THE 2005-2006 STATE BUDGET

General Government

STATE CONTROLLER

The State Controller is the Chief Financial Officer of the State, elected by the people. The Controller's primary objectives are to: (1) provide sound fiscal control over both receipts and disbursements of public funds; (2) report periodically on the financial operations and conditions of both state and local governments; (3) make certain that money due to the State is collected through fair, equitable, and effective tax administration; (4) provide fiscal guidance to local governments; (5) administer the Unclaimed Property and Property Tax Postponement Programs; and (6) develop and establish policy for a significant number of boards and commissions, including all major tax boards.

KEY PROVISIONS

- **21st Century Project.** The Governor's budget proposes to add $10.4 million ($7.9 million in special funds, $2.5 million in reimbursements) and 29.7 positions in the budget year to continue activities associated with the replacement of the existing employment history, payroll, leave accounting, and position control systems.

DEPARTMENT OF INSURANCE

The Department of Insurance regulates the largest insurance market in the United States with over $115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and is a major contributor in combating insurance fraud.

KEY PROVISIONS

- **Workers' Compensation Enforcement.** The Governor's budget proposes $647,000 in spending authority and 3.8 Administrative Law Judge positions to address increased workload to hear cases concerning workers' compensation, insurance company insolvencies, and rate increases.

- **Information Technology.** The Governor's budget proposes an increase of $6.8 million (Insurance Fund) and 7.1 positions to support various information technology projects within the department including: upgrading the data cabling ($361,000), replacing older computers ($729,000), creating an internal portal to improve the sharing of databases and other information within the Department ($2 million and 1.9 positions), upgrading the Department's telecommunications system ($3.5 million and 1.4 positions), and positions to address increased information technology workload ($335,000 and 1.9 positions).

SECRETARY OF STATE

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The Office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the Office is responsible for the appointment of notaries public, enforcement of notary laws and preservation of documents and records having historical significance. All documents filed are a matter of public record and historical importance. They are available through prescribed procedures for public review and certification as to authenticity.

MAJOR PROVISIONS

Help America Vote Act Implementation

The federal Help America Vote Act (HAVA) of 2002 – passed in response to controversy surrounding the presidential election of 2000 – requires that States comply with a series of federal election requirements that are intended to insure a fairer and more accurate federal election process. Such requirements outlined by HAVA guidelines include: replacing punch-card and lever operated voter equipment; allowing voters to verify their ballots; providing voters with provisional ballots; providing access for voters with disabilities; and creating a statewide voter registration list.

In order to implement HAVA requirements, California received $84.5 million (federal funds) in FY 2003-04 and $264.4 million (federal funds) in the spring of 2004. In the 2004-05 budget, the legislature required that the Secretary of State provide a written plan for the use of HAVA funds to the Department of Finance and the Legislature for approval prior to the subsequent release of those funds. Currently the HAVA spending plan is under administrative review.

OTHER KEY PROVISIONS

- **Elections Funding.** The Governor's budget proposes an increase of $3 million to provide for elections costs previously funded through deficiency funding. Annually, the SOS is scheduled to conduct one statewide election per fiscal year. Over the past ten years the SOS has conducted eleven elections. Taking into exception the gubernatorial recall special election of 2003, unanticipated statewide elections costs have ranged from $957,000 to $12.7 million. The SOS has customarily relied on funding unexpected election costs with deficiency funding. However, because the 2004-05 budget eliminated Control Section 27.0 related to deficiencies, the SOS will be no longer be able to use this funding mechanism, and the increase in funding in this proposal will provide for estimated actual elections costs 2005-06.

DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by serving as a guardian and advocate for their health, safety, privacy, and economic well-being and by promoting legal and ethical standards of professional conduct. The Department helps to promote good business practices and to ensure that California's consumers receive quality services by establishing minimal competency standards for more than 230 professions involving approximately 2.3 million professionals. The Department is also an important advocate on consumer and business issues.

KEY PROVISIONS

- **Bureau of Automotive Repair.** The Governor's budget proposes an augmentation of: $13.6 million and 19.9 positions for the Vehicle Retirement (VR) Program; and $4.8 million and 16.2 positions for the Repair Assistance (RA) Programs operated by the Bureau of Automotive Repair (BAR).

