



**2005-2006 STATE BUDGET ACT
FLOOR REPORT – SB 77**

JUNE 15, 2005

John Laird, Chair
Assembly Budget Committee

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OVERVIEW

Summary

Senate Bill 77 is the State Budget Act for the 2005-06 budget year, as crafted by the Budget Conference Committee. In total, the budget:

- ◆ Provides \$800 million more in discretionary funds for education than the May Revision;
- ◆ Fully funds Proposition 42 for transportation;
- ◆ 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;
- ◆ Relies on no new borrowing;
- ◆ Provides a real \$1.3 billion reserve, which is approximately \$800 million more than provided in the May Revision; and
- ◆ Reduces the out-year General Fund Gap by more than \$1.3 billion from the General Fund Gap that would result under the May Revision.

The budget is based on the projection of \$91.2 billion in General Fund resources and contains a total of \$89.2 billion in General Fund expenditures.

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.

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- **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.

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 \$3.1 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 are 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:

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- ◆ Savings of \$469 million from the state no longer making a contribution to the State Teachers' Retirement System (STRS). If this cost is passed down to local school districts, then the Proposition 98 guarantee is automatically increased to cover the school districts' new costs – 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.

And as late as June 9, the Governor was asking to spend an additional \$54 million that was not accounted for in the May Revision. These requests for spending increases did not include offsetting requests for spending cuts – thus further reducing the Governor's proposed reserve.

In total, the budget is based on the \$91.2 billion in available General Fund resources and contains \$89.2 billion in expenditures, for a fund balance of \$1.9 billion. The final reserve is \$1.3 billion, which includes a \$400 million set-aside for 2006-07 amnesty related accounting.

Revenues

The budget assumes revenues and transfers of \$84.4 billion for 2005-06. This amount, added to a \$6.8 billion starting balance totals \$91.2 billion in available General Fund resources.

The revenue picture has improved from the Governor's January budget proposal with the starting balance increasing by \$5.3 billion and budget year revenues increasing by a net of \$400 million. These revenue gains are offset by transfers being \$343 million less than anticipated in January and no Economic Recovery Bond (ERB) revenues being used (the January budget anticipated \$1.7 billion in ERB revenues).

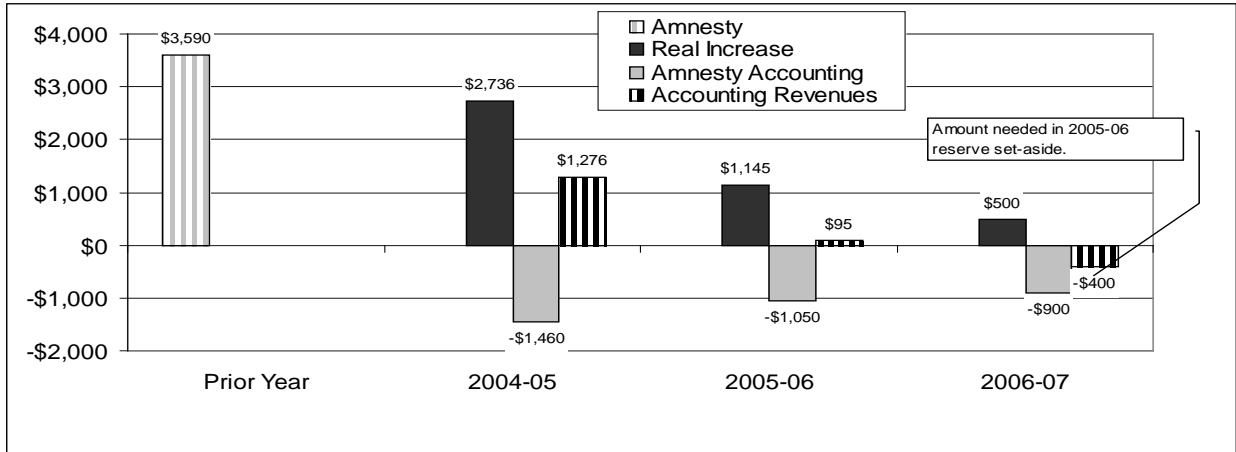
The revenue assumptions in the budget are very similar to the Governor's May Revision. The primary change is that the budget anticipates an additional \$500 million from the refinancing of an existing tobacco settlement bond. The ability to refinance this bond is due to improved market conditions and will have no ongoing negative impact on General Fund.

