



HIGHLIGHTS OF GOVERNOR'S PROPOSED MAY REVISION 2005-2006 STATE BUDGET May 13, 2005

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OVERVIEW

The Governor has proposed his May Revision for the 2005-06 Budget Year. The May Revision projects available General Fund resources of \$90.6 billion, and General Fund expenditures of \$88.5 billion. The May Revision maintains the January 10 projected reserve at \$515 million for 2005-06 and a -\$5.7 billion deficit in 2007-08.

The May Revision contains approximately \$4 billion in new net revenues above the January 10 proposed budget. These new revenues are made up of tax amnesty and protective payments totaling \$3.7 billion (attributed to past fiscal years), \$2.7 billion in revenues for the current year and \$1.1 billion in the budget year. The revenues are offset by projected refunds of protective payments or other accounting adjustments totaling \$1.4 billion in the current year, \$1.1 billion in the budget year, and \$900 million in 2006-07.

The May Revision proposes total General Fund expenditures of \$88.5 billion for 2005-06. This is an increase of about \$2.8 billion from the January 10 proposal.

Since the release of the Governor's budget in January, the Assembly Democrats have called for a budget that is better for education, transportation, and seniors while borrowing less and improving the out-year budget problem.

The Governor has moved toward the Assembly Democrats on transportation and reduced borrowing, but makes little progress in providing a fair budget for seniors and continues to break the promise to public education.

This report will provide details on all areas of the May Revision, but here are a few key points:

- Provides a final reserve for 2005-06 of \$515 million.
- Provides a final reserve 2006-07 of -\$5.7 billion.
- Under-funds Governor's commitment to public education for Prop. 98 by \$3.2 billion.
- Continues the \$469 million STRS cut to local school districts, despite the legal opinion that the proposal could not constitutionally be implemented in a way that saves the state money.
- Continues to keep the funds the federal government provides the state for SSI/SSP COLA in the state treasury instead of providing it to the low-income senior and disabled Californians in the program.

- Continues to reduce state support of In-Home Supportive Services workers wages to the minimum wage.
- Restores the tax assistance program for low-income senior homeowners and renters, a key priority for Assembly Democrats.
- Fully funds Proposition 42, meeting a key priority for Assembly Democrats of providing adequate transportation funding in the budget year.
- Eliminates the use of Economic Recovery bonds in the budget year, meeting an Assembly Democratic priority of less borrowing.

The following are a series of charts providing key details of the Governor's May Revision.

**2005-06 May Revision General Fund Summary
(in millions)**

	2004-05	2005-06
Prior Year Balance	\$7,200	\$6,714
Revenues	\$79,256	\$83,666
Transfers	\$239	\$201
Economic Recovery Bonds	\$2,012	--
Total Resources Available	\$88,707	\$90,581
Non-Proposition 98 Expenditures	\$47,732	\$51,709
Proposition 98 Expenditures	\$34,261	\$36,816
Total Expenditures	\$81,993	\$88,525
Fund Balance	\$6,714	\$2,056
Reserve for Liquidation of Encumbrances	\$641	\$641
Set-aside for refunds/accelerations for 2006-07	--	\$900
Final Reserve (SFEU)	\$6,073	\$515

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

Source	Jan. 10 Amount	Jan. 10 % of Total	May Revision Amount	May Revision % of Total
Personal Income Tax	\$42,895	50.2%	\$43,214	51.5%
Sales Tax	\$26,947	31.5%	\$26,951	32.1%
Corporation Tax	\$9,015	10.5%	\$8,817	10.5%
Insurance Tax	\$2,300	2.7%	\$2,300	2.7%
Tobacco Taxes	\$115	0.1%	\$116	0.1%
Liquor Tax	\$315	0.4%	\$315	0.4%
Other	\$3,867	4.6%	\$2,154	2.6%
<i>Total</i>	\$85,454	100.0%	\$83,867	100.0%

**2005-06 May Revision General Fund Expenditures
(in millions)**

Category	Jan. 10 Amount	Jan. 10 % of Total	May Revision Amount	May Revision % of Total
Education (K-12)	\$35,884	41.9%	\$36,118	41.9%
Health and Human Services	\$26,708	31.2%	\$26,834	31.2%
Higher Education	\$10,042	11.7%	\$10,171	11.7%
Business, Transportation and Housing	\$380	.4%	\$1,702	.4%
Legislative, Judicial, Executive	\$3,016	3.5%	\$3,120	3.5%
General Government	\$705	.7%	\$1,223	.7%
Youth and Adult Corrections	\$7,014	8.2%	\$7,259	8.2%
Resources	\$1,270	1.5%	\$1,352	1.5%
Environmental Protection	\$69	.1%	\$78	.1%
State and Consumer Services	\$563	.7%	\$576	.7%
Labor and Workforce Development	\$87	.1%	\$92	.1%
<i>Total</i>	\$85,738	100%	\$88,525	100%

STATE BORROWING AND COST DEFERRALS

- Continues to assume the issuance of Pension Obligation Bonds that were authorized in the current year (for a General Fund savings/deferral of about \$900 million). However, due to litigation challenging the bonds, the budget defers the issuance of these bonds until 2005-06 and will provide approximately \$500 million.
- Rescinds the January proposal to issue an additional \$1.7 billion of Proposition 57 Economic Recovery Bonds. This would leave approximately \$3.7 billion of remaining unused bond authority out of the \$15 billion of Economic Recovery Bonds authorized by Proposition 57.
- Continues to assume the issuance of Pension Obligation Bonds that were authorized in the current year (for a General Fund savings/deferral of about \$524 million). Due to litigation challenging the bonds, the budget defers the issuance of these bonds until 2005-06.
- Rescinds the January proposal to issue "Judgment Bonds" to fund a \$464 million settlement of the *Paterno* lawsuit concerning state responsibility for the 1986 levee breaks and flooding north of Sacramento. However, the budget still proposes to pay this obligation over time, with the first installment of \$67 million to be paid in 2005-06.
- Proposes, as part of the Budget Reform proposals to extend to a period of 15 years the payment of past-due mandated cost reimbursements to local governments and the repayment various loans to the General Fund from transportation funds and other special funds. These payments would start in 2006-07. Also proposes to pay off existing unfunded Proposition 98 education obligations over 15 years.

