



2005-2006 STATE BUDGET ACT FINAL REPORT

John Laird, Chair
Assembly Budget Committee

TABLE OF CONTENTS

Overview	
K-12 Education	
Higher Education	
Transportation	
Health Services	
Human Services	
Resources and Environmental Protection	
General Government and State Administration	
Public Safety.....	



OVERVIEW

Summary

On July 7, 2005 the Legislature passed the Budget Act of the 2005-06 fiscal year (Senate Bill 77, Senate Bill 80) and a series of budget trailer bills that make the necessary statutory changes. In total, the budget:

- ◆ Provides \$600 million more in discretionary funds for education than the May Revision. While the Governor underfunds his own education agreement with the education community by \$3 billion, the budget actually overfunds the Proposition 98 minimum by \$700 million – calling into question the Administration's claims that the Proposition 98 formula is too restrictive.
- ◆ Fully funds Proposition 42 for transportation for the first time since its passage by the voters. The Governor had originally called for suspending Proposition 42 in each of the next two years. The Governor has not agreed to fund Proposition 42 in 2006-07.
- ◆ Makes tough on-going cuts to health and human services, while restoring the most draconian cuts to seniors and other critical safety net programs proposed to be cut in the May Revision.
- ◆ Repays \$1.2 billion to local governments for the Vehicle License Fee Gap Loan one year earlier than required.
- ◆ Relies on no new borrowing.
- ◆ Provides a real \$1.3 billion reserve, which is approximately \$800 million more than provided in the Governor's May Revision.
- ◆ Reduces the out-year General Fund Gap by more than \$2.3 billion from the General Fund Gap than what was projected to be the gap at the time of the Governor's May Revision.

The budget is based on the projection of \$91.7 billion in General Fund resources and contains a total of \$90.0 billion in General Fund expenditures. Including Special Funds and Bond Funds, the budget contains \$117.4 billion in expenditures. The General Fund reserve is \$1.3 billion.

Background

On January 10, 2005 the Governor presented his proposed budget to the Legislature and immediately the Assembly Budget Committee started crafting the Assembly version of the State budget for 2005-06.

From the beginning it was clear that the Governor's proposed budget was unacceptable for many reasons, but primarily for the following reasons:

- **Education.** Breaking his Proposition 98 deal and underfunding education.
- **Transportation.** Proposing a two-year transportation holiday and suspending Proposition 42.
- **Seniors.** Attacking seniors with cuts to crucial services and taking money out of their pockets by eliminating tax credits and suspending federal COLAs.
- **Borrowing.** Relying too heavily on the Economic Recovery Bond, borrowing from transportation in both 2005-06 and 2006-07, and putting off education increases to future years.

Both the Senate and Assembly accelerated the budget process this year to ensure a full discussion on all the critical issues associated with the budget. In the Assembly, the Preliminary Review was released earlier than past years and the full committee and subcommittees began meeting earlier than historical practice.

The Assembly held 100 budget hearings. This includes three full committee hearings, four Budget Process Committee hearings, eight budget forums throughout the state, and 85 subcommittee hearings. The Senate held a similar number of hearings. In addition, the Budget Conference Committee held several marathon hearings to complete its work over a 10-day period.

The Budget Conference Committee completed its work on the budget earlier than any other time in recent memory, leading the way for a final floor vote by the June 15 Constitutional deadline.

The budget was not passed when brought up for a vote on June 15 or on June 30, the last day of the fiscal year. However, with the addition of over \$800 million in new expenditures – including an additional \$300,000 added on the day of the vote at the request of Assembly Republicans – the budget was passed on July 7, the earliest date of passage in five years.

THE 2005-2006 STATE BUDGET ACT FINAL REVIEW

As the budget process progressed, the Governor acquiesced to the position of the Legislature's Democrats and reversed his proposal to suspend Proposition 42 and ended his call for a two-year transportation holiday. The Governor also heard the outrage against taking away tax relief from our state's poorest seniors while still providing billions of tax relief to our state's wealthiest residents. And the Governor moved toward the Democrats by reducing borrowing by not proposing the use of Economic Recovery Bonds in the budget year, though he remained non-committal on his plans for borrowing from transportation in 2006-07.

The May Revision did not change course, however, in breaking the Governor's deal and underfunding schools by more than \$3 billion. Also, the Governor continued proposing critical cuts to the safety net and to seniors, such as taking the federal SSI funds and keeping them in the state's coffers instead of passing it on to the lowest income seniors and disabled Californians.

In addition, the Governor's May Revision continued savings proposals that were not achievable and did not include constitutionally required funding that together exaggerate the total of his proposed reserve. The primary examples are the Governor's assumption of:

- ◆ Savings of \$469 million from the state no longer making a contribution to the State Teachers' Retirement System (STRS). If this cost was passed down to local school districts, then the State would have had to increase the Proposition 98 guarantee by the same amount— meaning there would be no net savings to the state.
- ◆ Savings of \$408 million in state employee compensation reductions. Achieving this savings requires collective bargaining agreements from represented employees and requires reductions in vested rights – and taking away a vested right is only legal when it is replaced with an equal benefit. In addition, early indications are that the new collective bargaining agreements being reached are actually costing the state more, not less.

The Legislature refused to rely on either of these unachievable expenditure reduction proposals and neither is included in the final budget signed by the Governor. This provides more integrity to the expenditure and reserve numbers contained in the final budget.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

Revenues

The budget assumes revenues and transfers of \$84.3 billion for 2005-06. This amount, added to a \$7.5 billion starting balance, totals \$91.7 billion in available General Fund resources.

The revenue assumptions in the budget are very similar to the Governor's May Revision. The primary changes are that the budget anticipates an additional \$525 million from the refinancing of an existing tobacco settlement bond as well as updated prior year revenues from the time of the May Revision. (The budget also accepts the Legislative Analyst's projection of an additional \$225 million of local property tax support for schools – while this is not a General Fund revenue source, it does offset the General Fund expenditure requirement for Prop.98).

Fully understanding how the revenue picture has changed from the January release of the Governor's proposed budget requires an understanding of the accounting of the revenues from the tax amnesty program. All of the revenues collected pursuant to the amnesty program are attributed to fiscal years prior to 2004-05. It is estimated that 95 percent of those revenues would have been collected or will be returned over the 2004-05 through 2006-07 fiscal years. Therefore the revenues for these years need to be reduced to reflect the loss of revenues that are attributed to earlier fiscal years.

As a result, the projected increase in revenues from traditional sources (\$2.7 billion in the current year and \$1.1 billion in the budget year) are offset by the tax revenues the state will not be collecting or refunds that will need to be made due to the amnesty program.

The following chart identifies the revenue sources for the General Fund for the 2005-06 budget year.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

**2005-06 May Revision and Final Budget Act
General Fund Revenue Sources Comparison
(in millions)**

Source	May Revision Amount	May Revision % of Total	Final Budget Amount	Final Budget % of Total
Personal Income Tax	\$43,214	51.5%	\$43,231	51.2%
Sales Tax	\$26,951	32.1%	\$26,951	31.9%
Corporation Tax	\$8,817	10.5%	\$8,822	10.5%
Insurance Tax	\$2,300	2.7%	\$2,300	2.7%
Tobacco Taxes	\$116	0.1%	\$116	0.1%
Tobacco Bond Refinance	--	--	\$525	0.6%
Liquor Tax	\$315	0.4%	\$315	0.4%
Other	\$2,154	2.6%	\$2,211	2.6%
Total	\$83,867	100.0%	\$84,471	100.0%

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

Expenditures

The budget contains General Fund expenditures of \$90.0 billion. The major differences in expenditures between the final Budget Act and the May Revision are as follows:

- **STRS.** Increases spending by \$469 million for the state contribution to STRS. Not providing this contribution would result in the state's support for Proposition 98 increasing and therefore would not result in any net savings for the state.
- **IHSS.** Increases spending by \$206 million to avoid In-Home Supportive Service (IHSS) workers hourly earning from dropping to minimum wage. There is already a shortage of IHSS workers and cutting salaries further hurts critical services to needy seniors and disabled Californians.
- **SSI Federal COLA.** Increases spending by \$49 million to provide the federal COLA for SSI/SSP recipients beginning April 1 2005, a delay of three months from what would occur under current law. The federal government provides these funds for individuals that rely on SSI/SSP for basic living needs, but the Governor had proposed keeping the entirety of these funds in the state treasury.
- **Employee Compensation.** Increases spending by \$368 million due to the Governor's savings from employee compensation not being achievable. Much of the proposed savings would have come from changes in vested employee rights that can only be taken away if replaced with equal benefits. In addition, employee compensation issues are generally subject to collective bargaining, and early indications are that the new collective bargaining agreements being reached are actually costing the state more, not less. The final budget projects \$40 million in savings in employee compensation.
- **Juvenile Probation.** Increases General Fund support for Juvenile Probation by \$201 million, rather than supporting the program from TANF/CalWORKS funds.
- **VLF Gap Loan.** Increases spending by \$593 million to fully repay the VLF gap loan to local governments. The May Revision proposed repaying half of the total amount, but the final budget repays the entire amount in the budget year, rather than in 2006-07.
- **Local Government Mandates.** Increases spending by \$93 million to reimburse local government for mandates costs.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- **Local Property Taxes / General Fund Support for Proposition 98.** Reduces General Fund spending for Proposition 98 by \$225 million in accordance with the LAO estimates that local property taxes support for proposition 98 will be \$225 million above the level contained in the May Revision. This has no net impact on Proposition 98.
- **One-time funding for Education.** Reduces one-time General Fund support for education by \$235 million as a result from the Administration agreeing to continue funding the State's STRS contribution from the General Fund. The reduction for education was agreed to in order to limit the impact on the reserve from continuing to fund STRS. The impact of the loss of the \$235 million on local school districts is partially mitigated by a \$172 million increase in appropriations from the Proposition 98 version account, relative to the Governor's May Revise amount.

**2005-06 May Revision and Final Budget Act
General Fund Expenditures Comparison
(in millions)**

Category	May Revision Amount	May Revision % of Total	Final Budget Amount	Final Budget % of Total
Education (K-12)	\$36,118	40.7%	\$36,583	40.6%
Health and Human Services	\$26,834	30.3%	\$27,115	30.1%
Higher Education	\$10,171	11.5%	\$10,217	11.3%
Business, Transportation and Housing	\$1,702	1.9%	\$1,702	1.9%
Legislative, Judicial, Executive	\$3,120	3.5%	\$3,057	3.4%
General Government	\$1,223	1.3%	\$1,845	2.0%
Youth and Adult Corrections	\$7,259	8.2%	\$7,422	8.2%
Resources	\$1,352	1.5%	\$1,356	1.5%
Environmental Protection	\$78	.1%	\$79	.1%
State and Consumer Services	\$576	.7%	\$562	.6%
Labor and Workforce Development	\$92	.1%	\$88	.1%
Total	\$88,525	100%	\$90,026	100%

Borrowing

The budget contains significantly less borrowing than what was called for in the Governor's January budget proposal and calls for no new borrowing above the Governor's May Revision. In addition, the budget pays off existing debts for local mandates at a higher rate than the Governor's May Revision. The following are the major borrowing related issues in the Budget Conference Committee's budget.

- ◆ **Economic Recovery Bonds.** Assumes use of no Economic Recovery Bonds (ERBs), leaving approximately \$3.7 billion of available ERBs to address out-year budget shortfalls.
- ◆ **Education Mandate Repayments.** Repays approximately \$61 million in past mandate claims that are owed to local school districts. The Governor did not propose this repayment, but it is critical that the state makes progress in lowering the debts owed to schools.
- ◆ **Local Government Mandates.** Pays a total of \$250 million local mandates for both 2004-05 and for 2005-06, this is \$93 million more than proposed in the Governor's May Revision, which did not contain any funds for 2004-05 mandates – a violation of Proposition 1A.
- ◆ **VLF Gap Loan.** Repays the entire \$1.2 billion VLF gap loan one year earlier than required.
- ◆ **Paterno Lawsuit.** Provides \$67 million for the first installment owed to settle the Paterno lawsuit.
- ◆ **Pension Obligation Bond.** Reduces the size of the Pension Obligation Bonds (POB) that were authorized in the current year by nearly 50 percent. The budget now assumes only \$524 million in revenues from the POB. Significant pension cuts were agreed to in order to generate the savings necessary to pay the costs of the POBs. Should the POBs ultimately not be issued, the agreed to cuts should also be restored.

THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW

Out-Year General Fund Gap

The budget reduces the out-year General Fund Gap by more than \$2.3 billion from what the Governor proposed in his May Revision for a preliminary out-year gap of about \$4.6 billion.

Under the Governor's May revision, the 2006-07 General Fund Gap was projected to be \$4.9 billion. However, since the May Revision relied heavily on unachievable savings, the actual 2006-07 General Fund Gap under the May Revision would have been \$6.9 billion.

The following chart shows the differences in the 2006-07 General Fund Gap between what the Governor projected at the time of the May Revision to what is now projected with the Final Budget Act.

**2006-07 General Fund Gap Comparison
May Revision and The Final Budget Act
(in billions)**

Stated May Revision 2006-07 General Fund Gap	-\$4.9
Impact on 2006-07 beginning balance due to unachievable 2005-06 savings	-\$0.9
Additional 2006-07 spending resulting from unachievable saving proposals	-\$1.1
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Actual May Revision 2006-07 General Fund Gap*	-\$6.9
Final Budget Act 2006-07 General Fund Gap	-\$4.6
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Improved 2006-07 General Fund Gap under the Final Budget Act	\$2.3

*this assumes the May Revision revenue projections, the Final Budget Act projections are more accurate and include more revenues.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

General Fund Summary

The following chart shows the General Fund summary for the Final Budget Act as compared with the Governor's May Revision over both the current year and the budget year.

**May Revision / Final Budget Act Comparison
General Fund Summary
Current Year and Budget Year
(in millions)**

	May Revision <u>2004-05</u>	Final Budget <u>2004-05</u>	May Revision <u>2005-06</u>	Final Budget <u>2005-06</u>
Prior-year balance	\$7,200	\$7,279	\$6,714	\$7,498
Revenues and Transfers	\$79,495	\$79,935	\$83,867	\$84,471
Economic Recovery Bonds	2,012	2,012	--	--
Total Resources Available	\$88,707	\$89,226	\$90,581	\$91,969
Total Expenditures	\$81,993	\$81,728	\$89,402*	\$90,026
Fund Balance	\$6,714	\$7,498	\$2,056	\$1,943
Budget Reserves:				
Reserve for Liquidation of Encumbrances	(\$641)	(\$641)	(\$641)	(\$641)
Final Reserve	\$6,073	\$6,857	\$538	\$1,302

*amount increased to reflect actual expenditure levels, once adjusted to account for unachievable savings proposals.



K-12 EDUCATION

Department of Education

MAJOR ACTIONS

- ◆ **Governor's Broken Education Deal.** The Governor's deal with the education community called for limiting the current year suspension of Proposition 98 to \$2 billion. Instead, the Governor's proposed education budget actually under-funds this commitment by a total of \$3 billion over the current and budget years combined. The leaders of the Assembly and the Senate have committed to pursuing full funding of the Governor's broken deal through separate legislation.
- ◆ **Additional Discretionary Funding.** Provides school districts with a total of approximately \$600 million more in discretionary funding than the amount proposed by the Governor. This increase is achieved two ways: 1) by rejecting the Governor's proposal to shift \$469 million worth of retirement costs to school districts, thereby relieving schools of this amount of cuts, and 2) by providing discretionary money rather than restricted funds (see "Revenue Limit Deficit Reduction" and "Paying Down the State's Mandate Debt to K-12 Schools" on the next page.)
- ◆ **Total Proposition 98 for K-12 Education.** Provides total Proposition 98 funding for K-12 education at a level slightly lower than the level proposed by the Governor's May Revision. This lower level of funding is in part due to the Governor's decision to veto ongoing funds for instructional materials for English learners and funds for the Healthy Start program. Due to the suspension of Proposition 98 in the current year, the budget actually over-funds the Proposition 98 minimum by approximately \$700 million.
- ◆ **Growth and COLA.** Fully funds growth and COLA for all K-12 programs. COLA is provided at 4.23 %.
- ◆ **Reject Proposal to Shift Retirement Costs to School Districts.** Rejects the Governor's January and May Revision proposal to shift \$469 million in teacher retirement costs (which the state currently pays) to school districts and community colleges, and therefore continues the state's current contribution to STRS at the same level as last year. This action will free

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

school districts and community colleges from an equivalent amount of cuts they would have had to make under the Governor's proposal.

- ◆ **Revenue Limit Deficit Reduction/ Discretionary Funds.** Provides a total of approximately \$406 million in ongoing funds for revenue limit deficit reduction funding (an increase in discretionary funding of approximately \$406 million, provided to all districts and county offices on an equal basis). On a per-pupil basis, this amount equates to an increase of almost \$70 per pupil. The total amount included is approximately \$78 million more than what the Governor proposed in his budget for this purpose. The \$406 million partially pays off a state debt to school districts that was created a few years ago when the state reduced funding to schools to address a budget crisis.
- ◆ **Paying Down the State's Mandate Debt to K-12 Schools.** The state currently owes schools districts approximately \$1.4 billion for prior-year mandate claims. The budget provides a total of \$61 million to begin paying down that debt. Mandate claims have accumulated over the past few years, due to the fact that the state has deferred payment on them, because of the state's fiscal crisis.
- ◆ **Special Education:**
 - ◆ Maintains overall special education funding at the same funding level proposed by the Governor in his May Revise.
 - ◆ Provides for full growth and COLA on the state-funded portion of special education funding.
 - ◆ Provides a \$53 million Proposition 98 increase to Special Education Local Planning Area's (SELPA's) in addition to their COLA. Schools can use this increase for any one-time special education purposes, including uses related to helping special education students pass the California High School Exit Exam, which all students must pass in order to receive a high school diploma, beginning in 2006.
 - ◆ Includes a \$58 million increase in federal special education funding, and passes on this funding to SELPA's as discretionary funding to be used for any special education purpose.
 - ◆ Rejects the Governor's proposal to eliminate the mandate that counties provide mental health services to special education students, and thereby maintains the responsibility with the counties. Continues \$69 million in federal special education funds to counties to help them pay for these costs. Similarly continues \$31 million in Proposition 98 funds to SELPA's to provide pre-referral services to special education students who may

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

need more intensive mental health services. Both of these amounts were provided in last year's budget.

- ◆ Increases funding for the new out-of-home care formula by approximately \$15 million relative to last year's funding level (not including funding for technical changes).
- ◆ Makes no changes to the base year used to calculate the hold harmless provisions of the new out-of-home care formula approved last year.
- ◆ Provides \$6 million to correct a technical error in the out-of-home care formula, in which some homes were inadvertently excluded from the formula. This amount is for the two-year cost of the correction.
- ◆ Re-appropriates approximately \$23 million in one-time special education savings from the 2003-04 fiscal year for special education discretionary purposes. Allocates these funds on a per-ADA basis (roughly, a per-pupil basis). The Governor's May Revise did not recognize or re-appropriate these savings. The savings result from lower-than-expected growth in attendance in 2003-04.
- ◆ Provides an increase of \$420,000 in federal special education funds to open additional family empowerment centers, which provide education and technical assistance to families of special education students.
- ◆ Provides a one-year continuation of the existing special education incidence adjustment for SELPA's with high costs.
- ◆ **Assistance to pass the California High School Exit Exam.** Provides \$20 million in ongoing funds to schools with the highest percentages of students who have failed both parts of the California High School Exit Exam and are at greatest risk of not receiving a diploma in 2006 due to failure to pass it. Requires eligible school districts to use the funds to provide intensive instruction and services, including hiring additional teachers, administering diagnostic assessments, specialized instruction, teacher training and individual or small group instruction.
- ◆ **Reading First.** Provides for a fourth year of grant funding for the first round of grant recipients of this federal reading program. Continues funding for the other grantees, and specifies that \$6.5 million in carryover funds be used for new grants. Includes language to require future statutory authorization for a fifth year of funding for any grantees. Creates an advisory committee to assist CDE in implementing the program for classrooms that use a bilingual education instructional method.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Charter Schools Categorical Block Grant.** Provides the same level of funding proposed by the Governor for the charter school categorical block grant, which is intended to provide charter schools with an amount of funding equivalent to what non-charters receive in categorical funding. The corresponding budget control language specifies that any changes to the existing formula shall be pursuant to legislation that specifies which categorical programs are considered in and out of the formula for the block grant. Last year the Legislature suspended the old formula for calculating the block grant

- ◆ **Charter School Facilities Grant Program.** Restores \$9 million in one-time funds to this program, as the Governor proposed in the May Revise. This program provides funding to charter schools in low-income areas, to pay for leasing costs when these charter schools are unable to secure non-leased buildings.

- ◆ **Additional Federal Funds for Charter School Facilities.** Provides \$19.5 million for the first two years of a five-year federal grant for the lease or construction of charter school facilities, as proposed by the Governor in his May Revise.

- ◆ **High Priority Grant Program.** Provides a total of \$60 million for new grants to low-performing schools to participate in the High Priority Grant program. This amount was proposed by the Governor in his May Revise to comply with the Elizer Williams v. State of California lawsuit settlement of last year. That settlement requires that any savings that result from expiring grants from another grant program for low-performing schools (the Immediate Intervention in Underperforming Schools program) must go toward new grants in the High Priority Grant Program.

- ◆ **Funding for Emergency School Repairs Per Last Year's Williams Settlement.** Provides approximately \$183 million for emergency facility repairs for the state's lowest performing schools, in compliance with the Elizer Williams v. State of California lawsuit settlement of last year. That settlement requires that half of all funds from the Proposition 98 Reversion Account, which contains prior-year Proposition 98 savings from education programs, must go toward this program. The total provided for emergency facility repairs is approximately \$80 million more than the Governor had proposed in his budget.

- ◆ **Incentives for Low-performing Schools.** Provides up to \$49.5 million in one-time funding to the lowest-performing 30% of schools for a new one-time program to improve the educational culture and environment at those schools. Under the program, participating schools would receive \$50 per pupil, and would be able to spend it on any related purpose, including but not limited to support services, activities to improve recruitment and retention of

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

highly qualified teachers, small group instruction and collaboration time for teachers and principals.

- ◆ **Fruits and Vegetables for Breakfast.** Provides \$18.2 million in one-time funding on a one-time basis to provide fruits and vegetables in children's school breakfasts, pursuant to subsequent legislation.
- ◆ **Advancement Via Individual Determination (AVID).** Restores an \$840,000 cut to this program, which helps school districts improve the college attendance rates of their students. Although the Governor proposed this cut in his January 10 budget, he proposed to restore it in his May Revision.
- ◆ **School Business Officer Training.** Provides \$1 million in one-time funds for a new program to train school districts' business officers on good financial practices. This amount was proposed by the Governor in his January budget, along with corresponding legislation to implement the new program.
- ◆ **Alternative Assessment for Children with Disabilities.** Sets aside \$650,000 in federal funds for CDE to develop a new alternative assessment for children with disabilities. This funding will allow CDE to take advantage of flexibility recently offered by the federal Department of Education to states to help them comply with the accountability and testing requirements of the federal No Child Left Behind Act.
- ◆ **Translation of parental documents.** Provides \$450,000 in one-time federal carryover funds for CDE to translate education-related documents that are given to parents of children in public schools, in compliance with state and federal law. The documents are to be translated into languages other than English and posted on a statewide clearinghouse for parental documents translated into languages other than English, to help districts comply with federal and state laws requiring districts to communicate with parents in their native language.

 **MAJOR VETOES**

- ◆ **Supplemental Instructional Materials for English Learners.** The Governor vetoed \$20 million that the Legislature provided for districts to purchase supplemental instructional materials for English learners. This funding was intended to continue a portion of the \$30 million set-aside for supplemental instructional materials for English learners that was approved last year. The Legislature included this funding in the budget it sent to the Governor for school districts to purchase supplemental instructional materials that a) are designed to help English learners become proficient in English and b) supplement the regular core instructional materials that school districts are

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

required to be purchased with state instructional materials funding. The Legislature had linked this funding to funding for the Governor's Career-Technical Education Initiative, which is funded through the community colleges. Because of this link and the Governor's decision to veto the funds for supplemental instructional materials for English learners, the final budget contains no funding for the Governor's Career-Technical Education Initiative (see community colleges).