  In fiscal year 2001-02, BAR transferred $44 million generated by the Smog Impact Fee to the General Fund as well as reduced position and expenditure authority. Resulting from these reductions, BAR suspended

the VR program – funding for this proposal would re-implement the VR program and provide funding for increased demand in the RA program.

- **Contractors State License Board.** The Governor's budget proposes an augmentation of $1 million and 10.5 positions to increase Labor enforcement levels. Working in coordination with the Departments of Labor and Workforce Development Agency, the board will increase enforcement of unlicensed contractors through sweep and sting operations. The Board will also increase the number of investigations opened as a result of consumer complaints towards contractors. This effort is part of the Administration's Economic and Employment Enforcement ("Triple E") Coalition focused on underground economy enforcement.

- **Workers' Compensation Premium Increases.** The Governor's budget proposes an augmentation of $3.2 million (Special Fund) to provide DCA boards/bureaus/programs with sufficient resources to fund increases in State Compensation Insurance Fund premiums.

DEPARTMENT OF GENERAL SERVICES

The Department of General Services (DGS) is responsible for the management, review control and support of state agencies as assigned by the Governor and specified by statute. The department provides support services to operating departments to achieve greater efficiency and economy than they can individually provide themselves.

KEY PROVISIONS

- **Office of State Publishing.** The Governor's budget proposes to reduce funding for the Office of State Publishing (OSP) by $6.2 million and 114 positions in response to a decrease in demand for traditional printing services. OSP will also be directed to enhance its digital printing services to respond to technological advances in the printing industry.

- **Office of Public School Construction.** The Governor's budget proposes an augmentation of $250,000 in expenditure authority and 2.0 three-year limited term positions to implement SB 6 (Alpert) and SB 550 (Vasconcellos) in order to implement the settlement agreement in the case of *Williams v. the State of California* related to school facility construction.

  Over a time-span of eight years, the State will allocate $25 million for school facility emergency repair assessment and $800 million (on a $100 million per year basis) for emergency school facility repairs. The Office of Public School Construction (OPSC) within DGS will be responsible for

receiving and processing such applications and for determining eligibility for school facility projects funding.

DEPARTMENT OF CORPORATIONS

The Department of Corporations protects the public and provides businesses through administration and enforcement of state laws regulating securities, franchise investment, lenders, and fiduciaries. The Department, which is fully self-supported through its revenues, is responsible for licensing, examination, investor and consumer education, and responding to public inquiries and complaints.

KEY PROVISIONS

- **Seniors Against Investment Fraud.** The Governor's budget proposes $400,000 (special fund) for the Seniors Against Investment Fraud (SAIF) program. Designed to educate senior citizens about investment fraud and how to protect their finances from predatory investment, the Department has been administering the SAIF program since 2000-2001.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serve the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and assists disadvantaged and welfare-to-work job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

KEY PROVISIONS

- **Unemployment Insurance Fund.** The Governor's budget proposes to augment the EDD contingent fund by $3 million in order to pay interest and fee payments for an Unemployment Insurance (UI) Fund loan. It is expected by the Department that the UI fund will have a negative balance by March 2005 and borrowing will be necessary through May 2005 – at that time the loan balance is expected to be paid in full.

  In 2004, the Department secured the first loan from the federal government to continue benefit payments through the month of April. During that time, the loan amount peaked at $214 million and the balance was fully paid off by May 4, 2004.

It is expected that in early calendar year 2006, additional borrowing may occur. The Department cites the reoccurring need for UI loans is a result of: 1) a taxable wage ceiling that has remained at $7,000 since 1983; 2) a weekly benefit amount that has increased progressively from $230 in 2001 to $450 in 2005; 3) the severity of California's recent economic recession which has, and continues to, create a higher number of UI claims for a longer average period of time.

- **Economic and Employment Enforcement Coalition.** The Governor's budget proposes an augmentation of $2.5 million and 23.8 positions for EDD to participate in the Economic and Employment Enforcement ("Triple E") Coalition, a partnership of enforcement agencies that will identify the worst offenders for targeted workplace enforcement actions throughout the state.