K-12 EDUCATION

- In general, provides no major changes in the total amount going to K-12 schools. Retains total 2005-06 Proposition 98 funding level proposed in January 10. Reduces total 2004-05 Proposition 98 funding level relative to January 10 proposal, but offsets this reduction with an increase in one-time funding to pay off "settle up" amounts owed for prior-year Proposition 98 appropriations
- Estimates gap between proposed funding level and last year's "education promise" at \$3.2 billion total (two-year total over the 2004-05 and 2005-06 years).
- Retains the proposal to fully fund growth and COLA. However, COLA percentage is increased, relative to January 10 proposal, and enrollment is significantly reduced, for a net savings relative to January 10.
- Retains the proposal to provide a \$328 million increase in discretionary funding (deficit reduction), to partially repay a deficit that the state incurred two years ago when it did not provide a COLA to school districts.
- Retains the proposal to shift \$469 million in state teacher retirement costs to school districts and community colleges. In order to maintain current investments in teacher retirements, school districts and community colleges would either have to pay for this additional expense out of their existing budgets (equating to a \$469 million cut statewide), or teachers will have to contribute more toward their retirement (which will essentially mean a pay cut for teachers).
- Retains the proposal to eliminate the mandate that counties provide mental health services to special education students. The effect of this proposal will be to shift the responsibility for providing these services to school districts. The May Revise retains \$100 million in federal funding begun last year to support these services. However, the May Revise also adds \$90 million in non-Proposition 98 General Fund on a one-time basis to county mental health departments to help with the services provided to this population that might not be picked up by school districts and to pay for prior-year claims related to the mandate.
- Adds a new proposal to reduce class sizes in the lowest-performing one third of schools. Proposes \$174 million to pay for the new proposal (\$123 million in ongoing money and \$51 million in one-time funds).

- Adds a new block grant proposal to allow the lowest performing 30% of schools to recruit and retain teachers and principals. Adds \$49.5 million in one-time funds to pay for the new proposal.
- Adds a new proposal to accelerate the expenditure of \$154 million in one-time federal carryover funds from the No Child Left Behind Act. Under the proposal, the funds would be available for one-time purposes to schools and districts identified as "program improvement" (in need of improvement) under the No Child Left Behind. The proposal would require federal approval.
- Adds a new Supplemental Instruction/ High School Exit Exam Initiative to provide additional instruction to pupils who have failed or are at risk of failing the High School Exit Exam. Adds \$57.5 million in one-time funds to pay for the program.
- Adds a new proposal to establish a pilot grant program for career exploration coursework in the 7th and 8th grades. Adds \$30 million in one-time funds to pay for the new program.
- Adds \$18.2 million in one-time funds to increase the amount of fruits and vegetables served in the School Breakfast Program.
- Adds \$30 million in one-time funds to expand the Teacher Credentialing Block Grant to serve more teachers and to provide additional services for teachers beyond the first two years.
- Adds a new proposal to expand an existing control section, so that school districts could transfer half of funding appropriated for certain programs to other programs. Adds similar proposal to allow school districts to transfer half of funding appropriated for new categorical block grants (pursuant to AB 825 of last year) between different block grants.
- Adds \$2.2 million in one-time funds to expand physical fitness testing to grade 3. Also adds \$1.5 million to allow for testing results to be mailed to parents and guardians.
- Adds a new proposal to require coaches involved in athletics to attend training on performance-enhancing substances. Adds \$500,000 in one-time funds to pay for the proposal.
- Retains the proposal to create smaller learning communities and small schools. Adds \$1.6 million in one-time funds for a new grant program related to the proposal.

- Retains the proposal to provide \$100 million in one-time funding for school facilities emergency repairs, pursuant to the Williams lawsuit settlement agreed to by the Governor last year.
- Adds \$14 million in one-time General Fund money for Williams Settlement Legal Fees.
- Adds \$15 million to the January 10 proposal to create a new cohort of low-performing schools to participate in the High Priority Schools Program, pursuant to the Williams lawsuit settlement agreed to by the Governor last year. Under the revised proposal, \$60 million would be provided for this purpose.
- Rescinds proposal to reduce funding for the Advancement Via Individual Determination (AVID) program, which helps economically disadvantaged students attend college.
- Retains \$1.1 million in one-time funding for school business officer training, to address concerns about school districts with fiscal problems.
- Adds new staff to the Department of Education to support the Governor's Initiative to Turn Around Failing Schools.
- Adds funds to expand the California English Language Development Test to K-1 students, pursuant to a federal mandate.
- Adds new staff to the Department of Education and \$5.6 million in one-time funds to support the California Local Education Accountability Reform (CLEAR) Program, a voluntary pilot project to provide school-site budgeting authority.
- Adds \$9 million in one-time funds as the state match for new federal funds for charter school facilities, which can be used for construction or leasing.

