



HIGHLIGHTS OF GOVERNOR'S PROPOSED MAY REVISION 2007-08 STATE BUDGET

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OVERVIEW

Today the Governor released his May Revision to his proposed 2007-08 budget. In total, his proposed budget includes \$105 billion in available General Fund revenues (including \$3.9 billion carry over from 2006-07), \$103.7 billion in expenditures, and a reserve of \$2.2 billion, which includes \$700 million in the traditional reserve and \$1.5 billion in the Budget Stabilization Account (BSA).

Key Revision Points:

- ◆ The reserve for the January proposal would have dropped from about \$2.1 billion, to about \$500 million, due to a combination of increased expenditures and reduced revenues.
 - Revenues from the primary tax sources are projected to be up by \$564 million in the current year, but down by \$856 million in the budget year, for a combined reduction of \$243 million.
 - Revenues from other sources are also down, including projected revenues from the proposed new Tribal Gaming compacts have been reduced by \$192 million.
 - Proposition 98 General Fund expenditures are up by \$809 million, this includes \$316 million to reflect reduced property tax contributions for the 2005-06 year, and guarantee increases of \$380 million in the current year and \$113 million in the budget year.
 - Expenditures are also up by \$525 million to reflect the Pension Obligation Bond not being sold in the budget year and instead being anticipated to be sold in 2008-09.
- ◆ The Governor proposes to build back the reserve with a variety of proposals, the most significant are:
 - Selling the Ed Fund to generate an estimated \$1 billion in one time revenues.
 - Transferring \$600 million of the Tobacco Settlement securitization revenues that had been set aside to pay future payments from the Proposition 98 Settlement agreement from last year.
 - Cutting the SSI/SSP state COLA for a savings of \$185 million by reducing monthly grants to the aged and disabled by \$23 for individuals and \$46 for couples.

- Adding an additional \$200 million to the \$1.1 billion take-away from public transit that was proposed in January.
- Ending the Williamson Act subvention to counties, for a savings of \$40 million.
- ◆ The May Revision adds several new program expansions for K-12 education. While this raises the initial question of whether more "top-down" state programs should be added instead of providing more local control, there is a more fundamental question as to whether the Administration has accurately reflected all Proposition 98 expenditures. As of this writing, it appears the May Revision may be proposing to spend funds that are not available.
- ◆ The May Revision also mentions the plan to lease the California State Lottery. While this has no direct impact on the 2007-08 budget, the Governor cites this as a source of revenue to pay off the Economic Recovery Bond (ERB). This plan is inconsistent with the budget proposal to provide about \$1.6 billion in early repayments of the ERB – at the expense of budget cuts elsewhere in the budget – if the entire ERB would be paid off several years early with the revenues from the lottery lease.

Key Points Remaining from the January 10 Proposal:

- ◆ The Governor's May Revision proposal continues to repay \$3.1 billion to Wall Street, including \$1.6 billion more than the base payment. With this proposal, the Governor puts shifting billions in California tax dollars to Wall Street above meeting the needs of underprivileged children and dependent disabled and elderly Californians; above paying off California debts to transportation, local governments, and school districts; and above the environmental and quality of life improvements of public transportation.
- ◆ The Governor's May Revision continues to not include any new general tax increases or tax cuts. However, the Governor does propose repealing the Teacher Tax Credit and permanently closing the "Yacht Tax" loophole. Together this generates an additional \$200 million in revenues for the General Fund. In addition, the Governor's proposal to cut the SSI/SSP COLA has the effect of raising taxes on needy disable and aged Californians by an annualized amount of \$300 individuals and \$600 for couples.
- ◆ The Governor's May Revision proposal continues to meet the Proposition 98 minimum funding requirement, and provides sufficient funding for full growth and COLA for local school districts. The May Revision continues to include funding Stage 2 Child Care within Proposition 98, which saves the General Fund \$269 million.

- ♦ The Governor continues to reflect a 10 percent fee increase for the CSU and a seven percent fee increase for the UC.
- The Governor's May Revision continues to include \$431 million in reductions to CalWORKS, including suspending the 2007 COLA and eliminating all assistance to as many as 190,000 underprivileged California children.
- ♦ The Governor continues to propose a major take-away from public transit. The May Revision increases the value of this action by \$200 million. The impact of this proposal is that taxes paid at the pump and intended for transportation purposes (the concept behind Prop 42 and Prop 1A), are instead diverted to the General Fund. This proposal takes funds from both capital projects as well as operations.

In summary, the most significant spending in the Governor's updated budget continues to be the massive extra payments to Wall Street; and the proposed budget pays for this and is balanced with some new one-time solutions, massive extra payments to Wall Street, and big cuts to underprivileged children and a \$1.3 billion take-away from public transit.



What follows is a quick summary of the highlights of the Governor's May Revision to the proposed 2007-08 State Budget.

SUMMARY OF CHARTS**2007-08 May Revision
General Fund Summary
(in millions)**

	2006-07	2007-08
Prior Year Balance	\$10,540	\$3,961
Revenues and Transfers	\$95,685	\$101,253
Total Resources Available	\$106,225	\$105,214
Non-Proposition 98 Expenditures	\$61,072	\$61,836
Proposition 98 Expenditures	\$41,192	\$41,929
Total Expenditures	\$102,192	\$103,765
Fund Balance	\$3,961	\$1,449
Reserve for Liquidation of Encumbrances	\$745	\$745
Regular Reserve (SFEU)	\$3,216	\$704
Budget Stabilization Account	\$472	\$1,495
Final Reserve	\$3,688	\$2,199

**2007-08 May Revision General Fund Revenue Sources
(in millions)**

Source	Jan. 10 Amount	May Revision Amount
Personal Income Tax	\$55,598	\$55,296
Sales Tax	\$29,347	\$28,841
Corporation Tax	\$10,816	\$11,053
Insurance Tax	\$2,354	\$2,181
Tobacco Taxes	\$122	\$120
Liquor Tax	\$325	\$325
Other	\$2,716	\$3,471
<i>Total</i>	\$101,278	\$101,253

**2007-08 May Revision General Fund Expenditures
(in millions)**

Category	Jan. 10 Amount	May Revision Amount
Education (K-12)	\$40,512	\$41,367
Health and Human Services	\$29,875	\$29,907
Higher Education	\$12,002	\$11,994
Business, Transportation and Housing	\$1,588	\$1,650
Legislative, Judicial, Executive	\$3,793	\$3,864
General Government	\$3,077	\$2,543
Corrections and Rehabilitation	\$10,043	\$9,969
Resources	\$1,472	\$1,687
Environmental Protection	\$86	\$90
State and Consumer Services	\$575	\$576
Labor and Workforce Development	\$118	\$118
<i>Total</i>	\$103,141	\$103,765

K-12 EDUCATION

- ◆ Provides total increases over the Governor's January 10 proposal of a) \$104 million in ongoing Proposition 98 funds for K-12 and community colleges (2007-08) and b) \$372 million in one-time Proposition 98 funds for K-12 and community colleges (2006-07).
- ◆ Maintains the April proposal to use approximately \$630 million in public transportation funds as a reimbursement to the General Fund to pay for the Home-to-School Transportation program within the Proposition 98 guarantee.
- ◆ Adds \$225.8 million to fully fund cost-of-living adjustments of 4.53 percent in K-12 programs. (The COLA rate was estimated at 4.04 percent in the January 10 budget.)
- ◆ Assumes savings of \$293.3 million to reflect a reduction in attendance relative to the Governor's January 10 estimate.
- ◆ Adds \$35.9 million for special education to reflect revised figures for local property tax and growth in average daily attendance.
- ◆ Adds \$200 million in public transportation funds for the K-12 busing program (Home-to-School transportation) for the 2006-07 fiscal year as a reimbursement to the General Fund for Proposition 98 expenses. This proposal thereby creates \$200 million in one-time General Fund savings.
- ◆ Adds \$50 million in ongoing Proposition 98 funds to expand last year's preschool program serving the attendance areas of low-performing schools. This proposal would bring total funding for the program to \$100 million.
- ◆ Adds \$25 million to the new middle and high school counseling program, which was created and funded last year at \$200 million. This increase would be targeted to high school counselors specializing in career technical education, and would bring total funding proposed for this counseling program to \$233 million.
- ◆ Adds \$100 million in one-time funds for career technical education equipment in public schools and community colleges. The Governor proposes to split this funding equally between public schools and community colleges. The Governor also proposes to earmark \$2.5 million of this amount to support equipment purchases for nursing-related career technical education programs in K-12.
- ◆ School safety –

- Adds \$100 million in one-time funds for a new program intended to improve safety in schools. The Governor proposes that the funds be available for a three-year pilot program to provide competitive grants to county offices of education to partner with K-12 schools to a) provide training for safe school trainers, b) develop immediate emergency notification systems and c) identify best practices for improving school safety.
 - Adds \$9 million in ongoing funds to county offices of education to hire 120 school resource officers to serve schools with high rates of gang violence.
 - Adds \$2 million to a county office of education to collaborate with community –based organizations that have experience in helping steer youth ages 11-18 away from gang violence.
- ◆ Data systems –
- Adds \$65 million in one-time funds to support school districts in their implementation of two new data systems under development: CALPADS (which will provide individualized, longitudinal student data) and CALTIDES (a statewide teacher data system). Under the proposal, the funds would be available to schools over the next two years and would be allocated by the Fiscal Crisis and Management Assistance Team to school districts based on their assessment of each district's implementation needs.
 - Adds \$2 million for local staff and equipment support for the California School Information Services program, to support implementation of the statewide student longitudinal data system (CALPADS).
 - Adds \$300,000 for the Fiscal Crisis and Management Assistance Team to coordinate a working group to develop definition for school districts to track revenues and expenditures at the school-site level.