- **Benefit Audit Backlog.** The Governor's Budget proposes an augmentation of $9.1 million (special fund) and 147 positions to eliminate the backlog of Benefit Audits that are conducted to help recover overpayments of benefits.

DEPARTMENT OF VETERANS' AFFAIRS

The Department of Veterans Affairs (CDVA) provides services to California Veterans and their dependents, and to eligible members of the California National Guard. The principle activities of the CDVA include:

1. Providing home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds;

2. Assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service officers, and direct educational assistance to qualifying dependents and;

3. Operating veterans' homes in Yountville, Barstow, and Chula Vista with several levels of medical rehabilitation services, as well as residential services. For the Barstow and Chula Vista Homes, the budget assumes full occupancy in all levels of care by September 2002.

KEY PROVISIONS

- **Chula Vista Residential Care Conversion.** The Governor's budget proposes to convert the existing 52 bed Residential Care for the Elderly (RCFE) unit at the Veterans Home of California Chula Vista to an

Intermediate Care Facility (ICF). The proposal will decrease general fund support for the program by $940,000, and increase federal funds by $2 million.

DEPARTMENT OF MILITARY

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this State and the nation. The three missions of the California National Guard are to provide: (1) mission ready forces to the federal government as directed by the President, (2) emergency public safety support to civil authorities as directed by the Governor, and (3) support to the community as approved by proper authority. The Military Department is organized in accordance with Departments of the Army and Air Force staffing patterns. Since Department programs drive the need for infrastructure investment, each department has a related capital outlay program to support this need. In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense. A special display titled "Other Federal Funds" shows the funding received from this source. For the specifics on the Military Department's Capital Outlay Program see "Infrastructure Overview."

KEY PROVISIONS

- **Oakland Military Institute.** The Governor's budget proposes to increase funding for the Oakland Military Institute by $1.3 million and an additional 10.5 positions to provide for an increased enrollment of approximately 200 students and provide sufficient Military Department instructors to meet the originally authorized staffing ratio of 30 students per instructor.

- **California Military Family Relief Fund.** The Governor's budget proposes to provide $250,000 from the California Military Relief Fund to Implement SB 1162 (Machado). SB 1162 (Machado) provides a check-off box on tax forms to support the California Military Family Relief Fund that provides financial aid grants to the families of California National Guard members who are called to federal active duty status.

- **California National Guard Surviving Spouses and Children Relief Act of 2004.** The Governor's budget proposes a $190,000 augmentation to implement SB 1193 (Soto) which allows benefit payments to be provided to the families of members of the California National Guard members whose lives are lost while on active duty. This proposal provides a $10,000 death benefit to be paid to the families of California National Guard members who have lost their lives in service since March 1, 2003.

CALIFORNIA ENERGY COMMISSION

The California Energy Commission is responsible for ensuring a reliable supply of energy that meets California's needs and complies with environmental, safety, and land use goals. The Commission reviews and approves applications to site major electricity power plants, encourages measures to reduce the inefficient use of energy and adopts energy conservation standards for buildings and appliances, evaluates energy usage and forecasts energy supply and demand for the state; monitors alternative ways to supply energy, and oversees state-funded energy research and development projects.

The Governor's budget proposes $316.7 million from special funds (generally financed by utility ratepayer charges) and 470.6 positions for the Energy Commission in fiscal year 2005-06. This represents an increase of 15.9 positions and a decrease of $62.7 million from the revised 2004-05 Budget. The reduction is largely due to less funding being available from the Renewable Resource Trust Fund.

KEY PROVISIONS

- **Energy Research and Development Funding Increase.** The Governor's budget proposes a one-time increase of $10 million to funding 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 would increase from $69.9 million in the current year to $80.1 million in 2004-05. The commission indicates that this augmentation was made possible by repayment of a $20 million loan to the General Fund made in fiscal year 2003-04. In addition, the Budget includes $15 million from the Gas Consumption Surcharge Fund and 4.8 positions to initiate a natural gas research program that will improve energy efficiency in consumer gas appliances and manufacturing processes.

- **Analytical Resources.** The Governor's budget includes $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 critical support to the Public Utilities Commission's energy procurement process.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) is responsible for the regulation of investor-owned natural gas and electricity utilities, telecommunications services, water companies, railroads, and certain passenger and household

goods carriers. Specific activities include enforcement of safety regulations, regulation of rates for services, and promotion of energy and resource conservation.

