

STATE BUDGET HIGHLIGHTS 2007-08



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STATE OF CALIFORNIA

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INTRODUCTION

The 2007 Budget Act signed by Governor Schwarzenegger includes the largest reserve of any budget act in the state's history. The May Revision proposed a total reserve of \$2.2 billion. Due to the shortfall in revenue collections that came to light in June, and in recognition of the state's continuing structural deficit and other potential threats, the Legislature took actions to reduce spending and increase funds available, thereby increasing the total reserve to an unprecedented \$3.4 billion. The Governor further reduced spending with \$703 million in General Fund vetoes, raising the total reserve to \$4.1 billion. As a result, General Fund spending growth in this budget is held to \$0.6 billion, or 0.6 percent.

Figure INT-01 displays the major changes to the amounts proposed in the May Revision.

These actions eliminate the gap between spending and revenues in 2007-08, after discounting the \$1.023 billion of transfer to the Budget Stabilization Account for rainy-day purposes.

Despite the modest year-over-year increase in General Fund spending in the Budget Act, it still fully funds K-12 education

Figure INT-01
Major General Fund Changes Since May Revision
(millions)

	Total Reserve	
	Total Impact	Ongoing Impact
Total Reserve at May Revision	\$2,199	
Overall Proposition 98 Changes	\$749	\$0
Reject Economic Recovery Bonds Pre-payment	595	0
Repay Prior Year Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Claims Over Three Years	174	-69
Reduce Medi-Cal Estimate	332	332
Funded Various Capital Outlay Projects with Lease Revenue Bonds	101	0
Use TANF Reserve	84	0
Integrated Services for Homeless Mentally Ill Adults Program	55	55
Medi-Cal Managed Care Rates	53	0
Unallocated Reduction	72	72
Reverse Price Increase (except the Legislature, Judicial Branch and Constitutional Officers)	40	40
Continue Funding for Williamson Act	-39	-39
Use Public Transportation Account for Various Purposes	-41	-119
Reverse STRS Supplemental Benefit Maintenance Account Contribution Savings	-75	-75
Enhance Effort to Reunite Owners and Their Unclaimed Property	-87	-77
Reverse CalWORKs Reform Proposals	-314	-314
Net of All Other Changes	171	-20
Total Changes	\$1,870	-\$214
Total Reserve at Budget Act	\$4,069	

(providing a 3.4-percent increase in per-pupil spending from all funds), law enforcement and the Governor's compacts with higher education and the judiciary. It also continues the commitment to reform the state's prison system by reducing recidivism, improving prison health care and reducing overcrowding. The Budget Act also continues the commitment to improve the state's critical infrastructure through prudent use of the general obligation bonds authorized by the people in 2006.

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THE ECONOMY

The slumping housing sector continued to weigh on the national and California economies in the first eight months of 2007, slowing job growth and dampening retail sales. The sector's recovery will likely take longer than what was anticipated in the May Revision forecast. (Figure ECO-01)

Figure ECO-01

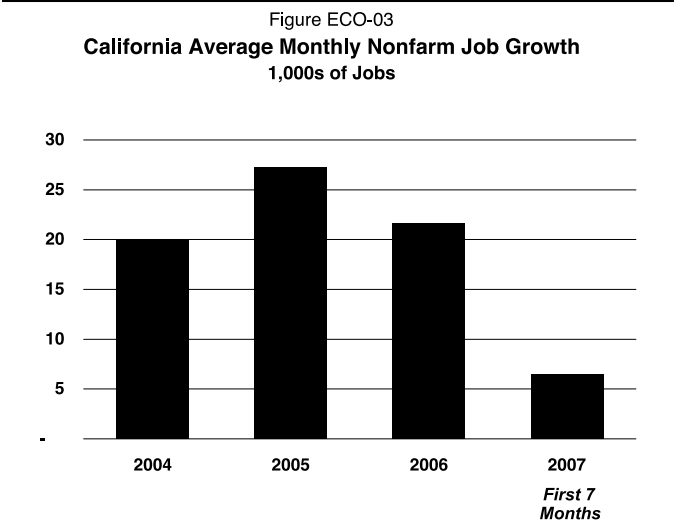
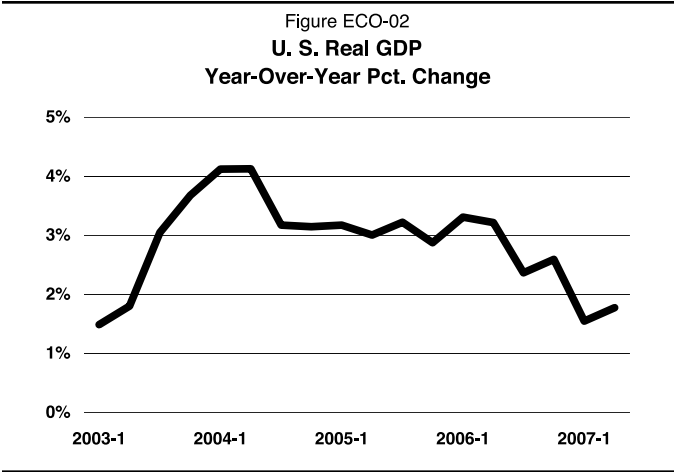
Key Economic Indicators
From the May Revision FY 2007-08 Forecast
 (Annual Percent Change, except for New Housing)

	2006	Forecast	
		2007	2008
U.S. Real Gross Domestic Product	3.3	2.2	3.1
California Nonfarm Employment	1.8	1.3	1.5
California Personal Income	6.1	5.3	5.5
California Consumer Price Index	3.9	2.8	2.6
California New Housing Units (Thousands of Total Units)	163	133	143

Forecast based on data available as of April 2007.

THE NATION

The slowdown in home building by itself reduced national output growth by almost one percentage point in the first quarter of 2007 and one half of a percentage point in the second quarter. (Figure ECO-02)



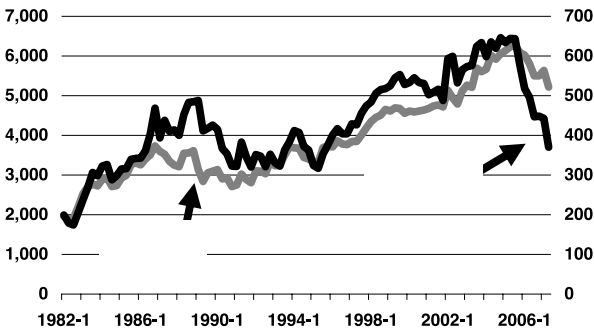
This was accompanied by shrinking job gains and more restrained consumer spending. Job gains averaged 136,000 per month in the first seven months of 2007, as compared to 192,600 in the first seven months of 2006.

CALIFORNIA

Reduced home building, home sales, and auto sales restrained taxable sales and job growth in the first seven months of 2007. Job gains averaged just 6,400 per month; a year earlier they averaged 18,900. (Figure ECO-03) Wages and salaries and personal income have held up well, however.

After dropping sharply in April, existing home sales fell slightly in May and June, putting them 25 percent below the level of sales in June 2006. (Figure ECO-04) Inventories amounted to 10.1 months of sales at the current sales rate in June. A year earlier, inventories amounted to 6.2 months of sales. The median price of sold existing home was \$594,000, about 3.2 percent higher than a year ago.

Figure ECO-04
Existing Home Sales in California and the Nation
Thousands of Units



The total number of new housing units permitted in the first seven months of 2007 was 30 percent fewer than the year-earlier number. Single-family units were off 35 percent, and multifamily 21 percent.

The value of private-sector nonresidential building permits issued in the first seven months of 2007 was 4 percent higher than the year-ago value. But the value of public works construction was down 12 percent for the first six months.

REVENUE ESTIMATES

General Fund revenues and transfers are estimated to be \$95.5 billion in 2006-07 and \$101.2 billion in 2007-08. These amounts include a transfer of \$471.8 million in 2006-07 and \$1.023 billion in 2007-08 to the Budget Stabilization Account. See Figure REV-01 and the Summary Charts for more detailed information on General Fund revenues.

PERSONAL INCOME TAX

The personal income tax forecast was increased by \$201 million in 2006-07 and decreased by \$362 million in 2007-08 from the Governor's Budget estimates. Capital gains income is expected to grow 10 percent in 2006 and 2 percent in 2007.

The 2007-08 forecast includes \$170 million in revenue from repeal of the teacher tax credit and \$92 million from additional efforts by the Franchise Tax Board to close the tax gap.

Figure REV-01 2007-08 Budget Act GENERAL FUND REVENUE FORECAST SUMMARY TABLE Reconciliation with the 2007-08 May Revision (In millions)				
Source	May Revision	Budget Act	Change Between Forecasts	
Fiscal 05-06				
Personal Income Tax	\$49,901	\$49,901	\$0	0.0%
Sales & Use Tax	27,581	27,581	\$0	0.0%
Corporation Tax	10,316	10,316	\$0	0.0%
Insurance Tax	2,202	2,202	\$0	0.0%
Alcoholic Beverage	318	318	\$0	0.0%
Cigarette	118	118	\$0	0.0%
Other Revenues	3,022	3,022	\$0	0.0%
Transfers	-7	-7	\$0	0.0%
Total	\$93,451	\$93,451	\$0	0.0%
Fiscal 06-07				
Personal Income Tax	\$52,243	\$52,243	\$0	0.0%
Sales & Use Tax	27,787	27,787	\$0	0.0%
Corporation Tax	10,717	10,717	\$0	0.0%
Insurance Tax	2,166	2,166	\$0	0.0%
Alcoholic Beverage	321	321	\$0	0.0%
Cigarette	119	119	\$0	0.0%
Other Revenues	2,368	2,224	-\$144	-6.1%
Transfers	-36	-36	\$0	0.0%
Total	\$95,685	\$95,541	-\$144	-0.2%
Change from Fiscal 05-06	\$2,234	\$2,090		
% Change from Fiscal 05-06	2.4%	2.2%		
Fiscal 07-08				
Personal Income Tax	\$55,236	\$55,236	\$0	0.0%
Sales & Use Tax	28,841	28,820	-\$21	-0.1%
Corporation Tax	11,053	11,055	\$2	0.0%
Insurance Tax	2,181	2,181	\$0	0.0%
Alcoholic Beverage	325	325	\$0	0.0%
Cigarette	120	120	\$0	0.0%
Other Revenues	3,772	3,804	\$32	0.8%
Transfers	-275	-302	-\$27	9.8%
Total	\$101,253	\$101,239	-\$14	0.0%
Change from Fiscal 06-07	\$5,568	\$5,698		
% Change from Fiscal 06-07	5.8%	6.0%		
Three-Year Total			-\$158	

SALES AND USE TAX

The sales and use tax forecast was increased by \$12 million in 2006-07 and decreased by \$527 million in 2007-08 compared to the Governor's Budget estimates.

Revenues for 2007-08 include \$21 million from additional enforcement activities by the Board of Equalization.

CORPORATION TAX

The corporation tax forecast has been increased by \$406 million for 2006-07 and by \$239 million for 2007-08 from the Governor's Budget estimate.

Revenues for 2007-08 include \$18 million from additional efforts by the Franchise Tax Board to close the tax gap.

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MAXIMIZING THE VALUE OF PUBLIC ASSETS

STATE'S STUDENT LOAN GUARANTEE FUNCTION—OPERATED THROUGH EDFUND

The Budget assumes the sale of, or other contractual arrangement for the operation of, California's student loan guarantee function, generating \$1 billion in one-time revenue to the state. The state's student loan guarantee function under the Federal Family Education Loan (FFEL) Program is operated through a contract between the California Student Aid Commission (CSAC) and EdFund, a non-profit public benefit corporation established by CSAC.

EdFund services student loans for students attending schools in California and throughout the nation. In fact, over half of all loans serviced by EdFund are held by non-California students. EdFund is the second largest guaranty operator in the nation and currently maintains a loan portfolio in excess of \$27 billion.

The state's participation in the FFEL Program through EdFund is an inherently valuable asset because the student loan guarantee business is a fundamentally attractive financial venture. The student loan guarantee business is not a core mission of government. Recognition of this fact led to spinning off the loan guarantee servicing

business to a quasi-governmental, private non-profit that is now EdFund. Selling to, or contracting for the operation of this activity with, a private company could produce a significant one-time financial benefit to the state without adversely affecting students. There are many student loan guarantee firms throughout the country that compete vigorously with each other. Nearly all of them are private firms, not governmental entities. Potential buyers or operators of the state's participation in the FFEL Program will be attracted to the opportunity of benefiting from EdFund's substantial portfolio and brand name. In addition, potential buyers or operators may be attracted by the indications of recent analyses that there could be significant opportunities to increase the current efficiency of EdFund and diversify into other compatible lines of business such as loan servicing and collections, thereby generating higher revenues and profit margins. The Budget assumes that the sale or contracting for the operation of the state's participation in the FFEL Program would generate at least \$1 billion.

This proposal will not adversely affect students' access to loans or the interest rates students pay for loans (which are set by the federal government). Neither CSAC nor EdFund sets loan interest rates or charge students fees. Revenues come primarily from the banks that EdFund does business with and the federal government.

LEGISLATIVE, JUDICIAL, AND EXECUTIVE

Governmental bodies classified under the Legislative, Judicial, and Executive section of the Governor's Budget are either independent entities under the California Constitution or 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, the Office of Homeland Security, and the California State Lottery.

JUDICIAL BRANCH

Trial Court Growth Factor Increase—The Budget includes \$126.6 million General Fund to reflect the application of the annual growth factor adjustment to the Trial Courts based on the year-over-year change in the State Appropriations Limit (SAL). This adjustment is consistent with the statutory requirement that provides an annual SAL adjustment to fund the general operations of the Trial Courts.

Trial Court Judgeships—The Budget includes \$27.8 million General Fund for 50 new judgeships, which is the second installment of a plan to add 150 judges over a three-year period. These additional judges will increase access to the courts and address court backlogs.

OFFICE OF THE CHIEF INFORMATION OFFICER

Establish the Office of the Chief Information Officer—The Budget includes \$4.6 million Department of Technology Services Revolving Fund and 25 positions to establish the Office of the Chief Information Officer. The State Chief Information Officer (CIO) will be responsible for the following duties:

- Advising the Governor on the strategic management and direction of the state's information technology resources.
- Establishing and enforcing state information technology strategic plans, policies, standards, and enterprise architecture.
- Minimizing overlap, redundancy, and cost in state operations.
- Coordinating activities of agency information officers and the Director of Technology Services.
- Improving organizational maturity and capacity in the effective management of information technology.
- Establishing performance management and ensuring state information technology services are efficient and effective.