◆ School nutrition –

- Adds \$11.1 million in ongoing funds to fund the California Fresh Start Program, which provides funding to school districts to serve fresh fruits and vegetables during school breakfast. This program was funded two years ago in the budget.
- Adds \$24.9 million to fund a 4.7 cent increase in the meal rate for the School Nutrition Program, pursuant to legislation that will link the increase to improved quality of the meals that schools serve (lower-fat cooking methods and reducing trans-fats).
- Adds \$4.4 million in one-time funds for School Breakfast start-up grants, for a total funding level of \$5.4 million.
- Adds \$8.5 million in one-time funds for county offices of education to provide technical assistance to school districts to help them implement new higher nutrition standards for food served on school campuses.

◆ Teacher recruitment and teacher quality -

- Adds \$50 million for grants to school districts to support the hiring of more than 1,000 additional credentialed career technical education teachers.
- Adds \$50 million for grants to school districts to support the hiring of additional teachers of college preparation courses.
- Shifts the Governor's January 10 proposal for a new EnCorps program to recruit retired individuals into teachers, from \$10 million in one-time funds (January 10 proposal) to ongoing funds. Adds \$2 million to the proposal, for a total proposed funding level of \$12 million in ongoing funds.
- Adds \$7.5 million to the Commission on Teacher Credentialing to fund a variety of incentives for existing credentialing teachers in other subject areas to become authorized to teach science and math. Proposes that the administration work with CTC on an expenditure plan for the funds.
- Adds \$2 million for a grant program to assist school districts in implementing alternative teacher salary schedules that recognize the additional efforts of teachers that serve in challenging settings, reward professional growth and recognize contributions to student learning.

- Adds \$3 million to continue funding for personnel management assistance teams, which were funded for the first time in last year's budget. The teams help school districts to maintain effective management systems that recruit and hire teachers.
- Adds \$2.5 million for the administrator training program.
- ◆ Adds \$20 million in one-time funds for supplemental instructional materials for English learners to learn English in after-school and summer school programs.
- ◆ Adds \$8.5 million for county offices of education to provide school districts with instructional assistance to help high school students pass the California High School Exit Exam.
- ◆ Adds \$48.1 million in one-time funds to fund shortfalls from the prior two budgets for the Supplemental Instructional Program, which funds remedial programs for students who are behind grade level.
- ◆ Adds \$2 million for the Fiscal Crisis and Management Assistance Team to audit property tax revenue reporting practices at school districts and community colleges. The Governor states that his intent to determine why the growth rate in property tax revenues reported by school districts is lower than the growth rates reported by the Board of Equalization and counties.

HIGHER EDUCATION

University of California (UC)

- ◆ Retains a four percent increase of \$116.7 million for basic budget support.
- ◆ Retains \$54.4 million for a 2.5 percent enrollment growth to fund an additional 5,340 full-time equivalent students (FTES).
- ◆ Continues to include \$104.7 million associated with the UC Board of Regents approved seven percent student fee increase for undergraduates, graduate students and most professional school students. Law and business students' fees will increase by 10 percent.
- ◆ Continues the 33 percent set-aside from student fee revenue for financial aid for undergraduate and professional students but increases the set-aside for graduate students to 45 percent.
- ◆ Continues to provide \$14 million in one-time funds for costs associated with the UC Merced campus operations for a total funding of \$24 million.
- ◆ Retains \$757,000 to continue to support the expansion of entry-level master's nursing programs.
- ◆ Retains \$570,000 for the next cohort of 38 students for the Program in Medical Education for the Latino Community (PRIME-LC) program.
- ◆ Retains \$15 million increase for the California Institutes of Science and Innovation operating costs for a total support of \$19.8 million.
- ◆ Retains \$5 million in state matching funds to enhance the UC's bid to build a \$200 million Petascale computer.
- ◆ Maintains proposed increase of \$10.5 million for annuitant health benefits support.
- ◆ Maintains proposed increase of \$15.8 million for lease-purchase payments.
- ◆ Retains the proposed elimination of \$19.3 million for academic preparation programs. The *2006-07 Budget Act* provided \$31.3 million in General Fund for academic preparation programs. Of this amount, \$19.3 million were General Fund and \$12 million were UC funds.

- ◆ Continues the elimination of \$6 million for labor research.
- ◆ Adds \$2 million in one-time Proposition 99 funds to provide additional funding for tobacco-related research reflecting fund balances from prior years.
- ◆ Proposes trailer bill language to specify the State's intent to reinstate the employer share of future contributions to the UC retirement plan.

California State University (CSU)

- ◆ Retains a four percent increase of \$108.9 million for basic budget support.
- ◆ Retains \$65.5 million for a 2.5 percent enrollment growth to fund an additional 8,355 FTES.
- ◆ Continues to include \$97.8 million associated with the CSU Board of Trustees approved 10 percent student fee increase for undergraduates, graduate students and teacher credential students.
- ◆ Continues the 33 percent set-aside from student fee revenue for financial aid.
- ◆ Retains \$2 million to establish three regional science and math teacher recruitment centers.
- ◆ Adds \$3.6 million to support an additional 340 full-time equivalent undergraduate nursing students.
- ◆ Retains a four percent increase, or \$120,000 for the Capitol Fellows Program consistent with the Compact augmentations to the base budget.
- ◆ Maintains a \$23.3 increase for retirement costs.
- ◆ Maintains a \$2.7 million reduction for lease purchase payments.
- ◆ Retains the proposed elimination of \$7 million for academic preparation programs. The *2006-07 Budget Act* provided \$52 million in General Fund for academic preparation programs. Of this amount, \$7 million were General Fund and \$45 million were CSU funds.

California Community Colleges (CCC)**Current Year**

- ◆ Retains the \$6.6 million to backfill an estimated increase in fee revenue due

to an increase in the average number of credit units taken per FTES.

- ◆ Adds \$15.1 million in property tax revenue and \$1.8 million in oil and mineral revenue to reflect increases over the January estimate.
- ◆ Adds \$50 million in one-time Proposition 98 funds for career technical equipment and associated facility reconfigurations.
- ◆ Adds \$50 million in one-time Proposition 98 funds for grants to colleges for equipment and other one-time uses for nursing programs to continue to support nursing enrollment expansion efforts.

Budget Year

- ◆ Retains \$109.1 million, or two percent increase, for enrollment growth to fund an additional 23,000 FTES.
- ◆ Modifies the \$224.9 million increase for cost-of-living-adjustment (COLA) for general purpose apportionments to \$248.5 million to reflect an increase in the COLA factor from 4.04 percent to 4.53 percent.
- ◆ Modifies a \$19.6 million increase for growth and COLA for categorical programs to \$21.2 million to reflect an increase in the COLA factor from 4.04 percent to 4.53 percent.
- ◆ Adds a base reduction of \$80 million in apportionments to reflect excess current year and prior year growth funding that will revert based on the most recent enrollment information.
- ◆ Maintains redirection proposal of \$33.1 million of surplus Basic Skills funding to support matriculation and other student support services.
- ◆ Adds \$10 million for matriculation services.
- ◆ Adds an increase of \$500,000 for the Foster Care/Kinship Program.
- ◆ Retains \$9 million in one-time funds to support additional nursing program enrollment.
- ◆ Includes a reduction of \$1.8 million to the \$32.2 million January amount to backfill the remaining student fee revenue reduction included in the *Budget Act of 2006-07*. The reduction will offset an increased estimate of student fee revenues for 2007-08.

- ◆ Adds an increase of \$1.9 million for matching grants to assist colleges with ongoing costs for the high speed network.
- ◆ Adds an increase of \$220,000 for a total of \$570,000 for Fiscal Crisis and Management Team (FCMT) assistance.
- ◆ Retains apportionments reductions of \$197.2 million to reflect estimated growth in local property taxes of an identical amount and decreases that amount by \$5.9 million to offset an increased estimate in property tax revenues.
- ◆ Reduces apportionment by another \$1.6 million to reflect the recalculation of the two percent proposed enrollment growth funding at a lower base.
- ◆ Includes a decrease of \$1.8 million that offsets an increase in oil and mineral revenues of an identical amount.
- ◆ Adds an increase of \$332,000 for the Board of Governor's Fee Waiver program administrative costs to reflect re-estimated student fee revenues.
- ◆ Adds \$52.7 million in one-time Proposition 98 Reversion Account for the following purposes: \$47.5 million for deferred maintenance, \$2.7 million for matching grants for one-time technology costs for high speed internet delivery to all the colleges, and \$2.5 million for textbook assistance for students meeting fee waiver eligibility requirements.