In addition, the budget assumes the Legislative Analyst's projection that \$500 million of the new revenues will be ongoing. (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 Proposition 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, \$1.1 billion in the budget year, and \$500 million ongoing) 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. Since the 2006-07 offset is projected to be \$900 million but there is only a \$500 million in new revenues for that year, it is appropriate to have a reserve set-aside of \$400 million in 2005-06 to provide for the balance. This is illustrated by the chart below:

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

**2005-06 General Fund Revenue Sources
(in millions)**

Source	May Revision Amount	May Revision % of Total	SB 77 Amount	SB 77 % of Total
Personal Income Tax	\$43,214	51.5%	\$43,232	51.2%
Sales Tax	\$26,951	32.1%	\$26,954	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	--	--	\$500	0.6%
Liquor Tax	\$315	0.4%	\$315	0.4%
Other	\$2,154	2.6%	\$2,146	2.6%
Total	\$83,867	100.0%	\$84,385	100.0%

Expenditures

The budget contains General Fund expenditures of \$89.2 billion. This amount is \$717 million above what is contained in the Governor's May Revision, but is \$215 million below the Governor's actual spending level, after adjustment for the unachievable savings and the Governor's new spending requests that are outlined in the Summary.

The major differences in expenditures 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 \$97 million to provide the federal COLA for SSI/SSP recipients. The federal government provides these funds for individuals that rely on SSI/SSP for basic living needs, but the Governor proposed keeping these funds in the state treasury.
- **Employee Compensation.** Increases spending by \$408 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.
- **Juvenile Probation.** Increases General Fund support for Juvenile Probation by \$201 million, rather than supporting the program from TANF/CalWORKS funds.
- **VLF Gap Loan.** Reduces spending by \$568 million by not pre-paying 50 percent of the VLF gap loan to local governments. The budget leaves \$25 million for the Department of Finance to provide local governments that are experiencing financial hardships due to the VLF gap loan or Booking Fees. The balance of the VLF gap loan will be repaid in 2006-07, as constitutionally required. There is no question that local governments will get the loan repaid. However, several local governments have bonded

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against the repayment, so the benefit of pre-paying the loan will go to investors and not local governments and could lead to accounting complications for those local governments. In addition, county governments would benefit more over the long terms with the state maintaining ongoing funding for important programs like IHSS, Juvenile Justice, and COPS. And finally, the Budget Conference Committee budget (SB 77) provides \$93 million more to pay local mandate claims than provided under the Governor's May Revision.

- **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.

2005-06 May Revision and SB 77 General Fund
Expenditures Comparison
(in millions)

Category	May Revision Amount	May Revision % of Total	SB 77 Amount	SB 77 % of Total
Education (K-12)	\$36,118	40.7%	\$36,347	40.7%
Health and Human Services	\$26,834	30.3%	\$27,187	30.5%
Higher Education	\$10,171	11.5%	\$10,223	11.5%
Business, Transportation and Housing	\$1,702	1.9%	\$1,354	1.5%
Legislative, Judicial, Executive	\$3,120	3.5%	\$3,114	3.5%
General Government	\$1,223	1.3%	\$1,506	1.7%
Youth and Adult Corrections	\$7,259	8.2%	\$7,422	8.3%
Resources	\$1,352	1.5%	\$1,354	1.5%
Environmental Protection	\$78	.1%	\$79	.1%
State and Consumer Services	\$576	.7%	\$564	.6%
Labor and Workforce Development	\$92	.1%	\$92	.1%
Total	\$88,525	100%	\$89,242	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 \$250 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.** Provides up to \$25 million to repay the VLF gap loan to local governments experiencing fiscal hardship, these funds would also be available to cities facing fiscal hardship due to county booking fees. The balance of the VLF gap loan will be repaid in 2006-07, as required by law.
- ◆ **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.

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Reserve

The budget contains a total reserve of \$1.3 billion. This includes a set-aside of \$400 million for amnesty accounting in 2006-07. Adjusting for the set-asides, the Budget Conference Committee reserve stands at \$894 million.

The Governor's May Revision claimed to have a reserve of \$1.4 billion. This includes a set-aside of \$900 million for amnesty accounting in 2006-07 but also includes \$878 million of unachievable savings proposals. Adjusting for the Governor's set-asides, unachievable savings, and new spending requests, the Governor's May Revision reserve is actually a deficit of -\$416 million.