The Governor's budget proposes $1.2 billion from special funds financed by utility ratepayers and 835.7 positions for state operations, including $848 million for various telecommunications subsidy programs and $258 million for energy efficiency, research, and subsidy programs. This represents an increase of 6.2 positions and a decrease of $26.9 million special funds from the revised 2004-05 Budget. The increase in positions is attributable to program enhancements funded from the Energy Resources Programs Account and the Public Interest Research, Development, and Demonstration Fund to improve the commission's data collection and modeling capabilities and to expand energy research and development projects.

KEY PROVISIONS

- **Household Goods Carrier Enforcement.** The commission regulates the operation of the household goods carrier industry. The budget includes an 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.** The Governor's budget proposes an increase of $483,000 from utility ratepayer funds for 8 additional positions to address the workload needed to resolve complaints from utility customers over billing and service disputes.

- **Teleconnect Funding.** The Governor's budget includes continued funding for the Teleconnect Program, which provides subsidies for telephone bills and other telecommunications services, to schools, libraries, public hospitals, and nonprofit organizations. Proposed funding increases from $18 million in the current year to $20.3 million in fiscal year 2005-06.

ELECTRICITY OVERSIGHT BOARD

The Electricity Oversight Board (EOB) is responsible for overseeing the operation and reliability of the electricity transmission system, as well as the operation, efficiency, and competitiveness of markets for bulk energy, transmission, ancillary services, and all activities of the California Independent System Operator. The board has been actively pursuing litigation against power suppliers accused of manipulating market prices during the electricity crisis, and continues to monitor market operations to prevent a recurrence of similar problems. The budget proposes $3.9 million from ratepayer special funds and 21.9 positions for state operations. This represents an increase of $122,000 from the revised 2004-05 Budget.

Reorganization Plan Would Eliminate EOB

The Governor's Reorganization Plan 1 for boards and commissions proposes to eliminate the EOB and, instead, incorporate its functions into the Energy Commission. This proposal is not reflected in the Governor's Budget.

CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

The budget does not include any funding or positions for the California Consumer Power and Conservation Financing Authority (CPA).

The purpose of the CPA was to help finance the construction and acquisition of a reliable supply of power to Californians at just and reasonable rates, including planning for prudent energy reserves. The CPA was also created to encourage and finance energy efficiency, conservation, and the use of renewable resources. The CPA was authorized to issue up to $5 billion in revenue bonds to finance these activities.

The authority was unable, however, to finance any major power facilities because it did not have any significant funding of its own and it was unable to offer financial guarantees, such as power purchase contracts or guaranteed rates for power. According to the budget, after 2.5 years, it was apparent that the CPA was providing minimal value in assisting the state in meeting the state's energy objectives. The Governor vetoed continued funding for the CPA in the 2004-05 budget. The administration has transferred the remaining ongoing activities of the CPA to other state organizations pending a reorganization of the State's energy related functions. The Governor's Reorganization Plan 1 for boards and commissions proposes to place the remaining CPA functions and tasks under the Energy Commission.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees housing planning statewide and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor's Budget proposes $563.2 million ($13.3 million General Fund and $549.9 million other funds) and 492.6 personnel years for the department's activities in fiscal year 2005-06. This represents a decrease of $34.9 million but an increase of 5.9 positions from the revised 2004-05 Budget. Staffing is increased for mobile and manufactured home titling. Overall funding declines primarily due to timing of major project approvals

from housing bond funds. The Department has been instructed to reduce its state operations budget by $76,000 with the flexibility to implement through layoffs, hiring freeze, procurement reductions, or other administrative means as it may choose.

The General Fund supports the following HCD state operations: State Housing Law and Employee Housing Law enforcement; administration of the California Indian Assistance, Community Development Block Grant, Emergency Shelter, Housing Assistance, and Migrant Services programs; Housing Element, and Redevelopment Agency oversight, reporting, and audits.

KEY PROVISIONS

- **Unallocated Reduction.** The Department has been instructed to reduce its state operations budget by $76,000 with the flexibility to implement through layoffs, hiring freeze, procurement reductions, or other administrative means as it may choose.