California Student Aid Commission (CSAC)**Prior Year**

- ◆ Captures additional workload savings of \$2 million for prior year Cal Grant program awards.

Current Year

- ◆ Captures workload savings of \$23 million for current year Cal Grant awards.
- ◆ Captures \$1.3 million in savings estimated for current-year payments for the APLE program.

Budget Year

- ◆ Reduces the January increase of \$61.3 million by \$18.5 million over the revised 2006-07 level for anticipated growth in the Cal Grant program due to increased participation and the anticipated student fee increases at the UC

and CSU.

- ◆ Modifies the \$2.9 million increase to \$5.4 million to fund revised estimates of payments for the APLE program.
- ◆ Continues to authorize 600 new warrants for the APLE program for students participating in the Science and Math Teacher Initiative.
- ◆ Proposes to sell EdFund assuming \$1 billion in revenue. However, the State would have to offset \$20.3 million to cover the Commission's administrative costs. EdFund is an auxiliary corporation of the Commission charged with providing student loan guarantee services under the Federal Family Education Loan (FFEL) program.

TRANSPORTATION**CALTRANS**

- ◆ Continues to provide full funding of Proposition 42 and the required repayment of past suspensions, pursuant to Proposition 1A.
- ◆ Increases the appropriation for Proposition 1B from about \$8.2 billion to \$11.5 billion. This proposal is for a three year appropriation, rather than the traditional one-year appropriation. The following is a chart of planned Proposition 1B implementation that from the Governor's Budget Summary.

Figure BTH-01
Planned Proposition 1B Implementation
(Dollars in Millions)

	Budget Bill Appropriations			Total Three-year Appropriations
	2007-08	2008-09	2009-10	
Corridor Mobility	\$610	\$1,577	\$1,229	\$3,416
Transit	\$600	\$350	\$350	\$1,300
State Transportation Improvement Program	\$739	\$799	\$274	\$1,812
Local Streets and Roads	\$600	\$300	\$150	\$1,050
Trade Infrastructure	\$202	\$302	\$302	\$806
State Highway Operation and Protection Program	\$405	\$267	\$24	\$696
State/Local Partnership	\$202	\$197	\$200	\$599
Grade Separations	\$123	\$123		\$246
Highway 99	\$16	\$109	\$302	\$427
School Bus Retrofit	\$97	\$97		\$194
Local Seismic	\$14	\$11	\$11	\$36
Air Quality Improvement	\$111			\$111
Port, Harbor, and Ferry Terminal Security	\$178	\$123	\$101	\$402
Intercity Rail	\$190	\$74	\$128	\$392
Total Appropriations	\$4,087	\$4,329	\$3,071	\$11,487

- ◆ Increases the Public Transportation Account (PTA) take-away by \$210 million for a total of \$1.3 billion from public transportation to help close the General Fund budget gap. About \$900 million of the take-away are from PTA revenues for capital projects, resulting in less projects being completed. The remaining \$400 million will come revenues that would otherwise go to pay for local transit operations, which are currently struggling due to increase ridership due to high gasoline costs and are themselves struggling to continue service levels while facing increased fuel costs.
- ◆ Adds \$206 million and 507 personnel years for capital outlay support. The May Revision indicates that this will result in a state staff to contract staff ratio of 85 percent to 15 percent. It also indicates that contract staff will do

95 percent of the bond workload. The May Revision points out that capital outlay support workload is projected to drop significantly after 2010. This projection is questionable at best, given the massive needs still facing our transportation infrastructure, even with the temporary infusion of the Proposition 1B bond funds.

California Highway Patrol

- ◆ Continues proposal for \$17.5 million for an additional 120 new uniformed officers and 41 support staff by the end of the year.

Department of Motor Vehicles

- ◆ Adds proposal for \$9.5 million to reflect higher than anticipated costs for implementing SB 1500 (chapter 920, statutes of 2004), which requires insurance companies to electronically report insurance policies on vehicles.

HUMAN SERVICES

Department of Social Services

- ◆ Eliminates the January 2008 state portion of the Cost of Living Adjustment (COLA) to the Supplement Security Income/State Supplemental Program (SSI/SSP). The SSI/SSP provides cash assistance to eligible aged, blind, and disabled persons. The aged component accounts for about 30 percent of the total caseload.

Recipient Category	Governor's Jan. 10 Proposal / Current Law	May Revision	Change from Current Law	
			Amount	Percent Change
<i>Individuals</i>				
SSI	\$630	\$630	\$0	0%
SSP	\$258	\$233	-\$25	-9.7%
Totals	\$888	\$863	-\$25	-2.8%
<i>Couples</i>				
SSI	\$946	\$946	\$0	0%
SSP	\$612	\$568	-\$44	-7.2%
Totals	\$1,558	\$1,514	-\$44	-2.8%
Percent of Poverty	137%	133%		

- ◆ Retains the suspension of the FY 07-08 CalWORKs Cost of Living Adjustment (COLA) for a budget year savings of \$124.4 million General Fund. The COLA would otherwise go into effect on July 1, 2007 and would raise the grant for a CalWORKs family of three by approximately \$23 per month.
- ◆ Retains the proposal to require CalWORKs safety-net cases to participate in welfare-to-work activities in order to receive aid. Safety net cases are CalWORKs families that have been on aid for longer than their 60 months of federal TANF eligibility. The Governor assumes that this proposal will be implemented in November 2007.
- ◆ Retains the "full-family" sanction on CalWORKs families. CalWORKs families on sanction status for over 90 days would lose the adult and child portions of the grant. Under current law, only adults are sanctioned when a family fails to comply with such requirements. The May Revision erodes the savings here by \$9.9 million. This proposal would take effect in November and the budget

projects a nine percent increase in work participation as a result of this policy change. The proposed changes to the sanction and safety-net policies could eliminate all financial assistance to over 190,000 children in the budget year.

- ◆ Retains the limitation on child-only CalWORKs cases to 60 total months of CalWORKs benefits. Under current law, children can still receive assistance if their parents are undocumented or are not eligible due to a conviction for a drug felony.
- ◆ Retains implementation of semi-annual reporting by CalWORKs and Food Stamp recipients. Current law requires quarterly reporting. Advocates have raised significant issues with the change reporting aspect of the semi-annual reporting proposal.
- ◆ Retains the cap on state participation for In Home Supportive Services (IHSS) wages at the January 10, 2007 levels. Counties would receive no additional state funding for any wage increase beyond current year levels, but would continue to receive funding for existing state wages. Under current law, the state's revenues would trigger a statutory provision that would increase the threshold for state participation from \$11.10 per hour to \$12.10 per hour for a total cost of \$14.1 million General Fund.
- ◆ Retains the proposal for \$4.3 million (\$4.1 million General Fund) and 55.5 positions to increase from 20 percent to 30 percent the random sample of inspections of licensed care facilities.
- ◆ Retains the proposal to establish a Child and Family Services Review Unit to oversee data quality and integrity, monitor program performance, and ensure compliance with federal requirements.
- ◆ Continues the proposal to offset \$56.4 million of Child Welfare-related General Fund expenditures with federal TANF funding to achieve a corresponding General Fund savings.
- ◆ Augments funding for emergency food assistance by \$4.45 million General Fund for food banks and the Foodlink to store and distribute food commodities.
- ◆ Proposes changes in the methodology for costs for county administration and for the budgeting of child welfare services.
- ◆ Includes a proposal to establish statewide consistency and avoid double payment in rates for children who receive adoption of foster care payments from DSS as well as from the DDS.
- ◆ Proposes a change for the THP Plus (Housing Program Plus for Foster Youth ages 18 to 24), which was augmented in the January budget by \$11 million

General Fund to expand participation. This program is intended to reduce homelessness among former foster youth.

Department of Alcohol and Drug Programs

- ◆ Retains the proposal to reduce funding for Proposition 36 drug treatment by \$25 million. The Governor's proposal would reduce overall funding for Proposition 36 related expenditures from \$155 million General Fund in the current year to \$60 million General Fund in the budget year. Proposition 36, the Substance Abuse and Crime Prevention Act, was passed by voters in 2000 and required that certain individuals convicted off nonviolent, simple drug possession offenders receive substance abuse treatment instead of incarceration. For five years, the initiative provided \$120 million per year in funding for substance abuse treatment services associated with this program. In the current year, the funding is subject to appropriation in the budget and has been continued at the \$120 million level. In addition to this funding, the current year budget includes \$25 million for a new Substance Abuse Offender Treatment program that provided counties additional funding to match 90 percent of expenditures on treatment, probation, testing, and other costs associated with Proposition 36 participants. Counties anticipate spending over \$160 million on the program in the current year. The Governor's budget proposes to eliminate \$60 million of the funding dedicated to Proposition 36 and instead increase the Substance Abuse Offender Treatment program by \$35 million to \$60 million total. This proposal, resulting in a net reduction of \$25 million, would dramatically undermine the availability and adequacy of treatments options available to Proposition 36 participants, which would reduce the effectiveness of the program.
- ◆ Augments the provider rate increase in the Regular Drug Medi-Cal program by \$5.3 million General Fund for a new total of \$7.4 million. Caseload is projected to increase by 6.3 percent.
- ◆ Augments the provider rate increase in the Perinatal Drug Medi-Cal program by \$300,000 General Fund for a new total of \$603,000. Caseload is projected to increase by 5.6 percent.