- ◆ **Federal carryover funding.** The Governor vetoed approximately \$75 million in federal funds that are currently used to provide educational assistance to poor and migrant children. In his May Revise, the Governor had proposed to redirect this funding (which is unused one-time federal funding from prior years) to a new one-time program to help low-performing schools comply with the federal No Child Left Behind Act. The Governor's proposed redirection would have required the federal government to grant California a waiver from federal requirements. The Legislature rejected the Governor's proposed redirection, due to the following concerns: 1) unclear definition of the Governor's proposed new program, 2) concern about whether a one-time infusion of funding would really help low-performing schools, which typically require sustained investments in order to improve, and 3) concern that the redirection would take funding away from federal programs that already serve low-income and migrant students. In rejecting the Governor's proposal, the Legislature re-appropriated the one-time funding back to the original federal programs. The Governor's veto of those funds from their original federal programs means that those funds will not be available for their original purposes to serve poor and migrant children.

- ◆ **Study of the Economic Impact Aid formula.** The Governor vetoed \$500,000 in one-time federal funds which the budget provided to the non-partisan Legislative Analyst's Office to contract for a study of the Economic Impact Aid formula, which provides funding to school districts to provide supplemental services to economically disadvantaged children and English learners. In past years, the Legislative Analyst's Office has raised questions about the equity and stability of the funding going to individual school districts from this program. The study was intended to examine ways to address those concerns and ensure that the formula provides equitable, predictable and reliable funding to help school districts address the educational needs of poor children and English learner students.

- ◆ **Healthy Start.** The Governor vetoed \$2 million for this program, along with \$468,000 and 4.6 positions from CDE's state operations to administer the program. The Governor had proposed to eliminate funding for the program in his January budget, but the Legislature attempted to restore funding at last year's level in order to continue the program. The Healthy Start program provides competitive grants to school districts to set up school-based health programs.

Child Care and Development

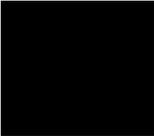
MAJOR ACTIONS

- ◆ **Time-limiting of Stage 3 Child Care.** Rejects Governor's proposal to institute a time limit on CalWORKs Stage 3 child care that would take effect in future years.
- ◆ **Tiered Reimbursement.** Rejects Governor's proposal to set child care providers maximum reimbursement rates at levels that reflect the market and certain training, assessment or accreditation levels. The proposed reimbursement levels would have reduced the maximum rate for most of the providers in the State, with licensed-exempt providers being reduced in the budget year and other providers being reduced in future years. The proposed reimbursement levels would have reimbursed some providers at levels below the minimum wage.
- ◆ **In-and-Out of Market Rates.** Continues a suspension of Department of Education regulations to determine the reimbursement rates for vouchered child care programs. The issue will be addressed in future legislation adopted through the policy process.
- ◆ **11 and 12 Year Olds.** Adopts language to change the process to allow 11 and 12 year olds to receive care in child care programs. Last year, the Legislature declared that afterschool was the preferred placement for children at this age. The proposed language would modify the process families utilize to maintain their eligibility for child care to better reflect this intent.
- ◆ **Centralized Eligibility Lists (CEL).** Creates a CEL in each county to track the demand for child care in one central location. The Budget also includes language to establish the CEL in the Alternative Payment program that is linked to the Resource and Referral program.
- ◆ **Rate Reform.** Adopts reporting language to establish a working group to evaluate the impact of the new market survey and consider future rate reform.
- ◆ **Child Development Policy Advisory Committee.** Rejects a May Revision proposal to repeal the statutory authority for the Child Development Policy Advisory Committee.

Afterschool

MAJOR ACTIONS

- ◆ **21st Century Afterschool program changes.** Appropriates \$45 million in federal afterschool funds to the California Department of Education for an expended afterschool program. The budget includes language to increase reimbursement rates to \$7.50 per day, increase both school-site cap and district caps, and allows all grantees to receive 15 percent for administration without earning the funds through attendance and include a waiver provision for staff development.
- ◆ **Afterschool Administration.** Modifies a May Revision proposal for afterschool administration to establish one new position at California Department of Education to handle afterschool programs.



Higher Education

California State Library

MAJOR ACTIONS

- ◆ **Public Library Foundation (PLF).** Sustains the Legislature's restoration of \$2.2 million to support grants for local libraries. Since 2001, the PLF funding has been reduced by 79 percent from \$52.9 million to \$14.3 million as approved in the 2005-06 budget year.

Commission on Teacher Credentialing (CTC)

MAJOR ACTIONS

- ◆ **Budget Package to Address Shortfall.** Approves a one-time \$2.7 million General Fund augmentation and \$7 million in reductions to address the Commission's structural imbalance between expenditures and revenues in both the Teachers Credentials Fund and the Test Development and Administration Account Fund.

University of California (UC)

MAJOR ACTIONS

- ◆ **Enrollment Funding.** Provides a \$37.9 million increase, or 2.5 percent, for enrollment growth to fund an additional 5,000 full-time equivalent students (FTES).
- ◆ **Base Budget Increase.** Increases the basic support budget by \$76.1 million, or 3 percent.
- ◆ **UC Merced.** Approves a continuation of \$10 million in ongoing operating funds and an additional \$14 million in one-time funds for the costs associated with the UC Merced campus, which is scheduled to open in September 2005.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Academic Preparation Programs.** Sustains the Legislature's restoration of \$17.3 million for academic preparation programs including budget bill language which states that these funds are to be matched with \$12 million from existing university resources for a total of \$29.3 million. This is the same level of funding appropriated for these programs in the *2004-05 Budget Act*.
- ◆ **Math and Science Teacher Initiative.** Approves the Administration's proposal to provide the UC with \$750,000 to develop and administer six math and science teacher recruitment/resource centers on UC campuses.

 **MAJOR VETOES**

- ◆ **Labor Research Funding.** The Governor vetoed \$3.8 million for labor research funding at UC Berkeley and UCLA including budget bill language approved in conference, which consolidated all UC research programs funding into one budget item. In his veto message, the Governor stated that the funding restoration for this item last year was on a "one-time basis" and that "these reductions are needed to help bring ongoing expenditures in line with existing resources." However, out of the UC's \$213 million General Fund total research funding, no other research programs were proposed for reduction or elimination in 2005-06.

California State University (CSU)

 **MAJOR ACTIONS**

- ◆ **Enrollment Funding.** Provides a \$50.8 million increase, or 2.5 percent, for enrollment growth to fund an additional 8,000 FTES.
- ◆ **Base Budget Increase.** Increases the basic support budget by \$71.7 million, or 3 percent.
- ◆ **Retirement Contribution.** Approves \$44.4 million for baseline retirement contribution increases.
- ◆ **Academic Preparation Programs and Student Support Services Programs.** Sustains the Legislature's restoration of \$7 million for academic preparation and student support services programs including budget bill language which states that these funds are to be matched with \$45 million from existing university resources for a total of \$52 million. This is the same level of funding appropriated for these programs in the *2004-05 Budget Act*.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Math and Science Teacher Initiative.** Approves the Administration's proposal to provide the CSU with \$250,000 to develop a four-year "blended" teacher credentialing program for math and science majors and to provide services to compliment the UC's Math and Science Teacher Initiative efforts.
- ◆ **Nursing Master's Programs.** Reduces the Legislature's augmentation to develop four new Entry-level Masters Programs for Registered nurses from \$4 million to \$560,000. In his veto message, the Governor states that the "level of funding provided exceeds the programmatic need in the budget year." Instead, he sets aside the vetoed amount for future consideration, pursuant to legislation, to continue to address the nursing shortage in the state.

California Community Colleges (CCC)

 **MAJOR ACTIONS**

- ◆ **Enrollment Growth.** Provides a \$136.5 million increase to fund a 3 percent growth. This funding will provide access for an additional 34,000 FTES.
- ◆ **Cost-of-Living Adjustments (COLA's).** Provides \$198.5 million, or 4.23 percent, for general purpose apportionments for all districts.
- ◆ **Partnership for Excellence Funds (PFE).** Approves restoration of \$31.4 million, which is the amount of PFE funds that the Governor vetoed in the *2004-05 Budget Act*.
- ◆ **California Partnership for Achieving Student Success (CaPASS).** Sustains the Legislature's appropriation of \$1 million to provide ongoing support for this data sharing program, which collects and tracks student performance to facilitate the movement of students from high schools to community colleges and to the universities.
- ◆ **Increase Funding for Nursing Education.** Adds \$10 million in Proposition 98 ongoing funds to provide additional support for nursing program enrollment and infrastructure development at participating community colleges.
- ◆ **Equalization Funding.** Approves \$30 million out of the \$40 million May Revision proposal in Proposition 98 ongoing funds for equalization to be distributed pursuant to the formula specified in Chapter 216, Statutes of 2004.
- ◆ **Mandate Claims.** Adds \$10 million to help community colleges pay past mandates.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Property Tax Shortfall.** Reduces the Legislature's appropriation to offset the property tax revenue shortfall in the current year from \$33 million to \$15.6 million. In his veto message, the Governor states that the projected shortfall for the current year will be "no greater than \$21 million." In addition, the "community colleges are not likely to earn all growth funding for 2004-05, and as such, the system would not incur the costs of instruction anticipated for the current year."

 **MAJOR VETOES**

- ◆ **Career Technical Education Initiative.** The Governor vetoed the language that would have required that the \$20 million in funding for Career Technical Education be linked to providing an identical amount of funding for supplemental instructional materials for English Language Learners. Instead, the \$20 million that he proposed for this initiative in his January 10th budget and the additional \$17.4 million that he proposed for this same initiative in his May Revise, a total of \$37.4 million, has been set aside to be appropriated in separate legislation.

California Student Aid Commission

 **MAJOR ACTIONS**

- ◆ **Cal Grant Awards for Private University Students.** Approves the \$7.4 million restoration for the maximum Cal Grant award for students attending private universities. This action restores the maximum grant award level to \$8,322.
- ◆ **Student Loan Operating Fund (SLOF).** Approves a \$51 million SLOF transfer to the General Fund to cover Cal Grant costs.
- ◆ **Increase in APLE Funding.** Includes \$6.8 million to support the caseload increase for the Assumption Program of Loans for Education (APLE), which provides loan assumption grants for teachers who commit to teaching in specified subject areas in low performing schools.
- ◆ **National Guard APLE.** Sustains the Legislature's action to deny the proposed allocation of \$200,000 to issue loan assumption warrants and hire personnel to implement an initial cohort of awards in 2006-07.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Math and Science Teacher Initiative APLE Awards.** Sustains the Legislature's denial to create a new Math and Science APLE awards program that would have authorized the Commission to issue 350 additional APLE warrants to be awarded as part of the proposed UC and CSU Math and Science Teacher Initiative. Instead, the Legislature and the Governor are authorizing 300 new warrants within the existing APLE program increasing the total awards from 7,700 to 8,000. The Commission will give first priority for the 300 additional new warrants to individuals training to become math, science, and special education teachers. In his veto message, the Governor indicated that this provision "will be modified in subsequent legislation to make these additional warrants available exclusively to candidates participating in the Math and Science Initiative."

- ◆ **State Nursing APLE Awards.** Approves the Legislature's proposal to create a new program modeled after the existing teacher APLE program authorizing 100 loan assumption warrants for individuals who obtain a graduate degree in nursing and become nursing faculty at a California college or university.

TRANSPORTATION & INFORMATION TECHNOLOGY

Department of Transportation (Caltrans)

MAJOR ACTIONS

- ◆ **Proposition 42.** Reinstates the General Fund transfer of sales tax revenue on gasoline to the Transportation Investment Fund, but rejected the recommendation to transform the Governor's GoCalifornia policy proposals into trailer bill language. The transfer is estimated to be \$1.313 billion. The funds would be allocated according to current law as follows:
 - ◆ \$678 million to the Traffic Congestion Relief Fund (TCRF).
 - ◆ \$254 million the State Transportation Investment Program (STIP).
 - ◆ \$254 million to cities and counties for local streets and roads.
 - ◆ \$127 million to the Public Transportation Account.

