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For a glossary of budget terms, visit:

<http://www.dof.ca.gov/fisa/bag/DofGlossFrm.htm>

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## INTRODUCTION

This budget proposes the difficult but necessary steps needed to bring the state's chronic structural deficit under control, not only for this fiscal year but permanently. This is accomplished by (1) imposing strict spending restraint in the current and budget years while protecting and preserving essential state services, and (2) proposing a Constitutional Amendment to reform the budget process so that state government has the tools needed to avoid spending more than it has in the future.

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### ORIGIN OF THE STRUCTURAL DEFICIT

For the last three decades, the state's budget has swung in and out of balance. The enactment of Proposition 13 in 1978 dramatically reduced local property tax revenues, resulting in equally dramatic increases in the state's fiscal obligations to programs formerly financed mainly by local government, such as schools, social services, health and mental health care and law enforcement. This set off a round of recalibrations of the state budget during periods of strong economic growth punctuated by several recessions. By 1998, however, the state's fiscal house appeared to be in good order.

## INTRODUCTION

Long-term projections showed spending in line with revenue for years to come.

Between 1998-99 and 1999-2000, however, revenues jumped 23 percent due to a stock market and dot-com boom that drove unprecedented increases in stock option and capital gains income. These were magnified from a state revenue perspective because the state's income tax system relies disproportionately on the very high-end earners most likely to receive such gains. In 2005, California taxpayers with incomes over \$119,000, who constituted 10 percent of all taxpayers, paid 78.3 percent of the personal income tax.

The structural deficit was created when the state added new, permanent spending increases that relied on these one-time revenue gains. In addition to major new commitments, costs in many state programs have been driven up by spending formulas, caseload and population growth, wage and provider rate increases and court orders. Figure INT-01 displays the major components of General Fund spending growth since 1998. Specifically, it compares the General Fund workload budget for 2008-09 to actual spending in 1998-99. The workload budget is what it would cost the state to operate government in 2008-09 in the absence of any changes in law or policy to restrain spending growth.

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## **THE FISCAL CRISIS OF 2003-04 AND THE WORKOUT PLAN OF 2004-05**

When the revenue boom of 2000 turned to bust in the recession of 2001, the higher rates of state spending enacted during the boom years resulted in one of the worst deficits in the state's history. In response, the budget of 2003-04

Figure INT-01  
**Major General Fund Spending Growth Since 1998-99**  
(Dollars in Millions)

	<b>1998-99 Actual</b>	<b>2008-09 Workload Budget</b>	<b>Average Annual Percentage Growth</b>
Proposition 98--K-14 Education	(\$24,672)	(\$44,418)	(6.1%)
Base Program	\$24,672	\$38,271	4.5%
VLF Tax Cut Impact	0	6,147	NA
Medi-Cal	7,471	14,798	7.1%
In-Home Support Services	530	1,758	12.7%
Developmental Services	714	3,002	15.5%
Healthy Families	16	432	39.4%
Other Health and Human Services	7,332	11,864	4.9%
Corrections and Rehabilitation	4,547	10,503	8.7%
Debt Service, Lease Payments, and Revenue Anticipation Notes Interest Costs	1,974	4,890	9.5%
Proposition 42	0	1,485	NA
Courts	907	2,467	10.5%
Higher Education (excluding Community Colleges)	5,142	7,001	3.1%
Contribution to State Teachers Retirement System	293	1,279	15.9%
Proposition 58 Transfers to Retire Economic Recovery Bonds	0	1,509	NA
Health and Dental Benefits for Retirees	310	1,263	15.1%
Other	3,918	5,092	2.7%
<b>Total</b>	<b>\$57,827</b>	<b>\$111,761</b>	<b>6.8%</b>

borrowed money to cover the deficit of the prior year and closed the budget gap with over \$5 billion in one-time solutions, leaving the state facing a \$14 billion budget gap in the subsequent year.

The Governor's Budget for 2004-05 proposed a workout plan for the state's budget by proposing to refinance the borrowing begun in the previous year and restrain spending growth, thus buying time for normal revenue growth to catch up with spending demands and bring the state back to long-term

fiscal balance. Had this plan been fully implemented, the state would not have a structural deficit today.

However, the plan was never fully implemented. Shortly after the workout plan was proposed, state General Fund revenues experienced another unanticipated growth spurt. The unanticipated revenues built a large reserve, which made it possible to balance the budgets for 2005-06 and 2006-07 without making major program reductions. Given the improved revenue picture and the difficulty of the choices that would have had to have been made to restrain spending growth rates in the long term, the Legislature declined to enact the statutory changes necessary to slow overall spending. In other words, the most important element of the workout plan – spending restraint – was never put in place.

While revenue growth slowed somewhat in 2006-07, spending continued to grow. This was not because of any major new commitment, but because not enough had been done to change the underlying statutory programs that were driving spending increases. While 2005-06 and 2006-07 budgets were enacted with a prudent reserve, the structural deficit remained. Our projections in both of those years showed that the deficit would re-emerge in 2007-08.

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## **REFORMING THE BUDGET PROCESS, THE BUDGET STABILIZATION ACT**

The state's budget history shows that there are two shortcomings in the budget process that have led to recurring budget deficits. First, the state tends to spend all the money it takes in during years of high revenue growth or when it has a large available reserve. Thus, high-growth years lead

to unsustainable levels of spending for the long run. Second, the state has not been able to slow spending growth fast enough to bring it back in line with a realistic projection of future revenues.

In order to address these two problems and restore the state to long-term balance, the Governor's Budget proposes the Budget Stabilization Act, a Constitutional Amendment to reform the state budget process. The reform would prevent over-budgeting based on extraordinary revenue gains and give the state the tools it needs to quickly reduce spending when necessary to avoid a deficit.

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## **AVOIDING OVER-BUDGETING BASED ON EXTRAORDINARY REVENUE GAINS**

In order to prevent reliance on unsustainably high revenue gains, the Budget Stabilization Act will require that excess revenues – revenues above a reasonable, long-term average rate of growth—be deposited in the Revenue Stabilization Fund. In years of below-average rates of revenue growth, monies will be transferred from the Revenue Stabilization Fund back into the General Fund in an amount not to exceed the shortfall. When the Revenue Stabilization Fund exceeds an amount equivalent to 10 percent of General Fund revenues in a given year, the excess will be available for one-time spending for schools (in proportion to the Proposition 98 share of total General Fund revenues) and providing one-time tax rebates, investing in one-time infrastructure projects, or paying off debt.

The Act allows transfers from the Revenue Stabilization Fund back into the General Fund only in years when revenue

grows at a rate less than the long-term average. Transfers would NOT be allowed simply to avoid deficits, not even in emergencies. The state already has mechanisms for addressing emergencies, including the ability to temporarily raise taxes with a two-thirds vote of the Legislature.

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### **GIVING THE STATE THE TOOLS TO QUICKLY REDUCE SPENDING WHEN NECESSARY**

To ensure that the state quickly reduces spending to sustainable levels, the Budget Stabilization Act will provide for automatic reductions. These reductions will be triggered whenever the Governor projects that the state will be in deficit. The Governor will be required to estimate the year-end balance in the General Fund three times each year – in November, January and May. When this estimate shows a likely General Fund deficit of one percent or less, the Governor will reduce appropriations, on an annualized basis, by 2 percent; when it shows a deficit of greater than one percent of appropriations will be reduced by 5 percent. Given the difficulty of achieving actual savings during the fiscal year, the reductions will be pro-rated for the amount of time remaining in the year.

The Act will also require the Legislature and the Governor to enact statutory changes in all state entitlement programs that allow for reductions in service levels or rates of payment sufficient to achieve the targeted reductions of 2 and 5 percent. In order to ensure that a full year of savings is achieved by these program reductions, they will remain in effect, once triggered by a projected deficit in a particular year, not only for the remainder of that year, but until the Legislature takes a subsequent action, either in the next Budget Act or in



separate legislation to restore the prior levels of service. In the event that the Legislature fails to enact a schedule of program reductions in a given program, or if the reductions authorized by the Legislature are insufficient to achieve the required annualized savings goals, the Governor will be authorized to waive any state law or regulation necessary to achieve the full amounts of the reductions.

Not all state appropriations could be reduced under the Act. For example, debt service will not be subject to reduction. To ensure that reductions are not inconsistent with the United States or California Constitutions, the Governor will be required to exempt appropriations from reduction if the reduction would be constitutionally unenforceable.

The Budget Stabilization Act will not change any vote threshold. Tax increases, urgency measures and most General Fund appropriations will still have to be enacted by two-thirds majorities in both houses of the Legislature.

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## **THE STATE FACES A \$14.5 BILLION DEFICIT IN 2008-09**

The Budget Act of 2007 projected a reserve of \$4.1 billion, the largest planned reserve in the state's history. It also showed that the deficit would re-emerge next year with spending exceeding revenues by \$6.1 billion.

Since those projections were made, the budget situation has deteriorated dramatically. Figure INT-02 displays the major changes that have resulted in a projected shortfall of \$14.5 billion by the end of 2008-09, in the absence of any changes to state law or policy to reduce spending.

Figure INT-02  
**\$14.5 Billion General Fund Deficit**  
**Workload Budget**<sup>1/</sup>  
(Dollars in Billions)

	2007-08	2008-09
<b>2007 Budget Act Reserve</b>	<b>\$4.1</b>	
Changes in Beginning Balance/ Carryover from 2007-08	-0.5	<b>-\$3.3</b>
2007-08 Operating Deficit		<b>-\$6.7</b> <sup>2/</sup>
Major Revenues Decrease/Increase (-/+)	-4.2	4.6
Other Revenues	-0.7	-1.4
Expenditure Increases:		
Proposition 98	-0.6	-2.3
All Others	-1.4	-5.4
<b>2008-09 Operating Deficit</b>		<b>-\$11.2</b>
<b>2008-09 Governor's Budget</b>	<b>-\$3.3</b>	<b>-\$14.5</b>
<b>Workload Budget Deficit</b>		
<b>Operating Deficit</b>	<b>-\$6.7</b> <sup>2/</sup>	

<sup>1/</sup> Workload budget reflects the projected costs of state government if no corrective actions are taken.

<sup>2/</sup> The operating deficit for 2007-08 reflects spending more in that year than the revenues collected that year. This operating deficit carries forward into 2008-09 and is increased by projected spending increases partially offset by revenue increases.

## ACHIEVING BALANCE IN 2007-08 AND 2008-09

If the Budget Stabilization Act had been in effect since 1998, the state would not have developed a structural budget deficit. It is possible, even likely, that there would be some deficit in years such as this one. However, in that event the Act would have triggered automatic reductions in spending early in the year. Because such mid-year reductions do not usually achieve a full year’s worth of savings, under the provisions of the Act, they would remain in effect into the subsequent year, or until superseded by a new budget or other statutory change enacted by the Legislature.

The Budget proposes a very similar approach to achieving balance this year and next. Specifically, the Budget proposes numerous statutory changes to reduce spending to take effect by March 1, 2008. In order to achieve this ambitious timeline and to avoid a current-year cash shortfall, the Governor has declared a fiscal emergency and called a special session pursuant to Proposition 58 (see textbox for background).

### **PROPOSITION 58**

Proposition 58 was approved by the voters in 2004. It requires the Legislature to enact a balanced budget and it authorizes the Governor to declare a fiscal emergency and call a special session of the Legislature to address it when a significant budget shortfall looms. The Governor declared such an emergency this year. The measures he is proposing to address the emergency are described below. Under the Proposition, the Legislature has 45 days to act on these measures or they are prevented from acting on other bills or adjourning.

In addition to the ten-percent reductions, the budget also proposes to sell the \$3.3 billion of authorized Economic Recovery Bonds (ERB's) and to suspend the pre-payment of ERBs scheduled for 2008-09. Figure INT-03 summarizes the major changes proposed to balance the budget.

Figure INT-03  
**How We Closed the Budget Gap**  
(Dollars in Millions)

	<u>2007-08</u>	<u>2008-09</u>
Workload Reserve	-\$3,318	-\$14,479
Impact of 2007-08 Solutions on 2008-09 Beginning Reserve		4,190
10-Percent Reductions	217	9,132
Sell Economic Recovery Bonds	3,313	
Proposition 58 Suspension		1,509
Reduce Proposition 98 Overappropriation	400	
Other Special Session Reductions	200	96
Accrual of June Personal Income Tax and Corporate Tax		2,001
Franchise Tax Board and Board of Equalization collection and enforcement enhancements	60	329
<b>Reserve at Governor's Budget</b>	<b>\$872</b>	<b>\$2,778</b>

## BUDGET-BALANCING REDUCTIONS

In order to close the \$14.5 billion budget gap, the proposed Governor's Budget includes 10-percent across-the-board reductions to all General Fund departments and programs, Boards, Commissions, and elected offices-including the legislative and judicial branches-except where such a reduction is in conflict with the state constitution or impractical.

This statewide across-the-board reduction approach touches nearly every General Fund program in every department within each branch of state government. While these reductions present numerous challenges to implement, this across-the-board reduction approach is designed to protect essential services by spreading reductions as evenly as possible so that no single program is singled out for severe reductions. Reductions to General Fund budgets not under the control of the Administration are proposed as unallocated reductions. The unallocated General Fund reductions apply to the judicial and legislative branches of government and other entities such as the University of California and some very small executive branch entities.

The amount of the reductions by entity was determined by first establishing the workload budget for 2008-09 pursuant to Government Code Section 13308.05 and existing policies,

## MAJOR EXEMPT PROGRAMS

### Constitutional Restrictions

- Debt Service/Lease Payments
- Homeowners Exemption
- Health and Dental Benefits for Retirees
- Proposition 42
- Contributions to Public Employees, Judges and Teachers Retirement Systems

### Impractical to Implement

- Medi-Cal Rates for Certain Long-Term Care Facilities
- State Hospitals
- Major Revenue Generating Departments (Franchise Tax Board and Board of Equalization)
- CalGrant High School and Community College Entitlement Grants
- Juvenile Justice Programs
- Health Care for Inmates
- Proposition 58 Budget Stabilization Account Transfer (fully suspended)
- Capital Outlay
- Undistributed Employee Compensation
- Non-Proposition 98 Mandates

and reducing the amount for exempt programs, establishing a base for the across-the-board reduction from which a 10-percent reduction amount was calculated. Many of the reductions will require statutory and/or regulatory changes for implementation. Many of the reductions require early implementation in 2007-08 to achieve a full 10-percent reduction in 2008-09.

Within the entire state budget, some programs cannot be reduced for constitutional or practical reasons. See text box “Major Exempt Programs” for a list of exempt programs due to constitutional restrictions or where program reductions are not practical. Through the allocation process described above as implemented by Control Section 4.44, total savings of \$216.6 million in 2007-08 and \$9.1 billion in 2008-09 are proposed.

Figure BBR-01 summarizes the reductions in General Fund amounts and personnel years by agencies. Control Section 4.44 provides a listing of the reduction amount by department. A new statewide display (under item 9944) is provided in the Governor’s Budget. This new display reflects the amount of reductions by agency, department, program, and component, if applicable.

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## NEED FOR A PRUDENT CASH RESERVE

When the 2007-08 Budget was enacted, the cash flow projected for the state estimated the fiscal year would end with a healthy cash balance of \$11.6 billion after fully repaying \$7 billion of Revenue Anticipation Notes (see text box) issued in November 2007. The \$11.6 billion would be more than sufficient to fund July and August 2008 cash needs. However,

Figure BBR-01  
**Budget-Balancing Reductions by Agency**  
(Dollars in Thousands)

Agency	2007-08		2008-09	
	Reductions	Personnel Years	Reductions	Personnel Years
Legislative, Judicial, and Executive	-\$6,568	-8.5	-\$362,847	-34.1
State and Consumer Services	-1,179	0.0	-5,345	-34.2
Business, Transportation, and Housing	-200	0.0	-2,028	-4.1
Resources	-4,204	0.0	-89,271	-296.5
Environmental Protection	-1,600	0.0	-8,338	-16.5
Health and Human Services	-181,062	-11.2	-2,661,209	-367.5
Corrections and Rehabilitation	-17,882	-200.0	-378,901	-5,854.0
K-12 Education	0	0.0	-4,357,251	0.0
Higher Education	0	0.0	-1,132,903	0.0
Labor and Workforce Development	-150	-1.8	-2,055	-16.4
General Government	-3,788	-27.6	-131,947	-213.6
<b>Total Reductions<sup>1/</sup></b>	<b>-\$216,633</b>	<b>-249.1</b>	<b>-\$9,132,095</b>	<b>-6,836.9</b>

<sup>1/</sup> The dollars and personnel years are included in the General Government agency in the applicable Summary Schedules; therefore, not included in the other agencies in those schedules.

since enacting the budget, the budget reserve has deteriorated significantly because of lower-than-expected revenues and higher expenditures. The current year reserve is now projected to have deteriorated from \$4.1 billion to a negative \$3.3 billion, absent corrective actions. The deterioration in the budget reserve has also resulted in a projected cash shortage in March, July, and August 2008 unless swift and significant cash management solutions are put in place.

The Constitution makes payment of Debt Service on General Obligation Bonds one of the state’s two highest fiscal priorities (second only to payments to local school districts).



The Administration is firmly committed to managing cash flow to ensure that timely payment of the state's debts will never be jeopardized. Without prompt action by the Legislature, the state would face a potential cash flow crisis in March, July, or August. Therefore, the Governor's Budget proposes cash management solutions totaling \$8.7 billion. The major cash management solutions proposed are:

- \$3.313 billion—Sell Economic Recovery Bonds by the end of February 2008. Proposition 57 authorizes the sale of these bonds. Therefore, no legislative action is needed to achieve this cash flow solution in time to avoid a problem in March.
- \$1.300 billion—A two-month delay in disbursement of deferred apportionments for K-12 schools and community colleges.
- \$814 million—A two-month delay in disbursements for programs in the Department of Social Services.
- \$584 million—Split the STRS Supplemental Benefit Maintenance Account payment and delay the payment from July to November and April.
- \$500 million—A one-to-five-month delay in gas tax disbursements for local streets and roads, increasing borrowable resources.
- \$454 million—A delay of the four weekly checkwrites for Medi-Cal fee-for-service institutional providers in August until September.
- \$400 million—A delay of \$400 million in advances to regional centers.

## BUDGET-BALANCING REDUCTIONS

- \$400 million—Reduction in 2007-08 Proposition 98 overappropriation.
- \$232 million—A one-month delay in the Medi-Cal Managed Care Plan payment and Delta Dental Plan payment.
- \$200 million—A two-month delay of the mental health managed care program advance.
- \$165 million—A delay in disbursement for Medi-Cal fee-for-service checkwrite from June to July.
- \$164 million—A one-to-two-month delay in making first quarterly payment to counties for Medi-Cal administration.
- \$92 million—A two-month delay in the quarterly advance to counties for the Early and Periodic Screening, Diagnosis, and Treatment Program.
- \$113 million—Other issues.

## **REVENUE ANTICIPATION NOTES (RANs)**

- The state routinely issues RANs to overcome cash flow imbalances during a fiscal year. Because receipts and disbursements occur unevenly throughout the fiscal year, the General Fund needs to borrow for cash flow purposes even when the budget is balanced.
- RANs cannot be issued until the budget is enacted and it takes a number of weeks after budget enactment to issue and close the transaction.
- RANs must be repaid within the same fiscal year.
- In 2007-08, \$7 billion of RANs were sold in November 2007.

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## ECONOMIC OUTLOOK

The California and national economies faced considerable headwinds in 2007—a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally (Figure ECO-01).

The effects of the housing slump are evident in a broad range of measures of the national economy. New home sales will likely be down between 35 and 40 percent in 2007 from their peak level in 2005 and new single-family home building, about 25 percent from the peak level in 2006. Total job growth will be the smallest since 2004, and unless future revisions change

Figure ECO-01  
**Key Economic Indicators**  
(Annual Percent Change, except for New Housing)

	2007	Forecast	
		2008	2009
U.S. Real Gross Domestic Product	2.1	1.9	2.9
California Nonfarm Employment	0.8	0.7	1.0
California Personal Income	5.6	4.8	5.2
California Consumer Price Index	3.3	2.6	2.7
California New Housing Units (Thousands of Total Units)	117	95	104

Forecast based on data available as of November 2007

the historical numbers significantly, real GDP growth will be the lowest since 2002.

## THE NATION

The struggling housing sector continued to slow the national economy in the first 11 months of 2007. Home building, home sales, and related retail sales all declined. The slowdown in home building alone reduced national output growth by almost one percentage point, on average, in the first three quarters of the year. As 2007 closed, there was little evidence that the housing downturn is abating. The problems with subprime mortgages have raised financial market volatility and have spurred a credit tightening that not only could delay a housing recovery, but hurt parts of the economy outside the housing sector as well.

The outlook for the national economy is for slower growth in 2008 and improved growth in 2009 and 2010. Real GDP is projected to grow 1.9 percent in 2008, and 2.9 percent in

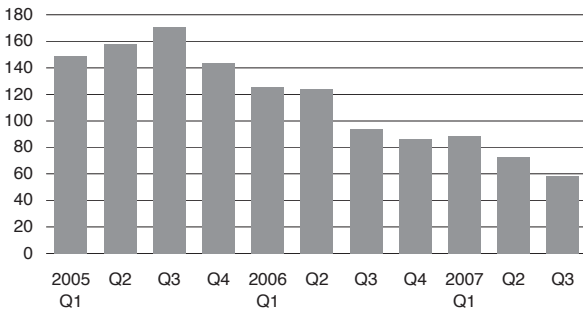
2009 and 2010, as compared to 2.1 percent in 2007. Nonfarm payroll employment is forecast to increase 0.8 percent in 2008, 1.2 percent in 2009 and 1.3 percent in 2010, as compared to 1.3 percent in 2007.

## CALIFORNIA

In California, where the housing slump has been deeper than the vast majority of other states, single-family housing permits in the third quarter of 2007 were only about one third of their level in the third quarter of 2005 and existing home sales, about half of their level two years ago (Figure ECO-02).

Figure ECO-02

### California Single-Family Housing Permits 1,000s of Units, Seasonally Adjusted Annual Rate



Source: Construction Industry Research Board

Total personal income has held up surprisingly well in California during the housing slump. This broad measure of the economy was 5.8 percent higher than a year earlier in the first half of 2007, which is not much lower than the 6.5 percent growth in both 2005 and 2006.

However, the housing slump and higher energy prices have taken a significant toll on other measures of the economic performance. Taxable sales decelerated in 2007. New vehicle registrations fell in 2006 and in the first nine months of 2007.

The outlook for the California economy is also for slower growth in 2008 followed by improved growth in 2009 and 2010. Personal income is projected to grow 4.8 percent in 2008, 5.2 percent in 2009, and 5.4 percent in 2010, as compared to 5.6 percent in 2007. Nonfarm payroll employment is forecast to increase 0.7 percent in 2008, 1.0 percent in 2009 and 1.6 percent in 2010, as compared to 0.8 percent in 2007.



## REVENUE ESTIMATES

As 2007 progressed, economic problems had an increasingly negative effect on California's revenue collections. Baseline revenues in 2007-08 are now expected to total \$96.4 billion—\$4.8 billion below the forecast that was used for enactment of the 2007 Budget. For 2008-09, baseline revenues are expected to grow to \$99.1 billion, a 2.8-percent increase from 2007-08. With the Administration's revenue proposals for addressing the budget problem, revenues are estimated to be \$101.2 billion in the current year and \$102.9 billion in budget year.

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### MAJOR REVENUE SOURCES

Figure REV-01 summarizes the General Fund forecast for 2007-08 and 2008-09 and provides a preliminary report of receipts for 2006-07, compared to the 2007 Budget Act forecast.

Personal income tax revenues are estimated to be \$52.7 billion in 2007-08 and \$56.5 billion in 2008-09. Capital gains grew 4 percent in 2006 and are expected to be flat in 2007 and decline 3 percent in 2008. The estimate includes \$28 million

Figure REV-01  
**2008-09 Governor's Budget**  
**General Fund Revenue Forecast**  
**Summary Table**  
**Reconciliation with the 2007-08 Budget Act**  
(Dollars in Millions)

Source	Budget	Governor's	Change	
	Act	Budget	Between Forecasts	
<b>Fiscal 06-07</b>				
Personal Income Tax	\$52,243	\$51,943	-\$300	-0.6%
Sales & Use Tax	27,787	27,445	-\$342	-1.2%
Corporation Tax	10,717	11,158	\$441	4.1%
Insurance Tax	2,166	2,178	\$12	0.6%
Alcoholic Beverage	321	334	13	4.0%
Cigarette	119	115	-4	-3.4%
Other Revenues	2,224	2,261	\$37	1.7%
Transfers	<u>-36</u>	<u>-19</u>	<u>\$17</u>	47.2%
<b>Total</b>	<b>\$95,541</b>	<b>\$95,415</b>	<b>-\$126</b>	<b>-0.1%</b>
<b>Fiscal 07-08</b>				
Personal Income Tax	\$55,236	\$52,681	-\$2,555	-4.6%
Sales & Use Tax	28,820	27,689	-\$1,131	-3.9%
Corporation Tax	11,055	10,675	-\$380	-3.4%
Insurance Tax	2,181	2,075	-\$106	-4.9%
Alcoholic Beverage	325	334	9	2.8%
Cigarette	120	116	-4	-3.3%
Other Revenues	3,804	6,440	\$2,636	69.3%
Transfers	<u>-302</u>	<u>1,220</u>	<u>\$1,522</u>	--
<b>Total</b>	<b>\$101,239</b>	<b>\$101,230</b>	<b>-\$9</b>	<b>0.0%</b>
Change from Fiscal 06-07	\$5,698	\$5,815		
% Change from Fiscal 06-07	6.0%	6.1%		
<b>Fiscal 08-09</b>				
Personal Income Tax	\$58,710	\$56,458	-\$2,252	-3.8%
Sales & Use Tax	30,545	29,215	-\$1,330	-4.4%
Corporation Tax	11,175	11,937	\$762	6.8%
Insurance Tax	2,246	2,276	\$30	1.3%
Alcoholic Beverage	326	341	15	4.6%
Cigarette	121	119	-2	-1.7%
Other Revenues	2,281	2,501	\$220	9.6%
Transfers	<u>-1,895</u>	<u>57</u>	<u>\$1,952</u>	--
<b>Total</b>	<b>\$103,509</b>	<b>\$102,904</b>	<b>-\$605</b>	<b>-0.6%</b>
Change from Fiscal 07-08	\$2,270	\$1,674		
% Change from Fiscal 07-08	2.2%	1.7%		
<b>Three-Year Total</b>			<b>-\$740</b>	

in additional revenues from redirecting Franchise Tax Board rent savings to revenue generating purposes in both 2007-08 and 2008-09. Budget year revenues also include a one-time acceleration of \$1.2 billion from bringing the tax revenue accruals into conformity with Generally Accepted Accounting

## MAJOR REVENUE PROPOSALS

- Sell \$3.3 billion of Economic Recovery Bonds in the current year.
- Transfer \$1.5 billion from the Budget Stabilization Account to the General Fund in the current year and eliminate the \$1.5 billion transfer to the Budget Stabilization Account in the budget year.
- Accrual of \$2 billion in June personal income tax and corporate tax estimated payments in 2008-09.
- Reinstate the 12-month use tax requirement for vehicles, vessels, and aircraft.
- Augment the Franchise Tax Board's budget in order to help address the tax gap, prevent fraudulent refund claims, and address growth in the audit workload.
- Augment the Board of Equalization's budget to help improve tax compliance.

Principles, \$52 million in additional revenues from Franchise Tax Board revenue enhancing measures and \$22 million from additional efforts to reduce the tax gap.

Sales and use tax revenue is forecast at \$27.7 billion in 2007-08 and \$29.2 billion in 2008-09. Preliminary data for the first three quarters indicate that taxable sales for the year are expected to grow by only 0.9 percent in 2007. The slowdown in 2007 is attributed primarily to the weak housing market. Taxable sales are anticipated to recover somewhat in 2008

as the housing market begins to improve, increasing by 3.4 percent over 2007 sales. In 2009, growth of 4.6 percent is expected. The estimate for 2008-09 includes \$21 million in additional General Fund revenues from making permanent the use tax on vessels, vehicles, and aircraft brought into the state less than one year from purchase. Another \$57.7 million in General Fund revenue will result from certain measures adopted by the Board of Equalization intended to increase tax revenues and reduce the tax gap.