Child Support Services

- ◆ Requests position authority for nine permanent positions and two 1-year limited-term positions to address workload associated with implementation of the California Child Support Automation System (CCSAS). The DCSS proposes to redirect savings from existing contracts to fund the positions.
- ◆ Continues to provide a backfill for lost Federal Incentives Matching Funds. Effective October 1, 2007, the Federal Deficit Reduction Act of 2005 will eliminate California's ability to claim federal matching funds for earned federal

incentive payments. These incentive payments are awarded to all states based on program performance in a number of areas, such as paternity establishment. The Governor's Budget includes increased funding of \$23 million General Fund to maintain the current funding level for local child support agencies.

Child Care and Development

- ◆ Retains the proposal to freeze the State Median Income eligibility standard for the state's child care programs. The SMI was unfrozen last year after several years for the current budget.
- ◆ Proposes a Cost-of-Living Adjustment (COLA) of \$7.5 million for child care programs. The COLA increases to 4.53 percent from the 4.04 percent adjustment included in the Governor's Budget.
- ◆ Continues to propose \$5 million in ongoing Proposition 98 funding to provide all day wrap-around care for children in the Pre-Kindergarten Family Literacy (PKFL) program (AB 172 of 2006) and extends the \$2,500 per classroom eligibility to all state subsidized preschool programs with priority given to PKFL programs, allowing the funds the benefit a larger population.
- ◆ Continues the shift of federal TANF CalWORKs Stage 2 Child Care expenditures to Proposition 98 funding. The shift allows the Governor's Budget to score General Fund savings from reductions in CalWORKs program. This proposal does not reduce child care programs.
- ◆ Provides an additional \$50 million in ongoing Proposition 98 funding for the second phase of a three-year initiative to expand preschool opportunities for 4-year olds residing in attendance areas of schools ranks in the lowest three deciles of the Academic Performance Index.

Department of Community Services and Development

- ◆ Retains \$3 million General Fund for the Naturalization Services Program.

HEALTH SERVICES

Department of Developmental Services

- ◆ Reduces funding in the Public Transportation Account for Regional Centers by \$15.2 million as a technical adjustment.
- ◆ Continues to provide funding for the closure of Agnews Developmental Center and includes an increase of \$242,000 (\$129,000 General Fund) and six positions to provide administrative support for state employees in the community effective January 1, 2008.
- ◆ Continues the temporary cost containment measures established in prior years budgets.
- ◆ Includes an increase of \$1.3 million (\$747,000 General Fund) to provide salary increases to all budgeted departmental dental staff to retain existing staff and enhance the recruitment of additional staff.
- ◆ Includes an increase of \$286,000 (\$167,000 General Fund) to fund salary increases ranging from 66 to 74 percent for psychiatrists and senior psychologists and salary increases ranging from 10 to 40 percent for all other impacted mental health classifications.

Department of Mental Health

- ◆ Proposes a decrease of \$12.2 million General Fund and 12.1 million in federal fund reimbursements due to a lower estimate of Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT) claims than included in the Governor's Budget. Includes an increase of \$39.9 million (\$17.2 million General Fund) to pay for the settlement of audits from the 2004-05 fiscal year.
- ◆ Eliminates the discount factor for cost settlement used in EPSDT, which results in an increase of \$61.6 million (\$30.8 million General Fund).
- ◆ Increases by \$5.9 million (\$5.8 million General Fund) to provide funding for salary increases from 66 to 74 percent for psychiatrists and senior psychologists and salary increases ranging from 10 to 40 percent for all other impacted mental health classifications.
- ◆ Continues to provide a \$5 million increase in Proposition 98 General Fund to augment the Early Mental Health Initiative (EMHI), which provides grants to local education agencies for supportive, non-clinical mental health intervention and prevention services to children (grades K-3) who have mild

or moderate school adjustment difficulties. The augmentation would increase total program funding to \$15 million in 2007-08.

- ◆ Retains the proposal to eliminate the Integrated Services for Homeless Adults with Serious Mental Illness program.
- ◆ Includes a net decrease of \$2.9 million General Fund primarily for Sexually Violent Predator (SVP) evaluation served based on actual data from implementation of SB 1128 and Jessica's Law.

Department of Health Care Services

- ◆ Assumes savings of \$77.4 million (\$38.7 million General Fund) as a result of switching from Average Wholesale Price to the Average Manufacturer Price as the basis for the drug acquisition cost component of pharmacy claims.
- ◆ Assumes savings of \$88 million (\$44 million General Fund) as a result of switching from Average Wholesale Price to the Average Manufacturer Price as the basis for the drug acquisition cost component of pharmacy claims.
- ◆ Continues to provides \$11.3 million, (\$5.6 million General Fund), for Human Papillomavirus Vaccinations, on a voluntary basis for female Medi-Cal enrollees up to through age of 26 who are either under 18 or in non-family categories , assuming a 50-percent participation rate.
- ◆ Continues the proposal to reduce statutory rate increases for nursing homes by \$28.8 million (\$14.4 million General Fund) by proposing legislation to cut the AB 1629 growth cap from 5.5 percent to 4.5 percent in 2007-08. Also proposes to extend the AB 1629 rate methodology and authorization for Quality Assurance fees by one year—through 2008-09—using medical cost inflation as the overall cap for the rate increase.
- ◆ Maintains \$66 million in the current year and \$133 million in 2007-08 (\$33 million and \$66 million General Fund, respectively) of increased payments to Medi-Cal managed care plans due to the end of the five percent rate reduction as of December 31, 2006.
- ◆ Proposes \$214 million (\$107 million General Fund) for rate increases to Medi-Cal managed care plans. Rates will be based on a new rate methodology that takes into account the specific population served and services provided by each plan (versus the former methodology that used extrapolations to other plans from the experience of one plan). The May Revision proposes to "hold harmless" plans that would otherwise receive a rate cut under the new methodology.
- ◆ Increases by \$39.4 million (General Fund) for county eligibility administration

costs in 2007-08 due to an update of base costs and one-time and ongoing costs of citizenship verification to meet federal requirements.

- ◆ Increases by \$20 million (General Fund) to backfill lost federal funds for pregnancy-related services under the Minor-Consent Program. The May Revision indicates that the state will not enforce the federal citizenship verification requirements for minors independently seeking services.
- ◆ Savings of \$34.2 million (General Fund) due to lower costs for services provided to legal immigrants who have been in the country less than five years.
- ◆ Recognizes savings of \$35.5 million (General Fund) due a shift of reimbursements from public hospitals to the state into 2007-08. These reimbursements were budgeted in the current year, but have been delayed pending federal approval for a State Plan Amendment to separate physician and non-physician costs under the Hospital Financing Waiver.
- ◆ Recognizes General Fund savings of \$26.1 million in payments to County Organized Health Systems due to identification of additional costs that will be paid by the federal Medicare Program for Medi-Cal beneficiaries who also have Medicare coverage.
- ◆ Reduces by \$10.6 (General Fund) by shifting costs for the Medically Indigent Adult Long-Term Care Program to federal funds under the Safety Net Care Pool provision of the Hospital Financing Waiver.
- ◆ Maintains \$20.7 million (\$10.3 million General Fund) for additional caseload resulting from the implementation of two county pilot projects to test self-certification of assets and income by Medi-Cal applicants and enrollees in order to simplify the eligibility determination process, as provided by SB 437 of 2006.
- ◆ Proposes \$6.3 million and 16 positions to implement the California Discount Prescription Drug Program established by AB 2911 of 2006 (a reduction of \$2.5 million from the January budget due to contract savings).
- ◆ Continues proposal for \$2.5 million (General Fund) to backfill for lost federal funds for certain Family PACT services, including mammography, Hepatitis B vaccines, five medical procedures related to certain types of contraceptive methods and diagnostic testing regarding cancer. The budget continues to assume the continuation of the current Family PACT waiver, under which the cost of most Family PACT family planning and reproductive health services receives a 90 percent federal match.
- Maintains \$3.7 million (\$1.2 million General Fund) to fund 24 positions to

begin the work necessary to procure a new Medi-Cal management information system and Fiscal Intermediary contract.