HIGHER EDUCATION

University of California (UC)

- Adds \$750,000 million General Fund to establish the first phase of the Science and Math Teacher Initiative.
- Adds \$18.9 million for revised lease-revenue payment estimates reflecting both adjustments from the 2004 Budget Act Control Section 4.30 and updated debt service information.
- Retains the 3 percent General Fund increase or, \$76.1 million, for basic budget support.
- Retains \$37.9 million for a 2.5 percent enrollment growth to fund an additional 5,000 full time equivalent (FTE) students.
- Retains the system wide fee increases of 8 percent for undergraduate students, 10 percent for graduate students, and 3 percent increase in professional school fees. These fee increases were approved by the UC Regents last November.
- Retains the 25 percent (undergraduates) and 50 percent (graduate students) set-aside from fee generated revenue to be used for institutional financial aid.
- Retains the \$17.3 million reduction in unallocated cuts, which the UC can achieve by either reducing funding for academic preparation programs or, by reducing enrollment by the same amount.
- Retains the \$14 million one-time augmentation General Fund for UC Merced for a total of \$24 million in 2005-06.
- Retains proposal to eliminate \$3.8 million in General Funds for labor research.

California State University (CSU)

- Adds \$250,000 General Fund to establish the first phase of the Science and Math Teacher Initiative.
- Adds \$131,000 to reflect revised lease-revenue payments in the budget year to reflect the 2004 Budget Act Control Section 4.30 and updated debt service information.

- Adds \$26 million from existing General Obligation bonds to fund capital revenue projects.
- Retains the 3 percent General Fund increase or, \$71.7 million, for basic budget support.
- Retains \$50.8 million for a 2.5 percent enrollment growth to fund an additional 8,000 FTE students.
- Retains the system wide fee increases of 8 percent for undergraduate students, 8 percent for Teaching Credential students and 10 percent for graduate students. These fee increases were approved by the CSU Board of Trustees last November.
- Retains 25 percent set-aside of fee generated revenue for State University Grants (SUG).
- Retains the \$7 million reduction in unallocated cuts, which the CSU can achieve by either reducing funding for academic preparation programs or by reducing enrollment by the same amount.

California Community Colleges (CCC)

- Increases the community colleges share of Proposition 98 funding from 10.35 percent to 10.46 percent.
- Adds \$40 million for equalization using the same equalization formula as last year, which is already in law.
- Retains \$20 million in one-time reversion account funds and adds \$17.3 million for a revised total of \$37.4 million for the Governor's Career Technical Education Initiative that requires CCC to work with middle schools and high schools to align vocational education coursework.
- Adds \$10 million in one-time funds for equipment and other start-up costs associated with the Governor's Nurse Education Initiative, which is to be funded by a combination of federal, state, private and local funds.
- Adds \$500,000 for the proposed continuation and expansion of the California Partnership for Achieve Student Success (Cal PASS), with matching amounts expected from the UC and the CSU.

- Retains \$136.7 million in Proposition 98 General Fund for enrollment growth. This represents a 3 percent growth to provide access for an additional 34,000 FTE students.
- Retains \$195.5 million Proposition 98 General Fund for a 3.93 percent cost-of-living-adjustment (COLA) and adds \$14.1 million for apportionments and \$830,000 for selected categorical programs to reflect an increase in the COLA factor from 3.93 to 4.23 percent.
- Retains the \$31.4 million set aside for restoration to community college apportionments pending the enactment of legislation based on the Board of Governors' recommendations for district-specific reporting of specified educational outcomes.

California Student Aid Commission (CSAC)

- Adds \$15.7 million associated with the revised estimates of the number of Cal Grant Entitlement awards to be issued in the current year.
- Authorizes up to 350 APLE warrants for students who participate in the Science and Math Teacher Initiative.
- Rescinds proposal to reduce new Cal Grant A and B awards for students attending private institutions by \$7.5 million maintaining current year maximum award level of \$8,322.
- Retains proposal to shift \$35 million from the Student Loan Operating Fund (SLOF) to the General fund and adds \$16 million for a revised total of \$51 million to support financial aid programs.
- Retains \$146 million in General Fund backfill to replace the SLOF funds used to support financial aid programs in the Budget Act of 2004-05.
- Retains \$200,000 in General Fund increase to implement an initial cohort of National Guard APLE program and makes technical adjustment to defer funding of warrants until 2006-07.
- Retains the \$6.8 million augmentation to reflect additional payments to new and continuing APLE recipients.