Corporation tax revenues are expected to total \$10.7 billion in 2007-08 and \$11.9 billion in 2008-09. The 2008-09 estimate includes a one-time acceleration of \$847 million from bringing the tax revenue accruals into conformity with Generally Accepted Accounting Principles and \$14 million from additional efforts to reduce the tax gap.

## THE CALIFORNIA STRATEGIC GROWTH PLAN

**I**n January 2006, an ambitious rebuilding of California was launched with the Strategic Growth Plan (SGP), which was designed to restore and maintain our roads, schools, ports, and water supply. By investing and leveraging billions of dollars in the state's infrastructure over the next 20 years, California can maintain its economic sustainability and high quality of life. In November 2006, the voters approved the first installment of that 20-year vision to rebuild California. Then, in 2007, the Legislature authorized \$7.7 billion in lease-revenue bond authority for the California Department of Corrections to address prisons and jail overcrowding, and to improve the delivery of mental, dental, and medical services within the correctional system.

Additional investments in the state's infrastructure are still needed if California is to maintain and improve its highly valued quality of life and continue its economic growth. Many programs are still in need of funding, partnerships with the private sector should be leveraged, and a more coordinated effort of state agencies to promote sustainability and collaboration is needed. To address these critical gaps that remain in California's infrastructure, the Administration proposes the following:

- The creation of a Strategic Growth Council to coordinate the activities of state agencies to promote sustainability and to coordinate the investment of funds in state-owned and state-funded infrastructure.
- The establishment of Performance Based Infrastructure (PBI) California to provide a center of excellence of specialized experts for the delivery of PBI. This expertise will be used in a manner that will allow projects to be delivered in an innovative yet efficient manner and to ensure those projects are built to achieve the greatest life cycle benefits.
- Legislation to place an \$11.9 billion bond measure before the voters to expand the state's water supply and management systems to meet the needs of population growth and manage the effects of climate change on California's hydrology and water delivery systems.
- Legislation to place an \$11.6 billion bond measure before the voters to continue funding of the state's K-12 schools beyond the two years of financing provided by the current bonds to prepare for enrollment growth, reduce overcrowding, and repair dilapidated classrooms in compliance with the settlement agreement in *Williams v. State of California*.
- Legislation to place a \$12.3 billion bond measure before the voters to continue funding of the state's higher education systems beyond the two years of financing provided by the current bonds to prepare for future enrollment growth and maintain their world renowned research capabilities. The bond measure proposes to provide an additional \$50 million per year above the

compact level for University of California and California State University.

- Modifications to the Safe, Reliable High-Speed Passenger Train Bond Act for the 21<sup>st</sup> Century, currently scheduled for the November 2008 ballot (\$10 billion) to ensure that appropriate financing is available to begin building the project.
- Legislation to place a \$2.0 billion bond measure before the voters to expand and repair the infrastructure for California's court system to address significant caseload increases and reduce delays.
- Legislation to place a \$300 million bond measure before the voters to complete the seismic renovation of 29 various state facilities.

As reflected in Figure INF-01, \$48.1 billion of new general obligation bond measures are proposed to augment the existing funds for the SGP through 2016. The SGP proposes that the new general obligation bond measures be placed on the ballot in the 2008 and 2010 general elections and that all bonds are issued in a manner that maintains a prudent debt ratio.

Figure INF-01  
**Strategic Growth Plan**  
**2006-2016**  
**Election Year Proposals**  
**General Obligation Bonds**  
(Dollars in Billions)

	2008	2010	2012	2014	Totals
<b>Program</b>					
Education-K-12	\$6.4	\$5.2			\$11.6
Education-Higher Ed	7.7	4.6			12.3
Water	11.9				11.9
High Speed Rail	10.0				10.0
Judiciary	2.0				2.0
Other Public Service					
Infrastructure	0.3				0.3
<b>Total</b>	<b>\$38.3</b>	<b>\$9.8</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$48.1</b>



## LEGISLATIVE, JUDICIAL, AND EXECUTIVE

Governmental bodies classified under the Legislative, Judicial, and Executive section of the Governor's Budget are either established as independent entities under the California Constitution or are departments with a recognized need to operate outside of the administrative oversight and control of an agency secretary. Constitutionally established bodies include the Legislature, Judicial Branch, Governor's Office, and Constitutional Officers. This section also includes such independent entities as the Inspector General, the Office of Emergency Services, and the California State Lottery.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget-balancing reductions. With these adjustments, the Governor's Budget includes \$8.4 billion (\$3.8 billion General Fund) and 16,932.5 positions, which reflects a minimal increase of \$930,000 (reduction of \$126.8 million General Fund) above the revised 2007-08 Budget to support the various departments within the Legislative, Judicial, and Executive branches of government. Change Table LJE-01 illustrates the major changes proposed to the Legislative, Judicial, and Executive section of the

Change Table LJE-01  
Legislative, Judicial, and Executive Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$3,791,501	\$4,369,322	16,417.7	\$3,791,501	\$4,268,624	16,417.7
<b>Workload Adjustments</b>						
Augmentation Based on Estimated State Appropriations Growth Rate for Trial	—	—	—	126,181	—	—
Employee Compensation/Retirement	30,683	16,876	—	33,466	19,314	—
Expiring Programs or Positions	—	—	—	–59,743	–33,370	–167.5
One-Time Cost Reductions	—	—	—	–43,989	–19,539	—
Full-Year Cost of New Programs	—	—	—	74,294	19,951	8.9
Other Workload Adjustments	98,071	75,197	99.5	196,016	145,728	368.8
Infrastructure Adjustment	—	–5,710	—	963	183,436	—
<b>Totals, Workload Adjustments</b>	<b>\$128,754</b>	<b>\$86,363</b>	<b>99.5</b>	<b>\$327,188</b>	<b>\$315,520</b>	<b>210.2</b>
<b>Policy Adjustments</b>						
E-Services Expansion	—	—	—	1,738	2,932	2.8
Establish Ongoing Funding for OCIO	—	—	—	6,691	–6,691	—
General Fund Tax Collection Program Funding Shift	—	—	—	2,122	–2,122	—
Statewide Compliance and Outreach Program	—	—	—	7,528	4,053	106.4
Tax Gap Initiatives	—	—	—	9,045	4,871	129.4
Wildland Firefighting Initiative	—	—	—	—	10,210	8.7
Other Policy Adjustments	—	1,984	15.1	3,880	9,843	91.4
<b>Totals, Policy Adjustments</b>	<b>\$0</b>	<b>\$1,984</b>	<b>15.1</b>	<b>\$31,004</b>	<b>\$23,096</b>	<b>338.7</b>
<b>Total Adjustments</b>	<b>\$128,754</b>	<b>\$88,347</b>	<b>114.6</b>	<b>\$358,192</b>	<b>\$338,616</b>	<b>548.9</b>
<b>Budget Prior to Reductions</b>	<b>\$3,920,255</b>	<b>\$4,457,669</b>	<b>16,532.3</b>	<b>\$4,149,693</b>	<b>\$4,607,240</b>	<b>16,966.6</b>
<b>Budget-Balancing Reductions<sup>1/</sup></b>	<b>–\$6,568</b>	<b>\$0</b>	<b>–8.5</b>	<b>–\$362,847</b>	<b>–\$21,800</b>	<b>–34.1</b>
<b>Governor's Budget</b>	<b>\$3,913,687</b>	<b>\$4,457,669</b>	<b>16,523.8</b>	<b>\$3,786,846</b>	<b>\$4,585,440</b>	<b>16,932.5</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.  
\* Dollars in Thousands

Governor’s Budget. More notable funding changes are also described below.

PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following:

JUDICIAL BRANCH

Growth Factor Increase for Trial Courts — The Governor’s Budget proposes an augmentation of \$126.2 million

General Fund for the Trial Courts based on the year-over-year change in the State Appropriations Limit.

**Phoenix Information Technology (IT) Project—**

The Governor's Budget includes \$6 million General Fund to enhance the Judicial Branch's administrative infrastructure by implementing a statewide human resource and financial system, consistent for all trial courts, that would provide the Administrative Office of the Courts with unified reporting capabilities for all aspects of trial court administrative functions.

**OFFICE OF EMERGENCY SERVICES**

**Regional Operational Readiness —** The Governor's Budget proposes \$1.6 million General Fund and \$1.6 million in federal funds to increase staff at the Office of Emergency Services' (OES) three regional offices to enhance the coordination of emergency preparedness, response, and recovery operations.

**Operational Area Satellite Information System (OASIS)—**

The Governor's Budget includes \$2 million General Fund for the OES to increase the capability of the OASIS, a satellite-based communications system that provides the ability to communicate between various operational areas and regions during an emergency or disaster.

**Replacement of Obsolete Radio Equipment—**

The Governor's Budget proposes \$3 million General Fund to replace the inventory of OES radios that are at least five years old. Replacing this outdated communication equipment will enhance OES and other first responders' ability to communicate and transmit critical information in the event of a disaster or emergency situation.

**Office of Gang and Youth Violence Policy** — The Governor's Budget includes \$1.3 million General Fund to establish the Office of Gang and Youth Violence Policy per Chapter 459, Statutes of 2007 (AB 1381). This Office will be responsible for identifying and evaluating state, local, and federal gang and youth violence suppression, intervention, and prevention programs, as well as strategies and funding sources.

This funding is in addition to the resources provided for the California Gang Reduction, Intervention and Prevention Program included in the 2007 Budget Act, and will be used to reduce gang and youth violence in the state of California, thereby increasing public safety.

**California Multijurisdictional Methamphetamine Enforcement Team (Cal-MMET) Program** — The Governor's Budget proposes a continuation of \$20.1 million General Fund to fund the OES Cal-MMET Program on a permanent basis. This funding, in addition to the \$9.5 million of existing funds, will provide the resources for additional investigators and prosecutors specializing in methamphetamine offenses to curtail the production and distribution of the illegal substance in California.

## DEPARTMENT OF JUSTICE

**Gang Suppression Enforcement Teams** — The Governor's Budget includes \$5.3 million General Fund to fund the Department of Justice's four existing Gang Suppression Enforcement Teams on a permanent basis. These teams provide a dedicated force with specialized knowledge of gang activities across multiple jurisdictions to curtail the threat of gangs.

## **DEPARTMENT OF INSURANCE**

**Workers' Compensation Insurance Fraud** — The Governor's Budget includes \$4 million Insurance Fund to provide increased local assistance to district attorneys to aid in the prosecution of workers' compensation fraud.

## **BOARD OF EQUALIZATION**

### **Border Protection Station Tax Leads Program—**

The Governor's Budget includes \$800,000 General Fund to extend 16 limited-term positions assigned to the Border Protection Station Tax Leads Program, which detects property brought into the state without payment of applicable use taxes. The Program will generate \$4 million in General Fund revenues in 2008-09.

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## **PROPOSED BUDGET-BALANCING REDUCTIONS**

Total budget-balancing reductions for the Legislative, Judicial, Executive section of the Governor's Budget amount to \$6.6 million and 8.5 positions in 2007-08 and \$362.8 million and 34.1 positions in 2008-09. These reductions assume necessary statutory changes will be enacted by March 1, 2008.

Programs exempted from reductions include lease payments securing lease revenue bonds, Office of the Inspector General's Bureau of Independent Review, and the Judges' Retirement System.

The major reductions for the Legislative, Judicial, and Executive section are described below.

## **OFFICE OF THE INSPECTOR GENERAL**

- \$1.7 million in 2008-09 for the Office of the Inspector General's Bureau of Audits and Investigations and Executive and Administrative Units. The Office will achieve this reduction by reducing the total number of audits and investigations to be completed per year.

## **OFFICE OF PLANNING AND RESEARCH**

- \$500,000 in 2008-09 for the Cesar Chavez Day of Service and Learning Program. This reduction will decrease the amount of grant funds available for after-school service learning programs for middle school students.

## **OFFICE OF EMERGENCY SERVICES**

- \$100,000 in 2007-08 and \$665,000 in 2008-09 for the OES' Fire and Rescue Mutual Aid Response Program. However, the reduction in 2008-09 will be offset by the property insurance surcharge included in the Wildland Firefighting Initiative proposed in the Governor's Budget.
- \$100,000 in 2007-08 and \$1.2 million in 2008-09 for OES' Warning Center/Information Technology/Telecommunications Program. However, the reduction in 2008-09 will be offset by the property insurance surcharge included in the Wildland Firefighting Initiative proposed in the Governor's Budget.
- \$400,000 in 2007-08 and \$824,000 in 2008-09 for OES' Plans and Preparedness Program. This reduction will impact the OES' administrative regions' ability to serve as the conduit for information to local and regional

areas to provide efficient and effective support to local disaster response.

- \$2.4 million in 2007-08 and \$9 million in 2008-09 for OES' Disaster Assistance Program. This reduction will delay the processing and payment of disaster reimbursement claims from local governments.
- \$3.1 million in 2007-08 and \$8.1 million in 2008-09 for OES' local criminal justice grant programs such as Domestic Violence, War on Methamphetamine, Vertical Prosecution Block Grant, High-Tech Theft Apprehension, Rural Crime Prevention, and Sexual Assault Felony Enforcement. This reduction will result in a lesser amount of grant funding being distributed to local agencies.

## **BOARD OF EQUALIZATION**

- In lieu of a 10-percent (\$22 million) reduction, the Governor's Budget proposes that the Board of Equalization's (BOE) budget be augmented to collect additional General Fund revenues. A \$22 million reduction would have resulted in the loss of a significantly greater amount of General Fund revenues in 2008-09. Therefore, \$7.5 million is proposed for 79 new positions for the Statewide Compliance and Outreach Program (SCOP), and the continuation of 33 existing limited-term positions. The positions will generate \$38 million in General Fund revenues in 2008-09, increasing to \$51 million in 2009-10. These revenues will exceed BOE's 10-percent reduction amount, while also helping to close the state's tax gap. The SCOP identifies and registers businesses that sell goods without a

seller's permit, and thereby evade payment of sales and use taxes. The additional resources will allow the SCOP to expand statewide.

### **SCHOLARSHARE INVESTMENT BOARD**

- \$105,000 in 2008-09 for the Scholarshare Investment Board's Governor's Scholarship Programs. This reduction in program administration would not adversely impact these programs, given that no new awards are being granted and workload associated with current awards is anticipated to diminish on the natural in 2008-09 and future years as award accounts are closed out or terminated due to expired eligibility.

### **GOVERNOR'S OFFICE AND OTHER CONSTITUTIONAL OFFICERS**

- The Governor will lead by example and find ways for his office to continue providing excellent service to the state while tightening its belt. Therefore, the Budget includes a \$2.1 million reduction in 2008-09 for the Governor's Office. The Governor is proposing that other Constitutional Officers also find ways within their budgets to reduce the cost of state government. As such, the Budget includes an unallocated reduction in 2008-09 for the following entities:
  - \$26.5 million for the Legislature.
  - \$245.9 million for the Judicial Branch.
  - \$307,000 for the Lieutenant Governor's Office.
  - \$41.6 million for the Department of Justice.
  - \$9 million for the State Controller's Office.



- \$3.5 million for the Secretary of State.
- \$715,000 for the State Treasurer's Office.

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## **PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS**

Despite the need for significant General Fund reductions to ensure a balanced Budget, the Governor's Budget includes these major program enhancements in the Legislative, Executive, Judicial section of the Budget.

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### **WILDLAND FIREFIGHTING INITIATIVE**

In the fall of 2007, California suffered one of its worst disasters in recent history in the Southern California Wildfires when approximately 23 fires burned between October 20 and November 9. According to the OES, these fires resulted in the largest evacuation in California's history of approximately 322,000 mandatory evacuees.

This event highlighted the need for additional firefighting staff, equipment, and resources to aggressively position our state against future fires by improving our fire prevention and suppression system, as indicated in the Governor's Blue Ribbon Fire Commission report. While several of the Commission's recommendations have been implemented, the Governor's Budget proposes a more aggressive plan to purchase additional firefighting equipment over the next six years and increase staffing including seasonal firefighters and emergency services personnel for the Department of Forestry and Fire Protection (CAL FIRE), OES, and the California National Guard (Guard).

To fund this plan, the Governor's Budget proposes to implement a significant recommendation of the Governor's Blue Ribbon Fire Commission regarding the establishment of a secure funding stream to enhance the state's firefighting capabilities. As such, the Governor's Budget proposes to assess a surcharge of 1.25 percent on all residential and commercial property insurance statewide to fund the additional resources that would improve California's ability to respond to wildland fires throughout the state. Since homeowners, on average, pay approximately \$900 per year to insure their home, a 1.25 percent surcharge would result in an average cost of \$11.25 per household to fund this initiative. Due to timing of implementation, based on ten months of billing, this surcharge is expected to generate approximately \$104.9 million Insurance Fund in 2008-09 to fund the following programs for CAL FIRE (\$77.8 million), the OES (\$12.1 million), and the Guard (\$9.2 million).

To help quell wildfires before a catastrophic event occurs, the Governor's Budget includes the following proposals to enhance the state's fire response and firefighting capabilities:

### **CAL FIRE**

**Additional Firefighters**—\$28.9 million and 1,100 seasonal firefighters to staff all 336 state fire engines with full four-member crews during peak and transition fire seasons.

**GPS Tracking**—\$4.2 million and 3.8 positions to install GPS tracking on key pieces of equipment, such as fire engines and aircraft, linked to computer-aided dispatching.

**State-of-the-Art Helicopters**—A multi-year expenditure plan to enable CAL FIRE to purchase eleven new, all-weather, 24-hour firefighting helicopters over the next six years.

**Backfill Budget-Balancing Reductions**—\$44.7 million in 2008-09 to backfill the budget balancing reductions CAL FIRE is taking to its fire protection budget. Restoring these budget-balancing reductions will prevent the closing of 20 one-engine fire stations, 11 conservation camps, and 1 helitack base.

## **OFFICE OF EMERGENCY SERVICES**

**Fire Engines**—\$8.1 million in 2008-09 to purchase 26 fire engines as part of the first year of a five-year cycle to purchase and maintain a total of 131 additional fire engines. These engines will be housed at local fire agencies and utilized to fight fires throughout the state.

**Firefighting Personnel**—\$1.6 million and 9.2 positions in 2008-09 to enhance OES' response to wildland fires throughout the state.

**Increased Maintenance and Fuel Costs**—\$480,000 to fund the increased maintenance and fuel costs of OES' existing fleet of fire engines and vehicles.

**Backfill of Budget-Balancing Reductions**—\$1.9 million in 2008-09 to backfill the budget-balancing reductions OES is taking to its Fire and Rescue Mutual Aid Response section and its Warning Center/Information Technology/Telecommunications section. Restoring these budget-balancing reductions will ensure that OES' ability to respond to fires and utilize its Warning Center to notify emergency first responders will not be compromised.

**Telephone Emergency Notification**—The Office of Homeland Security will make grant funding available to ensure that telephone emergency notification, a system where the public is notified of emergency situations via telephone calls, is available in each and every county.

## **CALIFORNIA NATIONAL GUARD**

**Four-Hour Response Time**—\$4.4 million in 2008-09 and 36 positions to provide 24-hours-a-day, seven-days-per-week coverage and full-time helicopter crews to be able to respond to any emergency situation in California in a matter of four hours or less. One helicopter and crew would be stationed in northern California, and one helicopter and crew would be stationed in southern California.

### **Modular Airborne Fire Fighting Systems (MAFFS)**

—\$2.6 million in 2008-09 to purchase the first of two MAFFS over two years for the Military Department's C-130J aircraft. The MAFFS will enhance wildland firefighting capabilities by enabling the Military to provide airborne delivery of fire retardant to be dropped accurately and safely on a designated target.

**Firehawk Fire Fighting Systems**—\$2.2 million in 2008-09 to purchase the first of three Firehawk firefighting systems over three years. These new systems will enhance the Military Department's ability to fight wildland fires by providing more accurate water dropping dispersion and increased efficiency in existing helicopters.

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## OTHER POLICY ISSUES

### DEPARTMENT OF INSURANCE

**General Fund Tax Collection**—The Governor's Budget includes a shift of \$2.122 million from the Insurance Fund to the General Fund for General Fund tax collection activities. In 2006-07, \$2.161 billion in General Fund taxes was collected by the Department from insurance companies and transferred to the General Fund. Providing General Fund for this program is consistent with other General Fund tax collection programs.

### BOARD OF EQUALIZATION

**Tax Compliance Issues**—The Governor's Budget proposes \$9 million and 129 new positions to address tax compliance issues. The positions will generate \$20 million in General Fund revenues in 2008-09, increasing to \$38.4 million in 2009-10. The positions will concentrate on audit and collection program improvements, businesses that purchase qualifying goods without paying applicable use taxes, and expedited filing of tax liens for out-of-state debtors who file for bankruptcy.

**E — Services Program**—The Governor's Budget includes \$1.7 million to expand the E- Services Program information technology effort. The expansion will allow on-line filing of returns for selected special tax programs. Currently, the Program is limited to on-line filing of sales and use tax returns.

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## STATE AND CONSUMER SERVICES

The State and Consumer Services Agency's (SCSA) entities are responsible for civil rights enforcement, consumer protection, and the licensing of 2.4 million Californians in more than 255 different professions. SCSA entities provide oversight and guidance for the procurement of more than \$9 billion worth of goods and services; management and development of state real estate; operation and oversight of two state employee pension funds; collection of state taxes; hiring of state employees; provision of information technology services; adoption of state building standards; and administration of two state museums.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget-balancing reductions. With these adjustments, the Governor's Budget proposes \$26.7 billion (\$613.2 million General Fund) for the SCSA. This reflects an increase of \$1.8 billion (\$11.3 million General Fund) or 7.1 percent from the revised 2007-08. Change Table SCS-01 illustrates the major changes proposed to the SCSA in the Governor's Budget. More notable funding changes are also described below.

Change Table SCS-01  
State and Consumer Services Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$576,862	\$24,618,405	16,019.6	\$574,537	\$24,350,013	16,019.6
<b>Workload Adjustments</b>						
Health Program Receivables	—	—	—	—	352	2.8
Increase in Claim Payments	—	28,016	—	—	28,016	—
Enrollment/Caseload/Population	—	-303,140	—	—	877,421	—
Employee Compensation/Retirement	10,096	23,049	—	11,738	25,162	—
Expiring Programs or Positions	—	—	—	-390	-9,668	-118.9
One-Time Cost Reductions	—	-9,060	—	-8,195	-66,241	—
Full-Year Cost of New Programs	—	—	—	3,888	17,077	24.0
Other Workload Adjustments	10,838	50,589	197.5	13,169	735,255	463.4
Infrastructure Adjustment	—	-55,836	—	2,203	114,009	—
<b>Totals, Workload Adjustments</b>	\$20,934	-\$266,382	197.5	\$22,413	\$1,721,383	371.3
<b>Policy Adjustments</b>						
Compliance Enhancement Measures	—	—	—	9,860	—	131.5
Contractors State License Board - Economic and Employment Enforcement Coalition Continuation	—	—	—	—	919	10.4
Private Postsecondary Education Reform	—	—	—	—	8,195	57.9
Tax Gap Enforcement	—	—	—	6,438	—	65.1
Unlicensed Activity Pilot Program	—	—	—	—	1,210	—
Other Policy Adjustments	—	234	1.9	—	38,630	98.2
<b>Totals, Policy Adjustments</b>	\$0	\$234	1.9	\$16,298	\$48,954	363.1
<b>Total Adjustments</b>	\$20,934	-\$266,148	199.4	\$38,711	\$1,770,337	734.4
<b>Budget Prior to Reductions</b>	\$597,796	\$24,352,257	16,219.0	\$613,248	\$26,120,350	16,754.0
<b>Budget-Balancing Reductions<sup>1/</sup></b>	-\$1,179	\$0	—	-\$5,345	-\$100	-34.2
<b>Governor's Budget</b>	\$596,617	\$24,352,257	16,219.0	\$607,903	\$26,120,250	16,719.8

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.  
\* Dollars in Thousands

PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following.:

FRANCHISE TAX BOARD

California Child Support Automation System —  
The Governor’s Budget includes \$7.9 million General Fund for Franchise Tax Board’s (FTB) California Child Support Automation System implementation costs.



**Encoder Replacement**—The Governor’s Budget proposes \$1.6 million General Fund to replace FTB encoders that identify checks and money orders submitted for tax payments, and to replace the Withhold at Source System, which processes non-wage withholding payments from sources such as real estate transactions, and out-of-state entertainers and athletes.

## **DEPARTMENT OF GENERAL SERVICES**

**Space Planning**—The Governor’s Budget includes \$2.5 million Service Revolving Fund and 28.4 positions to support anticipated increases and workload growth at the Department of General Services (DGS) in space planning for both state-owned buildings and leased space. These resources will be critical to assisting state agencies that are addressing budget reductions through consolidation of existing space or securing new space at lower cost to the state.

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## **PROPOSED BUDGET-BALANCING REDUCTIONS**

Total budget-balancing reductions for the SCSA amount to \$1.2 million in 2007-08 and \$5.3 million and 34.2 positions in 2008-09. These reductions assume necessary statutory changes will be enacted by March 1, 2008.

Programs exempted from reductions include lease payments securing lease revenue bonds for the California Science Center (CSC) and tax collection activities of the FTB.

The major reductions for SCSA are described below.

## **FRANCHISE TAX BOARD**

- The FTB \$52 million General Fund reduction would have resulted in the loss of approximately \$450 million in General Fund revenues in 2008-09.
- In lieu of a 10-percent reduction, an increase of \$9.9 million General Fund is proposed for the FTB to support 131.7 new revenue-generating positions. The positions will generate \$71 million in General Fund revenues in 2008-09, increasing to \$125 million in 2009-10. The positions will concentrate on registered owners of luxury vehicles who do not file tax returns, following up on non-filers with bad addresses, persons who file federal income tax returns without filing a state return, additional revenue-generating activities in the FTB Collection Program, and requiring persons with personal income tax liabilities over \$20,000 to submit their payments electronically.

## **CALIFORNIA SCIENCE CENTER**

- \$1.7 million and 11.3 positions in 2008-09 for the CSC, including the California African American Museum. This will reduce maintenance and development of facilities and exhibits.

## **DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING**

- \$1.8 million and 17.2 positions in 2008-09 for the Department of Fair Employment and Housing. This will delay processing of employment and housing complaints, and accusation issuances.

## DEPARTMENT OF GENERAL SERVICES

- \$1.2 million in 2007-08 and \$794,000 in 2008-09 for the DGS. This will limit funding for infrastructure projects at the State Capitol.

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## PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS

Despite the need for significant General Fund reductions to ensure a balanced budget, the Governor's Budget includes these major program enhancements.

### DEPARTMENT OF CONSUMER AFFAIRS

**Unlicensed Activity Pilot Program**—The Governor's Budget proposes \$1.3 million various special funds for a three-year pilot program to educate the public about the risks of conducting business with unlicensed practitioners and service providers.

**Economic and Employment Enforcement Coalition**—The Governor's Budget proposes continuation of \$919,000 Contractors' License Fund and 10.4 positions to support the Contractors' State Licensing Board's (CSLB) participation in the Economic and Employment Enforcement (Triple E) Coalition.

**Central Valley Statewide Investigative Fraud Team**—The Governor's Budget also provides \$758,000 Contractors' License Fund and 6.6 positions to establish a Statewide Investigative Fraud Team in the Central Valley.

## FRANCHISE TAX BOARD

**Tax Gap Initiatives**—The Governor's Budget proposes \$6.4 million for 65.1 new revenue-generating positions. The positions will generate \$22 million in General Fund revenues in 2008-09, increasing to \$39 million in 2009-10. The positions will concentrate on filers who fraudulently claim tax refunds or credits, and will also address workload growth in the Audit Program.

## **BUSINESS, TRANSPORTATION, AND HOUSING**

The Business, Transportation, and Housing Agency oversees programs that promote the state's business and economic climate, transportation infrastructure, affordable housing, and patients' rights. The Agency also promotes public safety through the Department of Motor Vehicles, the California Highway Patrol and the Department of Alcoholic Beverage Control. Funding for all programs exceeds \$19.9 billion, which is largely derived from special fund revenues, federal funds, and the proceeds of bonds.

The proposed Budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments were made to reflect specific policy adjustments and reductions, including budget-balancing reductions. Change Table BTH-01 illustrates the major changes proposed to Business, Transportation and Housing Agency spending in the Governor's Budget. More notable funding changes are described below.