- ◆ Continues to include a savings of \$5 million (\$2.5 million General Fund) in Medi-Cal payments for Adult Day Health Care as a result of tightening medical necessity criteria, as authorized by AB 1755 of 2006. Also includes a cost of \$3.9 million (\$1.8 million General Fund) and 46 positions to implement audits and other requirements for Adult Day Health Care pursuant to SB 1775 of 2006.
- ◆ Maintains \$1.5 million to expand the Newborn Hearing Screening Program.
- ◆ Shifts \$50.4 million of costs for Family Health Programs (primarily California Children's Services and the Genetically Handicapped Persons Program) due to a redirection of Safety Net Care Pool funds.

Department of Public Health

- ◆ Continues to include \$5.5 million of increased costs (various funds) to establish the new Department of Public Health (as of July 1, 2007). The budget offsets these costs by redirecting 57 positions (including at the Department of Health Care Services) and using additional federal funds to meet the requirement for not net cost to state funds pursuant to SB 162 of 2006, which splits the Department of Health Services into the Department of Health Care Services (primarily Medi-Cal) and the Department of Public Health.
- ◆ Continues to shift \$7.2 million of costs for the Licensing and Certification Program General Fund in 2007-08 to fees in order to make the program entirely fee supported. In the 2006-07 budget agreement the transition to wholly fee supported activities was to take three years. This proposal would eliminate the transition period.
- ◆ Maintains \$7.2 million from the Licensing and Certification Fund and to implement the reporting and follow-up of adverse medical events in hospitals.
- ◆ Maintains \$3.5 million to continue the Prostrate Cancer Treatment Program.
- ◆ Maintains an increase of \$4.6 million for six positions to implement improved prenatal screening and additional activities regarding the causes of birth defects.
- Continues increase of \$15.8 million in the Prenatal Screening Program to implement an expanded screening panel.
- ◆ Maintains \$2.1 million to enhance the state's response capabilities to food

borne illnesses such as E.coli.

- ◆ Maintains \$2.0 million General Fund additional local assistance funding to increase surveillance staff to implement HIV name reporting activities.
- ◆ Recognizes savings of \$9.3 million from additional drug rebates under the AIDS Drug Assistance Program and redirects \$7.8 million of those funds as follows:
 - \$4 million for increased testing under the Therapeutic Monitoring Program.
 - \$3.8 million to backfill federal funding reduction to six metropolitan areas, an AIDS Regional Information and Evaluation System, and capacity-building activities.
- ◆ Continues to provide \$1.6 million to implement the Hospital Infectious Disease Control Program.
- ◆ Maintains \$1.2 million to begin implementation of the environmental contaminant bio-monitoring program authorized by SB 1379 of 2006.

Managed Risk Medical Insurance Board

- ◆ Increases General Fund support for the Healthy Families Program by \$8.2 million primarily to fund a 3.1 percent increase in capitation rates plus a caseload adjustment.
- ◆ Increases General Fund support for the AIM Program by \$8.3 million to backfill a reduced Proposition 99 Tobacco Tax revenues.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

- ◆ Eliminates the Williamson Act local property tax backfill program which will result in a \$40 million General Fund savings.
- ◆ Retains \$629.9 million (Proposition 1E, Proposition 84, and Proposition 13 bond funds and from AB 142), and 75 new positions to continue the repair of critical levee erosion sites, provide local flood control subventions, and continue development of the state's strategic flood management capability.
- ◆ Retains \$37 million in Proposition 1E and 84 funds for Sacramento and American River flood control projects.
- ◆ Retains \$26.5 million in non General Funds and 107.1 positions for Cal/EPA boards and departments to implement greenhouse gas emissions reduction programs and develop a market based greenhouse compliance program.
- ◆ Retains \$1.1 billion in Proposition 84 funding for various Resources and Cal/EPA programs.

Secretary for Resources

- ◆ Retains \$13.9 million (Proposition 84) to support implementation of a settlement agreement between the federal government, local water users, and environmental advocates to restore portions of the San Joaquin River, including channel modifications and ecosystem restoration projects that will be implemented by the Department of Water Resources and the Department of Fish and Game.

Tahoe Conservancy

- ◆ Retains \$5.1 million (Proposition 84) for the Conservancy in conjunction with the Department of Forestry to enhance programs that promote biomass energy generation.
- ◆ Retains \$23.5 million (various funds) for support and local assistance to continue the state's efforts to support the Environmental Impact Program for the Lake Tahoe Basin.
- ◆ Retains \$716,000 (Proposition 84) for equipment to support the Conservancy's existing ReGreen Program.

Sierra Nevada Conservancy

- ◆ Retains \$17.5 million (Proposition 84) to the conservancy for the protection of rivers, lakes, and streams in the Sierra Nevada region, along with their watersheds and associated land, water, and other natural resources. The Governor's Budget adds \$17.5 million of this funding to the Conservancy in 2007-08.

Department of Conservation

- ◆ Adds \$2.4 million (Beverage Container Recycling Fund) to work with the Department of Toxic Substances to reduce plastic bottle waste, provide lifecycle assessment, and work with industry to introduce green chemistry practices.
- ◆ Retains \$12.3 million (Proposition 84) and four positions to assist communities to build sustainable, clean communities, facilitate planning efforts to develop conservation easements.
- ◆ Retains \$2 million (Beverage Container Recycling Fund) and 23 positions to carry out the provisions of Chapter 907, Statutes of 2006 (AB 3056).

Department of Forestry and Fire Protection

- ◆ Adds \$6.7 million (General Fund) to complete the department's computer aided dispatch system.
- ◆ Adds \$3.5 million (General Fund) to the Southern California Fuels Management.
- ◆ Retains \$5.1 million (Proposition 84) for the Department of Forestry in conjunction with the Tahoe Conservancy to provide grants to biomass energy generating facilities and enhance existing programs that promote biomass generation.
- ◆ Retains \$9.3 million (various bond funds) for urban forestry programs that provide grant funding for projects such as tree planting and vegetation maintenance programs. Of this total, \$1.5 million is proposed to be dedicated to carbon sequestration.

Department of Fish and Game

- ◆ Adds \$5.7 million (General Fund) for the exclusion and eradication of the quagga mussel.
- ◆ Adds changes in the structure of the department's budget to align program activities with funding sources.
- ◆ Retains \$47 million (Proposition 84) for CALFED Bay Delta Ecosystem Restoration Programs.
- ◆ Retains \$11.5 million (Proposition 84) and 14.5 positions for Coastal Salmonid Monitoring Plan implementation, Coho Recovery Plan implementation, Coastal Steelhead and Chinook Recovery, and the Steelhead Report Card Program.
- ◆ Retains \$7.4 million (Yuba Feather Flood Protection Subaccount) to continue environmental mitigation, restoration, and enhancement measures for the Yuba Feather River Flood Control Project, which adds flood protection for over 25,000 residences.
- ◆ Retains \$6.8 million (Proposition 84) for the acquisition of lands for natural resource protection and public access to natural resources, consistent with the purpose of the Lower Colorado River Multi-Species Habitat Conservation Plan.
- ◆ Retains \$4.5 million (Fish and Game Preservation Fund) and 34 positions for the California Environmental Quality Act (CEQA) Review Program. Chapter 667, Statutes of 2006, increased the fees collected by Fish and Game for CEQA reviews by an estimated \$4.5 million.

Department of Boating and Waterways

- ◆ Adds \$950,000 (Harbors and Watercraft Revolving fund) to develop the Coastal Sediment Master Plan.
- ◆ Adds \$4.2 million (Harbors and Watercraft Revolving fund) for public beach restoration projects.
- ◆ Retains \$31 million (Harbors and Watercraft Revolving Fund) to provide funding for boating facility construction loans and grants, which include \$12.9 million for local government grants, \$6 million for private marina owners for loans to develop, construct, and renovate marinas, and \$12.1 million for public boat launching lanes, restrooms, parking areas, and other ancillary

projects.

Department of Parks and Recreation

- ◆ Retains \$4.1 million (General Fund) and six positions for the continued implementation of remediation and treatment measures.
- ◆ Retains \$7.3 million (Proposition 84) funds and 76.8 positions for planning and administration for the state park system, program delivery for local grant programs, and statewide bond administration.
- ◆ Retains \$86 million (General Fund) reversion from funding allocated to the Department of Parks and Recreation for deferred maintenance in the 2006-07 Budget.

Department of Water Resources

- ◆ Withdraws the administration's proposal to transfer \$200 million from Proposition 1E to the General fund and funds various flood control programs directly from Propositions 1E and 84. This plan will generate a \$184 million in general fund savings.
- ◆ Adds \$2.0 million (General Fund) for interim management of the Salton Sea.
- ◆ Adds \$400,000 (General Fund) to implement the Water Conservation in Landscaping Act.
- ◆ Adds five positions within proposed Proposition 84 funding to evaluate how the department can reduce greenhouse gas emissions through management of water resources.
- ◆ Adds three new positions (State Water Project Funds) to implement the Pelagic Fish Action Plan.
- ◆ Retains \$1 billion in new proposed General Obligation Bonds to upgrade water conveyance infrastructure through the delta.
- ◆ Retains \$250 million in new proposed General Obligation Bonds to fund a Klamath River settlement and restoration projects in the Salton Sea, San Joaquin River, Sacramento River and portions of the Delta.
- ◆ Retains \$200 million in new proposed General Obligation Bonds for water conservation projects.