- ◆ **Tribal Gaming Bond Revenue.** Decreases the assumptions for the proposed revenue to be generated by the sale of tribal gaming bonds. The assumption was reduced by \$222 million, bringing the projected budget year contribution to \$1.0 billion for the repayment of TCRF loans to the General Fund. This is consistent with the Governor's May Revision.

- ◆ **Capitol Outlay Support.** Increased the state staff by 550 positions (249 personnel years) by reducing the number of proposed contracting out positions. This action created a cost savings of \$10.9 million and represents the Departments practical capacity for hiring new staff.

- ◆ **Infrastructure Preservation and Inspection.** Provides an additional \$9.0 million, for a total of \$54.8 million and 38 personnel years for major maintenance contracts and to implement a statewide culvert inspection and repair program. The major maintenance contract dollars will be directed primarily toward pavement preservation projects around the state. The culvert inspection and repair program will create a routine inspection program to identify the present condition of culverts and provide assessments for fish passages impacted by the state highway system.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Operational Savings.** Redirects \$101 million in additional resources to transportation construction projects. The revenue is a reversion due to improved department efficiencies.
- ◆ **Budget Display.** Amends various code sections to ensure clarity and compatibility within the Caltrans Budget by requiring all displays to be shown in a modified accrual format.

 **MAJOR VETOES**

- ◆ **Environmental Enhancement and Mitigation Program (EEMP).** The governor vetoed \$10 million for EEMP to award grants to local agencies to undertake mitigation projects that are directly related to the environmental impacts of modifying existing transportation facilities or constructing new facilities.

Special Transportation Programs

 **MAJOR ACTIONS**

- ◆ **Increased Funding.** Approves funding increase of \$65 million for total funding of \$202 million for Special Transportation Programs line of the budget, as proposed by the Governor. This funding supports the State Transit Assistance program for local transit agencies.
- ◆ **PTA Spillover.** Approved revised Trailer Bill language to suspend the General Fund transfer of "gasoline spillover" revenue to the Public Transportation Account for fiscal years 2005-06 and 2006-07, resulting in nearly \$600 million in General Fund relief over a two year period. The 2006-07 suspension is projected to provide \$200 million in General Fund relief.

California Highway Patrol

 **MAJOR ACTIONS**

- ◆ **Workers' Compensation & Industrial Disability Retirement (IDR).** Approves further examination of the method in which the CHP administrates workers' compensation and IDR. The CHP will publish two reports: a report examining the disparity in IDR rates between chiefs and other uniformed personnel and a report to establish goals and performance measures to reduce workers' compensation costs and claims.

High Speed Rail Authority

MAJOR VETOES

- ◆ **Southern San Joaquin Valley Study.** The Governor vetoed \$650,000 and .5 positions to conduct a study of route alternatives and potential station locations along the Fresno-to-Bakersfield corridor.

Department of Motor Vehicles

MAJOR ACTIONS

- ◆ **Credit Card Fees.** Provides \$6.6 million, on a two-year limited term basis, to cover fees assessed by Visa, MasterCard, American Express, and Discover for credit card transactions conducted by the online DMV customers.
- ◆ **Queuing System Expansion.** Provides \$2.1 million to install queuing management systems in 42 "high traffic" DMV field offices. This action will place queuing systems in 134 of the 164 field offices.
- ◆ **Electronic Insurance Verification.** Approves \$4.1 million and 9.1 personnel years to provide for the implementation of mandatory electronic insurance reporting; the establishment of a registration suspension program for non-complying vehicles; and the implementation of an electronic verification methodology to insure a vehicle is properly insured or bonded by law enforcement.

Stephen P. Teale Date Center

MAJOR ACTIONS

- ◆ **Consolidation of Data Centers.** Creates the budget authority to accommodate the proposed creation of the new Department of Technology Services (DTS), but rejected the Governor's proposal to create a continuously appropriated fund for DTS.

HEALTH

Office of Statewide Health Planning and Development

MAJOR ACTIONS

- ◆ **Expanding Song Brown to Train Registered Nurses.** Provides an additional \$2.85 million to expand the existing Song-Brown program to train Registered Nurses in underserved communities across California by contracting with nursing education programs.

Department of Health Services

MAJOR ACTIONS

- ◆ **Medi-Cal Redesign.** Provides staff to expand Medi-Cal Managed Care into 13 counties. Expansion is limited to the TANF population. The Aged, Blind and Disabled population would be included in the expansion of County Organized Health Systems but not in the Geographic Managed Care expansion counties nor the Local Initiative Counties.
- ◆ **Medi-Cal Adult Dental.** Establishes a \$1,800 limit, on dental services for adults in the Medi-Cal Program (exclusive of dentures and surgeries).
- ◆ **Medi-Cal Premiums.** Rejects the imposition of premiums on Medi-Cal beneficiaries in families at more than 100 percent of the Federal Poverty Level.
- ◆ **Enrollment of Dentists.** Provides funding to increase the staff for the enrollment of dentists into the Medi-Cal Program.
- ◆ **Nurse-to-Patient Ratios.** Requires the Department of Health Services to provide the Legislature with a comprehensive review of nurse staffing levels that is based on a statistically valid sample of hospitals.
- ◆ **Aids Drug Assistance Program (ADAP).** Provides full funding of ADAP, as proposed in the May Revision and provides \$5.6 million for the AIDS Prevention and Education Program.

**THE 2005 - 2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Aids Drug Assistance Program (ADAP).** Provides the authority to the Department of Health Services to enable the ADAP Program to extend its current practice of subsidizing cost-sharing for clients with existing drug coverage of the Medicare Part D Program.
- ◆ **AIDS Prevention and Education Program.** Appropriates \$5.639 million for the Prevention and Education program to restore funding to the 2000-2001 level for counties that were adversely affected by the incidence-based change in the distribution formula.
- ◆ **West Nile Virus.** Provides \$12 million to fight the West Nile Virus. \$10 million of the funding will go to local mosquito abatement districts to provide them with resources to fight the virus in what is expected to be a year with high levels of infection.
- ◆ **Bi-National Health Program.** Rejects the proposed de-funding of the program and provides \$604,000 for the 2005-2006 fiscal year.
- ◆ **Long-Term Care Integration.** Provides funding to implement the long-term Care Integration in three counties, San Diego, Orange, and San Mateo, subject to passage of separate legislation.
- ◆ **Drug Product Pricing.** Provides \$2.1 million for the Department of Health Services to update allowable drug product prices on a weekly basis in lieu of the present 30-day period.
- ◆ **Premium Payments for Dual Eligibles.** Provides \$5.6 million, \$2.8 million General Fund, to continue to pay the premiums for dual eligibles (Medicare/Medi-Cal) for three months to assist in providing transition from enrollment in a HMO back to enrollment in Medi-Cal fee-for-service.
- ◆ **Medicare Modernization Act.** Provides the resources for the state to begin the implementation of the Part D drug program of Medicare. The General Fund provides \$45 million for drugs being discontinued for those Medicare eligible beneficiaries who are also eligible for Medi-Cal.
- ◆ **Prenatal Program for Undocumented Women and the Access to Infants and Mothers Program.** Saved \$191.7 million by authorizing the Department of Health Services and the Managed Risk Insurance Board to submit a State Plan Amendment for the Federal Centers for Medicare and Medicaid Services (CMS) to draw down a 65 percent match for the programs.
- ◆ **Domestic Violence Prevention.** Approves \$1.1 million for the provision of services to non-traditional users of shelter services, as identified in a survey by the Department of Health Services. They include: individuals who identify

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

themselves as Lesbian, Gay, Bi-sexual and Transgender; women with mental illness and substance abuse problems; and women with developmental disabilities.

- ◆ **IMPACT Project.** The Governor vetoed the \$3 million for the prostate cancer program for low-income men in the 2005-2006 fiscal year.
- ◆ **Alameda Alliance for Health and Partnership Health Plan of California.** The Governor vetoed \$3.362 million for a rate increase for the two Medi-Cal Managed Care Health Plans.

Department of Developmental Services

 **MAJOR ACTIONS**

- ◆ **Statewide Purchase of Services Standards.** Rejects the Governor's proposal for Statewide Purchase of Services Standards for the Regional Center System.
- ◆ **Regional Center Operations Funding.** Provides \$9.2 million to augment Regional Center operations for activities associated with the Home and Community Based Waiver and adopted trailer bill language to require the funds be used for the appropriated purpose.
- ◆ **Cost Containment.** Continues for the third year a variety of cost containment measures which will save the General Fund \$85 million in the 2005-2006 fiscal year.
- ◆ **Closure of Agnews Developmental Center.** Approves the continuation of the closure of the Agnews Developmental Center.
- ◆ **Self-Directed Services.** Expands the Self-Directed Services Program statewide and will eventually enroll over 10,000 Regional Center clients in the program.

Department of Mental Health

 **MAJOR ACTIONS**

- ◆ **AB 3632 Special Education Pupils Mandate.** Provides \$60 million for the payment of claims in the current year and \$60 million in the Budget Year for the continuation of the mandate for special education pupils.

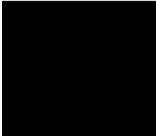
**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Proposition 63.** Provides resources to various state departments, including substantial resources to the Department of Mental Health for the implementation of the program.
- ◆ **Sexually Violent Predator.** Modifies the Administration's proposal to restructure the Sexually Violent Predator treatment program within the State Hospitals to clarify that all treatment options are available to a patient and the Department of Mental Health is required to affirmatively offer treatment.
- ◆ **Coalinga State Hospital.** Provides the resources to open the new state mental hospital in September of 2005.

Emergency Medical Services Authority

 **MAJOR ACTIONS**

- ◆ **TRAUMA CARE.** PROVIDES \$10 MILLION TO TRAUMA CENTERS, TO BE AVAILABLE ON A COMPETITIVE GRANT BASIS.



HUMAN SERVICES

Department of Social Services

CalWORKs

MAJOR ACTIONS

- ◆ **CalWORKs grants.** Rejects a proposed 6.5 percent reduction to the CalWORKs grant level. This proposed reduction would have reduced grant levels to below their 1989-1990 level.
- ◆ **CalWORKs Cost of Living Adjustments.** Suspends the statutory Cost of Living Adjustments (COLAs) for the CalWORKs program for the 2005-06 and 2006-07 fiscal years. The suspension will freeze grant levels for 1.2 million Californians over the next two years.
- ◆ **CalWORKs Earned Income Disregard.** Adopts a May Revision proposal to continue the existing Earned Income Disregard Policy for CalWORKs. The January Budget proposed to reduce the disregard. The existing policy allows working CalWORKs participants to keep more of their earnings from work than the May Revision proposal.
- ◆ **CalWORKs Pay for Performance.** Provides an alternative version of an approved program to reward counties that meet certain CalWORKs performance goals. The language broadens the goals that counties could meet and establishes performance that is consistent with long-standing CalWORKs policy priorities, such as the success of the children in the program, and the long-term self-sufficiency of the families exiting the program. The Governor's May Revision proposal would have defined performance too narrowly and would have encouraged counties to focus their efforts on federal goals, rather than state goals.
- ◆ **CalWORKs Sanctions.** Adopts a May Revision restoration of savings from a CalWORKs Sanction proposal that was assumed in the January Budget. The proposal was to be based upon a CalWORKs sanction study that has not yet been completed.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **TANF funds for Juvenile Probation.** Removes all TANF funding from Juvenile Probation programs. The Juvenile Probation program continues to be funded with General Fund, the appropriate funding source.
- ◆ **CalWORKs Reform Clean-up.** Adopts Trailer Bill Language to clarify legislative intent on CalWORKs policy changes contained in last year's Human Services Trailer Bill. The new language clarifies how certain program activities are counted towards CalWORKs participation.