Change Table BTH-01

Business, Transportation, and Housing Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$1,567,294	\$18,057,803	44,224.0	\$1,567,294	\$11,678,895	44,224.0
<b>Workload Adjustments</b>						
Change in Expenditures to Reflect Updated Prop 42 Sales Tax Revenue Forecast	-42,559	—	—	4,320	—	—
General Obligation Debt Service - Housing	—	—	—	108,872	—	—
General Obligation Debt Service - Transportation	2,535	-6,289	—	2,606	14,711	—
Proposition 1C Housing Bond Funding Plan	—	165,000	—	—	-162,000	—
Savings for Anticipated Vacant CHP Officer Positions	—	—	—	—	-40,000	—
Statutory and revenue driven increases in State Transit Assistance funding	—	-11,545	—	—	427,112	—
Employee Compensation/Retirement	123	226,260	—	152	248,999	—
Restore Zero-Based Transportation Capital Outlay and Re-estimate of Expenditures	—	37,255	—	—	5,676,355	—
Expiring Programs or Positions	—	—	—	—	-23,341	-6.6
One-Time Cost Reductions	—	—	—	-1,028	-74,142	—
Full-Year Cost of New Programs	—	—	—	—	26,650	101.2
Other Workload Adjustments	-1,014	130,412	-15.2	142	319,745	174.8
Infrastructure Adjustment	—	-5,331	—	—	14,297	—
<b>Totals, Workload Adjustments</b>	<b>-\$40,915</b>	<b>\$535,762</b>	<b>-15.2</b>	<b>\$115,064</b>	<b>\$6,428,386</b>	<b>269.4</b>
<b>Policy Adjustments</b>						
Housing Urban-Suburban-and-Rural Parks Program	—	—	—	—	30,583	1.9
New Clean Renewable Energy Bonds (CREB) to Fund Photovoltaic Installation	—	—	—	—	20,000	—
Statewide CHP Officer Augmentation	—	—	—	—	21,592	112.3
Other Policy Adjustments	—	—	—	169	17,707	13.2
<b>Totals, Policy Adjustments</b>	<b>\$0</b>	<b>\$0</b>	<b>—</b>	<b>\$169</b>	<b>\$89,882</b>	<b>127.4</b>
<b>Total Adjustments</b>	<b>-\$40,915</b>	<b>\$535,762</b>	<b>-15.2</b>	<b>\$115,233</b>	<b>\$6,518,268</b>	<b>396.8</b>
<b>Budget Prior to Reductions</b>	<b>\$1,526,379</b>	<b>\$18,593,565</b>	<b>44,208.8</b>	<b>\$1,682,527</b>	<b>\$18,197,163</b>	<b>44,620.8</b>
<b>Budget-Balancing Reductions <sup>1/</sup></b>	<b>-\$200</b>	<b>\$0</b>	<b>—</b>	<b>-\$2,028</b>	<b>-\$100</b>	<b>-4.1</b>
<b>Governor's Budget</b>	<b>\$1,526,179</b>	<b>\$18,593,565</b>	<b>44,208.8</b>	<b>\$1,680,499</b>	<b>\$18,197,063</b>	<b>44,616.7</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.

\* Dollars in Thousands

PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 included the following:

DEPARTMENT OF TRANSPORTATION

- Proposition 42 is fully funded at \$1.5 billion, including

\$83 million for loan repayment pursuant to Proposition 1A of 2006.

- Caltrans will receive an additional \$460.3 million in federal funding in 2007-08 from both reimbursement for emergency funds expended in past years and from federal funding that other states were unable to use. These funds will be used to complete additional pavement rehabilitation work.
- The change table for the BTH Agency reflects updated 2008-09 local assistance and capital outlay expenditures as well as carryover from past year appropriations.
- The Budget reflects the passage of Chapter 733, Statutes of 2007 (SB 717), which shifted \$74 million annually in Proposition 42 revenues from the state to local transit agencies funded through the State Transit Assistance Program.

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## **CALIFORNIA HIGHWAY PATROL**

- The budget includes an additional \$18.5 million for the third year of a five-year CHPERS Enhanced Radio System project to replace and upgrade CHP's system.

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## **PROPOSED BUDGET-BALANCING REDUCTIONS**

- Budget-balancing reductions for the Business Transportation and Housing Agency total \$0.2 million in 2007-08 and \$2.03 million and 4.1 personnel years in 2008-09.

- Programs exempted from reductions include Proposition 42 transportation transfers and general obligation debt service.

The major reductions are described below:

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**DEPARTMENT OF HOUSING AND  
COMMUNITY DEVELOPMENT**

- \$481,000 in 2008-09 for the Small Business Loan Guarantee Program. This reduction will result in fewer loan guarantees available to small businesses in California.
- \$343,000 in 2008-09 for the Office of Migrant Services. This reduction will require that four centers be closed, resulting in fewer housing opportunities for migrant agricultural workers in California.
- \$401,000 in 2008-09 for the Emergency Shelter Program. This reduction in assistance to local homeless emergency shelters would result in approximately 1,900 fewer shelter spaces annually.

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**PROGRAM ENHANCEMENTS AND  
OTHER BUDGET ADJUSTMENTS**

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**TRANSPORTATION**

The Governor’s Budget proposes \$13.9 billion to fund the Department of Transportation (Caltrans). This reflects a reduction of \$262 million from the revised 2007-08 budget driven primarily by a one-time increase of \$460 million in



federal funds in the current year, both as reimbursement for past emergency expenditures and from the redistribution of federal transportation funds that other states were unable to use.

## **STATE HIGHWAY OPERATION AND PROTECTION PROGRAM**

The Budget includes \$946 million for the State Highway Operation and Protection Program, which reduces the number of collisions and hazards to motorists, preserve and rehabilitate bridges and roadways, enhance and protect roadsides, and improve operation of the state highway system. The 2008-09 Budget also includes \$100 million from tribal gaming funds and \$268 million from Proposition 1B funds.

## **LOCAL ASSISTANCE PROGRAMS**

Caltrans provides state and federal transportation funds to local agencies for local capital improvement projects on the state highway system, mass transit capital improvement projects, and local bridge improvement projects. The Governor's Budget proposes \$3 billion for local transportation in 2008-09, including \$156 million for local mass transportation projects.

## **LOCAL MASS TRANSPORTATION**

The Governor's Budget includes funding for the following transit, rail, and planning programs. This reflects a continuation of the funding allocation priorities set in Chapter 181 (SB 88), Statutes of 2007.

- \$141 million to continue funding transportation services administered by Regional Centers.

- \$1.1 billion for local transit agencies for operating and capital purposes through the State Transit Assistance Program. This amount includes \$350 million in Proposition 1B funds for capital transit projects and \$742.9 million from sales tax revenues, including a \$74 million increase in Proposition 42 revenues resulting from passage of SB 717. Operating funds from sales tax revenues are growing from \$304 million in 2007-08 to \$743 million in 2008-09.

### **CALTRANS STATE OPERATIONS BUDGET**

The Governor's Budget proposes \$4.2 billion in state operations funding for transportation in 2008-09.

### **CALTRANS MAINTENANCE**

The Budget includes \$1.2 billion and 5,922 positions to maintain approximately 15,000 centerline miles of highway, over 230,000 right-of-way acres, and over 12,000 state highway bridges and to inspect over 12,000 local bridges.

The Budget proposes a \$22 million increase.

### **CALTRANS RAIL OPERATIONS**

The Budget includes \$106 million and 178 positions to manage and coordinate intercity rail passenger services and local transit projects that provide commuters with a range of transportation options, help to improve the state's air quality and reduce highway congestion and fuel consumption. Caltrans manages two state-supported routes operated by Amtrak, and financially supports a third.

## TRANSPORTATION REVENUE

Total statewide transportation resources are estimated to be approximately \$21.2 billion in 2008-09, an increase of \$289 million over 2007-08. Local gas tax distributions for local streets and roads are shown in the General Government section of the Budget in Item 9350 (Shared Revenues).

## FUEL TAXES

Transportation programs in California are funded largely from fuel taxes, including federal funds derived from the federal excise tax collected by the Internal Revenue System. State fuel taxes include an excise tax on gasoline and diesel fuel, sales tax on gasoline and diesel fuel, truck weight fees and motor vehicle fees. These revenues total \$8.5 billion in 2008-09 and are deposited in special funds as follows:

State Highway Account—\$1.049 billion

Highway Users Tax Account—\$3.569 billion

Public Transportation Account—\$0.888 billion

Mass Transportation Account—\$0.455 billion

Motor Vehicle Account—\$2.5 billion

## PROPOSITION 1B

The Governor's Budget proposes to appropriate \$4.7 billion for the transportation element of the Proposition 1B bond act as part of the Strategic Growth Plan.

- \$4.0 billion is projected to be allocated, or committed, in 2008-09 for existing Proposition 1B programs funded in the 2007 Budget Act.

- \$700 million is proposed to be allocated for two new Proposition 1B programs as follows: \$200 million is for the State/Local Partnership program and \$500 million is for the Trade Corridors program.

Figure BTH-01 displays Proposition 1B bond act funds included in the Governor’s Budget.

Figure BTH-01 Proposition 1B Implementation (Dollars in Millions)		
	2007-08	2008-09
Corridor Mobility	\$608	\$1,547
Local Transit	\$600	\$350
State Transportation Improvement Program	\$727	\$1,186
Trade Corridors	\$0	\$500
State & Local Partnerships	\$0	\$200
Local Streets and Roads	\$950	\$0
State Highway Operation and Protection Program	\$403	\$216
Grade Separations	\$123	\$65
Highway 99	\$14	\$108
Local Seismic	\$14	\$21
Intercity Rail	\$188	\$73
School Bus Retrofit	\$193	\$0
Air Quality	\$250	\$250
Transit Security	\$101	\$101
Port Security	\$41	\$58
<b>Total Appropriations</b>	<b>\$4,212</b>	<b>\$4,675</b>

PROPOSITION 42

In November, 2006, the voters approved Proposition 1A, which further limits the conditions under which the Proposition 42 transfer can be suspended and requires all outstanding loans be repaid in annual increments by June 30, 2016. The Governor’s Budget proposes to fully fund the Proposition 42 transfer (\$1.5 billion) and the Proposition 1A loan repayment (\$83 million) for fiscal 2008-09.

## **TRIBAL GAMING FUNDS**

Several past Budget Acts have reflected repayment of a portion of outstanding transportation loans with bond proceeds derived from Indian gaming revenues to specified transportation programs, but several lawsuits have prevented the bonds from being sold, and the resolution of the litigation is unknown at this time. Consequently, the Budget now assumes \$100 million in cash will be received annually from gaming revenues and will be deposited in the State Highway Account for transportation programs.

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## **DEPARTMENT OF MOTOR VEHICLES**

The Governor's Budget proposes \$959.7 million, all from non-General Fund sources, and 8,250 positions for support of the Department of Motor Vehicles. Vehicle registration fees and driver's license fees are deposited into the Motor Vehicle Account to be used for the administration and enforcement of laws regulating the use, operation, and registration of vehicles on California public streets and highways, including the enforcement of traffic and vehicle laws by state agencies and the mitigation of the negative environmental effects of motor vehicles. Current and projected program costs have increased beyond current revenue levels. Absent a correction, the Account would become insolvent in 2008-09.

The Budget proposes an increase of \$11 per vehicle to the fee that provides support for the California Highway Patrol, as well as imposing penalties on those who are late in paying this fee, in line with penalties required under current law for the base registration fee. This will generate approximately \$385 million in revenue in 2008-09 year for partial year implementation,

increasing to \$522 million for full-year implementation in 2009-10. These revenues will support continued public safety initiatives, such as California Highway Patrol staffing and radio system upgrade, while maintaining a prudent reserve.

### **CALIFORNIA HIGHWAY PATROL**

The Governor's Budget proposes \$1.9 billion and 11,196 positions for support of the California Highway Patrol (CHP). This total also includes an additional 120 uniformed positions and 44 nonuniformed positions (\$21.6 million Motor Vehicle Account) to address workload growth associated with population growth, including the increased number of licensed drivers, and development of new communities and the resulting increased traffic congestion and number of collisions. The full year cost of this request is \$22.4 million.

### **DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees the state's housing planning and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor's Budget proposes \$1.1 billion (\$15.9 million General Fund and \$1.0 billion other funds) and 626 positions for the department's activities.

### **PROPOSITION 1C IMPLEMENTATION**

In November 2006, the voters approved Proposition 1C, the Housing and Emergency Shelter Fund Act of 2006, to promote housing programs in California through the investment of \$2.85 billion in General Obligation Bonds.

The Budget proposes \$771 million to the following program areas authorized by Proposition 1C:

- Infill incentives: \$200 million
- Affordable rental housing construction programs: \$194 million
- Affordable homeownership programs: \$188 million
- Transit-oriented development: \$95 million
- Housing for farm workers: \$40 million
- Housing Urban-Suburban-and-Rural Parks: \$30 million
- Emergency housing assistance: \$24 million

## **DEPARTMENT OF FINANCIAL INSTITUTIONS**

The Governor's Budget proposes \$32.5 million and 241 positions for support of the Department of Financial Institutions, including:

- \$738,000 and five positions to examine non-traditional mortgage product offerings at credit unions.  
The positions will ensure credit unions are underwriting these mortgages in a responsible manner, and will ensure they have adequate policies and procedures to mitigate any losses that could result.
- \$1.2 million and 10 positions to expand regular credit union examinations to include a review of electronic banking practices.

## **DEPARTMENT OF CORPORATIONS**

The Governor's Budget proposes \$40.1 million and 313 positions for support of the Department of Corporations,

including \$1 million and eight positions for workload increases in the Broker-Dealer Investment Advisers Program, and the California Finance Lenders Law Program.



## RESOURCES

Resources Agency programs protect and restore California's natural resources for current and future generations. The state's diverse natural attributes include stunning coastlines and lakes, spectacular forests, vast fish and wildlife habitats, rich farmlands, and extensive mineral resources. Agency programs also protect the public by suppressing wildfires, constructing flood control levees, and permitting safe power plants. These programs not only contribute to the state's unique quality of life, they are critical to sustaining a vibrant economy.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget-balancing reductions.

With these adjustments, the Governor's Budget provides approximately \$13.1 billion and 17,020.9 positions to protect and manage California's natural resources in 2008-09.

Change Table RES-01 illustrates the significant changes to the Resources Agency's budget. More notable funding changes are described below.

Change Table RES-01  
Resources Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$1,674,007	\$1,117,427	16,557.0	\$1,595,121	\$10,230,692	16,557.0
<b>Workload Adjustments</b>						
Alternative and Renewable Fuel and Vehicle Technology Program (AB 118)	—	—	—	—	100,891	5.7
California Energy Resources Scheduling (CERS) Adjustments	—	–53,297	—	—	–264,805	—
E-Fund Deficiency	136,000	—	—	—	—	—
Proposition 1E	—	—	—	—	323,100	11.3
Proposition 84	—	—	2.8	—	785,381	78.8
Updated Expenditure Estimates - Beverage Container Recycling Funds	—	96,633	—	—	194,814	—
Carryovers/Reappropriations: Resources	—	265,612	—	—	–72,435	—
Bond Funds						
Employee Compensation/Retirement	10,766	27,959	—	13,023	31,117	—
One-Time Cost Reductions	—	–1,187	—	–66,544	–878,486	–20.0
Full-Year Cost of New Programs	—	198	2.8	2,261	23,969	101.3
Other Workload Adjustments	4,147	395,716	17.7	157,027	–118,463	72.6
Infrastructure Adjustment	–16,435	757,965	—	39,247	979,427	—
<b>Totals, Workload Adjustments</b>	<b>\$134,478</b>	<b>\$1,489,599</b>	<b>23.3</b>	<b>\$145,014</b>	<b>\$1,104,510</b>	<b>249.7</b>
<b>Policy Adjustments</b>						
Wildland Firefighting Initiative	—	—	—	—	33,113	387.6
Other Policy Adjustments	—	12,611	—	5,475	–3,791	123.1
<b>Totals, Policy Adjustments</b>	<b>\$0</b>	<b>\$12,611</b>	<b>—</b>	<b>\$5,475</b>	<b>\$29,322</b>	<b>510.7</b>
<b>Total Adjustments</b>	<b>\$134,478</b>	<b>\$1,502,210</b>	<b>23.3</b>	<b>\$150,489</b>	<b>\$1,133,832</b>	<b>760.4</b>
<b>Budget Prior to Reductions</b>	<b>\$1,808,485</b>	<b>\$13,019,637</b>	<b>16,580.3</b>	<b>\$1,745,610</b>	<b>\$11,364,524</b>	<b>17,317.4</b>
<b>Budget-Balancing Reductions<sup>1/</sup></b>	<b>–\$4,204</b>	<b>\$0</b>	<b>—</b>	<b>–\$89,271</b>	<b>\$44,200</b>	<b>–296.5</b>
<b>Governor's Budget</b>	<b>\$1,804,281</b>	<b>\$13,019,637</b>	<b>16,580.3</b>	<b>\$1,656,339</b>	<b>\$11,408,724</b>	<b>17,020.9</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.  
\* Dollars in Thousands

PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following:

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

E Fund Deficiency—The Budget reflects a current year increase of \$136 million General Fund to reflect the Department of Forestry and Fire Protection’s (CAL FIRE’s) emergency fire suppression expenditures during the October 2007 Southern California wildfires.

## VARIOUS RESOURCES DEPARTMENTS

**One-Time Cost Reductions**—The Budget reflects reductions related to numerous expiring one-time bond fund appropriations for Resources Agency departments.

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## PROPOSED BUDGET-BALANCING REDUCTIONS

Total budget-balancing reductions for the Resources Agency amount to \$4.2 million in 2007-08 and \$89.3 million and 296.5 positions in 2008-09. These reductions assume necessary statutory changes will be enacted by March 1, 2008.

Programs exempted from reductions include Paterno judgment payments, Colorado River Quantification Settlement Agreement projects, lease payments securing lease revenue bonds, and CAL FIRE's emergency fire suppression expenditures.

The major reductions in 2008-09 are described below:

### CALIFORNIA CONSERVATION CORPS

- \$1.2 million in 2007-08 and \$3.8 million and 5.7 positions in 2008-09 for the Corps' Training and Work Program. This reduction will eliminate 75 of 1,310 existing corpsmember slots.

### DEPARTMENT OF FORESTRY AND FIRE PROTECTION

- \$44.7 million and 361 positions for CAL FIRE's Fire Protection Program. This reduction will be offset by replacing the General Fund support for 20 one-engine fire

stations, 11 conservation camps, and 1 helitack base with funding from the Insurance Fund. Additional revenues to the Insurance Fund to cover this fund shift will be generated by implementing a surcharge on commercial and residential property insurance policies.

- \$3.0 million and 20.9 positions for CALFIRE's Resource Management Program. This reduction will reduce funding for fuel treatment activities and the review of timber harvest plans.

### **DEPARTMENT OF FISH AND GAME**

- \$1.4 million in 2007-08 and \$3.6 million and 20.9 positions in 2008-09 for Fish and Game's Biodiversity Conservation Program. This reduction will reduce funding for habitat restoration projects and the review of timber harvest plans.
- \$2.6 million for Fish and Game's Enforcement Program. This reduction will eliminate 38 fish and game warden positions out of 370 existing enforcement positions. These wardens are responsible for enforcing fish and game laws, inspecting vessels for quagga mussels, and protecting sensitive populations of marine species.

### **DEPARTMENT OF PARKS AND RECREATION**

- \$1.0 million in 2007-08 and \$13.3 million and 129.2 positions in 2008-09 for the Department of Parks and Recreation's (Park's) state park system. This reduction will close 48 state parks out of 278 existing parks and reduce seasonal lifeguards at state beaches in Orange, San Diego, and Santa Cruz Counties by a minimum of 50 percent.

## DEPARTMENT OF WATER RESOURCES

- \$5.4 million for the DWR's Flood Management Program. This reduction will be partially offset because Proposition 1E and Proposition 84 funds are available for erosion repair, sediment removal, and Delta levee projects.

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## OTHER SPECIAL SESSION ISSUES

The Governor has called a Special Session of the Legislature to immediately address the budget and cash shortfall. Included in the Special Session is a proposal to revert \$30 million General Fund for deferred maintenance at state parks. Parks is currently spending \$75 million on deferred maintenance projects. These funds were originally appropriated in the Budget Act of 2006 and were made available for expenditure until June 30, 2012. A portion of the funds have not yet been spent. Consequently, Parks will disencumber and revert a total of \$30 million as a budget-balancing current-year reduction. Proposition 84 provides \$400 million for various state park improvements, and this reversion will be backfilled with a \$30 million augmentation from these Proposition 84 funds.

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## PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS

Despite the need for significant General Fund reductions to ensure a balanced budget, the Governor's Budget includes the following major program enhancements to protect the natural resources of the state.

### IMPROVING FIRE PROTECTION

The 2007 fire season was one of the worst on record.

The October 2007 Southern California wildfires burned 517,267 acres, destroyed 3,204 structures, and resulted in 10 deaths and 139 injuries. The total cost of fire suppression efforts for the Southern California wildfires is estimated at \$139.4 million.

To prevent catastrophic fires from occurring in the future, the Budget proposes \$33.1 million Insurance Fund and 387.6 positions to enhance CAL FIRE's fire protection capabilities, including:

- \$28.9 million and 1,100 seasonal firefighters to staff all 336 state fire engines with full four-member crews during peak and transition fire seasons. The current standard is a three-member crew per engine. The additional firefighters will increase fire-fighting effectiveness by improving deployment, reducing fatigue, and accelerating equipment movement.
- \$4.2 million and 3.8 positions to install GPS tracking on key pieces of equipment, such as fire engines and aircraft, linked to computer-aided dispatching. GPS permits real-time monitoring of equipment position and movement and enables instant dispatching and faster redeployment of resources.

Additionally, the Budget proposes a multi-year expenditure plan to enable CAL FIRE to purchase eleven new, all-weather, 24-hour firefighting helicopters over the next six years. These new helicopters will replace CAL FIRE's existing fleet of Vietnam-era helicopters, which are restricted to daytime and

mild weather conditions. These helicopters will improve CAL FIRE's ability to effectively respond to wildland fires, as well as other disasters such as earthquakes and floods.

These CAL FIRE proposals are components of a comprehensive Wildland Firefighting Initiative. For additional information, see the Wildland Firefighting Initiative discussion in the Legislative, Judicial, and Executive Chapter.

The Budget also includes \$3 million General Fund and 28.5 park ranger positions to improve the detection and prevention of fires in state parks. According to several documented reports, the November 2007 Malibu fire appears to have started in Malibu Creek State Park. Additional park ranger patrols will reduce the risk of catastrophic fires starting in fire prone state parks.

### **ALTERNATIVE AND RENEWABLE FUEL AND VEHICLE TECHNOLOGY PROGRAM**

The Budget includes \$100.9 million Alternative and Renewable Fuel and Vehicle Technology Fund and 5.7 positions for the California Energy Commission to prepare guidelines and provide grants, loans, and other appropriate measures to public agencies, public-private partnerships, and other entities to develop alternative fuels and related technologies, including electricity, ethanol, renewable diesel, natural gas, hydrogen, and biomethane, among others. The development of these fuels and technologies will help reduce California's dependence on petroleum-based fuels.

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## ENVIRONMENTAL PROTECTION

The California Environmental Protection Agency (Cal/EPA) administers the state's environmental protection programs, which focus on restoring, preserving, and enhancing California's environmental quality and protecting public health.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget-balancing reductions. With these adjustments, the Governor's Budget includes \$1.8 billion (\$85.3 million General Fund and \$1.7 billion other funds) and 4,963.7 positions for Cal/EPA (shown in Change Table ENV-01). More notable funding changes are described below.

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### PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following:

#### AIR RESOURCES BOARD

Ongoing Implementation of the Global Warming Solutions Act of 2006 (AB 32) – The Governor's Budget includes

Change Table ENV-01  
Environmental Protection Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$90,449	\$1,990,142	4,812.0	\$86,486	\$1,989,142	4,812.0
<b>Workload Adjustments</b>						
Employee Compensation/Retirement	3,084	26,241	—	3,258	28,841	—
Expiring Programs or Positions	—	—	—	—	–5,000	—
One-Time Cost Reductions	—	—	—	—	–206,673	—
Full-Year Cost of New Programs	—	—	—	—	1,268	17.2
Other Workload Adjustments	–958	213,297	4.6	655	–90,626	37.9
Infrastructure Adjustment	–376	—	—	3,235	—	—
<b>Totals, Workload Adjustments</b>	<b>\$1,750</b>	<b>\$239,538</b>	<b>4.6</b>	<b>\$7,148</b>	<b>–\$272,190</b>	<b>55.1</b>
<b>Policy Adjustments</b>						
California Education and the Environment Initiative	—	—	—	—	1,167	0.9
Green Chemistry and Pollution Prevention	—	—	—	—	772	5.7
Ongoing Implementation of the California Global Warming Solutions Act of 2006	—	—	—	—	5,579	25.8
Regulatory Implementation and Enforcement	—	—	10.5	—	8,522	44.1
Water Quality and Water Rights Investigations and Enforcement	—	—	—	—	1,314	8.5
Zero-Emission Vehicle and Infrastructure Implementation Support	—	—	—	—	6,000	—
Other Policy Adjustments	—	—	—	3	6,090	28.1
<b>Totals, Policy Adjustments</b>	<b>\$0</b>	<b>\$0</b>	<b>10.5</b>	<b>\$3</b>	<b>\$29,444</b>	<b>113.1</b>
<b>Total Adjustments</b>	<b>\$1,750</b>	<b>\$239,538</b>	<b>15.1</b>	<b>\$7,151</b>	<b>–\$242,746</b>	<b>168.2</b>
<b>Budget Prior to Reductions</b>	<b>\$92,199</b>	<b>\$2,229,680</b>	<b>4,827.1</b>	<b>\$93,637</b>	<b>\$1,746,396</b>	<b>4,980.2</b>
<b>Budget-Balancing Reductions<sup>1/</sup></b>	<b>–\$1,600</b>	<b>\$0</b>	<b>—</b>	<b>–\$8,338</b>	<b>\$0</b>	<b>–16.5</b>
<b>Governor's Budget</b>	<b>\$90,599</b>	<b>\$2,229,680</b>	<b>4,827.1</b>	<b>\$85,299</b>	<b>\$1,746,396</b>	<b>4,963.7</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.  
\* Dollars in Thousands

\$5.6 million Air Pollution Control Fund and 25.8 positions for additional staff and resources to continue implementation of programs and strategies to reduce greenhouse gas emissions and other factors contributing to global warming.

Regulatory Implementation and Enforcement

– The Governor’s Budget includes \$8.5 million Motor Vehicle Account and 44.1 positions to focus on the Air Resources Board’s implementation and enforcement efforts related to controlling toxic diesel particulates from on- and off-road mobile sources. These include regulations affecting in-use

off-road diesel vehicles, composite wood formaldehyde emissions, and diesel auxiliary engines for port and ocean-going vessels.

## **STATE WATER RESOURCES CONTROL BOARD**

**Proposition 84**—The Governor’s Budget proposes \$100.5 million local assistance funding to continue the Clean Beaches Grant Program, the Urban Stormwater Grant Program and the Agricultural Water Quality Grant Program. The Clean Beaches Grant Program includes a funding set-aside for the Santa Monica Bay Restoration Commission.

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## **PROPOSED BUDGET-BALANCING REDUCTIONS**

Total budget-balancing reductions for the Environmental Protection Agency amount to \$1.6 million in 2007-08 and \$8.3 million and 16.5 personnel years in 2008-09.

The major reductions are described below:

## **STATE WATER RESOURCES CONTROL BOARD**

- \$4.3 million and 12.0 personnel years will be reduced effective 2008-09. These reductions will result in delays in the issuance of permits under the National Pollutant Discharge Elimination System that regulates the discharge of wastewater to surface waters in the state, and a decrease in contract funding for Total Maximum Daily Load action plans.

## **DEPARTMENT OF TOXIC SUBSTANCES CONTROL**

- \$2.4 million will be reduced effective 2008-09 from the Site Mitigation and Brownfields Reuse Program.

This reduction will decrease the annual number of drug lab cleanups performed by the state.

### **OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT**

- \$1 million and 4.5 personnel years will be reduced effective 2008-09. This reduction will decrease the annual number of scientific evaluations of the effects of fuels on human health and the state's environment, and will reduce the number of air toxic contaminant evaluations that OEHHA can perform each year.