TRANSPORTATION

- Rescinds the proposal to suspend the General Fund transfer of Proposition 42 revenues, which provides \$1.31 billion to the Transportation Investment Fund. Proposition 42 was enacted by the voters of California to require that all state sales tax revenue collected on the sale of gasoline is used for transportation projects. The funds would be allocated according to current law as follows:
 - \$678 million to the Traffic Congestion Relief Fund (TCRF).
 - \$254 million to the State Transportation Investment Program (STIP).
 - \$254 million to cities and counties for local streets and roads.
 - \$127 million to the Public Transportation Account.
- Retains the proposal to suspend the General Fund transfer of Gasoline Spillover Revenue. Revised estimates have increased projected Spillover Revenue to approximately \$400 million.
- Revises the projections for the proceeds for the anticipated sale of the Tribal Gaming Bonds for the repayment of past loans to the Traffic Congestion Relief Fund. Previous projections of \$1.2 billion in revenue have been reduced by \$222 million, to \$1 billion. The reduction is a reflection of no additional Tribal Gaming Compacts. The remaining balance of \$222 million owed to the Traffic Congestion Relief fund will be repaid no later than fiscal year 2021.
- Adds \$251.6 million in resources available for programming in the 2006 State Transportation Improvement Program (STIP) Fund Estimate. Caltrans has achieved \$51.6 million in current year operation saving and anticipates a permanent savings of \$50 million beginning in the budget year, which will be redirected to transportation projects.
- Adds the Administrations GoCalifornia initiative to the Budget. The initiative contains three legislative proposals that seek to streamline project delivery, allow for innovative financing, and protect transportation funding. The May Revision proposal seeks to fund the initiative with resources from Proposition 42.
- Revises the projected need for Capitol Outlay Services Support Cost for the Department of Transportation. The May Revision proposes a net increase of \$174. 25 million and 758 full time equivalents in cash overtime and contract staff, do to increased resources from Proposition 42 and tribal revenue securitization.

HUMAN SERVICES

Department of Social Services

- Retains a proposal to suspend both the State and Federal Cost of Living Adjustments (COLAs) for the Supplemental Security Income/State Supplemental Program (SSI/SSP) for a General Fund savings of \$258.8 million in the budget year. A grant for an aged recipient would remain at \$812 per month; it would have increased by \$37 (4.1 percent) to \$849 per month in January, 2006 if the COLA was not suspended.
- Rescinds the January proposal to save \$135.9 million by limiting or eliminating renters' and homeowners' assistance payments to senior citizens and disabled persons. The budget had 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 close to the 1998 level. The homeowners property tax assistance program would be eliminated entirely—instead, the budget proposed to expand the senior property tax deferral program (\$4.7 million cost)—this proposal also has been rescinded.
- Retains a proposal to suspend the CalWORKs COLA for \$163.8 million budget year savings to the CalWORKs program. The COLA would have increased the \$723 grant for a family of three by \$34 (4.1 percent) to \$757 per month.
- Modifies a proposal to reduce CalWORKs grants by 6.5 percent by delaying the implementation of the reduction until October 1, 2005 for a \$152.8 million budget year savings to the CalWORKs program. The current grant for a family of three of \$723 would be reduced by \$47 to \$676 per month. Combined with the COLA suspension, the CalWORKs grant would be reduced from \$757 to \$676, an \$81 (10.7 percent) reduction.
- Retains a provision to delete the statutory provision that provides an annual COLA to CalWORKs grant recipients on July 1 of the fiscal year.
- Retains a proposal to reduce State reimbursements for In Home Supportive Services to minimum wage for the budget year for a savings of \$205.3 million General Fund. On July 1, 2005, the State would reduce reimbursements to the July 1, 2004 levels, reducing reimbursements to counties that increased wages in the current year. On October 1, 2005 the State would reduce reimbursements to all counties to the minimum wage. Unlike the proposal in the 2004-2005 budget, this reduction would

include a reduction to counties that had existing MOU agreements with labor unions.

- Rescinds an assumed \$12 million in savings to the CalWORKs program by "strengthening CalWORKs work requirements" through the implementation of a sanction policy.
- Modifies a proposal to implement a "pay-for-performance" provision to the CalWORKs Single Allocation. The new proposal would set \$30 million in federal TANF funds instead of setting-aside 5 percent of the CalWORKs Single Allocation and award this funding to counties that meet certain performance goals by the end of the fiscal year. Counties use the CalWORKs Single Allocation to pay for Stage 1 Child Care, employment services, and eligibility expenses. The budget assumes \$22.2 million savings to the CalWORKs program from the implementation of this provision.
- Retains a proposal to reduce CalWORKs employment services funding by \$50 million.
- Rescind a proposal to eliminate the Statutory Requirement to Increase the sample size of Community Care Licensing random visits
- Retains an assumption of \$62.6 million in savings to the CalWORKS program from the implementation of reforms to child care programs.
- Rescinds a proposal to decrease the CalWORKs Earned Income Disregard for \$82 million in savings to the CalWORKs program. The Earned Income Disregard encourages CalWORKs participants to work by allowing them to keep the first \$225 they earn through each month work without impacting their grant level. The grant levels of participants is then reduced by \$.50 for each dollar they earn above \$225 per month. The Governor's proposal would allow CalWORKs participants to earn \$200 per month without impacting the grant and would reduce their grant by \$.60 for each dollar they earned above that amount.
- Retains a proposal to shift \$316.5 million in General Fund expenditures into the CalWORKs TANF Maintenance of Effort. This shift allows cuts in the CalWORKs program to achieve savings in the General Fund. The shift is composed of expenses from: \$60 million Department of Mental Health expenditures, \$55.1 Foster Care expenditures, and \$201.4 million in juvenile probation costs.
- Retains Trailer Bill Language that require counties to pay a portion of any federal penalties levied against the State for failing to meet required child welfare services outcome standards.