 **MAJOR VETOES**

- ◆ **Quarterly Status Reporting.** The Governor vetoed \$25 million in CalWORKs funding that backfilled an over-estimation of savings assumed in the Governor's Budget from the implementation of quarterly reporting. The additional funding is needed to continue the effective administration of the CalWORKs program. The Governor did retain \$25 million in funding above the May Revision level on a one-time basis and also committed to work with counties to address the appropriate level of savings from quarterly status reporting.

Food Stamps

 **MAJOR ACTIONS**

- ◆ **Food Stamp Simplification.** Adopts proposal to simplify Food Stamp eligibility. The proposed change is estimated to draw down \$1 million in additional federal Food Stamps.
- ◆ **ABAWDs.** Adopts language to streamline the waiver process for counties to extend Food Stamp eligibility for Able Bodied Adults Without Dependents (ABAWDs). The proposed language should expand the availability of food stamps throughout the State beyond the Governor's budget proposal.

 **MAJOR VETOES**

- ◆ **Quarterly Status Reporting.** The Governor vetoed \$10 million to backfill an over-estimation of savings assumed in the Governor's Budget from the implementation of quarterly reporting. The additional funding is needed to continue the effective administration of the Food Stamps program, but the Governor reduced the amount to the level proposed in the May Revision and committed to work with counties to address the appropriate level of savings from quarterly status reporting.

In Home Supportive Services

■ MAJOR ACTIONS

- ◆ **IHSS Provider Wages.** Continues existing law that requires the state to match county wages up to \$9.50 per hour plus \$.60 per hour for benefits. In the Budget Year, this rate will increase to \$10.50 per hour plus \$.60 per hour for benefits. The Governor proposed to reduce the state's participation in the minimum wage level of \$6.75 total.

Child Care and Development

■ MAJOR ACTIONS

- ◆ **Time-limiting of Stage 3 Child Care.** Rejects Governor's proposal to institute a time limit on CalWORKs Stage 3 child care that would take effect in future years.
- ◆ **Tiered Reimbursement.** Rejects Governor's proposal to set child care providers maximum reimbursement rates at levels that reflect the market and certain training, assessment or accreditation levels. The proposed reimbursement levels would have reduced the maximum rate for most of the providers in the State, with licensed-exempt providers being reduced in the budget year and other providers being reduced in future years. The proposed reimbursement levels would have reimbursed some providers at levels below the minimum wage.
- ◆ **In-and-Out of Market Rates.** Continues a suspension of Department of Education regulations to determine the reimbursement rates for vouchered child care programs. The issue will be addressed in future legislation adopted through the policy process..
- ◆ **11 and 12 Year Olds.** Adopts language to change the process to allow 11 and 12 year olds to receive care in child care programs. Last year, the Legislature declared that afterschool was the preferred placement for children at this age. The proposed language would modify the process families utilize to maintain their eligibility for child care to better reflect this intent.
- ◆ **Centralized Eligibility Lists (CEL).** Creates a CEL in each county to track the demand for child care in one central location for each county. The Budget also includes language to establish the CEL in the Alternative Payment program that is linked to the Resource and Referral program.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Rate Reform.** Adopts reporting language to establish a working group to evaluate the impact of the new market survey and consider future rate reform
- ◆ **Child Development Policy Advisory Committee.** Rejects a May Revision proposal to repeal the statutory authority for the Child Development Policy Advisory Committee.

Afterschool

 **MAJOR ACTIONS**

- ◆ **21st Century Afterschool program changes.** Appropriates \$45 million in federal afterschool funds to the California Department of Education for an expended afterschool program. The budget includes language to increase reimbursement rate to \$7.50 per day, increase both school-site cap and district caps, and allows all grantees to receive their 15percent for administration without earning the funds through attendance and include a waiver provision for staff development.
- ◆ **Afterschool Administration.** Modifies a May Revision proposal for afterschool administration to establish one new position at CDE to handle afterschool programs.

Child Welfare and Foster Care

 **MAJOR ACTIONS**

- ◆ **County Share for Child Welfare Services Federal Penalties.** Rejects proposal that would require counties to pay for any penalties the state received as a result of the federal review of the State's child welfare and foster care systems. The state must take a leadership role in preventing these penalties instead of trying to pass these penalties onto the counties.

 **MAJOR VETOES**

- ◆ **Foster Care Reform.** Reduces funding for Foster Care reform by \$5.6 million (\$3.5 million General Fund) to the level proposed by the Governor in the May Revision. The additional funding was needed to expand county improvement efforts in making urgent reforms to improve the State's child

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

welfare outcomes. However, the Administration believes that the \$12.6 million contained in the May Revision is sufficient to fully fund counties.

**Supplemental Security Income/State
Supplemental Program (SSI/SSP)**

■ MAJOR ACTIONS

- ◆ **Federal COLA pass through.** Delays the pass-through of the federal Cost of Living Adjustment (COLA) for the SSI portion of the SSI/SSP program for three months, from January 1st to April 1st. This delay will occur in both 2006 and 2007. Over 1.2 million individuals will receive a 2.3 percent increase in their grant levels from this COLA on April 1, 2006.
- ◆ **State COLA.** Suspends the State SSI/SSP COLA for both the 2005-2006 and 2006-2007 fiscal years.

Community Care Licensing

■ MAJOR ACTIONS

- ◆ **Community Care Licensing Visits.** Accepts a May Revision proposal to retain the current staffing triggers for community care licensing visits. The January budget had proposed to eliminate a statutory trigger that required the Department to increase the number of visits conducted by licensing when the amount of citations increase by more than 10 percent in a given year.
- ◆ **Fingerprinting Fee for Small Child Care Providers.** Suspends a program that pays the fees the FBI and Department of Justice charge for fingerprinting as part of the Community Care Licensing process for small child care providers. The Administration had proposed to eliminate the program.

■ MAJOR VETOES

- ◆ **Unallocated Reduction.** Eliminates a \$1.4 million restoration for an unallocated reduction to the Community Care Licensing Division. With this reduction, the Division will need to hold an additional five percent of its staffing vacant in the budget year, which will hinder its ability to ensure the safety and health of those living in licensed facilities.

Department of Child Support Services

 **MAJOR ACTIONS**

- ◆ **Federal Automation Penalty.** Includes \$218 million General Fund to pay the federal Child Support Automation Penalty.

Department of Aging

 **MAJOR ACTIONS**

- ◆ **HICAP.** Adds \$2 million in additional funding for the Health Insurance Counseling and Advocacy Program (HICAP) to provide additional resources to handle the additional need for information associated with the implementation of the federal Medicare Modernization Act. The additional funding is generated, in part, by an increase in the assessment for managed care plans. In the next year, 4.1 million Californians will be affected by the proposed changes to their Medicare drug coverage. The additional resources will help ensure that these individuals can get the information they need to make the right choice in their drug plan.

**Department of Community Services and
Development**

 **MAJOR ACTIONS**

Naturalization Services Program. Appropriates \$1.5 million to conduct citizenship training through community-based nonprofits. This funding should allow 12,000 individuals to receive Naturalization Services this year. The Governor reduced this amount from \$2.5 million through a veto to keep it at the same level as it was budgeted for the 2004-2005 fiscal year.



NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Resources Agency

MAJOR ACTIONS

- ◆ **Sierra Nevada Conservancy.** Approves the Governor's proposal for \$3.6 million (Environmental License Plate Fund) to establish the Sierra Nevada Conservancy. The Sierra Nevada Conservancy will work to protect the Sierra Nevada region stretching over 22 counties.

California Coastal Commission

MAJOR ACTIONS

- ◆ **Energy and Ocean Resource Unit.** Eliminates a \$350,000 (General Fund) augmentation to establish three new positions to address increasing workload associated with the review of increasing Outer Continental Shelf Leases, Power Plants Plans, and Desalination Projects. The Governor did not address this problem in his budget.
- ◆ **Improving Coastal Access and Development Mitigation.** Eliminates \$600,000 (General Fund) augmentation to establish five new positions to track expiring offers to dedicate and facilitate their opening. The Governor did not address this problem in his budget.

Department of Forestry and Fire Protection

MAJOR ACTIONS

- ◆ **Replacement of Fleet.** Approves \$10.8 million ongoing (General Fund) funding for the replacement and enhancement of the State's fire fighting vehicle (fire engines, helicopters, etc.) fleet. This proposal is consistent with the Governor's budget and May Revision.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Unallocated Reduction.** Approves restoration of a \$6.7 million unallocated reduction.
- ◆ **Southern California Year Round Fire Protection.** Approves \$9.0 million (General Fund) and 48.8 positions to provide an additional four months of fire protection in San Diego, Riverside and San Bernardino County. This proposal is consistent with the Governor's budget and May Revision.

State Lands Commission

 **MAJOR ACTIONS**

- ◆ **Tideland Oil Revenue.** Approves the transfer of \$64 million of expected tideland oil revenue to the General Fund, \$2 million to the Department of Parks and Recreation for staffing and deferred maintenance, \$4 million for Salmon habitat preservation activities.

Air Resources Board

 **MAJOR ACTIONS**

- ◆ **Hydrogen Highway.** Approves \$6.5 million (Motor Vehicle Account and Energy Resources Program Account) for the purposes of for the Governor's Hydrogen Highway Blue Print Plan. This funding will provide for initial fueling stations, vehicle purchasing incentives and additional research.
- ◆ **School Bus Retrofit and Replacement.** Approves \$12.5 million redirection (Motor Vehicle Account) for the purposes of retrofitting and replacing school buses to reduce emissions.

Department of Fish and Game

 **MAJOR ACTIONS**

- ◆ **Land Management.** Eliminates a \$5 million (General Fund) augmentation to provide for additional game wardens to the department to provide increased enforcement and monitoring activities. The department has lost 25 percent of its game wardens due to budget cuts. The Governor did not address this problem in his budget.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Salmon and Steelhead Restoration.** Eliminates \$4 million (Tideland Oil Revenue) augmentation for Salmon and Steelhead habitat restoration.
- ◆ **Fish Hatcheries.** Eliminates \$3 million (Tideland Oil Revenue) augmentation for fish hatchery repairs and maintenance.
- ◆ **Wild Trout.** Eliminates \$1 million (General Fund) augmentation for wild trout habitat restorations.
- ◆ **Fish and Game Preservation Fund.** Approves a comprehensive effort to balance the Fish and Game Preservation Fund including: the Governor's May Revision proposal to assume \$1.7 million in revenue from increased; \$1.5 million across-fund reduction; and Supplemental Report Language requiring a complete review of the activities supported by the fund.
- ◆ **Timber Harvest Plan Review.** Approves \$1.7 million (General Fund) for timber harvest plan review statewide.

Department of Parks and Recreation

 **MAJOR ACTIONS**

- ◆ **Staff and Deferred Maintenance.** Eliminates a \$9 million (General Fund) augmentation for increased park staff and deferred maintenance repairs.
- ◆ **Hearst Ranch Funding.** Approves \$1.3 million (General Fund) for staffing and operational support and equipment for the Hearst Ranch West Conservation Easement. This is consistent with the Governor's budget and May Revision.

Department of Water Resources

 **MAJOR ACTIONS**

- ◆ **Paterno Settlement.** Approves \$464 million (General Fund) over a period of ten years for the (Paterno v. State of California) settlement in which the state was held liable for a 1986 levee break that flooded hundreds of homes and a shopping center in the Yuba County town of Linda. This is consistent with the Governor's May Revision.

CALFED

MAJOR ACTIONS

- ◆ **CALFED Alternative Funding Plan.** Approves \$159.33 million (various funds) for a reduced CALFED Spending plan. This reduced budget was constructed using the following general principles: expenditures of local assistance and grant funds are delayed; activities and projects that have not been started, to date, are delayed; activities that existed prior to the existence of the CALFED program are retained. This proposal was \$82.3 million less than the Governor's proposed budget and was developed in response to an absence of a viable long-term finance plan for CALFED.
- ◆ **CALFED Audit.** Approves \$300,000 from the General Fund to conduct a comprehensive audit of the CALFED program. This proposal is consistent with the May Revision.

Department of Toxic Substances

MAJOR ACTIONS

- ◆ **BKK Landfill.** Approves the Governor's May revision proposal for \$8.5 million (General Fund) to provide emergency response and essential site operations at the BKK hazardous waste landfill facility in West Covina.