- **Reduction in Homeless Shelter Grants.** The Governor's budget reduces the General Fund support for the Emergency Housing Assistance Program, which provides State grants (averaging about 10 percent of costs) for local agency-operated homeless shelters, by $864,000, for a total of $3.1 million in funding for fiscal year 2005-06. The budget does not provide any explanation of the basis or rationale for this reduction of more than 20 percent to provide basic shelter to homeless persons.

- **Office of Migrant Services (OMS) Reconstruction Plan.** The Governor's proposed budget includes $9.5 million from Proposition 46 (housing bond) funds to continue the OMS reconstruction plan to address health and safety standards deficiencies at the State-built OMS centers, which provide housing for farmworkers throughout California. Operations for the centers are fully funded in fiscal year 2005-06. The department indicates that rehabilitation of the state-owned centers is a higher priority than seeking additional proposals for migrant housing from local governments or nonprofit organizations.

OFFICE OF EMERGENCY SERVICES

The principal objective of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters.

On a day to day basis, the OES provides leadership, assistance and support to State and local agencies in planning and preparing for the most effective use of federal, State, local and private sector resources in emergencies. This emergency planning is based upon a system of mutual aid in which a jurisdiction

relies first on its own resources and then requests assistance from its neighbors. The OES's plans and programs are coordinated with those of the federal government, other states, and State and local agencies within California.

During an emergency, the OES functions as the Governor's immediate staff to coordinate the State's responsibilities under the Emergency Services Act and applicable federal statutes and acts as the conduit for federal assistance through natural disaster grants and federal agency support.

Additionally, the Office of Homeland Security is responsible for the development and coordination of a comprehensive State strategy related to terrorism that includes prevention, preparedness, response, and recovery.

KEY PROVISIONS

Reductions to Public Safety Grants. The Governor's budget proposes a reduction to local public safety grants totaling $4 million. The programs affected include: Community Crime Resistance Program (reduction $231,000); Career Criminal Apprehension Program (reduction of $866,000); Serious Habitual Offender Program (reduction of $137,000); Vertical Defense of Indigents Program (reduction of $172,000); Drug Abuse Suppression in Schools Program (reduction of $690,000); Rural Crime Prevention Program (reduction of $1,900,000).

Office of Homeland Security Grant Administration. The Governor's budget proposes an increase of $1.8 million in special funds in support of efforts by the state, local governments, tribal agencies and private agencies to seek available federal and state homeland security grants.

CalGANG. The Governor's budget proposes an increase of $300,000 in support of the CalGANG Project. This project provides a repository of gang intelligence information that is maintained and is accessible to state and local law enforcement agencies in an effort to respond to increasing violence from California street gangs.

CALIFORNIA GAMBLING CONTROL COMMISSION

The California Gambling Control Commission, under the Gambling Control Act has jurisdiction over the operation, concentration, and supervision of gambling establishments, and over all persons or things having to do with the operations of gambling establishments in the State of California. There are approximately 100 cardrooms and 53 tribal casinos in current operation.

The focus of the commission is to act as the regulatory body over gambling activities in the State, setting policy, establishing regulations, issuing license,

serving as the adjudicator for the license denials and any other related items that may come before the Commission. The Commission's objective is to assure the licenses and permits are not issued to or held by unqualified or disqualified persons or by those whose operations are conducted in a manner that is adverse to the public health, safety, or welfare.

In addition, the Commission, under Tribal State Gaming Compacts, is responsible for: administering the gaming device license draw process; accounting for all gaming device license fees; and ensuring the allocation of gaming devices among California Indian tribes does not exceed the allowable number provide in the Compacts. Moreover, the Commission serves as the trustee for the Revenue Sharing Trust Fund and administrator of the Special Distribution Fund.

KEY PROVISIONS

Tribal Gaming Compact Workload. The Governor's budget proposes an increase of $2.2 million (22.1 positions) in 2004-05 and $4.8 million (43.1 positions) in 2005-06 to address increased workload resulting from the new Tribal Gaming Compacts adopted in 2004. The workload includes the development and implementation of a state testing laboratory, field testing program, and auditing activities to ensure compliance with the new compacts and gambling laws.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefit for more than 1.4 million active employees and retires of state and local agencies in California. Benefits include retirement, disability, and survivor's retirement benefits; Social Security for State employees; and the development, negotiation and administration of contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long term care program for members and eligible individuals.