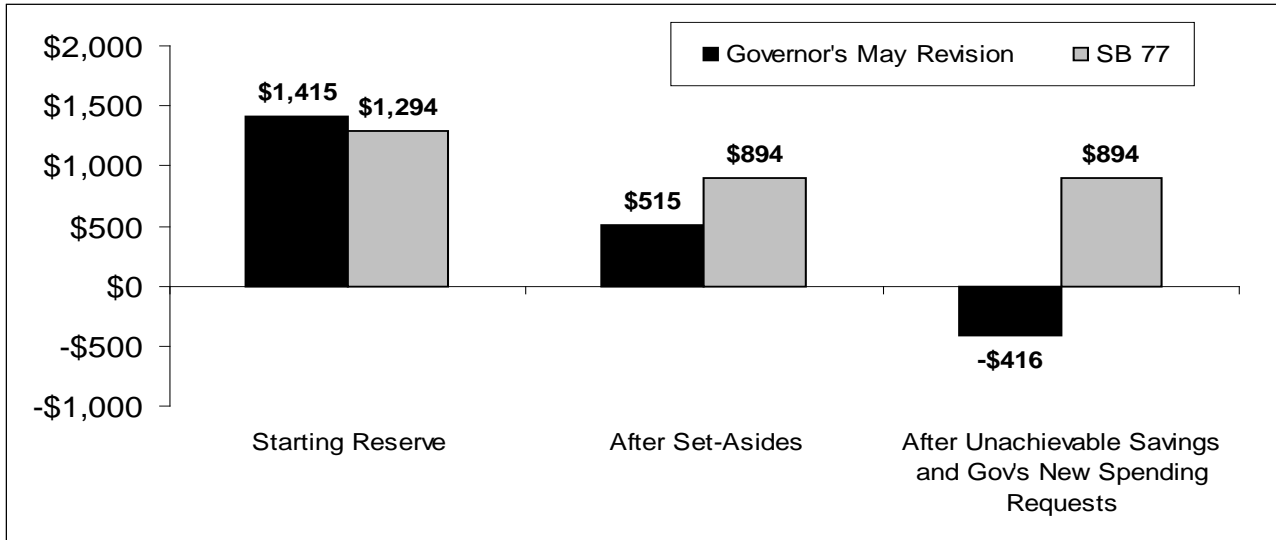
The following charts shows the differences between SB 77's and the Governor's May Revision reserve.

2005-06 General Fund Reserve (in millions)

	May Revisi on	SB 77
Starting Reserve	\$1,415	\$1,294
Set-aside for Amnesty Accounting in 2006-07	(\$900)	(\$400)
Reduction to reserve due to unachievable savings	-\$878	--
Reduction to reserve due to Governor's new spending requests	-\$53	--
Final Reserve	-\$416	\$894

General Fund Reserve Comparison (in millions)

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Out-Year General Fund Gap

The budget reduces the out-year General Fund Gap by more than \$1.3 billion from what the Governor proposed in his May Revision.

Under the Governor's May revision, the 2006-07 General Fund Gap was projected to be \$5.7 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 \$7.7 billion.

The budget contained in SB 77 will result in an out-year General Fund Gap of \$6.4 billion, a total of \$1.3 billion better than what the Governor proposed in the May Revision.

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 SB 77.

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2006-07 General Fund Gap Comparison
May Revision and SB 77
(in millions)

Stated May Revision 2006-07 General Fund Gap	- \$5,736
Impact on 2006-07 beginning balance due to unachievable 2005-06 savings	-\$878
Additional 2006-07 spending resulting from unachievable saving proposals	- \$1,131
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Actual May Revision 2006-07 General Fund Gap	- \$7,745
SB 77 2006-07 General Fund Gap	- \$6,432
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Improved 2006-07 General Fund Gap under SB 77	\$1,313

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General Fund Summary

The following chart shows the General Fund summary for SB 77 as compared with the Governor's May Revision over both the current year and the budget year.

**May Revision General Fund Summary
Current Year and Budget Year
(in millions)**

	May Revision <u>2004-05</u>	SB 77 <u>2004-05</u>	May Revision <u>2005-06</u>	SB 77 <u>2005-06</u>
Prior-year balance	\$7,200	\$6,948	\$6,714	\$6,793
Revenues and Transfers	\$79,495	\$79,495	\$83,666	\$84,385
Economic Recovery Bonds	2,012	2,012	--	--
Total Resources Available	\$88,707	\$88,506	\$90,581	\$91,178
Total Expenditures	\$81,993	\$81,712	\$88,525	\$89,243
Fund Balance	\$6,714	\$6,793	\$2,056	\$1,936
Budget Reserves:				
Reserve for Liquidation of Encumbrances	(\$641)	(\$641)	(\$641)	(\$641)
Reduced Reserve due to unachievable savings	--	--	-\$878	--
Reduced reserve due to Gov's new spending requests			-\$53	--
Final Reserve	\$6,073	\$6,152	\$484	\$1,294
Set-Aside for 2006-07 Amnesty Accounting	--	--	(\$900)	(\$400)
Final Reserve after Set-Aside	\$6,073	\$6,152	-\$416	\$894