- ◆ Retains \$8.4 million (General Fund) and 35 positions for levee maintenance activities, including San Francisco Bay-Sacramento-San Joaquin River Delta levees, improved emergency response capabilities, and floodplain mapping.
- ◆ Retains \$462.6 million from Propositions 1E and 84 and 52 positions for investments to improve the state's flood control systems. This funding includes \$401 million for local assistance including flood control subventions, grants for projects to improve flood protection in urban Central Valley areas, support for local maintenance and improvements of delta levees, grants for new flood control feasibility studies and levee evaluations, and programs to improve floodway corridors. Additionally, \$61.6 million is provided for state operations, including development of a California Flood Plan, support for floodplain evaluations and delineation, sediment removal to improve channel flows, and administration and technical assistance for grant programs.
- ◆ Retains \$47.3 million (General Fund) and \$34.7 million (Proposition 84) for the lining of the All American and Coachella canals, and other projects considered essential to reduce the state's use of Colorado River water.
- ◆ Retains \$364.6 million (Propositions 1E, 50, and 84) for projects to protect communities from drought, protect and improve water quality, improve storm water management, and reduce dependence on imported water. This funding includes \$322 million for local assistance grants and \$42.6 million for state operations for grant administration, technical assistance, and improving systems for collection and dissemination of water quality and groundwater monitoring data.
- ◆ Retains \$49.5 million for other Proposition 84 programs, including \$25.1 million for the Delta Water Quality Program, \$15.1 million for Statewide Water Planning, and \$9.3 million for the Urban Streams Grant Program.

Secretary for Environmental Protection

- ◆ Retains \$26.5 million in non General Funds and 107.1 positions for Cal/EPA boards and departments to implement greenhouse gas emissions reduction programs and develop a market based greenhouse compliance program.

Air Resources Board

- ◆ Adds \$111 million (Proposition 1B) to implement the Trade Corridor Incentives Program that will grant funding to: upgrade old, high emitting trucks that service ports, rail yards and intrastate commerce; electrification of piers; clean locomotive technology; and replacement of harbor craft diesel engines.

The Air Resources Board will allocated funding for these programs based upon the expected impact a proposal will have on air quality.

- ◆ Adds 6.0 positions from existing funds for increased oversight and accountability for the Carl Moyer Air Quality Incentives Program. This funding will be used for both oversight and assistance for those communities that have underperforming programs.
- ◆ Retains \$3.2 million and 17.2 positions for The Air Resources Board (CARB) to collect greenhouse gas emissions data in California order to identify the major sources of emissions and develop reduction measures. CARB will use mandatory reporting to provide the data necessary to enable to maintain an emissions inventory and measure the effectiveness of emission reduction strategies.
- ◆ Retains \$1.8 million and 10.8 positions for CARB to develop a comprehensive scoping plan to attain 1990 emission levels by 2020. The Board will evaluate the cost-effectiveness and technological feasibility of regulatory and market-based emission reduction strategies, analyze economic impacts, and identify and make recommendations on specific emission reduction measures. Where necessary, this plan will include consultation with other state entities that are outside of CARB's jurisdiction.
- ◆ Retains \$12.0 million and 35.8 positions for CARB to develop a market-based compliance program to achieve greenhouse gas emission reduction. This proposal will also will implement the Green Building Action Plan to require state buildings to comply with energy efficiency standards and use recycled materials.
- ◆ Retains \$7.1 million and 29.4 positions for CARB to implement early action measures identified by the Climate Action Team to reduce GHG emissions. These actions include developing additional energy efficiency standards and clean alternative fuels and improving heavy duty engines.
- ◆ Retains \$7.4 million and nine positions for CARB to perform economic analyses to provide data on cost effectiveness of statewide emission reduction strategies.
- ◆ Retains \$4.0 million and 23.9 positions for CARB to collaboration efforts with other state entities and governmental bodies to achieve emission reductions.
- ◆ Retains \$96.5 million (Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund) and 2.9 positions to replace pre-1987 school buses and retrofit old diesel school buses.
- ◆ Retains \$6.0 million (Motor Vehicle Account) and 7.7 positions for the Air

Resources Board for matching funds for up to eight publicly accessible hydrogen fueling stations.

Integrated Waste Management Board

- ◆ Retains \$518,000 various special funds and 4.8 positions to conduct financial, performance, and service audits to enhance the Board's ability to ensure that its waste diversion, used oil and tire recycling and electronic waste programs are properly administered.
- ◆ Retains \$716,000 (Integrated Waste Management Account) and 1.9 positions for the Household Hazardous Waste grant program to develop and promote alternatives to the illegal disposal of household hazardous waste items.
- ◆ Retains \$435,000 (Electronic Waste Recovery and Recycling Account) and 4.8 positions to improve the Board's ability to promptly process payments to recyclers, and enforce the state's electronic waste program requirements.

State Water Resources Control Board

- ◆ Retains \$75.7 million (Proposition 84) and eight positions for the State Water Pollution Control Revolving Fund Program that adds low interest loans or grants to construct municipal wastewater treatment facilities, storm water pollution control projects, non-point source pollution projects, and estuary enhancement projects. This funding includes the state share of federal matching funds.
- ◆ Retains \$6.2 million (Proposition 84) and 1.5 positions for the Agricultural Water Quality Grant Program. This program adds grants for public agencies or nonprofit organizations to improve agricultural water quality, including projects related to research and construction of agricultural drainage water improvements.
- ◆ Retains \$14.6 million (Proposition 84) and three positions for the Urban Storm Water Grant Program. This program adds grants to local public agencies for projects that contain storm water runoff, such as diverting the runoff to treatment facilities.
- ◆ Retains \$8.8 million (Proposition 84) and 5.7 positions for the Clean Beaches Grant Program. This program adds grants to public agencies for water quality projects in coastal waters, estuaries, and bays. Projects include upgrading septic systems, storm water pollution reduction programs, and clean beach projects in Santa Monica. Proposition 84 specifies that 20 percent of the funds for clean beaches be allocated to the Santa Monica Bay Restoration Commission.

- ◆ Retains \$6.1 million (Proposition 84) and 11.9 positions for basin and land use planning activities. This program will provide grants to local agencies to incorporate watershed protection efforts into land use policy, including projects such as restoring creeks and wetlands, directing runoff to permeable surfaces, and increasing water reuse.
- ◆ Retains \$3.1 million (Cleanup and Abatement Account) and 25.1 positions for the Water Board to accelerate the cleanup of approximately 750 additional brownfield sites.

Department of Toxic Substances

- ◆ Retains \$219,000 (Special Funds) and 1.9 positions for the Department of Toxic Substances Control to implement recent legislation that adds incentives for brownfield cleanups.
- ◆ Retains \$3,700,000 (General Fund and Stringfellow Proceeds Account continue maintenance and remediation activities at the Stringfellow site.

Energy Commission

- ◆ Retains \$1.1 million and 4.8 positions to reduce greenhouse gas emissions. Emission reduction strategies include expanding energy efficiency, increasing the use of alternative fuels and biofuels, promoting renewable electricity generation, and implementing electricity demand strategies.
- ◆ Retains \$994,000 and 4.8 positions to implement SB 1 and the New Solar Homes Partnership.

PUBLIC SAFETY

Department of Justice

- ◆ Includes \$11.2 million General Fund Augmentation to support the provision of Proposition 69, the DNA Fingerprint, Unsolved Crime and Innocence Protection Act.
- ◆ Provides a \$3 million increase for the California Witness Protection Program, for a cumulative increase of \$3.7 million in local assistance support for district attorney's offices.
- ◆ Includes \$1.1 million to support legal counsel, and public finance work for state bond sales.
- ◆ Maintains \$2 million to support the DNA Live Scan Automation Project in order to maintain compliance with Proposition 69 requirements for felon DNA samples.
- ◆ Maintains \$767,000 to enhance the Megan's Law website to include additional information on sex offenders pursuant to enacted legislation.

Judiciary and Trial Court Funding

- ◆ Provides \$36.6 million for Trial Court Security. The funding is to support courtroom security, monitor screening stations, and transport prisoners within court facilities.
- ◆ Maintains the State Appropriations Limit growth factor increase of 5.24 percent (\$146 million), of which \$129.5 million is slated for Trial Court operations and 16.7 million of State Judiciary operations. Includes a technical reduction of \$584,000.
- ◆ Maintains \$27.8 million (General Fund) to provide funding for 50 new judgeships, consistent with the administration's prior year proposal to create 150 new judgeships over a three-year period concluding in 2008-09.
- ◆ Maintains \$5 million (General Fund) to implement a pilot program in three Superior Courts to identify and provide representation to unrepresented litigants in a wide range of civil matters.
- ◆ Provides \$32 million from the State Court Facilities Construction Fund to support new courthouse construction.