CalPERS is governed by a Board of Administration. The California Constitution provides that the Board of Administration has authority over the administration of the retirement system. Therefore, the budget data presented hear is for informational purposes only, with the exception of the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

MAJOR PROVISIONS

Pension Reform

The Governor's budget proposes that employees contribute one-half of the total retirement contribution as determined by the retirement system. Under current terms of employment, employee contributions vary. For example sworn members of the California Highway Patrol currently pay zero contribution toward their retirement obligations while peace officers who are members of Bargaining Unit #7 are responsible for 8 percent of their salary as a contribution towards their retirement obligation. For most employees, their retirement contribution is 5 percent of their salary.

Under the Administration's proposal the employee contribution for sworn Highway Patrol employees would increase from zero percent to 17.2 percent of salary and for Bargaining Unit #7 could increase from 8 percent to 15.9 percent of salary. For the average employee, the shared cost could increase from 5 percent to 11 percent of salary. The Governor's Budget estimates this change would result in a General Fund savings of $208 million in the budget year.

Concurrently with the Governor's budget proposal for the State to split the costs of retirement with existing employees, the Administration proposes a constitutional amendment to prohibit the state or any of its political subdivisions from offering a defined benefit retirement plan to its new employees. Employers are expected to be limited in the amount of matching contributions to the employment retirement accounts.

STATE TEACHERS' RETIREMENT SYSTEM

The mission of the California State Teachers' Retirement System (CalSTRS) is "Securing the financial future and sustaining the trust of California's educators" and its primary responsibility is to provide retirement related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college system.

The Teachers' Retirement Board has exclusive control over the investment and administration of the Teachers' Retirement Fund. The Board makes rules, sets policies, and has the power and authority to hear and determine all facts pertaining to application for benefits under the retirement system. The twelve member board consists of four ex-officio members, including the Superintendent of Public Instruction, the State Treasurer, the State Controller, and the Director of Finance. The Governor appointed members of the board include: three public members; one retiree of CalSTRS; one school board member or community college trustee; and three representatives elected by active CalSTRS members.

Income to the CalSTRS is derived from contributions from members and employing school districts, appropriations from the General Fund, and investment earnings. The costs of administration are paid from the Teachers' Retirement Fund as provided in Section 22304 of the Education Code.

The CalSRTRS is responsible for the determination and payment of benefits to members, retirees, and their beneficiaries, and for the distribution of information to all members, employers, and other interested groups. The three basic benefits provided by CalSTRS are the services retirement allowance, benefits to the surviving beneficiary of a deceased member, and disability benefits. The basic retirement allowance is determined on the basis of a member's age, years of services, and final compensation. The member may modify the basic allowance by selecting a joint and survivor annuity option to provide improved benefits of the beneficiary after the member dies. Generally, the payments of benefits are made within 45 days of receipt of the application, effective date, or receipt of all necessary information.

MAJOR PROVISIONS

Pension Reform

The Governor's budget proposes to terminate the State contribution for basic retirement benefits for CalSTRS members. This amount varies based upon the actuarial needs of the pension fund which is currently approximately 2 percent. This pension obligation would be transferred to the employers (school districts) which currently are responsible for a retirement contribution payment equal to 8.25 percent of the employee's salary.

The Administration's concurrent constitutional amendment proposal to terminate defined benefit retirement plans for public employees would also affect new employees that traditionally are members of CalSTRS.

DEPARTMENT OF PERSONNEL ADMINISTRATION

The Department of Personnel Administration is the Governor's chief personnel policy advisor. The Department represents the Governor as the "employer" in all matters concerning State employer-employee relations. The Department is responsible for all issues related to salaries, benefits, positions classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Department of Personnel Administration's responsibilities include:

- Represents the Governor in negotiations with employee labor organizations regarding terms and conditions of employment

- Manages salaries, benefits, classifications and training, and administers all aspects of the terms and conditions of employment except for merit related issues (hiring, promotion and discipline).

- Administers the tax deferred savings program for state employees.