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## **PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS**

Despite the need for significant General Fund reductions to ensure a balanced budget, the Governor's Budget includes these program enhancements to restore, preserve, and enhance California's environmental quality and protect public health.

### **INTEGRATED WASTE MANAGEMENT BOARD**

#### **California Education and the Environment Initiative**

—The Governor's Budget includes \$1.2 million and 0.9 positions one-time for 2008-09 from the California Beverage Container Recycling Fund to implement the California Education and the Environment Initiative. The Board will assist in the development of the K-12 classroom curriculum for core subjects incorporating environmental principles and concepts, and will educate students in how their personal consumption and recycling choices affect the environment.

## **STATE WATER RESOURCES CONTROL BOARD**

**Water Quality and Water Rights Investigation and Enforcement**—The Governor's Budget includes \$790,000 Waste Discharge Permit Fund, \$524,000 Water Rights Fund, and 8.5 positions to fund investigators and enforcement personnel. The program enhancements will improve the Water Board's ability to enforce state laws.

## **DEPARTMENT OF TOXIC SUBSTANCES CONTROL**

**Green Chemistry and Pollution Prevention**—The Governor's Budget includes \$772,000 and 5.7 positions to expand the existing Pollution Prevention program in the area of green chemistry. Green chemistry consists of a set of coordinated strategies intended to identify more effective approaches for dealing with the hazardous effects of many industrial chemicals. These resources will focus on product design and industrial innovation that reduces the use of harmful chemicals in products and generates fewer emissions and less waste, thereby moving California towards safe and sustainable industrial chemistry.

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## HEALTH AND HUMAN SERVICES

The Health and Human Services Agency (HHSA) oversees twelve departments and one board, which provide essential medical, dental, mental health and social services to California's most vulnerable populations. HHSA programs provide access to short- and long-term services and supports that promote health, well-being and independent living. As the state's population continues to grow and diversify, a strong and responsible network of services that is responsive to the needs of the state's at-risk residents must be maintained. Programs and services must be structured and delivered to promote improved outcomes as cost-effectively and efficiently as possible.

The proposed budget was constructed first by computing the workload budget level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget balancing reductions. With these adjustments, the revised 2007-08 budget for all HHSA budgets totals \$79.5 billion in combined state and federal funds. This total includes expenditures for approximately 33,000 state employees. Change Table HHS-01 displays budgetary adjustments in 2007-08 and 2008-09

Change Table HHS-01  
Health and Human Services Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$29,718,647	\$49,213,957	32,955.5	\$29,706,731	\$49,150,338	32,955.5
<b>Workload Adjustments</b>						
Enrollment/Caseload/Population	105,819	776,904	-71.7	1,606,894	1,756,350	-365.5
Employee Compensation/Retirement	88,552	43,135	—	94,390	47,117	—
Statutory Cost-of-Living Adjustments	—	—	—	432,413	—	—
Court Orders/Lawsuits	—	—	—	364	711	0.9
Expiring Programs or Positions	—	-516	-1.9	-5,027	-9,604	-169.6
One-Time Cost Reductions	-96	-95	—	-12,726	-37,569	—
Full-Year Cost of New Programs	—	—	—	4,144	5,407	15.7
Other Workload Adjustments	12,657	144,283	108.4	73,770	107,125	407.8
Infrastructure Adjustment	-2,091	-33,613	—	31,355	25,100	—
<b>Totals, Workload Adjustments</b>	<b>\$204,841</b>	<b>\$930,098</b>	<b>34.8</b>	<b>\$2,225,577</b>	<b>\$1,894,637</b>	<b>-110.7</b>
<b>Policy Adjustments</b>						
CalWORKs Performance Monitoring and Data Validation	—	—	—	—	2,254	18.9
Delay Current Year Medi-Cal Checkwrite for One Week (Special Session)	-165,000	-165,000	—	—	—	—
Other Policy Adjustments	—	-878	0.9	27,077	-19,245	20.7
<b>Totals, Policy Adjustments</b>	<b>-\$165,000</b>	<b>-\$165,878</b>	<b>0.9</b>	<b>\$27,077</b>	<b>-\$16,991</b>	<b>39.6</b>
<b>Total Adjustments</b>	<b>\$39,841</b>	<b>\$764,220</b>	<b>35.7</b>	<b>\$2,252,654</b>	<b>\$1,877,646</b>	<b>-71.1</b>
<b>Budget Prior to Reductions</b>	<b>\$29,758,488</b>	<b>\$49,978,177</b>	<b>32,991.2</b>	<b>\$31,959,385</b>	<b>\$51,027,984</b>	<b>32,884.4</b>
<b>Budget-Balancing Reductions <sup>1/</sup></b>	<b>-\$181,062</b>	<b>-\$65,500</b>	<b>-11.2</b>	<b>-\$2,661,209</b>	<b>-\$1,865,600</b>	<b>-367.5</b>
<b>Governor's Budget</b>	<b>\$29,577,426</b>	<b>\$49,912,677</b>	<b>32,980.0</b>	<b>\$29,298,176</b>	<b>\$49,162,384</b>	<b>32,516.9</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.  
\* Dollars in Thousands

by broad categories. The 2008-09 total is \$1 billion, or 1.3 percent, less than the revised 2007-08 budget.

Figure HHS-01 displays the revised 2007-08 estimates of caseloads for major health and human services programs, along with the proposed 2008-09 caseload estimates for these programs.



Figure HHS-01  
**Major Health and Human Services Program Caseloads**

	<b>2007-08 Revised</b>	<b>2008-09 Estimate</b>	<b>Change</b>
California Children's Services (CCS) <sup>a</sup> (treatment of physical handicaps)	43,273	44,830	1,557
Medi-Cal Eligible CalWORKs	6,637,700	6,563,800	-73,900
Average monthly individuals served	1,123,900	962,000	-161,900
Average monthly cases (families)	451,600	377,000	-74,600
Foster Care	71,100	67,800	-3,300
SSI/SSP (support for aged, blind, and disabled)	1,247,600	1,274,000	26,400
In-Home Supportive Services	390,000	407,900	17,900
Child Welfare Services <sup>b</sup>	133,600	132,100	-1,500
Non-Assistance Food Stamps	596,100	636,700	40,600
State Hospitals			
Mental health clients <sup>c</sup>	5,978	6,448	470
Developmentally disabled clients <sup>d</sup>	2,620	2,449	-171
Community Developmentally Disabled Services			
Regional Centers	221,655	232,125	10,470
Vocational Rehabilitation	80,447	80,584	137
Alcohol and Drug Programs <sup>e</sup>	203,275	216,786	13,511
Healthy Families Program <sup>f</sup>			
Children	888,450	954,252	65,802

<sup>a</sup> Represents unduplicated quarterly caseload in the CCS Program. Does not include Medi-Cal Eligible CCS clients.

<sup>b</sup> Represents Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement

service areas on a monthly basis. Due to transfers between each service area, cases may be reflected in more than one service area.

<sup>c</sup> Represents the year-end population. Includes population at Vacaville and Salinas Valley Psychiatric Programs.

<sup>d</sup> Represents average in-center population. Reflects the impact of Agnews Developmental Center closure.

<sup>e</sup> Represents Drug Medi-Cal Clients.

<sup>f</sup> Represents the year-end population.

## PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following:

- Enrollment, Caseload, and Population Adjustments  
—\$3.1 billion (\$1.3 billion General Fund) including:
  - \$607.4 million (\$427.3 million General Fund) in the Department of Social Services;

- \$1.7 billion (\$413.8 million General Fund) in the Department of Health Care Services, which includes federal funds for which the match is provided by other departments;
  - \$511.9 million (\$337.6 million General Fund) in the Department of Developmental Services; and
  - \$190.6 million (\$130.5 million General Fund) in the Department of Mental Health.
- Statutory Cost-of-Living Adjustments (COLAs): \$301.4 million General Fund for statutory payment increases in the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program and \$131 million General Fund for statutory grant increases in the CalWORKs program.
  - \$258 million General Fund backfill due to a lack of sufficient federal Temporary Assistance for Needy Families (TANF) block grant funds to support the CalWORKs program.
  - \$72.7 million (\$36.4 million General Fund) to restore funding for savings that were recognized in the 2007 Budget Act for switching the basis used to establish the drug reimbursement component of pharmacy claims in Medi-Cal. Due to federal implementation delays and recent court actions, it is unlikely that these savings will be available in either 2007-08 or 2008-09.
  - An increase of \$31.4 million (\$18.4 million General Fund) to reflect the full-year cost of foster care rate increases that became effective January 1, 2008 and increased reimbursement rates in the Private Adoption Agency

Reimbursement Payments Program that become effective February 1, 2008.

- Decreases of \$187.4 million in 2007-08 and \$15.8 million in 2008-09 for baseline adjustments in the State-Local Realignment budget due to changes in projected sales tax and vehicle license fee revenues.

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## **PROPOSED BUDGET-BALANCING REDUCTIONS**

Total budget-balancing reductions for the HHSA amount to \$246.6 million (\$181.1 million General Fund) and 11.2 positions in 2007-08 and \$4.5 billion (\$2.7 billion General Fund) and 367.5 positions in 2008-09. These reductions assume necessary statutory changes will be enacted by March 1, 2008.

Programs exempted from reductions include emergency medical assets, foodborne illness and lead testing, Department of Mental Health state hospitals, funding for the California Child Support Automated System (CCSAS) to minimize unnecessary added risk to the project, funding to local child support agencies due to the nexus between local agency funding and support to the CCSAS project, certain Children's Outreach Initiative activities, and various areas within Medi-Cal (including audits and investigations, third-party liability, and long-term care rates for certain nursing facilities).

The major reductions are described below:

### Department of Health Care Services

- \$33.4 million in 2007-08 and \$602.4 million in 2008-09 from reducing Medi-Cal provider rates for physicians and other medical and service providers. A proportionate reduction will be made to managed care rates.
- \$34.4 million in 2008-09 by shifting federal Safety Net Care Pool payments from designated public hospitals to the portions of the California Children's Services (CCS), the Genetically Handicapped Persons, the Medically Indigent Adult-Long-term Care, and the Breast and Cervical Cancer Treatment programs, which are eligible for these funds. This shift will allow a corresponding reduction in General Fund for these programs.
- \$30 million in 2008-09 by reducing reimbursement rates for hospitals that do not contract with Medi-Cal.
- \$56.8 million in 2008-09 payments from a reduction in the payments to certain long-term care facilities.
- \$24 million in 2008-09 from reduced Medi-Cal Disproportionate Share Hospital replacement payments for private hospitals. These payments are allocated to hospitals based on their uncompensated Medi-Cal and uninsured care costs.
- \$10 million in 2007-08 and \$134 million in 2008-09 by eliminating certain Medi-Cal optional benefits for adults including incontinence creams and washes, acupuncture, dental, audiology, optometry, optical, chiropractic, podiatry, psychology, and speech therapy.
- \$4.2 million in 2007-08 and \$50.1 million in 2008-09 related to stopping the payment of Medicare Part B

premiums for Medi-Cal share-of-cost beneficiaries who do not become Medi-Cal certified by meeting their share-of-cost during the month. These individuals are Medi-Cal eligible but have adjusted income that exceeds 129 percent of the Federal Poverty Level and have not spent down their excess income. They will have the option to pay their own premiums to maintain their Medicare Part B benefits.

- \$92.2 million in 2008-09 by reducing the 12 month Medi-Cal eligibility period for children and restoring quarterly status reports for both children and parents. Currently, children's eligibility is determined annually, while parent's eligibility is determined semi-annually. This proposal would reinstate quarterly status reports, which would allow an evaluation of the person's eligibility for Medi-Cal on a quarterly basis.
- \$75.8 million in 2008-09 in Medi-Cal payments to counties. Adjustments include: elimination of the California Necessities Index-based cost-of-living adjustment that would be provided to county eligibility, administrative, and support positions; elimination of caseload growth funding that is used to hire additional county staff to address increased workload due to increases in Medi-Cal eligibles; a reduction of the county administration base, which provides funding for staff, support, and staff development costs associated with the Medi-Cal eligibility process; and reductions in funding for administration of the CCS and Child Health Disability Prevention programs.

#### **Department of Public Health**

- \$11 million in 2008-09 for AIDS programs. This reduction will be achieved by reducing state support and local

assistance for various programs, including AIDS Education and Prevention, AIDS Epidemiology Studies and Surveillance, AIDS Drug Assistance, and HIV Counseling and Testing. At this reduced level of funding, the state will continue to meet the federal maintenance-of-effort requirement for receipt of Ryan White Act funds.

- \$5.4 million for family health programs. This will result in a reduced level of state support and local assistance funding for case management services for at-risk teens, domestic violence prevention activities, and education activities including breastfeeding, nutrition, and Sudden Infant Death Syndrome risk reduction.
- \$3.3 million for local chronic disease programs. This will result in a reduced level of state support and local assistance funding for cancer and injury prevention surveillance activities, developing public health interventions, and monitoring environmental contaminants.

### **Managed Risk Medical Insurance Board**

- \$41.9 million in 2008-09 by reducing rates for Healthy Families Program plans, increasing premiums and co-pays, and instituting an annual cap on dental benefits.

### **Department of Developmental Services**

- \$348.3 million (\$235.1 million General Fund) in 2008-09 through extension of existing Regional Center cost containment measures, including rate freezes on targeted program categories that are scheduled to sunset June 30, 2008.

- \$18.3 million (\$14.2 million General Fund) in 2008-09 to freeze rates negotiated by regional centers for all provider types not yet frozen and to set parameters or limits on the rates for new providers with whom the regional centers may negotiate.
- \$0.8 million General Fund in 2008-09 to expand the Family Cost Participation Program (FCPP) by assessing a share of the cost of respite, day care, and camping services to parents of Early Start consumers and by expanding the share of cost scale so that families between 400 percent of the Federal Poverty Level (FPL) and 500 percent of the FPL will pay 10 percent of the cost of these services and families at 2,000 percent of the FPL or above will pay 100 percent of the cost of these services.

#### **Department of Mental Health**

- \$8.2 million General Fund in 2007-08 and \$23.8 million General Fund in 2008-09 for managed care primarily by eliminating the annual cost-of-living increase and reducing the non-inpatient State Maximum Allowance (SMA).
- \$6.7 million General Fund in 2007-08 and \$46.3 million General Fund in 2008-09 for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program. The savings would be achieved primarily by requiring prior authorization by mental health providers for EPSDT day treatment that exceeds six months, eliminating the annual cost-of-living increase, and reducing the non-inpatient State Maximum Allowance (SMA).

### Department of Social Services

- \$73.7 million in 2007-08 and \$389.1 million in 2008-09 for the CalWORKs program. The savings would be achieved as part of a reform proposal intended to improve the state's work participation rate, as necessary to avoid federal sanctions. The proposal combines work incentives with sanctions for not meeting work requirements.
- \$83.7 million in 2008-09 in reduced Child Welfare Services allocations to counties. Counties will decide how to apportion the reduced allocation.
- \$6.8 million in 2007-08 and \$81.5 million in 2008-09 for foster care and adoptions programs. The proposal would reduce rates for Foster Family Agencies, foster family homes, group homes, Adoptions Assistance, and Kin-GAP recipients.
- \$23.3 million in 2007-08 and \$300.3 million in 2008-09 for the SSI/SSP program, achieved by suspending the June 2008 and June 2009 state COLAs. Recipients will still see increased benefit payments in both years due to provision of the federal COLAs.
- \$109.4 million in 2008-09 for the In-Home Supportive Services (IHSS) program by reducing the hours allocated to IHSS recipients for non-medical services.
- \$3.4 million in 2007-08 and \$44 million in 2008-09 by eliminating the Interim Statewide Automated Welfare System (ISAWS) Migration project. The current ISAWS system remains fully operational and eliminating the ISAWS Migration project prevents the need to make reductions and introduce significant risk in other critical projects.



- \$2.3 million in 2008-09 by reducing community care licensing random visits. Under this proposal, 14 percent of facilities would receive random inspections annually. No reduction will be made to follow-up inspection schedules for facilities that have previously been found to be out of compliance with licensing standards.

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## OTHER SPECIAL SESSION ISSUES

The Governor has called a Special Session of the Legislature to immediately address the budget and cash shortfalls. Included in the Special Session are the following proposals that help to address the state's cash shortage:

- \$814.2 million by delaying the July and August payments and advances to counties for programs in the Department of Social Services budget until September. Payments for the SSI/SSP and IHSS programs would not be impacted.
- \$454 million delay in payments to Medi-Cal institutional fee-for-service providers in 2008-09. This proposal temporarily delays the August weekly payments to September.
- \$400 million change in disbursement pattern to Regional Centers in 2008-09. The Governor's Budget proposes to reduce the amount of advance payments the Regional Centers receive in July and August by \$400 million. In September, this funding would be restored. This modified disbursement will preserve the Regional Centers' ability to pay providers in a timely manner.

- \$232 million by delaying the August payments to Medi-Cal managed care plans and Delta Dental until September.
- \$199.7 million by delaying the mental health managed care program advance from July until September.
- \$165 million savings in 2007-08 by delaying a June payment to Medi-Cal fee-for-service providers into July. This same transaction would occur in subsequent fiscal years.
- \$164.3 million by delaying the first quarterly payment to counties for Medi-Cal administration from August to September.
- \$92 million by delaying the quarterly advance to counties for the Early and Periodic Screening, Diagnosis, and Treatment program from July to September.

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## **PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS**

The Governor's Budget includes significant reductions necessary to address the state's fiscal shortfall. However, the Administration remains committed to supporting improved outcomes for children and youth in foster care, ensuring more children are enrolled in no- and low-cost health coverage programs, better linking the needs of seniors and persons with disabilities with appropriate services, protecting the health and safety of Californians served by HHS-licensed facilities, and ensuring the state's public health system is ready to respond to natural and manmade disasters and incidents.

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## DEPARTMENT OF HEALTH CARE SERVICES

The Department of Health Care Services (DHCS) works to ensure that eligible persons and families receive comprehensive health services. By ensuring the appropriate and effective expenditure of public resources to serve those with the greatest health care needs, DHCS promotes health and well-being.

### MEDI-CAL

The Governor's Budget includes \$36 billion (\$13.6 billion General Fund), a decrease of \$962.3 million (\$472.1 million General Fund) from the revised 2007-08 budget and a decrease of \$915.9 million (\$678.7 million General Fund) from the Budget Act of 2007. Average monthly caseload is forecasted to be 6.6 million persons in 2008-09, a decrease of approximately 73,900 people, or 1.1 percent, compared to 2007-08. The General Fund decrease primarily reflects implementation of quarterly status reports and reductions in benefits and provider rates, while the caseload decrease is due primarily to the proposed implementation of the quarterly status reports for children and parents.

**Adult Day Health Care Reform**—The Governor's Budget includes \$2.4 million (\$1 million General Fund) and 19 positions to continue program reforms and develop a new rate methodology to increase California's ability to retain federal funding and help ensure services remain available for qualified beneficiaries, as required by Chapter 691, Statutes of 2006 (SB 1755).

**Provider Enrollment Automation Project**—The Governor's Budget includes \$2.4 million (\$0.6 million General Fund)

to purchase and implement a provider enrollment case and document tracking system. This system will streamline the provider enrollment process, thereby shortening the time it takes to enroll providers in Medi-Cal.

### **Money Follows the Person Demonstration Grant —**

The Governor's Budget includes \$0.2 million (\$0.1 million General Fund) and 1.9 positions to begin implementation of the California Community Transitions (CCT) program as part of the Money Follows the Person Demonstration Grant. The goal of this program is to transition Medi-Cal eligibles from high-cost institutions such as acute hospitals and nursing facilities, into lower-cost home- and community-based care settings.

### **Medi-Cal Eligibility Data System (MEDS) Security Fixes**

– The Governor's Budget includes \$1.8 million (\$0.6 million General Fund) and 15.2 positions to enhance data security of MEDS and implement changes contained in the remediation plan signed with the federal Social Security Administration in June 2007.

### **Implementation of Chapter 328, Statutes of 2006 (SB 437)**

– The Governor's Budget includes \$26.4 million (\$13.1 million General Fund) and 1.9 positions to continue the simplification and acceleration of enrollment in Medi-Cal as well as to establish a two-county pilot program that will allow Medi-Cal beneficiaries to self-certify their income and resources at their initial application and during their redetermination process.

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## DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health (DPH) is charged with protecting and promoting the health status of Californians through programs and policies that use population-wide interventions. The Governor's Budget includes \$3.1 billion (\$368.9 million General Fund) for the DPH in 2008-09, a decrease of \$246.2 million (\$26 million General Fund) from the revised 2007-08 budget and a \$2.9 million (\$21.7 million General Fund) net decrease from the 2007 Budget Act level.

### HIV/AIDS TREATMENT AND PREVENTION

The Office of AIDS administers programs that provide local assistance funding for HIV education and prevention services, HIV counseling and testing, early intervention to prevent transmission, epidemiological studies, therapeutic monitoring, housing, home and community-based care, and HIV/AIDS drug assistance to low-income persons statewide.

The Governor's Budget includes \$404.1 million (\$165.8 million General Fund) for the Office of AIDS' Treatment and Prevention Program. This is a total decrease of \$24.4 million, or 5.8 percent below the revised 2007-08 budget.

The 2008-09 expenditure plan includes decreases of \$13.4 million to reflect the removal of one-time adjustments and \$11 million as part of the budget-balancing reductions.

### LICENSING AND CERTIFICATION

Consistent with the requirements of Chapter 895, Statutes of 2006 (SB 1312), the DPH conducted a thorough comparison of state and federal standards for long-term health care facilities to determine the staff requirements necessary to ensure

compliance with the legislation. Based on the outcome of the study, the Governor's Budget includes 68.0 positions and \$8.9 million from the Licensing and Certification Program Fund that will allow the DPH to conduct periodic licensing surveys of long-term care facilities to assess compliance with state standards of safety and care. Although increases in provider fees are necessary to support these expenditures, the additional funding will ensure that California provides long-term care residents with quality medical care that exceeds the requirements of federal law.

### **PROPOSITION 99 EXPENDITURES**

The Governor's Budget projects Proposition 99 revenue of \$335.3 million in 2008-09, \$8 million more than the revised 2007-08 budget. This estimated increase is attributable to a Board of Equalization proposal to better recover state tax revenues from cigarette and tobacco sales. However, the revised 2007-08 revenue estimates are \$9.7 million below the 2007 Budget Act level. Historically, Proposition 99 revenues have declined annually as a result of declining smoking rates.

Due to the decrease in 2007-08 revenue, the Governor's Budget proposes a reduction of \$778,000 for the California Healthcare for Indigents Program (CHIP) and \$100,000 for Rural Health Services. Due to lower revenues and an increase in costs for the Access for Infants and Mothers (AIM) program in 2008-09, the Governor's Budget proposes the following reductions: \$12.8 million for the CHIP, \$4.2 million for the Breast Cancer Early Detection Program, \$4.3 million for the Major Risk Medical Insurance Program, and \$1.2 million for the Expanded Access to Primary Care program.

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## MANAGED RISK MEDICAL INSURANCE BOARD

The Governor's Budget includes \$1.3 billion (\$390.4 million General Fund) for MRMIB in 2008-09, a decrease of \$2.3 million (\$5.6 million General Fund) from the revised 2007-08 budget and \$20.4 million (\$10.7 million General Fund) below the Budget Act of 2007. This decrease is due primarily to application of the budget balancing reductions.

## HEALTHY FAMILIES PROGRAM

The HFP is a subsidized health coverage program for eligible children in families with low- to moderate-income who are ineligible for no-cost Medi-Cal. This program provides low-cost medical, dental and vision coverage to eligible children from birth to age 19. HFP expenditures are projected to decline from revised expenditures of \$1.1 billion (\$393.6 million General Fund) in 2007-08 to \$1.1 billion (\$387.8 million General Fund) in 2008-09, a decrease of \$5.8 million General Fund, or 1.5 percent. This decline is primarily the result of anticipated implementation of the budget balancing reductions which include a rate reduction for plans, institution of an annual cap on dental benefits, and increases in premiums and co-pays. The increase in premiums and co-pays will vary by income level and are within the percentage of family income allowed under federal law. Program enrollment is projected to grow from 888,450 by year-end 2007-08 to 954,252 by year-end 2008-09, for a total increase of 65,802 children, or 7.4 percent.

Implementation of Chapter 328, Statutes of 2006 (SB 437)—The Governor's Budget includes \$5.9 million (\$2.1 million General Fund) and 2.8 positions to simplify and accelerate enrollment in the Healthy Families Program

as well as allow families to self-certify their income during eligibility redetermination.

### **ACCESS FOR INFANTS AND MOTHERS PROGRAM**

The AIM program provides low-cost, comprehensive health coverage to uninsured pregnant women with family incomes between 200 and 300 percent of the federal poverty level. This coverage extends from the date of enrollment in the program to 60 days postpartum. Eligible children born to AIM mothers are enrolled in the HFP if they have no other insurance coverage. Expenditures for this program are projected to increase from \$134.6 million (\$60.2 million Perinatal Insurance Fund) in 2007-08 to \$153.7 million (\$68.8 million Perinatal Insurance Fund) in 2008-09, for a total increase of \$19.2 million, or 14.3 percent. This change in total expenditures primarily is due to increased enrollment of women from 13,859 in 2007-08 to 15,836 in 2008-09, an increase of 1,977 women, or 14.3 percent.

### **MAJOR RISK MEDICAL INSURANCE PROGRAM**

The Governor's Budget includes \$36 million for MRMIP, which provides health care coverage to medically high-risk individuals and the medically uninsurable who are denied coverage through the individual health insurance market. This funding level reflects a \$4 million reduction from the \$40 million historical level due to a continuing decline in Proposition 99 revenues. Program enrollment is "capped" at the level of annual funding provided. The program currently provides benefits to a total of 8,043 people, with 65 people on the waiting list as of December 1, 2007.

Chapter 794, Statutes of 2002, required MRMIP participants who had been in the program for 36 months to be disenrolled,



but provided for guaranteed-issue coverage offered by health plans in the individual insurance market. This statute sunset on December 31, 2007. Therefore, MRMIB is no longer disenrolling members from MRMIP.

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## DEPARTMENT OF DEVELOPMENTAL SERVICES

The Governor's Budget includes \$4.5 billion (\$2.7 billion General Fund) for the Department of Developmental Services (DDS) in 2008-09, a net increase of \$53.3 million (\$59.8 million General Fund) above the revised 2007-08 budget and \$143 million (\$81 million General Fund) above the Budget Act of 2007.

### DEVELOPMENTAL CENTERS

The Governor's Budget proposes \$667.1 million (\$354.8 million General Fund) and 6,508.7 positions, a net decrease of \$87.6 million (\$59.8 million General Fund) and 804 positions from the revised 2007-08 budget. The change primarily reflects the Agnews closure and a reduction in the developmental center population as consumers transition into the community, as well as reductions of \$29.4 million (\$22.1 million General Fund) to the developmental centers budget.

**Agnews Developmental Center Closure**—The Governor's Budget includes a decrease of \$62.1 million (\$38.7 million General Fund) due to the closure of Agnews effective June 30, 2008. This decrease includes the reduction of 819 positions at Agnews DC. The Governor's Budget includes an increase of \$4.0 million (\$192,000 General Fund, \$3.8 million reimbursements) and 24 positions to provide medical, dental and other professional services through a

Primary Care Clinic to individuals residing in the community and to facilitate smooth transition of consumers to community health care providers. The 24 positions are included as part of the 200 Agnews employees working in the community.

**REGIONAL CENTERS**

For 2008-09, the Governor’s Budget proposes \$3.8 billion (\$2.3 billion General Fund) to support the regional centers, a net increase of \$141.5 million (\$119.8 million General Fund) from the revised 2007-08 budget. The change reflects increases in regional centers caseload. The regional center community population is projected to increase by 12,895 consumers, to 232,125 consumers in 2008-09, which includes an increase of 176 developmental center residents who will move into the community.

Increased Access to Mental Health Services—Consistent with the requirements of the Mental Health Services Act, the DDS proposes an expenditure of \$1.1 million from the Mental Health Services Fund to increase access to mental health services for consumers who are dually diagnosed with a developmental disability and a mental illness. Through the identification of best practice models and training, DDS will improve clinical capacity and effectiveness of direct services to dually diagnosed consumers.