Department of Corrections

- ◆ Reduces General Fund costs by \$46 million due to revised institution and parole population assumptions. Assumes average daily adult institutional population of 174,300 and projected average daily parole population of 124,862.
- ◆ Assumes \$31.2 million in savings due to the implementation of "clean time" for adult parole.
- ◆ Reduces General Fund costs by \$9.7 million due to revised institution and parole population assumptions. Assumes a year-end juvenile institution population of 1,338 and a year-end juvenile parole population of 2,385 wards.
- ◆ Provides \$41.5 million to fund prosecution costs for crimes committed by inmate within state and out-of-state institutions.
- ◆ Increases the Daily Jail Rate from \$71.57 to \$77.17 and provides \$1.5 million to reimburse local entities for the cost of housing state inmates.
- ◆ Provides a \$25 million increase, a total of \$175 million, for federal court mandate healthcare cost.
- ◆ Provides \$18.7 million to increase recruitment effort for Correctional Officers to use of marketing and advertising strategies.
- ◆ Reduces the California Adult Probation Accountability and Rehabilitation Act from \$50 million to \$25 million, ongoing.
- ◆ Provides \$11.7 million for increasing teacher salaries, in order to reduce the Department high teacher vacancy rate.
- ◆ Provides \$484.60 to construction treatment and bed space in order to comply with various federal court orders.
- ◆ Provides a total of \$22.8 million to contract with prison facilities outside California, consistent with the provisions of the enactment of Assembly Bill 900.
- ◆ Provides \$12.6 million for statewide suppression of Gang related activity, within state institutions and communities.
- ◆ Removes \$457,000 to establish a Sentencing Commission to review and recommend change to current and future sentencing.

- ◆ Maintains \$77.6 million for the implementation of Jessica's Law and recommendations of the High Risk Sex Offender Task Force
- ◆ Maintains \$1.7 million General Fund to perform pre-activation functions necessary to implement a program for Female Rehabilitative Community Correctional Centers.

GENERAL GOVERNMENT

Office of Emergency Services

- ◆ Provides \$4.9 million in federal funds to establish four new anti-gang grants as part of a six-city gang suppression effort; \$446,000 in General Fund support to establish a State Anti-Gang Coordinator; and \$7 million in General Fund support for local anti-gang programs.
- ◆ Provides \$4 million from the Restitution funds to augment four Internet Crimes Against Children Task Forces.
- ◆ Provides \$76.1 million in transportation bonds to establish a California Port Security Grant Program to purchase security equipment. Removes \$5 million in Anti-Terrorism Fund support for this program.
- ◆ Provides \$101.5 million for the Transit Security Grant Program to be allocated to various mass transit systems to purchase security equipment.
- ◆ Maintains \$600,000 to support the publishing of a biennial report that identifies gaps in emergency preparedness.
- ◆ Maintains \$1.2 million (\$608,000 General Fund) for the Response and Recovery Division to eliminate a significant backlog of disaster assistance claims and provide adequate service to local governments and disaster victims.

Office of State Inspector General

- ◆ Provides \$810,000 and 3 positions to support the functions of the California Rehabilitation Oversight Board, as created by Assembly Bill 900.
- ◆ Maintains \$1.8 million and 9.9 positions for the Office of the Inspector General to conduct new types of investigations, including fraud investigations, correctional facility inspections, and to respond to critical incidents.

Military Department

- ◆ Maintains an increase of \$1.7 million to establish a tuition assistance program for members of the California National Guard (CNG).
- ◆ Maintains \$4.5 million (\$3.0 million General Fund and \$1.5 million Federal Trust Fund) for maintenance and repairs at armories statewide. The proposed funding will allow the Department to continue making needed repairs, modernizing its armory infrastructure, and ensuring compliance with environmental laws and building codes at various armories on a priority basis.

Department of Veterans' Affairs

- ◆ Provides \$564,000 for salary increases to employees with jobs classifications affect by pending federal court order against the Department of Corrections and Rehabilitation.
- ◆ Request the consolidation of the Veterans Homes and Headquarters into a single support and capitol outlay items.
- ◆ Includes \$1.9 million and 8.0 positions for infrastructure repair and deferred maintenance projects.
- ◆ Includes \$2.3 million (\$2.1 million General Fund and \$245,000 other funds) and 18 positions to reopen 40 Skilled Nursing Facility beds at the Barstow Veterans Home. The activation of the unit will occur over two fiscal years .

Gambling Control Commission

- ◆ Reduces the revenue assumption from new Tribal Gaming Compacts to \$313.5 million. The Governor's January 10th Budget assumed \$505.9 million.
- ◆ Provides \$1.7 million from the Indian Gaming Special Distribution Fund and 14 positions to establish an audit and compliance unit to review and enforce the minimum internal control standards.

Commission on State Mandates

- ◆ Maintains a one-time General Fund reduction of \$402.4 million since the 2006 Budget Act provided the estimated full year cost of mandates to be claimed in for the 2005-06 and 2006-07 fiscal years, and the first two payments towards retiring mandate obligations incurred prior to June 30, 2004. However, the budget proposes no funding for mandate claims for costs incurred by local governments in 2007-08. Payment of these claims would be deferred to 2008-09.
- ◆ Continues to provide \$52 million to fully-fund costs of the AB 3632 mental health services mandate.
- ◆ Continues to propose revising the current process in which the commission determines mandates and their reimbursement guidelines to a process under which the Department of Finance will work with local agencies to develop a cost-efficient method of compliance with new laws and a reasonable and relatively simple way to determine the amounts to be reimbursed to local governments.
- ◆ Continues to propose repealing the Local Government Employment Relations mandate created by Chapter 901, Statutes of 2000. The Governor's Budget is now proposing that this mandate be repealed because it views these additional costs as unnecessary.

State Board of Equalization

- ◆ Maintains \$1.1 million (\$696,000 General Fund) to expand the U.S. Customs Program from five positions to 16.5 positions. This Program collects California import data from the Department of U.S. Customs and Border Protection to ensure payment of use tax by California-based purchasers. The budget estimates the proposed positions will generate \$15.2 million in revenues in 2007-08, of which \$9.4 million will accrue to the General Fund and \$5.8 million to local governments.

Franchise Tax Board

- ◆ Maintains proposal for \$19.6 million General Fund and 230 positions for various efforts to close the state's estimated \$6.5 billion tax gap-- the difference between the amount of tax owed and the amount paid. Of the proposed resources, \$13.6 million and 180.5 positions continue six existing pilot programs proposed for permanent establishment. The existing programs concentrate on detecting non-filers and filers of fraudulent returns and on

audit and collections activities. The FTB estimates these programs will generate \$64.7 million in revenues in 2007-08, and \$68.5 million in revenues in 2008-09. The remaining \$6 million and 49.5 positions are for new initiatives to educate independent contractors about filing requirements, expand the corporate non-filer program, address out-of-state tax avoidance, and increase investigations of persons who fail to file a return, or who file fraudulent returns. The budget estimates these initiatives will generate \$12.8 million in revenues in 2007-08, and \$29.8 million in revenues in 2008-09.

- ◆ Continues to propose \$1.3 million to restore 27 customer service positions that were previously eliminated due to budgetary constraints. The proposed positions will allow FTB to reduce customer service wait times and to respond more effectively to taxpayer inquiries.

Tax Relief Programs

- ◆ Continues to provide a total of \$203.5 million to fund Senior Citizens' Property Tax Assistance and Deferral Programs and Senior Citizens' Renters' Assistance in 2007-08.
- ◆ Continues to provide \$447 million to backfill local government revenues losses due to the Homeowner's Property Tax Exemption.
- ◆ Proposes savings of \$39.1 million by eliminating Open-Space (Williamson Act) Subventions to local governments (primarily counties). These subventions partially backfill property tax revenue losses due to the lower assessed value granted to agricultural and other qualifying lands that are under open space contracts.

Revenue Proposals

- ◆ Continues to propose permanent elimination of the teacher retention tax credit (which is currently suspended through the 2006 tax year), resulting in an estimated General Fund revenue gain of \$165 million.
- ◆ Continues to propose making permanent the one-year period during which vehicles, vessels and aircraft purchased by Californians generally must remain out of state in order to avoid a use-tax obligation. This results in a General Fund revenue gain of \$35 million in 2007-08.

Budget Stabilization Account (BSA)

- ◆ Includes a transfer of about \$2 billion to the BSA, consistent with the Proposition 58 target for 2007-08 of 2 percent of General Fund revenues. Half

of this amount is used to accelerate payment of the Economic Recovery Bonds (see below).