K-12 EDUCATION

Department of Education



MAJOR ACTIONS

- ◆ **Governor's Broken Education Deal.** Provides school districts with a total of approximately \$800 million more in discretionary funding than the amount proposed by the Governor. This is achieved by continuing the state STRS contribution and by providing discretionary money rather than restricted funds. 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 \$3.1 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.
- ◆ **Total Proposition 98 for K-12 Education.** Provides total funding for Proposition 98 at the same level proposed in the Governor's May Revision. The General Fund portion of Proposition 98 stands at \$36.6 billion, a total of \$225 million less than the Governor due to differences in local property tax estimates. Due to the suspension of Proposition 98 in the current year, the budget actually over-funds the Proposition 98 minimum by \$265 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. This action will free 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 \$400 million in ongoing funds for revenue limit deficit reduction funding (an increase in discretionary funding of approximately \$400 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 \$72 million more than what the Governor

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proposed in his budget for this purpose. The \$400 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.** Redirects one-time funding from nine new programs proposed by the Governor in his May Revise into paying down the state's mandate debt to school districts. The state currently owes schools districts approximately \$1.4 billion for prior-year mandate claims. The budget provides a total of \$241 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, due to the state's fiscal crisis.

- ◆ **Supplemental Instructional Materials for English Learners.** Restores a portion of the \$30 million set-aside for supplemental instructional materials for English learners that was approved last year. Specifically, the budget provides \$20 million 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 required to be purchased with state instructional materials funding. The budget links this funding to funding for the Governor's Career-Technical Education Initiative, which is funded through the community colleges.

- ◆ **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 \$45 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.

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- ◆ 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 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 are at greatest risk of not receiving a diploma in 2006 due to failure to pass the California High School Exit Exam. 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.

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- ◆ **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.

- ◆ **Federal Carryover.** Appropriates approximately \$150 million in unused federal funds for their existing uses. This is in contrast to the Governor's May Revise, in which he proposed to redirect this funding to purposes related to compliance with the federal No Child Left Behind Act. The proposed redirection would have required the federal government to grant California a waiver from federal requirements.

- ◆ **Healthy Start.** Rejects a \$2 million cut proposed by the Governor in his January 10 proposal, which would have eliminated funding for the program. This program provides grants to school districts to set up school-based health programs.

- ◆ **Charter Schools Categorical Block Grant.** Provides the same level of funding proposed by the Governor for the charter school categorical block grant, and 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.

- ◆ **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.** Increases the amount available for additional low-performing schools to participate in the High Priority Grant program by \$15 million, for a total of \$60 million, as proposed by the Governor in his May Revise to comply with the Elizer Williams v. State of California lawsuit settlement of last year.

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- ◆ **Funding for Emergency School Repairs Per Last Year's Williams Settlement.** Provides \$100 million for emergency facility repairs for the state's lowest performing schools, as proposed by the Governor in his January 10 budget, in compliance with the Elizer Williams v. State of California lawsuit settlement of last year.
- ◆ **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 to train school districts' business officers on good financial practices. This amount was proposed by the Governor in his January budget.
- ◆ **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.
- ◆ **Study of the Economic Impact Aid formula.** Provides \$500,000 in federal funds 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. The study is intended to examine ways to ensure that the formula provides equitable, predictable and reliable funding to eligible school districts.

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.** Adopts language to designate the rate setting process CDE uses to pay for child care vouchers. The proposed language addresses a long standing concern regarding the way certain providers that serve mostly vouchered families would be reimbursed while also protecting the privacy of families that receive care outside of the state system.
- ◆ **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 provides adopted 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

- ◆ **21st Century Afterschool program changes.** Appropriates \$45 million in federal afterschool funds for 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 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 CDE to handle afterschool programs.

HIGHER EDUCATION

California State Library

MAJOR ACTIONS

- ◆ **Public Library Foundation (PLF).** Rejects the Governor's proposal to further reduce the PLF funding by \$2.2 million and restores the funding by this same amount. Since 2001, the PLF funding has been reduced by 79 percent from \$52.9 million to \$12.1 million as proposed in 2005-06.