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**DEPARTMENT OF MENTAL HEALTH**

The Governor’s Budget includes \$5 billion (\$2.1 billion General Fund) for the Department of Mental Health (DMH) in 2008-09, a net increase of \$144.4 million (\$143.8 million General Fund) from the revised 2007-08 budget and an increase of \$159.4 million (\$168.3 million General Fund)

from the Budget Act of 2007. This net change primarily reflects continued growth in the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, fully funding AB 3632 mental health services program mandates, employee compensation adjustments including funding for Coleman classifications, growth in the state hospitals including continued compliance with the Civil Rights of Institutionalized Persons Act (CRIPA), and the continued activation of Coalinga State Hospital.

### **CIVIL RIGHTS OF INSTITUTIONALIZED PERSONS ACT**

The federal CRIPA authorizes the U.S. Attorney General to conduct investigations and litigation relating to confinement in state or locally operated institutions. Since June 2, 2006, California's state hospitals have operated under a Consent Judgment with the U.S. Department of Justice (USDOJ) in order to address deficiencies in patient treatment and care which were deemed to be violations of CRIPA. The DMH has agreed to bring all four of the hospitals that fall under the direction of the Consent Judgment into compliance by June 30, 2009.

In order to ensure that the state hospitals meet the wide-ranging treatment and performance requirements of the Consent Judgment, the Governor's Budget includes \$5.2 million General Fund and 28.0 positions in 2008-09. These additional resources include positions dedicated to monitoring hospital compliance and to the continued implementation of the Wellness and Recovery Model Support System project, an expansive information technology network that will ensure state hospital compliance with CRIPA.

## **CONDITIONAL RELEASE PROGRAM**

The Forensic Conditional Release Program (CONREP) mandates responsibility to the DMH for outpatient treatment and supervision of judicially committed patients including Mentally Disordered Offenders, individuals found Not Guilty By Reason of Insanity, Mentally Disordered Sex Offenders, and Sexually Violent Predators (SVPs). The Governor's Budget includes \$1.8 million General Fund for an incremental 4-percent rate increase to cover the cost of clinical care incurred by county and private providers and to fund an estimated increase of 4 SVPs into the program. The rate increase will offset rising provider costs so that caseload within the program can be maintained.

## **STATE HOSPITALS**

In 2007-08, there is a decrease of \$7.4 million General Fund and 89.3 positions to reflect a downward adjustment to the hospital population in the current year. The Governor's Budget includes \$1.2 billion General Fund and 11,686.2 positions for 2008-09, an increase of \$78.8 million and 559.5 positions from the revised 2007-08 budget, due primarily to the implementation of Phase IX of the Coalinga State Hospital activation plan and resources to comply with CRIPA.

The patient population is projected to reach a total of 6,448 in 2008-09.

Continued Activation of Coalinga State Hospital—Coalinga State Hospital opened in September 2005 and began admitting SVP patients transferred from Atascadero State Hospital.

However, patient transfers have been slower than anticipated due to difficulty in filling staff positions at Coalinga.

The DMH has been working to address the delayed hiring of

level-of-care staff necessary for bed activation by continuing aggressive recruitment efforts throughout California and the United States, using recruitment and retention differentials where appropriate, and contracting for nursing registry services as needed. As patient transfers to Coalinga increase, additional patients currently awaiting transfer from local jails will be admitted to the state hospital system. The Administration estimates that the population at Coalinga will be 1,257 patients in 2008-09, an increase of 360 patients over the population level included in the 2007 Budget Act.

### **Metropolitan State Hospital School Closure**

—The Governor's Budget reflects a decrease of \$3.8 million General Fund to reflect closure of the school that currently provides education services to adolescents at Metropolitan State Hospital. Due to the declining adolescent population, coupled with efforts to place youth in the community, the DMH will cease operating this unit when all children are placed in the community. This is anticipated to occur in January 2008.

## **COMMUNITY MENTAL HEALTH SERVICES**

The Governor's Budget includes \$3.6 billion (\$815 million General Fund) for 2008-09, an increase of \$61.5 million (\$58.7 million General Fund) compared to the revised 2007-08 budget.

### **Early and Periodic Screening, Diagnosis and Treatment Program**

The EPSDT Program is an entitlement program for children and adults under age 21. The program provides services to approximately 193,735 Medi-Cal-eligible children and young adults to correct or ameliorate diagnosed mental illnesses.

In 2007-08, there is a decrease of \$5.5 million (\$3.6 million General Fund) due to a reduction in estimated Mental Health Services Act (MHSA)-driven EPSDT costs. In 2008-09, there is an increase of \$105.4 million (\$51.4 million General Fund) above the Budget Act of 2007 attributable to increases in the cost and volume of claims, including the effect of the MHSA on EPSDT services. The EPSDT Program also is being reduced by \$13.4 million (\$6.7 million General Fund) in 2007-08 and by \$92.6 million (\$46.3 million General Fund) in 2008-09 as part of the budget balancing reductions.

### **Mental Health Managed Care**

As part of the budget balancing reductions, the mental health managed care program is being reduced by \$8.2 million General Fund in 2007-08, and by \$46.7 million (\$23.8 million General Fund) in 2008-09. These reductions will reduce the amount paid to county mental health plans.

### **Mental Health Services Act (Proposition 63)**

Revenues to the Mental Health Services Fund are projected to decrease over previous estimates by \$177.2 million in 2007-08 and \$105.2 million in 2008-09, for total estimates of \$1.6 billion in 2007-08 and \$1.7 billion in 2008-09.

These funds are continuously appropriated to the DMH for county implementation of the MHSA. Almost all counties have completed their community planning processes. Counties are in the process of implementing the Community Services and Supports component of the MHSA, which provides additional mental health services to individuals with serious mental illness. The other four components (Prevention and Early Intervention, Workforce Education and Training, Capital

Facilities and Technology Needs, and Innovation) are expected to be implemented by the end of 2007-08.

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## **DEPARTMENT OF CHILD SUPPORT SERVICES**

The Governor's Budget includes \$1 billion (\$300.8 million General Fund), a decrease of \$204.9 million (\$50.9 million General Fund) below the revised 2007-08 budget.

This decrease is primarily associated with a reduction of one-time payments and system automation costs incurred in 2007-08, and proposed budget balancing reductions.

### **CHILD SUPPORT COLLECTIONS**

The child support program establishes and enforces court orders for child, spousal, and medical support from absent parents on behalf of dependent children and their caretakers. For display purposes only, the Governor's Budget reflects the total collections received, including payments to families and collections made in California on behalf of other states. The General Fund share of assistance collections is included in statewide revenue projections. Child support collections for 2007-08 are estimated to be \$2.2 billion (\$225.9 million General Fund). Collections for 2008-09 are projected to be \$2.2 billion (\$201.7 million General Fund).

### **CHILD SUPPORT AUTOMATION**

The Franchise Tax Board (FTB) is the agent of DCSS for the procurement, development, implementation, maintenance, and operation of the California Child Support Automation System (CCSAS). The CCSAS project consists of two components: the Child Support Enforcement (CSE) component provides the core automated functionality to

manage child support cases, and the State Disbursement Unit (SDU) interfaces with the CSE and processes payments to custodial parties. The state is responsible for developing and implementing the CCSAS and transitioning all counties onto this new system. Implementation began in May 2007 and eighteen counties have successfully implemented the system. The state expects to complete statewide implementation in 2008-09.

As full implementation of the CCSAS project nears, the state is planning to consolidate responsibility for the project within the DCSS. A forthcoming transition plan will detail the transfer of all resources and responsibilities for the continued maintenance of the CCSAS system from the FTB to the DCSS with the transition to begin in 2008-09.

### **INCREASE CHILD SUPPORT PASS-THROUGH**

Effective October 1, 2008, the federal Deficit Reduction Act of 2005 (DRA) provides for federal participation at the 50 percent level in child support that is passed through to CalWORKs families. When child support is collected for families receiving CalWORKs benefits, a portion of child support payments collected are remitted to state, federal and county governments to help offset the costs of providing public assistance benefits to these families. Of the state portion of recoveries, California currently passes through \$50 per month to CalWORKs families. These funds are disregarded for CalWORKs benefit calculation purposes. The Governor's Budget proposes to establish federal participation at the 50 percent level in the current \$50 disregard which will result in increased General Fund revenues of \$3.9 million for the period between October 1, 2008 and January 1, 2009. Additionally, the Governor's Budget proposes to increase the



amount of child support passed through to CalWORKs families from \$50 to \$100 per month effective January 1, 2009. Due to federal participation, the increase from \$50 per month to \$100 per month will be revenue neutral to the General Fund.

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## **DEPARTMENT OF SOCIAL SERVICES**

The Governor's Budget includes \$19 billion (\$9.1 billion General Fund) for the DSS in 2008-09, an increase of \$55.8 million General Fund from the revised 2007-08 budget and \$75.9 million General Fund from the Budget Act of 2007.

### **CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS**

Total California Work Opportunity and Responsibility to Kids (CalWORKs) program expenditures of \$7 billion (state, local, and federal funds) are proposed for 2008-09, including TANF and maintenance-of-effort (MOE) countable expenditures. The amount budgeted includes \$4.7 billion for CalWORKs program expenditures within the DSS budget, \$108 million in county expenditures, \$2.2 billion in other programs, and \$133.4 million for a CalWORKs program reserve. The \$2.2 billion in other programs includes MOE expenditures in excess of the required level. Recent federal changes expanded MOE-eligible spending to include certain expenditures for non-assistance benefits and services. This allows additional expenditures of \$349.2 million for the State Department of Education's after school programs and the Student Aid Commission's CalGrants to be counted towards the CalWORKs MOE, reducing California's work participation requirement by an estimated 5.1 percent.

**CalWORKs COLA**—The Governor’s Budget includes \$131 million to provide a statutory COLA for assistance payments. This COLA, scheduled to become effective July 1, 2008, is estimated to increase monthly grant levels for a family of three from \$723 to \$754.

After many years of decline, caseload has been flattening over the last five years. Absent the program changes described below, the average monthly caseload in this program is estimated to be 450,900 families in 2008-09, a 1.4-percent decrease over the 2007-08 projection. The proposed changes to CalWORKs are estimated to reduce the 2008-09 caseload projection to 377,000 families, a 16.5-percent decrease from the 2007-08 projection.

Because many recipients are not working sufficient hours to meet the federal work participation requirements, California’s work participation rate has ranged from a high of over 40 percent in 1999 to less than 22 percent now under new federal rules. In the past, California met the federal requirements due to the significant caseload reduction credits allowed under the original federal welfare reform legislation. The federal Deficit Reduction Act of 2005 (DRA) reauthorized the TANF program, adjusted the base year, and made other changes that will require California to increase work participation rates of individuals receiving assistance funded with TANF and matching MOE resources or face substantial fiscal penalties.

Current policies are not expected to increase work participation rates enough to meet the federal requirement for at least 50 percent work participation among all families. Although the rates have not yet been finalized, California will fail to meet

the work participation rate for federal fiscal year (FFY) 2007, the first year for which the DRA's changes were effective. As a result, California's MOE will be 80 percent of FFY 1994 historic expenditures rather than the 75 percent MOE level California has been required to meet. The Governor's Budget increases MOE spending by \$179.5 million in 2008-09, to \$2.9 billion, to reflect this penalty.

In place of a budget balancing reduction, the Governor's Budget proposes to implement changes that promote personal responsibility and hold recipients accountable for the consequences of their actions, strengthen the work focus of the program, and improve California's ability to meet federal requirements and avoid fiscal penalties. The following key policy objectives serve as a foundation for the Administration's CalWORKs proposal:

- Emphasize the shared responsibility of government and participants to help families prepare for and achieve self-sufficiency through work.
- Continue to focus on employment to maximize participation in the workforce and decrease dependence upon aid.
- Create incentives for counties to utilize available resources more effectively and efficiently and reward the achievement of welfare-to-work goals.
- Maintain the support services necessary to transition recipients to the workforce.
- Maintain a statewide safety net for low-income families who meet work requirements.
- Maximize available federal block grant funds.

Major programmatic changes that place greater emphasis on work participation and reduce reliance upon public assistance are necessary to significantly improve the ability of the state and counties to meet federal work requirements in the TANF program. Failure to do so will result in substantial additional federal penalties to the state and counties. California must change its welfare policies while maintaining CalWORKs' core goals to minimize the risk of penalties and improve program outcomes. Key components of this effort include:

- **Implement Graduated Full Family Sanctions—** This proposal strengthens work requirements and recipient accountability by reducing grants by 50 percent when adults have been sanctioned for not participating and have remained in sanction status for an accumulated total of six months. Adults who have been sanctioned for not participating for a second accumulated total of six months will receive a full family sanction. Adults could remedy their sanction at any time by complying with appropriate work activities. Prior to any graduated sanction, counties will contact the adult to ensure that he or she understands the participation requirements and to urge program compliance, as well as connect adults to resources in order to remove barriers to participation. These contacts will consist of a combination of phone calls, letters, and home visits. This graduated full family sanction policy will reduce prolonged noncompliance while providing a reasonable timeframe to achieve compliance during which time benefits are still available.
- **Work Incentive Nutritional Supplement—** This proposal promotes self-sufficiency through work by providing supplemental food stamp benefits to certain

working families. Working families who are receiving food stamps, but not also receiving CalWORKs assistance, would be eligible for this benefit if they work sufficient hours to meet federal TANF work participation requirements. This supplement provides a further bridge to self-sufficiency and better ensures that families who previously received CalWORKs assistance will not fall back into the program. This benefit would be set at a flat amount of \$40 per month and each food stamp household may be eligible for one supplemental work incentive benefit per month.

- **Continue County Efforts** – This proposal continues to support and promote county efforts to increase work participation by implementing county peer reviews, publicizing individual county performance outcomes, and continuing funding for county implementation of strategies to engage CalWORKs recipients early in the program, maintaining full engagement, preventing recipients from becoming sanctioned, and encouraging sanctioned individuals to re-engage in the program.
- **Modify the Safety Net Program**—This proposal rewards working families by continuing safety net benefits for families beyond their 60-month time limit if they meet federal work participation requirements. The current safety net program minimizes the incentive for families to become self-sufficient.
- **Ensure Consistent Child-Only Benefits** – This proposal provides cash aid for families receiving child-only benefits that are consistent with other CalWORKs families. Under this proposal, aid to families receiving child-only benefits will be limited to 60 months. These families

include parents or caretakers who are undocumented non-citizens, drug felons, or fleeing felons.

These reform measures are estimated to provide net savings of \$73.7 million General Fund in 2007-08 and \$476 million (\$389.1 million General Fund) in 2008-09. With these reforms, the Governor's Budget proposes to maintain the \$230 million included in the Budget Acts of 2006 and 2007 to support CalWORKs program improvements, including \$90 million for counties to implement program improvements that lead to better outcomes and increased work participation rates for CalWORKs recipients and \$140 million to support county administration. The Governor's Budget eliminates \$40 million in Pay for Performance incentive funds in 2007-08, but makes available \$40 million in 2008-09 for those counties that achieve improved program outcomes during 2007-08. The combination of CalWORKs reforms and state and county efforts will position the state and counties to increase work participation rates, meet federal requirements, avoid penalties, and successfully move families from welfare to work.

### **SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PAYMENT**

The federal Supplemental Security Income (SSI) program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment (SSP) grant. These cash grants assist recipients with basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility

determinations, grant computations, and issuing combined monthly checks to recipients.

The Governor's Budget proposes \$3.7 billion General Fund for the SSI/SSP program in 2008-09. This represents a 2.9-percent increase from the revised 2007-08 budget. The caseload in this program is estimated to be 1.3 million recipients in 2008-09, a 2.1-percent increase over the 2007-08 projected level. The SSI/SSP caseload consists of 30 percent aged, 2 percent blind and 68 percent disabled persons. In January 2008, SSI/SSP monthly payments for aged and disabled individuals increased from \$856 to \$870, and monthly payments for aged and disabled couples increased from \$1,502 to \$1,524. In January 2009, the monthly payment for aged and disabled individuals is estimated to further increase to \$881, while the monthly payment for aged and disabled couples is estimated to further increase to \$1,540.

## **IN-HOME SUPPORTIVE SERVICES**

The In-Home Supportive Services (IHSS) program provides support services, such as house cleaning, transportation, personal care services, and respite care to eligible low-income aged, blind, and disabled persons. These services are provided in an effort to allow individuals to remain safely in their homes and prevent institutionalization.

The Governor's Budget proposes \$1.6 billion General Fund for the IHSS program. The average monthly caseload in this program is estimated to be 407,900 recipients in 2008-09, a 4.6-percent increase over the 2007-08 projected level.

Total IHSS expenditures continue to grow much faster than IHSS caseload. Absent the reductions below, General Fund

expenditures for the IHSS program are projected to have grown by approximately 194 percent from 1999-00 to 2008-09, while caseload is estimated to have grown by less than 80.5 percent during the same period.

The proposed IHSS program budget-balancing reductions include \$361 million (\$119.6 million General Fund) in 2008-09. This is realized from an across-the-board reduction in service hours for non-medical domestic and related services to IHSS recipients. These services include meal preparation, meal clean-up, laundry, food shopping, and errands. In addition, county administrative funding would be reduced, along with a corresponding reduction in county workload. Specifically, the Administration proposes to change the timeframe for re-assessing the condition of IHSS recipients from every 12 months to every 18 months. These reductions should not impede the IHSS recipients' ability to remain safely in their own homes and avoid institutionalization.

### **CHILD WELFARE SERVICES**

The child welfare system in California provides a continuum of services through Child Welfare Services (CWS), Child Abuse Prevention, Foster Care, Adoption Assistance, and adoptions to children who are either at risk of or have suffered abuse and neglect. The Governor's Budget includes \$4 billion (\$1.6 billion General Fund) to provide assistance payments and services to children and families under these programs. This is a \$151.3 million (\$95.9 million General Fund), or 3.6 percent, decrease from the revised 2007-08 budget.

CWS has evolved into an outcome-focused program with the implementation of the federal Child and Family Services Review and the California Outcome and Accountability System.



These protocols establish a comprehensive process to measure program performance and track improvement in California's child welfare services delivery system. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served.

## **COMMUNITY CARE LICENSING**

The Community Care Licensing program directly licenses and monitors approximately 75,000 community care facilities and provides oversight, direction, and training to counties that license approximately 11,000 additional facilities. These facilities include child daycare, children's residential, and elderly residential and day support facilities and serve approximately 1.4 million clients statewide. The Governor's Budget includes \$118.2 million (\$37.3 million General Fund) in 2008-09 for licensing activities that promote the health, safety, and quality of life of each person in community care facilities. This is a \$1.7 million (\$1.3 million General Fund) increase from the revised 2007-08 budget.

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## CORRECTIONS AND REHABILITATION

The mission of the Department of Corrections and Rehabilitation (CDCR) is to enhance public safety through safe and secure incarceration of offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into communities. These strategies include providing safe and secure detention facilities for adults and juveniles, educational opportunities, services such as food, clothing, health care, direct supervision, surveillance, and when necessary apprehension of the state's parolee population.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget-balancing reductions. With these adjustments, the Governor's Budget includes \$11.4 billion (\$10.3 billion General Fund and \$1.1 billion other funds) for CDCR. This reflects an increase of \$646.7 million (\$172.4 million General Fund) or six percent over the revised 2007-08 budget.

Change Table DCR-01 illustrates the major changes proposed to CDCR spending in the Governor's Budget.

Change Table DCR-01  
Corrections and Rehabilitation Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$9,836,311	\$588,396	66,627.4	\$9,753,804	\$330,029	66,627.4
<b>Workload Adjustments</b>						
AB 900 Implementation	2,509	—	20.6	35,382	—	166.9
Enrollment/Caseload/Population	17,054	-416	60.2	20,351	-1,445	-829.8
Employee Compensation/Retirement	217,523	822	—	230,911	952	—
Court Orders/Lawsuits	17,683	—	24.2	8,981	—	814.0
Expiring Programs or Positions	—	—	—	-10,400	—	-87.6
One-Time Cost Reductions	—	—	—	-66,581	-1,951	—
Full-Year Cost of New Programs	—	—	—	248,352	-2,800	511.1
Other Workload Adjustments	-36,760	-11,834	25.2	67,370	-4,454	-288.4
Infrastructure Adjustment	55,995	71,834	—	350,116	777,805	—
<b>Totals, Workload Adjustments</b>	<b>\$274,004</b>	<b>\$60,406</b>	<b>130.2</b>	<b>\$884,482</b>	<b>\$768,107</b>	<b>286.2</b>
<b>Policy Adjustments</b>						
Population Adjustment - Female	2,927	—	16.2	30,407	—	86.2
Rehabilitative Community Correctional						
Other Policy Adjustments	727	—	6.5	-21,353	25,000	10.1
<b>Totals, Policy Adjustments</b>	<b>\$3,654</b>	<b>\$0</b>	<b>22.7</b>	<b>\$9,054</b>	<b>\$25,000</b>	<b>96.3</b>
<b>Total Adjustments</b>	<b>\$277,658</b>	<b>\$60,406</b>	<b>152.9</b>	<b>\$893,536</b>	<b>\$793,107</b>	<b>382.5</b>
<b>Budget Prior to Reductions</b>	<b>\$10,113,969</b>	<b>\$648,802</b>	<b>66,780.3</b>	<b>\$10,647,340</b>	<b>\$1,123,136</b>	<b>67,009.9</b>
<b>Budget-Balancing Reductions<sup>1/</sup></b>	<b>-\$17,882</b>	<b>\$0</b>	<b>-200.0</b>	<b>-\$378,901</b>	<b>\$0</b>	<b>-5,854.0</b>
<b>Governor's Budget</b>	<b>\$10,096,087</b>	<b>\$648,802</b>	<b>66,580.3</b>	<b>\$10,268,439</b>	<b>\$1,123,136</b>	<b>61,155.9</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.

\* Dollars in Thousands

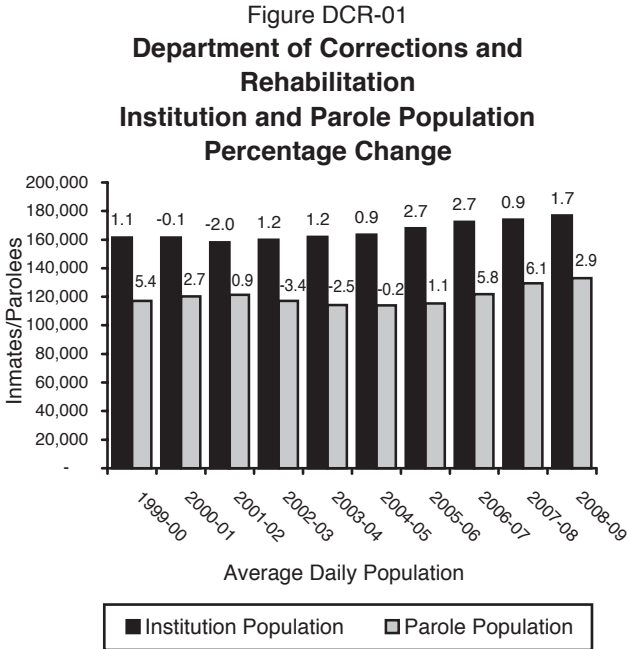
More notable funding changes are described below.

## MAJOR POPULATION ADJUSTMENTS

**Adult Inmate and Parolee Population**—Under existing law, the average daily inmate population is projected to increase from 173,993 in 2007-08 to 177,021 in 2008-09, an increase of 3,028 inmates, or 1.7 percent. The 2007 Budget Act assumed an average daily inmate population of 174,300.

Similarly, under existing law the average daily parole population is projected to increase from 129,343 in 2007-08 to 133,061 in 2008-09, an increase of 3,718 parolees, or 2.9 percent. The 2007 Budget Act assumed an average daily parole population of 124,862.

The fiscal impact of these population changes in 2007-08 is an increase of \$14 million General Fund and a reduction of \$45,000 other funds. In 2008-09, the fiscal impact is an increase of \$77.2 million General Fund and a reduction of \$459,000 other funds.



**Juvenile Offender and Parolee Population**—Under existing law, the average daily juvenile institution population is expected to decrease from 2,294 in 2007-08 to 1,786 in 2008-09, a decrease of 508 wards, or 22.2 percent. The 2007 Budget Act assumed an average daily juvenile institution population of 2,216.

Similarly, under existing law the juvenile parole average daily population is expected to decrease from 2,415 in 2007-08 to

1,963 in 2008-09, a decrease of 452 paroles, or 18.7 percent. The 2007 Budget Act assumed a juvenile parole average daily population of 2,563.

The fiscal impact of these population changes in 2007-08 is an increase of \$5.7 million General Fund and a decrease of \$2.6 million Proposition 98 General Fund. In 2008-09, the fiscal impact is a decrease of \$50.5 million General Fund, \$6.3 million Proposition 98 General Fund, and \$986,000 other funds. The total General Fund expenditures are partially offset by revenues from the sliding scale fees paid by counties. These revenues are estimated to be \$12.4 million in 2007-08 and \$8.2 million in 2008-09.

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### PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following:

***Plata v. Schwarzenegger***—The 2007 Budget Act includes an appropriation of \$125 million along with language that allows for the transfer of these funds for the purpose of funding activities of the Receiver appointed by the court in *Plata v. Schwarzenegger*, and for coordinated activities of the Receiver, and the *Coleman v. Schwarzenegger* and *Perez v. Tilton* courts. Of this amount, approximately \$26.2 million has been transferred to date, resulting in ongoing costs of approximately \$14.3 million, which are included in the Governor's Budget. In addition to funding these costs, the Governor's Budget includes \$1.7 million to establish an Office of Third Level Health Care Appeals, \$45.8 million to expand Health Care Access Units to all institutions, and \$26 million for the California Prison Health Care Receivership Corp.

operating budget. The Governor's Budget also proposes to eliminate the \$125 million in unallocated funding within Correctional Health Care Services in recognition of the Administration's efforts to proactively budget an appropriate level of resources for the Health Care Services Program based on demonstrated need.

***Armstrong v. Schwarzenegger***—The Governor's Budget includes \$43.9 million to ensure that disabled inmates and parolees have an equal opportunity to participate in programs, services, or activities that are available to non-disabled inmates and parolees, allow for the creation of a statewide tracking and compliance system, and provide funding to implement structural improvements necessary to comply with the Americans with Disabilities Act.

***Lugo v. Schwarzenegger***—The Governor's Budget proposes \$8.2 million to allow the Board of Parole Hearings to add Commissioners, conduct initial and follow-up psychological evaluations, and handle increased workload related to hearing and psychological evaluation file preparation.

**Implementation of AB 900**—AB 900 (Chapter 7, Statutes of 2007) provided authority for CDCR to add 53,000 prison, reentry, and jail beds in two phases, and fundamentally shifted the manner in which the Department approaches rehabilitation for inmates. AB 900 appropriated \$50 million for additional rehabilitation activities. The Budget includes \$2.5 million General Fund in 2007-08 and \$35.4 million in 2008-09 to begin implementing the rehabilitation components of AB 900. Of the funding proposed in the Budget, \$2.5 million in 2007-08 and \$31.4 million in 2008-09 is funded from the AB 900 appropriation, consistent with the requirements of

SB 81 (Chapter 175, Statutes of 2007). Specifically, funding is provided for a comprehensive integrative case management demonstration project recommended by the Governor's Rehabilitation Strike Team, the implementation of risk and needs assessments at all reception centers, expansion of substance abuse treatment capacity, training for CDCR staff on the principles of effective rehabilitation and cognitive behavioral intervention, day treatment and crisis care for mentally ill parolees, implementation of an automated tracking system for inmate educational files, and programmatic oversight infrastructure. In addition, funding is provided to activate secure reentry facilities in San Francisco and Stockton. Secure reentry facilities are designed to improve public safety by reducing recidivism. These facilities will provide intensive rehabilitation, and offer offender job training, mental health and substance abuse counseling, housing placement, educational assistance, and other services during the critical few months prior to an inmate's release.

### **Peace Officer Selection and Academies—**The

Administration remains committed to addressing correctional officer and parole agent vacancies. To that end, the Governor's Budget includes \$19.9 million General Fund in 2008-09 to expand the existing parole academy, run a one-time annex academy for entry-level correctional officers at a difficult-to-staff institution, and add contract funding to ease the backlog in background investigations and pre-employment medical clearances for peace officer applicants. Additionally, the CDCR is currently seeking an appropriate site for a Southern California Training Academy and plans to request any needed budget authority to activate such a facility during the spring Budget process.



## **PROPOSED BUDGET-BALANCING REDUCTIONS**

Total budget balancing reductions for the CDCR amount to \$17.9 million and 200 positions in 2007-08 and \$378.9 million and 5,854 positions in 2008-09. This grows to \$782.7 million in 2009-10.