- Modifies a proposal to implement California's Program Improvement Plan (PIP) that is designed to improve the State's performance on federal outcome measures for Child Welfare and Foster Care programs. The new proposal continues funding for the existing 11 counties to continue their implementation, but delays funding a new cohort of counties. Savings from this proposal is used to fund the Child Welfare Services Outcome Improvement Project.
- Adds a Child Welfare Services Outcome Improvement Project for \$5.9 million (3.7 million General Fund) savings. The project would build upon the State's efforts to improve performance through the implementation of AB 636.
- Adds \$1.1 federal funds to expand Dependency Drug Courts for a total funding of \$2 million for the program in the budget year.
- Adds \$600,000 federal funds for a proposal for Kinship/Foster Care Emergency Funds.
- Adds \$1.5 million (\$1.1 million General Fund) and 5.7 positions the settlement of the Gresher v. Anderson case.
- Adds \$305,000 for peer quality case reviews for child welfare programs.
- Adds a proposal to delay implementation of a Cash Assistance Program for immigrant's advocacy efforts for \$1.6 million in General Fund savings.
- Adds \$10.6 million General Fund to fund In Home Supportive Services Share of Cost program.
- Adds \$13.6 million (\$7.8 million General Fund) for Statewide Automated Welfare System / Welfare Case Data System Project Implementation support.

Child Support Services

- Retains a \$218 million General Fund payment for the 2005 Federal Fiscal Year (FFY) child support automation penalty. The State has received this penalty for failing to have a certified statewide-automated child support computer system.

Child Care and Development

- Retains an assumption of \$98.4 million Proposition 98 funding and \$62.9 million in the Department of Social Services budget from various child care reforms detailed below.
- Retains a proposal to create a tiered reimbursement structure for child care that will reduce reimbursement for licensed exempt care.
- Retains a proposal implement a statutory provision that would require all state child care voucher payments to be tied to amounts paid by private-pay families.
- Retains a proposal to merge current CalWORKs Stage 3 Child Care caseload into the Alternative Payment Program for no net savings in the budget year. Creates a two-year entitlement for CalWORKs Stage 3 child care. Requires current CalWORKs families to compete on the waiting list for ongoing child care Alternative Payment Program slots for child care beyond two years of CalWORKs Stage 3 child care. Also reforms the waiting list process so that families receiving current Stage 1, Stage 2, and Stage 3 child care have a better chance of securing an Alternative Payment Program voucher.
- Retains a proposal to implement a centralized child care waiting lists in each county for a \$7.9 million cost.
- Retains a proposal to change the benchmark for child care programs from the State Median Income to the Federal Poverty Level.

Department of Community Services and Development

- Retains the elimination of the Naturalization Services Program for \$1.5 million General Fund savings.

Department of Alcohol and Drug Program

- Adds \$1.1 federal funds to expand Dependency Drug Courts for a total funding of \$2 million for the program in the budget year.

HEALTH SERVICES

Department of Health Services

- Provides an additional \$7.8 million to the \$4 million proposed in the January budget to implement the California Rx Program.
- Saves \$99 million due to the delay of the nursing facility quality assurance fee and the associated rate increases from AB 1629.
- Provides \$12 million to enhance and expand mosquito control efforts across the state.
- Reduces by \$31.7 million General Fund resources for the California Children's Services, Child Health Disability and Prevention Program and the Genetically Handicapped Persons Program as a result of caseload decline.
- Saves \$68.9 million from a projected decrease in pharmacy expenditures due to higher than expected savings from the 2004-2005 pharmacy rate restructuring
- Saves \$94.3 million from a projected decrease in pharmacy expenditures due to higher than expected savings from the 2004-2005 pharmacy rate restructuring.
- Continues the cost-based payment of Los Angeles County outpatient and clinic care for Medi-Cal beneficiaries.
- Modifies the distribution of Proposition 99, cigarette tax revenues.
- Adds funding for Outreach Activities for the new Medicare prescription drug program, \$3.86 million Total Funds, \$1.56 million General Fund.
- Adds \$18.44 million Total Funds, \$9.22 million General Fund for a rate increase for the CalOptima County Organized Health System.
- Saves \$105.2 million as a result of capitation

Department of Developmental Services

- Increases the budget by \$27.1 million General Fund for the planned July 2007 closure of the Agnews Developmental Center.

- Provides \$6.2 million General Fund for the development and implementation of guidelines for consumer service plans and purchasing services by Regional Centers.
- Decreases Regional Center Purchase of Services by \$47.9 million due to updated caseload and utilization data.

Department of Mental Health

- Adds to the Early Periodic Screening, Diagnosis and Treatment Program budget \$21.4 million, \$12 million General Fund, reflecting a revised upward caseload projection.
- Adds \$90 million General Fund to reimburse counties for prior years costs claimed for the AB 3236 Program.
- Adds \$19.3 million General Fund to reflect an increase of 188 new judicially committed/penal code patients

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

- Adds \$1.7 million (Fish and Game Preservation Fund) revenue from increased streambed alteration permits.
- Adds a reduction of \$1.1 million (Fish and Game Preservation Fund) in all of the accounts of FGPF. This is the first step in the administration's effort to address the funds overall imbalance.
- Adds \$30,000 (General Fund Reimbursements) for CALFED ecosystem restoration projects. It is anticipated that the additional reimbursements will be received as contributions to ecosystem restoration projects from water users.
- Adds \$12.5 million (Special Funds) for increased grants for emission reduction projects to reduce air pollution and improve air quality to increase air quality monitoring through the Carl Moyer program. These revenues are the result of increases in current year revenue from AB 923 (Firebaugh/Pavley).
- Adds \$177.9 million reversion of Proposition 13 funds for prior year water projects that were not undertaken or were completed at a lower cost than expected.
- Adds the extension of liquidation period for \$70.8 million in Proposition 13 funds for water projects until June 30, 2007.
- Adds reappropriation of \$30 million in Proposition 13 funds for various CALFED water projects.
- Adds \$737,000 (Proposition 50) and 7 PYs for the California Bay Delta Authority Science program.
- Rescinds proposal to issue a judgment bond to fund the Paterno settlement. Instead, Merrill Lynch and Co. has agreed to securitize the settlement and provide immediate funds to the over 3000 plaintiffs that are party to the lawsuit. The State will repay a total of \$428 million from the General fund until 2015.
- Maintains \$38.35 million (Propositions 40 and 50) to provide grants for the development and protection of river parkways.