- Approving, suspending, terminating, and reinstating information technology projects.

Effective January 1, 2008, the State CIO will assume responsibility for review and oversight of projects and department-specific activities, a function that has been the responsibility of the Department of Finance. Accordingly, the Department of Finance staff who have been performing this function will move to the Office of the State Chief Information Officer on January 1, 2008. The Department of Finance will continue to perform fiscal oversight of the state's information technology projects, including the determination of the availability of project funding from appropriate sources and ensuring consistency with state fiscal policy. To facilitate this effort, the Department of Finance will retain five positions for an information technology consulting unit.

OFFICE OF THE INSPECTOR GENERAL

California Rehabilitation Oversight Board—The Budget includes \$517,000 General Fund for the Office of the Inspector General to support the California Rehabilitation Oversight Board (C-ROB) created by AB 900 (Chapter 7, Statutes of 2007). The C-ROB, chaired by the Inspector General, is tasked with examining the various mental health, substance abuse, educational and employment programs for inmates and parolees operated by the California Department of Corrections and Rehabilitation.

OFFICE OF EMERGENCY SERVICES

Anti-Gang Programs—The Budget includes \$14.8 million for various programs to support anti-gang efforts which include:

\$4.9 million in federal funds for the 2006 Anti-Gang Initiative and the 2006 Six-City Comprehensive Anti-Gang project; \$446,000 General Fund to establish and support a State Anti-Gang Coordinator position in the Office of Emergency Services; and \$9.5 million Restitution Fund for local anti-gang suppression, intervention, and prevention programs.

Internet Crimes Against Children Task Forces—The Budget includes \$1 million Restitution Fund to augment four Internet Crimes Against Children Task Forces, one each in Sacramento, San Jose, San Diego, and Los Angeles. This funding will enhance the investigative response to offenders who use the internet to sexually exploit children.

OFFICE OF HOMELAND SECURITY

Homeland Security Grant Programs—The Budget includes \$142.6 million in transportation bond funds to establish two homeland security grant programs: \$41.1 million for the Port Security Grant Program to be allocated to California ports to purchase security equipment; and \$101.5 million for the Transit Security Grant Program to be allocated to various mass transit systems to purchase security and communications equipment, lighting, and other security improvements. Both programs serve to prevent and respond to acts of terrorism.

DEPARTMENT OF JUSTICE

Witness Protection—The Budget includes an augmentation of \$3.7 million Restitution Fund for the California Witness Protection Program to allow the Department of Justice to better support district attorneys in their effort to protect

witnesses and their families who are endangered because of ongoing or expected testimony.

DNA Live Scan Automation—The Budget includes \$2 million DNA Identification Fund to implement a DNA Live Scan Automation Project to provide automated fingerprint verification during the DNA collection process at all California law enforcement agencies, thereby enhancing the efficiency of the state’s DNA collection efforts.

California Criminalistics Institute—The Budget includes \$418,000 General Fund and 3 positions to establish a satellite office of the California Criminalistics Institute in Southern California (currently located only in Sacramento) to provide critical training to state and local forensic scientists and law enforcement personnel to meet the scientific needs of state and local crime laboratories.

STATE CONTROLLER

Unclaimed Property Program—The Budget includes \$8 million General Fund and 86.9 positions for the Unclaimed Property Program to strengthen notification efforts to reunite owners with their unclaimed property.

CALIFORNIA GAMBLING CONTROL COMMISSION

Tribal Gaming Minimum Internal Control Standards—The Budget includes \$900,000 Indian Gaming Special Distribution Fund and 14 positions to establish an audit and compliance unit to review and enforce the internal control standards adopted by gaming tribes pursuant to the terms of

their respective gaming compacts, which seek to ensure fair play for gaming patrons.

BOARD OF EQUALIZATION

U.S. Customs Program—The Budget includes \$1.1 million (\$696,000 General Fund and \$404,000 from other funds) to add 11.5 positions to the U.S. Customs Program.

The Program collects California import data from the federal government and matches it against California sales and use tax records. When the records comparison indicates a California-based purchaser failed to pay use taxes on an imported product, the Program initiates collection activities.

The Board of Equalization estimates the proposed positions will generate \$15.2 million in revenues in 2007-08, of which \$9.4 million will accrue to the General Fund, and \$5.8 million will accrue to local governments.

SECRETARY OF STATE

Presidential Primary Election—The Budget includes \$11.7 million one-time General Fund for the February 2008 Presidential Primary Election. The primary election was added by Chapter 2, Statutes of 2007 (SB 113) and the funds provided in the Budget will be used by the Secretary of State to conduct the election. The state plans to reimburse counties for their February 2008 Presidential Primary Election costs as part of the 2008-09 Budget once county claims for reimbursement are available, which is anticipated to occur by mid-May of 2008.

STATE AND CONSUMER SERVICES

The Budget includes \$25 billion (\$576.9 million General Fund) for the State and Consumer Services Agency (SCSA). SCSA entities are responsible for civil rights enforcement, consumer protection, and the licensing of 2.3 million Californians in more than 230 professions. The SCSA handles the procurement of nearly \$4 billion worth of goods and services, the management and development of state real estate, oversight of two state employee pension funds, collection of state taxes, hiring of state employees, providing information technology services, adopting state building standards, and administering two state museums. Effective January 1, 2008, the SCSA will also oversee the Office of Information Security and Privacy Protection. The Secretary for the SCSA is Chair of the California Building Standards Commission and the Victim Compensation and Government Claims Board.

SECRETARY FOR STATE AND CONSUMER SERVICES AGENCY

Office of Information Security and Privacy Protection—
The Budget includes half-year funding of \$845,000 General

Fund and 7 positions to establish the Office of Information Security and Privacy Protection within the State and Consumer Services Agency beginning January 1, 2008. This reflects the transfer of privacy protection responsibility from the Department of Consumer Affairs and information security responsibility from the Department of Finance. The Office will be responsible for leading state agencies in securing and protecting the state's information by identifying critical technology assets and addressing vulnerabilities, deterring identity theft and security incidents, sharing information and technology lessons promptly, enhancing government response and recovery, and developing consumer education programs.

CALIFORNIA SCIENCE CENTER

Operational Startup for the Phase II Project—The Budget includes \$1.9 million General Fund and 4.3 positions to begin hiring key employees and purchasing critical equipment necessary to bring the Phase II project online. The Phase II project is a 146,000-square-foot facility that will almost double the amount of exhibit space at the Science Center, and will include the World of Ecology exhibit. Construction of the Phase II project will be completed in 2009.

DEPARTMENT OF CONSUMER AFFAIRS

Bureau of Automotive Repair: Visible Smoke Test—The Budget includes \$12.3 million (\$1.3 million Vehicle Inspection and Repair Fund and \$11 million High Polluter Repair or Removal Account) and 8.6 positions for the Bureau of Automotive Repair to implement the provisions of Chapter 761, Statutes of 2006, which requires the Bureau

to incorporate a visible smoke test into the Smog Check Program by January 1, 2008. Chapter 761 also increases the payment to any consumer retiring a vehicle that fails its biennial Smog Check inspection from \$1,000 to \$1,500. The Program is funded through smog abatement fees paid by California motorists.

FRANCHISE TAX BOARD

Tax Gap Initiatives—The Budget provides \$19.3 million General Fund and 228.5 positions for various efforts to reduce the state's estimated \$6.5 billion tax gap. The "tax gap" is the difference between the amount of tax owed and the amount paid. Of the proposed resources, \$13.6 million and 180.5 positions are for six existing pilot programs that are being established permanently. These programs concentrate on detecting non-filers and filers of fraudulent returns, and on audit and collections activities. The FTB estimates associated revenues of \$64.7 million in 2007-08 and \$68.5 million in 2008-09.

The remaining \$5.7 million and 48 positions are for new initiatives to educate independent contractors about filing requirements, expand the corporate non-filer program, address out-of-state tax avoidance, and increase investigations of persons who fail to file a return, or who file fraudulent returns. The FTB estimates these initiatives will generate revenues of approximately \$15 million in 2007-08 and \$32 million in 2008-09.

DEPARTMENT OF GENERAL SERVICES

Green Building Initiative—The Budget includes \$3.4 million Service Revolving Fund to implement required energy savings programs and projects as specified in the Governor’s Executive Order S-20-04 and the accompanying Green Building Action Plan. These resources will enable the state to systematically reduce energy and water consumption by the state by retrofitting, building, and operating energy and resource efficient buildings consistent with the cost-effective measures of the Green Building Action Plan. These resources will enable the state to operate state-owned facilities that are rated “Silver” or higher as determined by the United States Green Building Council’s Leadership in Energy and Environmental Design (LEED) rating system. Implementing the LEED standard will result in energy, water, and waste cost savings in the management of state buildings. In addition to increased energy efficiency and resource conservation, the Green Building Initiative also contributes to meeting the greenhouse gas emission reduction requirements of the California Global Warming Solutions Act of 2006.

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 \$19.6 billion, which is largely derived from special fund revenues, federal funds, and the proceeds of bonds.

DEPARTMENT OF TRANSPORTATION (CALTRANS)

The Budget includes approximately \$13.9 billion for the state's transportation programs. This is an increase of \$2.7 billion over funding available in 2006-07.

Included in this funding is \$1.5 billion for the State Transportation Improvement Program (STIP), \$2.5 billion for the State Highway Operations and Protection Program, \$929 million for the Traffic Congestion Relief Program (TCRP), \$2.1 billion for local streets and roads maintenance

(including \$950 million reflected in the General Government portion of the Budget), and \$1.4 billion for transit projects. The Proposition 42 transfer also is fully funded at an estimated \$1.5 billion and \$182.7 million is included to pay outstanding loans from previous years.

TRANSPORTATION BOND FUNDING

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 authorizes \$19.925 billion over the next 10 years to fund existing and new statewide transportation-related infrastructure programs and projects. Legislation enacted together with the budget further defines how several of these programs will work and includes accountability provisions. The Budget includes \$4.2 billion in 2007-08 as shown in Figure BTH-01.

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

	2007-08
Corridor Mobility	\$608
Local Transit	\$600
State Transportation Improvement Program	\$727
Local Streets and Roads	\$950
State Highway Operation and Protection Program	\$403
Grade Separations	\$123
Highway 99	\$14
Local Seismic	\$14
Intercity Rail	\$188
School Bus Retrofit	\$193
Air Quality	\$250
Transit Security	\$101
Port Security	\$41
Total Appropriations	\$4,212

PROPOSITION 42

Proposition 42, enacted in March 2002, amended the State Constitution to transfer state sales taxes on gasoline, other than revenues calculated under the spillover formula, from the General Fund to transportation purposes beginning in 2003-04. The Budget reflects full Proposition 42 funding of \$1.5 billion, including \$703 million for STIP, \$602 million for TCRP, and \$176 million for the Public Transportation Account (PTA), as provided in existing law. In November 2006, Proposition 1A was enacted to limit the conditions under which Proposition 42 transfers can be suspended and require that all outstanding loans of Proposition 42 funds to the General Fund be repaid in annual increments by June 30, 2016. The Budget fully funds the 2007-08 \$83 million incremental repayment.

MASS TRANSPORTATION

The Budget provides funding for the following transit, rail and planning programs, as reflected in Figure BTH-02.

The Budget reflects the state's major emphasis on infrastructure. The reduction in operating grants reflects several one-time components of funding in 2006-07, including repayment of Proposition 42 loans and a correction in 2007-08 for an overestimate of revenues allocated to this program in 2006-07. Future year amounts for this program are estimated to increase significantly under the provisions of the transportation budget trailer bill.

The Public Transportation Account receives funds from sales tax on diesel fuel, a portion of the sales tax increase provided by Proposition 111, Proposition 42, and the "spillover" sales tax on gasoline. Spillover revenues occur when revenue derived from gasoline sales taxes is proportionately higher

Figure BTH-02
Public Transportation
(Dollars in Millions)

<u>Public Transportation Account</u>		Change Over
<u>Funding</u>	2007-08	2006-07
Planning	\$20	\$0
Intercity Rail Operations	\$111	\$9
Rail Projects	\$36	-\$5
Local Transit Grants	\$316	-\$307
Local Transit Projects	\$632	\$102
<u>Traffic Congestion Relief Program Funding</u>		
Local Mass Transportation Projects	\$548	\$235
State Rail Projects	\$51	-\$21
<u>Proposition 1B Funding</u>		
Transit	\$600	\$600
Rail	\$190	\$190
Transit Security	\$101	\$101
Total	\$2,605	\$904

than revenue derived from all taxable sales pursuant to a statutory formula, and generally reflect higher gas prices. These revenues have been growing at an extremely rapid rate, from \$88.6 million in 2003-04 to \$827 million projected in 2007-08, and are expected to continue to grow to well over \$1 billion by 2010-11. These revenues, in addition to increases in gasoline and diesel fuel sales tax revenues, have enabled the state to fund the following transportation programs in 2007-08 that were previously funded by the General Fund:

- Transportation General Obligation Bond Debt Service (\$948 million)
- Developmental Services-Regional Center Transportation (\$129 million)
- Home-to-School Transportation (\$99 million)

- Proposition 42 Loan Repayment Pursuant to Proposition 1A (\$83 million)

CAPITAL OUTLAY SUPPORT STAFFING

The Budget includes an increase of \$157.7 million and 527 position equivalents, including state staff, overtime and contractual services to provide capital outlay support including bond-related workload in 2007-08.

STATE HIGHWAY OPERATION AND PROTECTION PROGRAM

The Budget provides \$2.5 billion to fund projects in the State Highway Operation and Protection Program that reduce collisions and hazards to motorists, preserve and rehabilitate bridges and roadways, enhance and protect roadsides, and improve the operation of the state highway system. This is an increase of \$189 million over 2006-07.

MAINTENANCE

The Budget provides \$1.1 billion for maintenance of approximately 15,000 centerline miles of highway, over 230,000 right-of-way acres, and over 12,000 state highway bridges. This reflects an increase of \$162 million over 2006-07.