Programs exempted from reductions include lease payments securing lease revenue bonds, costs related to juvenile offenders, medical expenditures controlled by the federal Receiver, and the Corrections Standards Authority, for a total exemption of \$2.4 billion.

The major reductions are described below:

- \$4.3 million and 66 positions in 2007-08 and \$256.4 million and 4,194 positions in 2008-09 resulting from the CDCR releasing specified non-violent, non-serious, non-sex offenders without prior serious or violent offenses or strikes 20 months earlier than their original release date. This proposal would result in an institutional average daily population reduction of 22,159 in 2008-09. This reduction assumes the necessary statutory changes will be enacted by March 1, 2008. Due to the CDCR's recent success in filling vacant correctional officer positions, layoffs will be necessary to achieve this reduction and the savings reflects a lag time related to the state layoff process. Once the layoff process has been completed, this savings grows to \$526.7 million in 2009-10.
- \$13.6 million and 134 positions in 2007-08 and \$97.9 million and 1,660 positions in 2008-09 resulting

from the CDCR placing non-serious, non-violent, non-sex offenders on summary parole. Summary parole will have fewer conditions of parole and involve no active supervision. These offenders would be subject to searches and drug testing, but would not return to prison without first being prosecuted locally for any new offenses they commit. This proposal would result in a parole average daily population reduction of 18,522 in 2008-09 and an institutional average daily population reduction of 6,249. This savings grows to \$231.5 million in 2009-10. This reduction assumes the necessary statutory changes will be enacted by March 1, 2008.

- \$24.6 million in 2008-09 for local assistance grant funding. This proposal would reduce funding for the Mentally Ill Offender Crime Reduction Grant Program, which supports the implementation and evaluation of locally developed demonstration projects intended to reduce recidivism and promote long-term stability among mentally ill adult and juvenile offenders by \$4.5 million, from \$44.6 million to \$40.1 million. This proposal would also reduce funding for the Juvenile Probation and Camps Program, which allocates funds to all 58 counties to support a broad spectrum of county probation services targeting at-risk youth, juvenile offenders, and the families of those youth, and to support the operation of camps and/or ranches by \$20.1 million, from \$201.4 million to \$181.3 million.

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## **INCARCERATION OF UNDOCUMENTED FELONS**

The CDCR expects to spend approximately \$965.3 million in 2007-08 for the incarceration of undocumented persons. The state will receive \$102.4 million in federal State Criminal Alien Assistance Program (SCAAP) funding for 2007-08. Undocumented persons are expected to comprise 11.2 percent of inmates in the state prison system. The CDCR's costs in 2008-09 are estimated to increase to \$1 billion, an increase of 4.6 percent. For 2008-09, it is estimated that California will again receive approximately \$102.4 million in federal SCAAP funding. At this level of funding, the state will be reimbursed for only 10.1 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with \$906.6 million in costs in excess of the level of federal reimbursements.

During the current fiscal year, the Administration will continue to aggressively pursue all strategies designed to maximize federal funding for the incarceration of undocumented felons.

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## K THRU 12 EDUCATION

California's school districts, charter schools and county offices of education provide instruction and a variety of programs and support services for pre-Kindergarten through grade twelve (K-12) students. These programs are designed to prepare students with the skills necessary to pursue higher education, obtain fulfilling employment, achieve career goals, and develop productive citizens. Programs and services provided to more than six million students annually include standards-based instruction, special education, English learner support, career preparatory programs, child care and development, remedial instruction, and adult education.

Recognizing that K-12 education forms the foundation for California's prosperity and quality of life, the Governor established the Committee on Education Excellence (Committee) to review the system's successes and failures and make recommendations to fundamentally improve educational performance. The Committee focused on school finance (the distribution and adequacy of education funding); the functionality and effectiveness of school governance structures; teacher recruitment and training; and the preparation and retention of school administrators.

Change Table K12-01  
K thru 12 Education Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$41,341,014	\$25,456,182	2,910.0	\$41,341,014	\$25,423,596	2,910.0
<b>Workload Adjustments</b>						
School Facilities Funding Adjustments	-5	-1,088,461	—	-6	570,774	—
Local Property Tax Adjustments	634,015	-663,187	—	-225,432	236,111	—
Debt Service Adjustments for Education	-95,475	—	—	202,804	-26	—
Enrollment/Caseload/Population	3,620	—	—	-86,495	—	—
Employee Compensation/Retirement	3,518	3,551	—	4,463	3,820	—
Statutory Cost-of-Living Adjustments	—	—	—	2,445,620	—	—
Expiring Programs or Positions	-40	-554	-7.0	-40	-2,679	-12.8
One-Time Cost Reductions	-19,500	-289	—	-19,852	-249,141	-5.9
Full-Year Cost of New Programs	—	—	0.5	2,137	—	1.7
Other Workload Adjustments	537,474	187,989	24.4	177,169	-66,721	35.9
Infrastructure Adjustment	—	56,527	—	—	51,556	—
<b>Totals, Workload Adjustments</b>	\$1,063,607	-\$1,504,424	17.9	\$2,500,368	\$543,694	18.9
<b>Policy Adjustments</b>						
One-Time Mid-Year Reduction for K-12	-360,000	—	—	—	—	—
District Apportionments						
Reduce SBMA Contributions from 2.5% to 2.2%	—	—	—	-79,663	—	—
Reduce SBMA Contributions from 2.5% to 2.2%	—	—	—	6,269	—	—
Other Policy Adjustments	—	—	—	—	31,242	1.9
<b>Totals, Policy Adjustments</b>	-\$360,000	\$0	—	-\$73,394	\$31,242	1.9
<b>Total Adjustments</b>	\$703,607	-\$1,504,424	17.9	\$2,426,974	\$574,936	20.8
<b>Budget Prior to Reductions</b>	\$42,044,621	\$23,951,758	2,927.9	\$43,767,988	\$25,998,532	2,930.8
<b>Budget-Balancing Reductions<sup>1/</sup></b>	\$0	\$0	—	-\$4,357,251	-\$278,000	—
<b>Governor's Budget</b>	\$42,044,621	\$23,951,758	2,927.9	\$39,410,737	\$25,720,532	2,930.8

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.  
\* Dollars in Thousands

The Governor’s Committee, along with a group established by the Legislature in conjunction with the State Superintendent of Public Instruction that reflects the entire educational continuum from pre-Kindergarten through higher education, called the P-16 committee, commissioned a variety of studies to shed light on the aforementioned topics. The studies, in and of themselves, were not intended to make recommendations on how to improve education but instead to provide factual information that could be used as a basis for making recommendations on how to improve our education system.

In order to ensure that the public, the Legislature, the Administration and, in particular, parents, teachers, administrators, and leaders of business and industry have an opportunity to engage in a meaningful dialogue about the best approach for education reform, it is imperative that the committee's recommendations, along with the information provided in the studies, be fully vetted. Notwithstanding the current fiscal crisis, it is premature to make fundamental changes in the budget year before consensus can be reached on the major solutions.

Total funding for K-12 education is projected to be \$68.5 billion in 2008-09. Of this amount, \$65.1 billion is state, federal and local property tax funding accounted for in the State Budget. This proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy reductions, including budget balancing reductions. As a result of these budget balancing reductions, the budget reflects an \$865.1 million decrease from the revised 2007-08 total of \$66 billion.

## **K-12 SCHOOL SPENDING AND ATTENDANCE**

### **PER-PUPIL SPENDING**

Total per-pupil expenditures from all sources are projected to be \$11,935 in 2007-08 and \$11,626 in 2008-09, including funds provided for prior year settle-up obligations (see Figure K12-01).

Figure K12-02 displays the revenue sources for schools.

Figure K12-01  
**K-12 Education Total Spending Per Pupil**

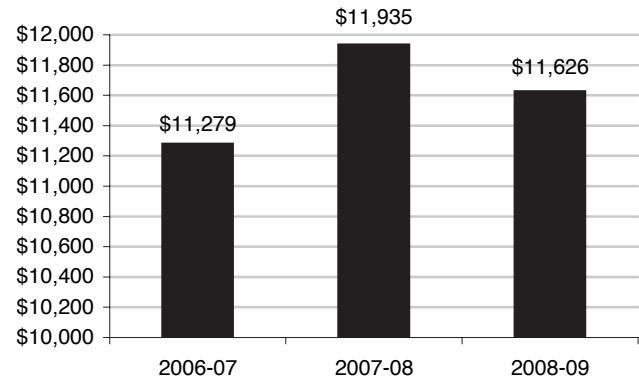
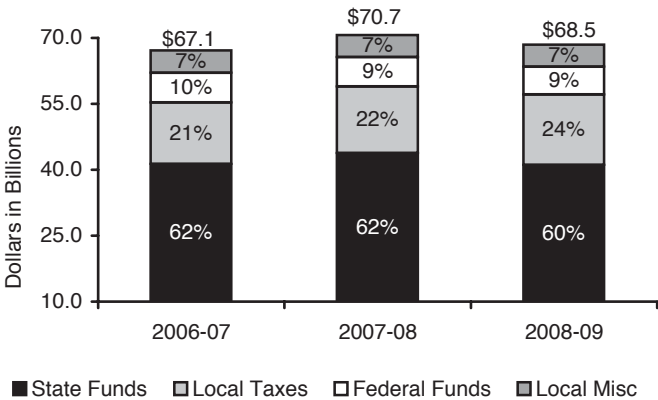


Figure K12-02  
**Sources of Revenue for California's K-12 Schools**  
(As a Percent of Total)

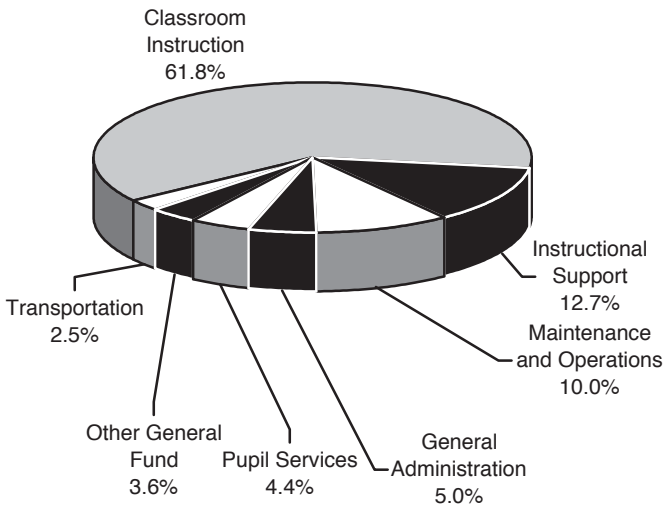


## How Schools Spend Their Money

Figure K12-03 displays expenditures reported by schools from their general funds, the various categories of expenditure and the share of total funding for each category.



Figure K12-03

**Where Schools Spend Their Money<sup>1</sup>**

Classroom Instruction includes general education, special education, teacher compensation, and special projects.

General Administration includes superintendent and board, district and other administration and centralized electronic data processing.

Instructional Support includes instructional, school site, and special projects administration.

Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance.

Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff.

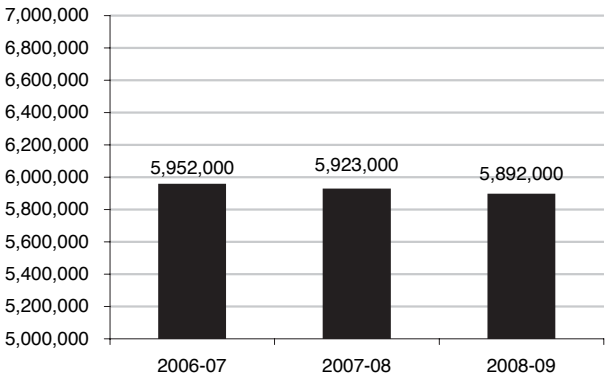
Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

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## ATTENDANCE

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is declining (see Figure K12-04). For the 2007-08, K-12 average daily attendance (ADA) is estimated to be 5,923,000, a decrease of 29,000 from the 2006-07 fiscal year. For 2008-09, the Administration estimates K-12 ADA will decrease by an additional 31,000 to 5,892,000.

Figure K12-04  
**K-12 Average Daily Attendance**



## PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year.

For fiscal year 2006-07, Proposition 98 funding was \$55.1 billion, of which the General Fund share was \$41.4 billion. Local property taxes covered the balance. The 2007-08 Proposition 98 funding is estimated to increase to \$55.7 billion. The General Fund share in 2007-08 is \$40.7 billion which is \$1.4 billion lower than the level of Proposition 98 General Fund appropriations included in the 2007 Budget Act. However, recognizing a reduction of that magnitude would be very difficult for schools to absorb mid-year, the Budget proposes to reduce the 2007-08 Proposition 98 appropriations by \$400 million. This results in a Proposition 98 Guarantee of \$56.7 billion in 2007-08.

The Proposition 98 Guarantee for 2008-09 is projected to grow to \$59.7 billion of which \$43.6 billion would be from the General Fund. However, as part of the budget-balancing reductions proposed by the Administration, Proposition 98 General Fund will be reduced to \$39.6 billion. Thus, the Administration proposes to suspend the Proposition 98 Guarantee and provide \$4 billion, or 9.2 percent, less than the Guarantee would have required in 2008-09.

The totals above include funding for K-12, community colleges and other state agencies that serve students. K-12 Proposition 98 per-pupil expenditures in the Governor's Budget are \$8,458 in 2008-09, down from \$8,558 in 2007-08.

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## **CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

The California State Teachers' Retirement System (CalSTRS) administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the

State Teachers' Retirement Plan. The Plan is comprised of three programs: the Defined Benefit Program, the Defined Benefit Supplement Program, and the Cash Balance Benefit Program. Within the Defined Benefit Program there is also a Supplemental Benefit Maintenance Account (SBMA), which provides annual supplemental payments in quarterly installments to retired teachers whose purchasing power has fallen below 80 percent of the purchasing power of an initial allowance. Currently, the state makes annual General Fund contributions to the SBMA of 2.5 percent of teacher payroll for purchasing power protection.

The Administration is proposing to fully vest the benefit at 80 percent purchasing power protection while reducing the state's contribution to the SBMA from 2.5 percent to the 2.2 percent of teacher's payroll consistent with the actuarial analysis performed in 2005. The savings from the reduced contribution equates to \$80 million in 2008-09. In addition, payments of 1.1 percent each will be made on November 1 and April 1, instead of July 1 of each fiscal year.

The state will make a payment of \$80 million in 2008-09 as the first of three payments towards the \$210 million in interest from the STRS lawsuit. Another payment of \$82 million will be made in 2009-10 and the remaining \$48 million will be paid in 2010-11.

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## **PROPOSED WORKLOAD BUDGET**

Major workload adjustments for 2008-09 include the following:

- Cost-of-Living Adjustment (COLA) Increases—  
The workload budget includes a \$2.4 billion increase

to fund a 4.94 percent statutory COLA: \$1.8 billion for revenue limits, \$168.7 million for special education, \$82.8 million for child care programs, \$62.3 million for class size reduction, \$52.9 million for the Targeted Instructional Improvement Grant, \$49.1 million for Economic Impact Aid and \$247.4 million for various categorical programs.

- **School Facilities Funding Adjustments**—The workload budget includes an \$839 million decrease in 2007-08 and a \$569 million increase in 2008-09 for school facilities. The decrease in 2007-08 is largely attributable to lower than anticipated allocations by the State Allocation Board of modernization funds from the 2006 School Facilities Bond Act. The increase in 2008-09 is the result of the anticipated allocation of remaining funds from the 1998, 2002, and 2004 bonds, which have lagged projections, as well as an increased estimate of allocations of new construction funds.
- **Adjustments for Average Daily Attendance (ADA)**—The workload budget includes a \$96.4 million net reduction in 2008-09 to reflect the decline in ADA. The majority of this amount consists of a \$142.4 million decrease in school district and county office of education revenue limit apportionments (general purpose funding for schools). Despite the overall decline in ADA, there are increases of \$46.1 million for the charter school block grant and \$18.8 million for adult education due to increased enrollment in charter schools and adult education. Due in part to the decline in attendance, there also is a \$6.2 million decrease in revenue limit apportionments for 2007-08.

- **Local Property Tax Adjustments**—The workload budget reflects a General Fund increase of \$640 million in school district and county office of education revenue limit apportionments in 2007-08 and a decrease of \$249.3 million in 2008-09, related to school district and county office of education property tax revenues. In general, increases in local property tax revenues reduce the amount of state General Fund costs for revenue limit apportionments.
- **Funding for Ongoing Programs**—The 2007 Budget Act appropriated \$555.6 million in one-time funding to support the ongoing costs of several programs. As a result, the workload budget includes ongoing General Fund increases of \$349.1 million for Home-to-School Transportation, \$115.5 million for the Deferred Maintenance program, \$73 million for the High Priority Schools Grant program and \$18 million for the Charter School Facilities Block Grant to fully fund these programs in 2008-09.

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## **PROPOSED BUDGET BALANCING REDUCTIONS**

Despite the fiscal challenge facing California, the K-12 education budget preserves funding for all core instructional programs, albeit at a slightly lower level, reflecting a 1.3 percent reduction in total funding compared to funding in 2007-08. The Governor's Budget approach thus spreads the impact over as many programs as possible to minimize the impact on each, while preserving as much funding as possible for classroom instruction.

- Total budget-balancing reductions for K-12 Education programs amount to \$4.4 billion in 2008-09. These reductions assume necessary statutory changes will be enacted by July 1, 2008.
- No major programs were exempted from the reductions. The only items not proposed for reduction were funding for the State Teachers' Retirement System, debt service, lease payments securing lease revenue bonds and mandate deferrals.
- The major reductions are described below:
  - \$2.6 billion in 2008-09 for school district and county office of education revenue limit apportionments. This will eliminate the 4.94 percent COLA and reduce existing revenue limit levels, thereby creating a 6.99 percent deficit factor.
  - \$357.9 million in 2008-09 for Special Education. No COLA will be provided and existing state funding for local schools' special education costs will be reduced. Schools may have to backfill most of this reduction as the program is federally mandated.
  - \$198.9 million in 2008-09 for Child Development programs. No COLA or growth will be provided for this program and, after accounting for normal program savings, approximately 8,000 existing slots will be reduced. Normal attrition rates in these programs should reduce the likelihood of a currently enrolled child losing their slot.
  - \$59.6 million in 2008-09 for Before and Afterschool Programs. The Administration will propose a ballot initiative to amend Proposition 49

to achieve these savings. The impact of this reduction would be minimal because a number of recent grant recipients have not implemented the program or have not achieved the enrollment levels initially anticipated.

- \$14.2 million in 2008-09 for Child Nutrition Programs. This reduction will cut the free and reduced price meal reimbursement rate by approximately \$0.02. However, the program received a \$0.06 per meal augmentation in 2007-08.
- \$1,095.7 million in 2008-09 for other K-12 categorical programs. COLA adjustments will not be provided and proportional funding rate reductions will be applied to programs such as Class Size Reduction, the Charter School Categorical Block Grant, Instructional Materials, Supplemental Instruction, Home-to-School Transportation, Supplemental School Counseling and various Career Technical Education programs.
- \$5.6 million in 2008-09 for Department of Education administration and program support. The Superintendent of Public Instruction will have discretion to allocate this reduction.
- \$9.2 million in 2008-09 for the Department of Education State Special Schools. This reduction is unallocated to provide maximum flexibility to the Superintendent and the State Special Schools.
- \$5.1 million in 2008-09 for the California State Library. This will reduce state support to local



libraries and reduce state reimbursement of the costs for inter and intra-library book loan programs.

- In addition to the reductions above, the Administration proposes to change the K-14 program COLA factor from the State and Local Implicit Deflator to the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W). This will more appropriately reflect inflation for educational programs as the vast majority of educational expenditures are for wages and salaries, and the recent fluctuations in the State and Local Implicit Deflator do not appear to be related to costs which significantly affect schools. This will reduce the COLA from 4.94 percent to 3.65 percent. The savings that will result from this proposal are subsumed in the 10 percent reductions identified above.

## OTHER SPECIAL SESSION ISSUES

### PROPOSITION 98 APPROPRIATIONS

The Governor has called a Special Session of the Legislature to immediately address the budget and cash shortfall.

Included in the Special Session is a proposal to decrease K-14 Education program costs by \$400 million in 2007-08.

Due primarily to a significant reduction in General Fund revenues anticipated for 2007-08, the Proposition 98 minimum guarantee is \$1.4 billion lower than the level of Proposition 98 appropriations included in the 2007 Budget Act. However, recognizing a reduction of that magnitude would be very difficult for schools to absorb mid-year, the Budget proposes to reduce the 2007-08 Proposition 98 appropriations by only \$400 million. This reduction will be split between school

and community college apportionments, \$360 million and \$40 million, respectively. Due to the timing of the reductions, the Administration will work closely with the Legislature, Superintendent of Public Instruction, the Chancellor's office, school and community college districts, and other education stakeholders to identify savings in categorical programs which can be redirected to mitigate the reduction to school and community college apportionments. These program adjustments will be accomplished through separate legislation in the special session.

### **PROPOSITION 98 DEFERRALS**

Current law delays the K-12 June principal apportionment warrants from June to July. Current law also delays the June apportionments for community colleges to July. The total amount of these deferrals is \$1.3 billion. In order to increase cash reserves during months when cash balances are projected to be deficient, separate legislation is proposed for the special session to delay the deferral payments for K-14 from June to September. This will result in saving millions of dollars in interest payments by reducing the amount of funds the state will have to borrow for cash purposes.

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### **PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS**

Despite the need for significant General Fund reductions, to ensure a balanced budget, the Governor's Budget includes the following major program enhancement to improve school performance and the academic achievement of California's children.

## **STUDENT AND TEACHER LONGITUDINAL DATA SYSTEMS**

The California Longitudinal Pupil Achievement Data System (CalPADS) will enable tracking of individual student enrollment history and academic performance data over time. Chapter 1002, Statutes of 2002 (SB 1453) authorizes the development of a system to: (1) provide school districts and CDE access to data necessary to comply with federal No Child Left Behind reporting requirements, (2) provide a better means of evaluating educational progress and investments over time, (3) provide local schools information that can be used to improve pupil achievement, and (4) provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil-level data. The Governor's Budget includes \$8.1 million (\$2.2 million General Fund and \$5.9 million special and federal funds) to fully fund the recently approved contract to develop this system.

The California Longitudinal Teacher Integrated Data Education System (CalTIDES), authorized by Chapter 840, Statutes of 2006 (SB 1614), will serve as the central state repository for information regarding the teacher workforce for the purpose of developing and reviewing state policy, identifying workforce trends, and providing high-quality program evaluations of the effectiveness of teacher preparation and induction programs. The State Department of Education, in consultation with the Commission on Teacher Credentialing, is responsible for developing the system. The Governor's Budget includes \$1.8 million in one-time federal Title II funds for three limited-term staff for the Department of Education for system development workload, and \$400,000 for the Commission on Teacher Credentialing's workload associated with this effort.

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## HIGHER EDUCATION

California's system of higher education brings significant value to the lives of individual citizens and the state as a whole. It performs an essential role in equipping Californians with the knowledge and skills necessary to meet the challenges of the future.

Drawing from the top 12.5 percent of the state's high school graduates, the University of California (UC) educates approximately 216,000 undergraduate and graduate students in the current year at its ten campuses and is the primary segment authorized to independently award doctoral degrees and professional degrees in law, medicine, dentistry, and veterinary medicine.

Drawing students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, the California State University (CSU) provides undergraduate and graduate instruction through the master's degree and independently awards doctoral degrees in education or jointly with UC or private institutions in other fields of study. With its 23 campuses and approximately 450,000 students in the current year, the CSU is the largest, most diverse, and one of the most affordable university systems in the country.

The California Community Colleges (CCC) are publicly supported local education agencies that provide educational, vocational and transfer programs to approximately 2.6 million students in the current year. Constituting the largest system of higher education in the world, the California Community College system is comprised of 72 districts, 109 campuses, and 65 educational centers

The California Student Aid Commission (CSAC) administers state financial aid to students attending all segments of public and private postsecondary education. Working together with EdFund, which is the auxiliary loan guaranty agency that currently operates with oversight by CSAC, the Commission administers federal and state-authorized financial aid, including state-funded grants, work-study programs, and federally guaranteed loans. Pursuant to Chapters 182 and 184, Statutes of 2007, the state is currently engaged in maximizing the value of the state's student loan guarantee program operated by EdFund. It is anticipated that this transaction will generate \$500 million or more in revenue to the state in the current year, without affecting services or costs to students.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget-balancing reductions. With these adjustments, the Governor's Budget provides close to \$11.7 billion from the General Fund alone for Higher Education in 2008-09. Change Table HED-01 illustrates the major changes proposed to Higher Education spending in the Governor's Budget, inclusive of infrastructure, debt service, and stem cell research.

Change Table HED-01

**Higher Education Agency — Changes by Broad Categories**

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$11,979,841	\$26,440,696	120,419.1	\$11,979,841	\$23,994,589	120,419.1
<b>Workload Adjustments</b>						
Revise Property Tax Revenues	—	–4,649	—	–139,818	139,818	—
Stem Cell Local Assistance Grants	—	–740,000	—	—	–635,000	—
Higher Education Compact	—	—	—	427,918	—	—
Cal Grant Adjustments	–19,215	—	—	87,461	—	—
Debt Service Adjustments for Education	–85,306	—	—	97,235	–220	—
Fee Revenue Adjustments	—	8,529	—	–6,154	326,432	—
Extramural and Other Non-State Supported Programs	—	–924,586	—	—	–378,742	—
Enrollment/Caseload/Population	–11,018	—	—	171,413	—	—
Employee Compensation/Retirement	–8,062	293	—	3,557	185	—
Statutory Cost-of-Living Adjustments	—	—	—	310,029	—	—
Expiring Programs or Positions	—	—	—	—	–143	–0.9
One-Time Cost Reductions	—	—	—	–35,970	–57,537	—
Other Workload Adjustments	–13,679	377,316	11,657.8	–235	–754,567	12,337.9
Infrastructure Adjustment	—	101,241	—	—	2,119,431	—
<b>Totals, Workload Adjustments</b>	<b>–\$137,280</b>	<b>–\$1,181,856</b>	<b>11,657.8</b>	<b>\$915,436</b>	<b>\$759,657</b>	<b>12,337.0</b>
<b>Policy Adjustments</b>						
Eliminate New Competitive Cal Grants	—	—	—	–57,387	—	—
Mid-Year Reduction to Community College Apportionments	–40,000	—	—	—	—	—
Reduce SBMA Contributions from 2.5% to 2.2%	—	—	—	–6,269	—	—
UC Transportation Research	—	—	—	—	5,000	—
<b>Totals, Policy Adjustments</b>	<b>–\$40,000</b>	<b>\$0</b>	<b>—</b>	<b>–\$63,656</b>	<b>\$5,000</b>	<b>—</b>
<b>Total Adjustments</b>	<b>–\$177,280</b>	<b>–\$1,181,856</b>	<b>11,657.8</b>	<b>\$851,780</b>	<b>\$764,657</b>	<b>12,337.0</b>
<b>Budget Prior to Reductions</b>	<b>\$11,802,561</b>	<b>\$25,258,840</b>	<b>132,076.9</b>	<b>\$12,831,621</b>	<b>\$24,759,246</b>	<b>132,756.1</b>
<b>Budget-Balancing Reductions<sup>1/</sup></b>	<b>\$0</b>	<b>\$0</b>	<b>—</b>	<b>–\$1,132,903</b>	<b>\$588,000</b>	<b>—</b>
<b>Governor's Budget</b>	<b>\$11,802,561</b>	<b>\$25,258,840</b>	<b>132,076.9</b>	<b>\$11,698,718</b>	<b>\$25,347,246</b>	<b>132,756.1</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.