Commission on Teacher Credentialing (CTC)

MAJOR ACTIONS

- ◆ **Budget Package to Address Shortfall.** Approves the May Revision proposal which includes a one-time \$2.7 million General Fund augmentation and \$1.3 million in reductions to address the Commission's \$4 million structural imbalance between expenditures and revenues in both the Teachers Credentials Fund and the Test Development and Administration Account Fund. This action avoids a potential increase of the teacher credentialing fee which is currently set at \$55. The package also includes budget bill language requiring the CTC to identify further efficiencies that can be implemented to generate savings without compromising the services currently provided.

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.

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- ◆ **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 this fall.
- ◆ **Labor Research Funding.** Restores \$3.8 million for labor research. This is the second consecutive year that the Governor has proposed elimination of all funding for this purpose.
- ◆ **Academic Preparation Programs.** Rejects the Governor's \$17.3 million unallocated reduction proposal, which he directs the UC to achieve by either reducing enrollment growth or academic preparation programs by this same amount. Instead, the budget restores this funding for academic preparation programs and includes budget bill language stating that this \$17.3 million 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.** Rejects the May Revision proposal to provide the UC with \$750,000 to develop and administer six math and science teacher recruitment/resource centers. This initiative was first introduced with a one-paragraph May Revision proposal.

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.** Rejects the Governor's \$7 million unallocated reduction proposal, which he directs the CSU to achieve by either reducing enrollment growth or academic preparation programs and student support services programs by this same amount. Instead, the budget restores the funding and includes budget bill language stating that the CSU will support these programs with \$45 million for a total of \$52 million. This is the same level of funding appropriated for these programs in the *2004-05 Budget Act*.

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- ◆ **Math and Science Teacher Initiative.** Rejects the May Revision 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. This initiative was first introduced with a one-paragraph May Revision proposal.
- ◆ **Nursing Master's Programs.** Adds \$4 million to develop four new Entry-level Masters Programs for Registered nurses.

California Community Colleges (CCC)

 **MAJOR ACTIONS**

- ◆ **Enrollment Growth.** Provides a \$136.5 million increase to fund three percent growth. This funding will provide access for an additional 34,000 FTES.
- ◆ **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. In his veto message, the Governor indicated that restoration of these funds was
- ◆ **California Partnership for Achieving Student Success (Cal PASS).** Adds \$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.
- ◆ **Career Technical Education.** Includes budget bill language tying the level of funding for English Language Learner materials to funding of this initiative.
- ◆ **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 \$20 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.
- ◆ **Noncredit Funding.** Appropriates \$10 million in Proposition 98 ongoing funds to increase the per-student rate for noncredit instruction. The state funds noncredit courses, which include basic skills, English as a Second Language (ESL), Citizenship classes, short-term vocational programs and courses for the disabled.

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- ◆ **Mandate Claims.** Adds \$10 million from Proposition 98 "settle up" funds to help community colleges pay past mandates.
- ◆ **Property Tax Shortfall.** Provides an additional \$33 million from Proposition 98 Reversion Account funds to offset the property tax revenue shortfall in the current year. Without this backfill, community college districts would have to absorb the revenue loss. In his May Revise, the Governor provided \$54.3 million for the property tax shortfall in 2005-06 but neglected to provide the funding needed for 2004-05.
- ◆ **STRS.** Rejects the Governor's proposal to eliminate the state's contribution into STRS and restores \$469 million to cover the costs that would have been incurred by school and community college districts. The Chancellor's Office estimates that this proposal would impose close to \$40 million of new costs on to community colleges statewide.

California Student Aid Commission

 **MAJOR ACTIONS**

- ◆ **Cal Grant Awards for Private University Students.** Approves the May Revision proposal to restore \$7.4 million in funding 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 in SLOF transfer to the General Fund to cover Cal Grant costs.
- ◆ **National Guard APLE.** Rejects proposals to allocate \$200,000 to issue loan assumption warrants and hire personnel to implement an initial cohort of awards in 2006-07.
- ◆ **Math and Science Teacher Initiative APLE Awards.** Rejects the May Revision proposal 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, it authorizes 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.
- ◆ **State Nursing APLE Awards.** Creates a new program modeled after the existing Teacher APLE to encourage individuals to complete their graduate education and serve as nursing faculty at an accredited 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 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.

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- ◆ **Environmental Enhancement and Mitigation Program (EEMP).** Appropriates \$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.
- ◆ **Operational Savings.** Redirects \$101 million in additional resources to transportation construction projects. The revenue is a reversion due to improved in 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.