LOCAL STREETS AND ROADS

The Budget provides \$2.1 billion for local streets and roads maintenance, including \$950 million from bonds authorized by Proposition 1B, enacted in November 2006. This is an increase of \$533 million and 34 percent over 2006-07.

RAIL OPERATIONS

The Budget provides \$111 million 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, the San Joaquin and Pacific Surfliner, and financially supports the Capitol Corridor.

HIGH-SPEED RAIL AUTHORITY

The budget provides \$20 million to continue development of the high-speed rail project. Activities include completion of a more detailed and achievable financial plan, and completion of preliminary engineering and environmental studies.

CALIFORNIA HIGHWAY PATROL

The Budget includes \$1.8 billion and 11,214 positions for support of the CHP. This is an increase of \$231.5 million over 2006-07.

PATROL STAFFING EXPANSION

The Budget includes \$16.6 million to add 120 uniformed and 41 nonuniformed positions to address workload growth associated with population growth. The full-year cost for this staff increase is \$20 million.

CALIFORNIA GANG REDUCTION, INTERVENTION AND PREVENTION PROGRAM

The Budget includes \$7 million from the Motor Vehicle Account for the Highway Patrol to provide additional support to local police and sheriff agencies to suppress and prevent gang activities. CHP officers will rotate through 90 day deployments in High Intensity Gang Areas.

REPLACEMENT OF CHP RADIO SYSTEM

The Budget includes \$41.7 million to continue the replacement of the CHP's antiquated radio system. The project is estimated to cost \$481 million over five years to complete, and will substantially improve the CHP's ability to communicate with other state and local emergency personnel.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Budget includes \$1.2 billion (\$15.8 million General Fund) and 599 positions to fund the state's housing assistance programs. This is an increase of \$690.9 million over 2006-07.

PROPOSITION 1C IMPLEMENTATION

The Housing and Emergency Shelter Trust Fund Act of 2006, enacted in November 2006, authorizes \$2.8 billion to improve housing opportunities in the state. The Department of Housing and Community Development awarded \$166 million for existing programs in 2006-07 and expects to make awards totaling \$808 million in 2007-08 for the following program areas:

- Affordable homeownership programs—\$88 million to help families become or remain homeowners.
- Affordable rental housing construction—\$140 million to provide affordable rental housing for the state's lower income workforce, the elderly, disabled, and veterans.
- Housing for farmworkers—\$40 million for new rental housing and affordable home ownership opportunities for farmworker families.

- Permanent housing for the homeless—\$95 million to build permanent housing for the homeless, those transitioning out of homelessness, and emancipated foster care youth.
- Homeless shelter housing—\$10 million to construct and expand shelters of last resort and transitional housing for the homeless.
- Building Equity and Growth in Neighborhoods (BEGIN)—\$40 million for grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes.
- Transit-oriented development—\$95 million to develop and construct new housing close to transit stations.
- Infill Incentive Grants—\$300 million for a competitive-based grant program to construct critical infrastructure that will stimulate the construction of new housing in existing neighborhoods and encourage efficient land use and development.

DEPARTMENT OF CORPORATIONS

The Budget provides \$4 million from the State Corporations Fund for 30 new positions at the Department of Corporations (DOC). The positions will address issues noted in a January 2007 audit of DOC operations conducted by the Bureau of State Audits. Among other things, the audit identified concerns regarding DOC's conduct of statutorily required licensee examinations, and handling of consumer complaints.

Of the 30 positions, 11 will relieve backlogs in the examination of escrow companies, four will be assigned to examine residential lending companies, and eight will conduct examinations of deferred deposit licensees. The remaining seven positions will be assigned to the Enforcement and Education Division, where they will respond to consumer inquiries and complaints.

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RESOURCES

RESOURCES

The Budget provides significant funding for programs that protect California's natural resources for the benefit of current and future generations. These programs not only preserve and restore the state's pristine coastline, unique forests, and diverse fish and wildlife habitat, but also protect the public from wildfires, floods, and other natural disasters. The Budget includes funding for the following new and enhanced activities:

FLOOD PROTECTION

The Disaster Preparedness and Flood Prevention Bond Act of 2006 (Proposition 1E) authorized \$4.1 billion in general obligation bonds for levee repair and other flood control system improvements. This proposition was part of a coordinated effort to address California's infrastructure needs, and it reflected a recognition that California's aging levees and other flood control infrastructure are in urgent need of repair and improvement. Proposition 1E provides the following amounts in total:

- \$3.0 billion for Central Valley flood control system repairs and improvements

RESOURCES

- \$500 million for flood control subventions outside the Central Valley
- \$300 million for stormwater flood management outside the Central Valley
- \$290 million for flood protection corridors and bypasses and floodplain mapping

To address the state’s urgent flood control needs, the Budget appropriates a total of \$774.4 million from Proposition 1E and from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84). These funds will be used to continue the repair and evaluation of critical levees, provide subventions to help local governments protect their communities from flooding, and further develop the state’s strategic flood management capability.

PROPOSITION 84

Proposition 84, also approved by the voters in November 2006, authorized \$5.4 billion in general obligation bonds for various resource protection purposes. Specifically, Proposition 84 will provide the following amounts:

- \$1.5 billion for drinking water and water quality projects
- \$800 million for flood control
- \$65 million for water planning and project design
- \$928 million for protection of rivers, lakes, and streams
- \$450 million for forest and wildlife conservation
- \$540 million for protection of beaches, bays, and coastal waters

- \$500 million for parks and nature education facilities, including construction of new facilities and renovation and rehabilitation of existing facilities
- \$580 million for sustainable communities and climate change reduction

The Budget appropriates \$1 billion in Proposition 84 funds for expenditure in 2007-08, including \$859 million for programs administered by the Resources Agency. Some important uses of those funds are highlighted below.

OCEAN PROTECTION

California has placed a high priority on developing comprehensive programs to protect our increasingly threatened marine resources. Under this Administration, \$20 million in one-time funding and \$10.6 million in ongoing annual funding has been spent to create marine protected areas, ensure sustainable fisheries, and regulate marine industries.

Proposition 84 allocates a total of \$90 million specifically for ocean protection. This will sustain and enhance marine protection and management programs in coming years, and ensure the development of additional marine protected areas and additional management plans for marine species. The Budget appropriates the first \$28.1 million for this purpose in 2007-08.

SIERRA NEVADA CONSERVANCY

The Sierra Nevada Conservancy was established by statute in 2004 to initiate, encourage, and support efforts to improve the environmental, economic, and social well-being of the Sierra Nevada Region. Proposition 84 allocates \$54 million to the

Conservancy for the protection of rivers, lakes, and streams in the Sierra Nevada region, along with their watersheds and associated land, water, and other natural resources. The Budget appropriates \$17.5 million to the Conservancy in 2007-08.

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

The Budget provides funding for a variety of boards, departments, and offices that engage in efforts intended to protect California's environment. These efforts focus on improving air and water quality; reducing and controlling landfill and hazardous waste; and protecting human health and the health of natural ecosystems from toxic spills and pesticides. The following represent significant new efforts:

CLIMATE CHANGE

The Budget provides \$23.7 million and 125 positions for the Air Resources Board (Air Board) to continue the implementation of AB 32, the California Global Warming Solutions Act. The Air Board will use these positions to evaluate greenhouse gas (GHG) emissions reduction opportunities. The major activities that the Air Board will engage in include the following:

- Emissions Inventory Development and Mandatory Reporting—This effort will identify the major sources of GHG emissions in California.
- Emissions Reduction Scoping Plan—The Air Board will evaluate the cost-effectiveness and technological feasibility of all feasible GHG reduction strategies, analyze economic and other impacts, and ultimately make recommendations for a series of actions.

- **Early Action Measures**—The Air Board will implement approved early action measures and evaluate additional actions that can accelerate the reduction in GHG emissions.
- **Scientific and Economic Analysis**—Technical analyses will be conducted to support the GHG reduction effort, and to identify measures that also produce environmental and economic benefits for California.
- Additionally, 4.0 positions have been approved to enhance the ability of the Secretary of the California Environmental Protection Agency to continue her role administering the Climate Action Team (CAT). Through the operation of the CAT, the Secretary ensures effective coordination of California's climate change activities.

PROPOSITION 1B IMPLEMENTATION

Proposition 1B provides \$1 billion to fund projects intended to improve air quality along four of California's major transportation corridors: from the Los Angeles ports to the Inland Empire, State Route 99 in the Central Valley, the San Francisco Bay area, and the San Diego border region. The Budget Act contains \$250 million for the Air Board to award during 2007-08.

Proposition 1B also provides \$200 million to replace older, higher-polluting school buses. The Budget contains \$193 million to be awarded in 2007-08 for this purpose.

HYDROGEN HIGHWAY

The Budget includes \$6.03 million from the Motor Vehicle Account (MVA) and 7.7 positions for the Governor's Hydrogen Highway Initiative, which promotes the use of

hydrogen as a means of diversifying California's sources of transportation energy. The funds will be used to provide matching funds for up to eight publicly accessible hydrogen fueling stations. The Air Board will give priority for funding to stations that generate hydrogen from renewable technologies such as biomass, solar, and wind energy.

PROPOSITION 84—WATER QUALITY

Proposition 84 provides \$5.4 billion to address a wide array of natural resource and environmental protection needs. The Budget provides \$105.3 million to the State Water Resources Control Board (Water Board), to be used for the following programs:

- \$75.7 million and 8 positions for the State Water Pollution Control Revolving Fund Program, which provides low-interest loans or grants to construct municipal wastewater treatment facilities as well as other water pollution control or mitigation projects. This funding will enable local projects to obtain federal matching funds.
- \$6.2 million and 1.5 positions for the Agricultural Water Quality Grant Program, which provides grants to public agencies or nonprofit organizations to improve agricultural water quality.
- \$14.6 million and 3 positions for the Urban Storm Water Grant Program, which provides grants to local public agencies for projects that contain stormwater runoff, such as facilities that divert the runoff to treatment plants.
- \$8.8 million and 5.7 positions for the Clean Beaches Grant Program, which provides grants to public agencies for water quality projects in coastal waters, estuaries

and bays. Projects include septic system upgrades, stormwater pollution reduction programs, and clean beach projects in Santa Monica.

BROWNFIELDS

Brownfields are abandoned industrial or commercial properties that are contaminated by hazardous materials. Typically, brownfields are located in urban areas on land that would otherwise be valuable for infill residential or business uses. In order to return these properties to usable condition, various cleanup activities are required, and the state plays a critical role in overseeing the cleanup efforts.

The Water Board and the Department of Toxic Substances Control administer voluntary brownfield cleanup programs to assist local governments and private developers in the cleanup of brownfield sites. The Budget includes \$3.1 million Cleanup and Abatement Account and 25.1 positions for the Water Board to accelerate the cleanup of approximately 750 brownfield sites. The Budget also includes \$219,000 and 1.9 positions for the Department of Toxic Substances Control to implement three brownfields-related measures signed into law in 2006: SB 354 (Chapter 523), SB 989 (Chapter 510), and AB 2144 (Chapter 562).

BIOMONITORING

Biomonitoring is a method of assessing human exposure to chemicals based on sampling and analysis of an individual's tissues and fluids. The results of these measurements provide information about the amounts of chemicals that enter and remain in the body. By monitoring the levels of chemicals in a given population, scientists may be able to identify high levels

of chemical exposure in a community. If that exposure can then be linked to specific sources, mitigation may be possible.

Chapter 599, Statutes of 2006 established the California Environmental Contaminant Biomonitoring Program.

The Budget contains \$5.2 million General Fund for the first year of biomonitoring activities. The funding will be divided among the Department of Toxic Substances Control (\$1.6 million), the Office of Environmental Health Hazard Assessment (\$0.4 million), and the Department of Public Health (\$3.2 million).

HEALTH AND HUMAN SERVICES

Health and human services programs provide essential medical, dental, mental health and social services to many of California's most vulnerable and at-risk residents. The Budget reflects the Administration's efforts to maintain a strong and responsible safety net for California's residents, guided by an overall vision which ensures that residents are protected against and prepared for natural and intentional disasters, that Californians have access to affordable health care coverage, that children are raised in safer, more stable, and permanent homes, that persons with developmental disabilities are given opportunity to work in the community, and that seniors and persons with disabilities live in the most integrated and appropriate community setting.

REDUCTIONS TO BUILD A PRUDENT FISCAL RESERVE

In order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year, the Budget includes reductions in various areas, including Health and Human Services programs. These reductions were selected using criteria such as minimizing

the impact to services and preserving entitlements and other nondiscretionary activity.

- A decrease of \$331.9 million General Fund in the DHCS Medi-Cal estimate. This reduction is based on historical data showing that on average over the last three fiscal years, Medi-Cal expenditures have fallen short of the estimate by more than \$400 million General Fund.
- Deletion of one-time funding of \$106.3 million (\$53.1 million General Fund) in the DHCS that was intended to fund Medi-Cal managed care rates.
- Elimination of a total of \$32.1 million (\$15.4 million General Fund), on a one-time basis, in the DHCS, the DPH, and the Managed Risk Medical Insurance Board to delay implementation of a pilot program for self-certification of income at enrollment for Medi-Cal and development of feasibility study reports related to information technology system changes proposed by Chapter 328, Statutes of 2006 (SB 437). This reduction will result in a delay of one year in implementing the bill.
- A reduction of \$34.6 million (\$15 million General Fund) for the county grants portion of the Children's Outreach initiative in Medi-Cal and the Healthy Families Program. With this reduction, \$147 million (\$64.7 million General Fund) remains to fund other components of the initiative that streamline enrollment processes, improve retention, and support county-based enrollment efforts for children and associated caseload increases.
- A reduction of \$54.9 million General Fund for the Integrated Services for Homeless Adults with Serious Mental Illness Program. To the extent counties find

this program beneficial and cost-effective, it can be restructured to meet the needs of each county's homeless population using other county funding sources, such as federal funds, Realignment funds, or Proposition 63 funds.

DEPARTMENT OF HEALTH CARE SERVICES

The Budget includes total Medi-Cal expenditures of \$37 billion (\$14.3 billion General Fund), an increase of \$1.6 billion (\$642.2 million General Fund) over the revised 2006 Budget Act. The average monthly Medi-Cal caseload is expected to be 6,586,211 beneficiaries in 2007-08. This represents an increase of 0.8 percent above the revised 2006 Budget Act level.