- Maintains \$11.65 million (Proposition 50) to provide grants for the acquisition of land and water resources to protect lakes, reservoirs, rivers, streams, and wetlands in the Sierra Nevada region.
- Adds \$5 million (General Fund) to accelerate the replacement of the State's Fire Engine Fleet. Added to the \$10.8 million included in the Governor's budget, total proposed funding for fire equipment replacement is \$15.8 million.
- Maintains \$11.9 million General Fund to the Department of Forestry and Fire Protection for increased staffing in Southern California facilities, and the replacement of emergency equipment.
- Adds \$3.0 million (Renewable Resources Investment Fund) to the Department of Forestry and Fire Protection to continue baseline programs of forest management, forest research and education, nurseries, seed banks, pest management and forest stewardship.
- Adds a restoration of \$6.7 million (General Fund) in unallocated reductions for Forestry and Fire Protection.
- Maintains \$1.3 million General Fund increase to the Department of Parks and Recreation for the operation of the Hearst Ranch Conservation Acquisition.
- Maintains continued flood prevention activities of the Department of Water Resources, providing \$9.7 million General Fund for levee maintenance, structural integrity evaluations, improved emergency response capabilities, and floodplain mapping.
- Maintains bond fund expenditures at the Department of Water Resources, using \$202.5 million from Proposition 50 for various water projects, including grants for regional water management projects, CALFED water use efficiency projects, and desalination projects.
- Maintains \$59.1 million funding to the Department of Water Resources by General Fund for the lining of the All-American and Coachella canals.
- Maintains \$1.563 million (federal and special funds) and 14.6 positions to the State Water Resources Control Board to expedite groundwater cleanups, respond to cleanup and oversight requests for new sites around the state.
- Maintains bond fund expenditures to protect our environment, including \$164.7 million in local assistance funding from Proposition 50 and Proposition 13 to fund projects that improve water quality.

- Maintains \$15 million to accelerate reimbursement of private parties for their underground storage tank cleanup costs, and includes an ongoing augmentation of \$32.5 million for the same purpose.

Department of Food and Agriculture

- Adds the elimination of the Agriculture Bargaining Association Advisory Board.
- Adds \$11.6 million (Special Fund) for the Specialty Crop Block Grant for California growers.
- Maintains \$8.0 million General Fund support and 137 positions for the Mediterranean Fruit Fly Program Preventative Release Program.
- Maintains \$2.7 million General Fund and 17.0 positions to address potential threats to California's food supply by animal disease or bioterrorism.
- Maintains \$1.3 million General Fund to replace old and outdated laboratory equipment in the Department's Veterinary Labs.
- Maintains \$1.1 million Agriculture Fund and 5.0 positions to inspect dairy farms for sanitation and food safety compliance.

PUBLIC SAFETY

Department of Justice

- Augments by \$6.7 million the increase of \$11.2 million from the DNA Identification Fund in 2005-06 (pursuant to the provisions of Proposition 69) or the Department of Justice to address workload resulting from expanded collections of DNA, palm prints, and thumbprints. In addition, the Budget includes \$4 million in fiscal year 2004-05 and \$3.6 million in fiscal year 2005-06 for the Department of Corrections to obtain the necessary samples from inmates and parolees.
- Retains the proposal to increase \$4 million General Fund to redesign various criminal database systems.
- Retains the proposal to increase \$1.8 million General Fund for ongoing technical support and modifications to the Violent Crime Information Network.

Department of Corrections

- Augments funding by \$85.4 million due to increased population projections.
- Adds \$5.8 million to enhance safety at the California Institution for Men (Chino).
- Decreased the savings target of \$95.3 million through population reductions in inmate and parolee programs proposed in the Governor's Budget to \$44.1 million.
- Adds \$15 million in support of a new function that develops new programs or modifies existing programs with the purpose of reducing recidivism and assisting in the transition of inmates to the community.
- Increases by \$17.3 million to support improvements in inmate dental programs. This represents the department's effort to avoid a class action lawsuit on this issue.
- Increases by \$5.2 million to enhance mental health services in institutions pursuant to the Coleman lawsuit settlement.
- Retains the proposal to transfer two fire camps from CYA.

- Provides a Special Fund augmentation of \$4 million in fiscal year 2004-05 and \$3.6 million in fiscal year 2005-06 to obtain the necessary DNA samples from inmates and parolees pursuant to Proposition 69.
- Retains the proposal to increase funding by \$30.1 million to improve the delivery of medical services to inmates and to address related litigation costs.
- Retains the proposal to provide a \$44.8 million increase to address unfunded personnel costs associated with vacancies and training requirements.
- Retains the proposal to provide \$7.5 million to reimburse local governments for the cost of the prosecution of crimes in the state correctional system.
- Retains additional funding of \$2.1 million to enhance departmental employee discipline and labor relations activities.
- Retains the assumption of the collection of \$78.5 million in federal reimbursements under the State Criminal Alien Assistance Program.

Department of Youth Authority

- Adds \$6.8 million to fund remedial plans associated with the settlement of the Ferrell v Allen litigation.
- Retains the proposal of the transfer of two fire camps to CDC (Washington Ridge and Ben Lomond).