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.** Makes no changes to the Governor's January Trailer Bill proposal to suspend the spillover for the Public Transportation Account. This will provide nearly \$400 million in General Fund relief.

California Highway Patrol

■ MAJOR ACTIONS

- ◆ **Workers' Compensation & Industrial Disability Retirement.** Approves further examination of the method in which the CHP administrates workers' compensation and Industrial Disability Retirement. 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.

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 Data 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 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.

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- ◆ **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.
- ◆ **IMPACT Project.** Provides \$3 million for the prostate cancer program for low-income men in the 2005-2006 fiscal year.
- ◆ **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.
- ◆ **Alameda Alliance for Health.** Provides \$3 million for a temporary (1-year) five percent rate increase.
- ◆ **Long-Term Care Integration.** Provides funding to implement the long-term Care Integration in three counties, San Diego, Orange, and San Mateo, subject to the 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.

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

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.
- ◆ **Proposition 63.** Provides resources to various state departments, including substantial resources to the Department of Mental Health for the implementation of the program.

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- ◆ **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.

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- ◆ **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.
- ◆ **Quarterly Status Reporting.** Provides language to use unspent current year CalWORKs funding to backfill an over-estimation of savings assumed in the Governor's Budget from the implementation of quarterly reporting. The language is needed to continue the effective administration of the program.
- ◆ **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.

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.
- ◆ **Quarterly Status Reporting.** Appropriates an additional \$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.
- ◆ **Statewide Fingerprint Imaging System (SFIS).** Eliminates fingerprinting requirement for Food Stamps-only cases. Also eliminates the requirement that all applicants to Food Stamps and CalWORKs programs be photographed as a condition of eligibility.

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 to 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.** Adopts language to designate the rate setting process California Department of Education (CDE) uses to pay for child care vouchers. The proposed language addresses a long standing concern regarding the way certain providers that serve mostly vouchered families would be reimbursed while also protecting the privacy of families that receive care outside of the state system.
- ◆ **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.

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- ◆ **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.
- ◆ **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**

- ◆ **Foster Care Reform.** Appropriates \$45.5 million (\$21.2 million General Fund) to efforts to improve child welfare programs. This represents a \$3.5 million General Fund increase over the May Revision proposal. The additional funding is needed to expand county improvement efforts in making urgent reforms to improve the State's child welfare outcomes.

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- ◆ **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.
- ◆ **Indian Child Welfare Program.** Adds one position to better coordinate State, county and tribal child welfare caseloads.

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

■ MAJOR ACTIONS

- ◆ **Federal COLA pass through.** Rejects Governor's proposal to not pass-through the 2.3 percent (January 1, 2006) federal Cost of Living Adjustment (COLA) for the SSI portion of the SSI/SSP program. Over 1.2 million individuals will receive an increase in their grant levels from this COLA.
- ◆ **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.
- ◆ **Unallocated Reduction.** Restores a \$1.4 million unallocated reduction to the Community Care Licensing Division. If this reduction had been made, the Division would have needed to hold an additional five percent of its staffing vacant in the budget year, which would hinder its ability to ensure the safety and health of those living in licensed facilities.

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- ◆ **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.

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 \$2.5 million to conduct citizenship training through community-based nonprofits.



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.** Approves \$350,000 (General Fund) 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.** Approves \$600,000 (General Fund) 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 its fire fighting vehicle (fire engines, helicopters, etc.) fleet. This proposal is consistent with the Governor's budget and May Revision.

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- ◆ **Unallocated Reduction.** Approves restoration of \$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 \$48 million of expected tideland oil revenue to the General Fund, \$11 million to the Department of Parks and Recreation for staffing and deferred maintenance, \$8 million for Salmon habitat preservation activities, \$3 million to the Department of Fish and Game for fish hatcheries.

Air Resources Board

 **MAJOR ACTIONS**

- ◆ **Hydrogen Highway.** Rejects the Governor's proposal for \$12.4 million (Motor Vehicle Account and Energy Resources Program Account) for the purposes of for the Governor's Hydrogen Highway Blue Print Plan. This funding would have provided for initial fueling stations, vehicle purchasing incentives and additional research.
- ◆ **School Bus Retrofit and Replacement.** Approves \$25 million redirection (\$15 million motor vehicle account/\$10 million Carl Moyer Funds) for the purposes of retrofitting and replacing school buses to reduce emissions.

Department of Fish and Game

 **MAJOR ACTIONS**

- ◆ **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.