NEW RATE METHODOLOGY FOR MEDI-CAL MANAGED HEALTH CARE PLANS

The Budget includes \$108 million (\$54 million General Fund) to provide rate adjustments to the Medi-Cal managed health care plans as determined by a new rate methodology, which will be implemented at the beginning of each plan's new rate year. These plans play a crucial role in ensuring adequate access to health care for vulnerable Californians, serving approximately 3.2 million Medi-Cal beneficiaries each year.

INCREASE RATE REIMBURSEMENTS FOR LONG-TERM CARE FACILITIES

The Budget includes \$146.3 million (\$73.1 million General Fund) for a 5.5-percent rate increase to freestanding level B nursing homes and adult sub-acute care facilities that provide long-term care to Medi-Cal beneficiaries.

**IMPLEMENTATION OF FEDERAL DEFICIT
REDUCTION ACT CITIZENSHIP REQUIREMENTS**

The Budget includes \$50.8 million (\$25.4 million General Fund) and 3.8 positions to focus on implementing new federal requirements under the Deficit Reduction Act of 2005. Of this amount, \$50.4 million (\$25.2 million General Fund) is for county administrative activities.

HUMAN PAPILLOMAVIRUS VACCINATIONS (HPV)

The Budget includes \$11.1 million (\$5.6 million General Fund) in 2007-08 to provide HPV to approximately 52,000 Medi-Cal-eligible women ages 19 through 26. The United States Food and Drug Administration recently approved this new vaccine, which has been shown to reduce the risk of contracting cervical cancer by up to 70 percent.

NURSING FACILITY A/B WAIVER CAP INCREASE

The Budget includes \$6.1 million (\$3 million General Fund) to increase the waiver cap for the Nursing Facility A/B waiver. This is a federal home- and community-based services waiver that provides services and support to Medi-Cal beneficiaries to allow them to remain safely in their homes and avoid institutional placements. These services are a critical component of the state's efforts to implement the Olmstead court decision.

ADULT DAY HEALTH CARE REFORM

The Budget includes \$2.6 million (\$1.2 million General Fund) and 36 positions to phase in 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).

DEPARTMENT OF PUBLIC HEALTH

The Budget includes \$3.1 billion (\$390.7 million General Fund) for the Department of Public Health (DPH).

BIOMONITORING

The Budget includes \$3.2 million General Fund and 7.6 positions to implement the Environmental Contaminant Biomonitoring Program pursuant to Chapter 599, Statutes of 2006 (SB 1379). This funding will support a contract to develop a sampling design and establish parameters for this program, and hire staff and purchase equipment to establish laboratory protocols for the test design, field sampling, and the accelerated implementation of this program. This is a collaborative effort that also includes \$1.6 million for the Department of Toxic Substances Control and \$380,000 for the Office of Environmental Health Hazard Assessment.

PROPOSITION 84

The Budget includes \$47.3 million Proposition 84 bond funds and 15.7 two-year limited-term positions to administer a program to provide emergency and infrastructure improvement grants and grants and loans for drinking water projects.

GENETIC DISEASE

The Genetic Disease Screening Program, within the Center for Family Health, screens newborns and pregnant women for genetic and congenital disorders in a cost-effective and clinically efficient manner. The screening programs provide testing, follow-up and early diagnosis of disorders to prevent adverse outcomes or minimize the clinical effects of such disorders. The Budget includes \$118.4 million from the Genetic Disease Testing Fund, a net increase of \$20.7 million above the Budget Act of 2006. The Budget

includes \$4.2 million from the Birth Defects Monitoring Fund, \$16.1 million from the Genetic Disease Testing Fund and 5.7 positions to implement Chapter 484, Statutes of 2006 (SB 1555), which expands research efforts and prenatal screenings for birth defects.

FOODBORNE ILLNESS

The Budget includes \$903,000 General Fund and 4.7 positions to enhance the state's capabilities to respond to foodborne illnesses and outbreaks such as E. coli. These resources will allow the DPH to quickly respond to and investigate the source of future outbreaks.

AIDS DRUG ASSISTANCE PROGRAM

The Budget includes \$288.9 million to fully fund the AIDS Drug Assistance Program (ADAP). ADAP provides life-saving medications to low-income persons living with HIV/AIDS.

Drugs provided by ADAP have been shown to prolong quality of life and delay the deterioration of health among individuals living with HIV. The ADAP will serve nearly 32,905 clients in 2007-08.

HIV/AIDS CARE AND TREATMENT PROGRAMS

As a result of additional drug rebate revenues, the Budget reflects one-time General Fund savings of \$9.3 million and a one-time redirection of \$7.8 million General Fund to other HIV care and treatment programs. The one-time redirection of General Fund will better meet the needs of persons living with HIV, while ensuring that the state maintains compliance with federal maintenance-of-effort requirements and continues to receive federal Ryan White HIV/AIDS Treatment Modernization Act funds totaling approximately \$122 million

in 2007-08. The Budget includes redirected funding for the following programs:

- \$4 million for the Therapeutic Monitoring Program to provide more than 33,000 viral load and resistance tests to approximately 17,000 clients.
- Up to \$1.8 million to backfill the expected loss of federal funds to designated Eligible Metropolitan Areas or Transitional Grant Areas.
- \$1.5 million for the AIDS Regional Information and Evaluation System, a web-based case management system that supports client access to care and treatment.
- \$500,000 to support the development and delivery of capacity-building activities.

HIV REPORTING

The Budget includes \$2 million General Fund to provide additional local assistance funding to increase surveillance staff for HIV reporting activities. This funding will accelerate the state's implementation of names-based HIV reporting, which is critical for the state's continued receipt of \$50 million in federal grants to support critical services for persons living with HIV.

LICENSING AND CERTIFICATION

The Budget includes \$83.6 million (\$9.1 million General Fund) for Licensing and Certification (L and C) activities including:

- \$2.8 million General Fund to help offset L and C fee increases to facilities.
- \$7.2 million L and C Program Fund and 42.7 positions to implement Chapter 647, Statutes of 2006 (SB 1301)

related to the reporting of and follow up on adverse events in hospitals.

- \$2.5 million L and C Program Fund and 15.2 positions to conduct periodic licensing surveys of long-term care facilities, pursuant to Chapter 895, Statutes of 2006 (SB 1312).
- \$0.7 million (\$0.4 million L and C Program Fund and \$0.4 million Federal Funds) and 5.7 positions to provide legal and administrative support for the 155.5 new L and C staff included in the 2006 Budget Act.
- \$0.2 million and 1.4 positions in the DPH and \$0.5 million (\$0.3 million General Fund) and 4.3 positions in the DHCS to ensure hospitals apply fair pricing to uninsured and underinsured patients, pursuant to Chapter 755, Statutes of 2006 (AB 774).

MANAGED RISK MEDICAL INSURANCE BOARD

HEALTHY FAMILIES PROGRAM

The Budget includes Healthy Families Program (HFP) expenditures of \$1.1 billion (\$398.7 million General Fund), an increase of \$93.6 million (\$36.5 million General Fund) above the revised 2006 Budget Act level. Year-end caseload is expected to reach 908,912 children, an increase of 64,629 children compared to 844,283 in 2006-07.

ENROLLING ELIGIBLE CHILDREN IN HEALTH COVERAGE

The Budget includes \$63.6 million (\$22.7 million General Fund) to continue program changes that promote and maximize enrollment in the HFP, improve retention of children

already enrolled, and support county-based efforts to enroll eligible children. These changes include streamlining of the application process, providing incentives to Certified Application Assistants, and developing an electronic application (known as Health-e-App) for public use. These changes are expected to increase HFP enrollment by over 38,900 children.

ACCESS FOR INFANTS AND MOTHERS PROGRAM

The Budget includes Access for Infants and Mothers (AIM) program expenditures of \$133.2 million, an increase of \$8.8 million above the revised 2006 Budget Act level. Enrollment is expected to reach 13,912 women, an increase of 1,815 women compared to 12,097 in 2006-07.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Budget includes \$4.4 billion (\$2.6 billion General Fund) for the Department of Developmental Services (DDS), an increase of \$289.9 million (\$93.9 million General Fund) above the revised 2006-07 budget. Total caseload is expected to reach 221,840 consumers in 2007-08, compared to 214,057 in 2006-07.

DEVELOPMENTAL CENTERS

The Budget provides \$720.3 million (\$391.5 million General Fund) for developmental centers, a net decrease of \$14.2 million (\$14.8 million General Fund) from the revised 2006-07 budget, primarily due to a reduction in the developmental center population as consumers transition into the community. The Budget supports a population of 2,610, a decrease of 267 consumers from 2006-07.

AGNEWS DEVELOPMENTAL CENTER CLOSURE

The Budget continues to provide funding to achieve the authorized closure of Agnews Developmental Center in June 2008 and includes a decrease of \$12 million (\$9.3 million General Fund) due to the anticipated movement of 188 consumers from Agnews into the community and the movement of an estimated 10 consumers to other developmental centers. The regional centers' budget is projected to increase by \$45.1 million (\$30.3 million General Fund) for the costs of providing services to the additional consumers in the community. The Budget includes \$1 million redirected from the Wellness Initiative grant to provide two mobile health clinics which will provide services in the Golden Gate Regional Center, Regional Center of the East Bay, and San Andreas Regional Center catchment areas to help ensure the continuity of health care as Agnews consumers transition into the community.

REGIONAL CENTERS

The Budget includes \$3.6 billion (\$2.2 billion General Fund) for regional centers, a net increase of \$302.9 million (\$107.6 million General Fund) above the revised 2006-07 budget, primarily due to increases in the costs of community care facilities, day programs, support services, miscellaneous services and the increase in the minimum wage. The Budget supports a population of 219,230, an increase of 8,050 consumers above 2006-07. The Budget also includes \$503,000 (\$126,000 General Fund) to provide health care community specialists to facilitate the transition of Agnews consumers into residential placements and to act as coordinators between the health care plans, consumers, families and other community-based services.

SALARY ADJUSTMENTS FOR CLINICAL HEALTHCARE CLASSIFICATIONS

The Budget includes salary adjustments for clinical staff that provide direct care services to DDS consumers. These adjustments are in response to the following court decisions:

- Salary Enhancements for Medical Services Personnel (Plata Case)—The Budget includes an increase of \$12.6 million (\$7.4 million General Fund) to bring salaries for classifications providing medical services to within 18 percent of the Plata court-ordered salaries for the same classifications at the California Department of Corrections and Rehabilitation. This will allow hiring and retention of medical staff at the developmental centers.
- Salary Enhancements for Dental Staff (Perez Case)—The Budget includes an increase of \$1.3 million (\$747,000 General Fund) in order to provide salary increases to all budgeted Department of Developmental Services dental staff to retain existing staff and enhance the recruitment of additional staff.
- Salary Enhancements for Mental Health Personnel (Coleman Case)—The Budget includes an increase of \$7.2 million (\$4.2 million General Fund and \$3 million reimbursements) to fund salary increases for impacted mental health classifications to improve hiring and staff retention at the developmental centers.

MINIMUM WAGE INCREASE

On January 1, 2007, California's minimum wage increased by \$0.75 to \$7.50 per hour. This increase impacts entry-level direct care staff who provide services in community care facilities, day and work activity programs and respite care.

The Budget reflects costs of \$53.3 million (\$37.2 million General Fund) in 2007-08 to fund this increase. On January 1, 2008, California’s minimum wage will increase by an additional \$0.50 to \$8.00 per hour. The Budget also includes \$18.1 million (\$12.6 million General Fund) to fund this increase.

DEPARTMENT OF MENTAL HEALTH

The Budget includes \$4.8 billion (\$1.9 billion General Fund) for the Department of Mental Health (DMH), an increase of \$1.2 billion (\$48.7 million General Fund) from the revised 2006 Budget Act level. This net change primarily reflects continued growth in Mental Health Services Act (Proposition 63) funding, the Early and Periodic Screening, Diagnosis and Treatment Program, the impact of Proposition 83 (Jessica’s Law), and elimination of the Integrated Services for Homeless Adults with Serious Mental Illness program.

STATE HOSPITALS

The Budget includes \$1.2 billion (\$1.1 billion General Fund) and 10,445 positions for 2007-08, an increase of \$137.4 million (\$110.2 million General Fund) and 821.2 positions from the revised 2006-07 budget. This funding will support a total population of 6,095, an increase of 506 patients from the revised 2006-07 population level. This includes an increase of \$4.3 million General Fund to contract for competency restoration services at the local level. Contracting for local mental health beds will expand services and address state hospital capacity issues.

SALARY ADJUSTMENTS FOR CLINICAL HEALTHCARE CLASSIFICATIONS

The Budget includes salary adjustments for clinical staff that provide direct care services to patients at the state hospitals and psychiatric programs. These adjustments are in response to the following court decisions:

- **Salary Enhancements for Medical Services Personnel (Plata Case)**—The Budget includes an increase of \$7.1 million (\$6.9 million General Fund) to bring salaries for classifications providing medical services to within 18 percent of the Plata court-ordered salaries for the California Department of Corrections and Rehabilitation. This will allow hiring and retention of medical staff at state hospitals.
- **Salary Enhancements for Dental Staff (Perez Case)**—The Budget includes an increase of \$1.6 million General Fund in order to provide salary increases to DMH dental staff to retain existing staff and enhance the recruitment of additional staff.
- **Salary Enhancements for Mental Health Personnel (Coleman Case)**—The Budget includes an increase of \$5.5 million General Fund to increase the salaries of the same classifications of staff working in DMH psychiatric programs operating within Salinas Valley State Prison and the California Medical Facility at Vacaville. The Budget also includes \$35.5 million (\$34.7 million General Fund) to fund salary increases for impacted mental health classifications to improve hiring and staff retention at the state hospitals.

COMMUNITY MENTAL HEALTH SERVICES

The Administration recognizes the importance of providing mental health services in communities to reduce institutionalization. The Budget includes \$3.5 billion (\$776.8 million General Fund), an increase of \$1.1 billion (a decrease of \$72.9 million General Fund) compared to the revised 2006-07 budget for community mental health services.

EARLY AND PERIODIC SCREENING, DIAGNOSIS AND TREATMENT (EPSDT) PROGRAM

The Budget includes \$1 billion (\$454 million General Fund) for EPSDT, a decrease of \$37 million (an increase of \$47.8 million General Fund) from the revised 2006-07 budget. In addition, \$86.7 million General Fund is available to begin reimbursing counties for prior years' costs, which will be repaid over a three-year period commencing in 2007-08. Under this program, approximately 186,000 Medi-Cal-eligible children and young adults receive services to ameliorate a diagnosed mental illness.