Youth and Adult Correctional Agency

- Retains the proposal for reorganization of YACA to the Department of Corrections and Rehabilitation.
- Adds \$3.1 million to implement changes to the juvenile justice programs in the State.

Board of Prison Terms

- Augments by \$1.9 million to address increased parole revocation workload.

- Retains the transfer of duties and responsibilities to the Board of Parole Hearings as part of the proposed reorganization of the Youth and Adult Correctional Agency.

Board of Corrections

- Retains the proposal to transfer duties and responsibilities to the Correctional Standards Authority as part of the proposed reorganization of the Youth and Adult Correctional Agency.
- Retains the proposal for county probation camp funding of \$201.4 million to be provided from the federal Temporary Assistance for Needy Families. These funds will come from the budget from the Department of Social Services.
- The Governor's Budget proposed \$25 million in the Juvenile Justice Grant program funding that will be administered from this department. This represents a reduction of \$75 million as compared with current year funding for this program. The May Revision proposes the use of \$73.9 million of currently appropriated funds to be used in the budget year. The \$25 million in funding proposed for the Board of Corrections Budget in this item would be transferred to Local Government Financing (Item #9210)

Comm. on Correctional Peace Officers' Standards and Training

- Retains the proposal to transfer duties and responsibilities to the Correctional Standards Authority as part of the proposed reorganization of the Youth and Adult Correctional Agency

Office of the Inspector General

- Adds \$4.1 million to address increased workload needs at the state and federal levels.
- Adds \$3.4 million to perform pre-appointment reviews of prospective wardens and to perform audits of correctional institutions.

Judiciary and Trial Court Funding

- Continues proposal for ongoing baseline adjustment of \$92.6 million beginning in 2005-06 related to court employee salary and benefits, court employee retirement, court security, and county-provided services. This relates to the 88.4 million adjustments in the current year.
- Continues the proposal for an increase of \$97.4 million as a growth factor has been included for Trial Court Funding in the Governor's Budget.

GENERAL GOVERNMENT

Office of Planning and Research

- Adds the elimination of the Small Business Reform Task Force. This is part of the administrations statewide effort to eliminate non-essential boards and commissions.

Secretary of State

- Adds the elimination of the California Heritage Preservation Commission. This is part of the administrations statewide effort to eliminate non-essential boards and commissions.
- Maintains funding for elections of \$3 million. Due to the elimination of Section 27.00 related to deficiencies from the budget act, the State may no longer depend on deficiencies to fund the full cost of statewide elections. This increase in funding will provide for unexpected costs resulting from statewide elections.

California Science Center

- Adds authority for the Science Center to fund its Phase II project through its California Science Center Foundation. Under the agreement, the state agrees to lease the state-owned site to the Foundation and enter into a lease-purchase with the foundation upon completion of the project.

Department of Consumer Affairs

- Maintains increase for the Contractor's Licensing Board funding by \$1 million and 10.5 positions to increase enforcement levels. Working in coordination with the Departments of Labor and Workforce Development Agency, the board will increase enforcement of unlicensed contractors through sweep and sting operations. The Board will also increase the number of investigations opened as a result of consumer complaints towards contractors. This effort is part of the Administration's Economic and Employment Enforcement ("Triple E") Coalition focused on reining in the underground economy.

Department of Corporations

- Maintains \$400,000 and 1.0 position to the Seniors Against Investment Fraud (SAIF) Program, which is designed to educate senior citizens about

investment fraud and ways to protect their finances from predatory investment schemes.

Department of General Services

- Adds increase of \$9.3 million (Service Revolving Fund) and 65.7 personnel years to provide resources to allow the department to take over the Special Education Alternative Dispute Resolution program from the McGeorge School of Law.
- Adds \$429,000 (General Fund) for increased costs to provide security services at the State Capitol.
- Maintains a reduction of funding for the Office of State Publishing (OSP) by \$6.2 million and 114 positions resulting from a decrease in demand for traditional printing services. OSP will be directed to enhance its digital printing services while Departments and Agencies that are unable to fulfill printing needs through the OSP will be encouraged to utilize private industry.

Department of Financial Institutions

- Adds the elimination of the Credit Union Advisory Committee. This is part of the administrations statewide effort to eliminate non-essential boards and commissions.

Department of Corporations

- Adds the elimination of the Mortgage Bankers Advisory Committee. This is part of the administrations statewide effort to eliminate non-essential boards and commissions.

Department of Real Estate

- Adds the elimination of the Real Estate Advisory Committee. This is part of the administrations statewide effort to eliminate non-essential boards and commissions.

Military Department

- Maintains funding for the Oakland Military Institute by \$1.3 million and an additional 10.5 positions to provide for an increased enrollment of approximately 200 students and provide sufficient Military Department instructors to meet the originally authorized staffing ratio of 30 students per instructor.

Department of Veterans' Affairs

- Adds partial restoration of \$876,000 for unallocated reductions included in the Governor's January 10 Budget.
- Reduces \$940,000 General fund and increases \$2 million (federal funds) in funding to convert Residential Care for the elderly beds to Intermediate Care Facility Beds at the Chula Vista Home.

Strategic Sourcing

- Rescinds projected current year revenue expectations of \$48 million and budget year expectations of \$96 million. Instead, the administration requests authority to periodically reduce departmental appropriations as actual savings data becomes available.