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- ◆ **Environmental Filing Fees.** Approves trailer bill language that generates \$6.1 million from a revised fee schedule for environmental filing fees on approved CEQA projects. Currently the department is only reviewing 10-15 percent of CEQA documents. The Governor did not address this problem in his budget.
- ◆ **Land Management.** Approves \$5 million (General Fund) 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.

Department of Parks and Recreation

 **MAJOR ACTIONS**

- ◆ **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

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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. This proposal is consistent with the Governor's May Revision.

**Energy Resources Conservation and Development
Commission**

 **MAJOR ACTIONS**

- ◆ **Transfer to the General Fund.** Transfers to the General Fund the interest earnings of the Public Interest Research, Development, and Demonstration Fund during 2005-06, estimated at \$4 million.
- ◆ **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 \$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

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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.



GENERAL GOVERNMENT

Employment Development Department

MAJOR ACTIONS

- ◆ **Economic and Employment Enforcement Coalition.** Provides 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 \$0.78 million in the first year, and \$1.77 million annually thereafter.
- ◆ **Nursing Simulators.** Provides \$750,000 to establish 3 rural nursing simulators to expand the ability of these rural communities to train registered nurses.

Department of Industrial Relations

MAJOR ACTIONS

- ◆ **Increased Labor Enforcement positions.** Adds \$3 million to increase enforcement of minimum wage and overtime laws at the Department of Industrial Relations Division of Labor Standards Enforcement.
- ◆ **"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, and past General Fund reductions have reduced staffing from 493 in 2001-02 to 403 in 2003-04.

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Secretary of State

MAJOR ACTIONS

- ◆ **Election Mandates.** Rejects Governor's proposal to suspend local mandates for absentee ballots, handicapped voter access, and presidential primary mandate.
- ◆ **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. This proposal is consistent with the Governor's budget.
- ◆ **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). This proposal is consistent with the Governor's budget.

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. This proposal is consistent with Governor's budget.

Secretary for Business Transportation and Housing

MAJOR ACTIONS

- ◆ **Tourism.** Rejects the governor's proposal for \$7.3 million (General Fund) augmentation for increased tourism promotion for California.

Military Department

MAJOR ACTIONS

- ◆ **Oakland Military Institute.** Approved 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. This proposal is consistent with the Governor's budget.
- ◆ **"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. DIR reports funding for field enforcement positions has declined in recent years – with 245 positions funding 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.
- ◆ **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 apportion 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

- ◆ **Juvenile Justice.** Provides \$100 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. The Governor reduced budget-year funding from \$100 million to \$25 million for this program as part of a comprehensive review of state and local juvenile justice programs. The May Revision proposed that counties use current-year funds to provide services in the 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.
- ◆ **Property Tax Administration Grant Program.** Restores the \$5.7 million reduction proposed by the Governor in January for ongoing grants to enhance county property tax assessment activities. The restoration provides a total of \$60 million for these grants, consistent with existing law. The May Revision Budget had proposed to restore about half of the money.
- ◆ **Hardship Funds for Local Governments.** Augments by \$25 million (General Fund) for allocations by the Director of Finance to local governments that demonstrate a financial hardship. The allocations may be made as advance repayments of the Vehicle License Fee (VLF) "Gap" Loan to cities or counties or as reimbursement to cities and special districts as subventions to offset their costs of paying county booking fees.
- ◆ **VLF "Gap" Loan Repayment.** The budget does not include the Governor's May Revision proposal to repay about half (\$593.4 million) of the VLF "Gap Loan" to cities and counties (except for the \$25 million of potential hardship allocations). Under existing law, payment of the VLF Gap Loan is not due until August 2006, and many local governments already have bonded against their repayments.

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 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 will pay over a five-year period beginning in 2006-07.

- ◆ **Increased Funding.** Provides a total of \$285.6 million for local government mandated cost reimbursements--\$134.8 million more than the Governor's May Revision request—as follows:
 - ◆ **Funding for 2004-05 Claims.** Provides a total of \$179.4 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.
- ◆ **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 measure. Provides no funding in 2005-06 because state reimbursement is not required for voter-approved measures.

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- ◆ **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.

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

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- ◆ **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.
- ◆ **Office of Ratepayer Advocate (ORA).** Augments by \$1 million of ratepayer funds to add 10 positions to meet workload needs. Consistent with the May Revision, 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 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

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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 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.
 - ◆ \$1.2 million to re-establish the misdemeanor enforcement program, under which misdemeanor charges can be brought against persons who repeatedly fail to respond to FTB requests. Also adopts Trailer Bill Language to limit misdemeanor charges to large cases in which there are repeated failures to respond and the taxpayer is not incapacitated.