EARLY MENTAL HEALTH INITIATIVE (EMHI)

The Budget includes a \$5 million increase in Proposition 98 General Fund to augment the EMHI program, which provides grants to local education agencies for supportive, non-clinical mental health intervention and prevention services to children (grades K-3) who have mild or moderate school adjustment difficulties. This augmentation will increase total program funding to \$15 million in 2007-08.

DEPARTMENT OF CHILD SUPPORT SERVICES

RESTORING THE LOSS OF FEDERAL FUNDS

Effective October 1, 2007, the federal Deficit Reduction Act of 2005 (DRA) eliminated California's ability to claim federal matching funds for earned federal incentive payments.

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

DEPARTMENT OF SOCIAL SERVICES

The Budget includes \$19.1 billion (\$9 billion General Fund) for the Department of Social Services, an increase of \$698.3 million (a decrease of \$222.1 million General Fund) from the revised 2006 Budget Act level.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$7.2 billion. Caseload is projected to decrease by a modest amount after many consecutive years of decline. The revised caseload projections are 461,200 cases in 2006-07 and 457,500 in 2007-08.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT PROGRAM

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are \$3.7 billion in 2007-08, an increase of \$118.7 million

from the revised 2006 Budget Act level. The average monthly caseload in this program is estimated to increase to 1.3 million recipients, a 1.8-percent increase over the 2006-07 projected level.

The Budget provides a pass-through of the federal cost-of-living adjustment (COLA) for the SSI/SSP program on January 1, 2008, which will increase the monthly grant payment levels from \$856 for aged or disabled individuals and from \$1,502 for aged or disabled couples to \$870 and \$1,523 respectively. The Budget delays provision of the state SSI/SSP COLA from January 2008 to June 2008. On June 1, 2008, monthly grant payment levels will increase to \$888 for aged or disabled individuals and to \$1,558 for aged or disabled couples. California's SSI/SSP payment levels for individuals and couples are projected to maintain rankings of second and first in the nation, respectively.

IN-HOME SUPPORTIVE SERVICES

Total General Fund expenditures for the In-Home Supportive Services (IHSS) program are \$1.6 billion in 2007-08, an increase of \$97.1 million from the revised 2006 Budget Act level. The average monthly caseload in this program is estimated to increase to 389,100 recipients, a 5.1-percent increase over the 2006-07 projected level. Effective July 1, 2007, state participation in IHSS provider wages and health benefits increased from \$11.10 per hour to \$12.10 per hour, based on the projected growth of General Fund revenues.

CHILD WELFARE SERVICES

The child welfare services system in California provides a continuum of services through programs, including Child

Welfare Services, Child Abuse Prevention, Foster Care, Adoption Assistance, and Adoptions to children who are either at risk of or have suffered abuse and neglect. The Budget includes \$4.1 billion (\$1.6 billion General Fund) to provide assistance payments and services to children and families under these programs. This is a \$176.4 million, or a 4.5-percent increase, from the revised 2006 Budget Act level. Major investments in the child welfare system include:

- An increase of \$3.7 million (\$2 million General Fund), effective February 1, 2008, to double the reimbursement rate for non-profit private adoption agencies that specialize in finding permanent homes for children with high needs.
- An increase of \$17.2 million (\$9.6 million General Fund), effective January 1, 2008, to provide a 5-percent increase to foster family home base rates, specialized care increments, and group home rates; Adoption Assistance Program cases prospectively; and all Kin-GAP and Emergency Assistance cases.
- An increase of \$30.8 million (\$15.2 million General Fund) to create a standard rate paid to foster care and adoptive families who care for children with developmental disabilities. These children are served by both the Department of Social Services and the Department of Developmental Services. The effect of this change will be an expedited and streamlined process for families accessing services through this program. Under this change, the vast majority of families will receive a rate increase and no family will see a decrease. Children will continue to receive all necessary services

related to their developmental disability through the regional center system.

- An increase of \$20.2 million General Fund to increase participation in the Transitional Housing Plus Program, which provides services to youth between 18 and 24 years of age emancipating from the foster care system.

CORRECTIONS AND REHABILITATION

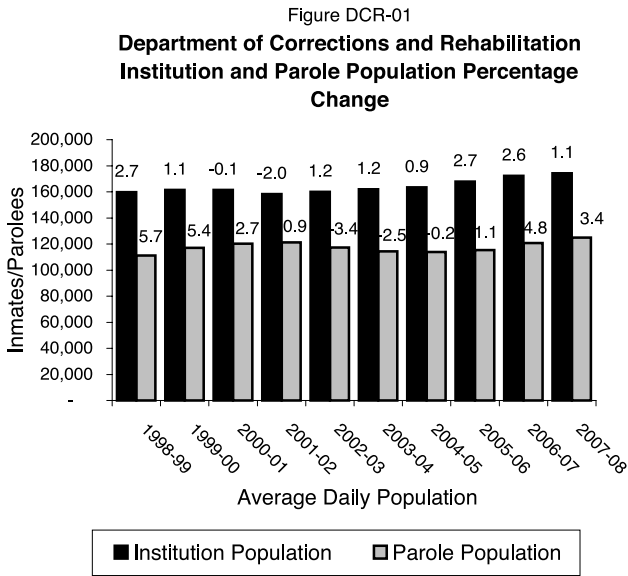
The 2007 Budget Act includes total funding of approximately \$9.7 billion General Fund for the California Department of Corrections and Rehabilitation (CDCR) programs. The following represents the significant funding issues included in the 2007 Budget Act for the CDCR:

Adult Prison Population—Adult prison inmate average daily population is projected to increase from 172,369 in 2006-07 to 174,300 in 2007-08, an increase of 1,931 inmates, or 1.1 percent. In 2007-08, incarceration services will be provided through 33 institutions, 12 reception centers, 40 camps, 12 community correctional facilities, and up to eight out-of-state correctional facilities.

Adult Parole Population—Adult parolee average daily parole population is projected to increase from 120,717 in 2006-07 to 124,862 in 2007-08, an increase of 4,145 or 3.4 percent.

Figure DCR-01 shows the percentage change in adult inmate and parole population.

Local Assistance—The Budget provides an additional \$16.9 million to fairly reimburse local jurisdictions for the cost of prosecuting crimes committed in state prison by adult



inmates, for housing parole violators, and for various other county services related to state inmates.

Juvenile Institution and Parole Population—The projected juvenile offender institution population will be 1,963 on June 30, 2008, which is a decrease of 487 from the population of 2,450 on June 30, 2007. The parole caseload is projected to be 2,068 by June 30, 2008, which is a decrease of 697 cases from a caseload of 2,765 on June 30, 2007. These projections reflect population declines as a result of shifting the responsibility of housing and supervising non-serious and non-violent juvenile offenders from the Division of Juvenile Justice and the Division of Juvenile Parole Operations to local jurisdictions, beginning September 1, 2007. These juvenile offenders can benefit from rehabilitative programs within their communities and be closer to potential support networks.

In addition to the Youthful Offender Block Grant, the Budget includes \$100 million in lease-revenue bonds to finance the acquisition, design, renovation, or construction of local juvenile facilities in order to ensure that local jurisdictions have adequate capacity and program space to house and serve juvenile offenders.

Youthful Offender Block Grant—The Budget includes \$24 million to provide counties with resources to provide housing and services to juvenile offenders that, due to changes in state law, will no longer be housed in Division of Juvenile Justice facilities or supervised by the Division of Juvenile Parole Operations and will now be the responsibility of local jurisdictions.

Implementation of AB 900 (Chapter 7, Statutes of 2007)—On May 3, 2007, the Governor signed AB 900, which takes important steps to address California’s prison overcrowding crisis. AB 900 emphasizes expanding rehabilitative programs and measuring outcomes through performance goals to reduce the high rate of recidivism among adult offenders, and appropriates \$50 million for additional rehabilitative programming activities.

In addition to enhanced programmatic resources, AB 900 also authorizes the construction of infill beds, secure reentry facilities, local jail beds, and health care facilities, and allows the CDCR to transfer inmates to out-of-state correctional facilities for up to four years. AB 900 authorizes over \$6.1 billion in lease-revenue bonds to build infill beds, reentry facility beds, and health care beds, and authorizes \$1.2 billion in lease-revenue bonds to create additional county jail beds.

AB 900 also appropriates \$300 million to make infrastructure improvements at state prisons.

The Budget includes \$11.9 million, comprised of \$2.4 million General Fund and \$9.5 million in Reimbursement authority, for the CDCR's Office of Facilities Management and Support Services Division to address workload associated with these prison construction projects. The Budget also includes \$1.7 million General Fund for the Corrections Standards Authority to administer the local jail bed construction grants authorized by AB 900. These resources are necessary to ensure that these critical infrastructure projects are effectively managed and standards of quality and accountability are not compromised.

Recidivism Reduction Strategies—The Budget includes \$90.1 million for inmate education programs, community partnerships, parolee services, institutions rehabilitative and treatment programs, and research and support services. This funding represents a comprehensive approach to inmate and parolee programming by providing program enhancements and community services to both male and female inmates, and parolees.

Teacher Vacancies—The Budget includes \$13.9 million to fill vacant teacher positions in adult institutions. By filling teacher vacancies, the CDCR will be able to provide educational and vocational services to an additional 6,000 inmates.

Comprehensive Sex Offender Management—The Budget includes \$106 million for the Department to implement Proposition 83 (also known as Jessica's Law) and various recommendations of the Governor's High Risk Sex Offender Task Force. The Budget provides resources for Global

Positioning System monitoring of all paroled sex offenders as well as lower caseload ratios for parole agents who supervise this population. In addition, the Budget provides funding for treatment of paroled High Risk Sex Offenders, enhanced training for parole agents and additional funds for inmate screenings, and resources to address various community issues associated with this population.

Fresno Family Foundation Program—The Budget includes \$2.1 million to activate the Fresno Family Foundation Program, a 35-bed community-based program for female offenders. This program will serve women who are non-serious, non-violent offenders with histories of substance abuse and who are pregnant or parenting a child under the age of six.

Strategic Offender Management System—The Budget includes \$3.6 million for the Strategic Offender Management System (SOMS). The SOMS is an integrated offender database which will track offender institutional data and parole data. The SOMS will allow the Department to track and manage their inmate and parole population and access the data from any location. SOMS will support the CDCR in providing a correctional system that is evidence based.

Consolidated Information Technology Infrastructure Project—The Budget includes \$114.1 million in 2007-08 for the Consolidated Information Technology Infrastructure Project (CITIP). This appropriation is offset by an estimated \$86 million in savings associated with financing the project through GS \$mart. The CITIP will consolidate the Department's information technology infrastructure and provide the basic network infrastructure for other information technology projects approved by the Legislature. GS \$mart

is the state's vehicle for lease-purchase financing and offers tax-exempt rates which are usually less costly than commercial lending rates.

Facility Maintenance—The Budget includes \$36 million General Fund to augment the CDCR's \$190.1 million baseline budget for maintenance and special repairs. The funding provides for the establishment of regional heating ventilation and air conditioning maintenance teams, the maintenance of transformers, generators and high-voltage switchgear, strike teams to undertake ongoing preventative maintenance for facility roofs, electric fence system repairs replacement, repair and replacement of roads and parking lots, and other critical facility maintenance issues.

Adult Probation Pilot Projects—The Budget includes \$10 million to support two one-time probation pilot projects in order to test models for reducing the number of probationers who eventually come to state prisons.

Juvenile Justice Operational Master Plan—The Budget includes \$600,000 for the State Commission on Juvenile Justice to develop a Juvenile Justice Operational Master Plan. Contracting with a national expert or national experts from the Farrell expert panel and working in conjunction with local government, the Plan is to address the juvenile justice continuum throughout the state.

Perez v. Tilton—The Budget includes \$79.2 million to comply with the requirements of the Perez v. Tilton lawsuits. This is to rollout Phase IV of the Inmate Dental Services Program in response to the stipulation reached in settlement of the dental class action lawsuit Perez v. Tilton, to provide additional

headquarters staffing within the Dental Program, and to provide increased salaries for various dental classifications.

Coleman v. Schwarzenegger—The Budget includes \$121.4 million to comply with the requirements of the Coleman v. Schwarzenegger lawsuits. This is to provide funding to retrofit mental health cells to help prevent suicides, staff a new 50 Mental Health Crisis Bed unit at California Medical Facility, implement the Reception Center Enhanced Outpatient Program in order to comply with Federal Court mandates, implement the Revised Program Guide for the Mental Health Services Delivery System, and to provide for increased salaries for selected mental health classifications.

Plata v. Schwarzenegger—The Budget includes \$125 million in unallocated funding for the Receiver in 2007-08.

The \$125 million is intended to address costs associated with the California Prison Health Care Receivership Corporation operational budget, coordinated activities undertaken by the Coleman, Perez, and Plata courts, potential but unknown additional health care guarding and transportation costs, and unidentified Receiver-driven activities within the medical program. This is in addition to the \$200.8 million already built into the Budget to address costs associated with salary enhancements, the establishment of various medical positions, and additional medical equipment.

Farrell v. Tilton Mental Health Remedial Plan—The Budget includes \$3.8 million to adjust the staffing level in the Intensive Behavior Treatment Program (IBTP) in the Division of Juvenile Justice due to the reduction of program unit sizes, as approved in the final Mental Health Remedial Plan. In addition, this funding adds a Youth Correctional Counselor to each

classroom during educational services for juvenile offenders housed in IBTP's.

Incarceration of Undocumented Felons—The Budget estimates that California will receive approximately \$114.1 million in federal State Criminal Alien Assistance Program funding in 2007-08. The CDCR's costs in 2007-08 are estimated to increase to \$897.3 million, an increase of 5.6 percent over the 2006-07 level. As such, the state will be reimbursed for only 12.7 percent of the costs associated with the incarceration, including debt service, of the undocumented felon population, with \$783.2 million in costs in excess of the level of federal reimbursements.

The Administration will continue to aggressively pursue all strategies designed to maximize federal funding for the incarceration of undocumented felons.