Debt Service

- ◆ Continues to redirect \$340 million of Public Transportation Account sales tax "spillover" funds to offset General Fund debt service payments on transportation bonds.
- ◆ Maintains proposals to accelerate payoff of Economic Recovery Bonds (ERBs):
 - Provides an additional \$1 billion (50 percent of the amount transferred from the General Fund to the Budget Stabilization Account) consistent with Proposition 58.
 - Augments ERB repayment by a further \$595 million from the General Fund. The budget indicates that the administration plans to fully repay the ERBs by August of 2009.
- ◆ Recognizes a current-year savings of \$93.1 million and a 2007-08 cost increase of \$47.2 million in debt service on General Obligation bonds due to some delays in sales and some refunds.

Unallocated Reductions

- ◆ Continues to include \$100 million of General Fund savings that will be identified by the administration during 2007-08. The administration also has made Pre-May Revision requests to increase this amount by a total of \$52.7 million. This increase consists of \$46.3 million by eliminating half of the "price increase" budgeted for operating expenses and equipment in most departments. An additional reduction of \$6.4 million results from complete elimination of price increase funding for Health and Human Services departments.

Elimination of Boards and Commissions

- ◆ Continues to propose the elimination of the following boards or commissions, generally on the basis that they are defunct or their primary purpose has ended:
 - Electricity Oversight Board
 - California Consumer Power and Conservation Financing Agency

- Heritage Preservation Commission
- California Quality Education Commission

Public Utilities Commission

- ◆ Retains \$1,272,000 (special fund) and 2.9 positions for the PUC's greenhouse gas emissions reduction efforts. These resources will enable the PUC to conduct climate change proceedings to implement emission reduction strategies, evaluate various electric and natural gas sector greenhouse gas emission cap scenarios, and develop protocols to measure and verify actual emissions reductions.
- ◆ Retains \$2,460,000 and 2.9 positions to implement this initiative. This proposal will provide necessary staff for PUC proceedings, enable the PUC to develop a pricing structure that adds an incentive to generate solar energy during peak-demand hours, and fund an independent program evaluation.
- ◆ Retains \$950,000 and 10.3 positions to implement the Video Competition Act and enable the PUC to ensure that video service is non-discriminatory, review applications and issue state franchises, and report annually to the Legislature. This proposal includes one position for the Division of Ratepayer Advocates to promote service and quality standards on behalf of ratepayers.

Department of Food and Agriculture

- ◆ Adds \$2.0 million (General Fund) to eradicate the Light Brown Apple Moth.
- ◆ Adds \$4.2 million (General Fund) and 45.6 limited term positions to fund a two year project to eradicate the Diaprepes Rood Weevil in Southern California.
- ◆ Adds \$2.4 million (General Fund) and 33.2 positions for eradication and exclusion of the Quagga Mussel.
- ◆ Adds \$977,000 (General Fund) for the eradication of the Japanese Dodder.
- ◆ Retains \$658,000 (General Fund) for new Medfly rearing systems.
- ◆ Retains \$407,000 and 4.7 positions to continue the All Vehicle Inspection Pilot Program located at the Inspection Station in Needles, California for a second year.

Fair Political Practices Commission

- ◆ Retains \$604,000 (General Fund) and 4.7 positions to support workload

growth created by new legislative requirements.

Secretary for Business Transportation and Housing

- ◆ Retains \$6.3 million (General Fund) reduction in the ongoing state contribution to tourism marketing pursuant to Chapter 790, Statutes of 2006 (AB 2592), which authorizes a new assessment of the rental car industry to support the marketing efforts of the California Travel and Tourism Commission.
- ◆ Retains \$441,000 (General Fund) and 3.0 positions to carry out Chapter 663, Statutes of 2006 (SB 1513), which requires the Business, Transportation and Housing Agency to produce a comprehensive study of the need for state programs to facilitate foreign trade, develop an international trade and investment strategy, and convene a statewide partnership for international trade and investment.
- ◆ Retains a one-time General Fund appropriation of \$832,000 to match \$4.3 million in federal funds to provide additional loan guarantees to small businesses, particularly in areas that have suffered sudden job loss due to natural disasters or manufacturing plant closures.

Department of Insurance

- ◆ Adds \$1.3 million (Insurance Fund) for workers compensation enforcement.
- ◆ Adds \$3.2 million (Insurance Fund) to provide grants to local district attorneys for workers compensation and healthcare insurance fraud cases.

Department of Corporations

- ◆ Adds \$2.1 million (Corporations Fund) and 17 positions to address staffing deficiencies in the lender fiduciary program that were raised by the Bureau of State Audits.
- ◆ Adds \$973,000 (Corporations Fund) for 6 additional PYS to increase enforcement

Department of Fair Employment and Housing

- ◆ Retains \$873,000 from the General Fund and seven positions to improve case processing and service to individuals that file a housing discrimination complaint.

- ◆ Retains \$1.5 million from the General Fund and 10 PYs to increase legal and administrative staff.
- ◆ Retains \$400,000 from the General Fund in one time funds to decentralize and relocate their Los Angeles offices.

Department of Housing and Community Development

- ◆ Maintains the proposed 2007-08 expenditure of \$658 million of the \$2.85 billion of housing bonds approved by the voters in November 2006 as Proposition 1C.
 - \$373 million for affordable home ownership (\$88 million), affordable rental housing (\$140 million), farmworker housing (\$40 million), permanent housing for homeless persons and foster care youth (\$95 million), and for homeless shelter construction (\$10 million). These amounts do not require budget appropriations.
 - \$135 million of budget appropriations for the Equity and Growth in Neighborhoods (BEGIN) Program (\$40 million), which provides grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes, and the Transit-Oriented Development program (\$95 million) to develop and construct housing projects close to transit stations.
 - \$145 million for programs that require legislation—Infill Incentive Grants (\$100 million), Affordable Housing Innovation (\$15 million), and Housing and Urban-Suburban-Rural Parks (\$30 million). The administration will propose budget trailer legislation to implement these programs.
- ◆ Retains \$747,000 and 4.0 positions to implement Chapter 718, Statutes of 2006 (AB 1550) and increase assistance and oversight to economic development areas including Enterprise Zones, Manufacturing Enhancement Areas, Local Military Base Recovery Areas, and Targeted Tax Areas.

Department of Industrial Relations

- ◆ Retains proposals to make permanent 31.0 limited-term positions added in 2004-05 in the Division of Workers' Compensation to address workload issues.
- ◆ Retains multi-year funding proposal including a re-appropriation of \$6.6 million from 2006-07 to 2007-08, additional funding of \$12.3 million in Provides \$19.1 million special fund to support the revised project costs of the Electronic Adjudication Management System.

Employment Development Department

- ◆ Maintains proposed elimination of \$27.1 million Contingent Funds from the Job Services Program resulting in a corresponding savings to the General Fund.
- ◆ Retains an increase of \$2.5 million (Employment Training Fund) for the Employment Training Panel to augment its employment training contract program.
- ◆ Retains \$2.8 million (\$2.5 million General Fund and \$.3 million various special funds) for the EDD's Automated Collection Enhancement System (ACES), which will improve the EDD's ability to track, collect, and audit the payment of specified employer payroll taxes, including the personal income tax withholding.
- ◆ Retains the proposed transfer of \$15 million for the Employment Training Fund to the CalWORKs program for a one-time General Fund savings of \$15 million.

California Science Center

- ◆ Retains \$1.9 million and 4.3 positions for equipment and employee support to bring the Phase II project online.

Department of Consumer Affairs

- ◆ Retains proposed funding of \$1.1 million and 4.8 positions to create the Professional Fiduciaries Bureau pursuant to Chapter 491, Statutes of 2006 effective January 1, 2007.
- ◆ Retains \$12.3 million and 8.6 positions to incorporate a visible smoke test into the Smog Check Program by January 1, 2008 and to increase the vehicle retirement payment to specified consumers.
- ◆ Retains \$11.4 million in federal and special funds and 74.7 positions to continue funding for the Bureau of Private Postsecondary and Vocational Education. Although the Bureau is scheduled to sunset effective July 1, 2007, the administration is sponsoring legislation to reform the Bureau's operations, and establish the Private Postsecondary Education and Student Protection Act.

Department of General Services

- ◆ Retains \$3.4 million from the Service Revolving Fund and 4.7 positions to implement the required energy savings programs and projects as specified in the Governor's Executive Order and the accompanying Green Building Action Plan.
- ◆ Retains \$7.4 million in General Fund and 4.3 positions to complete critical repairs to the State Capitol.
- ◆ Retains \$1.5 million in General Fund to complete the Capitol Park Master Plan.

State Teachers Retirement System

- ◆ Retains proposal for a \$75 million General Fund savings related to proposed legislation to fully vest the existing target of 80-percent purchasing power protection for retired teachers. In return for the vesting guarantee, the state would reduce its purchasing-power contributions from 2.5 percent to 2.2 percent of salary.

CalPERS

- ◆ Adds about \$15 million in General Fund savings in anticipation of the CalPERS board approving their staff recommendation to increase co-payments for office visits, emergency room visits, and prescription drugs.