.

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



## 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 | 374                           | 1,702           | 1,328          | 355.1%       |
| Resources                          | 1,064                         | 1,356           | 292            | 27.4%        |
| Environmental Protection           | 78                            | 79              | 1              | 1.3%         |
| Health and Human Services          | 24,998                        | 27,115          | 2,117          | 8.5%         |
| Corrections and Rehabilitation     | 6,999                         | 7,422           | 423            | 6.0%         |
| K-12 Education                     | 34,299                        | 36,583          | 2,284          | 6.7%         |
| Higher Education                   | 9,352                         | 10,217          | 865            | 9.2%         |
| Labor and Workforce Development    | 87                            | 88              | 1              | 1.1%         |
| General Government                 | 1,030                         | 1,845           | 815            | 79.1%        |
| <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<br/>Fund</b> | <b>Special<br/>Fund</b> | <b>Bond<br/>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                 | <u>1,845</u>            | <u>4,680</u>            | <u>23</u>             | <u>6,548</u>     |
| <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.

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### California's Budget on the Internet

This document is also available on the Internet at the California Department of Finance website at: [www.dof.ca.gov](http://www.dof.ca.gov)

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