K THRU 12 EDUCATION

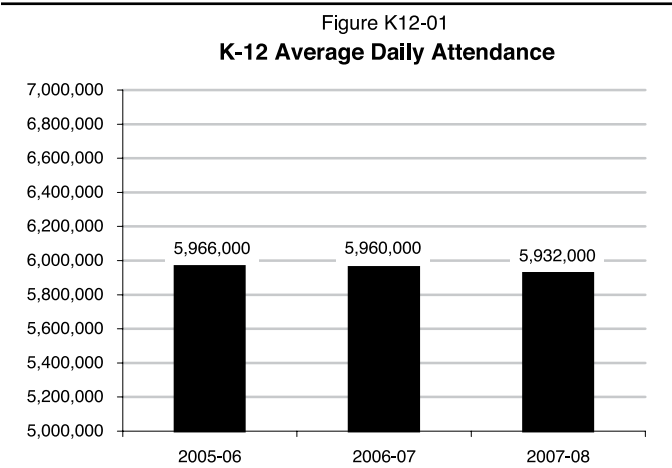
Kindergarten through 12th grade (K-12) education programs provide a variety of academic and support services primarily to pupils between the ages of three and 19. The programs equip California's young people with the skills to become successful adults, achieve career goals, obtain gainful employment and pursue higher education. Services include standards-based academic instruction, special education, career technical education programs, child care and development, teacher recruitment and development and adult education and remedial instruction, among others.

TOTAL K-12 FUNDING

The 2007-08 Budget Act includes \$66.8 billion (\$41.4 billion General Fund and \$25.4 billion other funds) for K-12 education programs in 2007-08. This reflects an increase of \$3.5 billion (\$1.6 billion General Fund and \$1.9 billion other funds) over the 2006-07 revised budget. More notable funding changes are further described below.

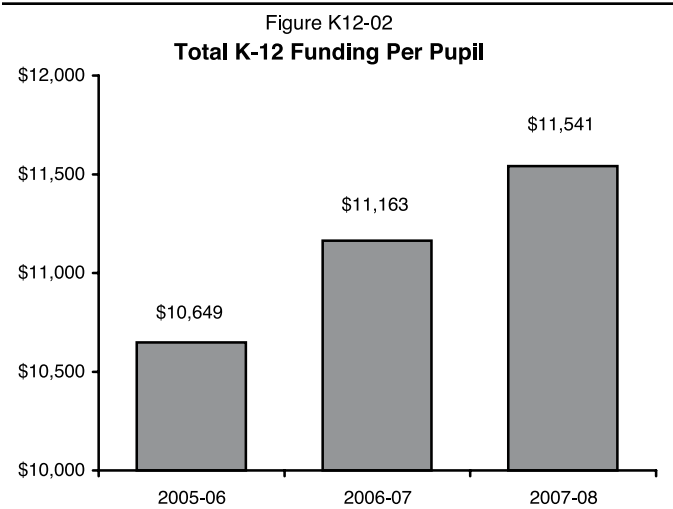
As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is also declining

(see Figure K12-01). For the current year, K-12 average daily attendance (ADA) is estimated to be 5,960,000, a decrease of 6,000 or 0.09 percent from the 2005-06 fiscal year. For the budget year, the Administration estimates K-12 ADA will decrease at a greater rate. The ADA for 2007-08 is projected to decline by 28,000 ADA or 0.48 percent, to 5,932,000.



PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,163 in 2006-07 and \$11,541 in 2007-08, including funds provided for prior year settle-up obligations (see Figure K12-02). This is an indicator of the relative level of spending in California for support of K-12 education programs and not the actual level of funding allocated to each school for a pupil.



MAJOR WORKLOAD ADJUSTMENTS

Major workload adjustments for 2007-08 include the following:

- Cost-of-Living Adjustment (COLA) Increases - The Budget includes a \$2.1 billion increase to fund the 4.53-percent statutory COLA: \$1.6 billion for revenue limits; \$150.9 million for special education; \$69.7 million for child care programs; \$58.6 million for class size reduction; and \$303 million for various other categorical programs.
- ADA - The Budget includes an \$11 million net reduction in 2007-08 to reflect the decline in ADA. The majority of this amount consists of a \$42.1 million reduction in school district and county office of education revenue limit apportionments (general purpose funding for schools). Due to the decrease in the attendance for

2006-07, there is an \$89 million decrease in revenue limit apportionments for that year.

- Special Education - The Budget provides a Proposition 98 General Fund increase of \$93.4 million and a Federal Fund increase of \$10.9 million. These changes include adjustments for revised figures for local property tax and ADA growth.

The major policy adjustments included in the Budget are discussed in the Program Adjustments section below.

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 was adopted to allow for a third funding test in low revenue growth 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 (see Figure K12-03).

The Legislature, noting concerns about the uncertainty of the economy and in particular General Fund revenues, chose to fund the Proposition 98 Guarantee for the 2006-07 fiscal year at a minimum level of \$55 billion, which is \$411 million lower than the amount proposed in the May Revision. The final

Figure K12-03**Proposition 98 Test Calculations****Test 1—Percent of General Fund Revenues**

Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes between K-14 schools and cities, counties, and special districts, the current rate is approximately 41 percent.

Test 2—Adjustments Based on Statewide Income

Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

Test 3—Adjustment Based on Available Revenues

Test 3 is utilized in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

Budget Act reflects the budget year impact on the Proposition 98 guarantee as a result of the revised current year minimum Proposition 98 guarantee level. This adjustment results in General Fund savings of \$427 million.

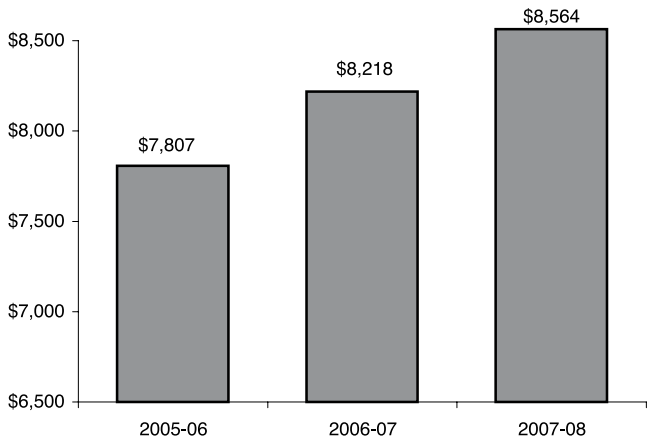
Despite the adjustment in the Proposition 98 guarantee, K-14 education spending remains at \$57.6 billion from a combination

of one-time and ongoing funding. To accomplish this, the Budget Act replaces \$429 million in ongoing Proposition 98 General Fund for K-12 Home-to-School Transportation and K-12 School Deferred Maintenance with funding from the Public Transportation Account (PTA) and the Proposition 98 Reversion Account. Specifically, the Budget provides for the following:

- A \$349 million reduction in the Proposition 98 appropriation for K-12 Home-to-School Transportation;
- An \$115.5 million reduction in the Proposition 98 appropriation for the State School Deferred Maintenance Fund;
- A shift of \$250 million from the School Facilities Emergency Repair Account back to the Proposition 98 Reversion Account;
- An appropriation of \$99 million from the PTA for the K-12 Home-to-School Transportation Program;
- An appropriation of \$250 million from the Proposition 98 Reversion Account for the K-12 Home-to-School Transportation Program; and
- An appropriation of \$115.5 million from the Proposition 98 Reversion Account for the State School Deferred Maintenance Fund.

Proposition 98 funding for 2007-08 is proposed at \$57.1 billion, a 3.9-percent increase over the 2006-07 funding level. The General Fund comprises \$41.5 billion of total proposed Proposition 98 funding. The totals include funding for K-12, community colleges and other state agencies that serve students. K-12 Proposition 98 per-pupil expenditures are \$8,564 in 2007-08 (see Figure K12-04).

Figure K12-04
Proposition 98 K-12 Per Pupil



For fiscal year 2005-06, Proposition 98 funding was \$53.3 billion (this number reflects the guarantee level as recalculated pursuant to the Proposition 98 Settlement Agreement), of which the General Fund share was \$39.7 billion. Local property taxes covered the balance. The 2006-07 Proposition 98 funding is estimated to be \$55 billion, a 3.1-percent increase over 2005-06. The General Fund share in 2006-07 is \$40.8 billion. These funding levels reflect the higher attendance estimates and the cost of apportionments for that year.

PROGRAM ADJUSTMENTS

SECOND GRADE TESTING

The Budget provides \$2.1 million in Proposition 98 General Fund to continue second grade testing under the Standardized Testing and Reporting (STAR) program. Without second grade testing, the first information about student performance

related to state-aligned standards would not be available until the beginning of fourth grade. Continuation of second grade testing will continue to provide valuable information on whether or not a student has mastered basic reading skills. It will also continue to provide teachers and school administrators a critical tool for early identification of students who need additional support.

MAKING SCHOOL MEALS HEALTHY

The Budget provides \$24.9 million in Proposition 98 General Fund for a 4.7-cent increase to the school meal reimbursement rate if legislation is enacted that improves the nutritional quality of meals served to California's students. Specifically, the Administration supports legislation that would prohibit food items that contain artificial trans fat and foods fried in unhealthy oils from being served in the Child Nutrition Program. It is widely accepted that trans fats are unhealthy and contribute to the current childhood obesity epidemic and that foods fried in unhealthy oils have a negative effect on cardiovascular health. This funding increase will allow school districts to serve healthier meals to California's students and illustrates the Administration's continued commitment to improving student health.

CAREER TECHNICAL EDUCATION

As discussed in greater detail in the higher education section, the Budget continues substantial investments in career technical education (CTE), consistent with the Governor's initiative begun in 2005-06. In total, the Budget provides \$52 million (\$20 million in ongoing Proposition 98 General Fund and \$32 million pursuant to the CTA vs. Schwarzenegger settlement appropriated by Chapter 751, Statutes of 2006) to continue systematic investments aimed at restoring and

reinvigorating high school vocational programs through curriculum enhancements, as well as course sequencing and articulation between K-12 tech-prep programs and community college economic development programs.

A specific 2007-08 expenditure plan is currently being finalized by the Chancellor's Office in conjunction with the State Department of Education, and is anticipated to include new grant opportunities in a variety of critical areas that will better prepare students for employment in high-demand technical careers and further skill development in postsecondary education. The Administration has also sponsored legislation to streamline the credentialing process for CTE instructors that should assist in the current teacher shortage.

DEFERRED MAINTENANCE AND EMERGENCY REPAIRS

The Budget provides a total of \$277.4 million to fully fund the Deferred Maintenance program. For the 2007-08 fiscal year, this program will be funded with \$161.9 million in ongoing Proposition 98 General Fund and \$115.5 million in one-time Proposition 98 Reversion Account funding.

The Budget also provides another \$100 million transfer from the Reversion Account to the Emergency Repair Account in satisfaction of the Williams settlement agreement. This reflects the third increment of funding for the program bringing the total transfers to \$438 million. However, the unspent balance in this account is currently \$300 million. Therefore, in order to maximize the available revenue for other school spending, the budget transfers \$250 million of the existing balance back to the Reversion Account on a temporary basis, which will still leave \$150 million available in the near term. Nevertheless, the Budget's control provisions insure that funds

from the Reversion Account will be transferred back when needed in the event that actual demand on the Emergency Repair Account exceeds budget year expectations.

CALIFORNIA PUPIL ACHIEVEMENT DATA

The Budget includes \$3.9 million (from all funds) to support the development of the California Longitudinal Pupil Achievement Data System. The state is currently reviewing bids for implementation, and plans on initiating development in 2007-08. The funding complements \$31 million provided by the state in 2006-07 over three years to support all districts in preparing for the transition to the longitudinal system—\$1.5 million for the California School Information Services for technical support, and \$29.5 million in local preparation grants.

CHILD CARE

The Budget Act appropriates more than \$3.3 billion for K-12 child care programs, including funding for general child care, CalWORKs child care, preschool, and before and after school programs. Allocated through all the K-12 child care programs, these funds will provide almost 950,000 child care slots.

The Budget also continues \$50 million in Proposition 98 funding for the first phase of a three-year initiative to expand preschool opportunities for four-year olds residing in attendance areas of schools ranked in the lowest three deciles of the 2005 Academic Performance Index, pursuant to the provisions of the Pre-Kindergarten Family Literacy program.

In addition, the Budget Act appropriates \$6.8 million to provide for an increase in the income eligibility threshold for subsidized child care. The income eligibility threshold will be raised to \$50,250 for a family of four to reflect an increase in the 2007-08 State Median Income.

HIGHER EDUCATION

TOTAL FUNDING

The Budget continues to recognize the significant contributions and benefits to society from broad access to higher education at the University of California (UC), the California State University (CSU), and California Community Colleges (CCC). The 2007-08 Budget marks the third year of funding for UC and CSU under the terms of the Higher Education Compact with the Administration.

The Budget provides for total Higher Education funding of \$19.7 billion from all revenue sources. UC funding totals over \$5.4 billion, including almost \$3.3 billion General Fund. (See Figure HED-01). The amount budgeted from the General Fund for UC is 6.4 percent above the 2006-07 budget. CSU funding totals almost \$4.4 billion, including approximately \$3.0 billion General Fund. The amount budgeted from General Fund for CSU is 6.2 percent above the 2006-07 budget. Community College funding totals over \$8.5 billion, including approximately \$6.5 billion from General Fund and Proposition 98 sources, of which almost \$4.5 billion is from the General Fund alone.

The amount budgeted from General Fund and Proposition 98 sources for CCC is 5.5 percent above the revised 2006-07 level.

Figure HED-01					
Higher Education Expenditures					
General Fund, Lottery Funds, State School Fund,					
Local Revenues and Student Fees					
(Dollars in Millions)					
			Change from		
			2006-07		
	2005-06	2006-07	2007-08	Dollar	Percent
University of California ^{1/}					
Total Funds	\$4,812.4	\$5,104.0	\$5,452.9	\$348.9	6.8%
General Fund	2,838.6	3,078.0	3,273.9	\$195.9	6.4%
California State University ^{1/}					
Total Funds	3,834.5	4,087.1	4,368.3	\$281.2	6.9%
General Fund	2,596.0	2,810.4	2,985.9	\$175.5	6.2%
Community Colleges					
Total Funds	7,764.8	8,269.4	8,585.0	\$315.6	3.8%
General Fund & P98	5,735.0	6,194.5	6,536.0	\$341.5	5.5%
Student Aid Commission (GF)					
Total Funds	830.8	857.6	903.4	\$45.8	5.3%
General Fund	733.5	802.9	873.0	\$70.1	8.7%
Other Higher Education ^{2/}					
Total Funds	307.1	326.2	396.6	\$70.4	21.6%
General Fund	280.4	298.0	367.5	\$69.5	23.3%
Total Funds	\$17,549.6	\$18,644.3	\$19,706.2	\$1,061.9	5.7%
General Fund	\$12,183.5	\$13,183.8	\$14,036.3	\$852.5	6.5%

^{1/} 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.