Energy Resources Conservation and Development Commission

MAJOR ACTIONS

- ◆ **Frontier Transmission Line.** Rejects the Governor's May Revision request for \$2.5 million (from the Energy Resources Programs Account) to fund participation in a four-state partnership to develop the proposed Frontier Transmission Line from Wyoming. Instead, the proposal should be considered in policy legislation.
- ◆ **Research Funding Increase.** Approves Governor's budget proposal for an increase of \$10 million (ratepayer funds) for research grants and projects and \$629,000 for 7 additional positions for the Public Interest Energy Research and Demonstration Program. Total funding for this program increases from

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

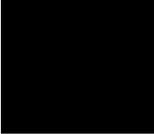
\$69.9 million in the current year to \$80.1 million in 2005-06. Adopted Trailer Bill Language to require the commission to prepare a multiyear work plan and staffing plan for the program and to specify that projects funded by the program may include transportation-related research that provides a benefit to ratepayers.

- ◆ **Natural Gas Research.** Includes \$15 million from the Gas Consumption Surcharge Fund, administered by the Public Utilities Commission, and 4.8 positions to initiate a natural gas research program that will improve energy efficiency in consumer gas appliances and manufacturing processes. Budget Trailer Bill Language specifies that, for four years, half of these funds will be spent under a joint research program developed by the Energy Commission and the Air Resources Board, and that up to one-third of the funds may be spent for transportation-related research and development that benefits natural gas ratepayers.

- ◆ **Analytical Resources.** Approves \$796,000 and 8 additional positions from state electricity surcharge revenues in the Energy Resources Programs Account to enhance the Commission's analytical capabilities in the electricity, transportation, and petroleum fuel areas and to provide support to the Public Utilities Commission energy procurement process.

 **MAJOR VETOES**

- ◆ **Transfer to the General Fund.** Eliminates \$4 million transfers to the General Fund of the interest earnings of the Public Interest Research, Development, and Demonstration Fund during 2005-06. The Legislature included this transfer, which would not have affected planned program spending, in order to help balance the budget and offset the cost of high-priority augmentations for natural resources programs.



GENERAL GOVERNMENT

Secretary of State

MAJOR ACTIONS

- ◆ **Election Mandates.** Rejects Governor's proposal to suspend local mandates for absentee ballots.
- ◆ **Help America Vote Act.** Approves reappropriation of \$264 million to fund Help America Vote Activities such as voter education, statewide database, poll worker training and county training grants. This proposal is consistent with the Governor's budget.

Department of General Services

MAJOR ACTIONS

- ◆ **Office of State Publishing.** Rejects Governor's proposal to reduce staffing at the Office of State Publishing by 174 positions. Additionally, the budget rejects trailer bill language that allows state departments to use private sector printing services.
- ◆ **Strategic Sourcing.** Eliminates expected budgeted savings from strategic sourcing activities for the current year and the budget year. The Governor's budget initially anticipated that strategic sourcing procurement reform would create \$48 million in savings in the current year and \$96 million in the budget year.
- ◆ **Office of Administrative Hearings.** Approves the transfer of Special Education Alternative Dispute Resolution Programs from McGeorge Law School to the Office of Administrative Hearings.

Department of Corporations

MAJOR ACTIONS

- ◆ **Seniors Against Investment Fraud Grants.** Approves \$400,000 (General Fund) for the Seniors Against Investment Fraud program that trains senior citizen volunteers to provide investment fraud information to other seniors. (Reduction of \$424,000 resulting from the elimination of the Inspector General for Veterans' Affairs).

Department of Consumer Affairs

MAJOR ACTIONS

- ◆ **Contractor's State Licensing Board.** Approves \$998,000 and 11 three-year limited term positions for activities that target unlicensed contractors in coordination with the Employment Development Department and the Department of Industrial Relations. The Board will operate sweep and sting operations and will increase the number of investigations opened as a result of consumer complaints against unlicensed contractors.

Secretary for Business Transportation and Housing

MAJOR ACTIONS

- ◆ **Tourism.** Approves \$7.3 million (General Fund) augmentation for increased tourism promotion for California.

Military Department

MAJOR ACTIONS

- ◆ **Oakland Military Institute.** Approves 1.3 million in General Fund to support the Oakland Military Institute. This funding will reestablish 112 positions that were eliminated in the 2003-04 and 2004-05 budgets.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **"Economic and Employment Enforcement Coalition" Occupational Health and Safety Enforcement.** Provides \$1.5 million and 13 positions for targeted enforcement of workplace health and safety laws for the following industries with higher levels of non-compliance: construction, agriculture, and garment manufacturing. These positions would be funded from the Targeted Inspection & Consultation Fund and the Industrial Relations Unpaid Wage Fund. Department of Industrial Relations reports funding for field enforcement positions has declined in recent years – with 245 positions funded in 2001-02 and 209 positions funded in 2004-05.

State Controller

 **MAJOR ACTIONS**

- ◆ **21st Century Project.** Approves the Governor's budget request for \$10.4 million (\$7.9 million in special funds, \$2.5 million in reimbursements) and 22.7 positions in the budget year to continue activities associated with the replacement of the existing employment history, payroll, leave accounting, and position control systems.
- ◆ **Mandate Claim Auditors.** Augments the Governor's Budget by \$998,000 (General Fund) to add 11 positions for additional audits of mandated–cost reimbursement claims from local governments. The additional auditors are expected to yield substantial state savings from audits of the \$1.5 billion of deferred claims that are scheduled to be paid starting in 2006-07. Also includes Budget Bill Language for a report on mandate audit results by April 15, 2006. The May Revision included a separate request, which was not adopted, for 5 positions specifically to audit AB 3632 mental health mandate claims.
- ◆ **Mandate Reimbursement E-Claims Project.** Approves the May Revision Budget request for \$1.2 million (General Fund) and 3 positions to implement an Internet-based filing system for local agencies to file mandate reimbursement claims. The project is expected to result in at least \$14.7 million of annual future state savings.
- ◆ **Unclaimed Property Program.** Approves Governor's Budget proposal for \$955,000 (General Fund) to continue and make permanent 14 expiring limited-term positions for ongoing workload. Also approves budget request for \$350,000 to defend lawsuits against the program. Also recognizes an additional \$50 million of unclaimed property receipts identified by the Controller.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Apportionment Payment System.** Approves \$1.7 million (special funds) requested in the Governor's Budget for the second year of a project to replace the now-obsolete information system used to appropriate various revenues to local governments.

Tax Relief

 **MAJOR ACTIONS**

- ◆ **Senior Homeowners' and Renters' Tax Assistance.** Restores a net total of \$135.9 million (General Fund) for renters' and homeowners' assistance payments to low-income seniors and disabled persons. The Governor's January budget proposed legislation to limit the annual income eligibility of renters' assistance recipients to \$13,200 (compared with \$37,000 currently) and to reduce the dollar benefit to the 1998 level, for a savings of \$100.8 million. The January budget also proposed legislation to eliminate entirely the senior and disabled homeowners' property tax assistance program, for a savings of \$40.6 million. Instead, the January Governor's Budget included \$4.7 million to expand the senior homeowners' property tax *deferral* program, which also was rejected. The budget also includes conforming changes to restore administrative support for the tax assistance program at the Franchise Tax Board (FTB) and to delete proposed additional support to expand the property tax deferral program at the State Controller. The May Revision Budget also included all of these actions.
- ◆ **Other Tax Relief Programs.** Fully funds, as proposed in the Governor's Budget, subventions for Homeowners' Property Tax Exemptions (\$440 million) and Open Space Subventions (\$39.7 million). In total, the budget provides \$675.4 million of General Fund spending for tax relief programs.
- ◆ **VLF Property Tax Replacement Revenue.** The budget includes over \$4 billion of K-14 education funding to offset property tax revenues shifted from schools and community colleges to cities and counties under last year's VLF-property tax swap legislation. These shifted property tax revenues replace former General Fund VLF "backfill" payments that kept local governments whole when the VLF tax rate was reduced. The budget package includes Trailer Bill Language that provides for the Controller to consult with the Bureau of State Audits before providing local governments with their final 2004-05 allocations, and delays the deadline for these allocations until October 15, 2005 to provide time for an audit. The final 2004-05 allocations will be the permanent base for the new local property tax allocations.

Local Government

MAJOR ACTIONS

- ◆ **Property Tax Administration Grant Program.** Deletes funding for this program in 2005-06, for a General Fund savings of \$60 million. Budget trailer legislation also expresses intent not to fund the program in 2006-07. The program has provided supplemental state funding to augment support for county assessors. The funding suspension reflects the fact that local government resources will benefit from several factors. First local property tax revenues are growing rapidly. Second, the state is providing early payment of the \$1.2 billion Vehicle License Fee (VLF) "Gap" Loan to cities and counties (see below). Third, local governments will receive an estimated \$350 million "settleup" payment in 2005-06 for the VLF and sales tax property tax swaps. Furthermore, local governments now receive a larger share of the property tax and so have a greater incentive to fund property tax administration themselves.
- ◆ **VLF "Gap" Loan Repayment.** The budget appropriates \$1.2 billion from the General Fund to fully restore funds that cities and counties did not receive during the temporary suspension of the VLF "backfill" in 2003-04. Under existing law, the state had promised to restore these funds to local governments in August 2006. This early repayment reduces in the state's 2006-07 budget obligations by an equivalent amount and provides money sooner to local governments.
- ◆ **Juvenile Justice.** Provides \$26.1 million in support of the Schiff-Cardenas Juvenile Justice Grant Program. This program provides funding to counties for innovative programs for at-risk youth to reduce recidivism rates. This reduction reflects actual cash needs for the program through March 31, 2007. Changes provided in the Budget Act requires that counties use current-year funds to provide services in 2005-06.
- ◆ **Citizens' Option for Public Safety.** Includes \$100 million in support of the COPS program. This program provided resources for front-line law enforcement for local police departments in addition to funds for local sheriffs and district attorney offices.
- ◆ **Rural County Sheriff Grants.** Provides \$18.5 million in support of the Rural County Sheriff Grant Program, as proposed in the May Revision. This program provides \$500,000 to each of the 37 smallest county sheriff departments in support of basic law enforcement services.

State-Mandated Local Programs

MAJOR ACTIONS

For the past three years, the state has deferred payment of reimbursements to local governments for the cost of most state-mandated local programs that are subject to state reimbursement. Proposition 1A, approved by the voters in the November 2004 election, generally requires the Legislature to appropriate funds in the annual Budget Act to pay mandated costs that have been determined payable for prior fiscal years -- or to suspend (or repeal) mandates for which payment is not provided. This "fund or suspend" requirement excludes K-14 education mandates and mandates related to employee benefits, rights, or collective bargaining (although the state ultimately must pay reimbursable costs for these mandates as well). The Proposition 1A requirement also excludes pre-2004-05 costs, which the state may pay over a longer period.

- ◆ **Increased Funding.** Provides a total of \$239.4 million for local government mandated cost reimbursements--\$74.7 million more than the Governor's May Revision request—as follows:
 - ◆ **Funding for 2004-05 Claims.** Provides a total of \$133.2 million (General Fund) to pay 2004-05 cost claims for 36 mandates in order to meet the requirement of Proposition 1A. This amount includes \$60 million for the AB 3632 mandates that require counties to provide mental health services for students.
 - ◆ **Funding for 2005-06 Claims.** Provides a total of \$106.2 million from the General Fund for advance funding of mandate claims for 2005-06 costs (including \$60 million for the AB 3632 mandates). These amounts, except for the AB 3632 mandates, include an offset of 25 percent to account for anticipated claims audits.
- ◆ **Payment of Previously Deferred Mandate Costs.** Budget Trailer Language lengthens the payment period for pre-2004-05 non-education mandate costs from 5 years to 15 years, beginning in 2006-07.
- ◆ **Open Meetings Act.** Augments by \$10.5 million to provide a total of \$11.5 million to pay 2004-05 local costs of posting agendas and other tasks required under certain provisions of the Open Meetings Act. Also includes budget Trailer Bill Language to replace the existing mandate with equivalent open meeting requirements adopted to implement voter-approved Proposition 59. The Trailer Bill Language also deletes the existing statutory limitation of voter-approved mandates to code sections specifically cited in a ballot

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

measure. Provides no funding in 2005-06 because state reimbursement is not required for voter-approved measures.