\* Dollars in Thousands

## PROPOSED WORKLOAD BUDGET

The workload budget reflects total funding of \$21.7 billion, including \$15.1 billion General Fund and Proposition 98 sources for all major segments of Higher Education (excluding infrastructure and stem cell research), which reflects an increase of \$1.6 billion (\$1.3 billion General Fund and Proposition 98 sources) above the revised 2007-08 budget. These amounts represent an 8-percent total funding increase, including a 9.2-percent increase in General Fund and

Proposition 98 sources above the revised 2007-08 budget. The major workload adjustments for 2008-09 include the following for each segment:

### UNIVERSITY OF CALIFORNIA

#### Budget Year

- \$123.8 million increase (4 percent) for basic budget support consistent with the Compact.
- \$31 million increase (1 percent) for core instructional needs including library material replacements, deferred maintenance and instructional equipment consistent with the Compact.
- \$56.4 million increase (2.5 percent) for enrollment growth consistent with the Compact. This would fund an additional 5,000 state-supported students.
- \$124.8 million increase in fee revenue associated with the Regent's planned 7.4-percent mandatory fee increase for undergraduates, graduates, and professional school students. Fees for certain professional programs will increase between 7 percent and 19 percent. One-third of the revenue generated by the fee increases for undergraduate and professional programs and 45 percent of the revenue generated by the graduate fee increase would be set aside for financial aid.
- \$10 million in one-time funds for costs associated with sustaining UC Merced operations for a total funding level of \$20 million (reduced from the \$24 million in 2007-08 due to an agreement to phase down one-time funds as enrollments at Merced increase).



- \$975,000 increase for the next cohort of 65 students for the PRIME Program, which targets prospective medical doctors for underserved populations.
- \$11 million increase for annuitant health benefits.
- \$970,000 increase for lease purchase payments.

Current Year

- \$13.2 million reduction for lease purchase payments.

**CALIFORNIA STATE UNIVERSITY**

Budget Year

- \$116.8 million increase (4 percent) for basic budget support consistent with the Compact.
- \$29.2 million increase (1 percent) for core instructional needs including library material replacements, deferred maintenance and instructional equipment consistent with the Compact.
- \$70.1 million increase (2.5 percent) for enrollment growth consistent with the Compact. This would fund an additional 8,572 state-supported students.
- \$109.8 million increase in fee revenue associated with the Trustees planned 10-percent mandatory fee increase for undergraduate, graduate, and teacher credential candidates. One-third of the revenue generated by the fee increases would be set aside for financial aid.
- \$124,000 increase (4 percent) for the Capitol Fellows Program consistent with the Compact.

## HIGHER EDUCATION

- \$8.6 million reduction to continue the decrease in retirement costs in the current year.
- \$4.9 million reduction in lease purchase payments.

### Current Year

- \$8.6 million reduction in retirement costs.
- \$6.6 million reduction in lease purchase payments.

## CALIFORNIA COMMUNITY COLLEGES

### Budget Year

- \$171.9 million increase (3 percent) for enrollment growth for Apportionments. This would fund more than 35,000 additional full time equivalent (FTE) students. This level exceeds the minimum 1.5-percent change in the adult population, equally weighted between the 19-to-24 and the 25-to-65 age groups, pursuant to the statutory index included in Chapter 631, Statutes of 2006.
- \$291.7 million increase for a cost-of-living increase (4.94-percent COLA) for general-purpose Apportionments.
- \$28.5 million increase for Categorical Program enrollment growth and COLA (3 percent and 4.94 percent, respectively), including Matriculation, Disabled Students Programs and Services, Campus Childcare Tax Bailout, Apprenticeship, and Extended Opportunity Programs and Services.
- \$8.7 million increase to reflect anticipated lease-purchase debt obligations.

- \$6.2 million reduction to reflect increased fee revenue and other workload adjustments.
- \$139.8 million reduction to Apportionments to reflected estimated growth in local property taxes.
- \$374,000 net increase for the Chancellor's Office state operations for standard baseline adjustments and an increase of \$200,000 and two positions for workload associated with nursing and career technical education program local assistance increases resulting from the 2007 budget actions.

#### Current Year

- \$4.6 million reduction in property tax revenue based on revised estimates.
- \$2.2 million reduction in fee revenue reflecting revised estimates.
- \$1.1 million reduction to reflect revised lease-purchase debt obligations.
- \$93,000 net increase for the Chancellor's Office for miscellaneous baseline adjustments.

### **STUDENT AID COMMISSION**

#### Budget Year

- \$26.7 million increase over the revised 2007-08 level for anticipated growth in the Cal Grant Program, reflecting anticipated undergraduate fee increases of 7.4 percent and 10 percent at UC and CSU, respectively.

- \$80 million additional increase for Cal Grants as a placeholder amount in the event the UC and CSU raise fees beyond the segments' anticipated fee levels described above. This amount is subject to adjustment after the governing boards take final action in context of potential reductions to balance the budget.
- \$281,000 net increase in loan assumption payments over the revised 2007-08 level for the Assumption Program of Loans for Education (APLE), National Guard APLE, State Nursing APLE, and Nurses in State Facilities APLE programs.
- Authorization for a total of 8,000 new warrants for the APLE program, 100 new warrants for the State Nursing APLE program, and 100 new warrants for the Nurses in State Facilities APLE program. No new warrants for the National Guard APLE program are proposed.
- A net increase of \$436,000 for state operations including standard baseline and one-time cost adjustments. This amount also includes an increase of \$2 million and up to 11 new positions to enable the Commission to replace shared services assuming the sale of EdFund. This augmentation is offset by a reduction of 6 positions and approximately \$1 million associated with CSAC's Federal Programs Division which would no longer be necessary under the sale. Both adjustments are subject to adjustment in the spring when more is known about the timing of a sale, the details and actual resource needs.

- \$331,000 in anticipated federal funds is proposed to fund the Cash for College program pursuant to Chapter 741, Statutes of 2007.

#### Current Year

- \$30.2 million in savings in the Cal Grant and APLE programs due to revised projections of need.
- \$157,000 net increase in state operations associated with standard baseline adjustments.
- The budget also assumes a \$500 million reduction in anticipated one-time General Fund revenues from the pending sale, or other arrangement, of the state's Federal Family Education Loan (FFEL) program guaranty agency, EdFund. Chapters 182 and 189, Statutes of 2007, authorized the state to sell or enter into another arrangement that would maximize the value of this asset for the state. At that time, it was estimated that a sale would result in approximately \$1 billion of revenue. Since that time, federal legislation has reduced the primary income streams for guaranty agencies, including the account maintenance fee and the collection/retention fee, that support guarantee functions nationally—thereby reducing the value to prospective purchasers.

## HASTINGS COLLEGE OF LAW

#### Budget Year

- \$425,000 increase (4 percent) for basic budget support consistent with the Compact.
- \$106,000 increase (1 percent) for core instructional needs including library material replacements, deferred

maintenance and instructional equipment consistent with the Compact.

- \$77,000 for annuitant benefit costs.

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### **PROPOSED BUDGET BALANCING REDUCTIONS**

Total budget-balancing reductions for the Higher Education segments amount to \$1.1 billion in 2008-09. Of this amount, \$649.4 million is for General Fund programs and \$483.5 million is for Community College Proposition 98 local assistance programs.

Programs exempted from reductions include general obligation bond debt service and lease payments securing lease revenue bonds for all segments, State Teacher's Retirement System contributions for CCC, emergency loan repayments from Compton CCD, mandate deferral amounts for CCC, and the Cal Grant Program.

The major reductions in 2008-09 are described below:

- \$331.9 million for the University of California. Of this amount, \$32.3 million is allocated to the Institutional Support program (which includes campus administration and the Office of the President) and the remainder is unallocated to allow the Regents the flexibility to meet the reduction in a way that minimizes impacts to core instructional programs. It is anticipated that the Regents will address this reduction through a combination of fee increases, limitations on enrollment levels, increased efficiency and reductions to other existing programs,

including research, student services, academic support and public services programs.

- \$312.9 million for the California State University. Of this amount, \$43.2 million is allocated to the Institutional Support program (which includes campus administration and the Chancellor's Office) and the remainder is unallocated to allow the CSU Trustees the maximum flexibility to meet the reduction in a way that minimizes the adverse impacts to core instructional programs. It is anticipated that the Trustees will address this reduction through a combination of fee increases, limitations on enrollment levels, increased efficiency and reductions to other existing programs including student services, academic support, and public services.
- \$2.2 million for the Student Aid Commission. Of this amount, \$1.6 million is allocated to the state operations administrative support budget and \$637,000 is allocated to the California Student Opportunity and Access Program local assistance budget. Also, the number of new APLE warrants is reduced by 10 percent, or 800 awards, for a revised total of 7,200 awards for 2008-09. Policy changes for Cal Grants are addressed in the Other Budget Reductions section below.
- \$1 million for the Community College Chancellor's Office state operations administrative support budget. This reduction is anticipated to reduce discretionary technical assistance service levels to districts for various categorical programs.
- \$483.5 million for Community College local assistance. Of this amount, \$291.7 million reflects a reduction

to apportionments by eliminating the 4.94-percent workload COLA and \$111.8 million reflects a reduction to enrollment growth. The remaining \$80 million reflects similar reductions to categorical programs. It is anticipated that colleges will respond to the reductions by limiting low-volume course offerings and reducing service levels in various categorically funded programs. It is further proposed that the statutory COLA factor be changed to reflect the Consumer Price Index (CPI-W), consistent with K-12 education. This measure would adjust the COLA to 3.65 percent and better accounts for the underlying cost pressures on school budgets which are primarily wages. This specific change is subsumed within the overall reduction amounts for both apportionments and categorical programs.

- \$1.1 million for the Hastings College of Law. Of this amount, \$252,000 is allocated to the Institutional Support program and the remainder is unallocated to allow the Hastings Board the maximum flexibility to meet the reduction in a way that minimizes adverse impacts to instructional programs. It is anticipated that the Hastings Board may address this reduction through a combination of reductions to public and professional services, student services, and academic support in order to preserve instructional quality and enrollments at or near the current year levels.
- \$223,000 for the California Postsecondary Education Commission. It is anticipated that the CPEC will meet the reductions through prioritization of discretionary studies. Reviews of proposed new



instructional programs and facilities from segments would not be affected.

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## **OTHER BUDGET REDUCTIONS**

The proposed Budget reflects a reduction of \$57.4 million resulting from a proposal to eliminate new awards for the Cal Grant Competitive program. Renewal awards would not be affected. This policy change is necessary to help contain the costs of government at this critical time. Federal Pell grants are scheduled to increase substantially over the next few years and will help to mitigate the phase-out of this program for eligible students.

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## **SPECIAL SESSION ISSUES**

The Governor has called a Special Session of the Legislature to immediately address the budget and cash shortfall. Included in the Special Session are the following proposals:

- A \$40 million one-time reduction to CCC apportionments. The Administration will work with the Chancellor, Superintendent, and other parties to identify one-time savings to mitigate this reduction.
- Delay \$200 million in payments scheduled for July 2008 to CCC for the 2007-08 deferral of apportionments until September of 2008. This delay of deferral payments will help reduce the state's cash flow borrowing costs in the budget year and, thus, help avert a temporary cash shortage.

FUNDING BY SEGMENT FOR 2008-09

The Budget, assuming proposed budget balancing reductions and other policy reductions, reflects a 2-percent total funding increase including a 0.7-percent increase in General Fund and Proposition 98 sources compared to the revised 2007-08 budget. See Figure HED-01 for a summary by

Figure HED-01

Higher Education Expenditures					
General Fund, Lottery Funds, State School Fund,					
Local Revenues and Student Fees					
(Dollars in Millions)					
	2006-07	2007-08	2008-09 <sup>4/</sup>	Change from 2007-08	
				Dollar	Percent
University of California <sup>1/</sup>					
Total Funds	\$5,115.1	\$5,442.4	\$5,523.7	\$81.3	1.5%
General Fund	3,069.3	3,260.7	3,162.2	-\$98.5	-3.0%
California State University <sup>1/</sup>					
Total Funds	4,136.2	4,406.5	4,441.6	\$35.1	0.8%
General Fund	2,808.0	2,970.7	2,873.1	-\$97.6	-3.3%
Community Colleges					
Total Funds	8,668.6	8,979.0	9,125.5	\$146.5	1.6%
General Fund & P98 <sup>2/</sup>	6,173.0	6,452.4	6,596.5	\$144.1	2.2%
Student Aid Commission					
Total Funds	833.3	873.3	921.3	\$48.0	5.5%
General Fund	794.8	842.9	890.5	\$47.6	5.6%
Other Higher Education <sup>3/</sup>					
Total Funds	325.5	357.3	456.6	\$99.3	27.8%
General Fund	298.0	327.6	422.6	\$95.0	29.0%
<b>Total Funds</b>	<b>\$19,078.7</b>	<b>\$20,058.5</b>	<b>\$20,468.7</b>	<b>\$410.2</b>	<b>2.0%</b>
<b>General Fund</b>	<b>\$13,143.1</b>	<b>\$13,854.3</b>	<b>\$13,944.9</b>	<b>\$90.6</b>	<b>0.7%</b>

<sup>1/</sup>For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income, but exclude self-supporting functions such as auxiliary enterprises and extramural programs among others. This provides consistency in comparing magnitudes and growth among the various segments of education.

<sup>2/</sup>For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

<sup>3/</sup>The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

<sup>4/</sup>Funding reflected in 2008-09 column include budget balancing reductions and other policy reductions. For UC and CSU, total funds may increase pending final fee actions taken by the UC Regents and CSU Trustees.

segment of the budget with proposed budget balancing and other budget reductions.

The Budget for UC includes \$5.5 billion total funding (\$3.2 billion General Fund), which reflects a net increase of \$81.3 million (including a \$98.5 million General Fund reduction) compared to the revised 2007-08 budget.

The Budget for CSU includes \$4.4 billion (\$2.9 billion General Fund), which reflects a net increase of \$35.1 million (including a \$97.6 million General Fund reduction) compared to the revised 2007-08 budget.

The Budget for CCC includes \$9.1 billion in total funding (\$6.6 billion from General Fund and Proposition 98 sources), which reflects an increase of \$146.5 million (\$144.1 million General Fund and Proposition 98 sources) above the revised 2007-08 budget.

The Budget for CSAC includes \$921.3 million (\$890.5 million General Fund) which reflects an increase of \$47.6 million General Fund above the revised 2007-08 budget.

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## **HIGHER EDUCATION STUDENT ENROLLMENT**

The overall change in budgeted enrollment to be served in 2008-09 is 25,817 full-time equivalent students (FTES) for a total of 1,770,643 FTES (see Figure HED-02). The enrollment figures for UC and CSU assume the workload budget level. Because the UC and CSU will have discretion in meeting the proposed budget balancing reductions, it is unknown if their workload budget projections will materialize.

Figure HED-02  
Higher Education  
Full-Time Equivalent Students

	2006-07	2007-08	2008-09 <sup>4/</sup>	Change from 2007-08	
				FTES	Percent
University of California	213,646	216,255	1/ 221,255	5,000	2.3%
Undergraduate	(166,614)	(168,424)	(172,069)	(3,645)	2.2%
Graduate	(33,234)	(34,800)	(35,855)	(1,055)	3.0%
Health Sciences	(13,798)	(13,031)	(13,331)	(300)	2.3%
California State University	353,551	356,050	1/ 364,622	8,572	2.4%
Undergraduate	(300,138)	(302,273)	(309,601)	(7,328)	2.4%
Graduate/Post-baccalaureate	(53,413)	(53,777)	(55,021)	(1,244)	2.3%
Community Colleges	1,137,144	1,171,258	2/ 1,183,541	12,283	1.0%
Hastings	1,264	1,263	1/ 1,225	(38)	-3.0%
<b>Total Students</b>	<b>1,705,605</b>	<b>1,744,826</b>	<b>1,770,643</b>	<b>25,817</b>	<b>1.5%</b>

1/ Budgeted. UC estimated enrollment is 219,825 and CSU estimates about 366,000 in 2007-08.

2/ Figure reflects DOF projection of budgeted FTES. There is insufficient data to project estimated enrollments.

3/ Beginning in 2005-6, CSU graduate students are reflected as taking 12 units per term rather than 15 units, to be consistent with national higher education reporting standards.

4/ For the CCC, enrollment figures for 2008-09 reflect budgeted enrollments after budget balancing reductions. For UC, CSU, and HCL, budgeted enrollments reflect the workload budget levels because it is unknown how they will address enrollment in context of budget balancing reductions.

STUDENT FEES

UC and CSU Student Fees—When preparing their annual 2008-09 Budgets, the Regents of the UC and the Trustees of the CSU deferred final decisions on student fee increases. The segments have advised the Administration, pursuant to the provisions of the Compact, that undergraduate fee increases are necessary to augment the Compact’s basic budget support provisions in order to maintain the quality of core instructional programs. The UC anticipates mandatory fee increases of 7.4 percent for undergraduate, graduate, and professional students, and additional selected professional school fee increases. The CSU anticipates fee increases of 10 percent for undergraduates, credential candidates, and other graduate students. However, as discussed in the

proposed Budget Balancing Reductions section, it is possible that the Regents and Trustees will act to increase fees beyond these levels.

As currently planned by the segments, fees remain very competitive. UC's undergraduate fees would be only 86 percent of the average of comparable national institutions and the CSU's fees would be the lowest and only 53 percent of the average of comparable 4-year comprehensive colleges. Both the UC and the CSU would continue to set aside one-third of the increased fee revenue from undergraduate enrollments for financial aid, consistent with past practices in order to minimize affects on access for low-income students.

**Community Colleges Fees**—The Governor's Budget proposes no fee increase. Fees for credit courses will remain at \$20 per credit unit. CCC fees remain the lowest in the nation by far and are just 26 percent of the national average. See Figure HED-03 for current and projected fee levels based on the workload budget and comparisons with other public institutions for all higher education segments.

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## **PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS**

The 2008-09 Budget proposes a new research initiative in the budget year and continues other important efforts begun in prior years.

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### **TRANSPORTATION RESEARCH INITIATIVE**

The Budget proposes an increase of \$5 million from the Public Transportation Account to augment UC's multi-campus

Figure HED-03  
Higher Education Fees

2007-08 Fee Comparison

	California				Other Public Institutions (2007-08)		
	2007-08	2007-08	2008-09	2008-09	Average	Highest	Lowest
	Ed/Reg Fee	Fee	Ed/Reg Fee	Fee			
UC <sup>a/</sup>							
Undergraduate	\$6,636	\$7,517	\$7,126	\$8,007	\$9,287	\$11,130	\$6,217
Graduate	\$7,440	\$9,775	\$7,986	\$10,321	\$11,623	\$15,747	\$8,289
CSU <sup>b/</sup>							
Undergraduate	\$2,772	\$3,521	\$3,048	\$3,797	\$7,122	\$10,357	\$4,029
Graduate	\$3,414	\$4,163	\$3,756	\$4,505	na	na	na
Teacher Prep.	\$3,216	\$3,965	\$3,540	\$4,289	na	na	na
CCC <sup>c/</sup>							
Lower Division	\$600		\$600		\$2,625	\$5,537	\$1,243

a/ UC's 2007-08 undergraduate education fee of \$6,636 (\$7,440 for graduate students), includes a registration fee of \$786. Total fees include average campus-based fees of \$881 for undergraduates and \$2,335 for graduates. In 2008-09, the registration fee will increase to \$864. Campus-based fees have not yet been determined by UC. UC's 2008-09 education/registration fees reflect an increase of about 7.4 percent. (These fees include a \$60 temporary surcharge to cover income losses associated with a student fee lawsuit.)

b/ CSU's total fees in 2007-08 include a campus-based fee of \$749 for all students. CSU's 2008-09 education fees reflect an increase of 10 percent, while the campus-based fee will remain at \$749 for all students.

c/ Comparison data for other states reflect 2006-07 data. 2007-08 fee levels are based on 30 units per year at \$20 per unit.

2007-08 Professional School Fee Comparison:

	UC <sup>d/</sup>	Other Public Institutions		
		Average	Highest	Lowest
Law	\$26,480	\$32,807	\$38,949	\$25,972
Medicine	\$23,655	\$28,228	\$31,305	\$24,755
Business Administration	\$25,601	\$31,710	\$38,289	\$19,342

d/ Professional fees reflect the average among campuses.

Institute for Transportation Studies (ITS), for a total of almost \$6 million. This increase will fund ITS' development of integrated land use and transportation models that can measure the impact of actions by local governments on greenhouse gas emissions. This project will be done in continued collaboration with the California Department of Transportation and the Air Resources Board (ARB). Land use and transportation interface is a critical element of the state's efforts towards mitigating climate change and greenhouse gas emissions consistent with Chapter 488, Statutes of 2006 (AB 32). The models and tools developed through the ITS

will inform and assist the ARB's development of a Climate Change Scoping Plan scheduled for 2008 and subsequent implementation of reduction measures.

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## **CONTINUATION OF OTHER HIGHER EDUCATION INITIATIVES**

While the proposed 2008-09 budget balancing reductions would impact funding levels for continuing initiatives in 2008-09, progress on these efforts that began during this Administration will continue to be made. Significant ongoing initiatives in Higher Education include the following:

### **Science and Math Teacher Initiative**

This effort provides additional funding to the CSU and UC to address the shortage of high-quality math and science teachers in our public schools. The CSU has committed to doubling its annual production of science and math teacher candidates to a total of approximately 1,500, and the UC has committed to quadruple its production to a total of 1,000 by 2010-11. Since 2005-06, \$7.3 million has been invested in this program. The workload budget includes an ongoing \$2.7 million for CSU for this initiative and \$1.1 million for UC. Assuming proportional reductions are made to these programs, \$3.4 million would remain available for this effort.

### **Nursing Initiative**

This initiative provides additional funding to expand enrollments in all three segments in order to meet the state's clinical nursing shortages. Since 2004-05, \$108 million out of a total of \$130 million statewide has been invested in nursing expansion in the three higher education segments,

beyond normal enrollment growth funding. These funds have been utilized to expand slots for an additional 4,900 FTE students enrolled in Associate Degree, Bachelors Degree and Masters Degree nursing programs. The workload budget includes \$22.2 million ongoing for CCC, \$6.3 million for CSU, and \$1.7 million for UC. The proposed budget balancing reductions will reduce CCC funding for this purpose to \$19.7 million. Assuming proportional reductions are made by the UC and CSU, a total of \$26.9 million would remain available for this effort.

### **Career Technical Education Initiative**

This initiative provides additional funding through the Community College budget to fund partnerships between colleges and public school districts to reinvigorate and expand enrollments in high-quality career preparation programs that will better prepare all students for high-demand, high-paying technical careers while allowing them to smoothly transition to postsecondary education. California is making significant progress in building CTE programs that will provide students with additional options and opportunities and help to meet the evolving demands of California business and industry. The workload budget continues \$58 million in 2008-09 for this purpose—\$20 million in CCC's base funding for SB 70 programs as well as \$38 million in funding appropriated by Chapter 751, Statutes of 2006. The SB 70 funding is reduced to \$17.8 million, resulting in \$55.8 million that will remain available for this effort.

### **Community College Student Success Initiative**

This initiative provides additional resources to help at-risk Community College students persist and succeed in achieving



successful outcomes such as career technical education certificates, transfer readiness and degrees. The workload budget continues the redirection of \$33.1 million in ongoing funds for improving student outcomes that are allocated pursuant to a funding formula and subject to accountability provisions that are under development as specified in Chapter 489, Statutes of 2007. This funding is reduced to \$29.8 million under proposed budget balancing reductions, yet will still allow the colleges to continue progress in improving student outcomes for those students least prepared to undertake college level work.

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## LABOR AND WORKFORCE DEVELOPMENT

The Labor and Workforce Development Agency (LWDA) supports and protects California workers and employers. The LWDA is primarily responsible for three activities: (1) labor law enforcement, (2) workforce development, and (3) benefit payment and adjudication. The primary objective of the LWDA is to serve workers and employers by coordinating its many services and programs in a manner that is efficient, effective, and relevant to current and future economic conditions.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy adjustments and reductions, including budget-balancing reductions. With these adjustments, the Governor's Budget includes \$12.1 billion (\$97.9 million General Fund and \$12 billion other funds) for the various entities within the LWDA, and reflects an increase of \$427.3 million (a decrease of \$6.5 million General Fund and an increase of \$433.8 million other funds) or 3.7 percent over the revised 2007-08 Budget. Change Table LWD-01 illustrates the major changes proposed to LWDA spending in the Governor's Budget. More notable funding changes are also described below.

Change Table LWD-01  
Labor and Workforce Development Agency — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$103,375	\$11,169,073	11,646.5	\$103,375	\$11,169,073	11,646.5
<b>Workload Adjustments</b>						
Automated Collection Enhancement System (ACES) Continuation	—	—	—	2,559	251	17.1
Enrollment/Caseload/Population	—	357,485	135.7	—	789,032	220.7
Employee Compensation/Retirement	1,985	13,792	—	2,215	15,290	—
Expiring Programs or Positions	—	-442	—	-8,211	-11,765	-74.9
One-Time Cost Reductions	—	—	—	-7	-14,560	—
Full-Year Cost of New Programs	—	—	—	—	10,041	—
Other Workload Adjustments	-790	18,672	-25.5	24	28,827	-12.4
<b>Totals, Workload Adjustments</b>	<b>\$1,195</b>	<b>\$389,507</b>	<b>110.2</b>	<b>-\$3,420</b>	<b>\$817,116</b>	<b>150.5</b>
<b>Policy Adjustments</b>						
Economic Employment and Enforcement Coalition Continuation	—	—	—	—	6,031	52.2
Other Policy Adjustments	—	—	—	—	417	0.9
<b>Totals, Policy Adjustments</b>	<b>\$0</b>	<b>\$0</b>	<b>—</b>	<b>\$0</b>	<b>\$6,448</b>	<b>53.1</b>
<b>Total Adjustments</b>	<b>\$1,195</b>	<b>\$389,507</b>	<b>110.2</b>	<b>-\$3,420</b>	<b>\$823,564</b>	<b>203.6</b>
<b>Budget Prior to Reductions</b>	<b>\$104,570</b>	<b>\$11,558,580</b>	<b>11,756.7</b>	<b>\$99,955</b>	<b>\$11,992,637</b>	<b>11,850.1</b>
<b>Budget-Balancing Reductions<sup>1/</sup></b>	<b>-\$150</b>	<b>\$0</b>	<b>-1.8</b>	<b>-\$2,055</b>	<b>-\$200</b>	<b>-16.4</b>
<b>Governor's Budget</b>	<b>\$104,420</b>	<b>\$11,558,580</b>	<b>11,754.9</b>	<b>\$97,900</b>	<b>\$11,992,437</b>	<b>11,833.7</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.

\* Dollars in Thousands

## PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following.

### EMPLOYMENT DEVELOPMENT DEPARTMENT

#### Automated Collection Enhancement System—

The Governor's Budget proposes \$2.8 million (\$2.6 million General Fund) and 17.1 positions to continue the Automated Collection Enhancement System (ACES) project. ACES will improve the state's ability to track, collect, and audit the payment of specified employer payroll taxes, including the personal income tax, by modernizing and automating revenue collection processes.

**October Revise**—The Governor’s Budget includes an increase of \$753 million (various special funds) in benefit payments and an increase of \$35.9 million and 220.7 positions in state operations for the various employment assistance payments (Unemployment Insurance, Disability Insurance, School Employees Fund programs, and Workforce Investment Act funds) that EDD administers.

## **DEPARTMENT OF INDUSTRIAL RELATIONS**

### **Electronic Adjudication Management System—**

The Governor’s Budget provides \$9.7 million (Workers’ Compensation Administration Revolving Fund) to support continued development of a paperless case management and automated calendaring system for the Division of Workers’ Compensation in the Department of Industrial Relations (DIR).

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## **PROPOSED BUDGET-BALANCING REDUCTIONS**

Total budget-balancing reductions for the LWDA amount to \$150,000 and 1.8 positions in 2007-08 and \$2.1 million and 16.4 positions in 2008-09. These reductions do not require statutory changes.

- Programs exempted from reductions include tax collection activities of the EDD and General Fund revenue producing activities in the DIR.
- The major reductions for LWDA are described below.

## **EMPLOYMENT DEVELOPMENT DEPARTMENT**

- \$246,000 and 2.3 positions in 2008-09 for EDD Administrative Support and the Unemployment Insurance

Appeals Board. This reduction will result in a minimal delay in audit appeals.

### **AGRICULTURAL LABOR RELATIONS BOARD**

- \$150,000 and 1.8 positions in 2007-08 and \$515,000 and 3.7 positions in 2008-09 for the Agricultural Labor Relations Board. These reductions will delay claims processing, investigations, and litigation of unfair labor practices cases.

### **DEPARTMENT OF INDUSTRIAL RELATIONS**

- \$1.3 million and 9.5 positions in 2008-09 for DIR programs including Self-Insurance Plans, Mediation and Conciliation, Occupational Safety and Health Appeals Board, Occupational Safety and Health Standards Board, Division of Labor Statistics and Research, and Administrative Support. These reductions will reduce appeals hearings, delay implementation of regulations, and eliminate the publication of apprenticeship prevailing wage determinations.