^{2/} 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.

^{3/} 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.

HIGHER EDUCATION COMPACT FUNDING LEVELS

In accordance with the Higher Education Compact, the Budget provides stable funding to UC and CSU for enrollment growth and basic budget support. In particular, the Budget reflects the following:

- **Fee Levels** - Undergraduate fees increase to \$6,636 (7 percent) for UC and to \$2,772 (10 percent) for CSU. Graduate fees increase to \$7,440 (7 percent) for UC, to \$3,216 (10 percent) for CSU teacher preparation students, and to \$3,414 (10 percent) for other CSU graduate programs. Despite these increases, fees at UC remain below the average of other comparable research universities and CSU fees remain the lowest among comparable comprehensive public colleges.
- **Enrollment Growth** - The Budget provides funding for enrollment growth of 2.5 percent per year at the marginal cost of instruction. For UC, this growth rate represents an increase of 5,000 students. For CSU, the increase is 8,355 students.
- **Basic Budget Support** - The Budget provides a 4-percent general increase to help preserve and enhance the quality of university instruction by addressing competitive faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases.

COMMUNITY COLLEGES

The Budget continues to recognize the extraordinary role of the Community Colleges in addressing the economic well-

being of California. For the fourth year in a row, the Budget provides significant new investments in this higher education segment, including funding for substantial enrollment growth, a large cost-of-living adjustment, and additional funding for important statewide initiatives that include addressing the nursing shortage, career technical education, and increasing the success rates for students who lack adequate preparation for college-level work. In total, the Budget provides General Fund and Proposition 98-related increases of over \$341 million compared to 2006-07, including \$21.2 million in one-time resources from the Proposition 98 reversion account. These increases are detailed in the traditional highlights for the Community Colleges below.

Student fees remain at the \$20 per unit and continue to be the lowest in the nation-- just 24 percent of the national average.

CAREER TECHNICAL EDUCATION INITIATIVE

The Budget continues substantial investments in career technical education (CTE), consistent with the Governor's initiative begun in 2005-06. The Budget provides \$52 million, consisting of \$20 million in ongoing funds in the Community Colleges budget and the first increment of \$32 million from the CTA vs. Schwarzenegger settlement appropriated by Chapter 751, statutes of 2006 (SB 1133). This initiative seeks to systematically reinvigorate high school vocational programs through curriculum enhancements, course sequencing and articulation between K-12 tech-prep programs and community college economic development programs. A specific 2007-08 expenditure plan is currently being finalized by the Chancellor's Office in conjunction with the State Department of Education,

and is anticipated to include new grant opportunities that include financial incentives for high schools to enroll additional students in high-quality career programs that are linked with business, a career advancement academy pilot program for drop-outs and other adults lacking basic and vocational skills, new projects to enhance CTE leadership development and business partnerships, as well as substantial increases in CTE teacher recruitment and professional development. Overall, the expenditure plan addresses known problems that currently limit student access to programs that prepare them for employment in high-demand technical careers and further skill development in postsecondary education. The Administration has also sponsored legislation to streamline the credentialing process for CTE instructors that should assist in the current teacher shortage.

NURSE EDUCATION INITIATIVE

The Budget continues to provide new investments to address the statewide nursing shortage in the higher education segments and financial aid programs totaling over \$21 million. Included are augmentations totaling \$17.1 million for Community Colleges to further reduce attrition in nursing enrollments, startup funding for 4 new nursing programs, and one-time funding for equipment and other uses to stimulate expansion of enrollments in both nursing and allied health programs. The Budget also provides \$3.6 million for CSU to increase undergraduate nursing enrollments by 340 students in the budget year, \$757,000 for UC associated with increased enrollments in accelerated masters nursing degree programs, and authorization for the Student Aid Commission to award new cohorts of 100 loan assumption warrants each for the

State Nursing Assumption Program of Loans for Education (SNAPLE) and for the Nurses in State Facilities APLE program to help meet clinical nursing position needs for state agencies. These additions are further detailed in the respective traditional highlights for each segment or agency below. Finally, it is noted that \$2.5 million of the budget-year CTE funding plan is reserved to support second-year grants for the K-12 nursing career pathway program for school districts. With this budget, the cumulative funding provided over the last four years above normal enrollment growth totals approximately \$130 million.

CCC STUDENT SUCCESS INITIATIVE

The Budget sets aside \$33.1 million Proposition 98 General Fund for the Community Colleges in anticipation of legislation that would appropriate this amount to increase the rate of successful outcomes for students who are not adequately prepared for college-level work. Many students enter college without the requisite basic skills necessary to succeed in college. Despite the availability of remedial courses, most of those students do not persist long enough to complete a meaningful outcome such as attainment of an Associates Degree, a skill certificate necessary to enter a high-paying career, or completion of the required courses necessary to transfer to a four-year postsecondary institution. This circumstance threatens our future economic competitiveness and under-optimizes the potential of many of California's young adults. In order to address this situation, especially for students transitioning from high school, the Administration proposes funding to enhance counseling and other student services, including improved aptitude assessments, development of a meaningful academic plan for each student,

and hands-on tutoring, as necessary, to ensure these students complete that plan. This funding would be distributed in a way that provides front-end accountability incentives for improving those success rates, thereby eliminating the need for tedious reporting on each college's choice of expenditures.

SALE OF EDFUND

Budget trailer legislation (SB 89 and SB 91) provide for the sale of the Student Aid Commission's loan guarantee function and nonprofit auxiliary organization, known as EdFund, in order to maximize the value of the state's assets related to implementation of the Federal Family Education Loan Program. Because the loan guaranty function is not a core mission of state government and is often conducted by independent, non-governmental entities in other states, it is anticipated that a sale or other arrangement would have the benefit of generating up to \$1 billion of revenue to the state without affecting either student access to or interest rates on federal guaranteed loans for postsecondary education. This legislation authorizes the Director of Finance to determine the most cost-effective course of action, to hire a sale advisor, and provides \$300,000 for legal expenses to ensure that all details of the transaction are conducted in compliance with both federal requirements and state laws and regulations to ensure no interruption of guaranty services to students. It is anticipated that the sale would take place during the last quarter of the fiscal year, after due diligence has been completed by prospective purchasers, competitive bidding conducted, and approval of the federal Department of Education.

As a consequence of this transaction, the state will resume funding for the cost of the Commission’s state operations and financial aid awareness programs.

UNIVERSITY OF CALIFORNIA

The Budget provides total funding from all sources of \$5.5 billion for UC, an increase of \$348.9 million or 6.8 percent above the 2006-07 level. This funding level includes \$3.3 billion General Fund, reflecting an increase of \$195.9 million or 6.4 percent above the 2006-07 level. The Budget includes the following significant General Fund and fee related adjustments for UC:

CURRENT YEAR

The Budget includes the following significant current-year General Fund adjustments for UC:

- \$1.3 million increase for lease purchase payments.

BUDGET YEAR

- \$116.7 million increase (4 percent) for basic budget support.
- \$52.9 million increase (2.5 percent) for enrollment growth consistent with the Compact. This funding will enable UC to enroll an additional 5,000 state-supported students.
- \$104.7 million increase in fee revenue associated with the 7-percent fee increase for undergraduate, graduate, and professional school students. 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 will be set aside for financial aid.

- \$14 million in one-time funds for costs associated with sustaining UC Merced operations in 2007-08 for a total funding level of \$24 million.
- \$757,000 to restore nursing funding for expansion of entry-level master's nursing programs pursuant to Chapter 592, Statutes of 2005 (SB 73).
- \$570,000 increase for the next cohort of 38 students for the PRIME Program, which targets prospective medical doctors for underserved populations.
- \$500,000 increase for the COSMOS program that provides summer enrichment for talented K-12 students in math and science.
- \$15.8 million increase for lease purchase payments.
- \$10.5 million increase for annuitant health benefits.

CALIFORNIA STATE UNIVERSITY

The Budget provides total funding from all sources of \$4.4 billion for CSU, an increase of \$281.2 million or 6.9 percent above the 2006-07 level. This funding level includes \$3.0 billion General Fund, an increase of \$175.5 million or 6.2 percent above the 2006-07 level. The Budget includes the following significant General Fund and fee related adjustments for CSU:

CURRENT YEAR

The Budget includes the following significant current-year General Fund adjustments for CSU:

- \$23.3 million increase for retirement costs.
- \$3.0 million reduction for lease purchase payments.

BUDGET YEAR

- \$108.7 million increase (4 percent) for basic budget support.
- \$64.4 million increase (2.5 percent) for enrollment growth. This funding will enable CSU to enroll an additional 8,355 state-supported students.
- \$97.8 million increase in fee revenue associated with a 10-percent fee increase for undergraduate, graduate, and teacher credential candidates. One-third of the revenue generated by the fee increases will be set aside for financial aid.
- \$3.6 million to support an increase of 340 FTES enrollments in undergraduate nursing programs at full marginal cost in recognition of cost pressures on CSU and the need for increased enrollments.
- \$2 million increase for the next phase of the Science and Math Teacher Initiative that began with the 2005 Budget Act.
- \$120,000 increase (4 percent) for the Capitol Fellows Program consistent with the Compact.
- \$23.3 million to continue the increase for retirement costs.
- \$2.7 million reduction for lease purchase payments.

CALIFORNIA COMMUNITY COLLEGES

The Budget provides total funding from all sources of \$8.585 billion for CCC, an increase of \$315.6 million or 3.8 percent above the 2006-07 level. This funding level includes \$341.5 million net General Fund and Proposition 98-related increases or 5.5 percent above the 2006-07 level. The Budget includes the following significant Proposition 98 General Fund related adjustments for CCC:

CURRENT YEAR

- \$19.2 million increase in property tax revenue based on revised estimates.

BUDGET YEAR

- \$248.4 million increase for cost-of-living (4.53-percent COLA) for general-purpose Apportionments.
- \$107.5 million increase (2 percent) for enrollment growth for Apportionments. This funding will enable CCC to enroll an additional 23,000 full-time-equivalent (FTE) students.
- \$21.2 million increase for Categorical Program enrollment growth and COLA (2 percent and 4.53 percent, respectively) for Basic Skills, Matriculation, Disabled Students Programs and Services, Campus Childcare Tax Bailout, and Extended Opportunity Programs and Services.
- \$80 million base reduction for unused growth from current and prior years. Notwithstanding this adjustment, when coupled with the 2-percent new growth funding and additional capacity retained in the base budget associated with declining enrollment funding, the

apportionment budget is sufficient to enable the system to increase full-time-equivalent (FTEs) enrollment by at least 3 percent over the estimated current-year actual workload levels for total growth of more than 34,000 FTEs.

- \$5.2 million increase for additional attrition reduction related investments to increase the graduation rate in Associate Degree Nursing programs.
- \$1.9 million increase for textbook assistance for low-income students.
- \$570,000 for the Fiscal Crisis Management Assistance Team to prevent insolvency for financially struggling districts.
- \$500,000 increase for the Foster Care/Kinship Program.
- \$31.5 million increase to offset the remaining fee revenue reduction incurred by colleges in the budget year due to the reduction in student fees from \$26 per unit to \$20 per unit in the spring of 2007 and other workload adjustments.
- \$203.1 million reduction to Apportionments to reflected estimated growth in local property taxes of an identical amount.

The Budget sets aside a total of \$46.9 million Proposition 98 General Fund for pending legislation that would appropriate these funds for the following purposes:

- \$33.1 million from surplus Basic Skills overcap incentive funding to support additional services to increase successful student outcomes, particularly for recent high

school graduates who lack basic skills, as discussed in the Student Success initiative above.

- \$13.8 million for other Proposition 98 priorities.

The Budget also provides \$21.2 million in one-time funding from the Proposition 98 Reversion Account for the following purposes:

- \$8.1 million for equipment and other one-time expenses associated with nursing and allied health programs that will stimulate increased enrollment capacity for these high-demand occupations.
- \$8.1 million for deferred maintenance and instructional materials.
- \$4 million for startup costs for four new nursing programs.
- \$1 million for the Cal-Pass program that facilitates institutional research for multiple education segments.

HASTINGS COLLEGE OF THE LAW

The Budget provides total funding from all sources of \$39.8 million, an increase of approximately \$900,000 or 2.3 percent above the 2006-07 level. This funding includes \$10.6 million General Fund, reflecting a decrease of \$40,000 or 0.4 percent.

The Budget includes the following significant General Fund and fee related adjustments for Hastings College of the Law:

- \$406,000 increase (4 percent) for basic budget support, consistent with the Compact.

- \$77,000 increase for retired annuitant health benefit costs.
- \$523,000 reduction of one-time relocation costs related to a capital outlay project.
- \$2 million increase in fee revenue associated with an 8 percent fee increase. One-third of the fee revenue generated by the increase will be set aside for financial aid.

STUDENT AID COMMISSION

The Budget provides total funding from all sources of \$903.4 million, an increase of \$45.8 million or 5.3 percent above the revised 2006-07 level. This funding includes \$873 million General Fund, reflecting an increase of \$70.1 million or 8.7 percent above the revised 2006-07 level. The Budget includes the following significant adjustments for the Student Aid Commission:

CURRENT YEAR

- \$43.9 million in savings in the Cal Grant and APLE programs.

BUDGET YEAR

- \$41.4 million increase over the revised 2006-07 level for anticipated growth in the Cal Grant Program, reflecting increased participation and the anticipated undergraduate fee increases of 7 percent and 10 percent at UC and CSU, respectively.
- \$6.7 million increase over the revised 2006-07 level for anticipated growth in costs in the Assumption Program of Loans for Education (APLE).