Department of Technological Services

- Creates the Department of Technology Services from the consolidation of the Stephen P. Teale Data Center, the Health and Human Services Data Center (excluding the Systems Integration Division, which will be transferred to the Health and Human Services Agency) and the voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services. The Department of Technology Services will be the general-purpose technology service provider for the Executive Branch and will continue to provide the information and telecommunication services provided by the previous consolidated entities.

State Teachers Retirement System

- Retains January 10 proposal to shift \$469 million in state teacher retirement costs to school districts and community colleges. In order to maintain current investments in teacher retirements, school districts and community colleges would either have to pay for this additional expense out of their existing budgets (equating to a \$469 million cut statewide), or teachers will have to contribute more toward their retirement (which will essentially mean a pay cut for teachers).

Office of Emergency Services

- Adds \$35 million for response and recovery programs related to the Southern California floods.

- Adds \$5 million in support of new fire engines for mutual aid support. There is a related item to purchase additional fire engines for the Department of Forestry and Fire Protection.
- Retains \$300,000 for funding of the CALGANG project.
- Retains an augmentation of \$462,000 in support of benefits to Disaster Service Worker Volunteer Program participants that incur injury.
- Retains funding of \$1.8 million in support of the administration of federal homeland security grants.
- Retains a reduction to local public safety grants by \$4 million. (Community Crime Resistance Program, Career Criminal Apprehension Program, Serious Habitual Offender Program, Drug Abuse Suppression in Schools Program, Rural Crime Prevention Program).

Office of Homeland Security

- Adds legislative authority to create the Office of Homeland Security as an agency.
- Adds \$146.4 million in federal spending authority to take advantage of federal homeland security grants.

Employee Compensation

- Revises the Governor's Budget proposal for \$198 million (\$260 million all funds) in support of existing obligations under Memoranda of Understanding in 2005-06, by including funds in recognition of the agreements for Bargaining Unit #9 and #12.
- Retains the proposal to increase employee's share of retirement contributions by \$205.8 million (\$374 million all funds).
- Retains the proposal legislation to allow new employees to elect to leave PERS saving \$90.2 million (\$164 million all funds).
- Retains the proposal to deny new employees health care coverage until 6 months of employment have been completed at a saving and placing new limits on employer contributions for health care benefits for a savings of \$30 million (\$55.3 million all funds).
- Retains the proposal to implement a five day furlough for non-public safety employees at a savings of \$60 million (\$109 million all funds).

- Retains the proposal to eliminate two state holidays for a savings of \$1.7 million (\$3.1 million all funds).
- Retains the proposal to eliminate the recognition of paid leave for the purposes of calculating overtime hours worked for a savings of \$20 million (\$36.4 million all funds).
- Retains the imposition of limits on the accrual of employee earned vacation and annual leave. The Administration has not identified a savings associated with this proposal.
- Retains a \$150 million unallocated reduction for departments and agencies under the Administration.

Health and Dental Benefits for Annuitants

- Restores the proposed \$34.5 million savings in medical premium costs associated with the implementation of the Medicare Part D program.

Section 3.60 retirement rates

- Proposes a 15-year smoothing of investment gains and losses for a savings of \$152 million (\$251.5 million all funds).

Local Government

- Retains the ongoing funding of probation camps from TANF funds (\$201 million). These funds will come from the budget of the Department of Social Services.
- Rescinds the proposal to eliminate \$18.5 million for rural county sheriff departments.
- Redirects \$75 million in current year Juvenile Justice Grant Program funding to the Budget Year. (See Board of Corrections). Transfers the remaining \$25 million from the Board of Corrections to this item.
- The May Revision proposes to repay about half (\$593.4 million) of the VLF "Gap Loan" to cities and counties. This payment currently is not due until August 2006.
- \$75 million reduction to Juvenile Justice Grant Program. The remaining \$25 million will be included in the budget of the Board of Corrections

California Gambling Control Commission

- Revises a request for \$4.8 million in special funds, down to \$2.3 million to address additional workload associated with the Tribal-State Gaming Compacts that include state compliance requirements.

Office of State Inspector General

- Adds \$2.3 million for the creation of the Office of State Inspector General for the purpose of providing oversight of state agencies. The State Inspector General would be nominated by the Governor and confirmed by the Senate. This agency would not have jurisdiction over the Department of Corrections and Rehabilitation.
- Retains proposal for \$1.8 million and 17 positions to expand the Abusive Tax Shelter Task Force at the Franchise Tax Board. Anticipated revenue is \$43 million in 2005-06 and \$60 million in 2006-07.
- Retains proposal for \$8.6 million and 99.2 positions to expand "Tax Gap" enforcement efforts to collect unpaid income taxes. Anticipated revenues are \$34 million in 2005-06 and \$46 million in 2006-07.
- Restores \$2.5 million of a proposed January reduction of \$5.7 million for property tax administration grants to county assessors in 2005-06.

Senior Citizens' Tax Relief Programs

- Rescinds the January proposal to save \$135.9 million by limiting or eliminating renters' and homeowners' assistance payments to senior citizens and disabled persons. The budget had 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 close to the 1998 level. The homeowners property tax assistance program would be eliminated entirely—instead, the budget proposed to expand the senior property tax deferral program (\$4.7 million cost)—this proposal also has been rescinded.

Department of Housing and Community Development

- Retains a reduction in the Emergency Housing Assistance Program grant funds for homeless shelters of \$864,000 (to \$3.1 million).
- Adds \$750,000 from the General Fund for a new program to assist in the creation of shelter and services for homeless persons.
- Allocates \$9.5 million of Proposition 46 housing bond funds to address health and safety deficiencies at state-owned migrant housing facilities.