- ◆ **Mandate Reimbursement Process.** Suspends this mandate and provides zero funding as proposed by the Governor's Budget. Also includes Trailer Bill Language directing the Commission on State Mandates to reconsider, for the future, whether the reimbursement process constitutes a reimbursable state mandate.
- ◆ **Mandate Restorations.** Funds several mandates that the Governor had proposed for suspension. These include election-related mandates (\$29 million) and the Photographic Records of Evidence mandate that pays for special handling of dangerous or hazardous evidence (\$532,000).
- ◆ **Peace Officer Bill of Rights (POBOR).** Continues deferral of payment for this mandate. Because this mandate concerns employee rights, it is not subject to the requirements of Proposition 1A. However, the mandate will continue in force, and the state must ultimately pay for approved claims. Also includes Trailer Bill Language directing the Commission on State Mandates to reconsider, for the future, whether POBOR constitutes a reimbursable state mandate.

Electricity Oversight Board

 **MAJOR ACTIONS**

- ◆ **Ongoing Support.** Approves the Governor's proposal for \$3.9 million from ratepayer special funds and 21.9 positions.

Public Utilities Commission

 **MAJOR ACTIONS**

- ◆ **Railroad Safety.** Augments by \$1.2 million from regulatory fees to increase the Rail Safety Program by 13 positions for inspections, investigations, safety analysis and increased participation in federal legislative and regulatory proceedings. Also augmented by \$100,000 to fund a study of land use planning to promote rail safety, vandalism and terrorism-related safety issues, and emergency response capabilities for rail accidents.
- ◆ **Universal Lifeline Telephone Service.** Augments, consistent with the May Revision Budget, by \$6 million of ratepayer funds to enroll 53,000 additional

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

subscribers into the program, which funds basic telephone service for low-income households.

- ◆ **Household Goods Carrier Enforcement.** Approves Governor's Budget augmentation of \$521,000 from the Transportation Rate Fund and 5.2 positions to address workload and improve investigative and enforcement activities related to incidents of illegal carrier activity.
- ◆ **Informal Complaint Resolution.** Augments by \$300,000 and 5 positions, the Governor's Budget proposal to provide \$483,000 from utility ratepayer funds to make 8 expiring positions permanent. The legislative augmentation will reduce the average time to resolve complaints to 60 days.
- ◆ **Teleconnect Program.** Approves the Governor's Budget request for \$20.3 million of ratepayer funds for the Teleconnect Program in 2005-06. The program provides subsidies for telephone bills and other telecommunications services, to schools, libraries, public hospitals, and nonprofit organizations.

 **MAJOR VETOES**

- ◆ **Office of Ratepayer Advocate (ORA).** Eliminates augmentation of \$1 million of ratepayer funds to add 10 positions to meet workload needs. The Governor cited a lack of specific workload justification and indicated that a more specific request could be considered in next year's budget. Consistent with the May Revision, the budget places ORA's appropriation in a separate fund to meet existing statutory requirements.

Tax Administration

 **MAJOR ACTIONS**

Franchise Tax Board (FTB)

- ◆ **Abusive Tax Shelter Task Force.** Reduces by \$200,000 the Governor's Budget request for \$1.8 million and 17.1 positions to increase staffing for the Abusive Tax Shelter Taskforce. The additional funding to combat abusive tax shelters is expected to generate \$43 million in General Fund revenue in fiscal year 2005-06 and \$60 million in fiscal year 2006-07. The reduction reflects hiring auditors at the starting step.
- ◆ **Tax Gap Enforcement.** Approves the Governor's budget proposal (except for the proposed Informant Reward Program) for a package of measures to reduce the tax gap (the shortfall between what is owed and what is paid) at a cost of \$8.6 million and 99.2 positions. The effort will target preparers of

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

fraudulent returns, increase audit staff, use more information sources to identify nonfilers, and expand underground economy criminal investigations. These measures will generate an estimated \$34 million of General Fund revenue in fiscal year 2005-06, increasing to nearly \$44 million in fiscal year 2006-07. The proposal includes Trailer Bill Language to require check cashing businesses to report persons cashing more than \$10,000 in checks in any year, and authorizing FTB to suspend or disbar tax professionals who have been suspended or disbarred by the federal government. Also includes language to (1) develop additional information regarding tax compliance by independent contractors and the most viable approaches to selective withholding (the Governor vetoed this provision) and (2) begin a process for coordination and improvement of the state's tax information systems.

- ◆ **Ready Return.** Prohibits the FTB from spending more than \$215,000 to continue the Ready Return project on a pilot basis for one more year without legislation to continue and expand the project.
- ◆ **E-Filing Savings.** Reduces by \$800,000 to recognize additional savings from increased e-filing of tax returns.
- ◆ **Child Support Collections.** Transfers \$12.4 million and 168.5 positions for the Child Support Collection Program from the FTB to the Department of Child Support Services (DCSS), as requested by the Governor.
- ◆ **Child Support Enforcement.** Approves the Governor's proposal for the Franchise Tax Board augmentation of \$26.1 million General Fund, \$52.9 million reimbursements from the DCSS, and 15.5 positions to continue the federally mandated development of a single, statewide child support enforcement system in fiscal year 2005-06. It also includes an augmentation of \$170,000 General Fund and \$330,000 reimbursements for activities related to the State disbursement unit. Also approves a May Revision net augmentation of \$673,000 (\$1.2 million General Fund savings) due to a carryover adjustment. The FTB is responsible for development and operation of these systems in cooperation with the DCSS.
- ◆ **Additional Revenue Generation Activities.** Approves the following revenue-generating augmentations that were not included in the May Revision Budget:
 - ◆ \$1.2 million and 20 positions to reinstate discovery audits (offset by equal revenue).
 - ◆ \$2.8 million to retain 47 collection positions for a revenue gain of \$12.6 million.
 - ◆ \$239,000 to retain 2 settlement positions for a revenue gain of \$5.8 million.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Privacy Protection.** Approves \$698,000 (\$513,000 General Fund) requested in the Governor's Budget to implement privacy protections for social security numbers as required by SB 25.

- ◆ **Phase III Building Occupancy.** Augments by \$3.4 million, consistent with the May Revision Budget, for costs associated with the completion and occupancy of one million square feet of new space at the FTB's Butterfield campus.

- ◆ **Unallocated Reduction.** Includes an unallocated reduction of \$7.84 million that was proposed in the Governor's Budget.

THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW

 **MAJOR VETOES**

- ◆ **Misdemeanor Program.** Eliminates \$1.2 million and 14 positions to re-establish the misdemeanor enforcement program, under which misdemeanor charges can be brought against persons who repeatedly fail to respond to FTB requests. The Governor indicated that he felt that innocent persons might be prosecuted and that additional revenue from this program would not be achieved. Trailer Bill Language included in the budget package limits misdemeanor charges to large cases in which there are repeated failures to respond and the taxpayer is not incapacitated.

State Board of Equalization (BOE)

- ◆ **E-Waste Recycling Fee.** Reduces by \$716,000 the Governor's budget request for \$5.7 million in special funds and 76.8 personnel-years of staff to collect fees for the Covered Electronic Waste Recycling Act on behalf of the California Integrated Waste Management Board.
- ◆ **Special Taxing Jurisdictions Workload.** Augments by \$2.3 million (reimbursements), as requested in the May Revision, to administer collection of sales taxes for 24 new voter-approved special taxing jurisdictions.
- ◆ **Curtainwall Repairs.** Reduces by \$11.2 million funding included in the May Revision Budget to replace leaky window seals at the BOE's headquarters building. The subcommittee action retains \$690,000 for preliminary plans. Construction funding is not likely to be needed until 2006-07.
- ◆ **Sales and Use Tax Gap.** Adopts language directing BOE to report on strategies for reducing the sales and use tax gap and on a pilot audit to determine the extent of misuse of resale certificates to avoid payment of sales tax.
- ◆ **Field Office Closures.** \$337,000 savings from the closure of four field offices.

 **MAJOR VETOES**

- ◆ **Consumer Use Tax Enforcement.** Eliminates an additional augmentation of \$470,000 to add 8 positions to collect use tax on private purchases of vehicles, vessels and aircraft for a net revenue gain of \$3.8 million. The Governor indicated that he believed that his May Revision request for 7 positions (also approved by the Legislature) was adequate.

**Department of Housing and Community
Development**

 **MAJOR ACTIONS**

- ◆ **Emergency Housing Assistance Program.** Restores \$864,000 (General Fund) to maintain operating grants for homeless shelters at the same level as in the current year. The Governor's Budget proposed reducing funding from \$4 million to \$3.1 million. The Governor indicated that he is sustaining this restoration on a one-time basis until new permanent housing is made available through the Homeless Initiative (see next bullet).
- ◆ **Governor's Initiative to Address Chronic Homelessness.** Reduces by \$875,000 (General Fund) the Governor's May Revision request for this new program targeted at housing the homeless mentally ill. The action reduces funding for a new coordinating council from \$250,000 to \$125,000 and deletes \$750,000 for predevelopment loans because these can be provided from existing Proposition 63 Mental Health funds and the existing Housing Predevelopment Loan Fund. Includes modified Trailer Bill Language to allow a portion of Proposition 46 housing preservation funds to be used for supportive housing as part of this initiative.
- ◆ **Migrant Farmworker Housing.** Adopts Trailer Bill Language to extend through August 2006 the availability of \$8.2 million of Proposition 42 Housing Bond funds for projects to house migrant farmworkers. Also allows funds to be used for innovative projects in cooperation with growers, local governments, and nonprofit organizations. Authorizes an additional \$5.2 million of bond funds for reconstruction and renovation of state-operated migrant housing centers. The Governor's Budget requested \$9.5 million for the state-operated centers. The \$4.3 million reduction provides a portion of the \$8.2 million authorized for innovative projects and consists of funding for improvements that can be deferred.
- ◆ **Regional Housing Needs Assessment.** Deletes the mandate suspension proposed in the Governor's Budget because the Commission on State Mandates has reconsidered this mandate and determined that it is not subject to state reimbursement. This action is consistent with the May Revision. Instead, the Legislature included language in the Department of Transportation's budget to authorize the use of \$1 million of federal "Blueprint" transportation planning funds for regional housing needs assessments by the councils of government, to the extent allowable under federal law (the Governor vetoed this language, however).

**THE 2005 - 2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Enterprise Zone Program.** Extends the sunset for existing fee authority from July 1, 2006 to January 1, 2007.
- ◆ **Transfer Remaining Fund Balance.** Approves transfer of \$1.7 million balance to the General Fund from the California Homebuyer Downpayment Assistance Program. These funds were originally provided from the General Fund in the 2000 Budget Act. Housing bond funds now provide downpayment assistance.
- ◆ **Mobilehome / Manufactured Home Inspections.** Approves augmentation of \$1 million and 7 positions to reduce wait times for inspections, consistent with the May Revision Budget.

Contingency and Emergency Funding

 **MAJOR ACTIONS**

- ◆ **Supplemental Appropriation Process.** Adopts Budget Bill Language to establish a specific process for supplemental appropriations bills that augment the budget appropriation for contingencies and emergencies (formerly deficiency appropriations). The language requires that submission of specified information and compliance with provisions that apply to the Budget Act appropriation for contingencies and emergencies unless specifically waived. Also prohibits use of contingency and emergency funding for costs of a special election or to replace other funds redirected to costs of a special election.

Employment Development Department

 **MAJOR ACTIONS**

- ◆ **Economic and Employment Enforcement Coalition.** Provides an increase of \$2.5 million (EDD Contingent Fund and Disability Insurance Fund) and 23.7 positions, 3-year-limited-term to conduct increased enforcement activities against employers who violate labor laws. This proposal will combat a significant increase in the number of employers attempting to illegally cut operating costs by converting acknowledged employees to independent contractors. Since this effort is expected to identify unreported wages, EDD projects a General Fund benefit of \$780,000 in the first year, and \$1.77 million annually thereafter.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Nursing Simulators.** Provides \$750,000 to establish 3 rural nursing simulators to expand the ability of these rural communities to train registered nurses.
- ◆ **Collection Staffing.** Increases collection and auditor staffing.