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## **PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS**

### **ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION**

The Governor's Budget includes \$6.9 million (various special funds) and 62.6 positions for the continuation of the Economic and Employment Enforcement Coalition (Triple E Coalition), a partnership among the Labor and Workforce Development Agency, the Employment Development

Department, the Department of Industrial Relations and the Contractors' State License Board. The Coalition identifies the worst offenders in the underground economy for targeted workplace enforcement actions throughout the state. The Triple E Coalition also engages in outreach and education so that employers are provided with the information and assistance necessary to become legitimate and compliant businesses.

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## GENERAL GOVERNMENT

The General Government section of the Governor's Budget Summary includes multiple departments, commissions, and offices responsible for oversight and specific activities not included in other areas.

The proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments were made to reflect specific policy adjustments and reductions, including budget-balancing reductions.

With these adjustments, the Governor's Budget includes \$10.9 billion (\$2.4 billion General Fund and \$8.5 billion other funds) for these departments. This reflects a decrease of \$462.9 million or 4.1 percent compared to the revised 2007-08 Budget. Despite this net reduction, General Fund increased by 32.5 percent (\$590.6 million) over the revised 2007-08 Budget. Change Table GEN-01 illustrates the major changes proposed for the General Government section in the Governor's Budget.

Change Table GEN-01  
General Government — Changes by Broad Categories

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 Budget Act</b>	\$1,578,892	\$11,957,363	13,343.0	\$1,120,631	\$11,426,435	13,343.0
<b>Workload Adjustments</b>						
Accounting Adjustment to Reflect Prior Year Proposition 98 Reappropriations	40,936	—	—	547,079	—	—
Budget Stabilization Account Transfer for Economic Recovery Bonds	—	—	—	490,974	-490,974	—
Education Benefit Program	—	—	—	1,819	—	0.9
Other Employee Compensation and Benefit Changes	-168,690	-355,606	—	578,266	209,567	—
Enrollment/Caseload/Population	—	—	—	341	—	—
Employee Compensation/Retirement	-358,900	-341,144	—	9,830	8,878	—
Expiring Programs or Positions	—	—	-2.2	-428	—	-37.5
One-Time Cost Reductions	—	—	—	-435,802	62,094	-11.1
Full-Year Cost of New Programs	—	—	—	7,949	1,834	73.6
Other Workload Adjustments	727,222	-1,737,267	1,431.6	1,793,841	-3,004,134	1,441.8
Infrastructure Adjustment	946	57,729	—	7,392	253,421	—
<b>Totals, Workload Adjustments</b>	\$241,514	-\$2,376,288	1,429.4	\$3,001,261	-\$2,959,314	1,467.7
<b>Policy Adjustments</b>						
Financial Information System for California (FI\$Cal )	—	—	—	—	37,650	81.3
Suspend BSA Payment	—	—	—	—	-1,510,702	—
Suspend Transfer to BSA for ERB retirement	—	—	—	-1,509,030	1,509,030	—
Wildland Firefighting Initiative	—	—	—	—	9,192	35.8
Other Policy Adjustments	—	383	—	-73,665	15,649	191.9
<b>Totals, Policy Adjustments</b>	\$0	\$383	—	-\$1,582,695	\$60,819	309.0
<b>Total Adjustments</b>	\$241,514	-\$2,375,905	1,429.4	\$1,418,566	-\$2,898,495	1,776.7
<b>Budget Prior to Reductions</b>	\$1,820,406	\$9,581,458	14,772.4	\$2,539,197	\$8,527,940	15,119.7
<b>Budget-Balancing Reductions<sup>1/</sup></b>	-\$3,788	-\$1,100	-27.6	-\$131,947	-\$1,100	-213.6
<b>Governor's Budget</b>	\$1,816,618	\$9,580,358	14,744.8	\$2,407,250	\$8,526,840	14,906.1

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.

\* Dollars in Thousands

PROPOSED WORKLOAD BUDGET

The major workload adjustments for 2008-09 include the following.

MILITARY DEPARTMENT

**Joint Operations Center Staffing**—The Governor’s Budget includes \$1.3 million General Fund and 13.3 positions to provide 24-hours-a-day, 7-days-per-week staffing of the Joint Operations Center (JOC) to enable the California National

Guard (Guard) to rapidly deploy personnel and equipment with little notice from the Office of Emergency Services and conduct the coordination and notification to support state agencies in the event of an emergency or disaster. The JOC is the central node of information that connects the Guard to the first responder community, other state agencies, and the U.S. Department of Defense.

**Education Benefit Program**—The Governor’s Budget proposes \$1.8 million General Fund and 0.9 positions to establish an education benefit program for members of the Guard to improve retention of Guard members and their respective skill sets, thereby providing a more experienced, effective reserve force. Fifty-one other states and territories offer some sort of education benefit program, which has proven to be an effective recruitment and retention tool for National Guard membership.

## DEPARTMENT OF VETERANS AFFAIRS

**Veterans Homes**—The Governor’s Budget includes \$9.4 million and 100.7 positions for the California Department of Veterans Affairs (CDVA) for the construction and activation phases of the Veterans Homes in West Los Angeles and Ventura County. The Governor’s Budget also includes \$580,000 General Fund and 4.3 positions for the CDVA for the initial construction and pre-activation phases of the Redding and Fresno Veterans Homes projects.

**Fiscal Operations Unit**—The Governor’s Budget includes \$1.3 million General Fund and 13.3 positions for the CDVA to meet the fiscal operational and oversight needs of eight veterans homes and a state veterans cemetery.

**Facilities Maintenance and Management Unit —**

The Governor’s Budget includes \$3.2 million and 18.3 positions for the CDVA to establish a Facilities Management Unit and Deferred Maintenance Program. This unit will be responsible for implementing a program for maintenance and repairs at the three existing veterans homes, the state cemetery for veterans, and the five veterans homes under construction.

**TAX RELIEF**

**Senior Citizens' Property Tax Deferral Program –**

The Governor’s Budget includes \$8.8 million General Fund to reflect increased participation due to Chapter 616, Statutes of 2006 (AB 2719), which increased the minimum income level for post-1983 participants.

**Homeowners' Property Tax Relief Program –**

The Governor’s Budget includes a \$4.5 million General Fund reduction to reflect decreased claimant costs.

**Senior Citizens' Renters' Tax Assistance Program**

– The Governor’s Budget includes \$3.7 million General Fund to reflect increased caseload.

**Senior Citizens’ Property Tax Assistance Program**

– The Governor’s Budget includes \$1.4 million General Fund to reflect increased caseload.

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**PROPOSED BUDGET-BALANCING  
REDUCTIONS**

Total budget-balancing reductions for General Government amount to \$3.8 million and 27.6 positions in 2007-08 and \$131.9 million and 213.6 positions in 2008-09. These

reductions assume necessary statutory changes will be enacted by March 1, 2008.

Programs exempted from reductions include debt service, lease payments securing lease revenue bonds, the Light Brown Apple Moth Program, and the Homeowners' Property Tax Relief Program.

The major reductions for General Government are described below.

### **DEPARTMENT OF PERSONNEL ADMINISTRATION**

- \$1.9 million and 10.5 positions in 2008-09 for the Department of Personnel Administration. This would impact the Classification and Compensation Unit, the Labor Relations Unit, the Legal Unit, the Benefits Unit, the Administrative Services Unit, and Rural Health – Retiree Contributions.

### **DEPARTMENT OF FOOD AND AGRICULTURE**

- \$4.9 million in 2008-09 for the California Department of Food and Agriculture (CDFA) for Agriculture Plant Health and Pest Prevention. This reduction will impact survey and eradication activities for the Red Imported Fire Ant and Diaprepes programs. Activities in the Pierce's Disease Control Program will also be reduced.
- \$1.3 million and 11 positions in 2008-09 for the CDFA for Animal Health/Food Safety. This reduction will eliminate various programs including health monitoring and reporting, John's Disease research, animal care, pet food inspections, rendering inspections, and field investigations.

## **DEPARTMENT OF FINANCE**

- \$3.4 million General Fund, \$105,000 Special Funds, and 28.5 positions in 2008-09 from the Department of Finance. The programs affected would be the Annual Financial Plan, Program and Information Systems Assessment, Supportive Data, and Administration and Program Support.

## **MILITARY DEPARTMENT**

- \$1.5 million and 2.9 positions in 2008-09 for the Military Department's Army National Guard Program. This reduction will impact the Department's ability to sustain, maintain, and repair Military Department facilities.

## **DEPARTMENT OF VETERANS AFFAIRS**

- \$18.7 million and 115 positions in 2008-09 for the Veterans Homes. In order to meet this reduction the Veterans Home in Yountville will maintain current member levels in the Memory Care and Skilled Nursing Care Units; the Veterans Home in Chula Vista will offer private rooms for members requesting assisted living care; the Veterans Homes in Ventura County will postpone opening the Adult Day Health Care units; and, the Veterans Homes in Redding and Fresno will delay staffing for the pre-activation phase. The Department will also eliminate a component from the Enterprise-Wide Veteran Home Information System.

**TAX RELIEF**

- \$15 million in 2008-09 from the Senior Citizens' Renters' Tax Assistance Tax Relief Program. Legislation is proposed to reduce by 10 percent the grant amounts available to renters who are over 65, or who are visually impaired. Grants are available to households with incomes below \$42,770. The maximum annual grant of \$349 would be decreased by approximately \$35.
- \$4 million in 2008-09 from the Senior Citizens' Property Tax Assistance Tax Relief Program. Legislation is proposed to reduce by 10 percent the grant amounts available to homeowners who are over 65, or who are visually impaired. Grants are available to households with incomes below \$42,770. The maximum annual grant of \$473 would be decreased by approximately \$47.
- \$3.9 million in 2008-09 from the Subventions for Open Space (Williamson Act) Tax Relief Program. Legislation is proposed to reduce by 10 percent the reimbursement counties receive for property tax revenues lost as a result of assessing lands covered by Williamson Act contracts at a lower value.
- \$2.6 million in 2008-09 from the Senior Citizens' Property Tax Deferral Tax Relief Program. Legislation is proposed to reduce participation in the Program by 10 percent by lowering the maximum income for participants. The Program is currently available to persons over the age of 65 with household incomes below \$35,500.

## LOCAL GOVERNMENT FINANCING

- \$23.8 million in 2008-09 from the Citizens Option for Public Safety/Juvenile Justice Crime Prevention Act Program in Local Government Financing. This proposal, which does not require legislation, would reduce local law enforcement discretionary grant amounts by 10 percent. The funds are distributed on a population basis to police and sheriffs departments, and county district attorney offices.
- \$3.5 million in 2008-09 from Booking Fees by reducing reimbursements in Local Government Financing. Pursuant to existing statute, sheriffs departments may increase by a commensurate amount the fees they charge other law enforcement agencies for booking arrestees into county jails.
- \$1.9 million in 2008-09 from the Small/Rural Sheriffs Program in Local Government Financing. Legislation is proposed to reduce grants in 37 counties for discretionary law enforcement purposes from \$500,000 to \$450,000.
- \$1.2 million in 2008-09 from the trailer fees backfill in Shared Revenues. Legislation is proposed to reduce by 10 percent the funds local governments receive to backfill Vehicle License Fee (VLF) revenues they lost when the method of assessing the VLF for commercial trailers was changed.

## AUGMENTATION FOR EMPLOYEE COMPENSATION

- \$30.2 million in 2008-09 for reduced employee compensation costs associated with reduced Bargaining Unit 6 staff at the Department of Corrections and Rehabilitation.



## **AUGMENTATION FOR CONTINGENCIES OR EMERGENCIES**

- \$4.9 million in 2008-09 for Augmentations for Contingencies and Emergencies. This reduction could result in fewer Item 9840-001-0001 deficiency requests and more Supplemental Appropriations Bill requests.

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## **OTHER SPECIAL SESSION ISSUES**

The Governor has called a Special Session of the Legislature to immediately address the Budget and cash shortfall. Included in the Special Session is a proposal to make a transfer from the Budget Stabilization Account pursuant to Proposition 58.

As authorized by Control Section 35.60 of the 2007 Budget Act, and consistent with constitutional provisions enacted by Proposition 58, the Director of Finance ordered the transfer of \$1.494 billion from the Budget Stabilization Account (BSA) to the General Fund. The transfer was made to address a fiscal emergency proclaimed by the Governor on January 10, 2008.

The Governor is proposing to suspend the 2008-09 transfer of \$1.509 billion from the General Fund to the BSA, in light of the current condition of the General Fund.

Government Code Section 17560 authorizes local agencies and school districts to file, and receive reimbursement for, estimated reimbursement claims for mandated activities. The Budget includes a reduction of \$75 million General Fund by proposing to eliminate estimated reimbursement claims.

## **PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS**

### **DEPARTMENT OF FOOD AND AGRICULTURE**

#### **All Vehicle Inspections at Border Protection Stations**

—The Governor’s Budget includes an increase of \$7.5 million (\$407,000 General Fund and \$7.1 million Motor Vehicle Account Fund) and 117.5 positions for the CDFA to operate all Border Protection Stations on a full-time basis, inspecting all vehicles, commercial and private, entering California. The Border Protection Stations will inspect all vehicles for fruits, vegetables, plants, and other materials hosting pests that are not native to California to protect the citizens, environment, and economic viability of California from unsafe food products and invasive pests.

### **FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA**

#### **Statewide Integrated Financial Information System for California (FI\$Cal)**

—The Financial Information System for California (FI\$Cal) is a multiyear information technology project that will replace and integrate the functions of numerous aging fiscal management systems in state government. In so doing, FI\$Cal will enable the state to avoid major costs to replace those systems. The project will also prepare the state’s financial management employees to operate in the new integrated environment. The Governor’s Budget includes an increase of \$37.7 million from the FI\$Cal Internal Services Fund and 197.7 positions for continued procurement, project team development and training and baseline documentation efforts for the FI\$Cal project.

## STATEWIDE ISSUES

This section includes issues that affect multiple departments in various major program areas.

### OTHER POST EMPLOYMENT BENEFITS

Pursuant to the new reporting standards adopted by GASB 45, the State Controller recently released an actuarial valuation which identified the total estimated future liabilities as \$47.88 billion.

The Governor's Budget includes \$1.4 billion (\$834 million net General Fund) for health and dental benefits for retirees on a pay-as-you-go basis. In selecting an appropriate strategy for funding future costs, the Administration must balance two competing and potentially conflicting criteria. First, the funding strategy must minimize the disruption of existing critical state programs. Second, the funding strategy must assure bond rating agencies and future investors that the state will fund all future retirement costs. The following three funding options are being considered:

- Continue to budget for the costs annually on a pay-as-you-go basis, at a cost of \$1.6 billion (\$935 million General Fund) in 2009-10.

- Fully fund the annual required contribution, at a cost of \$1 billion (\$600 million General Fund) more than the projected pay-as-you-go cost beginning in 2009-10.
- Fund the pay-as-you-go costs plus an amount that would eliminate any new liability from being accrued, at a cost of \$650 million (\$375 million General Fund) more than the projected pay-as-you-go costs beginning in 2009-10.

All three options would result in the state paying approximately the same amount by 2022-23.

### **STATE CIVIL SERVICE HUMAN RESOURCES REFORM**

The Human Resources Modernization Project (HRMOD) is a collaborative effort sponsored by the Department of Personnel Administration, the State Personnel Board, and the Department of Finance. These departments have partnered to create a strategic plan that defines the direction for civil service reform.

The HRMOD formally began work in 2007-08 and will end with the final rollout tentatively planned for 2014-15. The project team formally began operating on October 1, 2007, with five permanent project staff. Currently, recruitment is underway for redirected or loaned staff from agencies, departments, boards, and commissions to complete the project staffing. Goals for the first two years of the project will be as follows: (1) develop a classification and compensation model based on competencies; (2) streamline the classification process by abolishing unused classifications; (3) develop a long-term recruitment and retention plan as well as a marketing plan focusing on disciplines who face the largest attrition rate; (4) develop a certified training program for state managers/

supervisors and human resources professionals; and (5) develop a system automation procurement plan, requirements, and Request for Proposal.

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## SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure SUM-01

2008-09

**Total Revenues and Transfers**

(Dollars in Millions)

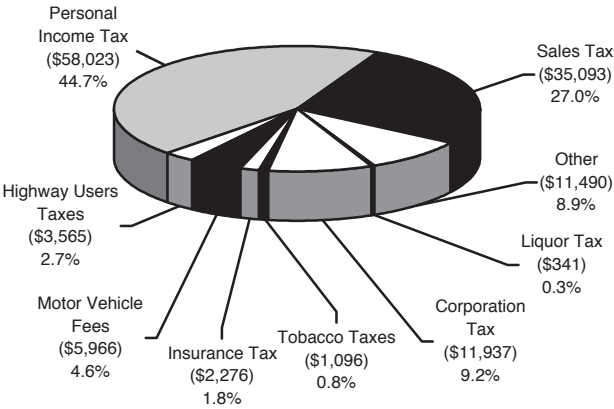


Figure SUM-02

2008-09

**Total Expenditures**

(Including Selected Bond Funds)

**Includes Budget-Balancing Reductions**

(Dollars in Millions)

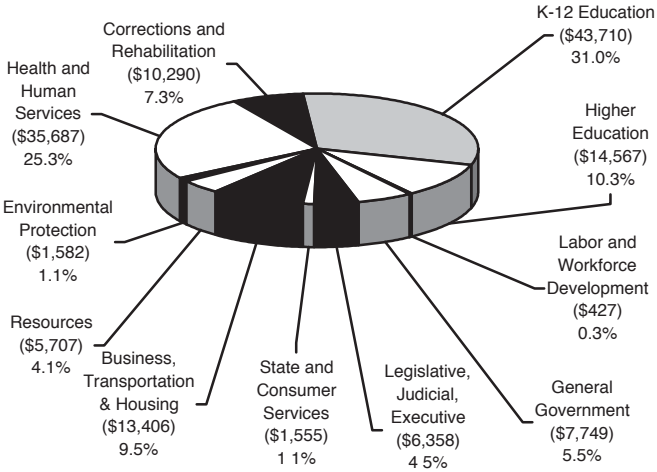




Figure SUM-03  
**2008-09 Governor's Budget**  
**General Fund Budget Summary**  
 (Dollars in Millions)

	2007-08	2008-09
<b>Prior Year Balance</b>	\$3,900	\$1,757
Revenues and Transfers	\$101,230	\$102,904
<b>Total Resources Available</b>	<b>\$105,130</b>	<b>\$104,661</b>
Non-Proposition 98 Expenditures	\$61,666	\$61,405
Proposition 98 Expenditures	\$41,707	\$39,593
<b>Total Expenditures</b>	<b>\$103,373</b>	<b>\$100,998</b>
<b>Fund Balance</b>	<b>1,757</b>	<b>3,663</b>
Reserve for Liquidation of Encumbrances	\$885	\$885
Special Fund for Economic Uncertainties	\$872	\$2,778
<b>Budget Stabilization Account</b> <sup>1/</sup>	-	-
<b>Total Available Reserve</b>	<b>\$872</b>	<b>\$2,778</b>

<sup>1/</sup> In 2007-08, includes the transfer of \$1,494 million from Budget Stabilization Account back to the General Fund under Control Section 35.60.

In 2008-09, reflects the suspension of Proposition 58 transfer to the Budget Stabilization Account.

Figure SUM-04  
**2008-09**  
**General Fund Revenues and Transfers**  
 (Dollars in Millions)

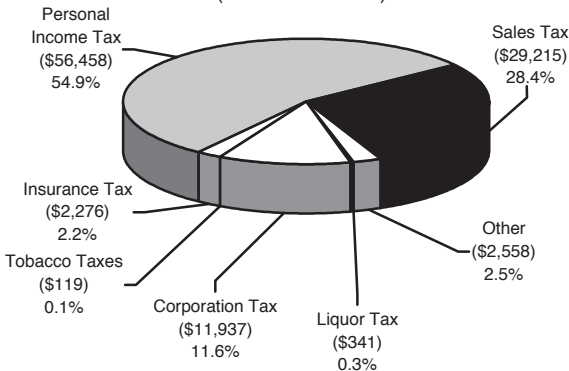


Figure SUM-05  
**2008-09 Revenue Sources**  
 (Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2007-08
Personal Income Tax	\$56,458	\$1,565	\$58,023	\$3,849
Sales Tax	29,215	5,878	35,093	1,916
Corporation Tax	11,937	-	11,937	1,262
Highway Users Taxes	-	3,565	3,565	61
Motor Vehicle Fees	29	5,938	5,967	639
Insurance Tax	2,276	-	2,276	201
Liquor Tax	341	-	341	7
Tobacco Taxes	119	976	1,095	26
Other	2,529	8,962	11,491	-4,203
<b>Total</b>	<b>\$102,904</b>	<b>\$26,884</b>	<b>\$129,788</b>	<b>\$3,758</b>

Note: Numbers may not add due to rounding.

Figure SUM-06  
**2008-09 General Fund Expenditures**  
**Includes Budget-Balancing Reductions**  
 (Dollars in Millions)

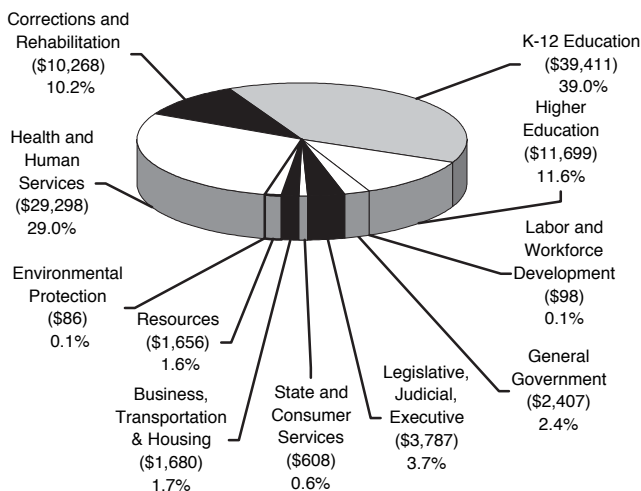


Figure SUM-07  
**General Fund Expenditures by Agency**  
 (Dollars in Millions)

	2007-08	2008-09	Change	%
Legislative, Judicial, Executive	\$3,920	\$4,150	\$230	5.9%
State and Consumer Services	598	613	15	2.5%
Business, Transportation & Housing	1,526	1,682	156	10.2%
Resources	1,809	1,746	-63	-3.5%
Environmental Protection	92	94	2	2.2%
Health and Human Services	29,758	31,959	2,201	7.4%
Corrections and Rehabilitation	10,114	10,647	533	5.3%
K-12 Education	42,045	43,768	1,723	4.1%
Higher Education	11,803	12,832	1,029	8.7%
Labor and Workforce Development	105	100	-5	-4.8%
General Government	1,820	2,539	719	39.5%
<b>Budget Before Reductions</b>	<b>\$103,590</b>	<b>\$110,130</b>	<b>\$6,540</b>	<b>6.3%</b>
Budget-Balancing Reductions <sup>1/</sup>	-217	-9,132	-8,915	
<b>Total</b>	<b>\$103,373</b>	<b>\$100,998</b>	<b>-\$2,375</b>	<b>-2.3%</b>

<sup>1/</sup> For a detailed listing of reductions by agency, department, and program; please view the special display (Budget-Balancing Reductions) within organization 9944 in the Governor's Budget.

Note: Numbers may not add due to rounding.

Figure SUM-08  
**General Fund Expenditures by Agency**  
**Includes Budget-Balancing Reductions**  
 (Dollars in Millions)

	2007-08	2008-09	Change	%
Legislative, Judicial, Executive	\$3,914	\$3,787	-\$127	-3.2%
State and Consumer Services	597	608	11	1.8%
Business, Transportation & Housing	1,526	1,680	154	10.1%
Resources	1,804	1,656	-148	-8.2%
Environmental Protection	91	86	-5	-5.5%
Health and Human Services	29,577	29,298	-279	-0.9%
Corrections and Rehabilitation	10,096	10,268	172	1.7%
K-12 Education	42,045	39,411	-2,634	-6.3%
Higher Education	11,803	11,699	-104	-0.9%
Labor and Workforce Development	104	98	-6	-5.8%
General Government	1,816	2,407	591	32.5%
<b>Total</b>	<b>\$103,373</b>	<b>\$100,998</b>	<b>-\$2,375</b>	<b>-2.3%</b>

Figure SUM-09  
**2008-09 Total Expenditures by Agency<sup>1/</sup>**  
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$4,150	\$2,120	\$473	\$6,743
State and Consumer Services	613	864	83	1,560
Business, Transportation & Housing	1,682	7,410	4,316	13,408
Resources	1,746	2,274	1,733	5,753
Environmental Protection	94	1,099	397	1,590
Health and Human Services	31,959	8,105	150	40,214
Corrections and Rehabilitation	10,647	22	--	10,669
K-12 Education	43,768	149	4,428	48,345
Higher Education	12,832	44	2,236	15,112
Labor and Workforce Development	100	329	--	429
General Government	2,539	5,312	31	7,882
<b>Budget Before Reductions</b>	<b>\$110,130</b>	<b>\$27,728</b>	<b>\$13,847</b>	<b>\$151,705</b>
Budget-Balancing Reductions <sup>1/</sup>	-9,132	-1,535	--	-10,667
<b>Total</b>	<b>\$100,998</b>	<b>\$26,193</b>	<b>\$13,847</b>	<b>\$141,038</b>

<sup>1/</sup> For a detailed listing of reductions by agency, department, and program; please view the special display (Budget-Balancing Reductions) within organization 9944 in the Governor's Budget.

Note: Numbers may not add due to rounding.

Figure SUM-10  
**2008-09 Total Expenditures by Agency**  
**Includes Budget-Balancing Reductions**  
 (Dollars in Millions)

	<b>General Fund</b>	<b>Special Funds</b>	<b>Bond Funds</b>	<b>Totals</b>
Legislative, Judicial, Executive	\$3,787	\$2,098	\$473	\$6,358
State and Consumer Services	608	864	83	1,555
Business, Transportation & Housing	1,680	7,410	4,316	13,406
Resources	1,656	2,318	1,733	5,707
Environmental Protection	86	1,099	397	1,582
Health and Human Services	29,298	6,239	150	35,687
Corrections and Rehabilitation	10,268	22	0	10,290
K-12 Education	39,411	-129	4,428	43,710
Higher Education	11,699	632	2,236	14,567
Labor and Workforce Development	98	329	0	427
General Government	2,407	5,311	31	7,749
<b>Total</b>	<b>\$100,998</b>	<b>\$26,193</b>	<b>\$13,847</b>	<b>\$141,038</b>

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**EXECUTIVE OFFICE****Michael C. Genest**

Director of Finance

(916) 445-4141

**Vincent P. Brown**Chief Deputy Director, Budget  
(916) 445-9862**Anne Sheehan**Chief Deputy Director, Policy  
(916) 445-8582**Fred Klass**Chief Operating Officer  
(916) 445-4923**Molly Arnold**Chief Counsel  
(916) 324-4856**Thomas Sheehy**Deputy Director, Legislation  
(916) 445-8610**H.D. Palmer**Deputy Director, External Affairs  
(916) 323-0648**BUDGET PROGRAM AREAS**

Revenue Forecasting; Economic Projections; Demographic Data; Business, Transportation, and Housing; Local Government.....	<b>Mark Hill, PBM*</b>	(916) 322-2263
Education .....	<b>Jeannie Oropeza, PBM</b>	(916) 445-0328
Health and Human Services.....	<b>Michael Wilkening, PBM</b>	(916) 445-6423
Corrections and Rehabilitation, Judicial, Justice, General Government, State and Consumer Services .....	<b>Todd Jerue, PBM</b>	(916) 445-8913
Resources, Energy, Environment, Capital Outlay, Information Technology Consulting .....	<b>Karen Finn, PBM</b>	(916) 324-0043
Employee Relations, Retirement Systems, Departmental Administration, Local Mandates, Audits and Evaluations .....	<b>Diana L. Ducay, PBM</b>	(916) 445-3274
Budget Planning and Preparation, Cash Management, Statewide Issues, CALSTARS, FSCU .....	<b>Veronica Chung-Ng, PBM</b>	(916) 445-5332
Financial Information System for California.....	<b>Sue V. Bost, PBM/PE**</b>	(916) 445-8918

\* Program Budget Manager

\*\* Project Executive