- Provides staffing for the California Citizens' Compensation Commission.

MAJOR PROVISIONS

Alternate Retirement Program

The Budget Act of 2004 provided for an alternate retirement plan for new employees that would place their retirement contribution in an IRC 401(a) account for the first twenty-four month period. After that time, the employee would have the option of continuing participating in a defined contribution program or transfer the accumulated funds to acquire service credit in the defined benefit program. The Governor's budget proposes funding of $78,000 ($607,000 all funds) to support the administration of this program.

As part of this budget cycle, the Administration proposes a constitutional amendment to terminate the state's defined benefit retirement program, replacing it with a defined contribution program. At this time, it is not clear whether this plan will include matching employer contribution to this plan. It is anticipated that the Department would administer the new retirement contribution accounts under this proposal.

LOCAL GOVERNMENT FINANCING

KEY PROVISIONS

- **Rural County Sheriff Grants.** The Governor's Budget proposes the elimination of grants under the Rural County Sheriff's Grant Program in the budget year. Under this program $500,000 is provided to each of the 37 smallest counties to fund basic sheriff services such as 24/7 patrol coverage or dedicated investigative staff.

- **Juvenile Justice Realignment.** The Governor's Budget proposes a 75 percent reduction in Juvenile Justice Crime Prevention Program grants. This program directs counties to use funds to design and implement innovative programs for at risk juveniles intended to prevent future

delinquency. The remaining funding for this grant of $25 million is proposed to be transferred to the Board of Correction's budget. The Administration proposes statutory changes to current law that ties the amount of funding to juvenile delinquency prevention programs under the Juvenile Justice Crime Prevention Program to funding for municipal law enforcement, county detention and county prosecution programs pursuant to the Citizens' Option for Public Safety Program.

COMMISSION ON STATE MANDATES

The task of the Commission on State Mandates is to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The commission was created as a quasi-judicial body to determine state mandated costs and consists of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county supervisor, or school district governing board member, appointed by the Governor and approved by the Senate. The budget proposes General Fund support of $1.7 million in fiscal year 2005-06, and increase of $411,000 and 13.6 personnel-years of staff, and increase of 3.9 personnel years.

MAJOR PROVISIONS

Mandate Funding and Suspensions

Proposition 1A, adopted by the voters in November, generally requires the state either to fund approved mandate reimbursement claims or to suspend any unfunded mandate. There are a number of exceptions. The "pay or suspend" rule does not apply to claims for costs incurred prior to fiscal year 2004-05 (these "deferred" payments are to be paid over a 5-year period starting in fiscal year 2006-07 under existing law), mandated costs for school districts or community colleges, or mandates relating to local government employee relations and benefits.

The Governor's budget proposes to continue deferring payment of all education mandate reimbursements (the Budget Reform proposal would pay them over a 15-year period). For non-education mandates, the budget proposes to fund 12 at a total cost of $45 million, suspend 35, and defer payment for 2 employment-related mandates, including the Peace Officers' Bill of Rights). Funding for individual mandates is provided in the budget of the department or program programmatically related to the mandate.

OTHER KEY PROVISIONS

- **Augmentation to reduce Mandate Test Claim backlog.** The commission has a backlog of mandate test claims that must be processed to determine whether the mandate requires state reimbursement. The Governor's budget provides $427,000 General Fund and 4 positions to assist in processing this time-critical workload. The budget does not include funding to pay approved 2004-05 claims. Presumably, these claims would be included in the 15-year payment plan for mandate cost deferrals under the Budget Reform proposal.

DEPARTMENT OF TECHNOLOGY SERVICES

The Department of Technology Services (DTS) delivers consistent, cost-effective, reliable, accessible and secure information technology services to assist its clients in meeting the needs of the diverse population they serve.

MAJOR PROVISIONS

Data Center Consolidation

The Governor's budget proposes to create the DTS. The Department will be the general-purpose technology service provider for the Executive Branch, accountable to its customers for providing secure, responsive and cost-effective information and telecommunications services. It will result from the consolidation of the Stephen P. Teale Data Center, the Health and Human Services Data Center (excluding the Systems Integration Division, which will be transferred to the Health and Human Services Agency) and the voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services.