Department of Industrial Relations

 **MAJOR ACTIONS**

- ◆ **"Economic and Employment Enforcement Coalition" Labor Standards Enforcement.** Provides \$1.5 million and 16 positions for investigation, enforcement, and collection activities associated labor-law violations in the areas of workers' compensation, minimum and overtime wages, and licensing compliance. These positions would be funded from the Uninsured Employers Benefits Trust Fund, the Garment Industry Regulation Fund and the Unpaid Wage Fund. The division is 80-percent funded by the General Fund. Past General Fund reductions have reduced staffing from 493 in 2001-02 to 403 in 2003-04.

 **MAJOR VETOES**

- ◆ **Increased Labor Enforcement Positions.** Eliminates a \$3 million increase in the enforcement of minimum wage and overtime laws at the Department of Industrial Relations Division of Labor Standards Enforcement. The additional funding was intended to bolster the State's minimal efforts at enforcement in this area.



PUBLIC SAFETY

Office of the Inspector General (OIG)

MAJOR ACTIONS

- ◆ **Increased Workload.** Provides \$1 million in support of workload as determined pursuant to SB 1432 (Speier, Chapter 733, Statutes of 2004).
- ◆ **Reorganization Workload.** Provides \$2.4 million in support of additional workload resulting from the reorganization of the Youth and Adult Correctional Agency to the Department of Corrections and Rehabilitation.

Office of Emergency Services (OES)

MAJOR ACTIONS

- ◆ **Increased Costs of Disaster Recovery.** Provides \$32.8 million in additional State share of costs related to the recovery efforts from a federally declared disaster in Southern California (fires) in 2004.
- ◆ **Mutual Aid Fire Engines.** Provides \$5 million to purchase additional fire trucks to be used by local governments that participate in a state-local mutual aid program.
- ◆ **Coordination of Homeland Security and Bioterrorism Programs.** Provides oversight language directing the Administration to develop a statewide plan for the use of federal homeland security funds that include the coordination of homeland security and bioterrorism programs.
- ◆ **Homeland Security Funding.** Authorizes the use of federal homeland security funds of \$29.4 million for state operations and \$117 million for local assistance.
- ◆ **War on Methamphetamine.** Provides \$9.5 million in support of local law enforcement efforts to reduce the production and consumption of methamphetamine.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Rural Crime Prevention Program.** Provides \$3.6 million in grant funds in support of the Rural Crime Prevention Program that allows local law enforcement agencies to focus on crimes specific to rural county areas. Monterey County is added to the program in 2005-06.

Department of Justice

 **MAJOR ACTIONS**

- ◆ **Proposition 69 Funding.** Approves \$6.7 million proposed as part of the May Revision in support of the workload associated with Proposition 69, which requires the collection of DNA samples of persons arrested, and convicted of felonies or sex offenses which are misdemeanors. This is an additional approval of \$11 million in the current year and \$11.2 million in the budget year for this purpose. Lesser funding is also provided to the Department of Corrections, Department of Youth Authority, and local governments to perform tasks in accordance with this initiative.
- ◆ **Forensics Workload.** Provides \$1.7 million for staffing and \$2.5 million in one time equipment for the Bureau of Forensic Services to address increased workload. This program provides primary crime lab services to 46 counties. Ongoing needs for equipment will be addressed in a future year.
- ◆ **Department of Corrections Legal Workload.** Provides \$4.2 million to address increased legal workload associated with the Department of Corrections health programs.
- ◆ **Child Abduction.** Provides funding in support of a program to authorize local district attorneys to pursue children abducted in other counties, states and countries. Funding for this mandate is combined with thirty two other mandates to be continued in 2005-06. Thirty five other mandates will be suspended in the budget year, and one mandate will be deferred. The 2005 Budget Act appropriates funds for these mandates within the Commission on State Mandates' budget.
- ◆ **Santa Rosa Forensic Laboratory.** Provides \$1.2 million in support of the Santa Rosa Forensic Laboratory to address increased construction costs for this project. This would bring the total construction costs for the laboratory to \$9.8 million.
- ◆ **Habeas Corpus Litigation.** Provides \$2.2 million in support of increased workload associated with representation of the State in state and federal habeas corpus litigation.

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Methamphetamine Grants.** Provides \$3.2 million for the California Methamphetamine Strategy from federal funds. These funds will enhance the department's electronic surveillance capabilities.

Department of Corrections and Rehabilitation

 **MAJOR ACTIONS**

- ◆ **Department of Corrections and Rehabilitation.** The 2005 Budget Act authorizes the creation of the Department of Corrections and Rehabilitation which consolidates the entities of the Youth and Adult Correctional Agency.
- ◆ **Population Increase.** Provides \$85.4 million to address an increase in estimated adult inmate population as part of the May Revision process. This in addition to a \$280.1 million increase (and \$207.6 million increase in 2004-05) related to the Fall 2004 population estimate as presented in the Governor's Budget (formerly in the Department of Corrections).
- ◆ **Mental Health Services.** Approves a payment of \$61 million to the Department of Mental Health related to treatment of adult inmates in the budget year. (formerly in the Department of Corrections)
- ◆ **Accreditation of Health Programs.** Provides language to have the department analyze the fiscal and programmatic implications of accreditation of its medical programs under national accreditation standards. (formerly the Department of Corrections)
- ◆ **Pharmaceutical IT Programs.** Authorizes \$4.9 million for hardware and software improvements to the department's pharmacy information technology system. (formerly in the Department of Corrections)
- ◆ **Dental Program Improvements.** Provides \$13.3 million for staffing and equipment for the department's adult dental program. (formerly in the Department of Corrections)
- ◆ **Correctional Academy Training.** Provides \$29 million in support of two additional correctional officer academies. (formerly in the Department of Corrections)
- ◆ **Probation Grants.** Provides \$201.4 million funding for county probation grants by the Board of Corrections. This program provides funding for at risk youth involved in the juvenile justice system, in an effort to prevent recidivism and graduation into CYA and adult facilities. (formerly in the Board of Corrections)

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Parole Revocation.** Provides \$2 million in support of increased workload related to parole revocation (*Valdivia*) hearings. (formerly the Board of Prison Terms)
- ◆ **Education Remedial Plan.** Provides \$17.1 million in support of the educational remedial plan required by the *Farrell v Allen* lawsuit submitted to the court in March 2005. (formerly in the Department of Youth Authority)
- ◆ **Training Needs Assessment.** Provides \$1.5 million to assess staffing training needs pursuant to compliance with the *Farrell v Allen* litigation. (formally in the Department of Youth Authority)
- ◆ **Ward Grievance System.** Provides \$1.1 million to improve the system for addressing ward grievances at CYA facilities pursuant to the *Farrell v Allen* litigation. (formally in the Department of Youth Authority)
- ◆ **County Reimbursements.** Provides \$25.0 million to cover the costs of county reimbursements related to the commitment of wards to CYA from the county. In the current year, the delay in reimbursements from the counties resulted in cash flow difficulties for the department. Beginning in 2005-06, reimbursements from the counties will be remitted directly to the General Fund as revenue. (formally in the Department of Youth Authority).
- ◆ **Substance Abuse Programs.** Provides \$1.4 million in support of substance abuse programs to backfill a reduction in federal funds. (formally in the Department of Youth Authority)
- ◆ **Farrell v Allen Litigation Costs.** Provides \$1.7 million in litigation and oversight fees associated with the *Farrell v Allen* litigation. (formally in the Department of Youth Authority)
- ◆ **Post Relief Factors.** Provides \$6.6 million to support relief coverage for posted positions. (formally in the Department of Youth Authority)

Judicial Branch

MAJOR ACTIONS

- ◆ **Restoration of Current Year Reduction.** Provides \$52.8 million in funds as a restoration of a reduction to the Judicial Branch taken in 2004-05. (formally in the Trial Court Funding budget)
- ◆ **Inflation Base Adjustment.** Provides an augmentation of \$88.4 million to the trial courts to address increases in collective bargaining, retirement, benefit and contractual county administrative costs.
- ◆ **Undesignated Civil Fees.** Adopts an augmentation to allocate fees undesignated by the Trial Court Funding Act of 1997 between counties and the courts. \$31 million in undesignated fees will be allocated to the courts on a declining basis (starting with \$20 million in 2005-06) until 2009-10 when these fees will be entirely allocated to the counties. Declining court revenues will be backfilled by an increase in civil penalty assessments from \$250 to \$300. (formally in the Trial Court Funding budget)
- ◆ **Budget Year Cost Adjustment.** Provides an augmentation of \$134.7 million to address cost of living increases to the trial courts in 2005-06. This is adjusted by a base reduction in General Fund transfers to the Trial Court Trust Fund of \$57.5 million intended to reduce the size of the reserve balance (see Veto Item below). (formally in the Trial Court Funding budget)
- ◆ **Security Fee.** Adopts the extension of a security fee until the comprehensive uniform civil filing fee is implemented on January 1, 2006. (formally in the Trial Court Funding budget)
- ◆ **Uniform Civil Filing Fee.** Imposes a uniform civil filing fee effective January 1, 2006. This fee is expected to raise an additional \$14.75 million in fees in 2005-06. Of this amount \$4.95 million will be used to increase support for trial court operations. A reduction in the General Fund transfer to the Trial Court Trust Fund (TCTF) of \$9.8 million will occur in the budget year. (Veto Item below) An ongoing reduction in the General Fund transfer to TCTF of \$19.6 million is anticipated in future years to offset the increase in revenues from this source. (formally in the Trial Court Funding budget)
- ◆ **Continuing Funding for Fourth Appellate Courthouse Acquisition.** Provides a re-appropriation of \$75,000 in support of future closing costs for the acquisition of an appellate courthouse in the Fourth Appellate District (Orange County).

**THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW**

- ◆ **Fifth Appellate Courthouse.** Provides an augmentation of \$21 million to continue construction of a courthouse for the Fifth Appellate District (Fresno).
- ◆ **Merced Courthouse.** Provides \$3 million in support of a new Merced courthouse.

 **MAJOR VETOES**

- ◆ **Base Reductions.** Reduces by \$57.5 million the transfer of General Funds to the Trial Court Trust Fund (TCTF). This is intended to reduce the estimated year-end balance in the TCTF from \$67.5 million to \$10 million. The Administration believes that the reserve of that size is no longer necessary due to the statutory adjustments to the trial court's budget in future years. The amount of General Fund transfer to the TCTF is also reduced by \$9.8 million to reflect an increase in estimated revenue associated with the implementation of Uniform Civil Filing Fees on January 1, 2006.
- ◆ **Allocation of Increased Trial Court Funds.** The Governor vetoed Provision 8 of Item 0250-101-0932 that would specify a methodology to allocate increased support of trial courts consistent with language of the Supplemental Report of the 2005 Budget Act.

THE 2005-2006 STATE BUDGET ACT
FINAL REVIEW

BUDGET and TRAILER BILLS

Bill Number	Chapter Number	Topic
SB 77	Ch 38	2005-06 Budget Act
SB 62	Ch 76	Transportation Omnibus Trailer Bill
SB 63	Ch 73	Education Omnibus Trailer Bill
SB 64	Ch 77	State boards and commissions Trailer Bill
SB 68	Ch 78	Human Services Omnibus Trailer Bill
SB 71	Ch 81	Resources Omnibus Trailer Bill
SB 76	Ch 91	Energy Omnibus Trailer Bill
SB 78	Ch >	Budget Act of 2004: contingencies and emergencies
SB 80	Ch 39	Revisions to 2005-06 Budget
SB 88	Ch 14	Fiscal affairs: health care funding: Proposition 99
SB 91	Ch 79	Budget Act of 2004: contingencies and emergencies
AB 131	Ch 80	Health Omnibus Trailer Bill
AB 138	Ch 72	State Mandates Trailer Bill
AB 139	Ch 74	State Government Trailer Bill
AB 145	Ch 75	Uniform Civil Filing Fees Trailer Bill
AB 794	Ch 23	Health care funding for perinatal women