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- ◆ \$239,000 to retain 2 settlement positions for a revenue gain of \$5.8 million.
- ◆ **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.

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.
- ◆ **Consumer Use Tax Enforcement.** Augments by \$470,000 above the May Revision Budget to add 8 more positions to collect use tax on private purchases of vehicles, vessels and aircraft for a net revenue gain of \$3.8 million.
- ◆ **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.

**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.
- ◆ **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, language is included in the Department of Transportation 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.
- ◆ **Enterprise Zone Program.** Extends the sunset for fee authority from July 1, 2006 to July 1, 2009 and includes all of the types of economic development zones.

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- ◆ **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.

Employee Compensation

■ MAJOR ACTIONS

- ◆ **Employee Compensation Cuts.** Rejects assumed savings of \$408 million in state employee compensation reductions. The projected savings are unachievable and accepting the projection would result in unreliable expenditure and reserve levels in the budget. 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.
- ◆ **Employer Pension Contribution Rate Smoothing.** Adopts Administration's May Revision proposal to smooth investment gains and losses over a 15-year period as compared with the current 3-year timeframe. The estimated

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employer retirement contribution rates for most employees (Miscellaneous Tier 1) would be reduced by 1.08 percent.

- ◆ **Employer Contributions for Retired Annuitant Health Insurance Premiums.** Rejects the Administration's proposal to reduce contributions for retired annuitant's health insurance premiums. Savings were anticipated by the implementation of the pharmaceutical prescription program under Medicare Part D. During the May Revision, the Administration agreed that savings under this program in the budget year would be unlikely and recommended the restoration of funds in concurrence with the subcommittee's actions.
- ◆ **Rural Health Care Premium Payments.** Provides a continuous appropriation to capture unspent funds to assist employee health insurance premiums for members outside of HMO coverage areas while making funds available consistent with existing collective bargaining agreements.
- ◆ **Salary Surveys.** Provides an augmentation of \$573,000 in support of comprehensive salary surveys of represented and unrepresented state employees as compared with employees in the public and private sectors.



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.** Provide 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.

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 \$12.9 million in support of a program to authorize local district attorneys to pursue children abducted in other counties, states and countries.
- ◆ **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.
- ◆ **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

MAJOR ACTIONS

- ◆ **Department of Corrections and Rehabilitation.** Authorizes the creation of the Department of Corrections and Rehabilitation.
- ◆ **Population Increase.** Provides \$85.4 million to address an increase in estimated 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.
- ◆ **Mental Health Services.** Approves a payment of \$61 million to the Department of Mental Health related to treatment of CDC inmates in the budget year.
- ◆ **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.
- ◆ **Pharmaceutical IT Programs.** Authorizes \$4.9 million for hardware and software improvements to the department's pharmacy information technology system.
- ◆ **Dental Program Improvements.** Provides \$13.3 million for staffing and equipment for the department's dental program.
- ◆ **Correctional Academy Training.** Provides \$29 million in support of two additional correctional academies.

Board of Corrections (BOC)

MAJOR ACTIONS

- ◆ **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.

Board of Prison Terms (BPT)

■ MAJOR ACTIONS

- ◆ **Parole Revocation.** Provides \$2 million in support of increased workload related to parole revocation (*Valdivia*) hearings.

Department of Youth Authority

■ MAJOR ACTIONS

- ◆ **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.
- ◆ **Training Needs Assessment.** Provides \$1.5 million to assess staffing training needs pursuant to compliance with the *Farrell v Allen* litigation.
- ◆ **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.
- ◆ **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.
- ◆ **Substance Abuse Programs.** Provides \$1.4 million in support of substance abuse programs to backfill a reduction in federal funds.
- ◆ **Farrell v Allen Litigation Costs.** Provides \$1.7 million in litigation and oversight fees associated with the *Farrell v Allen* litigation.
- ◆ **Post Relief Factors.** Provides \$6.6 million to support relief coverage for posted positions.

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.
- ◆ **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.
- ◆ **Budget Year Cost Adjustment.** Provides an augmentation of \$134.7 million to address cost of living increases to the trial courts in 2005-06.
- ◆ **Security Fee.** Adopts the extension of a security fee for 2005-06 or until a comprehensive uniform civil filing fee is adopted.
- ◆ **Continuing Funding for Fourth Appellate Courthouse Acquisition.** Provides a re-appropriation of \$2.3 million in support of the acquisition of an appellate courthouse in the Fourth Appellate District (Orange County).
- ◆ **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.