- \$15.3 million to shift the cost of the Commission's state operations from the Student Loan Operating Fund to the General Fund as a result of the pending sale of EdFund.
- \$6.4 million to shift the cost of the Commission's financial aid awareness program known as CalSOAP from the Student loan Operating Fund to the General Fund as a result of the pending sale of EdFund.
- Authorization for 600 new warrants for a total of 8,000 for the Assumption Program of Loans for Education (APLE) to help increase the teacher supply in critical shortage areas including math and science (payments estimated to begin no sooner than 2009-10).
- Authorization for 100 new warrants for the State Nursing Assumption Program of Loans for Education (SNAPLE) (payments estimated to begin no sooner than 2009-10).
- Authorization for 100 new warrants for the Nurses in State Facilities APLE program (payments estimated to begin no sooner than 2009-10).

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THE CALIFORNIA STRATEGIC GROWTH PLAN

The 2007 Budget Act provides \$2.466 billion for new and continuing projects for the statewide Capital Outlay Program. In addition, the Budget Act includes \$1.895 billion previously appropriated funds, for a total Capital Outlay Program of \$4.362 billion. Of the \$2.466 billion authorized for new and continuing projects, the General Fund contributes \$75.3 million, general obligation bonds provide \$1.663 billion, lease revenue bonds provide \$457.5 million and the remainder is proposed from federal funds, special funds, and reimbursements. These totals do not include funding for the state highway system, the State Water Project, K-12 Schools, and the state conservancies.

THE 2007 BUDGET ACT INCLUDES:

- \$1.4 billion in general obligation bonds for numerous construction projects within the University of California, the California State University, and the California Community Colleges that help meet the needs of increasing enrollment, replacement of aging facilities, and renovation of existing buildings.
- \$164.4 million (\$8.4 million General Fund and \$156.0 million lease revenue bonds) for the Department

of Forestry and Fire Protection to replace 16 wildland fire protection facilities, including two Conservation Camps and increased funding for continuing projects. These projects will address critical infrastructure deficiencies and health and safety issues at various emergency response facilities.

- \$156.3 million (\$48.9 million General Fund, \$107.4 million lease revenue bonds) for the Department of Corrections and Rehabilitation for various new and continuing projects that address critical infrastructure deficiencies and health and safety issues, including \$121.6 million (\$24.5 million General Fund, \$97.1 million lease revenue bonds) to construct wastewater and potable water treatment projects to meet licensing requirements.
- In addition to the funding contained in the 2007 Budget Act, on May 3, 2007 the Governor signed AB 900 (Chapter 7, Statutes of 2007), which authorizes the construction of infill beds, secure reentry facilities, local jail beds, and health care facilities. AB 900 authorizes approximately \$6.1 billion in lease revenue bonds to build 16,000 infill beds (\$2.4 billion), 16,000 reentry facility beds (\$2.6 billion), and 8,000 health care beds (\$1.1 billion), and authorizes \$1.2 billion in lease revenue bonds to add 13,000 county jail beds. AB 900 also appropriates \$300 million General Fund to make infrastructure improvements at existing state prisons.
- \$82.4 million from the Motor Vehicle Account for the Department of Motor Vehicles to fund the construction phase of the 6th Floor Asbestos Removal, Seismic Retrofit, Office Renovation, and Building Re-skin Project at the Department's main headquarters facility.

- \$70 million in lease-revenue bonds for the University of California to construct the Helios Energy Research Facility on the UC Berkeley campus to conduct research in the key areas of “clean” energy and biotechnology.
- \$62.3 million from the State Transportation Fund for the Department of Transportation for the construction phase of the Oakland Seismic Retrofit Project to reinforce the facility to meet current seismic standards.

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GENERAL GOVERNMENT

The General Government Section includes departments, commissions and offices responsible for oversight of distinct policy areas that are not easily consolidated into other oversight areas such as ensuring peace officer competence, seismic safety, reasonable public utility rates, food and agricultural issues, and services to veterans.

DEPARTMENT OF FOOD AND AGRICULTURE

Light Brown Apple Moth—The Budget provides \$2 million General Fund to address the Light Brown Apple Moth (LBAM), which has the potential to harm California’s natural ecosystem and cause annual economic losses exceeding \$100 million.

The LBAM is not native to the continental United States and has no natural enemies to control its population.

The California Department of Food and Agriculture is working with the United States Department of Agriculture to obtain federal funding.

High-Risk Pest Exclusion—The Budget provides \$1.5 million General Fund for County Agricultural Commissioners for

additional inspection activities at airports, ports, and public and private parcel facilities to detect and exclude new pests and diseases from California's agriculture and natural environment.

Border Inspection Stations—The Budget provides \$677,000 General Fund and 11.4 positions to inspect additional vehicles and shipments entering California for assurance the vehicles and shipments are pest-free and compliant with plant quarantine regulations.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) regulates the electricity, natural gas, water, telecommunications, and transportation industries, such as railroads and household goods carriers. The 2007 Budget Act contains funding to enable the PUC to implement several new efforts:

- \$2,460,000 Reimbursements and 2.9 positions to implement the California Solar Initiative. The PUC will develop a rate structure that provides an incentive for utility customers to generate solar electricity during peak demand hours, and hire independent consultants to provide program monitoring and evaluation.
- \$950,000 (\$850,000 Public Utilities Commission Utilities Reimbursement Account and \$100,000 Public Utilities Commission Ratepayer Advocate Account) and 10.3 positions to implement the Video Competition Act. These positions will enable the PUC to ensure that video services are non-discriminatory, review applications, and issue state franchises.

- \$2,043,000 Universal Lifeline Telephone Service Administrative Committee Fund and 31 positions to enable the PUC to address a large increase in appeals involving the Universal Lifeline Telephone Service program. The appeals have resulted from eligibility denials issued to telephone users who fail to comply with new federal requirements, which require users to provide proof of income eligibility.
- \$500,000 Public Utilities Commission Utilities Reimbursement Account to fund contracts supporting implementation of the California Global Warming Solutions Act.

MILITARY DEPARTMENT

Military Funeral Honors—The Budget includes \$1.8 million General Fund and 22 positions to provide the additional resources needed to meet increased demand for military funeral honors ceremonies in California.

DEPARTMENT OF VETERANS AFFAIRS

Barstow 40-Bed Skilled Nursing Facility—The Budget provides \$2.3 million (\$2.1 million General Fund and \$245,000 federal funds) and 18 positions to reopen the 40-bed Skilled Nursing Facility (SNF) at the Barstow Veterans Home. The opening of the SNF unit will provide a level of care needed by veterans and will allow for greater utilization of the Barstow Home. The activation of the unit will occur over two fiscal years.

Greater Los Angeles and Ventura County Veterans Homes Construction—The Budget includes \$621,000 General Fund and 5.2 positions for the initial construction and pre-activation phases of the Greater Los Angeles and Ventura County Veterans Homes project. At completion, the new facilities will bring Adult Day Health Care, assisted living and SNF care to veterans in the greater Los Angeles area.

Enterprise Wide Information System—The Budget provides \$11.4 million General Fund (\$7 million one-time) and 26.4 positions to procure and implement a statewide Veterans Home Information System. This system will be implemented in the veterans homes proposed for construction and in the existing veterans homes over the next seven fiscal years. The new system will be based upon the federal veterans health care information system and will improve health care tracking, improving the continuum of care provided to veterans.

Salary Increases for Classifications Affected by the Plata, Coleman, and Perez Court Cases—The Budget reflects an increase of \$3.5 million General Fund to increase salaries for personnel classifications providing medical, mental health, and dental services for the California Veterans Homes in Yountville, Barstow, and Chula Vista. This augmentation brings salaries to appropriate levels consistent with decisions for non-Department of Corrections and Rehabilitation personnel pursuant to the Plata, Coleman, and Perez court orders. These increases will improve hiring and retention of health services staff at the California Veterans Homes.

STATEWIDE ISSUES

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

STATE CIVIL SERVICE HUMAN RESOURCE REFORM

The state's civil service system is a cumbersome and difficult system to administer. For the state's more than 215,000 employees, there are more than 4,000 separate job classifications which are duplicative and generally reflect narrow program or department specific desires to tailor job descriptions. The Department of Personnel Administration administers the civil service compensation program and job classifications. The State Personnel Board is responsible for the merit aspects of civil service, including determining eligibility for appointment into civil service positions and for promotions. The two agencies are working collaboratively to create a comprehensive plan to reform how the state brings new employees into civil service, how they are paid, and how they become eligible for promotion once they are working for the state.

One of the goals of this civil service reform is to shorten the timeframe for hiring so people interested in working for the state will know in a week or two whether or not they qualify

for a desired job. Another goal is for state departments to have a continuously updated list of appointment-eligible people they can contact to interview for vacancies. The state is also moving toward a system under which all forms of employee compensation will be reviewed periodically to determine the best way to attract new employees and retain existing employees.

In order to ensure that there are sufficient numbers of qualified people to replace retiring employees, the state will need to provide a salary and benefits package that appeals to the next generation of California workers. The same salary and benefits that attracted the “baby boomers” may not be as attractive to a generation which is more focused on lifetime employability than lifetime employment with a single employer. The traditional lower salary combined with a defined benefit retirement may not entice younger workers to join the state workforce. This civil service reform will standardize the pay scale and attract employees to the state by working to create a competitive and flexible compensation package.

UNALLOCATED REDUCTION

The Budget reduces the amount of General Fund appropriated for employee compensation increases for 2007-08 by \$72 million. This reduction was made to help build a prudent reserve in light of the various uncertainties in revenues and expenditures in 2007-08. With this reduction, \$453.3 million still remains to be allocated to departments for employee compensation increases. The reduced amount available for allocation to departments will not affect pay or benefits for employees. Employees will still receive full pay, but now departments will need to reallocate money within their existing

budgets to pay a portion of compensation increases for their employees.

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SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure-SUM-01

General Fund Budget Summary

(Dollars in Millions)

	2006-07	2007-08
Prior Year Balance	\$10,454	\$4,339
Revenues and Transfers	<u>\$95,541</u>	<u>\$101,239</u> ^{1/}
Total Resources Available	\$105,995	\$105,578
Non-Proposition 98 Expenditures	\$60,875	\$60,766 ^{1/}
Proposition 98 Expenditures	<u>\$40,781</u>	<u>\$41,492</u>
Total Expenditures	\$101,656	\$102,258
Fund Balance	\$4,339	\$3,320
Reserve for Liquidation of Encumbrances	\$745	\$745
Special Fund for Economic Uncertainties	\$3,594	\$2,575
Budget Stabilization Account	\$472	\$1,494
Total Available Reserve	\$4,066	\$4,069 ^{2/}

1/ A total of \$2,045 million will be transferred to the Budget Stabilization Account pursuant to Proposition 58. Half will remain in the Account for future purposes (displayed as a reduction in revenues). The other half will be further transferred for the purpose of early retirement of Economic Recovery Bonds (displayed as an increase in expenditures).

2/ Includes \$699 million for Proposition 98 set-aside.

Figure-SUM-02
2007-08 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2006-07
Personal Income Tax	\$55,236	\$1,589	\$56,825	\$3,160
Sales Tax	28,820	5,757	34,577	1,572
Corporation Tax	11,055	-	11,055	338
Highway Users Taxes	-	3,546	3,546	60
Motor Vehicle Fees	26	5,506	5,532	278
Insurance Tax	2,181	-	2,181	15
Liquor Tax	324	-	324	3
Tobacco Taxes	120	981	1,101	11
Other	3,477	9,437	12,914	2,052
Total	\$101,239	\$26,816	\$128,055	\$7,489

Note: Numbers may not add due to rounding.

Figure-SUM-03				
2007-08 Total Expenditures by Agency				
(Dollars in Millions)				
	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$3,792	\$2,045	\$427	\$6,264
State and Consumer Services	577	806	24	1,407
Business, Transportation & Housing	1,567	8,640	3,078	13,285
Resources	1,674	2,060	1,790	5,524
Environmental Protection	90	1,046	696	1,832
Health and Human Services	29,719	8,130	158	38,007
Corrections and Rehabilitation	9,836	22	-	9,858
K-12 Education	41,341	93	3,990	45,424
Higher Education	11,980	42	2,957	14,979
Labor and Workforce Development	103	321	-	424
General Government	1,579	6,008	952	8,539
Total	\$102,258	\$29,213	\$14,072	\$145,543

Note: Numbers may not add due to rounding.

Figure SUM-04

General Fund Expenditures by Agency

(Dollars in Millions)

	2006-07	2007-08	Change	%
Legislative, Judicial, Executive	\$3,522	\$3,792	\$270	7.7%
State and Consumer Services	613	577	-36	-5.9%
Business, Transportation & Housing	3,019	1,567	-1,452	-48.1%
Resources	2,109	1,674	-435	-20.6%
Environmental Protection	88	90	2	2.3%
Health and Human Services	29,418	29,719	301	1.0%
Corrections and Rehabilitation	9,293	9,836	543	5.8%
K-12 Education	39,761	41,341	1,580	4.0%
Higher Education	11,331	11,980	649	5.7%
Labor and Workforce Development	108	103	-5	-4.6%
General Government	2,394	1,579	-815	-34.0%
Total	\$101,656	\$102,258	\$602	0.6%

Note: Numbers may not add due to rounding.

Figure SUM-05
Vetoed by Agency
General, Special, and Bond Funds
(Dollars in Millions)

Agency	Legislative Spending Plan	Governor's Vetoes		Enacted Budget
		General Fund	^{2/} Special and Bond Funds	Totals
Legislative, Judicial, Executive	\$6,319	-\$23	-\$32	\$6,264
State and Consumer Services	1,407	-	-	1,407
Business, Transportation & Housing	13,385	-	-100	13,285
Resources	5,612	-17	-71	5,524
Environmental Protection	1,854	-	-22	1,832
Health and Human Services	38,535	-527	-1	38,007
Corrections and Rehabilitation	9,897	-39	-	9,858
K-12 Education	45,439	-15 ^{1/}	-	45,424
Higher Education	14,990	-11 ^{1/}	-	14,979
Labor and Workforce Development	437	-1	-12	424
General Government	8,611	-70	-2	8,539
Total	\$146,486	-\$703	-\$240	\$145,543

Note: Numbers may not add due to rounding.

^{1/} Excludes \$52 million of Proposition 98 set asides.

^{2/} Excludes \$0.6 million related to veto in Item 0540-492.

Dollars are reflected as a prior year adjustment, not in 2007-08.

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